



ESPN Thematic Report on Social Investment

Estonia

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EUROPEAN SOCIAL POLICY NETWORK (ESPN)

**ESPN Thematic Report on
Social Investment**

Estonia

2015

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SUMMARY

- Social investment is not an explicit concept used in Estonian social policy, but most strategic documents and recent policy changes acknowledge this general approach by considering public expenditure on education, health and active labour market policies as cost-effective investments.
- On the other hand, the overall structure of social expenditure indicates that Estonia still spends relatively less on health services, in-kind family benefits, active labour market policies and social exclusion. Estonia spends relatively more on cash benefits for families with children and disabled people.
- Recent policy changes have favoured families with children, as new means-tested cash benefits were introduced in 2013, and child allowances were increased considerably in 2015. Subsidised school meals were also introduced in upper secondary education in 2015, and local governments were given more flexibility in offering childcare services. The Ministry of Social Affairs issued a Green paper on family benefits, services and parental leave in January 2015 emphasizing access to childcare services and flexibility in using parental leave.
- As the recent crisis has considerably increased the number of recipients of work capacity pensions, the social protection system has become more concerned with prevention and activation. Spending on active labour market policies has increased in recent years and work capacity reform has been initiated to bring more disabled people back to the labour market.
- The gaps in the social investment approach lie in the inadequacy and lack of coverage of unemployment benefits and subsistence benefits. More than one third of newly registered unemployed are not eligible for unemployment benefits. Unemployment allowance, the minimum unemployment insurance benefit and subsistence level are all below the absolute poverty level meaning that these benefits do not provide a sufficient safety net for those who have lost their jobs.

1 Assessment of overall approach to social investment

This report reviews how social, education and labour market policies in Estonia since 2010 have followed the objectives set out in the 2013 European Commission's *Social Investment Package (SIP)*. Social investment comprises policies that are designed to strengthen people's skills and capacities and support them to participate fully in employment and social life over the life-cycle. As such, it includes services like education, childcare, healthcare, training, job-search assistance and rehabilitation.

Although the term "social investment" (in Estonian *sotsiaalinvesteering* or *sotsiaalne investeering*) as a specific notion has not been often used in Estonia (we managed to find only one example and this was in the context of teaching Estonian to non-Estonians¹) the general approach considering public expenditure on education, health, active labour market policies as cost-effective investments has been acknowledged. Indeed, the focus of the most recent "Estonia 2020", the Estonian National Reform Programme, is on education and employment and the main objectives include integrating long-term unemployed and young unemployed people into the labour market through developing their skills.

Other strategic documents also emphasise the role of human investments. The objectives of the Estonian Lifelong Learning Strategy², which was adopted last year, are related to ensuring the concordance of lifelong learning opportunities with the needs of the labour market, equal opportunities and increased participation in lifelong learning. The objectives of the strategy on children and families 2012–2020³ outline that Estonia supports positive parenting and offers the necessary support to raise children and be a parent with the aim of improving quality of life and children's futures. The Green paper on family benefits, services and parental leave (to be adopted in spring 2015 by the government⁴) acknowledges that more emphasis should be put on the availability and flexibility of childcare. The National Health Plan 2009–2020 aims to improve health and life expectancy and acknowledges the contribution of health both to individual and economy-wide development, it therefore emphasises prevention in all strategic areas for the years 2013–2016 including social cohesion and equal opportunities; safe and healthy development of children and young people; healthy living, working, and learning environment; healthy lifestyle; and healthcare.

In addition, the ongoing work capacity reform, started with the adoption of the first package of laws in November 2014, which began to tackle the increasing number of work-incapacity pensioners by introducing a shift from assessing disability to assessing the person's actual ability to work. Parallel to this, there is also a shift from passive measures to more active labour market measures, which should enable people to participate in the labour market according to their ability.

Despite all the worthy aims in different strategies, the level and structure of social expenditure, at least according to 2011 data, does not cover all areas of social investment in Estonia (see Figure 1). As a proportion of GDP and compared to the EU average, Estonia spends considerably less on health services (3.9% vs 7.4% of GDP),

¹ "...venekeelse taustaga inimesed saavad Eesti ühiskonnas hästi hakkama ning kodakondsus, keeleõpe jm on kasulik *sotsiaalne investeering*. State Chancellory "Majandusaasta aruanne 2009" (*Annual report 2009*), p 18, retrieved on 19 January 2015 at https://riigikantselei.ee/sites/default/files/content-editors/Failid/rk_majandusaasta_aruanne_2009.pdf

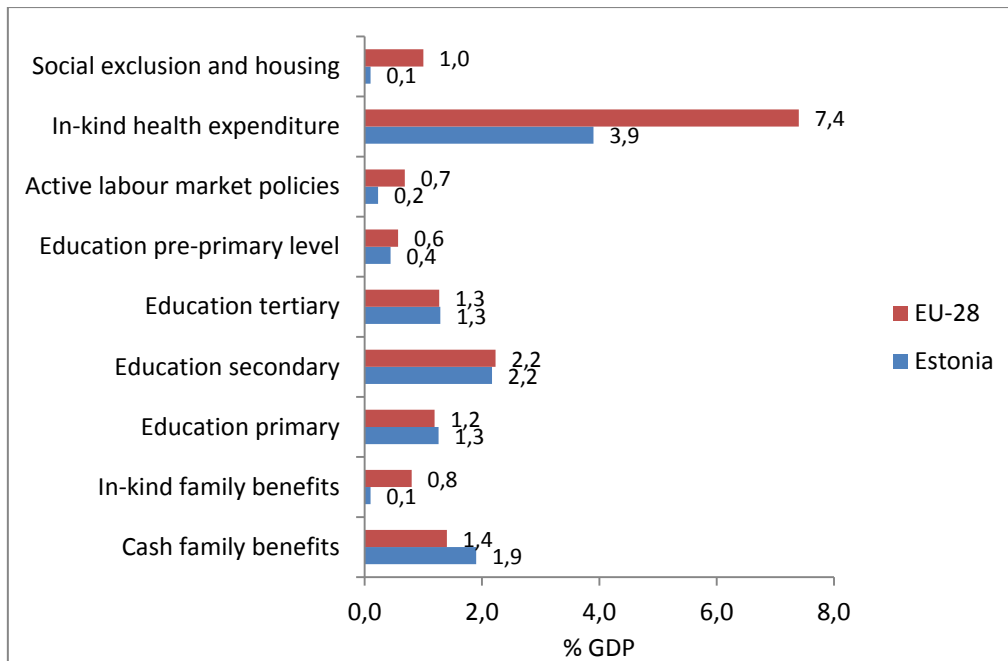
² Ministry of Education and Research (2014). Estonian Lifelong Learning Strategy, Tallinn 2014. retrieved on 19 January 2015 at https://www.hm.ee/sites/default/files/estonian_lifelong_strategy.pdf

³ Sotsiaalministeerium (2011) Targad vanemad, toredad lapsed, tugev ühiskond. Laste ja perede arengukava 2012–2020 <https://www.riigikantselei.ee/valitsus/valitsus/et/valitsus/arengukavad/sotsiaalministeerium/Laste%20ja%20perede%20arengukava%202012-2020.pdf>

⁴ Sotsiaalministeerium (2015). Peretoetuste, teenuste ja vanemapuhkuste roheline raamat (Green paper on family benefits, services and parental leave), http://www.sm.ee/sites/default/files/content-editors/Lapsed_ja_pered/Perhuvitised/peretoetuste_teenuste_ja_vanemapuhkuste_roheline_raamat_2015.pdf

very little on in-kind family benefits (0.1% vs 0.8%), active labour market policies (0.2% vs 0.7%) and social exclusion and housing (0.1% vs 1.0%). Only spending on cash family benefits exceeds the EU average (1.9% vs 1.4%).

Figure 1. Public expenditure on social investment categories (% of GDP), 2011



Source: Eurostat database, last accessed 19 January 2015

The approaching parliamentary elections in March 2015 have helped to move the focus towards the scarcity of services and benefits for those who face the risk of social exclusion. Several parties have promised to improve access to childcare, provide more resources to children with special needs and increase means-tested benefits. On the other hand, little attention has been paid to the problems of underfinanced healthcare and the lack of active labour market policy measures.

2 Assessment of specific policy areas and measurement/instruments

2.1 Support for early childhood development

2.1.1 Early childhood education and care (ECEC)

Early childhood education and care (ECEC) as a part of the education system is one of the factors that help to break the poverty circle between generations. Therefore, it is important to ensure the quality as well the availability of ECEC services for children, mainly because of the need to develop and streamline the knowledge base and skills of children before they start attending primary education.

To guarantee childcare for all children up to compulsory school age a regulation is in place which obliges local governments to ensure places in pre-school institutions for children (at least 18 months old) whose parents apply for it. According to a survey conducted among local governments in 2013, 10% of local governments couldn't offer places to children (aged 18 months to 3 years) whose parents had applied for them. Since there have been shortcomings in the availability of places in pre-school institutions, the regulation has been made more flexible since 2014, allowing local governments to offer places in non-educational childcare also. This should relieve the

problem of limited access to childcare places and thereby also offer more opportunities for parents to return to the labour market.⁵

As there are no regulations for curricula in non-formal childcare, the quality of service is uneven among providers and also varies between pre-school institutions and non-formal childcare. Therefore, local governments have an extra obligation to ensure that children in non-formal childcare are given places in pre-school institutions by the time the child reaches the age of 4 (if parents apply). This should ensure that all children attending childcare institutions get high-quality and equal preparation for school.

In 2012, 18% of children less than 3 years old were attending formal childcare (14% for 30 or more hours per week and 4% less than 30 hours). In the age group from 3 years to minimum compulsory school age, 93% attended formal childcare (83% of them attended 30 or more hours per week and 10% less than 30 hours). As the EU27 relevant averages were 28% and 83%, respectively, from an international perspective, Estonia seems to need to increase formal childcare for the youngest age group. (See Bouget et al. (2015). Annex 3, Table A3.1 and Table A3.2.⁶)

Since these services are different in terms of content (educational versus non-educational) and therefore are also regulated by different acts, there is a variation in the requirements (e.g. educational background of teachers, teacher-child ratio, etc.). For example, teachers in pre-school institutions are required to have higher⁷ or vocational secondary education (also additional training hours depending on whether the subject of the acquired qualification is related to the pedagogy of pre-schools or not) and persons offering childcare services do not necessarily need to have a qualification (and additional training) related to the pedagogy⁸ of pre-schools⁹.

Since there is only a national curriculum for pre-school institutions and not for non-educational childcare, the outcome and the quality of non-educational childcare, in terms of the teaching process, are uneven. Education at Glance (2014)¹⁰ revealed that in 2012 there were 7 students per member of teaching staff in pre-primary education in Estonia while the OECD average was 14.

Offering meals during the day is only regulated by the state for pre-school institutions – meals suitable to a child's age must be provided three times a day (the average cost of meals, which is covered by parents, was €26.10 per child per month in 2013¹¹).

In Estonia, pre-primary institutions are financed through the budget of local governments, by government grants for teacher training, infrastructure development and fees¹² paid by parents (the latter is regulated by the state – the maximum amount must not exceed 20% of the national minimum wage, but the cost of meals is not included). According to Education at Glance (2014), in 2011 the average expenditure on pre-primary educational institutions by the private sector was 0.01% and by the public sector 0.42% of GDP while the OECD averages were 0.08% and 0.51%, respectively.

⁵ Preschool Child Care Institutions Act

⁶ Bouget, D., Frazer, H., Marlier, E., Sabato, S. and Vanhercke, B. (2015), *Social Investment in Europe: A study of national policies*, Annex 3 – Selection of indicators, European Social Policy Network (ESPN). Brussels: European Commission.

⁷ There were 62.3% of teachers of pre-school institutions with higher education in academic year 12/13 and 63.1% in the year of 13/14 (EHIS).

⁸ A child carer may be a person who has completed training in special needs education, pre-school education, childcare or social work, or who holds a child carer's professional certificate.

⁹ Social Welfare Act, Preschool Child Care Institutions Act

¹⁰ Education at a Glance 2014, OECD indicators.

¹¹ Sotsiaalministeerium (2015). Peretoetuste, teenuste ja vanemapuhkuste roheline raamat (Green paper on family benefits, services and parental leave)

¹² In Estonia, the cost of the service does not depend on whether the parent is participating in employment or not. In the situation where the parent has difficulties with payment for a kindergarten place and/or food they can apply for support from the local authority.

Public expenditure on family benefits (cash and in-kind) has decreased in real terms in recent years (when expressed per inhabitant and on the basis of 2005 constant prices)¹³, from €196.40 in 2010 to €169.60 in 2012, the EU-28 averages being €525.70 and €505.50 respectively.

An analysis carried out in 2014¹⁴ that explored the impact of financing schemes of family cash and in-kind benefits (i.e. subsidised formal childcare) in Estonia revealed that the distribution of public expenditures by quintiles (expressed as a percentage of expanded income of the quintile) is rather similar in terms of cash and in-kind benefits. In the poorest quintile, cash benefits were 32.2% and in-kind benefits 34% of expanded income of households who were using formal subsidised childcare services.

Although the Green paper of family benefits, services and parental leave, mentioned above, stresses the importance of early education and care for child development, there is lack of recent empirical studies in Estonia that show evidence of the benefits of formal childcare and early education compared to children raised at home.

2.1.2 Family benefits (cash and in-kind)

In-kind benefits

In Estonia, all children under the age of 19 have health insurance (regardless of whether their parents are working or not) and therefore all services (including dental care), provided by contract partners of Estonian Health Insurance Fund, are free of charge. Health insurance is also guaranteed for pregnant women and for the duration of parental leave.¹⁵ However, statistics by the Estonian Health Insurance Fund indicate that about 22% of children did not have any visit to a dentist in the years 2010-2012, which suggests that despite free healthcare, inequality in utilisation may exist among children.¹⁶

The state is also subsidising lunch in basic and upper secondary education (in both municipal and private schools) by paying €0.78 per student per day, which in combination with the support of local governments, should result in lunch that is free of charge or costs relatively little. For the upper secondary schools this kind of support has been applied for the first time from 1st January 2015.¹⁷ According to Hillep et al. (2012) virtually all pupils in basic education eat a subsidised lunch, but about one third of students in secondary education do not. Still, there are no studies that show the impact of subsidised lunch on child development.

Financial support for extracurricular activities (e.g. hobby schools) is not regulated at the central government level, despite promises given by a recent coalition government¹⁸ that this would happen. Several local governments are supporting extracurricular activities depending on their economic capabilities but it is not compulsory.

Again, we could not find any studies showing the impact of support for extracurricular activities on child development in Estonia.

¹³ See Bouget et al. (2015), Annex 3, Table A2.

¹⁴ Võrk, A., Paulus, A., Leppik, C. (2014) Peredele mõeldud toetuste ning alushariduse ja lapsehoiu rahastamise mõju analüüs vaesusele ja töötamise stiimulitele

¹⁵ Dental Care Benefits. Estonian Health Insurance Fund
<https://www.haigekassa.ee/en/people/benefits/dental-care-benefits>

¹⁶ "Vanemate hooletus seab laste hambad ohtu", Postimees, 4 June 2014, referring to Estonian Health Insurance Fund, retrieved on 3 March 2015 at <http://tervis.postimees.ee/2816164/taismahus-vanemate-hooletus-seab-laste-hambad-ohtu>

¹⁷ Basic Schools and Upper Secondary Schools Act.

¹⁸ The coalition government between Reform Party and the Union of Pro Patria and Res Publica (agreed in 2011) promised to introduce €130 annual support per child for hobby schools, but this was never implemented.

Cash benefits¹⁹

There are several cash benefits in Estonia to support families with children. The majority of these are universal benefits and do not depend on family income.

The childbirth allowance (*sünnitoetus*) is a one-time benefit of €320 per child (if giving birth to 3 or more children, the benefit is €1000 per child). Several local governments pay an additional childbirth allowance (amounts differ).

The child allowance (*lapsetoetus*) is a monthly universal benefit that is paid for children from their birth until the age of 16 (or 19 if the child continues studying). The benefit is €45 per child for the first and second child and from the third onwards the amount is €100 per child per month. The benefits increased considerably in 2015 from €19.18 and €76.70, respectively, in 2014. In 2013, child allowance reduced the absolute poverty of families with children by 2.1 percentage points (in the case of lone parents by 3.8 and families with 3 or more children by 3.9 percentage points)²⁰.

The single-parent child allowance (*üksikvanema lapse toetus*) is paid until the child is 16 (or until 19 if studying) years old and currently the amount of benefit is €19.18 per month. In 2013, it was paid for 20,010 children (a total of €4.8 million) and in 2012 for 21,106 children (€5 million). The parental allowance for large families (*seitsme- ja enamalapselise pere vanema toetus*) is for families with seven or more children (on condition that children are receiving child allowance). The benefit amount per month is €168.74 and in 2013 it was paid to 141 families (€297,300). In addition to the benefit, the parent of a large family is entitled to credited health insurance and minimum pension contributions.

Needs-based family benefits (*vajaduspõhine peretoetus*) were introduced in 2013. It is a means-tested benefit for families with children (€45 per month for families with one child and €90 for families with two or more children). The previous amounts (in 2013 and 2014) were €9.59 and €19.18 per month respectively. In 2013, only 4,914 families received subsistence benefit for families with children while the estimated number of households eligible for the benefit was around 26,000²¹.

In 2013, 20.2% of children aged 0-17 were at risk of poverty (EU-28 20.3%). The risk of poverty was considerably higher among single parents (36.1%), and slightly higher among families with at least three children (22.9%). Total social transfers reduced child poverty by 10 percentage points in 2013. The effect of family benefits is lower, with a reduction of child poverty of 2.8 percentage points in 2012. Family benefits reduced poverty among single parents by 1.6 percentage points and among couples with one child by 1.1 percentage points. The highest reduction (6.6 percentage points) was among couples with at least three children. The larger impact of benefits on poverty reduction in families with three or more children is due to differentiation of benefits (e.g. in 2012, the child allowance was €19.18 for the first two children and €57.54 for the third and all children thereafter).

In addition to the at-risk-of-poverty rate the other important indicators are also severe material deprivation and children living in (quasi-) jobless households. In 2013, 7% of children aged 0-15 were living in severe material deprivation (11% in the EU-28), the rate declining from 9.2% in 2012 (11.8% in the EU-28). 6.9% of children aged 0-17 in 2012 and 6.6% in 2013 were living in (quasi-) jobless households (the EU-27 averages 9% in 2012 and 9.3% in 2013). Hence, according to all three common

¹⁹ Information mainly based on State Family Benefits Act and statistics of Estonia National Social Insurance Board

²⁰ Sotsiaalministeerium (2015). Peretoetuste, teenuste ja vanemapuhkuste roheline raamat (Green paper on family benefits, services and parental leave), http://www.sm.ee/sites/default/files/content-editors/Lapsed_ja_pered/Perehuvitised/peretoetuste_teenuste_ja_vanemapuhkuste_roheline_raamat_2015.pdf

²¹ Sotsiaalministeerium (2015). Peretoetuste, teenuste ja vanemapuhkuste roheline raamat (Green paper on family benefits, services and parental leave)

indicators, the risk of poverty or social exclusion among children in Estonia is slightly below EU-28 average.

In 2015, there was a substantial increase in the childcare allowance, needs-based family benefits and subsistence benefits for families with children. The simulated effect of these benefits, together with some minor changes in tax rates, is the reduction of the relative poverty rate among children by 2.6 percentage points and the reduction of absolute poverty by 1.2 percentage points. The impact is largest for families with 3 or more children and single parents, as expected.²²

A qualitative study based on interviews with social workers²³ concludes that monetary poverty of families leads to lower participation in formal education, less cultural and extracurricular activities, and less relationships with other children. At the same time, many municipalities lack resources to provide necessary social services to those families.

2.1.3 Parenting services

Supporting parenting by giving advice and offering different consultancy services is also one of the strategic purposes in the Estonian Strategy of Children and Families 2012-2020²⁴: "Estonia is a country that supports positive parenting and offers the necessary support to raise children and be a parent in order to improve the quality of living and the future of children".

In the development of parenting programmes in Estonia, the focus has been on two international programmes: Triple P (Positive Parenting Programme) and Incredible Years. According to the analysis²⁵ released at the beginning of 2014, the programme Incredible Years appeared to be more suitable. A pilot project will be conducted during the year 2015. The Thomas Gordon Parent Effectiveness Training (PET) is also offered by larger local governments in Estonia. According to the evaluation of the impact of PET in Estonia, participants outlined the following effects: increased satisfaction and competences, problems with children revealed, children's pro-social behaviour increased. (Parenting Support in Europe 2013)

There is a special web page called Tark Vanem (*Smart Parent*) to provide parents with information on topics like preventing children from consuming alcohol and tobacco, how to have conversations with children of different ages, what are the main types of parenting, etc. Different children and family support centres and counselling via the internet/telephone/trainings are also available (e.g. Tartu University Hospital's Women's Clinic, MTÜ Hea Algu, MTÜ Perekoollitusühing Sina ja Mina, family practitioner's helpline and the Eluliin Helpline).

The survey "Parenting Support in Europe" (2013)²⁶, where Estonia was analysed as one of the case studies, highlighted that initiatives of parenting support in Estonia were provided mainly by NGOs and their services were mainly based on projects, as a result the financing and delivery of parenting services may be rather unstable.

²² See Võrk, A. Viies, M. Leppik, C. (2015) "ESPN European Semester Report. Estonia. 2014" for details.

²³ Lasteombudsman (2011). Vaesus ja sellega seotud probleemid lastega peredes, retrieved on 3 March 2015 at http://lasteombudsman.ee/sites/default/files/ylevaade_vaesus_ja_sellega_seotud_probleemid_lastega_pe_redes.pdf

²⁴ Ministry of Social Affairs (2011) The Estonian Strategy of Children and Families 2012-2020

²⁵ MTÜ Perekoollitusühing Sina ja Mina (2014) Vanemlusprogrammide Triple P ja Incredible Years süsteemide võrdlev analüüs

²⁶ European Foundation for the Improvement of Living and Working Conditions (2013) Parenting Support in Europe

2.2 Supporting parents' labour market activity

2.2.1 Childcare

Parents are entitled to receive childcare services right after the parental benefit is exhausted (i.e. when the child has reached the age of 18 months). Local governments are obliged to ensure a place whether in pre-school institutions or in non-educational childcare, the latter only in cases of children aged 18 months to 3 years and provided that the parents agree (this is regulated by the Act of Pre-school Childcare Institutions). The flexibility to also offer places in non-educational childcare was introduced in 2014 because of the long waiting lists for places in pre-school institutions (look also section A.1).

Financial costs related to childcare services (excluding cost of food) for parents are regulated by the state and can't exceed 20% of minimum wage per month in the case of municipal institutions²⁷ (the minimum wage in 2015 is €390 per month).

2.2.2 Long-term care

Estonia is among those European countries that spend very little on long-term care. Estonian long-term care is a combination of welfare and nursing care where local governments together with the state finance the former and the Estonian Health Insurance Fund the latter. As the system is very fragmented it's difficult to offer integrated services to ensure better accordance with people's needs.

To be eligible to receive nursing care a doctor's assessment and referral are required. The Estonian Health Insurance Fund finances home-based nursing, geriatric assessment, home-based cancer supportive therapy and inpatient nursing care. Since 2010, patients are covering 15% of daily costs in the case of inpatient nursing care while outpatient nursing care is free of charge for those who are insured. Welfare care is financed through local governments' budgets and eligibility to welfare services requires the assessment by a local social worker.

Due to the financial constraints of the Estonian Health Insurance Fund and local governments, the quality and accessibility of long-term care services are restricted. Lower accessibility is also caused by cost-sharing that is relatively high in some cases (e.g. in the case of permanent stay at home care personal contributions can amount to 65% of the cost)²⁸.

There are no empirical estimates of how much the lack of care services could inhibit the labour supply of parents. Several political parties have raised the issue during the on-going parliamentary elections.

2.2.3 Maternal/paternal/parental leave schemes²⁹

Pregnant women (with health insurance and ascertained pregnancy by doctor or midwife) are entitled to begin maternity leave 30-70 calendar days prior to the due birth date and can stay on leave for a maximum of 140 calendar days. Staying at home for at least 30 calendar days before the due date is favoured by regulations; if they stay at home for fewer days before giving birth, the duration of leave and the amount of benefit will be decreased. The maternity benefit provides a replacement

²⁷ In the academic year 2012/2013, there were 596 municipal pre-primary institutions and 48 private ones, in the years 2013/2014 the relevant numbers were 595 and 57, respectively. (Estonian Education Information System)

²⁸ Country Document 2013, Estonia (updated version). Pensions, Health and Long-term Care. ASISP, March 2014.

²⁹ Based on Biin, H., Karu, M., Masso, M., Veldre, V. (2013) Eesti vanemapuhkuste süsteemi analüüs, EV Sotsiaalministeerium (2014) Peretoetuste ja teenuste roheline raamat and statistics of Republic of Estonia Social Insurance Board.

income of 100% of previous earnings and there are neither upper nor lower limits for the amounts. Maternity leave can't be transferred to other people (father, delegated persons, etc.) and being employed during this period is forbidden.

Estonia has a relatively long duration of paid parental leave (up to the age of 3 months, i.e. 36 weeks) and both parents are entitled to be on parental leave (one at a time but leave can be swapped during the leave period). The first half of parental leave (435 calendar days) is covered by the parental benefit, which depends on previous earnings. The second half is covered by a modest childcare allowance, which is a flat-rate benefit €38.35 per month for each child under the age of 3 (additional benefits are available for children 4-8 years old, if there are also children up to 3 years old in the home). Parents are allowed to work at the same time as receiving parental benefits or childcare allowances but with reduced parental benefits.

Entitlement to parental benefit starts right after the maternity benefit is exhausted (in the case of fathers the right to apply starts when the infant is 70 days old). The replacement income is 100% of previous earnings (calculated on the basis of individualised social tax contributions a year earlier) and there is a ceiling on parental benefits (3 times the national average gross earnings 2 years earlier, in 2015 it is €2548.95 per month). If there were no earnings the previous year the lower-limit is applied, which is equal to the minimum wage of the previous year (in 2015 it is €355). In the case where previous earnings are lower than the national minimum wage the lower-limit is equal to the national minimum wage of the year when applying for the benefit (in 2015 €390 per month). In 2014, 62.4% of recipients received a replacement income of 100% of previous earnings, 4.3% received the maximum amount of parental benefit, 17.4% received a benefit equal to the national minimum wage and 15.9% a benefit equal to the minimum wage of the previous year.

Paternity leave is ten calendar days and can be staggered over a period from two months before to two months after childbirth. The upper limit of the benefit is three times the national average gross earnings two quarters earlier. All employed fathers are entitled to apply for paternity leave and benefit. In a similar way to maternity leave, the paternity leave cannot be transferred to other persons. In 2013, there were 5,253 fathers receiving paternity benefit out of 12,794 fathers of new-born children³⁰.

As regards the reconciliation of family and work life, it should be highlighted that women staying away from the labour market is largely favoured by the parental leave scheme which allows mothers to be at home for three years (half of it financed by generous parental benefit and the second half by a modest childcare allowance), although switching from parental benefit to childcare allowance after the child reaches 18 months should encourage women to return to the labour market because of the substantial decrease in the benefit amount.

Women returning to the labour market when entitlement to parental benefit is exhausted (i.e. the child has reached 18 months) is partly hindered by the shortage of childcare facilities for younger children, especially in larger cities.

Fathers are also allowed to stay at home on parental leave. Since 2007, fathers can apply for parental benefit after the infant has reached the age of 70 days (it was previously 6 months). The generous upper limit of parental benefit (three times the national average of gross earnings two years earlier) should favour fathers (as higher earners) applying for the benefit. Nevertheless, the take-up rate of parental benefit among fathers is still very low.

In 2013, 45.5% of women who had a two-year-old child were employed; the respective employment rate for men was 90%. Women's employment rate increased substantially (79.2%) when the child reached the age of three.

³⁰ Statistics of Estonia National Social Insurance Board and database of Statistics Estonia.

To conclude, current maternity leave schemes encourage women to stay at home until the child reaches the age of 18 months and the end of the generous parental benefit. Return to the labour market is then delayed up to the age of 3, because of limited childcare facilities. After the age of 3, neither the benefit scheme nor access to childcare services should be a major restriction to reconciling family and work life. A separate question is how to encourage employers to be more flexible in offering different working forms for women with young children and how to also encourage men to stay at home.

2.3 Policy measures to address social and labour market exclusion

2.3.1 Unemployment benefits

Social protection of the unemployed in Estonia consists of two tiers³¹. The primary system is the unemployment insurance (UI) benefit, which depends on previous earnings and is financed from statutory unemployment insurance contributions³². To be eligible for the unemployment insurance benefits, the person should have paid insurance contributions 12 months during the previous 36 months. The replacement rate of the unemployment insurance benefit is relatively low compared to other European countries. The level of benefit is 50% of the previous earnings during the first 100 days of the unemployment spell and 40% during the 101-360 days of unemployment. The duration of the unemployment insurance benefit depends on the length of the previous employment record and with a maximum of 360 days.

The secondary system consists of the unemployment allowance (UA) benefit, which is flat rate and is financed from the state budget. Payment of unemployment assistance benefits is also conditional on previous employment record and the maximum duration is 270 days. While unemployment insurance benefits are not paid in the case of voluntary unemployment, the unemployment allowance also covers the risk of voluntary unemployment. In addition, the unemployment allowance is paid to individuals who have not previously been employed but whose previous activity is treated as work, for example full-time studies, military service or various care responsibilities. Moreover, if the person is eligible for unemployment insurance benefits for only 180 days, he/she can receive the unemployment allowance up to 270 days.

If the individuals have exhausted their right to unemployment benefits, but are still unemployed, they can apply for means-tested social assistance benefit (see next section).

The main problems related to the Estonian unemployment benefit system include low short-term and long-term replacement rates of unemployment benefits³³ as well as low coverage. In 2013, 42% of newly registered unemployed people received neither unemployment insurance benefits nor unemployment allowances.³⁴

Low coverage and duration of benefits have led to increased inflow to work-incapacity pensions and early retirement pensions applicants as these are seen as alternative exit options from the labour market. Low benefits are accompanied by a relatively high poverty risk among the unemployed in comparison with the rest of the population. The European Committee of Social Rights which evaluates compliance with the European Social Charter has repeatedly drawn attention to the fact that the unemployment allowance and the minimum rate of the unemployment insurance benefit do not meet

³¹ Payment of unemployment insurance benefits is regulated by the Unemployment Insurance Act and payment of unemployment assistance benefit is regulated by the Labour Market Services and Benefits Act.

³² In 2014 employees paid 2% of their earnings and employers paid 1% of the payroll for unemployment insurance.

³³ See OECD (2013) Benefits and Wages Statistics. Available at <http://www.oecd.org/els/benefitsandwagesstatistics.htm>

³⁴ Source: Unemployment Insurance Fund

the minimum requirements of the Charter, as they are below the minimum subsistence level.

Regarding the coverage of the unemployment benefits system, 40% of the newly registered unemployed were not eligible for unemployment assistance or insurance benefits in 2013. Only 29% of the newly registered unemployed were entitled to unemployment insurance benefits and 29% to flat rate unemployment allowance in the same time period. The coverage tended to increase during the recessions in 1999 and 2009 (as a result of the inflow of newly unemployed persons, who have the required employment history) and fall thereafter, together with increased long-term unemployment. After the last crises the coverage of the unemployment benefit system fell significantly; the share of newly registered unemployed who were not entitled to either of the benefits increased from 23% in 2009 to 48% in 2011. Hence, the unemployment benefit system has not been responsive to the new challenges (mainly multiple spells of unemployment, which do not allow one to accumulate the required employment record to qualify for benefits) brought by changed economic conditions.

There have been several attempts to increase both the replacement rates and coverage of the unemployment benefit system, but until now these do not seem to have had a major impact. To increase the coverage of the unemployment insurance system it was agreed between the Government and social partners in 2009 that those people who have left their previous job voluntarily or upon agreement with the employer will become eligible for the unemployment insurance benefit. Compared to the general legislation the eligibility conditions would have been stricter (requirement of employment of at least four years during the last five-year period compared to employment of one year during last three-year period for others) and replacement rates somewhat lower (40% of the previous average remuneration compared to 50% for others). However, in May 2012 the Parliament decided to abolish these amendments.

It was also agreed in 2009 that the unemployment assistance benefit would be increased from the flat rate of €64 to 50% of the national minimum wage from 2013 onwards and the replacement rate of the insurance benefit to 70% of the previous income during the first 100 days of unemployment and to 50% for the remaining period. However, in December 2012 the Government decided that the unemployment assistance benefit would be increased to 35% of the national minimum wage (around €101) from January 2013. Hence, low replacement rates and coverage have put the adequacy of the unemployment benefit system in Estonia under question.

2.3.2 Minimum income

Subsistence benefits in Estonia are a state aid to people in need paid by local governments. Subsistence benefits are paid only in cases where all other measures aimed at alleviating poverty and need have proven ineffective. Subsistence benefits guarantee the income level, which should protect people from suffering direct poverty.

Subsistence benefits are provided to a person living alone or to a family whose monthly net income, after the deduction of the housing expenses (up to a certain limit), is below the subsistence level. The subsistence level is based on minimum expenses made on consumption of foodstuffs, clothing, footwear and other goods and services which satisfy the primary needs. The level is fixed for each year by the state budget. In 2015 the subsistence level is €90 EUR per month for the first household member and for children and €72 for the other adult household members.

In the majority of cases, subsistence benefits are received either 1-3 months a year (in winter when housing costs are higher) or 12 months a year. Thus, for one group of people the benefits constitute a regular income. Subsistence benefits have most often been provided to households that have a long-term unemployed or a non-working jobseeker in the family.

The main critique regarding the subsistence level is its low value that does not protect people from falling below the absolute poverty line. In 2013, the absolute poverty line

was €205 per month, of which the minimum food basket was €92, and the subsistence level in 2013 was €76.7.

The subsistence benefit scheme also includes inactivity traps as the marginal effective tax rate is 100% up to a certain earnings level. Since 2005, local municipalities can disallow payment of social assistance if the person has refused more than once, without valid reason, a suitable job, participation in active labour market policy measures or services organised by the local municipalities. There are no studies about how often these requirements are implemented.

According to Statistics Estonia the at-risk-of-poverty (AROP) rate before social transfers was 40.7% (in 2013 income year) and after social transfers 22.1%. Over the last 10 years, the impact of social transfers on the reduction of the AROP has been 20 percentage points. It was highest (25 pp) in 2009, during the economic crisis, and it was lowest (16.8 pp) during the economic boom in 2007.

2.3.3 Active labour market policies

Expenditure on ALMP policies as well as the number of participants are still low compared to other EU countries. According to the estimations of the Ministry of Social Affairs (MoSA) the expenditures on ALMP-s increased from 0.11% of GDP in 2008 to 0.38% of GDP in 2012 and to 0.29% in 2013, which is considerably lower than the EU average. Also, the ratio of participants in ALMP-s per 100 persons wanting to work amounts to 5.8, which is also much lower than in most EU countries (e.g. in the best performing countries Belgium and Denmark, the respective indicators were 51.3 and 44).

Despite the low expenditure and low number of participants, the progress regarding ALMP-s in recent years has still been remarkable. While from 2009-2011 the ALMP-s were financed mostly from external resources (ESF, EURES), from 2012 onwards most of the resources have come from the labour market services and support endowment³⁵ of the UIF, indicating the sustainability of the current financing level. Also, the network of the regional public employment offices has been modernised and various e-services are available for both job-seekers and employers. Furthermore, the menu of ALMP-s has been considerably widened since 2009. While the provision of mainstream ALMP-s is regulated by the Labour Market Benefits and Services Act, since 2012 the Act is complemented by the Employment Programmes, which allows a faster reaction to changes in the labour market and the piloting of small scale employment measures targeted at specific disadvantaged groups instead of changing the existing law continuously. The first Employment Programme for 2012-2013 entered into force in 2012 and the second one for 2014-2015 took effect in January 2014³⁶. As a result, more than 20 different active labour market measures are available which are aimed at providing help according to the individual needs of the job-seekers.

The existing evaluation studies³⁷ have focused on evaluating the impact of labour market training (Lauringson *et al.* 2012; Anspal *et al.* 2012), wage subsidies (Anspal *et*

³⁵ Provision of ALMP-s in Estonia is financed from the state budget, UIF (since 2009 administration costs), labour market services and support endowment (since 2012) and external resources (ESF, EURES).

³⁶ In 2014 and 2015, the existing activities will be supplemented by the following: the rate of compensation for adapting the employer's work premises and instruments will be increased from 50% to 75%; the circle of those receiving the working with support person service will be expanded to include long-term unemployed, and unemployed with addiction problems and special social needs; and the amount of hours for working with a support person will be increased from 700 to 1000; the possibilities for supporting continued enterprise will be extended; and employers will be eligible to receive salary support also in the case of employment contracts made for a fixed term, in addition to permanent contracts.

³⁷ Anspal, S., Järve, J., Jääts, K., Kallaste, E., Maar, K., Mägi, A., Toots, A. (2012) *Palgatoetuse ja tööturukoolituse teenuste vahehindamine (Interim evaluation of the wage subsidies and labour market training)* Eesti Rakendusuringute Keskus CentAR & InterAct Projektid ja Koolitus OÜ. Available in Estonian at http://www2.sm.ee/esf2007/files/hindamine2010/2012_06_18%20T%C3%B6%20B6%C3%B6turumeetmete%20hindamise%20l%C3%B5ppraport%20%28CENTAR%20InterAct%29%20final.pdf

al. 2012), work practice and business-start-up grants (Villsaar *et al.* 2012 and 2014). These studies have shown that these measures have indeed increased the future employment prospects of the participants; however the impact on future wages is ambiguous. The existing cost-benefit analyses show that these programmes have also been beneficial in the long-run. It can be concluded that the network ALMP-s in Estonia are implemented on a small scale, but the existing programmes seem to be efficient.

The shortcomings of the ALMP-s include relatively short duration of the programmes, weak links with the vocational qualification system (only a small fraction of the training graduates pass professional examination) and also weak links with social services provided by local municipalities.

2.3.4 Social services

In addition to services already covered above (childcare, long-term care, active labour market measures) social services³⁸ offered by local governments include counselling, domestic services and housing for people with special needs. Counselling include provision of information about social rights and opportunities to protect legal interests and assistance in coping with specific social problems. Domestic services are provided to people in need in their own homes to help them cope with their difficulties in familiar surroundings. Housing services are an obligation of local authorities which are obliged to provide a dwelling or rented social housing to households in need.³⁹

Quality and accessibility of these social services vary considerably between local governments due to the differences in their economic capabilities.⁴⁰ As a result, the Ministry of Social Affairs has started the preparation of a strategic framework document, the Development Plan for Social Protection, Inclusion and Equal Opportunities, which encompasses all social policy areas: social security, social welfare, poverty, gender equality and equal opportunities. The background working document especially stresses the need to improve social services in an ageing population. The development plan should be approved by the government by the end of 2015.⁴¹

According to the European Commission, among the shortcomings of social services are the challenges of missing quality standards (minimum requirements) and the lack of a competent workforce at the municipal level. The non-existence of monitoring systems should also be mentioned along with the fragmentation and lack of clarity as to the division of tasks between the central and local level.

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- Lauringson, A., Villsaar, K., Tammik, L. ja Luhavee, T. (2011) Tööturukoolituse mõjuanalüüs (Counterfactual Impact Analyses of the labour market training). Tallinn: Eesti Töötukassa. Available in Estonian and English at <https://www.tootukassa.ee/content/tootukassast/uuringud-ja-analuusid>
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³⁸ Regulated by Social Welfare Act

³⁹ There is a public credit support for families with at least four children younger than 19 years to improve their housing conditions. It is a support measure with the intermediation of the Ministry of Economic Affairs and Communications from the state budget and it is provided through the foundation KredEx. In 2014, the foundation KredEx concluded contracts for improving living conditions of 270 families (for 1,177 children) in the total amount of €1.73 million. Source: <http://kredex.ee/kredexist/uudised/230-paljulapselist-pere-saavad-eluasemetingimuste-parandamiseks-toetust/>

⁴⁰ Vana, T. (2013). Sotsiaalteenuste kvaliteedi analüüs ja ettepanekud tervikliku kvaliteedisüsteemi tagamise juurutamiseks. Analüüsi lõpparuanne. Sotsiaalministeerium, Astangu Kutserehabilitatsiooni Keskus/Euroopa Sotsiaalfond.

⁴¹ Ministry of Social Affairs (2015). Sotsiaalse turvalisuse, kaasatuse ja võrdsete võimaluste arengukava 2016-2023. Arengukava aluseks oleva hetkeolukorra ülevaade. retrieved on 5 February 2015 at retrieved at http://www.sm.ee/sites/default/files/content-editors/eesmargid_ja_tegevused/Sotsiaalse_turvalisuse_kasatuse_ja_vordsete_voimaluste_arengukava_2016_2023/heaolu_arengukava_hetkeolukorra_ulevaade_2015.pdf

