



# The EU Mutual Learning Programme in Gender Equality


## Equal Pay

Iceland, 27-28 May 2019

### Comments Paper - Estonia



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*This publication is supported by the European Union Rights, Equality and Citizenship Programme (2014-2020).*

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# Tackling the gender pay gap in Estonia

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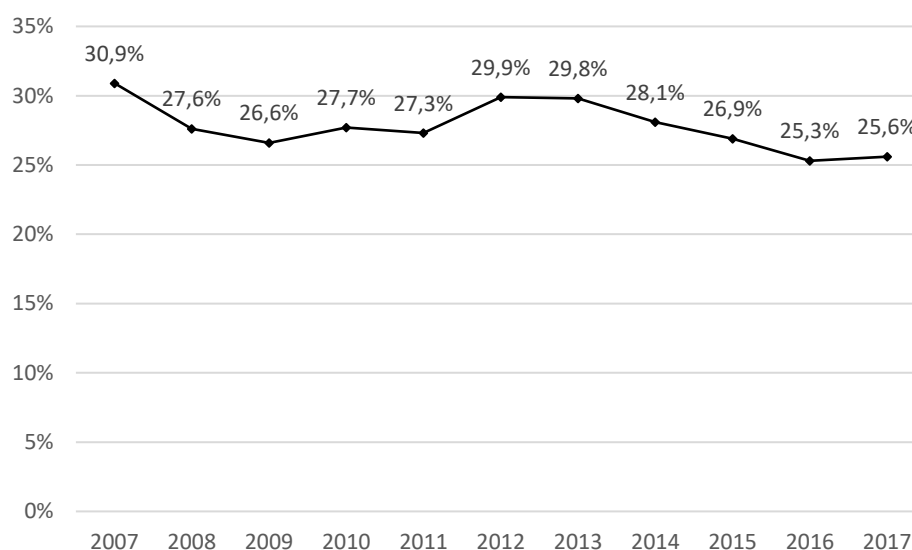
## Abstract

Although Estonia's gender pay gap has decreased in the past few years, it remains highest in the EU. Recent initiatives to tackle the gap include proposals (not yet implemented) to give the Labour Inspectorate the right to exercise administrative and state supervision of gender pay gaps in public sector institutions if necessary, and to develop ICT tools to be used for self-assessment of gender (pay) gaps in public as well as private organisations.

## 1. Relevant country context

Participation and employment rates among Estonian women are high. Employment rate among women aged 15-74 is second highest in the EU (64.1% in 2018). While that is lower than e.g. in Iceland (75.9%), Estonian women have higher full-time employment rate – 53.2% among women aged 15-74 (third highest in the EU, behind Latvia and Lithuania).

Unfortunately, the gender pay gap is also high. Although it has decreased from its highest levels near 30% in 2012, it remains highest in the EU at 25.6% as of 2017 (see Figure 1). Moreover, most of it cannot be explained by gender differences in human capital characteristics such as education, work experience or hours worked, nor even by job characteristics such as occupation or industry. Studies decomposing the gender pay gap (e.g. Boll and Lagemann 2018) commonly identify segregation by industry and/or occupation among the most common factors behind the pay gap, but even within the same occupation and industry, women and men are paid different wages.

**Figure 1. Gender pay gap in Estonia, 2007-2017.**

Source: Eurostat database, table *earn\_gr\_gpgr2*.

## 2. Policy debate

### 2.1 Recent initiatives for reducing the gender pay gap

The main current initiatives for gender equality in the labour market are listed in the Gender Equality Programme for the period 2019-2022 (approved on January 9, 2019), which is one of the programmes under the Welfare Development Plan 2016-2023. The Programme foresees the following initiatives:

- Dissemination and research activities with the aim of promoting awareness of the gender pay gap and its causes and effects.
- Annual activities related to the Equal Pay Day.
- Promoting the adoption of transparent job evaluation and pay systems based on objective criteria.
- Activities to increase employers' awareness of gender equality (e.g., web-based learning materials).
- Information materials for career counsellors in order to improve their knowledge of gender equality and contributing to making career counselling more gender aware.
- Measures to increase the share of women on the boards of wholly or partly state-owned companies and foundations, including measures to value personal competencies and transparency of hiring processes.

- Development of the elective subject “Career” in basic and secondary schools, which shapes attitudes contributing to the reduction of gender segregation in the labour market.
- Development of career information on careers in the ICT sector and training career service specialists to consider the need to include more girls and women in the sector.
- Media campaign to raise awareness of gender stereotypes and their negative impact on everyday life, decisions and their development of the economy and society.
- Activities to ensure the availability of gender-based statistics in the areas of responsibility of all ministries.
- The survey “Monitoring gender equality 2019”.
- Amendment of the Gender Equality Act to mandate the Labour Inspectorate to exercise administrative and state supervision over the fulfilment of the requirement of equal pay for equal work or work of equal value for men and women.

The activities do not include legislation to mandate audits of private companies’ pay systems similar to Iceland’s reform under review. The initiative most relevant to Iceland’s example is the last item in the above list, which shall be discussed in the following sub-section.

## **2.2 The Labour Inspectorate’s role in ensuring pay equality**

In Estonia, the Gender Equality Act of 2004 considers it discriminatory if the employer pays different wages or benefits to men and women for equal work or work of equal value. It is also prohibited for an employer to discriminate against employees due to pregnancy, childbirth, parenting, family obligations or other circumstances related to gender.

However, given that the population’s and employers’ knowledge of the Gender Equality Act is rather low, the pay systems are non-transparent, wage negotiations take place at the individual level, and systematic information on wages by gender is not available in all companies, the Gender Equality Act by itself does not ensure that the principle of equal pay is followed (Postimees 2016). With this in mind, a policy initiative was developed, consisting in giving the Labour Inspectorate the mandate to exercise administrative and state supervision of employers. This would have involved first the automated analysis of pay data submitted by companies to the Tax and Customs Board; in case of suspected discrimination, the Labour Inspectorate could request explanations and a gender-based pay analysis from the employer; in case of pay differentials unjustified by objective factors, the employer would have to create an action plan for the reduction and elimination of the detected pay differences and to start enacting the plan within one year of detection of unfounded pay differences.

Initially, the proposed change in legislation would have covered private as well as public sector employers. However, the scope of the initiative was eventually limited in face of opposition from coalition parties in the government, citing concerns about the administrative burden and the need for the public sector to lead by example.

The draft amendment was approved by the Government and sent to the Parliament in August 2018. However, Parliamentary elections took place already on March 2019, and according to the law the expiry of the mandate of the Parliament results in the dropping from the proceedings all draft legislation that have not been completed during the mandate. Since the draft amendment had not been adopted, it was therefore dropped; at present, it is not known whether or when it will be submitted again to the Parliament.

The proposal has been criticized by several organisations. The Estonian Chamber of Commerce and Industry argued that the proposed changes to the law are unlikely to fulfil their intended aim and introduce substantial administrative burden that is disproportionate to the expected benefits (EKTK 2019). This view was also expressed by the Estonian Association of SMEs (EVEA 2019).

The Estonian Women's Associations Roundtable (ENÜ) also considered the proposed changes unlikely to motivate the employers to address gender equality in their organisations and to introduce changes to ensure more equal treatment of men and women, reduce gender stereotypes and prejudice. They considered that a more fruitful approach would have been one that motivated the employers to assess wages in their organisation and if necessary, reform their pay systems so as to make them gender balanced. This would require specific guidelines for employers. They also pointed out the danger of employers reacting by altering job descriptions, rather than substantively reviewing their pay systems in order to ensure equality (ENÜ 2018).

The Estonian Women's Union criticized the idea that work of equal value could be assessed on the basis of wage data, since that would ignore differences in employees' qualifications, education, experience, responsibilities and work results (Eesti Naisliit 2018).

### **3. Good practice examples**

As mentioned above, the initially proposed amendments to the Gender Equality Act that would have given the Labour Inspectorate the right to exercise administrative and state supervision over implementation of the requirement of equal pay for women and men in private companies did not make it to the recension of the Act submitted to the Parliament. Nevertheless, the version of the draft discussed in the Parliament included the respective articles with a reduced scope, applying only to public sector employers. This category included the following:

- state and local government institutions;
- companies, foundations and non-profit controlled by the state or a local government;
- legal persons governed by public law.

According to the draft of the Act, employers would have had to give their employees or their representatives relevant information about the equal treatment of men and women in their respective organisations, as well as measures taken to ensure equality, at least once every two years. This would have had to include a comparison of average wages and benefits paid to male and female employees, presented by job family, occupational or service category. If the organisation has not classified jobs into families, occupational or service categories, the comparison would have had to be made by occupation.

For the organisations included in the above categories, the Labour Inspectorate would carry out annually an automated comparative analysis of wages by gender, based on the data on wages in the organisation. The variables used in the analysis would be gender, occupational classification, wage, other pay, agreed-upon working time, and name of the organisation. The public sector employer would have access to the results of the analysis as well as the underlying data, and would be required to publish the results on their web page.

In case of reasonable doubts that the public sector employer has failed to pay equally for equal work or work of equal value, the Labour Inspectorate would have the right to request an explanation from the employer. If the employer has ten or more employees, a gender-based pay data analysis may be requested.

In case there turn out to be pay differentials that lack objective grounding, the public sector employer must create an action plan for reducing and eliminating the differentials identified, and commence implementation of the relevant measures within one year.

In order to support the employers in fulfilling both already existing and new tasks, development of digital tools for self-assessment by the employer was planned. The tools will be developed to be used on a voluntary basis regardless of whether the changes planned into the draft law will be adopted and will also be made available for use by all employers.

At present, it is not known whether the proposed amendments will be taken up again by the Parliament in the future.

## 4. Transferability aspects

The reform introduced in Iceland is radical and it will be interesting to see what effect it is going to have on the gender pay gap. In this regard, it is useful that the reform is rolled out gradually for companies of different number of employees. This should make it possible to compare e.g. companies just above and just below the threshold number of employees and to see whether developments of the gender pay gap before and after the introduction of the reform were different in the two groups. In this way, it would be possible to quantify the impact of the reform on the intended outcome. A good example of estimation of the causal effect of a reform on the gender pay gap in a similar manner is that of Vaccaro (2018), who estimates the effects of the introduction of a tool (called Logib, for *Lohnvergleichsinstrument Bund*) for companies to self-check for possible discriminative pay practices in Switzerland and finds that it has indeed reduced the gender pay gap.

The Icelandic reform is certainly relevant for the Estonian situation, where the gender pay gap – and likewise the unexplained part of pay gap – is high. Iceland's reform is remarkable in that it directly addresses the unexplained part of the gap, specifically the possible discriminating aspects of pay systems in companies, which is the most problematic part of the pay gap. Its limitation is that it appears to address only the within-company gender pay gap and not the between-company part of the pay gap, i.e. pay gap due to the selection or segregation of men and women into companies with different levels of pay.

The transferability of the Icelandic practice to Estonia would depend on credible estimates for the causal effect of the reform – convincing the public and the firms that the proposed practices are effective and that the benefits outweigh the (possibly substantial) costs would be very difficult otherwise. With a view to possible transferability to other countries, it is therefore very important to plan empirical studies of the effects of the reform, including both positive and negative aspects. Such empirical evidence can be available only with a delay of several years, but it will be all the more useful.

In the meantime, it would also be very useful to document and study the process of the reform – what arguments for and against the reform were by the social partners, and how the eventual consensus or agreement about the way to proceed was reached.

## 5. Conclusions and recommendations

Recent policy proposals in Estonia have included giving the Labour Inspectorate broader rights of supervision over the implementation of the principle of equal pay in the public sector organisations. Whether this proposal will be taken up by legislators in the future is as yet unknown. Another initiative is the development of digital tools for self-assessment of the gender pay gap in public as well as private sector



organisations. If these are implemented well and are taken up by employers, they have some potential to reduce the gender pay gap, as indicated by other countries' experience with analogous measures. However, within-organisation gender pay gap is only one part of the overall pay differential, and such policies must be complemented by measures addressing segregation in education and the labour market and gender stereotypes in general.

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