



CSR/SME

Promoting Social Responsibility
in Small and Medium Size Enterprises

CORPORATE SOCIAL RESPONSIBILITY

STATE OF THE ART
IN ESTONIA

2004

EDITORIAL

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The first stage of the project has been successfully achieved and the work on further progress of the project will be continued. Herein all the current partners, especially AIESEC in Estonia, and the staff of Geomedia together have made great efforts and will continue to work on promoting Corporate Social Responsibility in Estonia.

Kirsta Nookõiv

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FOREWORD

Corporate Social Responsibility (CSR) can be defined as the voluntary integration of social and environment concerns in the enterprises' daily business operations and in the interaction with their stakeholders. CSR can also be understood as the business contribution to sustainable development.

Estonia is in the stage where the private business sector and the government sector have reached a certain level of maturity. The global experience shows that with this development, however, a democracy requires an equalizer to balance the gap in the society. After concentration on business and economic growth, the public focus will be turned in the direction of social concerns. Drug abuse, waste of natural resources, child poverty, homelessness, unemployment and lack of affordable housing are some of the issues which are gaining increased attention. This shift will be accompanied with less tolerance for actions which the public perceive as harmful to society, such as financial actions which harm the economy and pollution which threatens public health.

The civil society in Estonia has developed with enormous speed and the third sector is naturally playing the most vital role in the process. Although the legal environment and the infrastructure to nurture the development of the sector are efficient, we still need to focus several important questions in order to fully cultivate the culture and environment necessary for the better performance of non-profit organizations and for the Estonian civil society and the sector. The challenges can be categorized as follows: data, resources, citizenship, networking, cooperation with public and business sectors and philanthropy.

Corporate social responsibility is not yet a discussion topic on the level it could be in Estonia. Today, there are first signs emerging about the conscious and conceptual approach to the notion. In the next few years awareness will be increasing, due to the entry to the European Union where it is often in public attention.

The following research aims at describing the current reality in Estonia in terms of CSR, giving the starting point for further investigation.

EXECUTIVE SUMMARY



Estonia, while being one of the smallest countries in Europe has had relatively fast economic growth taking place since 1995. From 1995 to 2003, the average GDP growth rate was 5.2% per annum. Next to the economic growth comparatively to other transitional countries the development of the civil society and the third sector organizations could be highlighted.

Both public and the third sector initiatives are leading social agreement and encouragement to multi-sector dialogues. Although the expected results are not yet there, the ownership of the process and envisioned results allow expecting further progress.

Corporate social responsibility as known today is not yet a discussion topic on the level it could be in Estonia. Today, there are first signs emerging about the conscious and conceptual approach to the notion. Still the whole concept and understanding of CSR is very new and is just now on the verge of introduction to the business practices, academic curriculum and general public audience. The entry to the European Union, where CSR is often in public attention, is expected to have positive impact in promoting CSR in Estonia.

In terms of implementation, the practice has longer history as during the Soviet times, large enterprises and collective production units (collective farms) often took care of their social environment by investing in local communities and taking care of their employees. The general situation today shows that companies' role is being largely valued in the development of the society as a whole, and from companies' side cash and in-kind support is part of the common business practice, sport, culture, health and welfare being the main subjects of support. At the same time, these practices are still often not integrated with the strategic management of the organization and thus may often be informal in its character.

Today the understanding of CSR is broadly shaped by mainly Scandinavian investments and standards applied in the companies. Rapidly developing sectors of the economy such as telecommunications and banking are owned by Scandinavians and to a large extent taking over the culture/standards of Scandinavia.

On a larger picture, almost 80% of the companies in operation are micro-enterprises with limited resources. Thus majority of Estonian companies still do not have long-term strategic plans and their mission, values and vision written down. Shareholders, who are closely followed by clients and employees, to a lesser extent by society, occupy the leading position in the set of values of today's Estonian companies (Parusk 2001). Values are also reflected in the mission and vision of Estonian companies, which are usually formulated considering the needs of clients, employees and shareholders, whole society is seldom mentioned.

Due to the concept being so recently introduced here in Estonia, overall very little research has been made on Corporate Social Responsibility.

In a qualitative research conducted in 2003 amongst the leading enterprises approaches of companies were found fitting to both extremes on a proactive-reactive scale in regards to CSR (Räask 2003). However, the majority of the big enterprises researched were more on a proactive side of the scale, looking at the relationships and ties broader than those just with shareholders and customers, the relationship with other companies on an industry/service area being very important.

In the study the emphasize was set on the tie between stakeholder groups and the mission of the organization through looking at the relevance of the company and identifying CSR as something related to the development of the area of core business sector/industry sector where accumulated resources are put into the broader development of the society and industry sector (e.g. IS sector for IT industry). The results showed that even if the tie or interrelation of CSR and core business/resources is available, this tie is still quite weak.

As the clients, shareholders and employees are identified as the most important stakeholders, main CSR activities are being run along these lines. Environmental reporting and eco-labelling, cause related marketing campaigns, increasing investments in employee development programs although often just recently introduced are visible signs to prove the aforementioned.

Even if the understanding is there and the organizations are living CSR to some extent, the reporting and "talking about it" is still on a very minimum level. The reporting so far is mostly done about the sponsorship activities, not about the integrated approach to CSR.

CSR reports, ethical funds, and social indexes are not yet introduced in Estonia.

At the current stage of development instead of CSR, rather the attention to environmental protection could be highlighted. Since the beginning of 1990ies a number of environmental organizations have been founded. By now a few leading companies are already publishing their environmental reports and the trend is increasing. Currently 80+ companies have become ISO 14 000 certified, less than 10 companies have acquired OHSAS 18 001 certification, while the SA 8000 and EMAS certifications are not yet available in Estonia.



There is no direct financial support for companies in achieving neither social nor environment certifications. With environment certifications, the financial incentives for meeting the standards could be coming from the fact that the taxes for environment pollution will be lower if certain certifications are acquired. Also, the state supports the attainment of certificates with participation in the projects that assist in creating the capacity for achieving the standards – e.g. projects in cooperation with Estonian and Danish consultancy companies (Verš 2004).

To name concrete milestones in the development of the concept of Corporate Social Responsibility in Estonia in the last decade, approximately 3-4 articles in a year have been published on the topic in the daily newspapers, and on average about 1-2 larger conferences a year have taken place that cover topics related to CSR in their program. However, the fact is that there haven't been any national level conferences or seminars held in Estonia that would focus on CSR only.

There is no organization whose main activity or operation is directly and only related to developing CSR practices, know-how or understanding in Estonia. In the umbrella bodies that unite private sector organizations CSR is not part of the main agenda. Despite that there are several NGOs that have taken the role in bringing different sectors together for common good and initiate CSR related activities together with companies.

In terms of academic curriculum, CSR is relatively little represented, however still not completely missing in the universities' study programs.

There are no national awards in Estonia that directly refer to CSR. At the same time, Enterprise Estonia gives annual recognition to companies in the following two categories that are at least partly related to CSR activities (Ettevõtlike Auhind 2004):

-  Technology Developer of the Year
-  Community Developer of the Year

Also, several non-governmental and private sector organisations have initiated awards turning the attention of the society to CSR related issues on a more specific level. There are awards for Most Environment Friendly Company, Most Family Friendly Company, the Best Employer, the Best Company in Recycling, The Friendliest Servicer etc. Also, specific industry organisations can have their own awards in similar categories.

In March-April 2004 a survey was carried out among the small and medium size enterprises to monitor their opinion about CSR (Noorkõiv 2004). 50 companies all around Estonia from various fields of operation participated in the survey. Based on the findings, it is possible to conclude that the main business benefits for companies to be active in CSR are related to employee motivation and productivity, improved image and closer relationship with customers to contribute to sales, and the opportunity to direct the development of the area in the way that also supports the company's development. The benefits are to large extent not consciously addressed, as only 46% of the participants in the survey recognised the connection between corporate social responsibility and economic gains.

Almost 80% of the respondents replied that external pressure (either from clients, competitors, partners or government) is not urging their companies to be more socially responsible.

According to the survey (Ibid.) the main barriers for the companies to get engaged in CSR were lack of financial resources (confirmed by 70% of the respondents) and lack of time (60% of the respondents). Besides these, also the lack of human resources and the understanding that social responsibility is not really a company's responsibility are obstacles for CSR advancement.

Together with this, it can be pointed out that companies do not look at the benefits' side of CSR, but tend to see only the investments' part. This can be partly explained by the fact that the general knowledge about CSR is low and companies do not know how to employ its strategies. The respondents though indicate that the lack of knowledge both about CSR practices and ways of integrating these to company's operations is not a significant issue, which signals that the topic of CSR is very new in Estonia and its meaning and opportunities are yet to be revealed.

CHAPTER 1. INTRODUCTION



1.1. Country Description

1.1.1. Population

Estonia is one of the smallest countries in Europe, both in area (45,200 km²) and population (1.36 million – 2002). Estonia's population is decreasing and getting older, mostly because of low birth rates. On the labour market, the number of employed people has gone down in Estonia over the transition period, while the number of inactive and unemployed people has increased. In 2003 the employment rate (aged 15-74) was 56.7%, 49.1% of the work force were women. (Estonian National Development Plan, p. 6-8)

1.1.2. Economic Performance

In Estonia, relatively fast economic growth has taken place since 1995. From 1995 to 2003, the average GDP growth rate was 5.2% per annum. The economic growth has been supported mainly by a fast increase in exports to the industrial countries and the inflow of foreign capital. The economic structure is approaching that of industrial countries in that the relative share of agriculture has gone down, while the share of the services' sector is increasing. Regardless of these aspects, the GDP per capita in Estonia amounts to no more than 41.8% of the respective EU indicator (2002). A stable macro-economic framework, together with rapid privatisation and other market economy reforms have produced a favourable economic environment in Estonia and aided the country in its progress towards closing the gap between itself and the developed industrial countries. (Estonian National Development Plan, p. 23)

During the transition period, Estonia has proceeded in accordance with the following economic and political principles (Estonian National Development Plan, p. 23):

- Currency Board system,
- Balanced government budget;
- Liberal foreign trade policy combined with the maintenance of a favourable investment climate.

The shock of the transition to a new economic system caused a steep decline in the gross domestic product (GDP) from 1991 to 1994 (see Table 1). During this period the Government liberalised trade and prices, and several important companies were privatised. At the same time it implemented the currency reform, creating the Currency Board system. The situation stabilised at the beginning of 1994, and the growing efficiency and stability of the macro-economy created a favourable environment for the economic growth that took place over the next few years. In 1999 the Estonian economy went back into a decline. The recession was partly caused by an external event, the economic crisis in Russia, and partly resulting from the unsound consumption and investment decisions made by various economic agents. The upswing in the economy in 2000 was, first of all, the result of restructuring and a more effective utilisation of available resources. Despite a cooling in the world economy and a decrease in economic growth experienced by various economic partners, rapid growth continued in 2001-2002. Mostly as a result of the postponed economic recovery in Europe economic growth in Estonia slowed down in 2003 to the 4.7%. (Estonian National Development Plan, p. 23)

During the first half of 1992 the price liberalization, accompanied by the lack of control over the financial aggregates, caused the process of hyperinflation. The implementation of the Currency Board system and strict budget policy soon helped to stabilise prices. Although the inflation rate continued to drop in the 1995-1998 period, it was still high. The increase in prices slowed down considerably at the end of 1998; in 1999, the economy adjusted to the consequences of the Russian crisis. In 2000, as the domestic and foreign demand became active again, inflation sped up and this trend continued throughout the first half of 2001. CPI inflation decelerated to 3.6% in 2002 and further temporarily fell in 2003 due to declining import prices and one-off factors such as lower food prices. (Estonian National Development Plan, p. 24-25)

In 1991 the population of Estonia started to decline. Since then, the number of inhabitants has fallen by approximately 6%. The process has been supported by negative natural growth and by emigration. This is also the reason for a decrease in the labour force. At the same time, employment has dropped considerably faster, mainly because of the rationalisation process and the changes that have taken

place in the structure of the economy. From the 800,000 employed at the beginning of the 1990s the number of working people had dropped to approximately 570,000 in 2000. In 2001 the number of employed people started to increase again and reached the total of around 590,000 in 2003. (Estonian National Development Plan, p. 27)

The unemployment rate, approximately 10% in the middle of the 1990s, went up rapidly after the economic crisis in Russia in 1999. After that the labour market had to adjust to the changed economic situation, as the economic decline forced companies to change their employment policies. Employees were forced to cut down expenditure; many companies went out of business and the number of unemployed people increased by almost one and half times. Since 2001 the number of unemployed has decreased rapidly because of restored economic growth. The unemployment rate was 10.0% of the total labour force in 2003 (see Table 1). (Estonian National Development Plan, p. 27-28)

The main problem experienced by the Estonian labour market, is the non-conformity of labour demand and supply: lack of qualified labour and high unemployment are present simultaneously. Long-term unemployment and unemployment among the young people are also high and still increasing. A stable and favourable investment and economic climate is expected to diminish the unemployment rates and bring along the more extensive use of labour in the long run. (Estonian National Development Plan, p. 28)

Table 1: Selected Economic Indicators of Estonia

| INDICATOR | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--------------------------------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| GDP in current prices, mln EUR | 2614 | 3350 | 4093 | 4700 | 4878 | 5584 | 6257 | 6904 | 7423 |
| GDP, real growth, % | 4,3 | 3,9 | 9,8 | 4,6 | -0,6 | 7,3 | 6,5 | 6 | 4,7 |
| Inflation | 29 | 23,1 | 11,2 | 8,2 | 3,3 | 4 | 5,8 | 3,6 | 1,3 |
| Unemployment rate, % | 9,7 | 9,9 | 9,6 | 9,8 | 12,2 | 13,6 | 12,6 | 10,3 | 10 |
| Labour force, thousands | 633,4 | 619,3 | 613 | 602,5 | 575,3 | 568,3 | 572,2 | 579,3 | 588,1 |

Source: Statistical Office of Estonia.

1.1.3. Structure of the Corporate Sector

According to the Statistical Office of Estonia, in 2002 there were 34,511 economically active enterprises in Estonia. Some 78.4% of the companies in operation were micro-enterprises, 17.8% small enterprises, 3.3% medium sized and 0.4% large enterprises (Statistical Office of Estonia). Although the relative share of micro-enterprises is increasing, the respective indicator is still considerably larger in EU while the importance of other size groups is lower.

Small and medium-sized enterprises provided employment for 77.4% of the labour force in Estonia and form two thirds of the business employment rate in 2002 (Statistical Office of Estonia). Small and medium-sized enterprises created approximately 46% of the value added in 2002 (Statistical Office of Estonia). Considering the importance of such enterprises in the total number of companies, the indicator is relatively modest.

In Estonia (but also in other Central and Eastern European countries) the ownership structure is highly concentrated. Research by Pajuste and Olsson (2001) shows that ownership concentration in Estonia is among the highest in the region. Based on a sample of 103 Estonian, 56 Latvian and 105 Lithuanian firms (carried out in 2000), they found that the largest owner in Estonia has a stake of over 60%, whereas in Latvia and Lithuania 45-50% of shares. This is quite high compared to the ownership concentration in many Western European countries such as France or the UK. What is more important perhaps is that also the second largest owners have a relatively high stake in Estonia: more than 20%. One of the reasons for this may be that the stock market in Estonia (and other Central and Eastern European countries) is relatively under-developed. (Postma, Hermes, p. 15-16)

1.1.4. International Conventions Subscribed

In April 2004, there were 276 international conventions in force in Estonia (Database of international agreements). Estonia has ratified all the most important international conventions, many of which were preconditions to join the European Union. For the complete list of the conventions, please refer to appendix 1.



1.2. CSR History in Estonia

The whole concept and understanding of Corporate Social Responsibility as known in the world today is very new in Estonia and is just now on the verge of introduction to the business practices, academic curriculum and general public audience.

In terms of implementation, the practice has longer history as during the Soviet times, large enterprises and collective production units (collective farms) often took care of their social environment by investing in local communities and taking care of their employees. In the switch of the economic systems, the "socialistic" values have often been criticised and condemned by many, though the general situation today shows that companies' role is being largely valued in the development of the society as a whole, and from companies' side cash and in-kind support is part of the common business practice. At the same time, these practices are still often not integrated with the strategic management of the organization and thus may often be more "spontaneous" and informal in its character.

Both public and the third sector initiatives are leading social agreement and encouragement to multi-sector dialogues. Although the expected results are not yet there, the ownership of the process and envisioned results allow expecting further progress.

To name concrete milestones in the development of the concept of Corporate Social Responsibility in Estonia in the last decade, approximately 3-4 articles in a year have been published on the topic in the daily newspapers, and on average about 1-2 larger conferences a year have taken place that cover topics related to CSR in their program. However, the fact is that there haven't been any national level conferences or seminars held in Estonia that would focus on CSR only.

There is no organization whose main activity or operation is directly and only related to developing CSR practices, know-how or understanding in Estonia. In the umbrella bodies that unite private sector organizations CSR is not part of the main agenda. Despite that there are several NGOs that have taken the role in bringing different sectors together for common good and initiate CSR related activities together with companies.

Strength to be highlighted is the attention to environmental protection. Since the beginning of 1990ies a number of environmental organizations have been founded. By now a few leading companies are already publishing their environmental reports and the trend is increasing. In 2003 a dozen of companies became a member of Estonian Association for Environmental Management, which upholds the values of environmental protection and sustainable production in the private sector.

1.3. CSR Overview

1.3.1. CSR Situation in Estonia

Based on general observations, the understanding and practice of CSR in Estonia is shaped by the following factors.

Number one – the mindset from the socialist times of the Soviet Union (as referred to also in the previous chapter). Companies (especially big soviet industrial companies as well as unique phenomenon of soviet economy "the collective farm") had an important role of "adopting" local communities, taking care of everything related to their employees and their communities (starting from providing them with schools and kindergartens to hospitals, culture centres etc.)

On the other hand the term of Corporate Social Responsibility has a connotation to socialism. Along with the change of times and political system in the beginning of 90ies everything reminding Soviet Culture and Standards inflicted neoliberalistic "no". This connotation is prevailing especially among older generation and takes time and effort to overcome.

The latter is not actually a big threat as with a "new economy" a whole generation of young leaders took over the management positions. At the beginning of 1990s Estonia had very high ranking of leaders below the age of 25. It was a common practice of graduating from the university and taking up director or vice president positions. This trend has changed by now, though a huge amount of leaders of today are still in their early 30s with young and open mindset.

In that context the understanding of CSR is broadly shaped by mainly Scandinavian investments and standards applied in the companies. Rapidly developing sectors of the economy such as telecommunications and banking are owned by Scandinavians and to a large extent taking over the culture/standards of Scandinavia. Therefore it is not surprising to see Statoil (the leading Scandinavian Oil Company), Hansabank (Swedbank as the main shareholder), Nordea Bank and EMT (leading

communication service provider) having a proactive attitude and pulling the standards to a higher level.

In a qualitative research conducted in 2003 approaches of companies were found fitting to both extremes on a proactive-reactive scale in regards to CSR (Rääsk 2003).

However, the majority of the big enterprises researched were more on a proactive side of the scale, looking at the relationships and ties broader than those just with shareholders and customers, the relationship with other companies on an industry/service area being very important.

In the study the emphasis was set on the tie between stakeholder groups and the mission of the organization through looking at the relevance of the company and identifying CSR as something related to the development of the area of core business sector/industry sector where accumulated resources are put into the broader development of the society and industry sector (e.g. IS sector for IT industry). The results showed that even if the tie or interrelation of CSR and core business/resources is available, this tie is still quite weak. Also the time dimension was being considered, looking closely at a long-term dimension.

Companies being at the proactive side of the proactive-reactive scale identified CSR as a value creation process on 3 dimension level:

1. Employee-client-shareholder;
2. Partners & industrial bodies;
3. Local community.

Their attitude and activities are strongly based on business philosophy, values and culture of the organization, being integrated from top to down.

As the clients, shareholders and employees are identified as the most important stakeholders, main CSR activities are being run along these lines. Environmental reporting and eco-labelling, cause related marketing campaigns, increasing investments in employee development programs although often just recently introduced are visible signs to prove the aforementioned.

However, even if the understanding is there and the organizations are living CSR, the reporting and "talking about it" is still on a very minimum level. The reporting so far is mostly done about the sponsorship activities, not about the integrated approach to CSR.

In terms of academic curriculum, CSR is relatively little represented, however still not missing in the universities' study programs. Often the concept is introduced together with corporate governance, business ethics and other related topics and not much emphasis is put on CSR as an independent concept, a way a company should be managed.

Due to the concept being so recently introduced here in Estonia, very little research has been made on Corporate Social Responsibility.

1.3.2. Main Facts Related to CSR Occurred in 2003

A few articles and undergraduate and graduate students' graduation thesis were written on the topic.

Conferences and seminars: a few national scale conferences were run by the Network of Estonian Non-governmental Organisations (the Spring Conference and the conference on "Good Governance"), which are in details indicated below. These conference addressed CSR partially in their programmes.

The project on philanthropy, which was run by the Network of Estonian Non-governmental Organizations and took place over a 2-year period, was concluded in 2003. The main objective of the project was to promote good case practices, techniques, opportunities, and global trends of fund raising among business and the third sector organizations.

Cause related marketing was comparatively to CSR often mentioned in the marketing articles. Number of Estonian companies has been running their campaigns according to the principles of CRM, and number of successful campaigns, being also elected as the Top Ten Marketing Campaigns in 2003 deserved a lot of business people and public attention.

1.3.3. Expected CSR Trends

It's a reality today that multinational companies are about to adopt the CSR-agendas of their headquarters. The same is happening with the sub-contractors that are a part of international supply chain and are thus required to acquire certain CSR standards, practices and/or labels.

Joining EU will encourage further emphasis on the CSR agenda in Estonia. On one hand Estonian companies will have to adopt certain CSR practices due to the external pressure from more knowledgeable customers and demanding business partners/headquarters and on the other hand Estonia will be more easily involved in the discussions and development of the CSR agenda on the EU level and in member states as the EU itself officially sets a strong attention and commitment to CSR.

Thirdly, the knowledge about CSR issues will be gradually further spread in the society, thus increasing customers' demands towards the companies. Also employees become more aware of their rights and opportunities and would then also demand more from their working environment.

The concepts of cause related marketing and multi sector partnerships are being introduced and are gaining more and more attention by business, public and the third sector.



CHAPTER 2. BUSINESS ETHICS

2.1. Usage of Written Statements – Mission, Vision and Values

Many Estonian companies still do not have long-term strategic plans and their mission, values and vision written down. Almost 80% of the companies in operation are micro-enterprises with limited resources. Shareholders, who are closely followed by clients and employees, to a lesser extent by society, occupy the leading position in the set of values of today's Estonian companies (Parusk 2001). Values are also reflected in the mission and vision of Estonian companies, which are usually formulated considering the needs of clients, employees and shareholders, whole society is seldom mentioned.

In 2001, Estonian Business School made a research among its students to find out, what aspects Estonian leaders take into account when making decisions. The most important thing for Estonian managers was the satisfaction of a client, followed by professional development of workers, profitability of the company, the quality of products/services, long-term competitive advantage of the enterprise. Considerably less was paid attention to ethics, decision's impact on relationships with partner organisations (suppliers, local government) or impact on environment or the wealth of the entire nation. The study shows that there are great problems with ethics and ethical decision-making in Estonia. (Alas 2002; Ennulo *et al* 2003)

The most common values of Estonian companies are honesty, innovation/ development, quality/professionalism, reliability. Some companies also mention environment-friendliness and social responsibility. CSR issues have drawn more attention among the companies that deal with CSR and/or have a big impact on the environment (i.e. industrial concerns).

2.2. Corporate Governance

2.2.1. Codes of Conduct

The following codes of conduct are available in Estonia.

- On industry level:
 - Association of Estonian Information Technology and Telecommunications Companies;
 - Association of Estonian Laboratory Technologists;
 - Association of Estonian Translation Companies;
 - Estonian Association of Engineers,
 - Estonian Bar Association;
 - Estonian Bound Settlers Union;
 - Estonian Consultants Association;
 - Estonian Judges;
 - Estonian Non-Governmental Organisations' Roundtable Foundation;
 - Estonian Pharmacists' Association;
 - Estonian Press;
 - Estonian Public Relations Association;
 - Estonian Scientists;
 - Institute of Internal Auditors;
 - Law-enforcement officers;
 - Logopedists' Union;
 - National Archives of Estonia.

Public Service Code of Ethics.

- On organisation level:
 - Auditors of State Audit Office of Estonia;
 - Hansapank (biggest bank in Estonia);
 - Res Publica (political party);
 - Skanska (a construction company);
- The code of conduct of the student of IT College;
- Town council and city government of Põltsamaa (small town in Estonia);
- Äripäev (only daily business newspaper in Estonia).



2.2.2. Dialogue with Stakeholders

Stakeholders' dialogue is still developing in Estonia. The relationships are the closest with shareholders and customers as primary stakeholders.

Social dialogue is developing rapidly. Also tripartite negotiations and consultations are regularly taking place. In Estonia tripartism is satisfactory developed on the national level. The range of issues that are regularly discussed with employees, the Government and the employers, have been identified. (Estonian Employers' Confederation)

Social dialogue on the sectoral and company level is notably less developed. Collective agreements on wages and working conditions are being negotiated only in a limited number of economic sectors and companies. In the nearest future it is important to focus more on developing social dialogue on sectoral and company level. It is also necessary to expand the range of issues for negotiations beyond wages and working conditions. There are more collective agreements signed in transport sector, engineering sector, food industry, wood industry, textile and clothing industry, chemical industry, etc. (Estonian Employers' Confederation)

The participants of social dialog include (Ministry of Social Affairs. Social dialog):

- Trade unions, which are voluntary organizations seeking to improve the working terms and conditions of their members and to address their members employment grievances.;
- Employers themselves, who may be supported by employer organizations, which provide representation, assistance and advice to their members on employment issues;
- Public bodies, established under law to assist trade unions and employers to resolve their differences such as the Public Conciliator;
- The Labour Inspectorate in the Ministry of Social Affairs, working on employment issues arising under Labour or Employment Law;
- The Ministry of Social Affairs – administration and policy development of Employment and Labour Law; promotion and drafting of Employment law and policy;
- The Law Courts, where employees or employers, or their representatives have referred an employee rights issue to the Court to the Courts.

2.2.3. Transparency

Until recently, Estonia has been regarded by most international organisations as relatively free of corruption: the country has consistently gained the most favourable score of all transition countries in the Transparency International Corruption Perceptions Index, has received the most favourable assessment in this area from the European Commission, and for example is regarded by the Economist Intelligence Unit as having the most favourable business environment in the entire region (Reed 2003). Selected survey results on corruption in Estonia are brought out in table 2.

Individual survey results do not clearly support such a perception. For example, according to World Bank research, companies pay a slightly higher proportion of annual revenues in bribes in Estonia than Latvia, while according to CIET surveys corruption in license allocation and in the healthcare system is similarly prevalent as in Latvia. Moreover, in the area of political corruption – and especially political party finance – Estonia does not fare so well. World Bank surveys indicate that political corruption is a bigger problem in Estonia than in Lithuania. (Reed 2003)

In addition, close analysis of the institutional anti-corruption framework yield reasons for suspecting that corruption may be an important problem in several areas, notably public procurement and local government. Both GRECO and OSI have noted that mechanisms for controlling corruption in local government are particularly weak, that the Public Procurement Office is not sufficiently equipped or willing to play any significant role in controlling corruption, and that the Parliamentary Anti-corruption Committee in particular has not fulfilled its role. According to public opinion the most corrupt functionaries are political leaders and police officers, while Estonian authorities regard local government and the Customs Board and border guard as the main location of corruption. (Open Society Institute 2000; Open Society Institute 2002, p. 192; GRECO 2001; Reed 2003)

The State budget approved by Parliament includes all public revenue and expenditure, although the effectiveness of audit of public expenditure has in the past been blunted by the lack of formal cooperation between the State Audit Office and Parliament. Although there is some evidence of lobbying by business interests that contributed to political parties, survey research indicates that the "capture" of parliamentary votes is not a serious problem. The ineffectiveness of supervision of conflict of interest and asset declarations by the Parliamentary (Riigikogu) Anti-corruption Committee makes assessment of this area difficult. (Open Society Institute 2002, p. 193)

Table 2: Selected Survey Results on Corruption in Estonia

| CORRUPTION INDICATOR | THE RESULT FOR ESTONIA |
|--|--|
| Transparency International Corruption Perception Index (2002): score/position | 5.6/29 |
| Institutions/spheres perceived as most corrupt (Ministry of Internal Affairs 1995; Jaan Tõnisson Institute 2001) | State officials, businessmen, politicians, police, court officials |
| % of corporate revenues in unofficial payments (The World Bank 2000) | 1.6 |
| % of firms saying unofficial payments never necessary (The World Bank 2000) | 35 |
| % of firms saying unofficial payments for licences/permits never necessary (The World Bank 2000) | 69 |
| % of firms significantly affected by legislative capture (The World Bank 2000) | 14 |
| % of firms significantly affected by corrupt contributions to political parties (The World Bank 2000) | 17 |
| Have experienced corruption (Ministry of Internal Affairs 1995; Jaan Tõnisson Institute 2001) | 17 (3 years) |
| Made unofficial payments for licence: households (Caldwell <i>et al</i> 2002) | 8 |
| Unofficial payments for health services at last contact (Caldwell <i>et al</i> 2002) | < 1 |
| Gave gift at last visit for health treatment (Caldwell <i>et al</i> 2002) | 12 |

The judiciary is independent, and recent legislation will consolidate this situation further. The effectiveness of the courts in prosecuting corruption cases is subject to some concerns, including a lack of specialisation, a short statute of limitations for some corruption offences and the apparent leniency of the courts towards those convicted of corruption. International monitoring has drawn attention to a lack of professionalism of courts and prosecution offices in this area, while recent changes to criminal procedure have restricted the competence of the security police to investigate corruption cases. There is almost no evidence of corruption in the courts or prosecution offices. (Open Society Institute 2002, p. 193-194)

There is little evidence of corruption in public services such as health and education. However, the European Commission has drawn attention to the need to fight corruption in the police and customs' administration, while GRECO expressed concern at the vulnerability of the customs authorities to corruption and organised crime. Business registration and licensing does not appear to be troubled significantly by corruption. (Open Society Institute 2002, p. 194)

The Estonian media is free, despite some limited evidence of the use of libel and defamation provisions to deter journalists. Freedom of Information legislation is in place, although its impact on access to information may be subject to doubt. (Open Society Institute 2002, p. 194)

Anti-corruption legislation is very advanced by transition country standards. Estonia is the only country in the region to define corruption separately as a distinct crime under criminal law, and was one of the



first countries to ratify the Council of Europe Civil Law Convention on Corruption. The Anti-corruption Act lays down comprehensive rules on conflict of interest, and imposes duties on public functionaries to submit declarations of assets and income. There is little evidence of violation of these provisions. (Open Society Institute 2002, p. 192-193)

The legal framework for the public administration is advanced, with a Civil Service Act in force since 1996 and Public Administration Reform Programme approved in April 2001. However, reform of local government, where there is a need to reduce the number of units of government, has not progressed significantly. A Civil Service Code of Ethics exists, although its effectiveness is doubtful. The implementation of conflict of interest and asset declaration provisions remains a concern in this area, however. (Open Society Institute 2002, p. 193)

2.3. Accountability

2.3.1. Financial Reports and Auditing

By Law of Accounting (RT I 2002, 102, 600), financial auditing is compulsory for organizations subject to financial reporting. Financial audit is compulsory in the organizations characterised by at least 2 of the following criteria:

- During one accounting period, the net turnover/premium (for private organizations) or the income (for other types of organizations) is greater than 6 million EEK (~ 383632 EUR);
- The balance is at least 6 million EEK (~ 383632 EUR);
- The number of employees is more than 5.

2.3.2. CSR Reports and Auditing

CSR reports and respective auditing is not yet taking place in Estonia. Also, there aren't yet any consulting or advisory services offered to businesses on that topic.

In comparison environmental management is becoming more and more discussed and talked about via different mass media channels (internet, newspapers) by various environmental organizations, representatives from public and private sector organizations, certifications are being obtained by businesses and consulting services are being provided on how to implement environmental management systems.

At the current moment there are 24 certified environmental auditors in Estonia and 98 individuals that have acquired a licence to measure environmental impact (Registreeritud keskkonnaaudiitorid).

Environmental reports are voluntary, except the ones that need to be made for specific purposes and submitted to mostly governmental organizations (Estonian Association for Environmental Management).

There is a small number of companies that are reporting their environmental performance to their stakeholders voluntarily (for example Estonian Fund for Nature, Estonian Energy, printing and publishing company Triip, Open Estonia Foundation, Kroonpress Ltd).

As no companies have yet become EMAS certified, there are no organizations that are required to report their environmental performance as such.

Schneier conducted the PFS Program's first Survey of Reporting on Corporate Social Responsibility (CSR) by the 10 largest listed companies (by market capitalization) in Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Slovenia. The survey investigates companies' disclosures on a range of CSR issues as of August 15, 2003. Encompassing accounting standards, corporate governance, environmental policies and social policies, the survey analysed corporate reporting on matters that previously might not have been considered essential. The results showed that in Estonia (Survey of Reporting 2003):

- English-Language Information Availability. All 10 companies had translated their Annual Reports of 2002 into English. 6 out of 10 had also an English Language Website;
- Corporate Governance & Reporting. All 10 annual reports provided information about the audit. Info about company's governance structure and shareholder rights policy was available in 3 annual reports. Around 1/3 of the companies had information about the audit, governance structure and shareholder rights policy on their website;

- ⓘ Environmental Policy. Info about compliance with environmental standards was provided on the web and in an annual report by 2 companies. Environmental considerations with supply chain management is covered on the website of 2 companies. None of the companies had a report on energy and water or on their general environmental performance on their web neither in their annual report;
- ⓘ Social Policy. Employee development/benefits were brought out in 2 web sites and annual reports. Employment policy was covered by one company (website only) and health and safety policy by 2 companies (also on the website). Sponsorships were brought out by 2 companies (on the web only). One company stated compliance with labour standards in its annual report.

In conclusion, one can say that CSR is not yet perceived as an important issue in Estonia. Estonia is doing relatively bad in this area even compared to other CEE countries.

2.3.3. CSR Related Certifications

The information about certified organizations is continuously being updated on the web page of Estonian Quality Association (<http://www.eaq.ee/serffirm/index.php>):

- ⓘ ISO 14001 – by April 2004 - 83 companies certified;
- ⓘ OHSAS – by April 2004 - 8 companies certified;
- ⓘ EMAS – by June 2003 no companies in Estonia were registered as EMAS certified companies.

When joining the European Union, the implementation of the EU regulation 761/2001 will be a must and it requires joining countries to establish structures and procedures for EMAS certification. The process is lead by the Ministry of Environmental Affairs and started already in 2001, in cooperation with Finland. Since then number of projects have been run on the topic of environmental management. In the beginning of 2004 the Ministry of Environmental Affairs initiated 2-year-long bilateral project with Holland. The project includes evaluating businesses that have acquired ISO 14001 certification, developing strategy for EMAS implementation, carrying out study visits to Holland, delivering pilot projects and trainings. The Ministry of Environmental Affairs has an active role in the process (Keskonnajuhtimissüsteemid).

No official information is available on SA 8000 standardization in Estonia (Estonian Centre for Standardization), at the moment there are no institutions authorized to provide SA 8000 certifications.

2.3.4. CSR Toolkits

There are no CSR Toolkits that have been developed in Estonia and/or are widely known and used.

CHAPTER 3. SOCIAL RESPONSIBILITY



A - INTERNAL DIMENSION

3.1. Human Resources Management

3.1.1. Lifelong Learning

A survey conducted by Saar & Poll research company in 2001 reads that 13% of people 15-74 years of age participated in various forms of study (evening courses, distance learning, external study, in-service training or retraining courses) in 2001. The survey did not include informal education. In 1995 the same kind of a research was conducted and the results showed in 1994 15% of the respondents were participating in various forms of study. (Estonian Ministry of Education and Research. Adult education)

The most active learners group were people 20-29 years of age, who preferred such topics as entrepreneurship, business training, management, while older people opted more for industry, energy and construction. The main reasons for undertaking studies included self-development, increase of professional qualifications, increase of competency, referral by the workplace and the desire to be competitive. The most popular courses were computer and language classes. Main reasons not to study were old age (38% of respondents), no need to study (27%) and the lack of money (23%). (Estonian Ministry of Education and Research. Adult education)

As of 1993, the overall functionality of the adult education system is regulated by the Adult Education Act. The act regulates the following:

- Formal education acquired within the adult education system outside the daily study form or full-time study (basic, secondary or higher education);
- Adults' professional training;
- Informal adult education.

According to the law, those participating in formal or professional education within the adult education system have the right to apply for academic leave for education purposes, while retaining their pay. To participate in informal education one has the right to apply for academic leave without pay. (Estonian Ministry of Education and Research. Legal space)

3.1.2. Balance between Working and Private Life

The working time has been established by the state according to legislation which is a 40-hour working week in Estonia. The standard limits on overtime, time of vacation and taking of free days before national holidays have been separately stipulated. The differences regarding the working time have been established for the persons less than 18 years of age, pregnant women, breast-feeding mothers and the person raising the disabled child. (Ministry of Social Affairs. Quality of work life)

The state supports the family by partially compensating the costs of caring for, raising and educating children. The system of child and family benefits has been improved several times becoming more and more family friendly, culminating with the introduction of the Parental Benefit Act on January 1, 2004. Along with current universal family benefits, the new benefit is a unique measure aiming at intertwining work and family life. It also aims to increase Estonia's birth rate and help parents meet expenditures arising from a newborn child. (Fact Sheet. Family benefits)

The maternity benefit is meant for working mothers and compensates 100% of the mother's previous wage up to 140 days prior to and after childbirth. Mothers who have difficult childbirths or have multiple birth are given an additional 14 days of maternity benefits. The maternity benefit is financed by the health insurance budget through the Estonian Health Insurance Fund. (Fact Sheet. Family benefits)

The Parental Benefit Act took effect January 1, 2004. The new law will help parents to cope with expenditures arising from a newborn child by paying benefits to the parent that has taken parental leave. The amount of the payment is based on the parent's previous earnings, but not less than 2 200 kroons (EUR 141) per month. The ceiling was set at three times the average 2002 salary or 15 740

kroons (EUR 1 003) per month. The parental benefit is paid to the working mother after the end of the maternity benefit. Both the maternity benefit and the parental benefit are paid for not more than 365 days, so that the parent's wage stays the same during the first year following childbirth. Non-working parents enjoy the parental benefit begin at childbirth for 11 months. Fathers equal to mothers have the right to parental benefits beginning 6 months from childbirth. The parental benefit is paid from the state budget through regional Pension Boards. (Fact Sheet. Family benefits)

Family benefits are financed by the state budget. The Social Insurance Board through regional Pension Boards administers the family benefits. The State Family Benefits Act provides the classification of family benefits and the conditions and procedure of the benefits. The basis for calculation of family benefits, except the childcare benefit, is the child allowance rate. Childcare benefits are calculated on the basis of the childcare benefit rate. The State Budget Act establishes both rates every year. A new rate cannot be less than the rate in force. In 2004, child allowance rate is 150 EEK (EUR 10), childcare benefit rate 1,200 EEK (EUR 77). All benefits are coefficients of those rates. (Fact Sheet. Family benefits)

The state pays family benefits for every child up to the age of 16 and for continued education up to the age of 19 (Fact Sheet. Family benefits):

- The birth grant, independent life grant and adoption allowance (since 2002) are lump-sum benefits;
- The school allowance is paid once a year; benefits for families with triplets and with three or more children are quarterly;
- Other family benefits are paid monthly.

Three tax credits are available for parents or parental guardians (Fact Sheet. Family benefits):

- The first allows parents to deduct the education costs of dependents up to the age of 26, including the interest payments on student loans;
- The second deduction allows for one parent to increase their maximum tax-free income after the birth of additional children under the age of 17 beginning after the birth of the third child;
- Beginning in 2004, a young parent who has graduated from university or a vocational institution can apply for a partial state funding of student loans.

The following holidays are financed from the state budget (Fact Sheet. Family benefits):

- Extended annual holidays (7 days) of minors and disabled persons (who are granted a pension for incapacity for work or the national pension on the basis of incapacity for work).

One additional holiday (1 day) a month for the parent of a disabled child;

- Additional child care leave for one parent (3 or 6 days, subject to the number of children);
- Additional childcare leaves for fathers (14 days). A father has a right to be granted additional childcare leave during the pregnancy leave or maternity leave of the mother or within two months after the birth of the child;
- As of 2000, the holiday pay for a day of additional childcare leave is 66 EEK (4.2 EUR). The employers pay the family holiday benefits of their employees and are then compensated by the state. (Fact Sheet. Family benefits)

A working mother raising a child under 1.5 years of age is entitled to additional breastfeeding breaks at least every three hours for duration of 30 minutes. These breaks may be added up and the working day reduced by the corresponding period of time. Payment of average wages for the additional breaks shall be supported by state budget funds. (Fact Sheet. Family benefits)

Statistical Office of Estonia made a research about average time spent on different activities. The results are shown in figure 1. An Estonian man spent on average 45 minutes more on leisure activities than an Estonian woman in 1999-2000, for example watching TV every day 20 minutes more than a woman on average.

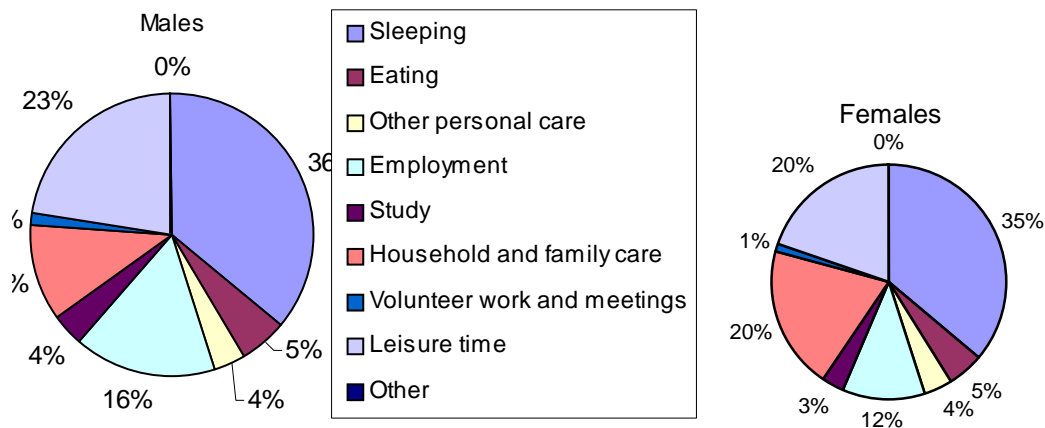


Figure 1: Average time use in a day, 1999-2000 by primary activity and sex (Statistical Office of Estonia. Statistical database).

3.1.3. Equal Opportunities

The general equality is guaranteed by subsection 1 of § 12 of the Constitution: "Everyone is equal before the law. No one shall be discriminated against on the basis of nationality, race, colour, sex, language, origin, religion, political or other opinion, property or social status, or on other grounds." Everyone whose rights and freedoms are violated has the right of recourse to the courts. Everyone has the right, while his or her case is before the court, to petition for any relevant law, other legislation or procedure to be declared unconstitutional. The courts shall observe the Constitution and shall declare unconstitutional any law, other legislation or procedure which violates the rights and freedoms provided by the Constitution or which is otherwise in conflict with the Constitution (§ 15 of the Constitution). (European Social Charter, p. 47)

Subsection 1 of § 10 of the Employment Contracts Act of the Republic of Estonia stipulates that it is illegal to allow or give preferences, or to restrict rights on the grounds of the sex, nationality, colour, race, native language, social origin, social status, previous activities, religion, political or other opinion, or attitude towards the duty to serve in the armed forces of employees or employers. It is also illegal to restrict the rights of employees or employers on the grounds of marital status, family obligations, membership in citizens' associations, or representation of the interests of employees or employers. (European Social Charter, p. 47)

According to § 5 of the Wages Act it is prohibited to increase or reduce wages on the grounds of an employee's sex. It is also prohibited to reduce wages on the grounds of the marital status, family obligations. Paragraph 5 stipulates the principle of equal remuneration, according to which the establishment of different wage conditions for the same or equal work to employees of different sex is prohibited. Employees have the right to request explanations concerning the bases for calculation of wages. Upon hiring, employers are required to inform employees of the regulation of equal remuneration by law. (European Social Charter, p. 47-48)

Everyone has the right to compensation for moral and material damage caused by the unlawful action of any person (§ 25 of the Constitution). The disputes arising based on the Employment Contracts Act of the Republic of Estonia are to be solved in the labour dispute resolution body according to § 142. According to § 143 of this Act the parties have recourse to a labour dispute resolution body for resolution of disputes which arise in the application of this Act within four months after the date following the date on which they became aware or should have become aware of the violation of their rights. The parties have recourse to a labour dispute resolution body to dispute the justification for termination of an employment contract within one month, calculated from the date which followed the date that they became aware or should have become aware of the violation of their rights. According to § 145 state supervision over compliance with the requirements of this Act and legislation established on the basis thereof shall be exercised by the Labour Inspectorate. In the event of violation of the requirements of this Act or legislation established on the basis thereof, a labour inspector and the head of a regional office of the Labour Inspectorate have the right to issue precepts. The Individual Labour Dispute Resolution Act provides the closer procedure of relevant disputes. (European Social Charter, p. 48)

Gender equality has become one of the most frequently discussed topics in the Estonian public arena. The harmonising of Estonian legislation with EU legislation and the development of a well-stabilized and sustainable society is an important issue for Estonia. Research shows that there is still a lot to accomplish to achieve gender equality in Estonia. A few paragraphs of the constitution deal with equal

rights. The Republic of Estonia has also ratified almost all of the main international acts, which ban gender discrimination. Analysis of Estonian legislation has shown that very few provisions could potentially be used to discriminate men and women – the language of Estonian laws is gender-neutral. (Fact Sheet. Women and Men ...)

The UN Convention on “The elimination of all kinds of discrimination against women” is one of the most important gender relations related documents. In 2002, the corresponding UN committee reviewed Estonia’s progress in the fulfilment of the convention. Positive results were expressed in the high ratio of women with post-secondary education, the growth of the number of women studying non-traditional subjects, the modern laws for the protection of mothers and the growth of women’s organisations in society. Deficiencies were found in the field of legislation (the absence of the anti-discrimination legislation), the insufficient resources (both financial and human) at the Bureau of Gender Equality and the prevalence of violence against women. (Fact Sheet. Women and Men ...)

This year’s report on Gender Relations by the Open Estonia Foundation drew attention to different issues related to achieving gender equality in Estonia. 83% of women and 76% of men believe that women hold a lesser position in society. Less than a tenth of those polled believed that women have the same opportunities as men. Three quarters of the respondents questioned on the skills of leadership and managerial skills of women answered that women do not make good leaders. The main reason for this opinion was that women are too emotional. Women as men share this belief equally. The main reason given for the unequal representation of men and women in top-managerial positions are the traditional, stereotypical gender based roles given by society. (Fact Sheet. Women and Men ...)

The number of women in the *Riigikogu* (Parliament) has grown in the past ten years. However, the majority of parliamentarians are still men. At the last parliamentary elections 21% of the candidates were women and currently 19 of the 101 members of the *Riigikogu* are women. Another indication of the improving representation of women in politics is that 28.4% of members of local governments are female (in 1996 the percentage of women in local assemblies was 26,6%). (Fact Sheet. Women and Men ...)

There have been intensive discussions among the public regarding inequality in the labour market. According to statistics a woman earns approximately 75% of what their male counterparts earn. There is also a lack of female managers (4% vs. 96% male) and high-ranking government officials. Many employees see the hiring of (young) females as a risky business, since they might become pregnant and give birth to children. Many studies show that there are connections between a small salary, a woman’s self-esteem and her desire for a larger salary; the lower the salary, the lower becomes the self-esteem and the smaller is the desire for a better salary. The Open Estonia Foundation finds that the growth in the number of females as business leaders or local leaders has very little community support. At the same time, support for regulation of gender equality is very high. Over $\frac{3}{4}$ of those polled were willing to support various regulation methods. (Fact Sheet. Women and Men ...)

A woman is traditionally seen as the homemaker. Thus, in addition to her day job comes the majority of home chores. Studies show that $\frac{2}{3}$ of women active in the labour market perform all of the home chores and only 22% of women share the chores equally with their partner. The public opinion is still conservative; subsequently there is much room for improvement in the sharing of home chores. (Fact Sheet. Women and Men ...)

According to Estonian labour laws both the mother and the father have the right to three years of parental leave. Normally it is the mother who takes the leave, but more and more fathers have started to take the parental leave they are entitled to. The father has the right to two weeks of paternity leave along with the mother during the pregnancy, birth period or within the two months following birth. (Fact Sheet. Women and Men ...)

Every issue has two sides. Men are also susceptible to the stereotypical gender based roles given by society. Men whose strength and health allow them to come to terms with an intensive and stressful job are seen as the most successful in our society. This also allows the man to fulfil the traditional stereotypical role of the breadwinner. This results in the concentration of all ones’ efforts into one activity. The low life expectancy, the high suicide rate and the poor emotional and physical health of Estonian men has been demonstrated in studies conducted in the last decade. (Fact Sheet. Women and Men ...)

3.1.4. Voluntary Social Protection Charges

When pension reform was started in 1998, Estonia opted for a three-pillar pension system. The First Pillar is the renewed state pension scheme. The Second Pillar, a mandatory funded pension scheme, was implemented in 2002. The Third Pillar, enacted in 1998, is a voluntary supplementary pension scheme that is supported by the Government through tax deductions. (Fact Sheet. Pension Reform)



The supplementary pension scheme is based on individual voluntary pension contributions. The third pillar has existed since 1998, when the necessary legal framework was enacted. In conclusion, the III pillar is characterised by the following features (Fact Sheet. Pension Reform):

- Voluntary participation;
- Individual flexibility;
- Private management;
- Pre-retirement savings contributions;
- Free choice between insurance and fund instrument;
- Free choice between the defined-benefit and the defined-contribution type schemes;
- Advantageous tax incentives provided by the state.

There are currently 6 life insurance companies in Estonia, 5 of which have a license to sell pension insurance policies under the favourable tax treatment. By the beginning of 2004, 58,248 people (about 9.6% of employed residents) had signed a private pension contract with a life insurance company. In 2003, 309,4 million EEK/ 19.8 million EUR were invested based on the third pillar insurance schemes. In January 2004, the third pillar pension funds assets were 113 million EEK/ 7.2 million EUR. (Fact Sheet. Pension Reform)

3.2. Health and Safety at Work

One of the major problems of the work environment is poor lighting, as well as noise and vibration. During recent years the most significant changes in the work environment have been carried out in the companies with the worst working conditions – the share of companies with the worst working conditions has constantly decreased. (Ministry of Social Affairs. School and work environment)

The percentage of accidents at work and work-related illnesses indicates the health hazard of the work environment. The specific of occupational diseases is the fact that many of these develop over a long period of time. Therefore most of the chronic occupational diseases diagnosed today probably already started several years ago. (Ministry of Social Affairs. School and work environment)

Danish Working Environment Authority in collaboration with the Estonian National Labour Inspectorate made a model to assess the impact (cost) of occupational accidents on Estonian state budget as well as on Estonian society in general. The study showed that within one year occupational accidents approximately cost for the Republic of Estonia 50 million EEK (0,14% of the state budget). Comparing the sum of sickness compensations with the sum paid in other European countries we can say that the national part (80%) is unjustifiably large in Estonia. (Statistics. Development of ...)

In a year, occupational accidents cost for the society approximately 540 million EEK (0,5% of the GNP), first of all because of the loss of production for the society due to sickness of workers. It is calculated using the table of anticipated span of life of people with early retirement and cases of death. Health care and administrative costs are both society costs because these are the costs that could have been used more efficiently by the society. As for society costs we must take into account the costs of material damages due to occupational accidents on enterprise level. (Statistics. Development of ...)

In 2000–2002 the Labour Inspectorate visited 17 202 enterprises. In 4 212 companies working environment and in 6 045 firms activities of employers in fulfilling the requirements enforced by the Occupational Health and Safety Act were inspected. The results of the study are shown on figures 2 and 3.

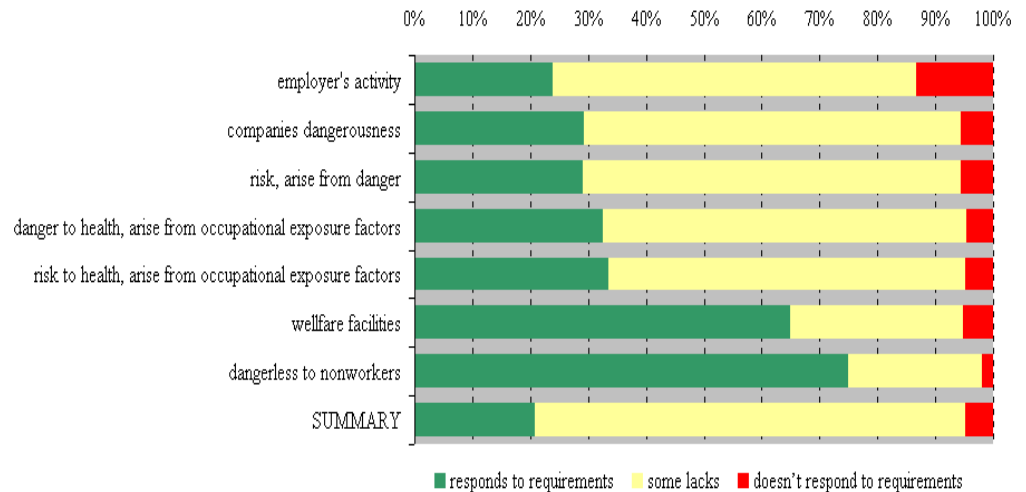


Figure 2: Evaluation of the Working Environment in Estonia (Labour Inspectorate).

In 2003, the situation had improved a little: 25% of the companies met the legal requirements imposed on employers. In 2000-2002 the corresponding number was 24%, which shows that employers were more responsible, at least among the assessed companies. (Tööinspektsioon. Töökeskkond ...)

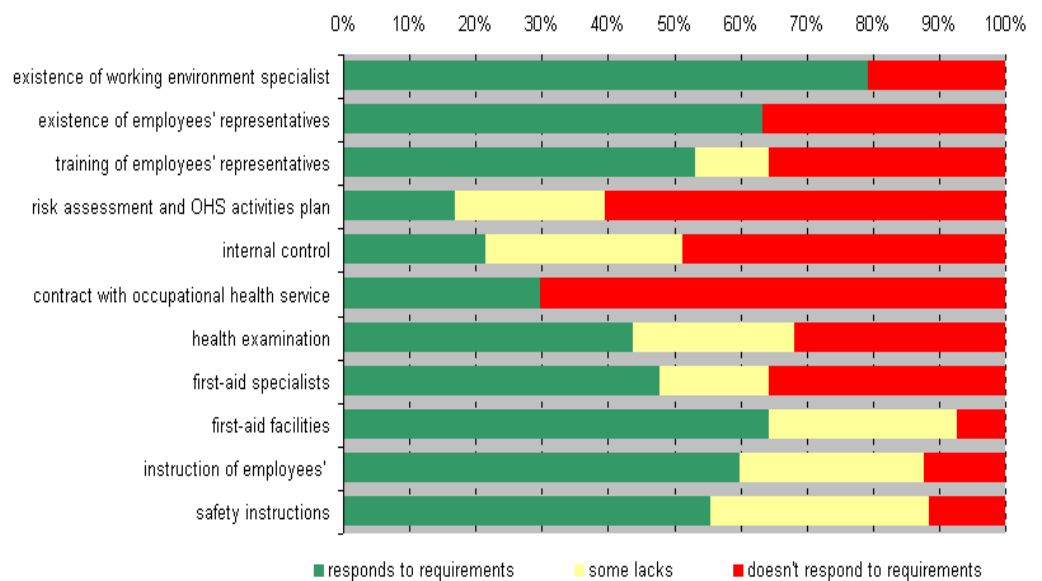


Figure 3: Evaluation of the Working Environment Arrangements in Estonian Companies (Labour Inspectorate).

The number of occupational accidents has gradually increased (figure 4). Such growth can mainly be explained by the more efficient supervision, i.e. reporting, of the Estonian Labour Inspectorate. The rate of lethal occupational accidents has inclined especially in construction, which could be explained with insufficient prevention. The number of severe occupational accidents has increased also due to the changes in the specifications of severe injury, according to which physicians classify substantially more injuries as severe.

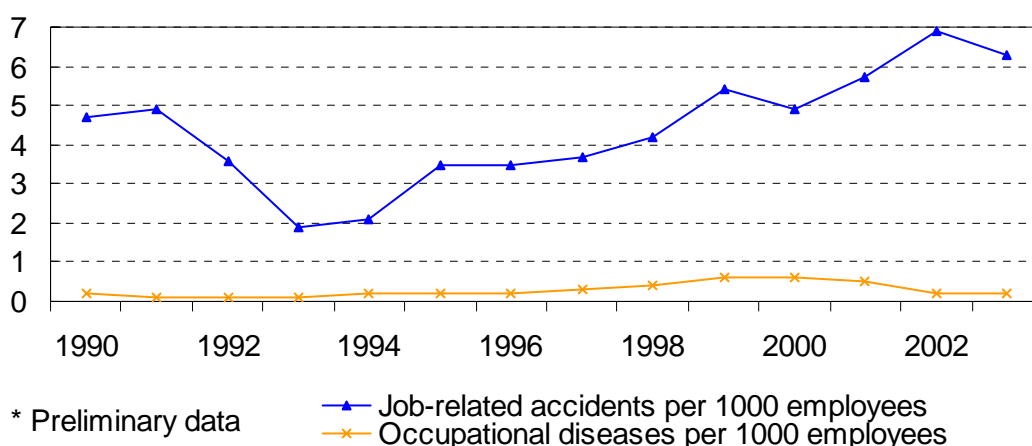


Figure 4: Job-Related Accidents and Occupational Diseases in Estonia 1990-2003 (Tööinspeksioon. Tööl toimunud ...).

In 2003, the Centre of Work Health Service at North-Estonia Regional Hospital diagnosed 101 first occupational diseases. The number of first occupational diseases declined by 28 cases (28%) compared to last year in 2003. The maximum number of occupational diseases was achieved in 1999, when 359 first occupational diseases were diagnosed. Most common diseases were:

- Diseases caused by overload of work (54 cases);
- Hearing impairment caused by noise (21);
- Diseases caused by vibration (15 cases).

Occupational diseases were most common among tractor drivers (28), farm labourers and cattle-breeders (21, mostly old milkmaids). The illness was identified among 47 men and 48 women. (Tööinspeksioon. Kutsehaigusi veerandi ...)

3.3. Adaptation to Change

Both the Estonian economy and the labour market have become substantially more open and dynamic, which presumes greater flexibility in order to achieve both higher productivity and efficiency, as well as to provide a balance for increasing labour market risk and instability. Previous studies have shown that Estonia, compared to other post-socialist countries, is characterised as having a dynamic economy and a high level of flexibility. Employees, however, are not particularly keen on risks: the flexibility of the employees is more inclined towards the preservation of stability than towards taking risks. This becomes apparent in the preponderance of such labour market fluctuations which have not been due to the will of the employers but rather to outside pressures. (Flexible workers ..., p. 31-35)

It can therefore be stated that the labour market risks are being increasingly borne by the employees, but flexibility is more often dependent on the employers. In Estonia today there is generally more a dominance of numerical flexibility (employers ability to change the number of employees), but there is also low efficiency in the institutions which should be encouraging its more effective operation. Functional flexibility (employees' ability to respond to the changes in the demand of labour) is currently more the preserve of employees with higher qualifications. (Flexible workers ..., p. 31-35)

To provide employment services the Labour Market Board collects information from employment offices from job-seekers and employers, thus combining the supply and the demand. The employment services are meant both for the person having lost his job and the person thinking of changing his workplace as well as for the company in need of a labour force. (Ministry of Social Affairs. Employment services)

Employment offices assist the job-seekers to adapt themselves to the changed situation, providing a service package subject to needs and abilities – information, training and retraining, vocational guidance and support and assistance for starting a business. (Ministry of Social Affairs. Employment services)

Employers are supplied with information on labour market status. They are also supported and encouraged to employ less competitive persons – young, long-term unemployed, persons with a partial

capacity for work, pregnant women or parents raising children of up to six years of age, released prisoners and older persons within five years of retirement age. Employment services can also be provided by private employment agencies, if they have an activity licence for employment services. Employment services for job-seekers are provided free of charge. (Ministry of Social Affairs. Employment services)

B - EXTERNAL DIMENSION

3.4. Local Communities

3.4.1. Sponsoring

Enterprises prefer in kind to cash. Managers sponsor different projects because they want to support the development of the Estonian society and to promote the values they share and want to connect to their brand. As strategic thinking is still not so prevalent in Estonia, many companies do not have the values of the company written down, so the decision of sponsoring will be made according to the director's and/or the marketing manager's personal interests, hobbies, priorities (culture, sports, education, children).

Most of the companies do not have a concrete sponsoring policy (what fields and how they support). For example, one of the most reputable hotels in Estonia is supporting a high-school, piano concerts, national singing festival and a basketball team. Many sponsorship projects are just one-time and not long-term partnerships.

The volume of sponsorship budgets depends very much on a company. In the biggest and most successful companies it could be around 5% of their marketing budget. There's a law in Estonia that if the sum of the sponsorship exceeds 3% of the company's wage costs the same year or 10% of the profit last year, the firm also has to pay income tax on the sponsorship sum, so companies do not want to spend on sponsorship more than that.

Many companies prefer signing advertising contracts with NGOs to making presents or donations. In that case the supported association offers advertisement service to the company (i.e. puts up the logo of the company at the site of the event) and the advertising charge goes under the marketing budget and not the sponsorship budget, which is usually significantly smaller. (Network of Estonian Nonprofit Organizations)

The opportunities for NGOs to collect funding from local sources in the surroundings of the capital are quite good, even though they function only to a limited extent. The obtainment of non-monetary or volunteering funding from the community and target groups is case-dependant; however, these are generally used. A part of support is comprised of donations of used property/assets. (Jätkusuutlikkuse indeks)

According to a survey made by the ES Turu-uuringud among the 500 biggest companies in Estonia (by the volume of sales) in 2002, 67% of them were organising sponsorship or charity events in Estonia. (Kann 2003)

In 2004, it was decided that a state-controlled enterprise is not allowed to be a sponsor as the state budget should be the only way to reallocate income.

3.4.2. Corporate Volunteering

Corporate volunteering mostly means acting in a socially responsible way in front of employees (improving their working conditions, building kinder gardens for their children, etc). Till the very recent years, corporate volunteering has been informal and mostly based on the initiative of active workers themselves. In the last year, there has been a more conscious approach developed by a non-governmental organisation Heateo Sihtasutus (Good Deed Foundation), promoting corporate volunteering in Estonian society and also acting as a mediator between the companies and organisations that are looking for help, assistance and consultation.

3.5. Business Partners, Suppliers and Consumers



3.5.1. Development of Long Term Partnerships

The concept of a long-term partnership is very popular in Estonia, at least in theory. Many companies are looking for long-term partnerships with their clients, suppliers etc. The most valued stakeholders are shareholders, then come clients and workers and after that the society.

3.5.2. Supply Chain Ethical Control

Many foreign-owned companies are forced to think about CSR issues and be more socially responsible because of the requirements and policies coming from their headquarters. Foreign partners usually require that subcontractors and business partners comply with their ethical procurement principles and have certain certificates and/or labels. The importance attached to corporate responsibility varies between partners and there is still a lot of room for improvement.

3.5.3. Responsible Marketing

First projects connected to the concept of responsible marketing were started at the end of 1990s when the state, non-profit organisations, stakeholders and consumers started to defend their interests more actively. Still, the empirical evidence of social marketing in Estonia is quite modest, not systematic and inefficient because of the stage of the development of the state, the values of the society and the very limited resources of companies (one of their main objectives is to keep costs at a low level). The goal of social marketing is often to increase the sales of the company. Many companies do not have a code of conduct as well as a social audit. (Vihalem 2002)

Some examples of responsible marketing in Estonia (Vihalem 2002):

- Brand of Estonia;
- CEETEX 1994 in London;
- EXPO 2000 in Hannover;
- Eurovision 2002 in Tallinn;
- Integration projects;
- Health: AIDS and sex, smoking, drugs, alcohol, the protection and health of children, traffic safety, informing and training consumers;
- Environment: green energy, clean environment, eco-labels;
- Politics: political campaigns.

Private companies are involved in social marketing first of all by financing social marketing campaigns.

3.5.4. Design for All

Most of big shopping centres, public institutions and private service providers (banks, insurance companies) have made their offices accessible also to people with a wheelchair. Though, there is considerable amount of room for improvement in this area, as not always even created solutions are usable.

3.6. Human Rights

3.6.1. Child Labour

The Employment Contract Act sets the minimum age for employment at 18 years, although children 15 to 17 years of age may work with the consent of a parent or guardian, and children 13 to 15 years old may work with the consent of a parent or guardian and a labour inspector. Children under age 18

may not perform hazardous or dangerous work. The Working and Rest Time Act limits the number of hours children under age 18 can work and prohibits overtime or night work.

Still, the engagement of juveniles in prostitution has become a more and more acute problem in Estonia. It is very closely connected with the consumption of drugs. (Kalikova *et al* 2002, p. 57)

3.6.2. Slave Labour

The Constitution prohibits forced or bonded labour, including by children; however, trafficking of persons is a problem. The law prohibits trafficking in persons; however, women are trafficked from the country, and there were reports of victims of trafficking younger than 18 years old. Some NGOs speculated that there are 500 trafficking victims per year, although there are no reliable statistics available on the extent of the problem. Reportedly job advertisements placed in local newspapers to recruit women are in some cases associated with international prostitution rings. The International Organization for Migration and local NGOs believe that girls are trafficked to Nordic countries and Western Europe. (Estonia Human Rights Report 2003)

The Ministry of Social Affairs in cooperation with the Nordic Council of Ministers initiated a large-scale anti-trafficking campaign, mostly geared towards prevention. The campaign drew public attention to the issue of trafficking in persons and promoted international cooperation to address the problem. International organizations and NGOs carried out several anti-trafficking projects in collaboration with the Government. (Estonia Human Rights Report 2003)

3.6.3. Working Conditions

The standard workweek is 40 hours, and there is a mandatory 24-hour rest period per week. According to the Confederation of Estonian Trade Unions sources, legal occupational health and safety standards are satisfactory in theory; however, they are extremely difficult to achieve in practice. The National Labour Inspection Board is responsible for enforcement of these standards, but it has not been very effective. The labour unions also have occupational health and safety experts who assist workers to bring employers into compliance with legal standards. Workers have the right to remove themselves from dangerous work situations without jeopardizing their continued employment. (Estonia Human Rights Report 2003)

From the working environment survey, conducted by Emor Ltd. in February-March 2000, it appeared that (Emor 2000):

- 95% of companies/institutions that operate in Estonia are aware of the Law of Occupational Health and Occupational Safety, somewhat less informed about the requirements set by the law were smaller companies with less than 10 employees, of whom 9% were not aware of the requirements.;
- One third of all companies evaluate their working conditions completely corresponding and 46% generally corresponding to the requirements set by the law;
- Giving assessments to different sides of the working environment, the most negative evaluations were given to mental stress that is caused by work, which appears practically in all field of activities;
- A certain risk factors to the health depend on the field of activity the company operates and in which position the employee works. Primary- and secondary sector companies and also their employees see as risk factors more frequently than the average physical load, noise, dust and vibration, in case of tertiary sector in both sides' opinion the main risk factor to the health is mental stress;
- 23% of employees think that their employer tries to ensure as good working conditions as possible, in 49% of respondents' opinion their employer follows that basically everything were in order, according to 19% of respondents' assessments the attention to the working conditions is rather formal and 5% think that in their company the employer does not pay attention to the working conditions;
- Working environment specialist, who follows/organises working environment-related activities, operates only in 42% of companies, in 5% of them works also working environment council. Up to 2/3 of respondents evaluates their efficiency sufficient and only some respondents very big.



3.6.4. Freedom of Association

The Constitution provides freedom of assembly and association, and the Government generally respects these rights in practice. Permits for all public gatherings must be obtained 3 weeks in advance. The authorities have wide discretion to prohibit such gatherings on public safety grounds but seldom do so. Non-citizens are prohibited from joining political parties, although they may form social groups. (Estonia Human Rights Report 2003)

The Constitution provides for the right for workers to form and join a union or employee association, and they exercise this right in practice. The largest trade union is the Confederation of Estonian Trade Unions; it is wholly voluntary and has approximately 50,000 members. Another trade union, the Organization of Employee Unions, split from the Confederation of Estonian Trade Unions and has approximately 35,000 members. A third central union represents food processing and rural workers. Approximately one-third of the country's labour force belongs to one of the three labour federations. Unions are independent of the Government and political parties. (Estonia Human Rights Report 2003)

The Labour Code prohibits antiunion discrimination, and employees may go to court to enforce their rights. The law provides for collective bargaining, collective dispute resolution, and shop stewards. Unions can join federations freely and affiliate internationally. (Estonia Human Rights Report 2003)

While workers have the legal right to bargain collectively, collective bargaining has not developed fully. According to Confederation of Estonian Trade Unions leaders, few collective bargaining agreements have been concluded between the management and workers of a specific enterprise. However, the Confederation of Estonian Trade Unions has concluded framework agreements with producer associations, which provide the basis for specific labour agreements, including the setting of the minimum wage. The Confederation of Estonian Trade Unions also was involved with developing the Labour Code, which covers employment contracts, vacation, and occupational safety. The law provides for the right to strike, and the Constitution and statutes prohibit retribution against strikers. (Estonia Human Rights Report 2003)

3.7. Social Labels

There is no information available about the organisations who have applied for a social label. Most probably there are no such companies in Estonia.

CHAPTER 4. ENVIRONMENTAL RESPONSIBILITY

4.1. Management of Environmental Impacts and Natural Resources

4.1.1. Minimizing Environmental Impacts

Compared to the European Union countries, the overall environmental status of Estonia can be described as good. This is related to low density of population, a less intensive economy and efforts made in the environmental sector. Nevertheless, the negative impact on water and air from economic activity is quite extensive, considering the number of inhabitants and economic efficiency. (Estonian National Development Plan, p. 149)

Estonia is quite a clean country, but the state of the environment of Northeast Estonia, Tallinn and intensive agricultural production areas is poor in some aspects (aquatic environment, landscapes). However, in these areas lives a large part of the population. With further concentration of economic activities, pressure on the environment is growing in the industrial (air and water pollution, waste) and agricultural (contamination of ground water near the surface, aquatic flora and fauna) and transport sectors (environmental accidents, noise, damaged habitats). In these areas the achievement or maintenance of a satisfactory or good state of the environment requires continuous efforts. (SEA of NDP, p. 11-12)

Estonia must concentrate on the following issues (SEA of NDP, p. 12):

- Inadequate environmental awareness and concern of some inhabitants, enterprises and organisations;
- Insufficient supervision of the use of hazardous substances, past pollution, environmental accidents;
- Locally poor state of the environment in the industrial areas of North-East Estonia, Tallinn and Harju County;
- Regional pollution of the ground water in areas of intense agricultural activity;
- Putting valuable landscapes and habitats at risk both by boosting economic activities in rural areas and terminating the land use in peripheral regions, and by decreasing the number of recreation areas.

In Estonia, a major share of waste generation is attributable to oil shale mining, oil-shale chemical industry and oil shale based power generation. Over the last years the general amount of waste, generated as a result of oil shale production and processing, has dropped. This is due to reduced production, as the sector accounts for approximately 90% of the annual waste amount generated in Estonia. Pursuant to the provisions prescribed by the Earth's Crust Act, in force in the Republic of Estonia, the mining companies are obliged to rehabilitate areas damaged by the mining activity at their own cost. In 2001, the relative share of municipal rubbish in the total amount of waste was 3%. (Estonian National Development Plan, p. 138-145)

Before 1990, trash was merely disposed of in landfills. None of the high-priority environmental protection requirements in effect today were observed – for example, the protection of soil and of surface and ground waters, the collection of landfill gases as a result of decomposing waste. In many landfills, no institution was responsible for handling, supervising or monitoring landfill activities and their impact on the surrounding environment. Today there are no technical facilities for avoiding or reducing the negative environmental impact caused by landfills. The biggest landfills for depositing industrial waste are disposal sites for oil shale waste in Ida-Virumaa. Oil shale bottom-ash and fly-ash (produced by oil shale based power production) and oil-shale semicoke (produced by the oil shale chemical industry) are according to legislation hazardous wastes polluting surface and ground water. In accordance with the requirements established for landfills, waste must not be deposited in landfills not meeting the requirements. This provision will take force in July 2009 and presumes the development of a network of waste treatment facilities and closure of the existing landfills not meeting the requirements. (Estonian National Development Plan, p. 145)

The recovery of packaging-waste has been promoted in Estonia. The Packaging Act established that by June 30, 2001, at least 50% of the total weight of packaging-waste generated on the territory of Estonia had to be recovered, while 25% to be recycled. The Packaging Excise Duty Act, applied on packaging for hard liquor, soft alcohol and non-alcoholic beverages, also supports the recovery of this sort of waste. The excise duty is imposed in case the companies producing or importing such drinks



fail to organise the collection and recycling of at least 60% of their packaging-waste. A national system for the collection and recovery of packaging and its waste, extending to all types of packaging-waste, is being developed. (Estonian National Development Plan, p. 145-146)

Up to now, too little attention has been paid to waste management and its respective areas of activity have been provided with insufficient funds. While the collection of waste has been transferred to private hands over the last decade and the respective systems have developed fast, the waste management infrastructures fail to meet contemporary requirements. The responsibility for waste management development lies with the local governments, but without state support their funds are not sufficient to fulfil the requirements of the task. (Estonian National Development Plan, p. 146)

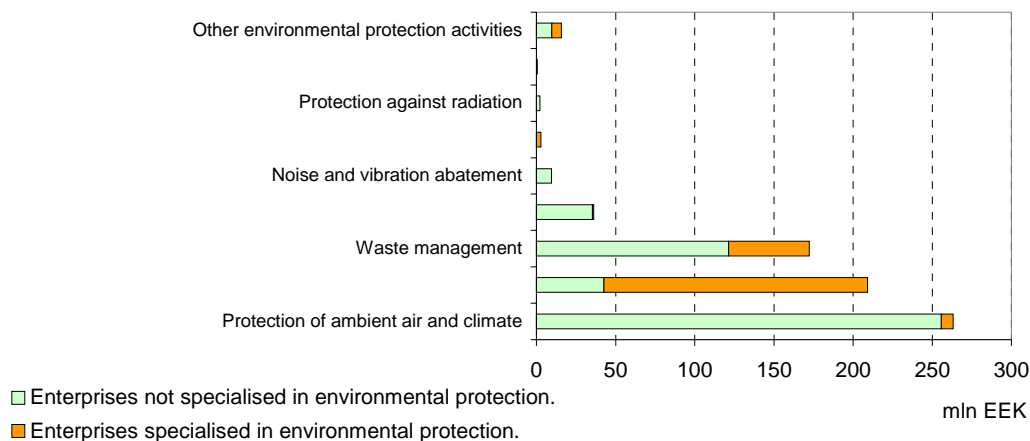
Heavy pollution is still to be found in remnants of former Soviet Union territories: military facilities, factories, power stations, mining areas, railway yards, concrete factories and liquid fuel terminals. There are heavily polluted ground water zones around the landfills for industrial waste. A large number of chemical and liquid fuel terminals no longer in use are the legacies of large-scale agricultural production, which are still in need of cleaning up. Deteriorated boiler houses and liquid fuel terminals have also caused the contamination of soil and ground water. (Estonian National Development Plan, p. 146)

Groundwater in surface layers is irreversibly damaged due to earlier contamination on extensive areas surrounding industrial regions in Northeast Estonia and Tapa. Smaller contaminated tracts can be found all over Estonia. Areas damaged by past pollution are a danger to the health of the population, not just from polluted drinking water but also from direct contact with poisonous substances. Emission of toxic dust can pollute the atmosphere and inside buildings. Use of contaminated areas means serious economic risks for entrepreneurs, as legislation does not provide for any regulations concerning the accountability for the elimination of earlier contamination. (Estonian National Development Plan, p. 146)

Each year, the Centre of Environmental Investments contributes ca 640 thousand euro from the funds of its water protection program for the liquidation of past pollution. In the case of some of the projects, foreign-assistance funding is also used, and the Eesti Energia Ltd contributes approximately equal amounts for the same purpose. Several enterprises and real estate businesses in Tallinn have also cleaned large tracts of land at their own cost. (Estonian National Development Plan, p. 147)

Figure 5 gives a more detailed overview of environmental protection investments in Estonia in 2002.

Figure 5: Environmental Protection Investments in Estonia in 2002 (Statistical Office of Estonia. Statistical database).



Regardless of major decreases in atmospheric pollution in the last decade, Estonia can still be seen as a serious air polluter – mainly because of the technological level of its production of oil shale energy. The main sources of pollution with SO₂ and PM are electrical energy and heat production, as well as oil shale chemistry enterprises in Ida-Virumaa. The relative share of big combustion plants (installed heating capacity 50 MWth or more) in aggregate emissions of SO₂ and NO_x is respectively 92% and 79%. In comparison with the respective EU average, the amount of CO₂ per inhabitant emitted in Estonia is almost twice the amount in the EU, while the respective amounts of SO₂ are six times bigger. (Estonian National Development Plan, p. 142-143)

4.1.2. Product Lifecycle Approach

Used, when giving a Clean Environment Eco-Label.

4.1.3. Eco-labels

There are several green labels in Estonia, although they are not widely used yet (Ökomärgiste üldinfo; Green Key; Keskkonnasertifikaat):

- **A Clean Environment** label is given to products that during their whole life cycle damage the environment less than other similar products. The label is not given to food products and medicine;
- **Green Energy** is a trade mark of Eesti Energia Ltd alternative energy (energy produced mainly by wind and water);
- **Green Key** is an international eco label for environmentally conscious businesses, joining accommodation companies in Denmark, Sweden, Greenland, France, Lithuania and Estonia. In April 2004, 13 hotels had the Green Key certificate. The right to use the Green Key label requires the fulfilment of certain criteria and their implementation in daily business. First and foremost, a company must formulate its environmental policy and set environmental objectives. It must, then, draft an action plan for their implementation and follow through by means of environmentally conscious management;
- The goal of the label of Genuine and Interesting Estonia (*Ehtne ja huvitav Eesti – EHE*) is to promote the principles of ecotourism. In order to apply for the EHE label, an enterprise should be interrelated to local area's original characteristics and economy, not to cross the threshold of the environment and educate tourists and public about sustainable development;
- **Mild Mark** (*Mahemärk*) is used to label organically produced goods. Organic farming is the sustainable production of agricultural produce and the sustainable handling of agricultural produce and products which maintains basic equilibrium. The use of genetically modified organisms and the use of ionising radiation in organic farming are prohibited. The label was worked out in 1998. The production is inspected once a year at the site. The permissions to use the label are controlled by the Estonian Plant Production Inspectorate and the Veterinary and Food Board. The label is used by more than 250 farms in Estonia;
- **Hiiumaa's Green Label** is given to accommodation or catering enterprises, which are run in a way to minimize the negative impact on the island's clean nature (produce less waste, sort garbage, use less water and electricity, use environment-friendly purifying agents, willing to educate people about region's nature and sights);
- **Eco** (*Öko*) is a patented trade mark of Estonian Biodynamics Union, which is meant to label products that have been cultivated without using fertilizers, vegetable poisons or insecticides. The Eco label has been given to around 70 producers in Estonia;
- **EU Eco-label (The Flower)** will be available to Estonian companies starting from May, 1st, 2004. One Estonian company, Krenholm Holding Ltd, has it already;
- **Environment-friendly product** is a new label to make environment-friendly products more noticeable in shops. The label is given out by Estonian Green Movement and is given to products that have already one of the labels: Mild Mark, Eco, Clean Environment, Bra Miljöval, Nordic Swan, Krav, EU Flower, Luomu, Blue Angel or Fair Trade.

4.1.4. Savings in Natural Resources Consumption

Economic activities, which stimulate environment protection, are state subsidies, mortgage system, natural resource usage and pollution fee. Their implementation is based on the equal treatment principle for polluters and users. Major environmental fees include a pollution fee, special water use fee and mineral rights fee. The major goal of these fees is to stimulate economical use of natural resources and a reduction of pollution. The rates are imposed according to the Estonian economic development level and solvency of the population. Based on economic development and the increased solvency of the population, during the last 10 years the rates of environmental fees have been steadily increased due to tightened environmental requirements and the need to appreciate natural resources. In 2001, public discussion was held regarding flexible growth of environmental fees rates (until the year 2015). By plans, annual growth rate for pollution fee is 20% per year, for special water use fee ca 10% and mineral rights fee ca 5%. If the companies apply effective environmental protection measures at their own expense and significantly reduce pollution (at least 25%), they could use the pollution fee revenue directly to finance environmental measures. (Pre-Accession Economic Programme 2003, p. 72-73)

According to the Environmental Fees Revenue Implementation Act, state budget environmental fees are allocated through the Environment Investment Centre to finance renewal of natural resources,

preservation of the environment's condition and clean up of environmental damage, including co-financing state environmental projects. (Pre-Accession Economic Programme 2003, p. 72-73)

Production output in agriculture has dropped considerably since 1980. This means that decreased use of fertilisers and crop protection chemicals, as well as reduction in the numbers of livestock, have considerably diminished the negative impact of agricultural activities on the environment. At the same time, leaving agricultural land out of use has brought along a new environmental problem: valuable agricultural landscapes have started to disappear. (Estonian National Development Plan, p. 138)

The situation of water management in Estonia can be classified as satisfactory when considering the good natural status of our bodies of water and ground water, as well as the fact that the consumption of water has notably dropped. Further developments in water handling will be based on water management plans and should change the principles of water protection and consumption in the coming years. Future plans should also strengthen the competence of the officials who co-ordinate the issues related to water management by involving the public in the decisions related to water use and disposal. (Estonian National Development Plan, p. 141)



4.2. Global Environmental Concerns

Estonia participates in the process of reducing global emissions of greenhouse gases. Estonia has ratified Kyoto Protocol and has already initiated some bilateral Joint Implementation projects with various European countries (Denmark, Finland). Also, as a member of the European Union, it will participate in the EU greenhouse gases emission allowance trading scheme, which aims at reducing the emissions of greenhouse gases by using efficient economic instrument – emission allowance trading. (Eesti Vabariigi Keskkonnaministeerium 2004)

Estonia has committed itself to adhere to the OECD Declaration on International Investment and Multinational Enterprises. The Guidelines are recommendations addressed by governments, to multinational enterprises operating in or from adhering countries (currently, the OECD Member countries plus Argentina, Brazil, Chile, Estonia, Lithuania and Slovenia). They provide voluntary principles and standards for responsible business conduct in a variety of areas including employment, human rights, environment and information disclosure. (OECD Global Forum ..., p. 204)

4.3. Sustainability Development Practices

Application of clean technologies is targeted at establishing sustainable use of the environment, raw materials and energy, and reducing pollution and generation of waste. This objective has been met partly in companies with foreign owners. Use of the best available techniques (BAT) and the best environmental practice in production and everyday life, also making the price reflect the environmental friendliness of a product all through the product's life cycle remain current objectives. The objective has already been implemented in some areas, e.g. by large liquid fuel companies. Implementation of BAT is especially difficult in agriculture, because of its high cost. (SEA of NDP, p. 13)

Reduction of the negative environmental impact of the energy industry is targeted at energy efficiency programmes, both for production and consumption; more extensive use of renewable energy; reducing emissions of greenhouse gases in energy production; including all environment-related costs of energy consumption in the price of energy. While this issue is subject to intensive treatment at national level, by Eesti Energia, results have been achieved in reducing the negative environmental impact of oil shale based energy production. At the same time, a number of efforts need yet to be taken to apply "good housekeeping" principles at local heating stations. No progress has been made in development of use of less polluting modes and means of transportation (railroad, streetcar, trolley bus) and other means of public transport. (SEA of NDP, p. 13)

CHAPTER 5. SOCIALLY RESPONSIBLE INVESTMENT

There is no investment fund in Estonia, who has a condition that the investment should be socially responsible. Nobody has analysed the investment fund's investments in the context of CSR in Estonia. There are no social indexes listed in Estonian stock market. According to the information available, there are no other Estonian brokerage companies (commercial credit companies, investment companies) that have products that follow socially responsible investment strategy.

CHAPTER 6. CSR LEGAL FRAMEWORK



6.1. Health and Safety at Work

6.1.1. Occupational Health and Safety Act

This Act (RT¹ I 1999, 60, 616) provides the occupational health and safety requirements for work performed by persons working on the basis of employment contracts and to public servants (hereinafter workers), the duties of employers and workers in creating and ensuring a working environment which is safe for health, the organisation of occupational health and safety in enterprises and at state level, the procedure for conduct of challenge proceedings, and liability for violation of the occupational health and safety requirements.

This Act applies to the conditions of service of the members of the Defence Forces in active service and to the work performed the employees of the Defence Forces, the National Defence League, police, border guard and the rescue service agencies insofar as not otherwise provided by specific laws or legislation established on the basis thereof.

This Act applies to:

- The work of prisoners with the specifications provided for in the Imprisonment Act;
- The work of pupils and students during practical training;
- The work of members of the management board or a body substituting for the management board of a legal person.

According to chapter 2 physical, chemical, biological, physiological and psychological factors present in the working environment shall not endanger the life or health of workers or that of other persons in the working environment. An employer shall design and furnish workplaces such that it is possible to prevent occupational accidents and damage to health, and to maintain the workers' capacity for work and their well-being.

If in the work process dangerous smoke, dust, gases, vapour or liquids are emitted in doses which may be harmful to the health of workers, the emissions shall be prevented from spreading in the working environment and it shall be ensured that the emissions be removed from the source and be rendered harmless.

In order to prevent or reduce health risks, workplaces shall be provided with protective, rescue and first aid equipment, safety signs and other safety equipment. The provision of first aid in enterprises and the requirements for the use of safety signs shall be established by a regulation of the Minister of Social Affairs.

The use for its intended purpose and the installation, modification, repair, maintenance, handling and cleaning of a device, tool, vehicle or any other work equipment shall not be harmful to the health of its operator or that of other persons, or to the working environment.

An employer shall ensure that work equipment is suitable for the work to be carried out and to the dimensions of the body and the physical and mental abilities of its operator.

This Act also identifies physical, chemical, biological, physiological and psychological risk factors and provides for and employer's commitment to implement measures to prevent health risks arising from risk factors.

Special section (§ 10) regulates the conditions for female workers, minors and disabled workers:

1. An employer shall create suitable working and rest conditions for pregnant women, women who are breastfeeding, minors and disabled workers;
2. Upon assigning work to pregnant women, women who are breastfeeding, or minors, employers shall observe the restrictions provided by legislation to ensure their safety;
3. An employer is required to enable, pursuant to the procedure provided by Acts regulating employment and service relationships, a worker who has become disabled in the employer's enterprise as a result of an occupational accident or occupational disease to continue work suitable for him or her in the enterprise;

¹ RT = Riigi Teataja = State Gazette.

4. The work and workplace of a disabled worker shall be adapted to his or her physical and mental abilities;
5. The occupational health and safety requirements for the work of pregnant women and women who are breastfeeding shall be established by the Government of the Republic;
6. The occupational health and safety requirements for work of minors shall be established by the Government of the Republic.

Existence and condition of non-work rooms are provided by section 11:

- Non-work rooms (dressing rooms and washrooms, lavatories, rest areas, rooms for warming up in outdoor work, dining areas and other non-work rooms) for workers shall be constructed and furnished based on the working conditions and the number and gender of the workers;
- An employer shall ensure compliance with the occupational health and safety requirements in every aspect related to the work;
- An employer shall not allow workers to work if they lack necessary professional knowledge and skills, and knowledge about occupational health and safety;
- Employers and workers are required to co-operate in the creation of a safe working environment. For this purpose, employers shall consult workers or their representatives, and working environment representatives.

An employer is required to:

1. Conduct regular internal controls of the working environment;
2. Review the organisation of internal control of the working environment annually and analyse its results and, if necessary, adjust measures to the changed situation;
3. Conduct risk assessment of the working environment;
4. Based on the risk assessment of the working environment, prepare a written action plan designating the measures to prevent or reduce health risks;
5. Conduct a new risk assessment of the working environment if the working conditions have changed and the work equipment or technology has been upgraded;
6. Notify the workers of the risk factors, the results of risk assessments of the working environment and of the measures to be implemented in order to prevent damage to health;
7. Organise the provision of occupational health services and bear the costs related thereto;
8. Organise, pursuant to the procedure provided in this Act, other Acts or legislation established on the basis thereof, the provision of medical examinations for workers whose health may be affected, in the course of the work process, by risk factors present in the working environment or the nature of work, and bear the costs related thereto; The Minister of Social Affairs shall establish the procedure for medical examinations for workers;
9. Designate workers in the enterprise for the provision of first aid and arrange training for them at the employer's expense;
10. Ensure access by all workers to first aid equipment;
11. At the request of a worker and on the decision of a doctor, transfer the worker to another position temporarily or permanently or ease his or her working conditions temporarily, pursuant to the procedure provided by Acts regulating employment and service relationships;
12. Provide, at the employer's expense, workers with personal protective equipment, special work clothes, and cleaning and washing facilities and arrange training for workers in the use of personal protective equipment;
13. Familiarise workers with the occupational health and safety requirements, and monitor compliance therewith;
14. Arrange for the worker to receive occupational health and safety instructions and training corresponding to the worker's position and occupation;
15. Prepare and approve safety instructions for the work to be carried out and for the work equipment used, and give instructions to workers to prevent contamination of the environment;



16. Suspend a worker from work if he or she is under the influence of alcohol, narcotics or toxic substances or under the significant influence of psychotropic substances;
17. Notify the regional office of the Labour Inspectorate in writing of the commencing of activities or change in the employer's area of activity;
18. Communicate precepts of labour inspectors or the head of the regional office of the Labour Inspectorate to the workers, working environment representatives, members of the working environment council and working environment specialists;
19. Comply with precepts of labour inspectors in a timely manner and report to the labour inspectors on compliance therewith in writing.

A worker has the right to:

1. Demand that the employer provide working conditions and collective and personal protective equipment conforming to the occupational health and safety requirements;
2. Receive information on risk factors present in the working environment, the results of risk assessments of the working environment, the measures implemented to prevent damage to health, the results of health surveillance, and precepts of the labour inspector addressed to the employer;
3. In the event of a serious, imminent or unavoidable risk of accident, stop work and leave his or her workplace or the dangerous area;
4. Refuse to carry out work or to stop work if it is dangerous to his or her health or that of other persons or does not allow to comply with environmental safety requirements, and promptly notify the employer or the employer's representative and working environment representative thereof;
5. On the decision of a doctor, demand that the employer transfer him or her to another position temporarily or permanently or that the employer ease his or her working conditions temporarily;
6. Receive compensation for damage caused to his or her health by the work, pursuant to the procedure established by the Government of the Republic;
7. Contact working environment representatives, members of the working environment council, workers' representatives and the labour inspector of the location of the enterprise if, in his or her opinion, the measures implemented and the equipment provided by the employer do not ensure the safety of the working environment.

This act also regulates (§ 15) how an employer should act to prevent accidents and how to operate in case of an accident. The circumstances of an occupational accident or of the contraction of an occupational disease and reasons therefore shall be established in the course of an investigation which is carried out by the employer and in which a working environment representative or, in his or her absence, a workers' representative shall participate with the right to vote. If the employer lacks necessary knowledge, the employer shall involve a competent expert in the investigation. (§ 24)

Chapter 4 explains the organisation of occupational health and safety. There are three institutions inside the company to supervise occupational health and safety and to solve problems deriving from it. These three institutions are working environment specialist, working environment representative and working environment council. But these institutions shall not discharge the employer from liability in the field of occupational health and safety.

There are also two state institutions – Occupational Health Centre and Advisory Committee on Working Environment – that provide for occupational health and safety. These institutions are subject to Ministry of Social Affairs. State supervision over compliance with the requirements provided by this Act and legislation established on the basis thereof, shall be exercised by the Labour Inspectorate.

6.1.2. Republic of Estonia Employment Contracts Act

For employers with at least five employees, internal procedures are regulated by internal work procedure rules. Internal work procedure rules provide among other general instructions on occupational health and safety and on fire hazards. Employers and employees have reciprocal duties to comply with internal procedures, occupational health, work safety and fire safety requirements. An employer is required to ensure safe working conditions and to acquaint employees with the internal procedures and with occupational health and safety and fire safety requirements upon hiring and during employment. (RT 1992, 15/16, 241)

If, by decision of a doctor, continuation in former position by an employee is not advisable for reasons of health and the employer has other work, which the health of the employee allows him or her to perform, the employee has the right to claim transfer to such position.

If an employer is at fault for a change in the health of an employee, which prohibits continuation in his or her former position, the employee has the right to claim transfer to another position and vocational training necessary at the expense of the employer. The employer shall continue to pay the employee his or her average wages in the former position during the vocational training and employment in the other position.

If it is not possible for an employer to transfer an employee to a position which is suitable to his or her state of health, an employer may terminate an employment contract entered into for an unspecified or specified term prior to expiry of the term of the contract upon unsuitability of an employee for his or her office or the work to be performed due to professional skills or for reasons of health.

An employee has the right to request from the employer temporary easement of working conditions or temporary transfer to a position suitable to the employee's state of health based on a certificate for sick leave prepared by a doctor.

The employee shall be released from work for the period prescribed in the certificate for sick leave if the labour inspector of the seat (residence) of the employer establishes that it is not possible for the employer to ease the working conditions temporarily or transfer the employee temporarily to a position suitable to his or her state of health. A compulsory medical insurance benefit shall be paid to the employee for the period of release from work pursuant to the procedure prescribed in the Health Insurance Act.

The deterioration of the health of an employee may be the reason for the termination of his or her employment contract if it is of a continuous nature and hinders or precludes continuation in his or her current position

6.2. Staff Training

6.2.1. Adult Education Act

Adult Education Act (RT I 1993, 74, 1054) provides legal guarantee for adults for access to the education of their choice throughout their lifetime.

Depending on the purpose, adult education is:

- Formal education;
- Professional education;
- Informal education.

According to this act study leave to participate in training shall be granted to persons in public service and to persons employed under employment contracts. Study leave results in the suspension of an employment contract pursuant to the procedure prescribed by this Act.

Study leave of up to one month per year shall be granted at the request of the employee on the basis of a notice from an adult education institution for study sessions for formal education leading to a certificate of achievement. Additional study leave for taking final exams shall be granted to persons enrolled in formal education from 4 to 7 weeks depending on the education level.

Study leave for professional education with payment of his or her average salary for at least 14 calendar days per year shall be granted to employees and public servants. Study leave is granted on the basis of an application from employee or public servant and on the basis of an acknowledgement from the training institution.

Study leave for informal education shall be granted on the agreement of the parties for at least 7 calendar days.

On the background of these possibilities we must also carry in mind that the employer may postpone the grant of a study leave if more than 10 per cent of the staff are on study leave at the same time.

Training courses for persons seeking work, unemployed and professional courses for public servants are financed through state and local governments' budgets (Public servants 2-4 % of the yearly salary fund, among this for teachers 3% of yearly salary fund).



6.2.2. Income Tax Act

According to the Income Tax Act (RT I 1999, 101, 903; consolidated text RT I 2001, 11, 49), an employer shall pay income tax on fringe benefits granted to employees. Fringe benefits include coverage of expenses relating to formal or informal education acquired in the adult education system, except for the expenses relating to the formal education acquired within the adult education system by an official of a security authority.

Although fringe benefits do not include professional training, it is easy to find a connection between fringe benefits and unwillingness of employers to pay for the formal or informal education. This situation will be impaired through enactment of VAT on all types of education on 1st May 2004.

6.2.3. Republic of Estonia Employment Contracts Act

According to Republic of Estonia Employment Contracts Act (RT 1992, 15/16, 241) an employer is required to organise, at the expense of the employer, vocational training if the employer changes the requirements for professional skills (including proficiency in the official language and foreign languages) necessary for performance of the work.

An employer has the right to terminate an employment contract if the employee fails to develop his or her professional knowledge (including proficiency in the official language and foreign languages) if this is necessary for the performance of his or her work and if the employer has provided the employee with the opportunity therefore pursuant to the agreed procedure.

6.3. Protection of Women, Minorities and Disabled People

6.3.1. Occupational Health and Safety Act

Occupational Health and Safety Act (RT I 1999, 60, 616) provides rights to minors, female and disabled workers. An employer shall create suitable working and rest conditions for pregnant women, women who are breastfeeding, minors and disabled workers. Upon assigning work to pregnant women, women who are breastfeeding, or minors, employers shall observe the restrictions provided by legislation to ensure their safety. Pregnant women and women who are breastfeeding must be able to lie down in rest areas to rest in appropriate conditions.

An employer is required to enable, pursuant to the procedure provided by Acts regulating employment and service relationships, a worker who has become disabled in the employer's enterprise as a result of an occupational accident or occupational disease to continue work suitable for him or her in the enterprise.

The work and workplace of a disabled worker shall be adapted to his or her physical and mental abilities.

The occupational health and safety requirements for the work of minors, of pregnant women and women who are breastfeeding shall be established by the Government of the Republic.

6.3.2. Republic of Estonia Employment Contracts Act

According to the Republic of Estonia Contracts Act (RT 1992, 15/16, 241) In exceptional cases, an employee may be 1) a minor who has attained fifteen years of age, with the written consent of one parent or a curator, if the work does not endanger the health, morality or education of the minor and is not prohibited to minors by law or a collective agreement or 2) a minor of thirteen to fifteen years of age, with the written consent of one parent or a guardian and the labour inspector of the location (residence) of the employer, for work set out in a list approved by the Government of the Republic, if the work does not endanger the health, morality or education of the minor and is not prohibited to minors by a collective agreement.

Section 10 regulates the conditions of illegal preferences and restriction of rights. It is illegal to allow or give preferences, or to restrict rights on the grounds of the sex, nationality, colour, race, native language, social origin, social status, previous activities, religion, political or other opinion, membership in a political party or attitude towards the duty to serve in the armed forces of employees or employers. It is also illegal to restrict the rights of employees or employers on the grounds of marital

status, family obligations, membership in citizens' associations, or representation of the interests of employees or employers. It is illegal to compel employees to resign from a political party.

It is not contrary to law to:

- ⊗ Allow and give preferences based on pregnancy or the raising of children;
- ⊗ Take into account the sex of an employee in hiring or assigning duties if this is unavoidable due to the nature of the work or working conditions;
- ⊗ Allow a suitable working and rest time regime which satisfies the religious requirements of an employee;
- ⊗ Require language skills necessary for the work and pay compensation for proficiency in languages.

This act also grants benefits for persons raising children.

1. It is prohibited to send pregnant women and minors on business trips. A woman raising a disabled child or child under three years of age may be sent on a business trip with her consent;
2. Pregnant women have the right to request temporary easement of working conditions or temporary transfer to another position based on a certificate for sick leave prepared by a doctor. The difference in wages shall be compensated to the employee pursuant to the procedure prescribed in the Health Insurance Act. If the labour inspector of the seat (residence) of the employer establishes that it is not possible for the employer to ease the working conditions of the pregnant woman or transfer her to an easier job, she shall be released from work for the period prescribed in the certificate for sick leave and paid a compulsory medical insurance benefit pursuant to the procedure prescribed in the Health Insurance Act;
3. On the basis of a decision of a state authority or of a local government authority, enterprise, agency or other organisation in the same or another locality for the prevention of a natural disaster, expeditious elimination of the consequences thereof or prevention of the spread of disease, but for not more than one month. But it is not permitted to transfer a pregnant woman, a woman who is raising a disabled child or a child under sixteen years of age, or a minor to another locality;
4. If the reason for termination of an employment contract entered into for an unspecified term is an illness, disability, need to care for a family member who is ill or disabled, or commencement of studies, which hinders continuation of work, the employee shall notify the employer of the termination of the employment contract at least five calendar days in advance. A woman raising a child under three years of age may terminate her employment contract by the same procedure.
5. An employer may terminate an employment contract with pregnant woman or person raising child under three years of age entered into for an unspecified or specified term prior to expiry of the term of the contract in following conditions:
 - ⊗ upon liquidation of the enterprise, agency or other organisation;
 - ⊗ upon the declaration of bankruptcy of the employer;
 - ⊗ due to unsatisfactory results of a probationary period;
 - ⊗ upon breach of duties an employee;
 - ⊗ upon loss of trust in an employee;
 - ⊗ due to an indecent act by an employee;
 - ⊗ upon hiring an employee for whom the position is a principal job.



These five benefits described extend also to:

1. Persons raising motherless children who are disabled or under three years of age;
2. Guardians of children who are under three years of age;
3. Guardians or curators of disabled children.

Sections 12 and 13 prescribe conditions for minors, citizens of foreign state and stateless persons. Minors enjoy equal rights with adults in employment relationships and disputes, and they have benefits prescribed by law, administrative legislation and collective agreements.

Citizens of foreign states and stateless persons who reside in Estonia permanently have rights pertaining to employment equal to those of Estonian citizens unless otherwise prescribed by law. Specific conditions pertaining to employment of citizens of foreign states and stateless persons who are residing in Estonia temporarily or for a specified period of time shall be prescribed by law.

This act points out work for which employment of women or minors is prohibited. It is prohibited to hire and employ women for heavy work, work which poses a health hazard or underground work. It is prohibited to hire and employ minors for heavy work, work which poses a health hazard or has dangerous working conditions, underground work, or work which endangers the morality of minors. The list of work which is prohibited for minors and women shall be determined by the Government of the Republic

Republic of Estonia Employment Contracts Act also provides for termination of employment contract with minors and with persons over sixty-five years of age, when he or she has the right to receive full old-age pension.

6.3.3. National Minorities Cultural Autonomy Act

National minorities are Estonian citizens, who live on the territory of the Republic of Estonia; who have long-term, firm and lasting connections with Estonia; who differ from Estonians in ethnic origin, cultural originality, religion or language; who are motivated from desire to commonly preserve their cultural customs, religion or language, which is a base for their common identity. (National Minorities Cultural Autonomy Act (RT I 1993, 71, 1001)

Persons belonging to German, Russian, Swedish or Jewish national minority (or persons belonging to a national minority, which has over 3000 members) have a right to form a cultural autonomy body of a national minority.

National register of a national minority forms a basis for applying a cultural autonomy body of a national minority. National registers are composed by national cultural associations or by unions of such associations.

Persons belonging to a national minority, who wish to form a cultural autonomy body, shall present an application to the Government of the Republic through national cultural association or through a union of such associations.

Right to form cultural autonomy body of a national minority is granted for persons belonging to a cultural minority to exercise rights related to culture (granted in the constitution). Persons belonging to a cultural minority have a right to preserve their ethnic affiliation, customs, mother tongue and creed.

It is prohibited to condemn national cultural or religious customs or to prevent the execution of these customs. All activities to induce to give up one's nationality by force are also prohibited.

Persons belonging to a national minority have a right to:

- Form and support national cultural institutions and congregations;
- Form national organisations;
- Execute national traditions and religious rites, as long as it's not detrimental to public order, to health or to public morality;
- Use their mother tongue in administration within the restrictions prescribed by Language Act;
- Disseminate publications in their national language;
- Conclude cooperative agreements between national cultural and educational institutions and congregations;
- Distribute and to exchange information in their mother tongue.

Main purpose of a cultural autonomy body of a national minority is:

- Organisation of teaching in a native language;
- Formation of cultural institutions of a national minority and organisation of national culture events;
- Establishment and designation of funds, scholarships and rewards to promote culture and education of a national minority.

6.3.4. Gender Equality Act

This act will enter into force May 1, 2004.

The purpose of the Gender Equality Act is to ensure equal treatment on ground of sex, to promote equality of women and men as a basic human right and to promote common good in all areas of community life. The act prohibits discrimination on the ground of sex in private and public sector, obligates government and local government institutions, educational and research institutions and employers to promote gender equality. It provides also rightful conditions to claim for the compensation of damage.

Gender equality means equal rights, obligations, opportunities and responsibilities of men and women in work life, acquiring education and other areas of community life. Equal treatment of women and men is defined by absence of direct or indirect discrimination.

Subsections 5 and 6 lists the activities considered discriminating and not discriminating. Protection of pregnant women is not considered discriminating as well as enactment of obligation to serve in the Defence Forces. If articles of incorporation of a non-profit association allow only male or only female members, it is not considered discriminating with regard to opposite sex. Conditions of a specific work may cause different treatment. As long as the claims are proportional with objectives, it is not considered discriminating. It's not discriminating to accord advantages to disproportionate gender in order to promote gender equality. If an employer hires, promotes or furthers the development of an employee and discards an employee of opposite sex with higher qualification, it is considered discriminating. In suspicion of discrimination pursuant to the law one has the right to ask for a written explanation. An employer is obliged to answer.

Job and training offers directed to single sex, without reasonable ground pursuant to law, are prohibited. Government and local government, educational and research institutions and employers are obliged to promote equality among women and men, to protect employees from sexual harassment, create equal opportunities, notify employees from their rights granted in this act. Employer must gather work related statistical data on ground of sex to enable agencies concerned to supervise and evaluate realisation of equal treatment principle in work environment.

Disputes relating to discrimination on ground of sex shall be settled in court as well as claims for the compensation of damages.

Minister of Social Affaires shall nominate for five years a representative of gender equality. Representative of gender equality supervises the implementation of Gender Equality Act; accepts applications from persons and gives opinions in case of a possible discrimination; analyses the impact of acts on status of women and men and makes suggestions to alternate or to supplement legislation; notifies and counsels governmental institutions in questions of this act; deploys measures to promote gender equality.

Ministry of Social Affaires counsels in questions of implementation of equal treatment principle and gives instructions for implementations of this act; analyses the impact of law and acts on status of women and men in society; disseminates reports on implementation of equal treatment of women and men.

6.3.5. Social Welfare Act

Chapter 5 of Social Welfare Act (RT I 1995, 21, 323; consolidated text RT I 2001, 98, 617) specifies the protection of persons with special social needs.

Rural municipality governments and city governments shall administrate child welfare create an environment favourable for child development. Positions of child protection officials shall be established in the social and health departments of counties and, as necessary, in rural municipality governments and city governments for the provision of assistance to children, families with children and other persons raising children. If necessary, a child welfare committee shall be established as an advisory body within a rural municipality government or city government. This act provides also

circumstances upon what a child may be separated from his or her home and family for the provision of social services and other assistance.

In order to provide disabled persons with equal opportunities with other persons, their active participation in community life and independent ability to cope, rural municipality governments and city governments shall:

1. Establish opportunities to reduce or remove restrictions caused by the disability by treatment, rehabilitation, education and translation services;
2. Establish, in co-operation with competent state authorities, opportunities for vocational training which would raise the ability of disabled persons to compete in the job market;
3. Adapt employment positions and establish occupational centres, in co-operation with competent state authorities;
4. Organise transportation for the disabled;
5. Guarantee access to public buildings for disabled persons;
6. Appoint a support person or personal assistant, if necessary;
7. Arrange for guardianship or establish curatorship.

In order to assist the elderly to cope in surroundings familiar to them and to have a life of equal value with other persons, rural municipality governments and city governments shall:

1. Establish opportunities for cheaper alimentation;
2. Ensure the accessibility of information concerning services provided and establish opportunities for the use of social services;
3. Establish opportunities for interaction and hobbies;
4. Ensure the security and independence of the elderly living in social welfare institutions, respect for their private life and the opportunity to participate in decision-making pertaining to their physical and social environment and future.

Persons released from penal institutions and other persons in need of social assistance are provided, according to their needs, with social services prescribed in this Act or social benefits or emergency social assistance and assistance in finding work; support persons are appointed and, if necessary, shelters are established for such persons.

6.3.6. Social Benefits for Disabled Persons Act

Social Benefits for Disabled Persons Act (RT I 1999, 16, 273; consolidated text RT I 2002, 39, 245) provides the classes of social benefits for disabled persons, the conditions of entitlement thereto, the amounts of benefits and the procedure for the grant and payment thereof. The purpose of the act is to support the ability of disabled persons to cope independently, social integration and equal opportunities through partial compensation for the additional expenses caused by the disability.

Social benefits for disabled persons shall be granted and paid pursuant to the provisions of this Act to permanent residents of Estonia or persons residing in Estonia on the basis of a temporary residence permit with moderate, severe or profound disabilities which cause additional expense. Refugees staying in Estonia have the right to receive social benefits for disabled persons on equal grounds with permanent residents of Estonia.

This Act establishes the following social benefits for disabled persons:

1. Disabled child allowance;
2. Disabled adult allowance;
3. Caregiver's allowance;
4. Disabled parent's allowance;
5. Education allowance;
6. Rehabilitation allowance;
7. In-service training allowance.



Rate of social benefits for disabled persons is established by the Parliament in the state budget for each budgetary year. The social benefit rate shall not be less than the rate approved for the preceding budgetary year.

6.4. SRI and Pension Funds

6.4.1. State Pension Insurance Act

On the basis of State Pension Insurance Act (RT I 2001, 100, 648) a state pension is a monthly financial social insurance benefit in the case of old age, incapacity for work or loss of a provider which is based on the principle of solidarity and which is paid from the funds allocated for the expenditure of state pension insurance in the state budget.

Under the conditions provided for in this Act, state pensions shall be granted and paid to permanent residents of Estonia and aliens residing in Estonia on the basis of temporary residence permits.

There are 4 types of state pension:

- **Old-age pension** – for persons who have attained 63 years of age and whose pension qualifying period earned in Estonia is 15 years. Old-age pensions are granted for life;
- **Pension for incapacity for work** – for persons between the age of 16 and the pensionable age and persons who are declared permanently incapacitated for work with the 40 to 100 per cent loss of the capacity for work pursuant to the procedure established by the Government of the Republic and persons who have earned the pension qualifying period required for grant of a pension for incapacity for work provided for in this Act. A pension for incapacity for work shall be granted for the period of permanent incapacity for work;
- **Survivor's pension** – for, upon the death of a provider, family members who were maintained by him or her have the right to receive a survivor's pension. The right of the provider's children, parents and the widow or widower to receive a survivor's pension does not depend on whether they were maintained by the provider or not.
- **National pension:**
 - for persons who have attained 63 years of age and who do not have the right to receive old-age pension and who have been permanent residents of Estonia or have resided in Estonia on the basis of a temporary residence permit for at least five years immediately before making a pension claim;
 - for persons who are declared permanently incapacitated for work, the percentage of whose loss of capacity for work is at least 40 per cent, who have not earned a pension qualifying period required for the grant of a pension for incapacity for work and who have been permanent residents of Estonia or have resided in Estonia on the basis of a temporary residence permit for at least one year immediately before making a pension claim;
 - for persons specified in this Act who, in connection with the insufficient pension qualifying period of their provider, do not have the right to receive a survivor's pension, if the provider was a permanent resident of Estonia or had resided in Estonia on the basis of a temporary residence permit for at least one year before his or her death;
 - for persons who have attained a pensionable age who are paid the national pension on the basis of incapacity for work until the persons attain a pensionable age, or a pension retained in the former amount for a specified term pursuant to this Act.

In addition to this, following pension supplements are added:

- 100 per cent of the national pension rate to participants and widows and widowers of participants in the Estonian War of Independence;
- 10 per cent of the national pension rate to participants in the Second World War and members of the Self-Defence Force;
- Persons who have the right to receive several of the pension supplements listed in this section shall be granted one pension supplement of their choice.



Funds for financing state pension insurance shall be prescribed in the annual state budget. The sources for covering expenditure prescribed for state pension insurance in the state budget are:

- The pension insurance part of social tax pursuant to the Social Tax Act;
- Disciplinary fines pursuant to the Employees Disciplinary Punishments Act;
- Own revenue intended for specific purposes (interest, dividends, amounts returned in recourse actions etc);
- Allocations from reserves from previous years;
- Other funds allocated from the state budget.

6.4.2. Funded Pensions Act

The purpose of this Act (RT I 2001, 79, 480) is to create the opportunity for persons who have made contributions to a funded pension to receive additional income, besides state pension insurance, after reaching retirement age.

Types of funded pension:

- **Mandatory funded pension** – is a periodic benefit which is guaranteed pursuant to law, for the receipt of which units of a mandatory pension fund are acquired for contributions to a mandatory funded pension, for the amount of the social tax paid for a person and determined by the Social Tax Act and for additional contributions paid on parental benefit, and which is paid from the pension fund or by an insurer. Persons born before 1 January 1983 are not required to make contributions to a mandatory funded pension. Obligated persons born in 1983 have the right and obligation to make contributions to a mandatory funded pension as of 1 July 2002;
- **Supplementary funded pension** – is a benefit for the receipt of which units of a pension fund are acquired or a pension insurance contract is entered into pursuant to the requirements provided for in this Act, and which is subject to tax incentives provided for in the Income Tax Act.

CHAPTER 7. NATIONAL SUPPORT INITIATIVES ON CSR

7.1. Financial Support to Social and Environment Certifications

There is no direct financial support for companies in achieving neither social nor environment certifications. With environment certifications, the financial incentives for meeting the standards could be coming from the fact that the taxes for environment pollution will be lower if certain certifications are acquired. Also, the state supports the attainment of certificates with participation in the projects that assist in creating the capacity for achieving the standards – e.g. projects in cooperation with Estonian and Danish consultancy companies (Verš 2004).

7.2. Fiscal Exemptions on Donations

As to the Income Tax Act (RT I 1999, 16, 273), as a rule income tax is imposed on gifts and donations, the tax rate being 26%. At the same time, on certain occasions the donations to non-governmental organisations are income tax free. Income tax is not imposed on the gifts and donations to non-governmental organisations that are on the list of non-governmental organisations and foundations with income tax exemption. In order for an organisation to be marked in the respective list, the organisation has to be of not-for-profit character and needs to act in the public interest. More detailed information on the conditions is accessible in the Income Tax Act § 11.

It has to be noted that it is not an unlimited amount that can be donated to non-governmental organisations with no income tax. For the total sum donated to be income tax free, it can't be higher than any of the following:

- 3% of the total amount of money paid for salaries by the donating company during the same calendar year;
- 10% of the profit earned by the donating company in the last economic year.

7.3. CSR Awards

There are no national awards in Estonia that directly refer to CSR. At the same time, Enterprise Estonia (one of the largest institutions within the national support system for entrepreneurship in Estonia, providing financing products, counselling, co-operation opportunities and training for entrepreneurs, research and development institutions, the public and third sectors) gives annual recognition to companies in the following two categories that are at least partly related to CSR activities (Ettevõtluse Auhind 2004):

- Technology Developer of the Year – among the criteria, the following are mentioned: meeting the needs of the clients regarding the quality of the products, the relation between quality and the price of the product, the additional value it brings to the customer, the effect of the technological innovation on the efficiency of the production processes;
- Community Developer of the Year – number of new working places created, investment into staff training and competence raising, environmental protection, local infrastructure, traineeship opportunities offered to the students of vocational training schools/universities, employing unprivileged people, activities directed to improving the image of the area and activating community life are considered when selecting the receiver of the award.

Also, several non-governmental and private sector organisations have initiated awards turning the attention of the society to CSR related issues on a more specific level. There are awards for Most Environment Friendly Company, Most Family Friendly Company, the Best Employer, the Best Company in Recycling, The Friendliest Servicer etc. Also, specific industry organisations can have their own awards in similar categories.

7.4. Regional or Local Initiatives

Community-friendly and environmentally-conscious companies are also recognised on regional and local level by the awards that are given in the similar categories to what have been mentioned in the previous paragraph.

Another aspect here is the effort from local and regional public sector units to involve local companies in the development planning for the area and by that encourage enterprises to take more proactive role in their surrounding communities.

Local authorities have also been encouraging companies' coming to operate in their region for creating work places and enlarging the local tax base. There are several industrial parks and industrial areas developed by the local governments (Jõhvi, Kopli, Lasnamäe, Rakvere, Tapa, Vastseliina etc) and the number of them shows increasing trend over the last few years.



CHAPTER 8. OTHER CSR INITIATIVES

8.1. Cause Related Marketing

In Estonia, cause related marketing is not very widespread yet. Though, in the last year the attention towards it has been increasing – the discussions have been started by publishing literature in this field, as well by the articles in the media.

Examples can be given from activities of the following companies:

Eesti Ühispank

In 2001, 10 EEK from the price of every new special debit card were given for restoring the St. John's Church in Tartu. In 2003 the bank made a similar debit card to help to illuminate the front side of the Hermann fortress in Narva. Also 15 EEK from the price of the Ühispank's VISA debit card will be used to support the sport activities of children.

Eesti Energia

10 cents from the every kW of green electricity sold goes to the Estonian Nature Fund.

Eesti Loto

18% of the sales of Loodusloto lottery tickets go to the Tallinn Zoo.

Kalev

Used to give 10 cents from every sold chocolate Anneke to the Tallinn Children Hospital. At the moment gives a fixed sum every year. In 2002 launched a chocolate Ego together with Hansa Liising Eesti, of which a part of sales will be used to build playing grounds for children. The 1st ground was already built in Tallinn.

8.2. Research on CSR in 2000-2003

As there is very little research done on Corporate Social Responsibility, a few BA, MA thesis and research projects on linked topics have been indicated below.



| YEAR | NAME / DESCRIPTION | TYPE | ENTITY |
|------|---|---------------------------------------|---|
| 1999 | Social Marketing in Non-profit Organizations. Marit Aas | BA thesis | Estonian Business School |
| 2001 | Sustainable development and local municipalities: the possibility to develop sustainable society based on the example of Heidelberg and the City of Tallinn. Kristel Joonasson | BA thesis | Tartu University, Faculty of Social Sciences, department of Public Administration |
| 2001 | Social marketing in the context of low public trust. The case of Estonian Road Administration's zebra crossing campaign in 2000. Elo Lillipuu | BA thesis | Tartu University, Faculty of Social Sciences, department of Sociology |
| 2002 | Application of Codes of Ethics: The Case of Estonia. Leno Saarniit | MA thesis | Tartu University, Faculty of Social Sciences, department of Public Administration |
| 2002 | The Significance of Economic Globalisation for Economic Development and the Distribution of Wealth Among Groups and Societies. Problems and Solutions. Kaarel Mikkin | BA thesis | Tartu University, Faculty of Social Sciences, department of Political Science |
| 2002 | Ethical values in decision-making process. Jaan Ennulo | Research project | Estonian Business School |
| 2002 | Value-based marketing: creating value for shareholders through marketing management. A comparative study of Central and Eastern European and European Union companies. Toomas Danneberg | Research project | Estonian Business School |
| 2002 | Sustainable development - Case study of Estonia. Lauri Luiker | Research project | Estonian Business School |
| 2002 | Alternative Assessment of Estonia's Development: Indicators of Sustainability. Tea Nõmmann, Lauri Luiker, Paavo Eliste | Publication based on research project | Centre for Policy Studies PRAXIS |
| 2002 | The role of community based social marketing in creating conscious waste management behaviour. Maie Kiisel | BA thesis | Tartu University, Faculty of Social Sciences, department of Journalism and Communications |
| 2003 | The relation of Corporate Social Responsibility and organisational perception of its operating environment. Elina Rääsk | BA thesis | Tartu University, Faculty of Social Sciences, department of Public Relations |
| 2003 | The Perception and acceptance of the idea of Environmental Sustainability in Estonian business community. The Case of Green Energy. Jürg Samel | BA thesis | Tartu University, Faculty of Social Sciences, department of Public Relations |
| 2003 | Social Responsibility and the Comparison of Different CSR Programs in Organisations. Triin Parmsoo | MBA thesis | Estonian Business School |

8.3. Organisations dedicated to CSR

There is no organisation in Estonia whose main mission is directly related to CSR. Nonetheless there is number of organisations that focus on sustainable development, environmental protection, business ethics and other fields related to CSR.

There is a selection of the most important institutions indicated below (the data is not inclusive, for example there are number of smaller environmental organisations that are not mentioned in the table):

| YEAR | NAME | TYPE | # MEMBER COMPANIES |
|-------------------------------------|---|--|--|
| Environmental Organisations: | | | |
| 1991 | Estonian Fund For Nature (Eestimaa Looduse Fond) www.elfond.ee | Non-profit environmental organisation which main activities fall into 3 categories: environmental education, environmental protection, and sustainable development | Not applicable |
| 1992 | Estonian Institute for Sustainable Development, Stockholm Environment Institute Tallinn Centre (SEI Säätva Eesti Instituut, Stockholmi Keskkonnainstituudi Tallinna Keskus) http://t2.isg.ee/sei/ | Non-profit foundation, which focuses on environmental protection and sustainable development issues | Not applicable |
| 1995 | Regional Environmental Center – Estonia (REC Estonia) www.recestonia.ee | Environmental organisation/foundation | Not applicable |
| 2003 | Estonian Association for Environmental Management (Eesti Keskkonnajuhtimise Assotsiatsioon) http://www.seit.ee/ekja/kkjs.html | Non-profit environmental organisation, which brings together enterprises, organisations and individuals, who are interested in improving environmental performance related to corporate management | 14 full member companies, 2 associated member companies, and 2 associated member individuals |
| Other: | | | |
| 1991 | Network of Estonian Non-Governmental Organizations (Eesti Mittetulundus- ja Sihtasutuste Liit), www.ngo.ee | Umbrella organisation that unites Estonian NGO-s. One of it's projects carried out in 2002-2003 was "Developing Philanthropy in Estonia" | 87 foundations and non-governmental organisations |
| 2001 | Estonian Business School Centre for Ethics Studies | Research organization subordinated to Estonian Business School | Not applicable |
| 2003 | Good Deed Foundation Heateo Sihtasutus, www.heategu.ee | Foundation, which main objective is through various initiatives to promote charity and multi-sector collaboration in Estonian society | Not applicable |

8.4. Main CSR Events during 2003

There were no events taking place that could be referred to as a "CSR event", still a few events that partially also addressed CSR, multi-sector collaboration and other closely related topics did take place.

The national level events are indicated below, it may again not be inclusive as smaller workshops in, for example, academic circles might have also taken place, but no information on them via mass media is available.



| DATE | TITLE | ORGANISER | # PARTICIPANTS |
|----------------|---|--|---------------------------------------|
| March, 2003 | The Spring Conference of The Network of Estonian Non-Governmental Organizations | The Network of Estonian Non-Governmental Organizations | Estimated number 70-100 people |
| November, 2003 | "Good Governance", the Third Conference of NGO sector | The Network of Estonian Non-Governmental Organizations | Estimated number about 150-200 people |

8.5. Press Coverage of CSR during 2003

The press coverage for CSR has been extremely poor. Media monitoring conducted for the period of January 2000 to April 2004 shows the following results:

- Daily newspaper "Postimees" has published in total of 7 articles and about 5-6 readers' opinions on CSR, out of which one article in the year 2003 and another one in 2004;
- Daily newspaper "Eesti Päevaleht" has published about the same number of articles, out of them none in the year 2003;
- Daily business newspaper "Äripäev" – 14 articles, out of which just one in 2003, but already a few in the year 2004;
- Business magazine "Director" has not published any articles on CSR, still cause related and social marketing have been addressed in a few articles.

The qualitative study of the articles shows that they mainly introduce CSR as a concept, which deserves growing attention on international level and thus contains an important value in regards of Estonian business practices. The articles are introductory and more general in nature, usually without concrete examples from Estonian businesses.

Cause related marketing has also been addressed in the articles, and on that field examples from Estonia are being brought for further explanation and illustration.

CHAPTER 9. OPPORTUNITIES AND OBSTACLES FOR CSR

9.1. Main Reasons and Motivations for Companies to be Active in CSR/Identified Business Benefits

There has been no major research done in this area, neither have there been any wider discussion that could be the basis for fair conclusions. Though, in March-April 2004 a survey was carried out among the small and medium size enterprises to monitor their opinion about CSR (Noorkõiv 2004). 50 companies all around Estonia from various fields of operation participated in the survey.

Five main reasons and motivations for companies to be active in CSR were identified as follows (in the order of importance) (*Ibid.*):

- 🕒 Increasing the satisfaction of employees (improving retention and attraction),
- 🕒 Better image building,
- 🕒 Ethical reasons,
- 🕒 Improving the relationship with clients,
- 🕒 Participating in designing the development process of the region/community.

Based on this, it is possible to conclude that the main business benefits for companies to be active in CSR are related to employee motivation and productivity, improved image and closer relationship with customers to contribute to sales, and the opportunity to direct the development of the area in the way that also supports the company's development. The benefits are to large extent not consciously addressed, as only 46% of the participants in the survey recognised the connection between corporate social responsibility and economic gains.

It might be interesting to know that almost 80% of the respondents replied that external pressure (either from clients, competitors, partners or government) is not urging their companies to be more socially responsible.

9.2. Existing Barriers to CSR Involvement

According to the survey (*Ibid.*) the main barriers for the companies to get engaged in CSR were lack of financial resources (confirmed by 70% of the respondents) and lack of time (60% of the respondents). Besides these, also the lack of human resources and the understanding that social responsibility is not really a company's responsibility are obstacles for CSR advancement.

Together with this, it can be pointed out that companies do not look at the benefits' side of CSR, but tend to see only the investments' part. This can be partly explained by the fact that the general knowledge about CSR is low and companies do not know how to employ its strategies. The respondents though indicate that the lack of knowledge both about CSR practices and ways of integrating these to company's operations is not a significant issue, which signals that the topic of CSR is very new in Estonia and its meaning and opportunities are yet to be revealed.

NATIONAL CSR KPI's (KEY PERFORMANCE INDICATORS) 2003



| KPI- KEY PERFORMANCE INDICATORS | | # ESTONIA |
|---------------------------------|---|----------------------|
| 1 | ISO 14001 Certifications ² | 83 by 2004 |
| 2 | EMAS Registrations ³ | 0 |
| 3 | OSHAS 18001 Certifications | 8 by 2004 |
| 4 | SA 8000 Certifications | 0 |
| 5 | CSR reports published ⁴ | 0 |
| 6 | Case studies listed in SME Key CSR Europe site ⁵ | 0 |
| 7 | Social labels / Fair trade labels | 0 |
| 8 | Fair trade commerce volume; # stores | 0 |
| 9 | European Eco-label products | Krenholm Holding Ltd |
| 10 | Local Organizations dedicated to CSR; # member companies | 0 |
| 11 | Relevant CSR events; # people involved | Appr. 200 |
| 12 | Relevant community involvement initiatives | 1 |
| 13 | Univ. Doctorates, Masters and Post-Graduations | - |
| 14 | Overall research on CSR | Poor |
| 15 | Media coverage of CSR | Poor |
| 16 | CSR Awards | 0 |
| 17 | Consultancy companies offering services on CSR | 0 |
| 18 | % of permanent contracts | - |
| 19 | % of women in total workforce | 49.1% in 2003 |
| 20 | Average weekly working hours | 40 |
| 21 | Incidence rate of labour accidents (<i>per 1000</i>) | 6.3 |
| 22 | %of health and safety costs on total labour costs | - |
| 23 | Average training hours per employee per year | - |
| 24 | Incidence of staff involved in training | - |
| 25 | Weight of supplementary social protection charges | - |

² Source: www.ecology.or.jp/isoworld/english/analy14k.htm.

³ Source: www.ecology.or.jp/isoworld/english/analy14k.htm.

⁴ Source: www.corporateregister.com.

⁵ Source: www.smekey.org/reports/default.asp.

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