

# Decent Work Country Report - Estonia\*

by

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# 1. The economic and social context

In recent years the economic growth has been rapid in Estonia. When comparing years 1996 and 2006, the GDP in current prices has increased 3.7 times and reached to more than 200 billion EEK (13.2 billion EUR) in 2006. Since 2001 the real GDP growth rate has constantly exceeded 7%, peaking at 11.2% in 2006. In 2007 the economic growth has slowed down a bit: while in the first quarter the economic growth was almost 10%, it decreased to 7.7% in the second quarter. Although the economic growth has shown some signs of slowing down in Estonia, it is still more than twice as high as the average figure of EU, which was 3% in 2006.

Moreover, the Estonia has improved greatly in relative terms as well. The GDP per capita in purchasing power standards was approximately 40% of the EU-27 average in 1997; in 2006 the figure was already 68% and Eurostat's forecasts for the 2007 and 2008 are 72.5% and 76.6% respectively. If these projections appear to be adequate, Estonia will have improved its relative GDP position almost twice. This asserts that Estonia has recently experienced unusually high economic growth that is not in common to EU as a whole. At the same time the labour productivity per person employed has increased too: in 1997 the labour productivity constituted 40% of the EU average, by 2006 it had reached to 64%. According to Eurostat forecast the figure will be 71% in 2008.

As a general rule, the wages also increase with the increase of labour productivity in economy. This applies to Estonia, where the wage increase has been rapid in Estonia. With only in six years the average monthly gross and net wages have almost doubled. In 2006 the average monthly gross wage reached to 9400 kroons (approximately 600 EUR) and was 16% higher than in 2005. However, the excessive wage increase in comparison with the increase in productivity may cause pressure to the acceleration of the inflation, as money supply increases faster than increases the amount of goods and services in the economy. This trend is observable in Estonia, too: the wage growth has exceeded the average productivity growth and the inflation rate has increased in recent years.

The economic growth in recent years has grounded to a great extent on domestic demand. The growth rates of individual consumption and investment have remarkably exceeded the growth rate of GDP. Both of these indicators have been financed mostly by borrowed money, ie by foreign saving. This has enabled Estonians to increase their living standards, but has lead to the price increase of consumption goods and real estate. It is estimated that due to the decrease in lending and increasing interest burden the growth of domestic demand should stabilize in subsequent years.

Since regaining the independence in 1991 the government has implemented the conservative budgetary policy. The general government revenue has been in surplus since 2001, when the revenues exceeded the expenditures by 333 million EEK. From 2003 to 2005 the surplus was 2-3 billion EEK and peaked at 6.7 billion EEK in 2006.

The figures show that loan burden has increased vastly in Estonia, especially in recent years. In 2006 the gross external debt was comparable to the GDP (200 billion kroons), whereas governmental debt was only 4.7 billion kroons. The growth rate of the government debt has been clearly below the gross external debt: compared to

1997 the government debt has increased by 70%, whereas the gross external debt has increased 4.3 times.

The international investment position has been in deficit for the whole period under observation. In recent years the direct investment has increased notably vastly in Estonia: the figure was 115 billion (77% of GDP) in 2004, 168 billion (96% of GDP) in 2005 and 194 billion (94% of GDP) in 2006. Compared to 1997 the direct investment had increased more than 10 times by 2006. The foreign direct investment inflow has exceeded the outflow for all the period under observation. Even in 1999 when Estonia experienced great difficulties due to the Russian crisis and the foreign direct investment outflow increased and inflow decreased, the balance was still positive. In 2003 and 2005 the foreign direct investment inflow increased remarkably vastly: the growth was almost 3 times compared to previous year. Accession to EU has clearly accelerating effect. However, in 2006 the figure decreased by 40%, still exceeding the level on 2003. The foreign direct investment outflow has increased in recent years, too. It is likely caused by the fact that due to the higher labour costs Estonia is losing its competitive advantage as a country of cheap labour. This has motivated those foreign investors, whose competitive advantage was based for the most part on cheap labour in Estonia, move their business to other countries.

The current account has been in deficit since 1994 in Estonia. Due to the consumption boom and increased investment activity the current account deficit has increased especially vastly in recent years: compared to 1999 when the deficit was about 5% of GDP, in 2003-2005 deficit reached already to 11% of GDP and 2006 to 14%. As prognoses predict slow down in general economic activities in 2007 and 2008 expected deficit will also decline gradually.

The import has constantly exceeded to export in Estonia, too. Similarly to the current account the import-export gap has increased vastly in recent years: from 1996 to 2001 the figure fluctuated in the range of 13-17 billion EEK, but from 2001 to 2006 has showed upwards trend peaking at 46 billion EEK in 2006. Nevertheless, the growth of the export of the goods and services in current prices was almost 24% in 2006 compared to previous year, while the import growth rate was 29%.

The inflation rate has fluctuated quite remarkably during the period 1997-2006 in Estonia. In 1997 the figure peaked at more than 11%. In subsequent years the indicator decreased until 2003 (with the exception of 2001) when the figure was at the lowest level at 1.3%. From 2004 to 2006 the inflation rate has shown an increasing trend again, reaching to 4.4 percent in 2006. In the first half of 2007 the advantageous demand environment fostered the increase of inflation rate, which exceeded 6% in July and was 7.2% in September.

In recent years the increase of the inflation rate has been mainly driven by the growth of domestic demand. As Estonian commercial banks have access through their mother banks to cheap credit resources in Scandinavia, the loans growth has been very high in Estonia (in average 50% per year during 2004-2006). This credit boom caused real estate sector and construction boom, which were main sectors in vast economic growth in 2006 (real GDP growth was about 11% per year). Such overheated economy put extra pressure to wage increase and all these factors accelerated inflation

rate. Also external factors, like oil price increase and raw material price increase have pushed inflation up in Estonia.

The Estonian labour market recovered from the shock caused by the structural changes in the whole economy after regaining the independence in early 90s not until late 90s. The number and the relative importance of employed in the primary sector has decreased within the whole transfer period and by now approximately 5% of the employed are engaged in this sector. The relative importance of the employed of the secondary sector has been stable at 1/3 and the importance of the tertiary sector has increased (more than 60% by now).

In Estonia the labour market situation in general can be described by relatively low average labour participation rate and high female participation rate. Estonia has not been able to meet the Lisbon strategy objective to increase the overall employment rate to 70%; the figure has been relatively constant over the period 1997-2006, fluctuating between 60 and 65%. However, the female employment rate has increased from 57% in 2000 to 62% in 2006 and by now meets the Lisbon target (60% by the year 2010). The employment rate to older workers has increased substantially and exceeds the Lisbon target (50%).

Labour market was described by the decrease in employment rates and increase in unemployment rates until 2000. This trend was not even changed in 1997 which was an extraordinarily successful year in Estonian economy (or in 1999 when there was recession). After the Russian financial crises (1998) the unemployment rate increased rapidly, peaking at 13.6% in 2000. Due to the rapid economic growth, the high unemployment that prevailed during the first years of the new millennium has decreased sharply in recent years, reaching to 4,7% in 2007. The employment rate, which was 54.7% in 2000, was almost 62% in 2006<sup>1</sup>.

The recent developments in labour market can be characterized mainly by the increase in labour demand which has been accompanying with the favourable economic conditions prevailing in recent years. The rapid economic growth that Estonia has experienced since the new millennia has supported the creation of new jobs and the high unemployment rate has degressed drastically. In some sectors we can see even shortage of labour. Several entrepreneurs, who use local low-skilled labour, have emphasized that labor shortage, by exerting pressure to increase wages, motivates them to move the production from Estonia to third world countries.

When compared to the employment rates of the most successful EU member states, we have to admit that Estonia has free manpower to further promote the employment as there are relatively many inactive people that are at the moment not participating in the labour market (ie are inactive). In 2006 the number of inactive persons was practically at the same level as in 1997 – 256 000. This number is distressingly high when taking into consideration that the population aged 15-64 is 917 000 in Estonia. To guarantee that the supply meets the demand in labour market, the government has planned to further promote the integration of the inactive persons to the labour market by providing necessary active labour market programs for unemployed and inactive

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<sup>1</sup> If we take those who are in working age group (16 till pension age) then the employment rate was 70,1%

people to help them to improve their skills and acquire the qualification that employer needs today. In addition to promotion of active labour market services and attending the attention to the specific target groups, government plans to increase the financing of the labour market measures. The EU structural instruments have helped to considerably increase the funding of the active labour market programs: while the figure was 0.08% of GDP in 2004, it had reached to 0.14% by 2006.

## 2. Trends in working and employment conditions

### 2.1. Contracts of employment

There are no data available to estimate in which extent the workers on full-time status consider their employment opportunities to be precarious due to the changes in economic environment. Therefore, in following sections we concentrate on the analysis of general trends of the different non-standard employment contracts and identifying the risk groups in Estonian labour market without an emphasis of the questions regarding the precariousness of these employment contracts from the employees' point of view.

#### *Full-time vs part-time employment*

The full-time regular employment contracts (with no time limit) clearly prevail in Estonia. The incidence of part-time work is quite low when compared to EU-15 countries and is comparable to the average figure of new member states. More than nine out of ten workers are employed in full-time basis in Estonia and this ratio has been quite stable over the period under observation (see table 1).

**Table 1. Proportion of the employed (%)**

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
M&F	Full/part-time job total	100	100	100	100	100	100	100	100	100	100	100
	Full-time job	90,8	92,4	91,4	92,1	90,7	91,8	92,3	91,5	92	92,2	92,2
	Part-time job	9,2	7,6	8,6	7,9	9,3	8,2	7,7	8,5	8	7,8	7,8
	.. underemployed	..	..	..	..	2,8	2,8	2,1	2,4	2,2	1,8	1,5
M	Full/part-time job total	100	100	100	100	100	100	100	100	100	100	100
	Full-time job	92,6	94,5	93,9	94,2	94	94,9	95,2	94,6	94,6	95,1	95,7
	Part-time job	7,4	5,4	6,1	5,8	6	5,1	4,8	5,4	5,4	4,9	4,3
	.. underemployed	..	..	..	..	2,4	2,1	1,9	2,2	1,9	1,1	0,9
F	Full/part-time job total	100	100	100	100	100	100	100	100	100	100	100
	Full-time job	88,8	90,2	88,9	89,9	87,2	88,7	89,3	88,2	89,4	89,4	88,7
	Part-time job	11,2	9,8	11,1	10,1	12,8	11,3	10,7	11,8	10,6	10,6	11,3
	.. underemployed	..	..	..	..	3,3	3,4	2,2	2,6	2,5	2,4	2,1

Notes: M- males, F -Females

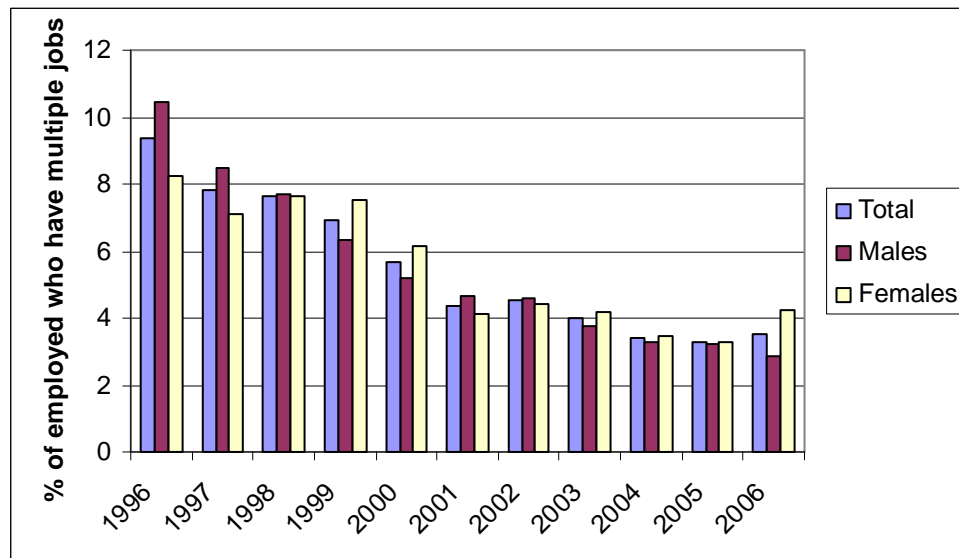
underemployed are people who work involuntarily as part-time workers

Source: Estonian Statistical Office

When compared to most of the EU countries, the incidence of temporary employment is extremely low in Estonia: only 2-3% of employed are working on temporary basis. Part time work is more common among females.

### Multiple jobs

The share of employed persons with more than one job among all employed has decreased steadily in Estonia. The percentage of employed having multiple jobs is not remarkably different among males and females (see figure 1).



**Figure 1.** The percentage of employed having multiple jobs by gender in Estonia.  
Source: Estonian Statistical Office

However, the analysis by the status in employment of the second job indicates that men tend to be much more often self-employed than women (see table 2).

**Table 2.** Proportion of the employed persons with more than one job by gender and status in employment of second job (%).

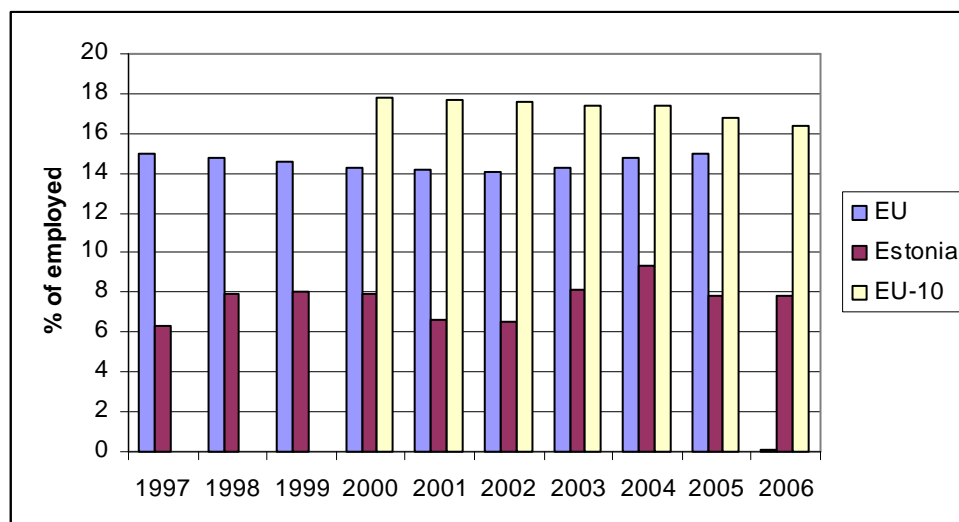
		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
M&F	Total	100	100	100	100	100	100	100	100	100	100
	Employees	72,1	71,4	73,9	72,9	74,7	76,2	71,4	73	76,3	74,1
	Self-employed*	27,9	28,6	26,1	27,1	25,3	23,8	28,6	27	23,7	25,9
M	Total	100	100	100	100	100	100	100	100	100	100
	Employees	63,7	63,9	64,9	61	71,6	67,1	60,5	63,9	69,1	61,1
	Self-employed*	36,3	36,1	35,1	39	28,4	32,9	39,5	36,1	30,9	38,9
F	Total	100	100	100	100	100	100	100	100	100	100
	Employees	82,8	79,3	81,9	83,3	78,2	85,9	81,7	81,8	83,2	82,9
	Self-employed*	17,2	20,7	18,1	16,7	21,8	14,1	18,3	18,2	16,8	17,1

\* M – males; F – females.

Source: Estonian Statistical Office

## Self-employment

The incidence of self-employment is quite modest in Estonia. Less than one out of ten employed is working as a self-employed in Estonia. This figure is approximately half as high as in EU and EU-10 on average.



**Figure 2.** The incidence of self-employment as a percentage of employed.  
Source: Eurostat, authors' calculations.

When comparing the incidence of self-employment among males and females, the data indicates that while in population there are more women than men and the ratio of females and males is about the same among employees, in self-employment there is twice as many males compared to females.

Statistics Estonia analyzed different aspects of self-employment in 2006. According to the survey the main activities among self-employed people are agriculture, hunting and forestry and retail and wholesale trade; repair of motor vehicles, motorcycles and personal and household goods. Sole proprietors and employers with employee(s) are working in different fields. For example in 2004 31% of employers with employee(s) were involved in trade and repairs and 24% of them in manufacturing. The main activities among sole proprietors were agriculture and real estate, renting and business activities. The most common type of self-employed is a couple with two children. The analysis reveals that people tend to start their own business when they are older and have more experiences. One of the most important conclusions emerging from the analysis was the fact that the ratio of poor (measured as a at-risk-of poverty rate, ie a relative importance of those whose income per consumption unit or consumer is below 60% of the national median income) among the self-employed was 5 times higher than among employees. In 2003 36% of the self-employed were living in poverty; the employees were much better off, only 7% of them were considered as being poor. As for the whole Estonian population there were more women in poverty than men among employees and self-employed people. (Randoja 2006).

Saar and Unt (2006) have also analysed the question of the importance of 'pull' and 'push' factors in self-employment drawing upon the experience of post-socialist Estonia, where self-employment started at a negligible level in 1989, but following

rapid economic liberalization, rose sharply. Their analysis indicated that the self-employed are a very disparate group: the individually self-employed in agriculture and in industry are less educated (almost a third of the self-employed in these sectors had only basic education), while employers and the self-employed in business and social services are more educated (a third of them had higher education) than employees. The level of education of the self-employed in personal services is practically comparable to that of employees). The changes in the educational composition of employers and self-employed in business and social services from the second half of the 90s to today have been rather minor.

The authors conclude that during the reforms, workplaces in these sectors often worked as a 'push' factor for the establishment of private businesses since massive lay-offs and restructuring in the economy did not leave workers any other possibilities. Mostly, this was a forced movement as old workplaces often disappeared with the fall of the old system. Although a move to private entrepreneurship is often seen as an upward path, it is not quite as clear-cut when one takes a closer look. Private entrepreneurship has often been forced in that people have opted for it because they just did not have any other alternatives. Their work conditions are often described as very poor.

Most better educated self-employed who started their business (especially in manufacturing or in personal services) during the first half of the 1990s moved away from self-employment and became managers in firms belonging to the state or other employers. They understood that they lacked finances to develop their business. However, as a consequence of various reforms in recent years, the type of people moving into self-employment is changing. Self-employment is becoming more attractive to better educated people belonging to the group of professionals but it is inconceivable that they will eventually begin to compete with larger firms.

The authors divide self-employed into two distinct groups: those to whom self-employment is forced choice and those to whom self-employment is free choice. The former group mostly includes employees working in the primary and secondary sectors in the early 1990s. As collective farms were privatised and state enterprises closed, they lost their jobs. For them the motivation behind starting a private business is not purely taking advantage of newly emerging possibilities. It was quite clearly also a forced move since previous workplaces disappeared as a result of the collapse of collective farms or the closing of industrial enterprises. Especially in rural areas, where regular jobs were scarce, self-employment was almost the last resort when grasping for survival.

The voluntary self-employment group includes mostly employees working as specialists or managers in the different sectors. Among the self-employed who had willingly started their own private businesses, two distinct types can be identified. The first type of 'volunteer' self-employed had entered private business in the early 1990s; the members of this group have higher education. Due to their studies at university, they entered the labour market shortly before the collapse of Soviet rule.

While the first type of the voluntary self-employed could be characterized by the early timing of entering private business, the second type of voluntary self-employed could be characterized by their late entry. Similarly to the first type, they have previously

worked as managers or professionals and have higher education. However, instead of being engaged in trade or something else loosely connected with their prior education and work career, they have established their companies in the areas where they can make the best use of their previously established experience and contacts.

## 2.2. Risk groups in Estonian Labour market

### BOX 1 Labour market risk groups and Labour market services in Estonia

In 1<sup>st</sup> January 2006 entered into force the Labour Market Services and Benefits Act which purpose is, through the provision of labour market services and payment of labour market benefits, to achieve maximum possible employment rates among the working population, and to prevent their long-term unemployment and exclusion from the labour market. In paragraph 10 of the act the following labour market risk groups are specified:

- unemployed **persons with disabilities** who, due to the disabilities, need additional help upon commencing employment;
- unemployed **persons of sixteen up to twenty-four years of age**;
- unemployed **persons released from prison** within the twelve months preceding registration as unemployed;
- unemployed **persons of fifty five years up to the pensionable age**;
- unemployed **persons who**, prior to registration as unemployed, **have received a caregiver's allowance and who have not been employed or engaged in an activity equal to work** during the twelve months prior to registration as unemployed;
- the **long-term unemployed**;
- unemployed **persons who are not proficient in Estonian** and whose employment is difficult for such reason.

People belonging into these risk groups have generally higher risk of job loss and experience difficulties in re-integrating into labour market. To further foster the process of re-engagement to the labour market, in the new Labour Market Services and Benefits Act the classes of labour market services have broadened compared to the previous law. At the moment there are 13 ALMP measures identified in the paragraph 9 in the law which main aim is to help people belonging to the aforementioned risk groups to be successfully integrated into the labour market: provision of information on the situation on the labour market, and of the labour market services and benefits; job mediation; labour market training; career counselling; work practice; public work; coaching for working life; wage subsidy; business start up subsidy; adaptation of premises and equipments; special aids and equipment; communication support at interviews; working with support person. But the most important change was the transition to the case management which means that for each unemployed persons the individual job search plan is made and the support person is named. This is expected to improve the quality of the ALPM measures provided.

Ministry of Social Affairs has formed several policy analyses which aim is to survey the situation of the persons belonging to the aforementioned labour market risk groups. So far the analyses have covered long-term unemployed, non-Estonians, disabled persons, young unemployed, elderly unemployed and unemployed persons released from prisons. We will analyze each of these segments briefly in turn.

### *Non-Estonians*

According to the population census implemented in 2000 80% of the population of Estonia are Estonians, 6.3% are Russians<sup>2</sup> and 12.4% have undefined citizenship. In Estonia the only aspect where the right to work is determined by the citizenship is in the public service. In other occupations the citizenship of the employee is not material; however, it is important that the non-native worker has a legal right to work (for example residence permission). In the beginning of 2006 there were 244 000 residence permissions issued in Estonia, 85% of which were permanent and 15% temporary. The number of valid permits to work was 8214.

The analysis reveals that non-Estonians (comparison made by the nationality) are in more disadvantageous position in the labour market than Estonians: although the labour market participation rate of the non-Estonians is higher, their unemployment rate is higher, too.

Of course it is obvious that speaking Estonian is not seen as a crucial precondition in all jobs and in different jobs the necessary level of speaking and understanding Estonian is different. Therefore it is clear that those cannot speak Estonian should not be considered to belong to the risk group automatically; different aspects such as understanding other foreign languages, education, existence of eligible jobs etc should be considered, too. However, in general the ability to understand and speak Estonian increase the probability to successfully participate in the labour market and therefore the appropriate Estonian training should be a part of the ALMP. Although this risk group is in the Labour Market Services and Benefits Act described through the language skills, the analysis of Ministry of Social Affairs stresses that the ALMP measures offered to the non-Estonians should be integrated and linked to each other – language skills training, increasing professional skills, supporting the social skills and subsistence etc. Language skill by itself is often non-sufficient to guarantee the successful participation in the labour market; however, the improving the professional skills may well not sufficient if the person does not have adequate language skills.

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<sup>2</sup> The other possible basis for distinction between Estonians and non-Estonians are language skills, country of origin and nationality (bases on the self-reporting). The latter is the most important in the context of this analysis as data clearly indicates that the nationality and the citizenship should not be considered to be the synonyms. According to the Estonian Labour Force Survey, approximately 2/3 (68%) of population are Estonians and 24% are Russians. The relative importance of other nationalities is much lower.

### *Disabled persons*

According to the Labour Market Services and Benefits Act a disabled unemployed person is an unemployed person who, suffers from a disability or who is declared permanently incapacitated for work. According to the Estonian Social Insurance Board in 2006 there were 73 217 persons aged 16-64 who had a loss of capacity for work. Only 28% of them were employed which means that there are approximately 52 000 disabled persons who are not working in Estonia.

According to the Ministry of Social Affairs the main obstacles limiting the disabled persons' successful participation in the labour market are

- Supplementary needs originating from the disability – it is intuitively clear that when the employer has to make the choice between healthy and disabled applicant, he/she would probably prefer the healthier person. On the other hand the existence of the disability does not automatically mean that the person cannot work as well as the healthy people, although this conclusion applies to the mental work mostly. However, according to the Estonian Labour Force survey the unemployment rates of the persons having a disability are twice as high as the national average which clearly indicates that disabled persons have difficulties finding jobs in Estonian labour market.
- Low motivation level to search for the job – data indicates that the inactivity rates between disabled and national average differ twice. It indicates that a majority of the non-working disabled persons are not even actively searching for the job. According to survey of Ministry of Social Affairs it is quite likely that more emphasis should be paid to the problem due to the population aging and increasing labour scarcity.
- The limited opportunities to use the transportation – in many local governments there are no means of transport for people who have special needs. The analysis of Ministry of Social Affairs emphasizes that more attention should be paid to the problem by the local administrations.
- Limited access to the education – in many cases (for example for people with visual disturbance, hearing impairment, learning difficulties) the assuring the quality of the education presumes the availability of the special auxiliary means, teachers with special training and adapted learning programmes. These possibilities are provided by few schools in Estonia and therefore the opportunities of disabled persons to get a good (vocational) education are quite limited in Estonia.

To further support the participation of the disabled persons to the labour market, there are four special services directed to disabled persons defined in the Labour Market Services and Benefits Act. These are

1. adaptation of premises and equipments
2. special aids and equipment
3. communication support at interviews
4. working with support person

The labour market services specified shall be provided only to unemployed persons with a disability on the condition that such services need to be provided in order to eliminate disability-related hindrances of commencing work or working and that other labour market services will not be effective for finding work for the disabled persons. Of course there are other AMPL measures (for example wage subsidy, work practice) that can be successfully implemented to support the participation of the disabled person in the labour market.

### *Elderly persons*

The analysis of the labour market participation of elderly people is especially important as Estonia is one of the European countries in which the population aging is very fast. According to forecasts the most numerous age groups are going to be 60-64, 65-69 and 55-59. It is estimated that the proportion of the people aged 65 or more will increase from 15.5% in 2002 to 25% by 2050 whereas the relative importance of the working age population will decrease to 59% and the median age of the population will increase from 38% in 2002 to 46 by 2050 (Leetmaa *et al* 2004). The United Nations forecasts are even more pessimistic: According to the United Nations demographic projection the average share of males aged over 50 equaled 26% in Estonia in 2000 and is expected to reach 38% in 2030 while the average share of women aged over 50 will grow from 36% in 2000 to 47% 30 years later (United Nations 2001). These trends will call for an increase in economic participation of older persons in order to prevent future labour shortage in Estonia as well as in other Central and Eastern European countries.

Estonia met the Lisbon target of employment rate 50% to the elderly people in 2002 and in 2005 the figure was 56%. Although the incidence of unemployment has decreased among elderly people in Estonia, the duration of the unemployment is longer which indicates that elderly people experience difficulties in returning to the labour market once they have lost the job.

Reasons why elderly are considered to be one of the risk groups:

- The decrease in working efficiency caused by the health disorders – to maintain the capacity to work, it is essential for the person as well as for the employer to make a contribution to this process to ensure that the physical, mental and social working environment improves when the capability of the person decreases.
- The employer-side prejudice – employers often have the (ungrounded) opinion that the elderly people have lower capability to learn, do not want to adopt with new technologies and innovations, cannot properly manage with the working tasks, employer's expenses are higher, they have health problems etc.
- The lack of appropriate jobs – the results of different surveys indicate that elderly need a flexible and/or part-time working time. According to the Working Life Barometer 10% of the people aged 50-64 worked part-time in Estonia and 83% of them did this voluntarily. According to the survey 23% of the elderly people would like to decrease the working intensity but cannot do this because they would have difficulties with maintaining appropriate living standard with lower wage (64%) or because employer would not accept this (24%).
- The lack of competitiveness because of the educational level attained – in general the educational level attained is lower for elderly people. The proportion of those whose highest educational level attained is primary or less is higher among elderly people. Moreover, those older people who have finished secondary school decades ago are often not capable to effectively compete with younger people because latter have better knowledge of computer programs and foreign languages.

The ALMP measures that are considered to be most effective to elderly people are work practice, wage subsidy and labour market training.

## 2.3. Employment in informal sector

According to Estonian Statistical Office activities in informal sector are divided into four categories:

1. Unreported production (hidden labour force), based on differences of firm reports to statistical office and Labour Force survey
2. Criminal activities (black economy) like smuggling, prostitution, narcotics, human trafficking etc.
3. Unreported income: envelope wages<sup>3</sup> and unreported profits
4. Other activities: tips, other unreported incomes

According to this classification the share of informal sector of GDP according to industries is presented in table 3.

**Table 3.** Informal activities by industries. The share of unreported value added of total value added (2006, %)

	Unreported production	Criminal activities	Unreported income	Other activities	Total
Agriculture	4,0	0,0	1,9	0,2	6,1
Fishing	6,7	0,0	3,7	0,1	10,5
Mining	1,4	0,0	0,7	0,2	2,3
Manufacturing	3,7	0,3	1,5	0,5	6,0
Electricity production	0,0	0,0	0,2	0,4	0,6
Construction	1,2	0,0	7,9	0,4	9,5
Trade	1,9	4,6	0,8	0,5	7,8
Hotels, restaurants	11,1	0,0	8,8	5,6	25,5
Transport, communication	4,4	0,0	1,3	0,8	6,5
Finances	0,0	0,0	0,0	0,5	0,5
Real estate, business activities	0,2	0,0	2,0	0,3	2,5
Public administration	2,4	0,0	0,1	0,1	2,6
Education	1,7	0,0	0,4	0,2	2,3
Health care	0,6	0,7	1,7	0,2	3,2
Other personal services	0,0	0,0	0,0	0,0	0,0
Total	2,1	0,8	1,8	0,5	5,2

Source: Statistical Office of Estonia

Traditionally highest share of informal sector is in hotel sector, but it is relatively high also in fishing and in construction. Especially in construction we can see the high share of envelope wages.

In next section we present more detailed information about unreported income as we have few surveys following these aspects of informal labour market. Estonian

<sup>3</sup> Common term for unreported wages and salaries in Estonia

Institute of Economic Research has estimated the scale of the hidden economy, including the aspects of envelope wages in Estonia (see table 4) since 1999. Since 2002 the evaluations of the employed salary earners (including employed pensioners) have been used as a basis of the analysis, ie those respondents who were not employed were excluded from the analysis. The analysis indicates that the proportion of the employed who received envelope wages has been decreasing.

**Table 4.** The frequency of receiving envelope wage

	% of respondents				% of employed				
	1999	2000	2001	2002	2002	2003	2004	2005	2006
regularly	8	5	8	7	8	7	5	5	5
sometimes	11	9	8	6	7	9	9	7	6
never	81	86	84	87	85	84	86	88	89

Source: Ahermaa 2007: 17.

While in 1999 almost one out of five respondents declared that he/she receives at least sometimes envelope wage, by 2006 the figure had decreased to 11% among those respondents who employed. However, most of those people (80%) who receive envelope wages declare that they receive at least part of their salary on the legal basis; only 20% of the people who receive illegal salary are paid only envelope wages. It is estimated that the total percentage of the employed who received envelope wages in Estonia was 9-14% in 2006. When analysing the socio-demographic characters of the people who receive at least part of the salary in the form of envelope wage, it appears that the “usual” envelope wage gainer is younger than 30 years and his/her highest educational level attained is elementary or primary.

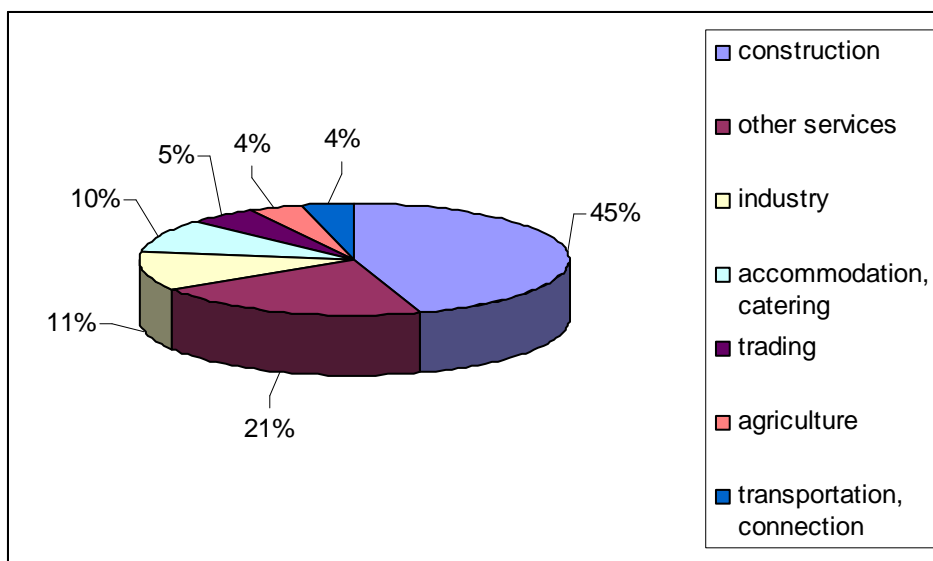
Compared to 2005 the number of the respondents who received all salary in the form of envelope wage was 8 percentage points higher than in 2006. Therefore for the people who received envelope wages the relative importance of the illegal salary has increased, too (see table 5).

**Table 5.** An average share of the envelope wage in neto-salary among those employees who received envelope wages (%)

	1999	2000	2001	2002	2003	2004	2005	2006
An average share of the envelope wage in neto-salary	38	35	42	40	42	40	39	51

Source: Ahermaa 2007: 18.

Slightly less than a half of the employees (45%) who received envelope wages in 2006 were engaged in construction, 35% were engaged in service sector, 11% in industry, 4% in agriculture and 4% in transportation and communication (see figure 3).



**Figure 3 .** The sectoral distribution of the enterprises who paid envelope wages in 2006 (% of those who received envelope wages).

Source: Ahermaa 2007: 17.

The fear to lose the job when not accepting the envelope wage has decreased sharply probably due to the favorable economic conditions in recent years in Estonia (see table 6).

**Table 6.** The risk to lose the job when not accepting receiving the salary in the form of envelope wage (% of the people who received envelope wage but would prefer to receive all salary in legal basis)

	2004	2005	2006
would lose the job	55	31	29
would not lose the job	19	26	36
do not know	26	43	35
total	100	100	100

Source: Ahermaa 2007: 20.

Finally, it is possible to calculate the county's hypothetical tax loss stemming from the fact that part of the salaries were paid in the form of envelope wages. In table the respective figures are introduced.

**Table 7.** The tax loss caused by paying of envelope wages in 2006.

	Lower confidence level	Average	Higher confidence level
The share of the employed receiving envelope wages (%)	9	11	14
Social tax loss (mln EEK)	1034	1311	1588
Income tax loss (mln EEK)	716	908	1100

Source: Ahermaa 2007: 20.

## 2.4. Job security/insecurity and average job tenure

On average, Estonia has shorter job tenure than the other European Union countries. The main cause for this difference is much shorter average job tenure for older workers: in the old EU countries the average job tenure of workers above 45 is 18.2 years, whereas their counterparts in Estonia are exposed to greater job insecurity and their job tenure is 8 years shorter (Fortuny et al. 2003).

In the special Eurobarometer published in October 2006 the questions regarding the respondents' feelings about the security and tenure in their current job were analysed (see table 8). Therefore we are able to give the picture of the current situation, but as there are no data available for the previous years, we cannot unfortunately analyse the trends in these indicators.

**Table 8.** Job tenure and employees' perceptions about job security in EU25 on average and Estonia (%).

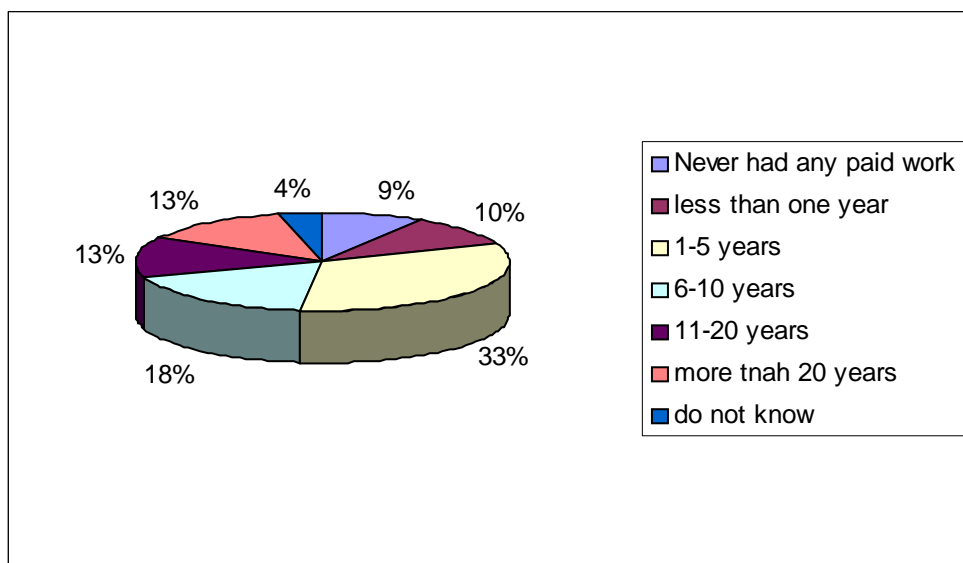
<b>How many times have you changed employer in your working life so far?</b>					
	never had any paid work	never	1-5 times	6-10 times	more than 10 times
EU-25	14	18	55	9	2
EE	9	12	69	7	1
<b>For how long have you been working for your current employer or last employer if you are not currently working?</b>					
	never had any paid work	less than 1 year	1-5 years	6-10 years	11-20 years
EU-25	14	6	28	14	15
EE	9	10	33	18	13
<b>How confident would you say you are in your ability to keep your job in the coming months?</b>					
	very confident	fairly confident	not very confident	not at all confident	
EU-25	50	34	9	4	
EE	45	38	11	3	
<b>Would you say that you are very confident, fairly confident, not very confident or not at all confident in having a job in 2 years time?</b>					
	very confident	fairly confident	not very confident	not at all confident	Not looking for a job in 2 years time
EU-25	22	24	10	6	34
EE	17	28	13	8	27

Source: European Employment and Social Policy 2006.

The Eurobarometer contains two questions aimed at shedding light into the average job tenure. The first question is "How many times have you changed employer in your working life so far?" The answers to this question reveal first of all that compared to EU-25 average there are less people who have never been engaged to paid work in Estonia. Compared to EU-25 average there are remarkably less people in Estonia who have never changed the employer: in EU on average every fifth and in Estonia every

tenth person has worked for the one employer only. However, more than two thirds of people involved in the sample have changed the employer 1-5 times; for EU-25 average this figure is slightly more than 50%. More than 6 times have their employer changed 8% of Estonians (EU average 11%).

The other question reflecting directly the aspects of job tenure is “For how long have you been working for your current employer or last employer if you are not currently working?” The answers to this question indicate that in Estonia the average job tenure is shorter than in EU on average: in Estonia 43% have worked for their current employer less than 6 years; in EU on average this figure is 34% (See table 10A in appendix). Moreover, while in EU on average for every third respondent average job tenure is more than 10 years, this figure is 26% in Estonia. It is quite likely that these differences are implications of the structural changes that took place in Estonia in late 90s and early years of new millennia as a result of the Russian crisis.



**Figure 4** Average job tenure

Source: Eurobarometer: European Employment and Social Policy, 2006; EC

There are two questions included into Eurobarometer that enable to analyse the aspects of the job security. First question “How confident you would say you are in your ability to keep your job in the coming months” is aimed to reflect the short-period job security; the second question “Would you say that you are very confident, fairly confident, not very confident or not at all confident in having a job in two years time” asks respondents to evaluate their long-time job security.

While in EU on average half of the respondents declared that they are very confident in their ability to keep the current job in the coming months, in Estonia the figure is somewhat lower – 45%. However, the share of those who are confident (very or fairly) is almost equal in Estonia and EU on average (approximately 85% of respondents). The long-term job security is remarkably lower than short time job security. Only 22% of respondents in EU25 on average declared that they are very confident and 24% declare that they are fairly confident in having a job in two years time. The respective figures are 17% and 28% in Estonia.

## 2.5. Wages

### 2.5.1. Trends in real wages

During the transition processes, wage differentials as well as overall income inequality increased between different population groups. During the Soviet time, the wage level of workers was determined by the industry in which the worker was employed. Higher wages were paid in the productive industries and at the lower level of wage scale were the non-productive industries. Transition modified the structure of wages by industries. The wage growth in agriculture and fishing, trade, hotels and restaurants and education has been lower and the wage level in these industries is still lower than the economy-wide average. The winners during the transition process and afterwards have been real estate, financial services and public administration, i.e. industries which needed to be restructured quickly at the beginning of transition and which experienced higher employment growth. (Eamets et al, 2007)

The wages have increased quite rapidly in Estonia. In nominal terms the average wage was in 2006 3.8 times higher than in 1996.

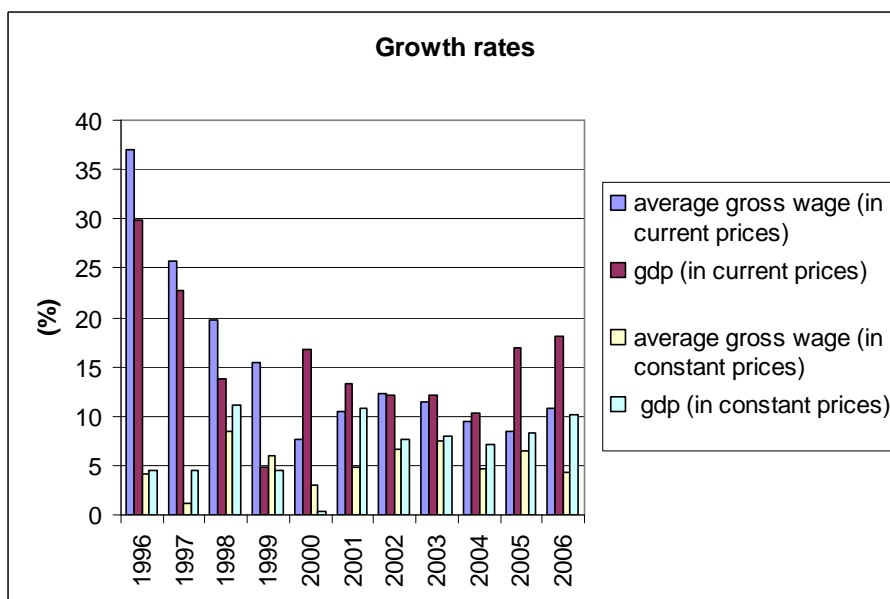
**Table 9.** Average annual gross earnings\*, 1995-2004 (in national currency, EUR )

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>EEK</b>											
Estonia	34221	41317	47085	52304	57147	64123.6	72056	79990	86420	96876	112884
<b>EUR</b>											
Estonia	2240.1	2629.2	2989.0	3342.8	3649.0	4098.2	4605.2	5112.3	5523.2	6191,7	7214,9
Annual increase (%)	19,9	17,4	13,7	11,8	9,2	12,3	12,4	11,0	8,0	10,8	16,5
cumulative progression (1995=100)	119,9	140,7	159,9	178,9	195,3	219,3	246,4	273,6	295,5	331,3	386,0

Source: Eurostat, Statistical Office of Estonia (for 2005 and 2006)

\* Gross earnings cover remuneration in cash paid by the employer during the reference year, before tax deductions and social security contributions payable by wage-earners and retained by the employer. All bonuses, whether or not regularly paid, are included (13th or 14th month, holiday bonuses, profit-sharing, allowances for leave not taken, occasional commissions, etc.). Severance payments as well as payments in kind are excluded. The complete definition can be found in Commission Regulation (EC) No 1738/2005 of 21 October 2005 modifying the Commission Regulation (EC) No 1916/2000 of 8 September 2000 implementing Council Regulation (EC) No 530/1999 concerning structural statistics on earnings and labour costs as regards the definition and transmission of information on structure of earnings.

The analysis of the growth rates of the average wage and GDP refers to several important facts. Firstly, when analysing the growth rates in Estonia, the impact of the inflation should be kept in mind. Due to the high inflation the growth rates of GDP and average wage in real terms have been rather modest in some years despite the fact that in current prices the growth was remarkably high. For example, in mid-90s the growth rates of the both average wage and GDP were the highest in nominal terms, but lowest in real terms (except the years 1999-2000 when the growth rates were low due to the restructuring process).



**Figure 5.** Growth rates of average gross wage and GDP.

\* - from 1999 the average gross wages and salaries per month do not include health insurance benefits.

Secondly, the change in trend has occurred when comparing the growth rates of the average wage and GDP. Up to the year 1999 the growth rate of the average wage exceeded the growth rate of the GDP; from 2000 the GDP has increased faster (in 2000-2001 and 2005-2006) or the growth rates of the indicators has been comparable (as in 2002-2004).

Vesilind and Rell (2000) have analysed the flexibility of wages and the relation between wages and productivity in different sectors in Estonia in the context of adjustment to Russia's crisis using the Granger causality test. The results indicated that wages were elastic in the open sector (agriculture and manufacturing), whereas the slowdown of the productivity growth suppressed the growth of wages. On the other hand, in the service sector the wages were rigid in the sense that the economic downturn did not put any significant breaks on wage increases.

On average annual average earnings in the services sector tend to be higher than in industry in Estonia. However, in the services sector, earnings disparities tend to be wider than those in the industrial sector (for example, financial services are an important driver of the high level of annual earnings in the services sector) (Eamets et al 2007). Table 10 presents average gross wages by industries compared to the economy-wide average in Estonia over the period of 1995-2004. As is seen from the table, the wage structure is quite similar over the observed years. The highest wages are in financial intermediation, followed by transport, electricity and public administration. The lowest are wages in the hotel and restaurants, but also in education, health and social sector.

**Table 10.** Average gross wages by industries compared to the economy-wide average in Estonia in 1995-2004 (national average=100)

Industry	1995	2000	2004
Mining and quarrying	1.07	1.09	1.08
Manufacturing	1.00	0.95	0.93
Electricity, gas and water supply	1.29	1.16	1.18
Construction	1.21	1.08	1.06
Wholesale and retail trade	0.91	1.04	0.97
Hotels and restaurants	0.84	0.72	0.67
Transport, storage and communication	1.23	1.20	1.05
Financial intermediation	2.07	2.09	2.02
Real estate, renting and business activities	0.98	1.06	1.23
Public administration and defence, compulsory social security			
Education	1.02	1.12	1.16
Health and social work	0.75	0.81	0.88
Other community, social, personal service activities	0.76	0.85	0.87
Average gross earnings	0.74	0.86	0.84
	1.00	1.00	1.00

Salary for the hours worked forms almost 90% of the gross wage in Estonia and the figure has been remarkably stable over the years 2000-2006 for which data is available (see figure 6).

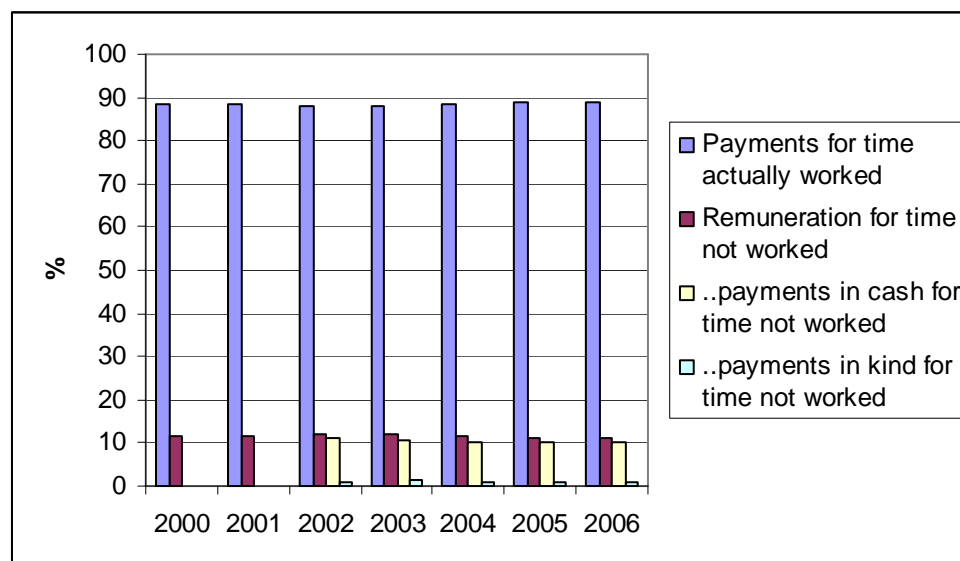


Figure 6. Remuneration and working time

Remuneration for the hours not worked constitutes tenth of the gross wage and monetary salary clearly prevails over the nonmonetary in the formulating of the salary for time not worked.

Unfortunately Statistics Estonia does not provide systematic times series about different components of total wage. Therefore it is not possible to analyse the evolution of the share of the different components (basic wage, bonuses, benefits, performance related pay etc) of total wage in aggregate level in Estonia. However, in 2000 the Statistics Estonia executed a special survey to collect data about this issue (see table 11).

**Table 11.** The share of components of total labour costs in Estonia (2000, % of total labour costs)

Direct costs	73,2
..direct remuneration and bonuses	65,65
....basic wages(salaries), bonuses and allowances paid regularly	62,59
....payments to employees paid irregularly	3,07
..payments for days not worked	6,92
..wages and salaries in kind	0,63
....company products or services	0,26
....expenditures to assist employees with staff housing	0,03
....employer's car supplied to employees for their private use	0,12
....indirect benefits	0,22
Indirect costs	26,8
..social security contributions	24,48
....statutory social security contributions	24,44
....collectively agreed and voluntary social security contributions	0,04
..imputed social contributions	0,94
....remuneration in the event of occupational accident and diseases	0,08
....remuneration in the event of short-time working	0,02
....payments to employees leaving the enterprise	0,71
....imputed social benefits for the employees	0,13
..vocational training costs	0,91
..recruitment costs, expenditures on working clothes	0,47
....recruitment costs	0,08
....expenditures on working clothes and uniforms	0,39

Source: Statistics Estonia

The results reveal that direct costs constituted almost  $\frac{3}{4}$  of the total labour costs in Estonia in 2000. Among direct costs clearly dominated direct remuneration and bonuses, the share of the other components (payment for days not worked; wages and salaries in kind) was approximately 10%. Almost 95% of the direct remuneration and bonuses were composed by basic wages, bonuses and allowances. Most of the indirect costs were composed by social security contributions, in which prevailed statutory social security contributions; the share of the collectively agreed and voluntary social security contributions was negligible.

Vocational training costs constituted less than 1% and recruitment costs less than 0.1% of the total labour costs in Estonia in 2000.

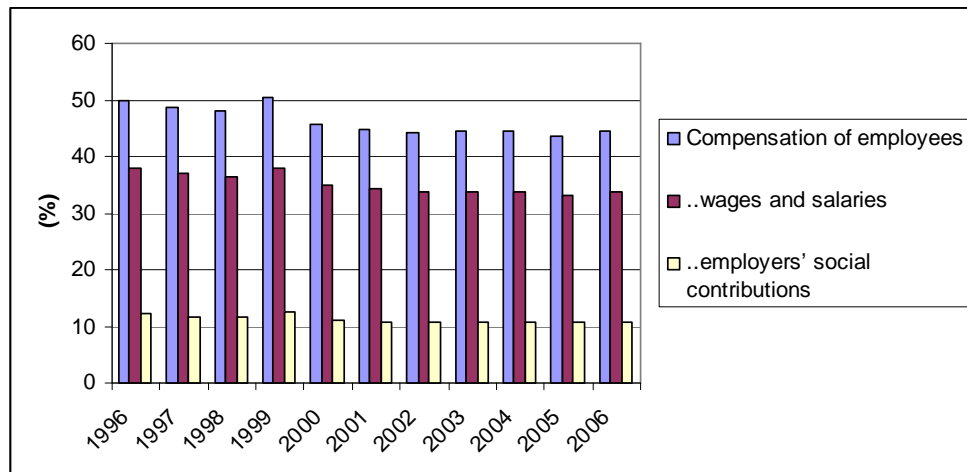
Unfortunately we are unable to analyse trends as well as compare the structure of the labour costs in different types of companies because there are no data available.

### 2.5.2. Wage share

For all the period under observation the share of compensation of employees from GDP has been approximately a half. Nevertheless, minor changes have occurred. The relative importance of the compensation of employees from the GDP decreased slightly at the beginning of the period under consideration. As an exception, the

indicator increased somewhat in 1999, exceeding the 50% level. Since 2000 the figure has been remarkably stable standing at 44-45 percent.

When distinguishing the compensation of employees into two separate parts: wages/salaries and employers' social contribution, the analysis reveals that the evolution of the former follows almost identically the trend of the compensation, while the latter has been remarkably stable over the period 1996-2006.



**Figure 7.** Compensation of employees as a percentage of GDP (in current prices).

Source: Statistics Estonia

\* The data for 1993-1999 are not comparable with the data of the next periods.

The visible reduction in compensation of employees as a percentage of GDP in 2000 compared to previous year is caused by the fact that as the Statistics Estonia changed the data collection methods, data for 1993-1999 are not comparable with the data of the next periods.

### 2.5.3. Low wages

Although it is clear that being employed is an effective tool to secure oneself against the risk of poverty and social exclusion, it is also recognised that holding a job is not always sufficient to avoid poverty. A particular family structure, inability to find a full-time work and low wage rates are at the origin of the problem of the so-called “in-work poverty” (Bardone, Guio 2005). In following analysis the Eurostat definition of “in-work poor” is applied as an approximation of “low-wage earners” because there does not exist an official definition of “low wage” in Estonia. The in-work poor are defined as those individuals who are according to their most frequent activity status classified as employed and whose household equivalised disposable income is below 60% of national median equivalised income. Unfortunately the “in-work poor” concept is quite new in Europe, so the data is available for the years 2004 and 2005 only.

To begin with, a significant minority (9% in 2004 and 7% in 2005) of the employed population in Estonia live in a household where the equivalised income is situated

below the poverty line (which is 60% of equivalised income, as mentioned previously).

The analysis of in-work at risk of poverty rates by age indicates that while in 2004 the remarkable differences existed among age groups; in 2005 the variations were much tighter. The at-risk poverty rate is the highest in the age group 25-54, although it is the only group where the figure decreased in 2005 compared to 2004. The in-work at risk on poverty rate is the lowest in the youngest age group and for the older workers, but in the latter group the figure increased 6 times and was in 2005 almost the same as in other age groups. There are no remarkable differences between males and females; however, when the household type serve as a basis of distinction, remarkable differences appear to be visible. The in-work at-risk of poverty rate is the lowest in households without dependent children, somewhat higher in households with dependent children and for single people. The risk is highest in households which consist of single parent and dependent children: in those households the poverty rate was 25% in 2004! Among employed persons whose highest educational level attained is pre-primary, primary or lower secondary, the at-risk of poverty rate is also quite high: in 2004 every seventh of those persons disposable income was below the 60% of national median equivalised income. For the graduated employed persons the figure was 6%, ie more than twice lower, but still quite high.

Other interesting conclusions can be made when in-work at-risk of poverty rates are compared by the type of job contract, months worked and working time. It comes out that the risk is much higher for the temporary workers (compared to permanent workers), for the less-experienced workers and for the part-timers (compared to full-time workers). The result itself is not unexpected, but the magnitude of the differences appears to be quite vast: in 2004 the poverty rate of the temporary workers was 3.5 times higher and in 2005 3 times higher when compared to the permanent workers. For the employees who had worked in the company less than full year the at-risk of poverty rate was more than 2 times higher compared to workers whose tenure in office was more than a year. The remarkable differences exist between full- and part-timers, too. The part-time workers have approximately 3 times higher in-work at-risk of poverty rate than the full-time workers. See also appendix 2.

Unfortunately there is no data available to compare the in-work at-risk of poverty rate between salaried workers and self-employed. However, Statistics Estonia has issued an analysis of the labour market situation of self-employed in Estonia. In the survey the income earned by head of the household<sup>4</sup> was taken as a basis of comparison of the income differences between aforementioned labour market groups. In 2003, the average annual income in households with the self-employed head of the household was 49,100 kroons and the median income was 24,200 kroons per consumption unit (consumer). If the head of the household was an employee then the average annual income was significantly higher — 64,400 kroons per consumer, and the median income was twice as high as in households with the self-employed head of the household. (Randoja 2006)

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<sup>4</sup> According to the definition of Statistics Estonia the head of the household is an adult household member with the largest income.

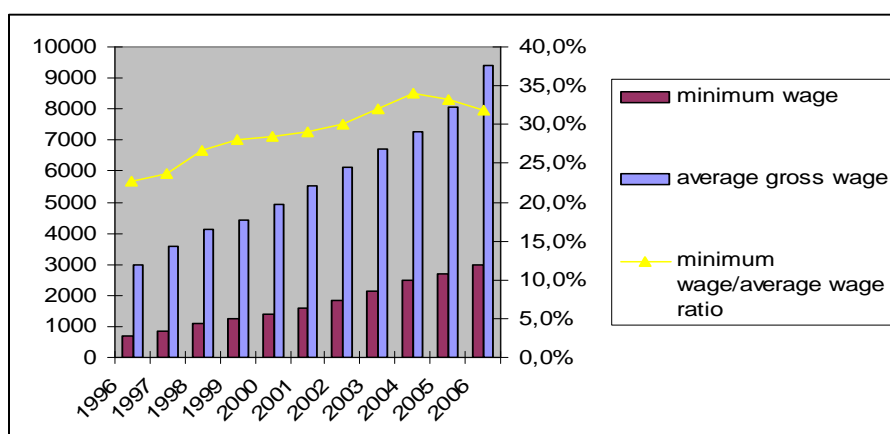
Self-employed people belonged mostly to lower and employees to higher income quintiles. This shows that the income per consumer earned by self-employed people was lower than the income earned by employees. Most of the self-employed (35%) belonged to the first quintile; their average yearly income was only 13,100 kroons per consumer in 2003. The number of self-employed people was smallest in the third (middle) quintile. Thus, the self-employed belonged rather to extremities — their income was very low or, on the contrary, very high. However, only 7% of employees belonged to the first quintile. There were more employees in higher quintiles; 33% of employees belonged to the highest quintile. (Randoja 2006)

Unfortunately there are no data and studies available to analyse whether the risk of low pay is higher for temporary workers in Estonia. Neither there is clear evidence supporting the fact that the increase of minimum wage has reduced the number of low pay workers. Although the proportion of full-time workers with earnings on the minimum wage (see section 2.5.4 for more detailed analysis) has decreased in recent years, this is probably contingent on several interrelated developments caused by the overall favorable economic conditions and vast economic growth rather.

#### 2.5.4. Minimum wage

Estonia is one of the few countries in Europe that have a single statutory national minimum wage rate that essentially applies to all non-exempt workers without distinction. Minimum wages are adjusted on an annual basis. Representatives of both employers and employees participate in the national minimum wage setting process and the bilateral agreements are afterwards legalised by the government (see also section “Social dialogue and workers’ participation”).

The minimum wage increase has been quite rapid in Estonia. According to EIRO publication “Pay developments – 2005”, the highest increase, at 14.8% was found in Estonia, while the lowest, 1.4%, was in Malta in 2004. Compared to 1996, the minimum wage was almost 4.5 times higher in 2006, while the average wage had increased more modestly (approximately 3 times, see figure 8).

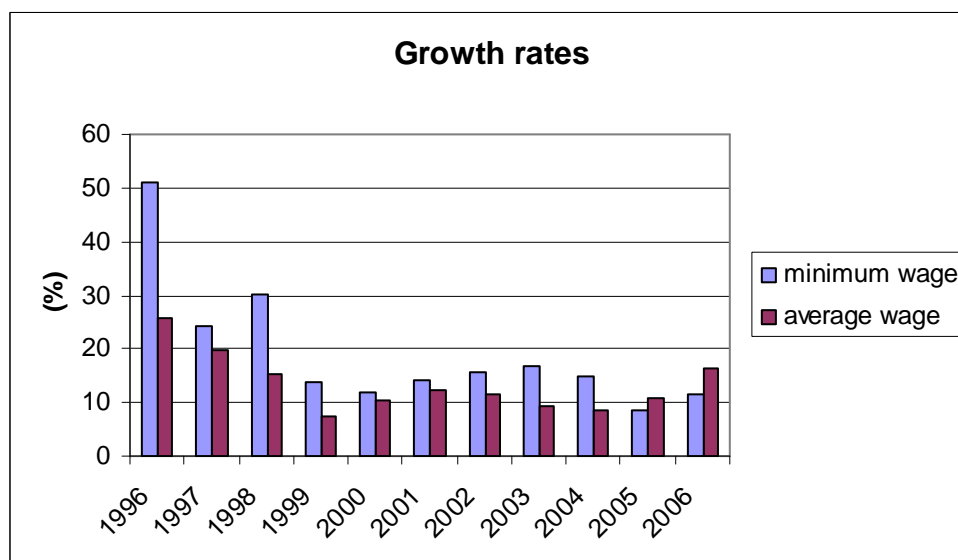


**Figure 8.** The evolution of the minimum wage and average wage.

Source: Statistics Estonia

The development of nominal minimum wages often appears to be impressive in absolute term; however, this should be compared with the dynamics of wages more

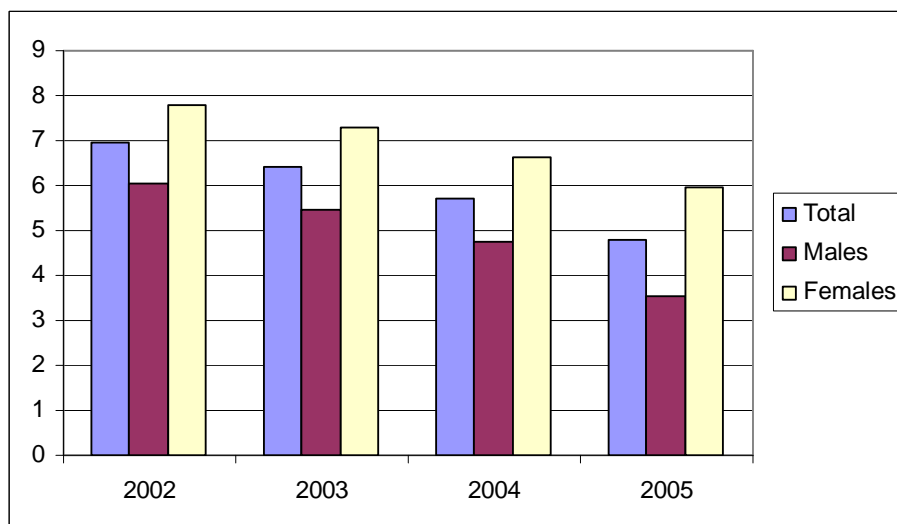
widely. In Estonia the minimum wages as the ratio of the average wage has been increasing almost for all the period under observation. While in 1996 the ratio was less than 1/5, it has constantly exceeded 30% level since 2002. Nevertheless, in last two years (2005 and 2006) the ratio decreased slightly. The phenomenon is conditioned by the fact that as a result of the wage pressures caused by favourable economic conditions and labour scarcity the growth rate of the average wage exceeded the growth rate of minimum wage in 2005 and 2006 (see figure 9).



**Figure 9.** Nominal monthly wage annual growth rates  
Source: Statistics Estonia

The analysis of the growth rates of the minimum and average wage reveals that in the second half of the 90s the growth rates were remarkably high. However, the fact that the inflation was high in this period too should be kept in mind when interpreting the results. Since 1999 the growth rates of both minimum and average wage have been more modest. As a general trend the minimum wage has increased more rapidly than the average wage,. However, in 2005 and 2006 the trend reversed and for the first time since 1996 the growth rate of minimum wage was below 10% On contrary, the growth rate of average wage accelerated, exceeding the 10% level.

Unfortunately there is no official data available on the proportion of employees with earnings on the minimum wage for the period 1996-2001 as the Eurostat, as well as the national statistics issues the indicator since 2002. The proportion of the full-time employees with earnings on the minimum wage is introduced in figure 10. As the in Estonia minimum wage is stated nationally, no full-time legally employed full-time employed persons earn below statutory minimum wage.



**Figure 10.** Proportion of full-time employees with earnings on the minimum wage (%) in Estonia.

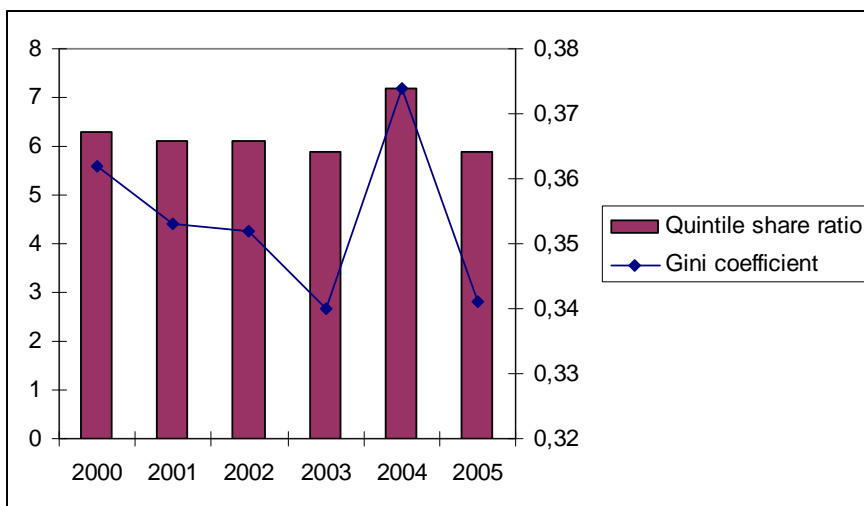
Source: Eurostat

In Estonia the share of employees with earning on the minimum wage decreased gradually in the period 2002-2005; the conclusion applies to both males and females. However, females tend to be less favourable situation in this aspect than men: for the whole period the proportion of employees earning minimum wage has been higher among females than for males.

Few studies have estimated the effect of the changes in the minimum wage to the different labour market aspects in Estonia. Therefore we cannot firmly ascertain what effect has the increase of the minimum wage had to the wage distribution. *Ceteris paribus* the increase in the minimum wage compresses the wage distribution. However, as the wages have increased vastly in Estonia and part of the increase of the wages in general may have been caused by the increase of the minimum wage, the influence of the minimum wage to the wage distribution would need a deeper survey to take into account all the interrelated factors. The same result applies to the link between the minimum wage and social benefits and the will of the employers' to pay minimum wage to avoid social contributions above that level. The last aspect forms a part of the hidden economy and could be indirectly estimated via this channel by distinguishing different aspects of the hidden economy. According to our data this kind of analysis has not been performed in Estonia.

### 2.5.5. Wage inequality and wage discrimination

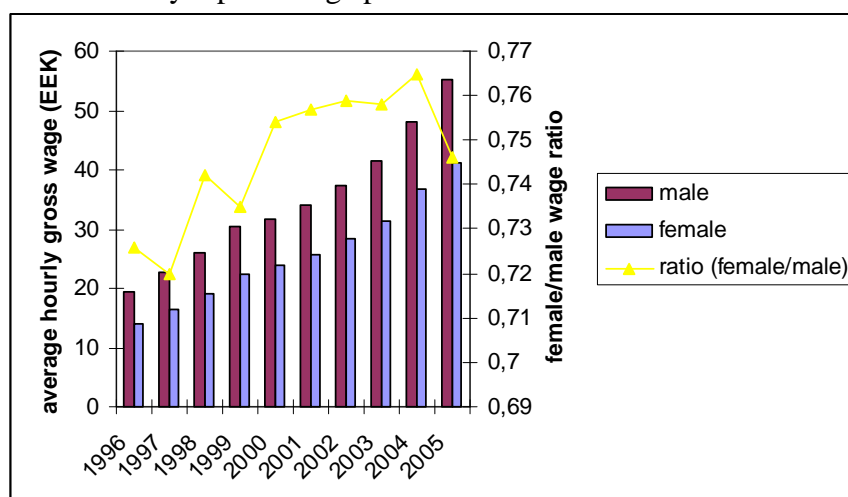
Estonian Statistical Board issues two indicators of income inequality of household members: Gini coefficient and quintile share ratio (measured as S80/S20 income quintile share ratio), Unfortunately the time series are quite short - the data is available only since 2000 and therefore it is impossible to analyse the evolution of the indicators in 90s. However, it is still possible to make a few conclusions analysing the wage inequalisation in 2000-2006. Statistics Estonia does not provide information about wage differentials between different income quintiles, so we are unable to analyse this aspect of wage inequality.



**Figure 11.** Quintile share ratio and Gini coefficient in Estonia.  
Source: Statistics Estonia

In general the wage inequality is quite high in Estonia. The Gini coefficient is approximately 34-37 percent and the quintile share ratio has been fluctuating<sup>5</sup> between 5.9-7.2.

When analysing the wage differences by gender, there is clear wage discrimination observable. The average hourly gross wage of male has constantly exceeded the female wage, although the wage gap has narrowed slightly over time. While in 1997 the females' average hourly gross wages as a proportion of the males' average hourly gross wages were 73%, by 2004 the figure had increased to 76%. The male/female wage ratio has been fluctuating: from 1996 to 1999 the years of increase rotated with the years of minor decrease. From 2000 to 2004 the ratio increased smoothly, but 2005 saw a decrease by 2 percentage points.

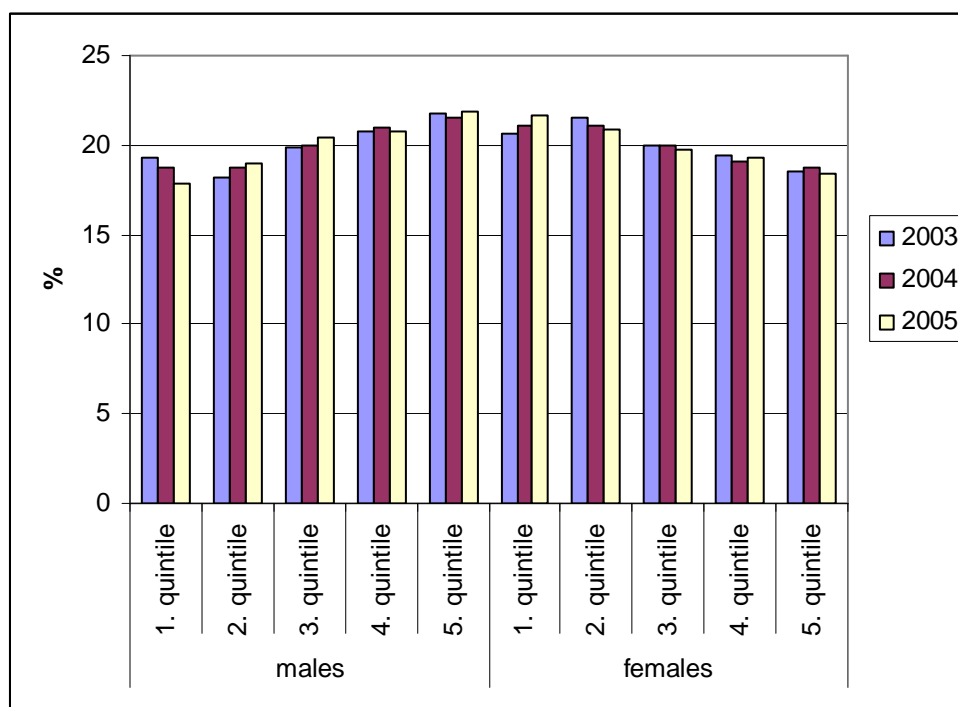


**Figure 12.** Average gross hourly wages by gender in Estonia.

<sup>5</sup> The sudden change in Gini and in quintile ratio in 2004 is caused by change of source of information. Before 2004 the income indicators were calculated using household survey data. This was self-reported monthly information of household sample. Since 2005 these indicators are calculated using of information of socio-economic survey income data. These numbers are yearly data based of retrospective sample survey of households. Therefore indicators before 2004 and after 2004 are not fully comparable.

Source: Statistics Estonia.

The analysis of the share of the employed belonging to the income quintiles reveals that men are in a more favourable position in this aspect, too (see figure 13). We are able provide data since 2003 because there are no data available for the previous years.

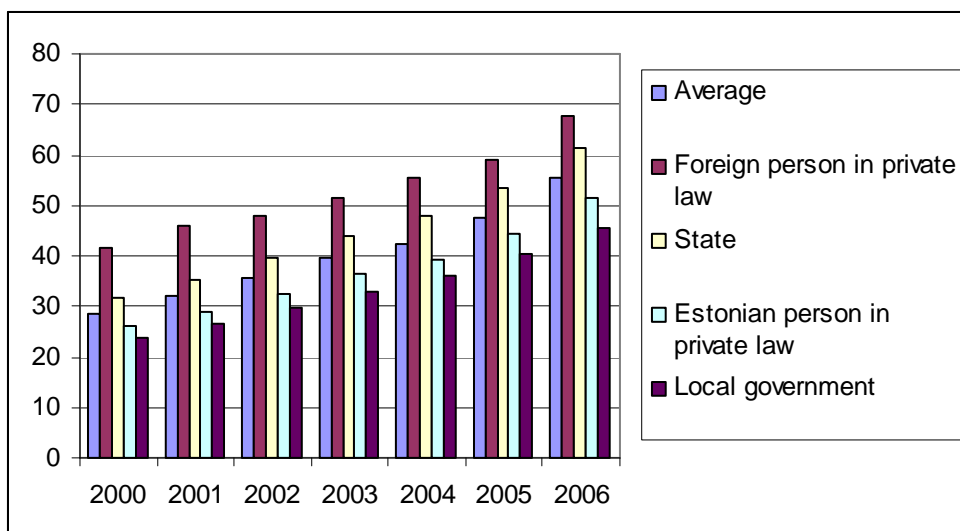


**Figure 13.** The distribution of the employed on the basis of the income quintiles by gender in Estonia.

Source: Statistics Estonia

The proportion of the workers belonging to the first and second income quintiles is lower for men compared to women. Moreover, the share of the employed belonging to the first income quintile has decreased for men and increased for women. The opposite applies to the second income quintile.

For the third income quintile the figures are almost identical for males and females, but relatively more males than females belong to the two highest income quintiles. Unfortunately it is not possible to more elaborate the wage discrimination aspects by differentiating the gender wage gap between different skills/educational levels or occupations as there are no data available in national statistics or in Eurostat. However, when comparing the aggregate data, there seems to be some evidence of public-private wage differentials in Estonia in 2000-2006 (see figure 14). Unfortunately there is no data is available for the period 1996-1999.



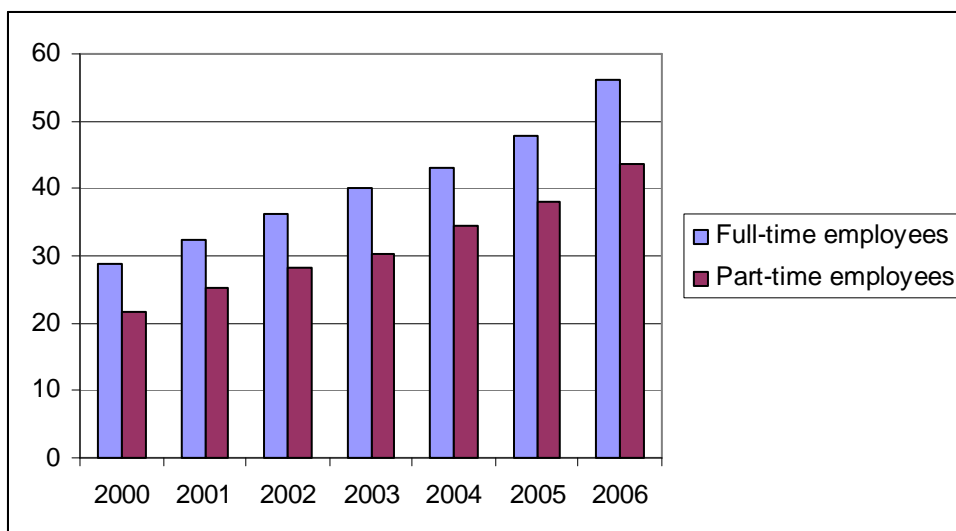
**Figure 14.** Average hourly gross wages in Estonia by ownership of the company (in EEK).

Source: Statistics Estonia

The highest wages are paid in foreign-owned private enterprises and state institutions where the wages paid exceed the national average. On the contrary, in domestic private companies and local government companies the average wages are below national average. However, in all groups the average hourly gross wages have increased over the period and the share as a proportion of the national average has remained remarkably stable over the years (with an exception of foreign-owned enterprises where the wage gap with national average has decreased from 1.42 in 2000 to 1.22 in 2006).

It would be interesting to analyse the influence of the collective bargaining on wage inequality. However, as according to the data available to us there are no such surveys conducted in Estonia, we are unable to analyse this link here.

The comparison of the aggregate hourly wages of the full-time and part-time employees reveals that the latter group is in a more disadvantageous position in the labour market (see figure 15) as their hourly wages are lower than for the full-time workers.



**Figure 15.** Average hourly gross wages of full-time and part-time employees (in Eek in Estonia).

Source: Statistics Estonia

However, when comparing the results, it should be kept in mind that people preferring part-time work tend to be different in socio-economic characteristics from the full-time employed. The results of study surveying the determinants of the part-time work in Estonia reveals that after controlling the industries and the number of kids on the household, women have still remarkably higher probability to work part-time (instead of full-time) than men. Moreover, the analysis of the involuntary part-time work suggests that women have considerably higher probability to be satisfied with the part-time status and look for the part-time job than men. Thus we can conclude that from the women's side part-time work is often seen to be the tool increasing the opportunities to combine work and family life and therefore they may accept lower wages. The opposite applies to men: the higher the number of children in the household, the lower the probability to work part-time and the higher the probability to accept only full-time job.

The studying and age are another two variables appearing important in analysis. The elderly have more likely to prefer part-time work and accept part-time job compared to prime-aged workers. It clearly indicates the importance of the considering the age structure of the workforce as there are different aspects affecting the working time preferences of the youth, middle-aged and elderly (Krillo 2007).

Unfortunately there are no data available to survey the wage inequality between temporary and permanent workers.

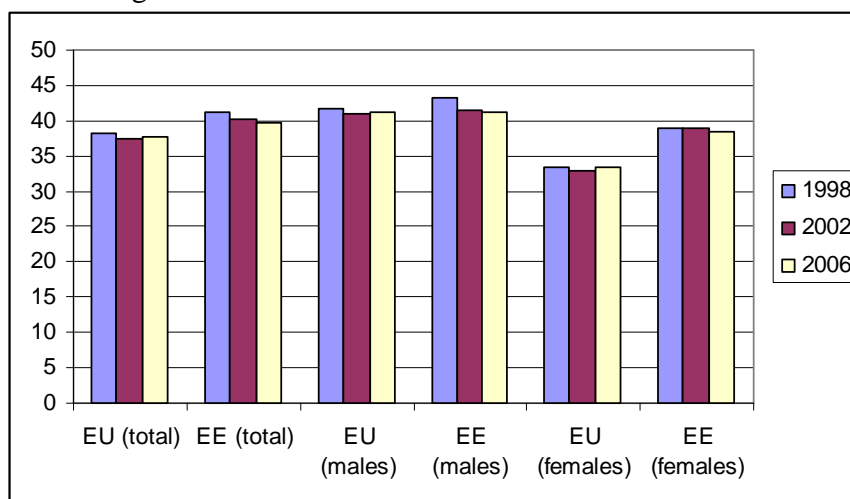
## 2.6. Working time and work organization

Working hours and working time arrangements are gaining increasingly more attention as they are considered to be important issues in today's labour markets, in particular with regard to their relation to productivity, labour market flexibility and quality in work.

### 2.6.1. Trend on average hours

The average number of working hours has slightly decreased both in Estonia and in EU on average. The analysis of dynamics indicates that for the whole period under observation in Estonia the total number of usual weekly working hours has been higher than EU on average. The Estonia/EU disparity in working hours has mainly caused by the differences in females' working hours: in Estonia the males' working hours are only slightly above the EU average. However, the males/females working hours gap is much tighter in Estonia than in EU on average: while in EU on average females tend to work remarkably less than males (for example in 2006 the average usual number of working hours was 41.2 for men and 33.5 for women) in Estonia the differences are much more modest (in 2006 41.2 and 38.4, respectively).

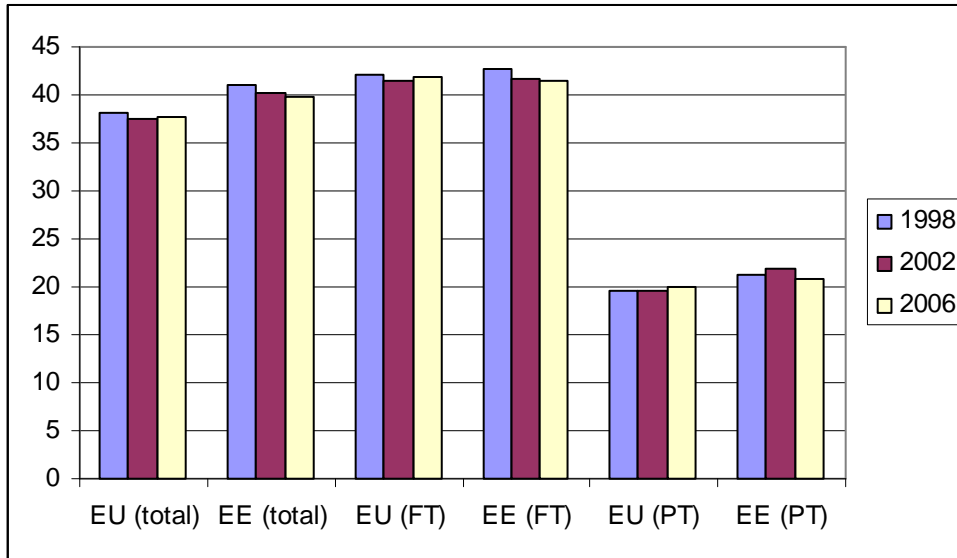
As the average wage has increased substantially during the period and the working hours have gradually decreased, there is no tendency to increase average working time to increase wages in Estonia.



**Figure 16.** Average number of usual weekly hours of work in main job by gender in EU and Estonia.

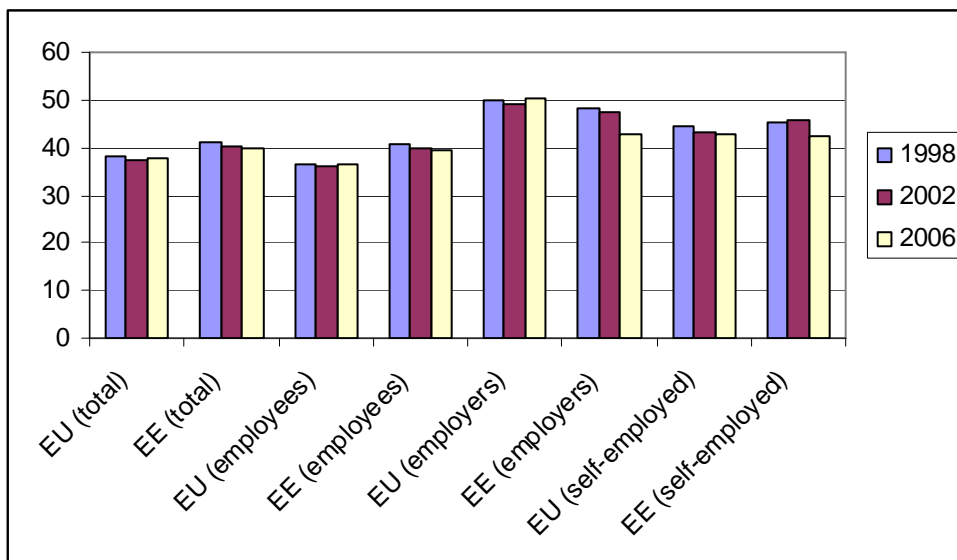
Source: Eurostat.

The full-time/part-time working hours distinction reveals that most of the differences observed between total working hours in Estonia and EU on average can be explained by longer part-time working hours in Estonia; the usual working hours for full-time employed are practically identical in Estonia and in EU on average.



**Figure 17.** Average number of usual weekly hours of work in main job by full-time/part-time distinction.

Source: Eurostat.



**Figure 18.** Average number of usual weekly hours of work in main job by professional status.

Source: Eurostat

The employees usually work fewer hours in week than employers' and self-employed. For employees the number of working hours is higher in Estonia than EU on average, for self-employed the figure is almost the same and employers in EU on average tend to work more hours than their colleagues in Estonia (at least in 2006; in late 1990s the figures were almost the same).

The usual working hours in agriculture were higher than in industry and services in Estonia as well as in EU on average in late 90s. However, in EU on average and especially in Estonia the number of working hours has decreased in recent years and in the latter case was similar to industry in 2006. In services the working hours tend to be above the EU average in Estonia and an interesting pattern occurs: while in EU the

number of working hours in services is obviously lower than in agriculture and industry (36.5, 43.2 and 40.1, respectively); in Estonia the differences are much more modest (39, 42 and 41).

The more detailed analysis reveals that working hours vary within the economic activities in a quite large extent. In agriculture, hunting, forestry and fishing sector the usual weekly working hours are notably higher in fishing than in agriculture, hunting and forestry. In industry the usual weekly working hours are higher in construction; similar to average in manufacturing and electricity, gas and water supply; and lower mining and quarrying in Estonia. In EU on average, however, the figures are similar in all industry sectors.

**Table 12** Average number of usual weekly hours of work in main job by economic activity.

	Estonia			EU		
	1998	2002	2006	1998	2002	2006
<b>Total</b>	41,1	40,2	39,8	:	38	37,8
<b>Agriculture, hunting, forestry and fishing</b>	46,3	45,2	41,9	:	42,8	43,2
... Agriculture, hunting and forestry	45,2	45,3	42	:	42,7	43,2
... Fishing	54,3	:	:	:	49,6	45,9
<b>Industry</b>	41,3	40,3	40,9	:	40	40,1
... Mining and quarrying	37,4	:	:	:	41,5	41,9
... Manufacturing	40,8	40,1	40,6	:	39,4	39,4
... Electricity, gas and water supply	41	39,9	40,6	:	39,2	39,3
... Construction	43,5	41,5	41,8	:	41,4	41,6
<b>Services</b>	<b>40,1</b>	<b>39,7</b>	<b>39</b>	:	<b>36,8</b>	<b>36,5</b>
... Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	42,1	41,8	40,3	:	38,1	37,6
... Hotels and restaurants	42,7	38,9	39,9	:	39	38,3
... Transport, storage and communication	44	41,6	41,6	:	40,4	40,4
... Financial intermediation	40,1	40,9	38,7	:	38	38,4
... Real estate, renting and business activities	39,2	40,5	37,6	:	41,4	41
... Public administration and defence; compulsory social security	41	40,4	40,1	:	37,1	37,3
... Other services	36,5	36,6	36,8	:	33,8	33,4
... Education	35,1	34,4	35,2	:	32,3	32,3
... Health and social work	38,6	38,1	38,6	:	34,5	34,1
... Other community, social, personal service activities	36,4	39,2	38,2	:	35,8	35
... Activities of households	:	:	:	:	27,5	26,6
... Extra-territorial organizations and bodies	:	:	:	:	39,1	38,4

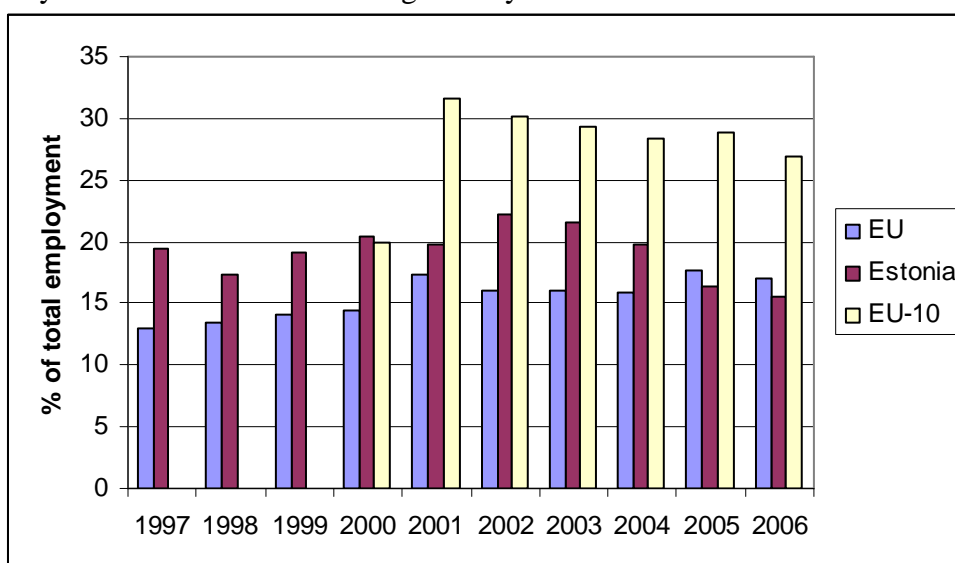
In services the number of weekly working hours is above average wholesale and retail trade in Estonia. In late 90s the same result applied to hotels and restaurants and transport, storage and communication sector; however, by 2006 the differences had disappeared and working hours in those sectors were similar to service sector average. In EU the number of usual working hours is above service sector average in wholesale and retail trade, hotels and restaurants, transportation and real estate.

The number of working hours is below average in education, and other community, social, personal service activities and other services both in Estonia and EU on

average. In EU the same applies to health and social work; in Estonia in this sector the working hours are similar to service sector average.

## 2.6.2. Shift work

The percentage of employees working on shift work has been fluctuating in Estonia. On the first half of the period (years 1997-2003) the figure was quite stable at nearly 20% of total of employees working on shifts. The only anomalous year is 1998 when probably due to the Russian crisis the percentage of employees working on shifts decreased somewhat. However, in recent years (2004-2006) there has been a decreasing in shift work. This might be related to the reduction in employment in the industry sector where shift work is generally more common.



**Figure 19.** Employees working on shift work as a percentage of the total of employees.

Source: Eurostat

When compared to the EU average, the incidence of shift work was clearly higher in 90s and in first four years of new millennia. Unlike the recent dynamics in Estonia, the popularity of shift work has gradually increased in EU as average. However, since 2005 the figure is almost at the same level; EU average is even slightly exceeding the figure of Estonia. When compared to the other EU-10 countries on average, the incidence of shift work is one of the lowest in Estonia. Eurostat provides data about average rate of shift work in EU-10 countries from 2000 and the figure clearly shows that the number of employees working on shift work as a percentage of the total employees is much higher in EU-10 countries than in EU-15 countries although the popularity of shift work has slightly decreased in this group, too.

Although in general shift work is more a feature of male employment than female, in Estonia (similar to Lithuania and Slovenia) relatively more women than men are involved in shift work.

### 2.6.3. Unsocial hours

There are several indicators available to measure the extent of working during unsocial hours in Estonia:

- ✓ the population in employment working usually on Saturday as a percentage of the total employment
- ✓ the population in employment working usually on Sunday as a percentage of the total employment
- ✓ the population in employment working usually at night as a percentage of the total employment
- ✓ the population in employment working usually in the evening as a percentage of the total employment

As there is no objective reasons to prefer one to others as they provide different kind of information about labour market, we discuss each of the aforementioned indicators in turn.

One of the trends that in common to all unsocial hours' indicators is the decrease in the popularity of working on unsocial hours in Estonia. This applies to Saturday and Sunday work in particular, but on a somewhat lesser extent to night and evening work as well. While almost one in three employed worked on Saturday in Estonia in 1997, the figure had decreased to 20% by 2006. At the same time the share in EU on average has remained stable, fluctuating in the range 27-30%. When compared to EU-10 countries on average, the incidence of working on Saturdays was higher in Estonia until 2003, by now the positions have changed.

The incidence of working on Sundays was remarkably higher in Estonia than in EU-10 and EU countries on average from mid-90s to 2004. Due to the quite rapid decrease in the share of Sunday work in Estonia, the figures have reached to the same level by now.

The same trend applies to working at nights and in the evenings, too, although the night work is much less popular than the other forms of unsocial work in Estonia as well as in EU on average.

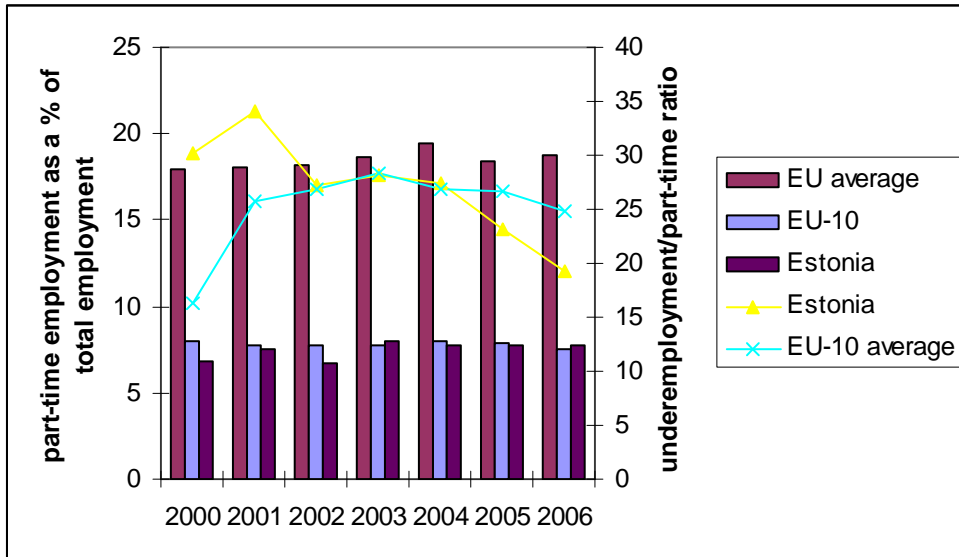
**Table 13.** Working on unsocial hours in EU countries on average and in Estonia (as a percentage of the total employment)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Working on Saturdays</b>										
<i>EU</i>	28,4	29,5	28,7	28,3	28,3	27,2	28,3	30,1	27,4	27,3
<i>EU-10</i>	:	:	:	19,1	20,5	20,3	20,7	21,1	21	21,6
Estonia	32	26,8	25,1	26,2	21	23,7	26,1	23,2	19,9	19,3
<b>Working on Sundays</b>										
<i>EU</i>	12,1	12,1	11,8	11,4	11,5	11,2	11,9	13,4	13,1	13,3
Estonia	22,5	18,2	17,8	18,5	14,6	16,2	19,2	15,8	13,9	13,6
<i>EU-10</i>	:	:	:	11,8	11,9	11,9	12,2	12,3	12,2	12,1

Working at nights										
EU	5,5	5,4	7	7,6	7	7,5	7,5	7,7	7,5	7,8
EU-10	:	:	:	6,6	4,9	5,5	5,9	6,2	6,4	6
Estonia	8,6	9	9,2	9,4	7,3	7,9	8,8	9,5	6,9	6,6
Working on evenings										
EU	15,3	14,4	17,7	17,8	17,6	18,6	19,2	18,8	18,8	20,1
EU-10	:	:	:	15	11,5	12,3	12,7	13,1	13,5	12,7
Estonia	23,7	21,3	21,4	24,6	19,4	21,3	21,3	22,4	18,2	18

#### 2.6.4. Involuntary part-time work

When analysing the theme of atypical work, it is often emphasized that the part-time work is one of the most wide-spread forms of flexible working time arrangements from the employee's point of view. However, it is not always true: in some extent part-time work can be considered as a tool to reconcile work and family life, but in every country there exist part-time employed who are declare that they are working part-time basis but would prefer to work full-time but cannot do this due to the employer-side restrictions. The latter case is often defined as "involuntary flexibility" and persons declaring this are considered to be involuntary part-time workers or underemployed. In this case part-time work provides flexibility to the employer (not to the employee) to optimise the amount of labour force employed at the enterprise. The figure 10 indicates that underemployed constitute a remarkable share of the part-time workers in Estonia as well as in EU-10 on average: in 2000 and 2001 almost one in three part-time workers was underemployed in Estonia, in 2006 the figure was 20%.



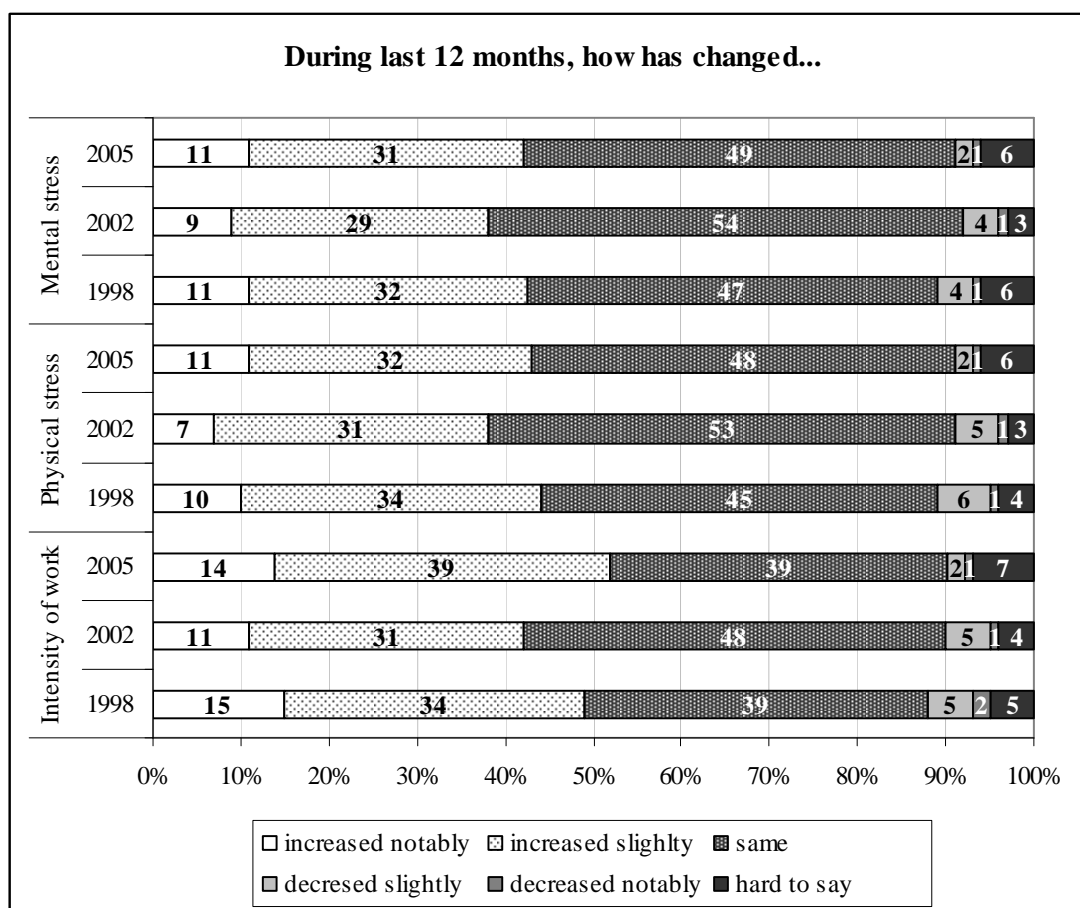
**Figure 20.** The incidence of part-time work and underemployment in Estonia and in EU.

However, an interesting pattern occurs: in 2000-2001 the share of underemployed as a percentage of part-time workers was higher in Estonia than in EU-10 countries on average. From 2002-2004 the figure was almost identical in Estonia and in EU-10 countries and 2005-2006 the figure of EU-10 average was higher.

## 2.7. Working rhythms and stress at work

According to several studies the health of people is worsening in Estonia. One of the reasons may be working environment. Risk factors which have gained a lot of attention in recent years are psychological risk factors, including working stress. According to the Working Life Barometer 2005 32% of respondents have noted that their work is related with stress, 29% noted worry and 27% noted irritability.

The data about work intensity, physical and mental stress reveal that on the average the perception of the pressure on the job has remained unchanged since 1998. However, there are differences across the years. In 2002 the percent of the respondents who perceived the increase in stress at work decreased and the percent of respondents who felt no change in the stress at work increased. In 2005 the opposite occurred and structure of perceptions was much like in 1998.



**Figure 21.** The perception of mental and physical stress and intensity of work, 1998-2005

Source: Working Life Barometer 2005.

The data suggest that working intensity is somewhat higher in foreign-owned companies (see table 1A in appendix 1). Additionally, physical stress is higher in foreign-owned companies, but mental stress is on the other hand higher in companies based on local capital. Analysing work intensity across economic activities, higher work intensity was reported on average by workers in hotels and restaurant, financial intermediation and real estate. Higher physical stress was in mining, manufacturing and construction, as expected and higher mental stress was in public administration and education. It seems that work intensity is higher in international companies, but based on described data one cannot conclude that work intensity is higher in sectors that more suffer from competition on external markets (compare for example with wholesale and retail trade and transportation).

Table 1A in appendix 1 contains also data about different stress indicators across occupation. Data suggest that work intensity is quite homogenous across occupations, with one exception (professionals). Physical and mental stress is more heterogeneously divided by occupations and as expected, workers in occupations related more with physical activities report more physical stress and workers in occupations related with mental activities report more mental stress. According to the data there seem no relevant differences in work intensity among employees, employers and self-employed entrepreneurs (see table 14). On the other hand, it appears that employees who work in companies with larger number of workers perceive higher work intensity.

**Table 14.** The perception of work intensity across labour status and size of the company (% of total), 2005

	Work intensity			Total
	High	Medium	Low	
<b>Status</b>				
Employee	35.78	<b>53.16</b>	3.72	886
Employer	38.10	<b>52.38</b>	4.76	42
Self-employed entrepreneur	28.13	<b>59.38</b>	4.69	64
<b>How many workers are in your main job?</b>				
1-10 workers	25.68	<b>58.22</b>	5.82	292
11-19 workers	32.28	<b>58.27</b>	3.15	127
20-49 workers	38.82	<b>50.00</b>	4.12	170
50-99 workers	36.22	<b>54.33</b>	3.94	127
100-249 workers	<b>48.76</b>	43.80	2.48	112
250 and more	<b>50.00</b>	43.75	1.79	53

Source: Working Life Barometer 2005, calculations of authors.

Note: Categories like “do not know” are excluded; values are expressed as percent of total.

Figure 21 revealed that over half of people perceived increase in work intensity in 2005. There is no research about direct connections between rising work stress and health and rising work stress and family life. The data of Working Life Barometer 2005 show that there seems to be some connection between missing days from work and perceived work intensity – workers who reported high work intensity miss more from work. However, one cannot conclude causality with such simple analysis.

**Table 15.** Mean number of days missing from work and perception of work intensity, 2005.

	Work intensity		
	High	Medium	Low
Mean number of days missing from work due to work-related health problems during the 12 months	2.6	0.5	1.9
Mean number of days missing from work due to work accident during the 12 months	0.7	0.5	0.1

Source: Working Life Barometer 2005, calculations of authors.

Work stress and intensity may affect family life through several ways – tensions at work may be carried over to relations with family members and increasing work duties decrease time with family. Unfortunately there are no studies confirming this in Estonia.

Recently the enterprises have started to give more attention to worker’s health and reconciliation with family life. Gyms and saunas are built to offices, sport events and events to families are organized etc. One of the reasons may be scarcity of labour and these additional bonuses may attract new workers. On the other hand employers may have acknowledged the connection between workers health and happiness and productivity in work.

Family-friendly enterprises are selected in Estonia since 2000. In 2006 over 70 enterprises participated. Many participated enterprises offer several benefits on child birth and benefits for covering expenditures related to children, family actions are organized and enterprises take account of the needs to combine work and family life. Arrangements are aimed often to workers families (benefits at birth, day off in Sept 1<sup>st</sup>, different events for families etc) and mothers (opportunity to work home, free internet etc).

For example, according to the questioning conducted in 2003 (<http://www.perekodu.ee/31692>):

**36%** enterprises organise events to workers and their families.

**31%** enterprises enable partial work if needed for family reasons.

**27%** enterprises organize events on school vacations to workers children.

**23%** enterprises enable additional vacation to father after child birth with retaining wage.

**15%** enterprises pay over 3000 crowns one-time benefit at child birth.

However, it should be kept in mind, that the number of enterprises participated in questioning is very small. Additionally, there is no data that enterprises extensively solve another major problem besides working time – scarcity of kindergartens for example.

## 2.8. Safety and health

### 2.8.1. Occupational accidents

Number of occupational accidents is increasing in Estonia – in 2006 there were over 3600 occupational accidents. Per 100 000 employed persons there were 565 occupational accidents. On the other hand the number of fatal accidents has decreased slightly during last years.

**Table 16.** Occupational accidents, 1992-2006.

	Occupational accidents	Occupational accidents per 100 000 workers	Fatal accidents	Fatal accidents per 100 000 workers
1992	2758	360	48	6
1993	1320	186	56	8
1994	1465	212	56	8
1995	2460	303	61	9
1996	2251	291	46	7
1997	2368	317	50	8
1998	2664	363	60	9
1999	3285	470	52	8
2000	2965	424	27	5
2001	3293	419	36	5
2002	4033	532	39	6
2003	3783	543	33	5
2004	3326	559	34	6
2005	3300	540	24	4
2006	3651	565	28	4

Source: Labour Inspectorate

State supervision in the working environment over compliance with the requirements of legislation regulating occupational health and safety and labour relations is conducted by Labour Inspectorate in Estonia. The Labour Inspectorate is a government agency operating within the area of government of the Ministry of Social Affairs. According to Labour Inspectorate the main reasons for occupational accidents are insufficient training and instruction, inadequacy to safety requirements of the implements and place of work. There are several factors which have promoted occupational accidents to increase recently – economic activities and working have accelerated (for example in forestry, construction, transportation) and qualified and experienced workers have left from Estonia and replaced workers are with inadequate training and experiences. Labour Inspectorate have pointed out that hiding of occupational accidents have decreased as well. (Tööinspektsiooni 2006.a aruanne)

The most occupational accidents were in manufacturing and mining. In detail, the most accidents were in the manufacture of wood and wood products (1712 per 100 000 workers), in manufacture of chemicals, chemical products, rubber and plastic product (1603) and in manufacturing of furniture (1239). (Statistical Yearbook of Estonia 2006)

**Table 17.** Occupational accidents by economic activity (per 100 000 workers), 2002-2006.

	2002	2003	2004	2005	2006
Total	532	543	558	564	565
Agriculture, hunting, fishing and forestry	512	555	624	696	629
Mining and quarrying	<b>1053</b>	<b>807</b>	<b>750</b>	<b>814</b>	<b>884</b>
Manufacturing	<b>1023</b>	<b>1021</b>	<b>1036</b>	<b>978</b>	<b>1055</b>
Electricity, gas and water supply	419	402	283	240	298
Construction	643	606	545	616	604
Wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods	328	411	376	452	433
Hotels and restaurants	318	362	370	335	386
Transport, storage and communication	481	431	514	485	476
Financial intermediation, real estate	308	411	366	390	370
Public administration and defense; compulsory social security	648	611	667	745	744
Education, health and social work	197	169	200	204	207
Other community, social and personal service activities	336	269	309	296	265

Source: Statistical Yearbook of Estonia, Estonian Statistical Office, 2007

As expected, with men more occupational accidents happen than with women; partially due to fact that men work more in manufacturing. There are differences across age groups and sex – the most accidents happen with 25-34 years old men and 45-54 years old women.

**Table 18.** Occupational accidents by age and sex, 2006

	Total	Under 18	18-24	25-34	35-44	45-54	55-64	Over 65
Total	3651	31	691	830	749	820	454	77
Men	2513	21	541	<b>632</b>	497	484	291	47
Women	1138	10	150	198	251	<b>336</b>	163	30

Source: Statistical Yearbook of Estonia, Estonian Statistical Office, 2007

Although the number of occupational accidents has increased, the number of lost working days has decreased compared to 2000.

**Table 19.** Working days lost due to occupational accidents.

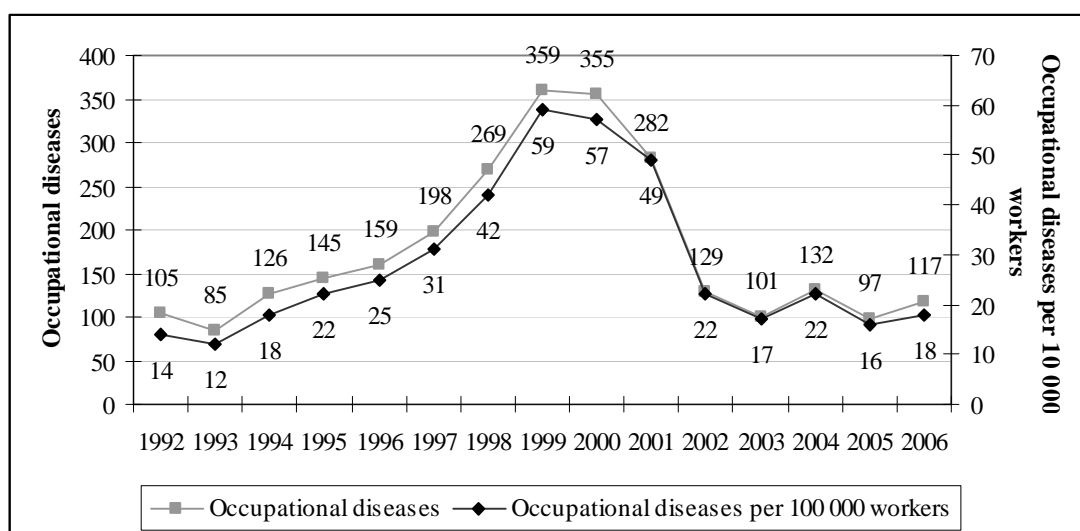
	1995	2000	2002	2003	2004	2005
Working days lost due to occupational accidents	83 643	157 051	171 850	146 411	118 941	125 314
The share of working days lost due to occupational accidents to all working days lost due to illness*, %	...	3,1	3,7	3,1	2,3	2,3

\* refers to all illnesses, not just occupational illnesses

Source: Social Sector in Figures 2006

## 2.8.2. Occupational diseases

In 2006 117 occupational diseases were diagnosed, in 2005 this number was 97. More occupational diseases were diagnosed on women (66). Across occupations most occupational diseases were diagnosed on workers working in agriculture and skilled workers in several professions (f.e drivers of motor vehicles, elementary workers etc). Most occupational diseases were diagnosed in agriculture. Physical overstress and compulsory positions were main causes of occupational diseases in 2006. (Tööinspektsiooni 2006.a aruanne)



**Figure 22.** Occupational diseases, 1992-2006

Source: Labour Inspectorate

Besides occupational diseases, work-related diseases are distinguished<sup>6</sup>. In 2006 362 work-related diseases were registered (164 men and 198 women). Most of these workers are aged 45-54. This indicates that most of the work-related diseases may be developed occupational diseases. Often workers are not interested in diagnosing occupational disease due to lack of social guarantees. This may be one reason for many occupational diseases been diagnosed as work-related diseases. Most of work-related diseases were diagnosed on elementary workers, drivers of motor vehicles and skilled workers. (Tööinspektsiooni 2006.a aruanne)

The number of occupational diseases has decreased significantly during 1999. This decrease can be explained by the fact that today occupational health care is no longer financed by Health Insurance Fund and therefore the occupational diseases are underreported. The increase till 1999 means in certain extent overreporting, as 1998-1999 there was economic recession in Estonia and firms could use Health Insurance Fund support to compensate some wage cost.

<sup>6</sup>Occupational disease is disease caused by risk factor or way of working which is listed in nomenclature of occupational diseases. Disease caused by work is disease which has been cause by some other risk factor. Occupational disease is been directly caused by risk factor of working environment, in case of disease caused by work the risk factor of working environment is one of the many reasons causing disease. (Occupational Health and Safety Act, § 23)

### **2.8.3. Risk factors**

Labour Inspectorate has estimated prevalence of risk factors in 10 000 enterprises over 2000-2005. Results indicate that the main risk factors at work are mechanical implements and main damagers of workers health are physiologic risk factors (hard physical work and compulsory positions). In 40% of enterprises noise, temperature, insufficient lightning and dust was detected as risk factors. Psychological risk factors were detected in 30% of the enterprises.

According to Working Life Barometer 2005 the fifth of workers work in conditions of noise or vibration and 12% of workers inhales smoke of tobacco. Main physiological factor affecting workers health is monotonous work – nearly half of the respondents have to stand or walk most of the time or do repeating hand movements at least half of the working time and nearly quarter of the respondents work with computer or have tiresome poses at work. Respondents also estimated the effect of their work to their health. 44% complained over general tiredness and muscular pain, 41% mentioned backache and over quarter of the workers have an opinion that work causes them stress, headache or irritation.

Data reveals that physical and mental stress are both significant risk factors. Half of respondents answered that their work is mentally hard or physically hard. Main reasons for mental stress are big responsibility, way of working, associating with clients and long work days. Main reasons for physical stress are regular standing at work, uncomfortable position of back, repeating movements of hand of wrist and hand movements needing strength. Finally, workers are asked to estimate how probable is that their work cause them chronic illness or accident. 42% of respondents estimated that risk of illness is big or medium and 39% of respondents estimated big or medium risk of occupational accident.

### **2.8.4. Inspection**

The occupational health and safety requirements for work performed by persons working on the basis of employment contracts and to public servants are provided by Occupational Health and Safety Act. Act entered into force in 1999. Act constitutes that physical, chemical, biological, physiological and psychological factors present in the working environment shall not endanger the life or health of workers or that of other persons in the working environment. An employer must design and furnish workplaces such that it is possible to prevent occupational accidents and damage to health, and to maintain the workers' capacity for work and their well-being. An employee is also obligated to follow safety requirement and to inform about problems.

According to the Act enterprises with more than ten workers must elect working environment representative, whose obligation is to monitor that occupational health and safety measures are implemented at the workplaces and that the workers are provided with personal protective equipment which is in working order. Enterprises with at least fifty workers must set up working environment council.

In national level The Advisory Committee on Working Environment deals with issues concerning the working environment and comprises occupational health and safety experts of government agencies, central associations of employers and central unions of employees. It is an advisory board within the Ministry of Social Affairs. Labour inspection and data gathering about occupational accidents and diseases in national level is performed by Labour Inspectorate in Estonia. Enterprises chosen for

inspection are enterprises which are engaged in economic activities where were most occupational accidents in last year and other enterprises engaged in more dangerous economic activities. In 2006 3846 enterprises were inspected (compared to 2575 in 2005). (Tööinspektsiooni 2006.a aruanne) This indicates that there are fields of economic activities which are inspected more rarely.

Besides to national level inspection in several enterprises there are representative of work environment. According to the Working Life Barometer 2005 about quarter of workers work in enterprises where such representative exists. Still, many representatives do not work actively – only 40% of workers have indicated mediation of problems by representative. By economic activity, more representatives are in mining and manufacturing, electricity, gas and water supply and in public administration.

**Table 20.** The existence of representative of work environment by economic activity, 2005

Economic activity	Is there representative of work environment (% of total)?		Total (in abs value)
	No	Yes	
agriculture, hunting and forestry	77.63	22.37	76
mining, manufacturing	52.38	<b>47.62</b>	63
electricity, gas and water supply	64.71	<b>35.29</b>	34
construction	82.29	17.71	96
wholesale and retail trade	88.36	11.64	146
hotels and restaurants	82.05	17.95	39
transport, storage and communication	67.39	32.61	92
financial intermediation	69.57	30.43	23
real estate, renting and business activities	91.89	8.11	37
public administration	63.93	<b>36.07</b>	61
education	69.77	30.23	129
health and social work	66.67	33.33	69
other	62.77	<b>37.23</b>	137
Total	72.55	27.45	1002

Source: Working Life Barometer 2005, calculations of authors

## 2.9. Access to training

According to Estonian Statistical Office 6.5% of persons aged 25-64 are involved to lifelong learning<sup>7</sup>. It is three percentage points lower than in EU on average (9.6%) and almost twice lower than in old member states (11,1%). During last 12 months 17% of persons participated in lifelong learning.

<sup>7</sup> Life-long learning refers to persons aged 25 to 64 who stated that they received education or training in the four weeks preceding the survey (numerator). The denominator consists of the total population of the same age group, excluding those who did not answer to the question 'participation to education and training'.

**Table 21.** Participation of population aged 25-64 in lifelong learning during last four weeks (%), 1997-2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Participated in lifelong learning	4.6	6.2	6.4	6.3	5.3	5.4	6.7	6.5	5.9	6.5
..participated in formal education	1.1	1.4	2.0	2.5	2.4	3.2	3.5	3.8	3.8	3.5
....studied in school of general or vocational education		0.4	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
....studied in high school	0.9	1.0	1.7	2.2	2.0	2.8	3.2	3.3	3.3	3.1
..participated in taught learning	3.6	4.8	4.7	4.1	3.1	2.3	3.4	2.8	2.4	3.4
....participated in training courses at work	2.8	3.4	3.0	2.7	2.0	1.6	2.1	1.9	1.6	2.3
....participated in conference or seminar at work		0.4	0.9	0.6	0.4	0.3	0.7	0.4	0.4	0.5
....participated in hobby courses		0.8	0.6	0.5	0.3	0.2	0.4	0.4	0.3	0.5
....participated in other taught learning activities		0.3	0.2	0.4	0.3	0.2	0.2	0.1	0.1	0.1

Source: Estonian Statistical Office

Most of the lifelong learning was happen through studying in high school and participating in work-related continuing vocational training, the proportion of studying in high school has increased significantly compared to 1997. Almost all VET institutions offer work related training courses for adults, mainly in the areas that they teach and based on prepared curricula. Most of public universities and applied higher education institutions offer further training as well, either in formal (eg. flexible “open universities”) or non-formal (in-service training) education system. (Annus et al. 2002) There is also a range of private training providers - about 440 providers whose main activity is continuing training, and 1,700 for which it was one of their “additional activities” according to the business register in 2000. (Koolitusfirmade/koolitajate uuring, 2001)

**Table 22.** Participation of population aged 25-64 in lifelong learning during last four weeks by sex, age, ethnicity and education (%), 1997-2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Men	2.8	4.5	4.2	4.2	3.7	3.6	5.0	5.3	4.4	4.2
Women	6.3	7.6	8.3	8.0	6.7	6.9	8.2	7.5	7.3	8.5
25-34	8.6	9.9	11.6	12.5	11.1	11.7	13.8	13.2	12.5	12.2
35-44	4.2	6.4	6.4	5.7	4.8	4.9	6.3	6.1	5.9	7.4
45-54	3.4	5.6	4.9	4.6	3.5	2.9	3.8	3.6	3.1	3.6
55-64	2.0	2.1	2.1	1.6	1.1	1.2	1.8	2.0	1.2	1.9
Estonians	5.5	7.1	7.5	7.4	6.4	6.5	8.4	7.9	6.9	7.9
Not Estonians	3.1	4.3	4.3	4.2	3.3	3.1	3.4	3.8	4.1	3.8
Primary or lower level education	..	..	..	..	1.1	0.6	1.2	1.1	1.3	1.5
Secondary level education	3.1	4.0	4.4	4.8	3.8	4.6	4.8	4.8	4.7	4.9
Third level education	9.5	13.1	13.1	12.0	10.0	8.7	12.3	11.4	9.6	11.0

Source: Estonian Statistical Office

Groups that are more involved in lifelong learning are women, persons aged 25-34, Estonians and persons with higher education; with exception of last group their involvement has increased significantly over ten years. Results show that those groups in most need for training (non-Estonians, less educated, older people) participated less in lifelong learning than others. For example non-Estonians, among whom there are significantly more unemployed, have participated in training two times less frequently than Estonians.

Training is financed by enterprises mainly; in 2006 68% of all training was financed by enterprises. The percentage has increased three percentage point compared with previous year on account of other financers (including state). Non-formal education is usually paid by the individual or entity participating in it. Work-related training is generally financed by the employer, but resources can be provided by local governments or by the employee. According to Working Life Barometer 2005 92% of workers who participated in training financed by employer answered that training was useful in further working. This may reflect the efficiency of training.

**Table 23.** Participation of population aged 25-64 in lifelong learning during last four weeks by source of finance

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Employer	63.4	61.2	66.9	66.5	60.8	71.6	70.5	70.7	65.2	68.1
Trainee	22.1	25.4	18.5	20.5	26.6	16.2	12.6	16.1	21.5	21.6
Other	14.5	13.4	14.6	13.0	12.6	12.2	16.9	13.2	13.3	10.3

Source: Estonian Statistical Office

According to Eurostat Estonian enterprises invest 1.8% on average of their labour costs in continuing training courses in 1999 (Eurostat, Statistics in Focus, Theme 3-8/2002. Costs and funding of CVT in enterprises in Europe). Continuing vocational training was provided by 67% of enterprises. Continuing vocational training was more common in electricity, gas and water supply and financial intermediation. In manufacture of textiles and textile products, leather and leather products and in retail trade training was provided only about by half of the enterprises. See table 2A in appendix 1. The largest change has been in post and telecommunications were almost all enterprises provided training in 1999, but for 2005 this proportion has decreased 30 percentage points.

Comparing enterprises by number of the workers, continuing vocational training was more common in enterprises with more workers – almost all enterprises with workers more than 250 provide training. One of the incentives for continuing vocational training is probably the low participation rate and obsolete education in vocational schools and therefore lack of qualified labour force.

In national level training is financed by the state currently mainly for civil servants and teachers in state and municipal schools (2-4% of the annual “salary fund”, determined by Adult Education Act), as well as for the unemployed. Programmes for adult education are supported from the state budget if they match the approved national priority areas, such as long-term courses (more than 56 hours) for specific target groups, or Estonian language courses for non-Estonians.

For unemployed different labour market measures are directed. Expenditures on active (0.05% of GDP) and passive (0.12% of GDP) labour market policies remain at an extremely low level accounting only for total 0.2% of GDP in 2005 (compared with 2% in old member states). Training expenses accounted 0.03% of GDP in 2005. (Labour market policy, 2007, Eurostat)

Out of the active measures labour market training is the most important both in terms of expenditures and in terms of participants. Employment training may be carried out in the form of vocational training or training in order to adapt to the requirements of the labour market. In year 2000, from all participants 86% belonged to first group of trainees. The second type of training includes providing information on requirements and opportunities in the labour market and psychological preparation in order to compete in the labour market. State employment offices contract training services from educational and training institutions and legal persons under certain conditions. The duration of the employment training is up to 6 months and it can be organised in the form of courses and individual training. (Annus et al. 2002)

In 2006 48 167 persons (in total) were registered as unemployed in Estonian Labour Market Board. Compared to 2005 number of unemployed has decreased 33%. Main reason for this decrease was rapid economic growth in Estonia. Unemployment benefit was received by 20 679 persons, which is 43% of all unemployed. Training was provided for 7073 unemployed, which significantly lower than in previous year.

However, the number of participants in training has increased compared to numbers in the end of the nineties. See for details table 3A. in appendix 1. One reason is due to legal changes which have widened access. Previously only those entitled to unemployment benefit have had access to labour market services, now all registered unemployed. As a consequence more people can register as unemployed and became eligible for labour market services, and the rate of registered unemployed is increasingly approaching the ILO figures. (Annus et al 2002) Still, the share of unemployed receiving training is very low, and even lower when considering all the unemployed (not only registred).

## **2.10. Social protection coverage**

Social protection expenditures have grown in growing pace since 2000<sup>8</sup>, in 2004 social protection expenditures grew 15% (as a comparison, real economic growth was only 6% in 2001). Expenditures grew most in family benefits (+47%) and declined most in housing benefits and social inclusion (-32% and -22% respectively) (2000-2004). Social protection expenditures grew also in relative terms measured as percent of GDP – the growth was half percentage point. However, expenditures did not reach the level of 2000 and the expenditures are significantly lower than the EU25 average (27% of GDP).

The largest share of social protection expenditure constituted old-age benefits (43%) and sickness benefits (32%). The structure of benefits has remained practically same over 5 years. For details see table 3 in appendix 3.

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<sup>8</sup> Data of social protection expenditures before 2000 is not completely comparable with current data.

Most of the expenditures are financed by employer in Estonia (78% in 2004 according to Eurostat) and only 0.6% by protected person. Remaining 21% is financed by government (as comparison in EU25 these proportions are 39%, 21% and 38% respectively). At present, the social protection system is composed of the following schemes: a pension scheme financed by the social security tax<sup>9</sup> payable towards pension; a health insurance scheme financed by the social tax payable towards health, a family allowance scheme financed by the Government, an unemployment benefit scheme financed by the unemployment insurance, employer and employee. For more complete picture about sources of revenues, please look figure at appendix 3. Social benefits to the disabled as well as social assistance are financed by the Government and the social assistance is means tested. The health care sector is mainly financed by the sickness fund (sickness insurance scheme) but managed in part by the Government, the counties and the municipalities. The municipalities run the social-assistance, home-help and nursing schemes as well as the institutions and care for children and young people, the elderly and the disabled.

In Estonia, pay-as-you-go financing is common in relation to sickness benefits and pensions<sup>10</sup>. These insurances are only for people in the labour market and are financed by the employers and employees, where the employers finance the largest part. While the employers pay a rather high social security tax, they pay, on the other hand, very little, or no, income tax<sup>11</sup>. People who are not insured are normally only covered by means-tested benefits that are very small because they are calculated in accordance with the poverty level. According to Eurostat, 5.8% of women aged 18-59 and 6.1% of the men of same age live in jobless households. The share of children aged 0-17 living in jobless households is 8.2%. Still, all these shares has declined since 1998 (in 2001 these shares were for example 11.1, 10.9 and 11.2 respectively).

### **2.10.1. Social protection of family**

Estonia supports families by partially compensating the costs of caring for, raising and educating children. The system of child and family benefits has been improved several times becoming more and more family friendly culminating with the introduction of the Parental Benefit Act on January 1, 2004. Along with current universal family benefits, the new benefit is a measure aimed at reconciling work and family life. It also aims to increase Estonia's birth rate and helps parents meet expenditures arising from a newborn child.

Families with children have many opportunities to receive financial support. There are five types of benefits: the maternity benefit, the parental benefit, universal family benefits, tax credits and holiday benefits. The family benefits are stipulated mainly by the State Family Benefits Act. Local governments also play a role in supporting families with children according to the needs of families and the availability of resources at the local governments. State family benefits are paid to permanent residents of Estonia and aliens who have temporary residence permits.

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<sup>9</sup> Social security tax (direct translation from Estonian is social tax) is tax paid by employers from total payroll of the firm. Tax rate is 33%, 20% goes to Health Insurance Fund and 13% to the State Pension Fund. Could be interpreted as social contribution.

<sup>10</sup> Funding system was introduced to pension system recently in addition to pay-as-you-go system.

<sup>11</sup> Corporate income tax rate for firms is 21% (flat rate), but from reinvested profit 0%. In reality majority firms reinvest they profit and do not pay income tax.

### *Maternity benefit*

The maternity benefit is meant for working mothers and compensates 100% of the mother's previous wage for a period of 140 days (calendar days) prior to and after childbirth. Mothers who have difficult childbirths or have a multiple birth are given an additional 14 days of maternity benefits. The maternity benefit is financed by the health insurance budget through the Estonian Health Insurance Fund.

### *Parental benefit*

The Parental Benefit Act took effect on 1 January 2004. The new law helps parents to maintain their living standard by paying benefits to a parent who has taken parental leave. The main reason for introducing this benefit is worsening demographic situation and the need to promote fertility. The size of this benefit is based on the parent's previous earnings (100% of previous earnings) with small exception concerning the minimum and maximum. The parental benefit is paid to the working mother after the expiration of the maternity benefit (140 days). Together the maternity benefit and the parental benefit are paid for a period of 455 days, so that the parent's wage is maintained during a period of 15 months when a child is born. Income tax is withheld from parental benefit.

Non-working parents have the right to parental benefit for 14 months starting from childbirth. Fathers and mothers have equal rights to claim the parental benefit beginning 6 months from childbirth. The parental benefit is paid from the state budget through regional Pension Boards. Receivers of parental benefit can additionally work without losing benefit (see more in section 3.12).

In 2005 parental benefits was paid to almost 24 000 parents (in 2004 – 22 500). There is no reported data about an overall coverage of the parental benefit in relation to number of birth. Plain comparison of the number of persons received parental benefit for the first time (12 422) and the number on births (14 877) in 2006 yields coverage rate of 83%. The average parental benefit was 5 952 EEK in 2006, constituting 63% of average gross wage (79% of average net wage).

### *Universal family benefits*

Family benefits are financed from the state budget. The Social Insurance Board administers family benefits through regional Pension Boards. The State Family Benefits Act provides the classification of family benefits as well as the conditions and application procedure of the benefits.

The basis for calculation of family benefits, except the childcare benefit, is the child allowance rate. Childcare benefits are calculated on the basis of the childcare benefit rate. The State Budget Act establishes both rates every year. A new rate cannot be less than the rate in force. In 2004, the child allowance rate was 150 EEK, and the childcare benefit rate was 1 200 EEK. All familybenefits are coefficients of those rates.

The state pays family benefits for every child up to the age of 16 and for continued education up to the age of 19.

- The birth grant, independent life grant and adoption allowance (since 2002) are lump-sum benefits;
- The school allowance is paid once a year; benefits for families with triplets and with three or more children are quarterly;

- Other family benefits are paid monthly.

In 2005, family benefits accounted for 2.2 billion EEK (140 million EUR) and 1.3% of GDP. For detailed data see table 4A in appendix.

#### *Other bonuses*

Three tax credits are available for parents or parental guardians.

- The first allows parents to deduct the education costs of dependents up to the age of 26 including interest payments on student loans.
- The second deduction allows for one parent to increase their maximum tax-free income of children under the age of 17 beginning from the second child.
- Beginning in 2004, a young parent who has graduated from university or a vocational institution can apply for a 50% reduction of student loans per child. In 2005 student loan was repaid for over 4300 young parents. Holiday pay is determined for additional holidays of minors, disabled persons and additional childcare leave. As of 2000, the holiday pay for a day of additional childcare leave is 66 EEK (4.2 EUR). The employers pay the family holiday benefits of their employees and are then compensated by the state. A working mother raising a child under 1.5 years of age is entitled to additional breastfeeding breaks at least every three hours for duration of 30 minutes. Payment of average wages for the additional breaks shall be supported by state budget funds.

According to survey conducted by Võrk, Paulus (2007) national family benefits, parental benefit and additional tax credits together decreased the number of children living in poverty about 8-10 percentage points or approximately one-third (almost 20 000 children). The largest impact appears to have occurred on families with many (more than three) children. Comparing different benefits, poverty is most reduced by national family benefits – 6-8 percentage points).

### **2.10.2 Health insurance**

The Estonian health insurance system is based on solidarity – all insured people have the same rights. To receive health insurance from the Estonian Health Insurance Fund (EHIF), social taxes (contributions) must be paid in Estonia, and an Estonian ID number is needed. Some people have the same rights as taxpayers, for example children and pregnant women from the 12th week of pregnancy. There is no refund system in Estonia. 94.5% of residents were covered by health insurance in 2005 and nearly half of them were working.<sup>12</sup>

**Table 24.** Health Insurance coverage, end of the year, 2000-2005

	2000	2001	2002	2003	2004	2005
<b>The number of insured</b>	1 276 923	1 278 086	1 284 076	1 272 051	1 271 558	1 271 345
% of population	93,4	93,9	94,7	94,2	94,5	94,5
The number of insured who work	...	574 284	578 578	585 139	595 734	617 631

<sup>12</sup> Not covered are some groups of inactive population, for instance house wives, but also those who work in black economy.

..% of insured	...	44,9	45,0	46,0	46,9	48,6
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Source: Social Sector in figures 2006

The EHIF pays for visits to doctors and hospital treatment, and covers part of the cost of some medicines. The EHIF covers the costs of medical treatment, apart from the own contribution amount for the fee for visiting medical specialists (50 kroons) and the hospital in-patient fee (25 kroons per day). First aid in the event of emergencies is free of charge for everybody. Dental care is only partly covered by the health insurance scheme, and the treatment is largely provided by private dentists. The system for pharmaceuticals is based on a preferential list of essential drugs. Certain drugs will be reimbursed by 100 per cent or 90 per cent of costs exceeding EEK 20 (i.e. the person pays EEK 20 her/himself). All prescribed drugs, which are not included in the list, are reimbursed by 50 per cent for prescriptions of medicines costing between EEK 50 and 200.

On the basis of the certificate of incapacity for work the Health Insurance Fund pays **the benefit for temporary incapacity for work** to the insured person, who loses income subject to individually registered social tax due to a temporary relief from the performance of duties of employment. The benefits for temporary incapacity for work include sickness benefit, maternity benefit, and adoption allowance and care allowance. Sickness benefit is paid to an insured person starting from the second day of the relief from the performance of his or her duties of employment marked on the certificate of incapacity for work. Sickness benefit is paid per calendar day 80% per cent of the individual average gross income per calendar day. 7.7 million days were repaid in 2005, which is 13 days per employee. Most of the paid benefits were sickness benefits.

**Table 25.** Repaid days of temporary incapacity to work

	1995	2000	2002	2003	2004	2005
<b>Number of days compensated for temporary incapacity to work, thousands</b>						
Total	6 755	6 763	6 411	6 717	7 321	7 685
Days of sickness benefit	4 882	4 819	4 504	4 733	5 222	5 454
Days of maintenance benefit	817	614	558	585	624	691
Days of occupational accidents benefit	84	157	172	146	119	125
Days of birth benefit	857	1 066	1 178	1 253	1 356	1 414
<b>Number of days compensated, per employed person</b>						
Total	10,3	11,8	10,9	11,3	12,3	12,7
Days of sickness benefit	7,7	8,4	7,7	8,0	8,8	9,0
Days of maintenance benefit	1,2	1,1	1,0	1,0	1,0	1,1
Days of occupational accidents benefit	0,1	0,3	0,3	0,2	0,2	0,2
<b>Number of days compensated, per certificate of incapability to work</b>						
Days of sickness benefit	13,2	12,9	13,0	12,4	12,7	12,6
Days of maintenance benefit	10,3	8,8	8,7	8,5	8,5	8,4
Days of occupational accidents benefit	30,0	22,7	22,7	21,3	20,3	20,9
Days of birth benefit	70,3	100,6	95,5	111,5	117,6	123,6

Source: Social Sector in figures 2006

Note: Since sickness benefit is not paid for first sickness day, the real missed days from work is bigger.

In the case of permanent incapacity for work, **disability (invalidity) pensions** are granted and paid. In the cases of permanent disability, employers (if responsible for

the accident) pay compensations in addition to the state invalidity pension. In Estonia, persons whose working capacity had been reduced by physical and/or mental disability were until 2000 entitled to a disability pension. Persons who received disability pension were divided into three groups: first, second and third category of disabled persons. In 2000, a new system for determining the degree of disability and the incapacity for work was adopted. Now, the incapacity for work is determined in percentages (10, 20, 30, etc. up to 100) and the disability is classified into three degrees of disability (severe disability, profound disability and moderate disability). The pension for incapacity for work will not be granted if the incapacity for work is less than 40 per cent. (Nordic/Baltic Social Protection Statistics 2000)

The pension for incapacity for work can be granted to a person of working age. After reaching the retirement age, persons who received a pension for incapacity for work (disability pension) will receive old-age pension if their years of pensionable service or the accumulation period are sufficient for the grant of an old-age pension, and a national pension in case old-age pension cannot be granted.

The right for the pension for incapacity for work has a person, who is at least 16 years of age and has been declared to be permanently incapable to work, loss of whose working capacity is 40 to 100 per cent and who by the initial date of granting of the pension has acquired the required pensionable service (certain amount of years of work) or accumulation period in Estonia. In case of permanent incapacity for work that has emerged as the result of a labour injury or professional disease, the pension for incapacity for work is granted without a pensionable service period requirement. Upon calculation of the pension for incapacity for work is taken as basis the biggest of the following: a) old-age pension, being calculated according to the pensionable service and accumulation period of a person who is permanently incapable for work; b) old-age pension in case of a 30-year pensionable service period. Amount of the pension for incapacity for work is the bigger of the two of the sums above and percentage of the loss of the capacity for work.

**Social benefits for disabled persons** are granted and paid to permanent residents of Estonia or persons residing in Estonia on the basis of a temporary residence permit with moderate, severe or profound disabilities which cause additional expense. There are seven classes of social benefits for disabled persons and they are calculated on the basis of the rate of social benefits. The rate of social benefits is established by the Riigikogu [?] in the state budget for each budgetary year. The rate of social benefits in 2006 is 400 Estonian kroons. In Estonia, disabled persons who live in their own homes are entitled to municipal domestic services, but these services are underdeveloped. In Estonia, there are also different possibilities for retraining, assessment of working capacity and re-schooling of disabled people in day centres and specialised institutions. In the beginning of the 2006 there were 113 000 persons with disability (45 000 men and 68 000 women) which constitutes 8.4% of residents (for detailed data see table A6 in appendix) (Social sector in figures 2006).

### **2.10.3 Employment promotion, unemployment**

From 1 January 2003 two types of cash benefits will be provided to unemployed people:

1. Unemployment insurance benefits (contributory earnings-related) and
2. State unemployment allowances, financed out of the state budget (flat rate).

The Unemployment Insurance Act (adopted June 13 2001, entered into force January 1 2002) regulates the conditions and procedure for the payment and grant of benefits upon unemployment, collective termination of employment contracts and insolvency of employers, and the organisation of unemployment insurance. The unemployment insurance operates as a compulsory insurance. The insurance scheme is financed from contributions made by workers and employers. The rate of the contribution made by the employee is 0.5 -2.0% of the employee's income and the employer's rate is 0.25-1% from the total salary paid out to all employees. The Government will establish the rates for each year according to the proposals made by the Board of the Unemployment Fund which administers the unemployment insurance system and pays benefits. In 2007 the rate of contribution made by employees is 0.6% and by employers 0.3%.

The insurance scheme applies to employees working under employment or service contract and to civil servants in the public sector. Self-employed persons are not covered by unemployment insurance scheme. The right to receive **unemployment insurance benefit** arises in case the qualification period is at least 12 months – entitlement to benefit arises from 12 months of contributions during the previous 24 months. Unemployment insurance benefits are not paid to those who left their previous work or service voluntarily or on the initiative of the employer for a breach of duties, loss of confidence or indecent act on the employee's behalf. However, they are entitled to unemployment allowance.

The period of payment of unemployment insurance benefit depends upon the person's contributions made to the Fund ranging from 180 to 360 calendar days. During the first 100 days of unemployment an insured person is entitled to 50% of his/her previous average daily gross income. For the remaining period of unemployment an insured person is paid 40% of his/her previous average daily income. If the unemployed refuses suitable work the unemployment fund terminates payment of the unemployment insurance benefit. Unemployed persons who are paid unemployment insurance benefits during a period which is shorter than 270 days have the right to receive allowance until the end of the period of 270 days. Due to the scarcity of labour and therefore declining unemployment the number of person received unemployment insurance has declined substantially.

The Social Protection of the Unemployed Act (adopted June 14 2000, entered into force October 1 2000) regulates the registration of persons as unemployed and the payment of state **unemployment allowance**, single benefits and stipends through employment offices. The Labour Market Board administers the unemployment allowance scheme. The Government shall establish the benefit rate. Expenditures are financed from the state budget.

Persons, who have been employed or engaged in an activity equal to work for at least 180 days during the 12 months prior to registration as unemployed, have the right to receive unemployment allowance. The unemployment allowance is means tested. An unemployed person who at the time specified by the employment office reports thereto at least once within 30 days, and whose income is less than the unemployment allowance has the right to receive state unemployment allowance. State unemployment allowance is paid generally for up to 270 days. Since 1999 till 2005

the unemployment allowance has been 400 crowns. Over 40% of registered unemployed received unemployment allowance in 2005. In 2006 the rate was changed and today the allowance is 1000 EEK per month.

**Table 26.** The number of unemployed and benefit receivers, 1995-2005

	1995	2000	2002	2003	2004	2005
<b>Registered unemployed (yearly), thousands</b>	77,3	120,9	108,0	99,0	88,5	71,7
Men	...	...	...	45,1	40,3	31,9
women	...	...	...	53,9	48,3	39,8
<b>Receivers of unemployment benefit, thousands</b>	39,8	67,4	56,9	47,4	39,3	31,3
The number of persons paid unemployment insurance benefit payment (during the year), thousands			638,2	592,4	602,4	619,0
<b>Benefit receivers:</b>						
The average monthly number of receivers of unemployment insurance benefit				3 163	5 356	4 270

Source: Social sector in figures 2006

#### 2.10.4 Pension system

The types of state pension are:

- national pension;
- old-age pension, which subtype is early-retirement pension;
- pension for incapacity for work; - see previous section
- survivor's pension.

When pension reform was started in 1998, Estonia opted for a three-pillar pension system. The First Pillar is the renewed state pension scheme. The Second Pillar, a mandatory funded pension scheme, was implemented in 2002. The Third Pillar, enacted in 1998, is a voluntary supplementary pension scheme that is supported by the Government through tax deductions. Two additional pillars will help to increase the income of elderly; according to Eurostat at-risk-of poverty rate for person aged 65 and over was 20 in 2005 and it has increased since 2000 (16).

##### *The First Pillar: State pensions*

State pensions are financed by a social security tax paid by all employers on behalf of their employees and by the self-employed. The rate of tax is 33 per cent of the gross payroll. The share of social tax allocated for pensions is 20 per cent of the gross payroll (13 per cent is allocated for health insurance). State pensions can be divided into two groups: employment-related (i.e. old-age pension, pension for incapacity for work, survivor's pension) and minimum or national pensions. Employment-related pensions have been changed from a system where pensions were based on length of service to a system based on social contributions. Each year of work completed before 1999, will count as equal service contribution years and contributions made beginning in 1999, will count towards one's pension on an individual basis.

To receive the **old age pension**, the recipient must have worked in Estonia for at least 15 years. Currently, men have the right to old age pension at the age of 63 and women at the age of 59. The pension age for men and women will be equal by 2016 with the women's qualifying age gradually rising to 63. People working after reaching the pension age (i.e. working pensioners) are entitled to a full pension, regardless of their work income. Since 2000 person has the opportunity to defer his/her pension benefit and his/her benefits are increased 0.9% for every month which has passed after the person has attained the pensionable age. Person has also right to stay early retirement (since 2000) in case of meeting requirements on tenure. Calculating early retirement benefits, these are decreased 0,4% for every month person retired earlier.

In 2001, state pensions were not subject to taxation. From 2002 onwards state pensions constitute a taxable income. However, the amount of pension, which is less than 36 000 EEK/2 328 EUR a year (or 3000 EEK/ 192 EUR a month), is not subject to taxation.

The **survivor's pension** is paid in case of the death of the provider of income to the family members who were under his/her maintenance. A pension will be granted to a child, parent or widow(er) independent from the fact if they were under the maintenance of the provider or not. The survivor's pension is adjudged if the provider had maintained the required pensionable service or accumulated period in Estonia. Upon calculation of the survivor's pension is taken as basis the biggest of the following: a) old-age pension, being calculated according to the pensionable service and accumulation period of the provider; b) old-age pension in case of a 30-year pensionable service period. Amount of the survivor's pension depends on the number of family members.

The **national pension** guarantees a minimum income for persons who are not entitled to an employment-related pension. The national pension is the right of residents of Estonia who have attained 63 years of age irrespective of how many years they have worked, if they have resided in Estonia at least 5 years before making a pension claim and if they do not receive a pension from another state.

The number of people who received a state pension was over 380 000 in 2006 (28% of the population, for details Table 5A in appendix). Most of them are receiving the old age pension. 2/3 of old age pensioners are women. The old-age pension benefit constitutes about third of average wage.

**Table 27.** The average monthly pension benefits (EEK), 1998-2006

	1998	2000	2001	2002	2003	2004	2005	2006
Old-age pension	1 247	1 551	1 552	1 620	1 832	2 072	2 302	2 739
Early pension	-	-	1 316	1 328	1 471	1 657	1 828	2 180
Deferred pension	-	-	-	-	1 766	2 061	2 345	2 873
Pension of incapability to work	902	1 141	1 057	1 037	1 111	1 244	1 367	1 625
Survivor benefit, per family	1 250	1 280	1 138	1 078	1 031	1 001	1 136	1 319
National pension		800	941	872	839	809	829	912

Source: Social sector in figures 2006

*The Second Pillar: Mandatory funded pensions*

The funded pension is the main addition to the state pension, providing supplementary income for pensioners. It is a retirement savings plan where a working person saves for his or her own pension, contributing 2% of their gross salary to the pension fund. The state contributes an additional 4%, from the pension insurance part of the social tax that has been paid by the employer for its employee, to the individual's personal pension account and retains the remaining 16% for members of the second pillar. Subscription to the funded pension is mandatory for taxpayers born in 1983 or later. Once a year the individual may choose a different pension fund to which new contributions are made. Social tax contributions made by the employer will remain the same whether the employee joins the second pillar or not.

As of 2005, over 480 000 people, this is around 70% of the labour force, had joined the second pillar funded pension plan.

**Table 28.** Mandatory funded pension

	2002	2003	2004	2005
Number of joined persons	209 610	353 176	426 792	481 268
Men	91 939	157 679	193 847	221 198
Women	117 671	195 497	232 945	260 070
Contributions, million crowns	81,9	874,8	1 322,7 <sup>1</sup>	1 761,9

Source: Social sector in figures 2006

#### *The Third Pillar: Supplementary pensions*

The supplementary pension scheme is based on individual voluntary pension contributions. The third pillar has existed since 1998, when the necessary legal framework was enacted. Participation in the supplementary pension scheme can take two forms:

- The purchase of pension insurance policies offered by licensed private life insurance companies.
- The purchase of voluntary pension fund units managed by private fund managers.

To encourage participation in the supplementary pension scheme, the following tax incentives have been introduced (for those who insured): Contributions (premiums paid on the basis of pension insurance policy or sums paid for purchasing fund units), limited to 15 per cent of the annual gross income, can be deducted from one's taxable income.

- Income received from a private pension insurance policy or from the redemption of pension fund units are taxable at a lower rate (10 per cent) of income tax. In the case of purchase of a life annuity, payouts are not taxed.

When participating in the supplementary scheme, the pension age is a matter of negotiation between the person and the insurance company, except that the minimum contractual age, in which case the tax exceptions apply, is 55 years. By 2005, 75 000 people had signed a private pension contract with a life insurance company.

**Table 29.** Supplementary pension 1998-2005

	Number of joined persons	...men	...women	Contributions, million crowns
1998	348	...	...	1,3
1999	10 452	...	...	43,4
2000	24 430	...	...	111,3
2001	34 883	...	...	166,4
2002	46 732	21 515	25 216	235,8
2003	58 317	28 638	29 678	307,5
2004	68 469	33 887	34 581	339,3
2005	75 009	36 672	38 337	443,0

Source: Social sector in figures 2006

### 2.10.5. Subsistence benefit

For guaranteeing the minimum income and for covering the consumption expenditures necessary to satisfy the primary needs subsistence benefit is paid in Estonia. Subsistence benefit is paid to people living below the subsistence level, including people without a place of residence, for buying foodstuffs, clothes and other essential goods and services. Subsistence benefit may be applied for by a person living alone or a family whose income, after the payment of the housing expenses of one month, is below the officially established subsistence level. The second and following family members are entitled to benefit of 80% of subsistence level. Since 2005 additional subsistence benefit are paid to household, where all members are minors. 2.6% families received subsistence benefit in 2005.

**Table 30.** Subsistence benefit, 1998-2005

	1998	2000	2001	2002	2003	2004	2005
<b>Subsistence benefit</b>							
Applications granted, thousand	577,2	494,8	443,3	385,7	313,4	214,6	174,4
Average size of the benefits per application	503	617	797	847	984	1 010	1 192
Average number of granted applications in month, thousand	48,1	41,2	36,9	32,1	26,1	17,9	14,5
The share of families receiving benefit to all families, %	7,8	7,2	6,5	5,7	4,6	3,2	2,6
<b>Additional benefit</b>							
Applications granted, thousand	317,1	29,2	3,8	48,4	37,3	33,5	104,9
Average number of granted applications in month, thousand	26,4	2,4	0,3	4,0	3,1	2,8	8,7
Average size of the benefits per application	381	343	279	440	454	545	419

Source: Social sector in figures 2006

## 2.11. Social dialogue and workers participation

### 2.11.1 Legal context

As collective industrial relations have a minor relative importance in Estonian labour market, the rules are stipulated mainly by the legislation. The bases for the collective industrial relations are as follows.

The **Constitution of Estonia** (adopted in June 1992) offers an indirect as well as a direct legal basis for the creation and functioning of trade unions.

The **Trade Unions Act** was adopted on 14 June 2000 (until that time, a law of trade unions from 1989 was still valid). The purpose of the trade union law is not to dissolve technical discrepancies but to guarantee rights to establish and join unions in full freedom without previous authorisation, to freely choose their representatives subject to internal rules only and to guarantee trade unions number of rights including information and consultation, training of members, inspecting labour conditions on the workplace and priority to conclude collective agreements. The act lays down basic rights and legal status of trade unions, their relations with central and local government bodies and employers, as well as the provisions concerning the setting up, activities and termination of trade unions that operate as non-profit organisations. Since December 2000, there also exist administrative sanctions (fines) for breach of trade union rights.

The main basis for the tripartite is the **Collective Agreements Act** of 14 April 1993 that also regulates the bipartite system. Article 3 stipulates that a collective agreement can be bilateral or tripartite. A tripartite collective agreement is entered into between the central federation of unions of employees, a central federation of employers and the Government of the Republic, and between local federations of unions of employees, a federation of employers and local governments. This means that the tripartite can be activated on both national and regional/local level. The Collective Agreements Act lists five issues that can be subject of a tripartite collective agreement:

1. the minimum wage and the procedure for amending it based on rises in the cost of living
2. additional measures to ensure occupational safety and health
3. additional employment guarantees
4. other additional guarantees pertaining to employment which parties consider necessary
5. procedures for monitoring the performance of the collective agreement and receiving necessary information.

A legal basis of the tripartite is the **Law of Health Insurance** that became already effective in 1992. On the basis, both employers and employees have been participating in the work of health insurance councils.

The process of tripartite negotiations is managed by the **Regulation of Tripartite Consultations** ratified in 1996, which states that the schedule of the following consultations is settled on the previous consultation and the decisions are made on the

principle of consensus. There are several other acts and regulations concerning the area of labour relations (for example, Law on Shop Stewards, Occupational Health and Safety Act, etc).

### 2.11.2. Institutional framework

Trade unions in Estonia are organised around the sector principle, i.e. they are organised on the basis of the sector to which the employees belong. The majority of trade union organisations represent an entire sector although there are exceptions - occupational trade unions, which unite employees only in one occupation. Some industries, like construction, and banking are almost union-free in Estonia.

**Table 31. Trade union membership and participation rate**

Year	1991	1995	2001	2005	2006
Employees (thousands)	771,9	589,7	529,8	558,2	594,7
Employed persons (thousands)	806,6	633,4	577,7	607,4	646,3
Labour force (aged 15-69 years, thousands)	818,7	701,4	655,2	653,8	681,3
EAKL members (thousands)	699,6	139,2	50	43,8	39,1
TALO members (thousands)	-	47	37	30	15,4**
Total no of union members (thousands)*	699,6	186,2	87	73,8	54,5
Union membership as % of employees	90,6	31,6	16,4	13,2	9,1
Union membership as % of employed persons	86,7	29,4	15,1	12,2	8,4
Union membership as % of labour force (aged 15-69 years)	85,5	26,5	13,3	11,3	7,9

Sources: EAKL, TALO, Statistical Office of Estonia

Notes: The membership numbers indicate the situation at the end of December of particular year; labour force numbers are average numbers for the year

\*The actual number of trade union members is in fact somewhat bigger compared to what is presented in the table as the number in the table is the number of members of central unions (EAKL and TALO). There are trade unions that do not belong to those two organizations.

\*\* At the beginning of 2007 TALO corrected its membership numbers. This new number indicates only those who pay union fees

Some part of the decrease in membership is caused also by overall decrease of labour force and increase of unemployment. In addition, on recent years some unions have started to exclude “symbolic members” from their membership reports (members who do not pay proper membership fees). Low initiative to take part in trade union movement has several reasons (Eamets, 2004):

- Industrial relations are often employer-dominated and a stricter legislation for participation organ would be necessary to improve the situation of industrial democracy,
- The low level of activity of labour organisations is also a result of a relatively bad financial situation of trade unions, qualification of trade union staff needs also to be improved,

- Society is not informed enough about trade union activities and their overall negotiating power is not very high.
- General economic changes (similar to those in old EU members) have influenced the decline in membership: structural changes in economy, increase of service sector increase of SME and self employment, increase of atypical labour etc.

At national level, the different sector-based trade union organisations are united into two umbrella trade union associations, which are internationally and nationally recognised as social partners:

- EAKL, so called trade union of blue-collars, is the largest organisation. It embraces 19 branch unions with approximately 39 100 members.
- TALO is the organisation of trade unions of white-collar employees. TALO embraces 12 branch unions with approximately 15 000 members.

There exist some trade unions in Estonia that do not belong to any association or central body and act autonomously. In most cases their role outside their own organisation is practically invisible and their political influence non-existent. Exception is perhaps the Estonian Medical Association (Arstide Liit), with 2600 members. This professional association of doctors is relatively powerful and has successfully lobbying Government in different working conditions issues like wages, working time etc. Also they have drawn public attention in connection with strike threats.

At national level, the different sector-based **trade union organisations** are united into two national trade union associations, which are internationally and nationally recognised as social partners:

- The Association of Estonian Trade Unions (EAKL), so called trade union of blue-collars, is the largest organisation. It embraces approximately 44 000 members in 2006.
- Estonian Employees' Unions' Confederation (TALO) is the organisation of trade unions of white-collar employees. TALO embraces approximately 30 000 members. (Kallaste, Tööturg 2005)

There exist some trade unions in Estonia that do not belong to any association or central body and act autonomously. Their role outside their own organisation is practically invisible and their political influence non-existent.

No good data exist on other representative forms. The worklife barometer (SaarPoll 2005) ordered by the Ministry of Social Affairs showed that the nonunion representative of the employees was chosen in 2005 in 9% workplaces of the salaried employees (24% of the employees found that this question is hard to be answered and 66% of the employees have no such representative). The non-union representative of employees has been chosen in 9% workplaces of the salaried employees on the basis of the worklife barometer. In half of the cases when the representative of the employees not belonging to the trade union existed, it was in the company which also had a trade union. Thus the representation of the employees not belonging to the trade union is not considerably increasing the relative importance of the employees who have a representation. The total relative importance of the salaried employees on the basis of the worklife barometer whose workplace had the trade union was 26%, trade union or representative of the employees not belonging to

the trade union (either together or separately) was in 30% workplaces of the salaried employees. (Kallaste, Tööturg 2005)

Today, there is one federal **organisation of employers** – the Federation of Estonian Employers and Industry (ETTK), founded in 1997 by the merger of the Estonian Confederation of Employers' Organisations and the Confederation of Estonian Industry and Employers. The ETTK's membership embraces 31 branch associations of employers and associated member associations and 23 commercial undertakings in December 2003 (data provided by ETTK). This means that ETTK encompasses about 1500 enterprises with around 45 000 employees (25% of employment and 35 % of private sector employment). ETTK has taken for its mission to raise competitiveness of Estonian economy by improving economic environment and providing social stability.

ETTK is an umbrella organisation of employers' organisations that is acknowledged by the Government of Estonia and by the trade unions as a social partner. It is very complicated to estimate the percentage of enterprises that is organised in employers' organisations. It is difficult to assess all acting enterprises (small ones), and it is sometimes not clear whether a branch business organisation is the representative organisation of employers. For example, Oil League belongs to ETTK, but has not made collective agreements.

Besides ETTK, there exist three other employers' organisations that are recognised by the Government, but that have specific tasks. The ETTK is the official partner in the social dialogue. The Chamber of Commerce (which is a legal person in public law and mainly deals with business contacts), the Big Business Association (a leading partner for the ministry of economics) and the Association of Small and Medium Enterprises are entrepreneurs' and entrepreneurship organisations.

The **state** plays a very important role in the regulation of working conditions and industrial relations in Estonia. It intervenes at the legislative, administrative and jurisdictional level. In the legislative sphere, the Government:

- Establishes the constitutional basis for workers' rights;
- Establishes the constitutional basis for trade union freedom and collective autonomy,
- Gives sphere to and guarantees the legal effectiveness of the collective regulation of working conditions,
- Prescribes a legal minimum of protection in the workplace,
- Establishes the general nature of the employment contract.

In the administrative sphere, the Government makes a direct contribution to the collective regulation of working conditions. It is also responsible for inspections (Labour Inspectorate), contributions to the resolution of collective disputes, and a range of administrative duties.

In addition to state level regular social dialogue, social partnership is implemented through regular **tripartite bodies**. The tripartite bodies have in general consultative purposes. The main institutions concerning tripartite negotiations established by the government in Estonia are Estonian ILO Council and Social-Economic Council. Both of them consist of the representatives of the government, employers and employees. The task of the Estonian Council of ILO is to help the Government to fulfill the

obligations that arise from the ILO membership. The Council is a consultative and advisory body, without power to take binding decisions. The main objective of the Social-Economic Council is to advise the Government and social partners on different labour market and social issues outlining economic and social policies of the country and their application. There are several other tripartite consultative organizations.

In August 1999, tripartite agreement on establishment of tripartite employment councils in regions (by country employment offices) was signed. Employment council has an advisory function the aim of which is to counsel the local employment offices in planning and implementing employment measures. These councils will provide various active labour market measures including the financing and formalisation of applications for re-training and vocational training of the unemployed. The objective is to increase efficiency of public employment offices in solving regional problems complexly, utilising local initiative.

### **2.11.3. Collective bargaining**

**Tripartite** negotiations started in 1992, when the first tripartite agreement concerning social securities was concluded. Through the years, tripartite agreements and consultations have concerned the rate of tax-free income, unemployment compensation, social security, vocational education, etc. Every year till 2001 also the national minimum wage was agreed upon during tripartite negotiations. Tripartitism in Estonia has somewhat regressed in recent years as the last tripartite agreement dates back to 2003, allegedly because the Government does not show much interest in concertation. Yet tripartism works rather well in two tripartite bodies in social security – the Supervisory Boards of the Health Insurance Fund (created in 2001) and Unemployment Insurance Fund (created in 2002).

**Bipartite** agreements take place above all on enterprise level, in some extent also on national level, sectoral bargainings are less frequent. Because of the small number of sectoral agreements also the coverage rate is low. According to the survey results of Antila and Ylöstalo (2003), coverage by collective agreements in 2002 was 22% in Estonia.

**State or national level bargaining.** One of the main tasks of national level bargaining is to decide the level of minimum wages. Other questions have been reforms of labour market legislation, social reforms and pensions. In Estonia, a single statutory national minimum wage rate applies essentially to all non-exempt workers without distinction. In Estonia, representatives of employers and workers negotiate over the national minimum wage rate every year, the bilateral agreement is then afterwards legalised by the government decree. In 2001, central organisations of employees and employers – EAKL and Estonian Employers' Confederation (Eesti Tööandjate Keskkliit, ETTK) – signed a bipartite agreement on the principles for establishing the minimum wage in the period up until 2008. According to this agreement, the rise in the minimum wage should be more rapid than the rise in the national average wage, so that the minimum reaches 41% of the national average wage in 2008. The economic growth with a relatively high increase in average wages has given trade unions good grounds for demanding a minimum wage increase.

However, the agreements of minimum wage have barely managed to keep up with the rise in the national average wage (Eamets et al, 2007).

**Sectoral level bargaining.** Sectoral bargaining is quite weakly developed in Estonia. This is evident from the low representation, often also institutional and financial shortcomings of social partners' institutions. Collective agreements on wages and working conditions are being negotiated only in a limited number of sectors. Their aim is usually to provide minimum standards. In some cases they are only wage agreements, fixing the minimum wage in the sector. Two sectors – healthcare and transport – used to have extended agreements using the amendment of the Collective Agreements Act from 2000. Yet currently there is no valid extended agreement in Estonia. The one in transport expired in March 2006 and the new one has not been signed. In healthcare only two out of four unions in the sector signed the last agreement and so it does not cover the whole sector.

**Enterprise-level bargaining.** Besides national level agreements, enterprise-level agreements are most common in Estonia. However, it must be noted that the initiative to bargain is usually taken by trade unions and employers are not interested in concluding collective agreements. Indeed, employers are under a legal obligation to conclude an agreement if employees wish to do so, but in practice there are often disputes where employers attempt to avoid signing agreements.

#### **2.11.4. Impact of economic and social context**

Since Estonia is with rather short history, social partners' organisations are quite young institutions – during the last decade, employers' organisations and employees representative organisations have been established. Therefore social partners, especially trade unions do not have often necessary experience, finances and qualified actors.

In recent years the economy has grown fast and unemployment has replaced by labour scarcity. This has caused rapid wage growth in several economic activities and occupations. Since work remuneration is most frequent issue in social dialogue, the economic growth may reduce the need for social dialogue. Additionally, in the times of high unemployment rate like in the end of the nineties and in the beginning of 2000 the possibilities to negotiate over wage are limited. The overall decrease of the active labour and increase of the unemployment in this period caused the decrease in membership.

A form of employees' representation at enterprise level is to be found in the field of occupational safety and health. On the basis of the adopted "Occupational Health and Safety Act" (June 1999), employees can be elected to the Councils of Enterprise's Work Environment. At national level, Work Environment Council act, which is an advisory body on work conditions at the Ministry of Social Affairs. The main function of the Council is to enable the envoys of the social partners to present their proposals and to express their opinion about devising and implementing the work environment policy. Act also stipulates that enterprises with more than ten workers must elect working environment representative, whose main task is to monitor safety in workplace.

The issues of safety and compensation in case of work accident are emphasised in some branch level agreements.

The worker-side low initiative to take part in trade union movement has several reasons:

- The industrial relations are often employer-dominated and a strict legislation side prescription for participation for participation organ is necessary to improve the situation of industrial democracy,
- The low level of activity of labour organisations is also the result of the relatively bad financial state of trade unions, the qualification of trade union staff need to be improved,
- Society is not informed about trade union activities and their overall negotiating power is not very high.

The number of collective agreements concluded in Estonia is quite small and employers have seldom been forced by means of actions (strikes, etc) to conclude collective agreements. This has happened partly because of the weak organisation of workers, partly due to the inability to understand the refusal to conclude a collective agreement as a labour dispute. The low level of membership is accompanied by low level of collective bargaining coverage. This indicates that there is no higher level binding collective bargaining than enterprise level, thus the agreements cannot be extended further and coverage rate is low. Trade unions are not informed always about their rights and legal opportunities, and in some cases working conditions stipulated in collective agreement are even worse compared with conditions in law.

### **2.11. 5. Excluded groups**

There are sectors where unions are completely missing like construction, banking, unions are weak in hotels and restaurants and in trade sector. As earlier studies have showed, even if there are union representative in place their opinion is often ignored, decisions are made in majority vote principle. This has been the situation in public institution for instanc. According to law people who are working as civil employees (hired by Civil Service Act) have no right to strike, so their possibilities to protect their rights are relatively limited.

### **2.12. Work and family life**

The reconciliation of work and family life is important due to impacts on fertility or women's employment; if work and family life cannot be reconciled, workers must give up carrier or family and children. Employment rates of men and women with and without small children are presented in following table.

**Table 32.** The employment gap of men and women with and without young children, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
<b>Have children up to 6 years old</b>							
Employment rate of men, %	88.3	88.0	89.4	89.9	89.4	91.8	93.0
Employment rate of women, %	45.4	47.0	45.0	51.4	49.0	47.4	54.5
Employment gap, percentage points	42.9	41.0	44.4	38.5	40.4	44.4	38.5
<b>Do not have children up to 6 years old</b>							
Employment rate of men, %	72.8	74.7	75.9	75.8	74.8	75.2	81.7
Employment rate of women, %	77.2	76.2	75.3	75.8	77.7	79.3	80.5
Employment gap, percentage points	-4.4	-1.5	0.6	0.0	-2.9	-4.1	1.2

Source: Estonian Statistical Office

Employment rate of men and women without small children is similar across year. As expected, at existence of small children, employment rate of women is remarkably lower compared with women without small children and men with small children. Also, the more children the lower the employment rates are – 66.1% of women aged 25-49 with one child work, 59.8% of women with two children and 39.1% of women with three or more children work (Eurostat news release 49/2005). Additionally, data suggest that employment rates of men with small children are on average more than ten percentage points higher than those of men without small children. Therefore one can conclude that women with small children work substantially less and men somewhat more compared to women and men without small children – different ways to reconcile work and family life.

Inactivity rate is comparable between men and women in Estonia – 27% of men and 34% of women were inactive in 2006 (see table 32). Still, women are more often inactive due to the need to take care of family members (6% of inactive women compared to 2%).

**Table 33.** Inactivity rate of 15-69 years old persons, 1997-2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Men</b>										
Total, thousand	118.7	122.9	127.2	125.8	129.0	133.4	131.8	135.7	139.8	127.4
Inactive due to the need to care for children or other household members, thousand	..	..	..	..	..	..	..	..	1.3	2.6
Inactivity rate, %	25.2	26.3	27.4	27.1	27.8	28.7	28.3	29.1	30	27.2
<b>Women</b>										
Total, thousand	203.1	202.1	204.6	202.0	201.0	204.7	199.2	197.4	193.9	181.7
Inactive due to the need to care for children or other household members, thousand	10.9	11.1	11.8	14.4	14.7	18.7	13.6	12.3	12.6	11.2
Inactivity rate, %	38.3	38.4	39.2	38.7	38.6	39.4	38.3	38	37.2	34.9

Source: Estonian Statistical Office

The total fertility rate was 1.55 and the mean age of mother at childbirth was 28 years in 2006. Increasing age and postponement of childbirth lead to lower fertility rate. At

the same time analyses show that wished number of children is lower than actual number of children (Kasearu, Kutsar 2003). This indicates to the difficulties of combining work and family life.

The share of working women has been largest among parturients – 60-70% in 1993-2004. Generally, the share of employed and unemployed has been similar among parturients and among women in general. However, in last years the share of working woman among parturient has been increased more than in general – 67% of 15-49 years old women giving birth worked before in 2004 compared to 61% in 2000. (Võrk, Karu 2006).

One reason for working women giving birth more than earlier years could be parental benefit introduced in 2004. The maternity benefit compensates 100% of the mother's previous wage for a period of 140 days prior to and after childbirth. The parental benefit is paid to the working parent after the expiration of the maternity benefit and it is based on the parent's previous earnings (100% of previous earnings). Together the maternity benefit and the parental benefit are paid for a period of 455 days. Almost 24 000 parents were paid paternity benefit in 2005 and it is 5% increased compared to 2004. Mostly mothers have claimed for benefit and only 2% of receivers of paternity benefit are men. Other parental benefits are quite low in Estonia. (See section on social benefits)

Since receivers of parental benefit can additionally work without losing benefit<sup>13</sup>, the number of benefit receivers does not reveal, how many of them are actually at home and for how long.

One way to reconcile work and family life is flexible working. Part-time working is not common in Estonia – approximately 4 percent of men and 10 percent of women worked with part-time in 2006 and on average quarter of them was underemployed. Part-time working is more popular among women and it may be due to the fact that women are usually taking care of children and family. This is partially confirmed by the data of Eurostat – 4.9% women with children under 12 work part-time compared to 4.5% women without children under 12 in 2003 (Eurostat news release 49/2005).

The increasing rate of part-time working women may result from the effects of the parental benefit – the fertility has risen during past years and women may work and receive parental benefit at the same time. The decreasing rate of part-time working men may reflect the effects of economic growth and scarcity of labour. Still, the share of part-time workers is low and indicates the rigidity of labour market. 15% of women and 23% of men responded that they have very difficult to work part-time when needed to take care of children (Sotsiaalse Võrdõiguslikkuse monitoring 2005).

According to the Working Life Barometer 2005 26% of respondents (16-64 years old employed persons) revealed that they want to work less to spend more time with family. 2/3 of them referred to low income and 1/5 to employer as obstacles. On the other hand 6% of respondents want to work more but 1/5 of them have to take care of children or other family members. It suggests that common problems with part-time working – lower income (and sometimes lower wage rate) and disfavor of the employers are present in Estonia as well.

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<sup>13</sup> If parent chooses to work during the period of the paternity benefit, she/he can maintain the revenue until it is smaller than benefit rate 82690 crowns in 2007). If earned wage is larger than benefit rate, new benefit is calculated as follows:  $(\text{benefit} + \text{revenue} - \text{benefit rate}) / 1.2 - (\text{revenue} - \text{benefit rate})$

Teleworking is quite uncommon in Estonia. Although according to Working Life Barometer 2005 20% of respondents worked partially at home, only 3% of respondents work only at home. More, teleworking is decreasing, since according to the same survey conducted in 2002 these numbers were 28 and 3. The lack of opportunities to work flexibly may have induced women to choose shift work and weekend work to combine work and child-care.

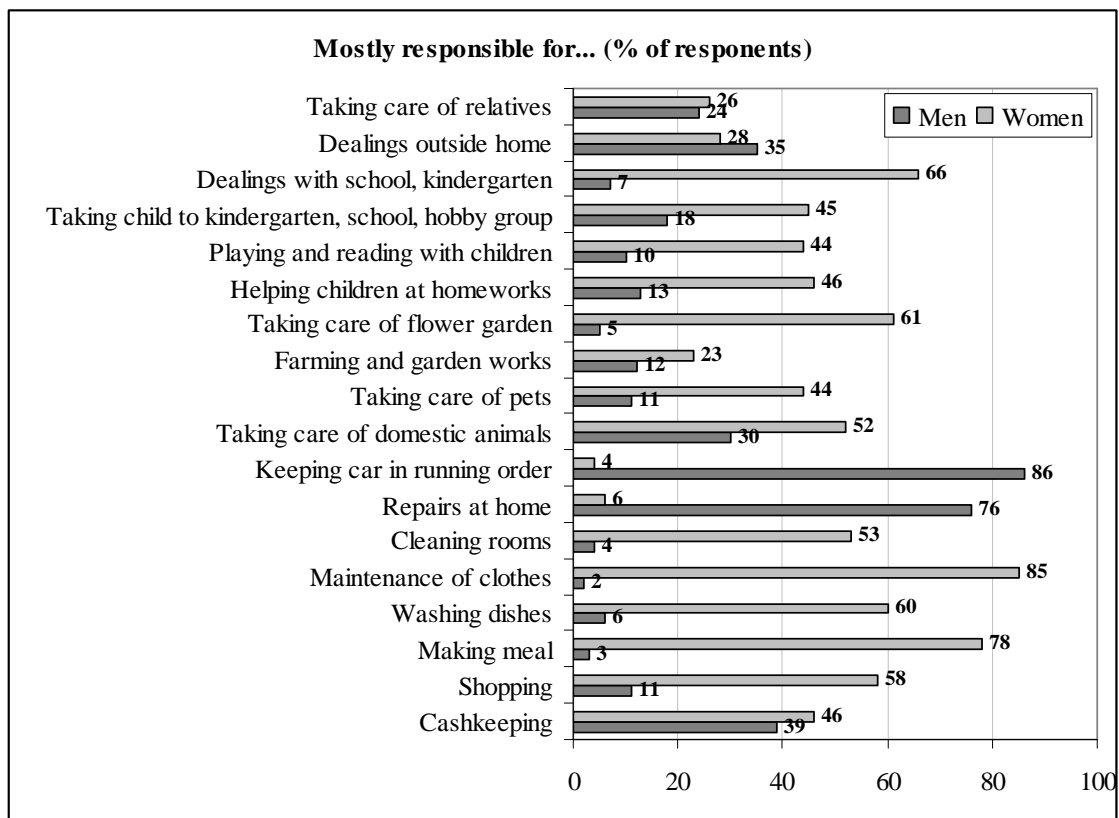
On average, men spend on home works and family 2.7 hours and women 4.8 hour. It should be noted, however, that on average men spend more time at work (4 hour compared to 2.8 hours), which results probably from the fact, that all women, working and women staying at home with children are considered. Still, the number of hours spent on house works, family and paid work is larger with women.

**Table 34.** Average time use in day (minutes), 1999-2000

	Men	Women
Employment	234	167
Household and family care	161	287
..food management	29	95
..Household upkeep	30	45
..making and care for textiles	1	32
..gardening and pet care	26	30
..construction and repairs	25	2
..shopping and services	19	27
..household management	4	5
..childcare	7	29
..help to adult family member	1	2
..travel related to household and family care	19	20

Source: Estonia Statistical Office

This aspect reflects also on distribution of home works – most home works are carried by women. As can be seen from figure 23 men are responsible for home works which are rather periodical (repairs, taking care of car) or which can be done by respective enterprise or worker. On the other hand women are responsible for everyday home works such as making meal, washing dishes, cleaning rooms etc. 30% of women from families with two parents and underage children have answered that they often feel too much home works upon them; 34% of women have felt this occasionally. Among men 4% and 9% respectively have complained about too many home works (Sotsiaalse võrdõiguslikkuse monitooring 2005).



**Figure 23.** Distribution of homeworks

Note: families with two parents and at least one under 18 years old child (the share who answered: I am responsible mainly)

Survey also reports that according to the results children are seldom responsible for some home work (mostly taking care of pets). They are included in home works and mostly these are home works made by women (cleaning rooms, washing dishes). This indicates that family model dominating today in Estonia may continue in future.

Another problem with reconciliation of work and family life is lack of vacancies in kindergartens. There are alternatives (for example nannies), but these are often too expensive. Only about 3.5% households with working women use services of salaried babysitters in case of children under 7, mostly kindergartens are used (51% of households). (Roosalu, Tööturg 2005) Additionally, kindergartens are usually inflexible and suitable for parents with traditional working day and long vacation on summer. Woman who wants to return to labour market may be incapable of doing it.

In Estonia pre-school institutions are normally run by the state, but there are also privately run institutions. In 2006 there were 602 pre-school institutions in Estonia and this number has slightly decreased compared to the end of the nineties (there were 668 institutions on average in 1995-1999). 85% of these institutions were kindergartens. The number of children aged 1-8 enrolled was 56 000 in 2006, 36% of them were aged 1-3 and 60% aged 4-6. In Table 35 enrolment ratio in pre-school institutions are presented in 1995-2006.

**Table 35.** Enrolment rate in pre-school institutions (%), 1995-2006

Age	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	5.8	8.1	9.6	9.7	11.0	13.1	12.5	13.0	13.4	12.2	11.9	11.3
2	37.6	40.4	45.5	47.5	48.0	50.2	52.5	52.0	53.7	56.1	57.0	56.2
3	57.9	63.3	66.6	68.4	69.7	74.3	74.6	76.2	79.3	80.6	81.2	83.3
4	66.0	68.4	73.8	73.5	76.5	78.8	79.8	80.9	84.0	84.2	86.1	87.0
5	67.2	70.8	73.4	77.3	78.8	82.6	82.8	83.2	85.5	88.3	88.7	88.6
6	65.8	70.8	74.2	76.0	78.9	81.8	83.3	81.6	84.9	88.1	87.3	87.1
7	12.5	14.1	15.3	16.3	16.9	16.1	16.9	17.0	17.4	17.6	19.7	19.5

Source: Estonian Statistical Office

Note: Enrolment rate - the total number of children in all preschool institutions in corresponding year (as at 31. December) divided by the number of 1–6 years old children in population next year (as at 1. January) and multiplied by 100.

The enrolment rate has increased notably in all age groups compared to the end of the nineties and has remained practically the same during the three years. The introduction of parental benefit has seemingly no significant effect to enrolment rate (there is minor decrease in enrolment rate of 1 year old children). The overall increase in enrolment rate is in accordance with the trends in expected time in preschool institutions – children aged 3-6 are staying longer in these institutions (2.6 years in 1995 and 3.5 years in 2006). The slowdown of the growth in enrolment rate is also affected by scarcity of kindergarten places – many families have to wait for a long time for place. According to the nonofficial data, 35% of families waited for kindergarten 1-2years and 15% of families waited 2-3years ([www.lasteaiad.ee](http://www.lasteaiad.ee)).

The increasing enrolment rate may reflect the increase in the income level – child care services are attainable for more people. Additionally, economic growth has brought more people to labour market, causing the more intensive need for child care services.

Tiit (2004) has estimated average expenses on maintenance per child. According to this study average cost on up to 6 years old child's maintenance is over 1800 crowns and it is increasing with age. The costs on child care are not distinguished directly; nursing costs, educational costs and tuition fees are part of other costs (for details see table 8A in appendix 1).

According to Unt, Krusell (2004) 43% of parents with small children use priced child care services and they spend on average 875 EEK (56 EUR) per month in 2004. The child care is the most expensive for families where nursing services are used and the least expensive for families where someone from family is looking after child. The average cost for kindergarten services was 317 EEK (20 EUR) per month in 2003 being the least expensive public child care service. There are still large differences in cost depending on location (by regions and by settlement type).

The discussion about the scarcity of kindergarten places has lasted for some time. In the beginning of year 2007 the Chancellor of Justice Allar Jõks announced that the activity of ministries and local authorities in solving the problem has been extremely insufficient and forwarded his suggestions. In December the Parliament passed the law, according to which the funds are allocated for the local administrations for creating kindergarten places.

Another obstacle in reconciling working and family life is taking care of elderly family members. The Ministry of Social Affairs has set the aims of elderly policy – to support self-sufficiency and active ageing of elderly. The first goal is connected with

reconciliation of work and family since family members do not need to take care of elderly family members (or at lesser extent) and can participate in labour market. There are several services for elderly including nursing services, daily centers and nursing homes in Estonia. Data suggest that the number of elderly using nursing services has grown in every age group (see table 36). The number of providers of nursing services has grown as well.

**Table 36.** Elderly using nursing services by age group

Age group	1998	2000	2001	2002	2003	2004	2005
50 -64	398	492	541	554	602	646	713
65 - 74	646	719	691	778	830	933	961
75+	1 811	1 844	1 896	1 969	2 228	2 354	2 560

Source: Social Sector in Figures 2006

Note: Elderly with physic needs are excluded

These trends are indicating that in the one hand the state's social welfare system has developed during last years and on the other hand the growing income level allows using these services. This in turn means better reconciliation of work and family.

## 2.13. Child labour, forced labour

### 2.13.1. Child labour

Children's working is regulated with Child Protection Act, Employment Contract Act and Working and Rest Time Act. Child protection Act stipulates that child who has graduated primary school, has right to start working. Child, who has not graduated primary school, can work after corresponding decision has been made by employment office and social office.

According to Employment Contract Act, as exception workers aged 13-15 can be employed with agreement of one parent and labour inspector. Workers aged 13-14 can work only in jobs selected and ratified by government. Working and Rest Time Act stipulates that workers under 18 years old have to work with reduced work time:

- 13-14 years old or schoolable worker - 4 hour a day
- 15-16 years old worker who is not schoolable - 6 hour a day
- 17 years old worker - 7 hours a day.

Additionally, minors are prohibited to employ to overtime, evening and night hours.

There is little data about child work in Estonia. Estonian Statistical Office publishes data about participation in labour market of 14-19 years old people. According to data, 12% of young people participate in labour market (8800) in 2006 and compared to mid-nineties this share is decreasing. The share of young males is significantly higher than young females in labour market.

**Table 37.** Participation of 14-19 years old people in labour market, 1995-2006

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Men</b>												
..employed, thousand	8.1	8.8	8.3	7.6	4.8	5.3	5.6	4.1	6.1	3.6	4.0	5.7
Activity rate, %	23.4	23.7	24.8	21.3	15.4	16.6	16.8	10.9	15.1	12.3	11.4	14.2
Employment rate, %	15.9	17.4	16.4	14.9	9.2	10.1	10.6	7.6	11.1	6.7	7.2	10.6
<b>Women</b>												
..employed, thousand	8.2	7.9	6.9	5.7	4.0	4.6	3.4	2.0	3.2	2.0	2.9	3.1
Activity rate, %	21.2	20.6	19.2	15.8	12.4	16.0	14.1	6.4	8.9	7.9	7.3	9.0
Employment rate, %	16.7	16.4	14.2	11.7	8.2	9.1	6.6	3.9	6.2	3.8	5.4	6.1

Source: Estonian Statistical Office

Previous data, however, includes probably many young people, who may have graduated primary school and are not shoolable. Therefore the data about noncompliance of compulsory education should be examined.

**Table 38.** The share of 8-14 years old students in corresponding population.

Academic year	The difference between children and pupils	The share of children missing from school lists
1996/1997	4485	2.8
1997/1998	4100	2.6
1998/1999	4100	2.6
1999/2000	4000	2.6
2000/2001	3500	2.4

Source: Koolikohustuse täitmise tagamine. Kontrolliaruanne. National Audit Office 2002.

Note: Compulsory school starts at age seven. The age interval excludes older children since they may have graduated primary school.

Data includes also children with profound disability and children studying abroad with temporary residence permit, and children not complying compulsory education constituting about half. Estonian Statistical Office reports 1800 pupils who intermitted studies (See table 9A in appendix).

The ascertainment of the number of children not attending school is complicated, since the concept of noncompliance of compulsory school is ambiguous. According to the questioning conducted by National Audit Office, 53% of schools considered noncompliance of compulsory school as long-term missing without reason, 25% of schools as repeated missing resulting lack in acquirement of curriculum, 12% of schools as every missing without reason and 10% of schools as lack in acquirement of curriculum. (Koolikohustuse täitmise tagamine. Kontrolliaruanne. National Audit Office 2002: 6) Main reasons for intermitted studies are expel (36%) and working (24%). (Ibid: 9).

In sum, although there is no adequate data about child labour, it seems not major problem in Estonia.

### 2.13.2. Human trafficking

Experts in Estonia who are involved with this subject (policy, social workers, custom workers etc) have estimated both between and within country human trafficking as serious problem. However there exists ambiguity in the concept of human trafficking. For example some of the experts considered prostitution as a category of within country human trafficking and some of them treated prostitution as free choice. (Eespere 2004)

There is little data related to cross-border human trafficking. The only estimation is originating from International Organisation of Migration. According to this estimate, 500 women and children become as a victims of human trafficking in year in Estonia. (Trummal 2003: 14, Pajumets 2004: 11) According to other source, this estimate is unreliable and another estimate is offered – based on data from Estonian Policy about 100 people are victims of sexual exploitation and human trafficking during period of 2001-2004 (Seksuaalne ekspluateerimine ja inimkaubandus Eestis, 2005: 53). The risk group is people who cannot manage in Estonia and cannot find job in domestic area, including young people. Additionally, young people seeking for adventures and new experiences do not often perceive threats in working abroad. (Trummal 2003).

In case of within country human trafficking the main category is prostitution. According to different estimates, there are approximately 3000 prostitutes in Estonia, i.e., women engaged in selling their body. The ratio of prostitutes in Estonia exceeds the European average two times, that of low-level countries like Sweden seven times, Finland and Norway three times. The estimates of the number of prostitutes fluctuate resulting for example from different definitions of prostitution and tourist season (Pettai et al 2006). There is no data about the share of prostitutes who are the victims of human trafficking.

According to the survey conducted by Estonian Institute for Open Society in 2005, there exist following risk groups based on characteristics of prostitutes (Pettai et al 2006):

- **Young women** - Eighty-five percent are up to 30 years old. Only six percent are older than 35 years. Selling their body begins at an early age, half by the time they are 18 years old,  $\frac{3}{4}$  until 21. They do not last long in the occupation with the average time being 4 - 5 years.
- **Non-Estonian** - out of whom  $\frac{2}{3}$  do not have Estonian citizenship. Only 30% are Estonian.
- **Women with limited education** -  $\frac{2}{3}$  of prostitutes have primary or basic education. Every fourth has graduated from the secondary school. Only every fourth, who has graduated from vocational or specialised secondary school, has a profession.
- **Women from families with problems** - only every second woman engaged in prostitution had an opportunity to grow in a regular family with both father and mother. Violence is a rather inevitable phenomenon in the life of a prostitute, which many of them encounter as early as in childhood. Only every third respondent had experiences childhood without abuse.

From foreign countries, where prostitutes from Estonia offer sexual services, the most popular destination is Finland. The other countries where prostitutes have provided services more are Germany, Sweden and Norway. Girls from Estonia found their way abroad to provide sexual services predominantly via the international contacts of local mediators. This shows that the Estonian mediators of prostitution are a part of an international network of trafficking in women. There is also a high (39%) share of the girls, who travel abroad on their own and find a local mediator there. (Pettai et al 2006)

There is rather liberal attitude in society towards prostitution. According to the survey conducted by Estonian Institute for Open Society in 2003 there are 51% of people aged 15-74 who look supportingly on brothels. Only 24% of people are against brothels. The attitude towards the need for brothel reflects the attitude towards prostitution which is passively supporting. (Pettai et al 2003) This may arise from the fact that people do not grasp that prostitution is often nonvoluntary and associated with violence.

In opinion of experts, the human trafficking problem may deepen after 2007, when control over movements within European Union ends according to Schengen contract.

(Inimkaubanduse vastu võitlemise arengukava 2006–2009, Justiitsministeerium 2006)

The term “human trafficking” is missing for Penal Code in Estonia. However, there are prohibited approximately 15 activities which can be related to human trafficking (slavery, mediation of prostitution, production and distribution of child pornography etc). Penal Code came into force in 2002. Prostitution is not illegal in Estonia, but mediation of prostitution is. The number of registered crimes and criminal cases followed division of crimes in Penal Code in 2005 and 2006 are following:

**Table 39.** The number of registered crimes and criminal cases related to human trafficking, 2005-2006

Crime category based on Penal Code	Registered crimes		Criminal cases	
	2005	2006	2005	2006
Slavery	1	1	2	0
Abduction	0	0	0	0
Unlawful deprivation of liberty	55	44	18	20
Illegal conduct of human research	0	0	0	0
Illegal removal of organs or tissue	0	0	0	3
Inducing person to donate organs or tissue	0	0	0	1
Compelling person to engage in sexual intercourse	5	7	3	2
Child stealing	6	0	1	2
Sale or purchase of children	1	0	0	0
Disposing minors to engage in prostitution	0	0	1	0
Aiding prostitution involving minors	3	2	4	1
Use of minors in manufacture of pornographic works	26	10	3	4
Manufacture of works involving child pornography or making child pornography available	3	29	1	10
Illegal transportation of aliens across state border or temporary border line of Republic of Estonia	2	5	2	3
Provision of opportunity to engage in unlawful activities and aiding prostitution	59	38	17	8
Total	161	136	52	54

Source: Inimkaubanduse vastu võitlemise arengukava 2006–2009, Justiitsministeerium (Ministry of Justice) 2006

Note: Data about registered crimes comes from Kriminaalmenetlusregister, data about criminal cases comes from Adjudication Register.

In addition to absence of term „human trafficking” in Penal Code there are other problems related to legal context – low penalties for crimes related to prostitution and human trafficking, inadequacy of legislation together with inadequate implementation in reality, underdeveloped witness protection system. Witness Protection Act came into effect in 2005. There is no separate organization dealing with victims of human trafficking and sexual exploitation. In 2003 the working group dealing among other things with human trafficking issues was created in Tallinn’s Policy Prefecture.

Estonia has united with several international conventions such as (Trummal 2003):

- Convention on the Elimination of All Forms of Discrimination Against Women (UN) – became valid in 1991
- Convention of the Rights of the Child (UN) – become valid in 1991
- United Nations Convention against Transnational Organized Crime – became valid in 2003
- Supplementary Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, so called Palermo protocol – became valid in 2004

### **3. Discussions, linkages and trade-offs between different elements of working and employment conditions**

#### **3.1. Gender inequality**

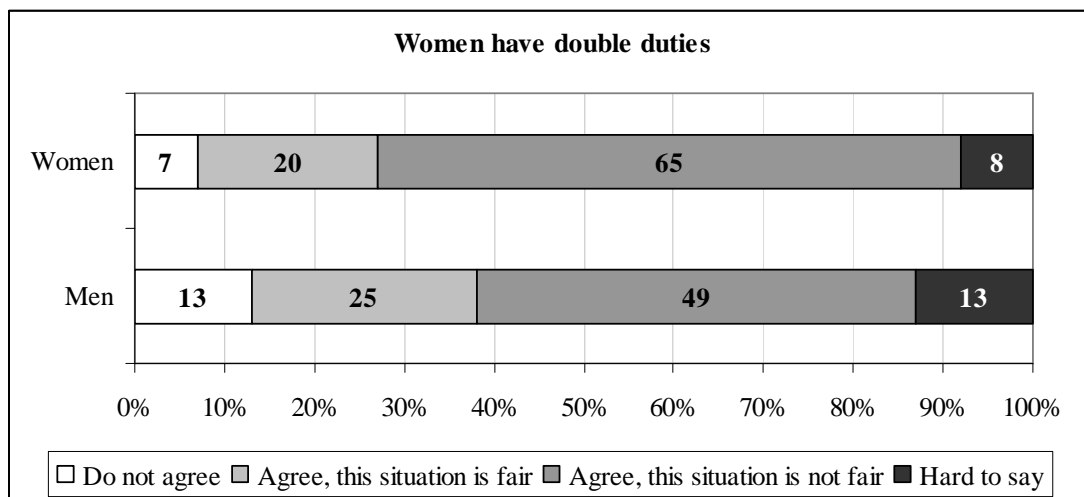
To analyse the gender inequality problems in Estonia a survey “Gender Equality monitoring” was conducted in 2005. The results of the monitoring make references to several important aspects. Although women are a little more oriented towards male and female equality of rights, in general opinions prevail according to which men should dominate and which support the exfoliation of the society. The survey established that there are certain gender roles formed in Estonian society when analysing the male and female roles in homework, intra-family decision-making, expectations for daughters and sons and women’s material dependence. Moreover, the analysis of working life reveals that the prevailing attitude supports the view that gender differences in wages should be maintained and the women should not occupy the leading positions. When 63% of women have an opinion that wages of men and women should be equal, less than a half of the men (45%) agree with this statement. Almost two out of three men and half of the women agree with the statement that men are better bosses than women. However, those who have worked in supervision of women have more tolerate view in the latter proposition.

Several studies reveal that a core family model, strict gender division of labour and authority of men are considered to be an ideal in Estonia. Therefore it is not surprising that gender inequality has rather increased than decreased in Estonia in past decades (Kandolin and Narusk 1996; Anttila and Ylöstalo 1999; Domsch et al 2003). Moreover, the results reveal that education has much higher value for men than for women: women whose highest educational level attained is tertiary education have the lowest probability to be the main breadwinner in family when compared the women with primary and secondary education. For men the situation is opposite. Every third male and every fifth female agree with the proposition that male should be the main breadwinner in the family. Nevertheless, two out of three men and 81% of women consider it fair that both partners are responsible for the financial welfare of the family. Half of the cohabiting women declare that they depend materially on their partner; for men this figure is 6%.

Working is much more important for men than for women: even if the partner's income would be enough and financial situation of the family would enable not to work, 69% of men and only 27% of women would continue to work full-time and 15% of men and 48% of women would prefer to work part-time.

The answers to the questions regarding attitude towards gender equality reveal that only one fifth of females and third of males agree with the proposition that men and women have the equal opportunities in the labour market. Clearly prevails the opinion that men have better position in the labour market (this opinion share 62% of women and 47% of men).

Since women are the ones who stay home with child mainly, they are in worse position in labour market compared with men. 62% of women and 24% of men responded that family life and children restrict their carrier (Sotsiaalse Võrdõiguslikkuse monitooring 2005). On the other hand, women who work full time, are disadvantaged due to home works. The vision of women as bearer of double duties exists in Estonia. 85% of women and 74% of men agree that women have to work at home and at work. Still only half of male respondents agree that this situation is not fair compared to 2/3 of women. Since employment rate of women is comparable with employment rate of men, nontraditional family model is dominating in Estonia – both working with full time and women are also responsible for home works (responsibility of earning money is shared, but responsibility of taking care of home is not shared).



**Figure 23.** The perception of women having double duties.

Source: Sotsiaalse v rd iguslikkuse monitoring 2005

#### *Gender and globalisation effects*

If to discuss globalisation effects, then again we have to deal with gender issues. Estonia has been country with cheap labour and one of those examples is Elcoteq Network Corporation is one of the leading electronics manufacturing services company in region. Currently the company operates on four continents in 13 countries and employs approximately 19 000 people. Main plants are in Hungary, Germany, Russia and Estonia.

Elcoteq Estonia started in 1991. Estonian facility has grown from 10 people in 1991 to approximately 3000 employees in 2006 (almost 25% of all workers in Elcoteq work in Estonia). Almost 70-80% percent of all employees in Elcoteq Tallinn are 30-40 years old women. Elcoteq Estonia is the biggest company in electronic manufacturing sector and one of the biggest companies in overall Estonia.

Workers are living in Tallinn at company's expense. Namely, people who come to work in Elcoteq Estonia from the other places of Estonia than Tallinn can live in apartments rented by company. Why company is hiring people from other parts of Estonia? Simply the wage level they offer is not very attractive for workers in capitol area. Company does not allow bringing families to live with parent who started working in Elcoteq Estonia. Company's PR manager said that reason for such behaviour is that company rents single room apartments and other members of family cannot feel comfortable themselves in such small room. In a way we can say that these mostly female workers from North East Estonia are working as domestic migrant workers. Their families are 200 km away, and after intensive work period they have change to go home and visit their families. As population in North-East Estonia is mostly Russian speaking we have clear risk group here: blue collar Russian speaking female.

The other example of similar risk group is textile industry case in North East Estonia. Textile company Krenholm has history more than 150 years, in best times there were more than 6600 employees about 15 years ago. Gradually firm started to diminish its activities and recently last owners declares about dismissal of last 1500 employees,

This means that main factory will be closed, some business activities will remain (in principal textile production is finished in the region). Almost 95% of fired employees are Russian speaking females in age 40-55, most of them have worked in factory their whole working career.

To conclude we can say that reallocation will affect minority ethnic groups, and particularly females, more than native employees, as they work in industries oriented to cheap labour (manufacturing of electronic equipment and textile industries).

### 3.2 Ethnic minorities

As it was mentioned in previous sector ethnic minorities are more often in unfavourable situation in labour market. According to Estonian Labour Force Survey data, total unemployment of Non-Estonian (dominantly Russian speakers) females was 6,7 % in 2007 (See table 40), while for Estonian females it was only 2,7%. The same is true if we compare male unemployment rates. Interestingly for Non-Estonian males participation rates are even higher than for Estonian males.

**Table 40.** Labour market indicators of Estonian and non-Estonians

Ethnicity		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonians												
Males	Participation rate, %	77.7	76.3	74.5	74.9	73.6	73	73.7	72.3	70.5	73.5	75.4
	Employment rate, %	70.9	69.5	65.6	64.7	64.8	66.3	68	66.8	65.7	70	71.9
	Unemployment rate, %	8.7	8.9	11.9	13.6	11.9	9.2	7.8	7.6	6.8	4.8	4.7
Non-Estonians												
Males	Participation rate, %	80.1	79.6	78.7	78.3	78.3	76.3	75.9	76	77.5	79.1	80.1
	Employment rate, %	69.4	67.7	65.5	65	66.1	65.4	64.1	63.3	67.4	71.7	74.2
	Unemployment rate, %	13.4	14.9	16.9	17	15.6	14.3	15.6	16.8	13	9.4	7.3
Estonians												
Females	Participation rate, %	66.1	66.1	65	65.2	65.2	63.8	65	65.3	66	69.6	68.2
	Employment rate, %	61.5	61.5	59.8	59.4	59.1	59.2	60.3	61.7	63.3	67.1	66.4
	Unemployment rate, %	7	7	8.1	9	9.4	7.3	7.2	5.6	4.1	3.5	2.7
Non-Estonians												
Females	Participation rate, %	67.9	67.1	65.4	65.4	65.8	65.1	66.4	66.6	68.2	68.2	69
	Employment rate, %	58.8	58.7	54.6	52.8	53.9	55.1	56	56.5	59.2	61.1	64.4
	Unemployment rate, %	13.5	12.5	16.4	19.2	18	15.4	15.6	15.2	13.1	10.3	6.7

Source: Statistical Office of Estonia

What could be possible explanations of higher unemployment and lower employment rate (in a case of females)?

1) Language abilities. The language law of 1989 made Estonian the sole official language in Estonia<sup>14</sup>. According to the legislation most officials working in public sector must speak Estonian. That means that most people already working for the state were required to pass tests showing specified levels of proficiency within stipulated

<sup>14</sup> During Soviet times, both Estonian and Russian were official languages, Russian being a language which could be used anywhere. This gave the immigrants from other parts of the Soviet Union a little incentive to learn Estonian or to acquaint themselves with the local culture.

deadlines in order to keep their jobs. Also in service sector most employers demand from employees knowledge of written and oral Estonian

2) Non-Estonians are more employed in such industries as manufacturing chemicals, machinery and metal production, water and railway transport, manufacturing of construction materials, textile etc. These are so called old industries, where most technology was old and these industries were oriented to the former Soviet Union market. During economic restructuring the Estonian economy was reoriented from Eastern markets to Western markets. Therefore these industries suffered from a lack of resources and declining former markets. Today these are declining industries; as the rule both output and employment has declined. (See also table 11A in appendix 1)

3) These declining industries were more or less concentrated to north-east of Estonia where the biggest Estonian Russian speaking minority is located. Due to lack of language skills non-Estonians are not very mobile in geographical sense. They do not move out from region, or if they move they move to capital area or to abroad.

4) Non-Estonians are more mobile in the labour market in terms of labour market flows. Mobility was treated there as workers flows between different labour market states. This kind of mobility is much higher among Russian speakers compared with Estonians (see Eamets 1998). Main conclusion of the study was that Russian speakers have more problems in the labour market than Estonians. Therefore they should be more active in the seeking of new jobs.

### **3.3. Self-employment**

Estonian Labour Force Survey data indicate that there seems to be at least five distinct groups of self-employed: employers (i.e. self-employed people who employ others as well) and four groups of individually self-employed in different sectors—in agriculture, in manufacturing, in personal services, and in business and social services. Employers are concentrated in the personal service sector while the activities of a large proportion of the individually self-employed fall into agriculture. In 1995, the self-employed were, on average, somewhat younger than paid employees: almost three fifths of them were between 16 and 39. In 2002, the age composition of the self-employed changed substantially: the mean age of the self-employed increased from 40.5 in 1995 to 43.7 in 2002. In 1995, a fifth of the self-employed were younger than 30: this share was halved in seven years. This result might indicate that among younger people, shifts to self-employment became more rare in the second half of the 1990s than in the first half of the 1990s.

The typical enterprise founder belonging to this “forced self-employment” group has technical or agricultural vocational or secondary specialised education. Most of them established their firm in the first half of the 1990s. Another group of people founding a firm out of reasons of necessity were women returning from maternity leave, having lost their jobs. Self-employment reflects their inability to find a new satisfactory regular job. Most of them tried to establish a new firm in trade. In most cases, their businesses did not last long.

The firms were facing financial problems that hindered expanding production. They were also lacking in management knowledge. In addition, getting land, office space and buildings was a significant problem. They also admit having problems with legal marketing of their products.

Rural entrepreneurs in the service sector were dependent on local demand and there was practically no market for their services due to widespread poverty in villages. Most entrepreneurs were forced to hold two jobs in order to cope with low income. Firms established by non-Estonians mostly had links to Russian enterprises. The Russian crisis in 1998 was difficult for them and some of these firms did not survive it. Typical for representatives of this group of self-employed is the fact that they were successful in the beginning of their private business when there was only limited competition. The business gave them a very good economic return in the early days but most of them did not manage to face up to expanding competition. The respondents continuing their business are very pessimistic about the future of their firm.

There are some sectors where self employment has used as replacement for regular labour contracts. It is relatively wide spread in service sector that in these professions where employees income is depending on sales, self employment as legal form of employment is used. These are different sales person, dealers in real estate, people dealing with consultancy or adult training etc. Recently there was a big scandal in Estonian media when state owned post company "Eesti post" was accused that they use self employment in order to reduce labour taxes. All post delivers were self-employed which means they had much less guarantees in their labour relations compared with ordinary labour contract.

### **3.4. Young persons**

According to the Labour Market Services and Benefits Act the unemployed persons of sixteen up to twenty-four years of age are defined as a one of the risk groups in Estonian labour market. A young person of sixteen up to twenty-four years of age is deemed to be a long-term unemployed if he or she, for at least six months, has not engaged in the work or in an activity equal to work.

There were 11 000 young people unemployed in 2005, ie approximately one fifth of the unemployed were aged 15-24 in 2005. The unemployment rate of the youth has traditionally been twice as high as the national average although in recent years the figure has decreased quite sharply due to the favourable macroeconomic conditions. From 2001 to 2004 the unemployment rate of the young females has constantly exceeded the indicator of the men. In 2005 the situation reversed. The unemployment gap between Estonians and non-Estonians is quite high.

In general the job search period of the young unemployed is shorter than of the older people. When compared to the other EU countries, the employment rate of the young people is lower. In 2004 the figure was 27% in Estonia and 37% in EU countries on average. The activity rate of the young people has decreased, too.

The Ministry of Social Affairs has pointed out several reasons why youth are a risk group in Estonian Labour market:

- high incidence of dropping out from primary school –every year approximately 1000 young people drop out from the primary school which mean that they have no training for the everyday working life.
- The qualification obtained does not match the needs of the employer – the risk of unemployment exists not only for young people who lack the skills, but also for those who have graduated a secondary or a vocational school. According to the analysis conducted by the Ministry of Social Affairs the main reasons of the high unemployment rate are the inertia of the educational system (meaning that despite the fact the needs of the employees’ skills from point of view of the employer have rapidly changed, the educational system has not managed to cope with these changes immediately), the negative attitude of the employer (ie employer prefers a candidate with previous working experience because youth often lack the professional skills as well as conscientiousness and responsibility), the lack of skills and knowledge of the youth and their great expectations. It is reproached for the Estonian educational system that universities educate too many specialist in the professions for whom there is not sufficient demand in the labour market. The vocational education is another despair of the Estonian educational system.
- High incidence of inactivity – In Estonia the inactivity rate of the youth was 65% in 2004, while the EU average was 10 percent points lower. The high incidence of inactivity is peculiar not only to Estonia, but to other “new” EU member countries as well. The main cause for this trend is the fact that the proportion of the youth having higher education is increasing which is positive. Therefore the risk group consists of those young people who have no skills, are not studying, are unemployed and are not searching for the job.
- The lack of experience – the entry to the labour market is especially difficult for the youth whose highest educational level attained is primary school or less. The higher the educational level attained, the more favourable situation the young person has in the labour market and the lower the risk to lose the job. The studying and working simultaneously is not very popular in Estonia when compared to other Western countries.

From the ALMP measures described in the Labour Market Services and Benefits Act the work practice is directed to young unemployed. The career counselling and labour market training are considered to be effective in integrating young unemployed into labour market, too.

### **3.5. Elderly people**

Saar and Täht (2005) have studied older employees’ careers from a longitudinal perspective concentrating not only on labour force participation rates and early retirement, but on mobility patterns in old age. The question asked was whether and to what extent the social and economic changes affected the intensity and directions of job moves of late career workers and also their labour market exit patterns. Another question posed in the article was the role of both individual as well as structural factors in the process of older workers’ adjusting to the new labour market situation. The authors found increasing social selectivity of being excluded from employment in

old age in the 1990s. The impact of industry, occupational position and education were stronger in the 1990s than in the 1980s. The withdrawal from employment was strongly influenced by individual characteristics and characteristics of working context in the 1990s. There were two groups of older workers who had better chances to remain in the labour market and also lower risks to be excluded from employment. The first group was highly educated older workers. Two explanations have been suggested for their lower risks (Fortunyi et al 2003). Firstly, highly educated workers are more able and more motivated to adjust to changes in job requirements. Secondly, employers often value their experience. The other group is made up from low-skilled agricultural workers. Deagriculturalisation did not support moves to inactivity of older employees in these sectors. On the contrary, agricultural workers have been less exposed to the withdrawal from employment. This result could reflect employers' demand for older workers doing simple agricultural jobs. (Saar, Täht 2005)

The authors also identified the remarkable increase in the intensity of older men's job mobility in the 1990s. The findings showed intense fluctuations, which is consistent with the implications derived from the rather 'open' character of employment relationships in Estonia. One of the conclusions of the article was that policies related to the promotion of employability of older workers are underdeveloped in Estonia. Training and retraining are offered to older workers very seldom. Estonian welfare state seems to be close to liberal, because it provides quite a few opportunities for early retirement, applies stricter criteria to unemployment and disability and grants small and short benefits. (Saar, Täht 2005)

### **3.6. Persons released from prison**

Due to the legislative restrictions it is quite difficult to estimate the number of unemployed persons released from prison as well as getting an overview of their socio-demographic characteristics. From the 1404 persons who declared that they had been in prison before recording themselves as unemployed, 92% were males.

As for the person released from prison the difficulties in finding a job are often connected with other problems (the absence of dwelling, problems with family etc) it is essential for the country to provide them help in successfully integrating to the society. The managing with everyday life is especially complicated for those ex-prisoners whose imprisonment has been longer. In addition of the lack in working habits they often have insufficient social communicating skills and cannot cope with everyday life.

Problems:

- Employers' negative attitude – the ex-prisoners are “stigmatised” in a sense that generally employers do not trust them. Moreover, the ex-prisoners have often lost the working habit and therefore training is necessary for them to successfully cope with the working tasks.
- Low educational level – more than a half of the imprisoned persons' highest educational level attained is primary or less and therefore they have a remarkably high risk of unemployment. Less than one out of every fifth persons released from prison have a profession.

In addition to rehabilitation the ALMP measures aimed to successfully integrate persons released from prisons to the labour market are working with support person, public work, work practice and wage subsidy.

### 3.7. Effects of Minimum wages

Next to the minimum wage/average wage ratio, another useful measure is the proportion of employees earning the minimum wage. Given that, we would expect that the impact of minimum wage increase on labour market is not negligible. Similarly, although minimum wages comprise a smaller share of average wages in Estonia, the difference is not drastic compared to the old EU member states. Thus we can argue that the effect of minimum wages on the Estonian labour markets, causing labour market disturbances and therefore decreasing labour market flexibility by changing the distribution of wages and eliminating part of the workforce from employment, is probably still present, though smaller than in the old EU countries. However, when interpreting these numbers we need to take into account the widely (although probably to a decreasing extent) used unreported wages (so-called “envelope wages”) in the Baltic States. Thus the actual proportion of workers earning the minimum wage is certainly significantly smaller. (Eamets *et al.*, 2005; Antila and Ylöstalo, 1999, 2003)

There are not many studies on the impact of minimum wage increases on the labour market in the Baltic States. Hinnosaar and Rõõm (2003) analysed the impact of minimum wage increases in Estonia on employment and wages, relying on the Estonian Labour Force Survey data for years 1995–2000. During this time period, minimum wages increased several times in Estonia. When estimating the effect of minimum wage increases, these authors used as a control group the workers in a time period prior to the minimum wage increase. Their results indicated that minimum wage increases reduced the employment of workers directly affected by the change (those whose wages were raised as a result; for the rest the results were not significant), thereby supporting the competitive labour market model (negative effect due to workers with marginal product below minimum wage being fired). The additional negative effect was due to increasing the share of workers receiving wages below the legally set minimum; i.e. a substitution between formal and informal sectors took place.

Rõõm (2005) looked at the impact of minimum wage by using the results of the survey among the Estonian companies on their wage formation processes. In the firms that replied, 5.9% of all employees were paid minimum wages; 20% of the responding firms said that minimum wages significantly influenced wage formation in the enterprise and 28.8% argued, that an increase in the minimum wage would result in a wage increase for other employees (those who are not paid minimum wages). According to the responses, the minimum wage increase in 2005 from 2,480 EEK to 2,690 EEK

### 3.8. Trade-off between wages, productivity and employment

Recent study of Estonian economists showed that Estonia's economic structure resembles by no means a contemporary knowledge-based economy; it is rather a provision of industry and services built up on cheap labour ([www.arengufond.ee](http://www.arengufond.ee)).

When to analyse the former changes in the employment sub-structure, then the relative share of the primary sector has gone through a drastic decrease and the share of services sector in the employment has increased. At the same time, the structural change did not occur as a result of relocation of the labour force (to some extent it did happen), but primarily due to a decrease in general employment. Only in the services sector, the employment has slightly increased in absolute numbers in comparison with the early 1990s. Thus, also in the development of employment's sub-structure a general tendency towards post-industrial service economy can be followed. At the same time, it cannot be forgotten that in the developed countries it occurs on the account of a decrease in the relative share of the industry; in Estonia, however, on the account of a decrease of the primary sector. But that has a negative impact on the change of productivity, as services sectors with a relatively low productivity are pre-developed.

When analysing the structure of jobs and economic sectors in Estonia and comparing it to the situation in the developed countries, it can be said that in Estonia, both the production structure and the used technology is more oriented towards blue collars<sup>15</sup> in comparison with the European average. At the same time, the analyses conducted on the basis of data of several domains show that the demand for workers with a third education level (higher education, professional higher education, and vocational education after secondary education) will increase the most in the future.

A relatively low productivity starts limiting the possibilities for further wage increase and diminish the competitiveness of several industry sectors in Estonia. That in case the premature growth of productivity cannot be ensured by various measures in front of the wage increase, which is inevitable in the conditions of an open labour market of the European Union. This is accompanied by the following problems:

- Transnational wage disparities might cause emigration of people;
- Increasing labour costs and decrease of profitability pressure the exportation of jobs from Estonia to other countries with lower labour costs.

Due to a large relative share of labour costs out of total costs, the problematic sectors are leather and footwear industry and, to some extent, also paper, textile, and sewing industry.

When comparing the wage level and dynamics in Estonia and in the EU developed countries, we see that in the past few years the wage increase in Estonia has been faster than in the destination countries of migration (Finland, the United Kingdom, Ireland, Norway, Sweden, Denmark, and Germany). At the same time, the differences in the wage level have still remained 4–5 multiple. Rapid wage increase in Estonia has brought about a situation where the differences in wage level in comparison with

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<sup>15</sup> Pursuant to the classification of occupations ISCO6-ISCO9 (skilled workers of agriculture and fisheries, skilled workers and craftsmen, equipment and machine operators, unskilled workers).

the destination countries of migration have decreased in all economic sectors under observation, therefore also the migration pressure to leave Estonia and go working abroad is decreasing.

A very important factor in exporting jobs is the labour cost per employee. The fast developing Asian countries: China, India, Korea, Malaysia, and Philippines, were included into the analysis. During the observed period (2000–2006), the labour cost has grown faster in Estonia than in the Asian countries. When only in 2000, the labour cost in the majority of sectors in Estonia was by ca 50% higher, then by now it is 2–3 times higher than in the Asian countries selected into the analogue group. Consequently, our ability to compete with the Asian countries from the aspect of low labour cost has decreased very fast. In comparison with other countries of destination, the labour cost of Estonia has also grown faster and has become equal with the level of Czech and Hungary and overtaken Slovakia, Poland, and other Baltic countries.

The wage increase in itself does not necessarily mean having problems. Becoming a state with a high living standard does presume the increase of the level of wages. If that is accompanied by a growth of productivity and if profits did not decline, the competitiveness would be maintained and not pressure to export jobs would occur.

However, the analysis shows that there is a whole range of sectors in Estonia where residual profit per employee is low and that has increased slower than wages. Such sectors are:

- Manufacture of textile and textile products;
- Leather processing and manufacture of leather products;
- Wood processing and manufacture of timber products;
- Production of paper pulp, paper, and paper products;
- Publishing, manufacture of rubber and plastic products;
- Manufacture of means of transport;
- Transport.

If we now compare these general labour market developments with risk groups in the labour market then we can see that in some cases global changes will deepen the problems of risk groups. For instance in general Russian speakers are more concentrated in sectors which are declining in the course of structural changes. These are sectors like textile and clothing industries, mining also transportation. In total the share of blue-collar workers is higher among the non-native population. It is obvious that globalisation will cause the reduction of such economic activities which are based on cheap labour.

Other example relates economic developments to the sector specific problems of labour. Fast economic growth have caused boom in some economic sectors. One result of such a boom has been very rapid wage increase. On average nominal wages grew during 2005-2007 20-25% per year. Such a high wage increase also increased the share of informal sector and unreported wages, as increased competition between firms force them to find any kind of means how to reduce the cost. Tax evasion is one of such measure. Increased competition can also cause relaxation of safe and health conditions as this is also one way to reduce the cost. If we add the fact that in some industries we do not have trade unions and state institutions cannot afford to check every small firm, then we face certain problems in some sectors. One of such sector is construction. Real estate boom, increasing credits from commercial banks have

resulted very fast increase in this sector in 2005-2006. The share of envelope wages is high in construction incidence of work accidents is high as well. There are no unions in this sector. Overtime work is common in construction and real estate boom in wealthy neighbouring country Finland has caused massive outflow of construction workers in 2005-2006. It is obvious that different aspects of decent work are not fulfilled in this particular sector.

### **3.9. Workers protection and labour market flexibility**

From a formal point of view the legal regulation of the labour market seems to be in place and the worker is not less protected in Estonia than in EU. But in practice, it appears that state regulations are not always followed in the private sector. There is a lot of evidence of violations of these regulations in enterprises in Estonia. Workers' complaints to labour inspectors are rather frequent and in labour disputes employees' appeals are rather often followed, which may indicate that law enforcement is not that weak. But the problem is that appeals may constitute only a small number of all law breaks. There are other reasons to believe that the number of unreported violations is even higher, for example in many cases so-called voluntary leaves are only reported as voluntary. There are evidences of existence of so-called extra agreements by which employee resigns some of his/her benefits for the employers' benefit.

Despite of relatively high level of workers' protection researchers have found that job creation and destruction rates in Estonia are very high in international comparison, higher than in almost any other European country and comparable to the levels documented for the United States (see Masso et al 2006). They estimated the amount of job flows over and above the amount needed to accommodate net employment changes to be about 23% per year – higher than has been found in any other European country so far (except Lithuania). Average excess rate of labour allocation was 18% in the US, 9% in the UK and only 6% in Germany. It suggests that the Estonian economic development is a good example of the success story of economic shock therapy, as a result of which relatively fast restructuring was accompanied by high labour reallocation. The high flexibility in terms of job flows can largely be ascribed to the small firms sector; the estimates of job flows in previous studies are biased downwards. By comparison with studies of the western countries, a very high proportion of labour reallocation is attributable to shifts between industries reflecting rapid changes in the economic structure.

To some extent, this phenomenon is typical of a transition process, but not only. Although by the dynamics of the other labour market characteristics it seems that the restructuring of the labour market was over by 2001: the worker flows between labour market states dropped significantly, but at the same time the aggregate job flows did not diminish. In our opinion, there are basically four reasons for that.

Firstly, the inter-sectoral mobility has been relatively high: the shares of different sectors in employment have changed considerably and much of the excess job reallocation is due to shifts between the sectors. Masso et al 2006 found that a rather high fraction of excess job reallocation (18% on average for 1996-2000) can be explained by sectoral shifts.

Secondly, small firms seem to play a key role in labour reallocation. Firms with less than 20 employees give work to a quarter of the labour force. The net rate of labour allocation is positive, which means they create more jobs than they close. Also the excess rate seems to be particularly high in firms with less than 10 employees (36%).

Thirdly, the occupational mobility of the workforce in Estonia is high, but showing a decreasing rate as the transition matures. This issue was not analysed in our paper, but Campos and Dabušinskas (2003) documented that between 35 and 50% of all Estonian wage earners changed occupation in 1989-1995; however, most of these changes took place at the beginning of the transition, so the impact of occupational changes on job mobility may have declined by now. As the reallocation process affects certain industries and enterprises more than others, the role of personal characteristics in the incidence of displacement is insignificant. However, many people have changed their occupation over the transition period. In our understanding, this indicates Estonian human capital's rather good quality. In this respect, a possible problem is the low financing of active labour market programmes in Estonia.

Finally, the Estonian institutional environment has been rather favourable to firm dynamics: starting a new firm has been fairly inexpensive. The message of the paper in terms of policy implications could be that the flexible enterprise environment should be maintained in Estonia. This suggestion is supported by the theoretical and empirical evidence of the positive impact of higher flexibility and dynamics on growth.

In light of these findings, Estonian Government initiated law amendments of labour contract Law in January 2008. This act as caused massive protest from trade union side, as one aim of these amendments was reduce the employment protection of employees. Some examples from proposed law amendments: reduction of severance payment period from 4 month to one month, employer can reduce the payment in the case of difficult economic situation, oral labour contract is valid etc. In general these amendments are characterise as extremely employer friendly changes.

At the moment this draft law is the subject of discussion and it is obvious that in current form it will not pass the Parliament.

In a way we face very strange situation here, from one side Estonian worker is well protected (EPL index is above EU 25), but from the other side labour market mobility (jobs flows) is high. Solution to such situation is the introduction of balanced approach of social security and labour market flexibility. This concept is called in literature as labour market flexicurity. In very general terms flexicurity means situation when socially protected worker operates in flexible labour market.

It is important to understand that in order to converge with western economies Estonia should maintain a relatively liberal economic policy, which means flexible labour market with a strict monetary and fiscal policy. In general, for new member state like Estonia, there are two unavoidable issues: time and active labour policies from the government side. Time means that a certain time period should be considered while nominal and real convergence of the new EU economies will take place. Active labour policies help to accelerate faster adjustment of labour force to external shocks mainly via training activities. Mutual trust is also an important issue stressed in

flexicurity strategies. Both, employers and employees should trust each other and realise that it is possible to implement effective measures which may increase flexicurity as it happened in Denmark and the Netherlands.

In the old member states with continental model, the main stress should go to flexibilisation of labour markets. Demographic situation is very bad, employment is not increasing and non-employment is very high. Old Europe needs reforms in order to survive in global competitiveness. There are not many options. Innovation and increase in productivity is one options how to compensate declining employment, reduction of labour cots, introduction of flexible work-forms, flexible labour contracts. These are few examples of decisions, which are not easy to implement because politically is difficult to explain to public that workers will loose some of their job security. Social protection should be increased also in UK and Ireland.

To conclude: the attempts of flexibilisation of labour market should be accompanied with increased social protection of workers. Otherwise we cannot speak about decent work in Estonia.

## **4. Conclusions and policy recommendations**

Estonia has been a good example of fast growth and economic restructuring in a catch-up process. Average economic growth has been high, employment has increased and unemployment has declined. Average unemployment rate in 2007 was 4,5%, which is lowest during last 15 years. Low unemployment and high employment rates have caused new phenomenon in Estonian economy - labour shortage. The problem of labour shortage was especially high in some sectors during economic boom in 2005-2006. If we add outward migration, which was still lower in Estonia than in other Baltic countries, but still estimations are about 15-20 thousands outward migrants per year, then we can end up with labour shortage in some of occupations like construction workers, medical workers, doctors, bus drivers etc.

Labour shortage has some positive influence from decent work perspectives as well. It has caused fast wage increase, for instance nominal wages increased in construction by 30% in 2006. Labour shortage forces firms to improve working conditions, increase attention of firms to workers health, and safety conditions. Also introduction of extra bonuses to motivate workers and better possibilities to reconcile family and work life are observed etc.

From the other point of view the union density keeps declining, as people do not feel the necessity of collective bargaining when wages increase so fast. Very high wage increase has caused also high inflation, which decrease real wage and so on.

To generalise: working conditions have been improved during transition period in Estonia. But situation is far from perfect and there are still weaknesses and shortcomings. Major problems concerning different aspects of decent work concept.

- Very high gender wage gap and gender inequality in general. Moreover, the analysis of working life reveals that the prevailing attitude supports the view that gender differences in wages should be maintained and the women should not occupy the leading positions. Several studies reveal that a core family

model, strict gender division of labour and authority of men are considered to be an ideal in Estonia.

- Income disparity. Average hourly wages of part-time workers are lower than average wages of full time workers.
- Relatively high share of involuntary part time work
- Less educated workers participate less in training. Government support to adult training is low, few groups have access to subsidised training (registered unemployed, teachers and public sector servants)
- There are sectors which are not covered by trade unions (like construction, real estate and business services, financial services) and there are sectors where unions are weak (trade and catering for instance)
- Currently there are no industry level collective agreements in Estonia
- Not all new forms of labour like TWA are legally regulated
- People who are working as civil servants (hired by Civil Service Act) have no right to strike, so their possibilities to protect their rights are relatively limited.
- Lack of kindergarden places insufficient funding of pre-school institutions force women stay away from labour market. This could cause so called involuntarily inactivity.
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Who are the major risk groups in Estonian labour market?

It comes out from our analysis, that the risk is much higher for the temporary workers (compared to permanent workers), for the less-experienced workers and for the part-timers (compared to full-time workers). The result itself is not unexpected, but the magnitude of the differences appears to be quite vast: in 2004 the poverty rate of the temporary workers was 3.5 times higher and in 2005 3 times higher when compared to the permanent workers. For the employees who had worked in the company less than full year the at-risk of poverty rate was more than 2 times higher compared to workers whose tenure in office was more than a year. The remarkable differences exist between full- and part-timers, too. The part-time workers have approximately 3 times higher in-work at-risk of poverty rate than the full-time workers.

One risk group is females. Although the analysis of the involuntary part-time work suggests that women have considerably higher probability to be satisfied with the part-time status and look for the part-time job than men. Thus we can conclude that from the women's side part-time work is often seen to be the tool increasing the opportunities to combine work and family life and therefore they may accept lower wages. The opposite applies to men: the higher the number of children in the household, the lower the probability to work part-time and the higher the probability to accept only full-time job. But at the same time insufficient possibilities of pre-school care of children force females to stay home, even if they want enter to the labour market.

Third large risk group in labour market is Russian speaking population. Because of their insufficient skills of Estonian language, low geographical mobility, and industrial structure of employment they have to accept more often so called low quality jobs. Simply they do not have alternatives, whether to accept such kind of offers or to be unemployed or inactive. Third choice is migration. We do not have any statistical data about ethnical decomposition of outward migration from Estonia, but there are anecdotal evidence that Russian speakers are overrepresented in this migration flows.

To conclude: the worst potential situation for employee is if she representing ethnic minority at the age of 50-60, have primary education and working as temporary worker in hotel and restaurant or trade sector. These are sectors with high share of envelope wages and least employment protection (no unions).

The situation would be improved by differentiating labour market policies by regions, with different sets of regulations for unemployment benefits, active labour market policies and several measures to develop the system of adult training and retraining programmes for people who may face layoff due to enterprise reorganization.

Second set of policy measures should be addresses towards strengthening the power of state agencies who should supervise work conditions, health and safety conditions, workers information and consultations. These are tax authorities, work inspectorates, health inspectorates etc.

In general Estonia should perhaps revise a bit current very liberal economic policy approach in order to introduce as a member of EU more elements of European social model into everyday working life.

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## Appendix 1

**Table 1A.** The perception of mental and physical stress and intensity of work across the ownership of the firm, occupations and economic activity (% of total), 2005

	Work intensity			Work is physically hard				Work is mentally hard				Total (in abs values)
	High	Medium	Low	Agree	Rather agree	Rather not agree	Not agree	Agree	Rather agree	Rather not agree	Not agree	
<b>The ownership of the company</b>												
state	36	<b>50</b>	3	15	23	<b>37</b>	23	31	<b>34</b>	22	12	198
local government	30	<b>54</b>	8	11	20	34	<b>35</b>	<b>33</b>	<b>33</b>	25	8	132
Estonian person in private law	32	<b>57</b>	4	27	<b>31</b>	24	17	14	31	<b>40</b>	14	470
foreign person in private law	<b>51</b>	47	1	<b>33</b>	20	31	16	8	<b>46</b>	37	8	83
Estonian and foreign person in private law	<b>49</b>	42	1	20	<b>32</b>	26	22	23	33	<b>34</b>	8	88
<b>Occupation</b>												
legislators, senior officials and managers	36	<b>55</b>	3	12	20	<b>38</b>	29	33	<b>37</b>	19	10	105
professionals	<b>47</b>	42	1	6	25	31	<b>37</b>	<b>40</b>	38	12	10	81
technicians and associate professionals	35	<b>58</b>	3	7	18	37	<b>38</b>	29	<b>41</b>	23	6	197
clerks	27	<b>58</b>	3	5	9	<b>44</b>	42	27	<b>44</b>	25	5	64
service workers and shop and market sales workers	30	<b>54</b>	5	15	<b>36</b>	32	15	18	33	<b>36</b>	12	175
craft and related trades workers	38	<b>50</b>	6	<b>41</b>	34	17	8	10	32	<b>43</b>	13	173
plant and machine operators and assemblers	47	<b>48</b>	2	<b>41</b>	36	17	5	9	19	<b>64</b>	9	58
elementary occupations	32	<b>54</b>	5	<b>46</b>	28	20	5	7	19	<b>47</b>	25	149
<b>Economic activity</b>												
agriculture, hunting and forestry	17	<b>71</b>	3	33	<b>37</b>	22	8	3	28	<b>54</b>	14	76
mining, manufacturing	44	<b>51</b>	2	<b>38</b>	27	17	17	17	25	<b>49</b>	8	63
electricity, gas and water supply	24	<b>62</b>	3	21	<b>35</b>	24	18	9	<b>44</b>	38	6	34
construction	31	<b>64</b>	2	<b>47</b>	26	19	7	7	24	<b>47</b>	21	96
wholesale and retail trade	30	<b>58</b>	5	16	<b>33</b>	30	21	12	<b>38</b>	34	14	146
hotels and restaurants	<b>51</b>	41	5	18	<b>46</b>	28	8	10	28	<b>44</b>	18	39
transport, storage and communication	33	<b>54</b>	5	24	23	<b>34</b>	17	22	<b>42</b>	30	5	92
financial intermediation	<b>61</b>	26	0	4	4	35	<b>52</b>	39	<b>48</b>	4	9	23
real estate, renting and business activities	<b>46</b>	43	8	14	11	35	<b>41</b>	24	<b>41</b>	22	14	37
public administration	38	<b>41</b>	8	16	11	<b>36</b>	<b>36</b>	<b>46</b>	25	20	8	61
education	36	<b>49</b>	5	7	21	<b>42</b>	29	<b>40</b>	30	16	12	129
health and social work	32	<b>58</b>	3	14	26	<b>32</b>	26	33	<b>35</b>	25	7	69
other	42	<b>47</b>	2	26	<b>30</b>	23	20	15	34	<b>39</b>	11	137

Source: Working Life Barometer 2005, calculations of authors.

Note: Categories like “do not know” are excluded; values are expressed as percent of total.

**Table 2A.** The share of enterprises organized continuing vocational training (%), 1999 and 2005

	1999	2005
Total	63	67
Mining and quarrying	85	61
Manufacture of food products, beverages and tobacco	65	66
Manufacture of textiles and textile products, leather and leather products	57	53
Manufacture of pulp, paper and paper products; publishing and printing	66	71
Manufacture of coke, refined petroleum products, nuclear fuel, chemical products, etc.	65	73
Manufacture of basic metals and fabricated metal products	65	77
Manufacture of machinery and equipment n.e.c.	62	74
Manufacture of transport equipment	50	68
Manufacture of wood and wood products; manufacturing n.e.c.	55	64
Electricity, gas and water supply	81	<b>80</b>
Construction	66	61
Sale, repair of motor vehicles, retail sale of automotive fuel	74	60
Wholesale trade and commission trade, except of motor vehicles and motorcycles	67	72
Retail trade, excl of motor vehicles and motorcycles; repair of household goods	50	56
Hotels and restaurants	63	62
Transport, storage and communication, except post and telecommunications	62	69
Post and telecommunications	97	66
Financial intermediation; Insurance and pension funding	88	<b>85</b>
Activities auxiliary to financial intermediation	86	<b>86</b>
Real estate, renting, business and other service activities	65	73
10-49 workers	58	62
50-249 workers	85	84
250 and more workers	95	<b>96</b>

Source: Estonian Statistical Office

**Table 3A.** The participants in passive and active labour market measures, 2001-2006

	Received unemployment benefit	Received training	Participants in active labour market measures	The share of participants involved in active labour market measures in all participants
2006	20679	7073	17 357	46%
2005	31347	9852	20 569	40%
2004	39338	6968	15 995	29%
2003	45896	8406	16316	26%
2002	56895	10021	19340	25%
2001	70438	10248	19277	21%

Source: Estonian Labour Market Board

**Table 4A.** The size of the family benefits (2006) and the number on receivers (2005)

	Benefits		Receivers
	EEK	EUR	2005
Birth grant	5 000	320	14 245
Adoption allowance	5 000	320	29
Child allowance (Monthly, per child):	300	19.4	287 459
Childcare benefit (per month):			50 517
For a child aged between 1 and 3 years	600	38.5	
For a child between 3 and 8 years (to families with more Children under 3 years and to families with 3 or more children)	300	19	
Allowance for families with 3 or more children (per child quarterly)			69 982
3 children	300	19	
4 and more children	450	28.8	
Allowance for families with triplets (per family quarterly)	1350	86.6	
Allowance for a parent raising 7 or more children (per month)	2520	161.5	195
Single parent child allowance (per month)	300	19	28 126
Allowance for a child in guardianship or in foster care (per month)	900	57.7	2 507
Allowance for the children of military conscripts (monthly)	750	48	14
School allowance (at the beginning of the school year)	450	29	190 479
Independent life grant	6 000	384	123

Source: Social Sector in figures 2006

Note: Independent life grant is for orphan wards and for children without parental

**Table 5A.** The monthly disability benefits and receivers, 2000-2006

	2000	2001	2002 - 2005	2006	Receivers in 2001	Receivers in 2005
<b>Benefit for child with disability</b>					4 722	5 357
Moderate disability	840	840	860	1 080	1 778	1 822
Severe and profound disability	940	940	1 020	1 260	2 944	3 535
<b>Benefit for adult with disability</b>					84 168	102 263
Moderate disability	-	200	200	200	29 251	32 945
Severe disability	-	420	420	420	41 427	55 742
Profound disability	-	640	640	640	13 490	13 576
<b>Caregiver benefit</b>					26 841	2 053
To parent with child aged 3-16 with disability	300	300	300	300	2 194	1 868
To caregiver for person older than 16 years and with disability:					24 647	185
Severe disability	-	240	240	240	15 979	141
Profound disability	-	400	400	400	8 668	44
<b>Benefit for parent with disability</b>	300	300	300	300	1 784	1 535
<b>Education allowance</b> shall be paid monthly to a non-working disabled student	100-400	100-400	100-400	100-400	32	16
<b>Rehabilitation allowance</b> (16- 65 years old)	-	to 800 crowns a year			115	1 848
<b>In-service training allowance</b>	-	to 9600 crowns during 3 years			4	56

Source: Social sector in figures 2006.

**Table 6A.** Receivers of pensions, 1998-2006

	1998	2000	2001	2002	2003	2004	2005	2006
Receivers of pension	374 085	379 292	372 972	376 549	377 136	377 343	381 096	380 423
Men	126 291	129 402	124 885	131 518	134 087	135 938	138 480	139 285
Women	247 794	249 890	245 087	245 031	243 049	241 405	242 616	241 138
Receivers of old-age pension	286 198	284 327	297 363	298 490	296 836	294 063	294 736	292 970
.. early retirement	-	-	2 349	4 620	6 274	7 715	9 437	10 704
.. deferred retirement	-	-	-	-	91	168	256	338
Receivers of pension for incapability to work	59 938	66 814	43 394	47 140	51 339	55 480	59 174	61 921
Receivers of survivors pension, families	15 267	15 318	15 712	14 017	8 183	7 924	9 312	9 766
Receivers of national pension		1 655	6 910	8 104	14 162	13 367	11 234	9 184
The share of pensioners in population, %	26,9	27,6	27,3	27,7	27,8	27,9	28,3	28,3

Source: Social sector in figures 2006

Note: Due to change in legislation, some of the receivers of survivor pensions started to receive national pension in 2003.

**Table 7A.** Number of enterprises with union and members of trade union.

		2000	2001	2002	2003	2004	2005
Total wage earners		520.7	529.8	538.2	541.4	538	558.2
...working in enterprise with trade union	number	127.6	128.3	125.2	117.7	104.5	107.7
	%	24.5%	24.2%	23.3%	21.7%	19.4%	19.3%
...are members of trade union.	number	74.3	73.9	69.4	60	50.3	47.5
	%	14.3%	13.9%	12.9%	11.1%	9.3%	8.5%

Source: Tööturg ja tööelu 2005

**Table 8A.** Monthly maintenance costs on child.

	0-6 years old	7-13 years old	14-19 years old
Food (at home)	390	485	890
Food (eating outside)	180	180	270
Wardrobe	190	215	350
Dwelling costs (in city)	180	180	395
Dwelling costs (in country)	106	106	232
Housing costs (furniture, housekeeping implements)	90	60	75
<i>House care and nursing services</i>	<i>100</i>	<i>10</i>	<i>15</i>
Expenditures on health	30	35	20
Transportation (public transit)	0	40	120
Transportation (individual, in city)	30	26	80
Transportations (individual, in country)	70	63	190
Communication	0	250	210
Books, school supplies, cinema, theater	30	140	140
Hobbies, sport, toys	170	290	170
Traveling, free time	55	170	200
<i>Education (service fees only)</i>	<i>10</i>	<i>15</i>	<i>90</i>
Personal hygiene	150	50	110
<i>Other (taxes, incl. kindergarten fees)</i>	<i>270</i>	<i>35</i>	<i>35</i>
<b>Total in city</b>	<b>1875</b>	<b>2182</b>	<b>3210</b>
<b>Total in country</b>	<b>1871</b>	<b>2131</b>	<b>3117</b>

Source: Tiit (2004)

Note: The prices in 2003 are considered in calculation. 19 years old people were considered only if living with parents. Healthy children are presumed

**Table 9A.** The number of children who intermitted studies, 1995-2003.

School year	1995	1996	1997	1998	1999	2000	2001	2002	2003
1.	42	58	42	32	23	12	17	9	7
2.	16	21	11	15	9	6	17	4	3
3.	6	24	20	12	10	5	12	4	2
4.	20	24	22	20	15	12	15	21	10
5.	28	43	30	36	31	22	22	22	15
6.	70	56	52	82	60	67	56	64	43
7.	120	123	139	136	141	150	95	188	121
8.	206	207	216	224	254	284	182	346	307
9.	265	274	257	342	455	467	248	471	423
10.	466	398	491	414	490	484	270	585	483
11.	23	213	230	260	245	191	140	310	257
12.	153	114	157	139	138	87	94	141	118
Total	1415	1555	1667	1712	1871	1787	1168	2165	1789

Source: Estonian Statistical Office.

**Table 10A.** Job tenure and employees' perceptions about job security in EU25 on average and Estonia (% of respondents).

<b>How many times have you changed employer in your working life so far?</b>						
	never had any paid work	never	1-5 times	6-10 times	more than 10 times	
EU-25	14	18	55	9	2	
EE	9	12	69	7	1	
<b>For how long have you been working for your current employer or last employer if you are not currently working?</b>						
	never had any paid work	less than 1 year	1-5 years	6-10 years	11-20 years	More than 20 years
EU-25	14	6	28	14	15	17
EE	9	10	33	18	13	13
<b>How confident would you say you are in your ability to keep your job in the coming months?</b>						
	very confident	fairly confident	not very confident	not at all confident		
EU-25	50	34	9	4		
EE	45	38	11	3		
<b>Would you say that you are very confident, fairly confident, not very confident or not at all confident in having a job in 2 years time?</b>						
	very confident	fairly confident	not very confident	not at all confident	Not looking for a job in 2 years time	
EU-25	22	24	10	6	34	
EE	17	28	13	8	27	

Source: European Employment and Social Policy 2006.

**Table 11A Employment structure of Estonia and Non-Estonians**

	Estonians	Non-Estonians
Economic activities total	100	100
Agriculture, hunting and forestry	6.2	0.5
Fishing	0.3	..
Mining and quarrying	0.5	1.6
Manufacturing	17.9	26.1
Electricity, gas and water supply	0.8	2.8
Construction	11.8	13.5
Wholesale and retail trad	14.4	11.4
Hotels and restaurants	3.4	3.7
Transport, storage and communication	7.5	11.8
Financial intermediation	1.6	1.1
Real estate, renting and business activities	8	6.5
Public administration and defence;	7.5	2.9
Education	9	7
Health and social work	5.5	5.6
Other economic activities	5.6	5.1

Source: Statistical Office of Estonia

## Appendix 2

### Poverty

Low level of social protection expenditures appears in high level of at-risk poverty rate after social transfers. Although social transfer reduce the risk of poverty about six percentage points, still almost quarter of persons remain below the risk-of poverty threshold. There are minor differences among men and women – women have slightly higher probability to be poor. Overall inequality is remained similar over the six years (except 2004) and is somewhat higher than in EU25 averagely (4.9).

**Table 1.** At-risk-poverty rates

		2000	2001	2002	2003	2004	2005
Females	At-risk-of-poverty rate before social transfers	26	26	26	26	27	25
	At-risk-of-poverty rate after social transfers	19	19	19	20	21	19
Males	At-risk-of-poverty rate before social transfers	25	25	25	23	25	23
	At-risk-of-poverty rate after social transfers	17	17	17	17	19	17
Income quintile share ratio		6.3	6.1	6.1	5.9	7.2	5.9

Source: Eurostat

Note: -- The share of persons with an equivalised disposable income, before social transfers, below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). Retirement and survivor's pensions are counted as income before transfers and not as social transfers. -- The share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). -- The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile). Income must be understood as equivalised disposable income.

According to the study conducted by Ministry of Social Affairs the main risk factor for poverty is labour market status of household head. Every second household with nonworking nonpensioner head is poor according to indicator of relative poverty. In addition to working status people with lower education has risk to get in poverty. (Tiit 2006).

**Table 2.** In-work at-risk of poverty rates by age groups, gender, educational level, household type, type of working contract, months worked and working time.

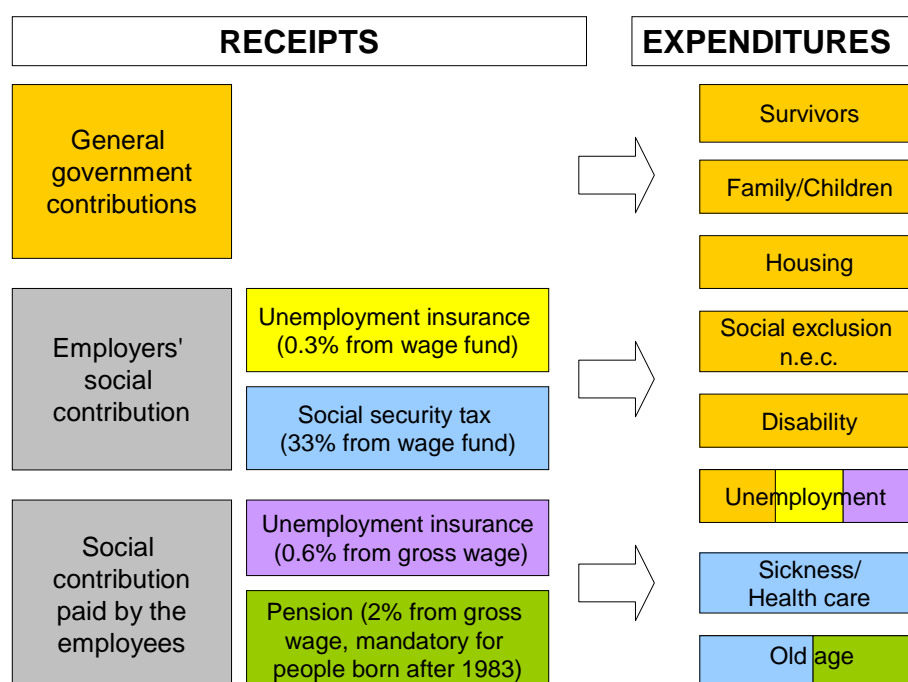
	2004	2005
<b>Total</b>	9	7
<b>Age</b>		
18-24	4	6
25-54	10	8
55-64	7	7
64 and over	1	6
<b>Gender</b>		
males	9	7
females	10	8

<b>Education (ISCED 1997)</b>		
ISCED 0-2	14	11
ISCED 3-4	10	9
ISCED5-6	6	4
<b>Household type</b>		
single person	12	10
single parent with dependent children	25	20
Households without dependent children	7	6
Households with dependent children	11	9
<b>Type of contract</b>		
permanent work contract	6	5
temporary work contract	21	16
<b>Months worked</b>		
working full year	8	7
working less than full year	20	17
<b>Working time</b>		
full-time	7	6
part-time	24	17

Source: Eurostat

## Appendix 3

### Sources of Social expenditures



**Table 1** Social security incomes and expenditures (in national currency)

	2000	2001	2002	2003	2004	2005
<i>EXPENDITURES</i>						
Total expenditure	13358.3	14176.5	15404.6	17108	19693.4	21967.4
..Administration costs	209.4	227.2	230	248.1	278.8	321.8
..Social protection benefits	<b>13148.9</b>	<b>13949.4</b>	<b>15174.6</b>	<b>16859.9</b>	<b>19414.6</b>	<b>21645.7</b>
....Sickness/Health care	4221.4	4448.2	4719.4	5369	6106.4	6913.8
....Disability	869.3	1146.3	1355	1571.6	1774	2031.5
....Old age	5704.4	5928	6617	7420.7	8320.9	9337.5
....Survivors	258.1	238.3	188.9	135.2	157.3	185.2
....Family/Children	1568.4	1598.6	1725.6	1681.7	2464	2630.1
....Unemployment	167.8	189.7	166	304.9	309.9	286.1
....Housing	93.3	84.6	96.2	103.6	70.3	50.3
....Social exclusion n.e.c.	266.1	315.9	306.4	273.3	211.9	211.2
<i>INCOME</i>						
Total income	<b>13148.9</b>	<b>13949.4</b>	<b>15174.7</b>	<b>16859.9</b>	<b>19414.6</b>	<b>21645.7</b>
..Social contribution	10409	10752.7	11776	13448.1	15272.2	17199.7
....Employers' social contribution	10409	10752.7	11776	13347.4	15149.7	17106.8
.... Social contribution paid by the protected persons	:	:	:	100.7	122.5	92.9
.. General government contributions	2710.7	3166.4	3368.5	3393.8	4124.2	4425.8
.. Other receipts	29.2	30.4	30.1	18	18.2	20.1

Source: Eurostat

Note: Fixed exchange rate is 1EUR=15.646EEK

Table 2. Estonia: Summary of General Government Operations, 2001–08<sup>1/</sup>  
(In percent of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008
						Est.	Proj.	Proj.
<b>Revenue and grants</b>	33.9	35.3	36.4	37.4	37.2	38.7	37.9	39.2
<b>Revenue</b>	33.3	34.7	35.3	35.2	34.5	35.8	35.3	35.9
<b>Tax revenue</b>	29.4	30.6	31.1	30.8	30.3	30.6	30.9	31.6
<b>Direct taxes</b>	18.1	18.8	19.3	19.1	17.6	17.7	17.6	17.3
Personal income tax	6.6	6.4	6.6	6.5	5.6	5.7	5.5	5.2
Corporate profits tax	0.7	1.1	1.6	1.7	1.4	1.5	1.6	1.5
Social security tax	6.3	6.4	6.1	5.9	5.7	5.7	5.7	5.7
Medical insurance tax	4.1	4.2	4.2	4.2	4.1	4.2	4.2	4.3
Unemployment insurance tax	...	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Land and property taxes	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3
VAT	8.0	8.4	8.4	7.7	8.5	9.1	9.6	9.7
Excises	3.3	3.2	3.1	3.6	3.8	3.5	3.4	4.2
Other taxes (incl. on intern. trade)	0.0	0.2	0.2	0.3	0.4	0.4	0.4	0.4
Nontax revenue	3.9	4.0	4.2	4.4	4.2	5.2	4.4	4.3
Grants	0.6	0.6	1.1	2.2	2.7	2.9	2.6	3.3
<b>Expenditure</b>	33.6	34.3	33.9	35.7	35.6	35.4	35.7	36.4
<b>Current expenditure</b>	30.7	30.8	31.2	32.9	32.1	31.5	32.1	32.0
<b>Expenditure on goods and services</b>	20.0	20.0	19.9	20.3	20.4	20.1	20.6	20.6
Wages and salaries	6.8	6.9	7.6	7.4	6.9	6.4	6.4	6.4
Other goods and services	13.2	13.1	12.3	13.0	13.5	13.6	14.1	14.1
<b>Current transfers and subsidies</b>	10.4	10.7	11.1	12.4	11.6	11.3	11.4	11.4
Subsidies	0.7	0.9	1.1	1.3	0.7	0.6	0.6	0.5
<b>Transfers to households</b>	9.7	9.7	9.9	10.4	9.9	9.6	9.8	9.8
of which: Pensions	6.1	6.0	6.2	6.2	6.1	6.0	6.2	6.2
Family benefits	1.2	1.1	1.1	1.4	1.3	1.3	1.2	1.2
Sickness benefits	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Unemployment benefits	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Income maintenance	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Disability benefits	0.4	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Prescription drug benefits	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Other	0.2	0.4	0.5	0.6	0.6	0.6	0.7	0.7
<b>Transfers to the EU budget</b>	...	...	...	0.6	1.0	1.1	1.0	1.0
Interest payments	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Capital expenditure	2.9	3.5	2.7	2.8	3.5	3.9	3.6	4.4

There is no official data about the overall costs of tax exemptions to the state. However, there are few studies which have indirectly treated the topic of reductions from income tax.

Today one parent can deduct 24 000 EEK from taxable income from the second child on in year. This tax reduction came in force in the beginning of the year 2006. Before that the tax reduction was 12 000EEK from taxable income from the third child on (came in force 2001). Võrk and Leetmaa (2003) have estimated that the cost of tax reductions from the third child on was 100 million EEK in year. Võrk and Paulus (2007) have estimated additional costs of tax reduction from the second child on and concluded that the tax reduction from the second child on has generated additional costs of 257 million EEK in 2007. These studies indicate that rough estimate of tax reduction costs from the second child on are approximately 350 million EEK in year.

Source

Võrk, A., Leetmaa, R. Peretoetuste mõju pereplaneerimisele ja riigieelarvele. Political Analysis of Praxis, 5/2003

Võrk, A., Paulus, A. Perele suunatud rahaliste toetuste mõju vaesuse leevendamisele Eestis: analüüs mikrosimulatsioonimeetodi abil. Praxis, tellija Sotsiaalministeerium, 2007

**Table 3.** Social protection expenditures, 2000-2004

	2000	2001	2002	2003	2004
<b>Expenditures, total (million crowns)</b>	13 358	14 177	15 405	17 108	19 693
<b>Expenditures on social protection</b>	13 149	13 949	15 175	16 860	19 415
Sickness and health	4221	4448	4719	5369	6106
Disability, incapability to work	869	1146	1355	1572	1774
Old-age	5704	5928	6617	7421	8321
Survivors	258	238	189	135	157
Family and children	1568	1599	1726	1682	2464
Unemployment	168	190	166	305	310
Habitation	93	85	96	104	70
Social exclusion	266	316	306	273	212
<b>Administration costs</b>	209	227	230	248	279
<b>The structure of social protection expenditures, %</b>					
Total	100	100	100	100	100
Sickness and health	32,1	31,9	31,1	31,8	31,5
Disability, incapability to work	6,6	8,2	8,9	9,3	9,1
Old-age	43,4	42,5	43,6	44,0	42,9
Survivors	2,0	1,7	1,2	0,8	0,8
Family and children	11,9	11,5	11,4	10,0	12,7
Unemployment	1,3	1,4	1,1	1,8	1,6
Habitation	0,7	0,6	0,6	0,6	0,4
Social exclusion	2,0	2,3	2,0	1,6	1,1
<b>The share in GDP, %</b>					
Total	14,0	13,1	12,7	12,9	13,4
Sickness and health	4,4	4,1	3,9	4,0	4,2
Disability, incapability to work	0,9	1,1	1,1	1,2	1,2
Old-age	6,0	5,5	5,5	5,6	5,7
Survivors	0,3	0,2	0,2	0,1	0,1
Family and children	1,6	1,5	1,4	1,3	1,7
Unemployment	0,2	0,2	0,1	0,2	0,2
Habitation	0,1	0,1	0,1	0,1	0,0
Social exclusion	0,3	0,3	0,3	0,2	0,1
Administration costs	0,2	0,2	0,2	0,2	0,2

Source: Social sector in figures 2006.

