



**NATIONAL SEMINAR – ESTONIA  
ANTICIPATING AND MANAGING RESTRUCTURING**

NATIONAL BACKGROUND PAPER

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# Executive summary<sup>1</sup>

The aim of this report is to provide an overview of the restructuring context in Estonia, standing at 2009.

For better understanding of the current national background paper, it will be useful first to explain the definition of restructuring as it was discussed and understood in the Estonian national seminar on 20 January 2010. Namely, restructuring can be described as a process taking place on two different levels simultaneously – the general economy level (macro-level) and the individual/company level (micro-level). On the macro-level, restructuring increases efficiency in the economy and has positive effects if it is well targeted. On this level, restructuring is impersonal and the effects on the individual are not considered. On the micro-level, restructuring becomes personal and influences specific persons or companies. As restructuring means losing a job for a person, this negative implication is the aspect that usually will dominate in public discussions. An important issue for the society in general will be how to balance restructuring and its effects between the macro- and micro-levels, i.e. how to balance the positive impact on the economy as a whole with the negative impact on specific individuals and companies. The aspects of restructuring that are analysed in the current report - anticipation and management of restructuring – have a crucial role in reaching this balance.

The first part of the national background paper will provide an overview of the main recent trends and developments regarding restructuring. Not surprisingly, 2009 has been described by very rapid changes in the labour market as a result of the global economic crisis. The openness of the economy that was an advantage in the economic growth period fostering development has become a disadvantage in the current recession – Estonian economy is even more affected by changes taking place in other countries. As a result of these developments, employment has decreased rapidly from a high 70% and unemployment rate has increased more than three times during a one-year period. This indicates a need for strong and effective anticipation and management policies to tackle the recession and move out of it towards a new growth.

The second part of the report will give a brief overview of measures introduced in Estonia for anticipation and management of restructuring. The aim of the measures discussed is mainly to balance the effect of restructuring between the macro and micro level. The anticipation measures are mainly driven by educational policies. On the macro level, well-targeted educational policies will raise the efficiency of the economy and increase productivity (supporting for instance the move towards a knowledge-based economy). On the micro level, well planned educational policies will raise the competitiveness of persons in the labour market and will help them find new jobs more quickly in cases of restructuring. One of the tools for efficient planning of educational policies discussed in this paper are the forecasting tools to anticipate changes in the economy and the skills composition needed in the labour market in the long run.

Management of restructuring is more strongly linked to tackling the change on micro-level. For instance, active and passive labour market measures are discussed briefly. Some specific measures are described in more detailed in terms of their effectiveness and ability to have

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<sup>1</sup> The authors of this report would like to thank participants of the national seminar for their valuable comments and feedback. Special thanks to Harri Taliga (Estonian Trade Union Confederation), Koidu Mölderson (Estonian Chamber of Commerce and Industry) and professor Enn Listra (Tallinn University of Technology).

positive impacts in restructuring. One of the main challenges related to all these measures is the evaluation of their results and the impact that they have on the labour market. It is pointed out in the paper that monitoring tools and impact assessment practices are necessary to know whether the measures have been effective, whether these have reached their aims and on what conditions this experience would be transferable to other contexts. Furthermore, different measures can have different effects in economic growth and in a declining economy. Thus, the evaluation practices should be implemented regularly.

The paper also provides some good examples of anticipation and management of restructuring at company level. Three cases are pointed out, each providing an example of different perspectives. These cases are also selected to provide some indication of social partner involvement in restructuring at company level. Because there is no data collected on company level practices of restructuring, we have no information on the extent of these practices in general. Thus, case studies will provide an insight on the form of inclusion of social partners in restructuring.

The national background paper was discussed in the Estonian national seminar held in Tallinn on 20 January 2010 with the participation of employer organisations, trade unions, government and research institutes. The main conclusions from the seminar are outlined in the final chapter of the report.

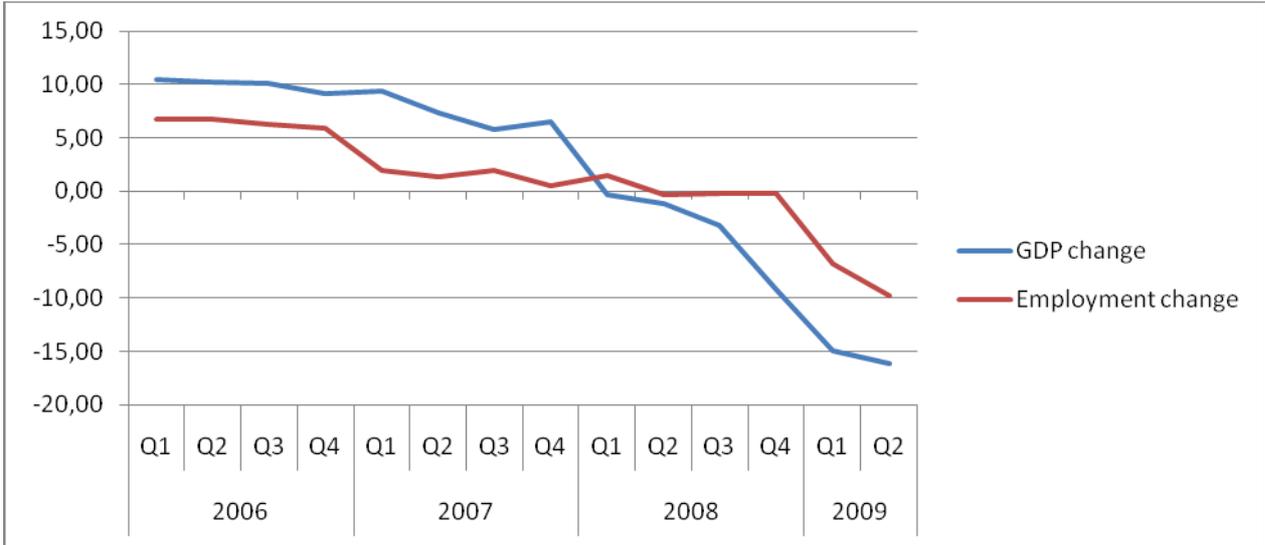
# Introduction

The national background paper will provide an overview of the restructuring context in Estonia, standing at 2009. Brief data on the economic and labour market developments in Estonia has been provided, including the restructuring trends in the current recession based on restructuring cases recorded in the European Restructuring Monitor. Also, the institutional context for restructuring is briefly described.

The second chapter provides an overview of measures introduced in Estonia to anticipate and manage restructuring. Overview of the national level approach is provided while some selected measures are described in more detail. This is followed by a short presentation of case studies of anticipation and management measures on enterprise level. The report ends with conclusions from the national seminar.

## 1. Estonian context: economic and labour market developments, restructuring

The current economic and labour market context in Estonia are largely affected by the economic recession. Estonia was characterised by a rapid economic growth which accelerated further in the second part of 2005 and through 2006 with GDP increase above 10%. This resulted in employment rate climbing above 60% in 2006 reaching its peak in 2008 at 63% among 15-74 year old population. The economic downturn turned GDP to a decline already in 2008 but a more severe impact on employment occurred as late as the fourth quarter of 2008 (see figure 1). According to Eurostat data, employment decline in Estonia has reached above 10 percent while the indicator for EU-27 remains at -1.9%. Estonia and Latvia were the only two countries in the second quarter of 2009 where the employment decline exceeded 10 percent.



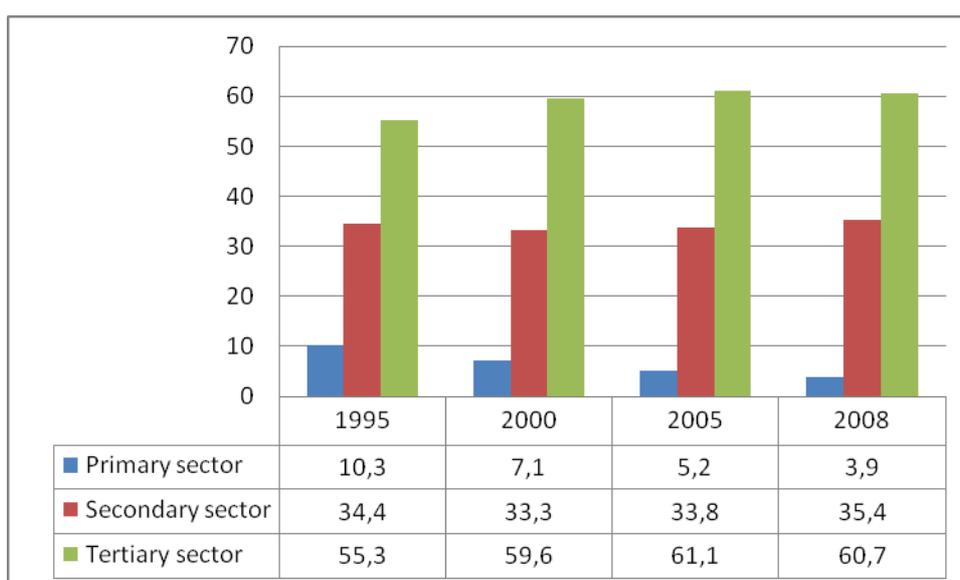
**Figure 1.** GDP and employment change compared to the same period last year, %  
 Source: *Statistics Estonia (on-line database), author's calculations*

According to the economic forecast of the Bank of Estonia, the employment decline is expected to start slowing down and the creation of new jobs will accelerate as the employers now have more flexibility in creating new jobs as a result of the reform of labour legislation and introduction of the new Employment Contracts Act on 1 July 2009. It is expected that 2009 will be the year of rapid decline in wage levels, 2010 will be the year of stabilisation and 2011 will show the recovery of the economy (Bank of Estonia 2009).

These rapid developments in the recession are having an impact on recent and expected future economic and labour market developments as well. The following sections will provide an overview of the economic structure in Estonia - the leading sectors and the main challenges for future developments. Also, the main labour market trends and the main challenges in tackling the economic crisis in the labour market and facilitating new growth are outlined. Third, data on restructuring is provided, together with a detailed description of the restructuring frameworks.

### 1.1. Structural and economic developments

The current chapter will outline the main macro level context in Estonia. Since 1995 Estonia has been characterised by decreasing primary sector and an increasing services sector. The share of employment in the primary sector (i.e. agriculture, hunting, forestry and fishing) has declined from 10% in 1995 to 4% by 2008. Over the same period, the share of industry has remained on the same level (34% and 35% respectively) and that of services has increased from 55% in 1995 to 61% in 2008 (see Figure 1 below). Compared to the EU-27 average, the share of employed in agriculture is slightly lower in Estonia (1.8 percentage points (pp)) while in Estonia employment in the sector is decreasing considerably faster (-1% in EU-27 compared to -16.8% in Estonia in 2008). The share of employment in services is 8 pp higher in EU-27 with equal pace of employment change in 2008. Employment in industry is almost 10 pp higher in Estonia than in EU-27 on average. Furthermore, employment increase in the sector in Estonia is slightly higher than in EU (0.2% compared to 0.5%) (Eurostat, on-line database).



**Figure 2.** Employed persons (aged 15-74) by sector of economy, 1995-2008, %

Note: Primary sector – agriculture, hunting, forestry, fishing; secondary sector – mining, manufacturing, electricity, gas and water supply, construction; tertiary sector – trade, services etc.

Source: *Statistics Estonia (on-line database)*

Different Estonian analysts have concluded in a report on the future prospects of the competitiveness of the Estonian economy (Varblane et al 2008) that currently the economic structure in Estonia does not meet the criteria of a knowledge-based economy, but rather a structure of industry and services built upon cheap labour. Construction and low-productivity commerce and hotel services are dominating instead of high-productivity manufacturing or business services and financial intermediation. Thus, one of the challenges for Estonia in turning to a long-term growth and catching up with the developed countries will be undertaking structural changes in the industrial sector towards raising the share of high-productivity subsectors (e.g. manufacturing of precision instruments, medical technology, complex electronic components and devices etc). Similarly, the share of knowledge-intensive services must be raised as well (Varblane et al 2008). To achieve this, a two-way approach has been proposed. This means developing the current economic activities on the one hand to raise their productivity. On the other, as a more long-term approach new economic activities should be introduced with high added value in the long run (Estonian Development Fund 2008).

## **1.2. Labour market developments**

Data on labour market developments will provide a context the micro-level situation in Estonia impacting individuals in the labour market. As a result of the rapid economic growth period in the mid-2000s, labour market participation rate has increased above 70% since the beginning of 2006 and has remained as such in the first year of recession ranging between 71.5% in Q3 2006 and 75% at its peak in Q4 2008 (see table 1). This is above the EU-27 indicator, which has remained stable around 70-71% according to Eurostat.

Employment rate has also been subject to change in the recession, though these changes have not been very extreme. While Estonia managed to reach the Lisbon employment rate target of 70% in the third quarter of 2008, it has been declining since then falling to 63.5% by the second quarter of 2009. The quarterly employment rate indicators have not been as low since 2005. However, as with the rapid economic growth the employment rate was extremely high exceeding the EU average, it is now just 1 percentage point below the EU-27 indicator (64.8% compared to 63.8% in Q2 2009). Still, the Bank of Estonia has forecasted further decline of 10.1% in 2009 and 3.3% in 2010. Employment is expected to turn to growth again in 2011 at 2.3% increase (Bank of Estonia 2009).

The recession has had the most severe impact on changes in unemployment rate. Unemployment rate reached its peak in the beginning of 2000s as a result of the Russian economic crisis that had its effect on the Estonian labour market as well (13.8% in 2000)<sup>2</sup>. After that, unemployment rate started to decline steadily as a result of improving economic conditions, reaching its lowest point in 2007 at 4.8%. In a one-year period from the second quarter of 2008 to the same period in 2009 the unemployment rate has increased more than three times from 4.1% to 13.6%. Together with Latvia and Lithuania, such pace of

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<sup>2</sup> Estonian unemployment indicators have been recorded since 1989 by the Statistics Estonia.

unemployment increase has been the highest among the EU countries (Eurostat, on-line database). As a result, in 2009 the level of unemployment is closing in on that of the previous economic downturn from the beginning of 2000s. This pace of change has been alarming and has put a considerable pressure on the unemployment policy system in Estonia.

**Table 1.** Labour market indicators of Estonian population aged 15-64, %

		Labour force participation rate	Employment rate	Unemployment rate
<b>2005</b>	Q1	69.5	62.8	9.6
	Q2	70.3	64.5	8.3
	Q3	69	64	7.2
	Q4	69.7	64.6	7.3
<b>2006</b>	Q1	71.8	67	6.6
	Q2	73	68.4	6.3
	Q3	71.5	67.6	5.5
	Q4	72	67.9	5.7
<b>2007</b>	Q1	72.2	68.3	5.4
	Q2	73.2	69.3	5.2
	Q3	73	69.9	4.3
	Q4	71.8	68.8	4.3
<b>2008</b>	Q1	72.2	69.2	4.2
	Q2	72.5	69.5	4.1
	Q3	74.8	70.1	6.3
	Q4	75	69.1	7.8
<b>2009</b>	Q1	73.5	64.9	11.8
	Q2	73.5	63.5	13.6

Source: *Statistics Estonia (on-line database)*

In different sub-groups the recession has had the strongest impact on the youngest age group (aged 15-24) for whom unemployment started increasing rapidly in 2008 reaching 27% in the second quarter of 2009 (as compared to 8.9% one year earlier). While the average difference from the unemployment rate of the 25-49 age group remained at 4.6 percentage points in the first two quarters of 2008, the indicator has increased to 14 in 2009. Thus the rapid increase in the general unemployment rate is in large part caused by the steep increase in the indicator for the youngest age group. In addition to the economic fall, the sudden growth in the youth unemployment is also caused by the fact that in recent years a large age cohort has entered the labour market who were born during the baby boom at the end of 1980s (Luuk 2009).

There have been no remarkable changes in the unemployment gap between Estonians and non-Estonians in the current recession. Unemployment is higher for non-Estonians – while in Q2 2008 the unemployment rate was 3% for Estonians and 6% for non-Estonians, the indicators have increased to 11.3% and 17.6% respectively by Q2 2009.

Gender-based data indicates that in the current recession, unemployment is more problematic for men than women. While during the economic growth period, unemployment rates were about equal for men and women (in 2006 the average difference in unemployment rate

amounted to 0.6 percentage points), the difference has increased to almost 7 percentage points by Q2 2009 in the advantage of women (unemployment rate was 16.9% for men and 10% for women). It has been suggested that the reason for the high unemployment rate among men lies in the structural changes of construction and manufacturing industries: a huge number of male workers were discarded as a result of the slowdown in construction and shrinkage of export markets (Luuk 2009). Indeed, it has been pointed out that the recession has had the largest impact in the construction and the processing industry – employment had decreased by 35.3% and 21.3% respectively in the second quarter of 2009, compared to the same period one year ago. In the same time frame, working hours reduced in these sectors as well – working hours per one worker reduced by 5.2% in construction and 6.5% in the processing industry as compared to the 4% in the whole economy (Bank of Estonia 2009).

Flexible forms of employment are rather uncommon in Estonia, including the use of temporary employment for instance. According to Eurostat quarterly data, the share of temporary employees in the total number of employees has remained around 2-3% since 2006 with no changes in the current recession. This is about 10 percentage points lower than the same indicator for EU-27 (ranging between 13-15%). The use of part-time employment has increased slightly, though only to a marginal extent from 6.4% in Q2 2008 to 11.7% in 2009 (compared to 18.7% in EU-27). Still, the growth has been the highest in EU. Thus it seems that employers increasingly implement part-time work, but still considerably less than many other European countries.

### 1.3. Restructuring background

#### 1.3.1. Restructuring developments

Not surprisingly, the sector hit the most by restructuring is the secondary sector. According to the registry data from the Unemployment Insurance Fund (UIF), 70% of collective redundancy benefit recipients in 2008 were previously employed in the secondary sector while just 25% were employed in the tertiary sector. Though, redundancies in the services sector peaked in 2007 with 44% of all collective redundancy benefit recipients from this sector (see table 2 below). Still, secondary sector is described by the highest share of restructuring across all the observed period (2003-2009), including the period of rapid economic growth.

**Table 2.** Collective redundancy benefit recipients according to the economic sector of the company, %

	2003	2004	2005	2006	2007	2008	2009 I-II quarter
<b>Primary sector</b>	0.41	0.00	5.77	0.00	1.75	5.24	0.87
<b>Secondary sector</b>	55.92	54.71	46.60	57.43	54.54	70.16	68.98
<b>Tertiary sector</b>	20.08	25.81	23.94	14.55	43.71	24.61	30.15
<b>Missing</b>	23.59	19.47	23.69	28.03	0.00	0.00	0.00
<b>Total</b>	100	100	100	100	100	100	100

Source: *Estonian Unemployment Insurance Fund (on-line database)*

Similar tendencies are reflected in the European Restructuring Monitor (ERM) data as well, which only keeps track of large redundancies<sup>3</sup>. During the period from 1 January to 30 September 2009, about 78% of jobs lost account for the manufacturing sector and 16% for the transport/communication sector (see Table 3). During the same period, the dominant type of restructuring was internal restructuring, accounting for 79% of all jobs lost. 11% of jobs lost were related to bankruptcy/closure and 6% with merger/acquisition. Thus, as opposed to what might be expected, bankruptcy has not become the dominant reason for job loss in the current recession. Instead, employers react by undertaking internal restructuring according to the changes taking place in the economy.

**Table 3.** Job reduction by sector, 1 January to 30 September 2009

Sector	Cases	Announced job loss	% of announced job loss
<b>Manufacturing</b>	14	2097	78.30
<b>Transport/communication</b>	3	434	16.21
<b>Public administration</b>	1	114	4.26
<b>Construction</b>	1	33	1.23
<b>Total</b>	19	2678	100

Source: *European Restructuring Monitor*

**Table 4.** Job reduction by type of restructuring, 1 January to 30 September 2009

Type of restructuring	Cases	Announced job loss	% of announced job loss
<b>Internal restructuring</b>	15	2111	78.83
<b>Bankruptcy/Closure</b>	2	301	11.24
<b>Merger/Acquisition</b>	1	166	6.20
<b>Relocation</b>	1	100	3.73
<b>Total</b>	19	2704	100

Source: *European Restructuring Monitor*

According to the ERM recorded data, large job creation cases<sup>4</sup> are concentrated in the transport/communication and public administration sectors during 1 January to 30 September 2009 (43% and 28% respectively) (see table 5). However, it should be kept in mind that all the job creation cases recorded in these two sectors are part of a crisis package introduced by the city of Tallinn and are thus of temporary nature. However, rest of the cases recorded are private sector initiatives concentrating on the manufacturing and the services sectors (each covering 14% of all job creation cases).

**Table 5.** Job creation by sector, 1 January to 30 September 2009

Sector	Cases	Planned job creation	% of planned job creation
<b>Transport/Communication</b>	1	600	42.7

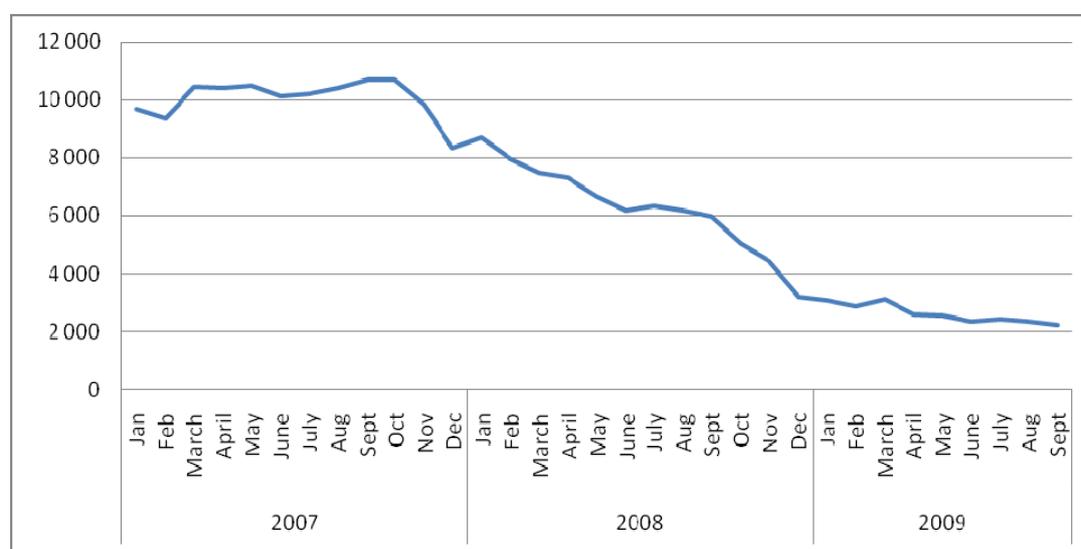
<sup>3</sup> Only redundancy cases which include an announced or actual reduction of at least 100 jobs or an announced or actual reduction on a site employing more than 250 people of whom at least 10% are at risk of losing their jobs.

<sup>4</sup> Only job creation cases with an announced or actual creation of at least 100 jobs are recorded

<b>Public administration</b>	1	400	28.47
<b>Manufacturing</b>	1	200	14.23
<b>Retail</b>	1	105	7.47
<b>Hotels/ Restaurants</b>	1	100	7.12
<b>Total</b>	5	1405	100

Source: *European Restructuring Monitor*

The general number of vacancies in the UIF (previously Labour Market Board) started to decline sharply in the end of 2007 (in parallel with GDP change, see also figure 1), reaching as low as 2210 vacancies in September 2009 (see figure 2). This means that the ratio of vacancies to the number of registered unemployed has dropped from 4.2 in 2007 to 0.2 in 2009. According to Bank of Estonia (2009), the creation of new jobs will accelerate again in 2010 as a result of the recovery of foreign demand.



**Figure 3.** Number of vacancies registered in the Unemployment Insurance Fund, January 2007 – September 2009.

Source: *Estonian Unemployment Insurance Fund*

These rapid changes in the labour market have induced large changes in the regulative framework of redundancies in Estonia. These changes and the discussion around the possible effects are described in more detail in the following chapters of this paper.

## 1.3.2. Restructuring frameworks

### 1.3.2.1 Legal frameworks

Restructuring activities are regulated by the Employment Contracts Act, a new and significantly amended version of which took effect on 1 July 2009. This meant several changes in the restructuring frameworks, mainly towards making it more flexible for the employers in terms of the financial burden of redundancies and advance notice requirement. Below, the changes in the restructuring frameworks are described in more detail by specific points.

- Situation of redundancies

In the new legal framework, redundancies are only allowed for economic reasons. With the previous regulations, the definition was not as clear and thus enabled redundancies in some other cases as well. Thus the new act has specified the situation when redundancies are allowed.

- Finding alternatives to redundancies

Before July 2009, the employer had to report to the trade union or employee representatives of the measures used to find alternatives to redundancies. The only measure specified was offering an alternative job in the company whenever possible. Since 1 July, this is added with a new measure - after the announcement of redundancy, employer must give additional free time for the employee to find a new job. However, these measures are limited to the assumption that they should be manageable for the employer and not bring about unreasonably high expenses.

- Giving preferences in redundancies

In general, the list of persons receiving preferential treatment in redundancies has been reduced: the preferences remain for employee representatives and persons raising a child under three years of age (including pregnant women). In case the employers will still need to dismiss an employee representative, the employer must ask for an opinion from the trade union or employees who elected the representative. The employer is not obliged to take their opinion into consideration, but must justify his final decision. The groups that have lost preferential treatment with the new regulations are: persons employed full-time with better work results, who have suffered from an occupational disease or a work injury, who has longer work tenure with the same employer, who has dependants or who are acquiring professional skills in a vocational education institution.

- Definition of collective redundancies

The definition of collective redundancies has remained unchanged: collective redundancy is the termination of an employment contract within 30 days due to redundancy with at least:

- 5 employees in companies employing more than 19 workers
- 10 employees in companies employing an average of 20-99 workers
- 10% of employees in companies employing an average of 100-199 workers
- 30 employees in companies employing an average of at least 300 employees

- Advance notice requirements

The term of advance notice period was reduced considerably. With the new regulations, an employer must give advance notice of at least 15 calendar days in case the person has been employed for less than a year (previously two months), 30 calendar days in case employed one to five years (previously two months), 60 calendar days in case employed five to ten years (previously three months) or 90 calendar days in case employed more than ten years (previously four months). Thus, the term of advance notice was reduced by about 30 calendar days for most groups (previously the term was defined in months, now in calendar days) and 1.5 months for those employed less than a year.

- Notification of government bodies

With the purpose to reduce administrative burden for the employer, only one government body must be informed of the collective redundancies instead of the earlier two. Now, information will be forwarded to the UIF who will decide if any action must be taken. Before 1 July, the Labour Market Board (now part of the UIF) and Labour Inspectorate were both informed.

- Benefits in cases of redundancies

The redundancy benefits have been reduced in the new act. Moreover, the financial burden of the employers is reduced by sharing it with the UIF. The comparison of the size of the benefits is presented in table 6 below.

**Table 6.** Redundancy benefits, comparison with the old and new regulations

	Job tenure	Extent of benefit (months of previous average salary)	Financier of the benefit
<b>Since 1 July 2009</b>	Up to 5 years	1 month	All redundancy cases: employer
	5-10 years	2 months	All redundancy cases: employer (1 month) + UIF (1 month)
	10 and more years*	3 months	All redundancy cases: employer (1 month) + UIF (2 months)
<b>Before 1 July 2009</b>	Up to 5 years	2 months	Individual redundancies: employer Collective redundancies: employer 1 month + UIF 1 month
	5-10 years	3 months	Individual redundancies: employer Collective redundancies: employer 1.5 month + UIF 1.5 month
	10 and more years	4 months	Individual redundancies: employer Collective redundancies: employer 2 months + UIF 2 months

\* In case of people who have employment tenure more than 20 years, a five-year transition time will be implemented, during which they will retain the existing level of redundancy benefits – that is, four months' earnings. After that, their benefit will be lowered to 3 months salary.

Source: *Employment Contracts Act, Unemployment Insurance Act*

- Information and consultation procedures

The information and consultation procedures have not changed considerably since 1 July. In case of collective redundancies, the employer must consult with employee representatives or employees themselves if there is no representative elected prior to the actual dismissal. The purpose is to reach an agreement on the possibilities to avoid or reduce the extent of the

planned redundancies and mitigating the effects of the redundancies on employees, including supporting job search or retraining. The employer must provide the necessary information on the planned redundancies (including the reasons of redundancies, the number and positions of the persons planned to make redundant, period of redundancies etc.). Upon notifying the UIF of the planned redundancies, the employer must also give an overview of the results of the consultation procedure. Until now, there is no information whether the information and consultation procedures have been followed in practice and to what extent. Also, it is important to note that the information and consultation requirements do not extend to cases of individual redundancies or those falling below the threshold of collective redundancies.

As shown above, the restructuring is mainly regulated with national level legislation. The share of collective redundancies in regulating restructuring is unknown as there is no information on the actual number of collective agreements or their contents collected in Estonia.

### ***1.3.2.2 Actors involved in restructuring***

In defining actors involved, we precede from the notion that restructuring takes place on two levels: the macro (national) level where policy development and planning takes place; and micro (enterprise) level, where restructuring takes place. In between, a local level may be marked as well, although its relevance may be varying between different regions. The activities undertaken at local level are not mandatory and the capacity of different regions to play a considerable role in anticipation or management of restructuring can be quite different. On the different levels of restructuring, the variety of actors involved and specific roles of different actors are changing.

#### **National level**

On national level, the policy development and planning to anticipate and manage restructuring takes place. The main role here is on the state, but also on national level social partners.

The Ministry of Social Affairs (together with the UIF) has the central role in leading the policy development related to anticipation and management measures of restructuring, but also Ministry of Economic Affairs and Communications and Ministry of Education and Research are involved though to a smaller extent (see also description of restructuring anticipation and management measures under heading 2 below). An important role in financing the different labour market measures related to restructuring is on the European Social Fund (ESF). However, in addition to financing big national level measures, the role of ESF also reaches to local and enterprise level through financing different smaller local level projects.

The social partners are also included in the consultation processes in planning the measures for anticipation and management of restructuring on national level. In this process, mostly the two national level social partners are included – Estonian Trade Union Confederation and Estonian Employers Confederation. However, the extent to which social partners' opinions are taken into account in policy development seems to be differing. An example of this is the recent labour law reform – even though the social partners had reached an agreement on the contents of the reform and the balance between flexibility and security in the new labour legislation already in 2008 (Nurmela, Karu 2008), several changes were made to the initial draft law as a result of the recession. First changes were already introduced at the end of 2008, when it was decided to adopt the new act six months before initially planned – in July 2009 –

and to postpone provisions, which impose additional financial burden on the state budget until 1 January 2010. The developments with the unemployment levels showed in 2009 that further changes in the draft act would be required. While the total amount of unemployment insurance payments was increasing rapidly, the new act was to introduce further expenses by raising the replacement rate of the unemployment insurance benefit and the number of persons eligible for the benefit (see also Nurmela, 2009). As a result, the government decided to reduce the expenses of the Unemployment Insurance Fund by postponing these provisions until 2013. These changes were introduced without initiating new negotiations with the social partners. Although the Estonian Trade Union Confederation made several proposals for finding solutions on a tripartite level and the trade unions protested against these changes in a strike action, the new labour legislation took effect without increasing the social security for workers (Nurmela, Osila 2009).

### **Enterprise level**

Enterprise level is where the restructuring takes place. This is also the level of implementation of national policies to manage restructuring. The process of restructuring on enterprise level can also be divided to two periods: the period before and after restructuring (redundancies) takes place.

Before restructuring, the most active role is on the employer, who will be responsible for informing different parties (the UIF and employees or employee representatives) of the restructuring and initiating the information and consultation procedure with the employee representatives (either trade union representatives where one is present or employee trustees). However, the obligation to initiate the information and consultation procedure is only set in case of collective redundancies. Thus, in cases of small-scale redundancies, cooperation with the employees or employee representatives will only depend on the responsibility of the employers towards their employees. Furthermore, there is no clear-cut role on employers in terms of the requirement to take action to mitigate the impacts of the planned redundancies. Although some specific activities are described in the new Employment Contracts Act (see also point 1.3.2.1 above), but the actual practices have not been analysed in the situation of the new legislation. Also there is no information of the extent of activities exceeding the minimum legislative requirements. However, some indication of such practices may be derived from the case studies described in this paper (see point 2.3 below). The role of the state before the actual dismissal of workers starts with informing the UIF. During the period after announcement and before the actual dismissal of workers, the UIF will have time to analyse the scope of the planned redundancies and find solutions to the possible impact of these redundancies. In larger cases of redundancies, the reaction service to collective redundancies will be implemented (see description of the measure under heading 2 below).

After the actual dismissal of workers, both the employers and the state (UIF) will have the shared responsibility to provide redundancy benefits (the conditions and eligibility criteria are described in more detail in 1.3.2.1 above). After that, the UIF will have the main role in supporting those made redundant by implementing both active and passive labour market measures. However, the scope of these measures will be limited only to those who have registered as unemployed. For those persons, who are members of a trade union, some additional financial or other support may be provided by the trade union. However, such support packages in cases of redundancies are varying across different trade unions.

The role of social partners on enterprise level is rather limited in Estonia. This is mainly caused by the very low and constantly declining trade union membership – in 2008 just 6% of workers in dependant employment are trade union members according to the Labour Force Survey data. Collective agreements also can only address a limited share of workforce – according to the most recent survey data from 2005 a total of 25% of the workforce was covered by a collective agreement (Saar Poll 2005). In companies where trade unions are present, the practices and the extent of their role differ. However, there is no research available on the variety of practices of social partner inclusion in restructuring or the extent of such practices. Some indication is derived from specific cases. For instance, some trade unions have taken an active role in restructuring through consulting the employed in the restructuring process or have introduced additional social guarantees for their members in cases of restructuring. These examples are described in case studies in 2.3 below. There is no available information whether and how the role of social partners on enterprise level has changed in the situation of the recession.

The different actors described above are not an exhaustive list of those institutions which can have a role in restructuring cases and the roles described may be varying to some extent across different cases. However, these are the most common actors involved in restructuring. Some indication of different actors and their roles will also be provided in the case studies included in this report.

## **2. Measures and tools for anticipating and managing restructuring**

While the process of restructuring is described more in detail in 1.3.2 above, in this part of the report, the focus is on specific measures and tools implemented. The main aim of the measures described below is to reach the balance between the macro level positive effects on the economy and the negative impact on the individual at micro level. The description of the measures includes information on the effectiveness and results as far as possible. Though, impact assessments in terms of measures implemented in restructuring are not common. Moreover, large part of the measures described below are implemented only recently as a result of the current recession, which makes it too early to give any reliable estimate on their effectiveness. In case there is no impact assessment available, a discussion on the potential effects of the measures and their possible strengths and weaknesses are provided.

### ***2.1. Measures and tools for anticipating restructuring***

In this chapter, the focus is on measures that are implemented as anticipative before any specific restructuring has been announced in order to support workers in possible future redundancies. Such measures are mostly related to increasing the human capital and raising the skills of the workforce, but also to anticipating future changes in the economy and thus in skills needs.

#### **2.1.1. National level strategies**

Estonia has adopted a variety of national level strategies to anticipate restructuring. These are outlined in different strategic documents, such as the Estonian Action Plan for Growth and Jobs 2008-2011 for the implementation of the Lisbon Strategy, Estonian Adult Education

Development Plan 2009-2013, Estonian Entrepreneurship Policy 2007-2013 and Development Plan for the Estonian Vocational Education and Training System 2005-2008.

One of the aims outlined in the strategic documents listed above has been to raise the skills of the labour force in general. On the macro level, well-targeted educational policies will raise the efficiency of the economy and increase productivity (supporting for instance the move towards a knowledge-based economy). On the micro level, well planned educational policies will raise the competitiveness of persons in the labour market and will help them find new jobs more quickly in cases of restructuring.

As data has indicated, persons with higher educational attainment will have lower probability to be unemployed (i.e. they will find it easier to move between jobs) in their adult life (Luuk 2009) and will have higher probability to take part in additional training to increase their competitiveness in the labour market (according to Statistics Estonia persons with below upper secondary education participated in lifelong learning almost eight times less than those with tertiary education). Thus, policies towards anticipating restructuring should start already at a young age with educational policies more general and the aim to raise educational attainment and reduce early school drop-outs. For instance, an aim has been set in Estonia to improve the educational attainment and the skills level of young people entering the labour market. For that purpose, one goal of the Estonian government has been to reduce the share of young persons aged 20-24 without an upper secondary education by preventing young people from leaving school early. To achieve this, several measures have been implemented in recent years to prevent drop-out due to material reasons. These include implementation of a boarding school programme to support the studies of children from struggling families, allocation of transport support and financial aid for the acquisition of study aids and textbooks. According to the Estonian Action Plan for Growth and Jobs 2008-2011 the main focus in the following few years will be on implementation of educational measures, which will help students in threat of dropping out of school to continue in their studies (developing counselling networks and an integrated counselling model, formulation and establishment of assistant teacher system etc.). The target level of early school leavers has been set at 10% for 2011 compared to the 14.3% level in 2007.

Vocational education is another area which can be used as a tool to successfully anticipate restructuring. For this purpose, the vocational education system should meet the demand in the labour market and provide skilled labour force for new emerging markets. However, meeting the demand will be a challenge for the Estonian vocational training system. Furthermore, a problematic area pointed out by the Estonian employers has been the low share of young people acquiring vocational education and the need to develop vocational education to improve its quality and attractiveness towards possible students (Kallaste 2007). In 2007, only 29.6% of students who graduated from daytime study in basic school continued their education in vocational schools. It is projected that the share will be reduced even further due to the demographic processes - the number of those who enter vocational secondary schools will have dropped from the current 5300 to 3500 in 2012/2013 (Estonian Action Plan... 2008). In order to raise the share of students acquiring vocational education, the focus of the government has been on raising the quality of vocational education. During the last seven years, optimization of the network of vocational education institutions has been finished reducing the number of vocational education institutions to 31 instead of the former 62. Also, the share of vocational education expenditures in the general expenditure on education has been increased. As a result, the basic cost of one study place was increased more quickly than in general education. In order to raise interest of young people towards vocational training,

the government has undertaken popularisation of science and technology in schools. However, it has been pointed out that the popularisation of natural and exact sciences and technology has so far progressed mostly on a project basis. Therefore, the Government is now aiming to deal systematically with the promotion of formal studies in the science and technology field, to raise the relative importance of the field, diversify methods for studying and organise special-purpose scholarships (Estonian Action Plan... 2008). According to the Estonian Action Plan for Growth and Jobs, other important challenges for the future will be to further popularise vocational education and improve cooperation between educational institutions and employers both in development of the curriculum and implementing apprenticeships.

Another approach to improve the skills levels of the labour force is to improve the skills of adult population already in the labour market by supporting participation of adults in learning activities. In order to increase participation in lifelong learning, new financing principles were introduced in 2008 with the purpose to improve access to adult education for different groups of persons. The financing was divided between the Ministry of Economic Affairs and Communications who is responsible for financing employer provided training, the Ministry of Social Affairs who is responsible for the training of unemployed and disadvantaged groups in the labour market and the Ministry of Education and Research who is accountable for adult training provided by educational institutions (Nurmela 2008). As a result, a new measure has been providing free of charge training to adults through vocational education institutions (implemented by the Ministry of Education and Research) (see also 2.1.1.1. below).

Another strategy to raise participation in adult education has been the development of career counselling systems in order to improve dissemination of information on the skills needed on the labour market. An integrated career counselling system has been implemented for both young persons in schools and adults. In addition, the target group for career counselling provided by the UIF has been widened to employed and inactive persons as well in addition to the group of unemployed (see also point 2.1.1.4. below).

For the coming years, the Estonian Action Plan for Growth and Jobs has outlined as the main challenges to continue the provision of training free of charge to adults (both for those still in the labour market as well as those already unemployed), raise provision of training by employers especially in SMEs and raise the skills levels of the risk groups in the labour market (including language training for non-Estonians). In addition, the Estonian Chamber of Commerce and Industry has also stressed the need to provide foreign language training to the unemployed, considering the large share of vacancies offered from other EU countries. Indeed, about half (48%) of the vacancies offered by the UIF as at 31 December 2009 are outside Estonia. In order to increase participation in lifelong learning, Estonian government has undertaken to better inform the population of training possibilities and popularise adult training.

It will not be possible to give a detailed overview of all measures adopted to anticipate restructuring in the framework of the current report. In order to give a more detailed insight of some tools implemented, a selection of measures is described below.

#### ***2.1.1.1. Adult vocational training in vocational education institutions by the Ministry of Education and Research***

The project "Adult vocational education in vocational education institutions" is initiated by the Ministry of Education and Research and co-financed by the European Social Fund. The project started in 2007 and the first period ended in 30 June 2009. During the two-year period 60 million EEK were allocated to the project in total and 23 507 persons received vocational training free of charge (Ministry of Education and Research 2009). Taking into account that employed or inactive persons can benefit from the measure, about 3.1% of the target group have been included<sup>5</sup>. The trainings are mainly targeted at raising competitiveness of persons in the labour market through developing the current skills and raising qualifications rather than complete retraining.

In terms of contents, the most substantial part of the program was computer training where 4000 persons participated during four semesters. According to the comments of the project manager, the popularity of computer training is most probably related to the fact that in addition to basic training level, advanced computer training is also provided (e.g. computer graphics and programming). Other more popular training fields included accommodation and catering with more than 2000 participants. These included for instance preparation courses for professional examination and additional training for chefs, waiters and service staff in accommodation establishments. More than 2000 persons also took part in general skills courses such as communication courses for service workers and professional language courses. Also, about 1700 construction workers and 1300 sales and warehouse workers received professional training or courses for the preparation for professional examination. (Ministry of Education and Research 2009)

The training courses were provided through 37 vocational education and vocational higher education institutions across Estonia to ensure equal access in all regions of the country. However, due to the specialisation of vocational education institutions not all fields of courses were available across Estonia (Ministry of Education and Research 2009).

As a result of the changes in the labour market, it was decided to widen the target group for the training courses. Since the spring semester of 2009 those persons who are temporarily unemployed or unemployed but not registered in the public employment services are also eligible to take part in the training courses provided by the Ministry of Education and Research. Also, additional courses were commissioned in the extent of 1.7 million EEK for small entrepreneurship and accounting targeted at self-employed persons and managers of small companies (Ministry of Education and Research 2009).

The same project will be continued until 2013. In autumn 2009 for instance courses will be provided for 5109 persons in 363 courses through 38 vocational education and vocational higher education institutions. The total amount allocated to the project in autumn is 17.5 million EEK. Again, the focus is on continuing courses to complement the available skills rather than basic level courses (Ministry of Education and Research 2009b).

This project contributes to the general goal of raising the skills levels of the labour force. However, as the number of persons eligible for the training is large, it is important to monitor who will benefit the most from these measures. Traditionally, younger persons with higher educational attainment participate in lifelong learning activities while those who would need

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<sup>5</sup> Target group is calculated based on the number of employed and inactive persons in 2008 (Statistics Estonia). Only those inactive persons who are inactive for other reasons than studies have been taken into account. It should be kept in mind that a single person can participate more than one time. There is no information how extensive this practice has been among the participants.

it the most are described by the lowest participation levels (e.g. persons with low educational attainment, of older age groups and from lower job positions). In order for the project not to have adverse effects of increasing this gap, it is important to keep track of the composition of participants. Another important aspect of this project is that the government can regulate the fields of study and skills that are developed and provided in the framework of this project. Through this, government can ensure better conformity of the skills composition of the labour force and the skills required in the labour market.

### ***2.1.1.2. APEL system (Accrediting Prior Experiential Learning)***

The APEL system aims at valuing all the knowledge and skills a person has acquired, despite the fact where these have been acquired (i.e. whether at a workplace or in different courses or educational institutions). The purpose of using the APEL system can be to support continuing studies or to formally recognise the skills the person has acquired. This would also make the person more competitive in the labour market and make the qualifications of the persons more visible for the employers. The APEL system can be used upon entrance to an educational institution, in continuing interrupted studies, for changing study program or for acquiring professional certificates. The APEL system takes into account the previous studies, participation in professional training or courses and knowledge learned by oneself, skills and knowledge acquired during work and professional career.

Tools used for accrediting either individually or in combination:

- Application form – most of educational institutions which have implemented the APEL system have developed their own application forms for accreditation of prior learning or working experience
- Portfolio – a collection of materials which indicates the strengths of the person, their skills and experiences. The materials must provide evidence and be assessable.
- Interview – enables to present earlier achievements and discuss different aspects of experiences in a conversation. Interviews can be undertaken either individually or in a group.
- Traineeship report – working experience is often used upon assessment of traineeship.
- Observation – if it is possible, the skills of the applicant can be assessed in some certain situation. This tool is appropriate if the assessment of technical or social skills is necessary.

In the framework of an extensive European Social Fund project, during 2005-2008 the APEL system principles described above were developed. Since 2004 the APEL system is implemented in higher education level, in vocational education, the system has been piloted but is not mandatory (Peebo, Saluveer 2008). All of the educational institutions analysed in 2008 had implemented APEL counselling systems in their institutions. Compared to 2005 the importance of counselling activities and the number of counsellors has increased. The analysis pointed out that accreditation of previous educational experience is more common than that of a working experience. This is mainly because assessing the previous work experience is more complicated than with educational experiences. As a positive development, compared to 2005 students are more informed and interested in the APEL system. Students are mostly aware of accreditation of learning experience, but interest towards accreditation of working experience is increasing. Still, the research points out that the largest problem of the system is accreditation of working experience due to its novelty and complexity. It is expected that this problem could be solved through unified requirements for accreditation. (Peebo, Saluveer 2008)

Based on the analysis of the current situation with the implementation of APEL, further developments are planned for 2009-2013 in the Adult Education Development Plan. During that period further development of the APEL system is planned and it will also be implemented in vocational education and general education (to enable acquiring secondary education without the need to graduate from the basic education level for those over 20 years of age).

The APEL system supports achieving general strategic goals of the Estonian Action Plan for Growth and Jobs in terms of raising the qualifications and skills levels of the labour force. The APEL system does not aim explicitly at anticipation of restructuring but rather supports the educational achievements of the population. Also, in its current implementation phase it only has an effect on higher education level as it is not implemented across the whole educational system. However, in terms of anticipating restructuring in the future, APEL is a good tool for raising the qualifications level of the labour force, including those more disadvantaged in the labour market (e.g. school drop-outs with vocational skills).

### ***2.1.1.3. Forecast instruments***

The current chapter gives an overview of the forecast instruments to anticipate future developments in the economic structure and reallocation between fields of economy and thus anticipate skills needs in the labour market.

Since 2003 the Ministry of Economic Affairs and Communications has undertaken annual forecast of the labour force demand for the following seven-year period (see for instance Ministry of Economic Affairs and Communications 2009). The tool provides a forecast for changes in employment structures, including changes in employment, moving out of employment and between sectors. This gives an assessment on the developments in the demand of employment and labour force by sectors of activity, occupations and educational levels. The size of the sample used for this forecast exercise limits the possibilities to interpret the results and present these at more detailed level. The forecast makes use of the Labour Force Survey data and registry data of the Tax and Customs Board on the declaration of social tax. In assessing sectoral level developments additional sources of information are used, such as entrepreneurship data, results of different related research or expert assessment of sectoral organisations or large enterprises. The macro level model is based on national accounts data. The forecast is used as an input for planning publicly financed provision of education and training and as a tool for designing employment policies.

In order to improve this forecast tool, the Estonian Adult Education Strategy 2009-2013 sets out to develop a competence based (skills based) labour forecast conception and methodology. For that purpose, the current labour force forecast methodologies are improved to enable not only how many and what kind of vacancies will be available, but also what kind of skills and competences are needed. The new conception is planned to be developed during 2010-2013 in cooperation with the Ministry of Education and Research, Unemployment Insurance Fund, Statistics Estonia, Estonian Qualification Authority and the social partners.

Employer organisations have also undertaken forecasting activities. Since 2009, the Estonian Employers Confederation has published a quarterly overview of the most recent economic developments. The quarterly reports are partly based on the assessment of their members on the situation of the economy and possible future prospects, also on economic indicators published by different institutions (Statistics Estonia, Bank of Estonia etc). These also provide

suggestions for the government how to move on with economic and labour market policies to support economic growth. However, there is no information whether these quarterly reports have been used by the government as an input in policy development. The Estonian Chamber of Commerce and Industry also has the issue of skills needs on their agenda, working closely with the Ministry of Education and Research on the matter. However, as pointed out in the Estonian national seminar, forecasting exercises by individual employer organisations can not be the basis for a systematic approach towards anticipating skills needs in the national level.

In terms of shaping the future developments and forecasting the need for new skills in the labour market, the Estonian Development Fund has provided analytical reports to the government and the Parliament. The Estonian Development Fund was launched in 2007, created by the Estonian Parliament with the purpose of initiating and supporting changes in the Estonian economy and society that would accelerate modernisation of our economic structure, lead to growth in exports and contribute to creating new jobs requiring high qualifications. For this purpose, the Development Fund undertakes a foresight, which is a strategic look into the future through a set of diverse analytical methods. This concentrates on three main areas: restructuring the manufacturing sector of Estonia, the possibilities of knowledge intensive services and ICT possibilities for supporting Estonian development. Through these main areas, an Estonian growth vision is developed. Foresight is an open undertaking, and the Development Fund has an organizing role in it. The Foresight team consists of a small number of experts who prepare and manage the implementation of foresight projects. Estonian and foreign experts on respective subjects are engaged for each project from outside the Development Fund. Through participants in studies, interviews and discussions, a wider range of decision-makers are reached. The Development Fund has published several reports for the parliament on possible future strategies. Until now, these suggestions have not been implemented extensively in policy development. It should be pointed out that this forecast tool only concentrates on specific areas of growth rather than on the whole economy in general.

In order to ensure better conformity between the labour market and education, the Estonian Strategy for Growth and Jobs has proposed in 2008 to formulate and implement a system for analysing and forecasting in order to improve the ability to consider changes in the labour market when formulating the volume and structure of specialist fields in higher, vocational and adult education. This is planned to be implemented during 2009-2010 by Ministry of Education and Research, Ministry of Social Affairs and Ministry of Economic Affairs and Communications. The Adult Education Strategy 2009-2013 sets the goal to develop a methodology for formulating the volume of publicly financed adult training initiatives. Also, to encourage lifelong learning and raise its quality, it is planned to examine competence, skill levels and the needs of the adult population during 2009-2013. A total of 24.6 million EEK is allocated for this purpose up to 2011, the activities are undertaken by the Ministry of Education and Research.

#### ***2.1.1.4. Short-term measures to better anticipate restructuring in the current recession***

In September 2009 the Ministry of Social Affairs together with the UIF introduced an Action Plan for Reducing Unemployment and Supporting Returning to Employment for 2009-2010. In total, the plan includes investments of 700 million EEK. The program is financed by the European Social Fund and the budget of the UIF.

Two distinct activities can be pointed out from the action plan to anticipate restructuring. Often, persons suffer from lack of information on the services and measures provided in case of difficulties in the labour market. This might be especially the case when there has not been any need for such measures or services in the past. Also, while the UIF mainly support the unemployed, people might be unaware of the fact that persons still in employment or in threat of losing their job are supported with several measures. Thus, the action plan undertakes to inform persons who are threatened by a job loss, i.e. persons on reduced working time, employees in companies with solvency problems etc. Information is provided on the rights of workers and measures available to persons in these situations (e.g. possibilities to take part in training, different active labour market measures, job search counselling) to encourage their use.

Secondly, eligibility for career counselling provided by the UIF is widened to enable wider access to active labour market measures. According to the Labour Market Services and Benefits Act, the service is only available for the unemployed and those who have received notice of redundancy. In order to widen the availability of career counselling for persons still in employment, the UIF will open career information rooms. Any persons, despite whether unemployed or in employment, can turn to the local UIF for career information. In addition to the basic information (on professions, choosing and searching for a job, labour market situation and possibilities), computers will be available in all career information rooms for searching any career related information or formulating necessary documentation for applying for a job.

The career counselling service by the UIF helps persons in making professional, learning and employment related decisions. Career counselling may take place either individually or in a group. A customer satisfaction survey on the services provided by the Estonian Labour Market Board (since 1 May 2009 Estonian Unemployment Insurance Fund) reflected that the unemployed generally do not take initiative in career counselling – 76% of the respondents said that they took the service just because the consultant of the UIF said it was necessary. Just 22% of the respondents asked specifically for career counselling. This indicates that the role of the counsellors is important in targeting people to career counselling service because many do not see the benefits of this for themselves. In general, almost half of the respondents who had participated in the career counselling (49%) were very satisfied with it and another 48% were just satisfied. Only 3% of the respondents reported dissatisfaction. This is a relatively high satisfaction as compared to the assessment given to other services of the Labour Market Board. Respondents were most satisfied with the attitudes of the career counsellor towards the unemployed (55%). Persons were the least satisfied with the applicability of the counselling service to making real choices (still 42% were very satisfied with this). 89% of the respondents said that their opinions were taken into consideration in career counselling and 92% say that they would participate in the service again. (Bruns 2008)

### **2.1.2. Company level strategies**

There are no specific legislative obligations for the employers to anticipate restructuring at company level. Thus, implementation of any anticipative measures is largely dependent on the social responsibility of the company towards its employees and the local economy and labour market. There is no data available on the anticipative practices implemented by employers in cases of restructuring.

Still, information on the training practices in companies may be derived from the survey on adult education in enterprises conducted by Statistics Estonia in 1999 and 2005. According to the survey data, larger enterprises provide training<sup>6</sup> more often (96% of enterprises with more than 250 employees, compared to 62% of the small companies, i.e. 10-49 employees). The trend is similar when looking at companies planning manpower and skills of employees. In 2005 just 56% of small enterprises (10-49 employees) did that, while the indicator is 93% among companies with 250 and more employees. Also, just 9% of small companies have a training budget, while it is 69% among the large ones. Thus, employees working in larger companies have more possibilities in receiving training. Although large share of employees are working in companies which provide training (in 2005 82%), not all employees have equal access to training. Research indicates that just 47% of persons with below upper secondary education who are provided training, where financially supported by the employer. The indicator is 61% for persons with upper secondary education and 71% for persons with tertiary education. Furthermore, in general research has indicated that persons who are already more competitive in the labour market, participate in lifelong learning considerably more often than those who would need raising their qualifications level the most (low educated, persons on lower job positions, older persons etc.) (Vöörmann 2008). Thus, with the public policies of adult education, it is important to monitor that those groups that do not receive training provided by their employer, would have access to lifelong learning through public measures.

## **2.2. Measures and tools for managing restructuring**

In this chapter, the focus is on measures and tools that are implemented after the employer has announced redundancies. Such tools aim at supporting the persons made redundant in finding a new jobs and returning to employment as soon as possible. The main focus is on active and passive measures provided by the state. Also, some examples on the implementation of these measures on enterprise level are provided.

### **2.2.1. National level strategies**

After the announcement of redundancies, the dominant role of the state is on the UIF (public employment services). UIF provides different labour market measures both before the actual redundancies (reaction service to collective redundancies, see also 2.2.1.1. below) and after that (active and passive measures for the unemployed).

In order to increase the effectiveness of the UIF and the measures that they provide, a new public employment services body – Unemployment Insurance Fund – was created since 1 May 2009. With the new body, two organisations were merged into one – the Unemployment Insurance Fund providing passive labour market measures and the Labour Market Board

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<sup>6</sup> According to the definition of Eurostat, the data on training includes internal and external training courses and other ways of training. The latter are more informal forms of training, including planned periods of training, instruction or practical experience, using the normal tools of work, either at the immediate place of work or in the work situation; planned learning through job rotation, exchanges or secondments; attendance at learning/quality circles; self-learning through open and distance learning; instruction at conferences, workshops, lectures and seminars at which the purpose of the employees attending the events is to learn/receive training (see also:

[http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP\\_GLOSSARY\\_NOM\\_DTL\\_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16545635&RdoSearch=BEGIN&TxtSearch=o&CboThe me=16713672&IntCurrentPage=2](http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16545635&RdoSearch=BEGIN&TxtSearch=o&CboThe me=16713672&IntCurrentPage=2))

providing active measures. The aim of the new institution was to improve the provision of services through tighter links between benefit payment and active labour market policies. The management board of the new institution is tripartite, including representatives of social partners. This creates a good basis for more efficient implementation of employment policy. During the first months the new UIF has increased analytical capacity and started to systematically develop customer service. The recent changes have also focussed on more customer orientation and extension of active labour market services with the support of the ESF to allow more people to benefit from those services (Estonian Strategy for Competitiveness 2009-2011). According to the Estonian Strategy for Growth and Jobs, the improvements of the organisation of labour market measures will be continued in 2010 with the aim to make the system functioning more quickly and ensure a need-based service provision. After six months of the introduction of the new institution, it is too early to tell how the change has impacted the effectiveness of public employment services. The Labour Market Board had undertaken regular customer satisfaction surveys. Until now, there is no such survey published on the new institution, but this may give an initial estimate of how the new merged institution has been able to respond to the needs of registered unemployed.

### **Active labour market policies (ALMP)**

Development of the ALMPs has been one of the main priorities in Estonia since 2001. Major reform of the ALMPs was enforced in January 2006, when the new Labour Market Services and Benefits Act entered into force. As a result of this amendment, six new labour market services were added to the existing measures - the Act introduced personalised approach and new measures for disabled persons, young unemployed and long-term unemployed. In total, thirteen different employment services are provided by the public employment offices today according to the principles of case management. However, there is no proof of any increase in the quality of ALMPs as a result of these changes as there are no impact evaluations on the effectiveness of ALMPs as well as National Labour Market Board available in Estonia. Also, the expenditures on these policies are still the lowest in EU according to the Eurostat data. According to the national statistics, the expenditures on ALMPs in Estonia stood at 0.07% of the GDP in 2000-2004; in 2005 the respective indicator increased to 0.12% and in 2006 to 0.11% as a result of EU financing (ESF; EQUAL). In 2007, the expenditures on ALMP-s accounted for 0.09%. Also, in absolute terms, the expenditures on ALMP-s decreased slightly compared to the previous year (Leetmaa 2008).

While in 2006 the share of external expenditures (ESF; EQUAL) accounted roughly half of the total sum, the respective share had decreased to 37% in 2007. The EU countries with comparable unemployment rates spend considerably more on ALMPs than Estonia. The reasons behind the low expenditures could include the different composition of the services offered to unemployed, differences in target groups entitled to services (in Estonia only registered unemployed, while elsewhere also the employed at risk of involuntary job loss and inactive persons who would like to enter the labour market) as well as short duration of the programs in Estonia compared to the other countries (Eamets, Leetmaa 2009).

As a result of the recession, the government has decided to increase expenditures for active labour market measures for the coming years, mainly with the support of EU financing. The total budget for active labour market policy will be 459 billion EEK in 2009, which is two times more than the budget allocated in 2007. Furthermore, expenditures in 2010 are planned at 618 billion EEK. According to the calculations in the Estonian Strategy for Competitiveness 2009-2011, the expenditure on ALMPs will raise up to 0.42% of GDP in 2010 which is comparable with the average expenditure level in EU-27 (0.47% in 2007).

Another aim of the government has been to increase the share of ALMP participants in Estonia – the goal is to reach 35% by 2011 (Estonian Action Plan for Growth... 2008). However, the number of participants in ALMP as a fraction of the total unemployed has been low in Estonia (9.2% in 2004; 15.4% in 2005 and 18.7% in 2006) (Leetmaa 2008). Most probably this indicator has increased in the current recession, as the share of registered unemployed in working age population has increased to 11.6% in September 2009, which is almost four times as high as a year ago (3.1% in September 2008).

To extend the existing labour market services to those not registered as unemployed as well (inactive or employed persons in need), the European Social Fund programme “Increasing the Supply of Qualified Labour Force 2007-2013” has been implemented. This includes extending the career counselling service to the employed and students as well (see 2.1.1.4), implementation of the reaction service to collective redundancies (see 2.2.1.1.), dissemination of information on the possibilities to implement flexible forms of work, inclusion of the inactive population to ALMPs, supporting employment of different groups (i.e. older persons, young age groups, non-Estonians, persons with disabilities, persons with care responsibilities), supporting entrepreneurship among the unemployed etc.

As emphasised by Leetmaa (2008), the major shortcoming regarding ALMP-s is the missing monitoring and evaluation system. There are only few impact evaluations available on the effectiveness of Estonian active labour market policies in general, but impact of the reform package launched in 2006 has not been evaluated. Evaluation of the reaction service to collective redundancies has been described in more detail below (see point 2.2.1.1). An earlier evaluation of different ALMPs provided in Estonia (including training, start-up assistance and wage subsidies) was conducted by Leetmaa et al. (2003). However, since then the design and selection of active measures provided to the unemployed have changed considerably. Also, the economic and labour market conditions have changed meaning that the evaluation results may not be applicable to the current situation. The reasons behind the poor evaluation culture include both the lack of data and interest by the policy makers. Research on micro-data is also hindered by the strict regulations relating to privacy protection. This means, that we have no information whether the current policies and the recent reforms have been effective or not.

### **Passive labour market measures**

Võrk (2009) gives an overview of the passive labour market system in Estonia. Income protection of the unemployed contains several components:

- flat rate unemployment assistance benefits (also “unemployment allowance”);
- unemployment insurance benefits, related to previous earnings – since 2003;
- severance payments paid by employers (redundancy benefits);
- means tested subsistence benefits.

Until 2002 only flat rate unemployment assistance benefits and means-tested subsistence benefits were available for the unemployed at a very low level. Low benefits were the result of overall fiscal constraints, but also were supposed to facilitate labour supply. Partly the low benefits were compensated by high redundancy benefits levied on employers, but these were available only in the case of involuntary determination of employment relationship and not for those leaving their job voluntarily.

Unemployment insurance benefits were paid out for the first time in 2003. The benefits depend on previous earnings. The gross replacement rate is 50% of the previous wage during

the first 100 days of the unemployment spell and 40% in the following period. The net replacement rate of average unemployment insurance benefit to average wage has been around 30% in 2003-2007, which is about three times higher than it was before the introduction of the system. Unemployment insurance benefits are paid for 180 or 270 days depending on the length of the contribution period (since 2012 benefit can be paid up to 360 days in case of a contribution period for at least 111 months), and unemployment assistance benefits for up to 270 days. If a person has already received unemployment insurance benefits before, then the person would be entitled to the unemployment assistance benefits until the total of 270 days are reached. An alarming situation in the current economic recession is the rapidly increasing number of long-term unemployed – the number of persons who have been unemployed for a year or longer has increased from 11 thousand in the beginning of 2008 to 28.7 thousand in third quarter of 2009. This indicates that the share of those who are no longer eligible for the unemployment insurance benefit and thus in the threat of poverty will be increasing.

There are many possible effects of the introduction of unemployment insurance system. First, unemployment insurance benefits should increase unemployment duration. Although exact quantitative estimates on the effects of the increase in unemployment insurance benefits on unemployment duration are missing in Estonia, a few studies suggest a possible relationship between the size of various benefits and job search intensity.

For instance a study by Võrk and Leetmaa (2007), which evaluated the effectiveness of the service to those made collectively redundant, also included an analysis of the effectiveness of collective redundancy benefits (severance payments) on the probability to receive unemployment insurance benefits and working following the 1-6 months of the lay-off. They found that larger redundancy benefits significantly increased the probability to receive unemployment insurance benefits. For example, they estimate that workers who received redundancy benefits more than 27 thousand EEK per worker had almost 20-30 percentage points higher probability to receive also unemployment insurance benefits, meaning that they were registered unemployed, 1-3 months after lay-off compared to workers who received redundancy benefits that were less than 10 thousand EEK. In an earlier study Leetmaa and Võrk (2004) also found that those persons eligible for redundancy benefits had lower hazard rates to leave unemployment compared to those who were not eligible for redundancy benefits. However, it is not clear whether the impact of redundancy benefits can directly be extended to unemployment insurance benefits.

But the small portion of unemployed who get both layoff compensation and unemployment insurance benefits are well protected and the income they receive at the beginning of the unemployment period as benefits exceeds their previous wages by 1.5 times. Those laid off in the public sector can feel especially secure, since their layoff compensation sometimes equals a year's salary. However, the level of insurance for the majority of unemployed is low. For instance, in 2006, only 25% of the newly unemployed people registered with the Labour Market Board received unemployment insurance benefits and approximately 46% received unemployment assistance benefits. Almost a third of the registered unemployed did not receive any benefits, but they had the opportunity to apply for subsistence benefits. The main reasons for the low coverage of the unemployment insurance benefits include failure to comply with the qualification criteria (e.g., long-term unemployment) and voluntary unemployment (persons who terminate the work contract voluntarily or in agreement with the employer are excluded from unemployment insurance benefits). In recent years the coverage has increased, because a large share of unemployment is caused by collective lay-offs.

As for the majority of unemployed the benefits are still moderate (50% gross replacement rate during the first 100 days), the size of the unemployment traps is not very high. Marginal effective tax rate calculated by Eurostat was 63% in 2007 in Estonia, below the EU average. But it has steadily increased (from 48% in 2001) due to the implementation of the unemployment insurance system. Part-time working and receiving unemployment benefits is not allowed simultaneously, which may discourage a smooth transition from unemployment to work via part-time jobs.

In 2007 the unemployment insurance system changed slightly to make it easier to qualify for benefits. The reference period for fulfilling the minimum contribution period was extended. Initially to be eligible one had to make contributions for at least 12 months during the previous 24 months prior to registration as unemployed. In 2007 the reference period was extended and now contributions are needed for at least 12 months during 36 months. This may potentially reduce the labour supply via entitlement effect, as now it is easier to qualify for the benefits, but this is most likely small.

More detailed examples of some specific measures are provided in the following chapters.

### ***2.2.1.1. Response service to collective redundancies***

The response service to collective redundancies was piloted by the Estonian Unemployment Insurance Fund between 2005 and 2007 as a European Social Fund project.

The ultimate aim of the service was to:

- provide employees made collectively redundant with tailor-made and institutionally-linked services in order to avoid unemployment or reduce the duration of the unemployment;
- provide employers carrying out the collective redundancy with adequate and institutionally-linked information and to give employers who were seeking workers information on job-seekers.

During the piloting period, the service was provided for redundancies with a significant impact on the local labour market (generally, at least 15 employees losing their jobs). Provision of the service started when the Labour Inspectorate was informed about the redundancy (usually 37 days before actual dismissal). The service was based on case-management principles and provided in partnership with a wide range of stakeholders. In the case of redundancy, the Unemployment Insurance Fund set up a regional team, consisting of the representatives of the Unemployment Insurance Fund, the PES, the Labour Inspectorate, local municipality and representatives of the employer and employees. In addition, representatives of the social partners were involved as observers. In each of the counties, permanent representatives were nominated to guarantee the smooth and quick response to the redundancy.

The regional team set up the action plan for each case. Depending on the characteristics of the redundancy, different active labour market measures were provided to employees and employers. The list of the measures included:

- providing information on rights to services and unemployment benefits;
- providing information on how to search for a job (channels to look for a job, writing CVs, job interview skills);
- informing potential employers in the region about the redundant employees;
- arranging meetings between potential employers and employees;

- individual counselling and job mediation;
- individually tailored measures, if necessary.

During the piloting period, 28 employers carried out collective redundancies. In total, 1141 employees were laid off and 551 people participated in the services. However, in reality the number of participants was higher as not all of the participants registered. Most of the participants were women (71 %), their average job tenure by the employer was 11 years and the average age was 48 years (Kõverik 2007).

The new response service was designed to help employees before the dismissal took place and to offer both group-based and individual measures. Also, the employer initiatives which aimed at helping employees in cases of collective redundancies were scarce in Estonia. Only very few collective agreements included measures for those made collectively redundant. Furthermore, there was a lack of cooperation between the different institutions involved in the process of collective redundancies (Labour Inspectorate, Unemployment Insurance Fund, and PES) (Võrk, Leetmaa 2007).

This has been one of the few active labour market measures, which has been evaluated in terms of its effectiveness and results. The evaluation was conducted by Võrk and Leetmaa (2007), who analysed whether those who participated in the service (treatment group) had a greater probability to be employed and lower probability to receive unemployment insurance benefits, compared to those who did not receive the service (control group) shortly after the dismissal. Based on the impact, the costs and benefits were also compared.

The analysis showed that active information mediation between the potential new employers and those made redundant improved the job prospects of the people laid off. Those redundant people whose information was sent before actual dismissal to other enterprises and who participated in the meetings with potential employers had, three to five months after dismissal, a higher probability of working and a lower probability of receiving unemployment insurance benefits than those who did not. This effect occurred even after controlling for differences in people's gender, age, employment history, previous earnings and the region of workplace. Depending on the method and the period, the size of the impact varied around 10 to 20 percentage points. The overall impact of the service on the duration of unemployment insurance benefits was estimated to be around five to 10 days. The delay of the impact may be due to the influence of redundancy benefits, as econometric analysis of the determinants of employment probability showed that people with higher redundancy benefits had significantly lower probability of working during the first two months after the redundancy. (Võrk, Leetmaa 2007)

The impact of the other measures did not prove to be significant, but analysis also showed that people who participated in the information services also had higher chances of becoming involved in counselling with the PES. This point suggests that the measure also enhanced the contacts between those being made redundant and the PES. (Võrk, Leetmaa 2007)

Comparing the costs of the service and the potential monetary value of the impacts, the net benefits of this rapid response scheme are most probably positive, although only short-term impacts could be evaluated. To cover the costs of the service, a less than 1 % increase in employment probability was needed for a one-year period. Although many effects were statistically insignificant, the internal agreement of the statistical analysis with direct follow-up of the person's new employers suggest that the effect is real and evident. Direct interviews

with the employers carried out by the UIF also showed that they greatly appreciated the service. However, one has to bear in mind that the service was piloted during economic boom and there were no large redundancies carried out during the period. Namely, between 2005 and 2007, when the service was piloted, Estonia experienced extremely favourable economic conditions. The economic growth rate was above 10 % during the two years when the service was actually provided, the employment rate increased to almost 70 % and unemployment fell to around 5 %. These developments might have influenced the effectiveness of the service. This means that the effectiveness of the measure should also be monitored during economic downfalls to see whether the effects are persistent.

The provision of the service is continued in the framework of the ESF financed programme “Increasing the Supply of Qualified Labour Force 2007-2013”. Only some minor changes have been introduced to the service regarding the introduction of a single public body of Unemployment Insurance Fund, which now is fully responsible for the service. However, in light of the recent changes in the labour market, there is no information available on whether the access to the service has reduced as a result of large number of redundancies or the effectiveness of the measures provided in a more difficult labour market situation.

To give an example of the implementation of the service at enterprise level, a short description of the case of Elcoteq has been provided in 2.3.1 below.

#### ***2.2.1.2. Short-term measures introduced in the current recession***

The Estonian Strategy for Competitiveness 2009-2011 outlines the main labour market measures that are planned in the current recession. According to the strategy, one of the measures of the government to support the recovery of labour market is retention of employment through supporting the creation of 5000 new jobs by means of wage subsidy. Introducing the measure had been at the centre of earlier tripartite discussions which resulted in drafting an action plan to support the creation of new jobs and the increasing number of unemployed persons in returning to the labour market as soon as possible (Nurmela, Karu 2009).

Under the wage subsidy scheme the employer can apply for reimbursement of maximum 50% of the salary paid to employee if hiring a person unemployed at least for six months (3 months for young unemployed aged 16-24). However, the strategy does not give any indication whether the possible effects of such measure have been considered. For instance, earlier research results have indicated that the efficiency of employment subsidies (in terms of net job creation) is limited by the upward pressure they exert on wages. Also, calculations suggest that, if applied to a large proportion of the labour force, employment subsidies are very costly and do not pass cost-benefit analysis. Still, in case targeted at particular groups, the net employment can be raised in the economy. Nevertheless, it has been noted that at the same time targeting employment subsidies can have its drawbacks. Namely, it lowers the take up rates for these programmes and might stigmatise participants as participation in such programmes might convey a negative signal to potential employer (European Commission 2006). As the wage subsidies in Estonian case are targeted at long-term unemployed, these possible risks should be analysed by the government as well and necessary measures taken to manage these risks. To further complement the proposed measure, it has been referred that it is cost-effective to target employment subsidies at special groups among the unemployed, provided the programme ensures a close monitoring of firms' behaviour in order to curb potential misuse (European Commission 2006). Thus, introduction of such monitoring tools

would be necessary. This was confirmed by Leetmaa et al (2003) who suggested after analysing the effectiveness of the Estonian ALMPs to monitor the potential misuse by employers. However, due to the lack of reliable data, it was not possible to give any exact estimates on the effectiveness of the measure. Still, a positive effect can be generally pointed out – 64% of those who had received wage subsidy estimated that working in the company increased their further employability.

Another important recent development has been increasing access to several active labour market measures, mostly through the ESF programme “Increasing the Supply of Qualified Labour Force 2007-2013” (for instance access to career counselling, see 2.1.1.4. above). As there is no information available on the number and characteristics participants through the ESF programme, it is not possible to give an assessment of its impact. This is a weakness of this programme that should be improved by more thorough monitoring of the results on the labour market.

Also, a number of new measures have been introduced for the unemployed to improve their access to and quality of the training. The Estonian Strategy for Competitiveness 2009-2011 proposes speeding up the provision of training to unemployed and introduction of personalised training vouchers. The pilot project for the training vouchers system started in September 2009. The voucher will be provided to persons with earlier vocational education or working experience who need additional skills and knowledge to complement the current professional experience. The vouchers will not be used for basic training or training in general management, social or personal skills, but strictly for professional advancement. The need for training and the suitable courses will be selected by the consultants of the Unemployment Insurance Fund. At the beginning of the pilot project 110 course providers were up for selection. The training vouchers have a value of up to 15 thousand EEK. In general, the measure has good potential to improve employability among those more disadvantaged in the labour market (unemployed), but the cost effectiveness and the results of the measure in terms of helping unemployed enter employment should be analysed after some time.

### ***2.3. Company-level case studies of anticipation and management of restructuring***

Due to the lack of data on employer and social partner involvement and practices of anticipation and management of restructuring, information must be derived from individual cases. The following case descriptions will provide an overview of implementation of a national measure at company level, an example of trade union involvement in managing restructuring and of employer support and initiatives in redundancies.

#### ***2.3.1. Implementation of the response service to collective redundancies – case of Elcoteq Tallinn***

Elcoteq Tallinn is the Estonian subsidiary of the Finnish company Elcoteq SE. Elcoteq SE is an electronics manufacturing services (EMS) company that focuses on communications technology. The company’s service offering covers the whole lifecycle of its customers’ products.

Elcoteq Tallinn went into business in 1992. For many years, it has been one of Elcoteq’s largest units. From the initial 12 employees, the company grew fast to employing more than 3600 employees at its peak in 2005 (Matt 2009). In 2007 the group undertook an efficiency

programme to improve profitability. However, due to exceptionally uncertain market situation and general economic development, the company decided to launch a new restructuring plan in January 2009. The plan consisted of several measures, such as closing some plants, reducing personnel globally as well as selling of machinery and equipments. The plan aimed at securing profitability and preparing the company to grasp future growth opportunities. This resulted in two consecutive redundancies in the Tallinn plant. First, in March 379 persons were made redundant. In July, Elcoteq SE and Ericsson completed a transaction whereby the majority of the machinery, equipment and materials of Elcoteq's Tallinn manufacturing operations were sold to Ericsson. The transaction included also the transfer of the lease agreement concerning manufacturing premises and employment agreements related to these operations. Approximately 1,200 of Elcoteq's remaining 1,600 employees in Tallinn were transferred to Ericsson with existing terms and conditions of employment (Elcoteq 2009). Even though Elcoteq continued its operations in Tallinn on a smaller scale in a specialized plant, this change meant redundancies to another 166 persons (European Restructuring Monitor).

Response service to collective redundancies was provided at the site in Elcoteq Tallinn. During four days, the team of the Unemployment Insurance Fund informed and trained the persons about to lose their jobs. The activities were undertaken both in Estonian and Russian language, considering the large concentration of non-Estonians among the staff. Based on media reports, the following services were provided at the site:

- overview of the situation in the labour market and the active and passive measures and services available from the UIF;
- forwarding available job offers to persons interested and necessary contacts and information material were provided for searching a job;
- information and knowledge of compiling a CV and other documents necessary for applying to a job and using a job search portal over the internet;
- practical advice on preparing for a job interview;
- registration to a psychological counselling;
- finding out the need for additional training.

Source: Tahfeld 2009.

Unfortunately, there is no information on the status of persons made redundant three months after the dismissal. Thus, it is not possible to assess the impact of the service during the times of recession.

### ***2.3.2. Involvement of trade unions in management of restructuring – case of Eesti Post***

Eesti Post is a state-owned national postal company. The main activity of the company is the provision of universal postal services through 400 structural units across Estonia. According to its annual report, the size of the company has remained stable around 4000 employees over 2005-2007 (3986 in 2005, 4008 in 2006, 4017 in 2007). The number had fallen to 3769 by 2008. Before the redundancies took place in August, 3676 employees had remained in the company with 3400 of them employed full-time (Kodres 2009).

In 2009 the company continued its restructuring with the effort to reach profitability. Also, the postal work has been reorganised considerably (e.g. motorised post delivery, reducing usage of postal services etc.). In July it was announced that approximately 200 employees of the company will be made redundant during August. According to the comments of the public

relations manager in the company, Ms Inge Suder, the planned number of dismissals was brought down from the 274 jobs that were planned to be lost in the beginning of June. However, in some cases the company managed to find alternative solutions (some were offered other vacancies in the company) (Kodres 2009).

The main categories of workers affected by the dismissals included post carriers, couriers, client service workers etc. Also some administrative workers and post office managers were affected. The monthly salaries of persons made redundant were between EEK 4,350 (€78) and EEK 13,000 (€31). The regions hit the most included the Harjumaa county and the capital city Tallinn. (Kodres 2009)

In addition to the response service of the UIF provided in the company, the trade union representing employees in the company took part in the management of restructuring as well. The chairperson of the Estonian Communication and Trade Workers' Trade Union (Eesti Side- ja Teenindustöötajate Ametiühingute Liit, ESTAL), Ms Õie Väljas, has commented in the media that the trade union consulted the employer in managing restructuring activities. This meant individual analysis of all employees planned to be made redundant. For instance, the persons who were the only bread-winners for their families were given preference in staying in employment. Also, the situation of pensioners in the company and the responsibilities and effectiveness of part-time workers were analysed. (Kodres 2009)

ESTAL also provides additional financial assistance to their members upon losing a job to ensure better social protection. For instance additional support is provided for those receiving the state unemployment allowance (on unemployment allowance see also 2.2.1. above), and a 50% support for additional training. Even though about a third of the employees in Eesti Post are members of ESTAL, only a small part of those made redundant were trade union members (Kodres 2009).

Similar patterns of trade union support (e.g. additional financial support, participation in consultations) could be observed in some other cases as well. Thus, it may be expected that this is a somewhat typical solution in trade union involvement in restructuring. However, it should be kept in mind that trade union membership in Estonia is very low - in 2008 just 6% of salaried workers are trade union members according to the Labour Force Survey data. Thus, trade unions only have a limited opportunity to have an impact on mitigating the effects of redundancies on national level.

This case was also discussed at the Estonian national seminar on 20 January 2010. As the main strengths of this case it was pointed out that there was a collective agreement concluded in the company underlying the rights and obligations of the employees and employer. This was specifically pointed out as collective agreements are not common in Estonian companies – most recent survey data indicated only 25% coverage of collective agreements (2005). Some other strengths that were emphasized included: cooperation between the trade union and the employer, alternative solutions for managing restructuring, prior analysis of the social impact of the restructuring (upon selection of persons made redundant), additional financial support for those made redundant from the trade union (e.g. early pension schemes), tight cooperation with the Unemployment Insurance Fund and considering different interest groups upon planning and management of redundancies (including employees, employer and the clients of the company).

The main weaknesses of the case included the administrative capacity of the trade union (i.e. trade unions often lack the knowledge and skills for effective management of restructuring in cooperation with the employer) and also lack of strategic goals. Namely it was pointed out that during the restructuring there was no clearly defined goal to be achieved with the process. It has also been pointed out that not all of the employees had equal access to information on the redundancies thus leading to a more negative experience with the restructuring for some groups.

The main points that could be outlined as lessons learned from this case are the need for cooperation between the employer and the trade union and information exchange between the parties (including a prior agreement on the roles of both parties). Successful management of restructuring will also require clearly defined goals which should be communicated to the employees. This might explain better the need for restructuring and make employees more cooperative in the process. In general it could be pointed out that for successful cooperation trade unions need knowledge on the effective management of the restructuring process and training on how to cope with restructuring in a company.

### ***2.3.3. Employer support in restructuring and corporate social responsibility – case of Eesti Põlevkivi***

Eesti Põlevkivi Ltd (EP) is a state-owned company, primarily involved in oil shale mining in the Ida-Virumaa region of Estonia. The company was established in 1920 and was, for many years, the largest employer in Estonia. It continues to have particular relevance for the Ida Virumaa region as a large employer, offering higher than average salaries for this part of Estonia. In 1999, EP had 7034 employees. By 31 March 2008, this number has been reduced to 3432 as a result of restructuring.

Restructuring at EP started in 1999 to address its fragmented, over-bureaucratic structure and legacy of overproduction inherited from its Soviet past. The company sold its non-core businesses and dramatically reduced overcapacity by closing a number of its mines. Following the divestment of its non-core businesses, restructuring was affected through three key measures — early retirement and enhanced pension packages, staff relocation, and re training.

The company had a collective agreement stipulating that employee representatives needed to be informed of any job losses or significant changes in working conditions. In the case of mine closures, employee representatives were informed one year in advance to allow for a closure plan to be agreed, setting out all available social benefits and other assistance measures. Cooperation between management and the trade unions is characterised by both sides to be extremely effective and cooperative.

In 1999, the company had a top-heavy age pyramid, with 1,135 workers already beyond state retirement age. The first job reductions were therefore relatively easy to negotiate and carry out. The company subsequently introduced an enhanced company early retirement pension scheme for workers from the age of 52 (the retirement age for miners), benefiting a further 521 workers.

For those workers not eligible for pension benefits, the next option considered for staff affected by the closure of mines was relocation to different sites. This was negotiated with the trade unions and on the basis of one-to-one consultations with each member of staff. The

company considered it to be its corporate social responsibility to ensure that, where possible, no family was left without a 'bread-winner' or an alternative source of income. Individual skills and work experience were also taken into account and, where possible, equivalent jobs were offered. For some workers, it was not possible to find jobs at the same level, in which case they were given the choice of either accepting a lower level position or taking up a redundancy package. Approximately 458 workers benefited from the internal relocation scheme. For those for whom neither retirement nor relocation were an option, training courses were offered resulting from negotiations with the trade unions, individual consultations with staff and in cooperation with the Public Employment Services. These measures, which benefited 403 workers, were funded by the company and the state, which relinquished part of the dividend it takes from EP's turnover.

For those not willing (or able) to choose other options, financial compensation packages were available. According to Estonian law, there are a number of brackets of compensation levels, depending on the length of employment. However, workers made redundant by EP received higher than statutory compensation (on average, the equivalent of 8 months' salary), financed by the company. According to data from the local employment services, only 10 of the company's workers made redundant were subsequently affected by long-term unemployment.

A number of factors allowed restructuring at Eesti Põlevkivi Ltd (EP) to be carried out in a successful and peaceful way, which was considered to be socially responsible by both the trade unions and company management. These factors included:

- a shared understanding by both parties of the challenges that faced the company and the required solutions in order that the company might survive and become profitable;
- a strong sense of corporate social responsibility on the part of the company to the region and to its employees;
- effective and positive collaboration between the company's management, trade unions and the Public Employment Services;
- as a state-owned enterprise, EP benefited from its public sector status in being able to negotiate with government a reduction in dividends taken out, which allowed for the funding of a significant part of the re-training programmes.

Taking into account the period of restructuring (1999-2005), this can be considered a good case example of a socially responsible employer towards the region of activity and its employees. During that period, there were no public measures introduced in cases of restructuring (like the response service now implemented) thus indicating how an employer can effectively anticipate and manage restructuring. The case study was published in more detail in European Monitoring Centre on Change (European Foundation... 2007).

The strengths and weaknesses of this specific case from the point of view of anticipating restructuring were also discussed in the Estonian national seminar on 20 January 2010. Again, one of the main strengths pointed out was the partnership between different parties: between employers and employees, but also between the government and the employer. In terms of the prior, information and consultation was pointed out as the main tool for facilitating cooperation. In addition, the case was also remarkable for the innovative solutions implemented at the time. The case was a success owing to the detailed action plan outlined for the restructuring process but also to the financial resources that were made available (many of the implemented measures required important financial investments).

Despite the several strengths pointed out, this has been a unique case of restructuring and has not been implemented more widely in the economy. This is also related to the issue of available resources – while finances were one of the main strengths of this case, a downside is that the finances were "political", i.e. the government decided to allocate resources for this specific restructuring case. Thus, it remains questionable whether the implementation of these measures would be possible in other cases without such financial resources available. Also, the measures to be implemented were developed in a relatively short timeframe as there was no system for anticipation of restructuring at the time. A relatively surprising point of weakness was the lack of cooperation from employees to take part in the measures offered. Most probably, this was at least partly caused by the novelty of the situation for the employees as such measures were not well-known or provided nation-wide. A downside common to all cases of restructuring analysed in the current report is the lack of monitoring which also makes it difficult to draw any underlying conclusions on the effectiveness of the measures implemented. As we have no information collected on the situation of the company after the restructuring process or the situation of employees that were made redundant, it will be difficult to outline the strengths and weaknesses of the cases in this respect. Similarly to the case of Eesti Post, the lack of an underlying strategy was again pointed out. However, in this case the lack of a government strategy for regional development was pointed out, i.e. the company is situated in a region with the highest unemployment rate in the country and a high concentration of large manufacturing industries which are facing restructuring.

As pointed out, due to the lack of monitoring, it will be difficult to point out which of the measures or tools implemented would be successful in other situations. However, the need for cooperation was again pointed out as a prerequisite for successful anticipation and management of restructuring. This case has also indicated the importance of the availability of financial resources to implement a variety of measures used in this case. Also, it has been pointed out that the restructuring took place in a declining economic activity (manufacturing of oil shale). Restructuring in other similar areas should be better anticipated by both the government and the company in the future.

### **3. Evaluation of effectiveness and utility of the existing measures and tools for anticipating, preparing and managing restructuring**

It is difficult to provide an assessment on the effectiveness and utility of the measures and tools described above. On the one hand, there are several measures with good potential in having a positive effect on the labour market (e.g. several training measures, wage subsidy scheme etc), but often the lack of monitoring tools for these measures makes it impossible to know what the real effects of these measures have been. This is the case for example with free of charge vocational training provided by the Ministry of Education and Research – even though the measure has good potential in raising the skills level of labour force, it might be contributing to deepening the participation gap between those already more highly educated and those in need of a skills upgrade. Thus, without such monitoring tools in place, the measures can turn out to be ineffective or even have an adverse impact on the actual target group.

Similar problem can be pointed out with the ALMPs, where just a few assessments of the system have been undertaken so far. The assessment of the response service to collective

redundancies is only a rare example of such an assessment analysis. Thus, in order to have an indication of the results of programs adopted in the labour market, a practice of impact assessment (whether by research institutions or the government agencies themselves) should be introduced. An important problem in this respect has turned out to be the availability of individual level data for research purposes.

The impact of the tax/benefit system on employment incentives has been analysed by Võrk (2009). It is concluded that as both taxes and social expenditures are relatively low, they generate high motivation to actively participate in the labour market, in general. Also the gradual introduction of contribution based and earnings related benefits, such as unemployment insurance benefits, parental benefits, a fully funded pension scheme together with earnings-related public pensions, have all significantly increased rewards from employment and are often associated with increased labour supply and reductions in undeclared work. In a few cases Estonian benefit schemes generate disincentives to seek for a job, especially low-paid job, or provide effort, affecting people both with low and high earnings. In the case of unemployment benefits and early retirement benefits, even marginal income from labour leads to loss of all benefits, discouraging part time work.

At the same time, the rapid employment growth experienced in recent years in Estonia and also empirical research (see Võrk and Paulus 2006), suggests that during the period of economic growth in 2000-2007, the social benefits system as a whole has not reduced people's motivation to go to work. However, there is reason to believe that the connection between work incentives and social benefits on the one hand and part-time employment on the other will become important again when wages drop in next few years and finding jobs becomes increasingly difficult again. Already in 2009 we see skyrocketing unemployment rates, reductions in wages and increasing number of families receiving various social benefits. Then it is crucial that long-term unemployed or inactive people are encouraged to return to the labour market also gradually via part-time jobs.

In terms of the measures and tool implemented in specific cases, it was concluded in the seminar that one of the main problems is the lack of monitoring. Thus, it will be difficult to assess the applicability of the measures in other contexts or even provide any reliable estimate on the effectiveness of the measures.

## Conclusions

There have been several important developments in the framework of anticipation and management of restructuring during the past year in Estonia. For one, the labour legislation reform took place that changed the regulative context of restructuring in Estonia. Also, there are several short-term measures introduced in the current recession to support more effective anticipation and management of restructuring. Several of the measures that are relevant in this context are described in brief in the current national background paper. The main conclusion that is common to most of the measures discussed in the current paper is the need for regular monitoring and assessment practices. In several cases, the measures implemented have a good potential to contribute to effective anticipation/management of restructuring but without any monitoring tools to analyse the use of the measures, these can have adverse effects in turn. Also, for the assessment of the transferability of the measures to other contexts, impact assessment will be crucial.

It may be concluded that although the current crisis has clearly demonstrated insufficient resources devoted to both anticipating and managing restructuring, it has also allowed to introduce new measures and extending the ones, which in a few years time may become a systematic part of the policy.

The measures analysed in the national background paper were also discussed in the Estonian national seminar held in Tallinn on 20 January 2010. The main conclusions from this seminar are outlined below.

In order to direct restructuring on macro level, the need for government strategies and action plans was pointed out in the seminar. The main question here is where the Estonian economy should be moving in the long run and which choices would benefit the society and the economy the most. It was pointed out in the seminar that input is expected from the government in this respect. The coordination between government strategic goals and individual choices of enterprises was stressed to increase effectiveness of the economy and be competitive in a constantly changing economic context. It must be kept in mind that the strategic goals and actions of the government are sending a message to the employers in terms of the expected future developments in the economy. This in turn affects the choices of employers in developing the companies. It was pointed out in the seminar that the government has the responsibility to anticipate restructuring in sectors which are reducing by emphasising the development of areas with more potential for future growth.

In terms of anticipating restructuring, education and training has a crucial role. On macro level, restructuring should be accompanied by educational policies which help to shape the skills level and qualifications of the labour force. In the situation of the current recession, some good measures have been implemented which help to raise the qualifications of adults. The participants of the seminar agreed that one of such positive examples is the free-of-charge training measure for adults by the Ministry of Education and Research. Still, it was stressed that in order for such measures to be a success, there needs to be information on the skills needs in the labour market. Also, for the measures to reach the most disadvantaged group, that needs raising qualifications to be competitive in the labour market, dissemination of information on different training possibilities will be necessary. Training provided by enterprises to their employees is also important to anticipate restructuring and allocate skills between different activities in the company to reduce any negative impact on employees.

However, it was stressed in the seminar that in the current economic recession, training measures will most probably be the areas where expenses will be cut firsthand by enterprises. Thus, the government support for employers in these situations was valued (training support to employers is provided by a state agency Enterprise Estonia). Moreover, as a positive example it was pointed out that in order to allocate resources to those companies in need of the support the most, new training measures for SMEs have been introduced in the current recession. This has turned out to be a very popular measure among the SMEs.

In order to effectively target the training measures, another important aspect in anticipation of restructuring is instruments for forecasting skills needs in the labour market. In Estonia, a problem for developing such forecasting instruments is the lack of necessary data. The data currently used for forecasting purposes only enable a long-term forecasting exercise (7-year perspective used in the current forecasts by the Ministry of Economic Affairs and Communications) while there is not enough detailed and reliable data for a shorter-term forecast. It was pointed out in the seminar that in the current rapidly changing economic situation, availability of a more short-term forecast of skills needs would be essential for planning training activities for the unemployed, those at risk of a layoff etc. In addition to the need of additional data, cooperation between different parties was pointed out for developing a successful forecasting tool. In this respect, cooperation between the government, employers' and trade union organisations was pointed out. Seminar showed that a signal is expected from the employers on what kind of labour force is needed in a shorter perspective in terms of skills, qualifications etc. However, it is important to note here that forecasting tools cannot rely only on the assessment from the employers organisations as these often depend on the situation at hand and the dominating emotions (i.e. confidence towards the future). At the same time, forecasting skills needs should be based on a more systematic approach taking into account the different aspects of the economic developments which might not be recognised or acknowledged by individual organisations or companies.

In discussing the role of research and development in anticipating restructuring it was concluded that the area is still at its early development phase in Estonia and thus it is not used widely as a tool for anticipating restructuring on enterprise level. With only 20 years of market economy, employers have not learned to turn to the universities to develop their ideas but also there is a lack of information on the possibility. To start this kind of cooperation between research institutes and employers, disseminating information in both ways is considered important, i.e. from research institutes to employers on the possibilities and from employers to research institutes on the demand and expectations. Another aspect pointed out was lifelong learning among employers – recognising the need to learn throughout the career will provide employers with information on new possibilities or raise innovative ideas to develop in cooperation with the research institutes.

Finally, the role of social partnership and industrial relations was discussed in the seminar in terms of anticipating restructuring. It was concluded that on micro level (i.e. in terms of individual impact) the most important role is on the procedure of information and consultation. Based on the information disseminated by the employers on the situation of the company, an action plan should be set up to anticipate restructuring and its negative impact on the employees. However, information and consultation is obligatory for employers only in case of collective redundancies. Thus, in cases of small-scale redundancies, the prerequisite for successful anticipation of restructuring is not often filled. On macro level, the tripartite discussions between employers, trade unions and the government are of most importance. The case studies analysed above and during the seminar have also been a positive result of

tripartite cooperation – the extensive social plan in the case of Eesti Põlevkivi to tackle the effects of restructuring was a result of a tripartite agreement (see also p 2.3.3 above).

Similarly to anticipation of restructuring, it was concluded in the seminar that an important prerequisite for a successful management of restructuring is the availability of information to the persons facing redundancy. Namely, there are a variety of measures and tools implemented by the government and other stakeholders (e.g. the local municipality, the social partners, NGOs etc) and it might be difficult to find the necessary information from different sources. This is even more so as often people do not look for any information on the measures and services provided before the actual need for these. Thus, availability of information will be important for effective management of restructuring.

Of the specific measures for managing restructuring, the reaction service to collective redundancy was discussed in the Estonian national seminar. This is one of the most important measures specifically targeted at managing restructuring on enterprise level. One of the problems with the measure was pointed out to be a relatively short time for working with those made redundant. Also, the assessment of the service that was undertaken in 2007 is now outdated as the economic context has changed considerably indicating that the effects of the measure were most probably different than they are now (see also p 2.2.1.1 above).

Some of the measures targeted at bringing the unemployed back to the labour market were also discussed. For instance, the system of training vouchers is hoped to reduce drop-out rates as the personal responsibility is higher with this measures than with other training measures provided by the UIF. Namely, with the training vouchers, the person is not appointed a training course but he/she is free to choose her own course. As the training vouchers can only be used for skills upgrade rather than complete retraining in a new profession, the measure is more often used by more highly educated unemployed. Thus, this measure will not assist those with low qualifications or in need of retraining. According to the comments of the Unemployment Insurance Fund in the seminar, other measures of the UIF are used for this purpose (e.g. labour market training, career counselling to bring persons to formal education to raise educational attainment or acquire a vocation etc.). An important input for all these training measures is the forecasting tool of the Ministry of Economic Affairs and Communications. Thus, the need to improve this tool is important for the successful management of restructuring as well.

Another measure that has been implemented in the current recession is the wage subsidy scheme. While the measure is not new in nature, the availability has been widened considerably in the current recession. An important aspect for successful implementation is pointed out to be the dissemination of information to the target group of the measure – the employers. Also, it was referred in the seminar that currently there is a lack of measures to keep unemployed active in the labour market in case it has not been possible to find new employment. For this purpose, volunteer work has been implemented to some extent (for instance in providing seasonal work with the State Forest Management Centre).

In discussing the role of industrial relations in managing restructuring, it was concluded that the role is hindered by the low coverage with collective agreements in Estonia. This has not changed in the current economic situation. Even though trade union membership is also low in Estonia, this should not reduce the role of collective agreements. According to the Estonian laws, concluding collective agreements is also possible without a trade union, i.e. with employee representatives. However, the use of this possibility has been low in Estonia – the

awareness of the possibilities offered by collective agreements and interest to conclude collective agreements more general have been low both among employers and employees. Thus, lack of interest in this respect hinders the management of restructuring through collective agreements in Estonia.

Overall, it can be pointed out that seminar participants agreed that the measures implemented by the UIF and other state agencies are in accordance with stakeholders views. In many cases the implementation of measures needs to be monitored to update these to the changing labour market demands. This is especially relevant in the current situation of economic crisis. Also, effective cooperation between stakeholders on national level and micro level is essential for efficient anticipation and management of restructuring.

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