

Employee financial participation – The case of Estonia by Marit Otsing

Introduction

Estonia, as well as other Eastern and Central European states, has been moving from left socialism and plan economy with great speed to the right, towards market economy and liberalism. Fast changes in a development process of a state caused social stratification and major changes in the values of the nation. The old world with its values broke down and as the new value system was not built up yet there occurred a situation where started a process of creating new system of meanings. This swing of the time pendulum is clearly manifested also in the development of our enterprises.

In Estonia the attitude towards participative enterprises has so far been as towards an inevitability of the period of transition. There does not exist the understanding of possibilities of employee enterprises for creating new workplaces and of their role as the foundation of social economy – both on the public and state level.

In Estonia there has been relatively little research done concerning participative enterprises and it is difficult to find information on this subject. To some extent this sphere has been researched by the Estonian Statistics Office and the Estonian Institute for Future Studies. In this presentation I will give a brief overview of the situation with participative enterprises in Estonia, their role in our society and future development perspectives.

Global Trends that influence Estonian economy

The Estonian economy is influenced by major global trends and macro-economic policies.

- Globalisation, growth of world trade & the location of Estonia on the historic crossroads between the East and the West

Global economy is more open today than it has been ever before. The value of world output in coming years is expected to increase 2 – 2.5% per annum, whereas the world trade will rise 6 – 10%. Estonia's liberal and open economic policy allows to benefit from the growing volumes of world trade and, thus fostering transportation, logistics, distribution and other transit related services.

- Technological change, Scandinavian influence & Estonians' zealous attitude towards innovation

The Baltic Sea region being one of the fastest growing regions of the world is directly influencing the Estonian economy.. Skilled workforce and high education level (14.7% of the population are students) are the actors and factors leading to further relocation of sophisticated production, building high-value businesses and knowledge-driven economy in Estonia.

- EU accession

Estonia is one of the countries in the EU enlargement area. EU accession will mean increasing competition, stricter operational requirements and additional investments for the local companies on one hand, but also open of new markets, lower interest rates and financial risks. Opening of the EU structural funds will definitely enhance the country's competitive advantages and Estonia is expected to continue being an attractive business location as well as investment site.

- Rise in services

Estonia's limited natural resources and small home-market determine the type of economic activity (knowledge-based, export-oriented services and manufacturing). These objective factors promote the utilisation the country's geographical advantages and human capital. In Tallinn, where nearly 70% of the employed population are working in the service sector, the global rise of this sector means favourable future prospects.

National policies

Continuous economic reforms, the degree of flexibility affordable only for smaller countries and growing state support are the key-words in future macro-economic development. For many experts and analysts, Estonia's medium- and long-term economic outlooks remain excellent.

Due to immediate and profound reforms, the initial stabilization of the economy and its functioning as a market economy took place relatively quickly as compared to the other post-socialist economies. In its brief history since regaining independence, Estonia has established some of the most radical economic and market reforms in Central and Eastern Europe and has steadfastly stuck with them. The adaptation of the economy with the new conditions of operation and the change of both the sectoral structure and that of the foreign trade geographical structure was also impressive. Flexibility will remain an advantage for a relatively small country like Estonia.

Now that the supporting infrastructure (telecommunications, commerce, services, banking, etc.) is well developed, the focus is expected to shift on developing structural (industrial) R&D policies, upgrading the quality of export structure and vocational education, launching support systems for technological development and movement to new markets.

Historical background

In the beginning of the 1990-ies in Estonia started the period of state-wide privatisation. Buildings, real estate, enterprises that had previously been in state ownership, were now designated for privatisation. For this purpose were used individual privatisation vouchers, the value of which depended on the number of work years. 98 % of the whole apartment housing stock was privatised on the basis of these vouchers to the inhabitants of these flats. State enterprises were also designated for privatisation.

In the end of the 1980-ies, along with the starting of the "perestroika", began formation of new cooperatives in Estonia. At that time it was the first and only possible form of private enterprise. By the beginning of 1990 there were already 2000

such new cooperatives registered in Estonia. By August, 1993, this number reached 3000. In connection with legislative changes, in the following period the majority of these cooperatives were re-registered as other juridical forms of enterprises.

The process of enterprise privatisation was swift in Estonia. If in 1991 more than 90 % of enterprises in the service and trade sectors belonged to the state or the local authorities, then in 1994 the percentage of privately owned enterprises in the service sector reached 83 % and in the trade sector – 90 %.

In 1995 there were 16 % of enterprises that were employee-owned and 10 % of enterprises were management-owned.

The employee ownership type of enterprises was most widespread in the agricultural sector, almost 40 % in January, 1995. Management ownership was more extensive in fishing, mining and wood processing industries – 27 %. In 1997 the total number of management-owned enterprises reached 26 %.

The society developed in the direction of decreasing of the number of large employee-owned enterprises and simultaneous growth of firms with external participation and management-owned firms.

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Statistics about the economy of Estonia

Population (estimated)	1 January 2003	1 356 000
Change of gross domestic product at constant 2000 prices (%)	2001 in comparison with 2000	5.0
	3 rd quarter 2002 in comparison with 2nd quarter 2002	-7.1
	3 rd quarter 2002 in comparison with 3rd quarter 2001	6.7
Estimated economic growth (%)	4 th quarter 2002 in comparison with 4th quarter 2001	5.2
	2002 in comparison with 2001	5.6
Change of consumer price index (%)	February 2003 in comparison with January 2003	0.3
	February 2003 in comparison with February 2002	2.4
	2002 in comparison with 2001	3.6
Change of producer price index (%)	February 2003 in comparison with January 2003	0.6
Change of export price index (%)	February 2003 in comparison with January 2003	12.4
Change of import price index (%)	February 2003 in comparison with January 2003	-0.1
Change of construction price index (%)	4 th quarter 2002 in comparison with 3rd quarter 2002	0.6
Average monthly gross wages and salaries (EEK)	4th quarter 2002	6 512
Average monthly old-age pension (EEK) ¹	4th quarter 2002	1 841
Registered unemployment (ratio between the registered unemployed and the population aged 16 to pension age. %) ²	December 2002	5.4
Unemployment rate (%)	4th quarter 2002	11.3
Change in the volume index of industrial production (%)	February 2003 in comparison with February 2002	10.3
Retail sales volume index (%)	January 2003 in comparison with January 2002	1.0
Exports (million EEK) ³	January 2003	4 464.0
	January 2002	3 792.8
Imports (million EEK) ⁴	January 2003	6 329.8
	January 2002	5 437.4

Legislation

The activities of enterprises in Estonia are coordinated by Commercial Code. The activities of profit making cooperatives are coordinated by Commercial Associations Act. There is also special legal act - Non-Profit Associations Act - coordinating the

activities of non-profit organisations and associations. According to the existing legislation employee owned enterprises can belong to any legal type of entrepreneurship.

The minimum capital for starting a new enterprise according to both Commercial Code and Commercial Associations Act is ca 2600 EUR.

Today the legislation does not have any advantages for participative enterprises. It is clear that there will not be any supportive amendments also in near future as long as the understanding about this enterprise sector is so little known.

Public support to entrepreneurship

What are the features characteristic to the state side support to enterprise in Estonia?

Business Support Network

The aim of business support network is to support small and medium sized enterprises and start-ups in all regions in Estonia.

The business system network consists of the Regional Development Agency (ERDA), business support centres providing minimum services on contractual basis, and the business consultants belonging to the list of consultants of the ERDA.

Regional Development Agency (ERDA) is a subunit of Enterprise Estonia (EAS) whose main purpose is to organise targeted, flexible and co-ordinated use of state funds and other funds allocated for the **regional development** of the state and to the **Business Support System**, proceeding from the basic documents of the national business development policy and regional development policy.

With respect to the national Business Support System:

formation and further development of an effective business advisory system on the basis of the business development centres and business advisory services bureaus of the counties;

co-ordination of the activities and exchange of information between the business development centres and business advisory services bureaus that belong to the Business Support System, development of an information system;

development of new measures for business development;

organisation of training for the employees of business development centres and business advisory services bureaus.

TRAINING SUPPORT

The aim of the training support intended for entrepreneurs by the Regional Development Agency of Enterprise Estonia (ERDA) is to support the participation of entrepreneurs in business training and to increase their interest in the acquisition of up-to-date business and management knowledge.

Training support can be applied by small and medium-sized businesses and self-employed entrepreneurs. An applicant has to conform to the following conditions:

- the company has been entered in the commercial register
- the self-employed entrepreneur has been registered as an entrepreneur according to the law
- the maximum number of employees of the production enterprise is 250
- the maximum number of employees in the trade or services enterprise is 50
- the enterprise has no state taxes in arrears

No training support is provided to enterprises whose area of activities is agriculture, transport or fisheries.

Programme for the Retraining and Further Training of Employees

The aim of the Programme for the Retraining and Further Training of Employees is to contribute to business development in regions, which have a low standard of living and high unemployment rate. Economic development of such regions is, however, often restricted by structural unemployment – there is primarily a lack of qualified skilled workers and specialists.

Through this programme, Enterprise Estonia supports training projects of entrepreneurs which have the following purpose:

- raising the qualification of local labour;
- professional training of new employees in connection with the expansion of the business activities of enterprises;
- acquisition of new specialities and skills required in modern production activities.

KredEx

The Estonian Credit and Export Guarantee Fund KredEx is a self-sustaining fund in the jurisdiction of the Ministry of Economic Affairs and Communications, whose goal is to support the development of enterprises, exports and housing.

KredEx provides various guarantees, which serve to improve the availability of capital for the SME-s, help to manage the export risks of enterprises and support the financing of home purchases and renovations by banks. KredEx acts on the principles of insurance and pursues the goal of creating a well-balanced and self-sustaining diversified portfolio.

Companies whose collateral assets or proportion of self-financing is not sufficient to get a bank loan or who have operated for a short time can apply for KredEx's **loan or leasing guarantees** via their bank.

Export guarantee protects the exporter against the failure of a foreign contract partner to perform the payment obligations. It assures the company that the potential losses arising from the transaction will not have to be met by the exporter alone.

Estonia is on its way to EU and to European world of values. Today we can say that we have been successful so far. The old type of plan economy has been changed to the new liberal market economy. Employee participation plays its modest but growing role among Estonian enterprises. We can look forward towards stable economic situation.