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EEO Review: Self-employment, 2010

Estonia

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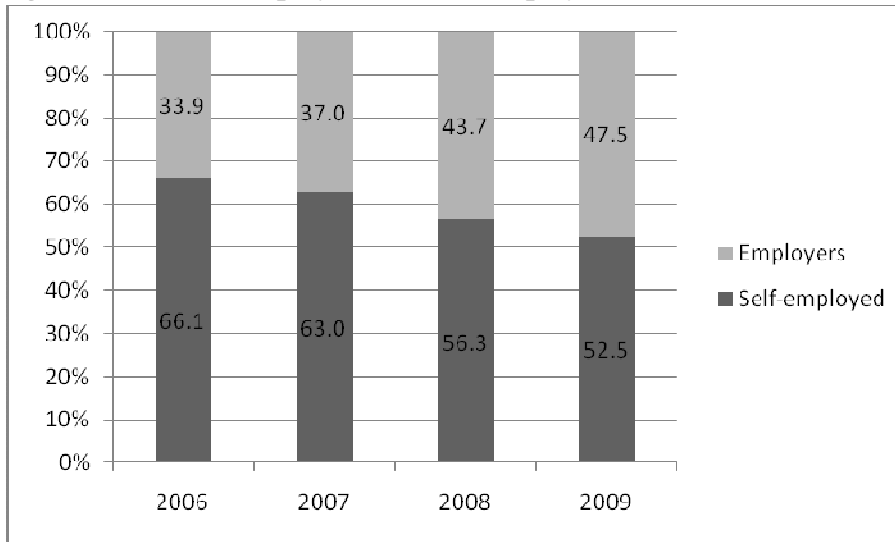
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1. Introduction

In Estonia, the total number of self-employed has been decreasing and reached 24 100 in 2009, according to Eurostat data. As a share of the total number of employers and self-employed this indicates a decrease from 66 % in 2006 to 53 % in 2009 (Figure 1). At the same time, the share has remained stable in the EU-27 at around 69 %. In parallel, the number of employers has been increasing in Estonia from 16 600 in 2006 to 21 800 in 2009. Thus, the share of self-employed was decreasing already before the economic crisis while that of employers has been increasing.

Figure 1: Share of employers and self-employed in Estonia, 2006-2009, %



Source: Eurostat, authors' calculations

In the current economic crisis, self-employment is increasingly seen as an alternative to salaried employment and a means to maintain employment levels by the government. For instance, increasing attention and financial resources have been allocated to start-up measures targeted, on the one hand specifically at the unemployed, and on the other hand to the general population (see further below). The general attitudes of the population towards self-employment are similar to those in the EU-27. According to a Flash Eurobarometer survey (Gallup Organization, 2010) in 2009 43 % of the Estonian population would prefer being self-employed (45 % in EU-27) as opposed to 46 % who would prefer being an employee (49 % in EU-27). The preference for self-employment in Estonia remained at 37 % in 2004. The most common reasons for preferring self-employment include personal independence/ self-fulfilment/ interesting tasks (79 %), freedom to choose place and time of working (43 %) and better income prospects (34 %). The general attitudes towards entrepreneurs (including self-employed and business owners) is mostly rather favourable (49 %) or neutral (41 %) while just 5 % of respondents indicate unfavourable attitudes towards self-employment (Gallup Organization, 2010).

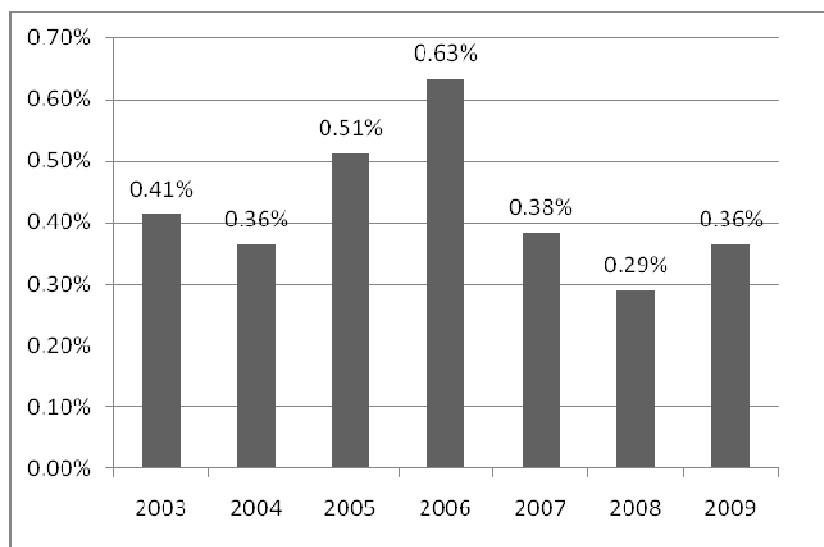
Despite the favourable attitudes, the role of self-employment in the labour market remains rather marginal. According to Statistics Estonia, the share of the self-employed in total employment has decreased from 6 % in 2007 to 4.2 % in 2009. Since the beginning of the 1990s, the share of salaried workers has remained above 90 %.

2. Assessment of national LM policies and recovery measures

In the current crisis, due to the low availability of jobs, for 2010-2011 the Unemployment Insurance Fund has turned its focus on supporting the creation of new jobs. In addition to wage subsidy measures, this includes supporting entrepreneurship among the unemployed. A business start-up subsidy has been provided to the unemployed since 1991. In 2010, these measures are being implemented within the framework of the European Social Fund (ESF) program "Increasing the supply of qualified labour force 2007-2013" by the Unemployment Insurance Fund. The size of start-up subsidy reaches up to EEK 70 000 in 2010 (about EUR 4 474) as a lump-sum allowance with no requirement for co-financing. In addition to financial assistance, some supporting measures are provided. These include for instance entrepreneurship training for people who have no prior economic training or who have no experience with entrepreneurship, counselling upon applying for the start-up subsidy as well as after receiving the support, mentoring for those who have already started their business, additional professional training.

The take-up rate of the start-up subsidy indicates that in 2009 the share of unemployed receiving start-up subsidy has increased to 0.36 % of the total registered unemployed (see also figure 2). At the same time, the use of the measure has distributed unequally across regions with a third (32 %) of benefit recipients registered in Harjumaa – the region of the capital city. The distribution has been more diverse in previous years, e.g. in 2008 17 % of benefit-recipients were from Harjumaa, 12 % from Ida-Virumaa and 12 % from Valgamaa. The share of other regions remained below 10 %. An increasing attention to business start-up subsidy is also reflected in the increasing finances allocated to the measure. In 2007-2008 the expenses on the wage start-up subsidy increased by 3.5 times from EEK 2.7 million (EUR 172 560) to EEK 9.5 million (EUR 607 160) according to the Unemployment Insurance Fund.

Figure 2: Share of business start-up subsidy recipients among the registered unemployed, 2003-2009, %



Source: Unemployment Insurance Fund

The business start-up subsidy was evaluated in 2003 along with labour market training and wage subsidy measures (Leetmaa et al, 2003). The evaluation was based on micro level

analysis, using data from a survey conducted in the autumn of 2002. The outcomes of linear regression analysis and statistical matching indicated that the recipients of the start-up subsidy had, nearly two years later, about a 25 % higher working probability. The evaluation indicated that the measure did not help get higher paid jobs, but did give participants a higher probability of finding a job, compared to those not participating in the measure (Leetmaa et al, 2003).

Based on the assessment of participants in the measure, the start-up subsidy covered the real expenses to a different extent. 65 % of respondents indicated that the subsidy covered less than half of their real expenses while for 22 % the subsidy covered 75-100 % of expenses (Leetmaa et al, 2003). During the time of analysis, the subsidy paid was at EEK 10 000 (EUR 639) which was four times less than that being paid in 2010. In general, it has been pointed out that it is important to keep in mind the economic context of the time of the evaluation. In 2000-2002 the Estonian economy and employment had been growing. It might be expected that the impact of active labour market measures was smaller across economic cycles compared to the time of the evaluation (Leetmaa et al, 2003). A brief evaluation of the business start-up subsidy is planned again for August-November 2010.

A start-up grant is also provided by Enterprise Estonia. The grant paid is up to EEK 100 000 (about EUR 6 391) in addition to minimum own financing of 20 %. The target group for Enterprise Estonia is wider compared to that of the Unemployment Insurance Fund. The measure funds self-employed persons or new companies which have been registered in the Commercial Registry for less than 12 months. Those persons who have already received a start-up subsidy from the Unemployment Insurance Fund are excluded from this measure.

The evaluation of the start-up grant from 2007 indicated that additional support (guidance) is important for those starting a new business (see Kuusk, 2007). For instance, a mentoring program received positive assessments from entrepreneurs. It was concluded that the design of the start-up grant and the eligibility criteria, support the efficiency of the measures. For example, during the evaluation of grant applications, experience in the field of activity and previous entrepreneurship experience is considered an advantage. Efficiency is also supported by the fact that own financing is usually higher than the minimum requirement (in 2004 the own funds of participants made up 35 % on average, while in 2005 own funds were on average 42 %). The share of entrepreneurs benefiting from the measure is modest (150-200 persons every year). However, according to a very crude estimate, about 15 % of business starters in the economic activities that are eligible for the grant do receive it (Kuusk, 2007).

It was pointed out in the evaluation, that the start-up grant has been an important source of start-up capital. Without the grant, several entrepreneurs would have needed to finance their business start-up with a loan. The survival rate of new businesses has been high (89 % after two years from the start of the project). Also, by 2006 the number of jobs created was 556 salaried workers among the 182 companies who received a start-up grant in 2004. At the same time, many enterprises had not managed to achieve the expected turnover one year after receiving the grant. In total, it was concluded that financial support to business start-ups has been effective, while assistance in supporting the development potential of these enterprises has not been as effective. (Kuusk, 2007)

Of those who had received a start-up grant, 70 % reported that they wanted to start up a business so that they could be their own boss, while 63 % initiated a business to realise their

business idea (Kuusk, 2007). This confirms that benefit recipients from Enterprise Estonia are mostly concentrated on business opportunities (just 17 % indicate there was no suitable salaried work available, i.e. entrepreneurship was a necessity). It has been recommended by Leetmaa et al (2003) to coordinate the start-up measures provided to the unemployed with those provided by Enterprise Estonia.

In general, setting up a supportive environment for entrepreneurship has recently been one of the long-term aims for the Estonian government (Estonian Action Plan for Growth and Jobs 2008-2011; Estonian Strategy for Competitiveness 2009-2011). In this framework, the focus is on supporting the emergence of competitive enterprises with high productivity using R&D opportunities. According to the Estonian Strategy for Competitiveness 2009-2011, one of the aims of developing a supportive environment for entrepreneurship is also maintaining employment during the recession. As an increasing number of bankruptcies are expected, improving access to capital will become increasingly important in the coming years. In terms of measures implemented in the recession, the budget of financial support measures targeted at entrepreneurs has increased in 2009 and 2010. For instance, the start-up grant by Enterprise Estonia was increased from EEK 50 000 to EEK 100 000 (i.e. from EUR 3 195 to EUR 6 391) per applicant, in August 2009. Also, additional measures have been implemented in 2009 to improve access to capital by a total amount of EEK 6.1 billion (approx. EUR 390 million). In addition, increasing attention has been turned to raising the popularity of entrepreneurship in Estonia (e.g. entrepreneurship training in high schools and in higher education institutes; reducing the cost of setting up a business and reducing administrative burden) (Estonian Strategy for Competitiveness 2009-2011). There have been no special measures introduced for the self-employed.

It is difficult to assess the success of these measures in the context of the economic crisis as most of the crisis measures have been introduced only during the past year (e.g. increasing access to financial support) or will be implemented in the near future (e.g. entrepreneurship training will be developed in 2009-2010). According to the Estonian Strategy for Competitiveness 2009-2011, one of the indicators on the success of implemented measures is the number of enterprises created and of those in activity per 1 000 inhabitants. In Estonia, the number of enterprises relative to the number of inhabitants has increased from 40.5 in 2007 to 42.5 in 2008. This exceeds the projected level set for 2011 at 39 enterprises. Self-employed persons are taken into consideration only since 2009 – as a result the indicators have increased considerably since then.

Another indicator used to assess the entrepreneurship environment is the position of Estonia in the Doing Business ranking of the World Bank. According to Doing Business 2010, Estonia performs the weakest in employing workers (position 161 out of 181 countries). This does not take into account the labour law reform of 2009. In terms of starting a business, Estonia has fallen from 22nd to 24th position. In the general ranking, Estonia has fallen from 22nd in 2009 to 24th position in 2010. However, it is expected that several legislative changes planned or already implemented will improve Estonia's ranking.

3. Quality of self-employment jobs

In terms of the quality of self-employment jobs, attention has only been turned to the aspect of business sustainability while others remain marginal (e.g. income, work-life balance, life-long learning, etc.). For instance, with the business start-up subsidy, the Unemployment

Insurance Fund aims at providing a package of services, including counselling before and after receiving the subsidy, to ensure the development and sustainability of the businesses subsidised. This is also one of the aims of Enterprise Estonia – sustainability of the business idea forms 25 % of the total score given to a project, during the assessment of start-up grant applications (based on the evaluation model of the start-up grant). In addition, Enterprise Estonia also offers several additional measures to business starters to support the survival and fast growth of new enterprises, such as consultancy, mentoring, training on starting a business etc.

At the same time, it has been pointed out by Jürgenson (2010) that starting entrepreneurs are characterised by a large heterogeneity which is often not recognised in Estonia. One of the characteristics used to describe such differences are based on the motivations of starting a business. Differentiation is made between opportunity-based entrepreneurs who create a business to take advantage of new opportunities as opposed to necessity-based entrepreneurs who are pushed into entrepreneurship due to lack of opportunities for salaried employment or threat of losing a job (Bosma *et al.* 2009). In supporting the creation of businesses, it is important to recognise these differences and the different needs of these companies in terms of support (Jürgenson, 2010). For instance, it has been pointed out that the share of necessity-based entrepreneurs is lower among those who have received a start-up grant from Enterprise Estonia (14 %) compared to those who have been supported by the Unemployment Insurance Fund (32 %). Necessity-based entrepreneurs are often less prepared for entrepreneurship and they lack knowledge on entrepreneurship (Jürgenson, 2010). Thus, these differences should be reflected in the design and targets of the measures as well.

In terms of other aspects of working conditions, it is important to note that the regulations applicable to the working conditions of employees do not apply to self-employed persons. In theory, self-employed persons regulate their working time and vacations themselves (Kallaste, 2007). Some improvements have been made in terms of occupational health and safety with an amendment to the Occupational Health and Safety Act in 2006. Previously, accidents affecting self-employed persons were registered as domestic accidents, even though these may have happened while working. With the new legislation in place, accidents befalling self-employed persons will be investigated as work accidents, but only in a situation where the self-employed person is working together with other people. In this case, the employer for whom the self-employed person works must report the accident. Accidents happening to self-employed persons who are working individually are not to be reported in the same way. If a self-employed person works with other employees for the same employer, they must participate in joint 'work and safety' activities (Kallaste, 2007).

The social protection of the self-employed is also lower in Estonia compared to persons working on employee contracts. In comparing the social protection of persons in flexible employment, it has been pointed out that the self-employed cannot benefit from the unemployment insurance schemes (Alphametrics, 2009). The self-employed are only entitled to unemployment assistance benefits, which have been very low in Estonia (in 2010, the daily allowance is EEK 32.90, which is about EUR 2 and just 15 % of the daily minimum wage). However, it has been pointed out that in most European countries with two-tier systems of unemployment benefits, the self-employed are usually only entitled to the lower benefit share (Alphametrics, 2009). The self-employed are covered for pregnancy-related benefits, in the same way as salaried workers. The coverage of sickness benefits is assessed at 77.5 % for

Estonia among the self-employed persons (Alphametrics, 2009). At the same time, sickness benefits for the self-employed are calculated based on their income, which is often very low (Võrk et al, unpublished). Thus, while the aggregate level of social protection for persons on flexible employment contracts is assessed to be similar to the EU average, self-employed persons are at a disadvantage, in terms of some aspects such as unemployment and sickness coverage. While self-employment and entrepreneurship is increasingly seen as an alternative to salaried employment, attention should be turned to increasing the social protection of the self-employed, in comparison to salaried employees.

In terms of abuse of the status of self-employed, one of the issues discussed has been economically dependent workers, i.e. workers who have the self-employed status but depend on a single employer for their income. The Estonian Tax and Customs Board have stated its disapproval of the actions of employers who force their employees to take the self-employed status while working for just one employer. The board considers that this gives employers an unfair competitive advantage in the economy and puts employees at a disadvantaged position in the labour market (Nurmela, Karu, 2006). In October 2006, some 1 700 self-employed persons could be classified as economically dependent workers, according to the Tax and Customs Board. However, no detailed data are available on this type of worker (Kallaste, 2007). One of the differences between employees and self-employed persons is that self-employed persons must file and pay their taxes, including social security contributions and income tax, which are normally filed and paid by the employer for regular employees. However, self-employed persons can deduct many of their expenses from their income; the remaining income can be substantially less so the tax contributions are not as high as they would be if this person were a regular employee. This is also beneficial for an employer who uses self-employed persons, as the labour costs are reduced (Kallaste, 2007). Even though the Tax and Customs Board has disapproved of the use of economically dependent workers, a recent court ruling from 2008, decided to abolish the claim of unpaid taxes from the Estonian Tax and Customs Board against an Estonian postal company which had used civil law contracts with their self-employed post carriers. In this case self-employed persons had paid their taxes for themselves, even though this is the obligation of the employer in a regular employment relationship. Thus, it seems that currently, there is no legal ground to prohibit the use of economically dependent workers (Leetmaa et al, 2009). In Estonia, there are reports of the use of economically dependent workers also in transportation (taxi drivers) and construction (Kallaste, 2007).

In terms of tax contributions, economically dependent employment can be a 'win-win' situation for the employer and employee as long as tax payments remain lower than they would be in case of an employment contract (Kallaste, 2007). In order to bring the self-employed persons' tax contributions up to the minimum contributions of other employees and thus reduce the advantages of economically dependent employment, the minimum income basis for calculating tax contributions have been increased gradually from EEK 2 000 (EUR 128) in 2007 to the level of the minimum wage in 2009.

4. Conclusions

Self-employment has been decreasing gradually in Estonia. However, this has been a longer-term tendency rather than the outcome of the economic recession. The government has made considerable efforts to create an environment supporting entrepreneurship. In addition, there

are special measures to support the start-up of businesses among the total population as well as among the unemployed. While in earlier years the need to support entrepreneurial culture in Estonia has been stressed, during the crisis, entrepreneurship is seen increasingly as a means to reduce unemployment and maintain employment levels in the labour market. However, it has been pointed out that new entrepreneurs are not a homogeneous group in terms of motivation to take up entrepreneurship and thus, the policy focus should be different, for different groups of beneficiaries. For instance, it has been proposed that knowledge of entrepreneurship should be increased in the population to support self-employment as one of the career choices. This would reduce barriers to entrepreneurship and widen career opportunities for people during economic recession (Jürgenson, 2010).

In terms of supporting entrepreneurship, attention has mostly been turned to sustainability, rather than other aspect of working conditions. Several regulations on working conditions do not apply to self-employed persons who are expected to regulate their work themselves. Only minor changes have been introduced to legislation (e.g. in terms of occupational health and safety).

One problematic aspect is the social protection of the self-employed. Their protection against some working life related risks is poorer, as compared to that of salaried workers (i.e. unemployment and sickness). Also, the problem of economically dependent workers (i.e. workers who formally have a self-employed status but depend on a single employer for their income) is under discussion in Estonia. Still, a recent court case has resulted in the indirect approval of such forms of employment.

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