

# **EMPLOYMENT PAPER**

2001/25

## **Labour market flexibility and employment security**

### **ESTONIA**

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**Reelika Arro**

Ministry of Social Affairs

**Raul Eamets**

School of Economics and Business Administration, Tartu University

**Janno Järve**

**Epp Kallaste**

**Kaia Philips**

**Tartu University, Estonia**

**Employment Sector**

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## Preface

This paper on Estonia is the first of five country reports on reforms in the legislative and institutional framework of the labour market, labour market policies and labour market developments in transition countries. The reports have been prepared for the research project **Adjustment of labour markets to economic and structural change: labour market flexibility, employment security and labour market policies**, carried out by the Labour Market Policy Team of the ILO's Employment Strategy Department. Apart from Estonia, the other countries examined are Bulgaria, the Czech Republic, Poland and the Russian Federation.

Before 1990, the now transition countries of Central and Eastern Europe shared the policy of full employment, guaranteeing employment security for people of working age. Enterprises were controlled by production targets, not by economic results, so they were little motivated to structural adjustment and cost reduction. The economic reforms immediately challenged the old employment and social guarantees when enterprises lost their traditional markets and were exposed to global competition. In order to find new markets and survive economically, firms had to restructure production and adjust their workforce. In the process, many workers lost their jobs and needed assistance and mediation in finding new jobs, directly or after retraining, and the provision of income support in unemployment. These tasks necessitated the amendment of national labour legislation, a reform of labour market institutions and the setting-up of unemployment insurance systems and active labour market policies. The main challenge has become how to enable enterprises to adjust flexibly to this new and ever-changing economic situation, while ensuring decent employment protection to workers.

There have been large cross-country differences in the approach to legislative, institutional and policy reforms, which have contributed to rather diverse labour market performance. As will be seen in this report, among transition countries Estonia has adopted the most liberal approach. The authors give evidence that high adjustment flexibility of enterprises has helped the country to achieve the highest economic growth rates in the region in the second half of the 1990s. Nevertheless, the cost in terms of the decline in economic participation of the population and the increase in open unemployment has been substantial. Labour market problems have been solved to the detriment of more vulnerable groups of workers poorly protected in the labour market. The accession of Estonia to the European Union will require the strengthening of re-employment assistance to disadvantaged social groups, through capacity-building of labour market institutions and much wider access to labour market policies.

Rashid Amjad  
Director a.i.,  
Employment Strategy Department,  
Employment Sector

# Contents

<b>Introduction</b>	<b>1</b>
<b>1. Labour market development trends in the 1990s</b>	<b>3</b>
1.1 Introduction	3
1.2 Changes in employment during 1989–1998	5
1.3 Annual labour inflows and outflows	15
1.4 Unemployment in Estonia	18
1.5 Annual inflows to and outflows from unemployment	23
1.6 Regional differences and internal migration within the country	24
1.7 Commuting for work	28
<b>2. Labour legislation</b>	<b>29</b>
2.1 Legal acts concerning labour market	29
2.2 Regulation of work relations in Estonia	31
2.3 Legal regulation of the unemployed	37
<b>3. Collective bargaining</b>	<b>39</b>
3.1 Legal background	39
3.2 Collective bargaining at enterprise level	43
3.3. Collective bargaining at branch, regional and state level	44
<b>4. Labour market policy</b>	<b>48</b>
4.1 Labour market institutions	48
4.2 Active labour market measures	49
4.3 Passive labour market measures	53
4.4. Regional policy in Estonia	55
4.5 Social assistance	57
4.6 Labour policy priorities 2000-2001	59
<b>5. Conclusions</b>	<b>60</b>
<b>Annex 1</b>	<b>65</b>
Table A1.1 Main sources of information on labour market indicators in Estonia	65
<b>Annex 2</b>	<b>67</b>
Annex 2A Vacations and holidays	67
Annex 2B Termination of the employment contract	70
Table 2B.1 Dismissal	71
Table 2B.2 Termination of employment contract by the employee	74
Table 2B.3 The expiry of the term	75
Table 2B.4 Termination of employment contract on the request of third parties	75
Table 2B.5 Termination of employment contract independent of parties	76
<b>Annex 3 Legal regulation of the work environment</b>	<b>77</b>
<b>Annex 4</b>	<b>78</b>
4A. Development prospects of employment and education	78
4B. Development of systems to support employment and training	79
<b>Bibliography</b>	<b>84</b>

## Introduction

National labour markets and employment patterns of Central and Eastern European (CEE) economies moving from a centrally planned to a market system have experienced profound changes during transition. To a large extent these changes are connected with the process of internalization of the CEE economies. The need to become efficient and competitive on international markets has led to product innovations, technological and organizational improvements and cost reductions, with direct consequences on the reallocation of labour, a demand for new skills and increased flexibility of workers.

Restructuring of the Estonian economy took place in the mid-1990s. Dramatic changes in foreign trade occurred in the second half of 1992 after the introduction of the Estonian national currency. One important reason why trade with the Russian Federation has decreased is the financial difficulties in CIS countries. The Estonian national currency was internally convertible but Russian roubles were not. The Russian share in foreign trade has since declined from more than 70-80 per cent to 10 per cent today.

Transition also signifies changes in legislation, mainly associated with reforms directed towards creating the labour relations common to market systems. Despite the fact that most labour regulation is approved by Estonian legislators, weak enforcement mechanisms for their proper implementation have a temporary distorting impact on these new labour market trends.

As a result, a shift away from regular full-time wage employment to irregular, time-limited and flexible employment arrangements, including self-employment, can be observed, although full-time employment remains the prevailing form. Labour turnover has also increased and, especially in Estonia, enterprise-level data reflect relatively high inflow/outflow rates. Due to the processes mentioned above, many jobs are being lost while new jobs emerge, often requiring different skills, offering altered working conditions and located in regions different from those where jobs have disappeared. Workers are confronted with shorter labour tenures and a higher incidence of frictional and structural unemployment. In the absence of regular, reasonably paid jobs, many of them are forced to accept precarious jobs in terms of job security, remuneration or working conditions, including jobs in the informal sector.

In 1991, Estonia established the National Employment Service (NES) to provide job placement services to laid-off workers and new labour market entrants and to assist enterprises in recruiting for vacant jobs. Unemployment benefit schemes are offering temporary income support for eligible jobseekers. Active labour market policies launched by the NES aim to improve employability of unemployed persons, support job creation initiatives in regions with weak demand for labour, help maintain potentially viable jobs and subsidize re-employment of disadvantaged groups of workers.

Estonia is characterized by a relatively weak labour policy combined with low social protection of those who are not eligible for unemployment benefits. The country has opted for very low levels of unemployment benefits, pensions and minimum wages. The minimum wage is so low that it does not serve as a barrier to new hires: prevailing wages are higher than the minimum. Wages are predominantly set by the employers, with few wage controls put into effect by the government in the public sector. In addition, there is no effective trade union movement raising wages, and no policy to keep firms open to avoid lay-offs and bankruptcy. Thus the labour market in Estonia is very flexible compared with those in other CEE countries.

This study analyses the official statistics on employment-related issues published by the Statistical Office of Estonia, the Labour Market Board, the Ministry of Social Affairs and other institutions. When possible, official data have been supplemented with the results of academic studies. Other sources include previous reports by national experts to the ILO, EC, ETF and UNDP Human Development Reports.

### **Labour Market Board Statistics**

This report uses the latest unemployment data available from the Estonian Labour Market Board, which provide the number of unemployed persons registered as either unemployed or as unemployed jobseekers, the number of registered vacancies, and active and passive labour market measures. These statistics are valuable mainly because of their comprehensiveness (monthly published data) and the fact that they include regional aspects of unemployment as well.

### **Labour Force Surveys**

The first Estonian Labour Force Survey (ELFS) was conducted in spring 1995 and focused on two major sections: retrospective and current respectively. The ELFS 95 reconstructs major labour market flows from 1989 to 1995. Similar surveys were conducted in 1997 (with the retrospective section covering 1995–1996, full years), in 1998 (retrospective covered 1997) and in 1999 (retrospective covered 1998). The age limits of the sample are set at 15–74 years. The age span for the retrospective data is 15–69 and for the current data 15–74 years.

The data for 1989–1994 are from ELFS 95; 1995–1996 data are from ELFS 97; the 1997 data from ELFS 98; and the 1998 data from ELFS 99. In looking at the time-series presented, it should be born in mind that data originate from different sources and their comparability is reduced by certain circumstances that influenced the conducting of the surveys:

- The sample size was different for different ELFS (ELFS 97 interviewed 5,000 persons; for ELFS 98 and ELFS 99, the total number of interviewees was 13,000.
- The sample frames for surveys differed. For ELFS 95 the sample frame was the database of the 1989 population census that, in view of the population changes in the meantime, was outdated and was thus one source of errors. For other ELFS the Population Register was used.
- The sample designs of the surveys are different. Stratified simple random sampling was used in the ELFS 95, cluster samples in subsequent ELFS.

The labour force surveys are based on the main terms devised by the International Labour Office.

The main sources of information on labour market indicators are summarized in Table A1 (see Annex 1), giving characteristics of data sources on population, employment, unemployment, wages and salaries, incomes and expenditures, and labour market policies.

### **Limitations**

As no published statistics on annual labour inflows and outflows, labour tenure, and commuting for work are available, academic studies have been used to estimate labour flows and commuting for work. There are also no statistics available on unemployed persons according to their previous job (economic sector, branch, occupation, etc.) and no complete statistics on the reintegration of unemployed persons after the completion of training courses.

The present report consists of four sections. Section 1 analyses labour market development trends in Estonia in the 1990s, in particular quantitative and qualitative changes in employment, in total and by sex, economic sector and branch, and by occupation and company size.

Section 2 assesses labour legislation regulating recruitment as well as termination of employment and the advancement of workers. Other legal norms regulating employment relations between employers and workers (types of contract and conditions for their provision, irregular work agreements and conditions regulating termination) are examined. This section

also reviews the conditions for entitlement to registration with the NES, to unemployment benefits and other income support provided by the NES, and to participation in active labour market policies.

Section 3 deals with collective bargaining on employment and income security at the national, regional, branch and enterprise levels. The extent of protection in existing jobs and employment protection in general are evaluated, including examples of enterprise practices based on enterprise collective agreements.

Section 4 explores the links between employment protection, labour market policies and employment promotion. It traces to what extent existing redundant jobs have been and are being protected by subsidies from public budgets or other resources. It also gives an overview of the application of active and passive labour market policies and development trends.

## **1. Labour market development trends in the 1990s**

### **1.1 Introduction**

The Estonian economy in the beginning of 1990s was part of the economy of the Soviet Union and was closely bound up with the raw material and product markets of the Soviet Union. Thus, at the beginning of the transition period, the employment structure in Estonia was the result not of natural market-oriented development but had been shaped artificially by the economic needs of the former Soviet Union. In 1992, economic reforms were launched in Estonia and drastic changes took place in its economy, creating a completely new environment for business activities. From the viewpoint of general economic policies, Estonia introduced liberal foreign trade, an annually balanced state budget, a currency board system, flat personal and corporate income taxes, and subsidy-free agriculture.

From 1989 to 1998 the resident population of Estonia decreased steadily and by 1998 had returned to its 1970s level of below 1.5 million. The reasons for this decrease are negative net migration since 1990<sup>1</sup> and the decreasing birth rate since 1991.<sup>2</sup>

The years from 1989 to 1998 saw the emergence and growth of unemployment and the decrease in employment in Estonia, as shown in table 1.1. While in 1989–1990 the unemployment rate was 1.5 per cent, it had increased to 14.1 per cent by the first quarter of 2000. The share of inactive persons also increased from 23.1 to 32.4 per cent. The increase both in inactivity and unemployment brought a rapid fall in employment. In total, employment has decreased by 201,700 persons or almost 30 per cent of today's labour force. The employment rate decreased from 76.4 per cent in 1989 to 60.9 per cent in 1998. Owing to the economic upsurge, a slight increase in employment was observed in 1997 and at the beginning of 1998 but, as a result of the Russian crisis, employment has since fallen drastically.

The market economy reforms of the 1990s in Estonia caused nearly half of employees to change either their jobs or job status. This did not always happen voluntarily and was frequently a result of forced redundancy or a reorganization or closure of the employing

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<sup>1</sup> The main reason for population change has been the decreasing number of arrivals simultaneously with the large number of departures from Estonia. The Immigration Law, which came into force in 1990, and the Law on Foreigners (1993) play an important role in the decrease in arrivals. These two laws stipulate that immigration may not exceed 0.1 per cent of the resident population at the beginning of a year.

<sup>2</sup> As economic conditions have changed, many young families have postponed the birth of the first child. Adjustment problems and economic instability have also resulted in unstable family relations, with an increasing number of divorces and a falling birth rate. Health care statistics reveal that the number of unnatural deaths (alcohol, poisoning, suicides, homicides, traffic accidents) increased nearly twofold in the 1990s compared with the 1980s.

enterprise. For people of working age, the guaranteed employment of the Soviet era was abruptly replaced by competition for a rapidly dwindling number of jobs, for which applicants were required to have good skills and knowledge.

During transition, table 1.2 shows that labour force participation rates dropped for all age groups. The lowest participation rate was for young females (only 38.7 per cent) and the highest for males in the 25–49 years age group (92.3 per cent) in 1998. The largest decline of participation rates has been for older people, who had relatively high participation rates in the command economy. In both male and female groups, older participation rates declined most and the widest difference between male and female groups is among older people as well.

**Table 1.1: Population aged 15–69, by sex and economic status, 1989–1998**  
(annual average, '000s, percentages)

Economic status	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
Total population	1096.4	1102.3	1104.0	1101.2	1079.9	1069.4	1061.6	1054.1	1047.0	1044.2
Total labour force	842.6	831.7	819.8	794.8	757.8	749.4	726.9	717.6	713.5	706.4
Employed	837.9	826.4	807.8	765.7	708.1	692.6	656.1	645.6	644.1	636.2
Unemployed	(4.7)	5.3	12.0	29.1	49.6	56.7	70.9	71.9	69.4	70.2
Inactive persons	253.8	270.5	284.2	306.4	322.1	320.1	334.6	336.5	333.6	337.8
Labour force participation rate (%)	76.9	75.5	74.3	72.2	70.2	70.1	68.5	68.1	68.1	67.7
Employment rate (%)	76.4	75.0	73.2	69.5	65.6	64.8	61.8	61.3	61.5	60.9
Unemployment rate (%)	(0.6)	0.6	1.5	3.7	6.5	7.6	9.7	10.0	9.7	9.9
<b>Males</b>										
Total population	519.6	522.7	523.7	522.8	512.5	507.8	504.4	500.9	497.8	496.4
Total labour force	429.1	429.3	427.5	420.7	399.9	395.5	382.9	375.8	374.6	368.7
Employed	426.7	426.7	421.5	404.4	373.9	366.6	342.3	335.4	336.7	328.7
Unemployed	...	(2.5)	6.1	16.3	26.0	28.9	40.6	40.4	37.9	40.0
Inactive persons	90.5	93.5	96.1	102.1	112.6	112.2	121.5	125.1	123.1	127.7
Labour force participation rate (%)	82.6	82.1	81.6	80.5	78.0	77.9	75.9	75.0	75.3	74.3
Employment rate (%)	82.1	81.6	80.5	77.4	73.0	72.2	67.9	67.0	67.6	66.2
Unemployment rate (%)	...	(0.6)	1.4	3.9	6.5	7.3	10.6	10.7	10.1	10.8
<b>Females</b>										
Total population	576.8	579.5	580.3	578.4	567.4	561.7	557.2	553.2	549.3	547.8
Total labour force	413.5	402.5	392.2	374.1	357.9	353.8	344.0	341.8	338.8	337.7
Employed	411.3	399.7	386.3	361.3	334.2	326.0	313.8	310.2	307.4	307.5
Unemployed	...	(2.8)	6.0	12.8	23.7	27.8	30.3	31.6	31.5	30.2
Inactive persons	163.3	177.0	188.1	204.3	209.5	207.8	213.2	211.4	210.4	210.1
Labour force participation rate (%)	71.7	69.5	67.6	64.7	63.1	63.0	61.7	61.8	61.7	61.7
Employment rate (%)	71.3	69.0	66.6	62.5	58.9	58.0	56.3	56.1	56.0	56.1
Unemployment rate (%)	...	(0.7)	1.5	3.4	6.6	7.9	8.8	9.2	9.3	8.9

Notes: ... indicates data based on less than 20 persons in the sample; ( ) indicates data based on 20–39 persons.

Source: Estonian Labour Force Surveys, various years.

There is a widening gap between the participation rates of young females and males. In 1989, the participation rate of young males was around 52 per cent and increased until 1994, when it started to decline and by 1998 it was 50 per cent. The female participation rate for this age group declined from 48 to 39 per cent in these same ten years. The tendency is for young people to stay longer in initial education and training and, especially among young women, to



remain in education as long as possible. In 1989, there were 83,500 young people in the 15–24 age group in the educational system, with the number of students increasing to 93,800 in 1998. The year 1992 showed no difference among students in higher education by sex but in 1999 the number of female students was increasing by a factor of 2.1 and male students by a factor of 1.5.

At the same time the labour demand for younger members of the labour force has increased drastically. During very dynamic economic development, employers in Estonia have preferred younger employees with greater flexibility for acquiring training and a better knowledge of languages and IT.

**Table 1.2: Labour force participation rate by sex and by age, 1989-1998**  
(annual average, percentages)

Age group	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
15–24	50.4	48.8	49.6	50.4	49.9	52.2	47.7	45.9	45.4	44.4
25–49	93.9	92.5	91.9	91.4	90.8	90.4	90.0	89.1	89.4	88.1
50–69	66.2	65.1	61.9	56.3	51.7	50.3	48.0	48.8	48.7	49.6
16 – pension age	84.9	83.4	82.9	82.0	81.6	81.5	80.1	79.4	78.8	78.2
15–64	78.9	77.9	76.9	75.1	73.6	73.8	72.6	72.1	72.5	71.9
15–69	76.9	75.5	74.3	72.2	70.2	70.1	68.5	68.1	68.1	67.7
<b>Males</b>										
15–24	52.3	53.3	56.1	60.1	57.7	60.1	55.6	53.1	52.0	50.0
25–49	97.8	97.2	96.8	96.1	95.1	94.6	94.0	92.9	93.5	92.3
50–69	77.8	76.5	73.6	68.3	63.9	62.2	58.8	58.9	59.4	59.4
16 – pension age	87.4	87.0	87.3	86.7	85.9	85.8	84.0	83.1	82.4	81.5
15–64	83.8	83.7	83.5	82.5	80.5	80.7	79.3	78.3	78.8	77.8
15–69	82.6	82.1	81.6	80.5	78.0	77.9	75.9	75.0	75.3	74.3
<b>Females</b>										
15–24	48.3	44.0	42.7	40.0	41.5	43.8	39.5	38.5	38.6	38.7
25–49	90.1	88.0	87.3	86.9	86.7	86.4	86.1	85.4	85.4	84.1
50–69	57.8	56.8	53.3	47.5	42.7	41.5	40.0	41.2	40.7	42.4
16 – pension age	82.1	79.5	78.2	76.9	77.1	76.9	75.9	75.5	75.0	74.8
15–64	82.1	79.5	78.2	76.9	77.1	76.9	66.3	66.4	66.6	66.4
15–69	71.7	69.5	67.6	64.7	63.1	63.0	61.7	61.8	61.7	61.7

Source: Estonian Labour Force Surveys, various years.

## 1.2 Changes in employment during 1989–1998

Table 1.3 shows the decrease in employment rate from 1989 to 1998. Male employment declined from 82.1 to 66.2 per cent. At the same time the female employment rate was 56.1 per cent. Despite this, the decline in employment was more profound and faster among women in the earlier years of transition and among men since 1995. During the period from 1989-1998 the employment of women fell by 25.2 per cent, among men by 23 per cent. Analysing employment from the gender perspective, female employment under the planned economy was comparatively high. Employment rates for young people (15-24 years) declined from 49.6 to 37.4 per cent between 1989 and 1998.

In terms of general changes in employment, the biggest change has been employment shifts by sectors. In 1998, 9.1 per cent of employees were in the primary sector, 33.4 per cent in secondary and 57.5 per cent in the tertiary sector, as table 1.4 shows. Future increases in the overall employment rate will depend on expansion of the service sector.

Regarding male and female participation rates, females are employed more in the service sector and males in the primary and secondary sector. In services, male employment has increased at a faster rate than female employment. Stabilization of the share of the

secondary sector in employment for men, compared to women, means that female-dominated industries have declined more (e.g. manufacturing) and that women employees have been replaced by men (e.g. electricity production and construction). The substitution of women has also taken place in services, for instance in trade.

**Table 1.3: Employment rates, by age and sex, 1989-1998 (annual average, percentages)**

Age group	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
15-24	49.6	48.0	47.9	46.7	44.4	46.1	41.0	38.6	38.9	37.4
25-49	93.5	92.1	90.8	88.2	85.0	83.6	81.2	80.4	80.4	79.3
50-69	65.9	64.8	61.3	55.1	49.5	47.8	44.7	45.2	45.7	46.5
16 – pension age	84.4	82.8	81.6	78.8	76.0	75.0	72.0	71.1	70.8	70.1
15-64	78.5	77.4	75.8	72.3	68.7	68.1	65.5	64.9	65.4	64.7
15-69	76.4	75.0	73.2	69.5	65.6	64.8	61.8	61.3	31.5	60.9
<b>Males</b>										
15-24	51.3	52.3	54.3	55.9	52.1	53.2	48.4	44.9	43.8	41.6
25-49	97.5	96.8	95.6	92.5	89.0	88.0	83.6	83.2	84.5	82.6
50-69	77.5	76.1	72.9	66.7	60.9	59.1	54.3	54.0	54.8	54.7
16 – pension age	87.0	86.5	86.0	83.2	80.1	79.2	75.0	74.1	73.8	72.5
15-64	83.4	83.2	82.3	79.3	75.2	74.7	70.9	69.8	70.7	69.2
15-69	82.1	81.6	80.5	77.4	73.0	72.2	67.9	67.0	67.6	66.2
<b>Females</b>										
15-24	47.8	43.3	41.1	36.8	36.1	38.6	33.2	32.1	33.9	33.2
25-49	89.6	87.5	86.1	84.1	81.1	79.4	78.8	77.7	76.5	76.0
50-69	57.6	56.5	52.8	46.5	41.1	39.4	37.6	38.7	39.0	40.5
16 – pension age	81.6	78.9	76.9	74.1	71.6	70.6	68.8	68.0	67.5	67.6
15-64	73.9	71.9	69.7	65.8	62.6	62.0	60.5	60.2	60.4	60.4
15-69	71.3	69.0	66.6	62.5	58.9	58.0	56.3	56.1	56.0	56.1

Source: Estonian Labour Force Surveys, various years.

**Table 1.4: Sectoral employment of total population, aged 15-69 years, by sex, 1989-1998 (annual average, percentages)**

Economic sector	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
<b>Primary</b>	21.2	21.1	20.4	19.0	16.6	14.6	10.5	10.0	9.4	9.1
<b>Secondary</b>	37.1	36.8	36.4	35.5	33.0	32.3	34.0	33.5	33.6	33.4
<b>Tertiary</b>	41.7	42.1	43.2	45.5	50.4	53.1	55.4	56.5	57.0	57.5
<b>Males</b>										
<b>Primary</b>	27.2	26.5	25.4	23.7	20.7	18.1	12.8	12.4	12.0	11.4
<b>Secondary</b>	42.2	41.9	41.6	40.9	38.4	38.1	41.0	41.2	41.9	42.0
<b>Tertiary</b>	30.6	31.6	33.0	35.5	40.9	43.8	46.1	46.4	46.1	46.6
<b>Females</b>										
<b>Primary</b>	14.9	15.2	14.9	13.9	12.0	10.7	8.0	7.5	6.5	6.6
<b>Secondary</b>	31.8	31.4	30.8	29.4	26.9	25.8	26.4	25.2	24.4	24.2
<b>Tertiary</b>	53.3	53.4	54.3	56.7	61.1	63.5	65.6	67.3	69.1	69.2

Source: Estonian Labour Force Surveys, various years.

On the basis of changes in employment by industries, table 1.5 charts the positive tendency for employment in manufacturing to decrease less in Estonia than in other CEE countries. Also, the sharp increase in employment in the financial sector is a sign of the rapid development of this sector. A negative point is that the sharp fall in employment in agriculture may give rise to additional social problems in rural areas.

On the dynamics of employment by industries, the following trends are of note. Over the whole period, a constant and progressive decrease in employment in agriculture and fishing was observed. Both industries saw the greatest decrease in 1993. By 1998 absolute employment in agriculture compared to 1989 had decreased by 65.1 per cent and in fishing by 80.4 per cent. Real estate and business activities, public administration and education belong to a group of industries in which a decrease in employment was observed up to 1991–1992, followed by an increase in subsequent years. A predictable and continuous increase in employment is seen in financial intermediation and trade, while employment in other industries does not show such clear systematic trends.

Table 1.6 shows employment changes by ownership and by sector. Public sector employment has decreased drastically during transition. Rapid privatization means that 87.8 per cent of all registered enterprises are private companies, meaning that almost all profit-oriented economic activities are in private hands. Similarly to the position for general employment, the largest share of persons employed in the private sector are involved in the service sector. However, the share of the public sector as an employer is relatively large, since the State is the main employer in electricity, gas and water supply, education, health care and public administration. The decision to privatize several major infrastructure firms, such as power stations and railway transport, will probably increase the share of the private sector in employment in the near future.

**Table 1.5: Employed persons, aged 15–69, by sex and by economic activity, 1989–1998**  
(annual average, percentages)

Industry	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
Agriculture, hunting, forestry	18.0	18.0	17.4	16.3	14.3	12.6	9.6	9.2	8.3	8.3
Fishing	3.2	3.1	3.0	2.8	2.3	2.0	(0.9)	(0.8)	1.1	0.8
Mining	1.5	1.5	1.5	1.6	1.6	1.6	1.4	(1.4)	1.2	1.3
Manufacturing	25.7	25.1	24.6	23.6	21.4	20.7	24.8	23.9	22.3	21.9
Electricity production	2.2	2.2	2.3	2.3	2.6	2.8	2.4	2.5	2.7	2.9
Construction	7.7	8.0	8.1	7.9	7.4	7.2	5.4	5.7	7.4	7.4
Trade	7.4	7.6	8.1	9.4	11.4	12.7	12.6	13.3	14.0	14.2
Hotels, Restaurants	2.2	2.1	2.3	2.3	2.4	2.7	2.7	2.7	2.3	2.3
Transport, Communications	7.8	8.1	8.3	8.0	8.3	8.4	10.0	10.0	9.2	9.1
Financial intermediation	(0.5)	(0.5)	(0.6)	0.8	0.9	1.1	(1.1)	(1.0)	1.2	1.4
Real estate, Business activities	4.0	4.0	3.8	3.7	3.9	4.3	4.9	5.0	5.4	6.0
Public administration	3.9	3.8	3.9	4.2	4.9	5.3	5.4	5.4	5.3	5.8
Education	6.1	6.0	6.0	6.4	7.0	7.0	8.5	8.7	9.0	8.7
Health care	6.0	6.0	6.2	6.3	6.7	6.8	5.6	5.6	5.6	5.4
Other	3.8	4.0	4.1	4.3	4.8	4.8	4.6	4.7	5.2	4.7
Total	100	100	100	100	100	100	100	100	100	100
<b>Males</b>										
Agriculture/hunting/forestry	22.5	21.9	20.9	19.6	17.3	15.3	11.4	11.1	10.1	10.0
Fishing	4.7	4.6	4.5	4.1	3.4	2.8	(1.4)	...	1.9	1.4
Mining	2.2	2.2	2.2	2.4	2.3	2.3	(2.3)	(2.2)	1.9	2.1
Manufacturing	24.6	23.9	23.5	22.9	20.8	20.3	26.7	26.1	23.7	23.1
Electricity production	3.0	3.0	3.0	3.0	3.4	3.6	3.1	3.3	3.8	4.0
Construction	12.4	12.8	12.9	12.5	11.8	11.7	9.0	9.5	12.6	12.8
Trade	3.8	4.2	5.2	3.9	9.6	11.1	10.5	10.9	12.2	12.1
Hotels, restaurants	1.2	1.1	1.1	1.2	1.4	1.8	(1.4)	...	(0.8)	(0.8)

Industry	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Transport, Communications	10.9	11.3	11.4	11.0	11.2	11.2	13.0	12.8	12.6	12.6
Financial intermediation	...	...	...	...	...	...	...	...	(0.6)	(0.8)
Real estates, Business activities	3.7	3.7	3.6	3.5	3.9	4.6	5.3	5.5	6.0	6.4
Public administration	3.7	3.5	3.6	4.2	5.1	5.3	6.5	6.2	5.3	5.8
Education	3.1	2.9	3.0	3.2	3.1	3.1	3.4	3.5	3.9	3.5
Health care	1.4	1.5	1.6	1.6	1.9	1.9	(1.7)	(1.8)	1.4	1.4
Other	2.8	3.3	3.4	3.6	4.1	4.3	3.5	3.8	3.3	3.1
Total	100	100	100	100	100	100	100	100	100	100
<b>Female</b>										
Agriculture/hunting/forestry	13.4	13.8	13.6	12.6	11.0	9.7	7.6	7.2	6.2	6.4
Fishing	1.5	1.4	1.3	1.2	(1.0)	(1.0)	...	...	...	...
Mining	(0.8)	(0.7)	(0.7)	(0.7)	80.8)	(0.8)	...	...	...	...
Manufacturing	26.8	26.5	25.8	24.4	22.0	21.1	22.7	21.5	20.8	20.5
Electricity production	1.4	1.5	1.4	1.6	1.6	1.9	(1.7)	(1.7)	1.6	1.6
Construction	2.9	2.8	2.9	2.8	2.5	2.1	(1.5)	(1.6)	1.6	1.6
Trade	11.1	11.3	11.3	12.2	13.5	14.5	14.9	15.9	16.0	16.4
Hotels/restaurants	3.4	3.3	3.6	3.5	3.5	3.7	4.2	4.3	3.9	3.9
Transport, Communications	4.6	4.7	4.9	4.7	5.1	5.2	6.8	7.0	5.4	5.3
Financial intermediation	(0.8)	(0.9)	(1.0)	(1.2)	(1.4)	1.6	...	...	1.8	1.9
Real estate, Business activities	4.3	4.2	4.0	3.8	4.0	4.0	4.5	4.5	4.7	5.6
Public administration	4.2	4.1	4.2	4.3	4.7	5.3	4.2	4.5	5.2	5.7
Education	9.2	9.3	9.3	10.1	11.4	11.3	14.1	14.3	14.6	14.2
Health care	10.8	10.8	11.3	11.6	12.1	12.3	9.8	9.7	10.2	9.7
Other	4.8	4.8	4.8	5.2	5.5	5.4	5.7	5.7	7.2	6.4
Total	100	100	100	100	100	100	100	100	100	100

Notes: ... indicates data are based on less than 20 persons in the sample

( ) data are based on 20-39 persons.

Source: Estonian Labour Force Surveys, various years.

**Table 1.6. Employment by ownership and sectors in 1994–1998 ('000s, percentages)**

	1994	1995	1996	1997	1998	Change 1994–1998 (%)
<b>Total</b>						
Total	433 543	442 725	431 163	433 608	432 420	-1.4
Primary (%)	12.6	10.0	10.4	11.2	9.8	-23.4
Secondary (%)	45.0	43.5	40.6	39.6	40.7	-10.9
Tertiary (%)	42.4	46.5	49.0	49.2	49.5	+15.2
<b>Public sector</b>						
Total	134 875	93 021	58 901	51 844	58 174	-56.9
Primary (%)	7.8	4.3	1.9	14.5	13.4	-25.8
Secondary (%)	49.5	43.6	44.2	36.5	32.3	-71.9
Tertiary (%)	42.7	52.0	53.9	49.1	54.3	-45.2
<b>Private sector</b>						
Total	298 668	349 704	372 262	381 764	374 246	+25.3
Primary (%)	14.8	11.5	11.7	10.8	9.2	+25.3
Secondary (%)	43.0	43.5	40.0	40.0	42.0	+22.3
Tertiary (%)	42.2	45.1	48.2	49.2	48.8	+44.8

Source: Estonian Enterprise Register, Estonian Register of Social Security.

Private firms increase jobs in small enterprises. According to Estonian Enterprise Register data, employment in small firms (less than five people) increased by almost 40 per cent during 1994–1998. As table 1.7 shows, the general increase of employment in the private sector was 25.3 per cent.

**Table 1.7. Private sector employment by size of firm, 1994-98**

No. of employees as share of total (%)	1994	1995	1996	1997	1998	Change 1994-1998 (%)
Less than 5	9.0	10.0	9.8	10.2	10.1	+39.8
6-10	9.2	9.8	9.3	9.6	9.4	+27.9
11-25	16.4	16.9	16.4	16.9	17.6	+34.0
26-100	29.3	28.3	27.4	28.7	29.2	+24.9
101+	36.0	35.0	37.1	34.6	33.8	+17.4
Total %	100	100	100	100	100	
Total number	298 668	349 704	372 262	381 764	374 246	+25.3

Sources: Estonian Enterprises Register, Estonian Register of Social Security.

Table 1. 8 documents job losses for both high- and low-skilled workers during the 1990s, with the highest decline among craft and related trade workers, plant and machine operators, but also among professionals. For both women and men, the highest increase is observable among service and sales workers. The proportion of men has remained almost the same among low-skilled workers (at around 68 per cent) and increased by 5 percentage points among high-skilled workers (from 38.6 per cent in 1989 to 43.7 per cent in 1998).

**Table 1.8: Employed persons, aged 15-69, by sex and by occupation, 1989-1998 ('000s, annual average)**

Occupation	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
Legislators, senior officials and managers	95.1	93.5	91.4	88.7	86.5	88.3	75.1	74.2	88.8	86.8
Professionals	110.5	107.5	103.3	97.7	89.2	83.0	79.1	78.6	70.6	69.1
Technicians and associate professionals	87.7	86.1	85.1	81.8	78.1	77.9	88.6	92.3	85.1	85.4
Clerks	48.1	45.8	44.9	42.5	38.0	35.4	33.9	32.9	29.3	29.5
Service workers and shop and market sales workers	56.3	56.7	58.3	59.8	65.5	71.9	70.4	70.9	70.2	69.4
Skilled agricultural and fishery workers	43.1	45.7	46.9	48.1	47.2	44.8	32.5	32.2	30.1	28.6
Craft and related trade workers	183.3	181.3	175.2	164.0	144.5	136.3	122.0	118.8	111.3	109.4
Plant and machine operators and assemblers	147.2	144.3	137.4	122.0	99.1	91.0	89.7	82.5	86.0	84.0
Elementary occupations	65.5	64.4	64.0	59.8	58.4	62.1	62.3	60.5	70.1	71.3
<b>Males</b>										
Legislators, senior officials and managers	56.7	56.7	55.6	53.8	53.2	55.3	47.8	47.1	58.6	57.2
Professionals	38.8	37.9	36.3	34.0	30.2	27.5	30.5	30.8	22.1	22.4
Technicians and associate professionals	20.1	20.2	21.3	23.4	24.2	25.4	25.6	26.0	25.8	25.9
Clerks	5.1	(4.9)	(4.5)	(4.1)	(4.6)	5.2	(4.7)	(5.1)	5.1	5.8
Service workers and shop and market sales workers	8.4	9.2	10.7	12.4	15.8	18.3	16.8	17.1	16.9	15.5
Skilled agricultural and fishery workers	15.8	17.2	18.7	21.1	23.4	23.8	16.8	17.2	17.1	16.3
Craft and related trade workers	136.4	135.6	131.7	125.0	110.0	101.6	98.2	95.4	84.7	84.5
Plant and machine operators and assemblers	125.2	123.0	118.5	106.5	87.2	80.2	71.7	66.7	72.6	67.7
Elementary occupations	19.5	21.5	23.4	23.0	24.0	27.3	27.8	27.4	31.6	30.9

Females										
Legislators, senior officials and managers	38.4	36.9	35.9	34.9	33.3	33.0	27.3	27.1	30.2	29.6
Professionals	71.7	69.7	67.0	63.7	59.1	55.5	48.6	47.8	48.6	46.7
Technicians and associated professionals	67.7	65.9	63.7	58.4	53.9	52.5	63.0	66.3	59.3	59.5
Clerks	43.0	40.9	40.4	38.4	33.4	30.2	29.3	27.9	24.2	23.7
Service workers and shop and market sales workers	47.9	47.5	47.7	47.4	49.7	53.6	53.5	53.8	53.3	53.9
Skilled agricultural and fishery workers	27.3	28.5	28.2	27.0	23.8	21.0	15.7	15.0	13.0	12.3
Craft and related trade workers	46.9	45.7	43.4	39.0	34.5	34.7	23.9	23.4	26.6	25.0
Plant and machine operators and assemblers	22.0	21.3	18.9	15.5	11.9	10.7	18.1	15.9	13.4	16.3
Elementary occupations	46.0	43.0	40.6	36.8	34.4	34.8	34.5	33.2	38.5	40.4

Note: ( ) indicates data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys.

Are people still mainly occupied as wage employees? Table 1.9 shows the form of employment during 1989–1998. While wage employment has decreased and self-employment increased, 91.3 per cent were wage employees in 1998. Estonia belongs geographically, culturally and economically to the group of Nordic countries, in that the level of self-employment in Estonia (8.7 per cent in 1998) is similar to that of Denmark and Sweden (8.4 and 10.9 per cent respectively in 1998). Only in Finland (14.0 per cent) is the level of self-employment comparable with the average level of the EU (14.7 per cent in 1998).

**Table 1.9: Wage employees and self-employed persons, aged 15–69, by sex and age, 1989–1998 (annual average, percentages)**

Type of employment	1989	1990	1991	1992	1993	1994	1995*	1996	1997	1998
<b>Males and females</b>										
Wage employees	97.6	96.7	95.6	93.7	91.6	90.7	93.0	92.4	92.0	91.3
Self-employed	2.4	3.3	4.4	6.3	8.4	9.3	7.0	7.6	8.0	8.7
<b>Males</b>										
Wage employees	97.8	96.7	95.0	92.4	89.6	88.3	91.0	90.1	89.8	89.0
Self-employed	2.2	3.3	5.0	7.6	10.4	11.7	9.0	9.9	10.2	11.0
<b>Females</b>										
Wage employees	97.4	96.7	96.2	95.1	93.8	93.5	95.2	94.9	94.3	93.8
Self-employed	2.6	3.3	3.8	4.9	6.2	6.5	4.8	5.1	5.7	6.2
<b>15–24 years old</b>										
Wage employees	98.0	96.7	95.2	92.9	91.4	90.9	96.3	95.9	94.6	95.2
Self-employed	...	(3.3)	4.8	7.1	8.6	9.1	...	...	5.4	4.8
<b>25–49 years old</b>										
Wage employees	98.2	97.5	96.2	94.3	92.3	91.4	92.1	91.9	91.6	90.7
Self-employed	1.8	2.5	3.8	5.7	7.7	8.6	7.9	8.1	8.4	9.3
<b>50–69 years old</b>										
Wage employees	96.0	95.1	94.3	92.6	89.8	88.8	93.6	91.9	91.6	91.1
Self-employed	4.0	4.9	5.7	7.4	10.2	11.2	6.4	8.1	8.4	8.9
<b>16 – pension age</b>										
Wage employees	98.3	97.5	96.2	94.3	92.4	91.4	93.0	92.5	91.9	91.4
Self-employed	1.7	2.5	3.8	5.7	7.6	8.6	7.0	7.5	8.1	8.6

Notes: ... indicates data are based on less than 20 persons in the sample.

( ) indicates data based on 20–39 persons.

\* The sudden decline in self-employment in 1995 is partly due to different surveys and different sample sizes (see Introduction for details).

Source: Estonian Labour Force Surveys, various years.

Tables 1.10 and 1.11 show self-employment in more detail. In Estonia, the majority of own-account (self-employed) pay no additional workers; a very small share from total employment form unpaid family workers – 0.8 per cent in the second quarter of 1998. As table 1.12 shows, own-account workers are mainly involved in the primary sector, as are the majority of unpaid family workers.

**Table 1.10: Employed persons aged 15-74 by status in employment, 1998 (annual average)**

Status in employment	Males		Females		Total	
	Thousands	%	Thousands	%	Thousands	%
Employees	294.3	89.0	290.4	93.8	584.7	91.3
Employers	14.7	4.4	5.2	1.7	19.9	3.1
Own-account workers	19.6	5.9	10.6	3.4	30.3	4.7
Unpaid family workers	(2.0)	(0.6)	3.3	1.1	5.4	0.8
<b>TOTAL</b>	<b>330.7</b>	<b>100.0</b>	<b>309.5</b>	<b>100.0</b>	<b>640.2</b>	<b>100.0</b>

Note: ( ) – data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Survey 1999.

**Table 1.11: Employed persons aged 15-74 in private sector by type of ownership of enterprise and status in employment in 1998 (annual average)**

Type of ownership, status in employment	Males		Females		Total	
	Thousands	%	Thousands	%	Thousands	%
<b>Private sector total</b>						
Employees	215.3	85.5	172.3	90.1	387.6	87.5
Employers	14.7	5.8	5.2	2.7	19.9	4.5
Own-account workers	19.6	7.8	10.5	5.5	30.2	6.8
Unpaid family workers	(2.0)	(0.8)	3.3	1.8	5.4	1.2
<b>TOTAL</b>	<b>251.7</b>	<b>100.0</b>	<b>191.3</b>	<b>100.0</b>	<b>443.0</b>	<b>100.0</b>
<b>Estonians employed in private sector</b>						
Employees	188.0	84.1	145.0	88.5	333.0	86.0
Employers	14.1	6.3	5.1	3.1	19.2	5.0
Own-account workers	19.3	8.6	10.3	6.3	29.6	7.6
Unpaid family workers	(2.0)	(0.9)	3.3	2.0	5.4	1.4
<b>TOTAL</b>	<b>223.4</b>	<b>100.0</b>	<b>163.8</b>	<b>100.0</b>	<b>387.2</b>	<b>100.0</b>
<b>Non-Estonians employed in private sector</b>						
Employees	24.2	96.8	23.9	99.0	48.0	97.9
Employers	...	...	...	...	...	...
Own-account workers	...	...	...	...	...	...
Unpaid family workers	...	...	...	...	...	...
<b>TOTAL</b>	<b>25.0</b>	<b>100.0</b>	<b>24.1</b>	<b>100.0</b>	<b>49.1</b>	<b>100.0</b>

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Survey 1999.

**Table 1.12: Employed persons aged 15-74 by sector of economy and status in employment, 1998**  
(annual average)

Sector of economy, status in employment	Males		Females		Total	
	Thousands	%	Thousands	%	Thousands	%
<b>Primary sector</b>						
Employees	25.8	68.6	13.6	66.4	39.4	67.9
Employers	(1.3)	(3.5)	...	...	(1.6)	(2.8)
Own-account workers	8.7	23.2	3.3	16.3	12.0	20.7
Unpaid family workers	(1.8)	(4.7)	3.2	15.8	5.0	8.6
TOTAL	37.6	100.0	20.4	100.0	58.1	100.0
<b>Secondary sector</b>						
Employees	130.0	94.0	73.3	98.3	203.3	95.5
Employers	4.7	3.4	...	...	5.0	2.3
Own-account workers	(3.6)	(2.6)	...	...	4.6	2.1
Unpaid family workers	...	...	...	...	...	...
TOTAL	138.3	100.0	74.5	100.0	212.9	100.0
<b>Tertiary sector</b>						
Employees	138.5	89.5	203.5	94.9	342.0	92.6
Employers	8.7	5.6	4.6	2.2	13.3	3.6
Own-account workers	7.4	4.8	6.3	2.9	13.7	3.7
Unpaid family workers	...	...	...	...	...	...
TOTAL	154.7	100.0	214.6	100.0	369.3	100.0

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Survey 1999.

According to labour legislation, employment relations are mainly based on an employment contract or Act of Public Service (table 1.13). The share of both contracts of agreement and verbal contracts<sup>3</sup> is very low but the latter is increasing, especially among men. The verbal contract is typical for small firms and is usually illegal, except for short-term temporary work for a maximum of two weeks. Verbal contracts are used for seasonal employment in industries such as agriculture, fishing, trade and construction. Typical forms of hidden employment are "envelope salaries" – i.e. cash payments to employees, unreported income tax and VAT, unregistered work on weekends, moonlighting in second and third jobs, and unreported income from abroad.

<sup>3</sup> Civil contracts are considered as own-account workers in ELFS.



**Table 1.13: Employees aged 15–69 by sex and type of employment relation, 1989–1998 (annual average, percentages)**

Type of employment relation	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
Fixed employment contract, Act of Public Service	97.9	97.3	96.7	95.6	94.2	92.6	95.5	95.2	95.5	95.6
Temporary employment contract	1.8	2.3	2.7	3.3	4.5	5.6	2.4	2.5	1.8	1.6
Verbal contract	...	(0.4)	(0.6)	0.9	1.3	1.7	2.2	2.3	2.7	2.8
<b>Males</b>										
Fixed employment contract, Act of Public Service	97.7	96.9	96.2	95.4	93.5	91.5	94.6	94.4	93.8	94.1
Temporary employment contract	2.0	2.5	3.0	3.5	4.8	6.1	(2.4)	(2.6)	2.7	2.1
Verbal contract	...	...	(0.8)	(1.1)	1.7	2.4	3.0	(2.9)	3.6	3.8
<b>Females</b>										
Fixed employment contract, Act of Public Service	98.2	97.7	97.1	96.4	94.9	93.8	96.4	96.0	97.3	97.1
Temporary employment contract	1.7	2.0	2.4	3.0	4.2	5.1	(2.4)	(2.4)	(0.9)	(1.1)
Verbal contract	...	...	...	...	(0.9)	(1.1)	...	(1.5)	1.7	1.8

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Survey, various years.

No statistics are available on civil contracts or self-employment misuse (by employers who do not pay taxes or social contributions for workers who are in their employ). Some evidence exists for this situation in businesses with wage systems based on sales transactions. In businesses such as real estate, transportation, and the wholesale and retail trade, the number of sole proprietors is remarkably high. In these enterprises, owners can legally act as sole proprietor, self-reporting their taxation and often not paying the social tax (payroll tax), which is 33 per cent in Estonia.

### Part-time employment and multiple-job holding

Table 1.14 shows that the share of part-time jobs (less than 35 hours work per week) has been relatively low, only 8.2 per cent in 1998, for example. The significant difference in male part-time employment (5.8%) and for female (10.8%) is explained by the fact that women undertake care responsibility for children and other family members. A breakdown of reasons for part-time employment is found in table 1.15. The relatively high share of young people engaged in part-time work (9.1% in 1998) is due to their remaining in the educational system.

**Table 1.14: Employed persons aged 15–69 by sex, age group and full/part-time job, 1989–1998 (annual average, percentages)**

Type of job	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Total</b>										
Full-time	97.0	96.9	96.4	95.9	95.0	94.1	92.2	90.7	92.9	91.8
Part-time <sup>(a)</sup>	3.0	3.4	3.6	4.1	5.0	5.9	7.8	9.3	7.1	8.2
Underemployed <sup>(b)</sup>	1.4	1.6	1.8	2.2	2.7	3.0	4.7	5.3	4.7	4.4
<b>Wage employees</b>										
Full-time	97.0	96.5	96.4	95.9	95.0	94.1	92.8	91.4	93.4	92.3
Part-time	3.0	3.5	3.6	4.1	5.0	5.9	7.2	8.6	6.6	7.7
Underemployed	0.8	1.0	1.1	1.6	2.1	2.4	4.0	4.5	4.2	4.1
<b>Males</b>										
Full-time	98.1	97.9	97.8	97.4	96.4	95.6	94.0	92.6	95.0	94.2
Part-time	1.9	2.1	2.2	2.6	3.6	4.4	6.0	7.4	5.0	5.8
Underemployed	(1.1)	1.2	1.3	1.7	2.2	2.7	4.2	4.9	3.8	3.7

Females										
Full-time	95.8	95.2	94.9	94.1	93.3	92.5	90.3	88.8	90.6	89.2
Part-time	4.2	4.8	5.1	5.9	6.7	7.5	9.7	11.2	9.4	10.8
Underemployed	1.7	2.1	2.3	2.8	3.1	3.3	5.3	5.9	5.6	5.3
15–24 year olds										
Full-time	96.7	95.9	96.0	95.1	93.9	92.1	90.4	86.1	92.0	90.9
Part-time	(3.3)	(4.1)	(4.0)	4.9	6.1	7.9	(9.6)	13.9	8.0	9.1
Underemployed	...	...	...	...	...	...	...	...	(3.4)	(3.5)
25–49 year olds										
Full-time	98.0	97.6	97.4	96.8	96.2	95.6	94.0	92.7	94.4	93.2
Part-time	2.0	2.4	2.6	3.2	3.8	4.4	6.0	7.3	5.6	6.8
Underemployed	(0.8)	1.1	1.2	1.8	2.3	2.7	3.6	4.3	4.0	4.1
50–69 year olds										
Full-time	94.8	94.5	94.3	93.9	92.4	91.4	88.3	87.7	89.0	na
Part-time	5.2	5.5	5.7	6.1	7.6	8.6	11.7	12.3	11.0	na
Underemployed	...	...	...	(1.5)	(2.0)	(2.4)	(5.7)	6.6	7.3	na

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

(a) Part-time workers are persons whose overall working time per week was less than 35 hours (exception is made for the occupations where shortened working time is prescribed by law).

(b) A person is underemployed if he or she works less than full time, but is willing to work additional hours and is currently (in the course of two weeks) available for work.

Source: Estonian Labour Force Surveys, various years.

Table 1.16 records the average weekly hours of part-time work (22–23 hours) in comparison to full-time (44 hours) and the incidence of multiple-job holding. On average, men work slightly longer than women. No published data are available on second jobs prior to the second quarter of 1997, when the number of people holding more than one job was 57,000. As table 1.16 shows, most multiple jobs are located in the service sector (75.7% in the second quarter of 1999). The majority of second jobs are analysed according to occupation in table 1.17. Most second jobs are held by professionals (30% in the second quarter of 1999), but also by technicians and associated professionals.

**Table 1.15: Employed persons aged 15–74 in part-time employment by sex and reason of part-time job, 1998 (annual average)**

Reason for part-time job	Males		Females		Total	
	Thousands	%	Thousands	%	Thousands	%
Studies	...	...	(2.3)	(6.8)	4.0	7.3
Personal or family reasons	...	...	4.0	11.6	4.7	8.6
Reasons of employer	7.9	39.6	8.0	23.3	15.9	29.3
Did not find full-time job	4.5	22.7	8.4	24.6	13.0	23.9
Did not want to work full-time	5.2	26.0	11.5	33.7	16.7	30.9
TOTAL	20.0	100.0	34.2	100.0	54.2	100.0

Notes: ... Data are based on less than 20 persons in the sample. ( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Survey 1999.

**Table 1.16: Part-time and full-time work and multiple-job holding, 1997, 1998 and 1999**

	2 <sup>nd</sup> quarter 1997	2 <sup>nd</sup> quarter 1998	2 <sup>nd</sup> quarter 1999
<b>Proportion of labour force working part-time (%)</b>			
Males	6.5	4.7	5.9
Females	11.1	10.2	10.4
Total	8.7	7.4	8.1
<b>Average weekly hours of full-time workers</b>			
Male	46.12	46.05	44.59
Females	42.65	42.42	42.28
Total	44.48	44.36	43.49
<b>Average weekly hours of part-time workers</b>			
Males	22.65	22.42	23.62
Females	22.22	21.12	21.83
Total	22.39	21.55	22.51
<b>Proportion of labour force with more than one job (%)</b>			
Males	9.5	8.9	6.7
Females	8.5	7.6	7.6
Total	9.0	8.3	7.2
<b>Sector of second job (% of total)</b>			
Primary	(12.5)	14.0	10.7
Secondary	17.1	15.4	13.7
Tertiary	70.4	70.6	75.7

Source: Estonian Labour Force Surveys, various years.

**Table 1.17: Employed persons holding more than one job by occupation of second job, 1998 and 1999 (percentage)**

Occupation	2 <sup>nd</sup> quarter 1998	2 <sup>nd</sup> quarter 1999
Legislators, senior officials and managers	7.5	(4.9)
Professionals	28.3	30.0
Technicians and associated professionals	18.2	19.0
Clerks	...	...
Service workers and shop and market sales workers	(5.0)	7.5
Skilled agricultural and fishery workers	9.8	8.0
Craft and related trade workers	12.9	11.2
Plant and machine operators and assemblers	(5.7)	(5.7)
Elementary occupations	10.5	9.0
TOTAL	100	100

Notes: ... Data are based on less than 20 persons in the sample. ( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

### 1.3 Annual labour inflows and outflows

As no published official statistics are available for annual labour inflows and outflows, these have been estimated using the studies indicated below.

Flow analysis for 1989–1994 conducted by Eamets, Kulikov and Philips (1997) shows that:

- Flows from employment to inactivity have decreased steadily from 1989 to 1994. The same tendency can be seen in the flow from inactivity to employment until 1993 but has since been increasing.
- In contrast, an increase in the flow from employment to unemployment occurred until 1994 and from unemployment to employment during the whole period under observation. Since 1994, the flow from employment to unemployment has been decreasing. There is also a relatively fast increase in the flow from inactivity to unemployment and from unemployment to inactivity.

These tendencies show that labour force activity has increased during 1989–1994 (see table 1.18). The study finds that the flow from employment to inactivity has decreased and the flow from inactivity to unemployment has increased. In addition, the flow from unemployment to employment has increased faster than the opposite flow. On the one hand, the Estonian economy has been able to offer new jobs in sufficient quantity. On the other hand, employment has decreased in numbers, possibly from the increase in structural unemployment. People either do not have the education or qualifications required for these new jobs or may be qualified but no suitable jobs are on offer in a suitable radius of where they live.

**Table 1.18. Flows between categories of the labour market, 1989–1994 (percentages)**

	1989	1990	1991	1992	1993	1994
Unemployment – employment	4.6	4.4	5.0	7.4	12.2	14.5
Inactivity – employment	25.4	24.9	21.7	14.9	15.4	17.2
Employment – unemployment	2.4	3.4	6.8	13.3	14.0	12.9
Employment – inactivity	32.5	28.6	26.4	26.2	18.7	15.9
Unemployment – inactivity	0.1	0.4	0.6	1.0	2.0	2.8
Inactivity – unemployment	1.2	2.3	3.3	4.1	4.6	6.0
Employment – employment	33.9	35.9	36.2	33.0	32.9	30.8
Total flows (%)	100	100	100	100	100	100
Total flows (No.)	1 127	1 487	1 859	2 657	2 859	2 948

Source: Estonian Labour Force Survey 1995.

The largest increase is in the flow from unemployment to inactivity (28 times) which actually represents long-term unemployed persons who have ceased jobseeking. At the same time, there was a fivefold increase in the opposite flow from inactivity to unemployment, although it should be born in mind that the share of these flows in the total flow is relatively small.

The study conducted by Eamets (2000) estimates the annual gross flows of workers in Estonia from 1994 to 1997. Table 1.19 provides flow data and other selected measures of labour market performance based on labour force survey data. Two main groups comprise the unemployed: workers flowing out from unemployment relatively quickly and those who are long-term unemployed. The share of long-term unemployment is not particularly high but the average duration of unemployment is relatively high. This also explains why inflow rates, which are based on monthly registration data, are very low in Estonia (table 1.20). Labour force survey flows on an annual basis have similar inflow-outflow rates as in Western countries.

An interesting study comparing job destruction and creation rates in Eastern Europe was conducted by Faggio and Konings (1999). This study used rich data sets of comparable firm- level data from 1993 to 1997 for five transition countries (Bulgaria, Estonia, Poland, Romania and Slovenia). Gross employment reallocation rates and excess employment reallocation rates were calculated. Gross employment reallocation is the sum of gross job creation and destruction.<sup>4</sup> The difference in these two measures gives the net employment growth rate.

<sup>4</sup> Gross job creation was computed as the sum of all employment gains in expanding firms in a given year, divided by the total employment at the beginning of the year. Gross job destruction was computed as the sum of all employment losses in contracting firms in a given year, divided by total employment at start of year.

**Table 1.19: Annual gross flows of workers in Estonia**

	1994	1995	1996	1997
Unemployment inflow $(EU+NU)/(E+N)$	5.09	3.81	4.96	4.38
Unemployment outflow $(UN+UE)/U$	60.32	40.38	45.96	43.57
Employment inflows $H=(NE+UE+EE)/E$	27.56	15.82	20.78	17.74
Employment outflows $S=(EU+EN+EE)/E$	27.66	16.20	22.05	18.49
Gross worker turnover $(H+S)/E$	55.21	32.02	42.83	36.23
Duration of unemployment (months)	13.0	12.8	17.4	19.2
Proportion of LTU	39.6	31.8	55.3	45.8

Notes: E – employment, U – unemployment, N – non-participation, S – separation, H – hiring, EE – job-to-job flow, EU – flow from employment to unemployment.

Source: Estonian Labour Force Surveys; Eamets (2000).

An alternative measure, first introduced by Davis and Haltiwanger (1992), is *excess job reallocation rate* defined as the gross job reallocation rate minus the absolute value of the net employment growth rate. This measure indicates the job reallocation that results after taking into account the gross job reallocation needed to accommodate a given net employment growth. As the gross job creation rate and the gross job destruction rate measures the flexibility of the market, gross employment reallocation and, in particular, excess employment reallocation can be interpreted as an index restructuring. This study and others characterize turbulence as a feature in Estonia, but flows in the country are similar to those reported by most dynamic Western economies (see also Haltiwanger and Vodopivec, 1998).

**Table 1.20: Unemployment monthly inflow<sup>(a)</sup> and outflow rates.<sup>(a)</sup> (Registered data)**

Monthly inflow rates							
	1992	1993	1994	1995	1996	1997	1998
Czech Republic	0.9	0.7	0.6	0.6	0.6	0.8	1.1
Slovakia	1.5	1.8	1.3	1.4	1.5	-	-
Poland	0.9	1.1	1.2	1.3	1.2	-	-
Hungary	-	1.3	1.1	1	1.2	-	-
Estonia EU/E <sup>(b)</sup>						0.68	0.70
Monthly outflow rates							
Czech Republic	24.8	20.1	19.7	19.7	18.8	15.7	13.9
Slovakia <sup>(c)</sup>	10.0	7.9	8.2	9.4	9.9	9.4	7.7
Poland	4.3	4.8	6.1	8	16.4	-	-
Hungary	-	7.6	9.1	7.8	9	-	-
Estonia (UE/U) <sup>(b)</sup>		3.2	3.5	3.6	3.5	3.3	4.0

Note: <sup>(a)</sup> Average monthly flows as a percentage of source of population.

Source: Munich et al, 1999; <sup>(b)</sup> Estonian Labour Market Board; authors' calculations; <sup>(c)</sup> Lubyova, et al, 1999.

Table 1.21 shows that during 1989–1998 the number of inactive persons increased in the following groups: persons remaining in the educational system; persons with illness or disability; persons with care responsibilities for children or other family members; and retirees. The State guarantees some social assistance (health insurance, and social benefits or pension) to these groups. The number of inactives discouraged by job-seeking has also increased drastically.

**Table 1.21: Inactive persons aged 15–69, rated by reason for inactivity and by sex, 1989–1998 (annual average, '000)**

Reason for inactivity	1989	1990	1991	1992	1993	1997	1998
<b>Males and females</b>							
Education, plans for further education	87.7	85.9	84.9	84.0	86.9	89.2	96.1
Military service	7.2	8.2	(4.9)	...	(2.8)	4.7	3.0
Own illness or disability	22.6	25.1	26.5	29.2	31.2	42.3	41.4
Pregnancy or maternity leave	33.1	39.3	41.0	39.2	32.4	29.3	28.7
Care responsibilities (children, other members of family)	7.4	8.7	10.5	12.3	13.4	12.1	12.5
Retirement age	91.2	96.2	106.8	124.9	134.9	132.9	130.7
Lost hope to find work (discouraged)	...	...	(4.1)	7.3	10.7	16.1	18.9
Other	(3.0)	(4.5)	5.6	7.4	9.9	6.9	6.6
<b>Total</b>	<b>253.8</b>	<b>270.5</b>	<b>284.2</b>	<b>306.4</b>	<b>322.1</b>	<b>333.6</b>	<b>337.8</b>
<b>Males</b>							
Education, plans for further education	47.1	44.0	43.4	41.2	42.3	42.1	45.9
Military service	7.2	8.2	4.9	...	(2.8)	4.6	2.9
Own illness or disability	10.6	12.2	12.9	14.4	15.4	24.2	24.1
Pregnancy or maternity leave	–	–	–	–	...	...	...
Care responsibilities (children, other members of family)	...	...	...	...	...	...	...
Retirement age	22.5	24.5	28.4	34.9	38.6	38.9	38.3
Lost hope to find work (discouraged)	...	...	...	(4.1)	6.2	7.9	10.7
Other	...	...	(3.1)	(4.3)	6.0	4.5	4.5
<b>Total</b>	<b>90.5</b>	<b>93.5</b>	<b>96.1</b>	<b>102.1</b>	<b>112.6</b>	<b>123.1</b>	<b>127.7</b>
<b>Females</b>							
Education, plans for further education	40.6	41.9	41.5	42.8	44.6	47.1	50.2
Military service	–	–	–	–	...	...	...
Own illness or disability	12.0	12.9	13.6	14.8	15.7	18.1	17.3
Pregnancy or maternity leave	33.1	39.3	41.0	39.2	32.4	29.2	28.3
Care responsibilities (children, other members of family)	6.7	8.0	9.4	11.2	12.1	11.3	11.5
Retirement age	68.7	71.7	78.4	90.0	96.3	94.0	92.4
Lost hope to find work (discouraged people)	...	...	...	(3.3)	(4.4)	8.2	8.2
Other	...	...	...	(3.1)	(3.9)	(2.4)	(2.1)
<b>Total</b>	<b>163.3</b>	<b>177.0</b>	<b>188.1</b>	<b>204.3</b>	<b>209.5</b>	<b>210.4</b>	<b>210.1</b>

Notes: ... Data are based on less than 20 persons in the sample. ( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

## 1.4 Unemployment in Estonia

Large-scale structural changes in the Estonian economy were accompanied by a significant reallocation of production factors between economic sectors and different geographical regions. The reasons for unemployment have an economic, social and psychological background. In addition to the country's macroeconomic shock (hyperinflation in 1991, the reorientation of foreign trade from the Eastern to the Western market, monetary reform, the banking crisis), other factors are: people's passive attitude towards retraining, low mobility, and difficulties in adapting psychologically to market economy conditions. The following influences have helped to prevent the explosion of unemployment in Estonia:

- Rapid restructuring of the economy. Employment in the tertiary sector has increased much faster than it has decreased in the primary and secondary sectors. However, many people remain unemployed because they lack the qualifications required or because no suitable jobs are available in a suitable radius of where they live.
- Decrease in the labour supply. According to the ELFS data, the number of employed persons decreased from 838,000 in 1989 to 636,000 in 1998. Of these, more than 75,000–

80,000<sup>5</sup> have left Estonia, 40,000–45 000 have retired, or left the labour market for other reasons. The remaining 70,000–75,000 people are unemployed.

- The fast-paced development of the hidden economy. A considerable amount of the labour force is employed in the hidden labour market. According to a survey launched in 1996 by the Estonian Institute of Social Analysis, the tax authorities reported 499,490 employed persons, while according to the ELFS in the beginning of 1995, there were 617,764 employed persons in the country – a significant difference. The hidden labour force is mainly employed in construction, agriculture, trade, and service activities.
- One possible explanation for the relatively slow increase in unemployment in Estonia compared to other Eastern European countries is the large share of the inactive population in the total working-age population. According to the ELFS data, 32.4 per cent of respondents were outside the labour force in 1998.

Despite these factors, the unemployment rate has increased from almost zero in the beginning of the 1990s (as shown in table 1.22) to 14.1 per cent in the first quarter of 2000. Why is this?

- Low mobility. For various reasons, the labour force is not sufficiently mobile to move to vacant jobs in other regions. Labour force mobility is hindered by purely economic factors (the inadequate development of the real estate market in the periphery, the extremely high costs of moving), coupled with social-psychological factors (family and relationship ties and the effect of a new environment, etc.). Low mobility is an inhibiting factor for economic development.
- Lack of information about vacancies. Firms do not always report vacancies, assuming that persons with high qualifications<sup>6</sup> do not use labour services in order to find a job and, likewise, those with high qualifications perceive labour services as mainly offering jobs requiring low qualifications and seek jobs through newspaper advertisements, relatives and friends. The result is that job requiring high qualifications are not mediated by labour services.
- The increase of long-term unemployment. In 1995 the share of those who had been seeking work for more than 12 months was around 30 per cent and in 1998 had increased to 47 per cent. This tendency has serious implications. In many communities (mostly in rural areas) those who have been long-term unemployed have lost the ability to work or the wish to re-enter the workforce. It is extremely difficult to bring these people back into the labour market.

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<sup>5</sup> During the period 1990-1994, according to Estonian migration data, 67,293 more people left Estonia than entered the country.

<sup>6</sup> Here denotes white-collar workers.

**Table 1.2: Unemployment rate by sex and by age, 1989-1998 (annual average, percentages)**

Age	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
15-24	...	...	(3.5)	7.4	11.0	11.6	14.1	16.0	14.4	15.7
25-49	...	...	1.2	3.4	6.4	7.5	9.8	9.7	10.0	10.0
50-69	...	...	...	(2.2)	4.2	5.1	6.9	7.2	6.1	6.1
16 – pension age	(0.5)	(0.7)	1.5	3.8	6.9	7.9	10.1	10.4	10.2	10.4
15-64	(0.5)	0.6	1.5	3.7	6.7	7.7	9.8	10.1	9.8	10.0
15-69	(0.6)	0.6	1.5	3.7	6.5	7.6	9.7	10.0	9.7	9.9
<b>Males</b>										
15-24	...	...	...	(6.9)	9.6	11.5	(12.9)	(15.5)	15.8	16.8
25-49	...	...	(1.2)	3.7	6.4	7.0	11.0	10.4	9.6	10.5
50-69	...	...	...	...	(4.6)	(5.0)	(7.7)	(8.4)	7.8	7.8
16 – pension age	...	...	1.5	4.0	6.7	7.6	10.7	10.9	10.4	11.1
15-64	...	...	1.4	3.9	6.6	7.4	10.7	10.8	10.3	10.9
15-69	...	...	1.4	3.9	6.5	7.3	10.6	10.7	10.1	10.8
<b>Females</b>										
15-24	...	...	...	(8.0)	13.0	11.8	(15.8)	(16.6)	12.4	14.3
25-49	...	...	(1.3)	3.2	6.4	8.1	8.4	9.0	10.4	9.6
50-69	...	...	...	...	(3.9)	(5.1)	(6.1)	(6.0)	4.2	4.3
16 – pension age	...	(0.8)	1.6	3.6	7.1	8.3	9.3	9.9	10.0	9.6
15-64	...	(0.7)	1.6	3.5	6.7	8.0	8.8	9.3	9.4	9.0
15-69	...	(0.7)	1.5	3.4	6.6	7.9	8.8	9.2	9.3	8.9

Notes: ... Data are based on less than 20 persons in the sample. ( ) Data are based on 20-39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

**Table 1.23: Registered unemployed, registered unemployed jobseekers and unemployed persons according to ELFS, various years ('000s, percentages)**

	1993	1994	1995	1996	1997	1998
Receiving unemployment benefit (average in a month)	18.8	17.3	13.9	17.2	18.3	18.0
Registered unemployed jobseeker (average in a month)	33.4	37.3	34.9	37.9	34.0	32.0
Registered unemployment rate (registered unemployed as % of labour force)	4.5	5.1	5.1	5.5	5.1	4.7
Vacancies reported to SEO (average per month)	2.15	1.7	1.23	1.23	1.13	1.35
Unemployed according to the LFS	49.6	56.7	70.9	71.9	69.4	70.2
Total unemployment rate (LFS unemployment as % of labour force)	6.5	7.6	9.8	10.0	10.5	9.6

Sources: Statistical Office of Estonia, Estonian Labour Market Board.

Table 1.23 shows that the labour force survey (ILO-calculated) unemployment figures for the number of unemployed jobseekers are about twice as high as those indicated by registered unemployment statistics during the same period. This kind of difference is due to several factors, the most influential of which are:

- inadequacy of the legislation and social guarantees for unemployment
- poor reputation of State Employment Offices
- very limited willingness on the part of employers to cooperate with the state job-mediation system and
- various jobseeking scenarios.

Tables 1.24, 1.25 and 1.26 highlight some aspects of these influences.



**Table 1.24: Unemployed persons: Steps taken to find a job (annual average, thousands)**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Status before unemployment</b>										
Lost a job	...	...	5.5	16.0	29.0	32.0	44.1	44.6	41.0	40.9
Quit	...	...	(3.1)	6.4	10.1	11.3	11.8	12.4	14.0	14.1
Non-working student	...	...	...	(2.9)	(3.9)	(4.4)	(5.6)	(5.9)	6.0	5.3
Other	...	...	...	(3.7)	6.6	9.1	9.4	(8.9)	8.4	9.9
Total	4.7	5.3	12.0	29.1	49.6	56.7	70.9	71.9	69.4	70.2
<b>Steps taken to find a job</b>										
Asked relatives or friends	(3.5)	(4.1)	9.0	21.0	35.3	38.9	47.8	48.1	44.8	47.1
Job advertisements	...	...	5.6	11.4	19.8	25.5	33.5	34.1	54.1	54.8
Contacted employers directly	(2.8)	(3.1)	7.0	16.3	24.7	27.6	31.9	31.9	28.9	27.2
Through State Employment Offices	–	–	(4.6)	14.4	30.2	32.5	31.9	34.0	36.5	36.1
Other	...	...	...	...	(2.9)	(3.6)	...	...	(3.8)	(3.9)
Total*	4.7	5.3	12.0	29.1	49.6	56.7	70.9	71.9	69.4	70.2

Notes: \* Less than total of rows because of more than one step taken to find job

... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

**Table 1.25: Unemployed persons: Contacting or not contacting the State Employment Office, 1989–1998 (annual average, percentages)**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
Contacted	–	–	(34.1)	52.5	64.4	61.3	55.1	58.0	60.6	58.9
Did not contact	–	–	65.9	47.5	35.6	38.7	44.9	42.0	39.4	41.1
<b>Males</b>										
Contacted	–	–	...	47.4	60.2	54.5	47.6	48.5	50.8	48.6
Did not contact	–	–	(75.4)	52.6	39.8	45.5	52.4	51.5	49.2	51.4
<b>Females</b>										
Contacted	–	–	(43.7)	58.9	68.9	68.3	65.2	70.2	72.4	72.7
Did not contact	–	–	(56.3)	41.1	31.1	31.7	34.8	29.8	27.6	27.3
<b>15–24 year olds</b>										
Contacted	–	–	...	(45.4)	55.5	47.6	(48.8)	(50.3)	48.0	46.3
Did not contact	–	–	(71.4)	(54.6)	44.5	52.4	(51.2)	(49.7)	52.0	53.7
<b>25–49 years olds</b>										
Contacted	–	–	(46.1)	60.5	68.6	66.7	59.5	61.8	63.0	61.6
Did not contact	–	–	(53.9)	39.5	31.4	33.3	40.5	38.2	37.0	38.4
<b>50–69 years olds</b>										
Contacted	–	–	...	...	(61.3)	60.0	(44.9)	(53.6)	67.2	65.2
Did not contact	–	–	...	(66.2)	(38.7)	(40.0)	(55.1)	(46.4)	32.8	(34.8)

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

**Table 1.26: Unemployed persons: Reasons for not contacting the State Employment Office during the period of unemployment, 1989–1998 (annual average, percentages)**

Reason	1991	1992	1993	1994	1995	1996	1997	1998
Office did not offer a suitable job	...	...	(18.2)	(20.2)	(19.5)	(19.5)	24.0	23.8
Not entitled to unemployment benefits	...	...	...	...	(17.8)	(17.6)	(10.7)	12.8
Contacting the SEO was unacceptable in principle	...	(23.0)	(25.9)	29.3	(22.1)	(22.2)	21.4	25.5
It was not necessary; could manage by oneself	(34.1)	39.2	32.5	26.8	(26.5)	(25.4)	28.0	21.1
Other (Office located too far away; unemployment benefits were too low; did not want to participate in public works)	...	(17.7)	(16.4)	(15.7)	(14.2)	(15.3)	15.9	16.8
Total	100	100	100	100	100	100	100	100

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

### 1.4.1 A gender perspective

According to the ELFS data, there have been more unemployed men than women in recent years.<sup>7</sup> However, the data show that the number of women who are inactive has increased dramatically over the whole period of observation. The lower unemployment for women is partly explained by the fact that more women than men are holding part-time jobs. In the second quarter of 1999 the proportion of part-time women workers was 10.4 per cent, almost double that for part-time men workers, at 5.9 per cent as shown in table 1.16.

The share of women is considerably higher than the share of men in registered unemployment. This difference is primarily due to Estonian legislation: men lose the right to register as unemployed after a certain period of time, but women can repeatedly register as unemployed under certain circumstances that do not legislatively apply to men (e.g. children aged under 7 years, for example; see also Section 4).

Looking at unemployment according to duration, the largest share is long-term unemployed (47 per cent). Short-term (up to 6 months) unemployed persons account for 34.8 per cent. Among young people, short-term unemployment prevails. Table 1.27 presents a breakdown of unemployment duration from 1989 to 1998.

<sup>7</sup> In 1992–1994, the female unemployment rate was higher than the male unemployment rate, because the first waves of dismissals affected more women than men.

**Table 1.27: Duration of unemployment: Unemployed persons by sex and by age, 1989–1998 (annual average, '000s)**

Duration	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Males and females</b>										
Up to 6 months	(2.5)	(2.7)	6.9	16.9	21.7	22.0	28.5	21.3	22.8	24.4
7–12 months	...	...	(2.5)	6.4	14.0	12.2	19.9	10.9	14.8	12.8
More than 12 months	...	...	(2.7)	5.8	13.9	22.5	22.5	39.8	31.8	33.0
More than 24 months	...	...	...	...	(3.5)	7.9	11.0	15.5	18.8	18.1
Total	(4.7)	5.3	12.0	29.1	49.6	56.7	70.9	71.9	69.4	70.2
<b>Males</b>										
Up to 6 months	...	...	...	9.8	10.5	11.3	15.0	10.8	12.8	14.1
7–12 months	...	...	...	(3.6)	7.8	5.9	11.1	(5.3)	8.6	7.7
More than 12 months	...	...	...	(2.9)	7.7	11.7	14.5	24.3	16.5	18.2
More than 24 months	...	...	...	...	...	(4.4)	(7.0)	10.6	9.3	10.1
Total	...	(2.5)	(6.1)	16.3	26.0	28.9	40.6	40.4	37.9	40.0
<b>Females</b>										
Up to 6 months	...	...	(3.4)	7.2	11.2	10.7	13.5	10.5	10.0	10.3
7–12 months	...	...	...	(2.7)	6.3	6.3	(8.8)	(5.6)	6.2	5.1
More than 12 months	...	...	...	(2.9)	6.2	10.8	(8.0)	15.5	15.3	14.8
More than 24 months	...	...	...	...	...	(3.5)	...	(4.9)	9.5	8.0
Total	...	(2.8)	6.0	12.8	23.7	27.8	30.3	31.6	31.5	30.2
<b>15–24 year olds</b>										
Up to 6 months	...	...	(2.5)	(4.7)	5.2	7.0	(6.5)	(6.5)	6.2	6.3
7–12 months	...	...	...	...	(3.3)	(2.5)	...	...	(3.6)	(3.3)
More than 12 months	...	...	...	...	(3.3)	(3.5)	...	(6.4)	(3.7)	5.0
More than 24 months	...	...	...	...	...	...	...	...	...	...
Total	...	...	(3.7)	8.1	11.8	13.0	14.2	15.4	13.6	14.5
<b>25–49 years olds</b>										
Up to 6 months	...	...	...	9.7	13.4	12.5	18.6	11.7	13.8	14.8
7–12 months	...	...	...	...	8.4	7.8	13.3	(7.0)	9.6	8.1
More than 12 months	...	...	...	...	8.5	14.9	13.8	26.5	22.9	22.8
More than 24 months	...	...	...	...	...	5.2	...	9.8	13.7	12.4
Total	...	...	6.2	16.9	30.3	35.2	45.7	45.1	46.3	45.8
<b>50–69 years olds</b>										
Up to 6 months	...	...	...	(2.5)	(3.1)	(2.5)	...	...	(2.8)	(3.3)
7–12 months	...	...	...	...	...	...	...	...	(1.5)	...
More than 12 months	...	...	...	...	...	(4.1)	(4.6)	(6.9)	(5.2)	5.2
More than 24 months	...	...	...	...	...	...	...	...	3.6	3.7
Total	...	...	...	(4.2)	7.6	8.6	11.0	11.4	9.5	9.9

Notes: ... Data are based on less than 20 persons in the sample.

( ) Data are based on 20–39 persons in the sample.

Source: Estonian Labour Force Surveys, various years.

## 1.5 Annual inflows to and outflows from unemployment

Reported job creation<sup>8</sup> declined steadily during 1996–1999. The unemployment-vacancies ratio increased from 19.8 to 30.3, with the largest increase among skilled agricultural and fishery workers. Most vacancies were created for craft and related trade workers and for service workers. Analysing the unemployment-vacancies ratio by sectors, it declined in manufacturing, fishing and public administration, for example. In January 1999, the majority of vacancies reported were in manufacturing and public administration. Table 1.28 demonstrates that in January 1999, less than 20 per cent of all reported vacancies were for white-collar workers.

<sup>8</sup> Job creation is measured by reported vacancies.

**Table 1.28: Registered vacancies by occupation (percentage)**

<b>Occupation</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Total	100	100	100	100
Legislators, senior officials and managers	0.6	0.3	0.3	1.1
Professionals	9.1	7.5	5.2	5.3
Technicians and associated professionals	15.4	10.8	13.3	9.3
Clerks	3.7	3.9	3.7	3.8
Service workers and shop and market sales workers	23.2	11.4	19.5	22.3
Skilled agricultural and fishery workers	2.2	3.2	1.4	1.0
Craft and related trade workers	27.0	40.8	38.5	39.7
Plant and machine operators and assemblers	9.6	5.8	10.3	8.6
Elementary occupations	9.2	9.0	7.5	8.9
Armed forces	0.0	7.3	0.2	0.0

Note: Data as of January 1 for each year.

Sources: Estonian Labour Market Board, various years.

### **1.5.1 Training**

The most widespread active labour market policy programme is labour market training (see also subsection 4.2).

The number of people participating in training programmes has decreased over time, mainly because the 1995 social security law stipulates that training can be provided only to those officially registered as unemployed. A second reason is the change in the direction of labour market training. During and prior to 1994, the main emphasis was on basic skills (languages and computer use). Beginning in 1995 the focus shifted to refresher and advanced training courses and re-training programmes, which are more expensive. In 1994, 31 per cent of the course graduates found employment and in 1998 the percentage rose to 69 per cent. The problem is that on average only 16 per cent of registered jobseekers participated in training courses in 1998. This means that around 10 per cent of the total numbers of (ILO-calculated) unemployed people received some kind of labour market training.

At present, there is no formal training system in place for adults who are facing changes in their job functions or dismissal. The Ministry of Social Affairs, with its National Labour Market Board, is in charge of developing labour market training schemes including schemes for unemployed people. There are no coherent training policies covering both initial and adult training. Active labour market policies in Estonia do not include any special measures to support young people when they are first entering the labour market, or in the case of long-term unemployment.

### **1.6 Regional differences and internal migration within the country**

Estonia comprises 15 counties and 220 local municipalities. Distances from the centre of the country to all borders are within 200-250 kilometres but despite these relatively short radii, regional population differences have increased throughout the transition period. To some extent, the reforms of the 1990s have aggravated regional differences in the age structure of the population, since a large proportion of new jobs have been created in Tallinn. The decline of agricultural activities – after the liquidation of the collective and state farms, the entry of subsidized imported food into the Estonian market, and the high customs barriers on the Russian market – has also had an impact. The hardest hit areas have been those where the majority of the population formerly earned their income from agriculture (Estonian Human Development Report 1997).

The result is that the potential of less advantaged areas deteriorates further due to emigration, leading to the widespread disappearance of independent development potential in rural areas, social degradation and an increase in welfare costs. A markedly better socio-economic situation exists in the cities. The hinterlands of the large cities are also clearly doing very well, while the rural areas are doing very badly. Regional development in Estonia is primarily taking place in Tallinn (Harju county), followed by other centres. These cities have a sufficient critical mass of residents, significant service resources or successfully operating export enterprises. Strong centres also have strong hinterlands. In the larger cities (Tallinn, Tartu, and Pärnu), the demographic, income and labour situation of the hinterland municipalities is better than average, mainly due to the suburban family-home settlements.

The population and entrepreneurship concentrated in southeastern (Valga, Võru, and Põlva counties), central (Järva, Jõgeva, and Rapla counties) and western towns (Lääne, Saare counties) is insufficient to exert an integrated, positive influence on their hinterlands. The problem is primarily the failure to achieve a critical mass of entrepreneurs and intellectuals, due to a lack of opportunities and services (training, information, counselling, etc.) of sufficiently high quality to attract them. The centres of these areas (mainly county or central towns) need institutions that can take advantage of the existing local intellectual potential and also meet the local deficit of services.

The potential of the population of northeastern cities (in Ida-Viru county) is large enough. However, due to restructuring difficulties, a poor reputation and ethno-cultural problems, these cities are incapable of exerting a positive influence on their hinterlands. Consideration should be given to using a variety of development strategies for the northeastern agglomerations and the communities alongside Lake Peipsi, aimed at various market niches, for example, industry and tourism.

Inequalities in regional and sectoral employment in terms of the labour supply and demand have proved a source of aggravation. Unemployment has shown deep regional differentiation due to the uneven location of new jobs (evidence of structural unemployment). Unemployment is a serious problem in the mainly agricultural counties in southern Estonia and in northeastern Estonia, with its large concentration of heavy industry. Here unemployment is mostly linked to the recession suffered by former all-Soviet enterprises in Narva, Sillamäe and Kohtla-Järve. The bankruptcy of major employers in small towns with only one or two sources of jobs has caused job losses for some people. Moreover, unemployment continues to be a major problem in rural areas. Their poorly developed infrastructure contributes to the lack of further investment.

One reason for high regional unemployment is the differences in job creation in counties. An analysis of the unemployment/vacancies (U/V) ratios in different counties by classifying them into three groups (Eamets, Toomet, 2000) concluded that:

1. Structural unemployment is a serious problem in northeastern Estonia, with a high unemployment rate and a very low vacancy rate. This is also true in some southern Estonian counties (Põlva).
2. In most of the southern Estonian counties (Valga, Võru, etc.) the U/V ratio is close to average; new jobs are available but there are not enough qualified persons to fill them (here again, structural unemployment).
3. Some counties with a relatively low unemployment rate (Lääne) also have a low level of job creation and thus a high U/V ratio.

The second reason for relatively large geographical differences is the low mobility of the population. According to the longitudinal study *"The life paths of a generation"*, 43 per cent of respondents in Harju county were ready to move if they stayed unemployed. Conversely, in regions with high unemployment levels (Võru, Põlva, Valga counties), only 10 per cent of

respondents opted to move. In general, people with higher levels of education indicated a greater willingness to migrate.

Present migration patterns improve the changes of finding work, mainly for people living in regions that already offer a relatively better chance of finding employment, because of lower unemployment rates and the proximity of larger towns. People living in the borderlands with high unemployment rates find themselves trapped: the chances of finding a job locally are much slimmer than in other regions, and the long distances from the major centres make it difficult to migrate, especially since it is highly unlikely that employment can be found. The major obstacle to labour force mobility is undoubtedly the problem of finding a new place to live. People living in the borderlands are bound to their present homes because the housing market in these regions is practically nonexistent. Also, the prices of housing differ widely by region, being up to ten times higher in large towns and their neighbouring regions – precisely where the chances of finding a job are better (Estonian Human Development Report 1996).

Official statistics<sup>9</sup> on migration indicate that the population of Estonia has a low propensity to move and that out-migration from urban to rural areas has declined (table 1.29). As urban population growth also turned negative by 1991, and no net addition from administrative changes has taken place in Estonia since the dissolution of the Soviet Union, it goes without saying that urban areas are declining in absolute terms. This in turn suggests that counter-urbanization has continued throughout the period of transition. Furthermore, it would appear that domestic migratory flows, irrespective of direction, are dwarfed by net out-migration from Estonia itself, reflecting members of the Russian minority moving out of the country.

**Table 1.29. Internal migration in 1989-1998 (by registration of arrivals)**

Year	Registered immigrants			Registered emigrants			Net migration		
	Total	To urban areas	To rural areas	Total	From urban areas	From rural areas	Total	In urban areas	In rural areas
1989	37 224	19 490	17 734						
1990	33 955	17 494	16 461						
1991	29 413	14 954	14 459						
1992	33 293	14 669	18 624						
1993	28 619	14 282	14 337						
1994	24 012	11 819	12 193						
1995	30 264	13 933	16 331						
1996*	33 191	15 728	17 463	14 021	7 198	6 823	19 170	8 530	10 640
1997	32 370	15 577	16 793	13 158	6 923	6 235	19 212	8 654	10 558
1998	24 170	11 666	12 504	9 565	4 910	4 655	14 605	6 756	7 849

Note: \* - Introduction of the new data collection system.

Source: Estonian Statistical Office.

<sup>9</sup> The Estonian Statistical Office applies a rather strict definition of what is considered a properly registered move. Official statistics are usually confined to recording changes in places of residence involving a move across the administrative borders of local governments. Since 1990 the actual time of out-migration is considered to be that of registration at the new place of permanent residence. Today the Estonian Statistical Office collects data from local governments; until the end of 1993 this was the task of specially designated passport offices. Local governments forward information on all registered moves to address bureaux, but the statistics are based on in-registration data only. However, the latter are processed and analysed provided that they are considered complete, that is, that the migrant has taken care not only to register at the new place of residence but also de-registered with the local authorities at his or her former place of residence. Registration procedures in Estonia today are based on the voluntary cooperation of migrants. In fact, sanctions are no longer meted out for non-compliance, the incentives to register seem weak and, considering the need to generate reliable statistics, administrative rules and regulations are sometimes perceived as counter-productive. As there is no longer any legislation to the effect that registration is mandatory, many migrants appear to shun the entire exercise, or only complete it in part.

Sjöberg and Tammaru (1999) utilized an independent set of statistics generated by a sample survey<sup>10</sup> designed to capture the post-Socialist migratory history of a representative sample of working age residents of Estonia. They concluded the following:

- 31.9 per cent of respondents had changed their place of residence at least once between January 1989 and the end of January 1997. Most migrants, or 58.5 per cent, only made local moves, that is, finding a new place of residence within the same municipality or rural commune. Over the period 1989-1996 migrants included in the survey moved on average 1.47 times. Again the majority of these migratory events, or 61.2 per cent, were local in nature.
- The intensity of migration is high in younger age groups and increases again at the age of retirement. Young people contribute the most to non-local moves. In the 20-34-year age groups, non-local movers outnumber local ones by a factor of approximately 2. Moves related to retirement are mainly local in nature. Among less well-educated people (the level of educational attainment is below average among older generations), the share of migrants is also lower. The education variable plays the most important role among those with vocational secondary level education or training; in fact, this category comprises one-third of all migrants. Compared with the sample-wide average, individuals in groups with low levels of educational attainment tend to move locally. Among people with secondary education, there is no difference with respect to local vs. non-local moves. Income sets a limit to migration as well: the lower the income per household member, the smaller the share of migrants. Those that earn less tend to move less frequently and then mostly locally, whereas those that earn more often move longer distances and are more likely to move in the first place.
- Over time the willingness to undergo official registration procedures has declined. Less than two-thirds of all permanent migratory events during the period 1989-1996 were registered as such and the proportion continues to decline. Over the final two years of the period investigated, only half of all actual moves considered permanent by respondents were reported to the local registrar's office. Among these, non-local moves go unrecorded as frequently as do local moves.<sup>11</sup>
- Net domestic migratory flows are the reverse of what official statistics on registered residents suggest. The transition period, rather than being characterized by a continuing net urban out-migration, has seen a shift from a net loss to a net gain through internal migration. According to the survey, this reversal took place in 1992. However, although net migration figures are useful to indicate the impact of migration on urban growth and the implications for the level of urbanization, they provide little information on the intensity of

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<sup>10</sup> Estonian Statistical Office applies a rather strict definition of what is considered a properly registered move. Official statistics are usually confined to recording changes in places of residence involving a move across the administrative borders of local governments. Since 1990 the actual time of out-migration is considered to be that of registration at the new place of permanent residence. Today the Estonian Statistical Office collects data from local governments; until the end of 1993 this was the task of specially designated passport offices. Local governments forward information on all registered moves to address bureaux, but the statistics are based on in-registration data only. However, the latter are processed and analysed provided that they are considered complete, that is, that the migrant has taken care not only to register at the new place of residence but also de-registered with the local authorities at his or her former place of residence. Registration procedures in Estonia today are based on the voluntary cooperation of migrants. In fact, sanctions are no longer meted out for non-compliance, the incentives to register seem weak and, considering the need to generate reliable statistics, administrative rules and regulations are sometimes perceived as counter-productive. As there is no longer any legislation to the effect that registration is mandatory, many migrants appear to shun the entire exercise, or only complete it in part.

<sup>11</sup> The survey indicates that the number of registered migratory events, while still modest, nevertheless shows a moderate increase over the period since the census of 1989; in the final year covered, the number of recorded moves adds up to a considerable increase.

migration. Nor do data on net migration provide any detailed information on differential flows. Therefore, an effort was made to move beyond aggregates and net flows.

- Gross flows indicate reasonable homogeneity across categories of movers, with only slight variations in age and social or income groups in regard to the main directions of migration but not in regard to the decision to migrate or not. At first sight, the same appears to be true with respect to ethnicity, as residents of self-ascribed non-Estonian stock are as willing or unwilling to move within Estonia as the majority ethnic group. However, non-Estonians (predominantly Russians) differ on two counts. With respect to intra-Estonian migration, they tend to be more locally oriented in their choice of destinations than ethnic Estonians. More importantly, however, as according to official data non-Estonians make up the majority of emigrants, their pattern of migration differs substantially from that of the Estonian majority.

### 1.7 Commuting for work

Eamets and Toomet (2000) studied working outside of the home county. Employed persons were divided into three groups: those working in their home county, working in a neighbouring county or working in a non-neighbouring county. Table 1.30 presents the share of employed persons in each county and group and compares the relative importance of corresponding counties among the Estonian labour force. The study found that a large majority of the labour force was working near their place of residence in 1995, with only a few persons travelling outside of their home county for work.

Rapla has the lowest share of employees working in the home county and the highest share of workers in a neighbouring county. Although a relatively small county centre, its vicinity to Tallinn would account for a large proportion (9.9 per cent) of the Rapla labour force commuting there. The largest share of home-county employment is in Harju (99.2 per cent), explained by the fact that the capital, Tallinn is situated in Harju and offers sufficient variety of jobs to obviate the necessity of its residents working in other counties.

**Table 1.30. Distance of workplace from home (percentages)**

County	Home		Neighbouring county		Non-neighbouring county	
	A	B	C	D	E	F
Harju	99.2	40.8	0.4	11.6	0.4	47.6
Hiiu	98.5	2.1	0.0	4.6	2.5	93.3
Ida-Viru	97.3	13.0	0.5	7.2	2.2	79.7
Jõgeva	94.0	2.4	4.5	34.5	1.5	63.1
Järva	97.8	2.4	2.2	60.7	0.0	36.9
Lääne	98.1	2.0	1.9	54.4	0.0	43.6
Lääne-Viru	97.0	4.8	2.6	58.6	0.4	36.5
Põlva	94.1	1.8	5.9	15.4	0.0	82.8
Pärnu	97.0	6.5	0.3	13.1	2.7	80.4
Rapla	89.4	2.4	9.9	51.7	0.7	45.9
Saare	98.6	2.6	0.0	10.6	1.4	86.8
Tartu	97.1	10.5	1.2	10.3	1.7	9.3
Valga	96.7	2.3	0.8	18.7	2.5	79.0
Viljandi	95.4	3.8	2.8	24.1	1.8	72.2
Võru	95.3	2.6	0.7	4.1	4.1	93.3

Note: The share of employment corresponds to the distance of workplace from home. Two counties are designated as neighbouring if they share a common border.

A – Persons working in the county they live in, relative to all employed persons living in that county

B – Share of employment in county, relative to Estonia overall

C – Persons working in a neighbouring county, relative to all employed persons in that county

D – Share of employment in all neighbouring counties, relative to Estonia overall

E – Persons working in a non-neighbouring county, relative to all employed persons in that county

F – Share of employment in all non-neighbouring counties, relative to Estonia overall

Source: ELFS 1995, 5522 employed persons; Eamets, Toomet (1999).



The three other counties with high shares of home-county employment are Saare, Hiiu and Ida-Viru counties. In the case of Saare and Hiiu, restrictions on transport and communication are presumably the main reason, as these counties lie on islands. In the case of Ida-Viru, several explanations are possible. First, a high number of Russian-speaking workers are located in Ida-Viru, and cultural and language barriers in an Estonian-dominated environment may come into play. Second, a large share of this county's workers is employed in mining and heavy industry (machinery, chemical productions, etc.) and no vacancies require similar skills in other counties. Third, Ida-Viru is located far from Tallinn, Tartu and Pärnu, the major employment and investment-attracting centres in Estonia, so distance is also a barrier.

Following Rapla (9.9 per cent) in the largest share of persons employed in a neighbouring county are Põlva (5.9 per cent) and Jõgeva (4.5 per cent). All three counties border important centres – Rapla with Tallinn and Põlva and Jõgeva with Tartu – and all have a small county centre. It may be assumed that these workers are commuting to the neighbouring large regional centre. In the case of large islands, Hiiumaa and Saaremaa, no persons in the sample were working in a neighbouring county, possibly because of transportation difficulties. At the same time there were persons working in non-neighbouring counties, presumably because jobs in neighbouring counties were not good enough to cover the high transportation costs. Jobs can be found elsewhere (mostly in Tallinn).

Most (more than two-thirds) of those working in non-neighbouring counties are working in Tallinn, since this is the only centre offering a sufficiently high income to balance the financial and social difficulties involved in commuting to work from a distant county.

Eamets and Toomet (2000) conclude that people in Estonia are not mobile for the following reasons:

1. Most work near their place of residence.
2. Most will find a new job near the previous one.
3. Most of those working far from home are working in Tallinn. And most are in Tallinn not because they wish to work in a large centre but because they are confronted with limited working possibilities in their home counties. Forced to search further, they have chosen Tallinn, the place with highest wages and best job offers.
4. People move outside their home county in the case of a significant wage premium.

## **2. Labour legislation**

### **2.1 Legal acts concerning labour market**

This section introduces the legislative acts concerning the labour market in Estonia. The main acts are listed, followed by an overview of their provisions.

The sources of the legal regulation of labour relations in the Estonian jurisdictional system are:

1. **International conventions** – Estonia has ratified the following ILO Conventions: No. 100 concerning equal remuneration; No. 87 concerning freedom of association and the right to organize, No. 98 on collective bargaining and No. 144 on tripartite consultation; Nos. 29 and 105 concerning the abolition of forced labour; No. 135 concerning workers' representatives; and the Seafarers' Identity Documents Convention (No. 108). Estonia has also joined the covenants and conventions of other international organizations that deal with labour regulation (International Covenant on Economic, Social and Cultural Rights; International Covenant and Protocol on Civil and Political Rights).

2. **Estonian Constitution** – Establishes human rights and basic freedoms, including freedom of association and the right to strike, and freedom of choice of employment and location. It establishes the State's responsibility for vocational education and assistance to those who are unemployed. The Constitution also states that regulation of working conditions is the responsibility of the State.
3. **Legislative acts** – The main laws concerning labour relations, unemployment and the civil service (from a strictly legal perspective, the last mentioned is not part of labour law) and the dates they came into effect.

These Acts regulate work performed under the employment contract:

- The Republic of Estonia Employment Contracts Act (28 February 1999),
- The Republic of Estonia Holidays Act (1 January 1993),
- Working and Rest Time Act (1 March 1994),
- Wage Act (1 April 1999),
- Occupational Safety and Health Act (26 July 1999),
- Employees Disciplinary Punishments Act (1 September 1993),
- Individual Labour Dispute Resolution Act (1 September 1996),
- The Act on Adult Education (15 February 1999).

In addition, the following Acts regulate collective labour relations:

- Collective Agreements Act (16 May 1993),
- Collective Labour Dispute Resolution Act (7 June 1993),
- Employees' Representatives Act (16 July 1993),
- ESSR Act on Labour Unions (15 December 1989).

Work performed in the civil service is regulated by:

- Public Service Act (1 January 1996),
- State Public Servants Official Titles and Salary Scale Act (1 May 1998).

Work not regulated by either an employment contract or civil service relationship is performed under various types of civil contracts that are regulated by the ESSR Civil Code.

The rights of unemployed people and the State's responsibilities concerning unemployment are mainly covered by one Act:

- Social Protection of the Unemployed Act (1 January 1995).

#### 4. Decrees and regulations of administrative authorities

#### 5. Collective agreements

**Case law** is not the source of justice in the Estonian jurisdictional system and has played a minor part in the development of labour law.

The contents of the above Acts are examined below. Subsection 2.2 concentrates on regulations applying to employers and employees on the basis of the individual employment contract. Other types of contracts that regulate work are also described. The legal status of the unemployed is discussed in Subsection 2.3.

## 2.2 Regulation of work relations in Estonia

### 2.2.1 The employment contract

#### **Work relations regulated by the employment contract**

According to the Republic of Estonia Labour Contract Act, the labour contract is an agreement between employee and employer, in which the employee undertakes to work for the employer in subordination to the management and supervision of the employer. The employer agrees to pay the employee for such work and to provide the working conditions prescribed in the agreement of the parties, in the collective agreement, and in law or administrative legislation.

The rights and obligations provided by the employment contract do not apply to other types of work agreements such as civil law contracts. Work relations in civil law contracts are treated in subsection 2.2.2.

#### **Entering into an employment contract**

The employment contract is made in duplicate original copies, one for the employee and one for the employer. The contract must be written (oral agreements may be used only if the working period is shorter than two weeks). The equivalent of an employment contract is the employer's permission to start work, even if the contract has not been formalized. In this case the contract is formalized under the conditions that were applied at start of work.

The employment contract may be entered into for a specified or unspecified term. The maximum duration of a specified-term contract is 5 years. The probation period may also be included in the contract (unless the contract is for a specified term). The maximal duration of the probation period is 4 months, during which time the employee enjoys the same rights as any other employee. (Employers cannot apply a probation period to minors and disabled persons; see below.)

The mandatory provisions of the contract are:

- the work to be performed and its level of complexity
- working time
- wages
- location of employment
- the term of validity of a specified-term contract (if the validity term is not included, the employment contract is considered as unspecified term)
- the date of commencement of employment.

It is the responsibility of the employer to guarantee that all conditions listed above are included in the contract.

#### **The status of the worker**

##### *Age*

Working age commences at 18 years but with the permission of one parent, a worker may start working at age 15. A minor aged from 13 to 15 years may also work with the written permission of a parent or guardian and the labour inspector. Minors may work if being employed does not endanger their health, morality and education. Employment is not prohibited to teenagers (minors) by law or collective agreement. Minors enjoy equal rights with adults in employment relationships and disputes. Citizens of foreign states and stateless persons who reside in Estonia permanently have equal rights (with respect to employment) with Estonian citizens.

It is illegal to allow or restrict rights on grounds of sex, nationality, race, native language or marital status, etc. Gender may be taken into account in hiring workers if the nature of the work prescribes it (e.g. working in mines, unhealthy jobs). Preference on the

grounds of skills is permitted when the job requires certain skills (language skills, for example).

### ***Benefits***

Benefits are prescribed for persons raising children (women raising disabled children or children under 3 years old; those raising motherless children who are disabled or under 3; guardians of disabled children or children under 3). Benefits for minors are stated in several Acts and are described in more detail below.

### **Working time and wages**

Normal working time must not exceed 8 hours per day and 40 hours per week. Reduced working time has been established for teenagers (20-30 hours per week); for workers in underground, unhealthy or specific jobs (35 hours per week); teachers, nurses and other pedagogical specialists in schools; and workers in other institutions dealing with children (35 hours per week).

The law establishes minimum wages. Wages paid are subject to individual and collective bargaining. From the 1 January 2000 the minimum wage established by the Estonian Government was 8.25 Estonian kroons (EEK) per hour or 1400 EEK per month (US\$1 = EEK 15.5).

The Working and Rest Time Act specifies the normative margins of overtime, evening and night work. In general, overtime is limited to 200 hours per year and 4 hours per day. Overtime work is permitted by agreement of the parties (except in cases of natural disaster, accident, damage to the employer's property and work completion, the employee's consent is not necessary). It is not permitted to apply overtime work to pregnant women and minors. The additional compensation paid for an hour of overtime work must be at least 50 per cent of the worker's usual wage rate. Overtime work may also be compensated with additional time off.

### ***Night work***

The additional compensation for an hour of evening (6 p.m.–10 p.m.) must be at least 10 per cent of the worker's usual wage rate. Night work (10 p.m.– 6 a.m.) is compensated with 20 per cent of usual wage. If public-holiday work is required, the usual wage rate is doubled.

### ***Maternity and child care responsibility***

In certain cases the employer is allowed to establish part-time work (mainly in the event of temporary decrease in work volume). The duration of part-time working time must not be less than 60 per cent of the standard working time and the overall duration of part-time work may not exceed 3 months in a year. Wages paid for part-time work must not be less than 60 per cent of the minimum wage. At the request of a woman who is pregnant or raising a disabled child or a child under 14, the employer is required to apply part-time working time.

### ***Working a second job***

The employment contract in the second job is entered into in the same manner as that for the principal job. Working time on a second job is not permitted to exceed 20 hours per week. In night or evening shifts, it is not allowed to employ minors, or women who are pregnant or raising a child aged under 4.

### **Vacations/holidays**

The duration of a regular vacation is 28 calendar days. The extended regular vacation of 35 calendar days is for teenagers, disabled persons and public servants of central and local government bodies. The extended regular vacation of 56 calendar days is granted to the principals, researchers, teachers, tutors and other pedagogical specialists of universities, colleges, research institutions, schools and nursery schools. The right to an extra vacation is enjoyed by workers in underground jobs, those working in unhealthy conditions and in other specified jobs. Special laws lay down those jobs with extra vacations. During the holiday, the employer must maintain the employee's usual wage rate. Additional data on vacations are provided in Annex 2A.

### **Termination of employment contract**

According to the Employment Contract Act an employment contract terminates (selective):

- by agreement of parties;
- on the initiative of the employee;
- on the initiative of the employer;
- at the request of third parties.

Employee and employer are required to give written advance notice of termination of the contract (see Annex 2B). The request must be expressed unconditionally. By agreement of the parties the employment contract may be terminated at any time either party gives written consent. If the work endangers the health, morality or education of a teenager, the employment contract may be terminated on the request of third parties (parent, guardian or labour inspector).

### **Termination of contract by the employer**

There are several grounds for employers to terminate the employment contract (selective):

- laying-off;
- unsuitability of the worker due to lack of skills or reasons of health;
- unsatisfactory probation period;
- violation of duties by employee;
- loss of trust in employee;
- an indecent act by employee;
- long-term incapacity for work;
- corruptive action of an employee.

The period of notification of termination varies from 2 weeks (in case of long-term incapacity for work) to 4 months (laying-off workers who have continuously worked for the employer more than 10 years). Compensation varies from 1 month's average wage (unsuitability of worker) to up to 4 month's average wage (laying-off workers who continuously worked more than 10 years for the employer). An employer is required to pay the final settlement (part of which is severance pay) on the date of termination of employment contract as a lump sum. Further data on compensation and notification periods are listed in Annex 2, Table 2B.1.

Upon failure to adhere to the terms of notification of termination, the employer is required to compensate the employee in the amount of the employee's average daily working wage for each working day short of the advance notice.

The employer is prohibited to terminate the employment contract during the employee's temporary incapacity to work or while the employee is on holiday or during a legal strike. Women who are pregnant or raising a child under 3 are not allowed to be laid off, or to terminate their employment contract by reason of unsuitability of the worker to the work. Minors are protected by a clause prohibiting termination of contract by reason of unsatisfactory results during the probation period.

Notification periods and compensation on termination of contract on the employer's initiative does not apply to those who work in the respective job as a second job.

The rights of employees' representatives will be treated in Section 3.

### **Termination of contract by the employee**

If the employment contract is for an unspecified term, the employee has to notify the employer of the termination of the contract at least 1 month in advance. The notification period is shorter during the probation period (3 days). If termination is due to illness, disability or care for an ill family member, the employer has to be given at least 5 days advance notice. (See Annex 2, Table 2B.2.)

If the contract is for a specified term, the employee has to give notice to the employer at least 2 weeks in advance (if contract is more than 1 year) or 5 days in advance (if less than 1 year).

Employees who leave without authorization prior to expiry of the term for advance notice are required to pay compensation in the amount of their average daily wage for every working day short of the term of advance notice, should the employer so demand. (See Annex 2, Table 2B.3.)

If termination of contract is because the employer violates the duties of the employer, the employee must notify the employer 5 days in advance. In this case, the employer has to pay leave-compensation in the amount of 2 months' average wage of the employee.

If the employer terminates the employment contract illegally, the employee has to be reinstated in his position; if the employee waives reinstatement, the employer must pay compensation in the amount of 6 months' average wage of the employee.

Annex 2, Table 2B.4 outlines details of termination of employment contract at the request of third parties and Table 2B.5 looks at termination of employment contract independent of parties.

### **Resolution of labour disputes**

Individual labour disputes may be resolved by labour dispute committees or by court. The labour dispute committee consists of the chairperson of the labour dispute committee and employers' and employees' representatives. It is established within the local labour inspectorates. In 1998, 4,214 cases were presented to labour dispute committees (64 per cent more than in 1997). In the majority (83.6 per cent) the claim was for non-payment of wages and arose from employers terminating contracts on illegal grounds.

Employees' and employers' complaints can be presented either to the labour dispute committees or to the court. The deadline for complaints is 4 months (1 month if the complaint concerns termination). If parties turn at first to the labour dispute committee and do not agree with the solution, the parties have recourse to city or country courts for a re-hearing, which must be sought within one month.

### **Changes in legislation**

The Employees Accident and Vocational Diseases Act, which establishes employers' obligation to insure employees against possible occupational accidents and diseases, has come into effect in 2001. The insurance payment is dependent on the wage but cannot be deducted from the wage. The insurance fund is operated through private insurance companies.

At time of writing, another relatively important change in Estonian legislation to come into effect in 2001 is the acceptance of the Law of Obligations. If ratified, according to leaders of Estonian trade unions, the position of employees will worsen considerably. In their view, most work relations will then be regulated by civil law contracts that do not guarantee sufficient employee protection. It should be mentioned that this Act has been in process for years and it is not clear as yet that it will in fact be enforced.

## **2.2.2 Work in the civil service**

### **The regulation of work in the civil service**

The Public Service Act regulates the employment of civil servants. Some differences can be noted in comparing working conditions between civil servants and employees working under an employment contract. Civil servants have some advantages but also some disadvantages.

Public servants are defined as working in the public service i.e. working in a state or local government administrative agency. There are three categories of public servants in Estonia:

- officials,

- support staff,
- non-staff public servants.

Officials are elected or appointed to an office on the staff of an administrative agency. Support staff is the clerical staff of an administrative agency and is employed under an employment contract. Non-staff public servants are employed for a specified time period with an employment contract. Thus in general (with some exceptions) support staff and non-staff public servants are subject to the laws discussed in section 2.2.

The division of public servants into these three categories is established in the State Public Servants Official Titles and Salary Scale Act; working conditions are regulated for the Auditor-General, the Legal Chancellor, judges, police officials, border guard officials, procurators, prison officials and those serving in the regular armed forces.

Public officials are appointed by directive or order, which lists the date of commencement of service; the title of office, salary grade, salary rate and additional remuneration; in the case of specified period work, the term of service; and in the case of a probationary period, the term of probation.

Although working conditions are listed in the directive or order, these are primarily set in the laws, with little room for individual or collective bargaining within the civil service.

### **Status of civil servant**

People working as state public officials must be at least 21 years old and have at least secondary education. Officials working in local government must be at least 18 years old and also have secondary education.

An additional condition for working in the public service is knowledge of the Estonian language at the level established in the law.

Persons who may not be employed in public service include those: under preliminary investigation for crime for which in the law is prescribed imprisonment; under punishment for an intentionally committed crime; or persons closely related by blood or by marriage to an official or prospective immediate superior.

### **The arrangement of working time and wages**

Working time is generally unspecified for public servants. A probation period up to 6 months can apply, with the exception of officials: appointed by the Government of the Republic or the Prime Minister; or who are employed through competition; or promoted to the post or substituting for an official. The regulation of working and rest time is set in the Working and Rest Time Act. The main prescription is a 40-hour working week, with 2 days of rest.

Wages are paid according to the scale provided in the State Public Servants Official Titles and Salary Scale Act with rates established by the directive of the Government of the State. The payment of salary is organized pursuant to the Salary Act. There are 35 salary grades. Higher grades are for higher officials (e.g. salary grade of the director general of a state executive agency is grades 30-34) and lower grades are for unskilled workers in the support staff position (salary grade 1-7). The lowest rate in 2000 was set for salary grade 7 and it is 8.47 EEK per hour for a 40-hour working week and 1430 EEK per month. The highest rate is for grade 35 and it is 74.05 EEK per hour or 12,500 EEK per month. The established salary rate may exceed the rate set by the Government in the amount 50 per cent but only within the limits of the funds for salaries in the state budget. Differentiation of salaries must be done on the grounds of different qualification requirements, working conditions, region and so on.

Additional remuneration is paid to public servants for:

- years of service (from 5 years of service, 5 per cent of the salary rate; 10-15 years 10 per cent; 15 and more years 15 per cent);

- academic degree (master's degree gives an additional payment of 10 per cent of salary; a doctor's degree 20 per cent);
- knowledge of foreign languages (for the third and every additional foreign language, if used in service, an additional 10 per cent of salary, but not exceeding a total of 30 per cent);
- work which has access to secrets of State (an additional remuneration that can be up to 50 per cent of the salary).

### **Holidays/vacations**

Holidays in the public service are regulated by the Republic of Estonia Holidays Act. Every public servant is entitled to 35 calendar days of base vacation. One additional vacation day is given for the third and every additional year of service, but no more than 10 days total of additional vacation is given. In addition to holiday pay, a holiday benefit of up to 1 month's salary might also be paid. Holiday pay must be received in full before commencement of the holiday period. If payment is late, the public servant has the right to extend the holiday equal to the period that payment was late.

Once in five years, public servants have the right to study-leave for professional development, with pay, for a period of up to 3 months.

### **Some additional rights of public servants**

Public servants are entitled to forego repayment of the state educational loan, after graduating from an educational institution, in that every year of service is counted as repayment of one-fifth of the loan. Those studying at the state university, with at least one parent who is or was working in the public service for at least 15 years, have the right to reimbursement of tuition fees from state budget funds. The same right is accorded to a person whose parent or spouse, while employed in the civil service becomes disabled or dies as the result of a work injury, an occupational disease or an attack made against an official in the course of duty.

In the case of death from an attack in the course of duty, the official's family receives a one-time payment of up to 10 years' salary. Funeral costs are borne by the State. If disability occurs in the course of duty, the official may receive a one-time payment of 1 year's salary, in the case of partial loss of working capacity. Total loss of working capacity is a one-time payment of 5 years' salary.

Public servants have the right to additional state old-age pensions with the accrual of years of service. For 10-15 years the pension is increased by 10 per cent, 16-20 years of service guarantee 20 per cent additional pension, 21-25 years 25 per cent, 26-30 years 40 per cent and over 30 years the pension is increased by 50 per cent.

An official has all the rights prescribed for a person employed under an employment contract in the official's relationship with his or her employer and with the agency responsible for social welfare.

For civil servants who lose their jobs, the same rules apply as for unemployed persons under the employment contract. During the first 6 months of unemployment, civil servants have the right to be listed in the reserve of officials. The reserve list is intended to facilitate job search activities for former civil servants and, at the same time, assist state and government administrative agencies to find candidates for vacant posts, which are filled with an official from the reserve (if candidates possess the required skills and experience). The reserve period is considered as service when calculating years of service. Persons in the reserve must either undergo in-service training, re-training or evaluation as requested or be removed from the reserve list.

The same rules apply to suspension of service and to release from service through a termination of employment contract. The main difference is in the compensation upon release



from service, due to the winding-up of an administrative agency or to retrenchment. The levels of compensation in the civil service are:

Less than 3 years' employment in civil service – compensation is the official's 2 months' salary;

3-5 years – 3 months' salary;

5-10 years – 6 months' salary;

10 or more years – 12 months' salary.

### **Some additional restrictions for public servants**

Apart from restrictions concerning membership in political parties, commercial associations and organizations possessing weapons, there are restrictions to additional work with a second employer. People working in the civil service may work with another employer only with the consent of their immediate superior. The second job must not damage the reputation of the official's office. The same applies to an official engaging in entrepreneurship.

### **Settlement of disputes**

Officials have the right to apply within 1 month to the administrative court against orders, directives and resolutions issued, and acts performed concerning service-related issues. Service-related disputes of the support staff are dealt with as provided in the Employment Contract Act. Disciplinary action and the processing of offences in civil service are the same as those under the employment contract.

### **2.2.3 Civil law contracts**

Apart from the employment contract, a contract of agreement is the second popular way of regulating the working person's position. The contract of agreement is a civil law contract by which the undertaker of work (which is prescribed by the giver) is at own risk.

The main difference between a contract of agreement and an employment contract is that the former regulates the outcome of work while the latter regulates the work process. The contract of agreement assumes two equal parties whereas the employment contract establishes a subordinate relationship. Thus when working under a contract of agreement the guarantees prescribed in labour law do not apply to the work undertaker.

## **2.3 Legal regulation of unemployment**

### **2.3.1 The status of the unemployed**

The aim of the Social Protection of the Unemployed Act is to provide the legal regulation of the provision of employment services and payment of state unemployment benefits through State Employment Offices in the case of unemployment. This law and government decrees concerning the status of the unemployed define the relevant terms and regulate the procedures related to unemployment. The decrees concerning the unemployed are listed below together with the dates they became effective:

- List of Documents to be submitted for Registration as Unemployed (09.02.1995);
- Procedure for Organizing Employment Training and Grant and Payment of Stipends to Unemployed Persons (09.02.1995);
- Procedure for Granting Employment Subsidies to Unemployed (09.02.1995);
- Procedure for Granting Employment Subsidies to Employers (09.02.1995);
- Procedure for Organizing Community Placements (09.02.1995);
- Procedure for Payment of Single Benefits to Unemployed Persons (09.02.1995).

Social protection of the unemployed in Estonia is provided by the State (financed from the state budget). There is no voluntary unemployment insurance, although preparations are under way.

The major changes made by the 1995 laws were that the interval between going to the employment office and registration as unemployed is reduced from 30 days to 10 working days, and that labour market concepts were defined in concrete terms, taking into consideration suggestions by the ILO. The laws define a number of new terms, such as “suitable job”, “jobseeking”, “labour market service” and “labour mediation”.

Permanent residents of Estonia under conditions established by law enjoy the right to labour market services and state unemployment benefits, as a rule. According to the Law on Social Protection of the Unemployed, a person is registered as being unemployed within 10 working days after applying to the State Employment Office, under the following conditions:

- Is between 16 years old and the retirement age;
- has no working occupation or equivalent activity;
- is looking for a job;
- has been occupied in work or an equivalent activity for at least 180 days during the preceding 12 months. Preceding employment in the past 12 months is not a requirement for those who have been looking after a disabled child or a child under 7, persons undergoing hospital treatment, persons nursing a sick, disabled or elderly person, persons who are in a disability group, or who have been under arrest or serving a sentence at a penal institution;
- all documents necessary for registration have been submitted.

By way of exception, a 60-day waiting period precedes the awarding of unemployment benefits in Estonia to persons who have:

- studied at an educational institution as a full-time student before registering as unemployed
- resigned from their last job of their own free will (and not by reason of illness or disability, or in order to nurse a sick or disabled person, or to enter the national defence forces);
- been dismissed due to violation of a labour contract or breach of trust or indecent act.

Persons are considered to be engaged in activities equivalent to employment if they:

- work on the basis of labour, service or civil service contracts, or membership;
- are entrepreneurs;
- study at educational institutions full time;
- serve in the national defence forces.

In general the person can be registered as unemployed for 180 days.

### ***Jobseekers***

A jobseeker in Estonia is defined as one who voluntarily registers at the State Employment Office and wants a full-time job immediately, is willing to undergo labour market training and appears at the employment office at least once every 10 working days.

Until 2001 (see Subsection 2.32) only persons who were registered as unemployed were eligible for an unemployment benefit and the following labour market services:

- employment training and stipends;
- employment subsidies
  - subsidy to start a business;
  - subsidy for employers to employ persons who are less competitive in the labour market;
- community placements.

It should be noted that persons who were seeking employment but were long-term unemployed were only eligible for job mediation and information on labour market services.

According to the legislation at time of writing, those who were long-term unemployed for the preceding 12 months could not register as unemployed, since they did not have the requisite previous work record and thus could not participate in training, subsidized employment programmes or community placement schemes.

### **2.3.2 Recent developments in legislation**

To fill the legislative gap, two new acts of the “Labour market services” and “Social protection of the unemployed” were approved by Parliament in June 2000. The first Act regulates the provision of labour market services, the second gives the relevant definitions and regulates the payment of unemployment benefits. Both Acts became effective in the beginning of 2001.

The new Social Protection of the Unemployed Act defines two types of registered unemployed persons: those who receive benefit and those who do not. Thus, more persons, including those who are long-term unemployed, can now register as unemployed and become eligible for labour market services.

A second change is that the time limit for being registered as unemployed (previously 180 days) has been abolished and only the *payment of unemployment benefits* will be limited (now to 270 days). A significant change is that currently in Estonia all those registered as unemployed and not only the recipients of employment benefits have the right to participate in training or other labour policy tools.

Moreover, to widen the range of labour market services, the “Labour Market Services Act” has introduced vocational counselling as a new service. As a result of these amendments, the number of persons qualifying for labour market services can potentially double and the workload of employment services will substantially increase. Consequently, the financial resources allocated from the state budget for active labour market measures will have to be increased along with the capacity of State Employment Offices.

## **3. Collective bargaining**

### **3.1 Legal background**

#### **3.1.1 Introduction**

The collective bargaining system in Estonia has developed quite poorly at all levels (enterprise, branch and State). There are deficiencies in legal regulation, but the main problem is an overall negative attitude towards trade unions and collective bargaining. This is a bequest from the Soviet system. Soviet understanding of trade unions differs remarkably from the European and American trade union system. Thus, the development of legal regulation plays a key role in redefining the goals of trade unions and in establishing the framework for collective bargaining.

This subsection discusses the legal regulation of freedom of association and collective bargaining mechanisms in Estonia, based on a paper issued by Mr Tiit Kaadu, Secretary General of the Association of Estonian Trade Unions (EAKL). The following overview looks at the development of workers’ representation, trade unions and issues of collective bargaining at all levels.

#### **3.1.2 Collective agreements**

The freedom to conclude a collective agreement is regulated by the Collective Agreements Act, adopted in 1993. The law stipulates no obligation on the part of employers to initiate negotiations or to conclude a collective agreement and similarly, no right of employees

to demand initiation of negotiations or conclusion of an agreement. The Act establishes only the procedure for negotiations.

The law enables *both* parties to initiate negotiations for concluding the agreement. The agreements may be concluded at enterprise, branch or state level and may be bilateral or tripartite. The parties to the collective agreement may comprise:

- an employer and a workers' organization, a union or an authorized representative of workers;
- an organization or a union of employers and an organization or a union of workers;
- a central union of employers and a central union of workers;
- the central association of employers' organizations, the central association of workers' unions and the Government of the Republic; or similarly between the regional unions of workers' organizations, employers' association and local governments.

Theoretically, if the agreement does not state otherwise, the collective agreement extends to the members of the workers' organization that concluded the agreement. In practice, the agreements are generally extended to all workers in the enterprise (not only to the union members).

The law also stipulates the right of workers' collectives to conclude an agreement. If concluded at branch trade union level, it might also be effective in those enterprises where the trade union (association) has no members, but is represented in the employers' union (i.e. the other party to the agreement). It is not possible for a representative of a branch trade union to demand the conclusion of an agreement from an enterprise that has no union, or has no union members in the enterprise. A trade union must first be created and then the association of trade unions can help the enterprise representative to conclude the agreement. Nevertheless, it is still difficult to achieve conclusion of the agreement, even when trade unions have members in the enterprise.

According to Estonian law, trade unions have no prerogative in the procedure of concluding a collective agreement (in collective bargaining) – a workers' representative representing non-members may also conclude a collective agreement.

While the procedure of negotiations over collective agreement is established in the law, it does not provide for the drawing up or signing of interim protocols, deadlines, and whether and when negotiations should be held, or their length. It establishes that the agreement must be written and be available to all it concerns; the employer must introduce it to newly commencing employees.

The validity of a collective agreement is one year, unless otherwise stated. Each year a new contract must be concluded, until which time the old one is valid. During validity, parties are obliged to refrain from calling a strike or lockout in order to change the provisions of the collective agreement.

If a worker is subject to two different collective agreements that contradict each other the more favourable provisions are applied. The same is valid in the case of contradiction between individual and collective agreements.

Problems that may be agreed upon in a collective agreement are stipulated but the list is not exhaustive and the parties may extend it on mutual agreement.

Labour disputes that arise from the conclusion or implementation of collective agreements are settled according to the Collective Labour Dispute Resolution Act (section 3.1.5).

The number of collective agreements concluded in Estonia is small and employers have seldom been forced by means of worker action (strikes, etc.) to conclude collective agreements, partly because of the weak organization of workers and partly because of an inability to perceive the refusal to conclude a collective agreement as a labour dispute.

### 3.1.3 Workers' representatives

Legal background for industrial democracy in Estonia establishes two classical ways of workers' participation – the collective bargaining and the trade union organization. Estonian laws do not stipulate special bodies of participation (works councils, joint-work committees, workers' committees, etc.) or the workers' representation in the administrative bodies of enterprises (board of directors, management boards, surveillance councils). Estonia has no legislation on co-determination but at the same time there are also no set limits to worker participation. In some exceptional cases, workers are represented in the administrative bodies of enterprises.

Workers' representation in enterprises is subject to three laws: the Employment Contracts Act, Employees' Representatives Act and Occupational Safety and Health Act. According to the last-mentioned, workers in enterprises with more than 10 workers elect their representative – a Trustee – for communicating with the employer and surveillance body in the sphere of industrial safety. In enterprises with more than 50 workers a consultative body – the Labour Protection Council – shall be founded, half of whose members are employer's representatives and the other half elected by workers. This is the only participative body, as such, in Estonian enterprises. The labour protection representatives and members of the safety council are entitled to fulfil their duties during working time (representatives are entitled to a minimum of 2 hours a week and members of the council to 1 hour a week) whereby the average wage is maintained. In addition, the employer is obliged to guarantee to the labour protection representatives the necessary training for fulfilment of their duties.

The Employees' Representatives Act makes provision for two types of workers' representatives: the representative of the trade union and the representative elected by non-members of the trade union. The juridical status of both representatives is equal. Usually they do not exist in parallel.

The representative is obliged to:

- represent workers in the working relations with employers;
- control fulfilment of collective agreements, working contracts and labour laws;
- keep working peace on behalf of workers during the validity of the collective agreement;
- mediate between the parties in a labour dispute;
- mediate the information concerning industrial relations between the employer or employer's representative and the workers, their organizations and unions;
- keep production, business and professional secrets.

A representative is entitled to the following for fulfilment of duties:

- examine freely the working conditions and the organization of work at all workstations;
- receive necessary information from the employer;
- suspend collective dismissal of employees (on the basis of the Employment Contract Act, refer to Annex 2B, Table 2B.1);
- obtain information from the employer on the disputes arising from labour relations;
- freely disseminate information pertaining to work and the activities of the union of employees;
- use, upon agreement with the employer, the premises, telecommunication systems, photocopying facilities and transportation of the employer;
- inform the owner of the enterprise, the government, workers' organizations and unions about violation of labour laws, collective agreements and working contracts by the employer.

The worker elected to be a representative retains working relations with the employer. The employer maintains the average wage and the usual employee privileges and guarantees to

the workers' representative. Duties performed beyond working hours are compensated by mutual consent.

The time for fulfilment of the representative's duties is decided by mutual consent of the employer and the representative. The employer must provide time to fulfil the duties during the representative's working time as follows:

- 5–100 workers: a minimum of 4 hours a week
- 101–300 workers: a minimum of 8 hours a week
- 301–500: a minimum of 16 hours a week
- 500 or more workers – whole week.

Termination of the working contract with the workers' representative (Labour Contract Law) on the employer's initiative during the period of performance of representative functions and within 1 year after the end of this period is permitted only with consent of a labour inspector. Exceptionally, the representative may be dismissed without the labour inspector's consent upon the liquidation or bankruptcy of the enterprise, or because of long-term incapacity. The labour inspector must supply written justification of the decision and also consult the employees' union before deciding. The dismissal of a representative because of legal actions taken to protect workers' interests is illegal.

### **3.1.4 Trade unions**

Estonian law prohibits forced membership of a union or demanding unaffiliated workers to pay union dues.

There are no direct sanctions established in Estonian laws regarding restricting the freedom to unionize or for hindering union activities. The codes of administrative and criminal punishments do not establish specified punishments. In theory, the court may be appealed to regarding violation of the Constitution or the Labour Law but, in practice, no such cases come to court because the laws are general and provide no direct protection. Labour inspectors deal with such cases (their duties include observing the fulfilment of labour laws and prescribing or fining violators). They only check the performance of labour contracts and labour protection but not activities hindering the operation of a workers' organization.

The Trade Unions Act, in force since 1989, establishes the definition and tasks of trade unions and prohibits dissolving or restricting their operation. As it stipulates that an organization at enterprise level may be set up with a minimum number of 3 workers, it does not seriously restrict freedom of association and the right to organize. All kinds of employees are entitled to unionize, including the police, civil servants etc.

Trade unions and employers' organizations are registered in Estonia as non-profit associations. Upon registration the trade unions and employers' organizations acquire legal capacity, i.e. the right to own a bank account and to conclude civil transactions as well as the status of a legal person. Non-registered trade unions and employers' organizations are non-legal entities that may operate on the basis of their non-registered statutes but are not entitled to have their own bank account or legal responsibility for any pecuniary transactions.

The aim of the new draft Trade Unions Law presented to the Government is to establish the tasks of trade unions in society, the procedure for their registration in conformity with the ILO requirements and their legal character.

Estonian laws do not regulate separately the operation of employers' organizations.

The Estonian Government does not take any initiative in the management of trade unions and employers' activities and does not influence the elections of the trade union and the employers' associations' officials.

### **3.1.5 Collective labour disputes settlement**

A collective labour dispute is a disagreement between employers and employees which arises upon entry into or performance of collective agreements or establishment of new working conditions.

In labour disputes, the demands of both employers and employees must be written. The law establishes that the other party begins to negotiate within 7 days of submitting a claim on negotiating. If the other party does not respond or if a disagreement cannot be solved, the parties must turn to a mediator. However, as the law fixes no time limit, the matter may linger on indefinitely.

If the labour disputes concern the application of labour legislation and entry into, performance or amendment of collective agreements, the parties have the right of recourse to employers' or employees' federations. These federations must form a committee (within 3 days from the date following the receipt of application) to look into the complaint. In addition, the conciliator must be notified. The committee decision is binding on the parties. The conciliators are impartial experts who help the parties reach mutually satisfactory results. This committee was appealed to 48 times in 1998, mainly for disputes over wage issues but also other conditions of collective agreement.

Employees are allowed to strike (employers to organize lockout) only if the described process is passed and no conciliation is achieved. It is obligatory to inform the other party of intention to strike at least 2 weeks in advance and also notify the general public.

Apart from formal strikes, the law mentions warning and sympathy strikes, which have a shorter period of notice and shorter duration. The sympathy strike has a 3 day maximum duration.

The Constitution allows restrictions to the right to strike only by laws. The law prohibits strikes in state and self-government administration bodies, in state defence establishments, courts, firefighting units and rescue services. The law permits striking in enterprises that meet the primary needs of the population and the economy, where the necessary volume of production is maintained.

### **3.2 Collective bargaining at enterprise level**

Some clarification on the structure of the Estonian collective bargaining system should be made at this point. Most European countries have a two-channel model of collective bargaining: the relationship between workers and employer is arranged through trade unions and workers' committees. Estonia has a one-channel model. The absence of workers' committees is owed to a combination of factors: the country is only in the early stages of labour democracy, a low initiative on the part of workers, and the costs of a two-channel model. Thus, the task of arranging the movement of information between employers and employees rests solely on the shoulders of trade unions. In Estonia, the main obstacle is an overall negative attitude towards trade unions: they are unpopular among both employers and employees.

For employees, one of the key reasons is the shortfall of the legal background (section 3.1.) in its ability to support industrial democracy (section 3.1). Estonia has no legislation on co-determination and its industrial relations are often employer-dominated. A strict legislative prescription for a participative organ is necessary to improve the situation of industrial democracy. The low level of activity of labour organizations is also the result of the relatively poor financial state of trade unions.

The best indicator for trade union unpopularity is the participation rate which, according to different sources, was 12–18 per cent in 1999 (in 1996 it was 21 per cent). The number of collective agreements at enterprise level exceeds 570 and there are roughly 70,000 business entities in the country. Unless otherwise drawn up, the collective agreement is limited to the members of the workers' organization that concluded the agreement. In practice,

agreements are generally extended to all workers in an enterprise and are not restricted only to union members. The number of workers encompassed in these agreements is approximately 67,000, with around 50 per cent being union members. (Branch level agreements are treated in Section 3.3.)

There are several reasons for this low participation rate. Some employers set a prerequisite (though in oral form) to prevent trade union membership, so workers fear they will lose their job if they join. Conversely, in those branches (e.g. banking) where working conditions and wages are relatively good, workers are insufficiently motivated to organize.

The impact of enterprise-level collective agreements is not large mainly because of the low reach of the agreements. Most regulating is done through labour legislation at state level. Trade unions are more important in developing the legal acts concerning labour relations through the trade union associations. However, when discussing collective agreements at enterprise level, the main topic is remuneration, although other conditions concerning safety, working time and leisure may also be discussed. The extent to which the minimum wage stated in collective agreements exceeds the state-determined level differs widely in enterprises. For example, the collective agreement between Tartu University and the trade union of Tartu University (concluded 11 April 2000) states that the minimum wage of highly educated workers must be at least EEK 4000 a month (minimum wage at state level is EEK1400 a month). Some agreements mainly repeat the legal acts, stating the minimum wage as EEK 1400 a month.

As an example of other issues dealt with, the collective agreement concluded in 1998 with the clothes manufacturing enterprise, AS Klementi stated that fresh drinking water must be available at the workplace, that a gynaecologist visit the enterprise weekly and that the newly married employee be given two days off.

There is no detailed information on the fulfilment of labour agreements because no institution in Estonia deals with collecting systematic information on employment contracts, either individual or collective. If we consider the number of labour disputes as a good proxy for the evaluation of contract fulfilment, then we may assume that collective agreements are fulfilled satisfactorily because labour disputes arise mainly on the grounds of individual employment contracts. However, as mentioned earlier, the number of collective agreements in Estonia is relatively small compared with the EU labour market.

### **3.3 Collective bargaining at branch, regional and state level**

#### **3.3.1 The social partners**

To understand the present state of collective bargaining at state level, the institutional background is reviewed below.

Only two of the three central trade union organizations in Estonia are internationally recognized: the Association of Estonian Trade Unions (EAKL), established in 1990 and the Estonian Professional Employees' Unions Association (TALO), established in 1992. The EAKL is a member of the ICFTU and both EAKL and TALO have observer's status in the ETUC. The third central trade union is the Estonian Federation of Food and Agricultural Trade Unions (EFFATU), which has not gained international recognition. Formerly EAKL's largest branch union (with about 9,600 members), the EFFATU separated from EAKL in 1997 due to differences of opinion on collective activity.

The EAKL is blue-collar and the largest of the three workers' organizations, comprising 24 branch unions and approximately 58,000 members. Five branch unions have joined EAKL during the past five years, but at the same time overall membership (i.e. members of the unions) has decreased by about a half. Besides the reasons given in the previous section, an overall decrease in active labour force participation and increased unemployment have caused



a decline in union membership. Some industries are almost union-free (construction, banking, services, and the small enterprise sector).

EAKL has established committees for improving the protection of women's rights in the labour market and for popularizing trade unions among youth. Since 1995, EAKL has created 4 regional branches and this is considered an important field of future action. TALO is the organization of trade unions of white-collar workers. TALO comprises 9 branch unions, 1 co-operative association and approximately 40,000 members.

There is one federal organization of employers - the Federation of Estonian Employers and Industry (ETTK), founded in 1997 by the merger of the Estonian Confederation of Employers' Organizations and the Confederation of Estonian Industry and Employers. The ETTK's membership comprises 32 branch associations of employers, 4 associated member associations and 22 commercial undertakings. This means that the ETTK encompasses approximately 6,000 enterprises with more than 200,000 employees.

In Estonia, the main institutions concerning tripartite negotiations established by the government (the Ministry of Social Affairs is responsible also for labour relations) are the Social-Economic Council and the Estonian ILO council. Both consist of representatives of government, employers and employees. The Social-Economic Council is the forum for social partners for consulting the government on the issues of social-economic processes and relations. The Estonian ILO council is a consultative organ established to help to improve the legislation and to develop tripartite negotiations.

### **3.3.2 The protection of workers' interests and rights at state level**

EAKL and TALO conduct tripartite and bilateral negotiations at the state level, some together some separately. As EAKL is the larger organization it has more importance in state-level collective bargaining. As explained earlier, collective bargaining at enterprise level does not play a large role in the protection of workers' rights and interests. This field is regulated mainly by legislative acts. Trade union organizations' main contribution to the protection of employees' interests at state level is made through consultation and cooperation in the elaboration of legislative acts concerning labour and social guarantees. A tripartite agreement is concluded that legislative acts concerning employees are sent to trade union associations as well as employers' associations for consultation.

#### ***The results of EAKL activities***

EAKL has contributed to the elaboration of the national old-age pension insurance, health insurance, social tax and other acts (the contents of which are described in Section 2). The EAKL failed in its attempt to prevent the rise in retirement age (now 65 since 2000) and to postpone the equalization of retirement age for women and men.

Tripartite agreements have gained more and more importance with each passing year. Eleven tripartite agreements at state level have been concluded since 1992. These concentrate mainly on income. The subjects of tripartite negotiations in which EAKL was one of the parties were: minimum wage, tax-free income, participation democracy, unemployment benefits and employment councils.

The first tripartite agreement was concluded in 1992 and concerned mainly minimum wage which, according to Estonian law, is ultimately determined by government regulation. Since then, minimum wage has been one of the most imperative topics of tripartite negotiations. As table 3.1 shows, the minimum wage was increased both in absolute and relative terms but is still low (EEK 1400 in 2000) compared to the average wage.

**Table 3.1: Minimum and average wage per month in Estonia, 1994–2000**

Effective date of minimum wage	Minimum monthly wage (EEK)	Average nominal monthly wage before taxes (EEK)	Share (%)
1 Sep. 1994	450	1 734	26.0
1 Jan. 1996	680	2 985	22.8
1 Feb. 1997	845	3 573	23.6
1 Jan. 1998	1 100	4 125	26.7
1 Jan. 1999	1 250	4 418	28.3
1 Jan. 2000	1 400	-	-

Source: Estonian Statistical Office.

One of EAKL's objective is to equalize minimum wage and tax-free income. From 1 January 2000, the limit of tax-free income has been increased to EEK 800 a month. The EAKL wanted it raised from 1999, but because of lack of governmental money this proposal failed. From 2001 the Government has consented to take into account a tax-free income of EEK 1,000 a month.

Another EAKL objective is to increase unemployment benefits to at least 50 per cent of the minimum wage. Table 3.2. shows these at only 28.6 per cent, or EEK 400 a month. The negotiations over unemployment benefits have not been as successful as the minimum wage negotiations.

**Table 3.2. Unemployment benefits paid in Estonia, 1992–2000**

Effective date of unemployment benefits	Unemployment benefits (EEK)	The ratio of unemployment benefit to minimum wage (%)
1 Jan. 1992	180	60.0
1 July 1996	240	35.3
1 Mar. 1998	300	27.3
1 Jan. 1999	400	32.0
2000	400	28.6

Source: M. Abermann, Trade unions on the labour market of Estonia.

In the field of income protection, the association has established an unemployment fund. Many larger trade unions' associations have established sickness, training and strike funds but as the trade unions have insufficient money, these funds do not function properly.

### *The results of TALO activities*

While the EAKL negotiates over the concrete amounts of minimal wage or minimum living standards, i.e. over the benefits directly available to the receiver of the benefit, the TALO negotiates over the wage fund. Thus, the precise wage amounts for workers are not the issues of collective bargaining at the state level. Because of some negative experiences (e.g. the increase in the wage fund of the education sector resulted mainly in the increase of the wages of school directors and did not affect the wage of teachers) TALO is about to change this policy but no serious action had been taken at time of writing.

The main achievements of bilateral agreements of TALO with Government are:

**The agreement on the wages of employees who are paid through the state budget (1994).** The agreement states that the wage of all members of TALO who have post-secondary technical education or employees with special training must at least be equal to the wage established with grade 8 on the general salary scale (for more information about salary grades see section 2.2.2 under 'The arrangement of working time and wages'). Since 1 January 2000, grade 8 on the general salary scale has been established at EEK 1,460 a month.

**The agreement on the wages of employees who are paid through the state budget (1995).** The agreement states that the wage must increase at least 1.3 times compared with the

forecast of the average wage in the fourth quarter of 1994 (which was forecast at EEK 1,600 in 1994).

**The agreement on the wages of employees who are paid through the state budget (1996).** The agreement states that the wage must increase by at least 30 per cent.

**The agreement on the wages of employees who are paid through the state budget (1997).** The agreement states that the wage will be increased by 14 per cent.

**The agreement on the wages of employees who are paid through the state budget (1998).** The agreement was not concluded. The TALO organized a warning strike but the increase in wage level was not achieved.

**The agreement on the wages of employees who are paid through the state budget (1999).** The agreement states that the wage of employees in the educational/cultural sphere must increase by at least 30 per cent. The wage of research workers must increase by 20 per cent.

For 2000, the TALO's negotiations on the wage fund were not successful and the increase in wage level was not achieved.

### **3.3.3 Collective bargaining at regional level**

EAKL has established 4 regional branches and also has branch unions in its own regional departments. At the same time there are no regional organizations of employers, except in the Ida-Viru region. Thus regional collective bargaining is possible only in one region and collective agreement is not the issue at regional level.

The Ida-Viru regional branch of EAKL is the only regional level union that has reached regional agreement with ETTK and local authorities. Ida-Viru is the region with a large Russian population and trade unions there are more developed. The agreement concerns employment and unemployment but is in the form of a declaration rather than a collective agreement, since it does not obligate any party to anything. For example, the agreement states that the parties will take steps to improve the employment in Ida-Viru but does not state what steps will be taken.

### **3.3.4 Collective bargaining at branch level**

Collective agreements at branch level were concluded in 13 EAKL branch unions in 2000 (in 1999, 11 agreements). The number of trade union members comprised in branch level collective agreements is 17,400 (in 1999, it comprised 22,500 members) and the number of employees was 36,000 (in 1999, 47,700). In some branches (manufacturing, maritime and fisheries trade unions) there is no branch organization of employers' and no agreement can be concluded. The emphasis in such branches is wholly on enterprise level collective negotiations. Only 3 branch unions of TALO have concluded the collective agreement.

The branch level agreements are generally concluded with state-owned or formerly state-owned enterprises. For example, the Rescue Service, the Social Insurance Board, and the National Archives of Estonia have concluded a collective agreement with the Trade Unions Association of State and Local Governments workers; the Estonian Energy AS and Estonian Electrical Network Construction have concluded a collective agreement with the Trade Union of Workers in Energy Sector etc. There is only one classical branch level collective agreement with an employers' association (Association of Transport Enterprises).

The main topic of branch-level agreements is the same as in enterprise-level agreements – wage remuneration. The issues of safety and compensation in case of work accident are also emphasized in some branch-level agreements. For example, according to a collective agreement concluded in 1999 between the Union of Estonian Railway Workers and the Estonian Railway, in case of work accident the union is obligated to pay to the employee

EEK 20 for every day of duty starting from the 31<sup>st</sup> day. In case of death, the family receives EEK 6,000 in compensation.

## **4. Labour market policy**

### **4.1 Labour market institutions**

#### ***Recent history***

The governing labour market institution in Estonia is the Ministry of Social Affairs. On 1 February 1993, the Ministry of Health, the Ministry of Social Security and the Ministry of Labour were reorganized into the Ministry of Social Affairs. The main functions of the Ministry of Social Affairs include planning social policy and solving social problems in three main spheres: employment and income policy; health protection and medical care; and social security and social insurance. Within the Ministry, the Deputy Secretary General is responsible for labour market issues, and the Labour Market Department, Working Environment Department and Labour Relations Department are in charge of policy-making in this field. Until recently, the Ministry's administrative capacity to identify national employment priorities and to prepare an employment strategy was insufficient, partly because employment issues were not considered a priority at the national level and there were no relevant development plans. More attention has since been paid to employment problems: according to the statute of the Ministry of Social Affairs that was approved by the Government on 14 April 1999, a vice chancellor was appointed to deal with the issues of employment relations, working environment and, as a new structural unit, the labour market.

The Estonian Labour Market Board, established in April 1991, works under the governance of the Ministry of Social Affairs. Its ministerial counterpart is the Labour Market Department. The Labour Market Board's main functions were defined as:

- to administer labour mediation services, bringing together employees and employers, e.g. collecting information on vacancies; employment mediation; providing information on opportunities for training activities; providing direct employment training, training stipends, subsidies and community placements;
- to organize unemployment registration, regulate the payment of benefits to the unemployed and supervise the entire process.

The Labour Market Board has a network of 46 local state employment offices or their representatives in Estonia. State employment offices implement the governmental labour market policy, register unemployed persons, provide employment services and pay unemployment benefits in their respective region.

In recent years the legal status of national labour market institutions has been ambiguous. By an amendment in legislation in 1996, the Government in principle liquidated the Labour Market Board. Therefore, funds were allocated from the budget for the Labour Market Board in 1997/98 only for covering maintenance costs of state employment offices and for the provision of employment services for the unemployed. In 1999 the Labour Market Board was restored as an institution. The statutes of the Labour Market Board and state employment offices, the new structure and the composition of the Labour Market Board were approved on 28 May 1999 by the Minister of Social Affairs Regulation No. 42.

Jobseekers use four main methods to find jobs:

- through job search and vacancy announcements (78 per cent)
- networking with relatives or acquaintances (65 per cent)
- through state employment offices (53 per cent)
- direct contact with employers (42 per cent)

According to ELFS 98, an average 61 per cent of jobseekers contacted state employment offices during the whole period of unemployment. The respective share among the urban population was 64 per cent, among the rural population 54 per cent, among Estonians 58 per cent and among non-Estonians 64 per cent. The older the jobseekers, the more actively they contact state employment offices. Reasons given for not contacting the state employment offices were: ability to cope independently (28 per cent), lack of suitable vacancies in state employment offices (24 per cent), refusal in principle to contact a state employment office (21 per cent).

The popular perception is that the national job mediation system mediates jobs mainly to poorly qualified, older jobseekers and that prospective employers tend to use other hiring strategies. Such attitudes indicate that there is a need to raise the awareness of jobseekers and employers on the services provided by employment offices. The latter should focus more on advertising their services and enhancing cooperation with employers.

According to Labour Market Board statistics in 1998, there were 21,550 workers per employment office, 407 jobseekers per employee and 241 recipients of unemployment benefit. For the same year, there were 33 local employment offices (in 1977 the number of local offices was 46 and the total number of labour force mediated per office was 15,600). These figures prove that the burden on employment offices is already too high.

## 4.2 Active labour market measures

In Estonia the expenditures on active labour market policies accounted for 0.16 per cent of GDP in 1998. This is a very small fraction compared both to the 10 accession countries of Central and Eastern Europe as well as to the European Union average. The most important active measure both in terms of participants and expenditure is labour market training. In 1998, expenditure on training accounted for 27.8 per cent of the total budget followed by expenditure on administration of state employment offices (16.5 per cent), business start-up subsidies (3.2 per cent), community placements (1.6 per cent) and subsidies to employers (0.9 per cent). As unemployment benefits in Estonia are very low, active labour market measures comprised 50 per cent of the total labour market expenditure in 1998. Due to the rise in unemployment, the share of active measures in total expenditures decreased to 34 per cent in 1999.

The number of participants in various active labour market measures is given in table 4.1. Employment training is the most important active measure. Vocational training includes providing information on requirements and opportunities in the labour market and psychological preparation in order to better compete on the labour market. State employment offices purchase training services from educational and training institutions. Duration of training is up to 6 months, either in the form of group courses or individual training. Unemployed persons participating in training courses receive a retraining allowance, which is 1.5 times the amount of unemployment benefit and is paid for up to 6 months.

As shown in table 4.1, the number of participants in training programmes has decreased considerably, since the cost of courses has increased beyond the expenditure earmarked for training. Those who found jobs after training increased from 52.9 per cent in 1995 to 56.2 per cent in 1999 because of a (non-legislated) precondition that a written letter from the employer confirming that the unemployed person will be hired after graduating is usually required for participation in training.

A serious shortcoming of Estonian labour market policy is that there is no state-financed system to support adult training except for unemployed persons, civil servants and teachers at state educational institutions. Consequently, workforce skills are often obsolete due to restructuring and firms cannot find employees with the skills required. Supporting the in-service training of workers and providing opportunities for retraining for those who are being

laid off are key factors in fighting structural unemployment and raising the competitiveness of the economy. Unfortunately, this component of labour market policy is still missing in Estonia.

**Table 4.1: Number of participants in active labour market policy programmes, 1995-1999**

Programme	1995	1996	1997	1998	1999
Participants in employment training	9 809	9 434	8 241	7 956	7 027
Found job after training (%)	52.9	64	75.8	61.9	56.2
Employed with subsidies to employer	121	246	216	136	265
Received business start-up subsidy	459	456	434	380	426
Participants in community placement	5 741	4 089	4 661	3 771	3 667
Total number of participants in ALMP	16 130	14 228	13 552	12 243	11 366
% of registered unemployed <sup>a)</sup> participating in ALMP	45.1	32.0	29.0	25.3	18.5
% of jobseekers participating in ALMP	20.9	15.2	15.8	15.0	10.7
% of registered unemployed who found job with the help of ALMP (excl. job mediation)	38.5	43	51.4	35.9	24.8
Total number of registered unemployed and jobseekers <sup>b)</sup> who found job as a % of jobseekers (incl. job mediation)	19.4	16.8	15.6	18.6	17.7

Note: <sup>a)</sup> Unemployed persons registered at the State Unemployment Office and having unemployed status.

<sup>b)</sup> Jobseekers are unemployed persons registered at the State Unemployment Office but not having unemployed status.

ALPM = active labour market policy programme.

Source: Estonian Labour Market Board, various years.

Business start-up subsidy is the second biggest measure in terms of expenditures. To be eligible, an unemployed person must be at least of 18 years of age and have undergone relevant training or have sufficient experience. A subsidy of up to EEK 10,000 (since the beginning of 1998) may be granted to start a business. As the costs per person are high and this measure is successful for only a small proportion of unemployed persons, the number of participants in this programme has been relatively small.

The low levels of programme take-up coupled with the changes taking place in the local economies suggest that there will be potential to expand this scheme. The issues around support for start-up businesses are similar in any economy and include information and advice, finance and accommodation. The 1998 National Labour Market Board (NLMB) Annual Report identifies the need for action on:

- finance - a survey carried out for NLMB indicated that the current grant levels are too low (it can be assumed that the average applicant's personal savings available to invest in the start-up will be negligible) and should be at least EEK 20,000 (twice the current level);
- training for entrepreneurs. Training needs to take account of:
  - personal qualities - the confidence, motivation and selling skills needed for business (and, increasingly, for employment in a modern economy);
  - skills around the business idea – competence in the service or product on which the business is based; and
  - business management capabilities.

A crucial element here is the need for aftercare - to provide follow-up support once the business is up and running as well as in preparing for start-up.

- accommodation - in most counties in Estonia there is good potential to increase the provision of Business Centres and other business space.

NLMB and its local Employment Offices are not responsible for all these aspects of business support. There is a clear need for a partnership approach, combining the priorities and resources of a range of organizations, including donor agencies, the Government Departments and local municipalities.

Another form of subsidized employment is community placement. Employment offices have been assigned the task (by a regulation dated 26 April 1993) of organizing temporary public works for jobseekers and unemployed persons, which do not require special preparation and where the Employment Contract Law is not valid. A person receiving unemployment benefit who takes part in public works may be paid extra for this. Any person who receives unemployment benefits is obliged to participate in public works for at least 10 days or 80 hours during any calendar month. The number of participants in such programmes has fallen drastically in the past four years. One explanation is that the hourly wage level for community placement remained unchanged from 1996 until January 1999, at EEK 2.6 per hour, while average hourly wages increased during this period from EEK 4 to EEK 7.35 per hour.

The Community Placement programme is explicitly for work that requires no special training or skills. By implication, it is for those with no marketable skills or those without the motivation to search for other employment. A key question is whether, as it stands, the programme adds real value to either the individual participant or to the local community. There may be scope to develop the programme in order to combine:

- a training element – addressing both personal and vocational skills, to better equip participants for competition in the labour market;
- work experience – carrying out a range of activities that do more than keep people occupied but genuinely add to community amenity.

Experience elsewhere indicates that such a combination is attractive to those with labour market problems, for example, the long-term unemployed. It also conforms the values of establishing a “work” environment that takes clients seriously and pays a living wage; in this respect, the NLMB Annual Report noted that increases in the cost of living have reduced interest in the programme. The development of an “intermediate labour market” programme on these lines may, however, be attractive as a vehicle for EU funding.

Wage subsidies to the employer for employing less competitive persons has been the least important active measure both in terms of expenditure and participants. Those who are registered as unemployed and considered as less competitive in the labour market are: disabled persons; pregnant women and women who are raising children under 6 years of age; young people; persons who will be retired within 5 years; and those released from penal institutions. The amount of the wage subsidy is 100 per cent of the minimum wage during the first 6 months and 50 per cent of the minimum wage during the next 6 months of the employment period. As shown in table 4.1, the number of participants in subsidized employment programmes is relatively small. Theoretically, these schemes could have significant dead-weight and substitution effects, but they can be effective if used in combination with other measures.

The authors’ review of this programme raises a number of issues for consideration:

- a wage subsidy scheme is designed to make disadvantaged people more attractive to employers. Given that long-term unemployment is increasingly an issue for Estonia, consideration might be given to including the long-term unemployed within those eligible for the programme;
- it is not clear that this programme is actively marketed to employers. Operating a wage subsidy scheme proactively calls for close relationships with employers – especially with private sector employers, the main source of new employment opportunities. This is particularly so when employers are being asked to recruit from a disadvantaged group rather than recruit on the open market;

- this programme seems to provide only a wage subsidy. For eligible groups, in one way or another, skills are likely to be a critical issue. Consideration might be given to including a training element within the programme; and
- in dealing with employers, bureaucracy should be kept to a minimum. It is the authors' understanding that the amount of paperwork associated with the programme is perceived by employers as a deterrent.

As mentioned earlier, those who are long-term unemployed were not eligible for labour market services until the end of 2000. To tackle long-term unemployment, the Ministry of Social Affairs started a pilot project "*Activation centres for making less competitive persons more active in the labour market*" in the second half of 1998. In the framework of this project, activation centres for long-term unemployed persons were established in 8 counties. The tasks of the activation centres are:

- to help less competitive persons in the labour market find a job using the job-club method;
- to create possibilities for work practice at work organized by activation centres. The purpose of work practice is to provide participants with training and with work experience they can rely on in the future when seeking employment;
- to cooperate with employers in order to find jobs for both work practice and employment of clients;
- to advise, inform and motivate employers.

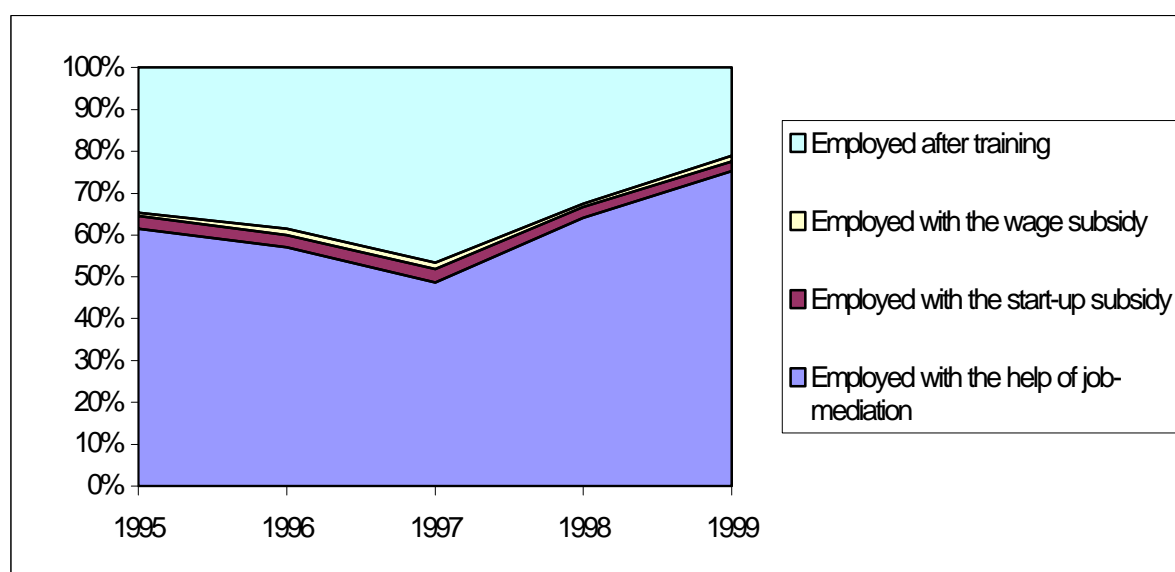
The activation centres have been relatively successful in helping those who are long-term unemployed to re-enter the labour market. As the new "Labour Market Services Act" makes persons seeking employment as well as the long-term unemployed eligible for labour market services, it is planned to integrate the activation centres with the state employment offices. The number of unemployed participating in active measures has decreased constantly, as table 4.1 also shows. In 1999 only 18.5 per cent of the registered unemployed participated in active measures compared to 45.1 per cent in 1995. According to the European Employment Guidelines, the target minimum level is 20 per cent of the unemployed participate in some kind of active measure. Bearing in mind that the number of registered unemployed in Estonia can potentially double, due to the changes brought by the new laws (see above) and will substantially increase the number of jobseekers from the 1999 level of 10.7 per cent (see table 4.1), a significant rise in expenditure for active measures is necessary to be able to reach the European target.

In 1999, 24.8 per cent of persons found jobs after participating in active measures (excluding job mediation), as shown in table 4.1. Figure 4.1 presents the breakdown of the unemployed according to the active measure with which they found employment. It can be seen that job mediation and labour market training have been the most helpful tools for most of the unemployed. Job mediation is the least expensive way to reintegrate those who are unemployed into labour market. Thus, the ability of employment services in finding vacancies is crucial for increasing employment opportunities.

As no evaluation studies are available on the effectiveness of Estonian labour market measures, only some general comments can be made here. Estonian labour market policy does not differentiate between different groups of the unemployed; no special programmes have been devised for young people, disabled people or any other group. The project for long-term unemployed was started only recently and does not cover the whole country. In sum, the two serious shortcomings of Estonian labour market policy are the lack of both targeting and a systematic analyses of the impact of different active measures.



**Figure 4.1. Percentage of unemployed persons who found employment through active labour market policy measures, 1996-1999**



Source: Estonian Labour Market Board

### 4.3 Passive labour market measures

The payment of unemployment benefits is the only passive labour market measure used in Estonia. There is no early retirement<sup>12</sup> or any other kind of passive measure specified by the law.

Social protection of the unemployed in Estonia is provided by the State (i.e. financed from the state budget, which constitutes a part of the social protection system). There is no voluntary unemployment insurance, although preparations for this are under way. The Government is planning to introduce an unemployment insurance system, which relates unemployment compensation to previous earnings. The current unemployment benefit will be transformed into unemployment assistance payable to those who are not eligible for unemployment insurance payments. The Government has approved the concept of unemployment compensation and the corresponding Act was drafted in autumn 2000.

The unemployment benefit was originally pegged to the minimum wage: in October 1992 the rate was fixed at EEK 180, which then made up 60 per cent of the minimum wage. The rate was not changed until July 1996 when it was raised to EEK 240. In March 1998 the unemployment benefit became EEK 300 per months and since January 1999 it has been EEK 400. Unemployment benefit is paid every 15 calendar days for every day of unemployment until the individual is no longer unemployed, but for not more than 180 calendar days in succession. The unemployment benefit is calculated on the basis of a 5-day working week. A decree of the Labour Market Board (3 March 1993) extended the payment of benefits (relief) to those who had forfeited the category of being unemployed, if they had re-registered as

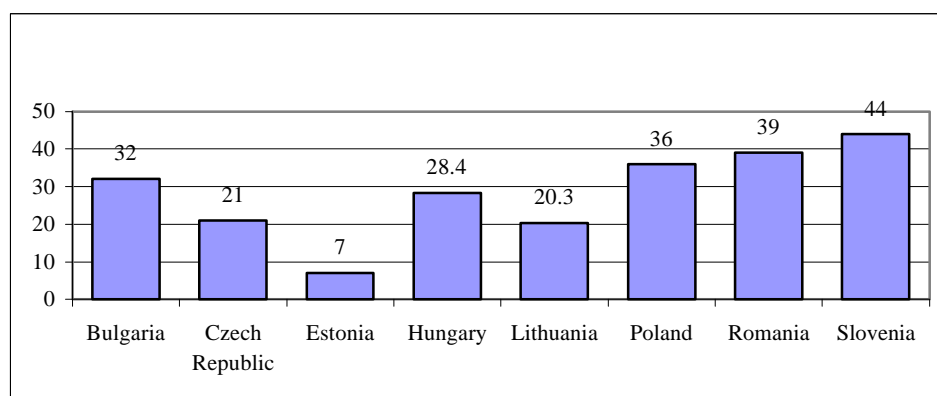
<sup>12</sup> There was no early retirement used in Estonia until 2000. The new State Pension Insurance Act gives the option of retiring 2 years before statutory retirement age since 2000 and 3 years before statutory retirement age since 2001. If a person chooses the option of early retirement the amount of pension will be reduced 0.4 per cent per each month that he or she retired before statutory retirement age. As this is a new arrangement, no data are available on how many people have chosen this option or what its effect has been.

jobseekers and not found a job within 30 days. If the employment office is unable to send a jobseeker to employment training, the job seeker may apply for unemployment benefits three times during the subsequent 180 calendar days, but for no more than 30 days at a time. The average payment period was extended up to 270 days (nine months) in June 2000.

Under earlier legislation, upon the first refusal to participate in community placement works or employment training, the unemployment benefit was suspended for 10 working days. Upon the second refusal, benefit was terminated. Under the new Labour Market Services Act, the payment of unemployment benefits is suspended for 10 working days if an unemployed person refuses to participate in employment training the first time (upon the second refusal, benefit is terminated), but will not be suspended or terminated if a person refuses to participate in community placement works.

A person who has been declared unemployed must actively seek employment. If those who are unemployed fail to appear at their local employment office at the allotted 15-day interval, they may forfeit their right to unemployment benefits for that period. After repeated failures to appear, they may be deprived of unemployed status and the right to unemployment benefits. A person who has lost unemployed status is entitled to re-register as a jobseeker.

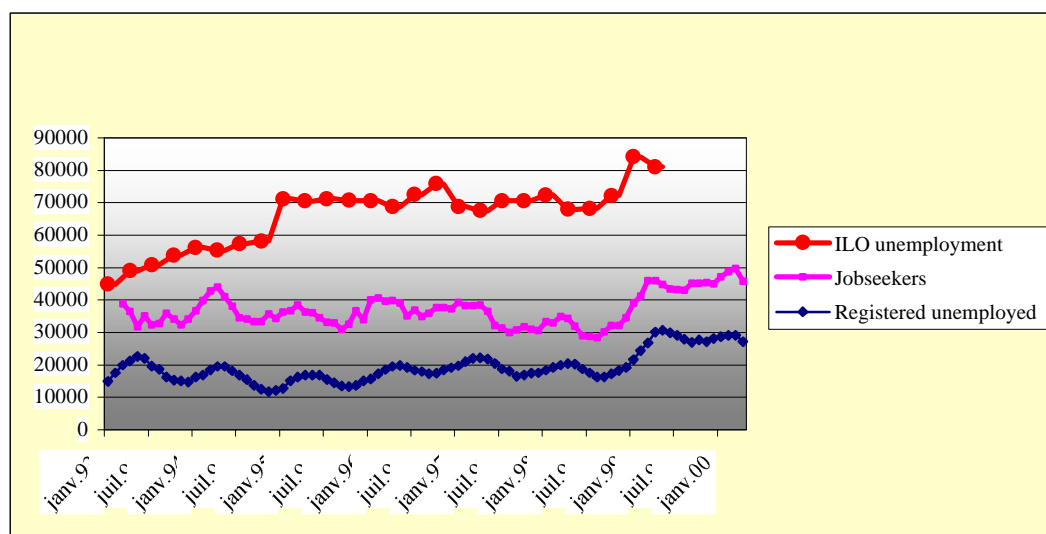
**Figure 4.2. Average unemployment benefit as a percentage of the national average wage in 1998 (1996 for Hungary)**



Source: Eamets, R., Arro, R. Cross-Country Analysis of Employment Policies in Candidate Countries, European Training Foundation, Aarhus-Tallinn 2000, mimeo.

Table 4.2 and figure 4.2 show that unemployment benefits in Estonia are very low compared with other European countries.<sup>13</sup> The unemployment benefit is flat rate and the replacement rate as a percentage of gross average wage in Estonia fell from 60 per cent in 1992 to 29.6 per cent in 1999. According to the European Code of Social Security the level of unemployment benefit should be 45 per cent of the previous earnings of the beneficiary or equal to the wage of an adult male labourer. In Estonia the respective indicator is less than 10 per cent. It is evident that the integration of Estonia into the EU will change the situation.

<sup>13</sup> In many NIS countries, the unemployment benefits replacement ratio is very low as well; for example, 6 per cent of average wage in Azerbaijan, 10 per cent in Belarus, 17 per cent in Ukraine, 23-24 per cent in Moldova and Armenia, in 1995 (Kuddo, 1997).

**Figure 4.3 Unemployment dynamics in Estonia (registered and LFS unemployment)**

Note: Registration data are monthly data and ILO unemployment data are quarterly data

Source: Estonian Labour Market Board and Estonian labour Force Surveys

The number of registered unemployed who have received unemployment benefit has increased gradually due to rising unemployment (see figure 4.3). In 1999, 58 per cent of registered jobseekers received unemployment benefits.

**Table 4.2: Unemployment benefit and replacement ratios in 1992-1999**

Year	Max. Duration*	Benefit Minima ( % of minimum wage)	Benefit Maxima	Gross replacement rates (% of average wage)	Coverage rate** (%)
				1-6 months	
1992	6	60.0	60.0	32.8	n.a.
1993	6	60.0	60.0	16.9	56.4
1994	6	60.0	60.0	10.4	46.3
1995	6	40.0	40.0	7.6	51.1
1996	6	35.3	35.3	8.0	47.4
1997	6	28.4	28.4	6.7	54.3
1998	6	27.3	27.3	7.2	59.3
1999	6	29.6	29.6	9	58

Notes: \* In some cases duration can be prolonged by up to 3 months. If the employment office cannot send a jobseeker to employment training, the jobseeker may apply for unemployment benefits 3 times during the subsequent 180 calendar days (now 270) but not for more than 30 days at a time.

\*\* Unemployment benefit recipients as a percentage of registered unemployment.

Source: Statistical Office of Estonia.

#### 4.4 Regional policy in Estonia

According to the Guidelines of Regional Policy in Estonia, the main objectives of regional policy are to promote growth potential and regional self-reliance. Policy strategies aim to create a vigorous economy in the regions, which does not rely on constant subsidies. The State supports these goals by helping to create a suitable environment for the process. Thus regional policy is relevant for the country as a whole. The annual budget for regional policy in 1998 was EEK 136.4 million.

The main regional policy instruments – 17 Business Advisory Centres – are organized as individual companies or foundations, which together form a business support network. The coordination and development of this network is the responsibility of the Estonian Regional Development Agency, established in May 1997. The centres provide lectures and offer training in business methods, and are staffed by advisers who can provide consultation, strategic analyses and assistance in contacting foreign investors.

Support to small and medium-sized enterprises (SMEs) includes providing assistance in creating business plans, particularly where loans are required, as well as providing general assistance in setting up accounting systems and gaining management skills. Such services are made available on a shared-cost basis, where the business client's share depends on location (in some regions the Government pays up to 90 per cent of the costs of the service).

At the end of 1995, the Government approved 6 regional policy programmes that gave development grants to problematic regions:

- A programme for backward regions aims to improve the infrastructure in agricultural regions, improve trade, build up local industries and improve the local economic base. Regions in the southern and central part of the country are targeted.
- A programme to improve conditions on islands with small populations in order to prevent islanders from abandoning them. The focus has been on infrastructure, communications, and the provision of power supply and primary education.
- A programme to promote rural initiative focuses on "life style", including village development, and covers the entire country.
- A programme to assist border regions focuses mainly on the Russian-Estonian border but also on the southern border with Latvia.
- A programme for mono-functional localities focuses on communities where employment was or still is dominated by one large enterprise. These were frequently related to the food industry, whose produce was exported to markets throughout the former Soviet Union. The programme aims to diversify the economic base and to create new jobs, thus avoiding potential social crises in these communities in the future.
- A special programme for the Ida-Viru region in the north-eastern part of Estonia. This region was dominated by large enterprises producing oil shale, electricity and various goods for the Soviet market. The workforce in these enterprises consisted mainly of Russian immigrants. The programme mainly promotes the integration of this immigrant population into Estonian society.
- A special programme for the south-eastern Setu region (started in 1997). The aim of the programme is to promote this border region in general and also to help those Estonians presently living on the other side of the new Estonian-Russian border to settle on the Estonian side of the divided Setu region.
- A regional development programme for south-east Estonia started in 1998. This is a special programme to support different development project in three counties, Võru, Valga and Põlva. The main purpose is to develop entrepreneurship and labour resources (providing training and consulting) and local infrastructure, communications, roads, etc.

In 1995, the Government created a loan support system for SMEs, making loans available in cases where bank loans would not be granted due to lack of collateral. All measures run at present will be used in the future as well, although not necessarily in the same form or scope. Current measures have established conditions for additional financing of regional development.

State priorities in prescribing regional development patterns have been negligible so far, as all the regions have relatively equal opportunities to obtain state support. Nevertheless, the state support that is available has not been applied equally between regions, the probable

reason being lack of local initiative in some regions. In addition, there are no direct links between state labour policy and regional policy so far. At the county level, cooperation between business advisory centres and start-up programmes for unemployed is very close in some counties while in the others it is rather weak.

#### 4.5 Social assistance

Following the exhaustion of unemployment benefits, unemployed persons become eligible for subsistence benefit, which is means tested. Since the beginning of 1997, subsistence benefits combine both the housing benefit and the subsistence benefit. Subsistence benefits are paid to persons or families whose monthly income is below the minimum subsistence level after paying for their housing costs. Minimum subsistence level (MSL) is fixed by the Government on the basis of consumption expenditures and is currently EEK 500. The amount of the benefit is calculated on the basis of the consumption coefficient, which means that the first member of the family gets the maximum level of EEK 500 and every subsequent member receives 0.8 times the maximum. For example, the maximum level of benefit for a family of four is EEK 1700. All incomes except one-time benefit payments provided by the State (e.g. birth benefit) are included when calculating the level of subsistence benefit.

##### *Case study: Aspects of net family incomes in Valga county*

Located in south Estonia, Valga county has an average salary that is one of the lowest compared with the national average and its registered unemployment rate is one of the highest in Estonia. National average total net income per household member was EEK 2,012 per month in the second quarter of 1999 and total expenditures per household member EE 1,842 per month. On a national level, it is difficult to compare the incomes of families with an unemployed breadwinner or an economically active breadwinner, since the price level of food and housing differs significantly by counties. For the purposes of this crude estimate, the family comprises 2 adults and 2 children (aged 2 and 10) living in Valga county. Table 4.3 sets out five different family income situations.

**Table 4.3: Comparison of hypothetical income levels of families in Valga county, Estonia (second quarter of 1999)**

Type of family: four persons: two adults, two children (2 years and 10 years)	Net wage	UB	Child benefits	Total income before SB	SB/ Housing benefit	Final income after housing expenses
Both parents earn average wage	2 574+2 574	-	975	6 123		5 123
Both parents earn minimum wage	1 244+1 244	-	975	3 463		2 463
One parents working with minimum wage , second unemployed	1 244	400	975	2 619	81	1 700
Both parents unemployed (receiving benefits)	-	400+400	975	1 775	925	1 700
Both parents long-term unemployed (no unemployment benefits)	-	-	975	975	1725	1 700

Note: SB - subsistence benefit; UB – unemployment benefit.

In the first case, both parents work and earn the average net wage in the county, which is EEK 2,574 (in the second quarter of 1999). Adding child maintenance<sup>14</sup> and child benefits, the average income of this family is EEK 6,123. From this sum, housing costs have to be paid, say around EEK 500-1000 per month (depending on the season and location) for a 3-room flat. In this exercise, the maximum level of housing expenses (EEK1,000) is used, leaving final income after housing expenditures at EEK 5,123.

In the second case, both parents earn the minimum wage of EEK 1,400, which is common in the countryside. The income of this family is around EEK 3,463 including child maintenance and child benefits. This family also has to pay for housing and does not receive subsistence benefit, as its income exceeds the minimum subsistence level. After paying for housing, the family income is EEK 2,463, compared to the MSL, which is EEK 1,700.

In the third case, one of the parents is unemployed and receives unemployment benefits of EEK 400; the other parent receives a minimum wage. The income of this family is EEK 2,619 including child maintenance and child benefits and since this sum is below the minimum subsistence level, this family receives the subsistence benefit of EEK 81. Final income after tax for this family will be EEK 1,700.

In the fourth case, both parents are registered unemployed and receive unemployment benefits (EEK 400 per month). Social benefits amount to EEK 975+925, so their final after-tax income is likewise EEK 1,700.

In the fifth case, both parents are long-term unemployed, meaning that they are no longer eligible for unemployment benefit but receive the subsistence benefit. This family only receives child maintenance and child benefits, a total of EEK 975. The family will also receive the subsistence benefit of EEK 725 and the housing benefit,<sup>15</sup> a final amount of EEK 1,700.

Thus, for those who receive lower levels of income, the motivation to work is also lower. As table 4.3 shows, the income of a family receiving minimum wage does not significantly exceed that of a family receiving subsistence benefits. If one parent is unemployed and the other receives the minimum wage, the family income is identical to that of the family receiving social assistance.

As mentioned earlier, the level of the unemployment benefit in Estonia is low compared to other CEE countries and those of the EU. More striking is the fact that the unemployment benefit is even lower than that of the subsistence benefit, which is normally the last resort for persons without income. Regarding the level of final income received, the only difference in being registered or not registered as unemployed is that those registered also receive health insurance. These aspects of net income could partly explain the large difference between registered and ILO-calculated unemployment figures in Estonia.

No statistics are available on the number of unemployed persons who have received the subsistence benefit. Although, according to the statistics of the Ministry of Social Affairs, in the first quarter of 2000 those families with at least one member who was job seeker, unemployed or long-term unemployed accounted for 59 per cent of recipients of the subsistence benefit.

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<sup>14</sup> Since 1 January 2000, child maintenance benefits are paid to one parent regardless of whether he or she is employed or on parental leave. Prior to 2000, this benefit was paid only to those parents on parental leave.

<sup>15</sup> The limit for which costs are covered is 18m<sup>2</sup> space per person, plus 15 m<sup>2</sup> space per family.

### *Social security*

The social security system in Estonia is being reformed step by step. The aim is to change from an impersonalized social security to a more personalized, flexible insurance system in order to take into account the wishes and resources of every individual as well as their share in the creation of national wealth. Due to the shortage of money in the state budget and the need to keep the budget balanced, the contributions to social welfare and benefits are relatively small. Social protection expenditures in Estonia made up 16.6 per cent of GDP in 1996, while the EU average was 30 per cent of GDP. In addition, the growth rate of social benefits lagged badly behind inflation, especially in the early years of transition.

Social protection in Estonia is financed through the budget system (approximately 80 per cent), revenues consisting mainly of tax receipts. Estonia has a proportional income tax rate (26 per cent), both for enterprises and individuals. The tax that yields most is the so-called social tax (payroll tax). The rate of social tax in Estonia is 33 per cent of gross earnings and is paid by employers. Of the social tax, 20 per cent is directed to the social security budget and 13 per cent to the medical insurance budget. The state budget and local budgets also cover part of the social protection expenses. The role of the latter has been gradually decreasing over the years, since the rate and receipts of social tax determine the scope and level of the state's social protection. Table 4.4 presents the pensions and social benefits paid in Estonia between 1994 and 2000.

## **4.6 Labour policy priorities 2000-2001**

The first Estonian Employment Action Plan was prepared in spring 1999. It focused on training, employment development, social partnership and other related labour market issues. Annex 3 reviews the legal regulation of the work environment and Annex 4 analyses the development prospects for employment and education in more detail. The Employment Action Plans (EAP) will be prepared annually. The first EAP was prepared for the second half of 2000 and 2001. With the future integration with the European Union in mind, the EAP is devised according to the European Employment Guidelines, although its priorities are set according to the needs of the Estonian labour market.

Priorities for the development of the Estonian labour market include:

- improving the active labour market policies and increasing the number of persons benefiting from them;
- integrating disadvantaged groups into the labour market and preventing social exclusion;
- improving the administrative capacity of Public Employment Services (PES) and improving the quality of services provided by them;
- supporting entrepreneurship;
- reviewing the tax and benefit systems to ensure that they support employment creation as well as the motivation of the individual to find a job;
- promoting lifelong learning and creating conditions to foster it, especially adult education;
- involving the social partners in planning employment policy and vocational education;
- promoting equal opportunities for women and men.

Table 4.4. Pensions and social benefits in Estonian kroons (EEK), 1994-2000

	1994	1995	1996	1997	1998	1999	2000
<b>Average level of pension<sup>16</sup></b>	359	586	879	1037	1096	1427	na
<b>Old-age pension</b>	373	612	930	1100	1160	1545	na
<b>% of average wage</b>	20.7	24.7	29.4	29.0	26.6	34,8	na
<b>BENEFITS ON SOCIAL INSURANCE BASES</b>							
<b>Birth benefit (average)<sup>(a)</sup></b>	947	1 313	1 545	1 783	2 625	2 625	3 375
<b>Maintenance benefit for child up to 1.5 years old (average)<sup>(b)</sup></b>	175	212	241	287	600	600	600
<b>Maintenance benefit for child 1.5 to 3 years old (average)<sup>(c)</sup></b>	92	107	125	143	300	300	600
<b>Child benefit for 1<sup>st</sup> child</b>	93	110	130	150	150	150	150
<b>Child benefit for 2<sup>nd</sup> child</b>	121	144	165	184	225	225	225
<b>Child benefit for 3<sup>rd</sup> and subsequent children</b>	150	194	214	234	300	300	300
<b>Child benefit for lone parents</b>	61	65	75	87	150	150	150
<b>Child benefit for a lone handicapped parent</b>	143	166	193	223	225	225	300
<b>Maintenance benefit for non-working parent raising a handicapped child 1.5 to 18 years old</b>	165	219	256	296	300	300	n.a.
<b>School benefit</b>	90	115	130	299	300	450	450
<b>Guardianship benefit</b>	169	222	256	299	300	300	300
<b>The independent life benefit for orphanage children</b>	2 979	3 423	3 922	3 985	5 000	5 000	5 000
<b>Minimum subsistence level</b>	280	320	390	460	500	500	500

Note: <sup>(a)</sup> Child allowances are divided into lump-sum and monthly benefits. Lump-sum benefits are: birth grant, allowance at the beginning of the school year, and start-in-life support for young people leaving orphanages. All children up to 16 years (students up to 19 years) are paid monthly allowances. The lone-parent benefit, serviceman support and child guardianship support are also paid on a monthly basis.

<sup>(b)</sup> Since 1998, a child up to 2 years old.

<sup>(c)</sup> Since 1998 for a child 2-3 years old.

1 EUR = 15.6 EEK.

Sources: Ministry of Social Affairs, Statistical Office of Estonia.

## 5. Conclusions

Major political changes and new economic challenges in the early 1990s called for flexible adjustment of the national economy and the labour market of Estonia.

From the viewpoint of general economic policies, Estonia has introduced liberal foreign trade, an annually balanced state budget, flat personal and corporate income taxes, subsidy-free agriculture and a currency board system. These features are not common in today's economies and Estonian economic development is a unique economic experiment. So far, from 1992-1997, the experiment has been relatively successful compared with other transitional economies. One result was that Estonia achieved 11.4 per cent GDP growth in 1997.

Legislative and institutional changes eased the way for employers to terminate employment contracts for economic reasons and to shorten the notice period of workers being made redundant, while introducing the unemployment benefit system and establishing the Labour Market Board in order to assist retrenched workers into re-employment. Subsidies for ailing enterprises were sharply cut, preventing the preservation of redundant jobs. Initially, enterprises were reluctant to lay off workers and used the options of unpaid administrative

<sup>16</sup> Monthly average is the estimated average according to the Pension Act. The average pension actually paid was lower than this until September 1996, as working pensioners received a partial pension. The average level of pension covers old age, disability and public pension.



leave, shorter working hours or delayed payment of wages. A sharp decline in real wages also helped to lower labour costs. Two years into transition, enterprises opted for more labour shedding. In order to develop a more flexible workforce and simultaneously avoid additional costs connected with redundancies, employers more often offered fixed-term contracts to new hires, or else made use of irregular contracts (contracts on agreement) and informal work agreements (informal hires). Workers' organizations were insufficiently organized to oppose these measures.

Employment and income protection was supposed to be solved by free-market forces (the ability of the economy to create new jobs) and supplemented for socially weak groups by income support through unemployment benefit and social welfare systems and by employment promotion policies. Strong economic recovery indeed created many new jobs, particularly for the more competitive industries and firms. Nevertheless, the number of newly created jobs was much lower than the number of destroyed jobs and total employment decreased considerably. Also, the income protection system and employment services have so far been weak on delivery, pushing less competitive groups into inactivity and poverty. This has been reflected in increasing general unemployment, large withdrawals of more vulnerable groups of workers from the labour market and an increase in informal employment.

An economy in transition is meant to be an economy "on the move". In the case of the Estonian labour market, this means a displacement of workers from "old" industries such as manufacturing and agriculture and the absorption of these workers (or many of them) into the service sector.

Among the Baltic countries, Estonia has seen the fastest changes in the employment structure by industry in the past few years, and it is now approaching the average indicators of the European Union. Another positive tendency for Estonia is that employment in manufacturing has decreased less than in the other countries. Also, the sharp increase in employment in the financial sector is a sign of its accelerating development.

A negative point is that the sharp fall in employment in agriculture may give rise to additional social problems in rural areas.

Prior to 1999, Estonia saw no explosive growth in unemployment during transition. In comparison with other Eastern European countries, unemployment growth in Estonia has been moderate. One possible explanation is that flows between labour market states have been relatively high. This leads to a tentative conclusion: massive unemployment has been avoided by rapid changes in the economy, generated by high labour turnover. Previous studies have found that both job creation and labour transition have been very high. Estonian job destruction and creation rates, when compared with those of the United Kingdom and the United States, are higher than the EU average. Also, as unemployment inflow and especially outflow rates are very high, it can be argued that high flows in the Estonian labour market accelerated job reallocation and paved the way for economic recovery and a moderate unemployment rate.

From the beginning of 1999 Estonia suffered a rapidly increasing rate of unemployment and by early 2000 it was clearly related to increasing structural unemployment. (Similarly, a part of cyclical unemployment, caused by external shocks such as the Russian crises, was also related to structural unemployment.)

The need to adjust national legislation and institutions to European Union standards in the process of EU accession, backed up by trade union pressure, is leading to improved employment and income protection of workers by state institutions, in the form of more intensive employment promotion assistance and income support, also targeting previously abandoned vulnerable social groups.

The governing labour market institutions in Estonia are the Ministry of Social Affairs and the Estonian National Labour Market Board, which is under the jurisdiction of the Ministry. The National Labour Market Board has had difficulty in strategy planning, because for several years this institution has faced the threat of reorganization and reform.

Undoubtedly, such uncertainty has had a negative impact on evolving labour market policy options for the future. It is necessary for Estonia to formulate a clearer vision on issues of labour market administration and general policy options. This will definitely be one very important precondition for joining the European Union.

Estonian labour policy is very restrictive compared with policies in Central and East European countries and in the EU, a situation that will seriously hinder its integration into the EU. Estonia needs a more generous unemployment benefits system. Estonian labour policy has been mainly passive, but since unemployment benefits are very low, the share of passive labour policy expenditures in total expenditure was relatively small, 49.9 per cent in 1998. However, the share of passive labour policy measures increased to 65 per cent in 1999, due to rapidly increasing unemployment.

The most widespread active labour market policy is labour market training. However, the number of participants in training programmes has decreased, for two reasons. First, the 1995 social security law concerning the unemployed stipulates that training can be provided only to those who are officially registered as unemployed. Second, the costs of training courses have increased considerably. Employment offices have been assigned the tasks of organizing temporary public works (community placement) for jobseekers and providing retraining allowances to jobseekers and labour market subsidies (wage subsidies) to firms. Active labour market policies in Estonia do not include any special measures to support either young people as first-time entrants into the labour market, or persons in long-term unemployment.

The collective bargaining system in Estonia is poorly developed at enterprise, branch and state level. There are deficiencies in legal regulation, but the main problem is an overall negative attitude towards trade unions and collective bargaining, a behest of the Soviet system. Soviet understanding of freedom of association differed remarkably from the European and American models. Thus, the development of legal regulation plays a critical role in redefining the goals of trade unions and in establishing the framework for collective bargaining. Today about 10-13 per cent of employees in Estonia are trade union members. At present there are two central trade union organizations in Estonia, which together have approximately 100,000 members, and only one confederation representing the employers' organizations, covering 6,000 enterprises (with approximately 200,000 employees).

Estonian law prohibits de facto the so-called "union security" clauses. Neither the law nor collective agreements are allowed to force a worker to join or not to join a union. Likewise, they may not demand payment of dues for a union to which the worker is not affiliated.

There are no direct legal sanctions regarding restricting freedom of association and administrative and criminal codes specify no punishment for hindering union activities. In theory, plaintiffs would resort to court action under a violation of either the Constitution or the Labour Law. In practice no such cases are brought to court because the laws are general and provide no direct protection. And labour inspectors supervise only the performance of labour contracts and labour protection and checking the hindering of an organization's operation is not included in their duties.

The Estonian labour market is covered by legal regulations and laws concerning general regulations of recruitment (including probation period) as well as termination of employment (required notice period from the employer and the worker; legitimate reasons for employment termination; severance pay and its eligibility and level. Other obligations of the employer to redundant and laid-off workers, such as internal redeployment, provision of training, short-time work, and the advancement of workers are not regulated by laws.

The chief problem of legal regulation of the labour market is that employers do not always enact regulations; in the private sector and in small firms, violations of working time, work safety and holiday regulations are particularly common. The low coverage of trade unions means that violations are often not investigated and workers' representatives cannot

protect workers. In addition, in a climate of high unemployment, employees do not initiate individual claims against employers for fear of losing their jobs.

Earlier studies show that the share of part-time workers is very low in most CEE countries. Workers in private sector employment frequently do not have collective agreements and working-time regulations are not followed. A first step in this direction would be for most of these countries to introduce trade unions and labour legislation in the private sector. The next step is the reduction of working time and flexible forms of work.

In the case of Estonia, information technology is comparatively well developed. The new forms of flexible working hours are relatively easy to introduce due to a high density of Internet connectivity, which would allow people working in the IT sphere to work at home.

In the years 1995-1999, demand and supply shocks were experienced right across the economy and have been mainly responsible for the rise of unemployment, while reallocation of labour, on the other hand, has not been important source of unemployment. The sharp decline of employment in the primary and secondary sectors was compensated with a relative increase of employment in the tertiary sector. Thus, labour reallocation and consequently restructuring has been reasonably successful in the Estonian economy. Openness, liberal economic policy and rigid monetary policy have resulted in rapid changes in the economic structure. In sum, reorientation in foreign trade and reorientation of the economy have been facilitated in Estonia by the smallness and flexibility of the country's economy.

## Annex 1: Main sources of information on labour market indicators in Estonia

Table A1.1 Summary table on the main sources of information on labour market indicators in Estonia

Source	Periodicity	Start of series	Nature of data	Sample size	Sampling procedure	Global representativeness	Possible bias in representativeness	Monitored indicators
<b>Labour Force Surveys</b> (a)	Yearly since 1997	1989	Sample survey					E, U, OLF of the entire population and major subgroups; hours worked; wages and salaries
<b>ELFS 95</b>		1989		≈ 10 000 individuals	Stratified Simple Random	Yes		
<b>ELFS 97</b>		1995		≈ 5 000 individuals	Cluster	Yes	Regionally not representative	
<b>ELFS 98</b>		1997		≈ 13 000 individuals	Cluster	Yes		
<b>ELFS 99</b>		1998		≈ 13 000 individuals	Cluster	Yes		
<b>Register of Estonian Labour Market Board</b>	Continuous	May 1993	Administrative	All registered unemployed jobseekers		Yes	Not ILO definitions	U, PLMP, ALMP, vacancies
<b>Population Register</b>	Continuous		Administrative	All residents		Yes	Short-term residents and illegal residents not covered	
<b>Population Census</b>		Last in 1989, next will be in 2000	Exhaustive survey	All residents		Yes		
<b>Survey "Wages and Salaries"</b>	Before 1997 quarterly, since 1997 monthly	3 <sup>rd</sup> quarter 1992	Sample survey	Before 1997: private enterprises with < 19 employees and all state and municipal enterprises Since 1997: Private enterprises with < 49 employees and all state and municipal enterprises	Stratified	Yes	Towards large firms	E, wages, labour costs
<b>Hourly Wages</b>	Annually	October 1993	Sample survey  Exhaustive survey	Enterprises, institutions and organizations with less than 19 employees (excluding enterprises and institutions in state and municipal ownership) All state and municipal enterprises and enterprises of other ownership form with more than 19 employees	Stratified simple random	Yes		Average number of full- and part-time employees, wages and salaries by industries and occupations.
<b>Household Budget Surveys</b>	Continuous	July 1995	Sample survey	4 890 households	Random sample of address persons	Yes		Income and expenditure

Note: (a) Analysing the time series, it should be borne in mind that these data originate from three sources and their comparability is reduced by the following circumstances, which influenced the way the survey were conducted:

1. The sample size was different for different ELFSs.
2. The sample frames for surveys were different. For ELFS 95 the sample frame was the database of the 1989 population census which, in view of the population changes in the meantime, was outdated and thus one source of errors. Many people had left Estonia, for instance, or had died. As the sample frame for ELFS 97 and ELFS 98, the Population Register was used. Although more up-to-date than the database of the population census, it still contains some errors and lacks some of the necessary information (persons who have left, incomplete data about place of residence, etc.)
3. The sample designs of the three surveys are different. With reference to sample, the results could be affected only by the errors of the sample frame described in previous paragraph, since regardless of the difference in sampling procedures the inclusion probability for all persons was eventually the same.

Abbreviations: E – employment; U – unemployment, OLF – out of labour force, PLMP/ALMP – passive/active labour market policies.

## Annex 2A: Vacations and holidays<sup>1</sup>

Minimum requirements on vacations are presented below. More favourable conditions for the employee can be set by the individual or collective employment contract. Concerning vacations, the part-time employee has the same rights as the full-time employee. The holiday period for a person with a second job must be granted sequential to that of the holiday period for the first (principal) job.

Title of the vacation	Entitlement	Length	Compensation	Exemptions
<b>Base vacation</b>	All employees who have worked at least for a year.	<p>28 days.</p> <p>For employees who have worked less than 1 year, the vacation is given proportionally with the worked time.</p> <p>Upon agreement the vacation is given in parts, the length of one part must not be less than 14 calendar days.</p>	<p>Employer pays to the employee 5/7ths of average daily wage for every vacation day.<sup>2</sup></p> <p>If the wage is based only on the time worked and fixed wage rate, the same wage is paid also for vacation.</p> <p>The employee has to be compensated in the amount of 5/7ths daily wages for every unused day of vacation.</p>	<p>The length of vacation must be:</p> <p><i>35 days</i> for –</p> <ul style="list-style-type: none"> <li>• minors;</li> <li>• disabled;</li> <li>• state and local government officials.</li> </ul> <p><i>56 days</i> for –</p> <ul style="list-style-type: none"> <li>• heads, researchers, academic staff, teachers, and other pedagogical specialists of universities, research institutions, schools and other child-care institutions;</li> <li>• pedagogical specialists of health-care institutions, children’s sanatoriums and adult welfare institutions.</li> </ul> <p>In the first year the full vacation (despite the actual worked time) must be given to:</p> <ul style="list-style-type: none"> <li>• minors,</li> <li>• disabled persons,</li> <li>• women before or after pregnancy or maternity leave,</li> <li>• men whose wives are on pregnancy or maternity leave,</li> <li>• employees who are partially incapacitated for work due to a work-related injury,</li> <li>• other cases prescribed by law, or employment contract.</li> </ul> <p>The compensation for minors and disabled persons for over 28 days vacation is paid from the state budget (social insurance budget).</p>
<b>Additional</b>	Employees in	<ul style="list-style-type: none"> <li>• 14 days for work in</li> </ul>	The same as for base vacation.	

<sup>1</sup> The Republic of Estonia Holidays Act (effective since 1 January 1993). For additional rights of civil servants concerning vacations see Subsection 2.2.3.

<sup>2</sup> By Government decree for calculating the average wage and vacation pay (effective since 25 December 1998).

Title of the vacation	Entitlement	Length	Compensation	Exemptions
<b>holiday (added to the base vacation)</b>	<ul style="list-style-type: none"> <li>• underground work,</li> <li>• work which poses a health hazard or work of a special nature<sup>3</sup></li> <li>•</li> </ul>	underground, <ul style="list-style-type: none"> <li>• 5-7 days for work that poses health hazard,</li> <li>• 5-14 days for work of a special nature.</li> </ul> The vacation period for less than 1 year worked is calculated proportionally.		
<b>Holiday without pay</b>	<ul style="list-style-type: none"> <li>• Woman raising a child under 14 ,</li> <li>• man (trustee) raising alone a child under 14,</li> <li>• lone parent (trustee, guardian), who is raising a disabled child,</li> <li>• an employee, who is admitted to the entrance examinations of the vocational institution, institution of applied higher education or university,</li> <li>• other cases prescribed by law, collective agreement, or employment contract.</li> </ul>	<ul style="list-style-type: none"> <li>• Up to 14 months in the first three cases listed in the previous column;</li> <li>• for entrance examinations – the time indicated in the statement of the educational institution.</li> </ul> In the other cases, the length of the vacation is agreed upon between the parties.		
<b>Partially paid vacation<sup>4</sup></b>		Up to 3 months		

<sup>3</sup> The Government decree of 22 January 1993 stipulates the list of these jobs and the terms for additional vacation.

<sup>4</sup> This may be applied in the case of temporary decrease of the volume of work or orders. Both the agreement of the employee and the consent of the local labour inspector is required and advance notice of at least two weeks.

<b>Pregnancy and maternity leave</b>	Women upon the presentation of medical certificate of pregnancy/maternity	70 days – pre-natal leave 56 days – post-natal maternity leave Both leaves are added together and given sequentially.	100% of the daily average wage is paid by the State. <sup>5</sup>	Maternity leave is 70 days in the case of multiple birth or delivery with complications.
<b>Adoptive parents leave</b>	An adoptive parent of a child less than 1 year old.	70 days beginning with the day of adoption.	The same as in the case of pregnancy and maternity leave.	
<b>Parental leave<sup>6</sup></b>	Mother or father of a child under 3. Actual guardians of a child under 3, if mother or father do not use the right for leave.	Maximum length of leave is 3 years.	The parent receives: <ul style="list-style-type: none"> <li>• Half of the child maintenance allowance<sup>7</sup> in every month for every child under 3;</li> <li>• a quarter of the child maintenance allowance for every 3 to 8 year old child.</li> </ul> Persons who are not parents but still on parental leave receive a compensation of half of the child maintenance allowance for every child with whom the person on the parental leave must be paid. The compensation must not exceed 1.5 times the child maintenance allowance. Compensations are paid by the State.	Parental leave is not granted if the child is wholly or partly maintained by the State.
<b>Additional child care leave (added to the base vacation and given jointly unless agreed otherwise)</b>	Mother or father, or trustee (if she or he is raising the child without parents) of one or more children under age 14, upon their request.	6 days, if parent has one child under 3, or 3 children under 14. 3 days, if parent has 1 or 2 children under 14.	For every day of leave, the State must pay compensation in the amount of 66 EEK (rate for the year 2000). <sup>8</sup>	Additional child-care leave is not granted if the child is wholly or partly maintained by the State.

<sup>5</sup> Medical Insurance Act (effective since 1 January 1992).

<sup>6</sup> The employment contract is suspended for the period of parental leave.

<sup>7</sup> Child maintenance allowance is fixed every year by the Government and is funded from the state budget (in 2000 it was 1200 EEK per month). The amount fixed cannot be lower than that of the previous year.

<sup>8</sup> The Government decree for calculating the average wage and vacation pay (effective since 25.12.98)



## **Annex 2B: Termination of the employment contract**

### **General provisions**

The Employment Contracts Act regulates the termination of labour contracts.

Bases for termination of employment contract are:

- agreement of parties;
- expiry of the term;
- the initiative of the employee;
- the initiative of the employer;
- the request of third parties;
- circumstances which are independent of the parties.

**General procedure** for termination of employment contract: Advance notice of termination must be written and expressed unconditionally. With the consent of the other party, the written notice may be waived. Upon continuation of an employment relationship after expiry of a term for advance notice, the parties shall not unilaterally terminate the employment contract on the basis of a previously presented application.

The entry regarding the term, reason and benefits on termination is inserted into the employment contract; the term is also entered into the record book (including reason, if so desired by the employee). The employer is obliged to return an employee's employment record book and pay the final settlement on the date of termination of contract. If the employee has refused to accept the record book and payment, the record book has to be returned upon the request of the employee and payment of final settlement has to be made within 5 days of the request.

Sole entrepreneurs are required to register termination of an employment contract with the local labour inspector during the week following the termination.

### **General sanctions to employers**

1. Upon **illegal termination of contract** on the employer's initiative: Employees have the right to demand reinstatement of their position, the reason they were dismissed and payment of their average wage for the period they were compelled to miss the work. If employees waive reinstatement, the employer is obliged to pay compensation in the amount of six months' average wage.
2. Upon **delay of return of the employment record book and the delay with final settlement**: Employee has the right to receive average wage for every day the return of the record book was delayed. Compensation for delaying the final settlement is calculated as the sum of the employee's average daily wage for every day of delay, but not more than 1 month's average wage.
3. Upon **violation of the notice period**: An employer who releases an employee without her or his written consent prior to the term for advance notice must pay compensation in the amount of the employee's average daily wage for every working day short of the term of advance notice.

**Table 2B.1. Dismissal\***

\* None of the guarantees set out below are applicable upon termination of an employment contract with persons in a second job.

Reason for dismissal	Notice period	Severance pay	Procedural obligations	Sanctions	Exemptions
<b>Liquidation of enterprise</b>	Not less than 2 months	Compensation to employees who have been employed continuously: Up to 5 years: 2 months' average wage 5-10 years: 3 months' average wage 10 and more years: 4 months' average wage	Information regarding the number, occupation, age and sex of the released employees has to be submitted to the local employment office.  Written notice of the reason for termination of contract and the measures taken to provide work to employee must be sent to the worker's representative.		Termination of contract with women who are pregnant or raising a child under 3 is only allowed with the consent of the local labour inspector.
<b>Bankruptcy of the employer</b>		Same as for liquidation.  If there are not enough assets to pay the employee's compensation and other claims, the payments are made out of national funds. In this case, compensation paid is up to employee's 3 months' average wage but not more than 3 months' wage of the State's average. <sup>1</sup>	Termination of contract is allowed after the bankruptcy order is issued.  If enterprise has not enough money, then compensation is paid by the State.  Information regarding the number, occupation, age and sex of released employees must be submitted to the local employment office the day after the termination of contract.		Same as for liquidation.
<b>Lay-off<sup>2</sup></b>	Notice period to employees who have been employed continuously: Up to 5 years: not less than 2 months 5-10 years: not less than 3 months 10 and more years: not less than 4 months	Same as for liquidation.	Information regarding the number, occupation, age and sex of the released employees must be submitted to the local employment office.  Written notice of the reason for termination and the measures taken to provide work to employee must be sent to the worker's representative		Notice period to worker's representative must be 1 month longer.  Termination of contract with women who are pregnant or raising a child under 3 is not allowed. The contract of minors can be terminated

<sup>1</sup> Bankruptcy Act (effective since 1 January 2000).

<sup>2</sup> If the number of workers laid-off during 3 months is 10-20 and their redeployment is not guaranteed, the worker's representative may stop the termination of contract up to 1 month. If the number exceeds 20, the termination may be stopped for up to 3 months.

Reason for dismissal	Notice period	Severance pay	Procedural obligations	Sanctions	Exemptions
			Employer is required to offer another position to the employee if possible. Employers with vacant positions are obliged to re-employ released workers on demand within 6 months.		only with consent of labour inspector.  Preferential right to stay employed is given to: 1. Representatives of employees; 2. Those for whom the work is their principal job.
<b>Unsuitability of an employee due to professional skills or health</b>	Not less than 1 month		Written notice of the reason for termination and the measures taken to provide work to employee must be sent to the worker's representative.  Termination is allowed if it is not possible to offer another position or if employee refuses an offered position.		Notice period to worker's representative must be 1 month longer.  Termination of contract with women who are pregnant or raising a child under 3 is not allowed. The contract of minors is allowed to terminate only with consent of labour inspector.
<b>Unsatisfactory results of a probation period</b>			The employment contract might be terminated within the probation period, including the last day of probation period.		Same as for liquidation.  Termination of contract with minors is not allowed.
<b>Breach of duties of an employee</b>			An employer is required to adhere to the procedure prescribed by law for imposing disciplinary punishments for terminating the contract. <sup>3</sup>  Disciplinary punishment is imposed within 6 months after the date of the offence, but not later than 1 month after becoming aware of the offence. If the offence is proved by findings of an inventory, review, audit, etc., then punishment may be imposed within 1 year after the offence,		Same as for liquidation.

<sup>3</sup> Employees Disciplinary Punishments Act.

<b>Reason for dismissal</b>	<b>Notice period</b>	<b>Severance pay</b>	<b>Procedural obligations</b>	<b>Sanctions</b>	<b>Exemptions</b>
			but not later than 1 month after the results of an inventory, review, audit, etc., are formalized.  Disciplinary punishment must be formalized in two identical written documents, of which one is given to employee.		
<b>Loss of trust in an employee</b>			Same as for breach of duties of an employee.		Same as for liquidation.
<b>Indecent act of an employee</b>			Same as for breach of duties of an employee.		Same as for liquidation.
<b>Long-term incapacity for work of an employee</b>	Not less than 2 weeks		Written notice of the reason for termination and the measures taken to provide work to employee must be sent to the worker's representative.		Termination of contract with women who are pregnant or raising a child under 3 is not allowed.
<b>Age of an employee (if person is 65 years old and has right to full old-age pension)</b>	If the employee has been employed continuously - For less than 10 years: 2 months For more than 10 years: 3 months	Same as for liquidation.			Termination of contract with women who are pregnant or raising a child under 3 is not allowed.
<b>Hiring an employee for whom the position is a principal job</b>					
<b>Corruptive act of an employee</b>					Termination of contract with women who are pregnant or raising a child under 3 is not allowed.

## Table 2B.2 Termination of employment contract by the employee

General sanctions to the employees upon the **violation of the notice period**. Employee who has left without authorization prior to the expiry of the term for advance notice has to pay compensation in the amount of the employee's average daily wage for every working day short of the term of advance notice, if the employer demands it.

Reason	Notice period	Severance pay	Procedural obligations	Sanctions	Exemptions
<b>The request of an employee in case of unspecified term contract</b>	In general 1 month. In case of probation period 3 days.				
<b>The request of an employee in case of specified-term contract before the term has expired</b>	At least: 2 weeks in the case of a contract 1 year or more; 5 days in the case of less than a 1-year contract; 5 days if the reason for termination is illness, disability, need to care for a family member who is ill or disabled, or commencement of studies, which hinders the continuation of work. It applies also to a woman raising a child aged under 3.		In the case of illness, disability, need to care for a family member who is ill or disabled, the employee must present written proof of the reasons for terminating the contract.		In the case of the specified-term contract with special benefits, the employee has the right to terminate the contract only in case of illness, disability, need to care for a family member who is ill or disabled (with a notice period of 5 days). Reasons other than this do not permit termination of a contract with special benefits on the initiative of the employee.
<b>The violations of contractual terms by employer, changes in production or work organization</b>	5 days	In the case of contract with unspecified duration – 2 months' average wage; In the case of contract with specified duration – average wage until the expiry of contract, but not over two months' average wage.	The contract is terminated from the day after the changes have been implemented.		
<b>The assumption of the employee to elected office</b>			The contract is terminated at the request of an employee not later than date directly preceding the date of assuming duties.		

**Table 2B.3 The expiry of the term**

<b>Reason</b>	<b>Notice period</b>	<b>Severance pay</b>	<b>Procedural obligations</b>	<b>Sanctions</b>	<b>Exemptions</b>
<b>The expiry of the term</b>	For the employer: 2 weeks before the expiration of the term in the case of more than one-year contract; 5 days before the expiration of the term in the case of less than one-year contract.  For the employee is 5 days before the expiration of the term.		If employee has not given notice to employer and is absent from the work next day following the date of the term, employer is obliged to return an employee's employment record book and pay the final settlement during the five days after the employer's request.	Upon the violation of notice period, employer has to pay compensation in extent of daily wage for every day short of the period of advance notice.	Excluding workers who are employed with specified term to substitute for the absent worker.

**Table 2B.4 Termination of employment contract on the request of third parties**

<b>Reason</b>	<b>Notice period</b>	<b>Severance pay</b>	<b>Procedural obligations</b>	<b>Sanctions</b>	<b>Exemptions</b>
<b>Working endangers minor's health, morality or education</b>	.	One month's average wage of the minor.	Contract is terminated upon the request of a parent, guardian or local labour inspector.		

**Table 2B.5 Termination of employment contract independent of parties**

<b>Reason</b>	<b>Notice period</b>	<b>Severance pay</b>	<b>Procedural obligations</b>	<b>Sanctions</b>	<b>Exemptions</b>
<b>Conscription or entry into active service</b>		2 weeks' average wage is paid by the State.			
<b>Entry into force of conviction by court</b>					
<b>Violation of the rules for hiring</b>				Employer must offer other work to employee if the violation is his fault. In addition he must pay compensation in the amount of 3 months' average wage of the employee.  If the employee commits the violation, it is obligatory to pay 1 month's average wage as compensation.	
<b>The contract with close relative or relative by marriage</b>					
<b>Death of employee</b>					
<b>Death of employer if employee is hired for personal services</b>					

### **Annex 3: Legal regulation of the work environment**

The Estonian Labour Inspection's 14 Regional Inspectorates inspect enterprises' working environment, offer guidance and counselling to improve health and safety at the workplace and oversee how the relevant laws are observed in practice. Based on labour inspection data, the observance of following laws is analysed:

1. Labour Protection Act
2. Wages Act
3. Working and Rest Time Act
4. Employment Contracts Act

In 1998 the working conditions and the rules for product safety were controlled in 4,775 enterprises (3,832 in 1997). As a result, 42,169 improvement notices were issued (40,392 in 1997). Also in 1998, labour inspectorates began an evaluation of the work environment by test methods in 2,178 enterprises. This inspection process indicated the following issues:

#### **The work organization of working environment**

The condition of all working environments depends on the attention paid to the organization of work in guaranteeing safety and health at workplace. Inspection data found that:

- in 1,175 (54 per cent) of the evaluated enterprises the health and safety norms were observed, in 626 (29 per cent) enterprises some minor violations were discovered and that 377 (17 per cent) of the enterprises did not follow the rules for safety;
- the rules for training and guidance for workers about safety and health at workplace were violated in 1,442 (67 per cent) enterprises;
- the work organization of the working environment has improved in 1,383 (64 per cent) of the enterprises evaluated, in 543 (25 per cent) minor shortcomings existed and in 251 (11 per cent) of enterprises the work organization was not acceptable.

Due to poor organization of work, defective workplaces and lack of supervision, 7 workers died and 60 were seriously injured. The ignorance of elementary safety rules due to defective training and guidance was related to 185 occupational accidents, 13 of which resulted in death and 172 in serious health injuries.

#### **Safety at work**

In 615 (28 per cent) of the enterprises evaluated, the workplaces were safe (mainly new or reconstructed buildings); in 532 (25 per cent) no violations were discovered but recommendations were made for improving the safety of workers; in 674 (31 per cent) some violations of workplace safety rules were found; and in 356 (16 per cent) of enterprises many workplaces did not meet rule standards. Violation of workplace safety rules resulted in 6 workers being killed and 87 seriously injured.



## Annex 4A: Development prospects of employment and education

### SWOT analysis of the national Employment Action Plan

<b>Strengths</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>• Rapid restructuring of economy as a result of which the employment structure has become similar to indicators in developed countries;</li> <li>• Existence of labour market institutions and network of employment offices;</li> <li>• National system of qualifications is being set up;</li> <li>• Labour force surveys are being organized and statistical data is collected regularly in Labour Market Board;</li> <li>• Tripartite cooperation functions on the national level;</li> <li>• Employers are well organized on the national level.</li> </ul>	<ul style="list-style-type: none"> <li>• Employment is a Government priority and there is political will to solve employment problems;</li> <li>• Public interest towards education and quality educational services increases;</li> <li>• Public awareness is increasing on the development of retraining and in-service training systems for employees and the principle of lifelong training;</li> <li>• Development of counselling and information systems,</li> <li>• Involvement of labour market institutions in international cooperation programmes;</li> <li>• Support to enterprise development and setting up a business start-up support system; Modernization of legislation;</li> <li>• Development of flexible forms of employment;</li> <li>• Relatively high level of education of employable population.</li> </ul>
<b>Weaknesses</b>	<b>Risks</b>
<ul style="list-style-type: none"> <li>• Fall in employment levels and rise in unemployment;</li> <li>• Deficiencies in the analysis and strategic planning systems on changes in the labour market;</li> <li>• Large share of hidden unemployment;</li> <li>• Inconsistent regional development and resulting regional differences in employment levels;</li> <li>• Rise in dropout levels from basic schools;</li> <li>• Underestimation of the importance of vocational education for economic development;</li> <li>• Increase in the number of general secondary school graduates and a fall in the number of vocational school graduates;</li> <li>• Inconsistent quality of vocational education and incompatibility with labour market requirements;</li> <li>• Non-conformity of curricula to labour market requirements;</li> <li>• Insufficient development of labour market institutions, number of employees and underfunding;</li> <li>• Dominance of passive labour market measures;</li> <li>• Low image of employment offices;</li> <li>• Poor awareness and lack of cooperation between institutions for solving employment problems;</li> <li>• Slowness in launching programmes targeted at labour market risk groups;</li> <li>• Social dialogue is poorly developed at the sectoral and company level;</li> <li>• Poor participation of workers in trade unions;</li> <li>• Loopholes in and lack of legislation;</li> <li>• Poor public awareness of gender equality problems.</li> </ul>	<ul style="list-style-type: none"> <li>• Domination of risk groups (long-term unemployed, inactive, young, non-Estonians) in the labour market;</li> <li>• Deepening poverty of population;</li> <li>• Rise in crime levels;</li> <li>• Slowdown in economic growth and fall in budget funds;</li> <li>• Low mobility of workers.</li> </ul>

## **Annex 4B: Development of systems to support employment and training (Extract from the first Estonian Employment Action Plan, 1999)**

To support measures developed under this programme, emphasis is placed on the development of the following support systems and measures:

### **Increase the efficiency of state labour market institutions**

The organization of the activities of labour market institutions and increasing their efficiency is an essential prerequisite if planned objectives are to be achieved. In developing support institutions the following measures are necessary:

#### *4.5.1 Clear distribution of duties between policy-making and executive institutions*

The specific duties of the Ministry of Social Affairs and the Labour Market Board shall be clearly defined and the employees of those institutions shall be regularly trained in the field of labour market and EU development trends and experience.

#### *4.5.2 Enhancement of the quality and range of services provided by state employment offices*

In all state employment offices, the provision of services on a standard basis and their quality shall be ensured. Free consultation for employers on problems and possibilities to employ persons with disabilities shall be developed as a new employment measure. The information system of state employment offices shall be developed further and it shall be linked to the vocational counselling information system that is being set up.

#### *4.5.3 Implementation of a tripartite principle in planning the work of state employment offices*

Tripartite employment councils shall be set up at county employment offices in cooperation with representatives of workers' and employers' organizations. Depending on the regional employment situation, the duties of these councils are to make proposals for increasing the efficiency of state employment offices, including determining the share of various active employment measures in budgeting, and ordering re-training and in-service training for the unemployed.

#### *4.5.4 Strengthening cooperation with organizations that are involved in labour market issues*

Cooperation of state employment offices with business people, employers' branch associations, business centres and local governments shall be enhanced. A legal basis shall be established for setting up private employment offices.

#### *4.5.5 Public awareness campaign*

The public shall be informed about services provided by state employment offices and labour market legislation through media channels and the Labour Market Board shall publish quarterly information booklets.

## **Development of infrastructure**

### *4.5.6 Establishing a network of employment centres for young people*

### *4.5.7 Development of regional training centres on the basis of existing vocational educational institutions in cooperation with social partners*

The aim is to integrate the training of young people and adults on the basis of vocational educational institutions by developing selected institutions to regional training centres and providing them with the necessary materials and technical basis (as opposed to setting up parallel systems). Reorganization and optimization of the network of vocational educational system and the modernization of equipment and infrastructure enables to consolidate the limited resources. The experience gathered in the framework of a Phare pilot project in three regional centres shall be extended to other regions with the aim of improving the quality and quantity of in-service training in respective educational levels. It shall include the development of additional module courses, courses on management quality, business, product development, information technology, modernization of learning aids, training of staff and work practice, diversification of training methods, including the use of distance learning, based on vocational standards and the labour market situation. In addition, libraries to provide modern Internet-based services shall be set up in these centres. Simulation workplaces shall be set up to enable young people and adults to obtain professional practice.

### *4.5.8 Optimization of the network of agricultural vocational educational institutions*

Selected schools shall become centres providing agricultural education for both primary and in-service training. They shall include the necessary practice bases that will also be available for the use of other schools. It is important to diversify the content of training courses, taking into account the significant fall in the number of persons employed in agriculture in Estonia. Development of new curricula and materials shall be supported by investments in staff training, buildings and equipment (including information technology).

### *4.5.9 Modernization of the technical basis of vocational educational institutions with the aim of ensuring provision of training at the level of vocational secondary and higher education*

In order to conform to employers' needs, especially taking account of the development of information technology and competitive ability in the EU, investments shall be made for the implementation of curricula that conform with vocational higher education standards. In selecting schools and professions account shall be taken of the needs of growing industries and geographical location. To enhance the quality of the learning process in public universities, libraries shall be provided with educational and research materials and the laboratory facilities of public universities shall be expanded.

### *4.5.10 Modernization of the infrastructure of selected schools*

This shall be provided if the existing infrastructure fails to ensure that training conforms to the needs of trainees and the economy. In renewing the infrastructure of educational institutions, conditions shall be created to ensure that persons with special needs have access to training.

### *4.5.11 Training of trainers*

A highly qualified and motivated teacher is a prerequisite for implementing the new curricula in schools. The measure includes the development of programmes in the field of primary training of vocational trainers and systematic in-service training in cooperation with universities, applied higher educational institutions and employers. The programmes shall

include technical and technological aspects, modern pedagogy and methods for training adults and persons with special needs. Shorter training modules shall be created to give pedagogical skills for managers of work practice.

In the field of higher education, in-service training programmes of teaching staff in universities shall be expanded with a focus on introducing active teaching methods. Exchange programmes of students and teaching staff shall be supported.

## **Information systems**

### *4.5.12 Development of a vocational counselling system for young people and adults*

A vocational counselling system shall be set up in addition to the planned information system of vocational education and vocational counselling to be implemented in 1999. A coordinating body shall be determined with the responsibility of supporting county vocational counselling centres and to publish materials for supporting the work of vocational counsellors. In addition, professional vocational counsellors shall be trained.

### *4.5.13 Development of a database on in-service training and training courses*

This database shall include information on opportunities to undergo in-service training provided by public and private institutions. Access to the database will be ensured via the Internet. The database shall be part of the planned information system on vocational education and vocational counselling. On the basis of database information, a regularly updated catalogue on in-service training and training courses shall be published and widely distributed.

### *4.5.14 Implementation of the information system of educational institutions in all schools, including vocational educational institutions*

Full implementation of such an information system shall enable the supervision of the use of EU Structural Funds on the basis of projects.

### *4.5.15 Setting up a system of monitoring graduates from vocational educational institutions*

The monitoring system shall be set up with a view of assessing the adequacy and quality of training.

### *4.5.16 Establishing a national register of professions for the registration of obtained professions*

The register shall be a means of collecting national information and shall support the preparation for the EU system of mutual recognition of professional qualifications. The activities shall be carried out in the framework of the national system of qualifications that is being planned and implemented.

### *4.5.17 Development of support institutions*

These institutions shall also be developed in the tertiary sector to support ministries, educational institutions and other partners in implementing complicated and extensive projects in the field of EU Structural Funds.

## **Development of social dialogue**

### *4.5.18 Creating a favourable environment for employers' and workers' organizations*

Preparation of legislation for regulating the status, function and role of workers' and employees' organizations and functioning mechanisms in social partnership shall be continued, including

- adoption of a new Trade Unions Act for the enhancement of trade union structures and for specification of the role and function of trade unions in society
- preparation of a Social Partnership Act to lay down legal status of tripartite agreements and to fix the organizational forms of cooperation between the Government and labour market partners.

Registration requirements that unjustifiably restrict the organization of social partners shall be removed. Legal acts that regulate the activities of trade unions in the Republic of Estonia shall be harmonized with the principles of freedom of association stated in international agreements that are binding to the Republic of Estonia (ILO Conventions Nos.87 and 98).

Income incurred from membership fees and contributions to workers and employers' representative organizations shall be made exempt from income tax. The possibility of also tax-exempting the assistance paid to trade union members on account of income incurred from other sources that are used to develop core activities, and from funds set up from trade union membership fees, will be discussed.

### *4.5.19 Strengthening representative organizations of social partners*

The membership of social-partner organizations shall be trained for the promotion of social dialogue.

### *4.5.20 Development of labour market democracy*

Collective bargaining on all levels (national, sectoral and company level) in the field of social and employment policy shall be continued.

- The need for entering into collective agreements shall be emphasized including the preparation and amendment of legal acts concerning collective employment relations.
- Worker representation and involvement in the information, consultation and decision-making process shall be promoted.
- The role of the Social Economic Council shall be further emphasized.

## **Development of flexible forms of employment**

Use of flexible forms of employment is an important means for integrating risk groups into the labour market. This applies predominantly to young people who wish to be employed during their studies, parents raising small children and the older workforce.

### *4.5.21 Heightening employers' awareness and use of flexible forms of employment*

Part-time work, homework, distance work and work on the basis of a sliding work schedule shall be promoted. Measures shall be taken for raising awareness on the employment legislation regulating this field by media channels, workshops and client events.

#### *4.5.22 Further development of social security schemes*

Social security schemes shall be developed further to extend the insurance coverage to part-time workers on the same principles as full-time workers, taking their working time or wages proportionally into account for the calculation of benefits.

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