

PRIVATISATION

- The Role of the Privatisation Agency in Estonian Economy
- Some Factors Affecting Privatisation in Estonia
- Privatisation in Lithuania
- Beyond Privatisation: Other Options for Initiating Estonian and Baltic Development

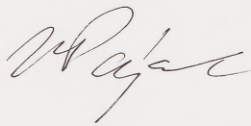
STUDENT RESEARCH

- Privatised Companies in Estonia Two Years After Privatisation
- Privatisation of the Electrical System
- The Substance of Social Insurance and the Development of Social Care

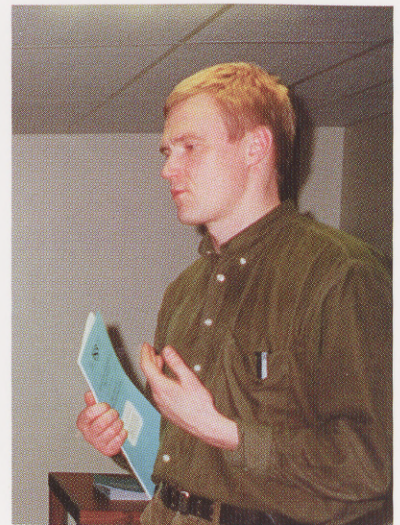


Dear Readers,

“Welcome back to reality” is the message that the international capital markets delivered to Estonia during the last weeks of October. The cold shower brought about by rapidly falling stock prices and rising interest rates will perhaps stimulate a bit of soul-searching as the business community tries to reorient itself to a changed economic environment. The outcomes of this process will determine our perspectives for many years to come. At the risk of hyperbole, I would venture to state that Estonia has reached a kind of a crossroads, where it must decide whether to go further towards Europe or to turn back to Russia. On the one hand, our competitive advantage seems to lie to the East, so economic incentives will sooner, rather than later, force us to take a more accommodative stance towards Russia. On the other hand, cultural ties attach us to European values regarding rule of law and free press, which may be at risk should the integration with Russia go too far, since the outlook for Russia as a market based liberal democracy, is by no means clear yet.



Hardo Pajula
Lecturer, EBS
Consultant, PriceWaterhouse



EBS REVIEW

PRIVATISATION

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New Developments at EBS for the 1997-98 Academic Year



Killu Kärner, BBA
Study Consultant, EBS
Evening and Distance Studies

By now the academic year is in full swing. The hard work of the previous academic year has paid off and EBS has much to be proud of: student numbers have risen by over 540: the Business High School (a subsidiary of EBS) has begun, with two tenth and an eleventh form class; both the premises in Juhkentali and Lauteri have undergone extensive modernisation and renovation. However, the most important development is that EBS has met the high accreditation standards of an international committee.

On the basis of the study programs which were evaluated in the spring of 1997, the Economics Departments of Tartu University and Concordia International University in Estonia and the Estonian Business School have all received accreditations. Thus, the present first year students are starting their studies according to internationally accepted study programs.

The extent of the study programs offered has increased since last year. The diploma study programs in entrepreneurship and business administration, which started last year have developed into full-time, distance and evening programs. The 2nd year of diploma studies predicts a steady and increasingly developing place, among other programs of the EBS, thanks to the higher quality of the results of the entrance examinations. Interest in the bachelor's program in international business administration is still great, and the competition to enter full-time and evening programs is fiercer than ever to enter EBS' distance programs.

The International BBA group opened this year with a much wider geographical representation than the previous year. In addition to Estonia, Finland and Russia, we have enrolled students from Lithuania and Bangladesh.

In recognition of our high standards, students from Tallinn Technical University, Tartu University, Tallinn Pedagogical University, Concordia International University, and elsewhere are joining EBS. These students have the possibility to cover the EBS study programs according to special programs and different schedules.

This year the enrollment into MBA programs was larger than previous years - 105 Master's Degree students. In total there are over 200 students currently in Master's Degree programs. In the doctorate programs, where enrollment takes place every other year, three Ph.D. candidates

started this autumn. In total, there are currently six Ph.D. candidates in the doctorate programs of the EBS.

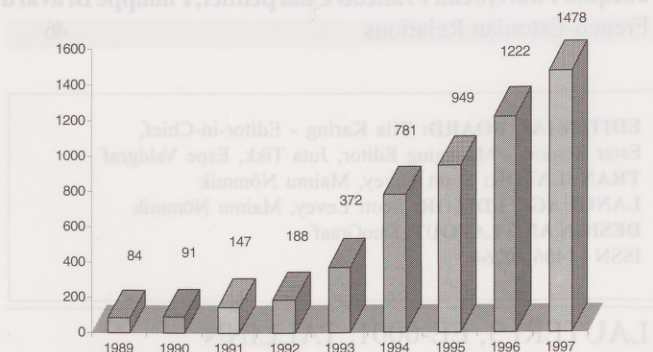
In an effort to comfortably accommodate over 1,500 students, EBS has opened another computer room. However, we are still painfully aware of the need for further lecture rooms.

The diverse nature of our student body, post-secondary and mature students working side by side, has helped to enrich both academic and social programs. The diverse nature of the student body has also forced both students and staff alike to develop themselves, teaching open-mindedness to all.

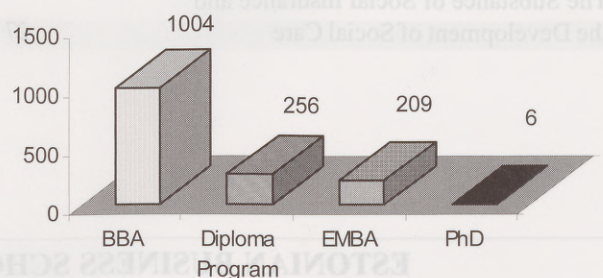
EBS has set itself the task of improving the quality of its graduates. It is continually reexamining the demands it makes upon its staff and students and perpetually seeks to improve the academic level of the education offered. Indeed the accreditation of May 1997 has made this a necessity, if we are to keep our high standards, and this increase in demands has been duly noted by students.

As a closing note, December 1997 is a special month for the distance study department because the first class of EBS distance program students who were enrolled into EBS in 1993, graduate. There will be 16 students defending their Bachelor's thesis.

Number of students at EBS



The number of students in each program in 1997



Echo of "The Privatisation Process in Education" Conference



Tiia Karing, Associate Prof.
Director of R&D Department, EBS

During 1997, several conferences regarding the privatisation process of education, the discussions "for" or "against" paid education as well as a forum on education took place. The present issue of the EBS Review publishes related articles: the report "How or Whether to Privatised Schools" by Väino Sarnet, the General Director of the Privatisation Agency, at the conference "Paid Education: For or Against" which was organised by the union RES Publica, and also the report "The Problems of Privatisation of Educational Institutions" prepared by Professor M.Habakuk, President of the EBS, at the traditional EBS "Privatisation Process in Education" spring scientific conference.

In transitional countries it is necessary to find new solutions in the formation of the public sector, including education, according to the new needs of the society. In case of limited resources one of the solutions is the involvement of private capital in education.

The purpose of the conference, which was organised by our school, was to exchange ideas about problems not so thoroughly discussed before connected with the privatisation of educational institutions.

In today's Estonia, the educational system has reached a crossroads - we cannot continue along our present course, but neither can we easily change direction. Education requires significantly

greater financial support than that, which the government is prepared to give. In addition to this, many people are sluggish and incapable of keeping up with the fast changing environment.

We can choose between different basic solutions:

- preserve the present situation and retain the status quo at all costs in the hope of better days:

- find extra financing possibilities via the students (tuition fees at public universities and higher educational institutions as well as at high schools, retaining basically the present organisation of the educational system):

- go on involving private capital into the development of education, creating competition between educational institutions and hoping for the regulatory effect of the market economy.

There is currently no agreement as to which principle to choose nor are their any viable solutions. The pros and cons of private education are still being discussed. It would obviously be worth dealing with these problems more thoroughly. The organisers of the conference outlined an essential discussion in the following issues:

- * whether it will be enough that the establishment of the tuition fee is allowed in the present educational system without making any principal changes in the legislation concerning education?

- * whether it is necessary to create more

attractive conditions to attract private capital into education (this interest is currently absent).

- *whether to allow business into education at all? Would it be favourable or unfavourable?

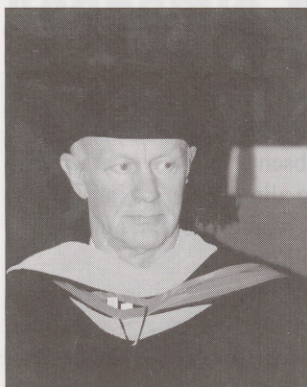
- *whether and under which terms, would it be possible to hand the schools which are managed by the state and local municipalities at the present, into private hands? What could it contribute to our educational system?

Guests came to the conference from a number of Estonian higher educational institutions, the Riigikogu, the press, and several other organisations.

The basic reports at the conference were "The Privatised School and Business" by Prof.J.Aaviksoo, "The Problems of Privatisation of Educational Institutions" by Prof.M.Habakuk; and "The Market Failures in the Educational Sphere" by Helje Kaldaru, lecturer of Tartu University. These reports were followed by a discussion where Prof. E. Grauberg, Rector of Tallinn Bachelor School, M. Kubo, Member of the Culture and Education Committee of Riigikogu, M.Rebane, Vice-Chairman of the Culture and Education Committee of Tallinn City Council, T. Saal, General Director of Mainor Ltd., T. Takkis, Principal of Kuressaare High School took the floor.



Some Ideas for the Privatisation of Education



Madis Habakuk, Prof.
President, EBS

Introduction

Estonia is a very small country with a population of 1.5 million and a territory of 45,000 square kilometres. We can't expect success in trying to manage a small country in the same way as big countries are managed.

Countries, like companies, have fixed and variable costs. The fixed costs of a state include governmental and military costs which all belong to the public sector. The proportion of the public sector in small countries is larger than in big countries. For example, the governmental, foreign affairs and border guard expenses per taxpayer in Estonia are much higher than per taxpayer in Russia.

In general, the public sector is less efficient and effective than the private sector.

There are many ways to decrease the public sector or to increase its effectiveness. In the following thesis, I will propose one more method which influences private education to a large extent.

Subsidising privatisation

As a rule, a very intensive process of privatisation is going on in countries that used to have a planned economy. The aim is to privatise everything which is profitable and to leave all the unprofitable in the ownership of the state.

The subsidising of privatisation is an

attempt to privatise some of the public companies which will never become profitable.

The idea is that the State will continue to provide financial support to the institutions and companies at the level of 90% or less in comparison to the amount of previous financing. Entrepreneurial spirit and better management will provide the resources to cover the budget shortage.

The privatisation of such a company would take place as follows:

1. The state announces a list of companies to be privatised, along with the terms of the privatisation. This would be done not by agencies, as is the current practice, but by ministries who are presently administering these companies. The terms of the privatisation would include an annual subsidy to be paid, if the new administrator observes the terms.
2. The privatisation would take place by way of underbidding, in which the offer showing the best price-quality ratio, which would remain at the same or lower level as the subsidy amount.
3. State subsidies to the Privatised Company would increase in accordance with the price index.

For example:

1. A privatisation competition to privatise vocation school A is announced. At present, there are 400 students studying at the school, which receives an annual subsidy of 4 million kroons from the State. The privatisation terms stipulate that the new owner will receive an annual subsidy of 3.5 million kroons from the State and will have to continue providing education to 400 students in the same fields as is being done currently. The building will be transferred to the new owner on the basis of a long-term rental contract.
2. X and Y take part in the privatisation competition. The competition is carried out similarly to construction bids, i.e. as an underbidding. During the negotiations X proposes to accept the school if the State grants them 3 million kroons annually. Y's offer is 3.5 mil-

lion kroons.

3. The competition committee chooses Y because its previous activities in the Estonian education market had been credible. X had not previously been active in this market.

Joint capital

Mixed ownership in Education. There are two possibilities. The first possibility is a school with mixed ownership. Let's examine this possibility in the following example. Let us assume that we have a State high school A, which is currently operating at an average level. The salaries of the teachers are at an average level, buildings renovated and unrenovated at an average level, average equipment and an average level of hope to improve things, meaning that the school has no hope or belief that things will improve. I offer the opportunity to change the legal status of the school, to make it a share-capital company, so that maybe 90% of the shares would belong to the State and 10% to private individuals or a company. The financing of the school could be done so that the State would provide up to 90% of the previous periods financing (when the school belonged 100% to the State) and the private shareholder the rest of the required financing. Legally, the school should be a Share Capital Company or a Private Limited Company and the State would participate in the management of the school thorough the Shareholders Meeting and the Supervisory Council. I maintain that the high school's innovative potential would increase especially since, with the new status as a company, decisions could be made more quickly. Secondly, the feeling of "ownership" is greater in a company than in the current school. The attitude of "it's not mine, so who cares?" would decrease. The implementation of new services would also be simplified.

The second way of utilising private capital would be the mixed ownership of the school building. In this case the State would contribute the school building into the company and the private sector, improvements such as a new roof, com-

puter class, etc. Most schools have sufficient room to rent to private partners. The school and the other tenants rent the space from the building-company. This method has also already provided positive experiences in Estonia.

Implementation problems

Specific problems arise during the privatisation of educational institutions, which make this process more complicated than in other fields. There are many purposes for this.

Firstly, education is considered a public sector function, and private education seems to many to have very limited implementation opportunities or even considered to be going in the wrong direction. State education does not have the opportunity for bankruptcy, which means that educational institutions can operate for long periods, if not forever, without producing material or moral losses. The general condemnation of private education is quite widespread and so creates a negative environment and attitude for the above mentioned privatisation process.

Secondly, the people working in the educational field generally have a lower pain tolerance level than for example, those working in industry or service sectors. Major reorganisation such as the described privatisation tends to exceed the pain tolerance level of both the workers of the institution being privatised as well as the middle management decision-makers. This is confirmed by the many unarguably correct decisions made by educational managers in order to improve the effec-

tiveness of educational institutions, which have not been implemented due to the opposition of the workers in the affected institution.

Thirdly, the privatisation of a State institution is always accompanied by large reorganisations such as the laying off of and transferring of workers, the cutting of costs, internal reorganisations etc., which all create insecurity, fright and in total, large opposition to the described changes.

Taking into account the above, it must be admitted, that the activating of education by way of subsidised privatisation may prove to be more difficult than simply establishing private schools, even though the latter must start in its activities with no resources.

In conclusion, I would like to say that, the privatisation of education, or the bringing in of some private ownership elements, would greatly assist in speeding up of the development of Estonian education. However, the major objective and subjective reasons which make the privatisation process of education more difficult, cannot be underestimated.

Legal problems

A new law, the Law of Private Schools, is in the process of development. Expert groups, private school management and co-ordinating institutions all have different opinions about the choice of the legal status for private schools. The following table is a correlation between the legal status and the efficiency of a private school prepared by a group of experts at the Estonian Business School.

Summary

The message of this article is - that the development of the management of education is one of the remarkable resources that we must take into consideration.

The right legal status of the institution is one of the ways to increase the efficiency and effectiveness of an educational institution.

POSSIBLE LEGAL STATUS OF EDUCATIONAL INSTITUTIONS AND SOME OF THEIR CHARACTERISTICS

Legal status	Ownership form	Clarity of ownership	Feeling of ownership, motivation, and clarity of receiving profit. Possibility of making money	Participation of owners in division of profits	Possibility of State, foreign sponsorship. Public option regarding ethics	Attitudes regarding expenditures.
State	State	Unclear - 1	Low - 1	Limited - 1	High - 5	According to the law
Public	????????	Unclear - 2	Low - 1	Limited - 2	High - 5	According to the law
Private school	Private	Average - 4	Average - 3	Unlimited - 3	Average - 3	Careful
Foundation, Not-for profit organisation.	private	Average - 4	Average - 3	Unlimited - 3	Average - 3	Careful
Business unit, Public Limited Co., Private Limited Co., etc.	private	Clear - 5	High - 5	Unlimited - 5	Low - 1	Very careful

Q: WHAT IS THE "STARTER" FOR THE PRIVATE INSTITUTION'S MOTOR?

A: THE DECISION-MAKER, THE RISKS AND POSSIBLE PROFIT DERIVED FROM HIS DECISIONS ARE UNITED.

How to Privatisise Schools?

(Should schools be privatised?)



Väino Sarnet
General Director, Privatisation Agency

We sometimes get an answer to a short, direct and understood question which has no relation to the question asked, or the answerer, like a schoolboy who recites dictation, does not know how they came to that conclusion.

In order to finally answer the question asked in the title, I would like to pose some simpler "questions" and in answering them, I can hopefully gain a better understanding of what I am speaking of.

Question: What is the objective of privatisation?

Answer: The objective or aim of privatisation is the effective working of society in every walk of life, wherever it can be implemented as an alternative to State ownership and management.

Question- Why does the functioning of society depend on privatisation?

Answer: The decision-maker, the risks and possible profit deriving from his decision must be united- in one person or in the smallest group possible (family, company owners, creditors, and insurers). Private ownership assumes decisions made in small groups; State ownership does not allow this.

The critical factor in achieving effectiveness in any activities is who decides into which activity to invest or not. It is good if this decision is trusted to be made by the person, who may directly profit or carry a loss as a result of the decision.

A simplified definition of investments-

an investment is time and/or money, including future earnings, which you are willing to spend today in anticipation of future earnings.

A decision can be made when there is a choice. After privatisation, there are more choices because:

The privatisation of all walks of life enable individuals to choose themselves which service to use more of, or what to invest more in. Privatisation replaces one State provider of a certain service with many competing service providers.

- The privatisation of all walks of life enable individuals to choose themselves, which service to use more of, or what to invest more in.

- Privatisation replaces one State provider of a certain service with many competing service providers.

Some examples:

- The consumer or whomever requires service will be the one paying for electricity, water, transportation, etc.;

- The correct payer for healthcare is the currently, or potentially ill person;

- The future pensioner must pay for his future pension.

- The student will pay for education from his future earnings.

- Paying for insurance must pay for the risk that I may not be able to pay for it all.

In the interest that the decision be of the best quality, the largest and furthest group - the State should not make the investment decision for the individual, by the collection of obligatory taxes.

In the ideal this is so, but especially in real-time and in education.

What should a State do to be effective at its own level, that is to be competitive among other States in the case that it has gathered money thorough taxes. A State is competitive when all its residents are able to be competitive. The population's knowledge, skills and abilities are a State's largest resource. The abilities of each concrete person are not known at birth. These abilities are not clear to the child, or its parents or teachers before the second half of the teens. The money gathered from taxes does not have a better place to be invested than in the determination of the abilities of the largest possible amount of young people, firstly and foremost for themselves. This is naturally most important for a small State, who cannot afford to waste its resources. Knowing their abilities, a young person is best able to make a decision regarding the investment of their own time and their parent's or loaned money in order to reap the best possible rewards in the future for themselves.

So, if there is a limited amount of money in the State coffers (and there should be limited amount there, because the opposite would mean high taxes) then the money should be invested in elementary and secondary education, so that the largest amount of children possible could be prepared for an informed choice made by themselves, but also by their parents and companies.

In addition to providing affordable elementary and secondary education close to the place of residence, the State's role should also be to ensure a wide enough choice of taught subjects as well as quality - minimum to elite.

In order:

1. To ensure the existence of inexpensive elementary and secondary education during the time where the students abilities have not been determined yet, and his decisions are being made by others (parents).
2. To ensure a less expensive alternative to university education for those who are ready to invest time, but not future earnings into their education.
3. To provide opportunities for achieving long-term educational credits for those who appraise their abilities and career opportunities at such a level that they are willing to invest their time, as well as future earnings into a more expensive elite education at home and abroad.

The education system could be compared to a tricycle during the reorganisation period.

Three wheels:

- A state financed state school system as a less expensive alternative at the elementary and secondary level.
- State guarantee for student loans for studies at home and abroad for secondary and post-secondary levels.
- Subsidies for private schools to be divided according to competition for the provision of educational services.

Question: But why the turning away from the ideal picture- that the consumer should choose whether to invest in education or real estate, and that he should pay for his own investments?

Answer: The provision of education should be started earlier so that the consumer would know to decide whether it was reasonable to invest their time and/or money.

One more answer: The investment of money by a State into raising its educational level is the surest way of increasing the return by raising the States competitive level (The state as a company).

There has been no discussion of privatising schools until now.

Question: How then, to privatise State schools?

Answer: A dampening thought - State schools will be a necessary element for some time to come in the wide field of education services. You can only remove the third wheel when you know how to ride. In our example this situation occurs when on two wheels, that is that the subsidies by competition and the state guarantees for student loans

Question: Should Schools be privatised?

Answer: Yes, but only when there is sufficient competition in the region regarding the provision of educational services amount as well as quality.

are good enough mechanisms to ensure a wide enough choice of educational services.

Question: Which is the best way of privatising education?

Answer: Privatising the Chinese way that is, not private schools instead of stated schools, but side by side, until the offering of educational services and competition in a region is at a level to ensure a level of quality satisfactory to the state.

The market share of private schools would be mostly the provision of elite education at the cost of the consumer, which the State should support by providing state guarantees for student loans.

The market share of State schools is easily regulated by the ratio of tuition to subsidies and can be decreased by po-

litical means when the range of educational services provided by private schools has been increased in a region.

In a county, where there is a sufficient range of educational services, it is possible to go over to a system of State subsidies by competition and to privatise the State schools.

Question: How to privatise Schools?

Answer: Since it is in the States interest to maintain the provision of as wide a range of educational services as possible in a region after privatisation, then the privatisation of the material assets of schools should be tied to an obligation to continue to provide educational services at a set level. If the level of the education provided is too low, or the provision of educational services is halted for some reason, then the State can demand the return of the assets to the state and then proceed to search for a better entrepreneur.

If there is sufficient competition between private schools and other State schools, then there will be no need to demand the return of assets.

A school is not only, or even mainly, the material assets. A school is firstly the teachers, what of them? People cannot be privatised; the hiring or firing of them is the worry of the new company. The ending of work contracts with the State is the State's problem.

Question: Should Schools be privatised?

Answer: Yes, but only when there is sufficient competition in the region regarding the provision of educational services amount as well as quality.

Privatisation and Estonian Privatisation Agency



Silva Männik, BBA
 Graduated from EBS in 1997
 Public Relation Specialist, Privatisation Agency

Made fashionable by Britain in the 1980s, privatisation is now in vogue around the world. It has become an important instrument of economic policy in many countries, both developed and developing, as well as in countries in transition.

Privatisation in developing countries has been based, when possible, on the experience of countries in Western Europe. In industrial countries, the success of privatisation is largely dependent on strategic and tactical choices for sale from a public asset portfolio, on proper valuation, pricing and appropriately timed sequencing. The same factors are equally important in transition countries as well, privatisation success in the latter may be even more dependent on being linked to carefully programmed steps of economic liberalisation, the development of market regulatory structures and an appropriate redefinition of the "economic borders" of the state in the country concerned.

In working out the privatisation policy and methods in Estonia, the models proven to be successful in other European countries have been used. Foreign consultants have greatly contributed to the process as well.

Discussion over privatisation in Estonia started to have a central place in the beginning of 1990.

Main legal acts necessary to start privatisation were adopted before regaining independence from the former Soviet Union, but the main institutional framework and conditions for the realisation of the whole process were created afterwards. An important prerequisite was Estonian currency reform, which completed the separation of Estonia from the rouble zone. The monetary stabilisation achieved during this step made a more business-oriented approach to privatisation possible and promoted foreign investors to participate in the process.

Legal framework

The Law on Privatisation passed on June 17, 1993, uniformed the privatisation of enterprises, specified more clearly the methods of privatisation and also introduced organisational changes. Thus the main principles of the law are:

- 1) Open competitive bidding process.
- 2) No insider favouritism to avoid Soviet-era managers retaining control over the firms.

3) Centralised institutional framework with relatively independent agency responsible for privatisation. The other laws and legal acts that apply to the privatisation process are:

- Property Law
- State Property Law
- Law on Land Reform
- Law on Using Privatisation Proceeds
- Bankruptcy Law
- Law on the Securities Market
- Government Decree on the Procedures of the Public Offering of Shares
- Government Decree on Investment Funds
- Commercial Code

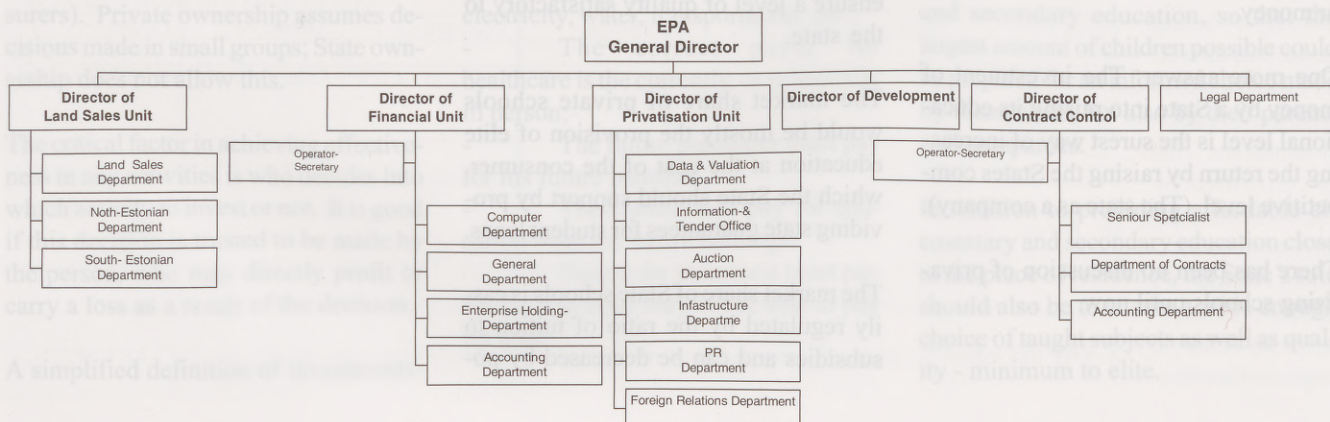
Institutional framework

The Estonian Privatisation Agency was founded in 1993 on the basis of the Department of State Property and the Privatisation Enterprise. The EPA is a government agency subordinated to the Ministry of Economy and funded through the state budget.

According to the Privatisation Law, the main functions of the EPA are:

- to prepare the privatisation program for each year
- to compile lists of enterprises to be privatised
- to hold and use state property until actual privatisation

Figure 1. The Organisational Structure of the Estonian Privatisation Agency



- to reorganise and restructure these enterprises
- to arrange the actual privatisation
- to control fulfilment of the contracts of sale

According to the Privatisation Law, the Board of the EPA has the right to include enterprises into the list of privatisation. Nevertheless, the EPA has to request acceptance from the Ministries responsible, which has usually been done beforehand. In case of disagreement, the EPA has the right to go to the government, who will make the final decision. From the moment of approval of the list by the EPA's Board, ownership rights of these enterprises will be handed over to the EPA, who has all rights to sell, restructure and sometimes even liquidate the enterprise.

Board of the Estonian Privatization Agency

1. **Jaak Leimann**, Chairman of the Board, Minister of Economic Affairs
2. **Ants Leemets**, Vice Chairman
3. **Ignar Fjuk**, Member of Parliament
4. **Liina Tõnisson**, Member of Parliament
5. **Rein Kask**, Member of Parliament
6. **Anne Schmidt**, Representative of Eesti Pank
7. **Raivo Vare**, Minister of Transport and Communication
8. **Aavo Mölder**, Member of Parliament
9. **Mart Opmann**, Minister of Finance
10. **Mihkel Pärnoja**, Member of Parliament
11. **Tiit Tammsaar**, Member of Parliament

According to the agreement between the EPA and the Ministry of Economic Affairs, the special holding department of the Ministry can be the owner of these enterprises up to the privatisation. All other founding Ministries, like Ministry of Agriculture, Ministry of Transport and Communication, transfer ownership rights according to the special transfer agreement to the EPA.

Regulatory framework

In order to speed up the process of privatisation and shorten the period of privatisation, the EPA has worked out standardised procedures approved by the Board or the General Director.

Selection of enterprises to be privatised includes collecting the economical and financial data on the enterprise, fixing the list of assets of the enterprise, finding out possible restitution claims on the assets and making preliminary analysis about the prospects of privatisation. The Board of EPA will approve the list of enterprises; a preliminary agreement with the founding Ministry is required.

Valuation has to be performed before the privatisation. All enterprises will be valued on asset valuation (so called engineering valuation) and also on business valuation basis. These valuation results are guidelines for negotiations during the tender process and will serve as a basis for determining the initial price in auctions.

Information requirements define that the announcement of privatisation has to be published in at least two Estonian national newspapers. In the case of international tenders, the advertisements will be published also in main international business newspapers. These ads must also state privatisation conditions.

Potential bidders can receive enterprise profiles from the EPA and upon signing the confidentiality agreement; EPA will issue authorisations to visit enterprises. There are also standard sale contracts and bank guarantees available for bidders.

Negotiations and decision making will follow the opening of the bids after the deadline. All bidders are invited to the negotiations, during this time bidders have the possibility to improve their bids.

The Board has the right to decide among the final bids taking into account all aspects of the bid, including price, investment and employment guarantees, business plan. After the decision, the successful bidder has one month to sign the sales agreement with the EPA.

In case of an auction, the bidders have to deposit 10% of the initial price in EPA's account and make a written application to participate in the auction. The high-

est bid offered during the auction will win the contract. In case of a written auction, bidders must submit their bids in a sealed envelope and the highest bid will win the contract.

Small-scale privatisation

According to the Law on the Privatisation of State-Owned Service, Retail and Catering Enterprises (adopted in Dec. 1990) initially regulating small-scale privatisation, entities with a book value of up to 0.5 million roubles were transferred to private ownership. The Department of State Property organised the small-scale privatisation and one of the following methods was used:

- auctions
- selling of shares
- competition of business ideas (tender)

Since May 21, 1992 essential changes were introduced into the legal regulation of small-scale privatisation (The Law on Making Alterations and Amendments to the Law of the Republic of Estonia "On Privatisation of State-Owned Service, Retail and catering Enterprises").

The circle of objects of privatisation was increased to include service, trade and catering industries. The upper limit of the book value of entities included into the program was increased from 0.5 million to 6 million roubles (one reason for this was the overestimation of assets devalued through inflation). A month later, during the monetary reform, this limit automatically changed to 600 000 kroons.

The competition of business ideas was excluded from the methods of privatisation. The circle of participants was also widened to include foreigners.

The earlier preferential right of insiders, local inhabitants and current leaseholders to buy at the initial price (based on the assessment of some expert) was abolished. The workers and management of the unit to be privatised still enjoyed this

pre-emptive right but they had match the price offered at the open auction. Also, the demand to maintain the existing activity was abolished as a general rule but the organiser of privatisation had the right to rise additional conditions to the property, for example to maintain the former field of activity for some period. To overcome this, buyers were allowed to pay in instalments.

Large-scale privatisation

The so-called pilot privatisation of seven large enterprises by sale until April 1992 was the prelude to large-scale privatisation in Estonia. This program was based on the legal regulation of small-scale privatisation and was launched to give privatisors some experience in using different forms and procedures of privatisation.

The large-scale privatisation program was introduced in August 1992 when two acts regulating the privatisation of entities with book value over 600 000 kroons were passed in the Parliament. Also the Treuhand-type Estonian Privatisation Enterprise was founded in September 1992.

The Estonian Privatisation Enterprise used know-how, consultants and financial support from the German Treuhand. As Estonian privatisation ideology was strongly influenced by that of German Teruhandanstalt and major efforts were made to speed up the process of privatisation of large and medium-size industrial enterprises. The Germans' multi-enterprise international tender method of privatisation (consisting 40 to 50 companies each) - a good opportunity to speed up the privatisation, though still a relatively slow method, instead of give-away-type voucher program (such as in Lithuania and Russia) was selected.

The following methods of privatisation were used: tenders with preliminary negotiations; public or written auctions;

public offering of shares; the method established by the organiser of privatisation.

The choice of the privatisation method is dependent on the necessity to set additional conditions (investment, employment, environment etc.).

A step toward quicker privatisation is also the method of so-called leftovers. Enterprises that were not sold during the first tenders were at first offered again in the later tender lists. Starting from the sixth tender, another method (the sale of property or shares of enterprises or their structural units by the method established by the organiser of privatisation in cases where no purchaser was found using the other methods) was used. In this case, there is no deadline for the submission of a bid. The Board of the Privatisation Agency can make a decision on selling when the first suitable bid is received. This method has been rather popular among buyers because the price of assets or shares has been relatively low.

Starting with the first tender for the sale of 38 enterprises with preliminary negotiation enterprises in November 1992, large-scale privatisation process got a central place. Multiple tenders were announced regularly in order to maintain permanent interest towards privatisation among the investors.

As of September 1997, the ownership of 465 enterprises and structural units for the total purchase price of 3 315 501 818 EEK have been transferred.

From 1991 to September 1997, 1325 objects were sold in auctions and the total purchase price was 555 391 503 EEK(see table 1.).

Voucher privatisation

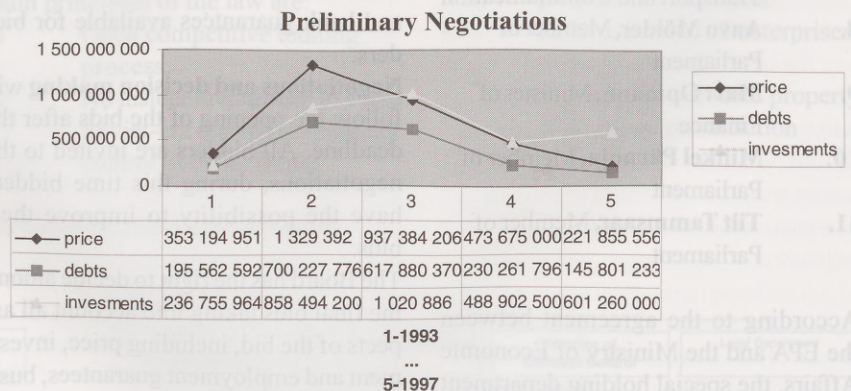
Part of the shares have been reserved for public sale with vouchers during the tenders. Voucher privatisation requires privatisation of enterprises through the sale of shares, which has some advantages from the point of view also of overall privatisation:

- it is possible to privatise the enterprise without too much disturbing of its day-to-day activities (no splitting up the enterprise in privatisation process)
- it is a legally easier way of privatisation (no need of notarisation like in asset deals);
- it is possible to attract small investors(2).

EPA's objective is to make the shares of state enterprises available to voucher owners.

Residents can open special privatisation securities accounts in the banks, which

Tabel 1



At the end of 1992, the list of enterprises to be privatised included altogether 1212 entities. Of them 211 entities with a total purchasing price of 18.2 million roubles were sold in 1991 and 556 entities with an estimated total purchasing price of 41.9 million kroons (during first half of 1992 enterprises were sold for roubles, during the second half of 1992 for Estonian kroons) in 1992. From this list 767 entities with an estimated price of 43.6 million kroons were sold by the end of 1992. During first half of 1993, 193 entities with a price of 104.2 million kroons were sold. Altogether 960 entities from the initial small privatisation list were sold by June 1993. After this date the small privatisation program underwent major changes.

Source: POLITICAL ECONOMY OF PRIVATISATION IN ESTONIA; Alari Purju; Tallinn 1995; p14

are involved in the system. Transactions with privatisation securities are fixed in the Estonian Central Depository, (created by ten commercial banks and the Ministry of Finance), which has electronic mail communication with the banks.

Privatisation securities are recorded only in electronic form, and not as security papers. The owner of them can get from the bank a statement regarding the transactions and balance of the account.

The enterprise, whose shares have been decided to sell against vouchers must have a core investor, who is able to manage the company, to secure investments and to restructure the company, giving the enterprise a good perspective for future development.

In deciding among the enterprises to be included in this program, the following must be considered:

- enterprise must have good or average financial and economical situation;
- enterprise must be well-known among public;
- enterprise must be big enough in order to have shares for offering;
- enterprises from all regions of Estonia will be included in the program, in order to raise local interest towards privatisation

The first two companies sold in the voucher program, the Tallinn Department Store and Saku Brewery were sold with a fixed public offering of shares.

Another possibility is public auction, which is used in other public offerings. In this method, the Russian auction method has been introduced allowing bidders make two types of bids:

- Type 1 requires only the sum of vouchers in EEK which the bidder is willing to use
- Type 2 requires both the sum and the maximum price for one share

International technical assistance

From the beginning of 1992, EU Phare started to finance technical assistance to the Estonian Government.

Since autumn 1992, the team of **Treuhand**

Osteuropa Beratungsgesellschaft, the consulting arm of Treuhand, financed by the German Ministry of Finance, was involved in setting up the organisational structure of EPA and multiple tender procedure. The valuation, data collection and negotiation routines were also worked out with their assistance. TOB supplied experienced negotiators and lawyers to assist the EPA in tendering and negotiations.

The consortium of consultants, lead by **Roland Berger GmbH** and including

The other important aspect is the ability of the consultants to work "hands on" with concrete projects, not just flying in and out writing reports with ideas and suggestions taken from textbooks.

Arthur Andersen S.C., Kanzlei Heiss and Partner and Hill & Knowlton Company, financed by EU Phare, was involved in several programs in EPA: preparation of public offering of shares and general legal assistance involving local qualified lawyers.

US-AID has also been financing a number of consultants mainly involved in negotiations and legal assistance.

1995-1997 **CCF (Crédit Commercial de France)** provided assistance to the EPA in the field of preparing infrastructure & utility companies for privatisation financed from PHARE Program. CCF has been designated by the others to be the lead firm and the contracting party *vis à vis* the European Commission and has sub-contracting agreements with the following firms: Denton Hall, Dewe Rogerson, MERX from the United King-

dom and Transports, Etudes, Recherches from France.

A common feature of all these teams has been the ability and willingness to transfer the know-how to local EPA staff. The consultants were teamed with local negotiators in order to transfer knowledge on the job.

The other important aspect is the ability of the consultants to work "hands on" with concrete projects, not just flying in and out writing reports with ideas and suggestions taken from textbooks.

Current situation in Estonia

Privatisation of the industrial sector in Estonia will be completed in 1997. From major companies only the chemical industry Kiviter, Moe and Rakvere Distilleries and alcoholic beverages company Liviko remain to be privatised in 1997 - 1998.

Preparations for privatisation of utilities and infrastructure companies envisaged for 1998-1999 have progressed in its legal aspect. Proceeding from the privatisation plans confirmed by the Government of the Republic, it is required to prepare drafts of legal acts, in order to successfully carry out the privatisation of infrastructure companies or state owned companies holding a majority of the market and to guarantee the balance between the interests of the state, private investors and consumers under conditions where the state shall withdraw its rights to designate the activities of the company as a share holder.

The sale of large-scale infrastructure companies is the last phase of privatisation in Estonia. The Privatisation Agency expects this to take approximately 2 years. This phase will include companies from the areas of energy, oil shale, telecommunications, rail transport, chemical industry and the Port of Tallinn. The monopolistic companies prepared for privatisation by the Estonian Privatisation Agency according to the State Privatisation Programme 1997 are: Estonian Energy, Estonian Oil Shale and Estonian Railway. In privatising these companies, Estonia is continuing

with the philosophy it has followed from the outset, which is that the state should withdraw from economic activity as much as possible. However, the process also stems from a realisation that the government does not have the funds to modernise the areas of infrastructure, which are important for the economy. Privatisation forms part of a program to modernise Estonian infrastructure and take advantage of a perceived niche in the transit and trade market.

In the railway sector, plans have been announced to shut down a third of the money losing lines, to introduce outside capital, and to concentrate on freight traffic, which is aimed to triple by the year 2000. The Estonian Railway will be divided into an infrastructure holding company and operator companies. The new Railway Law is being drafted.

In the energy sector, Estonian Energy will be vertically divided into infrastructure holding /high voltage transmission and dispatch company/ power generation and distribution companies.

Oil shale mining will be privatised after the main consumers of oil shale /

power generation, cement industry and chemical industry/ are privately owned and their actual need for the raw material has been defined.

The Energy Law was adopted by the Parliament in June 1997. Both Estonian Oil Shale and Estonian Energy as well as Estonian Railway balance sheets have undergone restructuring necessary prior to privatisation.

Working out strategies for privatisation of **Estonian Telecom** and the **Port of Tallinn** have been delegated to the Ministry of Transport and Communication.

Land privatisation in Estonia has been complicated due to the restitution process and the actual volume of the surveying work needed. Nevertheless, serious effort has been made to find a compromise between the need of speed and the creation of a reliable land register. Several Acts have been adopted by Parliament in 1996, to speed up the process. It is estimated that only 10% of land reform in the industrial land sector has

been completed. The Estonian Privatisation Agency has applied for approval to sell all industrial land including land, presently under local government authority, to simplify and speed up the processing of applications for industrial lands.

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Some Factors Affecting Privatisation in Estonia



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Last six years in the privatisation process in Estonia

Since 1991, when the first stores and service salons were sold, there have

been more than 1750 privatisation contracts signed. If we leave out the large infrastructure industries, then it is difficult for most to name a company that has not been privatised. Still, the privatisation process has not really ended and there are still many State owned enterprises that still remain unsold (for example, one of Estonia's largest industries RAS Kiviter, AS Rakvere Piiritustehas etc.). It is clear, that it is not possible to give a full objective evaluation about the possible final result of the process if the process is not yet complete. Privatisation in Estonia could be looked at in 5-10 years, when the economy has stabilised and the effect that privatisation has had can be better brought forth. Still, we can still discuss problems with the privatisation process, though in the future some of the opinions valid today may change. The purpose of the article is not to look for answers to the question of if privatisation has been success-

ful or not. The following tries to discuss some of the factors which have affected privatisation, but which have not had much attention.

In the years 1991-1992, a large amount of privatisation contracts were signed, but no enterprises of substantial importance to the economy were sold in this period (except for 7 so-called test privatised enterprises - Baltika, Talleks, etc.). The larger and more complicated privatisations tended to get bogged down in bureaucratic barriers and missing laws. At the end of 1992, and especially in the beginning of 1993 when the Privatisation Agency was started, it became clear that it was not possible to go on with the old system. In establishing the Privatisation process, the German privatisation model was attempted to be imported, but the laws, which were supposed to regulate its work, were unsuccessful. It was stated that it was impossible to carry out the privatisation proc-

ess with the existing laws.

1992-1993 was the time where almost all the political parties had the speeding up of ownership reform at the top of their platform, because all the parties wanted to show the people that they were forward goers who had completely severed all ties with Soviet Estonia. No one argued the fact that privatisation was needed. The main points of disagreement were the methods and tempo. It was clear to those that were in contact with State owned enterprises, that the lack of laws and controls had created a situation where part of the property belonging to the State changed ownership almost legally at the initiative of those at the bottom without being beneficial to the State. Analysis of the situation led to the conclusion that the State must sell its property as quickly as possible. Another reason, which gave the trump card to those supporting the speeding up of the privatisation, was that the financial situation of State owned enterprises was rapidly deteriorating. Enterprises had large debts, had no orders for their products and it was feared that large industries would be closed and massive job shortages would occur. Of course, those wanting to increase the privatisation tempo included in their arguments the example of other countries, which has shown clearly that the private sector outweighs the public sector. At the same time, there were those who did not argue the need for privatisation, but felt it should be done more slowly and moderately to avoid mistakes. It was often thought that the State should increase and strengthen its controls over its enterprises, make them more attractive and only then sell them. It cannot be dismissed that the supporters of one or the other idea could have been influenced by personal or their supporters' financial interests. It was in this environment, that the process of working out the new privatisation law, which was to correct the loopholes in the old laws, was started.

The elections in the fall of 1992 brought the patriotic coalition government, who clearly supported quick and radical reforms, to power. The power came to people who had not previously participated in sharing the State pie. They most

probably saw the development of Estonia in a different light than the previous Government leaders and so wanted to implement quick and major changes in almost all walks of life. The opposition did not want to criticise the activities of the new government because in doing so they would have easily gained the title "stagnant". The barriers to the radical new privatisation law so disappeared. The new law came into effect in August of 1993. The implementation of the law included the establishment of the Privatisation Agency (PA), which

All Estonian governments since 1992 have tried to reap political profit from the privatisation results. However, has the Estonian privatisation principle been free of "mines", which could show up in several years? It's too early to say yet.

started work in the beginning of 1994. The law reduced the independence of the PA (in comparison with its predecessors) from other departments, made the privatisation scheme more logical and in summary made it possible to privatise more enterprises in a shorter time. The years 1994-1995 could be said to be Estonia's privatisation "glory days", where the State hold on property was broken. In the following, some of the factors which have not previously been discussed and which made the PA's work successful are discussed.

The role of the Privatisation Agency's Council

In accordance with the privatisation law the Privatisation Agency's Council (PAC) makes almost all the most impor-

tant decisions regarding privatisation. The Council consists of 11 members according to the law: The ministers of Finance and Economy, a Central Bank representative, and 8 government appointed persons. Taking into account the reasons for the PAC, then almost all the members are politicians.

Members of many different parties have belonged to each of the PAC, including members of the opposition. The fact that such a wide cross-section of the political spectrum belongs to the PAC enables the solving of many problems regarding privatisation without political posturing in a larger arena. The wide cross-section also avoids charges that the governing party is using privatisation for it's own interests and keeping the others in the dark. However, there is no regulation stipulating that the PAC include members of many different parties. This situation has occurred mainly because of the wishes of the government in power.

The inclusion of Ministers in the work of the Council enables getting approvals from the Ministries in a simpler fashion and so reduces the bureaucracy involved in making decisions.

The principles of the establishment of the PAC and its work ensure quick decision-making within a wide cross-section or decision-makers.

Work principles of the Privatisation Agency

Previously the principles regarding the establishment of the PAC as a decision-making body and the effects on privatisation were discussed. The PA in the technical worker role is also significant in the process of privatisation. Because of this I will next discuss some of the processes illustrating the work principles of the PA.

The General Manager of the PA elects the PAC. There has only been one General Manager, as the current GM's term was renewed. It seems that the PA's work style and external image have been mainly influenced by the work of the GM. Taking into account the political

thinking at the time, it was expected in the fall of 1993, that the new General Manager would get rid of technical obstructions within the PA and so provide the opportunity for the privatisation of many State enterprises within a short time. The existence of this type of a plan was most certainly a guarantee of success for those that participated in the competition for the General Managers position.

In the interest of increasing the privatisation tempo, the PA was set up as quite a large governmental institution, during 1994-1995 over one hundred people worked there. The prevailing thought was that the State owned enterprises had to be sold "as is" and not to waste time trying to find and dissolve the barriers which were preventing them from working effectively prior to privatisation. Almost all of these types of problems were attempted to be transferred to the new owner together with the enterprise. All the documentation for privatisation

was standardised in order to reduce the chances that anybody unsatisfied with the process or results could dispute the privatisation. Of course, it was found that a certain amount of protests and suits would be inevitable. Therefore attention was based on solving existing problems, and not on the through analysis of the privatisation schemes prior to the privatisation. A great amount of time was saved this way, since no one attempted to protest most privatisation deals. Maybe it is not quite correct to compare the PA with the Jesuit principle of "the objective blesses the tool", but a grain of truth certainly exists in the saying. Partly due to the Company preservation instinct and partly due to the strongly reinforced ideals in the beginning, there exists a strong mindset that the only good enterprise is a privatised enterprise. All arguments to the contrary are taboo in the PA; all ideas, which help to sell an enterprise more quickly and with less pain, are welcome.

Conclusion

It can be seen from this article that the development of the privatisation process was mostly moulded by the political will prevalent in 1992-1993. Different election results in the fall of 1992 would have most certainly brought another privatisation strategy. The governments in power after 1993 have not tried to change the worked in privatisation scheme. There have been attempts to change some concrete people involved in the leadership of privatisation, but the principles have not changed. Partially luck, partially knowledge and purposefulness of work have resulted in one of the most quickly implemented mass privatisation processes in Central and Eastern Europe. Estonia's results in this field have been used as a positive example at international levels. All Estonian governments since 1992 have tried to reap political profit from the privatisation results. However, has the Estonian privatisation principle been free of "mines", which could show up in several years? It's too early to say yet.

On Privatisation Issues on Company Level



Jeanette Thomson
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I have been a guest at the EBS for over two months now, using the opportunity to research my PhD "Learning in Baltic-Danish companies". I have focused upon the different ways the management according systems are implemented and integrated in alliances and mergers, and how learning takes place in the process at organisational charge.

My geographical scope is company co-

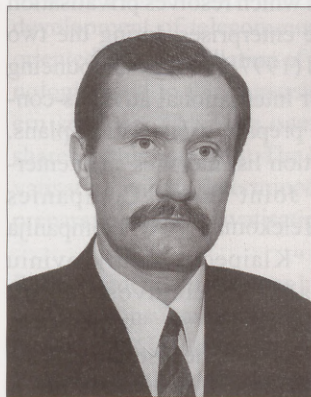
operation in Estonia, Latvia and Lithuania but being based at the Estonian Business School has given me the unique opportunity to obtain valuable informations regarding the current business environment in Estonia and how foreign (including Danish) companies operate in this "new" market.

I am very grateful to have this opportunity and thank the staff for their warm reception.

At the beginning of October, I participated in the "Conference on Trade and Industry. Enhancing collaboration between the Nordic and Baltic countries". The conference was arranged by The Nordic Industrial Fund and Nordpraktik and held in Riga the (1-2 October). During the two days, 19 speakers from Estonia, Latvia, Lithuania, Finland, Norway and Denmark contributed and 66 company representatives together with 70 representatives from different institutions participated in the conference. The two main subjects were "What the Baltic countries can offer Nordic Trade and Industry" and "Nordic collaboration and

the Baltic countries". The ties between companies in the Nordic and the Baltic countries have been strengthened within the Nordic collaboration framework during the last 4 years by the 700 younger people participating in Nordpraktik. They came from different Baltic, St. Petersburg and Kaliningrad companies and worked at Nordic companies for a period. The former participants present at the conference decided to establish national networks. The four Estonian participants came from TV3, Electrolux, AMAKS and the Development Board of Pärnu Town Government. Agu Rimmelg, the Director of the Estonian Investment Agency gave a presentation on Estonia as an opportunity for investment and he compared the economic development in the country with Hong Kong. Many Latvian representatives came with their views on Latvia as potential base for Nordic companies. The privatisation in Lithuania was covered by two speakers from Lithuania and Ricardas Venckunas' speech is given in full length.

Privatisation in Lithuania



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The Lithuanian privatisation program

The Lithuanian privatisation program has been implemented in two privatisation stages. The aim of the first stage, begin in 1991, was fast voucher based privatisation of state owned property. According to the Law on Initial Privatisation of State Property, 81% of state capital foreseen for privatisation was privatised. There were 2.6 mln. accounts opened for 10.5 billion Litass of vouchers in Lithuania. A rather high level of privatisation was achieved within separate branches of economy.

This stage was finished in the middle of 1995. During it 88% of state capital foreseen for privatisation in industry, 97% - in constructions, 97% - in service sector was privatised. During the first stage of privatisation more than 5 thousand objects were privatised.

According to the Law on Privatisation of Flats, privatisation of some 29 thousand houses and 504 thousand flats has taken place, which makes 93.5% of the total living area previously owned by the State.

All agricultural enterprises were privatised according to the Law on Agricultural Enterprises. That makes 1160 former collective and soviet farms. 99.7% of the agricultural sector was privatised in terms of book value.

Private sector produced 68% of GDP in 1996.

It was decided to end the stage of state property privatisation for vouchers in 1995. The second stage of privatisation was started after Seimas (Parliament) in July 1995 adopted The Law on Privatisation of State-Owned and Municipal Property. This new stage differs in quality and has its specific features:

- in compliance with this law, the state-owned and municipal property is sold to the natural and legal persons for money at market prices after the valuation of objects;
- all purchasers have equal rights in purchasing the objects to be privatised;
- local and foreign investors have equal rights in privatisation of state owned and municipal property.

The Law on Privatisation of State-Owned and Municipal Property determines:

- privatisation institutions and their functions;
- preparation of the objects for privatisation;
- object evaluation methods (according to international standards);
- privatisation methods;
- general requirements for preparing and using privatisation contracts and payment procedure.

This document provided for consecutive privatisation politics in production infrastructure branches, especially in energy and transportation sectors. It foresees to privatise "Lithuanian Airlines", to restructure and privatise railways, large-scale enterprises, situated in the territory of Klaipeda Sea Port, to privatise oil refining, distribution and gas supplying companies.

The methods of valuation of objects to be privatised are approved by the Government of the Republic of Lithuania and reflect international practice. This policy is applied to the strategic sectors of oil refining and distribution, supply of natural gas, railway transport, aviation, and sea ports.

The privatisation Commission and the

Lithuanian State privatisation Agency have been established for the implementation of the privatisation tasks. The Privatisation Commission is to form the privatisation strategy and control it. The Lithuanian State Privatisation Agency - a Government institution - started its work on 9 January, 1996. The Privatisation Agency acts as the representative of the Government privatising state-owned property.

The main functions of the Lithuanian Privatisation Agency are:

- to compile an annual draft list of objects to be privatised and to submit to the Government for approval;
- to define the method of privatisation;
- to define the conditions for privatisation of each object or group of objects;
- to propose privatisation programs, submit them to the Privatisation Commission for approval and organize the realization of approved programs;
- to participate in the valuation commission, assessing the value of objects to be privatised;
- to seek potential investors for objects to be privatised;
- to complete privatisation transactions
- to document the privatisation work in Lithuania;
- to prepare drafts of privatisation laws and other deals;
- to subsign proposals for the improvement of the privatisation process.

Methods of privatisation

1) Public subscription for shares - when shares of stock companies are sold through the National Stock Exchanges and the Privatisation Agency. The shares are sold in an open manner, i.e., neither the number of purchasers nor the number of shares subscribed by them is limited, and the selling price of the shares is determined according to the supply and demand ratio.

2) Public auction - the purchaser shall be that bidder who offers the highest price;

- 3) Open tender - the object to be privatised will be given to a bidder offering the best perspective for the object. Each bid will be estimated according to specific guidelines; the bidder has to provide a business plan;
- 4) Sale through direct negotiations - this method is used if only one bidder takes part in the public auction or open tender;
- 5) Lease with an option to purchase - the bidder with the best proposal may first lease and then buy the object after up to 25 years.

Implementation of the privatisation methods regulated by privatisation documents shall be according to rules established by the special decree of Government.

A degree of success of privatisation largely depends on conditions of foreign capital investments. They are favourable in Lithuania.

If the enterprise was established, or the foreign capital was invested before 31 December 1993, the part of its profit (income) due to that foreign investment shall be taxed for five years at a rate reduced by 70%. Upon the expiration of this 5 year period which is calculated from the date of the receipt of income, profit (income) tax levied on the share of the profit (income) due to the foreign investment shall be reduced by 50% for a 3 year period.

If an enterprise was established or foreign capital was invested within the period between 1 January 1994 and the coming into effect of the Law on Foreign Capital Investment, the portion of profit (income) due to foreign investment shall be taxed for six years by profit (income) tax reduced by 50%.

If a foreign investor has acquired at least 30% of enterprise's authorised capital and has invested foreign capital worth at least USD 2 million, such enterprises shall be exempt from profit (income) tax for three years from the moment the income is received. Such enterprises shall pay for the subsequent three year profit (income) tax reduced by 50%.

An enterprise willing to exercise the right to tax incentives provided for in the Law on Foreign Capital Investment in the Republic of Lithuania must file with the Tax Inspectorate the documentation prescribed by the Government,

confirming the foreign origin of capital and investment into the capital of an enterprise.

Other tax exemptions shall be applied for, in the manner established by the laws of Republic of Lithuania.

Contributions of foreign investors made into the enterprise's authorised capital that is being formed or increased, and used as the long-term assets, shall be brought into the country free of customs duties.

Profit, income or dividends received in accordance with law shall belong to foreign investors by the right of ownership. Foreign investors shall have the right, after having paid taxes, to transfer the profit, income or dividends belonging to them by the right of ownership to a foreign country without any restrictions. Taxes may not be levied on the share dividends of foreign investors unless the same is applied with respect to legal and natural persons of the Republic of Lithuania.

Foreign investors may also export their profit, income, or dividends in the form of goods and services purchased on the domestic market, or reinvest the same into the economy of the Republic of Lithuania.

In the event of a dispute the, foreign investor shall have the right to apply directly to the International centre for the Settlement of Investment Disputes. In June 1996, Seimas approved the Constitutional Law on sale of non-agricultural land to foreigners.

It is expected, that Free Economic Zones, which are organised in Lithuania at the present time, will stimulate the investment process that in turn, will influence privatisation. In these zones, effective business territories are created with law and order. Tenants will profit from facilities such as tax reductions and tax holidays. These zones will be provided with all needed infrastructure in 1998.

Privatisation today and tomorrow in Lithuania

In the program of the Government of the Republic of Lithuania for 1997 - 2000, the acceleration of privatisation process

was stressed and even on 19 of February 1997, the Government Communication, Transport and Other Large-Scale Enterprises which resolves privatisation of 13 large enterprises during the two year period (1997-1998) by announcing a tender for international advisers-consultants to prepare privatisation plans. The resolution list includes such enterprises as Joint Stock Companies "Lietuvos Telekomas", "Aviakompanija Lietuva", "Klaipedos juru krovininiu kompanija", "Lietuvos juru laivininkyste".

In compliance with the resolution of the Government of the Republic of Lithuania, 3 commissions were established:

- for the privatisation of communication companies;
- for transportation sector companies;
- energy sector companies.

These commissions prepare terms of reference, which should be approved by the Privatisation Commission upon Government approval. These commissions also organise tenders for choosing the international advisers-consultants.

The consultant prepares a privatisation program for the company in co-operation with the founder of the company and the Privatisation Agency, and prepares all required documents and participates in intensive seeking for potential investors.

Five tenders for consultants of the listed companies already took place. 10 companies participated in the tender for consultant to for Joint Stock Company "Lietuvos telekomas". Among them were such well known companies as Merrill Lynch, Nomura, Union Bank of Switzerland, Arthur Andersen, Flemings, Deloitte and Touche, Price Waterhouse, Deutsche Morgan Grenfell. After consideration of the best proposals, the Commission choose the consortium led by the Union Bank of Switzerland as the winner of the tender. The agreement of preparation for privatisation was signed with the representatives of the winning consortium on August 5th of this year. Joint Stock Company "Lietuvos Telekomas" is a national telecommunication services operator which provides international and local telephone communication services ac-

ording to monopoly rights. It currently has 9917 employees. It has more than 1 mln subscribers in Lithuania. The telephony penetration rate is 26.7%. The development of telecommunications is oriented to the installation of digital technologies and to the expansion of modern services. The state owns 100% of shares in this company. The level of privatisation will be determined during the preparation of the privatisation program.

Public tender commissions have already selected consultants for other two companies: "Klaipedos juru krovininiu kompanija" (KLASCO) and "Lietuvos juru laivininkyste" (LISCO). The tender for the first mentioned company was by the consortium from Germany "Rogge Marine Consulting", which comprises of the auditing company "Arthur Andersen", consulting company "Superma" and law company "Lideika and Partners".

The winner of the tender for privatisation preparation of the company LISCO was won by accounting, audit and consulting company "Coopers and Lybrand". The agreements with the winners of the tenders will be signed in a month by the State privatisation agency. At present 92.4%, of company KLASCO shares are owned by the state. There are 2300 employees. This company is the biggest shipping company in the

Klaipeda Sea Port and handles over 7 mln tons of freight a year.

The State owns 80% of LISCO shares, there are 2000 employees. The company has 35 different tonnage vessels in disposition and serves several ferry lines in the Baltic Sea.

The Government of the Republic of Lithuania also approved the list of other 835 objects for privatisation, which capital for privatisation amounts to 4460.5 mln Lt. The State intends to sell small packages of the shares remaining after the first privatisation stage. Thus, the state carries out 100% denationalisation of the companies capital. An example of such intention could be the sale of Joint Stock Company "Baltijos laivu statykla". The package of state owned shares was sold to Danish company on July 14, 1997 for the amount of 11369 thou Lit.

385 privatisation programs were prepared and announced. From August 1996, until August 31, 1997; 190 objects were privatised, income to privatisation Fund and accounts of municipalities amounts to 25 mln Lit.

Since the beginning of this year 143 objects were privatised, 81 of them were sold by the method of public auction, 4 - by leasing with an option to purchase, 58 buildings - by public auction.

During the same period, the State Pri-

vatization Agency has sold 81 objects for the amount of 19.3 mln Lit, 19 of 81 objects were privatised through the National Stock Exchange.

The Government of the Republic of Lithuania has reduced the list which was made according to the Law on Enterprises to 110.

Lithuanian privatisation agency has compiled and prepared detailed data on the remaining State property for privatisation in Lithuania, which remains in Joint stock and Joint stock limited companies.

There are some 3 thousand companies comprising of state owned or municipal property. The total amount of Lithuanian companies (excluding agricultural and co-operative companies) is more than 127 thousand, thus there are only 2.4% of enterprises in Lithuania which have state or municipal owned shares and which could be privatised.

The privatisation process continues to accelerate, and Lithuania subsequently receives more inquires from legal and natural persons, expressing their interest to participate in the privatisation of different objects. The Lithuanian State Privatisation Agency welcomes enquiries and is prepared to provide information about the objects to be privatised and to assist in processing.

Beyond Privatization: Other Options for Initiating Estonian and Baltic Development



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Introduction: Why Privatize?

Since the beginning of the transition from a state-organized to a free market economy in the early 1990s, Estonia has been one of the leading nations from the former Soviet Union in bringing about political, economic, and social reform. Privatization of the large former industrial and agricultural sectors has been one the cornerstones of this effort. After the initial euphoria of private sector selloffs to domestic and foreign interests, Estonia has entered into a second more sophisticated round of privatization. But Estonia's citizens, as well as

their other former Soviet neighbors, have found that exchanging the state for a private sector landlord or manager does not automatically solve their problems and, in some instances, can lead to more challenging issues.

The traditional goal of privatization is to reduce the size and scope of government in the delivery of goods and services while, at the same time, opening up more opportunities to the private sector. This is supposed to bring about more competition and reduce government bureaucracy, but it does not automatically guarantee a system that is less wasteful and inefficient than its former counterpart. For example, one potential problem might involve "creaming"

whereby the most profitable resources are sold off while the taxpayer is left to supplement the remaining, most inefficient parts of the system. Another issue involves the question of “community”. Does a program which has been set up to meet a common greater goal lose its public emphasis (i.e., the ability to serve the common good) when a private, for-profit contractor takes over? At this point, policy planners in the Baltics need to examine the merits of other options beyond privatization. This paper presents two alternatives. One is the concept of industrial policy which is an idea utilized by some developed economies. The second is the concept of public-private partnerships, a much less known and utilized concept, but one that has shown positive results in individual situations. The issues presented here also are important because they clarify the relationship between business and government. How should each sector influence the other? What are the implications? How does one develop the balance between the common good and the individual good? All of this is important because it makes good public policy and good business policy.

Beyond Privatization - Concept of Industrial Policy

One alternative is the potential of industrial policy. This concept is not new and has been implemented in various fashions in most developed economies; for example, Japan’s government organization known as the Ministry of International Trade and Industry. Under this option, a government agency is set up to accomplish one or more of the following tasks: 1) foster ideas; 2) provide planning support; 3) coordinate implementation; and 4) monitor industrial development. Business development comes about through restructuring, targeting, worker retraining, infrastructure reconstruction, or restrictions on imports. Proponents of this option see it as a form of public sector venture capitalism while its opponents see it as an assault on free enterprise. This is especially true if it moves from economic planning to corporate welfare whereby government

supports targeted developing industries (also known as sunrise industries) as opposed to shrinking industries (usually known as sunset industries). A major policy question becomes: how far should the public or private sector go in addressing efficiencies or inefficiencies? How far should government go in fostering and managing private sector interests? Could public sector resources be used in a better way, or should they be expended at all? There are a series of practical reasons beyond the theoretical implications. Why does a society even need a formal industrial policy—and an agency to implement it—if the economy is growing and creating jobs as well as economic wealth? What are the implications of larger, more powerful government with its related issues of inefficiency and ineffectiveness? Finally, what if industrial policy results in different regions of a country competing against each other, such as rural versus urban interests or those of competing cities?

One example involves the work of Korea’s Economic Development Board in supporting the development of the country’s microwave industry. When the electronics company Samsung first investigated the possibility of developing a microwave for the consumer market, it had no prior experience. Several large American firms dominated the entire market. Samsung set an ambitious goal of not only becoming a world participant, but also producing all of the components (even the highly technical heating element, the magnetron tube) in Korea. But the company could not do all of this on its own. The Economic Development Board was called upon to provide support which it did through helping to build an industrial park, subsidizing the utilities costs, giving tax rebates for microwave exports, and making low cost loans to help in research and development. These types of support (i.e., various forms of industrial policy) resulted in Korea becoming a world leader in the development and manufacture of microwaves.

Beyond Privatization - Private Partnerships

A middle position between privatization and the initiation of an industrial policy

involves an alternative whereby business and government interests work together to provide a product or service. This concept is known as public-private partnerships. Government at various levels may become involved with private sector interests to accomplish one or more of the following tasks: 1) foster basic research; 2) enforce copyright laws; 3) collaborate among schools to offer a certain type of product or service; 4) monitor protectionist policies to reduce trade friction. The goal is to utilize the best resources from each sector. One example involves a group of public and private sector investors in the United States who worked together to resolve a small part of a complex social problem: homelessness among women with children. Several years ago two wealthy investors in New York City formed a team that included private sector banking interests; government officials at the local, state, and federal levels; and individuals that represented non-profit foundations. The objective of the investors was not to resolve the entire issue, but to provide specialized support to resolve a part of the problem. Their combined efforts resulted in the reconstruction of a building to care for poor women with children who were living in the streets. The success of this effort became a national model. Similar efforts have taken place at the local level in the United States regarding housing, welfare, and educational policy issues. Public-private partnerships offer a unique opportunity to resolve a targeted or short term issue where business and government interests have a common interests. A problem results when they are used to solve major policy issues or long term projects that have traditionally been the responsibility of one part of society.

As Estonia and its neighbors continue the transition to a free market system, business and political leaders need to look beyond traditional transition options. Alternatives such as industrial policy and public private partnerships may provide direction and support to help broaden the political and economic alternatives. The long term results should not only strengthen the economic potential, but also the political and social framework as well.



Privatised Companies in Estonia Two Years After Privatisation



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In 1996, Mainor Trend, together with the Institute of Estonian Future Studies carried out a study of enterprises that were privatised two years earlier. The aim of the research was to study the further development of privatised enterprises during the post-privatisation period and

the influence of privatisation as a strategic decision on the development of the enterprise. The main questions to be answered were the following:

- What are the problems concerning investment, that new owners have had to face in Estonia?
- What changes have taken place in the economical and organisational behaviour of privatised large enterprises during the post-privatisation period?
- How do the privatised enterprises satisfy their need for capital?
- In what type of buyers' groups has more success been achieved in post-privatisation development?
- What are the main problems, which the enterprises have had to solve that have arisen after the privatisation?
- How do the new owners assess the process of privatisation and what would they have done in a different way?

The Estonian Privatisation Agency and the Estonian Investment Agency ordered the research.

The sample included the enterprises that were privatised in 1993 or at the beginning of 1994, and at a price which exceeded 5 million Estonian kroons. There are 71 such enterprises. However, we succeeded in interviewing only 48, since the remaining 23 refused to participate in the survey for different reasons. The financial figures of 58 enterprises were looked into, which is 82% of the whole sample.

The enterprises included in the sample are shown in Figure 1.

All the figures were also studied according to the types of new owners. New owners were represented in the sample as according to Figure 2.

Figure 1.

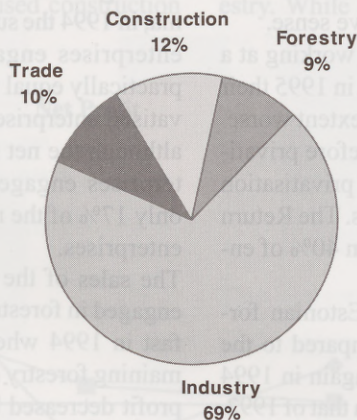
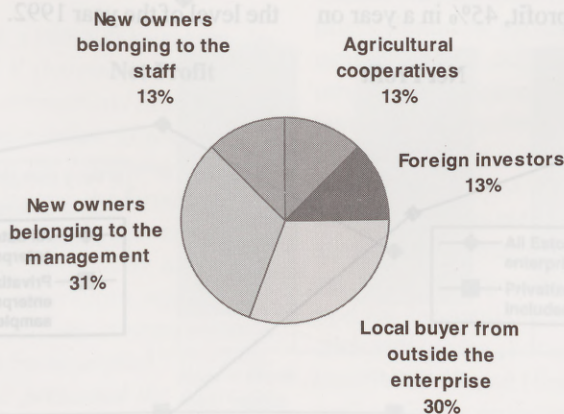


Figure 2.



How the economical situation of privatised enterprises has changed after privatisation

It is interesting to mention that there were 20% of enterprises that simultaneously enjoyed the increase both in net sales and net profit. The enterprises where privatisation changed the direction of both net profit and net sales toward growth comprised 4%.

There was also such enterprises where falling sales were accompanied by rising net profit - there were 16% such cases. Investors from outside the enterprise privatised most of them.

In 1994 net profit was negative in 35% of privatised enterprises included in the sample.

Among the enterprises operating at a loss, there were also 20% of those whose net profit started to grow after privatisation (before that it had been going down). In case of those a speedy recovery from the loss would have been expected. But according to the figures for 1995, only 2 enterprises could make it. According to Return on Equity 33% of

new owners can be satisfied with their investment in 1994 since it earns more profit than same amount of money would have earned in a bank account. In 1994 the summarised net sales of the Estonian enterprises increased by 162% in comparison to the year 1992. At the same time the net sales of the privatised enterprises included to the sample increased only 28%. While the summarised net profit of the Estonian enterprises fell by 69%, the net profit of the mentioned privatised enterprises fell by 95%.

The profit margin is lower in case of privatised enterprises than in the Estonian enterprises on the average. It is also indicated by the graph where the enterprise income taxes are compared; that in case of privatised enterprises it approaches zero. When the enterprises under study paid the income tax together 140 million EEK in 1992, then in 1994, they paid only 21 million EEK. According to the changes in the structure of costs, the reason of that is the rapid increase in labour costs.

In general, the liquidity of privatised enterprises is good. Only 9% of enterprises had serious liquidity problems. Liquidity was low mainly:

- In small enterprises whose percentage in the sales of their field of activity was less than 1%;
- In the enterprises where the management had no shares in its possession;
- In the enterprises that were operating at a loss;
- In the enterprises with falling sales or where privatisation was accompanied by the fast increase of sales;
- In the enterprises where the net profit had been falling steadily or in case privatisation resulted in the fast increase of net profit.

The economical situation of privatised enterprises in comparison to similar enterprises

When comparing the changes that have taken place in the privatised enterprises in industry, trade, construction and forestry, we could find two extremes attract-

Figure 3.

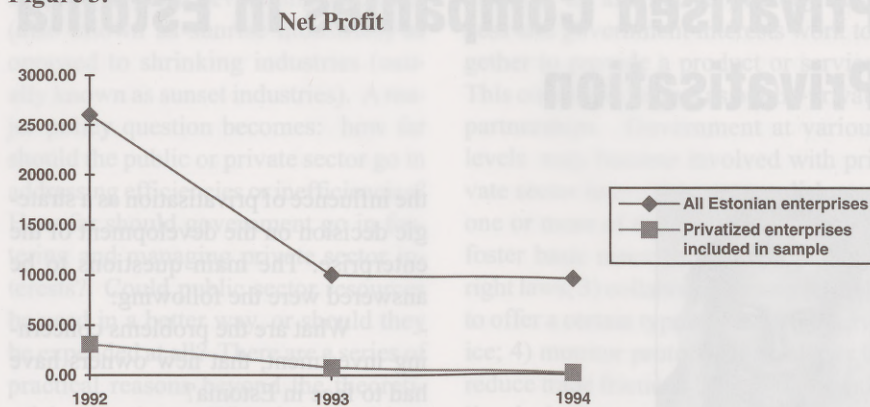
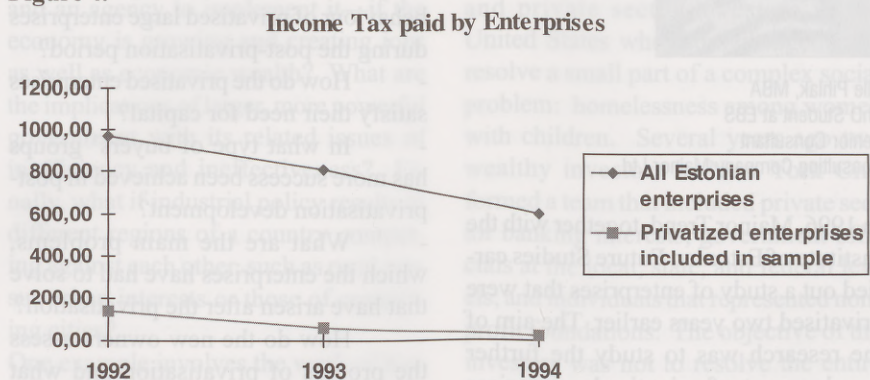


Figure 4.



ing attention:

Forestry in the positive sense and Construction in the negative sense. There were no enterprises working at a loss in forestry in 1994 but in 1995 their situation become to some extent worse. The net profit decreased before privatisation and increased after privatisation in 75% of these enterprises. The Return on Equity exceeded 12% in 40% of enterprises in forestry.

In 1993 the sales of the Estonian forestry increased 101% compared to the year 1992 and decreased again in 1994 to even the lower level from that of 1992. At the same time there was a constant decrease of the profit, 45% in a year on

the average. It is noteworthy that according to the Statistical Office of Estonia, in 1994 the summarised profit of the enterprises engaged in forestry was practically equal to the profit of the privatised enterprises engaged in forestry, although the net sales of privatised enterprises engaged in forestry formed only 17% of the net sales of all forestry enterprises.

The sales of the privatised enterprises engaged in forestry increased especially fast in 1994 when the sales of the remaining forestry decreased. In 1993 the profit decreased but increased again in 1994 and exceeded even more than twice the level of the year 1992.

Figure 5.

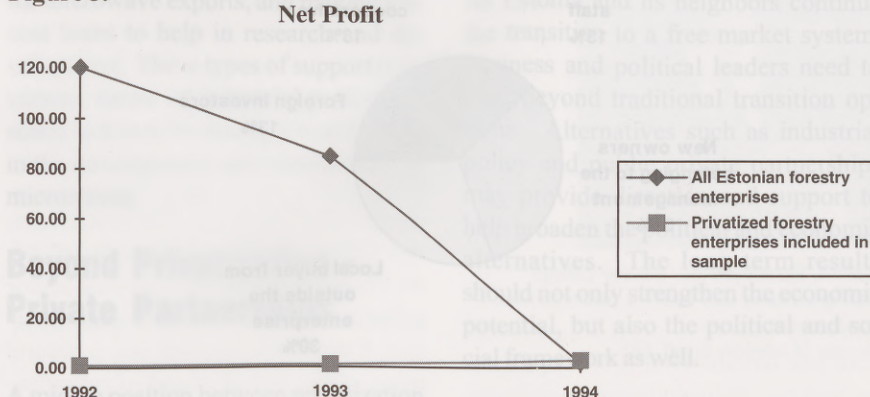
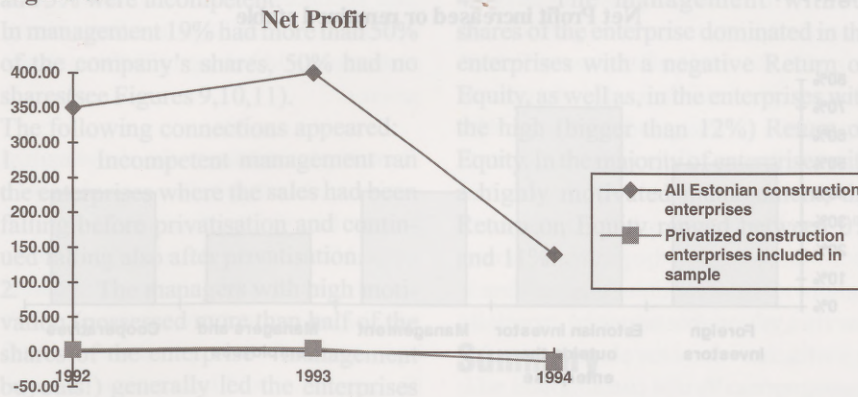


Figure 6.



The profitability figures of the privatised enterprises engaged in forestry was considerably higher than in the enterprises engaged in forestry on the average. In 1994, 60% of privatised *construction enterprises* had a loss. Privatisation brought about the fall in net profit in 29% of construction enterprises. The most privatised construction enterprises had liquidity problems.

In 1993, the sales of the Estonian construction enterprises increased 101% compared to the year 1992, and 34% in 1994 compared to the year 1993. When the sales of the privatised construction

enterprises fell slightly in 1993, then in 1994 it increased 45%, i.e. faster than the total sales of the construction enterprises. At the same time the summarised profit of the construction enterprises increased in all these years but the profit of the privatised construction enterprises fell since 1994, being negative in 1994 (see Figure 6).

The paradox is that the majority of construction enterprises regarded the expansion of the market as their first priority while survival was the main objective for the enterprises engaged in forestry. While the multitude of competi-

tors was considered to be the most serious problem by the enterprises specialising in forestry, then for construction enterprises the problems of equal importance were: the lack of the market, competition and also the difficult terms of the contract signed with the Privatisation Agency.

In industry the enterprises working at a loss comprised less than 40%. When studying industry more closely, it becomes evident that the majority of enterprises making a loss can be found in light industry.

In the years of 1992 to 1994 the sales of the privatised companies remained practically unchanged although in 1994 there was a slight growth. The fastest decrease of the profit was before privatisation. After privatisation, the reduction in profit decreased. It is noteworthy that in 1993, the profit of industry in Estonia becomes negative, though the profit of the industrial enterprises under privatisation that year remained positive.

It is worth mentioning that 18% of industrial enterprises regarded survival as their first priority. The high interest on loans in Estonian commercial banks was considered the main problem.

In trade the enterprises working at a loss comprised less than 40%.

In the years of 1992 to 1994, the sales of the trade enterprises in Estonia grew steadily and quickly (360% in a year), while the profit increased 16% in 1993 compared to the year 1992 and fell 43% in 1994 compared to the year 1993.

At the same time, sales of privatised trade enterprises increased only 36%. In 1993 there was a slight increase of the profit but in 1994 it decreased again.

53% of privatised trade enterprises had serious liquidity problems but still the liquidity figures of these enterprises were higher than in Estonian trade enterprises on the average.

When in the privatised trade enterprises the equity exceeds liabilities, then in the Estonian trade enterprises the average liabilities exceeds equity by three times. Thus, it can be claimed that, although the profit of privatised trade enterprises has decreased, their financial indicators are still higher than the average figures of the all-Estonian trade enterprises (see figure 7,8).

Figure 7.

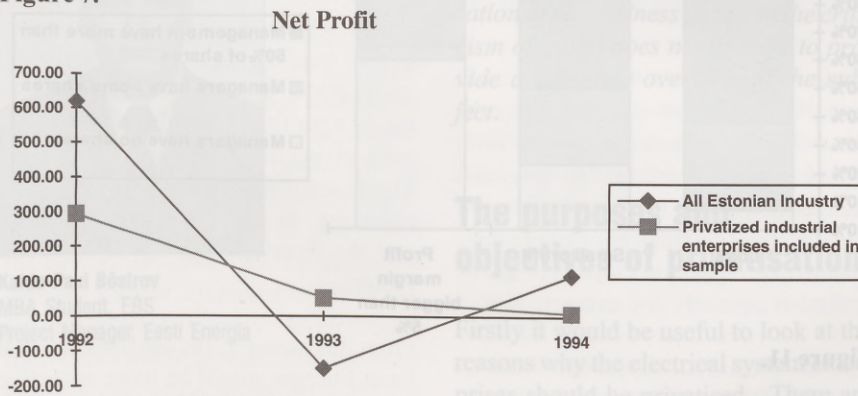
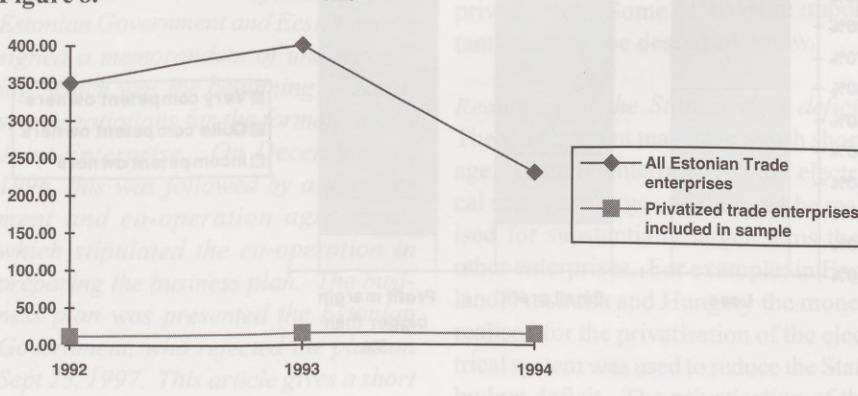


Figure 8.



The economical situation of privatised enterprises according to the type of new owners

According to the owners, it turned out that local investors from outside the enterprise represented the most successful group.

The majority of enterprises with increasing net profit could be found in case of local investors from outside the enterprise - 57%.

In the enterprises where falling net profit was turned into increasing net profit, local investors from outside the enterprises were predominantly in majority (50% of cases mentioned).

Among these, there were also the majority of those enterprises, where the falling net profit and sales had been turned into the increasing net profit and sales. The enterprises, where the shares were dispersed among staff, can be considered the most unsuccessful group. In 1994, 50% of them operated at a loss. 33% had serious liquidity problems.

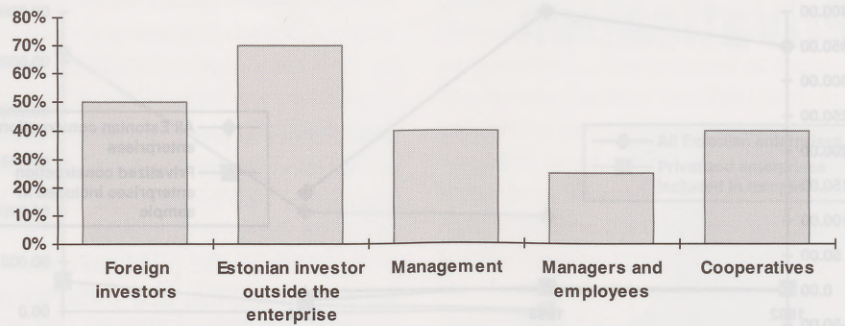
The group of enterprises privatised by foreign investors remains somewhere in between those groups just as the enterprises privatised by management and by agricultural co-operatives. At the same time, the aim of both the foreign new owners and the agricultural co-operatives was the expansion of the market, but in case of the enterprises privatised by the management, the expansion of the market and survival were equally important.

The new owners from outside the enterprise most often brought out the problems connected with the scarcity of working capital and privatisation of land. The terms of the contract signed with the Privatisation Agency was considered the main problem by the enterprises privatised by the management.

It is worth mentioning that only the enterprises privatised by agricultural co-operatives (mainly food industry) regarded the absence of customs restrictions as a problem.

Figure 9.

Net Profit increased or remained stable



The economical situation of privatised enterprises in regards to the competency and motivation of the management and the owners

The enterprises were also classified according to

- The competency of the new owners (highly competent - operating

in the same field for a long time; incompetent - operating in a different field, a new company);

- The competency of the management (we took into account age, education, experience in the same field of activity);

- The motivation of the management (the percentage in the capital stock)

It turned out that 56% of the new owners were highly competent, 27% were quite competent and 17% were incompetent.

In management 75% were extremely competent, 22% were quite competent

Figure 10.

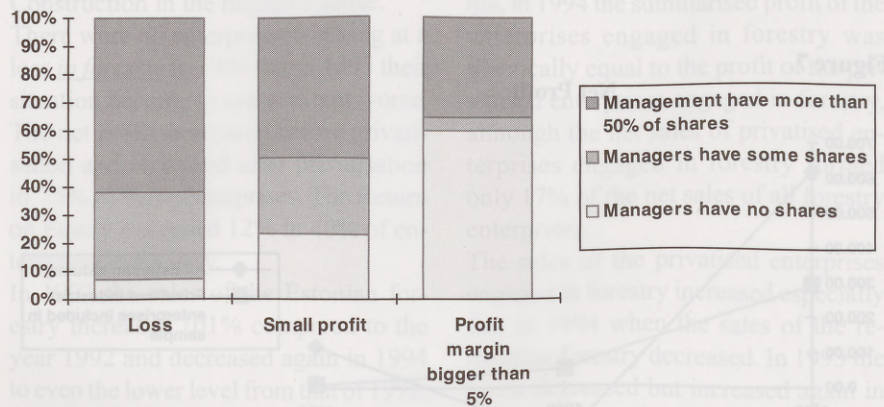
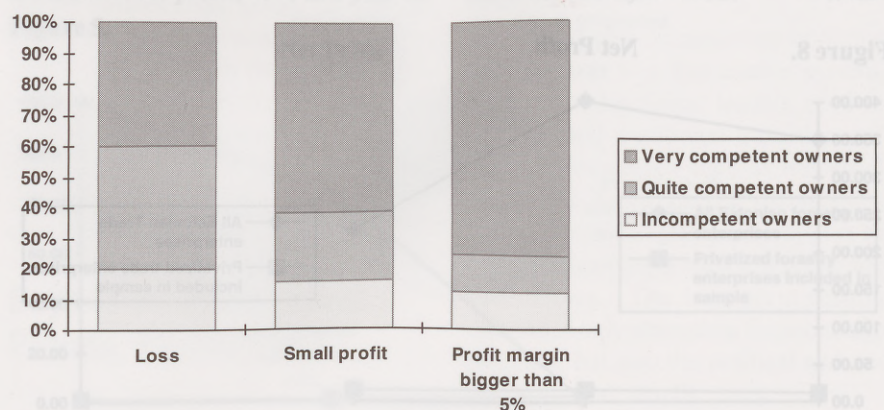


Figure 11.



and 3% were incompetent. In management 19% had more than 50% of the company's shares, 50% had no shares (see Figures 9,10,11).

The following connections appeared:

1. Incompetent management ran the enterprises where the sales had been falling before privatisation and continued falling also after privatisation.
2. The managers with high motivation (possessed more than half of the shares of the enterprise - management buyouts!) generally led the enterprises with increasing profit to its fall! But they still worked with profit.
3. The owners of the enterprises operating at loss were in most cases incompetent or quite competent (they were active in some other spheres). Generally, the management of such enterprises had no shares of the enterprise. Profit Margin exceeding 5% was achieved in the enterprises where the owner was very competent and the management was usually highly motivated.

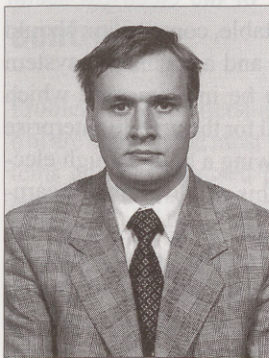
4. The management without shares of the enterprise dominated in the enterprises with a negative Return on Equity, as well as, in the enterprises with the high (bigger than 12%) Return on Equity. In the majority of enterprises with a highly motivated management, the Return on Equity ranged between 0% and 11%.

Summary

It may be stated, that the most positive changes connected with privatisation have taken place in enterprises engaged in forestry, and the most negative changes can be found in construction enterprises. The setback of construction enterprises has probably been caused mainly by severe competition by new private enterprises. According to the owners, it turned out that local invest-

tors from outside the enterprise represented the most successful group. The enterprises where the shares were dispersed among the staff were the most unsuccessful group. It also appeared that the competency of the owners and the motivation of the management makes it easier for an enterprise to earn profit. Thus, the economic situation of the privatised enterprises two years after privatisation was worse than in Estonian enterprises on the average, but it need not be caused by the privatisation procedure. It should rather be confessed, that the former state owned companies are overcome by the new private companies, as they need more investments for the reorganisation of their activity. At the same time, some previous markets were lost and due to the constant increase of the price of labour, the competitive advantage that was only supported by the low cost price of products was lost.

Privatisation of the Electrical System in Estonia



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On March 28, 1996 NRGenerating International B.V. (hereinafter NRG), the Estonian Government and Eesti Energia signed a memorandum of understanding, which was the beginning of exclusive negotiations for the formation of a Joint-Enterprise. On December 20, 1996, this was followed by a development and co-operation agreement, which stipulated the co-operation in preparing the business plan. The business plan was presented the Estonian Government, who rejected the plan on Sept 23, 1997. This article gives a short

overview of some of the problems affecting the privatisation of the electrical sector taking into account the preparation of the business plan and the criticism of it and does not attempt to provide a complete overview of the subject.

The purposes and objectives of privatisation

Firstly it would be useful to look at the reasons why the electrical system enterprises should be privatised. There are usually several different purposes for privatisation. Some of the more important ones will be described below.

Reduction of the State budget deficit. The Government may have a cash shortage. Usually enterprises in the electrical sector are large and they can be realised for substantially larger sums than other enterprises. For example: in England, Australia and Hungary the money realised for the privatisation of the electrical system was used to reduce the State budget deficit. The privatisation of the

electrical system is not the reduction of the Stated budget deficit in Estonia and the privatisation is planned to be done by increasing the Share Capital. The Joint Venture to be formed with NRG and Eesti Energia was to be done with Eesti Energia contributing its assets (The Balti and Eesti Power stations) and by NRG making a cash contribution.

Need for Investments. The Electrical system in Estonia needs expansion and modernisation, though the enterprises does not have enough money to finance the needed investments required for development. Though the Estonian Government does not finance Eesti Energia directly from the State Budget, the parliament has given guarantees to loans taken by Eesti Energia. Usually Governments do not want to give guarantees because this increases the government's foreign loan repayment obligations. Another possibility is to ensure the financial health of the enterprise so that loans may be taken without State guarantees. In order to do this; the price of electricity must usually be raised to allow the enterprise to earn a profit.

However, governments do not usually want to raise the price of electricity, since this makes the Government unpopular with the consumers (and voters). When the enterprise is privatised, then the new owner must find the required capital itself. Governments usually set investment requirements as conditions of privatisation. One of the main objectives in forming a Joint Venture was to carry out large investments into the refurbishment of electricity production facilities and the fulfilment of environmental protection requirements, so that the operation of the power stations could be ensured for the next 20-30 years. It was estimated in the Business plan that 1.1 billion USA dollars would have to be invested in the in the years 1998-2027.

Improvement of efficiency

The reason for privatisation is the belief that a private enterprise works more efficiently than a State run enterprise. State owned enterprises usually have too many employees, the management is not free of political influence and the management is inefficient. Theoretically it is possible to have efficient management in a State owned enterprise, but most governments prefer that someone else do this. The partnership with NRG was to have a synergetic effect where Estonia's experience in working in the Shale oil energetics field was to be integrated with international business management skills.

Expansion of the ownership circle. Often the reason for privatisation is the wish to expand the ownership ring by bringing in many small shareholders to help develop the market economy. The placing of large, well-known, stable and dividend paying enterprises for sale entices many new investors to the Stock Exchange. One objective of privatising the Estonian energy system could be to list the shares on the Tallinn Stock Exchange. The Business plan did not discuss the listing of the Joint Venture on the Exchange.

Reorganisation. Quite often it is necessary to reorganise the activities of the energy sector prior to privatisation.

Usually the reorganisation is directed towards the creation of competition and to make the enterprise more efficient. The reorganisation usually consists of separation of the production, transfer and distribution of electrical energy with the objective of allowing large consumers and supply networks to by the electricity directly from the producer (power station). The creation of competition is not always possible or useful especially in a situation where the electrical market is geographically and consumption wise

The reason for privatisation is the belief that a private enterprise works more efficiently than a State run enterprise.

small. The creation of competition is complicated and problematic as a rule, since the whole sector is usually integrated into one system. In this case competition could prove to be too expensive for the final consumer. The planned changes need to therefore, be looked at carefully and as a set.

The Business Plan supported and took into account the need for reorganisation of the electrical sector and separation of the electrical system from the transmission and distribution sections as well as the restructuring of the financial management system to a business system by the creation of a commercial contracting system. The Business Plan assumed that the Joint Venture would be formed on the basis of the assets of the Balti and Eesti power stations and that the formed enterprise would be in a dominant position, whose activities would be regulated by the Estonian Government.

The Business Plan did not discuss an option where the Balti and Eesti power stations would belong to different businesses.

Security. In addition to the above named reasons, security issues can also be a reason for privatisation. For example, United States legislation handles foreign investments and allows the government to take action in cases of danger. The opinion has been expressed that NRG investment would help to increase stability in northeastern Estonia.

Objectives and politics

The privatisation plan needs to be prepared taking into account the reason for privatisation. Due to the roll of the Government in society, the Governments objectives are not always clearly defined and are often conflicting. Therefore there is a danger that the result of the privation may not be the optimal solution.

For example, if the reason for privatisation is to *get the highest price* than the reorganisation of the electrical sector may not be suitable, competition should not be created and a regulation system would have to be implemented which would be useful for the private enterprise as well as allowing a high enough electricity price. This would allow the earning of a profit and would avoid market risks, giving the enterprise what it wants. This also allows the fulfilment of another objective: to ensure large investments and the development of the electrical system.

From this example, the conclusion is that Eesti Energia would be more attractive to investors as a whole than its components separately.

If however, the objective is the *reorganisation of the electrical sector* to improve its efficiency, then as a result the monopoly should be dissolved firstly in production, then competition should be brought in, and an effective regulation system should be created. These methods would probably reduce the enterprises' profit and so investors would be ready to pay less for the enterprise upon



privatisation. Society as a whole, may gain from the reorganisation, but not the State, as it will receive less money from the sale.

If the objective is the *dilution of ownership among small shareholders* and the listing of the shares on the Exchange and the development of a market economy, then the shares should be sold to many different people at a low price, with the assumption the price of the shares will increase and the buyers of the shares will earn a profit. The incorporation of many small shareholders into the ownership of the electrical companies will make part of the population less sensitive to the increase of electricity prices. Secondly, the dilution of ownership between many different small shareholders creates the danger that the small shareholders will not be able to affect the enterprise's activities especially in regard to efficiency. If a strategic investor or a group of legal entities holds the shares then they have the opportunity to take action and affect the enterprise's activity.

Ownership form and control

Problems with ownership form and control are some of the most important problems and have caused many disagreements. Governments often want to retain control over a privatised enterprise. The Government has the opportunity to maintain control as the majority stockholder. If the State keeps its share, then the private investor has the assurance that the State is interested in the development of the Company. Even though this is not clearly privatisation the State can achieve some of its privatisation objectives this way. Another possibility is that the Government maintains the ownership of the enterprise but the enterprise will start to buy some services from the private sector. For example, in the case of the electrical sector it is possible that the power stations be managed under a management contract by private enterprises. This was one of the possibilities under discussion in the negotiations with NRG, but it was decided to abandon this idea, as it was thought that it would make the manage-

ment legally complicated.

It is assumed in the Business Plan that the shareholders in the Joint Venture are NRG and Eesti Energia where NRG will own 49% and Eesti Energia 51%. The Estonian Government has decided, though that in privatisation the States direct ownership in power stations should be at least 51%, therefore the investment partner must be the Government of Estonia and not Eesti Energia. The Energy Law, which comes into effect on January 1, 1998, states that 51% of the ownership businesses based on power stations, which belong to the list of strategically important businesses, must be maintained. It is quite safe to assume that both the Balti and Eesti power stations will belong to the list of strategically important businesses.

Many different private investors are of the opinion that Governments do not always act in a rational and financially sound manner. Often incompetent people are appointed to manage enterprises based on personal and political interests. The enterprise is not really a private company if the Government maintains control. In this case, the company may lose trustworthiness and public opinion may decrease. Taking into account the ideology that a private owner manages an enterprise more efficiently, the Business Plan assumed that NRG as the strategic investor would have the right to nominate the Joint Ventures Board of Directors, where the Council could only reject the nominees only with sufficient cause. It was assumed that NRG would bring in competent people with international experience to manage the power stations. At the same time, the States wish to maintain control over strategic decisions was respected. The Council was to have a majority of Estonians and decisions were to be taken with a simple majority.

Regulation

The main question when reorganising the electrical sector is regulation.

If the State owns an infrastructure enterprise then a clear and legislated regulation mechanism usually does not ex-

ist. This is currently the situation in Estonian. Even though an electrical energy and shale oil price commission has been formed the price of electricity is still set by the Estonian Government. The Government also stipulates the conditions and changes them as necessary, appoint top management, decides whether to use the enterprise to earn a profit or for social and political reasons. Private investors do not usually want to buy enterprises, which depends on the goodwill of the State. Investors want to know the rules of the game to appraise the enterprise's expenses and incomes as well as possible profit. Therefore, the Government, if it wants to sell the enterprise, must prepare rules that will ensure consumer protection. If the enterprise is a monopoly, then its pricing policy may discriminate against consumers and the quality of the services may not be as desired. At the same time the regulations must ensure the enterprise a large enough profit to bring in extra capital for investment into the development of the enterprise. Enterprises in the electrical sector require large investments and much capital to ensure the fulfilment of demands. The whole economy's development may be slowed, if enough cannot be invested into the development of the electrical systems.

Regulation must favour competition, because consumers can benefit from competition. If there is no competition as is the case in Estonia in the electricity production market, then regulations to favour competition should be legislated.

The regulation must show the State's economic political objectives. For example, the State may want to decrease the pollution output of the power stations as well as to demand the use of certain types for fuel with the objective of ensuring the States security and supply insurance. At the same time, the Government must understand that if the enterprise is privatised then it is much harder to realise its political objectives. It is important that investor know these rules prior to privatisation. In this case they can appraise how those rules will affect the business and what the market value of the business is. Investors must of course take into account that State policies may change.

Those Governments, who lack traditions and have few experiences in regulating enterprises should take into account, and be aware of what could go wrong. Estonia have very limited experience in regulation systems. Obviously the to be created Energy Market Inspection may also suffer from under financing. This in turn may make it practically impossible to hire well paid highly qualified specialists and therefore result in an ineffective and non-trustworthy regulation system.

For example, in Hungary, the Government allowed the investors an 8% return on investments, but later it became clear that this was politically difficult to ensure, as they did not want to raise the price of electricity. The Dunament power station in Hungary which had earned a profit prior to the privatisation started to work at a loss, since the sale contract had not set mechanism for increases in the cost of fuel affecting the sales price of the electrical energy produced. This type of a situation creates the danger that investors will loose faith in the regulation system and will start invest elsewhere where the risks are better managed. The Hungarian experience confirms the need to create a working regulation mechanism first, and then to start the privatisation process.

It seems that one main problem was that the composers of the Business Plan, the Estonian Government and the Ministry of Economy did not have a single understanding of the strategic objectives and did not have a single set plan to achieve the objectives. The problems could not be solved during the preparation of the Business Plan. We can agree with those critics, who stated that the formation of a Joint Venture was premature. By rejecting the Business Plan the Estonian Government took the first step towards clarifying the conditions of privatisation. The rate of return on equity was set (not over 12% during the first five years, and not over 8% starting from the sixth year). The Estonian Government decided that future private investors must have an obligation to invest in new technology and in environmental protection and as well as make contributions to social funds to help alleviate regional problems.

Asset value

After the approval of the privatisation objectives and the privatisation plan, the value of the enterprise is determined. An independent recognised financial advisor with international experience usually does this. Valuation of assets is very important, especially if the business is to be privatised with a strategic investor or privatised through the Exchange. The financial advisor is needed at the beginning of the privatisation process.

The valuation of the assets of the power stations is not a central question in preparing the Business Plan. During the preparation of the Business Plan an independent valuation of the power stations assets was ordered from Price Waterhouse Auditing company. The most appropriate appraisal method was determined to be Depreciation replacement cost method, according to which the replacement value of the assets was determined taking into account current material and construction prices.

Price Waterhouse appraised the total value of the power stations at 500 million US dollars, if the assets were new and were utilised to their full extent. In Estonia, 3000MW are installed in the power stations in Narva, of which 2000 MW is utilised. The remaining life of the assets was valued at 7.5 years, where the whole life of the assets was valued at 40 years. Therefore the value of the assets was between 50-100 million US dollars. Since one value was requested for the value of the NRG share capital payment, then the value of the stations was set at 70million US dollars. NRG's shares was to be 49%, therefore their payment needed to be 67.25 million US dollars. The Business Plan foresaw that NRG would pay an additional 5 million US dollars in the years 1999-2003 for solving possible social problems related to the power stations.

Several of the critics of the Business Plan have stated that the result is mistaken since incorrect facts were used. It was also stated that the value of the assets has been undervalued since the appraisal did not take the electrical market or Estonian long-term and unique experience in using shale oil into account.

At the same time it should be taken into account that the bigger the value of the assets the larger the share capital payment by NRG would have to have been and as a result the price of electricity would have been higher.

Privatisation methods

There are many different methods of privatisation and each has its pluses and minuses. The choices of the privatisation method depend on the objectives of the privatisation. Different methods achieve different objectives.

Even though Eesti Energia must be privatised according to the Government approved privatisation plan the Government started the privatisation on Eesti Energia's power stations in a situation where there was no privatisation plan. NRG was the first serious strategic investor, who was interested in the shale oil power stations. NRG also had the support of top Estonian politicians.

In this situation it was not possible to arrange for an open bid, since prior to this, the rules and bid conditions would have had to have been prepared. Usually these conditions are tied to investment obligations, obligations to maintain a certain number of jobs, conditions of qualification of the investor. For example in Hungary there were restriction set as to the minimum share capital, the investor had to present an investment plan together with a bank guarantee. These types of conditions were not set so concretely in Estonia and so the only opportunity to solve these questions was during the negotiations and during the preparation of the Business Plan.

The danger, especially with a lack of experience, in exclusively two-way negotiations is to reach a non-profitable deal. At the same time it can not be appraised at a later date, if the result was good or bad, if there is no comparison. This forms a ripe field for later criticism. Since there is no competition between bids, then it is difficult to determine the market price of the enterprise, which is the reason why privatisation's are often done through open bids.

The Substance of Social Insurance and the Development of Social Care



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This current article is not meant to describe a new solution for social insurance problems. The goal of this article is to discuss the theme without presenting "ready-made" solutions or opinions.

What is social insurance?

When talking about social insurance, it is important to discern it is two meanings: on the one hand — the broader meaning — social insurance includes insuring and care; on the other hand — the narrower concept — it means provision of social care.

Social insurance is cash payments or provision of services that are covered by the insured person's direct and/or indirect payments. Part of the sums can be allocated from the state budget.

Social insurance benefits can be:

— Cash payments (pensions, subsidies, and health care insurance premiums)

— Non cash advantages (services provided)

— The combination of these two.

The payments to the recipients are usually monthly, but can be also as a single grant (childbirth subsidy).

The forms of social insurance system are:

1 Governmental (currently in Estonia).

2 Employer's paid social insurance contributions.

3 Trade/occupational organisation social insurance (e.g. trade unions, etc.).

4 Local governmental social insurance is also possible.

5 Voluntary social insurance.

Social insurance systems can vary by states, but the main characterises are:

1 Social insurance is financed through taxes that are divided between the employer and employee. The State may possibly assist with additional taxes or subsidies from the State budget,

2 The membership of social insurance systems is obligatory with few exceptions,

3 contributions are accumulated into special funds,

4 The surplus of a fund, which is not paid out as subsidies, is invested to earn profit,

5 The persons' right to the premium is ensured with his payments to the fund.

6 The amount of the contribution and the insurance premium are interrelated to what the person has done or has been doing,

7 Work related injury insurance is financed 100% by employers. Additional subsidies from the State's general income sources are possible.

What is social care?

Social care is individual help for concrete needs financed from general financial sources. This care is provided only when other support, such as support from the family is not possible or is insufficient. The main feature of social care is its subsidising. Social assistance is not available if a person is able to help himself or receives assistance from his family.⁵ Another important feature of social care is that's individualistic — e.g. the type of care, character, extents are concrete to each single case. This aspect brings up the question — how to

make sure that the person or his family is not capable of providing assistance.

One solution is to use the example of bank loan departments and to tie benefits to income declared

Social care is financed primarily from local sources.

Social care principles are:

1 State or local government finances all expenditures.

2 When calculating assistance, all sources of income and assistance will be considered, but personal savings are usually not considered.

3 The assistance is aimed to increase the person's income to a level higher than the general minimal level, taking into consideration family size and inevitable liabilities (rent, electricity, etc.)

4 Social assistance does not consider the person's previous income or previous level of standard of life.

Social care legislation (in broader meaning) is a legal standard system, which regulates the relations between the person — who requires of assistance, and the State or local government — the help-provider. (Main principles of social legislation).

1 Social insurance must have many categories, so that every possible recipient of assistance is described.

2 Social assistance must provide at least a minimum standard of life.

3 The Standard established by the State should be treated as the minimum, which can be exceeded by local government, employer or voluntary insurance.

4 The amount of assistance should whenever possible, be calculated to the benefit of the assistance recipient.

5 Illegal action by an employer shouldn't damage the insured employee's assistance (current problem in Estonia — how can the employee be sure that the employer is paying social taxes).

6 The current legislation has to take into account moral norms to avoid social conflict.

Social insurance in Western Europe

Social insurance in Western Europe was developed from the social insurance schemes established as a way to maintain income for workers who temporarily or permanently were unable to secure and provide for himself and his family. Generally speaking, only the workers who made contribution to insurance funds were protected. Therefore, social insurance was an addition to general insurance and provided wider social security. The word change from social insurance to social assistance, is more than just a formal meaning, denoting that social insurance benefits were not available anymore only for insured persons, but were also available for unemployed people. From here, social insurance developed to be the social security system for everyone who lived in poverty and/or had certain needs.⁴

Functions of social insurance

Today, social insurance has several functions. Primarily, this is a system of maintaining income for those who temporarily or permanently are unable to work. Incapability to work may be stipulated from physical or economical reasons, that may, but not necessarily may be conducted with person's normal economical activity. By compensating the employee for his incapability to work, the social insurance system tries to preserve the employee's capability for work and diminish the possible loss of income.

The social insurance system guarantees assistance by covering expenses due to unusual life events. Those are events that result in an increased demand for additional income. Social insurance also provides persons who never have been or will be unable to secure themselves with necessary income with the basic a minimum living standard. Social assistance helps, through cash benefits or in kind, integrate the groups of persons who are in minority/in disfavour⁴. So it is possible to name the social assistance as the redistribution of wealth from rich to poor, or rather from the currently rich to

the currently poor (you never know how life goes).

The goals of the different systems of social care are described as security against certain risks. Those risks are listed in the ILO convention nr. 102 regarding minimum standards:

- 1 Illness.
- 2 Invalidity.
- 3 Pregnancy, birth.
- 4 Old age.
- 5 Occupational disease,

Social insurance developed to be the social security system for everyone who lived in poverty and/or had certain needs.

Social insurance development shows a trend of the movement of responsibility from the family to the community — to the state.

- 6 work accident.
- 7 Death.
- 8 Family support.
- 9 Unemployment.

This list might not be final, as nowadays the number of social risks may increase. According to the above, I can describe social risks as events, that may cause the loss of income or that may increase the demand for additional income sources.

In the beginning, social care as a subjective right meant, that if the person had paid certain contributions into the insurance fund during a certain period, then this fact gave him the right to demand social benefits. Nowadays, several types of social support exist, where it does not matter if the person has paid anything. In these cases, the person has to prove that he is the member of a category entitled to social benefits.

Social insurance development shows a trend of the movement of responsibility from the family to the community — to the state. In the pre-industrial revolution period, people, who required help, were left to the care of their family or their master. During the industrial revolution, people moved to live in big cities and formed a new category — workmen. They earned their living in factories. If one lost his job for a reason — for example illness, unemployment, old age — they and their families did not have any income to stay alive. Previously, Lords took care of workers and their family members during time-periods when the worker could not work. At this time it was essential, that the landlord had paternalistic responsibilities towards their workers and to look after their general well being. Here it is interesting to remark, that this paternalistic responsibility towards their workers is more or less transferred to industrial society — a clear example is the employer's responsibility to compensate losses caused to the employee through the fault of employer (income not received due to occupational accidents or disease).

One of the most important problems in the beginning of the industrial revolution period was insecurity and misery, that due to the missing social system. The Governments looked for ways to solve the problem, by bringing out the visibility of social insurance. The state founded and introduced a social insurance system that was meant for employees, but both the employee and employer paid their share of contributions. Paying these contributions gave the right to certain subsidies to employees, if their income decreased temporarily or permanently. So not only the State nor the employer carried the responsibility of preserving the employee's life standard (well being) upon losing their source of income.

The history of social insurance

Social insurance finds its beginning in Germany, at the end of the 19-th century. This system was established as the result of different economical and po-

litical factors. It demanded effective action to support those without any means for surviving. During 1883 - 1889 three different insurance systems were implemented:

- 1 Illness insurance (1883).
- 2 Occupational disease insurance (1884).
- 3 Old age and disability insurance (1889).

These insurance systems were financed by employer's, employee's and by State contributions. Membership was compulsory for all industrial workers. Other European States quickly implemented these kinds of social insurance systems.

Since the beginning of World War II, most of European countries had general illness and old age insurance systems. Some countries had non-contribution old age insurance systems, which allowed the receipt of pensions by persons who had never paid social insurance contributions. Some states had family (child benefits) benefits and unemployment benefit systems.

Since World War II, two types of social care systems are known:

- 1) Beverage scheme. This approach introduces social care, as the answer to the long-standing traditions of poor law. Even when the social care system is focusing on social insurance systems, the primary idea of these systems is securing minimum income for the population.
- 2) Bismarck scheme. This approach expresses the social care system, which was moulded from the mutual collaboration initiative and social insurance for economically active persons for whom systems are worked out depending on their income.

When expressing the main developmental trends of social care, it is necessary to cover two more aspects:

- 1) Inflation safe benefits, e.g. social care benefits should be tied up with consumer price indexes. It secures the value of benefits during high inflation periods. Benefit lump sum is calculated according to price or salary increases.

- 2) Salary dependant benefits. The general trend is to move away from the "flat rate" tax and benefit systems. This change is gradual, which consists of additions according to the salaries paid as a supplement to minimum level supports.

An important trend is to not only to guarantee a minimum standard of life, but to maintain a persons usual standard of life for those unable to earn their regular income.¹

Situation in Estonia

In Estonia, the current situation is such that some interested groups are recommending increasing the social tax to alleviate the situation. Anyway, it has to be understood, that increasing the social tax as a way of increasing pensions, does not solve the problem but magnifies it. Increasing the social tax, when Estonia is using a PAYG (pay-as-you-go) system for financing pensions, enlarges the financial instability of the pension system even more, requiring subsequent social tax increases.

As the social tax is part of the cost of labour, an increase of the social tax clearly has a negative impact on employment rates, decreasing the formation of new jobs. Maximum employment is the basic condition for financial stability of the pension system financed according to the PAYG principle. The relative value of the pension is also dependent on employment rates (see formula 1).

S is the amount of social tax (pension insurance share) and M is tax collecting percentage. Insured persons are persons whose employer has paid the social tax from their salaries.

Increasing of the social tax at this point in time, where tax-payment discipline could be improved and tax evasion is relatively high will provide a negative impact on the motivation to pay social taxes and so might distort the probable effect of individualising the social tax.

The increase of the social tax to enlarge the PAYG system would also increase the expectations of today's employees about future pensions, which cannot be fulfilled in a deteriorating demographic situation.

Although in Estonia, the share of the social tax paid into the pension insurance is the smallest among Central and Eastern European countries, it is high compared to Western European countries. Increase of the social tax and resulting from that, the increase of the cost of labour may cause the problems if Estonia is uniting with the European Union and has to compete in mutual market conditions.⁶

To fiscal politics, the analogue for monetary regulations would be expenditure program planning, going from that what the community prefers to implement as governmental rather than private, without taking into account any kind of yearly economical stability problems.

The projections for key macroeconomic variables under a sustainable growth scenario let us assume that given the improvement in capital efficiency, as a result of the modernisation of Estonia's industrial infrastructure and the emergence of a business-orientated service sector, a modest increase in the level of gross investment will yield higher growth rates. Aggregate investments in the 29 percent of GDP range will enable 5.3 percent average real growth rate through the year 2001. To sustain this level of investment, the balance of payments current account deficit still needs reducing, national savings needs to increase from the current levels of 18.6 percent of GDP in 1996 to around 24.2 percent of GDP by 2001 (see table 1).

Tax levels should be planned so that sufficient tax income is secured to cover planned expenditures and doing it again without taking into account the yearly economical stability changes.²

It is necessary to avoid substantial changes in governmental expenditures as well as in tax systems. Some changes may, of course, be necessary.

$$\frac{\text{AVERAGE PENSION}}{\text{AVERAGE BRUTO SALARY}} = \frac{\text{NUMBER OF PERSONS INSURED}}{\text{NUMBER OF PENSIONERS}} \times S \times M, \quad (1)$$

Tabel 1. Key Economic Indicators

	Actual 1995	Estimate 1996	Projection 1997	Projection 1998	Projection 1999	Projection 2000	Projection 2001
Real GDP growth rate	4.3	4.0	5.0	5.0	5.5	5.5	5.5
Inflation (yearly average)	28.9	23.1	12.5	9.5	6.5	4.5	3.5
Investment (% of GDP)	27.9	29.0	29.2	29.0	29.0	29.0	29.0
Public	4.6	4.7	4.4	4.4	4.4	4.4	4.4
Private	21.7	24.1	24.8	24.6	24.6	24.6	24.6
National Savings (% of GDP)	21.8	18.6	19.0	21.4	22.6	23.3	24.2
Public	3.8	3.4	4.0	4.5	4.5	4.6	4.5
Other	18.0	15.2	15.0	16.9	17.9	18.7	19.7
Foreign Savings (% of GDP)	4.6	10.4	10.2	7.6	6.6	5.7	4.8

Source: The World Bank, report no. 16420 EE

The financial source of governmental social care is social tax paid according to the social tax law. Social tax itself is divided:

One part will be paid to the pension insurance capital fund and the other part to the sick-fund. The governmental social insurance budget and the governmental sick-fund budget are approved by parliament as part of State budget.

The social insurance budget for 1997 consists of two funds:

- 1 pensions fund and
- 2 governmental support and benefits fund.

The income of the pension fund is mainly formed from social tax payments. Additional contributions will come from certain allotments from the state budget, dividends, and interest. The income from social taxes is not equal to the amount paid out for pensions. Pension payments form the largest amount of the budget.

The Governmental support and benefits capital is formed only by allocations from the State budget. The following support articles are financed from governmental support and benefits fund:

- Child support
- Death benefits
- Additional vacation payments
- Benefits from losses due to occupational disease or work accidents
- Other support

Social care law states the general principles for security of persons with special needs. They are:

- Children

- Disabled people
- Senior Citizens

The Law states only the most general actions which the City or District Governments should take to guarantee social security to those persons.

Current situation of the Estonian pension system

1) The strategy of social reform (pension reform), that will be based on a political consensus regarding the aim and general principles of reform is not settled. The experiments of the pension reform ran into a political *cul-de-sac*.

2) The tactics of the pension reform are not formed - detailed plan of the pension reform.

3) None of the pension-law drafts presented so far, have been satisfactory for the start the pension-reform, due to the lack of a long-term solution for the pension problem. The main problem of the draft laws has been the missing of a long-term prognosis of the demographic situation and macroeconomic influences. It is very important to reform the governmental pension. The different parties of the pension-system need to be treated as a whole, and different proposals need to be seen through the context of the whole.

4) In comparison to other Central and Eastern European countries, the reform of pensions is lagging behind. Other countries wanting to merge to

European Union have clear pension reform projects and have started the reform.⁶

As government expenditure has been redirected towards core public sector activities, with expenditures on health, education, and social transfers (including pension) and are now accounting for just over 50 percent of general government expenditures.

Public investment has also focused on priorities identified in the 1994 Public Expenditure Review: rehabilitation and maintenance has increased from one-third to one-half of central government investments.

Macroeconomics management will require a prudent fiscal policy that leads to higher public savings and contributes to a gradual reduction in the balance of payments current account deficit. Achieving this objective will also contribute to attaining sustainable growth, since higher public savings will help finance needed investment in essential public services: social insurance, health, education, public safety, etc.

Future actions to implement effective pension system

- 1) Implement basic principal of the three-pillar pension system: distrib-

Table 2. Selected Budget Financed Expenditures Program (excluded Local Governments) - percentage of GDP - 1997

Sector	Total Expenditure	Investment
Transfers	9.9	
Pensions	7.5	
Other Transfers (includes family benefits, unemployment benefits, and income support)	2.4	
Education and Culture	4.3	0.2
Health	4.6	0.8
Environment	0.4	0.1
Defence and Public Safety	1.1	0.4
Debt Service	1.5	
Total Budget Financed Public Expenditure (excluding local governments)	32.6	1.9
Memo: Share of Selected Programs in Total	66.7	79.0

Source: Estonian authorities; Bank staff estimate; The World Bank

uting, obligatory funding, voluntary funding.

2) Establish two level pension-reform committees: politicians and experts.

3) Pension-reform committee should produce the pension-reform basic concept and present it to the parliament.

4) Governmental pension scheme should be left based on PAYG principal.

5) The financial instrument of the governmental pension scheme should be social tax paid by the employer, but changed to be personalised.

6) Decrease the amount of the special benefits by reforming preferential old-age pensions and superannuated pensions' system and correcting the legal criteria's of the governmental pension system: Step-by-step equalises the pension age of women and men, foresee the seniority level for pensions for the disabled and for loss of breadwinners.

7) Regulate the expenditures of the pension fund — so-called political pension additions (repressed persons tripled seniority, etc.) to be financed from the state budget. Also pass the Disabled persons social insurance law, which will decrease the pressure on the pension fund — those amounts are already foreseen in the state budget for 1998 and will decrease pension fund expenditures by 100 million, 75 million EEK for implementing the disabled persons social insurance law.

8) Not to increase the social tax in order to enlarge the current pension system financed by PAYG criteria.

9) Leave the social tax to be paid by employer, changing it to be personalised — employer will declare the social tax paid according to employees.

10) Accelerate the work to implement the personalised accounting-system for social tax payments, incl. creation of files of social insured.

11) According to the government decision dated 25.03.1997 see the Inland Revenue Office as tax collector and the administrative job on pension insurance to be organised by State Social insurance board underling for Minister of Social Affairs.

12) Establish the voluntary pension insurance with income tax preferences, so called III pillar, according to the government decision dated 25.03.1997.

13) Start the work to establish the obligatory insurance based on funding principals — II pillar, emphasising its conceptual bases and elements, necessary to order financial and demographic calculations, foresee necessary legal acts.

The community could definitely increase many people's life standards by implementing similar building, feeding or clothing norms. By equal norms in education system, road building or health care, the government can definitely increase the average level of provision of service by several districts. However, in doing so, the government will replace

progress with stagnation, and will replace with similar mediocrity the versatility which is the most important thing for development.²

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Dear School Friends!

The speech of Margus Uudam in 3rd closing ceremony of the EBS BBA full-time graduates.

Below, I would like to describe the Estonian Business School and its development through the eyes of the class of 1997.

The Estonian Business School is a private school, which in the Estonian educational system is a new thing. All things new are tied to risk. We took a risk, when the school was still in its infant's shoes and its future uncertain. Today we have graduated from an accredited university. Our first large risk, which we took in deciding to come to the Estonian Business School, has proved us right. During the past four years we have seen that the Estonian Business School's risk and profit ratio has changed for the better each year.

Workers are never satisfied with two things- their pay and their bosses. A parallel to this- university students are usually not satisfied with tuition levels

and teachers. The graduates of 1997 have however experienced that satisfaction is found after graduation. You cannot evaluate properly the school and teachers while learning, but many years later, the criteria is being successful in business.

Looking at the development of the Estonian Business School, we can recognise that in today's economic situation, where there are few top specialists, that the Estonian Business School has been able to bring together from these few, many top specialists to provide education, which goes hand in hand with Estonia's quickly changing economy. You learn management, finances, marketing and many other such financial subjects and if you tried to look at a financial university's management through one's own eyes, then you must surely realise that in today's economic situation, the management of an industry or a financial institution is much easier than managing a private school.

The education quality of Estonian Busi-

ness School does not depend only on the efforts of the management, but also on the efforts of the students. Therefore both you, dear student, and I have a responsibility for the development of the school, especially since this is a young school. Students have an important roll in the forming of traditions.

Many Estonian Business School students study and work at the same time. Learning while working is possible, but difficult. The better and more thorough your education, the better your chances are for a better starting position for your career. Everyone is not able to be an Estonian Business School student; this requires ambition, effort and a willingness to take risks. The above characteristics, along with a good education, give you a good advantage in the job market.

In conclusion, I don't have to be very original to conclude that the most important thing is to study, study, study!

Margus Uudam
BBA graduate, Spring 1997



Eliko Pedastsaar the best graduate in spring 1997

BBA GRADUATES- SPRING 1997

Name	Topic of Thesis
Silva Männik	Considerations and Constraints of Privatisation in Europe and Estonia
Margo Heinmaa	Marketing in Wholesaling Industry. How to Improve the Performance of Rota Group Ltd.
Kristjan Kaleviste	Estonian Wine Market. Marketing Analysis and Strategy Concentrating on Promotional Mix
Katrin Kalju	Disclosure of Information: Legal Aspects and Impact on Securities Market Development
Kristel Kallas	Enhancing Value to the Customer Through Improved Front-line Service Quality
Ülo Kallas	Estonian Kroon Risk Evaluation Aspects
Sille Kangur	Credit Reports and Differences in Credit Reporting
Käthlin Kannus	Ensuring the Implementation of Contracts
Eveline Kavak	The Importance of Correspondent Banking and the Changes in Correspondent Banking in the Case of European Currencies Integration
Rannar Kromanov	Marketing Planning in Eesti Maapank
Joole Kuljus	The Principles of Selecting Personnel in the Estonian Labour Market in 1997
Andres Kurim	Financial Statement Analysis on the Basis of AS Baltic Colour
Aivo Lanno	Marketing Conception of a Retailing Firm Based on Estiko Kommerts Ltd.
Karmo Leemet	Designing a Marketing Strategy for Torfex Ltd. and Problems Related to It
Merit Lõokene	Financial analysis of EVR Koehne Inc. and Proposals for Increasing Profitability
Ilmar Mändsalu	Foreign Exchange Risk Management
Priit Möldre	Emerging Electronic Methods for Making Retail Payments
Gren Noormets	Aspects of International Factoring
Janika Paulus	Accounting in Estonia - Continental or Anglo-American Model
Eliko Pedastsaar	The Venture Capital Prospects in Estonia in the Light of the Compensation Fund's Hypothetical Strategy
Raivo Pennaste	An Applied Horticultural Industry Analysis and Competitive Analysis for Schetelig Estonia
Pille Pentjärv	Private Banking in Estonian Securities Market
Kadri Pormann	International Visa Bank Card Marketing: Global Experience and Problems in Estonian Market
Jaanus Raim	Price Differences Between Estonian and Developed Countries and Arbitration Possibilities in 1991 - 1996
Ulvi Reinurme	Monetary Policy in Stage 3 of EMU and the Challenges for New Member States
Taire Saar	The Importance of Brand Selection and Branding Policies in Company's Product Development
Priit Sassian	Cash Flow Statement, Its Character, Possibilities of Preparation and Usage
Ave Sepik	The Importance of Pricing in Achieving Company's Marketing Objectives
Eero Sepp	Market Environment Analysis and Marketing Strategy of the Mustamäe Real Estate Municipal Company
Katrin Siku	EMU: The Treaty Provisions and Their Implication for Estonia
Helen Soover	Some Incompleteness in Commercial Code Compared to the Requirements of the European Union and Accounting Act
Aavo Tambur	Communication Problems in Large Companies
Hanna Turetski	Comparative Analysis of Labour Agreement on the Basis of the Law on Labour Agreements and European Labour Law
Küllil Tõnisson	The Marketing Environment Analysis and Marketing Strategies of Hansa Leasing Ltd.
Margus Uudam	The Quality of Estonian Securities Market
Relika Vaarma	Analysis of Financial Statements of Insurance Companies
Erle Vaher	The Importance of Employee's Job Satisfaction to the Company's Business Activities
Kristina Varikmaa	Analysis of Estonian Machine and Metal Industry
Mart Veskimägi	Pricing Options in Estonian (Incomplete) Market
Kairi Vill	Advertising Channels and the Principles of Channel's Selection

The EBS Scientific-Methodological Conference was a Success

EBS's internal scientific-methodological conferences are quickly becoming a tradition at EBS. Conferences have been arranged for the past couple of years and they have completely justified themselves. Research work at the EBS has developed greatly. The results of research were outstanding in 1996, as the Senate pointed out in its resolution on January 27, 1997. EBS lecturers have had considerably more publications.

However research at EBS still has room for growth and development, and has yet to reach its peak. Further development of research work should first and foremost proceed towards more intensive international relationships. The problems under investigation should be increasingly scientific and directly related to the subject matter of the EBS.

One of the primary characteristics of a university is that the results of research find their way into lecture rooms, and students come to terms with academic by not only listening to the lecturer and carrying out the recommended reading but also investigating and experimenting by themselves. EBS has to make considerable efforts to achieve this organic unity of study and research work which is the primary characteristic of a university-type educational institution. The first results of the research carried out by undergraduates and the master's degree students have received significant recognition but their relationship to the research work of the Chairs is weak.

Thus our spring conference was a delight because our Ph.D. candidates, Monika Salu and Urmas Arumäe, gave more weight to the conference with their substantial reports. The former made a report on the acquirement of values as a topic handling the problem of adult education, the latter dealt with the controversies between the Estonian Accounting Law and Business Law in cooperation with Jaan and Lehte Alver from the Chairs of Accounting and Finance. President M.Habakuk's report was devoted

to different aspects of evaluating student intelligence. He stressed that the study program of the university is directed to evaluations of certain types of intelligence and our chairs should look for methods to discover and measure different types of intelligence in cooperation with the Pedagogical University.

Vice Presidents Endel Laanvee and Mati Sööt also contributed to the conference. The first dealt with the developing foreign relations of our university and the latter with the latest directions of our personnel policy.

Professor Lembit Tüرنpuu from the Chair of Management spoke on behalf of the staff of the Inter-Chair Research Group for Evaluations. His report handled the problem of how different principal types of evaluation orientations in management awareness are distributed in different cultures.

Reports dealing with the internal development of EBS dominated the conference. Toomas Tähe's report on the use of information technology in business

studies highlighted two aspects: the creation of information technology as a means/tool and education/tuition with the help of information technology. Elvi Arnover devoted her report to the development of the EBS library in the light of the requirements of the information age Virve Raidla handled tourism as a likely study direction at EBS.

The conference was undoubtedly an essential step in the development of research work at EBS.

On the basis of the conference materials the Research and Development Department published the corresponding collection of materials "Research Work at EBS as the Subject of Self-Development. Scientific-methodological conference, May 23, 1997. Research materials" Tallinn 1997

This collection of research work is available at the library.

Lembit Tüرنpuu
Professor-consultant, EBS



Elvi Arnover - the best graduate in spring 1997

EBS Summer Days

This summer saw the staging of the second Estonian Business School "Summer Days". From July 4-6 both students, faculty, and administration gathered at Kukulinn, Lake Saadjärv, near Tartu.

The hard work of the organisers (both students and staff) and the event was a great success with a number of highlights. This careful preparation was assisted by a modicum of luck as the weather was wonderful, providing clear sunny days, warm water, and starry nights. For those who had come straight from the hub of work the relaxed atmosphere and beautiful weather provided a much-needed rest.

The Summer Days kicked off with a concert by "Kuldne Trio", one of Estonia's most sought after acts. Dancing and mayhem ensued, with a good time had by both the group and the audience.

Professor Madis Habakuk, President of EBS, officially started the proceedings the following morning with the following short speech:

"Everyone has a certain amount of energy and drive. Those with little drive lay in the sun or gather mushrooms.



Those with real drive join in the EBS Summer Days".

Various sports competitions were held; a two day volleyball tournament, tug of war, triathlon, feats of strength and endurance, boating and relay races. The following evening offered students the chance to be creative with amateur dramatical performances and visual art performances based upon the theme of "space". For those who needed to un-

wind the warm lake was a stone's throw away.

The Summer Days ended in an award ceremony and the students returned to Tallinn replenished and ready to face another exhausting academic year.

Kairi Kallaste
Secretary of President, EBS

Observations on Cultural Differences

This summer I was lucky enough to have an opportunity of attending Bentley College (USA) for three months. In addition to a number of management courses I enrolled in a language class - public speaking. As lecturing is a form of public speaking I felt it was time I sought to develop the efficiency of the way in which I pass on the knowledge I have to my audience.

The actual methods how knowledge is passed to the audience make up the main differences between giving lectures in Estonian and American lecturing. I will compare the Estonian and US students and lecturers as follows.

I will deal with the lecturers first. Obviously everyone who has attended the lectures given by visiting American fac-

ulty will agree with me that the lecturers are expressive, impulsive and mobile. Most of the lessons are built up on the intercommunication with the audience in the course of which the students share their experiences. Students listen to each other offering sympathy and support. Advice is given but nobody ever criticizes or runs others down. If we compare this to an Estonian lecturer, the picture is quite different: the lecturer stands mainly in one place, uses minimum gestures and expresses emotions quite modestly. Questions may be asked but not necessarily answered.

The differences between Estonia and the US became startlingly apparent when I began to actually make my presentations in front of an American audi-

ence (American undergraduates and a few foreign graduate students).

Where as I was satisfied with my performance the teacher continually stressed that I should gesticulate more and try to be more mobile. By the end of the course I had managed to overcome my Estonian inhibitions and was surprised to find myself sat on a table and successfully delivering a presentation with emphatic language.

The actual course itself was well-structured and made full use of modern communicative methods. All presentations were videoed and taped, and then subsequently analysed by students and lecturers. The following suggestions and comments were also recorded for future reference. Whereas I was expecting lec-

tures as rules and requirements this "hands-on" approach yielded amazing results. Development was rapid and noticeable with the initial feelings of stress and confusion quickly being replaced by confidence and satisfaction.

In conclusion I can say that the main differences in public presentations between Estonia and America lay in different emphasis, tone of voice, and mobility. Whilst we emphasize only the contents of the presentation here, it seems that on the other side of the Atlantic the presentation is equally important. This is obviously caused by a surplus of information: you have to make an effort when you pass on information to attract the attention of the audience with a particular, special presentation. As Americans are in general more relaxed and open than is the norm in our culture, the presenter of a public speech is expected to be more open and the audience is expected to ask more questions. Certainly it is necessary to show enthusiasm towards the presented material. Enthusiasm in turn brings along spontaneous movements and relocation in the room and has a favourable effect on the presenter's spirits.

The differences between Estonian and American students were evident in the



Dr. Jerome B. Bookin-Weiner, Dean of International Education, Bentley College and Ruth Alas, Lecturer, EBS in Bentley College

attendance of the lectures, activities and the preparation for the lectures, and the meeting of the deadlines. Attendance at the lectures is obligatory and if they miss the lecture it is necessary to inform the lecturer beforehand and write extra written tasks for every missed lesson. Keeping to the deadlines of homework was self-evident and late homework was not accepted. You had to read 20 to 50 pages for every lesson and it was normal that everyone tried to take the floor and demonstrate their knowledge.

Rather than comparing this to our own

students' behaviour (each individual can evaluate themselves) I will offer a comment. Firstly as the students are about to enter a highly competitive world they understand the value of meeting deadlines and performing satisfactorily in their studies. It makes sense to try and learn from these attitudes in order to allow Estonian students to compete in an international employment pool.

Ruth Alas
Lecturer, EBS

Summer Seminar in Paris

In June this year the summer seminar of EBS students took place in Paris. The aim of the event was to become familiar with the structure of the government of France, current politics and business life, and of course, with the sights of Paris. The French Embassy to Estonia and EBS management made the preparations for the seminar. ESLSCA (Ecole Supérieure Libre des Sciences Commerciales Appliquées) received a group of our students. Michel Lemieux, the Dean of Foreign Relations, was our guide.

Altogether 33 people from MBA II, distance BBA IV and the representatives of the Student Government took part in the Paris summer seminar.

Lectures and meetings were held during the seminar. Professor M. Yates's lecture about the current politics of Europe and France was particularly noteworthy. We met with government representa



Greeting at Council Economique et Social. Michel Lemieux on the left.

tives - Senate and Conseil Economique et Social whose duties include assisting in the creation of the economic and social policy of the state and advising the government regarding this field. An interesting presentation took place in the suburbs of Paris, at the international construction company Campenon Bernard SGE.

In our free time we went sightseeing in

Paris and to Versailles. The art critic Ilo Jaik Riedeberg, who lives in Paris, was our guide both at Versailles and on city excursions. We were in Paris in mid-summer during the "Fete de la Musique", a major music festival where singers, musicians and dancers perform in the parks, streets, churches and squares of the city. The party lasted until morning. On Mid-summer Day we went to the local stu-

dents' Midsummer Party. At the end of the seminar we attended a farewell party where Marika Kuznetsova, the Economic Counsel of the Estonian Embassy also participated.

Juta Tikk
Acting Head of Chair of Business, EBS

Student Activities and Associations

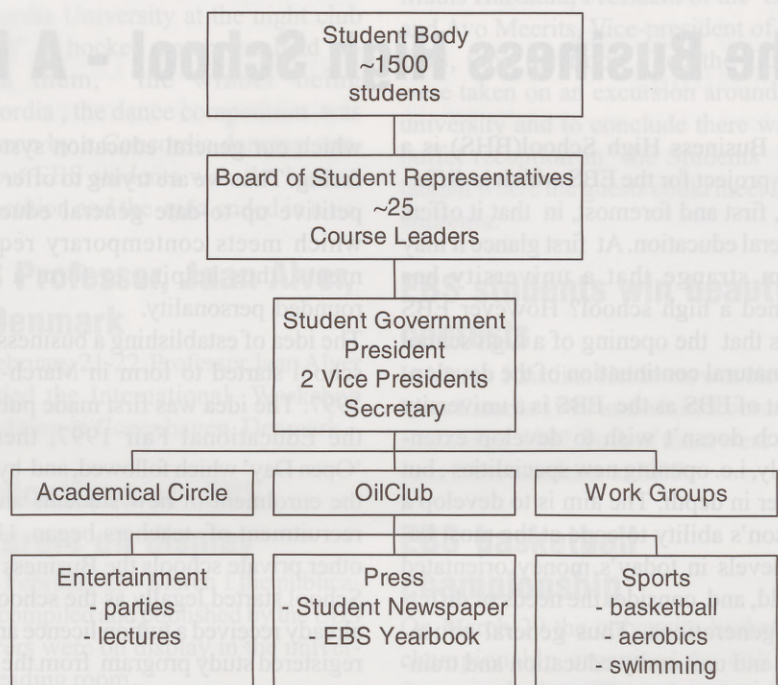
EBS's Student Government is made up of representatives of all courses (with full-time courses having two seats on the Senat of EBS). The Student Body elects the school's student government whose primary purpose is to represent the school at meetings at the Federation of Estonian Student Unions, the Senate of EBS, the Alumni Association of EBS and other organisations.

The Student Government consists of a President, two vice-presidents and a secretary. All EBS students are eligible for election. The Government stands for one year with elections being held usually in October.

Other students organisations (e.g. OilClub, the Academic Circle) are independent from the Student Government but are registered with it. The Student Government helps to keep lines of communication open between their bodies and the student population. The Student Government also has the power to establish independent bodies to deal with individual problems and projects.

Herty Tammo
BBA 3rd year student, EBS

Organisational Structure of EBS Student Organisations



The First Year Book "Esimene" ("The First")

"The First" is the title of the Year Book. It is the first time in EBS and Estonia that a Year Book has been published at this level. In the publishers' opinion EBS is also on the leading center of economic education in Estonia. Hence - "The First".

The yearbook describes the school year in the form of photos and articles put together in a hard back book. A great part of the book consists of the portrait photos of all students studying at the EBS in the given year, (over a thousand

photos in "The First"). Photos and articles cover the most important organizations, lecturers and the management, all the most important events and occasions and some smaller parties, too, which have still played their role in the improvement of student life.

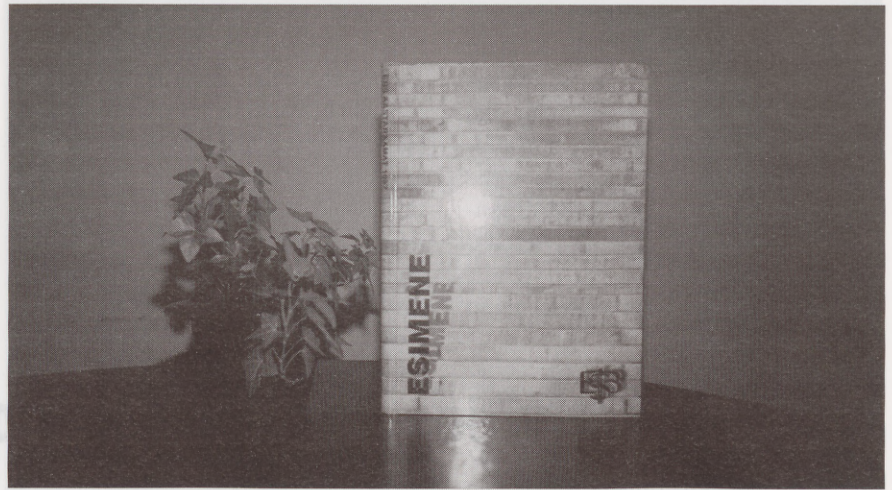
The idea of publishing a Year Book for the 1996/97 academic year came from the students themselves who had recounted with envy similar books owned by their friends returning from abroad. Compilation began in the spring semes-

ter when the press group of the student club OilClub (responsible for publishing the yearbook) met for the first time. The schedule of the work and the order of advance sales of the Year Book were determined in the course of the first weeks. The most difficult part of the work was collecting the students' portraits and the advance sales of the book because students were uncertain as to how the book would look and thus were unwilling to contribute to the Year Book. It was difficult to select the best of the

collected photos as there were thousands of them.

The finished book surprised even the publishers themselves, especially as this was the first time any of them had been involved in such a project. "The First" is both an excellent memento and a project to be proud of. Let's hope that next year's publication is just as successful, and with the help of the student body it will quickly become an EBS tradition.

Karel D.Loide
BBA 3rd year student, EBS



The Business High School - A New Project for EBS

The Business High School(BHS) is a new project for the EBS which is different, first and foremost, in that it offers general education. At first glance it may seem strange that a university has opened a high school? However EBS feels that the opening of a high school is a natural continuation of the development of EBS as the EBS is a university which doesn't wish to develop extensively, i.e. opening new specialities, but rather in depth. The aim is to develop a person's ability to cope at the most basic levels in today's money orientated world, and consider the needs of different generations. Thus general education and university education and training co-exist as a whole.

The main purpose of the Business High School is to offer a high-quality general education; foreign languages, rhetoric, information theory and the subjects related to economy are studied in depth. But despite the subjective and economic relationship with EBS, business and economics are not the first priorities of the new school. As the Business High School is not a vocational school, there are no business specialities taught there. The main target is to give the graduates the ability to continue their studies at any higher educational institutions.

The opening of the Business High School is an obligation for EBS because the establishment of a successfully running university makes it necessary to assist in solving the difficult problems

which our general education system is facing. Thus we are trying to offer competitive up-to-date general education which meets contemporary requirements, thus helping to form a well-rounded personality.

The idea of establishing a business high school started to form in March-April 1997. The idea was first made public at the Educational Fair 1997, then the 'Open Day' which followed, and by May the enrolment of new students and the recruitment of teachers began. Unlike other private schools the Business High School started legally as the school had already received a tuition licence and the registered study program from the Ministry of Education at the end of June, i.e. two months before the beginning of the school year.

The Business High School started with three forms, two of them the tenth grades and one the eleventh - there are altogether 75 students in the Business High School. It's interesting and intriguing that despite the tuition fee (1500 EEK) and the lack of a student hostel 40% of the students of the EBS are not from Tallinn, (coming from Hiiumaa, Kivioli, Marjamaa, Vorumaa, Kose, Tartu, Parnu, Paide, Tapa and Harjumaa).

The Business High School is the sixth private high school in Estonia and this is firm evidence that Estonians desperately want a good education despite distance and expense.

In the first study year the school staff

consists of 18 teachers of different subjects, Lee Mets, the Principal, is assisted Gerty Paumann, the study consultant, in solving everyday problems. All the teachers have a university education, three of them have a scientific degree and several of them are involved in contributing to publications.

The strategic development program foresees that every study year two to three forms will join and within three years a junior high school will be opened. Thus the number of BHS students could be 350-400 (12 grades) in a couple of years. The development strategy emphasizes the need to turn the school into a respectable center among the Estonian general educational schools in the priority fields of the study program (Information theory- Mathematics, Economics, English, Rhetoric) and work has already begun in this field.

The Debate Club of the students of Tallinn was established by the Business High School and as Karin Aava and Mihkel Rebane, the Rhetoric teachers of the BHS, are the leaders of the Estonian student Debate Club, the Business High School is already the All-Estonian Center for student debates in this field.

Mihkel Rebane
Vice-Head of the Research and Development Department, EBS
Project Manager of the Business High School

Looking Back - Year 1997

MLP-EBS Baltic

In 1997 the training company MLP-EBS Baltic was founded on the initiative of the Norwegian company, Mikos Learning Programs, and the Training and Consultancy Department of the Estonian Business School. Today the success of an organisation depends considerably more on the co-operation between people than before, and by using this as a starting point methods have been created for the analysis of individuals, teams, organisations, and management, on the basis of which special training programmes have been developed.

EBS personnel training seminar in Pärnu

The seminar of the EBS management and faculty members took place at the Pärnu health resort "Tervis" on January 15-17. The problems of the internal academic structure, the academic programmes offered by the school and their development, and the motivation of personnel within the organisation were discussed.

The first scientific publication

Publishing of the EBS scientific publication was started. The first collection "Modelling wages in a small open economy: on application of the Granger - Engle two-step estimation procedure to Swedish manufacturing wages" was compiled by Hardo Pajula M.A. and its presentation took place on February 11. Such kind of publications will, as a rule, be published in English.

EBS President visits the US

On February 5-15 Madis Habakuk, President of the EBS, visited its partner universities in the USA. During the visits a co-operation agreement was signed between the Estonian Business School and Bentley College.

EBS in Finland

On February 19-20 there was an information day for undergraduates of secondary schools in Lappenranta, Finland,

organised by the local Estonian Society and the East-Finland Union of High Schools to introduce the opportunities to study offered by Estonian universities and colleges. Presentations were made (including video screenings) by Marina Birova from the Ministry of Education, by Eha Rand from the Pedagogical University and Tiia Karing from the EBS.

"Joint forces"

On February 21 there was a joint party of EBS students and the students from Concordia University at the night club "Piraat". A hockey match was held between them, the winner being Concordia, the dance competition was also won by a Concordia dancing couple, but EBS students won the kissing competition and the quiz ended in a tie.

EBS Professor, Jaan Alver, in Denmark

On February 21-22 Professor Jaan Alver attended the International Workshop on auditing in Copenhagen, Denmark.

Publications of EBS lecturers on display

From February 25 - March 1 the publications compiled and published by the EBS lecturers were on display in the university reading room.

There were over 90 articles/publications published in 1996 - a 50% increase on the previous year. On the basis of the publications the best chairs were chosen and they were given money with which to buy study materials:

- * the most successful research collective in international co-operation - the Chair of Accounting
- * the publisher of the most substantial research publications - the Chair of Economics
- * the most active chair, publishing the greatest number of research articles - the Chair of Management

Information Fair "Teeviit 97"

EBS presented its stand at the Youth Information Fair at the Estonian Exhibi-

tion and Fair Centre for the second time on March 6-8.

Receiving representatives of other student bodies

On March 7 EBS had the opportunity to introduce the university to more than a hundred young people who were elected the representatives of student bodies from all parts of Estonia. The event took place at the information fair "Teeviit '97". The guests were shown a short video presentation about our university, and Madis Habakuk, President of the EBS, and Avo Meerits, Vice-president of the EBS, took the floor. Then the Guests were taken on an excursion around the university and to conclude there was a buffet reception in the Students' restaurant where the guests could meet EBS students.

EBS students win beauty contests

In March Kristiina Heidmets was elected Miss Estonia 1997 and Mairi Roosaar, - Eesti Miss 1997, both of them were first year BBA students at EBS.

EBS basketball championship

On March 29 the university basketball championship organised by OilClub Sports took place. The 3rd year students took 3rd place, the 1st year students 2nd and the 2nd year won the 1st prize. The winning team was presented with the Challenge Prize.

OilClub birthday party

On April 2 OilClub held its annual birthday party, at which a hundred guests participated.

Madis Habakuk, President of the EBS, in conference at the National Library of Estonia

On April 3 Madis Habakuk made the report "Educational shares as a possible means for the future" at the conference

"Private Education: For or Against" which was organised in the National Library of Estonia by the union Res Publica.

Open Day

On April 4 there was a traditional information day for those interested in the EBS where those present were introduced to the different study programmes of the university, promotional information was distributed, and a tour of the premises was organised. There was also a press conference in the Assembly Hall of EBS.

The All-Estonian high school business competition

On April 5 EBS organised the 2nd All-Estonian High School business competition. The participants presented their business plans and solved problems concerning business organisation and economic environment. Martin Villig, a final year student from Kuressaare, won the 1st prize and chose a free of charge semester in EBS as his reward. The 2nd and 3rd place winners were given valuable economic materials and the chance to become EBS student without any entrance examinations.

Businessman of the year

On April 17 a meeting of the Advisory Board took place, at which Olari Taal, Chairman of the Board of Hoiupank, was elected "The Businessman of the Year 1996".

EBS Professors Jaan and Lehte Alver in Austria

On April 23-25 EBS professors Jaan and Lehte Alver attended the 20th Annual Congress of the European Accounting Association in Graz in Austria with the presentation "Difficulties of Accounting Change in the Baltic States".

Visit to France

On April 23-27 Madis Habakuk and Endel Laanvee were in Paris. Among others, they visited the European School of Management, Le Groupe Ecole Superieure de Commerce de Paris, the Paris Chamber of Commerce and Indus-

try, and ESLSCA (Ecole Superieure Libre des Sciences Commerciales Appliquees¹)

Guests from AT&T

In April Mike Moodey (USA), Sales Vice President of AT&T (a world leading company of telecommunications), lectured on sales techniques and customer service at the EBS."

"EBS Review" No 5

The new issue of the research journal of the university was published in April. For the first time it was in English only and dealt with the integration of Estonia into Europe.

Ruth Alas and Lauri Reinberg at summer courses in Bentley College

In May-August two EBS lecturers, Ruth Alas and Lauri Reinberg attended training courses in Bentley College, the USA.

Research publication No 2 was published

Ott Moorlat's article "Some problems of the legal protection of industrial property and conflicts on the Internet" was the second in a series of research articles.

Conference "The privatisation process in education"

On May 8 EBS organised an all-Estonian conference on its premises, the purpose of which was to acknowledge the possibilities and the problems of the privatisation of educational institutions, the involvement of private capital into education - statements/arguments for and against.

Among others Professor Jaak Aaviksoo, Professor Madis Habakuk, Ene Grauberg, and Mart Kubo, a Member of Riigikogu, delivered their speeches.

The defence of Bachelor's theses

On May 12-14 the BBA full-time students defended their Bachelor's theses. 54 students defended their Bachelor's theses

at three Theses Committees: the Committee for Economics - chaired by Avo Viio, the Committee for Economic Accounting, and the Committee for Production and Business Law - chaired by Madis Habakuk, the Committee for Marketing, Entrepreneurship and Sociology - chaired by Madis Habakuk

EBS is accredited

The Minister of Education of Estonia announced the final decision of the Higher Education Quality Assessment Council of Estonia (HEGAC) on April 29, 1997, in order to accredit the study programs in "International Business Administration" of the EBS diploma and bachelor's studies. The motion was passed unanimously by the Higher Education Quality Assessment Council. The bachelor's degree study programs of the Economics Department of Tartu University and of the Economics and Sociology Department of the Estonian Agricultural University were accredited along with EBS.

Three universities of Tallinn - Tallinn Technical University, Tallinn Pedagogical University and the Estonian Business School - organised a get-together for their Foreign Faculties

On May 15 foreign faculties went on an outing to the open-air museum in Roccal Mare on the close of the academic year.

The purpose of the event was to get to know each other, to exchange opinions and share their impressions about the universities, students and life in general.

EBS President Madis Habakuk in Kaunas

On May 15-16 Madis Habakuk took the floor at a Kaunas conference with the report "Challenges of Contemporary Management for Baltic Countries" at the Vytautas Magnus University Management Conference.

Scientific-methodological conference "EBS as the subject of self-development"

On May 23 the EBS scientific conference took place for the second time. EBS lecturers-researchers made nine reports which were later published in "Research work in EBS"

Spring picnic for EBS staff

On the afternoon of May 23 the EBS staff and the lecturers were invited to the Tallinn Botanical Gardens where an open-air garden party was held at the close of the study year.

BBA graduates receive their diplomas

On May 24 the 3rd closing ceremony took place for the EBS BBA full-time graduates. 40 students graduated from the university with a Bachelor's degree.

Closing ceremony

On May 30 the closing ceremony of the 1996/97 study year took place. There were speeches and a short concert; the challenge prize 'The Bronze Bulldog' was awarded to Olari Taal, Chairman of the Board of Hoiupank who was elected "The Businessman of the Year" by EBS.

The best lecturers of the 1996/97 study year

On May 30 the best lecturers of the study year were rewarded at the closing ceremony. They were Kaire Põder, the lecturer of Micro-and Macroeconomics from the economic specialities and Aet Toots, lecturer of English from the language department

EBS personnel meet

On June 30 there was an event with the key words - the culture of the EBS organisation, the co-operation and the motivation of the personnel, the distribution of work and the relay of information. The purpose of the event was to discuss together the problems in personnel development and making the EBS organisation more efficient.

The visit of Prof. Tomasz Dolegowski (Poland)

On June 16-17 Prof. Tomasz Dolegowski from the Warsaw School of Economics visited the EBS research and development department. The problems of common co-operation projects were discussed.

The summer seminar of the MBA students in Paris

On June 18-28 the EBS MBA students attended a seminar in Paris organised by our partner university ESLSCA (Ecole Superieure Libre des Sciences Commerciales Appliquees'l) in Paris. The seminar involved a number of lectures and visits to different business enterprises.

EBS summer days

On July 4-6 the 2nd EBS summer days took place in Kukulinna (see the article in the present issue).

The children's summer camp in Pirita

The EBS Training and Consultancy Department tried to organise a children's summer camp for the first time. The camp took place on the premises of the Pirita School of Economics and involved computer, English and economic classes, and also a number of outside events - visits to enterprises, hiking in Lohusalu, meetings with famous sportsmen and, thanks to fine weather, a lot of swimming. All who attended were more than satisfied and a lot of new ideas were suggested.



"The Bronze Bulldog" was awarded to Olari Taal, Chairman of the Board of Hoiupank



Spring picnic for EBS staff

Renovation of EBS

During the summer reparations were carried out at EBS. Windows were changed, the heating system replaced, the corridors and several lecture rooms were refurbished, and the parking space and the perimeter fence were improved - now 150 cars can be parked at our university. At the end of August a new up-to-date computer class was introduced and now there are 4 computer classes altogether in our university.

Entrance examinations

In July-August the entrance examinations into different programmes took place at EBS.

EBS Professors Jaan and Lehte Alver at a conference in the USA

On August 17-20 Jaan and Lehte Alver participated in the 81st Annual Congress of the American Accounting Association in Dallas (Texas).

EBS visit to Turku

On August 24-25 the EBS staff visited the Turku School of Economics and Business Administration, and Turku Polytechnic. During the visit Presidents Madis Habakuk and Kaj Malm, from Turku Polytechnic, signed a new co-operation contract.

“Research work in EBS” published

On August 27 a collection of research papers came out in which the reports on the research work and the reviews of the reports at the scientific-methodical conference “EBS as the subject of the self-development” were published.

Opening ceremony

On September 1 the opening ceremony took place in the large hall of Sakala Centre where Madis Habakuk, President of the EBS, Jüri Mõis from Hansapank and Chris B. Lemke on behalf of the foreign lecturers took the floor. This year the number of enrolled students to different study programmes was as follows: full-time BBA programme - 78 students, diploma studies - 24 students, International BBA programme - 20 students;



The best lecturers of EBS in 1996/1997 were Kaire Pöder and Aet Toots

evening BBA programme - 72 students and diploma studies - 74 students; distance BBA programme - 74 students, diploma studies - 74 students and MBA programme - 105 students, totalling 521 students.

Visitors from Japan

On September 6 the EBS Research and Development Department received as guests Professor Naotake Ikenoue, Professor of Marketing of Teikyo University (Japan) and Toshiba Kawabe, President of the E:E Planning Co. The guests wanted to get acquainted with our university on the recommendation of Heikki Vallaste, a temporary embassy official of the Estonian Embassy in Japan.

The start of the Master’s Degree studies

On September 12 a hundred first year Master’s degree students started their studies this year. In total there are 209 Master’s Degree students. Seinajoki Polytechnic in EBS

On September 13 a 36-members delega-

tion from Seinajoki visited EBS. The guests were introduced to the study programmes of our school and possibilities for co-operation were discussed.

Special courses of this study year started

On September 16 a number of special courses started for the third and fourth year students. Kiyohiko Takahashi, a Japanese businessman (who has taught Japanese in Järveotsa High School for one year) started his series of lectures: “Introduction of Business with Japan”.

A visit by Turku Polytechnic

On September 22-24 an intensive course in the Estonian Economy took place for 30 students from Turku, and also there were a lot of visits to companies and a party in the evening with the diploma study students of EBS.

Riga students visit EBS

On September 22-26 a hundred students

from the Stockholm School of Economics in Riga visited EBS. The guests were taken on visits to different organisations. There was a basketball match between EBS and SSE, the students of our university winning. On Thursday the students from Riga visited the night club "Dekoltee" together with EBS students and held their farewell party there together.

The enrolment of candidates for a Doctor's degree

On September 24 the interview with the applicants for the EBS doctorates took place. This year 3 candidates for a Doctor's Degree were admitted.

A guest from the Copenhagen Business School

On September 26 Jeanette Thomsen from the Copenhagen Business School arrived at EBS as a guest to the doctorate programme for two months, continuing her doctorate work - project concerning joint Baltic-Danish business co-operation here.

EBS student's exhibition

On September 30 Jaan Jaanisoo's exhibition opened at the Tallinn Art Hall.

A visitor from the Know - How Fund

On October 7 Lindsay Paterson, Adviser on European Integration, Know - How Fund, Foreign & Commonwealth Office visited EBS.

Internal monthly report to EBS staff

On October 8 the first monthly report to EBS staff took place, the purpose of which was to develop communication between departments and encourage understanding of current activities presently pursued by individuals and departments at EBS

Foreign relations (Endel Laanvee) and adult training (Mati Soot) were under discussion.



The cooperation contract with Turku Polytechnic was signed in August, 1997

EBS was visited by Ian Stewart

On October 9 Ian Stewart, the Director of the British Council in the Baltic States, visited EBS.

The contact fair "Consultations and training"

On October 15-17 the 2nd Conference on Executive Administration was held at the Pärnu Theatre "Endla", in the frames of which the contact fair "Consultation and training" from a Practitioner to a Practitioner was held in which also the Training and Consultancy Department of EBS and MLP-EBS Baltic participated. The purpose of the fair was to encourage links between Estonian managers and, at the same time, give them the opportunity to meet consultants and tutors who can offer their professional help and support services in the field of management of different types of companies, enterprises or organisations. It was a useful event both in introducing our school and developing new contacts.

EBS professors attended a conference at the Tallinn Technical University

On October 16-17 there was a conference in the Department of Accounting of Tallinn Technical University. Prof. Lehte Alver, Prof. Jaan Alver, Urmas Arumae and Lauri Reinberg presented their paper "Estonian Accounting Law

in International Context" and Prof. Jaan Alver his work "Cash Based Versus Accrual Based Analysis?"

The initiation of freshmen

On October 17 the initiation of the freshmen took place.

Prof. Madis Habakuk in Romania

On October 16-18 Prof. Madis Habakuk participated in the Fifth Annual CEEMAN (Central and East European Management Development Association) Conference in Sinaia, Romania. Prof. Habakuk is a Board member of CEEMAN. The conference dealt with "Developing and Mobilising East and Central Europe's Human Potential for Management"

Judgement Day for EBS-Concordia

On October 23 there was a basketball match between EBS and Concordia. The evening continued at the Tallinn nightclub, Hollywood. (The final result was 71-47 to EBS.)

EBS Anniversary Ball

On December 6 a ball celebrating the ninth anniversary of the Estonian Business School was held in the Chandelier Hall of the Sakala Centre.

Tiia Karing
Director of R&D department, EBS
Espe Valdgraf
BBA 4th year student, EBS

Foreign Relations - Estonian Business School in 1997

- January, in co-operation with the University of Wales Swansea courses in the methodology of teaching Business English for teachers of English were held
- 1st week
- 13.01. our school was visited by Professor Niels Bagelius from the University of Stockholm, the possible future co-operation in the field of schooling were discussed
- 20.01. our school was visited by professor Jan Eklöf, the Dean of the Riga Branch of the University of Stockholm
- 24.01. our school was visited by Victoria Middleton from the American Embassy, Tallinn
- 29.01. our school was visited by Toomas Käbin, the first Secretary (Commercial) at the Swedish Embassy, Tallinn
- 3.02. our school was visited by Erkki Kangas, the Principal of the Oulu Business School and Antti Rovama, the Head of International Relations, student exchange and co-operation were discussed
- 11.03. our school was visited by Dr Ralph-Georg Tischer, representative of German Industry and Trade in Estonia
- 13.03. our school was visited by Silvi Teesalu, the Headmistress of the Danish Institute
- 20.03. our school was visited by Ian Stewart from the British Council
- 20.03. our school was visited by Tom de Reijger, Head of the Department of International Management at the Amsterdam Business School
- 24.03. agreement on Educational Cooperation between Strathclyde Business school, Glasgow, Scotland was signed by Prof. Douglas C.Pitt, the Dean.
- 1.04. our school was visited by Catherine Suard, Attache Culturel et de Cooperation, France and Guy Thilliez, Groupe IPRA Business School, France.
- 7.04. our school was visited by C. R. L. de Chassiron, the British Ambassador.
- 7.04. a lecture was held by Prof. Xavier Richet, Université Marne la - Vallée
- 21.04. our school was visited by Peter Hilton, the Director of International Programs in Jonköping International Business School and Katharina Brodin, the Swedish Ambassada to Estonia
- 23.-25.04. the president of EBS Prof Madis Habakuk and the vice-president Endel Laanvee visited our partner educational institution in Paris Groupe ESLSCA
- 2.05. an agreement of co-operation was signed between Groupe IPRA and EBS.
- 21.05. an agreement of co-operation was signed between Seinäjoki Polytechnic, Seinäjoki Business School and EBS
- 27.05. our school was visited by Mait Klaassen, the Minister of Education
- 30.05. Jacques Faure, the French Ambassador opened at our school a photo exhibition, introducing the French Senate
- 1.06. an agreement of co-operation was signed between Jonköping Business School and EBS
- 5.06. our school was visited by Seppo Kuusisto, the Councillor of Press and Cultural Affairs, Finnish Embassy, Tallinn
- 30.06. our school was visited by Esä Kivimäki from Turku Polytechnic.
- 1.07. our school was visited by Prof. Dr -Thomas Rasmussen from Fachhochschule Stralsund
- 2.07. an agreement of co-operation was signed between Bentley Colledge and EBS
- 25.08. the administration of EBS visited their associate school in Turku and held negotiations with Tapio Reponen, the Dean of Turku School of Economics and Business Administration
- 25.08. a new co-operation agreement was signed between Turku Polytechnic and EBS
- 1.09. our school was visited by Kirsti Päällysalo, the first Secretary of Finnish Ambassadors, Tallinn
- 2.9. our school was visited by J.F. Charpentier, the first Secretary of the French Embassy, Tallinn
- 9.09. our school was visited by Timothy Craddock, the new British Ambassador Great Britain, Tallinn
- 11.09. our school was visited by Juhani Salokannel, the head of the Finnish Institute in Tallinn.
- 18.09. our school was visited by Hanna-Mari Ruokonen and Kirsi Gyldin, project managers from the Helsinki Business School.
- 19.09. our school was visited by Väinö Pässilä, the Director of Lahti Employment Office.
- 25.09. Endel Laanvee the vice-president of EBS visited Norway Høgskolen I Agder the Faculty of Economics and Socials Sciences. Negotiations were held with Prof. Oddmund Wallewick and Svein Arild Pedersen, the director of the Department of Foreign Relations
- 6.10. our school was visited by Eva Lille, the Councillor of Press and Cultural Affairs, Embassy of Finland, Tallinn
- 7.10. our school was visited by Lindsay Patterson from the British know-how foundation



- 14.10. our school was visited by Niels Mygind from the Copenhagen Business School and Svend Roed Nielsen, the Ambassador of Denmark
- 9.10 our school was visited by Ian Stewart, Director of the British Council in the Baltic States
- 15.10 William H. Cronberg III, President. American Chamber of Commerce
- 20.10 Jacques Faure, Ambassador of France; lecture on *EU and France*.
- 27.10 lecture on *EU and Sweden*
- 10.11 Tanya Koch, lecture on *EU and Germany*
- 17.11 Timothy Craddock, Ambassador of Great Britain, lecture on *EU and Great Britain*
- 1.12 Pekka Oinonen, Ambassador of Finland, lecture on *EU and Finland*
- 8.12 Svend Roed Nielsen, Ambassador of Denmark, lecture on *EU and Denmark*

Endel Laanvee
Vice President, EBS



Prof. Darica Purg, the President of CEEMAN visited EBS in October and cooperation agreement between EBS and IEDC was signed

What is the British Council

I became British Council Director in the Baltic States in February 1997. I welcome this opportunity to present our work in Estonia to a wider audience and look forward to closer ties between the British Council and the Estonian business and academic communities.

What is the British Council?

This is an obvious first question, but notoriously difficult to answer. Let me start with the bare facts. It was set up in 1934 by the Foreign Office in London to help promote British exports. Even then, the link between economic success and the image of the country was recognized. This economic aspect is one that has never lost but is perhaps more important today than ever.

So, what does the British Council do?

Many people think of it as a cultural or-

ganisation, but culture is a loaded word meaning different things to different people. We interpret the world widely to include not only the performing and visual arts, but also education (and particularly English teaching), social sciences, science and technology, management and business, books and information. The focus of our work is creating



Ian Stewart visiting EBS in October, 1997

partnerships, bringing people together in pursuit of a particular objective. We are funded by the British taxpayer and our main purpose is to present Britain as a vibrant, creative, multicultural society, but through partnerships we also help people in Britain to understand more about the world.

In Estonia

We have an office in the center of Tallinn and small collections of books in Haapsalu, Paide, Kohtla-Järve, Saaremaa, Võru, Pärnu, Narva, Rakvere, Tartu, Viljandi. In 1993, the library was opened specifically for teachers of English, and support for them remains a high priority. The future development of Estonia depends so much on there being young people with an excellent command of foreign languages and particularly English. We employ a consultant based

in Tallinn to organise our English teaching work which includes a large number of seminars and workshops each year. But English is not an end in itself, merely a means to an end, as the Estonian Business School recognizes. Over the last four years, the British Council has developed projects with a number of institutions in subjects as diverse as public administration and food technology. The range of books and materials in our library reflects this wider interest and will continue to do so.

What's in it for me?

This is the last question and one that is easier to answer. Britain has a wealth of resources in so many fields, and the British Council is your local gateway to that resource. For students of business and management, Britain offers models of development that are often different

from those in continental Europe or the United States. The British Council is here in Estonia to help provide information and to make contacts. We administer a small number of scholarships and awards each year, but unfortunately, these are relevant to only a very few. More important is the British Council's role as point of contact and as a facilitator. If you have any queries about Britain, ideas for co-operation, or are looking for advice on studying in Britain, do come and visit us.

Our staff will be delighted to help, or you can visit the British Council web page on <http://www.britcoun.org>.

Ian Stewart
Director Baltic States
British Council

French-Estonian Relations

(or How to Make up for Lost Time)



Jacques Faure
Ambassador of France in Estonia

Two European nations, whose history has offered them few opportunities to get to know each other

During history, the two nations, the Estonians and the French, living on opposite sides of the European continent have had very few opportunities for contact.

Going back to the Middle Ages, one can find some trade relations from the days of the Hanseatic League, but these are few and mostly distant (through the ports of Germany and the Netherlands), only the Napoleonic war forced a part of the large army to march through the southern part of Estonia.

The choices made by each country as to the belonging to political unions in the time period between the two wars this century did not allow for the opportunity to really get to know each other.

The first tie between the two peoples was the blessing of the French Lütseum in the beginning of the twenties, which allowed French culture to pass to the elite French speakers. The ties between artists during the between wars period should also be mentioned.

The annexation of the Baltic States by the Soviet Union severed the fresh ties between the two countries. Even though Paris did not recognise this fact, the French diplomats in St. Petersburg and Moscow could not visit Estonia and help develop Estonian-French relations.

Phillippe Bravard
Economic Attaché to the French Embassy



Jean Francois Charpentier
First Secretary to the French Embassy



Even when France developed the French language teaching network in the Soviet Union in the 60's- 70's, Estonia was the the only one of fifteen states, whom Moscow set a veto upon. Therefore it was not possible to invite a French visiting lecturer

to the closed University City of Tartu. This made the spread of French very difficult the results of which can still be felt.

Taking all this into account it can be stated, that with the reinstatement of diplomatic relation for the young state in 1991, both sides started to work without prejudices. The situation was almost unique in Europe; everything important had to be set up.

Political support first

On the legal side, the only concrete act was that Paris, like most European States did not recognise the annexation of the Baltic States by the Soviet Union. France kept this stance until the end France was the first large State, just prior to the regaining of independence, who invited a Baltic delegation to the deciding CSCE conference which took place in November of 1990, where the Charter to form a new Europe was signed. Even though the total refusal of the Soviet Union's delegation did not allow them to participate in all of the general discussion, it brought the Western countries attention to the political situation in the Baltic.

After the regaining of independence, the first point of order for France was to assist the young state toward political security. The French foreign minister Mr. Roland Dumas visited Tallinn in September of 1991 to gain contact with the new government. France was the fifth State to appoint an Ambassador to Estonia in November of 1991, and president Mitterrand was the first western head of state who made an official visit in May of 1992 to the three Baltic States. Today, we have reached a level of good dialog between the two countries, which was further illustrated by president Meri's visit to France in February of this year. This year the French Minister for Europe, Mr. Moscovici, will visit Tallinn from Dec 3-4.

With the political solidarity after the regaining of independence, came assistance to help develop the structure of the Estonian Armed Forces. The first packages of radio equipment, uniforms and vehicles were handed over. From this time on, the co-operation between

the Armed forces has continued, of which the best example is the yearly visits by the French Navy to Estonia. In continuing this list, it should be added that police training and the fight against organised crime is also one of joint projects.

The second important political policy of France in Estonia is to help with Estonian unification with the European Union. Paris is taking into account Estonia's candidacy, and is supporting it in all ways possible. The Association agreement was signed during the French presidency, and now the French side is in the process of ratification. France has set the objective of including Estonian leaders in the negotiations regarding the training of officials working in European structures (financed by France and Brussels or French Austrian Union active co-operation) to get their opinion as to what should be done to catch up with the European Unions laws in effect (l'acquis communautaire) and to intensify the teaching of French, which along with English to assist in political co-operation as the working languages (approx. 60 Estonian officials are always attending French language lessons).

The French embassy has organised a total of three conferences in Tallinn about European question and approx. 23-30 officials have had the opportunity each year to go to France to attend seminars or learning. French officials also visit Estonian quite often.

Small, but significant factor

In the trading area, our export reach 229 million francs in 1996. In 1995 this same area was 150 million, showing an increase of 52%. The continuance of this tendency is confirmed by the fact that the result for the current year's first seven months was 182 million francs, an increase of 37% over the same period last year.

Without regard for the previous years the French trade deficit has become a trade surplus (+67 million francs), this was all due to the stabilisation of our imports.

Not taking into account this positive development, France ranks 13th in Estonia's imports and 12 in Estonia's exports. According to the Statistics Department, our market share was 1.8%. In the world, France's share is 6-7% of the market.

So this at first small part of Estonia's market, which belongs to France should be appraised in the context of the Northern Countries. Since Estonia is not a country with a very large market, then many French companies market their product in Estonia though their branches in the Scandinavian Countries.

So Saint Gobain, Peugeot, Legrand and Michelin have trusted the ordering and delivery of their products to their branch office in Finland. Therefore, French products are listed in the Estonian statistics as export products of other countries. For example, Peugeot will sell over 500 cars in 1997 (5% of the market share), which is listed as Finnish exports. French products are brought in from other countries as well such as Denmark (Rhone Poulenc).

Our sales research during the first seven months of this year allows us to bring out the imbalance in our offerings. The main part of sales in food products has fallen to third place (42 million francs). (1FRF=2.38 EEK) Specialised equipment (45 million francs, over 67%) and general use goods (44-million +57 %) have increased very nicely.

The sales of unfinished goods has increased (35 million +106%)

The contacts offered by our Embassy allow Estonian traders to be introduced to French offers, especially that, which is related to quality and price.

Logistical problems, which in the beginning threatened to be real obstacles to the development of trading are finally finding solutions and direct, regular transportation lines have been set. Transportation expenses have now decreased, forming 10% of the cost of goods and trading (previously 15%).

French goods should be better able to meet the demands of the developing middle-class (10-15% of the population),

who are looking for middle and high quality goods. In other areas the goods offered by France cannot yet totally fulfil Estonia's needs. French companies usually blame the small size of the Estonian market as a reason for their lack of activity.

This situation where more than 6000 foreign companies have been carried into the business register, and foreign investments are more than 800 million USD, workers have received proper training and the market is positive, and the legal staff are good offers French industries many opportunities. French industry is only represented by car windshield and table tennis rackets companies (BSI in Narva). These two investments are totally fulfilling their parent companies expectations. The income from the previous month's production has covered most of the personnel cost increases.

A new tendency can be seen in 1997, in order to improve the sales for their products, large French enterprises have decided to invest in new structures.

For example, Gec-alsthome, Merlin Gerin, Michelin, Pont A Mousson and soon Rhone Poulenc have opened their permanent representations here, which

should enable them a better share of the Estonian market.

Another positive factor is that the export creditation private insurance company Coface looked over a risk analysis, separation Estonia from the other Baltic States, classifying it in the third category with Hungary, Slovenia and Czech State. This decision should influence our trading relations in a positive direction.

France's central activity is the spread of culture

The spread of French culture is growing successfully. The phenomena, which was undoubtedly tied with the general increase in interest towards what was going on outside of Estonia, forced us to open a cultural centre in Tallinn's Old Town (Kuninga 4) in 1993. The opening of the French literature room in the Estonian National Library in 1996 confirmed the direction taken.

Today the French Embassy and the Cultural centre have set three objectives:

- The ensuring of the spread of the French language, supporting teachers who teach it in schools and univer-

sities (provision of teaching material, teacher training in France...) As a concrete example, it can be stated that 257 people interested in learning the language have signed up, which is more than 30% than last year.

- The introduction of the French culture (organisation of performances, film distribution...). The Cultural Centre also offers lectures on French Civilisation.

- Ensuring offering of the best Internet information centre and database in order to best allow people to learn about France. The database should also be available in Estonian.

Summary

The amount of people visiting France is increasing and a significant amount of French are visiting Estonia either as tourist or for business gives testimony to the strengthening ties between all levels of society. The French Embassy's role in this is to ensure the continuance of this tendency, which is also probably the best insurance for harmonious integration into the European Union. Only with equal and lasting relations with all European States, will Estonia be guaranteed a place among the European people, which is its right.

This issue of EBS Review was sponsored by:





E S T O N I A N B U S I N E S S S C H O O L

International Bachelor of Business Administration

In the fall semester of 1996 the Estonian Business School opened a new program - International Bachelor of business Administration.

This is fully English language program. The objective of this program is to give students from other countries an opportunity to pursue a BBA degree at EBS, providing them with a broad understanding of the global business environment and an in-depth understanding of the economies of the Baltic States and north-western Russia.

The 160-credit-point program concentrates on a combination of basic and advanced courses in various business disciplines. The curriculum is designed to enable each student to acquire a foundation in all areas of business administration: accounting, business law, economics, finance and banking, marketing, management, quantitative methods, and statistics.

Besides the standard BBA curriculum, the program offers:

- courses on business policy in the Baltics and Russia
- field trips to other Baltic States
- field trips to Russia
- study visits to Estonian companies.

Surely international students at EBS will profit from the very specific geopolitical situation of Estonia - a link between the East and the West. You're welcome at Estonian Business School!

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