

**Republic of Estonia**

**PROGRESS REPORT ON  
THE ACTION PLAN FOR GROWTH  
AND JOBS 2005–2007**

**For implementation of the Lisbon Strategy**

**Tallinn  
October 2006**

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## INTRODUCTION

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The Estonian Action Plan for Growth and Jobs 2005-2007 for the implementation of European Union Growth and Jobs Strategy was approved by the Government of the Republic on October 13, 2005.

On 15<sup>th</sup> October 2006, Member States submit to European Commission the first Progress Report of National Strategies. Reports should take into account conclusions of the Spring European Council 2006 as well as changes of domestic needs and update national plans accordingly. Estonian Growth and Jobs Strategy is in a high extent coherent with the aims set by the Spring Council and with the challenges Estonia is facing in following years. Therefore, Estonian Government is concentrated to achieving ambitious aims set in the Action Plan and is not planning any remarkable changes in the objectives and measures of the Action Plan

### Aims and structure of the Progress Report

Main essence of the Report is targeted to analysis of implementation of planned measures and main outcomes of the Action Plan so far. Considering implementation status, corrections are made in deadlines of activities as well as levels of outcome indicators of measures. Outcome results of most of the measures have been more positive than expected. Therefore, it was possible to set even more ambitious aims under most of the objectives for 2008. In addition, some changes in outcome indicators are made on basis of European Council conclusions, respectively in the fields, where concrete aims were agreed by the Spring Council, missing from provisional Estonian Action Plan.

The Progress Report covers period 2005-2006. Overview is concentrating to main developments in those years and main activities implemented. Report consists of two main sections.

In the first section, analysis of main developments under all 9 objectives is provided. Achieved results (on the basis of outcome indicators) and main progress in implementing the measures, as well as main shortcomings, are highlighted.

Second section of the Report comprises detailed overview of implemented activities in 2005 and 2006 as well as progress of outcome indicators compared to aims set for 2008. Overview is provided in three parts – macroeconomic policy, microeconomic policy and employment – and linked with integrated guidelines and European Council conclusions. Overview includes measure based outline of direct budgetary costs (including structural funds resources) in years 2005, 2006 and 2007.

As for the years 2006 and 2007, it is possible to follow only planned expenditure the same methodology is applied for calculating 2005 budgetary costs. Exemption is made in calculating investments to research and development infrastructure due to the fact that the State Budget data does not correspond to the actual payment schedule. In calculating budgetary expenditure for 2006 and 2007 draft laws of Supplementary State Budget for 2006 and State Budget for 2007 are followed (both draft laws are submitted by the Government to the *Riigikogu*).

In analysing direct budgetary costs, influence of the programming process of structural funds to the division of expenditure over the years must be considered. In 2005 and 2006, high amount of payments are made under the funds programmed for the period 2004-2006. Launching new programming period in 2007 requires comprehensive preparations and consultations with the European Commission. Therefore, structural funds resources to be used in 2007 are planned conservatively. For elaborating coherence of the Estonian Action Plan for Growth and Jobs 2005-2007 and Estonian National Strategic Reference Framework 2007-2013 a separate chapter is included to the Progress Report (see chapter 5).

Following outcomes of the performance analysis and activities planned in the Action Plan for 2007, a separate implementation plan is added to the Report for the year to come (see Annex 3). Implementation plan covers all activities to be implemented in 2007, resources foreseen for implementation and updated list of performance indicators.

Government approved or plans to approve several sectoral strategies contributing to the fulfilment of the objectives set in the Action Plan. Sectoral strategies elaborating objectives set in the Action Plan and providing more detailed overview of planned activities and resources. In the main part of the Progress Report, concentrated overview of approved strategies is given (under each objective). Complete list of relevant strategies or draft strategies contributing the Action Plan is provided in Annex 1.

Following the call of European Commission and to promote change of experiences between the Member States, examples of best practices on implementing Estonian competitiveness agenda are added (see Annex 2).

### **Coordination of implementation and consultation process**

Increasing competitiveness of Estonia and implementing the Action Plan for Growth and Jobs is one of the main priorities of the Government. In order to intensify implementation process, coordination capacity of the administration has been increased and synergies of the Action Plan and other strategic documents enhanced. In 2005, responsibility over compilation and implementation of the Action Plan laid in the EU Secretariat of the State Chancellery. The Head of the EU Secretariat fulfilled tasks of the National Lisbon Coordinator. To ensure well-coordinated national implementation, the Government in June 2006 approved creation of the position of the Strategy Director and Strategy Office in the State Chancellery. One of the main tasks of the Strategy Director is coordination of preparation and implementation of the Action Plan for Growth and Jobs as well as fulfilment of the tasks of National Lisbon Coordinator. Stated tasks are supplemented by the responsibility to coordinate preparation and implementation of Estonian Sustainable Development Strategy and Government Work Programme. Consolidation of stated responsibilities ensures coordinated and coherent implementation of objectives set in relevant key strategies of the Government.

Most of the Ministries are contributing on a large extent to the implementation of the Action Plan. To ensure active and broad-bottomed cooperation between all counterparts, a inter-ministerial working group is established by the Secretary of State, responsible for coordinating implementation activities and preparing the Progress Report. Working group is headed by the Strategy Director and comprises representatives (in the level of Deputy of Secretary General) from following institutions: the Ministry of Finance, the Ministry of

Economic Affairs and Communications, the Ministry of Social Affairs, the Ministry of Education and Science, the Ministry of Justice, the Ministry of Environment, the Ministry of Agriculture, the Ministry of Internal Affairs, the Ministry of Foreign Affairs, the Bank of Estonia and the State Chancellery.

Three informal sector specific sub-working groups are established (including social partners), for which:

- o The Ministry of Finance is the coordinator and general supervisor for the macroeconomic policy;
- o The Ministry of Economic Affairs and Communications is the coordinator and general supervisor for the microeconomic policy; and
- o The Ministry of Social Affairs is the coordinator and general supervisor for employment policy.

Social partners and other non-governmental stakeholders as well as experts from the Universities and research institutions are actively involved to the implementation and report preparation process. Partners have contributed to the compilation of the Progress Report in several preparatory meetings, as well as by submitting written proposals and opinions. In June and July 2006, seminars were held with the involvement of partners and relevant ministries to analyse implementation process in the fields of microeconomic policy and employment and to discuss main outcomes and shortcomings of the Government activities so far. The Progress Report has been prepared in close dialogue with the European Commission. The Commission introduced its expectations and assessments related to the Progress Report at a meeting in Tallinn in June 2006. Analysis and recommendations made by the Commission have been a valuable input to the Progress Report.

During the implementation, the Government consulted with the Riigikogu on the implementation of priority objectives of the Action Plan. On 11<sup>th</sup> April 2006, Minister of Justice presented in the plenary session of the Riigikogu an overview of the Government priorities and achieved results in developing business environment. On 13<sup>th</sup> June, the Prime Minister provided an overview of the implementation status of the Government Research and Development policy.

The Progress Report on the Action Plan for Growth and Jobs 2005-2007 was discussed and in principle approved by the Government of the Republic on September 21. The Progress Report was sent for the information to the Riigikogu and official consultation procedure with the partners and ministries was launched. Before the Government discussion the Report was sent to all partners for having their feedback. Partners contributed to the compilation of the Report as well by submitting official opinions during the consultation procedure. On October 4<sup>th</sup>, final seminar was organised with the involvement of all stakeholders aiming to discuss comments and questions endorsed by the partners and ministries as well as draw final conclusions on the challenges ahead. Results of the debates and proposals of relevant ministries and partners were considered and, if possible, taken into account during official consultation round. The Progress Report was approved by the Government of the Republic on October 12, 2006.

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## 1. ABSTRACT

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Estonian economic growth reached 10.5 per cent in 2005, the highest level of recent years. Fast **economic growth** continued in the beginning of 2006 as well – economic growth of the first half-year was approximately 12 per cent. As the EU's economic growth reached 1.7 per cent last year, Estonia's GDP per person on the purchasing power parity basis increased from 53 per cent to 60.1 per cent of the EU's average level.

Economic growth has primarily been based on export, as the real growth of **export** of products and services reached 21.5 per cent in 2005. The external imbalance of Estonian economy remained high as usual even though in 2005 the deficit of current account showed long-expected signs of regression. At the beginning of 2006, the domestic demand – investments as well as individual consumption – took up the role of growth accelerator whereby increasing again the deficit of current account, which in turn was a result of the rising growth of domestic demand. The aforementioned could issue from insufficient statistics reflecting petroleum products in external trade, but more likely indicates the beginning of adjustment cessation.

**Inflation** reached 4.2 per cent in 2005 and the expected deceleration has failed to materialise in the first half of 2006 as well (CPI growth was 4.4 per cent). The influence of the fast growth of oil prices at the world market has substantially influenced Estonia's inflation, as the rise of motor fuel prices accounted for nearly a third of last year's inflation (including the effect free of excise raise *ca* 1.1 percentage points). The last year's sharp increase in housing prices is beginning to boost consumer prices, predominantly as a result from the administrative regulation of price increases. Whereas last year's rise in electricity prices influenced the inflation substantially, this year heat and gas price rises have accrued as well as the fast growth in housing related expenses (*egrent*, repair of living spaces *et*). In the second half of last year, demand-based inflation pressure started to appear, and the trend has deepened within past months. Factors influencing consumer prices have also risen due to indirect effects of the rise in wages pressure and energy prices (motor fuel, heat). The price rise of food products remained moderate in 2005. At the same time, the prices have risen somewhat faster this year resulting mainly from the price change of fruit and vegetable products. Additional price pressure was also caused by the raisings of excise duty rate of alcohol and tobacco products respectively in the beginning and in the middle of year 2005. Similarly to the developments of the European Union, the prices of communication services reduced by almost 5 per cent in the first half of year 2006.

Estonian Government has continued to exercise **conservative fiscal policy**. The public sector budget surplus reached EEK 2.6 billion in 2005, i.e. 1.6 per cent of the GDP. This year's expected surplus remains around 2.45 per cent of GDP. Next year's public sector budget is planned with a surplus of *ca* 0.7–0.8 per cent of GDP. The developments of public sector's position in 2005 can best be described through the increase of social security funds and central government surplus as well as deficit rise of local governments. Despite pension insurance deficit, central government ended the year 2005 with a surplus amounting to 1.4 per cent of the GDP (EEK 2 340,0 million), surplus has been achieved for the fifth year in row. The central government surplus was mainly based on expenses that proved to be smaller than the approved budget.

Proceeds from social tax exceeded the expected rate and covered therefore health insurance fund deficit; surplus in 2005 was EEK 160 million. The 570 million EEK surplus of unemployment insurance fund, which proceeded from strong tax revenue and significantly decreased costs, contributed greatly in the central government surplus. The latter was in turn a result of decreased unemployment and shortened unemployment insurance benefit receiving period.

In 2005, local government deficit exceeded the previous 0.2 billion and reached EEK 0,4 billion. The absolute amount of deficit grew due to increased expenses related to local government elections in October 2005. In comparison with 1990s, the deficit has nevertheless decreased. One of the reasons may have been the fact that local governments approached loan restrictions imposed on budgets, leading therefore to more conservative budgeting.

Considering Estonia's continuous trend of population ageing and population decrease, it is important to increase the added value created to sustain and enhance competitiveness. That is why the government has substantially **increased investments in key areas of enhancing competitiveness**. Strong tax revenue and EU structural funds have also encouraged investment growth. Expenses made on research and development activities and vocational education have increased significantly. Despite of the fact that the R&D expenses in Estonia have witnessed the fastest growth among the EU member states, the government has increased the R&D expenditure further. The total expenditure under the objective 4 "Increasing the quality of research and development, as well as the capacity of innovation, growth and long-term international competitiveness" increased in 2006 (compared to 2005) 59% from 802 million EEK to 1278,8 million EEK. The planned increase for the year 2007 (compared to 2006) is also significant, close to 29%. The total amount foreseen under the objective according to the plans is 1648 million EEK. The expenditure under the measures targeted at improving the quality of labour force (objective 7) grew in 2006 21% and in 2007 the planned growth is 11,2%. In the area of environmental infrastructure, the growth is not as clear due to the fact that the timing of single projects has risen the budget of 2006 so that the planned financing in 2007 is even smaller. In the longer perspective the expenditure to both environmental and transport infrastructure has grown faster than the state budget in general. This has been supported by the Cohesion Fund. During the years 2008-2011 the financing of infrastructure is likely to be increased even further. In addition to the increasing amounts of EU structural funds and the Cohesion Fund also the domestic tax revenues increase. As an example the financial amounts directed from the petrol excise tax to road construction increase during the years 2006 to 2008 significantly.

Productivity growth has exceeded forecasts. In 2004, the productivity of Estonian enterprises was 52.8 per cent of the EU average. **In 2005, productivity reached 58.6 per cent of the EU average**, enabling positive correction of previous estimations.

The government has substantially acted upon **developing business environment** to promote labour productivity. The government has also approved draft legislation of the foundation of Development Fund that would essentially increase venture capital accessibility potential and Estonia's capacity to perform development monitoring. The Development Fund will presumably start operations in 2007. A rather ambitious plan to develop and simplify business environment has actively been put into practice, resulting in the implementation of single contact point principle and the initiation of IT solutions and legal framework formation in order to accelerate the establishment of businesses. With the

support of EU structural funds among others, the following activities have been supported: development of business infrastructure, R&D development centres, business incubators, the development of services of the County Development Centres.

**Labour market developments** have shown more positive tendencies than estimated. During the first half of year 2006, employment rate of people aged 15-74 has increased by approximately 4 percentage points reaching 62 per cent of the age group. In 2005, the general employment rate of the population aged 15-64 increased to 64 per cent, and has continued the fast growth also in the first half of 2006. **Unemployment rate** decreased to 7.9 per cent in 2005, and further more so in the first half of 2006 reaching 6.3 per cent. While the total amount of unemployed was ca 58 000 in the first half of 2005, within a year the amount of unemployed decreased by 15 000 people resulting in 43 000 unemployed people. Positively, the amount of unemployed has mostly decreased due to recruitment of unemployed resident foreigners and people who have been looking for a job for over a year. The amount of long-term unemployed has decreased by 16 per cent, 5300 people, within a year. Employment rate of senior citizens has significantly increased – a large amount of retired persons and discouraged workers, who had lost hope finding a job, became active on the labour market. In comparison with last year, the number of inactive people decreased by even 6.5 per cent, that is by 25 000 people, in the first half of this year. The strong workforce demand has resulted in majority of the aforementioned finding suitable jobs and therefore not increasing the number of unemployed persons seeking work. At the same time great regional differences exist in the labour market situation. The average rate of unemployment varied from 5,1% in the Central Estonia to 16.2% in the North-East of Estonia. Comparing the counties the highest unemployment rate was in Jõgevamaa (16,9%), Ida-Virumaa (16,2%) and in Põlvamaa (12,4%), while in Võrumaa, Raplamaa, Valgamaa and Saaremaa the unemployment rate was less than 4%.

In 2005, **gross wages** grew by 10.8 per cent and real wages by 6.4 per cent, and an even sharper rise – 15.3 per cent and 10.5 per cent, respectively – followed in the first half of 2006. This can be explained by favourable economic developments resulting from strong domestic market demand and increased export. Competition with Finnish, Swedish and other European labour markets and their wage levels has equally put pressure on wage increase. In order to avoid the situation where the wages grow faster than the average productivity it is important that both the state and the social partners emphasise the principle that wages can grow only while the productivity is growing.

Despite the fast employment growth, the real growth of **labour productivity**, i.e. added value per employed person, decelerated from 7.4 per cent in last year's IQ to 4.6 per cent in this year's IQ. While within a few previous years against the rapid economic developments, the boost of wages receded compared to labour productivity growth, the developments of 2006 IQ showed once again and on an even larger scale the boost of real wages instead of labour productivity, 10.8 and 4.6 per cent respectively. Surprisingly, regardless the rapid growth of the employed and the wages in 2006 IQ, the percentage of labour costs per added value did not increase, instead it even decreased by 1.4 per cent. The wage level harmonisation process will inevitably take place due to several labour markets opening up for the citizens of new EU accession states. That is why the enterprises must concentrate on modernising technology and increasing work performance. Estonia is currently among the lowest ranking countries in terms of workforce productivity level.

The more positive developments enable the government set more ambitious goals compared to previously predicted trends. The most relevant modifications are as follows:

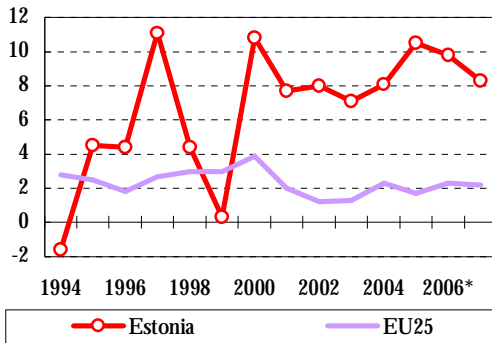
- The goal of research and development activities total expenditure to achieve 1,9 expenditure percentage share of GDP by year 2010 is considered rather ambitious due to the very fast economic growth;
- In 2005, the government predicted that the productivity growth of undertakings would reach 60 per cent of the EU average by 2008 and 72 per cent by 2013. Seeing that productivity growth has exceeded forecasts, the government has set new goals of reaching 68 per cent of the EU average by 2008 and 80 per cent by 2013.
- In 2005, the government predicted that 25 days would be the maximum period required for establishing a company. Pursuant to the European Council's 2006 spring resolutions and government priorities the goal of significantly accelerating the establishment of companies was set – as from year 2008, the maximum time spent on the establishment of a company cannot exceed 7 days;
- The government set the goal of reaching by 2008 69 per cent employment rate of people aged 15-64, and 70 per cent rate already by year 2010 (this rate was previously to be achieved by 2014). New estimates of women's employment rate are 66.9 per cent by 2008 and 68.3 per cent by 2010. The employment rate of senior citizens to be achieved by 2008 was raised from 55 per cent to 63.4 per cent.



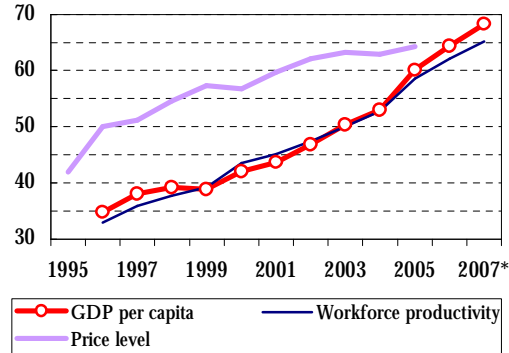
**Figure 1**

**The main indicators of Estonian economic development compared to EU member states.**  
(percentage)

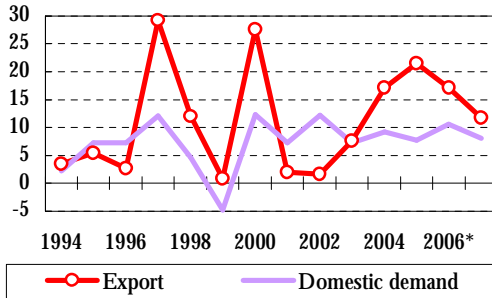
**A. Economic growth**



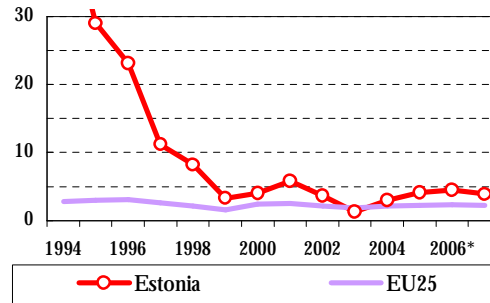
**B. Real convergence with EU (EU25=100)**



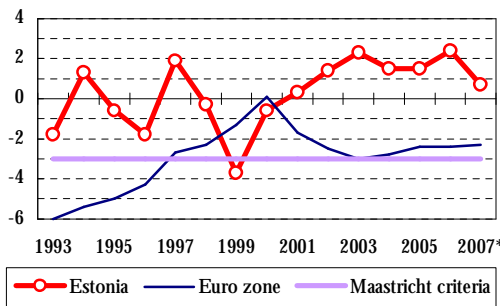
**C. Real growth of domestic demand and export**



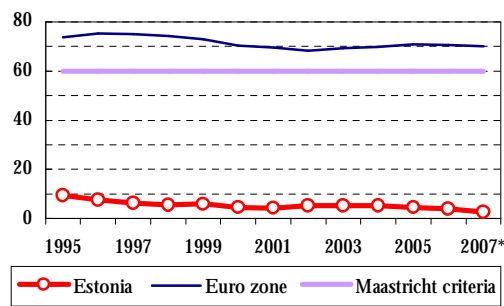
**D. Inflation**



**E. Public sector balance (ESA 95, % of GDP)**



**F. Public sector dept (ESA 95, % of GDP)**



*Workforce productivity – GDP per employed. PPS (purchasing power standard) – purchasing power parity.*  
Source: Statistics Estonia, Eurostat, Ministry of Finance, European Commission Spring 2004 Economic Forecasts.

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## 2. MACROECONOMIC ENVIRONMENT

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### **OBJECTIVE 1: Insuring a stable macroeconomic environment**

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The main macroeconomic objective of the Government of the Republic is to ensure macroeconomic stability as well as internal and external balance. Estonia's specific character (the use of Monetary Committee system) has resulted in the relevance of fiscal policy as the main measure for affecting economy and managing risks that compromise balanced economic development.

- Estonia has already acted accordingly – public sector surplus that accordingly to recommendations significantly exceeded the planned, has limited domestic demand. Estonia's public sector budget has operated with surplus since 2001, and the government plans on preparing a fully balanced budget also in the future. This years' expected surplus will remain near 2.45 per cent of the GDP. Public sector 2007 budget is planned with ca 0.7–0.8 per cent surplus of the GDP. Estonia is one of the few EU member states that follow the Stability and Growth Pact requirements to achieve a budget position fully balanced or with surplus.
- To strengthen the financial position of local governments the share of income taxes of natural persons transferred to them has been increased during recent years. Once the state started lowering income tax rate the former natural person income tax distribution basis were also changed – instead of distributing 56 per cent of total collected tax, 11.4 per cent of taxable taxpayer income was provided as the share of local governments. This means that while the income tax rate is lowered the local governments' incoming share does not decrease. In 2005, the share was increased to 11.6 per cent and in 2006, to 11.8 per cent and the government has decided to increase the share to 11,9 percent from 2007. Extending the rate of taxable income that is in the end transferred to the municipalities is possible also in the following years.

In addition to fiscal policy, following measures were implemented to restrain excessive domestic demand and lending:

- Since 2005, the government decreased income tax deductible housing loan interests, the maximum rate of training expenses, gifts, donations, joining and withdrawal fee of trade unions by 50 per cent reaching EEK 50,000 a year. The impact of current measure is similar to the boosting of interest rates, and should help regulate consumption and loan growth.
- The Bank of Estonia increased the loan authorisations mandatory holding of banks since March 1, 2006 (the risk weighting of housing loans in capital adequacy calculations was increased from previous 50 per cent to 100 per cent).
- The Bank of Estonia increased the reserve requirements of banks from previous 13 per cent to 15 per cent since September 1, 2006.

According to the summer economic forecasts of Estonia's 12-month-average harmonized index of consumer prices (HICP) and the reference value of price stability criterion that was calculated on the basis of three EU member states with the lowest inflation rates and which was published in spring forecasts of the Commission of the European Communities,

Estonia's perspective to implement inflation criterion has strongly deteriorated and the adoption of Euro in January 1, 2008 is therefore difficult to achieve.

## **OBJECTIVE 2: Insuring the long-term sustainability of fiscal policy**

Employment, which has grown considerably during the previous year, has contributed largely to the increase of fiscal policy long-term sustainability and the subsistence of ageing consequences. This year's first two quarters show *ca* 4 percentage point increase of employment rate among the population aged 15-74 in Estonia (from 56.7 per cent to 58.1 per cent and from 60.5 per cent to 62 per cent respectively). The number of employed increased 6,7 per cent, which means more than 40,000 additional taxpayers, who by paying social tax will improve the financial conditions of state pension insurance and the Estonian Health Insurance Fund. Presuming these additional employed people earn Estonian average gross wages, they contribute EEK 1.5 billion worth of pension- and health insurance taxes (*ca* EEK 880 million of pension insurance and EEK 570 million of health insurance), that is 0.8 per cent of this year's expected GDP.

- The rise of social tax minimum liability from the previous EEK 700 to EEK 1,400 in 2006 has additionally extended the tax base of pension- and health insurance. In June 22, 2006, the cabinet decided to raise the aforementioned sum to EEK 1,500 by next year, with the goal of reaching the amount of minimum wages by 2009.
- The significant increase of collectable social tax, following the unexpectedly large-scale employment and wages growth, enables improve the living standards of pensioners.
- Reform of special pensions, old-age pensions under favourable conditions and superannuated pensions is currently undergoing situation analysis and solution development. Health insurance liability reduction negotiations are similarly in progress.

### **OBJECTIVE 3: Direction of the fiscal policy to improve the economic growth and employment**

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The government has set a goal of supporting economic growth and employment by shifting the tax burden from workforce taxation to natural resource exploitation and environment pollution taxation, and by increasing the relative importance of indirect taxation compared to direct taxation. The following has been achieved:

- Income tax rate was lowered to 23 per cent in 2006, will continue lowering to 22 per cent by 2007, and to 20 per cent by 2009.
- Basic exemption rate increased to EEK 2 000 per month in 2006.
- Unemployment insurance premium rate paid by the employee decreased from 0.5 per cent to 0.3 per cent in 2006, and tax paid by the employed from 1 per cent to 0.6 per cent.
- Environmental Charges Act was passed as part of ecological tax reform in December 2005. The government has also approved basic research plan necessary for the implementation of ecological tax reform.
- Alcohol and tobacco excise duty rate will increase in January 1, 2008.
- The 5 per cent VAT rate of medical services will be replaced with the usual 18 per cent VAT rate in January 1, 2007.
- The 5 per cent VAT rate of heat, peat, briquette, coal and firewood will be replaced with the usual 18 per cent VAT rate in July 1, 2007.

The relative importance of indirect taxation as part of GDP has increased. While in 2004 the direct taxes formed 8.8 per cent of GDP and indirect taxes 12 per cent of GDP, in 2005 the share of direct taxes had decreased to 7.7 per cent and the share of indirect taxes had increased to 13.3 per cent of GDP.

- The government has significantly increased vocational education financing. Total expenditure of research and development activities has increased as planned and allows therefore reaching 1.5 per cent of the GDP by 2008 and 1.9 per cent by 2010. Investments in these sectors will yet increase due to EU structural funds support. The main priorities of both areas are the development of human resources (incl. improvement of the quality of vocational education) and the modernisation of infrastructure.

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### 3. A KNOWLEDGE-BASED AND SUSTAINABLE BUSINESS ENVIRONMENT

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Fast growth of the Estonian economy has been supported by domestic demand, foreign investment and export growth, which in turn have given rise to productivity growth exceeding the estimate of the year 2005. Productivity objective of 2008 – 60 per cent out of the EU average – is attainable already in 2007 (in the case of overly positive scenario possibly even in 2006). While considering the record employment growth in 2005 and 2006, which may even slow the productivity growth pace to a certain extent, the government has set new objectives to reach 68 per cent of EU average by 2008 and 80 per cent by 2014.

In 2005 and 2006, the government prepared and approved several important development plans directly connected with attaining objectives aimed at enhancing competitiveness. The devised development plans support achieving goals set in the development plan of economic growth and employment by specifying priorities, activities and financing plans. The government has in principle approved the strategy of research, development and innovation - “Knowledge-based Estonia 2007-2013” and “Estonian enterprise policy of 2007-2013” - in order to improve the quality of research and development activities, international competitiveness of undertakings and enterprise environment. Implementing plans of both strategies are currently in the process of formation, and will be submitted for government’s approval in November 2006 and January 2007 respectively.

The new strategy of RD&I (research and development activities and innovation) has four main spheres of action (development of RD&I human capital, enhancement of RD&I organisational and financial system, rise in the innovativeness of businesses, innovative public sector). The strategy emphasizes more strongly internationalisation and foreign investments aspects. While achieving the objectives set by the strategy the support measures are being formed in a way which helps to create attractive environment for high value added foreign investments as well as help Estonian companies and scientific research establishments enter international cooperation networks. The main challenge in the implementation of the strategy is clearer focusing. This takes place in the form of national R&D program development in key areas (information and communication technology, bio- and material technology, and areas aimed at socio-economic challenges – energy, health, environment, and security).

The new enterprise strategy has also four main objectives (Estonian entrepreneurs and employees of the companies are competent and professional, the people of Estonia are entrepreneurial and innovative; companies have necessary means to make forward targeted and productivity growth oriented investments; improved export efficiency and enterprise growth through additional possibilities proceeding from international operations; legal environment that favours entrepreneurship and initiative). Top priority while achieving the aforementioned objectives falls on development of knowledge and skills, support of investments and internationalisation and better regulations.

The following development plans are currently in the preparatiron proces: transport development plan 2006-2013, public transport development program 2006-2010 and “Estonian development plan for information society 2007-2013”. Development plans will be approved by the government in October the latest. The government has already approved electro-economic development plan 2005-2015.

## **OBJECTIVE 4: Increasing the quality of research and development, as well as the capacity for innovation, growth, and long-term international competitiveness**

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In addition to rapid productivity growth, an increase in the growing knowledge intensity of the economy has emerged. This reflects in a rather fast increase in research and development expenditures (from 0.79 per cent of GDP in 2003 to 0.88 per cent of GDP in 2004). More importantly, growth in public sector investment coupled with the overall developments in the economy has catalysed private sector innovation. During the years 2001-2004 the extent of Estonian enterprise sector R&D expenditures grew on average 25 percent, being the fastest in the EU. Also the total expenditure growth of Estonia's R&D activities in 2001-2004 has exceeded EU and was on average 19 per cent a year. In 2006, state budgetary allocations (taking account the supplementary state budget) on R&D activities increased 50,6 per cent. In 2006 direct measures meant for succeeding this objective rose even more- growth was 59%. During the course of the next two years (2006-2007) measures devoted to the two main priority areas in the development of the Estonian R&D system – R&D infrastructure (measure 4.1) and human resource development (measure 4.2) - will rise nearly 100%.

Maintaining growth in the conditions of rapid economic growth is nevertheless a serious challenge. The R&D investment objectives set in 2005 – 1.5 per cent of GDP by 2008 and 1.9 per cent of GDP by 2010 – remain rather ambitious. This is especially ambitious taking into account the shortage of qualified workforce (scientists, engineers) shortage that in turn limits innovation volume growth.

The substantial percentage increase of innovative enterprises – from 36 per cent in 2002 to 49 per cent in 2006 – demonstrates Estonia's orientation towards knowledge-based economy, thereby also exceeding the 45-percentage-objective set last year to be achieved in 2008. A strong growth among the innovativeness of enterprises took place mainly in small and medium-sized enterprises and in services sector enterprises. Against previous developments, a new 50-percentage-objective was set to be achieved in 2008. Considering EU average (44 per cent), the aim of keeping the current high level and even raising it a little is very ambitious. During the new programming period of the EU Structural funds one of the priorities will be to develop regional innovation systems in the form of supporting local company networks and developing regional centres of excellences.

Taking into account the strategic objectives of increasing competitiveness enhancement and the fast growth of enterprise sector innovation activities, it has become clear that a goal of acquiring 1150 research and development personnel by 2008 is unduly modest. It is essential to acquire 1400 R&D personnel in the enterprise sector to support the enhancement of state competitiveness. One of the preconditions of this is the starting up of a program in 2007 supporting the mobility of R&D and innovation top quality personnel.

The new strategy of research and development activities and innovation has outlined an excellent basis for long-term, systematic and prioritised development of R&D activities and for the efficient use of EU structural funds. In 2006, the budgetary resources directed to the promotion of RD grew by 50,6%. The increase in baseline financing (24 per cent), set up in 2005, has been higher than average and has enabled to direct significantly greater resources to the development of human resources exceeded average growth in 2005.

### **Ensuring the sustainability and improving the quality of research and development**

- In the area of targeted financing of research topics greater attention has been paid to focusing resources. This reflects in the decrease in the number of research topics and personal grants and also in the increase in the size of work groups at the extent of topics. The latter especially regards small topics not reaching their critical mass.
- Estonian language technology program was initiated with an important goal of establishing Estonian language info-technological applications, including speech synthesis and speech recognition and machine translation, that allow the development of several formerly missing IT applications in different trades.
- In order to increase the efficiency of financial resources, financing support structures were strengthened: to enhance the quality proceeding, evaluation and monitoring the applications the Estonia's R&D information system and Bureau for Research Council were established under the Archimedes Foundation. In 2006, a 100 per cent electronic targeted and grant financing application submission process is taking place on the basis of Estonian research information system.
- In 2005, a start-up of pilot programs involving 2004-2006 structural funds for research infrastructures of the Centres of Excellence and for the development of Estonian higher education, research and development activities and innovation infrastructure was considered an important step. At the moment all calls for proposals have been carried out and funding decisions have been made, accordingly to which record sums will be invested in the acquisition of top quality equipment and devices in order to enhance the competitiveness of R&D activities environment within some substantial areas.

### **The development of the human capital necessary for the advancement of R&D and long-term international competitiveness of the enterprise sector**

Resources targeted at developing research-related human capital have increased significantly since 2005. Within two years, the amount of financial resources has almost doubled: from EEK 167.4 million in 2005 to EEK 227 million in 2006 and EEK 343.8 million in 2007.

- The government has implemented several measures to increase the number of post-doctoral fellows. In 2006, post-doctoral fellowships were increased by 20 per cent. Starting from 2007 (2006 applications), a EEK 100 000 relocation grant for post-doctoral fellows shall be implemented. Despite this, the growth in the number of post-doctoral fellows was minimal and some of the vacancies remained unoccupied. The main cause could be the limited period between grant increase and application deadlines which means that results of the abovementioned measures should be better visible in the future. In the coming years, the government shall monitor the compliance of post-doctoral fellowships with the fast development of other sectors of economy and ensure the competitiveness of post-doctoral positions. In addition, specific measures for increasing the quality and efficiency of post-doctoral research shall be developed.
- Ten doctoral schools shall continue functioning. Of those, eight are directly related to the goals of the economic growth and employment strategy.
- The number of new doctors was 118 in 2005. This was 20 less than in 2004. In this regard, it is hard to point out any specific reasons, but an unprecedented 30% increase in the number of new doctors was recorded in 2004. The average growth of the past



two years has somewhat exceeded the growth prior to 2003. However, the current number of new doctors is insufficient for meeting the target levels set for 2015- it remains 10–15% below required levels. In the coming years, growth should be accelerated by more efficient operation of existing doctoral schools and planned additional measures (including measures co-financed from the 2007–2103 structural funds).

- Funds allocated for the mobility of researchers and students has grown steadily: 2005 – from EEK 22,8 million in 2005 to EEK 23,1 million in 2006 and EEK 29,9 million in 2007. The number of researchers and students using the mobility schemes has increased as well. In 2005, 339 researchers and students received state support for studies abroad. This does not include the 592 students who made use of the Erasmus programme. In 2006, these numbers were 426 and 592, respectively, and the levels planned for 2007 are 500 and 666.
- Continued efforts have been made to develop human resources for in-company development activities. The development of training programmes for companies started in 2005. The launched programmes have proven highly popular and are still highly prioritized. The programmes shall, nevertheless, be reshaped as a result of the implementing plan of the "Enterprise Policy 2007–2013" development plan. Reshaped programmes should apply from 2007. Planned changes are aimed at the more efficient use of structural funds for procuring training services and the improvement of the focus of these programmes.
- The government has initiated several projects for promoting science, notably by starting the construction of a new AHHAA Science Centre building in 2007. The main goal of AHHAA is to popularize science and research by offering an attractive, innovative, multifunctional learning environment through the provision of learning-oriented services, thus promoting the social and economic role of research and the attractiveness of research professions. AHHAA is involved in active cooperation with other science centres, international organizations (ICOM, British Council, ECSITE, NSCF), science museums, academic circles and hobby schools.

### **Ensuring access to capital for start-up companies and those with great growth potential**

More efficient implementation of innovative technologies is also vital for improving the competitiveness of undertakings. The take up of new technologies is, however, hindered by insufficient access to capital because such investments run a higher risk. About 61% of the investments of Estonian companies are made from own funds and the lack of financing is a major obstacle of enterprise development. Access to loans is hindered by many factors – insufficient guarantees or own capital, short financial history or insufficient business plan, financial institutions' disproportionately large costs of processing small-scale loans. Mainly support schemes are meant for growing enterprises with an export potential.

- Government's approval of the draft Development Fund Act is a major step towards facilitating the access to capital. The Development Fund should fill a financial market gap and offers innovative start-ups the so-called "smart money", i.e. seed phase funding together with counselling and managerial support. The Development Fund should become a strong catalyst of investment into knowledge-intensive companies and should also facilitate foresight studies and technology screening in order to support the fund's investment activities and influence policy-making as well as awareness among decision-makers and the public at large. The draft Development Fund Act is currently

- proceeded in the Riigikogu and the fund itself should be established and start functioning in 2007.
- To improve access to capital, the government is reorganizing the start-up company scheme – as of today, the scheme's concepts, implementers and areas of responsibility have been drafted and its legal bases have been established. The scheme should apply from 2007. Until then, a two-tier start-up scheme shall be used for allocating start-up grants.
  - A survey of market failures shall be conducted to help channel the vacant capital of Estonian investors and investment networks into Estonian small enterprises. The survey's results shall be used to establish measures in fields where state intervention could have a positive effect but wouldn't distort the natural development of capital markets. . In addition, Enterprise Estonia is already engaged in active intermediation of contacts between Estonian enterprises and foreign investors.

### **Promoting an increase in productivity, and supporting companies entering foreign markets and investments for the development of new technologies, products and services**

- Centres of competence, aimed at long-term partnerships, and additional financing from EU structural funds are critical for increasing the efficiency of cooperation between enterprises and universities. The five centres of competence involve the leading Estonian consortia of research partners and enterprises from the fields of ICT, biotechnology and materials technology. The centres already involve foreign partners, but internationalization and attracting foreign investments shall remain a priority in the future as well.
- Several activities aimed at fostering innovation and productivity growth have been launched or continued, including support for R&D projects, innovation audits, development of incubators and science and technology parks, SPINNO programme for developing technology transfer units at universities, *etc*. As the new structural funds period approaches, the success and appropriateness of current programmes shall be reviewed in cooperation with Enterprise Estonia and social partners and necessary changes shall be made in view of the evolution of business environment.
- Steps for improving the mobility of students and researchers between academic and enterprise sectors have not yet been taken. Besides student and researcher mobility, this activity should cover other top innovation specialists (designers, marketing specialists, engineers *et*), who are required for any successful innovation process but whom innovative SMEs are usually unable to hire. A relevant pilot survey has been initiated in order to map the problem and find possible solutions. The programme itself shall be launched in 2007.
- Instead of refocusing the export plan programme, planned as a support measure for internationalization, two new complementary programmes have now been prepared – the export plan programme for existing exporters and a new exporter programme designed for motivating businesses to start export activities. These changes are currently in the planning phase and shall be implemented during the next programme period. Some measures could be adopted in 2007 already.
- Today, most of the export guarantees given are short-term. It is important to increase the guarantee fund in order to meet the actual needs of entrepreneurs and offer long-term export guarantees, which are not likely to be available on capital markets any time soon, but are clearly needed for businesses.

## **OBJECTIVE 5: The development of a business environment promoting entrepreneurship and initiative**

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Drafting of the enterprise policy for the next seven years has been among top priorities during the past year. This development plan establishes specific guidelines for enterprise development during the next seven years, aimed at improving the competitiveness of the Estonian enterprises. A significant part of the enterprise policy development plan has been the development of a "Entrepreneur's Law"<sup>1</sup> action plan, aimed at analyzing the situation in several fields of legislation – corporate law, economic administration law, building and planning law, employment law, legal assistance *etc* – in order to pinpoint the hindrances to entrepreneurship and find simple, clear, modern and easily applicable solutions. The "Entrepreneur's Law" action plan will be integrated into the Estonian enterprise policy document and will be approved by the government in October. The definition of clear objectives for each sector enables to really contribute to the creation of a legal environment favourable to businesses and investment.

Business environment and access to public services shall be significantly improved also by measures stipulated in the "Estonian Information Society Development Plan 2007–2013", which implementation shall involve more than 1 billion EEK of public funding and will also be approved by the government in October. Under the new operational program for the development of the living environment activities are planned for supporting local business environments.

### **Promoting entrepreneurial culture with the goal of increasing enterprise activity and company innovation**

The entrepreneurial mindset of the Estonian population has not yet reached desired levels. Only 5 per cent of the population are engaged in the establishment of companies or have established an enterprise recently, and only 9 per cent of the population rank among potential entrepreneurs (persons intending to establish an undertaking). As the path from entrepreneurship to actual establishment of a company involves various obstacles (financing difficulties, complex administrative procedures, lack of knowledge and skills *etc*), The overall level of of entrepreneurship in Estonia is low – only 32 companies per 1000 inhabitants. The gap between regions remains excessive – most businesses, as expected, are concentrated in or around regional hubs.

Thus, the government aims to continue to develop entrepreneurship and support company innovation.

- A mentor programme and an enterprise and innovation awareness programme were successfully launched; activities shall be continued and expanded as necessary. Under the innovation awareness programme, projects targeting students and opinion leaders have been supported. An innovation-auditing programme has been launched – in 2005, an innovation audit was carried out in 58 undertakings. As the enterprise and innovation awareness programme is among the main tools of business culture development, a larger budget is prepared for the programme's next periods.
- In order to improve the cooperation and grouping skills of companies, more possibilities have been provided for business organizations to participate in decision-making processes. Good involvement practice has been drafted. The "Participate!" online environment has undergone active development.

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<sup>1</sup> <http://www.just.ee/19426>

## Developing legal environment that promotes entrepreneurship and initiative

- Pilot surveys have been conducted in the field of legislative impact analysis ("The VAT-related tax burden of entrepreneurs", "The administrative burden on entrepreneurs in relation to submitting employment and salary data to the Statistical Board and Tax and Customs Board"). Results of these pilot surveys were used for drafting proposals for the development of the Estonian system of legislative impact assessment, which was approved by the cabinet in early 2006. To develop the system, assessment methodology guidelines shall be established and a database of the assessments of legislation-related administrative burden shall be created. The mapping of impact assessment practices of ministries, other public institutions and scientific institutions and the drafting of common guidelines on basis of various existing guidelines has also been initiated.
- The action plan for developing the legal environment for enterprise, prepared by the Ministry of Justice, aims to achieve significant simplification of the legal environment. The government has taken substantial steps to implement the plan.
- In accordance with the European Council decisions of spring 2006, legal framework for the implementation of a single contact point has been prepared. Notaries have been empowered to implement all procedures necessary for establishing a new company. IT solutions aimed at simplifying the notaries' tasks in registry procedures are currently under development.
- Another objective is the significant acceleration of company establishment. The government seeks to cut the average registration period to seven days from the current fifteen.
- Going even further, the ultimate goal is to enable company registration in one day. Draft amendments to the Commercial Code and other related legislation have been prepared in order to enable expedited procedures and formalities in the Commercial Register to be completed in a few hours. This expedited procedure shall initially apply to the first registration of private limited companies, sole proprietors, general partnerships and alterations of the registry data of sole proprietors and companies (including public limited companies and commercial associations). Under the expedited procedure, required data can be submitted to the registrar via the Internet without notary procedures. In expedited procedure, the notarised copy of a private limited company's memorandum of association and the authenticated articles of association shall be replaced by standard articles of association. The scope of expedited procedure shall be extended in the future. At present, this cannot be accomplished due to the lack of technical solutions for the authentication of digital signatures of foreign residents.
- Proposed Commercial Code amendments also include a simplification in relation to the fields of commercial activity. The Commercial Code currently provides that a company must state its fields of activity in its articles of association and these fields shall be entered into the commercial register. The statistical data on fields of activity cannot be altered without altering the articles of association. The aim is to exclude a company's fields of activity from the register entry and have the information on fields of activity gathered from annual reports. Undertakings who are not required to submit annual reports to courts keeping the commercial registry (sole proprietors, general partnerships, limited partnerships) shall communicate their fields of activity and any changes to the registrar in writing or in a digitally signed form. Field of activity notifications shall be based on the Estonian Classification of Economic Activities (EMTAK). Compulsory use of the classification shall improve the accuracy and level of standardization of the gathered data. In addition, compulsory use of the classification

shall prevent cases where companies fail to provide sufficient details on their fields of activity, thus inadvertently causing a delay in registry procedures.

- February 6, 2006, the Estonian and Finnish Ministers of Justice signed a cooperation protocol that provides automatic data exchange in regard to prohibitions of business to be implemented in 2007. The Justice Ministry's draft amendments to the Commercial Code and other related legislation provide a basis for the recognition of foreign business prohibitions by providing the Minister of Justice relevant powers under the Bankruptcy Act. The Minister of Justice shall, with this regulation, recognize business prohibitions imposed in countries whose system of business prohibitions is similar to the Estonian system and who have close economic ties with Estonia. Finland is the first potential subject, but the powers can be used in case of other countries as well.
- Amendments to the State Fees Act are being drafted in order to improve the cost-orientation of state fees. Under the current State Fees Act, many fees exceed the actual costs of relevant operations. The objective is to cut the fees for commercial registry operations and the issue of registry documents in accordance with the drafted provisions, i.e. about 2,5 times.
- In addition to the abovementioned initiatives, which are already being implemented, future plans include a review of the system of activity licences and, if appropriate, its simplification. Other plans include the specification of legislative acts concerning economic sanctions, new provisions for the rehabilitation of companies, clearer regulations on state and municipal property (harmonization of rules on transactions with private enterprises), development of provisions concerning conciliation procedure as an alternative to court actions, a review of intellectual property laws and updates to building and planning legislation.

### **Developing infrastructure that supports an increase in competitiveness**

Although most activities of the infrastructure development measure have been planned for 2007 and 2008, significant progress has already been made in this field. Several achievements have been made in regard to the e-government objective and the information society aspects of other measures. During the new programming period of the EU structural funds one priority objective is to support the development of public technical infrastructure and also the development of local industrial clusters.

- The use of electronic services has increased, digital records management is crossing institutional borders, Külatee-3 projects have been launched to improve Internet access in counties. Many significant information society projects involve the EU structural funds.
- A fresh initiative for implementing planned objectives is the development of IT solutions for standardization. Many standards are currently available on paper form only and have not been easily accessible in all Estonian regions. To develop an information system for the efficient management of databases and improve user-friendly features (e.g. search engine), an electronic database of Estonian standards shall be compiled in order to make the standards available throughout Estonia in scientific libraries, enterprise centres, universities *etc*. The database has been prepared since 2005 and most standards are already available in electronic format. The database should be completed during 2006. In this view, a project for the development of a new user-friendly database and an online user's manual is under way, its completion date is November 2006. The next activity, planned for 2007, is to use the new database to make a complete set of electronic standards available in enterprise centres and regional hubs in all Estonian counties and develop possibilities for purchasing electronic

- standards. The goal is to make the standards more easily accessible to entrepreneurs located outside Tallinn. The same project covers further development of the possibilities for the electronic purchase of standards, which is already applicable.
- Entrepreneurs' satisfaction with e-services indicates that the government has performed well. About 93 per cent of enterprises are satisfied with current e-services. This rating is significant, especially in comparison with the 75 per cent approval rating recorded in 2004. However, the government does not intend to raise the 80 per cent objective initially set for 2008, as entrepreneurs' expectations will rise as a result of fast ICT developments and maintaining the 80 per cent approval rating can still be considered an ambitious goal.
  - A new draft strategic document – Estonian Information Society Development Plan 2013 – has been prepared for this field. The draft's proposed objective is the development of an information society involving all members of the society and development of a competitive economy, where existing and potential ICT solutions can be used to achieve higher productivity and employment. The draft development plan sets the following goals:
    - each member of the society shall enjoy a life of good value, making full use of the possibilities of information society and participating actively in public life ("no one shall be left behind, no one shall be left aside");
    - constant growth of Estonia's economy shall be based on extensive use of ICT solutions;
    - the public sector shall be human-centred, efficient and transparent.
  - The "Transport Development Plan 2006–2013" and "Public Transportation Development Programme 2006–2010" have been prepared, focusing on the higher quality of public transportation and the purposeful development of related fields.

### **Ensuring the security of energy supply of the state and the effective functioning of energy market**

- This period's most significant achievement, in terms of increased supply security and more efficient energy market, is the establishment of the Estlink undersea cable between Estonia and Finland. Estlink is a direct current cable between the 330 kV Harku substation and the 400 kV Espoo substation in Finland. The cable has a total length of about 100 km, 70 km of which lies under water, 9 km on the Estonian and 20 km on the Finnish soil. The project's total cost shall be close to EUR 110 million. The construction phase should be completed during 2006.
- On 3. January 2006, the Government of the Republic approved the Estonian Electricity Development Plan 2003–2008, based on the Long-Term Fuel and Energy Sector Development Plan Until 2015, which was adopted by the Riigikogu on 15. December 2004. The Estonian Electricity Development Plan 2003–2008 establishes the current situation of the electricity sector, stresses the aspects stipulated in Estonia's EU accession agreement and sets the strategic goal of the electricity sector's development as well as objectives and restrictions, development principles and the necessary levels of investment. In addition, the development plan describes problems that require further analysis.
- The energy strategy of the Baltic States is currently being drafted, which should set out energy interests of the three countries and establish common positions in energy trade and energy relations with their neighbours.

## **OBJECTIVE 6: Strengthen the synergy between environmental protection and growth**

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Preparation of the Estonian Environmental Strategy up to 2030 commenced in 2005. The Estonian environmental policy reflected in the prepared Environmental Strategy is directed towards balanced development of the economy, social sphere and use of the environment and constitutes a sectoral follow-up to the Estonian National Sustainable Development Strategy "Sustainable Estonia 21". The Environmental Action Plan 2007–2013 that will be drawn up on the basis of the Environmental Strategy will be an instrument for integrating environmental considerations into other national strategic documents for the next programming period of the EU in order to avoid conflicts between sectoral planning documents.

### **Increasing environmental awareness**

The number of companies holding a certificate for standard environmental management systems has increased. The number of companies holding an ISO 14001 certificate has grown by 27 over the year and the number of holders of an EMAS certificate has grown by two.

- Information measures have been actively employed – seminars and training courses held under the project "EMAS Capacity Building for Small and Medium-sized Enterprises of New Member States" (the so-called EMAS Easy project) initiated by the European Commission were attended by representatives of companies, administrative agencies (incl. local governments) and other stakeholders, app. 150 participants in total. In addition, EMAS was introduced on an experimental basis in 19 companies and the first EMAS registration certificate in Estonia was issued to one of them in October 2005.
- As an important development in ensuring the preservation of biological diversity, the Estonian Nature Conservation Development Plan up to 2035 was approved by the Government of the Republic on 22 June 2005. The Plan builds on the strategy "Sustainable Estonia 21" and defines the objectives and development goals of nature conservation for 30 years. Its main aim is to organise nature conservation during the next 30 years ensuring that nature values are preserved to a maximum extent possible, that the values lost (or in danger of being lost) are restored and that natural resources are used in a sustainable manner. The process of drawing up the Development Plan involved representatives from the public sector, (rural) businesses and the third sector. The forums were attended by the wider public. The broader strategic background to the Plan is provided by the Estonian Environmental Strategy up to 2010.

### **Reducing the pollution load and ensuring sustainable use of natural resources**

- A preparatory study for drawing up the Environmental Technologies Action Plan (ETAP) is underway, consisting of the mapping of the current situation in development, elaboration and introduction of environmental technologies, and providing a provisional financial estimate for the cost of implementation of the ETAP. The general objective of the ETAP is to increase economic competitiveness and maintain economic growth along with continued improvement of the state of the environment through wide introduction of the existing environmental technologies and creation and elaboration of new (innovative) environmental technologies. The first

version of the ETAP Road Map has been completed. Examples of best practices in environmental technology have been presented to the European Commission.

Considerable attention has been paid to reducing past pollution by developing waste management and improving water quality. In 2003, drinking water meeting the quality requirements was supplied to 65% of the population and an increase to 70% of the population was projected by 2008. As of 2005, 71% of the population were supplied with drinking water meeting the quality requirements. Considering the need to comply with the requirements of the EU Drinking Water Directive (Estonia has undertaken to secure proper drinking water for the entire population by the end of 2013) and to create more favourable conditions for economic development, the availability of high quality drinking water needs to be increased. The aim is to secure drinking water meeting the quality requirements for 80% of the population by 2008.

For better assessment of the developments in the field of water management, the Government has altered the indicator for the activity "collection and proper treatment of sewage from agglomerations of more than 2000 population equivalent (% of agglomerations)". The existing indicator could not be expressed correctly since statistics (the Environmental Information Centre) handle the collection and treatment of sewage separately – thus the existing indicator had an estimated value. The existing "estimated" indicator will from now on be expressed through two measurable indicators:

- population serviced with public sewerage in agglomerations of more than 2000 p.e. (% of population). Current level: 89% (in 2004); projected level by 2008: 93%;
- properly functioning sewage treatment plants in agglomerations of more than 2000 p.e. (% of treatment plants). Current level: 67% (2004); projected level by 2008: 77%.

The availability of drinking water in the entire region is important first of all from the point of view of human health. At the same time, development of water infrastructure encourages economic development, facilitating economic activity not only in big cities but also in small and medium-sized settlements. The rapid economic development in Estonia in recent years has created a need for expanding production activities and industries. Site selection for enterprises is largely dependent on both the availability of infrastructures and favourable prices of land. Business development is often inhibited in regions where the price of land is favourable but the infrastructures essential for economic activity are absent. Improvement of water supply in small and medium-sized settlements creates a better environment for the development of economic activity also in these settlements, as the availability of water is of great importance in production planning. From the environmental protection point of view, regional economic development will also contribute to preventing urban sprawl.

- The Act Amending the Waste Act, Packaging Act and Packaging Excise Duty Act was passed in 2005. The amendments to the Waste Act removed the shortcomings in transposing the EU directives on waste electric and electronic equipment. The main attention in implementing waste legislation was paid to waste streams subject to producer's liability, such as packaging and packaging waste, waste electric and electronic equipment, end-of-life vehicles and end-of-life tyres, whose delivery has to be possible at least within the county of residence of the owner or in the radius of 50 kilometres. The draft Regulation Establishing a Registry of Products of Concern has been submitted to the Government.



- The year 2005 can be regarded as the year of launching of the national collection and recovery system for packaging waste. Regulations concerning the size of packaging deposit and the deposit label, the procedure for determining the material of packaging and the procedure for calculating the recovery rate of packaging, were approved. The collection system for deposit-bearing packaging became operational rather well and quickly, while the collection and recovery of other packaging has not proceeded as expected.
- Preparation of a development plan for biodegradable waste has started. A number of research and development works to identify optimal solutions for transposing and implementing the new EU waste directives have been completed, with the most important ones among them being:
  - “Handling of biodegradable waste”, which gives an overview of the generation (both by types and by quantities), use and disposal of biodegradable waste, describes future trends in their handling and provides a prognosis of their generation;
  - a pilot project to increase environmental awareness regarding the source separation and on-site recycling of waste has been conducted in 2005–2006, consisting in source separation and on-site treatment of biodegradable waste by the residents of apartment buildings in rural areas.
- Activities to draw up water management plans continued, aiming to organise integrated water management and promote sustainable use of water. Water management plans will form a coherent framework of action to protect and improve the status of aquatic ecosystems and prevent it from further deterioration, promote sustainable use of water and protect the aquatic environment against discharges, emissions and other damages and dangerous substances, in order to achieve a sufficient supply of high quality surface water and groundwater for the purposes of sustainable and balanced use of water.
- In the field of water protection, realisation of investments into the development and upgrading of drinking water and wastewater treatment has continued. In addition, projects to rehabilitate water bodies and clean up past pollution with the aim of improving the status of water bodies were implemented in 2005– 2006 with support from the ERDF.

The National Energy Conservation Programme has been actively implemented and the use of renewable sources of energy for power production has effectively increased. While only in 2003 the share of electricity produced from renewable energy sources amounted to 0.3 per cent of gross domestic consumption of electricity (installed capacity below 10 MW), an installed capacity of app. 60 MW or more is expected to be reached by the end of 2006. This installed capacity will allow to generate an amount of electricity sufficient to bring the share of renewable energy in gross domestic consumption to at least the 2.5% level projected in the Action Plan by the year 2008.

The increase in the share of renewable energy sources in the generation of both power and heat has been facilitated by well-targeted use of the EU structural instruments. Over the period 2004–2006, studies and investments related to wider use of renewable sources of energy have been supported with over 30 million kroons. An increase in the volume of assistance is planned for the next programming period.

- Implementation of the National Energy Conservation Programme and its implementation plan has contributed to achieving energy conservation over the period through participating in international cooperation in the field of energy conservation; conducting training programmes, information campaigns, analyses and studies;

supporting the preparation of regional and local energy development plans; and preparing methodologies for energy certification of buildings and energy audits. A new energy conservation programme is being prepared, aiming at rationalising energy consumption, improving the efficiency of energy generation and distribution and drawing up and adopting an action plan for reducing the environmental impacts. The programme will specify actions to ensure the accessibility of energy conservation know-how and increase the awareness of final consumers of sustainable behaviour patterns.

- An important step was taken by launching the “Development Plan for Promoting the Use of Biomass and Bioenergy 2007–2013”. Approval of the Development Plan by the Government is scheduled for December 2006. The need for drawing up the Development Plan stems directly from the European Commission Communication on Biomass Action Plan (COM(2005) 628). The main objective of the Development Plan is to reduce the dependence of Estonia on imported energy resources. Reduction of the share of fossil fuels and extension of the diversity of energy sources and domestic supply channels will help us to ensure the stability of economic development. Wider introduction of biomass – the main source of alternative energy – will create new jobs, provide additional income, especially in rural regions, and reduce the pollution load to the environment.

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## 4. THE LABOUR MARKET AND EMPLOYMENT

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The rapid economic growth in recent years has had a positive impact on the developments in the labour market. The nearly 2-percent growth of employment took the employment rate to the highest level in seven years. In 2005 the share of the employed among people aged 15-64 was 64%, which is close to the average level in the European Union. Positive development can be seen in the employment figures of women and the older workers – both indicators have already achieved the goals established in the European Union's Growth and Jobs Strategy for 2010. It is also clear that high economic activity and the labour force deficit arising from it exert somewhat more positive pressure on the employment figures than expected in the former forecasts. The rise of employment in the first half of 2006 was very strong, reaching to 6.8%. Therefore it would not be wise to leave the goals established last year at the same level, because some of them (e.g. the employment rate of the older workers) have already been achieved. Without discussing all the adjustments in detail it should be pointed out that we have decided to set a new goal for the employment rate – the level of 70% should be achieved by 2010 instead of the former 2014. However, it must be admitted that the expectations set for 2008 regarding participation of the registered unemployed in active labour market measures were too optimistic. Regardless of the fact that over the recent years the rate of participation in active labour market measures has gradually grown (in 2003 the respective rate was 10.0%, in 2005 it was 15.4%) we have lowered the goal established for 2008 from 35% to 22%. Prognoses of the occupational accidents for the year 2008 is higher compared to the present level, because the number of occupational accidents is expected to rise in forthcoming years. The number of actual occupational accidents is presently incompletely reported. The government is discussing the concept of insurance of occupational accidents and occupational diseases. The implementation of the concept would to a large extent solve the problem of incomplete reporting of occupational accidents. The indicator of fatal occupational accidents per 100 000 employees in 2005 was exceptionally low (3.9). In previous years the same indicator has been 5.6 (2003) and 5.7 (2004) and based on the previous data we expect to achieve the level of less than 4.7 fatal occupational accidents per 100 000 employees by the year 2008.

Also, we cannot say that owing to the positive growth of employment the situation of all groups of the population is equal in the labour market. Regardless of positive development in youth employment figures the unemployment of young people remains high, reaching to 15.9% in 2005. The situation of non-Estonians and Estonians in the labour market remains worrying in spite of a twofold decrease of the employment gap, especially with regard to unemployment rates where the indicators are 12.9% and 5.3%, respectively. The unemployment remains structural – nearly 53% of all the unemployed are long-term unemployed. Against the background of these figures the high rate of basic school dropouts and the number of people participating in lifelong learning, which has even decreased a bit in comparison with 2004, clearly stand out.

Therefore it is obvious that regardless of the positive developments we have to try hard in order to stand up against the ever strengthening decrease of the labour supply and the challenges arising not only in the field of employment, but also in microeconomics and macroeconomics.

## **OBJECTIVE 7: Improve the quality of labour force**

In the field of education and training the development of the ministry's policy measures has played an important role in achieving the goals of the Growth and Jobs Action Plan.

- By launching the Estonian Education Information System there is now greater clarity regarding the processes taking place in the education system, because the applied person-based data collection allows for greater precision. Therefore it has become clear that former estimates, such as, for instance, the basic school dropout rate, have been overestimated, because the children moving abroad along with their parents have not been taken into account. Based on the example of academic year 2004/2005 the total number of basic school dropouts was 1268, but 453 of them (36%) went abroad.
- Allocations to the vocational education system have increased in terms of infrastructure investments (59% rise in 2006 compared to 2005), teachers' pay raises (10%), education allowance and the school food programme. In 2006 the basic cost of a student place is EEK 15,489 (EEK 14,577 in 2005), the average weighted coefficient has increased by 1.2 times (1.38 and 1.13, respectively), the ratio of the cost of student places in vocational education in comparison with general education is 1.2 in 2006 (before they were equal); in 2007 the difference is to be 1.4 for the benefit of vocational education. Along with activities aimed at popularisation of vocational education it has started to increase young people's interest in taking up studies in vocational schools, but it must be taken into account that there is a lot of inertness in the educational system and more extensive changes of trends take time. However, the increasing desire of local authorities to open classes with vocational education opportunities in secondary schools is a sign of the change of the reputation of vocational education. The growth in the number of secondary schools with such new opportunities has been more active than planned – the goal of “30 secondary schools with vocational education opportunities” planned for 2008 was exceeded as early as in 2006 when school owners had created the respective opportunities in 32 schools. Although the numerical goal has been achieved, the government does not consider it necessary to raise the numerical goals. Instead of increasing the number of secondary schools it is more important to ensure the quality of the respective study programmes in general education schools with vocational education opportunities. To that end the lengths of the study programmes of various specialities have to be agreed on in order to ensure the basic skills of the graduates for operation in the labour market and later possibilities of increasing the qualification. Respective projects are supported by the Ministry of Education and Research through the structural funds.
- In the field of natural sciences and technology the number of graduates has skyrocketed (a 38% rise in comparison with 2004) and through this we have achieved the average level of EU-25 per 1,000 residents in the age group 20-29. A remarkable fact is that in the field of natural sciences and technology in Estonia the share of women is the highest in Europe (42.5% as opposed to 31.1% in Europe). To popularise research the government has launched several programmes, e.g. the Tiger University, programmes of the Gifted and Talented Development Centre of the University of Tartu.
- In order to make educational opportunities more flexible and effective the Minister of Education and Research has approved e-learning development plan “Learning Tiger” 2006-2009. The main goal of the plan is to develop e-learning associated with ICT and various content services related to e-learning, instead of focussing on hardware and software as before. According to the development plan, the main fields of activity

include development of Estonian web-based study administration systems, making digital study materials available to schools, various e-learning services, provide students and teachers with the competencies required for e-learning and to find and introduce cooperation and support mechanisms necessary for further sustainable development of schools' ICT infrastructure.

- Preparation of the new model of financing general education has reached introduction of the concept to the members of the coalition government members. Upon introduction of the new model the division of funds between stages of study is to be changed in order to ensure conditions of obtaining education in the proximity of the place of residence in the first and second stages of study. In the third stage of study of the basic school and in the secondary stage of study larger resources will be allocated to schools where the number of group classes and optional subjects increases due to the number of students. Secondly, with the help of the new financing model the study coefficients of children with special needs and the separation system are to be changed. Model of financing general education is a supportive instrument that improves the quality of education and guarantees better availability of education. The financing model helps to realise principles of comprehensive school that are difficult to fulfil due to different economic capacities of local governments.
- Upon shaping the higher education policy it is important to emphasise drafting the Universities Act, Institutions of Professional Higher Education Act and Private Schools Act Amendment Act jointly with partners. The amendments regulate in greater detail the issues pertaining to quality and flexibility of the studies (taking account previous education and work experience, bringing more flexibility to restrictions on pursuing studies on a state-commissioned student place for the second time, application of licensing principles upon registration of study programmes, which increases the possibilities of initial quality control by the state, etc.). In July 2006 the government approved the new higher education strategy and is under the discussions in the Parliament.
- For the purpose of better coordination of activities aimed at young people the Youth Work Strategy 2006-2013 has been drafted jointly with partners and approved by the government. The strategy defines youth policy and the bases and definitions of youth work in Estonia and the principles of youth work areas such as special youth work, hobby education, health-promoting and developing holidays for young people, education through work, while also sketching the principles of collection of information, training employees and general financing. As a result of implementing the Youth Work Strategy young people can better integrate into society, have better understanding of trends in the labour market and due to that be more competitive in the labour market. These aims are supported in the strategy with creation of opportunities for acquiring voluntary work and informal learning experiences and development of entrepreneurial thinking, work education and information and counselling services. Strategy enhances qualifications of the future and present labour force, especially through knowledge and skills that can be acquired outside formal education system.
- A negative trend is that the share of adults (aged 25-64) in training has decreased – in 2005 the respective figure was 5.9%, while in 2004 it was 6.7%. Since Estonia is far behind the EU's goal of achieving an adult lifelong learning rate of no less than 12.5% by 2010, the respective environment must be improved considerably. During 2006 the concept of the so-called three-pillar financing system, which comprises occupational training of employees, training of risk groups and financing pillars for training persons who have been registered as unemployed, has been prepared.

- Another important negative trend has appeared in the case of education of people aged 20-24. One of the EU 2010 education objectives is to ensure by the said year that no less than 85% of 22-year-olds has obtained at least secondary education. In Estonia the respective figure has fallen from 83.6% (2000) to 80.9% (2005). Here it should be taken into account that in 2005 EHIS had not been implemented yet, but from the point of view of knowledge-based society it is a very dangerous trend. To limit negative developments the government has planned measures which are aimed at more individual counselling of students and amendment of the marking system of schools. Here the emergence of secondary schools with vocational education opportunities is important. Amendments made to legislation in 2005 prohibit expulsion from the basic school of students who are under the school-leaving age.

In comparison with 2005 the figures indicating interruption of studies have been changed in this overview – in the previous report four different figures in different stages and types of study were used (separately at the basic school and secondary school stage, vocational education programmes following basic and secondary education) to characterise the interruption. In 2006 we have put to use one of the main goals of the EU Education and Training 2010 programme, which regards the rate of dropouts from the education system, according to which in 2010 the rate of dropouts from the education system should not exceed more than 10%. Usage of harmonised figures ensures higher comparability across countries.

## **OBJECTIVE 8: Increase in labour supply**

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In this period the following were the main measures and activities aimed at developing the active labour market policy further:

- Implementation of the Labour Market Services and Benefits Act at the beginning of 2006 brought about significant changes in the principles of provision of labour market services. The most important change was implementation of the principles of case management networking, in addition six active employment services were added, possibilities of participating in the measures increased and the requirement of active job-seeking was added. The requirement of active job-seeking means that being registered as unemployed and receiving services and benefits provided by the state is related to the obligation to participate in previously agreed labour market measures and accept the suitable work offered to the unemployed. In 2005 the expenses on active labour market measures increased 28%. The structure of the labour market system was adjusted considerably – regional employment offices were merged with the Labour Market Board in order to improve management and harmonise service quality. The challenge in the coming years will be improvement of the institution's internal work organisation and improvement of the qualification of employees. In 2005 201.3 million EEK was spent on implementation of labour market policy, 74% of it was spent on active labour market measures and compared to 2004 expenditures on active labour market measures increased 28%. In 2005 the expenditures on implementing labour market measures comprised 0.12% of the GDP. Active measures comprised 0.09% and passive labour market measures 0.03% of the GDP. Total labour market policy expenditures and proportion of active labour market measures increased while proportion of passive measures decreased compared to 2004.
- In connection with the development of case management the joint provision of welfare measures and labour market measures has been commenced. Welfare measures developed for various risk groups of the labour market, especially for disabled persons. These measures meet their needs, support their entry into the labour market and improve performance at work. The concept of amendment of the Social Benefits for Disabled Persons Act, which is being worked on prepares for transition from the medicine-centred rehabilitation service of disabled persons to vocational, occupational and psychosocial rehabilitation service.
- From the European Social Fund's (ESF) measure 1.3 "Equal opportunities in labour market" 91 projects have received funding decisions, of which 23 have been completed. Projects have mostly offered training, but also other active labour market measures like work practice, work exercise, salary support and labour services for disabled persons. 5 projects are aimed at persons who have received layoff notices. Obligations have been taken on 373 million EEK of the total 413 million EEK available in the ESF. Payments have been made for 147 852 060 EEK. Close to 40% of the measure's budget is targeted at helping risk groups. Projects that have been funded in three rounds are going to involve 24 320 unemployed persons and persons who have received layoff notices. It is planned that 8722 people will find jobs as an immediate result of these projects. Positive result is that in projects that have already ended more people have participated and found jobs than expected. In 23 finished projects overall participation target was 2685, but in reality 3285 people participated. 1667 people were expected to find jobs and actually 1826 returned to labour market. In addition 13 EQUAL projects have been financed from the ESF with total cost 84.9 million EEK. 5 of these projects, with total cost 42,44 million EEK (50%), are targeted

at helping risk groups back to labour market and 7 projects, with total cost 33,95 million EEK (40%) are aimed at combining work and family life.

In addition to the previously covered activities important changes will be applicable as of 2007 – the unemployment benefit aimed at the unemployed will rise from EEK 400 a month to EEK 1,000 a month and all the unemployed registered in the Labour Market Board will be provided with health insurance. By a considerable increase of the unemployment benefits Estonia is approaching the goals set out in ILO Conventions No. 102 and 168. Increasing unemployment benefits helps to implement principles of the Employment Services and Subsidies Act (in force since 01.01.2006) through supporting active job-seeking by the unemployed, accepting suitable work and fulfilment of individual job-seeking plan. Guaranteeing health insurance for all registered unemployed people (including those whose period of receiving unemployment benefits has ended) enhances motivation of the long-term unemployed people to register as unemployed. Registering enables to involve long-term unemployed people in active labour market measures.

In 2005 and in the first half of 2006 several strategies aimed at resolving problems related to improving the population's health have been developed and implemented, including strategies for prevention of HIV/AIDS, drug addiction and cardiovascular diseases. Important developments in this period include the following:

- In the first half of 2006 the population health policy was developed and on the basis thereof the development of the Public Health Development Plan 2007-2015 will be commenced in the second half of 2006. The development of the Health Development Plan is sparked by the need to apply purposeful action for improving health, which are aimed at reducing the factors threatening the state's sustainability and ever-deepening health problems and to create the prerequisites for preservation of the population and growth of the population through preservation and improvement of people's physical, mental and social health.
- One of the most important priorities of application of the heart strategy in this period was creation of the health promotion structure at the county level and launching activities in local authorities. As a result 16 health councils (one in each of the 15 counties and in Tallinn) and 19 health rooms commenced operation in 2005. In the framework of another priority, i.e. measures aimed at reducing smoking, the network of counsellors for those who want to quit smoking was developed in 2005 and by the end of 2005 all 15 counties were provided with the counselling service.

In the field of work the issue of the system of insurance of occupational accidents and diseases has been attended to for the purpose of improving the population's health and ensuring better working conditions. In autumn a description of the impact on the working environment, labour costs and labour policy should be finished. The insurance concept should give the parties to the labour market an additional motivation system for improving the working environment. Funds for notification in the field of working environment and employment relations have been planned for 2007.



## **OBJECTIVE 9: Increase in the flexibility of the labour market and modernisation of the labour relations**

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As for the flexibility and organisation of the labour market, in this period it has been focused on renewal of employment legislation:

- The draft Employees Representative Act has been submitted to the Riigikogu (parliament). The goal of the draft act is to simplify and clarify the organisation of representation of employees, i.e. to create a two-channel system for representation of employees where representation in relations with the employer at the company level would take place through the employees' representative elected in the general meeting of employees as well as through the trade union. The draft act brings the model of representation of employees into compliance with ILO Convention No. 135, which is legally binding upon Estonia. The draft act establishes a framework of notification and consultation, i.e. transposes EU directive 2002/14/EC to Estonian law. However, it must be admitted that the parties to the labour market have not reached consensus regarding this draft act. The disagreements are mainly related to the selection of the notification and consultation model (according to the draft act, the employees' representative is elected by the general meeting of employees, but according to the current act, the trade union and non-associated employees elect their separate representatives).
- The draft Collective Labour Dispute Resolution Act has been prepared. Its main goal is to alleviate the ban on strikes by national officials and with regard to employers to loosen the provisions regulating support strikes.
- Both international and national analyses indicate that Estonian labour law needs renewal and development.<sup>2</sup> Therefore the government has decided to carry out a thorough analysis of the entire labour law, which has brought about an extension of the deadline for drafting a new Employment Contracts Act. The purpose of renewal of the Employment Contracts Act is to bring the legislation concerning employment contracts into compliance with the general principles of contract law, which are contained in the Law of Obligations Act. The modernised Employment Contracts Act must find a balance between the freedom of contract, the private autonomy of the parties and the protection of the employee. In addition to the Employment Contracts Act, the Working and Rest Time Act, the Wages Act and the Holidays Act will be revised as well.

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<sup>2</sup> According to the World Bank's business environment survey "*Doing Business 2007*," in terms of restrictions pertaining to hiring and dismissing employees Estonia holds 151<sup>st</sup> place in the world. <http://www.doingbusiness.org/>.

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## 5. COHERENCE WITH THE ESTONIAN NATIONAL STRATEGIC REFERENCE FRAMEWORK 2007-2013

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The EU structural funds and the Cohesion Fund provide great input for the state interventions that aim for greater competitiveness and socio-economic cohesion. In this context the structural funds and the Cohesion Fund support also the achievement of the objectives set in the Estonian Action-Plan for Growth and Jobs.

The preparation of the Estonian Action-Plan for Growth and Jobs 2005-2007 could not provide input for the structural funds programmes 2004-2006. However by the time when active programming for the structural funds period 2007-2013 started, the Estonian Action-Plan for Growth and Jobs 2005-2007 was finalised and it has given input to the programmes financed by the structural funds and the Cohesion Fund.

Altogether around 80 per cent of all the funds foreseen (of 53,2 billion EEK) under the Estonian National Strategic Reference Framework are targeted to the financing of activities that are also included in the measures of the Estonian Action-Plan for Growth and Jobs. As the final versions of the National Strategic Reference Framework and the respective Operational Programmes have not been finalised, some changes in the financial plans are still possible and therefore also the above-mentioned rate may change.

In comparison, around 77% of the financing of the Estonian Single Programming Document 2004-2006 was targeted to the objectives that were set also for the Estonian Action-Plan for Growth and Jobs. Unfortunately the periods 2004-2006 and 2007-2013 are not comparable, as the fields of financial intervention are different.

The structural funds and the Cohesion Fund support the achievement of all objectives set in the Estonian Action-Plan for Growth and Jobs but also other fields, such as health infrastructure, development of local public services, are supported.

Overview of the linkages between the National Strategic Reference Framework by the nine objectives of the Estonian Action-Plan for Growth and Jobs:

### 1. Ensuring a stable macroeconomic environment

The structural funds and the Cohesion fund (hereinafter: the Funds) do not give direct support to the stable macroeconomic environment. Indirect benefits come from the fact that the Funds are partly used for financing of the gaps in priority infrastructure and therefore the burden to the state budget is reduced. These investments are in longer perspective temporary (as are the possibilities from the Funds).

### 2. Ensuring the long-term sustainability of fiscal policy

The Funds are used to finance activities that are targeted at improving the health of the Estonian population. This would in the end contribute to the long term sustainability of health insurance in general (measure 2.2). The Funds support also activities that are

foreseen for increasing employment. Employment of older workers, social inclusion and improvement of living conditions support the living standard in general and indirectly help to reduce pressure to the state pension insurance system (measure 2.1).

### 3. Direction of the fiscal policy to improve the economic growth and employment

The Funds have enabled the Estonian Government to maintain the level of state investment and to increase investment to R&D and vocational education (measure 3.2).

### 4. Enhancing the quality of research and development activities and enterprise innovation, growth and long-term international competitiveness

In order to ensure long term competitiveness of Estonian enterprises and quality in R&D, it is essential to ensure appropriate educational system. From the Funds the following areas are supported: infrastructure in vocational education and higher education, development of R&D education, awareness of innovation, potential to do business abroad etc. All these areas form the core of objective 4 in the Estonian Action-Plan for Growth and Jobs 2005-2007.

### 5. The development of business environment favourable to enterprise and entrepreneurship

The Funds are contributing to activities and programmes that have the objective to increase the entrepreneurship of Estonian population, to develop the public transport, to develop new e-governance tools and to ensure the availability of a fast internet connection in all parts of Estonia. This means that the Funds give direct support to the measures under the objective 5 of the Estonian Action-Plan for Growth and Jobs 2005-2007.

### 6. Strengthen the synergy between environmental protection and growth

From the Funds, both better environmental awareness (measure 6.1) and investment to environmental infrastructure (measure 6.2) are supported.

### 7. Improve the quality of labour force

The activities financed from the structural funds, enable to increase the flexibility of different levels of education, including the coordination between the different levels of education (measure 7.1). The Funds are contributing also to improving the quality of education (measure 2), to the readiness of young people to work (measure 7.3), to the development and increasing of options for life-long learning (measure 7.4) and to the development of career counselling systems (measure 7.5).

### 8. Increase in labour supply

In the area of employment most of the activities that are financed from the structural funds are directed to increasing employment (measure 8.1).

### 9. Increase in the flexibility of the labour market and modernisation of the labour relations

In the area of employment, also improving the regulative framework is being addressed. The aim is among others to increase flexibility in labour-relations (measure 9.1). The structural funds help to finance a number of supporting activities (incl. analyses).

## 6. DETAILED OVERVIEW ON THE IMPLEMENTATION OF ESTONIAN ACTION PLAN FOR GROWTH AND JOBS

### 6.1. Reporting on the implementation of Estonian Action Plan for Growth and Jobs: MACROECONOMIC ENVIRONMENT

Objective	Priority field in the final conclusions of the European Council	Integrated guideline	Implementation status of the Estonian Action Plan for Growth and Jobs, 2005-2007			
1		1	<b>Measure 1.1:</b> Preservation of the fiscal position in accordance to medium-term budgetary objectives of government			
				<b>2005</b>	<b>2006</b>	<b>2007</b>
			<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				EEK 110 million	EEK 66 million	N/a
			<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
				Annual preparation of a government budget that is at least balanced.	Public sector 2007 budget will be formed fully balanced. According to Ministry of Finance economic forecasts the public sector 2007 budget surplus is 0.7-0.8 percent % of the GDP	
				Strengthening of local authorities financial capability by systematizing rules and increasing the revenue base.	Proceeds of natural person income tax rate to local governments was increased to 11.8 percent of taxpayers gross income	
			<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
			The budgetary position of government as % of GDP	Annual formation of fully balanced public sector budget.	Public sector 2006 budget was formed with 0.1% surplus of GDP. Current status according to the Ministry of Finance economic forecasts is 2.45 percent surplus of GDP	

1		1	<b>Measure 1.2:</b> Becoming a full member of the European Economic and Monetary Union and introduction of the euro			
				<b>2005</b>	<b>2006</b>	<b>2007</b>
			<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	N/a	N/a
				<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
			<b>Planned and implemented activities</b>	Implementation of economic policies to fulfil the Maastricht convergence criteria.	Estonia has maintained public sector budget surplus policy within previous years and has decreased national debt.	
				Bringing legislation into compliance with the requirements for the introduction of the euro.	Riigikogu (parliament) passed the law amendment of Eesti Pank Act in June 7, 2006. A draft act for Euro adoption act has been introduced and forwarded for consultations.	
				Making preparations to guarantee technical preparedness.	Government approved the fourth version of Estonia's Euro adoption plan that provides necessary activities to achieve technical preparedness.	
			<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
			Compliance with Maastricht convergence criteria	Estonia will implement Maastricht convergence criteria and is technically ready to adopt Euro.	Currently, Estonia does not implement price stability criteria.	
			o budgetary position of governmental sector	The budgetary deficit of the governmental sector may not exceed 3% of GDP.	In 2005, budget surplus 1.6% of GDP.	
			o public dept ratio	The public dept ratio in member states must not exceed 60% of GDP, if the debt is greater, a clear tendency for reducing the debt must be apparent.	By the end of year 2005, budget surplus 4.8% of GDP.	
			o price stability	The annual inflation rate of member states may not exceed the average of the three member states with the lowest inflation rates by more than 1.5%	In July 2006, Estonia's 12-month-average HICP was 4.4% and reference value 2.8%.	
			o long-term interest rates	Long-term interest rates may not exceed the average interest rate of the member states with the lowest interest rates by more than 2%.	In June 2006, Estonia's 12-month-average long-term interest rate was 3.97% and reference value 5.96%.	
			o exchange rate stability	The member state must have complied with the normal fluctuation limits specified in the ERM II without serious strain for at least 2 years, and may not have devalued its currency in regard to the currency of any other member state.	Estonia passed the two-year compulsory period of ERM II at the end of June 2006. The exchange rate of EEK has been fixed against Euro and remains therefore within the margin of tolerance.	

1		1	<b>Measure 1.3: Managing the risks affecting balanced economic development</b>			
				<b>2005</b>	<b>2006</b>	<b>2007</b>
			<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	N/a	N/a
				<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
			<b>Planned and implemented activities</b>	Reducing the current account deficit and controlling the increase in credit growth.	Estonia has maintained public sector budget surplus policy within previous years. While decreasing the deduction restrictions of taxable income, the exemption from income tax of housing loan interests was also decreased. The Bank of Estonia increased the loan authorisations mandatory holding of banks since March 1, 2006 (the risk weighting of housing loans in capital adequacy calculations was increased from previous 50% to 100%). The Bank of Estonia increased the reserve requirements of banks from previous 13% to 15% since September 1, 2006.	
			<b>Indicators for the measure</b>	<b>Expected result for 2008</b>	<b>Current level</b>	
			Current account deficit as % of GDP	Current account deficit will reach 6-7% of GDP in the long run.	In 2005, current account deficit was 11% of GDP.	
2		2; 5	<b>Measure 2.1: Insuring long-term sustainability of pension insurance system guaranteeing sufficient standard of living for pensioners</b>			
				<b>2005</b>	<b>2006</b>	<b>2007</b>
			<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	EEK 153 million	EEK 24 million
				<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
			<b>Planned and implemented activities</b>	Completion of pension reform, implementation of reforms for special pensions, old-age pensions under favourable conditions, and superannuated pensions.	Ministry of Finance in cooperation of Ministry of Social Affairs conduct situation analysis and solution development.	

			<b>activities</b>	Rising the retirement age to 63 years by 2016.	The rise of retirement age has been provided by law.	
				Increasing the tax base for state pension insurance.	In 2006, social tax minimum liability was increased from the previous EEK 700 per month to EEK 1,400 per month; it will be increased to EEK 1,500 per month.	
			<b>Indicators for the measure</b>	<b>Expected result for 2008</b>	<b>Current level</b>	
			Budgetary position of the state pension insurance as % of GDP	Pillar One of the pension insurance is continuously at least balanced and there are sufficient reserves to guarantee liquidity	In 2005, deficit 0.2% of GDP; reserves 0.8% of GDP at the end of 2005.	
			Replacement rate for pensions (ratio of pension and wages)	The minimum standard of the European Code of Social Security: the old-age pension of a pensioner with 30 years of service must be at least 40% of average net wages of a male labourer	In 2004, the replacement rate of first pillar pensions was 45.6%.	
2		2; 5	<b>Measure 2.2:</b> Insuring long-term sustainability of health insurance system and thereby guaranteeing people's financial security in case of health risks			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	EEK 118 million	EEK 43 million
			<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
				Increasing the tax base of health insurance.	In 2006, the sum of EEK 700 as the basis of social tax minimum liability was increased to EEK 1,400. In 2007, it will be increased to EEK 1,500 and eventually equated with minimum wages in 2009. These steps will respectively increase the proceeds of social tax by the estimate of EEK 271 million and EEK 42 million or by ca 0.15% of GDP.	
				Increasing the population's coverage with health insurance.	Initiation of Social Tax Act amendment that would facilitate health insurance to all those registered in Estonian Labour Market Board from 2007 during the period of being registered as unemployed.	
				Considering a reduction in health insurance liabilities	Ministry of Finance in cooperation of Ministry of Social Affairs conduct situation analysis.	
			<b>Indicators for the measure</b>	<b>Expected result for 2008</b>	<b>Current level</b>	



Health Insurance Fund budgetary balance of Health Insurance Fund as a % of GDP	The health insurance fund is continually at least balanced and there are sufficient reserves to guarantee liquidity.	2005 surplus was 0.1% of GDP and reserves were 0.5% of GDP by the end of 2005.
Coverage of the population by health insurance	99% of the population is covered by health insurance	94% in 2005.
Patient satisfaction with the quality of health care	Patient satisfaction is at the same level as today	In 2004, 59% of the insured considered the quality of health care good or rather good.

3	2; 5	<b>Measure 3.1:</b> Reorganization of the tax system with more emphasis on taxing the consumption and exploitation of environment compared to labour			
			<b>2005</b>	<b>2006</b>	<b>2007</b>
		<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
			N/a	EEK 1067 million	EEK 530 million
		<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>
			Reducing the taxation of labour.		According to Income Tax Act passed by Riigikogu the income tax rate will be lowered to 20% in 2009. Basic exemption rate increased from the previous EEK 1700 to EEK 2 000 per month in 2006. Unemployment insurance premium rates and corporation tax rate were lowered in 2006.
			Higher taxation of consumption and exploitation of the environment.		Environmental Charges Act was passed in January 1, 2006 raising pollution charge rates. The government approved basic research plan necessary for the implementation of ecological tax reform. Increase of tobacco excise duty rate in January 1, 2008 (law has been passed) Increase of alcohol excise duty rate in January 1, 2008 (law has been passed)
			Evaluating effectiveness of the tax benefits and reducing benefits in case of need.	The deduction restrictions of taxable income were decreased from the previous EEK 100,000 to 50,000. District heating VAT rate will increase from 5% to 18% in July 1, 2007 (law has been passed). Medical services VAT rate will increase from 5% to 18% in January 1, 2007 (law has been passed).	

			<b>Indicators</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
			Income tax rate and minimum level of tax exemption	20% rate by 2009	23 % tax rate in 2006, exemption from income tax - EEK 2,000	
			Tax burden of low-wage earners	The lowering of the tax wedge from the current level	38.9% of labour costs in 2004	
			Direct and indirect taxes as a % of GDP	A reduction in the percentage of direct taxes and an increase in the percentage of indirect taxes	In 2005, direct taxes formed 7.7% of GDP and indirect taxes 13.3% of GDP	
3		3; 5	<b>Measure 3.2: Greater and more efficient allocation of budgetary resources to activities supporting growth and employment</b>			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				EEK 508 million	EEK 363 million	EEK 388 million
			<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>
				Maintaining the high level of public investments.		The extent of Estonian public sector fixed asset investments has remained on the level of 4% of GDP as compared to the EU 2.5% average.
				Increasing expenditures for research and development activities.		The increase of R&D activities expenses has taken place consistently while considering what has been provided by R&D activities strategy.
				Increasing the financing of vocational education.		The increase of vocational education financing has taken place consistently while considering what has been provided by vocational education development plan.

## 6.2. Reporting on the implementation of Estonian Action Plan for Growth and Jobs: KNOWLEDGE BASED AND SUSTAINABLE BUSINESS ENVIRONMENT

Objective	Priority field in the final conclusions of the European Council	Integrated guideline	Implementation status of the Estonian Action Plan for Growth and Jobs, 2005-2007		
			2005	2006	2007
4	1	7	<b>Measure 4.1:</b> Ensuring the sustainability and improving the quality of research and development		
			<b>Financing of the measure</b>		
			State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
			EEK 556 million	EEK 846 million	EEK 1106 million
			<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
			The introduction of foresight activities to establish the fields with greater potential economic influence and work out the principles of their preferential development.	The introduction of foresight activities is planned as part of the development fund activities. The draft legislation of Development Fund Act is currently under way in the Riigikogu. Only after the act has been approved and the development fund has become operative it is possible to start with the foresight activities.	
			The introduction of national programmes in the key areas of Research and Development Strategy and other priority fields, in order to achieve a greater influence and effectiveness of R&D in selected fields by concentrated promotion.	The development of the legislative framework for the national R&D programmes and selection of more detailed focuses has been started in the context of developing an operational plan for the Estonian Research and Development and Innovation (RD&I) strategy. Estonian language technology program was initiated with an important goal of establishing Estonian language IT applications, including speech synthesis and recognition and automatic translation.	

**Planned and implemented activities**

<p>The development of the number of the Centres of Excellence, selected on a competitive basis, by supporting their preferential development and extra funding in order to create and maintain top R&amp;D competence.</p>	<p>In May 2005, a corresponding ministerial order entered into force and the first call for proposal was announced. In November 2005, it was decided to support and extra fund 10 Centres of Excellence. Preparations for a new, 2008 call for proposals that includes the involvement of 2007-2013 structural funds have already been started.</p>
<p>The development of the necessary R&amp;D infrastructure for the training of researchers and top specialists and creating a competitive R&amp;D environment in accordance with the Research and Development Infrastructure Development Programme and the Strategic Bases for the Modernization of Infrastructure Supporting Academic Higher Education, Research, and Innovation.</p>	<p>In March 2005 a corresponding ministerial order entered into force and the first call for proposal was announced. In April 2006, it was decided to finance the best 5 projects. The Estonian National Strategic Reference Framework 2007-2013 for using structural funds, that is still in the phase of development, includes the modernisation of higher education, research and innovation infrastructure during the period of 2007-2013 through structural funds.</p>
<p>Increasing the procurement of acquisitions (incl. Internet-based ones) to research and archive libraries and improving the conditions of preservation of collections.</p>	<p>In 2006, the procurement of acquisitions (incl. Internet-based ones) to research and archive libraries increased 21.5%.</p>
<p>Promotion of a more extensive entry and effective participation in international cooperation networks, incl. initiation of the necessary instruments for participation in the EU R&amp;D 7th Framework Programme and the Competitiveness and Innovation Framework Programme; supporting membership in international research organizations and in the Nordic Research Area.</p>	<p>Estonian research institutions and enterprises participate in the EU 6th Framework Programme under the co-ordination of Estonian National Contact Organisation Archimedes Foundation, and are among the three most successful new member states. Estonia also participates in the work of EU scientific and technical co-operation network COST under the coordination of Archimedes Foundation. Enterprise Estonia advises and supports SME participation and innovation measure of EU Sixth framework Programme and co-ordinates the EUREKA programme. Tartu Science Park coordinates the participation in the EU technology transfer network of the Innovation Relay Centres (IRC). 17 societies and associations of researchers receive funding for participation in international societies and associations through Estonian Academy of Science. The regulations for the application of the next period of structural funds are also currently being prepared to enable more efficient funding of international co-operation projects through advising and financial support for Estonian participants in the course of the application writing process.</p>

			Introduction of common financing schemes in accordance with international R&D agreements.	Estonia participates in the work of CERN (European Organisation for Nuclear Research) and EMBO (European Molecular Biology Organisation). The accession to European Space Agency has been initiated. The resources have been planned into the ETF (Estonian Science Foundation) budget (eg Parrot Programme) to initiate the shared financing schemes set by transnational R&D contracts. The shared financing model with the USA to continue subsidiaries to the development of oil shale technologies. Estonia also participates in a shared financing model of EUROSTARS that has outgrown from EUREKA networks.			
			<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>		
			R&D expenditures as a % of GDP	In 2008, 1.5% of GDP, out of which 40% from private sector; in 2010, 1.9% of GDP, out of which 45% from private sector	In 2004, 0.9% of GDP, out of which 39% from private sector		
			TR&D personnel as a percentage of persons employed	1.45%	In 2004, 1.32%		
4	1	7	<b>Measure 4.2:</b> The development of the human capital necessary for the advancement of R&D and long-term international competitiveness of the enterprise sector				
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	
				State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)	
				EEK 135 million	EEK 198 million	EEK 283 million	
				<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>		
				Creation of post-doctoral positions which would allow those who have recently received their doctoral degrees to start their research careers, giving them confidence in their first few years as researchers, and allowing them to get ready for applying for competitionbased financing.	In 2006, the growth in the number of post-doctoral positions was minimal despite the fact that post-doctoral grants were increased by 20% by the state. Beginning from 2007 (2006 applications), a 100 000 EEK support for relocation of post-doctorates shall be implemented.		
				Development of an internationalisation strategy for higher education to improve academic mobility.	The working group has completed its work, and the draft strategy document has been forwarded to the social partners to receive their opinions and proposals on the matter.		

<b>Planned and implemented activities</b>	Developing possibilities for student and researcher mobility between research institutions and enterprises in the course of their study and research careers.	The Ministry of Economic Affairs and Communications has initiated a pilot survey to implement a preparatory process for a programme to support the mobility of top level specialists. The survey should be concluded by the end of 2006 and the programme should be launched in 2007. In 2006, the Ministry of Education and Research supported the foreign research and training of 426 researchers and students, including through the scheme of Kristjan-Jaak and through allocation of state commissioned student places abroad. Additional 592 students were learning as exchange students abroad according to Erasmus scheme. In 2007, an approximate of 15-20% increase in the mobility of researchers and students is expected.
	Implementation of a so-called training plan programme and the development of the training grant programme, with the aim of better directing the resources intended for the development of human resources in enterprises; enhancing the development and updating the knowledge and skills of enterprise managers and workers.	The training plan was initiated as a pilot project in 2006. Programme shall be complete by 2007 when the new ESF period is implemented.
	Preparation and availability of necessary training programmes to improve the competitiveness of companies by training trainers or organising training in those fields in which the required training is currently not available.	Activities ensuring the availability of training improving the competitiveness of companies are currently in the planning phase. The activities will start with the new programming period.
<b>Indicators</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Number of students admitted for doctoral courses (per year)	In 2011 – 500	In 2005 – 440
Number of graduates of doctoral courses (per year)	In 2015 – 300	In 2005 – 118
Percentage of foreign doctoral students	In 2015 - 10% (3000 foreign students)	In 2005 - 3%
Percentage of bachelor and masters level students who have studied as exchange students in foreign universities	In 2015 – 5%	In the academic year of 2004/05 – 0.8% (Erasmus programme)

			Research and development personnel in enterprise sector (full-time equivalent)	In 2008 – 1400 (previously 1150)	In 2004 – 1084	
4	1	8; 15	<b>Measure 4.3: Ensuring access to capital for start-up companies and those with great growth potential</b>			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	EEK 51 million	EEK 60 million
			<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>
				To bring together potential (foreign) investors and undertakings in need of capital through contact mediation to guarantee vacant capital flow into Estonian enterprise sector.		A continuous support of foreign investment inflow through foreign investor services, Estonian reputation building and contact mediation of potential foreign investors and enterprises in need of capital. Domestic investor-enterprise contact mediation has not yet started; neither the support of enterprises at accessing foreign investor networks.
				Initiation of a public and private sector co-operational programme to promote enterprise, including creation of complex access to different start-up facilities and services offered by public and private sector.		The start-up company scheme is currently in development phase. State secured start-up loans shall be authorised from the beginning of 2007.
				Development of local business angels network (in addition to funds, providing valuable knowledge) to guarantee potential business angels investments and knowledge flow into Estonian enterprise sector.		A survey of market failures shall be conducted in the first half of 2007 to help channel the vacant capital of Estonian investors into Estonian small and medium sized enterprises, and to identify possible situations where state interference would improve the availability of financing resources for the SMEs.
				Formation of Estonian Development Fund to offer early stage own capital investments for innovative start-ups.		Formation of the Development Fund has been approved by the government. The draft Development Fund Act is currently proceeded in the Riigikogu and the fund itself should be established in the first half of 2007.
			<b>Indicators for the measure</b>	<b>Expected result in 2008</b>		<b>Current level</b>
			The share of enterprises reporting access to finance to be the most important barrier to growth	10%		2005.a - 21%

4	1	8	<b>Measure 4.4:</b> Promoting an increase in productivity, and supporting companies entering foreign markets and investments for the development of new technologies, products and services			
				<b>2005</b>	<b>2006</b>	<b>2007</b>
			<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				EEK 111 million	EEK 234 million	EEK 199 million
				<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
				Supporting R&D projects channelled to develop new competitive technologies, products, services and processes, including the support of developing clean technologies that could be successfully marketed both in Estonian market as well as foreign markets.	Corresponding activities are being constantly funded through a programme supporting research and development activities projects in Enterprise Estonia. Due to the initiative of Commission of the European Communities to reform state aid regulations, Enterprise Estonia considers extending programme focus by offering multilateral assistance for the development of innovative products and services.	
				Supporting centres of competence, aimed at long-term partnerships between research and development establishments and enterprises, by making more use of university-based knowledge and by training additional adequate R&D personnel to satisfy enterprise demand.	Five centres of competence were formed. Transition to structural funds based financing in 2005-2006 has proven successful. The development and preparation of centres of competence programme for the period of 2007-2013 is currently being implemented under the leadership of Enterprise Estonia and the involvement of mainly public sector, academic and enterprise partners.	
				Implementation of innovation audits mapping enterprise innovation potential and development obstacles to help make more efficient use of its growth potential.	In 2005 a pilot phase of Enterprise Estonia innovation audit programme was initiated – 58 enterprises were diagnosed. The current measure received positive feedback, therefore a similar innovation audit is planned also in 2006. Within the next structural funds period a larger and more diverse diagnostic instruments will be offered to enterprises by Enterprise Estonia.	
			<b>Planned and implemented activities</b>	Development of services offered by business incubators and development centres to intensify the birth and development of new enterprises with large growth potential through more efficient support and consultancy.	An incubation programme was initiated in Enterprise Estonia in 2005 to support the development of services offered by incubators. Two calls for proposal have been carried out.	
		8;15		To improve export capability of small and medium sized new exporters and to support export market entrance through refocusing the export plan programme.	Today, the export plan programme is focussed only on existing exporters, a new exporter programme designed for motivating businesses to start export activities shall be implemented during the next structural funds programme period.	



			Export activity related risk management by offering long-term export guarantees for entrepreneurs.	Today, most of the export guarantees given are short-term. Long-term export guarantees shall be introduced at the beginning of the new programme period in 2008.
			Initiation of mentor programme to consult start-ups and therefore guaranteeing the sustainability of new enterprises.	A mentor programme pilot project was initiated in 2004. The pilot proved successful – out of 32 involved couples majority finished successfully, the project was assessed useful by both the mentors and mentored. The experiences gained during the pilot project are currently being analysed and further activities planned.
		8	More efficient cooperation of public and private sector to help export IT solutions based on the e-Estonia experience.	Estonian e-Estonia experience has been introduced at several events throughout the world as well as in Estonia as a result of close cooperation of public, private and mutual and non-profit sectors. Several trainings based on Estonia's experiences have been carried out thanks to the possibilities offered by development aid organisations. Development of software repository for introduction and distribution of Estonian e-Estonia IT solution prototypes is currently being planned. Similarly, several enterprise measures targeted to solve marketing and sales personnel problems are being initiated. A cluster programme is also under development.
			<b>Indicators</b>	<b>Expected result in 2008</b>
			The percentage of companies introducing new products and services or employing new technologies	50% (previously 45%)
			The innovation costs of companies (percentage of turnover)	2%
			Productivity per worker as a % of the EU 25 average	68% (previously 60%)
			Employment in high-technology industry and services (% of total employment)	9%
			Percentage of export of high-technology products as a % of total exports	18%
5	2	15	<b>Measure 5.1:</b> Promoting entrepreneurial culture with the goal of increasing enterprise activity and company innovation	
			<b>2005</b>	<b>2006</b>
				<b>2007</b>

			<b>Financing of the measure</b>	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				EEK 3 million	EEK 13 million	EEK 2.3 million
			<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>	
				Increasing enterprise- and innovation awareness in society, propagating knowledge-based society and signifying the role of research and development activities through the implementation of innovation awareness programme. Within the framework of this programme several educational and informative activities are carried out for different target groups: students and teachers, researchers, faculty members and university students, opinion leaders and media, public officials and politicians, entrepreneurs, investors and business managers, general public.	Innovation awareness programme regulation entered into force in January 2005. Two calls for proposal have been carried out by Enterprise Estonia, out of which the first one was channelled to raise innovation awareness of students and teachers and the second of politicians and opinion leaders. 2006 call for proposal is channelled to raise the innovation awareness of specialists, engineers, entrepreneurs and investors. In addition to application-based projects, Enterprise Estonia is in the process of conducting enterprise- and innovation-based seminars, trainings, TV programmes for young people etc. A magazine called Hea Eesti Idee (Good Estonian Idea) was created.	
				Developing cooperation and grouping skills of companies through training and active involvement in the process of politics formation to strengthen Estonian business organisations and their ability to participate, and to activate cooperation between enterprises.	Good involvement practice has been drafted and the "Participate!" online environment has undergone active development. Additional activities to strengthen business organisations and to develop their ability to participate are planned for the new structural funds programme period in 2007.	
			<b>Indicators</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
			The percentage of people who are planning to establish or are starting up a company	9%	In 2004 - 5%	
			Number of companies per 1,000 residents	35 (previously 32)	In 2005 – 32.8	
5	2	14	<b>Measure 5.2: Developing legal environment that promotes entrepreneurship and initiative</b>			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	EEK 11.5 million	EEK 7.2 million

	<b>Planned activities, 2005-2006</b>	<b>Status of activity implementation</b>
	Conduct of a pilot surveys "The VAT-related tax burden of entrepreneurs" to test the implementation possibility of the standardised expense model method in Estonia, to explain the most time-consuming procedures of Value Added Tax Act, and to evaluate time consumption and financial expenses spent by the entrepreneur.	The pilot survey was completed in July 2005. Survey report is displayed on the website of the Ministry of Economic Affairs and Communication. A seminar introducing method and survey results has been conducted.
	Conduct of a pilot survey "The administrative burden on entrepreneurs in relation to submitting employment and salary data to the Statistical Board and Tax and Customs Board" to test the implementation of the standardised expense model method in Estonia, to evaluate the extent of wages reporting related expenses.	The pilot survey was completed in July, 2005. Survey report is displayed on the website of the Ministry of Economic Affairs and Communication. A seminar introducing method and survey results has been conducted. A standard expense model method report was compiled on the basis of VAT and statistics related pilot surveys, and the method was approved by the cabinet in April 2006.
<b>Planned and implemented activities</b>	Mapping of legal acts affecting an enterprise by applying economic impact analysis on enterprise related legal acts.	The standard expense model method report was approved by the government in April 2006. The idea behind standard expense model lies on a detailed evaluation of time and money spent on completing legal obligations of gathering, processing and forwarding information. In addition to expenses assessment, the method also provides qualitative information on potential problems of the legal environment, increases the transparency of legislation application, and favours private- and public sector communication. Part of the standard expense model method report is a control questionnaire for the assessment of the administrative work load. Based on the result, legal acts impacting enterprise shall be mapped by September 2006. The control questionnaire for the assessment of the administrative work load shall be integrated with the control questionnaire of general impact assessment (economic-, environmental-, social impacts) that will be developed under the leadership of the Ministry of Justice in 2006.

			<p>Simplification of enterprise records management by making notary services and judicial registers more available, and by improving their quality.</p>	<p>Proposed Commercial Code amendments entered into force in January 2006 according to which a possibility of filing digitally signed applications and authorisation documents to commercial registry was introduced. By changing the Commercial Code and other related acts in 2007 acceleration of registry proceedings, specification of company fields of activity and recognition of Finnish business prohibitions is provided. By accelerating registry proceedings, entry applications can be processed under expedited procedure or in other words within a couple of hours. The Ministry of Justice has proposed to decrease the norms specified by the draft legislation of State Fees Act in case of commercial registry entries and registry documents issuing accordingly to the actual spending of registry procedures that is close to 2.5 times.</p> <p>Notaries have been empowered to implement all procedures necessary for establishing a new company, meaning notary's offices function as a single contact point. The close network of notary's offices guarantees service availability. Whereas all the notary's offices are self-sufficient, the development of them as a single contact point does not require state funding. To decrease the average time spent on company establishment, principals improving single contact point system are currently being prepared according to which the establishment of simpler companies should be possible in as little time as 2 hours.</p>	
			<p>Changing the Commercial Code to simplify the approval of annual reports, the procedures of merger, division and transformation; and to specify the provisions concerning legal relationships of management bodies, responsibilities and audit.</p>	<p>Commercial Code amendments have been approved by Riigikogu and apply since January 1, 2006.</p>	
			<p><b>Indicators for the measure</b></p>	<p><b>Expected result in 2008</b></p>	<p><b>Current level</b></p>
			<p>Average number of days for creating and licensing of a new enterprise</p>	<p>7 (previously the maximum was 25 days)</p>	<p>2005.a - 35 (Doing Business 2007)</p>
5			<p><b>Measure 5.3: Developing infrastructure that supports an increase in competitiveness</b></p>		
			<p><b>2005</b></p>	<p><b>2006</b></p>	<p><b>2007</b></p>
			<p>State budget (incl structural funds)</p>	<p>State budget (incl structural funds)</p>	<p>Draft state budget (incl structural funds)</p>
			<p><b>Financing of the measure</b></p>		

			EEK 180.5 million	EEK 2400 million	EEK 3077 million
			<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>
	16	<b>Planned and implemented activities</b>	Development of the infrastructure of science-, technology and industry parks to create growing areas for new enterprises with high growth potential.	In both Tallinn and Tartu technology parks with the help of PHARE financial instrument the renovation and the creation of new infrastructure has started. If the PHARE instruments are insufficient to complete the projects, the government at the moment is also setting up an additional program to improve their surroundings. The initial decision concerning the development of science and technology parks is approved with the stakeholders. The proposed deadline for the first application round is in the end of 2006.	
	9		Development of IT systems for a more efficient public sector communication by introducing digital transaction of affairs and e-services within public sector, and through extensive informing and training.	Continuous development of new e-services by making use of the possibilities offered by central IT components of the state (X-way, citizen's portal, eID). Several new services have been established within social and educational sectors, establishment of health sector e-services has also been initiated. The joint capacity framework of state IT solutions was complemented in 2005 to guarantee e-Estonia's efficient cooperation. To improve digital transaction of affairs, a digital document repository was established that simplifies transmission of digital documents with public sector institutions and between them.	
		<b>Indicators</b>	<b>Expected result in 2008</b>		<b>Current level</b>
		Percentage of public transport users	30%		In 2005 – 29.9%
		Company satisfaction with public e-services	80%		In 2005 - 93%
5		<b>Measure 5.4: Ensuring the security of energy supply of the state and the effective functioning of energy market</b>			
		<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
			State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
			N/a	N/a	N/a
			<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>

		16	<b>Planned and implemented activities</b>	Establishment of undersea current cable between Estonia and Finland.	The construction of the undersea current cable between Estonia and Finland should be completed in November 2006. Estlink helps to increase state supply security and to ensure more efficient operation of energy market.	
		13		Development of energy trade regulations with neighbouring countries.	Finland and the European Commission have agreed on special conditions of use of the Estonian-Finnish sea cable. The energy strategy of the Baltic States is currently being compiled. The strategy suggests agreeing on the interests of Baltic States in energy field by specifying common aspects in energy trade and in energy related relations with neighbouring countries.	
		16		The modernization and development of the transmission network to increase the security of supply and reduce energy losses.	The necessary annual investment volume is guaranteed by transmission network tariffs, meaning that the investment necessity has been included in energy transfer fees.	
5		13	<b>Measure 5.5: Making state monitoring more effective in order to ensure fair competition, quality and safety</b>			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
				N/a	N/a	N/a
			<b>Planned and implemented activities</b>	<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>
				Improvement of supervisory institutions information exchange and cooperation and integration of several different information systems used for supervisory activities. Analysis of existing systems has been initiated and accordingly to its results an information system ensuring the information exchange covering all supervisory institutions as whole shall be developed.		A public procurement has been announced within the TF (Transition Facility) project for the analysis of integration possibilities of information systems informing the Professional Qualifications Board of the Technical Inspectorate and Consumer Protection Board about dangerous products available in the EU. In the second phase of the project, necessary IT solutions shall be developed for the market supervisory authorities accordingly to result analysis results.
				The start up of pre-emptive activities related to quality and safety. To achieve this, training on safety-related legislation and informational campaigns directed at entrepreneurs and consumers will be carried out, and a statistical database will be developed in order to evaluate the various safety factors and thereby create clearer foundations for planning monitoring resources		The development and legal regulation of the EU Injury Database (IDB) in Estonia is managed in close cooperation with the Ministry of Social Affairs and accordingly to local needs, or in other words in a way that the established database would improve the previous planning system of supervisory resources. It is important to create a situation where necessary information would be applicable by its contents and was not confidential or personified.
6		11	<b>Measure 6.1: Increasing environmental awareness</b>			
				<b>2005</b>	<b>2006</b>	<b>2007</b>

Financing of the measure	State budget (incl structural funds)	State budget (incl structural funds)	Draft state budget (incl structural funds)
	EEK 42 million	EEK 41 million	EEK 43 million
Planned and implemented activities	<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>
	<p>Effective implementation of environmental management in companies and the support and stimulation of voluntary financing of environmental protection measures (e.g. the introduction of environmental management systems in companies, pollution, charge substitution agreements), by using active informational measures, their partial co-financing and state aid schemes.</p>		<p>In 2005 and 2006, pollution charge was substituted for 9 companies and 9-10 substitution cases are projected for 2007. Significantly higher rates of environmental charges were established by the Environmental Charges Act in 2006 and a further 10-20% annual increase of the charge rates is envisaged until 2009. Seven seminars and training courses were held in 2005 under the Estonian-Dutch joint project "EMAS implementation in Estonia". Five seminars and training courses were held under the project "EMAS Capacity Building for Small and Medium-sized Enterprises of New Member States" (the so-called EMAS Easy project) initiated by the European Commission. The above seminars and training courses were attended by representatives of companies, administrative agencies (incl. local governments) and other stakeholders, app. 150 participants in total.</p> <p>In addition, EMAS was introduced on an experimental basis in 19 companies under the above two projects and the first EMAS registration certificate in Estonia was issued to one of them in October 2005. In addition, a manual "Step by step to EMAS registration" was published in September 2005. A joint final seminar of the two projects was held for the public in February 2006 with the total of app. 130 participants.</p>
	<p>Promotion of the use of green public procurements, including the respective adaptation and implementation of the legal framework in both the public sector and companies in order to achieve the introduction of environmentally friendly solutions.</p>		<p>An intersectoral working group was established on 18 May 2006 by a directive of the Minister of Environment pursuant to a decision of the Government. The working group has mapped the current baseline situation and prepared a project application for Norwegian/EEA financial mechanisms (actions 2008-1010) and is currently preparing a proposal for initiating the preparation a development plan for environmentally sound public procurement, which will be submitted to the Government in December 2006.</p>

			Ensuring the preservation of biodiversity through conservation activities with the aim of ensuring the protection of species and habitats (incl. establishment of the Natura 2000 network and securing of favourable conservation status); by reforming nature conservation administration; by developing a conservation development plan; and by initiating its implementation, guaranteeing among other things the state co-financing of nature conservation measures with the objective of diversifying rural life and offering alternative employment opportunities, and promoting nature tourism.	The area protected in Natura 2000 sites totals 1.4 hectares, with approximately a half of this area being located in the sea and the other half on land. The system of nature conservation has been reformed. A State Nature Conservation Centre has been established and is responsible for managing conservation activities in protected areas. The Government has approved the Nature Conservation Development Plan for 35 years. Payment of agri-environmental support from the European Agriculture and Rural Development Fund (EARDF) for agricultural lands in Natura 2000 areas has started. EARDF support for private forestry and seminatural communities in Natura 2000 areas is under preparation.	
		<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
		The number of companies having received environmental management system (ISO 14,000, EMAS) certificates	250 ISO 14 000 ja 25 EMAS	177 ISO 14001 ja 2 EMAS	
		The state of endangered species and habitat types (abundance of I and II category protected species, Annex I of Habitat Directive on the protection of habitat types)	Status has not declined compared to 2003	Status has not declined. In total, 64 species are protected under category I (strictest protection), 262 species under category II and 243 species under category III. Over 300 bird species, nearly 75 fish species, 5 reptile species, 11 amphibian species and 65 mammal species have been sighted in Estonia. Approximately 1450 species of vascular plants, 550 bryophyte species and 2500 algae species grow here. Sixty habitat types are protected in Estonia.	
6		<b>Measure 6.2: Reducing the pollution load and ensuring sustainable use of natural resources</b>			
		<b>Meetme finantseerimine</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	State budget (incl structural funds)		State budget (incl structural funds)	Draft state budget (incl structural funds)	
	675 milj		1221 milj	1192 milj	
		<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>	



	1	11	<p><b>Meetme raames planeeritud ja elluviidud tegevused</b></p>	<p>Development of the Estonian Environmental Technology Development Plan (ETAP) together with the compilation and implementation of the national ETAP Road Map, via identification of the important technologies for the improvement of Estonia's environmental situation, developing recommendations for offering support measures to scientific institutions and companies to motivate them to develop or introduce, test or implement the necessary technologies, and thereby create a national cooperation network.</p>	<p>A working group has been established for preparing the Environmental Technologies Action Plan (ETAP). The general objective of the ETAP is to increase economic competitiveness and maintain economic growth along with continued improvement of the state of the environment through wide introduction of the existing environmental technologies and creation and elaboration of new (innovative) environmental technologies. The first version of the ETAP Road Map has been completed. Examples of best practices in environmental technology have been presented to the European Commission. A preparatory study is underway, consisting in mapping the current situation in the development, elaboration and introduction of environmental technologies, drawing conclusions and providing a provisional financial estimate for the cost of implementation of the ETAP.</p>
	4	11		<p>Promotion of sustainable energy production through the implementation and updating of the respective specific programmes (incl. planning of measures to increase the energy efficiency of buildings and support for the related activities).</p>	<p>The two new blocks of Narva Power Plant display a 6% higher efficiency and their pollutant emissions are several times lower. Production of electricity from renewable energy sources has effectively increased over the period and the 2.5% level projected by 2008 in the Action Plan is certainly achievable. In order to expand the use of renewable energy sources, a Cohesion Fund technical assistance project "TA for the establishment of the Narva Wind Park" is implemented. Preparatory studies for an investment project will be performed under this project and a project application will be prepared. Implementation of an ecological tax reform has started, with one of its aims being the valuation and sustainable use of natural resources and increasing of the efficiency of resource use through changes in the tax system. As a result of this process, the extraction fees for high quality mineral resources were increased significantly in 2006 and a more moderate increase will follow in the coming years.</p>

	11; 16		Supporting the development of environmental infrastructure and the elimination of past pollution, by development of water and waste management plans, and initiating and co-financing the infrastructure construction projects and reduction of past pollution.	The water infrastructure has been developed in 2005-2006 mostly through Cohesion Fund projects and the Water Protection Programme of the Environmental Investment Centre. Two water projects financed from the Cohesion Fund were completed in 2005 – Viljandi sewage treatment plant and Narva sewage treatment plant. In addition, a number of projects to rehabilitate water bodies and clean up past pollution to improve the status of water bodies were implemented in 2005-2006 with support from the ERDF. Preparation of water management plans continued, being aimed at organising integrated water management and promoting sustainable use of water. Water management plans for Pärnu sub-basin and Pandivere groundwater sub-basin were approved in 2005. Preparation of water management plans for Viru, West Estonian Islands, Võrtsjärv, Peipsi, Harju and Matsalu sub-basins continued in 2006 and approval of the plans is scheduled for the first half of 2007.
		<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
		The status of the evaluated water bodies of is good	Of the evaluated water bodies, 65% are in good state	65%
		Population serviced with public sewerage in agglomerations of over 2000 population equivalents (% of population)	93%	2004.a - 89 %
		Properly functioning sewage treatment plants in agglomerations of over 2000 population equivalents (% of treatment)	77%	2004.a - 67%
		The supply of the population with quality drinking water (% of the population)	80% (previously 70%)	71%
		Waste treatment according to internationally recognized environmental and health standards (% of waste)	100%	32%

		The closing and remediation of landfills not meeting environmental standards, incl. industrial waste dumps (% of dumps)	100%	35% (In 2003, 46 non-compliant landfills were operating. In 2005, 30 of them were operating and 16 were closed. Acceptance of waste has to be terminated at all non-compliant landfills as of 16 July 2009).
		The relative importance of renewable energy sources in electrical energy being produced as a % of gross consumption	2.5%	1.2%

**6.3. Reporting on the implementation of Estonian Action Plan for Growth and Jobs:  
THE LABOUR MARKET AND EMPLOYMENT**

Objective	Priority field in the final conclusions of the European Council	Integr. guideline	Implementation status of the Estonian Action Plan for Growth and Jobs, 2005-2007					
7		24	<b>Measure 7.1:</b> Improving flexibility and effectiveness of placement education with special emphasis on vocational education					
	1		<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>		
				State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)		
				EEK 434 million	EEK 561 million	EEK 633 million		
				<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>		
				Planning vocational education student places pursuant to the approved national development plan. Creation of the student places of state-commissioned education at the higher education level: 50% to those who have acquired general secondary education and up to 10% to those who have graduated from a vocational education institution based on basic education, preferably in professional higher education.	The admission figures for academic year 2006/2007 have been planned pursuant to the development plan; the final admission numbers will become clear by the end of October. The number of students moving from the vocational education system to the higher education system will become clear by the end of October as well. Extension of the education allowance and school food programme to the students of vocational schools, the teachers' pay rise and infrastructure investments along with image improvement campaigns in the media may not render any immediate effect in the competition figures of vocational schools.			

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**Planned and implemented activities**

<p>The improvement of a support system (study, dormitory and transportation supports) in order to create opportunities for economically less-insured students to participate in vocational training.</p>	<p>As of September 2005 education allowances for students who have entered the vocational education system following basic school became available. As of 1 September 2006 the free school lunch and free school milk programme has been extended to all vocational education students. The Innove Foundation has launched pilot projects for application of the apprentice concept as of autumn 2005. The apprentice concept will be applied as the general form of study in 2007.</p>
<p>Creation of opportunities for the transition from vocational to higher education by the financing of supplementary general education studies of up to one year.</p>	<p>As of 1 September 2006 the option of one additional year of general education became available to the graduates of vocational education institutions in adult secondary schools and in the evening study and distance learning departments of secondary schools.</p>
<p>The enforcement of regulations in line with the European qualifications framework.</p>	<p>The work of a work group involving different parties has been performed according to plans; a comparison of the Estonian educational and vocational qualifications with the meta-framework of qualifications has been carried out.</p>
<p>The popularization of the specialities of natural and exact sciences and technology (LTT) among young people by offering innovative programs in general education schools and vocational education institutions, offering scholarships at the level of higher education, and supporting state hobby schools (e.g. technical houses, nature houses) and youth centres.</p>	<p>The technology education concept for application or coordinated activities in general education schools will be developed 2006-2007. The concept of environmental education supporting sustainable development has been prepared and is waiting government's approval. In order to prepare Estonian students for international Olympiads the activities of the Gifted and Talented Development Centre of the University of Tartu is supported. On 31 May 2006 entrepreneurs, the Ministry of Education and Research and the Estonian Information Technology Foundation signed a joint memorandum in the framework of which activities aimed at improving the quality of ICT education will be coordinated (incl. organisation of field training, promotion of the field, etc.); specific projects are being initiated. The E-learning Development Plan for General Education 2006-2009 "Learning Tiger" was approved by a directive of the Minister of Education and Research on 10 July 2006.</p>

A new e-university development plan for management of e-learning in vocational and higher education has been drafted and the Tiger University+ programme is being implemented. Such projects as pupil and student research competitions, the Science Bus project, the summer school coordinated by research journalist T. Kändler, organisation of research photography competitions, publication of additional textbooks for secondary schools and issuance of the Estonian Science Popularisation Award have been supported from the state budget in order to popularise science among young people.

The Varait pilot project of youth centres has been launched in 2006. The goal of the project is to develop youth centres and diversify activities aimed at young people. Creation of open resource centres throughout Estonia is supported. 18 youth centres have already been supported through the competition. A future resource centre is a place which has the required tools for diversification of the services of the youth centre, e.g. technical, sports and hiking equipment, musical and art equipment, which is not meant for one-time use only. The project will continue in 2007.

Indicators for the measure	Expected result in 2008	Current level
Share of primary school graduates acquiring vocational education	38%	29% (EHIS, 2006)
Number of secondary schools with vocational training availability	30	32 (EHIS, 7.03.06)
The number of graduates in the fields of natural and exact sciences and technology per 1000 residents aged 20 to 29	2010 – 15% rise	Level 12.1 (ESA, 2006). 38% rise in comparison with 2004

7		<b>Measure 7.2: Improving quality of education</b>			
			<b>2005</b>	<b>2006</b>	<b>2007</b>
		<b>Financing of the measure</b>	State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)

		EEK 3941 million	EEK 4223 million	EEK 4787 million
		Planned activities, 2005-2006		Status of activity implementation
	23	<p>Modernisation of the study process – preparation of a new national curriculum for basic schools and secondary schools; drawing up professional standards for (general education and vocational education) teachers and initiation of a system of professional qualifications; amendment of the external assessment system of general education schools, which allows for taking the local context and students' special needs into account; improvement of teacher training; development of an integrated counselling system and internal and external evaluation system of schools; improvement of the general education financing model; participation in international comparative surveys of evaluation of competencies acquired by students; launching a system of ensuring the quality of vocational education.</p>		<p>The professional standard of vocational teachers is being drafted and it will be approved in 2006. The model of the national vocational education curriculum and the procedure for development and registration thereof has been prepared and is being approved. Development of modules of curricula has been launched (the ESF project). In 2006 at least 5 national vocational education curricula will be approved. In 2006 the general part of the new national curriculum of basic schools and secondary schools will be submitted to the government for approval. The entire curriculum should be applicable as of 1 September 2007. The model of financing general education was introduced to the government in August 2006 and presumably the first stage will be launched as of 1 January 2007. Internal and external evaluation of preschool childcare institutions, basic schools, secondary schools and vocational education institutions was launched as of 1 September 2006. In 2006 Estonia participated in the international PISA comparative survey the results of which will be published at the end of the year.</p> <p>The Vocational Schools Quality Award project was successfully implemented in academic year 2005/2006. Student home projects aimed at children whose living conditions at home are difficult are supported from the state budget. Development projects aimed at improvement of the vocational education, introduction of the methods of active learning among teachers, individual support of students and teachers by way of psychological counselling, in-service training of teachers and principals, and solution of the issues of foreign-language schools are supported through European structural funds. On 1 September 2006 people without basic education who have passed the minimum school-leaving age gained access to vocational education in vocational education schools and it became possible to obtain vocational education without the obligation to obtain secondary education.</p>

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**Planned and implemented activities**

<p>Creation of state-commissioned student places at the level of higher education pursuant to the higher education strategy – approx. 6,300 at the first cycle. Increasing the international competitiveness of higher education through legislation allowing for greater specialisation of higher education institutions, infrastructure investments, more detailed regulation of quality standards, concentration of resources, relicensing of educational institutions and issuance of joint degrees and diplomas.</p>	<p>Student places for academic year 2006/2007 were planned pursuant to the principles agreed in the higher education strategy – in the first cycle of study (bachelor's studies and professional higher education) 6346 student places were created. The package of amendments of the Universities Act and Institutions of Professional Higher Education Act, which follows the principles of quality assurance and making studies more flexible as agreed in the higher education strategy, has been prepared. The draft has been sent to the partners for consultation. In September 2006 an international group of experts visited Estonia in the framework of an OECD project for evaluation of developments in tertiary education policy.</p> <p>The purpose of the project is to receive independent feedback regarding the trends planned in the higher education strategy for 2006-2015. In the field of higher education legislative amendments allowing for opening joint study programmes and issuance of joint diplomas, which contribute to the accumulation of resources in Estonia and cooperation with higher education institutions, are being prepared in 2006. More detailed activities regarding internationalisation of higher education have been described in measure 4.2 of part 1 (knowledge-based and sustainable business environment).</p>
<p>Fostering state initiatives to improve IT-related knowledge and skills as well as to develop respective infrastructure and learning environment in order to encourage the shift from basic skills development to the more intensive use of ICT in the learning process and provide support in coping with the challenges of a knowledge-based society ("The Learning Tiger" for general education and vocational schools, "Tiger University+")</p>	<p>On 31 May 2006 entrepreneurs, the Ministry of Education and Research and the Estonian Information Technology Foundation signed a joint memorandum in the framework of which activities aimed at improving the quality of ICT education will be coordinated (incl. organisation of field training, promotion of the field, etc.); specific projects are being initiated. The E-learning Development Plan for General Education 2006-2009 "Learning Tiger" was approved by a directive of the Minister of Education and Research on 10 July 2006. A new e-university development plan for management of e-learning in vocational and higher education has been drafted and the Tiger University+ programme is being implemented.</p>
<p>Improving the quality of the learning environment in vocational schools (rooms, study equipment.</p>	<p>The approved system of financing coefficients allows for better covering of the actual training expenses in different areas.</p>



		23	Improving cooperation with employers/entrepreneurs and educational institutions in order to increase the learning quality, including making the apprentice's system more effective and increasing the role of employers in the councils of vocational education institutions.	With the support of ESF the apprenticeship training project and the training project for instructors of corporate practice implemented by the Estonian Employers' Confederation were launched in 2005. Regional cooperation assemblies uniting schools and entrepreneurs are being prepared. They should be realised in 2007. The amendment of the Vocational Educational Institutions Act which entered into force on 1 January 2006 established additional requirements for organisation of field training and specified the existing ones.		
			<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
			Share of young people (20-24) with third level ISCED educations	2010 – 85% of 22-year-olds have secondary education	2005 – 80.9% (DAP 2006)	
			Share of people (30-34) with fifth and sixth level ISCED educations	Stable	Stable – 32.5% (ESA, 2006)	
			Share of early school leavers (among age group 18-24) with only lower-secondary education and not in education or training	2010 – not over 10%	2005 - 14%	
			School dropouts	2013 – under 1% in basic schools (forms 7-9) and under 3% in secondary schools (form 10)	In 2003/2004 1.2% and 3.7%, respectively.	
			Cost of a student place in vocational and general education	Average cost of a student place in vocational education is 1.5 times higher than in general education	According to the plan, a student place in vocational education is 1.2 times more expensive (2006)	
7			<b>Measure 7.3: Increasing the employment readiness of young people by improving the effectiveness of youthwork</b>			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)
				EEK 56 million	EEK 58 millionn	EEK 72 million
				<b>Planned activities, 2005-2006</b>		<b>Status of activity implementation</b>

	3	18

<p>The involvement of youth participative bodies and youth representative bodies in youth-related decision-making regarding education, employment, health, culture and social affairs, and thereby creating the respective consultation schemes at the state (I stage) and local level (II stage).</p>	<p>At the national level there is the Student Advisory Chamber which attends to educational issues and the Youth Policy Council which attends to youth policy and other youth-related issues. At the county level there are 10 youth councils which are aimed at involving young people in the decision-making process related to educational, employment, health, cultural and social issues. On 6 July 2006 the government adopted the Youth Work Strategy for 2006-2013, which stipulates for the first time the bases and principles of youth policy in Estonia as well as its areas, development trends and describes the essence of the integrated youth policy. The youth work part of the strategy stipulates the principles, organisation, areas and objectives of youth work and the measures based on the areas. A detailed plan for implementation of the strategy has been prepared for 2006-2007. Young people participated in drawing up the strategy in the framework of preliminary local forums of the Third Estonian Youth Work Forum and in various area-related round tables through youth associations.</p>
<p>The improvement of the quality of youth work through application of the professional standards of the employees in the field.</p>	<p>Survey report "Competencies and Development of Competencies in Youth Work: The Professional Background of Estonian Youth Workers" was drawn up in 2005. It gives an overview of the educational background, skills and knowledge of youth workers, their need for in-service training, the professional motivation of employees and the competency requirements for youth workers. On 1 March 2006 the professional standards III, IV and V of youth workers were established. They serve as the basis for establishment of qualification requirements, development of curricula, training programmes and examination requirements, certification and evaluation of professional qualifications and comparison of documents certifying international professional qualification.</p>

**Planned and implemented activities**

The strengthening of youthwork institutions and youthwork networks by fostering the programs for open youthcentres, information and counselling centres and specialty schools and improving cooperation of stakeholders incl. supporting cooperation projects with schools and employers in local level.

Construction and renovation projects of open youth centres and notification and counselling centres financed by ERDF will be completed in 2006. Five notification and counselling centres and eight open youth centres will be completed throughout Estonia. In cooperation with the Non-Estonians Integration Foundation a survey titled "Mapping the Situation of Open Youth Centres" has been carried out. The purpose of the survey was to map the resource needs and situation of youth centres in terms of the availability of funds. In 2006 the state budget support programme of open youth centres and youth notification and counselling centres continued. Under the programme county governments received EEK 3.1 million for organisation of open youth centre competitions and EEK 2.6 million for provision of notification and counselling services in the county. In addition the network of counselling services received EEK 2 million in 2006 for development of services. In 2005 two surveys of the field of hobby education were conducted: A mapping survey by Factum titled

"Parents' Attitude towards Hobby Education of Children and Young People" and an applied complex survey by the Countryside Development Institute titled "Hobby Education and Recreational Activities."

In cooperation with employers pilot project Student Brigade 2006 was launched. A book titled "Young People and Work from the Point of View of Youth Work" was published in cooperation with the Ministry of Social Affairs and employers' representatives.

In 2005 the draft Hobby Schools Act was modified (i.e. the competence of various legal institutions upon establishing hobby schools and exercising supervision over them was specified, the requirements for establishment of hobby schools and the hobby education standards serving as the basis for operation of hobby schools were established, support was allocated for partial coverage of pay-related costs and targeted allocations were made for the purpose of acquisition of fixed assets for hobby schools). A new Hobby Schools Act has been drafted and it will be submitted to the government in October.

			<table border="1"> <thead> <tr> <th>Indicators for the measure</th> <th>Expected result in 2008</th> <th>Current level</th> </tr> </thead> <tbody> <tr> <td>Involvement of youth (7-26) in youthwork</td> <td>60%</td> <td>42%</td> </tr> <tr> <td>Participation of young people in youth associations</td> <td>5%</td> <td>3%</td> </tr> <tr> <td>Youth associations in each country and larger cities</td> <td>20</td> <td>15</td> </tr> <tr> <td>The number of youth work institutions (incl. open youth centres, notification and counselling centres, hobby schools) is increasing as regards open youth centres and notification and counselling centres</td> <td>500</td> <td>420</td> </tr> </tbody> </table>	Indicators for the measure	Expected result in 2008	Current level	Involvement of youth (7-26) in youthwork	60%	42%	Participation of young people in youth associations	5%	3%	Youth associations in each country and larger cities	20	15	The number of youth work institutions (incl. open youth centres, notification and counselling centres, hobby schools) is increasing as regards open youth centres and notification and counselling centres	500	420
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7	3	23	<b>Measure 7.4:</b> Developing a supplementary training and re-education system in line with the principles of lifelong learning															
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	EEK 3 million	EEK 3 million	EEK 4 million															
	Planned activities, 2005-2006		Status of activity implementation															

**Planned and implemented activities**

<p>Development of in-service training and retraining opportunities for the unemployed and the employed; launching a system of taking into account of previous work and study experiences.</p>	<p>The lifelong learning strategy, which constitutes the basis of developing adult education, was adopted at the end of 2005. The principles of the system of in-service training and retraining are being developed. Numerous training projects have been carried out for working adults throughout Estonia with the support of ESF. This will be continued at a larger scale in the next period of using structural funds. The models for application of taking previous learning and work experience into account have been mapped in selected countries with the help of the ESF project. At present, discussions and seminars are organised in order to agree on the principles.</p> <p>The in-service training and retraining offered by the Labour Market Board has also fulfilled the role of Labour Market Services and Benefits Act on 1 January 2006 additional opportunities for receiving in-depth training were created and the financing opportunities were expanded with regard to the unemployed so that they could undergo training.</p> <p>Upon entry into force of the new act the maximum length of training extended to 1 year instead of the former six months. The need for extension of the maximum length of training arose from the fact that the training period required for acquisition of the skills and knowledge complying with several qualification standards is longer than six months. However, at the same time there is demand for labour force in these professions and vacant jobs are available in labour market. More supports and benefits allowing the unemployed to participate in labour market training also became available - by participating in a training course which lasts at least 40 hours you can get a stipend; the travel and accommodation costs of the unemployed participating in training can be partially compensated (the current monthly limit of travel and accommodation costs is EEK 1,200). The state pays the social tax for the unemployed who participate in a training course which lasts no less than 80 hours – this ensures medical assistance to those participating in the occupational training course, should an accident occur while practising.</p>
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			Development of the adult training financing system in order to ease access to training to all adults and promote improvement of qualification or acquisition of new qualification in order to ensure the competitiveness of the Estonian labour force.	At the end of 2005 the Ministry of Education and Research launched an analysis in order to identify what model of financing adult training would, in Estonian circumstances, provide as many adults as possible with access to training which increases their competitiveness. In order to improve the principles of operation of the adult education system it is searched for opportunities of involving all parties in financing adult training - the student, their employer and the public sector. In the framework thereof the Ministry of Education and Research drew up an analysis of the practice of other countries. At the same time the use of the structural funds for 2007-2013 has been planned. The draft concept of the adult training financing model has been developed and submitted to partners for discussion.		
			<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>	
			Share of the adult population ( aged 25-64) participating in lifelong learning	10%	2005 – 5.9%, compare EU-25: 10.8% (DAP, 2006)	
7		24	<b>Measure 7.5:</b> Developing vocational, career, and learning counselling			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)
				EEK 7 million	EEK 7 million	EEK 9.2 million
			<b>Planned and implemented</b>	<b>Planned activities 2005-2006</b>	<b>Status of activity implementation</b>	
				To foster a system of professional qualifications in order to increase flexibility of educational system and improve its conformity with the demand of labour market.	At the beginning of 2005 the Estonian Qualification Authority launched the implementation of the Development of the Professional Qualification System project. The goal of the project is to shape the methods and rules of procedure for development and renewal of the optimum number professional standards based on the needs of the labour market. The final deadline of the project is the end of 2006; the activities of the project have gone according to the plan.	

			<b>activities</b>	To improve forecasting of long- and short-term labour market needs through introducing and implementing a system of sectoral needs analysis by working out respective methodology.	The system of forecasting the long-term need for labour has been launched. The forecast of the need for labour in 2006 was finished in the beginning of September. The goal, possible content and methods of mapping the short-term need for labour are being specified. With the help of structural funds the INNOVE lifelong learning foundation carries out a project titled Development of the System of Career Services in the Republic of Estonia through 2005-2008. By now a background survey has been conducted and sample materials of career training are being prepared.	
8			<b>Measure 8.1:</b> Increasing employment by providing active labour market measures and supportive social measures			
			<b>Financing of the measure</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
				State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)
				EEK 324 million	EEK 433 million	EEK 411 million
				<b>Planned activities 2005-2006</b>	<b>Status of activity implementation</b>	
	3	19		Implementing labour market services based on case management networks through:		
				o Development of basic training programme of case management networks in the framework of the university level social work programmes	The basic training programme has been developed as a part of the social work specialty of the Pärnu College of the University of Tartu. It is a 12-credit point case-based networking specialisation module. In the framework of development of the basic training programme the bases of case management were added to the study programme as a compulsory subject and the former arrangement of field training was modified. The graduates are prepared for working as case managers and probation supervision specialists or as specialists in a private or public non-profit enterprise operating in the social affairs field. The basic training programme will be implemented in the Pärnu College of the University of Tartu as of autumn 2006.	

<p>o Working out and implementing supplementary training programmes on case management networks for the members of existing networks</p>	<p>The Pärnu College in cooperation with the Ministry of Social Affairs has developed an in-service training programme in the framework of which 90 employment, welfare, rehabilitation and probation supervision specialists began their studies in October 2005. 84 of them completed their training in June 2006. The training will be supplemented with two additional modules: case work with alcohol and drug addicts and case work with people infected with AIDS/HIV. The training will be continued in autumn 2006.</p>
<p>o Starting to provide the labour market services based on the principles of case management networks</p>	<p>As of the beginning of 2006 labour market services were offered to the unemployed of the risk group pursuant to the case management principle and all consultants use the case management method. 40 consultants who had been trained in case management earlier were supplemented with 18 consultants who have undergone the in-service training in the Pärnu College. In addition, consultants who have not participated in such training before will undergo case management training in the labour market system in autumn. Also, a case management handbook aimed at the local departments of the Labour Market Board, local authorities and rehabilitation institutions will be published in autumn 2006.</p>
<p>o Introducing the post of employers' consultant in the public employment servicesystem (PES) in order to improve cooperation with employers in respect of finding and training labour corresponding to the needs of the employers</p>	<p>On 1 January 2006 fifteen employer's consultant positions were created in the labour market system and thus there is an employer's consultant in each regional department of the Labour Market Board. Earlier this position existed only in Tallinn and Ida-Viru County. As a result thereof the cooperation with employers has improved, job mediation has intensified, the quality of customer service and labour market services have improved.</p>
<p>Developing and providing new labour market services to risk groups through:</p>	



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<p>o Introducing the basic working skills training service mainly to the long-term unemployed</p>	<p>The basic working skill training service was implemented as of 1 January 2006 through the Labour Market Services and Benefits Act. In reality the provision of the service commenced in the middle of April. The intensity of provision of the basic working skills training has varied by counties due to the lack of service providers in some counties. In order to increase the circle of service providers information days have been organised (in autumn 2005). In addition to this, potential service providers and social workers of local authorities who are important partners upon provision of the basic working skills training have been trained. Leaflets discussing the main issues and possible solutions have been published.</p>
<p>o Working out and systematically implementing tailor-made services for disabled persons (adaptation of working places, provision of free usage of special aids, assistance at job interviews, working with the assistnace of support person).</p>	<p>The labour market services rendered specifically to disable persons became available as of 1 January 2006 through the Labour Market Services and Benefits Act. Since the services are new and very specific, in the first half of 2006 the focus is on the problems related to the implementation of the service and on elimination of these problems. Further training of consultants in disability-specific fields and strengthening the cooperation network uniting various service-related specialists has been a priority. In order to increase the consultants' readiness for working with disable clients they have undergone various training (mainly under the project titled "Promotion of Employment among Disabled Persons"): training in technical aids (ergonomic technical aids, technical aids meant for people with physical disabilities and technical aids meant for visually impaired people or blind people) (March 2006); training in organisation of occupational health and safety (March 2006); training course "How to handle difficult clients" (May 2006).</p>

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	<p>The latter course was also offered by the Labour Market Board to career advisors (June 2006). In the framework of this project information is gathered about the specialists of different fields (activity therapists, physiotherapists, occupational health doctors, etc.) and service providers from whom the consultants can receive assistance upon provision of the services aimed at disabled persons. Also, organisations representing disabled persons and local authorities have been informed about the new services and principles of work. The volume of provision of the services in the first half of 2006 was not very high. The service named support worker, which is rendered mostly to people with learning difficulties or memory disorders has been the most popular of the services aimed at disabled persons (31 referrals). These services aimed at disabled persons are planned to improve.</p>
o Working out and systematically implementing work based training targeted to the youth	<p>The work practice became available as of 1 January 2006 through the Labour Market Services and Benefits Act. The practical training work practice service has proved to be one of the most popular employment services provided by the Labour Market Board. In the first four months (e.g. as of the end of April) there have been 279 referrals. In addition to young people the service is successfully rendered to the disabled persons, the elderly unemployed and the long-term unemployed.</p>

<p>Reviewing and adapting the national public employment service system (incl. the introduction of effective budgetary control, creation of a results-based motivation system, training of staff) to increase the implementation capacity of active labour market policy.</p>	<p>The new structure and statutes of the Labour Market Board have been approved. As of 1 January 2006 the employment offices were reorganised into regional departments of the Labour Market Board and the Tallinn and Harju County local agencies of the Labour Market Board were merged. For the purpose of even provision of the employment services rules of procedure have been drawn up with regard to all services and job descriptions have been drawn up for all employees. The training system is supported on new bases. The officials of the Labour Market Board and its regional departments have taken various professional development courses (service standard training, training in laws pertaining to employment services and subsidies). A satisfaction and motivation survey of the employees of the labour market system has been carried out. The development of the principles of recruitment and selection of the personnel of the labour market system is being prepared. The procedure and forms of submission of the financial statements of the Labour Market Board has been modified.</p>
<p>Developing a monitoring and evaluation system of the labour market measures through:</p>	
<p>o Mapping of the risk groups aiming to define better their needs concerning provision of labour market services</p>	<p>The risk groups have been mapped. The size and main obstacles upon entering the labour market have been specified and analysed with regard to six main risk groups in the labour market. The mappings have been introduced to the career advisors of the local departments of the Labour Market Board and it is planned to introduce the mappings to the heads of the local departments and training consultants.</p>
<p>o Fostering the information system of labour policy statistics aiming to improve the quality of the labour policy management</p>	<p>Active development of the labour market policy statistics information system continues and presumably the data from the information system will become available in 2008.</p>

**Activities planned and implemented in the framework of the measure**

18

<p>o Development and implementation of the methodology for follow-up evaluation of the employment services in order to evaluate and improve the effectiveness of the employment services</p>	<p>A large part of the preliminary work has been performed upon development of the methodology of follow-up evaluation of the labour market services - the possibilities and principles of evaluation of various services have been discussed in work groups comprising representatives of the Ministry of Social Affairs and Labour Market Board. The principles of the methodology and further choices will be agreed on by the end of the year.</p>
<p>o Developing the methodology for evaluation of customer satisfaction in the labour market system in order to evaluate and improve the quality of the employment services (the Phare Twinning Light project)</p>	<p>The mapping of the customer satisfaction methodology of the labour market will commence in autumn 2006 (the European Commission decided not to support Phare Twinning Light with regard to this field and therefore we develop this field on our own).</p>
<p>Integrating labour market and social welfare services and developing social welfare services supporting employment capacity through:</p>	
<p>o Developing a vocational and occupational rehabilitation system for disabled persons</p>	<p>From January 2005 to June 2006 the National Institute for Health Development implemented a project titled "Guiding Disabled Persons to the Labour Market through Rehabilitation." This helped to identify the bottlenecks of the current national system of rehabilitation of disabled persons. On the basis of the recommendations of specialists and disabled persons proposals for implementation of case-based rehabilitation were developed in order to make the process of providing the rehabilitation services more transparent and targeted, directing the services to those who need them the most. Project proposals are implemented in the concept of amendment of the Social Benefits for Disabled Persons Act which is being drafted and stipulates amendment of the scheme of the conditions of According to the concept, (possible) commencement of work by a person should be a part of the process of application for and receipt of the benefits. According to the concept, in the case of disabled persons who are of the working age their additional expenses related to working will be evaluated and compensated. The general strategic approach of the concept has been approved by the government.</p>

<p>o Developing social welfare services sustaining disabled persons in the labour market (incl. personal assistants/support persons, social transport, sheltered and supported work, etc.)</p>	<p>A description of the personal assistance service has been prepared and it will be included in the Social Welfare Act in 2006. Four regional seminars introducing the personal assistant service have been carried out. An instrument for evaluation of the need for a personal assistance has been developed (for social workers, rehabilitation teams) and four regional training courses have been organised for using the evaluation instrument. Through country governments local authorities were allocated funds for launching personal assistant, support person and family hand projects; an instrument for evaluation of the need for a personal assistant was developed. A more detailed description of the support person service is being developed. The regulation of the social transportation service will be developed in the second half of 2006. An instrument for evaluation of the additional costs related to going to work is being drafted; on the basis thereof the costs related to going to work can be compensated to disabled persons who work or who are entering the labour market.</p> <p>An analysis of sheltered and supported work is being conducted; descriptions of the systems of sheltered and supported work will be finished by the end of 2006. At present the existing centres of sheltered work are being analysed. In autumn 2006 the good practices of local authorities upon provision of social services and attending to the problems of risk groups will be exchanged.</p>
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<p>o Organisation of training aimed at development of the required skills and knowledge among social workers for the purpose of bringing discouraged persons and the long-term unemployed back to the labour market</p>	<p>From 2005 to June 2006 42 social workers and 13 rehabilitation team members underwent the case-based networking in-service training course in the Pärnu College of the University of Tartu. In addition, training and introductions of newly developed services have been carried out (the personal assistant service). The case management training for social workers and the training of the counsellors of social workers will be conducted in autumn 2006. Various training courses financed out of the ESF have been planned for 2007-2013: 1) in-service training of new and existing social workers and network members (case management, initiation of services, price models, customer service, etc.); 2) training personal assistants and support to hiring; 3) preparation of childminders for looking after children with profound and severe disabilities.</p>
<p>o Developing a information system of social statistics to improve information availability about the unregistered unemployed and inactive people as well as to insure concrete link between receiving social benefits and participating in active labour market or social measures</p>	<p>The development of the data register of social services (STAR), which serves as the basis for launching the system of client-based social services, was commenced at the end of 2005. STAR allows for organisation and administration of local government and national social welfare work. In May 2006 procurement was opened for finding a developer of the STAR system. In addition, preparations for integration of the system into the legal space have begun. By the end of 2007 most of the STAR functionality will be functional. STAR will be finished by the end of 2008 when training courses for STAR users will be organised. In parallel to drafting the new Social Welfare Act, work groups have been established in the ministry as well as in cooperation with partners (some local authorities, social partners, the Association of Estonian Cities, etc.), which develop the standards of the service-based welfare system.</p>
<p>Improving the functioning of the social benefits and labour market benefits system to motivate persons to go to work instead of living from benefits through:</p>	
<p>o Making transport allowances and health insurance available to the participants in work based training and labour market training</p>	<p>Providing all those participating in training and practical training with transportation support and health insurance through the Employment Services and Subsidies Act.</p>

<p>o Connecting effectively participation in social measures and active labour market measures with the availability of subsistence benefits and unemployment benefits with</p>	<p>The association of the receipt of benefits with the requirement of active job-seeking was established in the Employment Services and Subsidies Act. Most of the local authorities have bound payment of subsistence benefits to active job-seeking. The Labour Market Board system operates on a case basis, which ensures a contact with the local authority.</p>
<p>o Evaluating effectiveness of the social welfare system (survey Analysis of the influence of Estonian social benefits and tax system on the people's incentives for labour supply)</p>	<p>Praxis conducted the Analysis of the Impact of Estonian Social Benefits and Taxes on People's Labour Supply Stimuli using the method of microsimulation. The following was investigated: 1) the economic theory background of the work stimuli (taxes and benefits); 2) the work stimuli of the Estonian taxes and benefits system; 3) the existing as well as possible stimuli were analysed using microsimulation models. The survey results, especially the part of subsistence benefits will be used in the new Social Welfare Act, which will be finished in May 2007.</p>
<p>Diversifying and improving the availability of childcare services aiming to simplify the re-entering to the labour market, through:</p>	
<p>o Fostering the childcare system</p>	<p>The professional qualification of a childminder has been established. The professional standards of a childminder were approved in April 2005. A professional certificate has been issued to 25 service providers. In the national curriculum for 2006-2007 40 student places have been allocated to students pursuing the profession of a childminder and 6 student places have been allocated for students of the childcare specialty. The studies can be pursued based on secondary education in three vocational education institutions. The Ministry of Social Affairs has drafted the Social Welfare Act Amendment Act, which provides for the childminder service. The amendment act is being read by the Riigikogu and it will enter into force on 1 January 2007.</p>
<p>o Training of childcare providers and providing counselling on business start-up</p>	<p>The action is implemented under an EQUAL project titled "Children are looked after and mothers can work." 30 childminders (family daycare) were trained in October-November 2005 by the Family Education Institute.</p>

		o Creating a database on companies, self-employed persons and third sector organisations providing childcare services	The technical solution of the information system of childminder services was completed in the first half of 2006; the information system will be fully launched in the second half of 2006. The system will be fully operational in the beginning of 2007 The system will be piloted in Tartu. The solution of the entire information system will be transferred to the area of government of the Minister of Regional Affairs. Various parties will be informed about and trained in the information system. Joining the information system is voluntary for local authorities.
	20	Assessing the impact of the free movement of workers to the supply of labour, through:	
		o Making a proposal to the Statistical Office to improve statistics on immigration and emigration	The Ministry of Economic Affairs and Communications has established a work group for determining the need for immigration and migration statistics and placement of an order with the Statistical Office. The work group will commence work in autumn 2006 and it will comprise of representatives of various ministries and the Statistical Office. The Statistical Office will gather the information needs of different ministries and prepare an action plan for satisfaction of their information needs by March 2007.
		o Analysis of the occupational migration potential (based on interviews) with the aim of evaluating the impact of the free movement of labour and the related transition periods on the Estonian labour market	Preparation of a survey titled "The Migration Potential of the Estonian Working-Age Population" has been launched. The initial task has been established and the conductor of the survey has been chosen. The survey will be carried out 2006/2007.
		<b>Indicators for the measure</b>	<b>Expected result in 2008</b>
		Number of long-term unemployed	18 500 (previously 27 000)
		Share of registered unemployed participating in active labour market measures	2005-2007 - 22% (previously 35%)
		Share of participants of training courses finding the job	65%
		Employment rate of disabled persons	30%
		Employment rate (15-64)	26% (2002), new data will be released in 2006
			<b>2008</b> - 69% (previously 65.8%); <b>2010</b> - 70% (previously - 67.2%); <b>2014</b> - 72% (previously 70%)
			64%



Employment rate of women (15-64)	2008 – 66.9% (previously – 63.3%); 2010 – 68.3% (previously 65%)	61,9%
Employment rate of older people (55-64)	63.4% (previously 55%)	55,7%
Share of youth unemployed in the respective age group (15-24)	3.8% (previously 6%)	5,4%
Activity rate	73.1% (previously 71.3%)	69,6%
Long-term unemployment rate	2.7% (previously 4%)	4.2%

8	3	<b>Measure 8.2:</b> Improving the health of the population and insuring better working conditions
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Financing of the measure	2005	2006	2007
	State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)
	EEK 180 million	EEK 225 million	EEK 256 million
	Planned activities 2005-2006		Status of activity implementation
	Reducing premature illness and death, including:		
	o Promoting healthy lifestyle by implementing the Strategy for Preventing Cardiovascular Diseases	Implementation of the national strategy for prevention of cardiovascular diseases through national and regional actions continued. In 2005 the development of regional activities was especially important and to that end a health promotion structure was established at the county level and various actions were launched in local authorities. In 2005 16 health councils (one in each of the 15 counties and in Tallinn) and 19 health rooms commenced operation. Upon implementation of the strategy it was focused on the following problems: 1) little physical activity – on the initiative of county health rooms sports facilities have been mapped in all counties. The importance of physical activity has been emphasised through various recreational sports events and the media. 2) unhealthy nutrition – collection and systematisation of healthy nutrition recommendations for target groups of various needs has been commenced.	

	<p>An Estonian computer program on nutrition, which allows people to estimate how healthy their diet is, was created. In April and May the "5+ fruit and vegetables a day" campaign was organised in general education schools. As the second part of the project training titled "Fruit and Vegetables in School Food" was organised for school caterers. Internet portal <input type="checkbox"/> HYPERLINK "<a href="http://www.terviseinfo.ee">http://www.terviseinfo.ee</a>" <input type="checkbox"/> was created. 3) reduction of smoking – the post of a counsellor helping people to quit smoking was established in 15 counties. 62 counsellors underwent special in-service training on counselling those who want to quit smoking and all the counsellors do work in this field.</p> <p>The "Smoke-free Class" campaign was continued and media campaigns aimed at quitting smoking were carried out. In 2005 a network of counsellors for those who would like to quit smoking was developed on the basis of health promoting hospitals. By the end of 2005 the service of counselling those who want to quit smoking was available in all the 15 counties. By the beginning of 2006 20 counsellor offices had been opened for those who want to quit smoking.</p>
o Reducing the burden caused by the use of alcohol, tobacco and illegal drugs through increasing public awareness, limiting availability, helping addicts, and increasing tobacco-free environment	<p>Measures aimed at prevention of illegal drug abuse as well as treatment and rehabilitation were taken through implementation of the national drug abuse prevention strategy.</p> <p>The measures aimed at prevention included the following: organisation of information events and projects for young people; implementation of local prevention activities through county structures; teaching social management skills in general, special and vocational education schools, shelters for children, student and youth homes and in schools for students who need special treatment due to behavioural problems; training youth workers and health education teachers.</p> <p>The measures aimed at treatment and rehabilitation included development of cost models regarding the services of voluntary testing and counselling, rehabilitation communes and day centres, and low threshold services; training aimed at treatment and rehabilitation specialists; reduction of losses and expansion of the availability of the drug addiction treatment and rehabilitation service.</p>

**Planned and implemented activities**

To limit the availability of alcohol proposals were made with regard to the Alcohol Act, which was being read by the Riigikogu, in order to expand the prohibition to sell alcohol at night throughout Estonia and with regard to the Advertising Act, in order to curb alcohol advertising. The Advertising Act is being read by the Riigikogu and the Alcohol Act has been submitted to the ministries for coordination. The gradual entry into force of the Tobacco Act with the objective of making the public environment tobacco-free and reducing passive smoking continues. The ban on smoking in catering enterprises will enter into force on 5 June 2007. However, the law does not specify the definition of public space, which means that the law does not solve the problem of smoking in the street and open air. Projects aimed at reduction of smoking among children and young people an extensive advertising campaigns aimed at reduction of drug abuse, alcohol consumption and smoking were carried out.

o Enhancing HIV/AIDS prevention by implementing the Strategy of the HIV/AIDS Prevention (2006), improving the management of contagious disease epidemics and increasing reacting capacity by establishing a monitoring system for contagious diseases as well as a modern laboratory base with better diagnostic possibilities

The implementation of the national HIV/AIDS strategy through which measures for limiting the spread of HIV/AIDS are aimed at the risk groups (injecting drug addicts, commercial sex workers, gay men, etc.) as well as the general public and young people, was begun. 27 syringe exchange points had been opened for injecting drug addicts by the end of 2005 (mainly in Ida-Viru County and Harju County) and 399 patients were undergoing methadone treatment. As for prevention efforts aimed at young people, youth-to-youth courses, campaigns and Internet-based counselling was carried out. Teachers and training providers were instructed. Those involved in prostitution and MSMs were provided mainly with counselling and safe sex equipment free of charge. The general public was informed at the local level (prevention projects were organised by county health councils). Six anonymous AIDS rooms were opened. These provided HIV counselling and testing service.

				<p>By the end of 2005 about 220 people infected with HIV and having no health insurance had been registered by infectious diseases doctors in hospitals in the framework of the GFP (Global Fund Programme). At the end of 2005 255 people were undergoing treatment. Anti-retrovirus treatment is available in five hospitals. Support groups for provision of psychosocial assistance operated in Tallinn and Ida-Viru County for those infected with HIV and the people close to them. By the end of 2005 156 people had been involved in the support groups in the framework of GFP and the national programme. In order to increase the readiness of reacting to infectious diseases ministries have drawn up crisis plans for their areas of government. The readiness plan of the Ministry of Social Affairs is supplemented by various plans regarding specific infectious diseases such as SARS, flu, etc., and bioterrorism crisis plans.</p>
			o Reducing and preventing the health hazards related to the living environment by reorganizing the health protection system	As for organisation of the health protection system, a strategic planning work group is being created for planning activities and functions in order to develop supervision strategies of different areas and a common development plan for 2007-2010.
	18		Promotion of the working environment through development of a system of insurance of occupational accidents and diseases, which promotes more efficient application of occupational safety requirements and a system for prevention of occupational illnesses.	In May 2006 a work group comprising representatives of the Ministry of Finance and the Ministry of Social Affairs was formed for the purpose of describing the impact of the system of insurance of occupational accidents and occupational diseases on the working environment, labour costs and labour policy. The act will be drafted by the next government. The budget of 2007 includes funds for increasing the working environment awareness of employers and employees.
		<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
		Average living expectancy by gender	men 67, women 78	men 66.25, women 77.78
		Lost workdays due to work accidents	137 000	125 314
		Number of work accidents resulting in death per 100,000 workers	4,7	3,9

9	3	21	Measure 9.1: Increasing the flexibility of the labour market and ensuring modern and balanced labour relations			
			2005	2006	2007	
		<b>Financing of the measure</b>	State budget (incl. structural funds)	State budget (incl. structural funds)	Draft state budget (incl. structural funds)	
			EEK 24 million	EEK 23.5 million	EEK 25.2 million	
		<b>Planned and implemented activities</b>	Planned activities, 2005-2006		Status of activity implementation	
			Increasing flexibility of labour relations regulations, through:			
			o Increasing awareness about flexible forms of working and creating positive attitudes among employers and employees	As of 2007 structural funds have been planned for notification of the parties of the labour market.		
			o Changing the Employees Representative Act aiming to achieve better involvement of workers in the activities of companies	On 5 June 2006 the government submitted the draft Employees Representative Act to the Riigikogu (parliament) for further reading and adoption.		
			o Changing the Collective Labour Dispute Resolution Act aiming to balance the freedom of workers' to organize and take action with the realization of freedom of enterprise	The draft Collective Labour Dispute Resolution Act Amendment Act has been prepared in the Ministry of Social Affairs and is waiting for further reading.		
			o Working out principles for the regulation of temporary agency workers	The Ministry of Social Affairs is preparing the principles of the regulation pertaining to intermediated employees. Discussions with the Association of Estonian Personnel Rental Enterprises have been held as a part of the preliminary work. Proposals will be made at the end of 2006.		
			o Developing and piloting methods for assessing the impact of legal regulations to labour relationships	Upon development of the methods of evaluation of the effects of the employment relationship regulation, the evaluation of the administrative burden of the Employment Contracts Act has been commenced. The evaluation is the pilot of measuring the administrative burden in the field of employment relationships and the results will be published by the end of 2006.		
			Promoting modern and balanced labour relations, including:			
		o Working out the preventive principles targeted to more balanced labour relations	As of 2007 structural funds have been planned for notification of the parties of the labour market.			

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## ANNEX 1. LIST OF RELATED STRATEGIES

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### **Strategies related to all the objectives of the Estonian Action-Plan for Growth and Jobs:**

- Estonian National Strategy for Sustainable Development “Sustainable Estonia 21”
- National Strategic Reference Framework 2007-2013
- State Budget Strategy 2007-2010

### **OBJECTIVE 3:** Direction of the fiscal policy to improve the economic growth and employment

- Estonian Strategy of Research and Development 2002-2006
- draft Strategy of Research and Development Activities and Innovation 2007-2013 (*planned for adoption in November 2006*)

### **OBJECTIVE 4:** Enhancing the quality of research and development activities and enterprise innovation, growth and long-term international competitiveness

- Estonian Strategy of Research and Development 2002-2006
- draft Strategy of Research and Development Activities and Innovation 2007-2013
- Entrepreneurial Estonia 2002-2006 – Policy targeted at the development of SMEs
- draft Enterprise Policy 2007-2013 (*planned for adoption in October 2006*)
- Estonian Strategy for Regional Development 2005-2015
- Estonian Strategy for Higher Education 2006-2015

### **OBJECTIVE 5:** The development of business environment favourable to enterprise and entrepreneurship

- Estonian Strategy of Research and Development 2002-2006
- draft Strategy of Research and Development Activities and Innovation 2007-2013
- Entrepreneurial Estonia 2002-2006 – Policy targeted at the development of SMEs
- draft Enterprise Policy 2007-2013 (*planned for adoption in October 2006*)
- Estonian Strategy for Regional Development 2005-2015
- Estonian Electricity Development Plan 2005-2015
- Estonian National Tourism Development Plan 2007-2013
- draft Transport Development Plan 2006-2013 (*planned for adoption in October 2006*)
- draft Development Plan for Estonian Information Society 2007-2013 (*planned for adoption in October 2006*)

### **OBJECTIVE 6:** Strengthen the synergy between environmental protection and growth

- Estonian Environmental Strategy 2010
- Estonian Nature Conservation Development Plan 2035
- Estonian Environmental Action-Plan 2004-2006

**OBJECTIVE 7:** Improve the quality of labour force

- Strategy for Life-Long Learning 2005-2008
- Youth Work Strategy 2006-2013
- Estonian Strategy for Higher Education 2006-2015
- Estonian Strategy for Vocational Education 2005-2008
- “Learning Tiger” 2006-2009 – development plan for e-learning

**OBJECTIVE 8:** Increase in labour supply

- National Strategy for Prevention of Cardiovascular Diseases 2005-2020
- National Strategy for Prevention of HIV and AIDS 2006-2015
- Strategic Plan for Physical Activity of the Population 2006-2010
- Drug Prevention Strategy until 2012

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## 1. INTEGRATED ENTERPRISE SUPPORT TO THE UNEMPLOYED: TRAINING, START-UP SUPPORT, FOLLOW-UP COUNSELLING

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**Project period:** 01.09.2004- 31.12.2005

**Participants** (leaders and beneficiaries):

Ida-Viru Employment Office – applicant, project coordination

Ida-Viru Ettevõtluskeskus SA – project designer and manager

### **Project goal**

The unemployed who are taking up business are provided with effective employment service through integrated enterprise support and cooperation of respective institutions (employment office, trainers, centre for entrepreneurship).

- Sub-goal 1. A more effective employment service related to business has been developed in cooperation with business experts.
- Sub-goal 2. In cooperation with training providers the unemployed interested in business have received knowledge for doing business in the current economic situation.
- Sub-goal 3. Through a functional follow-up counselling system the entrepreneurs receiving enterprise support are more adaptive.

### **Project description**

The former activity model required that selected unemployed undergo elementary business training, they draw up a business plan, receive their first start-up assistance and start doing business successfully. However, practice showed that the number of entrepreneurs who continued as entrepreneurs later was not high.

Therefore this project approached the matter differently by putting more emphasis on preliminary and follow-up counselling than on the business plan. This allowed for creating psychological readiness in the unemployed to do business and left them the opportunity to receive support and advice from experts even after commencing business whenever they needed it. Also, proactive counselling was applied in order to prevent possible problems. A business incubator without walls was virtually created for the participants. Its value lied in the fact that in terms of the amount of resources it was far more economical than an ordinary incubator with walls.

The project comprised three key stages:

1. Preparatory stage
  - selection of project participants;
  - preparation of materials;
  - organisation of information days;
  - finding managing and business training providers;
  - preparing initial tasks for the training providers;
  - preliminary work with the training providers.
2. Training stage
  - formation of management training groups;
  - organisation of management training;
  - counselling participants and drawing up individual action plans;



- formation of managing training groups;
- organisation of business training;
- participants draw up business plans;
- evaluation of business plans and defending business plans before a committee (business plans which have received a positive evaluation received small start-up funds).

3. The following activities were performed at the follow-up counselling stage:

- introduction of the follow-up counselling programme;
- submission of reports;
- visiting starting entrepreneurs;
- on the initiative of the follow-up counsellor, contacting those who have received start-up aid in order to prevent and identify problems.

### **Project results**

- An individual action plan is made for 100 participants (result: 99 participants)
- 100 participants undergo 96-hour management training (result: 97 participants)
- 100 participants undergo 176-hour business training (result: 107 participants)
- 90 participants draw up a business plan (result: 107 participants)
- 90 expert assessments are made with regard to the business plans (result: 92 expert assessments)
- The evaluation committee meets 5 times (result: 6 times)
- 90 business plans have been defended in the evaluation committee (result: 91 business plans)
- 75 participants receive employment support for commencing business (result: 63 participants)
- A follow-up counselling agreement has been made with 75 starting entrepreneurs and follow-up counsellors (result: 63 agreements)
- 75 new entrepreneurs after completion of the project (result: 61 entrepreneurs)

The achieved result of 61 entrepreneurs of whom 60 are operating a year later is a good result to illustrate the fact that with more accurate focussing of means the desired result can be achieved with substantially smaller resource costs than could be expected. The public sector spent EEK 5,272,178 in total. The achieved result is 61 enterprises. The cost per entrepreneur was thus  $5,272,178/61=86,429$  Estonian kroons (EUR 5,540). This included the start-up support and administrative expenses.

### **Contact information of the beneficiaries**

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## 2. BUSINESS INFORMATION PORTAL AKTIVA.EE

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**Project period: September 2001 – (in progress)**

**Project participants** (leaders and beneficiaries):

Enterprise Estonia – project leader and developer

Partners – business organizations, county development centres, experts, consultants

Beneficiaries include all undertakings

### **Project goal**

Aktiva is aimed at improving the dissemination of business information through Enterprise Estonia, other public bodies and NGOs in order to foster business creation, develop the potential of existing businesses and help improve business environment.

### **Project description**

Aktiva is Estonia's largest Internet portal for start-ups and existing small and medium-size enterprises.

Aktiva provides the entrepreneurs information on the entire business cycle, from establishment, business development and internationalization up to liquidation. Through Aktiva, entrepreneurs can communicate with public bodies on business issues. The portal provides access to all public announcements and news intended for undertakings.

The Aktiva business information portal integrates all national e-projects that target entrepreneurs.

To achieve its objectives, Aktiva provides information in Estonian and Russian. An English-language version is currently under development.

### **Project result**

The project's performance is evaluated on basis of the number of visitors per month. In 2003, the average monthly number of visitors was 15 093 on annual average. By 2005, the average monthly number of visitors had grown to 71 629. In March 2006, the monthly number of visitors exceeded 100 000. The share of frequent visitors has remained close to 50%.

The performance of aktiva.ee is also evaluated on basis of its publicity among the target group and user satisfaction. Saar Poll's 2005 survey, commissioned by the Ministry of Economic Affairs and Communications, indicated that 43% of all entrepreneurs were aware of Aktiva, including 52% of new entrepreneurs.

### **Contact information of the beneficiaries**

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<http://www.aktiva.ee>

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### 3. JUNIOR ACHIEVEMENT'S "ENTREPRENEURSHIP COMPETITIONS FOR STUDENTS"

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**Project period:** 2004–2006

**Project participants** (leaders and beneficiaries):

Junior Achievement Estonia (JA) – project leader

JA has established a council of economy and business teachers, which meets four times a year to discuss new programmes. Feedback is encouraged. As JA Estonia employs only four persons, the teachers are engaged in organizing events and the preparation of learning content.

**Project goal**

As Estonia lacks an economy-related study programme on the national level, the Junior Achievement Estonia NGO has taken to pursue the goal of developing personal entrepreneurship skills through entrepreneurship training at all levels of education.

The "Entrepreneurship Competitions for Students" programme is intended to educate students and foster a positive attitude towards entrepreneurship.

**Project description**

Competitions held in 2004–2006 have inspired students to think about entrepreneurship and solve business cases appropriate for their level of development.

Student competitions were held in various age groups.

**For primary schools:**

City planning competition "What kind of enterprise is needed in my district". The competition was held in Tallinn in 2004 and again in 2005. Participants studied the needs of their home districts and understood how entrepreneurship can improve the quality of life. In 2006, a similar competition will be held in several counties.

A competition of entrepreneurship fairy-tales for primary school students was, for the first time, held in 2006. Story-telling helps children see the positive aspects of entrepreneurship – all fairy-tales have a happy ending. In 2005, a similar competition was held for basic school students, but was redefined in 2006 after strong interest from primary schools.

**For basic schools:**

The first future products competition was held in Tallinn in 2004, and was repeated in 2005. Students were urged to create utopian but useful products.

An advertisement competition achieved great popularity in 2004–2006. Students created advertisements for various commercial products. This competition is aimed at stimulating creativity.

The entrepreneurship fairy-tale competition was among the most popular events in 2005 and 2006. Students wrote tales based on contemporary events, and many works focused more or less on business ethics.

**For upper secondary schools:**

A competition of student companies was held in Tallinn in 2004, in Türi in 2005 and in Narva in 2006. The 2004 winner, student enterprise R@, participated at the European student enterprise competition and won the II prize.

A research works competition called "Attitudes towards entrepreneurship in my school and home" was held for upper secondary school students in 2004. In 2005, the theme was "A story of an enterprise".

An online entrepreneurship competition was first announced in 2004. About 700 students took part. In 2005, the number of participants exceeded 800. Computer modelling was used to introduce enterprise to the less extrovert IT-savvy students as well. Several participants later took part in the student companies' competition. From there, real enterprise is just a step further.

Investment game 2Day attracted the largest number of participants and, since 2005, basic investment skills have been taught to more than 2000 young people annually. The competition is held on the Internet, where students manage virtual portfolios. The IT solution was created in 2004 by JA students, current members of non-profit association BGC Grupp.

Another event is the economics olympiad, which covers economic theory and simulation tasks.

**Project result**

The number of participants at enterprise competitions has grown each year. Students have become increasingly interested in enterprise training. Some 80% of participants of the student company competition intend to start their own company in the future.

**Contact information of the beneficiaries**

Junior Achievement Estonia

Epp Vodja

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## 4. INTELLIGENT PRODUCT DESIGN – A FUTURE PROFESSION

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**Project period:** 01.07.2005-30.06.2008

**Project participants** (leaders and beneficiaries):

Estonian Academy of Arts, IT College, persons employed outside universities – mostly representatives of industry and businesses – liable to become the implementers and commercializers of prototypes.

**Project goal**

To develop a common training and research field on basis of the design curricula of the Estonian Academy of Arts and the systems technology curriculum of the Estonian Information Technology College administrated by the Estonian Information Technology Foundation and to develop the knowledge and skills needed to implement technology for design purposes.

**Project description**

The "intelligent design" concept is rapidly spreading among arts circles – everybody's talking about it, everybody wants to know more. In Estonia, young designers can get acquainted with intelligent design through the EU-funded "Intelligent Product Design – a Future Profession" project.

Is it science fiction or will intelligent design penetrate our everyday life. Short interview with Martin Pärn, head of the product design department of the Estonian Academy of Arts

**What is the difference between intelligent and ordinary products?**

Chair, closet, spoon or axe are useful products and shall remain so in the future. Yet there are other products, such as phones and radios, which include constantly evolving digital technology. Attempts have been made to provide them better forms, but it currently seems that a chair is a chair, but any new phone is just another chunk. To think about it – we don't actually need a physical phone or radio, we just need the functions that these products convey.

One could say that technology makes such things smaller, more effective and more convenient, but ultimately, there's no need for these products as such, only the functions provided by them. We wouldn't need a TV if a wall or wallpaper could show us the picture. Intelligent products are products that relate to technological development. One doesn't need a key to open an expensive car. We have a chip in our pocket, the car recognizes its driver and opens the door. Others are kept out. Products are becoming intelligent, products are able to act intelligently. The task of designers is to make the products do this.

**You and your students chose deaf aids for your first intelligent product designs. Why this niche?**

We made our task more interesting and clearer. In case of a deaf person, it's obvious that a designer cannot make things according to his own likings, he has to understand the needs of the deaf. This enables us, designers, to think outside the box and find solutions that could prove helpful for everyone. After all, the TV remote control was initially

designed for the bedsick. And the baby monitor was first designed to help deaf mothers notice the baby's cry.

### **What have young designers come up with so far?**

For instance, we were surprised that younger deaf people like to listen to music. Obviously, they don't listen like those who hear, they just feel the rhythm. A couple of our projects are now focused on ways to convey music to the deaf in a manner more suitable for them – otherwise, they'd listen to very loud music, and neighbours would also be forced to listen. Other subjects include deaf communication – educators of deaf kindergarten groups cannot communicate with the whole group at the same time, because visual contact is needed to make a contact.

One clever idea is wallpaper with pictures of small birds and larger animals, up to an elephant. Deaf children need to be taught to notice the noises that they make but do not hear. In this case, the wallpaper is sound-sensitive: if the children make a little noise, birds disappear, medium noise makes foxes disappear and if the noise is very loud, elephants disappear as well. This is one example where design can help use existing technological solutions to create pleasant, playful and useful applications.

### **What is your ultimate goal?**

Our goal is not to create new products, but to give a more pleasant and natural form to the existing ones.

For the Estonian Academy of Arts, this project is mainly about introducing a new prospective subject which could become a field of specialization in the future. It's also important that product and textile design can engage in interdisciplinary cooperation with engineers from the IT College.

### **Contact information of the beneficiaries**

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## 5. EUROPEAN SOCIAL FUND PROJECT “PILOT PROJECT OF HOME CARE EMPLOYEES”

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**Project No.:** 1.0301-0181

**Project period:** 01.11.2004-31.12.2006 (26 months)

**Project participants** (leaders and beneficiaries):

The project applicant is the Labour Market Board and 12 partners are involved in the project: the Ministry of Social Affairs, County Governments of Tartu, Ida-Viru, Valga and Harju, City Government of Narva, Tallinn Health College, Tartu School of Health Care, Kohtla-Järve Medical School, Vocational Education Centre of Valga County, Tallinn Pedagogical Seminar and the National Examination and Qualification Centre.

The project is managed by Projektid & Koolitus OÜ and regional experts coordinate the work in regions – Ms. Annemai Mägi in Tallinn and Harju County, non-profit association MTÜ Partnerlus in Southern Estonia (Ms. Tiina Ivask) and Ida-Virumaa Arenduskeskus ASKELE in Ida-Viru County (Ms. Pille Naur).

**The project’s target group** is 100 unemployed persons registered in the Labour Market Board who are mostly non-Estonians, have a low level of education and reside in five Estonian regions (Tallinn/Harju County, Ida-Viru County, Valga County and Tartu County).

**Project goal**

- Development of the Estonian social and health care system through training the unemployed to become home care employees based on the Danish experience;
- Activation of the discouraged and inactive unemployed in order to help them return to the labour market (in close cooperation with local authorities) and increase employment among the Russian-speaking population who have a low level of education and do not have sufficient official language skills;
- Drawing up, developing and testing flexible training programmes aimed at the unemployed;
- Building the image of the care employee as a profession among the unemployed;
- Developing regional partnership for the purpose of improving employment – approximately 70-75 local authorities throughout Estonian are involved in the project through 4 partner county governments.

**Project description**

At the first stage of the project employment needs in the social and health care field were identified and prepared, a notification campaign targeted at the unemployed was carried out and training programmes and materials were developed for the unemployed.

At the second stage the 21 training providers (from five partner schools) of the target group (the unemployed) was organised in cooperation with Danish experts (The Social and Health Care College, Aarhus). At the third stage the target group was formed and 9-month training was carried out. Pilot training of home care employees was carried out in four different areas in Estonia: In Harju County (Tallinn), Ida-Viru County (Kohtla-Järve and Narva), Tartu and Valga. The training of the target group was carried out by the partner schools of the project: Tallinn Health College, Tartu School of Health Care, Kohtla-Järve Medical School, Vocational Education Centre of Valga County and Tallinn

Pedagogical Seminar. The training of the target group began on 19 September 2005 with a 2-week adaptation course and lasted 9 months, including 3-month practice (120 days of study + 12 weeks of practice). Approximately 50 different care institutions and local authorities served as practical training bases for consolidation of the theoretical knowledge of the participants. The 9-month training was finished on 9 June 2006 by 88 care employees in total. At the last, fourth stage of the project the project team assists the trained persons in finding work as care employees (work clubs, individual consultations, contacts with employers, etc.).

### **Project result**

- The home care employee study programme has been developed in the framework of the project, which complies with the requirements of the professional qualification level of Social Care Employee I (<http://www.kutsekoda.ee/download.aspx/download/678/Sotsiaalhooldaja>).
- In cooperation with Danish experts (The Social and Health Care College, Århus) 40-hour training has been organised for 21 training providers (from five partner schools) of the target group (the unemployed).
- The 9-month training and practice has been completed by 88 participants out of 100 (the **planned** share of the unemployed who complete the training and practice was 75%).
- The planned rate of the unemployed who have got a job **a year after completion of the project** is 60%, i.e. the goal is that 60 home care employees have commenced work in local authorities on the basis of an employment contract or as a sole proprietor. **2 months** after completion of the training **35** of those who completed the 9-month training and practice have found a job.

### **Contact information of the beneficiaries**

Ms. Annemai Mägi (Project Coordinator)

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## **6. EUROPEAN SOCIAL FUND PROJECT “TRAINING THE UNEMPLOYED TO BECOME CALL CENTRE OPERATORS (CUSTOMER SERVICE EMPLOYEES) THROUGH LAUNCHING THE RESPECTIVE TRAINING SYSTEM”**

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**Project No.:** 1.0301-0118

**Project period:** 17 months (01.10.2004-28.02.2006)

**Project participants** (leaders and beneficiaries):

The leader of the project was BCS Koolitus AS and the partners were the Employment Offices of Tallinn, Harju County and Rapla County, and the Ministry of Social Affairs. According to the initial plan, the target group was 330 unemployed persons (incl. 30 men and 300 women). In reality, 390 unemployed people were involved (incl. 18 men and 372 women) from Tallinn, Harju County and Rapla County.

**Project goal**

Improvement of the qualification of the unemployed and putting them to work through launching a system of training call centre operators (customer service employees). The goal was that a year after completion of the project 65-75% of the unemployed have found a job.

**Project description**

A system of training call centre operators (customer service employees) has been launched. With the help of preliminary testing the suitable unemployed are selected for the project and they will undergo intensive 160-hour training of call centre operators (customer service employees). During training one is taught customer and phone service, given the skills of servicing people in English and Russian and taught computer skills. Knowledge is acquired in the form of lectures, seminars, group work and practice. During the project the possible employers are notified of the trained persons directly as well as through newspapers, and cooperation is pursued with companies which have a call centre. Employment offices also intermediate work to the trained persons. The unemployed commence work.

**Project result**

In cooperation with employers the system of training call centre operators (customer service employees) was established in Estonia – there was no such system before. To that end the training methodology, study programme and materials were drawn up and a network of training providers was developed. Initially, 330 unemployed persons were to participate in the project, but eventually the rate of people who could be admitted exceeded the initial plan by approx. 18%. Thus, in total 390 unemployed persons from Tallinn, Harju County and Rapla County could participate in the project and nearly 95% of them have returned to the labour market and commenced work as a call centre operator (customer service employee). In addition to the profession of the call centre operator the unemployed who participated in the training have successfully found engagement in other jobs which require service skills, e.g. as a customer service employee in a shop, a travel consultant, a manager's assistant, etc. The project was successful, because it approached the needs of the unemployed and the needs of employers in an integrated manner: the unemployed were helped to make a choice of profession, they

were taught a new modern profession, they were consulted in job-seeking and there was close cooperation with the employers to engage the unemployed.

**Contact information of the beneficiaries**

Employer who cooperated with the project: Ms. Marika Rähn, the Operator Service Director of Ekspress Hotline, phone 6266953, e-mail: [marika@hotline.ee](mailto:marika@hotline.ee)

Project information: [http://www.bcskoolitus.ee/koolitus.php?lang=est&main\\_id=158](http://www.bcskoolitus.ee/koolitus.php?lang=est&main_id=158)

## ANNEX 3. ESTONIAN ACTION PLAN FOR GROWTH AND JOBS 2005-2007 OPERATIONAL PROGRAM FOR THE YEAR 2007

Estonian Action Plan for Growth and Jobs 2005-2007 operational program for the year 2007: MACROECONOMIC ENVIRONMENT		
<b>Measure 1.1:</b> Keeping the general government fiscal position in accordance to medium-term budgetary objective		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	N/a	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Preparation of the general government budget at least in balance every year.	
	Strengthening of local authorities financial capability by systematizing rules and increasing the revenue base.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
The budgetary position of government as % of GDP	Annual formation of fully balanced public sector budget	Public sector 2006 budget was formed with 0.1% surplus of GDP. Current status according to the Ministry of Finance economic forecasts is 2,45% surplus of GDP
<b>Measure 1.2:</b> Becoming a full member of the European Economic and Monetary Union and introduction of the euro		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	N/a	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Implementation of economic policies to fulfil the Maastricht convergence criteria.	
	Bringing legislation into compliance with the requirements for the introduction of the euro.	
Making preparations to guarantee technical preparedness.		
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Compliance with Maastricht convergence criteria	Estonia will implement Maastricht convergence criteria and is technically ready to adopt Euro	Currently, Estonia does not implement price stability criteria.

- budgetary position of governmental sector	Public sector budget deficit cannot exceed 3% of GDP	In 2005, budget surplus was 1.6% of GDP
- public dept ratio	Public sector debt cannot exceed 60% of GDP or if the dept is higher a clear decrease tendency must be noticeable.	By the end of year 2005, budget surplus 4.8% of GDP.
- price stability	Annual inflation rate cannot exceed the average inflation rate of the three EU member states with the lowest inflation rates by more than 1.5%	In July 2006, Estonia's 12-month-average HICP was 4.4% and reference value 2.8%.
- long-term interest rates	Long-term interest rates cannot exceed the average of the three EU member states with the lowest inflation rates by more than 2%.	In June 2006, Estonia's 12-month-average long-term interest rate was 3.97% and reference value 5.96%.
- exchange rate stability	It is important to follow the normal fluctuation margin specified by ERM II without any serious tensions at least within 2 years, and not to devaluate its currency in relation to any other currency of the member states.	Estonia passed the two-year compulsory period of ERM II at the end of June 2006. The exchange rate of EEK has been fixed against Euro and remains therefore within the margin of tolerance.

**Measure 1.3: Managing the risks affecting balanced economic development**

<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	N/a	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Reducing the current account deficit and controlling the increase in credit growth	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Current account deficit as % of GDP	The current account deficit will reach 6-7% of GDP in the long run	In 2005, the current account deficit was 11% of GDP

**Measure 2.1: Insuring long-term sustainability of pension insurance system guaranteeing sufficient standard of living for pensioners.**

<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 24 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Completion of pension reform, implementation of reforms for special pensions, old-age pensions under favourable conditions, and superannuated pensions. Increasing the tax base for state pension insurance.D48	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>

Budgetary position of the state pension insurance as % of GDP	First pillar of pension insurance is currently fully balanced and there is a sufficient amount of reserves guaranteeing liquidity.	In 2005, deficit 0.2% of GDP; reserves 0.8% of GDP at the end of 2005.
Replacement rate for pensions (ratio of pension and wages)	The minimum standard of European Code of Social Security: the old-age pension of a pensioner with 30 years of pensionable service must be at least 40% of the average net wages of the male unskilled worker of manufacturing sector.	In 2004, the replacement rate of first pillar pensions was 45.6%
<b>Measure 2.2: Insuring long-term sustainability of health insurance system and thereby guaranteeing people's financial security in case of health risks</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 43 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Increasing the tax base of health insurance.	
	Increasing the population's coverage with health insurance.	
	Considering a reduction in health insurance liabilities.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Health Insurance Fund budgetary balance of Health Insurance Fund as a % of GDP	The Health Insurance Fund is currently fully balanced and there is a sufficient amount of reserves guaranteeing liquidity	2005 surplus was 0.1% of GDP and reserves were 0.5% of GDP by the end of 2005
Coverage of the population by health insurance	99% of the population is covered by health insurance	94% in 2005
Patient satisfaction with the quality of health care	Patient satisfaction is at the same level as today	In 2004, 59% of the insured considered the quality of health care good or rather good
<b>Measure 3.1: Reorganization of the tax system with more emphasis on taxing the consumption and exploitation of environment compared to labour</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 530 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Reducing the taxation of labour.	
	Higher taxation of consumption and exploitation of the environment.	
	Evaluating effectiveness of the tax benefits and reducing benefits in case of need.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>

Income tax rate and minimum level of tax exemption	20% rate by 2009	23% tax rate in 2006, exemption from income tax - EEK 2,000
Tax burden of low-wage earners	The lowering of the tax wedge from the current level	38.9% of labour costs in 2004
Direct and indirect taxes as a % of GDP	A reduction in the percentage of direct taxes and an increase in the percentage of indirect taxes	In 2005, direct taxes formed 7.7% of GDP and indirect taxes 13.3% of GDP
<b>Measure 3.2: Greater and more efficient allocation of budgetary resources to activities supporting growth and employment</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 388 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Maintaining the high level of public investments.	
	Increasing expenditures for research and development activities.	
	Increasing the financing of vocational education	

**Estonian Action Plan for Growth and Jobs 2005-2007 operational program for the year 2007: A KNOWLEDGE-BASED AND SUSTAINABLE BUSINESS ENVIRONMENT**

**Measure 4.1: Ensuring the sustainability and improving the quality of research and development**

<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 1106 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Development of centres of excellence of science through supporting competition-based selection and preferred development of research centres to create and maintain top quality competence of R&D activities.	
	Development of R&D activities infrastructure accordingly to the R&D activities infrastructure development program necessary for the training of scientists and top quality specialists as well as competitive R&D activities; strategic modernisation of infrastructure supporting academic higher education, science and innovation.	
	Increase of research and archival library directories (incl internet-based) procurement and improvement of storage conditions.	
	Expanding participation, promoting entrance and active participation of international co-operation networks, including participation of EU R&D 7th framework programme; initiating necessary instruments for participating in the Framework Programme of Competitiveness and Innovation, supporting accession of international research organisations and Nordic Research Area.	
	Initiation of shared financing schemes accordingly to transnational R&D contracts.	
	Propagation of business knowledge and skills in universities and other educational and research institutions, promotion of enterpreneurial attitude, building necessary legislative framework for the commercialisation of intellectual property created in universities, increasing knowledge, skills and technology carry-over to enterprise sector.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
R&D expenditures as a % of GDP	In 2008, 1.5% of GDP, out of which 40% from private sector; in 2010, 1.9% of GDP, out of which 45% from private sector	In 2004, 0.9% of GDP, out of which 39% from private sector
R&D personnel as a percentage of persons employed	1.45%	In 2004, 1.32%
<b>Measure 4.2: The development of the human capital necessary for the advancement of R&amp;D and long-term international competitiveness of the enterprise sector</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	

	EEK 283 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Initiation of additional doctoral study scheme that guarantees larger number of doctoral degree graduates. Ensuring equal study conditions to foreign and local students and implementing active measures to locate and recruit foreign doctoral students into Estonian universities.	
	Development of higher education internationalisation strategy to improve academic mobility and to fund the participation of Estonian faculty members and students in international co-operation networks; also including the opening of doctoral and post-doctoral posts for foreigners, conduct of international contests for selection of regular faculty members, and work on receiving higher recognition to Estonian diplomas.	
	Favouring the return of Estonian-origin researchers and top quality specialists to home country by creating advantageous and attractive possibilities for starting or continuing their career, and by using active (return guaranty) as well as passive measures (improvement of the overall R&D activities environment) to compensate partly for the brain drain.	
	Development of mobility possibilities for students and researchers between research establishments and enterprises throughout their studies or scientific career.	
	Implementation of a training plan and development of a training fund programme to be able to use more efficiently resources meant for in-company human capital development and to improve programme productivity through developing and modernising the knowledge and skills of both enterprise leaders and employees.	
	To enhance competitiveness, necessary trainings must be granted to enterprises through the training of training providers or through training organisation in areas where necessary training is not available in the market for the enterprises.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Number of students admitted for doctoral courses (per year)	In 2011 – 500	In 2005 – 440
Number of graduates of doctoral courses (per year)	In 2015 – 300	In 2005 – 118
Percentage of foreign doctoral students	In 2015 - 10% (3000 foreign students)	In 2005 - 3%
Percentage of bachelor and masters level students who have studied as exchange students in foreign universities	In 2015 – 5%	In the academic year of 2004/05 – 0.8% (Erasmus programme)
Research and development personnel in enterprise sector (full-time equivalent)	In 2008 – 1400	In 2004 – 1084
<b>Measure 4.3: Ensuring access to capital for start-up companies and those with great growth potential</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 60 million	
	<b>Planned activities 2007</b>	



<b>Activities planned within the measure</b>	Initiation of a public and private sector co-operational programme to promote enterprise creation, including creation of complex access to different start-up facilities and services offered by public and private sector.	
	Development of local business angels network (in addition to funds, providing valuable knowledge) to guarantee potential business angel investment and knowledge flow into Estonian enterprise sector.	
	Formation of the Estonian Development Fund to offer early stage own capital investments for innovative start-ups.	
	Development of knowledge and skills of new and growing enterprises through training and consulting to improve their capacity to involve own and loan capital.	
	To improve access on data necessary for the assessment of the financial capacity of an enterprise applying for a loan through developing a corresponding info-technological environment, the purpose of which is to make micro loan granting economically expedient for financial institutions and therefore improve enterprises' possibilities to involve small-scale loan capital.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
The share of enterprises reporting access to finance to be the most important barrier for growth	10%	In 2005 - 21%
<b>Measure 4.4:</b> Promoting an increase in productivity, and supporting companies entering foreign markets and investments for the development of new technologies, products and services		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 199 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Supporting R&D projects channelled to develop new competitive technologies, products, services and processes, including the support of developing clean technologies that could be successfully marketed both on the Estonian market as well as on foreign markets.	
	Supporting centres of competence, aimed at long-term partnerships between research and development establishments and enterprises, by making more use of university based knowledge and by training additional adequate R&D personnel to satisfy enterprise demand.	
	Implementation of innovation audits mapping enterprise innovation potential and development obstacles to help make more efficient use of its growth potential.	
	Development of services offered by business incubators and development centres to intensify the birth and development of new enterprises with large growth potential through more efficient support and consultancy.	
	To improve export capability of small and medium sized new exporters and to support export market entrance through refocusing the export plan programme.	
	More efficient cooperation between public and private sector to help export IT solutions based on e-Estonia experience.	
	Supporting location, mediation and implementation of new technologies (incl from other countries) through the development of corresponding technology transfer entities to enhance productivity growth of start-up as well as existing undertakings.	
Strengthening the existing Estonian economic representatives' network and supporting the expansion of economic interest representation into new target countries.		

	Supporting the use of industrial design so that enterprises realised more efficiently and more frequently its possibilities to give their products and services character and uniqueness.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
The percentage of companies introducing new products and services or employing new technologies	50%	In 2004 – 49%
The innovation costs of companies (percentage of turnover)	2%	In 2006 – 1.6
Productivity per worker as a % of the EU 25 average	68%	In 2005 – 58.6%
Employment in high-technology industry and services (% of total employment)	9%	In 2004 – 7.53%
Percentage of export of high-technology products as a % of total exports	18%	In 2005 – 10.4%
<b>Measure 5.1: Promoting entrepreneurial culture with the goal of increasing enterprise activity and company innovation</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 2,3 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Increasing enterprise- and innovation-based awareness in society, propagating knowledge-based society and signifying the role of research and development activities through implementation of innovation awareness programme. Within the framework of this programme several educational and informative activities are carried out for different target groups: students and teachers, researchers, faculty members and university students, opinion leaders and media, public officials and politicians, entrepreneurs, investors and business managers, general public.	
	Developing cooperation and grouping skills of companies through training and active involvement in the process of politics formation to strengthen Estonian business organisations and their ability to participate, and to activate cooperation between undertakings.	
	Adding economic education, including enterprise training into general and vocational education study programme; and increasing the number of entrepreneurial people with necessary knowledge on enterprise establishment and operation through development of business training possibilities.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
The percentage of people who are planning to establish or are starting up a company	9%	In 2004 - 5%

Number of companies per 1,000	35	In 2005 – 32.8
<b>Measure 5.2: Developing legal environment that promotes entrepreneurship and initiative</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 7.2 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Mapping of legal acts affecting enterprise by applying economic impact analysis on enterprise related legal acts.	
	Development of a necessity assessment method for single economic impact analysis and form of reporting; establishment and development of legislation simplification system to decrease negative impacts proceeding from legal acts and administrative expenses spent by entrepreneurs, including IT solutions aimed at optimizing administrative work load.	
	Simplification of enterprise records management by making notary services and judicial registers more available, and by improving their quality.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Average number of days for creating and licensing of a new enterprise	7	In 2005 - 35 (Doing Business 2007)
<b>Measure 5.3: Developing infrastructure that supports an increase in competitiveness</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 3077 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Development of the infrastructure of science-, technology and industry parks to create growing areas for new enterprises with high growth potential.	
	Development of spatial planning system according to which the development of transport, housing, enterprise and environmental protection either on a national or local level will be treated as an integrated whole.	
	Development of public transport infrastructure through investments made into rail- and electric transport, and by creating advantages in road traffic to public transport that helps change the transport system more efficient and economical.	
	Development of IT systems for more efficient public sector communication by introducing digital transaction of affairs and e-services within public sector, and through extensive informing and training.	
Guaranteeing cross-nation broadband internet coverage that would ensure possibilities to create and use e-services.		
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Percentage of public transport users	30%	In 2005 – 29.9%
Company satisfaction with public e-services	above 80%	In 2005 - 93%
<b>Measure 5.4: Ensuring the security of energy supply of the state and the effective functioning of energy market</b>		

<b>Financing of the measure</b>	<b>2007</b>
	Draft state budget (incl. structural funds)
	N/a
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>
	Development of energy trade regulations with neighbouring countries.
	Modernization and development of transmission networks to increase supply security and to decrease energy loss.

**Measure 5.5: Making state monitoring more effective in order to ensure fair competition, quality and safety**

<b>Financing of the measure</b>	<b>2007</b>
	Draft state budget (incl. structural funds)
	N/a
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>
	Improvement of information exchange, cooperation of different supervisory agencies and the harmonization of databases used in their work. An analysis of all current information exchange systems has been initiated from which a proposal is made to develop a complete and unifying system for all supervisory agencies.
	Initiation of quality and security related preventive actions. Implementation of trainings concerning security related legislation targeted at entrepreneurs and of informative campaigns targeted at the consumers. Development of a statistical database to assess different security factors by creating clearer basis for supervisory resource planning.
	Implementation of pro-active competition policy through sector analysis and through the increase of competition law awareness. Data gathered in the process of sector analysis will be used to make suggestions to improve legislative framework and to modernize competition policy. Achievement of the preventive objective will be increased through consulting and informing entrepreneurs.

**Measure 6.1: Increasing of environmental awareness**

<b>Financing of the measure</b>	<b>2007</b>
	Draft state budget (incl. structural funds)
	43 milj
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>
	Effective implementation of environmental management in companies and the support and stimulation of voluntary financing of environmental protection measures (e.g. the introduction of environmental management systems in companies, pollution, charge substitution agreements), by using active informational measures, their partial co-financing and state aid schemes.
	Promotion of the use of green public procurements, including the respective adaptation and implementation of the legal framework in both the public sector and companies in order to achieve the introduction of environmentally friendly solutions.
	Ensuring the preservation of biodiversity through conservation activities with the aim of ensuring the protection of species and habitats (incl. establishment of the Natura 2000 network and securing of favourable conservation status); by reforming nature conservation administration; by developing a conservation development plan; and by initiating its implementation, guaranteeing among other things the state co-financing of nature conservation measures with the objective of diversifying rural live and offering alternative employment opportunities, and promoting nature tourism.

Indicators for the measure	Expected result in 2008	Current level
The number of companies having received environmental management system (ISO 14,000, EMAS) certificates	250 ISO 14 000 ja 25 EMAS	177 ISO 14001 ja 2 EMAS
The state of endangered species and habitat types (abundance of I and II category protected species, Annex I of Habitat Directive on the protection of habitat types)	Status has not declined compared to 2003	Status has not declined. In total, 64 species are protected under category I (strictest protection), 262 species under category II and 243 species under category III. Over 300 bird species, nearly 75 fish species, 5 reptile species, 11 amphibian species and 65 mammal species have been sighted in Estonia. Approximately 1450 species of vascular plants, 550 bryophyte species and 2500 algae species grow here. Sixty habitat types are protected in Estonia.

**Measure 6.2: Reducing the pollution load and ensuring sustainable use of natural resources**

Financing of the measure	2007	
	Draft state budget (incl. structural funds)	
	1192 milj	
Activities planned within the measure	Planeeritud tegevused 2007	
	Development of the Estonian Environmental Technology Development Plan (ETAP) together with the compilation and implementation of the national ETAP Road Map, via identification of the important technologies for the improvement of Estonia's environmental situation, developing recommendations for offering support measures to scientific institutions and companies to motivate them to develop or introduce, test or implement the necessary technologies, and thereby create a national cooperation network.	
	Supporting the development of environmental infrastructure and the elimination of past pollution, by development of water and waste management plans, and initiating and co-financing the infrastructure construction projects and reduction of past pollution.	
	Promotion of sustainable energy production through the implementation and updating of the respective specific programmes (incl. planning of measures to increase the energy efficiency of buildings and support for the related activities).	
	By increasing the efficiency of the use of non-renewable natural resources (incl. increasing the efficiency of oil shale use) making energy production more environmentally friendly and promoting sustainable use of mineral construction materials, by initiating and co-financing the performing of the respective research activities and implementing the related state aid schemes.	
Indicators for the measure	Expected result in 2008	Current level
The status of the evaluated water bodies of is good	Of the evaluated water bodies, 65% are in good state	65%
Population serviced with public sewerage in agglomerations of over 2000 population equivalents (% of population)	93%	2004.a - 89 %

Properly functioning sewage treatment plants in agglomerations of over 2000 population equivalents (% of treatment plants)	77%	2004.a - 67%
The supply of the population with quality drinking water (% of the population)	80%	71%
Waste treatment according to internationally recognized environmental and health standards (% of waste)	100%	32%
The closing and remediation of landfills not meeting environmental standards, incl. industrial waste dumps (% of dumps)	100%	35% (In 2003, 46 non-compliant landfills were operating. In 2005, 30 of them were operating and 16 were closed. Acceptance of waste has to be terminated at all non-compliant landfills as of 16 July 2009).
The relative importance of renewable energy sources in electrical energy being produced as a % of gross consumption	2.5%	1.2%

**Estonian Action Plan for Growth and Jobs 2005-2007 operational program for the year 2007: THE LABOUR MARKET AND EMPLOYMENT**

**Measure 7.1: Improving flexibility and effectiveness of placement education with special emphasis on vocational education**

<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 633 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	The creation of state-commissioned study places at the higher education level: 50% for the secondary schools graduates and up to 10% for the vocational education graduates (on the basis of primary education), preferably in applied higher education level.	
	The improvement of a support system (study, dormitory and transportation supports) in order to create opportunities for economically less-insured students to participate in vocational training.	
	Enforcement of regulations compliant with the principles of the European Qualifications Framework, which allows for gradual movement (level by level) between vocational and higher education study programmes with main emphasis on restructuring post-secondary vocational education.	
The popularization of the specialities of natural and exact sciences and technology (LTT) among young people by offering innovative programs in general education schools and vocational education institutions, offering scholarships at the level of higher education, and supporting state hobby schools (e.g. technical houses, nature houses) and youth centres.		
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Share of primary school graduates acquiring vocational education	38%	29% (EHIS, 2006)
Number of secondary schools with vocational training availability	30	32 (EHIS, 7.03.06)
The number of graduates in the fields of natural and exact sciences and technology per 1000 residents aged 20 to 29	2010 – 15% rise	Level 12.1 (ESA, 2006). 38% rise in comparison with 2004
<b>Measure 7.2: Improving quality of education</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 4787 million	
	<b>Planned activities 2007</b>	
	Implementation of new basic and secondary education curricula.	

<b>Activities planned within the measure</b>	Increasing the international competitiveness of higher education through legislation allowing for greater specialisation of higher education institutions, infrastructure investments, more detailed regulation of quality standards, concentration of resources, licensing of educational institutions and issuance of joint degrees and diplomas.	
	Fostering state initiatives to improve IT-related knowledge and skills as well as to develop respective infrastructure and learning environment in order to encourage the shift from basic skills development to the more intensive use of ICT in the learning process and provide support in coping with the challenges of a knowledge-based society ("The Learning Tiger" project for basicschools, secondary schools and vocational education institutions, Tiger University+)	
	Improving the quality of the learning environment in vocational schools (rooms, study equipment).	
	Improving cooperation with employers/entrepreneurs and educational institutions in order to increase the learning quality, including making the apprentice's system more effective and increasing the role of employers in the councils of vocational education institutions.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Share of young people (20-24) with third level ISCED educations	2010 – 85% of 22-year-olds have secondary education	2005 – 80.9% (DAP 2006)
Share of people (30-34) with fifth and sixth level ISCED educations	Stable	Stable – 32.5% (ESA, 2006)
Share of early school leavers (among age group 18-24) with only lower-secondary education and not in education or training	2010 – not over 10%	2005 - 14%
School drop-outs	2013 – under 1% in basic schools (forms 7-9) and under 3% in secondary schools (form 10)	In 2003/2004 1.2% and 3.7%, respectively.
Cost of a student place in vocational and general education	Average cost of a student place in vocational education is 1.5 times higher than in general education	According to the plan, a student place in vocational education is 1.2 times more expensive (2006)
<b>Measure 7.3: Increasing the employment readiness of young people by improving the effectiveness of youthwork</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 72 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	The involvement of youth participative bodies and youth representative bodies in youth-related decision-making regarding education, employment, health, culture and social affairs, and thereby creating the respective consultation schemes at the state (I stage) and local level (II stage).	
	The improvement of the quality of youthwork through application of a quality evaluation system.	
The strengthening of youthwork institutions and youthwork networks by fostering the programs for open youthcentres, information and counselling centres and specialty schools and improving cooperation of stakeholders incl. supporting cooperation projects with schools and employers in local level.		
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>



Involvement of young people (aged 7-26) in youthwork	60%	42%
Participation of young people in youth institutions	5%	3%
Youth bodies in all counties and larger towns	20	15
The number of youth work institutions (incl. open	500	420
<b>Measure 7.4: Developing a supplementary training and re-education system in line with the principles of lifelong learning</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 4 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Creation of better opportunities for supplementary training and re-education for both unemployed and employed; launching a system of taking account of previous work and study experiences.	
	The development of a quality assurance system for adult education, incl. the training of trainers in order to insure a sense of security for both teachers and students regarding the quality of the training.	
	Development of the adult training financing system in order to promote access to training to all adults and promote improvement of qualification or acquisition of new qualification in order to guarantee the competitiveness of Estonian labour force.	
	The reorganization of the collection of statistics concerning adult education and approving priority fields of research, in order to guarantee solid base of analysis for future projections and development activities.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Share of the adult population (aged 25-64) participating in lifelong learning	10%	2005 – 5.9%, compare EU-25: 10.8% (DAP, 2006)
<b>Measure 7.5: Developing vocational, career, and learning counselling</b>		
<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 9,2 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	The development and implementation of a uniform profession and career counselling network.	
	The development of implementation principles of a nation-wide VÕTA (consideration of earlier training and work experiences) system to attach more importance to previous training and work experience.	
	To foster a system of professional qualifications in order to increase flexibility of educational system and improve its conformity with the demand of labour market.	
	Launching regular monitoring of the labour force needs of employers.	
<b>Measure 8.1: Increasing employment by providing active labour market measures and supportive social measures</b>		
	<b>2007</b>	

<b>Financing of the measure</b>	Draft state budget (incl. structural funds)	
	EEK 411 million	
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>	
	Integrating labour market and social welfare services and developing social welfare services supporting employment capacity through:	
	o Implementing a vocational and occupational rehabilitation system for disabled persons	
	o Implementing social welfare services sustaining disabled persons in the labour market (incl. personal assistants/support social protected and supported etc.).	
	o Implementing an information system of social statistics to improve information availability about the unregistered unemployed and inactive people as well as to insure concrete link between receiving social benefits and participating in active labour market or social measures.	
<b>Indicators for the measure</b>	Assessing the impact of the free movement of workers to the supply of labour, through:	
	o Analysing the needs for migrant workers and developing government positions regarding work-related immigration	
	<b>Expected result in 2008</b>	<b>Current level</b>
Number of long-term unemployed	18 500	27 900
Share of registered unemployed participating in active labour market measures	2005-2007 - 22%	15.4%
Share of participants of training courses finding the job	65%	44%
Employment rate of disabled persons	30%	26% (2002), new data will be released in 2006
Employment rate (15-64)	<b>2008</b> - 69%; <b>2010</b> - 70%; <b>2014</b> - 72%	64%
Employment rate of women (15-64)	<b>2008</b> - 66.9%; <b>2010</b> - 68.3%	61.9%
Employment rate of older people (55-64)	63.4%	55.7%
Share of youth unemployed in the respective age group (15-24)	3.8%	5.4%
Activity rate	73.1%	69.6%
Long-term unemployment rate	2.7%	4.2%

**Measure 8.2: Improving the health of the population and insuring better working conditions**

<b>Financing of the measure</b>	<b>2007</b>	
	Draft state budget (incl. structural funds)	
	EEK 256 million	
	<b>Planned activities 2007</b>	
	Reducing premature illness and death, including	
	o Promoting healthy lifestyle by implementing the Strategy for Preventing Cardiovascular Diseases.	
	o Reducing the burden caused by the use of alcohol, tobacco and illegal drugs through increasing public awareness, limiting availability, helping addicts, and increasing tobacco-free environment.	

<b>Activities planned within the measure</b>	o Enhancing HIV/AIDS prevention by implementing the Strategy of the HIV/AIDS Prevention (2006), improving the management of contagious disease epidemics and increasing reacting capacity by establishing a monitoring system for contagious diseases as well as a modern laboratory base with better diagnostic possibilities.	
	o Reducing and preventing the health hazards related to the living environment by reorganizing the health protection system	
	Developing the work environment through the more effective implementation of job safety requirements and working out a work accident and occupational illness insurance system as well as a prevention system for work accidents and occupational illnesses.	
<b>Indicators for the measure</b>	<b>Expected result in 2008</b>	<b>Current level</b>
Average living expectancy by gender	men 67, women 78	men 66.25, women 77.78
Lost workdays due to work accidents	137 000	125 314
Number of work accidents resulting in death per 100,000 workers	4.7	3.9

**Measure 9.1: Increasing the flexibility of the labour market and ensuring modern and balanced labour relations**

<b>Financing of the measure</b>	<b>2007</b>
	Draft state budget (incl. structural funds)
	EEK 25.2 million
<b>Activities planned within the measure</b>	<b>Planned activities 2007</b>
	Increasing flexibility of labour relations regulations, through:
	o Introducing a new draft of the Employment Contract Act aiming to simplify hiring and firing balanced with providing reasonable guarantees to workers
	o Increasing awareness about flexible forms of working and creating positive attitudes among employers and employees
	o Amendment of the Collective Agreement Act aiming to broaden the implementation of the principle of the freedom of contract when signing collective agreements
	o Working out principles for the regulation of temporary agency workers
	o Developing and piloting methods for assessing the impact of legal regulations to labour relationships
	o Defining and implementing the evaluation principles necessary for assessing the impact of new policies and legislation to the labour market
	Promoting modern and balanced labour relations, including:
o Improving the cooperation of the Labour Inspectorate and other supervisory agencies with the aim of reducing the negative impact of competitive advantages resulting from undeclared labour relations and work environment that do not meet standards	

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## ANNEX 4. REPORTING ON SME POLICY

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The Integrated Guidelines (IGs) referred to below are of particular relevance for SMEs. Member States are therefore invited to present specific information on SME-related actions, in particular relating to the priority actions spelled out in the 2006 Spring European Council conclusions. They should also explain how the “Think small first” principle has been applied. This replaces the earlier separate reporting under the European Charter for Small Enterprises.

### **3. Promote an efficient allocation of resources**

- Promotion of investments in SMEs, e.g. through tax incentives  
*SMEs in Estonia are not subject to distinct tax incentives that promote investments specifically into small and medium-sized enterprises. However, one must mention that the Estonian tax system in general is considered to be rather liberal and favourable to entrepreneurship and growth. In some areas (e.g. labour) the competitiveness of the tax regime can be debatable, the positive impact of the income tax exemption on re-invested profits is evident.*
- Reinforcement of own equity of SMEs, e.g. through tax provisions to promote internal financing  
*From January 2000 undistributed profits of resident companies and permanent establishments of foreign entities (including branches) are not subject to income taxation, making re-investing less expensive comparing to profit distribution. The above-mentioned tax exemption has evidently promoted the internal financing of investments in SMEs. In 2005 49 percent of SMEs reported that the tax exemption has promoted their investments. 60 percent of all investments made by SMEs are financed from own equity.*

### **7. Increase and improve investment in R&D business**

Although Estonia is not using specific measures designed for SMEs in the field of RTDI promotion, most of the beneficiaries of various support schemes de facto are SMEs (nearly 90% on budget).

- The most important direct measure for promoting private sector R&D has been the R&D grants scheme run by Enterprise Estonia, which provides support for applied research and product development projects in enterprises;
- in addition to the R&D grants also Competence Centres programme is supporting collaborative private-public sector strategic R&D projects. This partnership programme is aimed at the idea of supporting the creation and bringing together of critical mass of players, thus acting as the basis for the emergence of clusters.

### **8. Facilitate all forms of innovation**

Although Estonia is not using measures that are specifically designed to SMEs in the field of RTDI promotion, most of the beneficiaries de facto are SMEs.

- The SPINNO program is aimed at the creation of entrepreneurial spirit in universities, thus tightening the ties between HEIs and the private sector. It is also supporting R&D related services to enterprises and the creation of spin-

offs.

- The Business Incubation programme run by Enterprise Estonia and launched in 2005 is supporting the development of science/technology parks and business centres services to their tenants (i.e business advisory services, legal advice, accounting, fund-raising etc).
- Through the Innovation Awareness programme run by Enterprise Estonia the awareness on the importance of innovation in creating competitive advantage is addressed. The program provides support for training seminars, supports the knowledge and skills needed for innovation management etc.
- Through the Innovation Audit programme launched in 2005 by Enterprise Estonia we are mapping bottlenecks in different companies and on the basis of diagnostic exercise proposing ways to overcome these obstacles.

#### **9. Facilitate the uptake of ICT**

- Facilitate the uptake of ICT and e-business by SMEs, e.g. by promoting successful e-business models

*Specific measures to promote the ICT uptake and successful e-business models in enterprises have not been implemented in Estonia yet. However, the market research to establish needs of different enterprises and to analyse gaps on the market has been conducted. The need for intervention has also been recognized, but specific alternatives to support the utilization of ICT in companies are still to be considered.*

*It must also be mentioned that a few of the present entrepreneurship support measures can be used to support the ICT uptake e.g. the consultation grant, the training grant, mentoring, business excellence programme etc.*

#### **12. Extend and deepen the internal market**

- Better access of SMEs to information and advice on new and modified internal market legislation

*Described in section 15 bullet 3.*

- Facilitating the access of SMEs to public procurement

*Since summer 2004 the Estonian Chamber of Commerce and Industry's Euro Info Centre have offered a procurement service to the Estonian entrepreneurs that informs them weekly about more than 2500 published notices of the EU public procurements. The objective of the service is to offer to the entrepreneurs' a reliable and handy service that enables them to save time otherwise spent on searching public procurements and updating their existing information.*

- Improvement of access of SMEs to standardisation

*At the moment, a considerable amount of standards are on paper documents and thus making them available in a flexible way all over Estonia is difficult. For an effective management of databases, an information system with an electronic collection of Estonian standards considering the needs of the users of standards (a search engine, e.g.), will be created. This would make standards scope and application environment and other interrelated information (references to standards in legal acts and directives e.g.) easy to access all over Estonia (research libraries, business centres, universities).*

*The creation of the electronic standards database started in 2005 and at the moment most of the standards are already available in electronic form- the whole database will be completed in autumn 2006. In connection with that, there is also a project*

*under way for the creation of a new user-friendly database, the directions for use of the web and search engine which is launched by the Ministry of Economic Affairs and Communications in cooperation with RIA (the Estonia Informatics Centre) and EVS(). The deadline for the project is November 2006. In this framework, negotiations are being conducted with possible centres and people are trained who would be able to assist entrepreneurs in finding the necessary standards. The same project shall further develop the current electronic search engine and purchase of standards.*

*Another important problem in this field is a small interest from various parties of standardisation (entrepreneurs, state authorities, study- and research institutions and the consumers) in participating in the standardisation and following the process.*

*In order to raise the awareness, EVS is continuing lectures introducing standardisation "Introduction to standardisation" twice a year, which are still very popular. An improvement made this year is that in addition to Tallinn, the introductory lectures will also be held in other bigger county centres in Estonia. In addition, EVS is cooperating more and more with various professional organisations and authorities while organising its trainings (e.g., Estonian Association of Appraisers, Estonian Association for Environmental Management, Estonian Association for Quality, Estonian Labour Inspectorate, Estonian Rescue Board) to make the use of standards more active and information related to standards information also available from different umbrella organisations and public authorities. In cooperation with specific organisations, trainings are organised to introduce the content and use of specific standards. Also making standards available in various counties in Estonia shall assist raising the awareness of the subject.*

- **Elimination of tax obstacles to cross border activities**

*Estonia has implemented the EU directives aimed at eliminating tax obstacles to cross-border activities of companies doing business in more than one Member State: the Merger Directive (90/434/EEC), the Parent-Subsidiary Directive (90/435/EEC) and the Interest-Royalty Directive (2003/49/EC). Accession to the Arbitration Convention (90/436/EEC) is currently in progress.*

- **Supporting the internationalisation of SMES**

*For a small country with as small internal market as Estonia exports of local enterprises is a crucial factor for sustainability and growth. As today only 11 percent of all the Estonian companies are exporters, the need for measures to support the internationalisation of SMEs is evident. To be able to take an advantage of the possibilities of the open internal market the propensity to export and the competitiveness of Estonian exporters must be developed.*

*Today most of the support measures in this field are designed to support activities of an active exporter. For companies who are planning on starting international activities, the support measures to further motivate and support them are being discussed and designed. Also the shift towards supporting internationalisation in all of its forms not only export activities is taking place.*

*The current export planning programme aims at supporting drafting of companies' long-term export plans and financing their implementation. The programme enables companies to expand their export activities offering them appropriate training, consultation services and necessary funding.*

*Based on the proposals made by enterprises, Enterprise Estonia will compile a list of genuine participants for the next year's exhibitions. Then joint stands for the*

*international trade shows are prepared.  
Also exporter databases and the mediation of requests between Estonian and foreign companies is actively being implemented.  
A very important yet insufficiently funded measure taking into consideration the actual needs of enterprises, is the investment and export guarantee delivered by Kredex. To respond to the needs of enterprises and launch long-term guarantees the guarantee-fund must be essentially raised.  
Also foreign investor services are part of supporting the internationalisation.*

### **13. Ensure open and competitive markets**

- Measures to remove obstacles to market entry for new SMEs

*Ministry of Justice is developing changes in business code to decrease the registering time of companies. Changes under preparation will enable electronic registering of companies in the maximum time of 2 days.*

### **14. Create a more attractive business environment**

- Improvement of the quality of regulation through a systematic assessment of its impact on SMEs

*Ministry of Justice has committed to the elaboration of an integrated check-list for impact assessment and promotion of its overall use. The Ministry has also prepared a strategy for training civil servants participating in legal drafting process; several trainings have been carried out.*

- Ensuring better consultation of SMEs in the regulatory process

*State Chancellery is carrying out consultation procedures for ensuring better involvement of stakeholders together with the participation of several ministries. In 2005 Ministry of Economic Affairs and Communications established an internet based consultation network for its partners. Several seminars on consultation for public servants and also for their partners have been held, this practice will be continued. The consultation practice is well advanced also in the Ministry of the Environment.*

- Integration of the think small first principle in legislation and systematic implementation

- Reducing the administrative burden on SMEs

*Estonian government has approved the standard cost model for assessing the administrative burden. The overall use of the standard cost model in legal drafting process is expected to be implemented in 2007.*

- Simplification of the tax compliance procedures to alleviate compliance costs for SMEs

*In Estonia, tax compliance procedures are not considered as a problem for SMEs. Since 2001, entrepreneurs can submit all necessary declarations and execute operations via E-Tax Board.*

### **15. Promote a more entrepreneurial culture and create a supportive environment for SMEs**

- Improvement of SME access to finance (e.g. risk capital, bank lending etc.)

*In Estonia capital markets and banking sector are rather well developed and the possibilities for enterprises to access capital have improved. The amount of*

*enterprises reporting access to finance to be of their most important barriers to growth has narrowed down to only 21 percent (compared to 34% in 2003).*

*However there are certain groups of enterprises that have difficulties drawing necessary funding from the capital markets to make productivity enhancing investments- these include potential and start-up companies, companies in need of very small amount of capital, innovative and high growth companies.*

*For start-up companies who have difficulties drawing finances because of their short financial history and lack of collateral, the start-up grant is delivered by Enterprise Estonia. For the first year in 2006 the start-up grant is divided between two target groups: a) growth grant for start-ups with high growth potential and b) start-up grant for those who anticipate a stable turnover and contribute to the balanced economic growth by creating new jobs socially and regionally.*

*The level of sophistication of the start-up scheme is being taken even further by developing a guarantee scheme for the start-up loan which is complex instrument of loan, guarantee, grant (if necessary), training and information services. It will be implemented in partnership with the public and the private sector and will supposedly widen the scope and impact of the programme.*

*The proportion of investment grants decreases – today only business infrastructure programme is delivered for active enterprises. Starting from the next programming period the scope of the programme will be narrowed down to companies in less favourable areas (rural or very small towns) and the programme will only support the activities planned by the Ministry of Internal Affairs to support the local governments in the founding of Industrial Parks.*

*Also loan guarantee schemes are applied to ensure enterprises' access to finance. In 2007 the equity loan scheme will be introduced, as the needs of high growth companies in drawing finance are not met by measures in place today.*

*In 2006 government decided on launching Estonian Development Fund which will provide seed-capital/venture capital for innovative technology and knowledge-intensive start-ups/SME-s. Fund seeks to activate Estonian venture capital markets and provide equity funding together with private investors to high-risk projects.*

- Making full use of possibilities of Structural Funds to provide finance for SMEs

*Most of the programmes to support enterprises in accessing finance are financed from the EU Structural Funds. The start-up grant scheme and the equity loan scheme are proof to a continuous development of programmes to better reach and meet the needs of these target groups. The possibilities of supporting SMEs by using the Structural Funds more efficiently and with greater added value are constantly monitored and analysed – a survey on gaps in the Estonian capital market is currently being conducted and based on that possibilities of amplifying the SF resources (with the instrument of JEREMIE) will be established.*

- Improvement of information and support services

*Most important information service for enterprises is the gateway of Aktiva.ee where enterprises have access to different kinds of information about entrepreneurship. Also the regional development agencies contribute to the dissemination of information on entrepreneurship. There are also information and support services for companies in process of internationalisation (reference to the Guideline 12).*

*In addition to the general information gateway there is a virtual centre for excellence (an environment for the management quality – constantly developing) and the*



*innovation gateway. The merger of the three is currently a matter of discussion. The regional development agencies are also facing development issues concerning the single contact point (referred to in the next paragraph) and in the matters of merging different regional development agencies like those in the subordination of Agricultural Ministry and Ministry of Social Affairs.*

*Also information and support services in the field of internationalisation are the subject of constant development to better meet the needs of enterprises.*

- Reducing the time and cost of setting up a business

*An electronic system – a common digital environment for entrepreneurs is expected to be implemented by the end of 2008. Entrepreneurs will be able to establish a company and apply for all the necessary authorizations through this system. The time for establishing a company and applying for necessary authorizations will become comparatively shorter and the costs will be lower.*

- Making the recruitment of the first employee as simple as possible

*The rules and regulations in the field of employment and human resource are like any other rules subjects for revising (and simplifying if necessary).*

- Making entrepreneurship education an explicit objective in framework curricula at all levels; increasing specific support to schools and universities

*As the entrepreneurship and entrepreneurial activities in Estonia are very low, the need for motivation recharge and needed skills for starting a business are crucial for fast economic growth and implementation of new ideas in business. It is priority to start providing entrepreneurship education at all levels of education. However at the moment there are no methodologies and means for teaching the subject. The gap will be addressed in the next programming period by training the educational personnel, launching necessary inventory etc.*

- Facilitation of business transfers

*Business transfers are less of a problem for Estonia at the moment as the practice and history of private entrepreneurship has been brief. Most of those who have started up a company are still operating them.*

- Revising bankruptcy laws and improve rescue and restructuring procedures

*The Ministry of Justice has taken over the activities concerning the bankruptcy law from the Ministry of Economic Affairs and Communications. The need for the revision has been recognised and opportunities for improving the rescue and restructuring procedures is in action.*

- Removing the stigma of failure to facilitate a second chance and a fresh start

- Improvement of the image of entrepreneurs in the public at large

*The entrepreneurship and innovation programme is in operation to disseminate information and improve the knowledge of entrepreneurship within different groups of the society. The stigma of failure and the improvement of the image of entrepreneurs are a component of a crucial issue to be addressed by the informative and awareness raising activities practiced under the programme. The need to develop entrepreneurship culture has been recognised.*

- More e-communication between public authorities and SMEs (e-government)

*All of the information and most of services, needed by SMEs to communicate with public authorities is available online. In the interaction process between SMEs and public authorities electronic channels are mainstream for getting information and sending documents. By Digital Signature Act digital signature has the same legal power, as handwritten- public authorities must accept electronically signed documents. Development is going on to harmonize different e-services to offer services for SMEs following the one-stop-shopping principle.*

#### **24. Adapt education and training systems in response to new competence requirements**

Overcoming specific skills shortages, in particular:

- Increasing links and cooperation between educational institutions and SMEs to match the content of curricula and courses in schools, universities and training centres with SMEs needs for skilled staff
- Improve the image of technical jobs/studies among the young through cooperation with industry
- Encouraging public funding schemes to support training to address specific sectoral skills shortages

*The training for the company human resource is available through the training grant scheme. Also the business excellence (management quality) programme and skills of the enterprise human resource – the managers. There is an additional programme foreseen to offer (group) training for enterprise employees in specific areas that are not available on the market (or is it more efficient to procure one training than offer small amounts of training grants to different companies), but yet needed by the enterprises.*