

ESTONIA 2020

Overview of implementation

April 2013

(25 April 2013)

Introduction

Competitiveness plan “Estonia 2020” was approved at the end of April 2011 and it sets the goals for raising competitiveness for years 2015 and 2020. The plan also describes the main policies and measures to be implemented for the purpose of increasing Estonia’s competitiveness.

Estonia 2020 comprises the main competitiveness reforms component in the process of economic coordination in the European Union. This means that the objectives and priorities agreed by the heads of state or government of the member states have been taken into account when compiling the strategy.

The plan is updated by the end of April each year in accordance with the results of implementation of planned activities, country specific recommendations made to Estonia and new reform commitments that will have to be implemented by summer 2014 at the latest. The updating takes place in parallel and in line with the preparation of the stability programme that defines the financial resources and fiscal targets for the following years. The objectives and measures of the strategy are also in conformity with the Government’s Action Plan and the state budget strategy. In addition, Estonia 2020 provides important input to the planning process for the use of funds under the European Union's financing period 2014–2020.

The Overview of Implementation of Estonia 2020 describes the achievement of objectives, the fulfilment of commitments under the Euro Plus Pact and implementation of country specific recommendations. The overview serves as a basis for updating the Estonia 2020 programme and action plan.

Together with the Representation of the European Commission in Estonia, the objectives of the plan and its updating principles were introduced to stakeholders on 13 March. Thereafter the material was made available for public consultation until April via the draft legislation information system in the portal osale.ee. The discussion of the feedback collected during the updating of the plan was held with stakeholders on 9 April. The updating of the plan was also addressed in the European Union Affairs Committee of the Riigikogu on 8 April.

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Indicators of the achievement of objectives

In the context of a further increase of competitiveness, Estonia set two main objectives in the reform plan:

- to achieve **strong growth of productivity** through products and services with greater capital intensity and higher value added;
- to restore the **high employment rate** observed before the economic crisis.

In addition, Estonia 2020 describes the main challenges and relevant policy measures that fall into four areas:

- **educated population and cohesive society:** the quality and availability of education and labour force supply;
- **competitive business environment:** policy that supports the improvement of the long-term competitiveness of businesses, creative industries, international competitiveness of research and development and business-supporting infrastructure;
- **environmentally friendly economy and energy:** energy savings and resource savings;
- **sustainable and adaptive state:** sustainability of public finances, ability to react to changing circumstances and imbalances, tax policy supporting the development of the economy and modernisation of the government sector.

All in all, there are 17 sectoral objectives in the plan. Some of them contribute directly to the achievement of the objectives of Europe 2020. The Estonia 2020 plan has been implemented over two years, which means that several measures are still at a preliminary stage and have not yet had any effect on the achievement of the set goals. In addition, the time-lag in publication of the statistical data that is the basis for the indicators of the achievement of the objectives has to be taken into account, due to which the 2012 data are not complete yet.

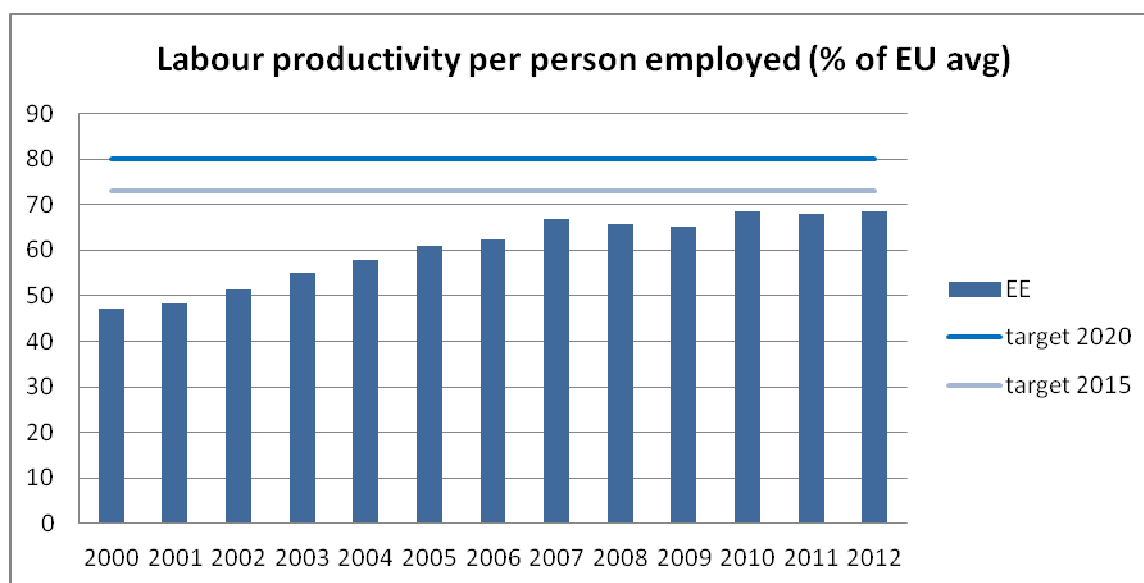
Central indicators: employment and productivity

Goal	Initial 2010	Current level 2012	Estonia's goal 2015	Estonia's goal 2020
To raise employment rate in age group 20-64	66,4%	71,7%	72%	76%
To raise productivity per employed person in comparison with EU average	65,8% (2009)	68% (2011)	73%	80%

Raising the productivity of Estonian businesses is one of the main tasks in improving competitiveness, especially in a situation where the production costs of businesses are approaching the level of developed countries. As for the achievement of the target level, it has been assumed that

in Estonia productivity per employed person would increase by approx. 2 percentage points faster than the EU average.

In 2000, Estonia's productivity per employee was merely 47.2% of the EU average. From this low level Estonia's productivity indicator per employed person has grown faster than the EU average. Due to the economic crisis, which struck in 2008, productivity slightly fell with regard to the EU average but in 2010 productivity grew fast, also in comparison with the EU average. Although the Estonian economy continued to grow in 2011, productivity per employee did not approach the EU average despite the very fast recovery of employment compared to other member states.



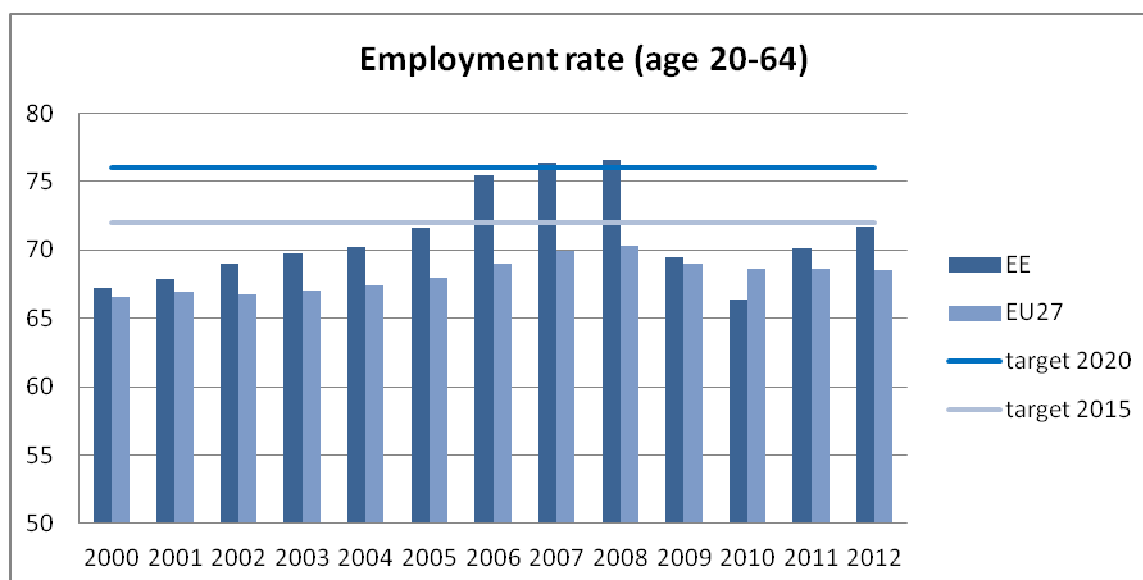
Based on the economic indicators of Estonian companies, 2012 saw continued growth in sales revenues, productivity and total profits for the third consecutive year. Business investments grew for the second consecutive year and the volume of investments was 12% larger than the year before. Labour productivity of the corporate sector based on net value added rose by 5% reaching on average EUR 20,000 per year per employee.

In 2012, the GDP in the Baltic states demonstrated the strongest growth in the EU (3.2% in Estonia). At the same time the employment rate indicator continued to improve (2.5%), characterising the flexibility of the labour market, and contributed to the **growth of productivity per employee**. Eurostat's statistics on the comparable productivity indicators of the EU in 2012 are not available yet. Considering that the EU's average GDP growth was negative (-0.3%) and the employment rate virtually did not increase, it can be presumed that Estonia moved somewhat closer to the EU average productivity.

As both the number of persons employed as well as hours worked has increased rapidly and investments, too, have grown, it can be presumed that economic growth supported by employment growth is reaching its limits. In coming years the productivity growth due to efficiency factors will be

again faster than the EU average and thus the goal of reaching 73% of the EU average by 2015 will be achievable.

In 2011, the employment rate of the age group 20-64 rose, reaching the level of 71.7%. Therefore the target level has been almost reached. The average number of employed persons in 2012 amounted to 624,000. The employment growth was mostly supported by an increase in the number of persons employed in transportation and warehousing, information and communication, education, administrative and support services. The number of persons employed in manufacturing and construction, which drove employment growth before, decreased somewhat in 2012. Over the past year the growth in the economy and employment was fuelled beside exports by the recovery of the domestic market. Overall, however, the labour market structure has improved and the pre-crisis imbalances do not virtually exist anymore. Owing to the increase in employment, the number of unemployed as well as economically inactive people has decreased, the latter actually also influenced by the changes in the age structure (less young including inactive people, older age-group grew, amount of inactive remained the same).

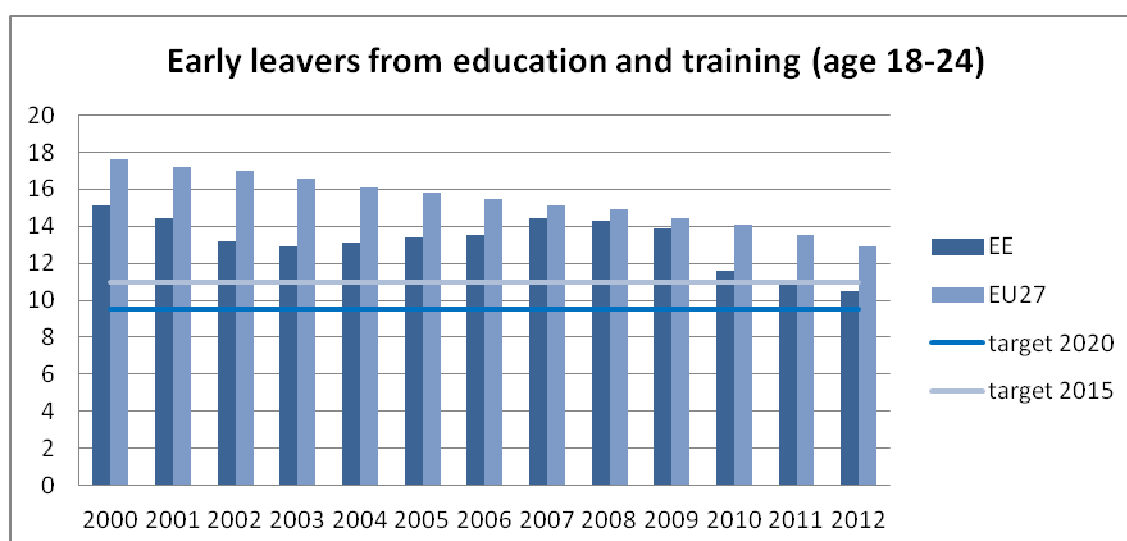


Presumably, over the next few years the employment rate will not fall back to its lowest level of decades observed in 2010. In 2011 and 2012, the number of employed persons rose by 50,000 in total, which is much faster than expected. Since in the coming years the population aged 20-64 is expected to decrease, the goal set for 2015 will be achievable.

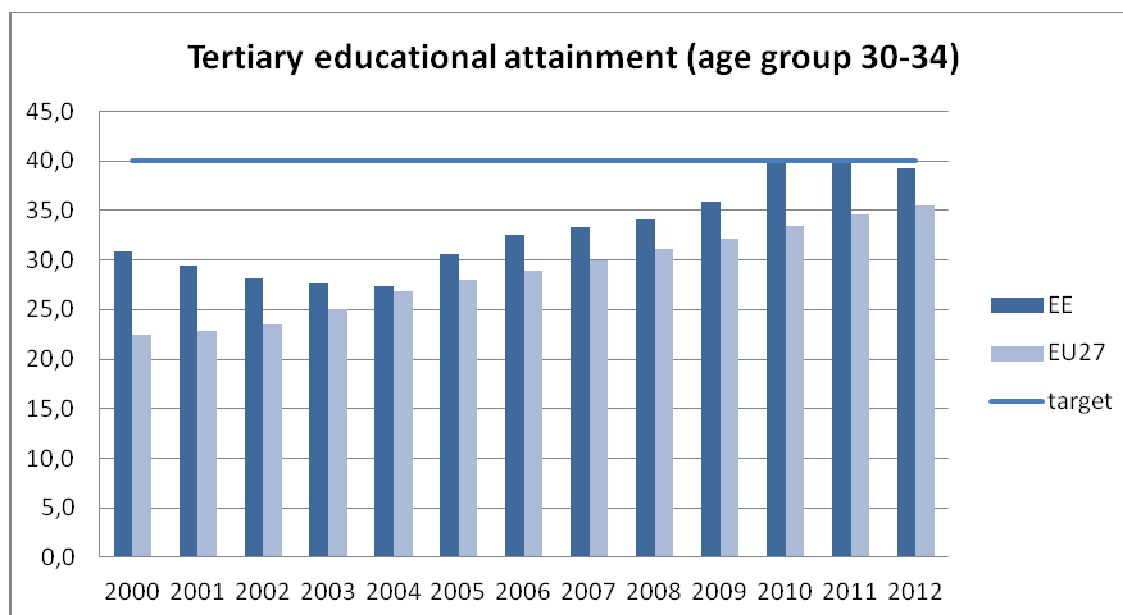
Education and cohesive society

Goal	Initial 2010	Current level 2012	Estonia's goal 2015	Estonia's goal 2020
To reduce the percentage of early school leavers (18-24)	11,7%	10,5%	11%	9,5%
To increase the percentage of tertiary education attainment in age group 30-34	39,7%	39,2%	40%	40%
To increase the percentage of adult (25-64) participation in lifelong learning	10,9%	12,9%	15%	20%
To reduce the share of adults (25-64) without any professional or vocational education	31,9%	30,31%	32%	30%
To reduce the long-term unemployment rate	7,7%	5,5%	4%	2,5%
To reduce the youth (15-24) unemployment rate	32,9%	20,9%	15%	10%
To reduce the at-risk-of-poverty rate after social transfers	17,5%	17,5% (2011)	16,5%	15%
To increase the participation rate (15-64) in labour force	73,4%	74,5%	74%	75%

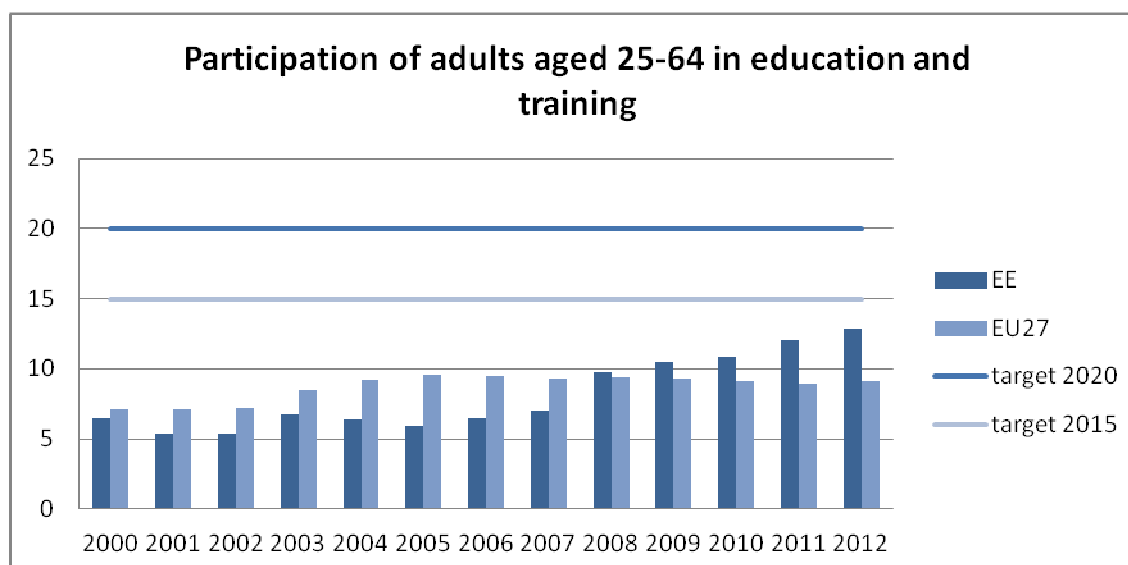
In 2012, the percentage of early school leavers fell to 10.5%, which is better than the target of 11% set by 2015. Although the 2015 goal has been achieved, it still requires continued attention and new measures in order to maintain the achieved level, because in the last 10 years the percentage of early school leavers has been rather stable at around 13-15%. The new basic school and upper secondary school curricula must be continuously implemented as well as new measures proposed in the lifelong learning strategy that is currently being prepared. The reduction of the number of early school leavers allows for presuming that the path taken in the new curricula approved by the Government and special attention to the subject will produce results in the short and long term.



The percentage of attainment of tertiary education decreased in 2012 to 39.2% but in a longer-term perspective the percentage has grown. In 2009 the percentage of attainment of tertiary education in age group 30-34 was 35.7% and in 2011 it exceeded the level of 40%. The target level has been almost reached and the goal for the coming years is to sustain it.

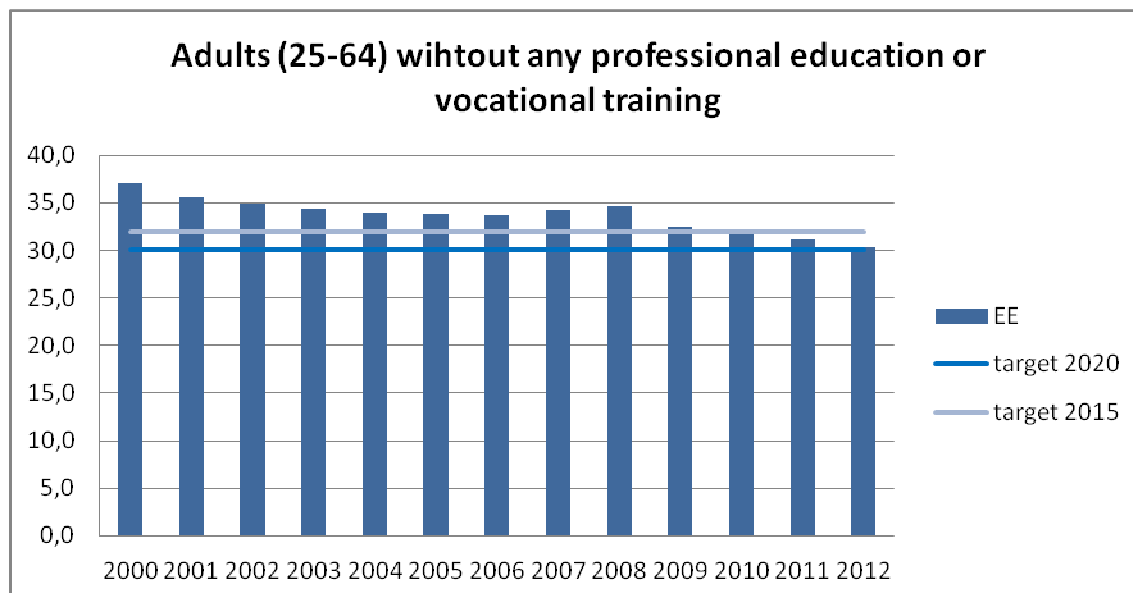


In 2012, the percentage of adult participation in lifelong learning rose to 12.9%, which is the all time high so far. The participation of men and women rose to 10.6% and 14.9%, respectively (9.2% and 14.5% in 2011). It is also remarkable that the participation of older people (aged 55-64) rose to 5.5% (4.6% the year before). From 2001 to 2006 the percentage of adult participation in lifelong learning was between 4% and 7%. There was a breakthrough in 2008 when the Estonian indicator exceeded the EU average. This indicates the continuing upward trend of adult education and allows for assuming that the goal set for 2015 will be achieved.

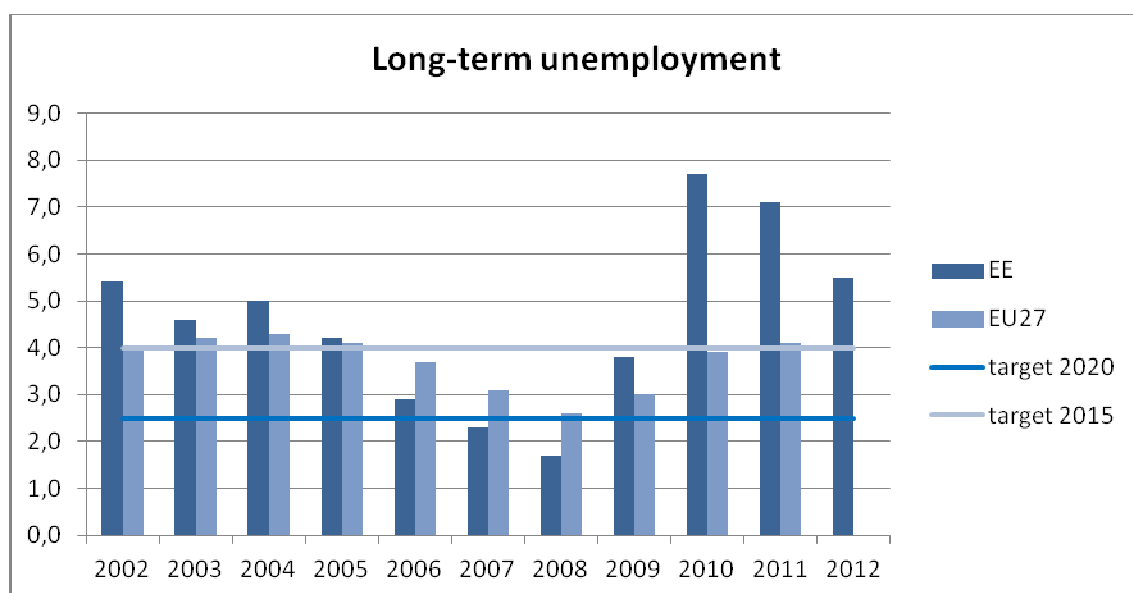


The high number of people without professional or vocational education remains a challenge. A large percentage of Estonia's workforce (age group 25-64) continues to have a basic or general secondary education only and does not hold a professional education (vocational or higher

education). According to the 2012 data, their share in the labour force decreased even more, amounting to 30.3% of the labour force, which is almost the set target. The number of persons without professional education has been somewhat higher in the younger age group. Over the last two years, however, the percentage of 25–34-year-olds without professional education has also started to decrease, falling to the level of 32.4% in 2012.

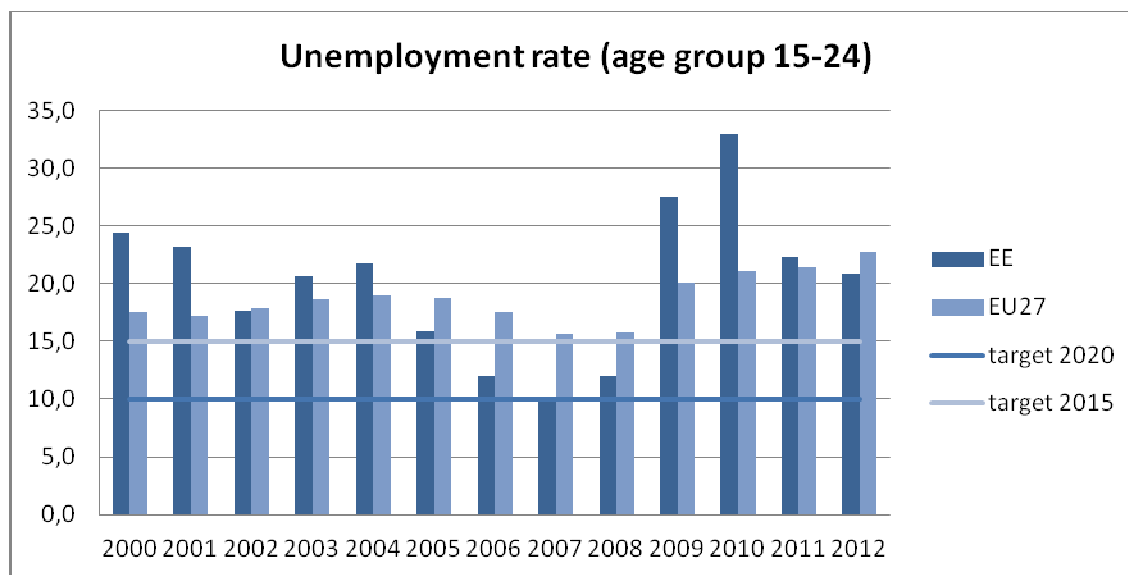


The problem of long-term unemployment has begun to ease. The long-term unemployed still account for more than half of all the unemployed but their total number is decreasing. While in 2010 the percentage of the long-term unemployed amounted to 7.7% of the labour force, it fell to 7.1% in 2011 and to 5.5% in 2012. The proportionally large percentage indicates a clear need for stimulating actions and measures providing support services.

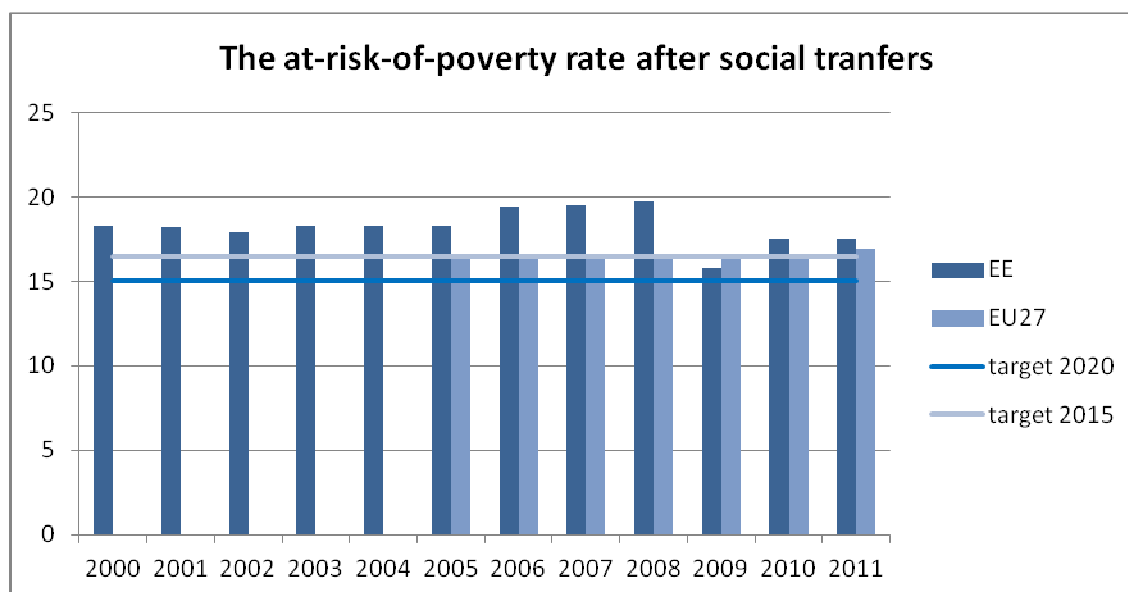


The youth unemployment rate has decreased at a quick pace, as expected, but remains relatively high. The indicator of 2011 amounts to 20.9%, while in the years preceding the crisis it was around 10-12%, prior to that averaging around 20%. Changes taking place in the target group of young

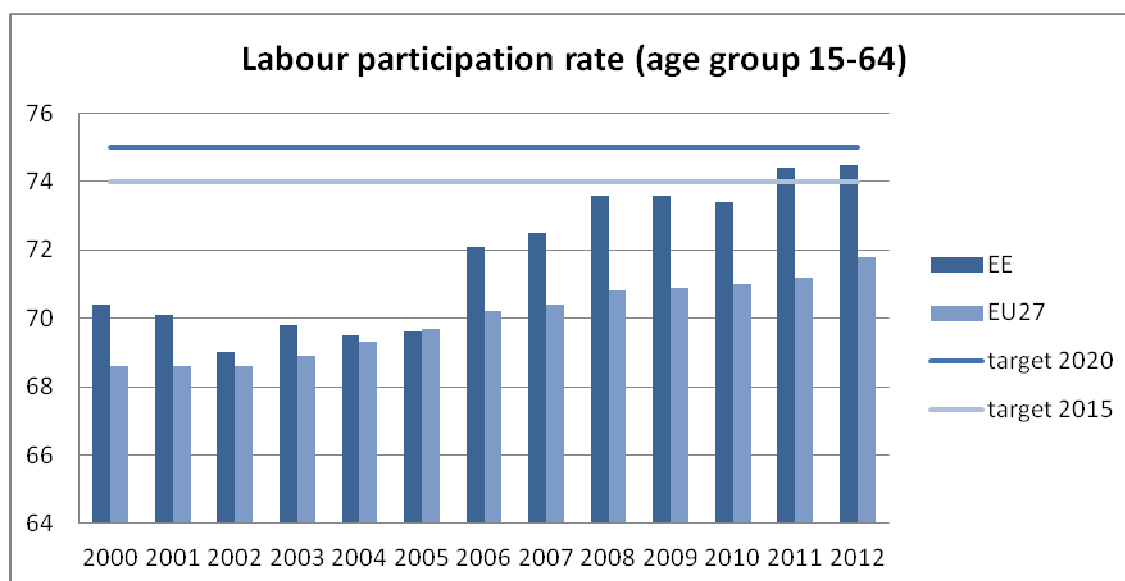
people have been sudden, because due to lower-than-average work experience they are less competitive and therefore they move out of the labour market faster in the event of a crisis.



In 2011, the relative poverty rate remained at the same level (17.5%) as the year before and the at-risk-of poverty rate decreased for families with children and increased somewhat for old-age pensioners. From 2000 to 2008 the relative poverty rate has remained around 18-19% in Estonia. In 2009, the relative poverty rate after social transfers was 15.8%, which is the lowest rate in recent years. The lower relative poverty rate resulted from the lower at-risk-of poverty threshold related to equalizing incomes and the preservation of the level of social protection benefits as well as a 5% increase of pensions. The subsequent increase in the relative poverty rate was due to an increase in the at-risk-of poverty threshold which was the result of a continued increase in employment and incomes. Compared to the pre-crisis times the at-risk-of poverty in Estonia has decreased, especially among old-age pensioners and those over 65 living alone.



The goal of the labour force participation rate for 2015 has been achieved since 2011, which together with the growth in employment and reduction in unemployment is a very positive development.

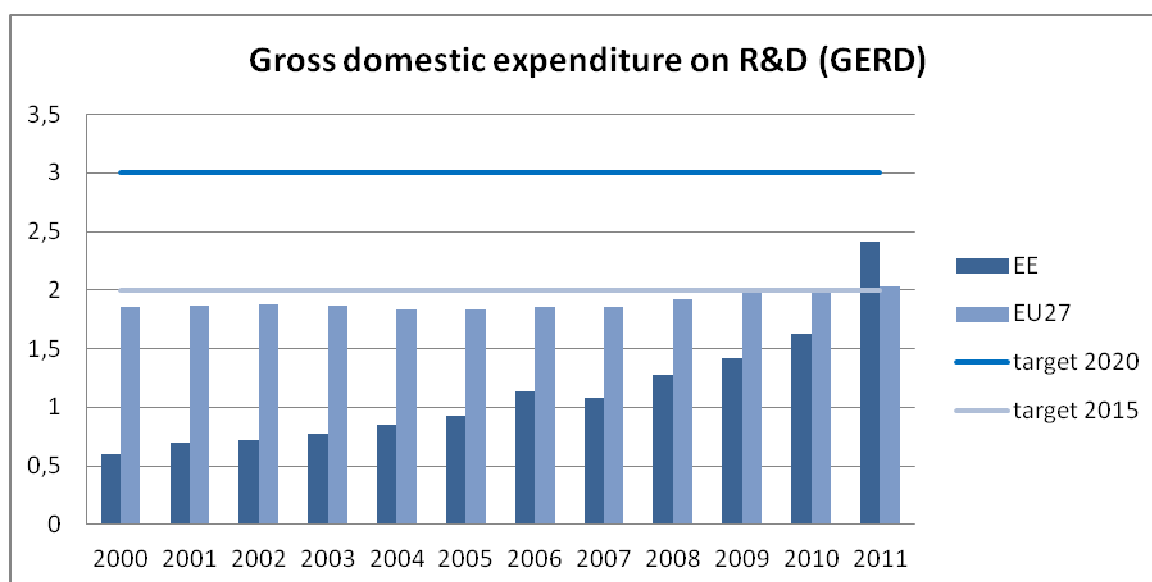


Developments in education and in the labour market have been largely positive. Three out of eight indicators have reached the target level set for 2015 and the trends of another three are clearly positive. The main problems continue to be the high level of long-term unemployment and the reduction of youth unemployment that requires constant attention from the Government.

Competitive business environment

Goal	Initial 2009	Current level 2011	Estonia's goal 2015	Estonia's goal 2020
To raise the level of R&D investments	1,42%	2,41%	2%	3%
To increase the percentage of Estonian exports in global trade	0,085%	0,099%	0,1%	0,11%
Growth of labour costs does not considerably exceed growth of productivity	-2,8%	2,3% (2012)	0%	0%

In 2011, the R&D intensity, i.e. its share in the economic activities, amounted to 2.41% of GDP. The nominal amount of total expenditure was EUR 384.5 million, which is an all-time high in Estonia. The volume of investments took a major leap and increased over 65% year-on-year. This growth has been achieved owing mainly to the increased contribution from the business sector, especially due to extremely large investments in the shale oil industry over the recent years. At the same time the stable trend of growth was observed even without this sector. The expenditure of non-profit sectors increased 22%. Over the last two years the private sector's expenditure has exceeded that of the non-profit sector, with the latest contribution amounting to 63.1% of the total expenditure. The decisions taken in the period of economic recession to increase R&D investments and make them earlier have also improved the R&D activities of the private sector.



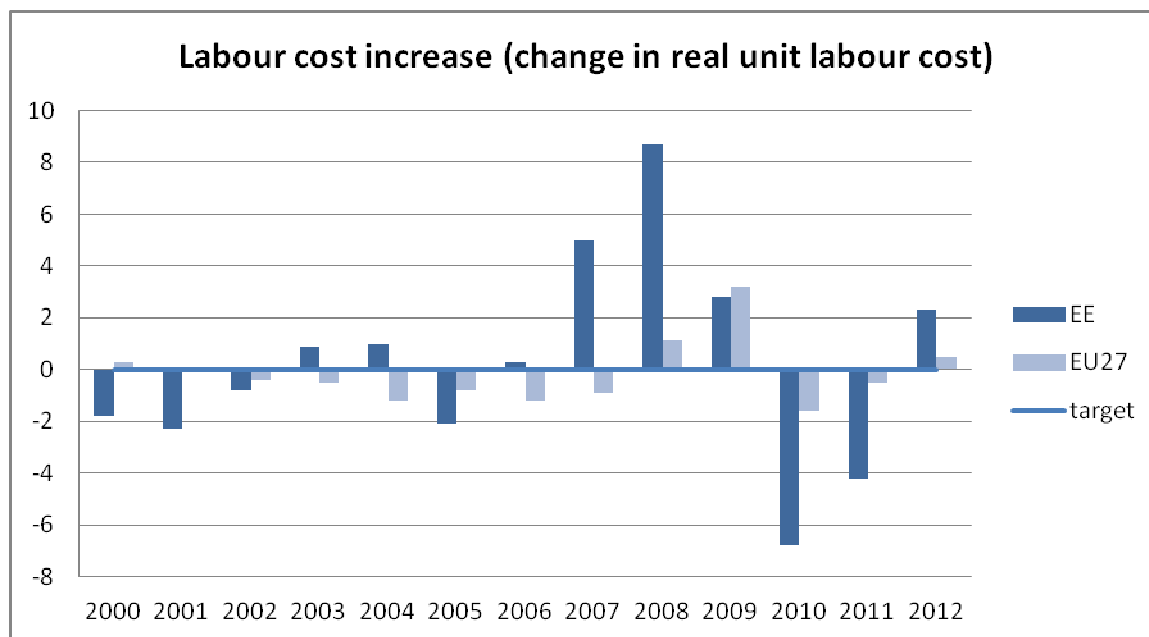
In 2012, the exports of Estonian goods and services rose 7.7% year-on-year. The total exports of goods and services amounted to EUR 15.7 billion. The exports of goods rose 4.5% and imports 37% year-on-year. Goods were exported for EUR 12.6 billion and imported for EUR 13.8 billion. In comparison with 2011, the growth of exports of agricultural products and food (14.5%), chemistry and chemical products (14.5%) and plastic and rubber products (9.9%) was the strongest. Exports of

mineral products showed the biggest decline (9.1%). The share of exports by commodity sections was in 2012 as follows: machinery and equipment (29% of total exports), mineral products (15% of total exports), agricultural and food products (9% of total exports). Sectors with a higher value added (machinery and equipment, chemistry) have been more competitive following the crisis.



In 2012, Estonian Gross Domestic Product (GDP) rose 3.2% year-on-year. The GDP in current prices amounted to EUR 16.99 billion. In 2012, the exports of goods and services in current prices amounted to 92.5% of GDP. 2011. According to the World Trade Organisation (WTO), Estonian exports in 2011 accounted for 0.099% of the total global exports. The percentage of the exports of Estonian goods was 0.092%, while that of services exports was 0.130% of global trade.

Businesses' productivity indicators have risen faster than labour costs, which has considerably improved Estonia's competitiveness in foreign markets. In the boom years of the previous economic cycle the pace of growth of labour costs considerably exceeded that of productivity, but in 2010 and 2011 the imbalances have decreased. In the meantime, the ratio of labour productivity and wages has suddenly improved. In these years the real unit labour cost was -6.6% and -2.8%, respectively, and the nominal unit labour cost was -5.6% and 0.8%, respectively.



According to the Estonian Statistical Office, in 2011 the hourly productivity of businesses rose 15%, while the average labour cost per hour rose 6%, which also indicates that there is no risk of imbalances due to the excessively strong growth of labour costs. In the coming years the nominal indicator is expected to rise slightly, but keeping the real unit labour costs around zero will be manageable.

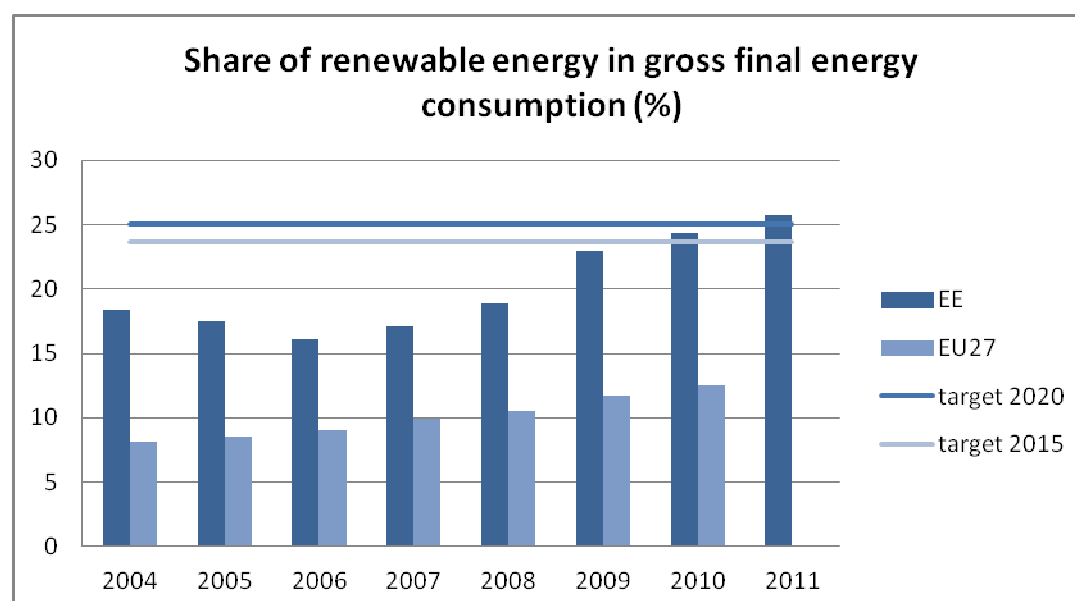
The change of the nominal unit labour cost is observed in the procedures of macroeconomic imbalances, thereby keeping in sight the target level of 9%, which must not be exceeded. In order to prevent duplication and better reflect the goal of the wage growth which does not outpace the growth in productivity, an indicator of the change in real unit labour costs with the target level of 0% was introduced in the context of Estonia 2020 in 2012.

In 2012 the nominal unit labour cost increase accelerated to 5.6%. The ratio of salary costs to GDP is not forecasted to change in coming years.

Environmentally friendly economy and energy

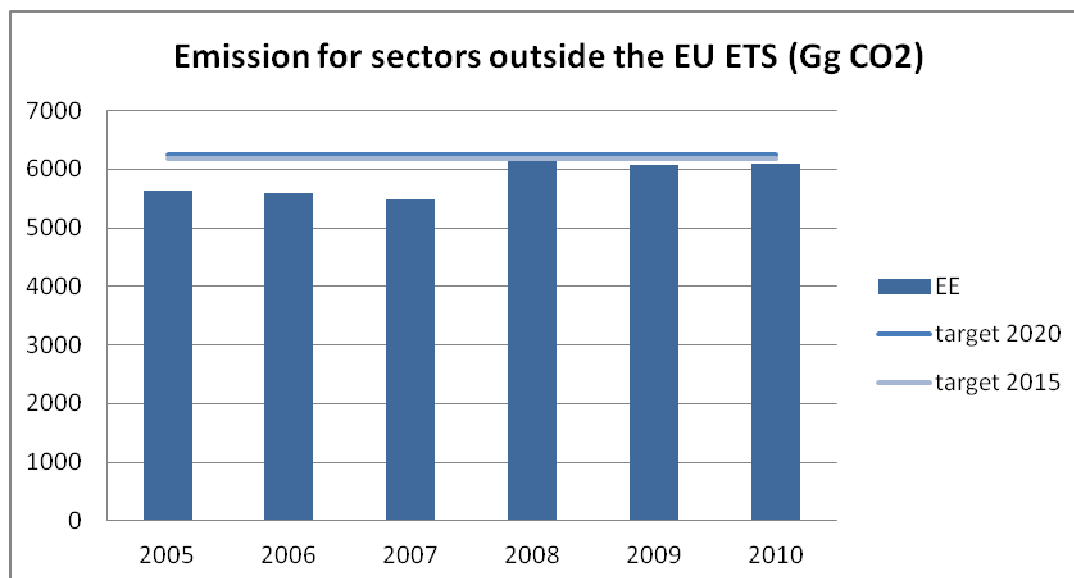
Goal	Initial level	Current level 2011	Estonia's goal 2015	Estonia's goal 2020
Limit of greenhouse gas emissions in comparison with the level of 2005	5647 thousand tons (2005)	6021 thousand tons ¹	6156 thousand tons	6269 thousand tons (+10%)
Raising the percentage of renewable energy to 25% of end consumption of energy	18,9% (2008)	25,7%	23,6%	25%
Keeping the end consumption of energy at the level of 2010	2818 ktoe (2010)	2761 ktoe	2986 ktoe	2818 ktoe

In 2011 and 2012, the percentage of renewable energy in end consumption was 25%, which corresponds to the goal set for 2020. The share of renewable energy has constantly increased in recent years. The greatest potential for renewable energy sources is located in the biomass sector and there are also good prospects in developing wind energy, biogas and small hydro power plants.

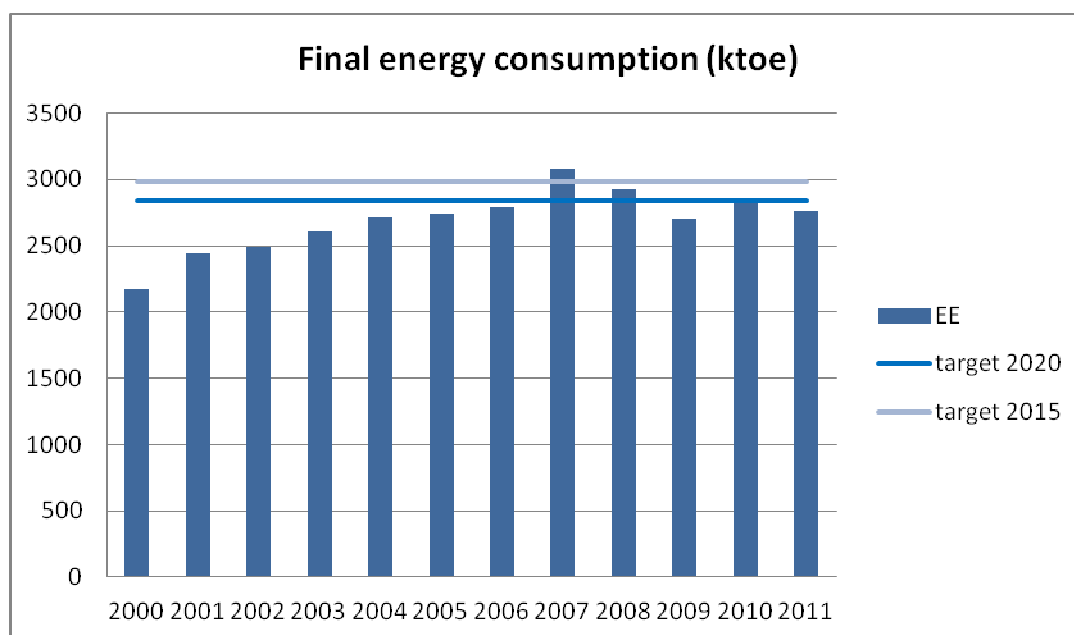


More recent statistics of other indicators of the environmentally friendly economy have not been published yet. In the long term, **the greenhouse gas emissions have been reduced considerably in Estonia in recent decades**. It should be made certain that the end consumption of energy and the greenhouse gas emissions do not increase in the situation where economic activities are recovering from the crisis and both private as well as industrial consumption may increase. National targets have been set for sectors that are not part of the trading system (buildings, transport, agriculture, waste, etc.) where Estonia's emissions should not increase more than 10% by 2020 compared to the 2005 level.

¹ 2008–2010 average level



Keeping the end consumption at the level of 2010 calls for increasing energy savings in almost all sectors, of which households, industry, transportation and the public sector are the most important. **According to the 2011 data, the end consumption decreased by 2.8%, which shows that the indicator will remain within the limits of the set target.**

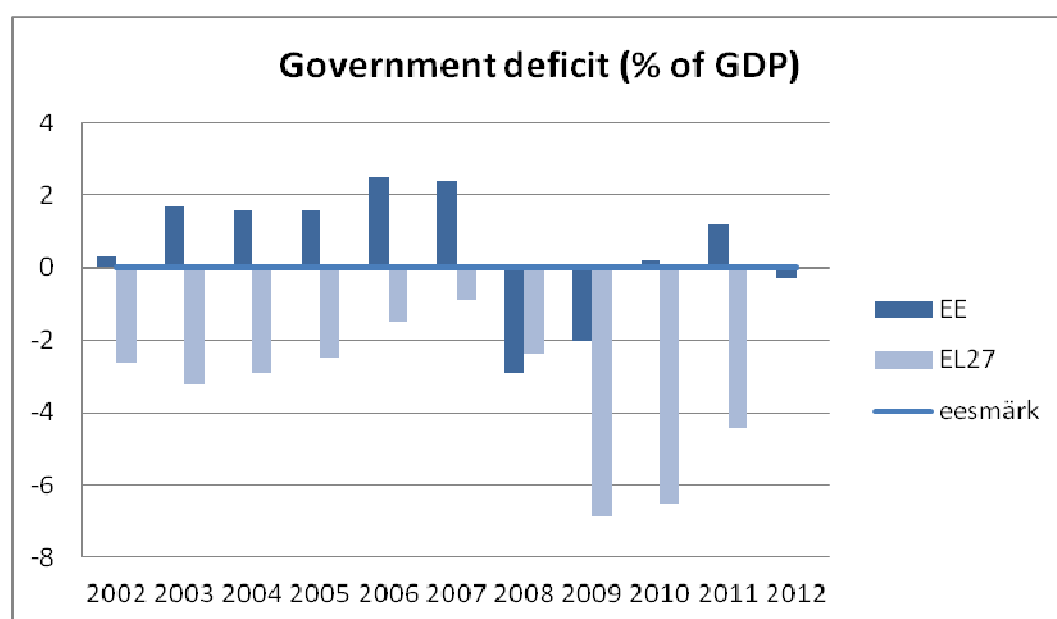


Sustainable and adaptive state

Goal	Initial level 2010	Current level 2012	Estonia's goal 2015	Estonia's goal 2020
Maintaining the structural surplus of the government budget ²	0,1%	1,0%	0,7%	>0%

In line with the government budget strategy and the indicators of the main objectives of the stability programme, the Estonia 2020 plan observes the structurally adjusted budgetary position which in 2012 had a surplus of 1.0%. Similarly to the stability programme and the government budget strategy, the target level of the structural budgetary position for 2015 is set to 0.7% of GDP. According to the economic forecast, the target will be adjusted in the forward-looking state budget strategy for four years which is updated annually. In a longer-term perspective the objective is to maintain the budget in surplus.

The general government budget expenditure exceeded the revenue by EUR 54.3 billion in 2012, which means that in nominal terms the budget balance showed a deficit of -0.3% of GDP.



By the end of 2012 the **public sector debt made up 10.1% of GDP**, having risen by 3.9 percentage points. Consolidated public sector debt amounted to EUR 1.7 billion, having grown 70% year-on-year.

² When the Estonia 2020 plan was updated in April 2012, the originally used indicator of the public sector debt level was replaced with the target of the structural surplus of the government budget.

Implementation of obligations of Euro Plus Pact assumed under Estonia 2020

In the Summit of the European Council on March 24-25 in 2011, the heads of government agreed on the Euro Plus Pact which aims at the implementation of structural reforms for the purpose of increasing the competitiveness of the economy and employment, improving the sustainability of public finances, and ensuring financial stability.

In 2012, Estonia assumed **twelve reform obligations under the Euro Plus Pact**, approving them by a decision of the Government on 26 April in the national reform plan "Estonia 2020". The reforms must be implemented by the summer of 2013 and the current status of their implementation is as follows:

- **four reforms have been implemented to date:** (1) lowering the rate of unemployment insurance tax; (2) amendment of acts necessary for the opening of the gas market; (3) development of the principles of general education financing; (4) launching the reform programme of the upper secondary school network;
- **six reforms will be implemented by the summer of 2013:** (1) an environmentally friendly public transportation investments programme; (2) the first phase of an energy efficiency investment programme; (3) legislative basis for modernisation of vocational education curricula; (4) centralisation of financial and personnel accounting ; (5) reform of the management system of the EU funds; (6) simplification of the system of entrepreneurship grants;
- **two reforms will be presumably a few months late:** (1) new insurance scheme for capacity for work; (2) developing a new programme for increasing employment among young people with lower competitiveness.

More detailed status by the sub-chapters of the Euro Plus Pact:

a. Promoting economic growth and competitiveness	
1. Reforming the upper secondary school network and launching the programme for raising the quality of the school network	The principles of the reform of the network in order to raise the quality of upper secondary education and provide better options have been agreed. The applications for infrastructure investments have been submitted and it is decided in April which buildings will be financed. The volume of the programme is EUR 23.67 million.
2. Development of the principles for funding of general education in order to raise the quality of education and enhancing the reputation of teachers	Amendments to the Basic Schools and Upper Secondary Schools Act are at the second reading in the Riigikogu. From 2013 the components of education allowances given to local governments will have clear targets and the salaries meant for basic school and upper secondary school teachers will be clearly specified in the allocations.
3. Liberalising the natural gas market	The Riigikogu adopted the amendments to the Natural Gas Act which are necessary for the opening of the gas market in June 2012. The amendments set out, inter alia, the obligation to specify the ownership of the natural gas transmission network

	by 2015 at the latest.
4. Implementation of the environmentally friendly public transportation investments programme	110 new and environmentally friendly buses for servicing county bus routes and Tallinn city routes have been purchased and most of them are in use. In addition, contracts have been agreed for acquisition of ten natural gas powered and hybrid buses for servicing Narva and Pärnu routes and 16 new trams for the longest and most heavily used tram line in Tallinn.
5. Completion of the first phase of the energy efficiency investment programme	The total volume of the package is close EUR 198 million, most of which (EUR 146 million) is comprised by the renovation of public buildings. The funds allocated to financing apartment buildings and private homes have been virtually used up.
6. Simplifying and better targeting of entrepreneurship grants to raise competitiveness	The renewal of the system of grants and a broader use of financial instruments takes place during the planning process for the use of funds under the EU 2014–2020 financing period.
b. Tackling the social consequences of unemployment and the crisis	
7. Lowering the rate of unemployment insurance tax in 2013 in order to reduce workforce tax burden	With the Government Regulation of September 2012 the tax rate for insured employees was lowered from 2.8% to 2.0% and the employer's rate from 1.4% to 1.0%.
8. Establishing occupational and professional health insurance along with a new insurance scheme for capacity for work	The principles of the scope of the reform have been prepared, the necessary draft acts are planned to be submitted to the Government in the III quarter. Deliberations in the Riigikogu will be held in the IV quarter of the year.
9. Developing new programmes for increasing employment among young people with low competitiveness	A joint programme to tackle youth unemployment is under preparation. It focuses above all on prevention, identifying and motivating the target group and youth-specific labour market measures.
10. Modernisation of vocational education curricula	The new Vocational Educational Institutions Act that will serve as a legislative basis for important new improvements is at the second reading in the Riigikogu. All curricula will be made output-based and their linkage with the Estonian qualification framework will be improved. Curricula groups will be accredited by employers and entrepreneurs.
c. Modernisation of public administration	
11. Completion of the reform of the centralisation of financial and personnel accounting	From the beginning of 2013 the newly established State Support Services Centre provides financial, personnel and wage accounting services to the Ministry of Justice, Ministry of Social Affairs and Ministry of Finance, including their jurisdictions.
12. Reform of management and support systems of European Union funds	The main purpose of the reform of the management systems is to pool functions and tasks and to reduce the number of management levels. In addition, it is envisaged to prepare a single implementation plan for a more effective and efficient management of resources of cohesion funds.

Complying with country-specific recommendations

Below, you will find a summary of the measures applied and activities carried out for the purpose of complying with the country-specific recommendations (CSR) made to Estonia at the June summit of the European Council in 2013. The list contains activities which have been implemented by the time of submission of the report. New reforms and policy changes have been set out in the updated Estonia 2020 plan (incl. the new obligations of the Euro Plus Pact) and in the action plan thereof.

Maintaining a sound budgetary position

(1) Preserve a sound fiscal position by implementing budgetary plans as envisaged, ensuring achievement of the MTO by 2013 at the latest, and compliance with the expenditure benchmark. Complement the planned budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework, continue enhancing the efficiency of public spending and implementing measures to improve tax compliance.

The Government will follow the objectives set in the state budget strategy in order to ensure sustainable development and a generally favourable economic environment over the next few years. 2013. According to the 2013 budget and the spring economic forecast the structural budgetary position has a **surplus of 0.3%** and in nominal terms the budget has a minor deficit (-0.5% of GDP). 2013. The budgetary position of 2013 may come under pressure mainly due to possible changes in the external environment as dramatic changes in domestic demand resulting from domestic factors are unlikely.

The **medium-term objective of the Government is the structural surplus of the government budget**. The Stability Programme submitted to the Commission along with Estonia 2020 stipulates that the Government's fiscal policy **goal is to achieve a structural surplus in 2014 as well as in subsequent years**. To that end, the structural budgetary position will be improved to 0.2% of GDP in 2015 in comparison with the 2013 spring economic forecast of the Ministry of Finance (for further information, see Stability Programme). As a result, a nominal budget surplus should be achievable by 2015. The government debt ratio is growing mainly due to an increase of the influence of the EFSF; it is not necessary to increase the central government debt ratio.

In a longer-term perspective it is necessary to introduce **multiannual expenditure targets** in the state budget strategy and these will be provided for by the **new State Financial Management Act** that will enter into force in January 2014. It is the priority of the Government to implement measures that improve tax receipts and tax discipline in specific sectors (construction, catering, hotel industry).

For the purpose of improvement of the efficiency of the expenditure of the public sector:

- the budget strategy will focus on the avoidance of pressures resulting from wage growth and job creation by means of **more efficient work processes**;
- the principles of the reform of the **system of capacity for work** have been established and required draft acts are under preparation;
- the reform of **special pensions and old-age pensions under favourable conditions** will be continued by sectors;
- **activities related to support services**, the consolidation of real property management and centralisation are being implemented;

- in the context of the determination of **central contracting authorities** and entities for the purpose of public procurement, the Centre of Registers and Information Systems has been authorised as the first competency centre to organise public procurements in the area of information technology.

Improving the efficiency of the system of social benefits and stimulating employment

(2) Improve incentives to work by streamlining the social benefits system and increasing flexibility in the allocation of disability, unemployment and parental benefits, while ensuring adequate social protection. Improve delivery of social services, while better targeting family and parental benefits and removing distortionary income tax exemptions related to children. Increase the participation of the young and the long-term unemployed in the labour market.

The Government's long-term objective is to **reduce workforce tax burden** in order to **strengthen incentives to work**. As one of the incentives to work the Government and labour market partners decided to lower the rate of unemployment insurance both for employees and employers from 2013, in total from 4.2% to 3%. The **percentage of labour taxes has decreased** in the structure of overall tax burden over the last five years by 4.3% to 50.5%. This serves the Government's goal of a gradual and budget-neutral restructuring of the tax burden as at the same time the taxes on consumption have been raised by 5.3% to 42.1%.

One of the most important on-going reforms of the Government is the **reform of the scheme of capacity for work and the creation of occupational accident insurance**. This will enable people with a reduced working capacity more possibilities to work and offer more services at the same level of costs. A large proportion of beneficiaries among the working-age population is primarily a result of the current principles of assessing incapacity for work and payment of benefits. These are currently focused on the medical condition rather than on the person's actual working capacity. This in turn causes a considerable increase in the number of beneficiaries and a low number of exits from the social transfer system back to the labour market as most beneficiaries become old-age pensioners. As a result of the reform it will be possible assess the working capacity of members of the target group in somewhat more depth, to offer relevant services both to possible employees as well as employers, ensure support services and tools.

Progress in the **provision of labour market and related social services** is indicated by the constant **growth in the number of people participating in active labour market measures**. While in 2010 it was on average every tenth unemployed person who participated in these measures, then in 2011 it was every fifth and in 2012 almost every third unemployed person. A similar trend can be observed in the **target group of the long-term unemployed**: in 2011 the number of people who had received the services over the past year was 2/3 and in 2012 3/4 of the whole number. Labour market training is the largest measure both in terms of the target group and the budget.

Planning new labour market measures, including with the help of funding under the EU 2014–2020 financing period, plays an important role. A lot of emphasis will be placed on **additional and supportive measures** that will improve access to labour market services. These will be accompanied by increasing the efficiency of the provision of care services, including childcare, in order to prevent that **people with care responsibilities** remain outside the labour market and to reduce their number.

To better target family and parental benefits, the Government follows in their payment the principle of supporting more those who really need more help and who have more children. From July 2013 a new need-based family allowance will be added for those who live under the income threshold. Need-based family allowance per month will be 9.59 euro for families with one child and 19.18 euro

for families with two or more children. From 2015 the need-based family allowance will increase to 19.18 euro for families with one child and 38.36 euro for families with two or more children. Income threshold is based on relative poverty. In addition for all families the allowance for third and each additional child per month will be raised from the current 57.54 euro to 76.72 euro from July 2013 and to 95.9 euro. The childbirth allowance in case of a multiple birth of three or more children will be tripled per child, i.e. it will be in the amount of EUR 1,000 per child.

Amendments to the Pre-school Child Care Institutions Act have been prepared, pursuant to which local government can at the request of a parent offer them childcare service instead of a place in a nursery school. The part of one child's school fee paid by the parents may not exceed 20% of the minimum monthly wage set by the Government of the Republic. This will increase the availability of child care facilities for 1.5- to 3-year-old children for whom there are currently the least places in nursery schools. This will also allow local governments to fulfil their obligation to provide places in nursery schools in a more flexible way.

The Ministry of Social Affairs and the Ministry of Education and Research are preparing a **joint programme to reduce youth unemployment**, the purpose of which is to decrease inactivity and ensure better access to services. The programme will be funded under the EU's new financial perspective. The joint programme will connect the measures of labour market and education and focus primarily on prevention (improving information and awareness of schools), youth-specific labour market measures as well as finding and motivating the youth not in education, employment or training (NEET). The joint programme will comprise the following:

- 1) activities to prevent labour market problems (e.g. raising youth's awareness of working life, including support in gaining of work experience, e.g. seasonal work in a group, job shadowing and coaching for working life; recognition of work and learning experience);
- 2) development of labour market services targeted to youth (including the so-called youth-specific Unemployment Insurance Fund with youth consultants with special training and group counselling of youth);
- 3) provision of specific measures to target groups who need special attention in cooperation of social work, youth work and education providers (supporting NEET-youth, including so-called low-threshold service provided by youth centres in order to find youth, 90-day individual programmes to support starting education or work and to provide motivation).

In order to provide **people who live outside bigger centres access to up-to-date and relevant information regarding the labour market situation, labour market services and support**, the Unemployment Insurance Fund provides the mobile counselling (MOBI) service. MOBI is prepared in cooperation with local governments, in order to determine the needs and interests of the people living in a concrete area. Where possible, representatives of employers are involved in MOBI events so that they can introduce working possibilities in their companies. Those participating in MOBI can also receive individual career counselling. In 2012, the Unemployment Insurance Fund worked closely **with youth organisations and youth centres** in order to raise young people's awareness of the support provided by the Unemployment Insurance Fund. To that aim, 25 youth counselling events were organised over the year (in schools, community centres, youth centres, etc.) with 478 young participants.

To help the **long-term unemployed and those with coping difficulties back to work**, the Unemployment Insurance Fund has been cooperating with local governments since 2011. Through joint activities the Unemployment Insurance Fund and representatives of local governments identified people who needed help, assessed and discussed the problems that hindered those particular people to look for and get work, and agreed on activities that would help them to reduce the effect of or overcome the obstacles. This cooperation continued in 2012 and is planned to be continued and expanded in 2013.

The **Employment programme 2012–2013** contains several new and advanced labour market services that address preventing long-term unemployment and helping the long-term unemployed back to work:

- counselling with the aim of overcoming the obstacles to getting work, e.g. in case of psychological, debt or addiction problems;
- individual counselling on taking up employment, i.e. motivating the person being advised to look for work, helping them in dealings with the employer, reimbursing additional costs on taking up employment, e.g. for people with care responsibilities;
- service supporting employability, i.e. encouraging the person being advised to do volunteer and community work in order to enhance their working habits and social skills.

Tailoring of education to labour market requirements

(3) Link training and education more effectively to the needs of the labour market, and enhance cooperation between businesses and academia. Increase opportunities for low-skilled workers to improve their access to lifelong learning. Foster prioritisation and internationalisation of the research and innovation systems.

The Government formed **a task force** with the aim of creating **a better match between people's skills and changes on the labour market**. The task force will develop specific proposals on adjusting the qualifications of the work force to labour market requirements. The responsibilities of the task force are:

- to find quick solutions to increasing the effectiveness and efficiency of various support schemes as well as improving access thereto; increasing the responsibility and freedom of choice of labour market participants; developing legal definitions for separate skills and a broader application thereof;
- to agree on general principles for identifying training needs (including skills requirements on the labour market), for ensuring the high quality of training as well as for planning and using funds for training under the new financing period; to agree on distribution of responsibilities.

In order to **better target labour market training and take into account the needs of labour market participants**, the training card is used considerably more frequently in labour market training offerings. This enables a more flexible attendance even of more in-depth basic courses.

The **new Vocational Educational Institutions Act** has been drafted and is being read in the Riigikogu. It will serve as a basis for several important improvements, e.g. all **vocational education curricula will be outcome-based**, curricula and **qualifications will be brought in line with the Estonian qualification framework**, curricula groups will be accredited by employers and entrepreneurs. Several principles and instruments developed by the European Commission and member states, such as EQF, ECVET, EQAVET, will be introduced. As a result vocational education should become even more practical, efficient and consistent with the labour market requirements.

The **new lifelong learning development plan** will be completed in autumn 2013 and it foresees five tasks:

1. a better integration of the lifelong learning system and the labour market; a stronger relationship between education and knowledge-based society and innovative economy;
2. moving towards personality-centred learning approach that promotes creativity and innovation at all levels of study;

3. alignment of teacher training as well as valuation and remuneration of the work of teachers with the today's requirements at all levels of study;
4. ensuring that the new digital culture will form part of Estonian education; systematic application of the possibilities of ICT in creating the content and form of lifelong learning;
5. application of economical funding models that ensure fair access to lifelong learning possibilities and support high quality of training (increase in training participation rate).

The Riigikogu is reading the **amendments to the Basic Schools and Upper Secondary Schools Act**. The state is prepared to take greater responsibility and support local governments. To that end, principles for raising the quality of upper secondary education and increasing the number of options have been agreed. According to the set objective there should be at least one renovated upper secondary school with modern learning environment in each county, taking into account the needs and peculiarities of the county and the existing infrastructure.

The **reform programme of the upper secondary school network** with the budget of EUR 23.7 million has been implemented since autumn 2012. The goal is to ensure a more efficient management of the school network by investments into renovation of school buildings and more optimal use than before. The focus of the measure is set on county centres that are generally prepared to reform the school network. Financing decisions regarding nine received applications will be made in spring 2013. It is also planned to continue the modernisation of the infrastructure of sustainable upper secondary schools over the period 2014–2020 from the structural funds of the EU.

The objective of the **higher education funding reform** or shift to performance agreements is to raise the quality of higher education, reduce unreasonable duplication and promote cooperation between different institutions of higher education. As a result of the reform the share of state funding will increase which is a **prerequisite for ensuring access to free higher education**. The activities and effectiveness will be assessed much more broadly than just by the number of graduates. The main goal is not to increase the number of students but to raise the quality of education provided by institutions of higher education. The central idea of the funding reform is to make funding directly dependent on the quality and effectiveness of education, taking into account the society's needs.

For allocation of activity support to institutions of higher education, contracts under public law and performance agreements were concluded with them. A further focus must be on the **responsibility of institutions of higher education for studies and cooperation between them**. Contracts also foresee the reduction of number of curricula. Over the next three years the focus will be on actual implementation of the agreements, which significantly contribute to **internationalization of higher education**, improving the quality of doctoral studies, reduction of the number of students who discontinue their education, teaching entrepreneurship skills and cooperation with companies.

The development of the **new R&D and innovation strategy** as well as **the entrepreneurship growth strategy focusing on business sector** began in 2012. During this preparatory work, main focuses will be set for the coming years in order to develop R&D, innovation and entrepreneurship policies. The core of both strategies are the areas of growth selected on the basis of the methodology of **smart specialisation**, where global demand is combined with Estonia's strengths both in the areas of entrepreneurship and research. The focus will be on supporting international mobility and partly also on construction of the R&D infrastructure owned by private sector. Joint R&D infrastructure and research projects between different countries are also of importance. All this would enable Estonia to integrate more efficiently with the international research area.

Increasing energy and resource efficiency

(4) Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste, including by considering incentives such as the taxation of vehicles. Foster renewable energy use, including through upgraded infrastructure and legislation. Continue the development of cross-border connections to end relative market isolation.

For increasing energy efficiency of buildings the first phase of investments into energy-efficient renovation, which has proved very popular in the private homes sector, will be completed. The total volume of the package is close to EUR 198 million, most of which comprised by the renovation of public buildings. Measures to support increasing energy efficiency of apartment buildings and private homes were launched successfully.

Since 2010 EUR 150 million have been invested for renovating 490 public buildings. In addition to that, 570 apartment buildings have applied for energy-efficient renovation support with the total volume of EUR 20.8 million. Energy savings derived from these buildings is 40% or EUR 7 million per year.

2012. The programme of **modernisation of urban lighting** was launched in 2012. It is planned to completely modernise the lighting systems of seven medium-size cities, turning it more energy-saving.

There is an environmentally friendly **public transportation investments programme** with the volume of EUR 86 million for increasing energy efficiency of transport. It includes the acquisition of 110 new and environmentally friendly buses for servicing county bus routes and Tallinn city routes, 13 natural gas powered and hybrid buses for servicing Narva and Pärnu routes and development of new tram infrastructure and acquisition of new trams for the longest and most heavily used tram line in Tallinn.

For raising awareness about energy consumption of private transportation it is planned to introduce **energy class labels for vehicles**. Preparations are under way in cooperation with car sales companies and the reform will be implemented in line with the relevant EU initiative.

In order to organise and direct waste management, a **new strategic waste management plan 2014–2020** is being prepared. Its main objective is to reform and organise waste management in a systematic way at all levels. The plan will harmonise the goals for the country as a whole and set targets and tasks for local governments, entrepreneurs, producers and the general public. Up until now the main focus has been on reducing landfill of waste and increasing the recycling of waste. The new plan lays more importance on waste prevention.

The Government has decided to prepare an **oil shale use development plan until 2030**. The plan analyses the whole chain of mining and use of oil shale with regard to technical and economic effectiveness, environmental protection and sustainability, taking also into account the national energy strategy. The new development plan also lays great emphasis on area-specific research and development activities.

The strategic goals of the **long-term development plan for the energy sector up to year 2030** which is currently being updated are ensuring supply security, energy savings in all areas, diversification of energy sources, development of self-sufficient renewable energy regions and continued creation of energy connections with the EU countries.

In connection with **diversification of the Baltic natural gas market**, preparations and negotiations will be continued for constructing a regional LNG terminal. The final decision regarding the location of the regional LNG terminal is expected in the first half-year of 2013. The required funds will be applied for from the Connecting Europe Facility (CEF).

At the international level, **regionally important electricity infrastructure projects** are also considered. One of them is the project for a new 330kV electricity connection between Estonia and Latvia submitted by the system operator Elering. The new connection should remove the bottleneck in electricity transmission between the two countries.

In preparations for subsidies under the new financing period, **developing measures to support energy and resource efficiency of manufacturing companies** receive much more attention. It is planned to carry out audits, monitoring and training, provide IT-solutions and create financial instruments that support savings for manufacturing companies.

Increasing efficiency of local governments in provision of services

(5) Enhance fiscal sustainability of municipalities while improving efficiency of local governments and ensure effective service provision, notably through stronger incentives for the merger of or increased cooperation between municipalities. Relevant reform proposals should be put in place within a reasonable timeframe.

The Riigikogu has adopted draft **legislation supporting mergers of local governments** which allows them to freely choose suitable merger partners among those local governments that border their administrative territory instead of slowing the process by prescribed merger areas.

In order to **improve the efficiency of provision of services** the Government supports cooperation between local governments and the formation of joint bodies by groups of services and areas of activity. The education reform is well under way and the new social code being drafted will improve the provision of social services. Preparatory analyses have been launched for the provision of transportation and waste management services jointly by local governments. Plans have been made for improving the provision of health services through raising the quality of primary and specialist medical care. Therefore the **development directions of hospital network** will be updated.

Work on reorganising rescue brigades to **improve rescue service capability** with the aim of providing better services has begun some time ago. As a result, the capability to provide full service and its availability will improve for a considerably larger number of people. Similarly, the **service areas, organisation and location of ambulance brigades** was changed, taking into account where the population lives and works and ensuring the availability of the service also in rural areas. A more optimal division between brigades of nurses and doctors was introduced.

Regulation regarding administrative organisation is under preparation, which also tackles the direct and indirect public administration. Among other things, it is planned to define the basis for the performance of the state functions and the tasks related to organising them at local level as well as the way these tasks will be authorised to different levels, their supervision and financing.

The project supporting cooperation between local governments is well under way. During the preparations the services of two different areas – waste management and care for the elderly in the social area – were analysed. The two main outputs of this work are the **definition of an optimal size of a cooperation area** as well as organisational and legal recommendations for supporting cooperation between local governments, primarily for ensuring the establishment of joint bodies and clearer legal arrangements (including policy recommendations, required legislative amendments, in some areas additional analyses for preparing legislative amendments, etc.).