STRATEGY FOR ESTONIA

As approved by the Board of Directors at its meeting on 17 October 2012
EXECUTIVE SUMMARY

Estonia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank.

Estonia is an advanced transition country in which structural reforms are well advanced and the business environment is among the soundest in EBRD’s countries of operations. Estonia implemented the body of EU market regulation prior to accession in 2004 and has benefited significantly from integration into the EU internal market through substantial capital inflows and growing trade shares with the rest of the EU. Estonia has one of the most knowledge-intensive economies in the transition region.

Estonia was among the countries hardest hit by the global financial crisis of 2008-2010, with a cumulative GDP fall of nearly 20 per cent over five quarters. Following the financial crisis, the government adopted a programme aimed at further boosting the country’s competitiveness, which will be achieved through lowering the tax burden and spurring job creation while preserving the current conservative fiscal approach. Some reform progress has also been made recently in the energy sector, with an increase in public investments in energy efficiency and a number of ongoing reforms in the country’s energy market legislation.

The EBRD’s 2011 assessment of transition challenges identified on the whole small needs in terms of developing market institutions or market structure, although there are important exceptions, for instance in the sustainable energy and private equity sectors.

Strategic directions

As Estonia has been among the most advanced transition countries for many years, the EBRD’s activities have been limited. Over the next Strategy period the Bank’s engagement in Estonia will become even more focused on a small number of priorities, in line with the expected graduation of the country during the CRR4 period (2011-2015). The new Country Strategy for Estonia, which is expected to be the last before Estonia’s graduation, will therefore narrow the Bank’s focus to two core areas: infrastructure and energy, and industry and commerce.

- **Supporting investments in energy efficiency and renewable energy**: Supporting energy efficiency investments particularly in industrial companies as well as investments in renewable energy generation continue to be the Bank’s key priorities in Estonia.
- **Improving the competitiveness of the export sector**: To assist in improving exporting enterprises competitiveness through increased usage of advanced technology and to invest in equity and mezzanine funds in order to facilitate further development of the SME sector.
- **Supporting cross-border investments by Estonian companies**, particularly in the EBRD’s region of operations, to enable Estonian firms to establish a foothold in foreign markets and benefit from efficiencies that access to larger markets would bring.
1. **THE BANK’S PORTFOLIO**

1.1. **Overview over Bank activities to date**

EBRD has signed 83 operations in Estonia to date with a net cumulative business volume of €539 million and a total project value of €1,382 million. Approximately 36 per cent of the investments have been in the Financial Institutions sector, 27 per cent in Infrastructure, 25 per cent in Industry, Commerce and Agribusiness and 12 per cent in Power and Energy.

Table 1: Portfolio in Estonia as of 31 March 2012

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>NET CUMULATIVE BUSINESS VOLUME</th>
<th>CURRENT PORTFOLIO STOCK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount in EUR million</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of Projects</td>
<td>Total Project Costs</td>
</tr>
<tr>
<td>Power and Energy</td>
<td>5</td>
<td>90</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>29</td>
<td>511</td>
</tr>
<tr>
<td>Bank Equity</td>
<td>5</td>
<td>52</td>
</tr>
<tr>
<td>Bank Lending</td>
<td>20</td>
<td>204</td>
</tr>
<tr>
<td>Insurance and Financial</td>
<td>4</td>
<td>55</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry, Commerce and</td>
<td>40</td>
<td>533</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>4</td>
<td>103</td>
</tr>
<tr>
<td>Manufacturing &amp;</td>
<td>20 *)</td>
<td>159</td>
</tr>
<tr>
<td>Equity Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property &amp; Tourism</td>
<td>4</td>
<td>36</td>
</tr>
<tr>
<td>Manufacturing &amp;</td>
<td>8</td>
<td>228</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecom, Informatics,</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Media</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>9</td>
<td>389</td>
</tr>
<tr>
<td>Municipal &amp; Environmental</td>
<td>5</td>
<td>303</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>4</td>
<td>86</td>
</tr>
<tr>
<td>TOTAL</td>
<td>83</td>
<td>1323</td>
</tr>
</tbody>
</table>

*NOTE*: Equity Funds includes various regional funds with allocations to Estonia

Table 2: Portfolio Development in Estonia 2009 – 2011

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cumulative Business Volume</td>
<td>480</td>
<td>509</td>
<td>518</td>
<td>539</td>
<td>12%</td>
</tr>
<tr>
<td>Cumulative Number of Operations</td>
<td>73</td>
<td>78</td>
<td>80</td>
<td>83</td>
<td>14%</td>
</tr>
<tr>
<td>Current Portfolio Stock</td>
<td>90</td>
<td>70</td>
<td>69</td>
<td>79</td>
<td>-12%</td>
</tr>
<tr>
<td>Number of Operations</td>
<td>22</td>
<td>25</td>
<td>25</td>
<td>26</td>
<td>18%</td>
</tr>
<tr>
<td>Operating Assets</td>
<td>75</td>
<td>42</td>
<td>44</td>
<td>59</td>
<td>-21%</td>
</tr>
<tr>
<td>% Undrawn</td>
<td>16%</td>
<td>38%</td>
<td>34%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

*NOTE*: (cumulative 2008 - March 2012)

| Annual Business Volume: | 1    | 28   | 8    | 20    | 56 million EUR |
| Number of Operations:   | 1    | 6    | 3    | 3     | 12 projects    |
| Gross Disbursements:    | 4    | 16   | 10   | 21    | 47 million EUR |
| Annual Cancellations:   | 0    | 0    | 2    | 1     | 3 million EUR  |
| Active Pipeline Stock:  | 54   | 37   | 56   | 31    |               |
| Private Sector Share (% Portfolio): | 100% | 100% | 100% | 100% |               |
| Non Sovereign (% Portfolio): | 100% | 100% | 100% | 100% |               |

The business volume in the three years from 2009 to 2011 was €56 million in 12 projects. This was a marked increase compared to the previous 3 year period (2006 –
2008) when the Bank invested in 4 projects with a volume of mere €12 million. As a result, the Bank’s cumulative business volume increased during the previous strategy period by 12 per cent. However, the portfolio and operating assets have decreased by 12 and 21 per cent respectively following two sizable divestments in late-2010 and late-2011 (Tallinn Water and Estonian Cell). As a result of these divestments and new projects during the previous strategy period the share of Power and Energy sector in the portfolio has reached 50 per cent and the share of Industry, Commerce and Agribusiness sector 44 per cent.

Figure 1: Sector Split of Business Volume in Estonia in 2009 – 2011

1.2. Implementation of the previous country strategy

The previous country strategy for Estonia was approved in September 2009 and targeted the following operational objectives:

- Foster commercial banks’ continued lending to the corporate sector, particularly to SMEs, by providing long term capital to financial institutions, by risk sharing in their portfolios and invest in mezzanine and equity funds to ensure availability of financing.
- Facilitate investments in the diversification of energy supply, in energy efficiency and renewable energy.
- Support municipalities, where appropriate, through public-private partnerships and through financial institutions to ensure commercial co-financing for EU funded projects.
- Provide higher-risk products such as equity for local corporations to fund their growth and improvements in competitiveness.
- Proactive review and management of the Bank’s portfolio to improve its quality.

Despite the crisis conditions, the role of the Bank in Estonia was limited during the previous strategy period and the strategic objectives have only been partially achieved. This reflects the advanced stage of Estonia’s transition and is consistent with the country’s path to graduation within CRR4.

The Estonian banking market is dominated by large Nordic banking groups that have not felt the need for EBRD’s support, either in the form of direct financing or in risk sharing or co-financing of individual projects, resulting in no operations for the Bank in the banking sector. Given the well-established situation of Estonian banks and the support they enjoy from their parent groups (where applicable), it is unlikely that the EBRD will be needed in this sector in the future. The same applies for municipalities,
where the appetite for public-private financing schemes has remained limited and local banks have been providing local authorities with financing at attractive conditions.

Where the Bank has remained active and relevant is in the area of sustainable energy, working with local corporate clients. In May 2011, the EBRD signed a loan of €34.4 million with Graanulinvest supporting this pellet producer’s investments in two combined heat and power (CHP) plants adjacent to its plants in Estonia and Latvia, with around 50 per cent of the financing being used in each country. The Bank’s financing was needed to match the size and long-term nature of a large regional investment programme.

In July 2011, the Bank also supported the modernisation and expansion of a local paint producing company, Eskaro, with a subordinated loan totalling €7.4 million, the majority of which will be used to finance the expansion of the company’s operations in Russia, Ukraine and Belarus. Such cross-border expansion across the Baltics or to neighbouring countries is essential to allow companies to grow and reach critical mass.

Finally, during the previous strategy period the Bank signed five investments in regional equity funds with a total expected allocation of €9.2 million to Estonia. In 2011 BaltCap Private Equity Fund (EBRD investment signed in 2007) made two investments, a €5.1 million investment in Air Maintenance Estonia and also a €5.1 million investment in Trev-2, a road construction and maintenance company.

EBRD has engaged in policy dialogue with the Estonian authorities regarding the regulatory framework in the water sector (following the Bank’s earlier involvement in the privatisation of Tallinn water) and on planned changes in the subsidy structures for renewable energy, also in relation to projects in the Bank’s portfolio (wind, biomass).

1.3. Transition impact of the Bank's portfolio

Since the beginning of 2009 (the year the previous Strategy was adopted), only one transition-rated operation was signed by the Bank in Estonia, an investment in one of the largest and most visible wind farm projects in Estonia. The Bank’s involvement in this operation is expected to generate positive a demonstration effect of successful wind power projects to other potential investors in the renewable energy sector in the region. The operation will also support private sector participation in the wind farm projects which are still at their early pre-development stage.

The projects in the country’s portfolio are performing well in terms of achieving their envisaged transition impact. As of end-May 2012, both projects in the Bank’s portfolio are on track to achieving their transition potential. As these two operations

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1 Three other operations (Graanulinvest, Eskaro and Dalkia Baltica/Russia), all assessed with Good transition potential, were also signed in Estonia since 2009, but since these are regional investments (i.e., they are being implemented in more several countries including Estonia) they do not form part of the Estonia portfolio.

2 Projects in the Bank’s portfolio refers to all active operations that are more than six months since signing and have been monitored for their transition impact at least once.
(both rated Excellent in the Power and Energy sector) were only signed in 2008 and 2009, respectively, they are still characterised with high risks to transition impact. As a result, the average rank is equal to 4.0, slightly better than the average rank for all operations in the Bank’s portfolio at 4.09 and also better than the institutional target of 4.35. Of three operations that were completed during the previous strategy period (2009 – 2012) and as such do not form part of the Bank’s portfolio, two have also largely achieved their desired transition objectives. The remaining completed operation in the manufacturing and services sector, Estonian Cell, has been significantly downgraded from a transition impact perspective due to its inability to achieve the expected outcomes of market expansion and increased competition as a result of the company’s financial distress caused by the challenging market conditions.

2. OPERATIONAL ENVIRONMENT

2.1. Political context

Estonia’s democracy and political system have weathered the recent economic crisis well. Although Estonia was one of the countries hardest hit by the global economic crisis of 2008-2009, and despite the Estonian government implementing a severe austerity programme, the incumbent government was re-elected. Indeed, after governing for almost two years in a minority coalition, Prime Minister Andrus Ansip’s Reform Party and the centre-right Pro Patria-Res Publica union (IRL) won an outright majority in parliamentary elections in March 2011, together receiving a comfortable majority of 56 seats in Estonia’s 101-seat parliament (the Riigikogu).

Throughout the crisis the Reform Party and IRL have demonstrated their strong capacity to govern together effectively. There is a broad consensus across most political parties and the majority of the electorate on a pro-market policy stance and the need for continued fiscal restraint. While Estonia’s accession to the eurozone in January 2011 has increased the country’s exposure to eurozone debt risks – and naturally raised some questions among the Estonian electorate about the justice of Estonians contributing to the bailout of the richer southern EU member state – there have been few signs that this has dampened Estonians’ broader commitment to the European project.

See Annex 1 for a more detailed assessment of the political context.

2.2. Macroeconomic context

Following Estonia’s deep recession in 2009 (with a cumulative GDP fall of nearly 20 per cent over five quarters, one of the sharpest in the EU), economic activity began to recover gradually in 2010. The economy grew by 2.3 per cent in 2010 and by 7.6 per cent in 2011, the EU’s highest rate in that year. Respectable growth among Estonia’s main trading partners boosted exports as a component of demand which grew by 28

3 Rank is a combination of the relevant rating for transition impact potential and risks to transition impact. Expected transition of operations is usually monitored once a year and is ranked numerically from 1 to 8, with 1 to 3 indicating the mostly realised impact, 3 to 6 – generally on track to achieve transition objectives, and 7 to 8 – minimum transition impact or excessive risks.
and 13 per cent in 2010 and 2011 respectively. The main contributors to growth were products with a higher value added (e.g., electronics, machinery and equipment). A clear slowdown in key export markets in the second half of 2011, with a contraction in GDP in the fourth quarter, underlined the vulnerability that stems from this export dependence.

Solid foreign demand also gave a boost to industrial production and, as exporters started to reach their limits in capacity utilisation, encouraged private sector investment. In parallel, due to an obligation to invest revenues from the CO₂ quota trade as well as to increase the EU funds absorption before the budgeting period ends in 2013, the government remained the main driver of increasing investment activity.

Estonia’s public finances stand out as the most prudently managed in the EU. A key goal of government policy has been to keep the budget in balance, and there are no plans to issue government bonds. Despite the massive output contraction, the government managed to contain the fiscal deficit in advance of euro adoption in January 2011. Gross debt is 6.0 per cent of GDP, and substantial fiscal reserves have been accumulated. There were small budget surpluses in both 2010 and 2011 (sales of CO₂ quotas amounted to 1.2 per cent of GDP), though a deficit of about 2.5 per cent is projected in 2012, due in part to the resumption of contributions into mandatory pension funds and in part to the environment-related investment obligations stemming from the 2011 sale of CO₂ quotas.

With nearly the entire of banking sector owned by foreign institutions, Estonia is exposed to the withdrawal of funding from foreign parents, though the ensuing contraction in credit to the private sector is primarily limited to the household sector. However, non-performing loans are the lowest of all three Baltic countries at only about 4.5 per cent, and households continue to reduce their indebtedness in nominal terms. This has been supported by positive trends in the labour market, including the increase in employment and the renewed growth in real wages.

Estonia will experience a slowdown in GDP growth to about 2.5 per cent in 2012, given the projected weakness in export markets this year. Estonia’s ability to mobilise domestic investment and absorb the remaining EU structural funds has led to a more modest contraction in fixed capital formation during the crisis, and a more rapid recovery since then. This has prepared the ground for a return to growth at a rate close to potential of about 3.5 to 4 per cent per year over the remainder of the strategy period.

See Annex 5 for a table with Selected Economic Indicators.

2.3. Structural reform context

Structural reforms in Estonia are well advanced, and the business environment is among the soundest in EBRD countries of operation. Tax revenues as a share of GDP are well below the EU average, and a simple tax administration with extensive use of electronic submission and monitoring simplifies the system. Following the financial crisis the government adopted a programme aimed at further boosting the country’s

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4 Outflows of bank liabilities amounted to over 7 per cent of GDP in 2011.
competitiveness. This will be achieved through lowering the tax burden and spurring job creation while preserving the current conservative fiscal approach.

Estonia remains the most knowledge-intensive economy in the transition region with high-technology goods accounting for about one-third of total exports to other EU countries. The country’s labour force is highly skilled relative to other transition countries, and product innovation and the digital economy are encouraged through various policy initiatives, particularly in the public sector (e-government, public health system). Comprehensive programmes are in place to foster education at all ages and close remaining skills gaps.

In line with developments elsewhere in the transition region, the Estonian authorities have adopted reforms to enable household debt restructuring. A Debt Restructuring and Debt Protection Act came into force in 2011 which allows households with debt servicing problems to restructure their debts while avoiding bankruptcy procedures. The law foresees a case-by-case restructuring of all liabilities without the use of public funds and aims to address the remaining problems among over-indebted households, although the practical value of this act remains to be seen.

Some reform progress was also made recently in the energy sector. Several public investments in energy efficiency were advanced, though improving energy efficiency in residential properties and transport remains a priority. Energy market legislation is currently undergoing a number of reforms. A separation of divisions of AS Eesti Gaas is under way which would achieve greater transparency and increase competition.

See Annex 2 for a detailed assessment of the remaining sector transition challenges.

2.4. Business environment

Estonia’s business environment remains highly attractive. Although the country’s rank in the World Bank’s Doing Business 2012 survey worsened slightly over the last year (now ranked 24th globally, down from 18th in 2011), it is still the second highest ranked country in the CEB region. The largest downgrade was recorded for dealing with construction permits that now involves 13 procedures and takes 148 days. Resolving insolvency also lags behind the regional average. However, some positive trends have been observed over the last year. Estonia scores particularly well in terms of trading across borders (ranked 3rd worldwide) and registering property, which involves only three procedures and costs on average 0.4 per cent of the property value.

Both petty and high-level corruption remain the lowest among the CEB countries, according to Transparency International’s Corruption Perceptions Index, though Estonia’s rankings dipped slightly in 2011 to 29th globally. The 2009 EBRD/World Bank Business Environment and Enterprise Survey identified inadequate workforce skills as significant impediments to business development, as well as perceptions of overregulation of the labour market. Although the latter has been addressed by the Employment Act of 1 July 2009, which aims to make hiring and firing easier and

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5 Economic policy challenges in the Baltics, European Commission, available online.
cheaper for employers, the skills mismatch, especially in health care, ICT and energy sectors, still remains a major concern.

According to the National Reform Programme ‘Estonia 2020’ approved by the government in April 2012, in 2011 the productivity of business has risen faster than the average labour cost (15 versus 6 per cent respectively in hourly terms). This indicates a considerable improvement in Estonia’s international competitiveness.

2.5. Social context

Estonia has experienced significant progress in living standards since the beginning of transition. The UN Human Development Index (a measure of general wellbeing) has been improving since 1990 and ranks the economy 34th worldwide in 2011. Estonia performs relatively well on all indicators and outperforms all other CEB countries in terms of average years of schooling. According to Eurostat, 15.8 per cent of the population was at risk of poverty in 2010, a proportion below the EU average. Inequality is relatively high in Estonia: the Gini coefficient of inequality is above the EU average, as is the case in the other Baltic states.

Unemployment rates in Estonia increased notably over the last few years, peaking at just under 20 per cent in early 2010. The ratio has shown a rapid downward trend since the financial crisis but still remains rather high at 10.8 per cent, boosted by youth unemployment at 22.3 per cent. The employment rate at around 65 per cent is the highest in the CEB region but still significantly below the EU-wide target of 75 per cent. Labour mobility with the rest of the EU remains unusually high, and provided an important safety valve during the crisis. At the same time, this has contributed to an erosion in skilled labour available within Estonia.

The European Commission’s 2012 Ageing Report suggests that over the next fifty years Estonia’s total population is foreseen to decrease by 12.6 per cent (a decline lower than in the other two Baltic states) with a parallel drop in the total workforce of almost 30 per cent. As a result of these trends the dependency ratio (population aged 0-14 plus 65 and over relative to the workforce aged 15-64) is expected to increase from 48 to 82 per cent between 2010 and 2060. The report foresees an increase in age-related fiscal expenditures that is below the EU average, though this comes with the risk of inadequate pensions.

Total health care expenditure stood at about 6.7 per cent of GDP in 2009 (the lowest among the CEB countries), of which public health spending was about 5.2 per cent of GDP. Population ageing and cost pressures will raise expenditures on health and old-age care over the next decades unless mitigating measures are taken.

Education expenditure is Estonia is 4.7 per cent of GDP, among the lowest in the CEB region. The mean years of schooling in 2010 was 12, above the OECD average of 11.4 years. In the 2009 OECD Programme for International Student Assessment (PISA), the country ranked 13th out of 66 with a above OECD-average rating for reading, science and mathematics.
2.6. Legal context

The Bank’s assessment of laws in the region shows that Estonian commercial laws are advanced in comparison with other countries where EBRD operates. There are nevertheless some areas for improvement such as the regime for taking security over movables. The conditions applicable to non-possessory security are strict and registration is burdensome. As a result the transfer of possession of collateralised assets is common, which does not match the needs of modern business and might restrict access to credit in Estonia.

There is no specific legal framework for concessions and public private partnerships and the adoption of a single act in this respect is desirable. Although energy efficiency is generally promoted, some efforts are expected to adopt new policy and regulation applicable to the power generation, transport and building sectors. While transposing the energy efficiency EU regulations and amending the existing domestic regulation, a consultation with stakeholders is recommended.

Although insolvency legislation is of a high quality, improvements to the reorganisation proceedings are needed and in particular in respect of the information available and amount payable to creditors. Estonian corporate governance rules have been amended in order to comply with the acquis communautaire and now guarantee good standards.

See Annex 3 for a more detailed assessment of the legal environment.

2.7. Energy efficiency and climate change context

In the last two decades, Estonia has made significant progress in realising its sustainable energy potential. Compared with 1990, Estonia has reduced its greenhouse gas emissions by more than 50 per cent, and the share of renewable energy sources in total energy consumption in 2005 was 18 per cent. In accordance with Directive 2009/28/EC on the promotion of the use of energy from renewable sources, Estonia is obliged – and on track – to increase the share of renewable energy sources in the whole of energy consumption to 25 per cent by 2020 as compared to the reference year of 2005.

Thanks to investments in energy efficiency in the Estonian energy system as a whole, the demand for heating and losses of heat and electricity have decreased significantly and the energy intensity of the Estonian economy has declined considerably over the last five years. This is in line with objectives set in the Energy Conservation Target Programme for the Period 2007 to 2013. The Estlink underwater cable, which was made operational in 2007, connects the electricity markets of the Baltic countries with the energy markets of the Nordic countries. Several new renewable energy plants and combined heat and power plants are being established, which significantly increase the efficiency of the Estonian energy system. Several strategy documents on the use of renewable energy sources have been drawn up and adopted in Estonia. The main “roof strategy” of the energy sector is the National Development Plan of the Energy Sector up to 2020, augmented by the Estonian National Renewable Energy Action Plan up to 2020.6

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3. STRATEGIC ORIENTATIONS

3.1. Transition challenges

Estonia is an advanced transition country, which implemented the EU body of market regulation prior to its EU accession in 2004 and which has benefited from integration into the EU internal market through substantial capital inflows and growing trade shares with the rest of the EU (see Figure 2 below). The 2011 assessment of transition challenges identified on the whole small or negligible gaps in terms of market institutions, with the exceptions of the agribusiness, sustainable energy, roads and private equity sectors. In terms of the market structure there are ‘medium’ transition gaps in MSME finance, private equity and capital markets, along with roads and sustainable energy.

Figure 2: EBRD transition indicators for Estonia, 2011

3.2. Bank's priorities for the strategy period

As Estonia is among the most advanced countries of operations, the Bank’s operations have been limited for some time. During the next Strategy period, the EBRD’s activities will become even more focused on a small number of priorities, in line with the expected graduation of the country during the CRR4 period (2011-2015). In light of this, the new Country Strategy for Estonia narrows the Bank’s focus to three core areas:

- **Supporting energy efficiency** investments particularly in industrial companies as well as **investments in renewable energy generation** will continue to be the Bank’s key priorities in Estonia.
- **Improving the competitiveness of industry** through increased usage of advanced technology and investing in **equity and mezzanine funds** in order to facilitate further development of the SME sector and investments in innovation.
• **Supporting cross-border investments by Estonian companies**, particularly in the EBRD’s region of operations, to enable Estonian firms to establish a foothold in foreign markets and benefit from efficiencies that access to larger markets would bring.

3.3. **Sectoral Challenges and Bank Operational Response**

3.3.1 **Infrastructure and Energy**

**Sectoral challenges**

- Developing sustainable energy generation capacity remains a key challenge, which has been underlined more starkly since the closure of the Ignalina nuclear power plant in Lithuania. Currently support mechanisms for energy efficiency and renewable energy are in line with EU practices, though results as yet are lagging well behind the EU average, in part because of the inefficient electricity generation. The perception of high profits among generators of renewable energy are a recurring concern within the government, and support schemes are being reviewed. The challenge remains to define a more sustainable, predictable and market friendly support system for renewable energy.

- A related remaining challenge in the energy sector is to diversify sources of energy supply and make the energy system more flexible, including through extending the capacity of power interconnectors, developing renewables and demand side management. This diversification will contribute to Estonia’s resilience to external shocks and promote cleaner energy production.

**Bank’s operational response**

To **strengthen energy security and improve energy efficiency**, the Bank will promote diversification and security of energy supply as well as further liberalisation and competition in the Estonian energy market. The focus will be on (i) renewable sources of energy, through of support investments into renewable energy generation as well as (ii) energy efficiency related investments with clear estimates of energy savings and carbon emission reductions, particularly in relation to industrial companies.

Recognizing the importance of investments linked to the introduction of new technologies, improving demand side energy efficiency and support for potential tariff restructuring, EBRD may also pursue projects in the area of smart grid and smart metering. EBRD will also explore financing mechanisms for smaller renewable projects (heat and electricity), including investigating with the Government the potential for using revenues from Estonia’s EU ETS auctions and/or structural/cohesion funds for grant components.

**Policy dialogue**

EBRD will continue to conduct policy dialogue with the Estonian authorities with regard to the further strengthening of the transparency and predictability of the regulatory framework of the renewable energy market.
3.3.2 Industry, Commerce and Agribusiness

Sectoral challenges

- Medium size enterprises hit by the crisis will require restructuring. Estonian firms are as yet relatively inexperienced in establishing a foothold in foreign markets, and outward direct investment remains minimal.
- Credit constraints for MSMEs remain, and private equity and mezzanine capital are poorly developed (see Annex 2 on the Assessment of Transition Challenges). Local bond markets for corporate issuers are virtually absent.
- Estonia has made significant progress in transition in the area of developing knowledge-intensive industries, but there remains demand for EBRD assistance to address insufficient capacity to generate local innovation. Comparative indicators underline that Estonia is relatively advanced in adopting innovative products and processes developed elsewhere, but the country is not developing such innovation domestically. Government policy calls for further strengthening the competitiveness and productivity growth of Estonian firms, continuously moving towards higher value-added activities in traditional industries.7 Within the small and highly open economy there is a continuing need to increase further the growth of technology-intensive products. However, education and innovation policies will need to be developed further to achieve this objective.
- The R&D intensity target of 2 per cent of GDP in 2015 and 3 per cent by 2020 set under the national reform programme is assessed by the European Commission as ambitious though achievable if business R&D grows significantly and Estonia is able to attract more R&D-intensive foreign direct investment. Further progress will depend on the integration of Estonian R&D activities within global research networks, increasing patenting activity and fostering investment in higher value added activities.

Bank’s operational response

To facilitate growth of the enterprise sector the Bank will stand ready to finance cross-border investments in the region in order for the firms to benefit from efficiencies that the access to larger markets would bring.

To support the development of the SME sector the Bank will seek opportunities to invest in equity and mezzanine including through existing proven equity fund managers. The Bank will also consider a possible involvement related to the Baltic Innovation Fund being established by the European Investment Fund and the three Baltic countries.

To improve competitiveness, EBRD will support investments in new advanced technology and will seek ways to invest in the knowledge-based sector, supporting the government’s efforts to encourage the manufacturing sector’s increased usage of digital technologies and the private sector’s active involvement in developing services to the public sector and the population at large. While Estonia has made significant progress in transition in the area of developing knowledge-intensive industries, there

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7 Estonian Growth Vision 2018
may still be demand for EBRD assistance to address remaining gaps in respect of the
development of the knowledge economy.

**Policy dialogue**

The development of the local capital market is a priority for the Estonian authorities.
The Bank stands ready to provide guidance to promote the adoption of best international practice, given the limited size of the domestic market and the nature of the local banking market. Among others, this may be done through advice and other knowledge sharing regarding the regulation and management of private pension funds.

### 3.4. Environmental and Social Implications of Bank Proposed Activities

As a European Union member, Estonia has adopted environmental and social legislation that is harmonised with EU acquis and is aligned with EBRD’s Environmental and Social Policy and Performance Requirements.

The Bank’s Environmental and Social Policy will apply to all projects in Estonia. The focus on supporting investments into renewable energy generation as well as energy efficiency related investments particularly in relation to industrial companies present significant opportunities to reduce greenhouse gas emissions. Renewable energy projects require EBRD to apply precautionary approach because these projects have the potential to adversely impact biodiversity and sensitive habitats, including Natura 2000 sites.

### 4. ACCESS TO CAPITAL

#### 4.1. Private sources of capital

Estonia’s sovereign rating stands at A+/AA- according to Fitch/S&P’s, representing the highest sovereign credit quality in emerging Europe.

According to Estonia’s international investment position at end-2011, foreign direct investment into Estonia accounted for the largest part of inward capital flows (and cumulative flows amount to about 80 per cent of GDP). Net flows of foreign direct investment were very sizable before the crisis at around 8 per cent of GDP in 2007-09 (linked to a small number of larger transactions), but dropped in the last year to 1.2 per cent of GDP in 2011.

Private equity, a component of FDI flows, remains much needed for innovative enterprises, though the sector is clearly underdeveloped (see the 2011 Assessment of Transition Challenges in Annex 2). Less than five country dedicated fund managers, and around ten regional fund managers were identified for which Estonia is included in scope, principally due to Estonia’s inclusion in the Central European region, without being a specific target country for these regional funds. Active capital and capital available for investment amount to an estimated 0.7 and 0.3 per cent of GDP, respectively. Small capital, buyout, mezzanine, infrastructure and restructuring funds are either negligible or non-existent. Local investor participation is limited to a small
number of private and institutional investors (with the entire stock of pension funds being managed off-shore, primarily within the parent companies of banks).

Estonia has been prone to wide swings in the external funding by commercial banks. Gross inflows of foreign bank liabilities reversed sharply since 2007 (when the country recorded an inflow of 20 per cent of GDP) with the last two years showing outflows of between 7 and 10 per cent of GDP. The stock of domestic credit to the private sector (at about 82 per cent of GDP at end-2011) underlines a well-developed financial sector, though the stock of credit has been falling (in 2011 by 5 per cent of GDP), impacting in particular the household sector, while credit standards vis-à-vis SMEs remain very tight.

4.2. MDB finance and collaboration with other IFIs and multilateral donors

Estonia is eligible for substantial amounts of EU funds, up to €3.4 billion. This consists of 34 per cent from the Cohesion Funds, 55 per cent from European Regional Development Fund and 12 per cent from European Social Fund. Estonia’s commitment rate is good and at end of April 2012 stood at 89 per cent and the payment rate at 46 per cent.

Other IFIs are clearly focused on the financial and infrastructure sectors, particularly energy related infrastructure, and emphasise large financings aimed at better rated borrowers.

- Since end-2009 the European Investment Bank (EIB) has signed nine loans totalling €365 million in Estonia. Two of the operations are in the transport sector, a loan of €90 million for Tallink to finance the construction and purchase of a ferry and a €11.5 million loan for Muuga port for the expansion of its facilities. Three of the projects are in the energy sector, a €75 million loan for Elering to finance the construction of a high voltage submarine cable linking Estonia and Finland, a loan of €45 million to Eesti Energia for the financing of two onshore windfarms and another loan of €50 million also for Eesti Energia for the construction of a waste to energy plant in Tallinn. A loan of €43.5 million was signed with North Estonia Medical Centre for the extension and renovation of its facilities. Another three regional facilities were signed, a loan of €70 million with Technopolis Science Parks (Finland) with an allocation of €5.6 million to Estonia, a €120 million loan for Elisa (Finland) with €40 million for the expansion of the 3G mobile network in Estonia and a €45 million loan with Unicredit Leasing (Latvia) including €4.5 million to be used for the financing of SMEs in Estonia.

- Since end-2009 the European Investment Fund has not signed any commitments in Estonia but a €100 million Baltic Innovation Fund is being established by the European Investment Fund (contributing €40 million) and the three Baltic countries. This is a fund of funds that will co-invest alongside private institutional investors (who will bring 50% of additional capital at least) in funds operating in the three Baltic countries.

- The Nordic Investment Bank (NIB) has signed three loans in Estonia since 2008 totalling €60 million: a €20 million loan for Tallinna Vesi in 2009 to finance the extension of water supply and sewage networks, a €25 million loan to Elering in
2010 for the construction of an electricity interconnection between Estonia and Finland and a €15 million loan also to Elering in 2012 for a new 330 kV transmission line.

- Since the end of 2009 the Council of Europe Development Bank (CEB) has approved one loan of €35 million in Estonia for KredEx for onlending through commercial banks together with EU structural funds for energy efficiency investments for multi-flat buildings.

EBRD has not co-financed any projects with other IFIs in Estonia during the previous strategy period.
ANNEX 1 – POLITICAL ASSESSMENT

The Republic of Estonia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement establishing the Bank.

Since the restoration of independence in 1991, Estonia has made significant progress in building its democratic institutions. With an established track record of multiple peaceful transfers of political power between parties and coalitions, Estonia’s democratic political system can be deemed to be fully consolidated. The country now has one of the most effective and mature democratic regimes in the transition region.

Representative and Accountable Government

Free, fair and competitive elections

Elections in Estonia at all levels of political governance are free, fair and competitive. Since the restoration of independence in 1991, the country has held six parliamentary elections, six municipal elections and two elections to the European Parliament. All of these elections have included a broad spectrum of political parties, offering voters a genuine electoral choice. Domestic and international observers have consistently judged Estonia’s post-independence elections to be free and fair. Both national and local elections have been highly competitive, and as a result elections at the national level have resulted in a regular alteration in power of centre-left and centre-right parties.

The most recent parliamentary elections, in March 2011, were the first in which the incumbent coalition government was returned to power. This was achieved despite the fact that the government had implemented a painful austerity programme in response to the global financial crisis. Estonia also successfully entered the Eurozone in January 2011, having met the inflation and government debt criteria.

Representative government that is accountable to the legislature and electorate

Estonia has a strong parliamentary system of government with a unicameral parliament elected for a four year term under a system of proportional representation based on a party list system. The executive branch is headed by the President, who is elected indirectly by the Parliament, the Riigikogu, for a five-year term. The President’s powers are largely formal, and most executive functions are carried out by the Government, led by the Prime Minister.

The legislature is able to hold the Government to account through its appointment of the Prime Minister, who in turn appoints the Cabinet. While the President nominates the Prime Minister, the appointee must be approved by Parliament. In addition, Parliament is able to hold the Government to account through the mechanism of ‘no confidence’ votes. The Government is also accountable to the electorate, first and foremost through the ballot box, but also through multiple access points to political decision-making by ordinary citizens and civil society organisations.
Effective power to govern of elected officials

Estonia’s elected officials have full effective powers to govern, and there are no constraints on their powers to govern effectively. The armed forces of Estonia are fully subject to civilian control and do not play a significant role in political or fiscal decision-making processes. Inevitably in a small country such as Estonia, there has long been a close relationship between business, financial and political elites. However, this does not compromise the powers of elected officials to govern the country.

Freedom to form political parties and existence of organised opposition

Estonian citizens are free to form political parties, and the opposition is well organised, dynamic, and has genuine popular support. While the party system is generally more stable than in many other advanced transition countries, elections in Estonia have often resulted in the formation of multiparty coalition governments which have proven to be fragile, and the party composition of Estonia’s coalition governments therefore fluctuates frequently. Moreover, the fragmentation of the political party system has decreased in recent years, with only nine parties contesting the 2011 parliamentary election – the lowest number in Estonia’s post-Soviet history – of which only four crossed the electoral threshold to enter parliament.

Civil Society, Media and Participation

Scale and independence of civil society

Estonian civil society is vibrant and independent of the state, although not highly politicised or particularly influential in national political debates. In 2011 the government adopted further measures to strengthen civil society, including a new policy programme and expansion of funding for non-governmental organisations (NGOs). A number of domestic NGOs undertook monitoring of the 2011 parliamentary election, with a particular focus on campaign spending and assessments of parties’ campaign platforms. In addition, there are a large number of non-political civil society organisations active in Estonia, from women’s groups to religious associations, although membership in trade unions – at around 10 per cent of the labour force – is low by European standards.

Independent pluralistic media that operates without censorship

The media in Estonia are independent, pluralistic and robust, and operate without formal state censorship. The Estonian Constitution guarantees freedom of expression and strong and effective protections for investigative journalists exist and are observed in practice.

While Estonia faces occasional controversies surrounding the relationship between the media and political figures – most recently, in the case of the Tallinn city funded municipal television station, which critics alleged was a political project of the Mayor of Tallinn designed to promote his party’s political messages – these controversies are of a similar nature to that witnessed in advanced democracies.
Multiple channels of civic and political participation

Estonian citizens enjoy a number of channels of civic and political participation. It is easy and uncontroversial to become a member of a political party, although political party membership is below the EU average. The country’s vibrant civil society provides another channel of civic and political participation, although mass membership in these organisations remains limited.

Rule of Law and Access to Justice

Separation of powers and effective checks and balances

Estonia has a highly centralised political system, with a dominant role for Government and Parliament, which in practice effectively fuse executive and legislative functions. However, the judiciary is independent and provides an effective check on executive and legislative powers. The Supreme Court – the highest court in the land – includes a constitutional review chamber among its four constituent subdivisions, which can adjudicate on appeals from the lower courts, the President, the legal chancellor, municipal authorities and individual citizens, with regard to challenges to the constitutionality of any legal act. Although not technically a Constitutional Court, in practice the Supreme Court acts and is treated as such, and thus provides an effective check on the powers of the executive and legislative branches of power.

Supremacy of the law

The Constitution of Estonia is the supreme law of the land, and all political forces accept the supremacy of the Constitution and the laws of Estonia as well as the European Union. No bodies or individuals are deemed to be above domestic or international law, either in law or in practice.

Government and citizens equally subject to the law

The Estonian Constitution guarantees all citizens equality before the law. Neither elected political leaders nor other powerful individuals are able in practice to place themselves above the law. Estonia is ranked among the least corrupt countries in Europe, according to all the major internationally comparative corruption assessments, including Transparency International’s Corruption Perceptions Index. Estonia was ranked 29th out of 183 countries in the 2011 CPI – the highest ranked transition country.

Independence of the judiciary

The judiciary in Estonia is independent and is widely perceived as both professional and efficient. The issue of financing of the judiciary has been a controversial topic for a number of years, as the financing of the lower courts is determined by the Ministry of Justice and could therefore make the courts dependent upon the executive branch (the Government of Estonia). Recent policy reforms to the Courts Act intended to make the financing of the judiciary more independent, determined by an independent administrative agency, rather than the government. However, the reform programme
forwarded to parliament was scuppered by objections from members of the Supreme Court that the proposed amendments would have made the Chairperson of the Supreme Court subject to excessive presidential oversight.

**Civil and Political Rights**

*Freedom of speech, information, religion and conscience, movement, association and assembly*

The fundamental freedoms of speech, information, religion and conscience, movement, association and assembly are guaranteed by the Estonian Constitution and supporting legislation and are observed in practice.

*Political inclusiveness*

While the Estonian political system is generally inclusive, an issue of concern – which successive Estonian governments, including the current one, have sought to address through a variety of legislative and policy measures – is the approximately 100,000 members of the current 1.4 million resident population who still have not taken up or been granted Estonian citizenship. This minority group, predominantly of Russian origin, is classified as “persons with undefined citizenship,” or “stateless persons,” and as a result cannot take part in Estonia’s national political life in the form of standing for or voting in national elections. While almost all of these “persons with undefined citizenship” have permanent residence, enjoy a wide range of rights and are able to take part in municipal elections, their full inclusion into Estonian political life would depend on their ability to stand and vote in national elections.

*Freedom from harassment, intimidation and torture*

The Constitution of the Republic of Estonia provides for citizens’ freedom from harassment, intimidation and torture by the state, and these freedoms are observed in practice.
## ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Market Structure</th>
<th>Market-supporting institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry, Commerce and Agribusiness</strong></td>
<td></td>
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<td>Agribusiness</td>
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<td>Real Estate</td>
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<td>Telecommunications</td>
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<tr>
<td>Private Equity</td>
<td>Medium</td>
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<td><strong>Energy</strong></td>
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<td>Natural resources</td>
<td>Small</td>
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<td>Power</td>
<td>Small</td>
<td>Negligible</td>
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<tr>
<td>Sustainable Energy</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban Transport</td>
<td>Small</td>
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<td>Water and Wastewater</td>
<td>Negligible</td>
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<td>Roads</td>
<td>Medium</td>
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<td>Railways</td>
<td>Small</td>
<td>Negligible</td>
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<tr>
<td><strong>Financial Institutions</strong></td>
<td></td>
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<td>Medium</td>
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<td>Capital Markets</td>
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### Agribusiness

Market structure: *Small*

Market institutions: *Medium*

Estonia completed price and market liberalisation with almost no policy distortions early on in its transition. Since accession to the EU in 2004, Estonia has been integrating into the EU’s CAP. As an EU member, the country is receiving substantial EU agricultural support, though this is considerably less than in some other EU member states. Most land has been restituted and privatised – almost 70 per cent of land is registered in the cadastre and the ownership is known. However, the land market continues to function poorly. The privatisation of agroprocessing and distribution/packaging services has been completed, but as in other new member states, new owners still have to reduce costs, improve efficiency and upgrade hygiene standards in order to become internationally competitive. The low price of agricultural land and small farm size is still a major impediment to access to finance for farmers. Although the country has developed a modern banking system, lending to agriculture remains limited and has been further deterred by the financial crisis. The institutional framework is good in regional CEB comparison - it ranks well in terms of the building of warehouses and registering property, but it does not have warehouse receipts legislation.
Manufacturing and Services
Market structure: Negligible
Market institutions: Negligible

Despite being severely affected by the recent crisis, Estonia continues to be rated as one of the world’s most open and competitive economies by several international institutions. Small and large-scale privatisation has been completed (the private sector contributes to a large share of GDP). The enforcement of competition policy ranks high in regional comparison. The new Employment Act, which took effect on 1 July 2009, aims to make hiring and firing easier and cheaper for employers, while also increasing unemployment benefits. There is a continuing need to increase further the growth of technology-intensive products with higher value added. Education and innovation policies will need to consistently focus on this objective. Medium size enterprises hit by the crisis will require restructuring. There also continue to be persistent regional differences in employment and skill mismatches which point to barriers to mobility that need to be addressed. On January 1st, 2011, Estonia adopted the euro which is expected to encourage foreign investments and introduce more competition for the local industry.

Real estate
Market structure: Negligible
Market institutions: Negligible

The real estate sector has significantly developed over the past decade, including new types of property as well as financing instruments. However, since 2008, the property market has been affected by the economic slowdown, resulting in lower demand and decreased rent rates. The major issue is the size of the market which does not allow for a large expansion of new concepts (excluding Tallinn, only Tartu has quite a dynamic commercial real estate market). Estonia’s commercial real estate market is therefore considered relatively saturated in terms of supply per capita and the development of new premises is expected to further slowdown in the coming years. The legal framework for property development, including mortgages, is strong, and property rights and contracts are well enforced. Primary and secondary legislation supporting the sustainability of real estate (energy efficiency, impact on environment) is well developed and public awareness of the sustainability issues is also good.

Telecommunication
Market structure: Small
Market institutions: Negligible

Estonian telecoms market is relatively developed. However, promoting competition has proven to be more difficult. The incumbent’s prices for access to local loop continue to impede competitors’ activities in the roll-out of fixed voice telephony and broadband infrastructure, and Elion (the incumbent controlled by TeliaSonera) continues to dominate the fixed-line market. Mobile market is highly penetrated and competition has turned to customer retention and data services, as well as voice traffic. Internet usage is relatively high. Although Elion continues to be the main player on the broadband market, the competition from the cable operators Starman and STV is gradually increasing.
Natural Resources
Market structure: Small
Market institutions: Negligible

Estonia’s mineral resources are limited. Oil shale supplies around 65 per cent of Estonia’s fuel demand and accounts for around 70 per cent of total world production. Industrial consumers represent 38 per cent of total gas consumption and are the largest category of consumers. Although the gas market has been fully liberalised since July 2007, de facto competition is limited by infrastructure constraints, as Estonia has cross-border connections only with Russia and Latvia. The only gas supplier is Russia. AS Eesti Gaas is in the leading position in the wholesale and also in the retail market and is also the only importer of gas. The company is fully private (Gazprom (37.02 per cent), E.ON Ruhrgas (33.66 per cent), Fortum Oyj (17.72 per cent) and Itera Latvija (9.85 per cent)) and legally unbundled its distribution operator in 2006, creating a separate company AS EG Võrguteenus, which performs both transmission and distribution operations. There are a number of small gas distributors but their market share is small. The gas market is regulated by the Natural Gas Act and by the Competition Act and the Energy Regulatory Department of the Estonian Competition Authority is tasked with the responsibility of tariff setting, licensing, monitoring of supply service quality and promotion of competition. Gas tariffs are cost reflective and allow for a justified rate of return.

Sustainable Energy
Market structure: Medium
Market institutions: Medium

An adequate legal and institutional framework for sustainable energy is in place. In 2008, there has been a national energy efficiency action plan adopted for a period up to 2016. Energy pricing is adequate and encourages energy efficiency investments, but energy intensity remains about 75 per cent higher than the EU-15 level. Support mechanisms for energy efficiency and renewable energy are in line with EU practices, although outcomes are still lagging behind EU average, partially because of the very inefficient electricity generation. The regulatory framework for renewable energy was strengthened in 2010 when the new support systems for renewable generators were introduced: In 2010 the system of feed-in tariffs was abolished. A fixed premium (not linked to the market price) is paid to on-shore wind generators. This system applies to wind generation – the first 600 GWh is supported with a premium. This limit is reviewed yearly and runs for 12 years. In a case of off-shore wind generation, a different support scheme is under consideration by Estonian authorities. Renewable generators are free to choose whom to sell electricity – the renewable premium is kept if electricity is sold on the newly established power exchange or through bilateral contracts. During 2010, the Government became concerned that renewable generators were making supernormal profits and are currently considering revising its support schemes.
**Power**
Market structure: *Small*
Market institutions: *Negligible*

Progress has been made in improving the market structure of the Estonian power sector. Following the adoption of the Electricity Market Act in February 2003, the unbundling of the state-owned and vertically integrated Eesti Energia has been recently completed along the lines of generation, transmission, distribution, and supply. In addition, liberalisation of the sector has been gradually progressing. At the time of EU accession, Estonia was granted the permission to postpone the full opening of the electricity market until 2013. 15 per cent of the electricity market was opened in 2007, which increased to 35 per cent in 2009 and will be fully opened in 2013. Private sector participation in generation and distribution is growing but effective competition is limited by the dominant position of Eesti Energia and the small size of the market. The quality of institutions has been further strengthened. A fully independent regulatory authority for the power sector is in place, electricity tariffs are cost-reflective, and cross subsidies have been eliminated. The Electricity Market Act introduced a scheme in 2007 based on a choice between a feed-in-tariff or a fixed supplement to the market price for electricity. However, the system of feed-in tariffs for renewable generation was removed in February 2010. The supplement to the electricity price is still in force. It is eligible for twelve years and applies to (i) the electricity produced from renewable sources, excluding biomass; and (ii) the electricity produced from biomass in cogeneration mode. In June 2009, Baltic countries signed MoU on the Baltic Energy Market Interconnection Plan (BEMIP) to further integrate Baltic electricity market and with the EU market. The system of feed-in tariffs for renewable generation was removed in 2010.

**Water and wastewater**
Market structure: *Negligible*
Market institutions: *Small*

Local infrastructure has been transferred to municipalities and utility companies have been corporatised into joint stock companies. In the larger municipalities, water and district heating companies tend to be well run and financially solid. Non-recourse commercial lending is widespread. Inadequate water and sewage systems that are not meeting modern standards still operate outside the large cities. However, some significant environmental issues, such as the lakes on the border with Russia, have been resolved. Estonia has successfully privatised substantial parts of its water supply and treatment systems. Tariffs allow for cost recovery and municipal utilities normally operate with the support of good contractual arrangements. Tariffs are set by municipalities based on good contractual arrangements and formula-based tariff methodologies. Nevertheless, there has been some political interference lately, and water tariffs are now approved by the competition authority with limited sector insight.

Remaining transition challenges include full removal of cross-subsidies between consumer groups and ensuring adequate water and sewage systems throughout the country that meet appropriate environmental standards.
Urban Transport
Market structure: *Small*
Market institutions: *Small*

Local infrastructure has been transferred to municipalities, and urban transport companies have been corporatised. Estonia has successfully introduced substantial private sector participation in urban bus services, tendering out urban routes to the private operators. The farebox ratio in urban transport companies is reportedly relatively low, but operational and financial performance is generally good in the sector. Contractual arrangements between transport operators and municipalities are generally good. Remaining challenges would include increased private sector participation in transport services and development of parking infrastructure.

Roads
Market structure: *Medium*
Market institutions: *Medium*

The Road Law and the Road Act were enacted in 1991 and 1999 respectively. The national road administration (Estonia Road Administration) is semi-independent. It has developed transparent tendering procedures and performance based contracts with its contractors. Road maintenance was mostly divested but the privatisation process remains incomplete. Road user charges are high enough to cover maintenance/rehabilitation costs (e.g. 75 per cent of fuel excise tax revenues are earmarked to the investment/maintenance of national roads). There have been no PPP projects in the road sector.

The transition challenges remain in the following areas: (i) completion of the privatisation process for road maintenance companies; (ii) further improvements and introduction of performance based contracts for all maintenance contracts; and (iii) development of PPP projects in line with international best practice.

Railways
Market structure: *Small*
Market institutions: *Negligible*

In railways, the operating and policy setting functions have been separated. The freight and passenger companies were privatised as vertically integrated entities (i.e. including rail infrastructure) in 2001. However, the freight company was renationalised, as the state bought back the 66 per cent shareholding of Baltic Rail Services in 2007. An independent regulator was established and infrastructure access was granted on a non-discriminatory basis. Railway labour productivity is one of the highest in the transition region. The transition challenges are among the smallest in the countries of operations and only related to the re-privatisation (or other forms of private sector participation) of railway services. Possibly Freight and Infrastructure could be fully separated.
Banking
Market structure: Small
Market institutions: Small

The banking sector is well-developed, fully privatised and it has the EU regulatory framework in place. The assets-to-GDP ratio stands at 135 per cent. The vast majority of banks (15 out of 18) are foreign owned, accounting for 98 per cent of assets in 2010. The sector is highly concentrated whereby 92 per cent of the banking system’s assets are controlled by the top five players. In recent years, there was rapid credit growth, which was fuelled by low foreign currency interest rates and intense competition in the sector. Credit growth began to slow in early 2007, and is now contracting with negative y-o-y credit growth starting in mid-2009. The magnitude in credit growth decline has further increased. The share of domestic credit to the private sector was 95 per cent of GDP in 2010, the highest in the CEB region. As of end 2010, 89 per cent of loans were in foreign currency, whilst for deposits the ratio was 49 per cent (mostly in Euro); however, since the country has now joined the single currency there is little residual FX risk remaining for borrowers. The loan-to-deposit ratio is high at close to 130 per cent in 2011. The stability of the sector post-crisis was improved by signing (in August 2010) of a regional financial stability agreement with the Nordic States. The agreement introduced cross-border crisis management and resolution in order to handle crisis situations more efficiently and including the establishment a Nordic-Baltic Cross-Border Stability Group.

Micro, Small and Medium-sized enterprises
Market structure: Medium
Market institutions: Small

The MSME sector is the backbone of the economy accounting for 79 per cent of total employment and contributing 76 per cent of the value added to the overall economy. Commercial banks and leasing companies increased loans to MSMEs in the pre-crisis period. Bank lending to the MSME sector was estimated to account for about 35 per cent of the total domestic lending to the private sector in 2010. Nevertheless, some credit constraints remain. Well-functioning and extensive credit information services would improve the possibilities of the companies to obtain small-volume loan capital by reassuring financial institutions on the risk they are taking. In addition, MSMEs would benefit from training and consultation, in order to improve their ability to obtain equity and loan. Start-up companies, companies in need of very small amounts of capital, innovative and high growth companies have difficulties drawing necessary funding from the capital markets to make productivity-enhancing investments. Increased risk aversion due to the crisis has affected bank lending to MSMEs. In response to the decreased bank lending, public loans and credit guarantee schemes for start-up firms and exporters have been further extended in 2009.

Insurance and other financial services
Market structure: Small
Market institutions: Small

Insurance legislation and regulation largely meet the international standards (IAIS). Supervision is consolidated in one agency, which has a strong capacity and operational independence. The insurance product penetration is moderate, with
premia-to-GDP ratio remaining at about 2.3 per cent, indicating a slight decrease since 2007 when it was 2.4 per cent. There is also a shortage of skills in the sector. Similar to the banking sector, the insurance sector is characterised by a high degree of concentration, with three Scandinavian groups dominating the market. The non-life segment is dominated by If P&C Kustlus (part of Finnish insurer Sampo) which has a market share of 48 per cent. Non-life products are available in the market to an adequate extent, whilst the availability of life products remains insufficient. In terms of the pension sector, voluntary supplementary pension funds and the investment fund industry has enjoyed rapid growth. The development of the sector, however, has been affected by the suspension of Pillar II contributions in 2009, as part of government efforts to reduce the post-crisis fiscal deficit. The Estonian state is expected to resume paying its contributions to the second pillar in full in 2012. Pension assets to GDP stand at a modest 6.29 per cent of GDP. In terms of the leasing sector, Estonia shows by far the highest product penetration within the EBRD region, with a leasing penetration is 15.4 per cent of GDP. Like the insurance market, this segments remains very concentrated, with the largest three players having a market share as high as 80 per cent. Mortgage penetration is well developed at close to 43 per cent of GDP.

**Private equity**
Market structure: *Medium*
Market institutions: *Medium*

A commercial private equity sector in Estonia remains underdeveloped. Less than five country dedicated fund managers, and around ten regional fund managers have been identified for which Estonia is included in scope, principally due to Estonia’s inclusion in the Central European region, and not as a target country for these regional funds. Active capital and capital available for investment amount to an estimated 0.7 and 0.3 percent of GDP, respectively. Only two investment strategies are available in the Estonian private equity sector, with almost all of net committed capital focused on growth and venture capital funds. Small capital, buyout, mezzanine, infrastructure and restructuring funds are either negligible or non-existent. Local investor participation is limited to a small number of private and institutional investors. Estonia conforms reasonably well to OECD Principles of Corporate Governance; however, improvements need to be made on disclosure and stakeholder related issues.

**Capital markets**
Market structure: *Medium*
Market institutions: *Small*

Following the adoption of the EU *acquis communautaire* securities market legislation complies with high international standards. The public equity market capitalisation stands at 11.3 per cent of GDP at end 2010. There are only 15 companies listed on the Tallinn segment of Nasdaq OMX. Due to lack of borrowing by the Estonian government, the local government bond market is virtually non-existent. Joining the single currency at the beginning of 2011, Estonia has become part of the Eurozone money and forward markets, which has improved the capital markets and reduced the market structure gap.
ANNEX 3 – LEGAL TRANSITION

Estonia has an advanced set of commercial laws, when compared with other transition countries where the Bank operates. Improvements are however desirable on a number of specific issues, for example the regime for taking security over movables. Below is a review of selected legal areas mostly relevant to the Bank’s investment strategy in the coming period, based on the assessments conducted by the Legal Transition and Knowledge Management Team.

Infrastructure and Energy

There is no single legislative act in Estonia dealing specifically with concessions and PPPs. The relevant rules are to be found mainly in the Public Procurement Act. Some noteworthy improvements were made to that legislation in 2011, for example with the introduction of a definition of PPPs and of new provisions for the transfer of rights and obligations deriving from a PPP contract to third parties. Also very positive is the fact that a number of PPPs have been concluded and implemented. This demonstrates that PPPs are feasible under the current legislative framework, however clearer provisions would be needed in the law as regards the provision of security and government support. There is also a need for institutional strengthening, for example the creation of a PPP Unit would be welcome. According to the EBRD last assessment of PPP legal frameworks, Estonia was found to be in high compliance with international standards applicable to the sector.

Estonia is in the process of transposing the relevant EU energy efficiency acquis, including the Directive 2010/31/EU on the energy performance of buildings. It is expected that the government will introduce changes to the current regulatory framework if the discussed draft law is finally adopted by the Parliament. There are fears amongst investors that the government may introduce retroactively changes to the premiums paid to certain types of renewable energy, which may affect negatively the sector. It is important that the international community continue to monitor closely the legal and regulatory developments in Estonia in this context.

The government will need to ensure that all legal amendments to the existing regulatory framework for renewable energy enter into force only after an open and transparent consultation with stakeholders. The government has to guarantee legal certainty and predictability in the legal regime for the energy sector, including in relation to the planned revisions of the renewable energy premiums as well as the timeframe for reaching the 600GWh cap for wind generation.

Energy efficiency is promoted in nearly every field but additional policy and legal efforts need to be made in the industry (especially power production), transport and buildings (both in the public and private sectors).

Industry, Commerce and Agribusiness

Given the Bank’s strategy to invest in funds to promote SMEs, a number of legal sectors are of particular relevance:
Secured transactions

The regime applicable to secured transactions derives primarily from the Law on Property of 1993 and Law on Commercial Pledge of 1996. These laws create a reasonably straightforward system of taking security on immovable property (mortgage), while the procedure for taking security over movable assets (pledge) remains rather complicated and in some aspects obsolete.

Mortgages are created by registration of a notarised mortgage agreement or a notarised declaration of the owner’s will to create a mortgage in the Land Register. Mortgage can secure any type of debt (present, conditional or future) up to the registered amount. The Land Register is held by local courts under supervision of the Ministry of Justice. A mortgage right enjoys priority upon registration. The database is centralised and fully electronic, and on-line searches of the Land Register can be made against the number or address of a property. However, the register is not completed yet as the land ownership reform is still not completed in Estonia (which leaves buildings built on yet unregistered land out of the system of taking mortgages).

Taking security over movable property and rights is rather complicated as different rules apply depending on the type of property or the parties involved. In order to create pledge rights according to the Law on Property a transfer of possession of the collateralised asset is required. Such system does not satisfy the needs of the modern commerce and restricts the use of movable property as a security. According to the Law on Property a non-possessory pledge can only be established and registered on movable assets whose title is already registered in a specific registry (i.e. vehicles, aircraft, boats, intellectual property rights, etc).

As a positive feature, the Commercial Pledge Act allows commercial enterprises to establish non-possessory “commercial pledges”, which encumber the whole of an enterprise. This pledge has to be registered in the commercial pledge register. The non-possessory feature of the pledge allows a debtor to continue to use and dispose of the assets in the ordinary course of business. However, the system is fairly strict in that it does not allow the parties to define the collateral as they wish (e.g. it cannot be established on only certain assets) and can be used only by enterprises which are registered in the commercial register.

As can be seen from the above remarks, limitations on taking security over movable assets and a non-existent or inadequate registration system can negatively influence access to credit in Estonia. This is particularly true for SMEs which usually have limited resources to offer as collateral. Introducing a modern system of taking and registering of non-possessory pledges would help the Bank in its support to the SME sector.

Insolvency

The insolvency regime is governed by the Bankruptcy Act of 2003 (the “Bankruptcy Act”), which provides for (i) liquidation proceedings or, alternatively, (ii) reorganisation proceedings for insolvent debtors and Reorganisation Act of 2008 (the “Reorganisation Act”), which applies to debtors that are in financial difficulty and will probably become insolvent in the future.
The EBRD Insolvency Sector Assessment (the “Assessment”) completed in late 2009 concluded that the Estonian insolvency law provisions are very high quality as regards commencement of proceedings and dealing with creditors and adequate as regards the assets of the estate. The Assessment noted that there was scope for improvement in the law as it relates to reorganisation proceedings, in particular relating to the information that must be disclosed to creditors, the ability to have an independent analysis of the plan and lack of any requirement that the plan must return to creditors an amount at least equal to what they would receive in a liquidation. The Assessment further noted that there was no restriction on voting on reorganisation plans by connected parties in Estonia.

Among its positive features, the Bankruptcy Act contains adequate provisions detailing the financial condition that triggers insolvency and evidence required to establish such condition, the process for hearing and determining applications and the qualifications required for an insolvency administrator. In addition, the Bankruptcy Act contains particularly well-detailed provisions for the avoidance of pre-bankruptcy transactions.

The prior lack of a rehabilitation (reorganisation) process outside of bankruptcy, identified as a concern by the EBRD in the past, has been addressed with the adoption of the Reorganisation Act. The purpose of reorganisation under the Reorganisation Act is to overcome economic difficulties, restore liquidity, improve profitability and ensure sustainable management. Positive features of the Reorganisation Act include a stay on enforcement proceedings against the debtor’s assets and the suspension of fines or other penalties for late payment, all of which provide the debtor with breathing space to develop a reorganisation proposal. During the proceedings the business activities of the debtor are supervised by a reorganisation adviser, thus minimising the risk of abuse of process by the debtor. Lack of regulation governing sale of assets under the Reorganisation Act (which in respect of bankruptcy is prescribed by the Bankruptcy Act) provides the debtor with flexibility to implement a reorganisation. The Reorganisation Act thus constitutes a big step towards improving the chances for survival of viable business entities while reducing the number of liquidations.

Negative features with respect to insolvency law generally include no provisions under Estonian law requiring a third party in possession of assets of the estate of a debtor to deliver up such assets or make them available to the relevant functionary; this is in contract to disclosure of information by third parties, which is required by law.

Corporate Governance

The Commercial Code (entered into force in September 2005, as amended) is the primary legislation concerning corporate matters and governance. Estonia’s legal framework has been amended several times in the last years in order to harmonise the national legislation with the Acquis Communautaire. The corporate governance framework now appears to be overall sound. The market for listed companies is small (14 companies listed in 2011) and market mechanisms play a limited role in providing incentives for good corporate governance.
Judicial capacity

Estonia is considered to have a well-functioning court system that deals efficiently with commercial matters. Recent reforms have focused on court consolidation and management. The number of courts was reduced by merging the territorial jurisdictions of the existing courts. The objective of the changes was to improve the administration of justice, since larger courts make it possible more evenly to distribute the courts’ work load among judges and reduce the time of judicial proceedings. Having fewer courts was also considered appropriate in the context of Estonia’s small population size. In addition, the adoption of a new Civil Procedure Code and Execution of Judgment Procure Code has helped to speed up proceedings and reduce the number of disputes related to procedural law. The court system has embraced modern technology. An interesting feature introduced by new provisions is the ability to file actions electronically.
### ANNEX 4 – SELECTED ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td></td>
<td></td>
<td></td>
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<td>GDP</td>
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<td>Public consumption</td>
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<td>-15.1</td>
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<td>-16.6</td>
<td>22.5</td>
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<td>Imports of goods and services</td>
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<td>6.3</td>
<td>-6.3</td>
<td>-32.4</td>
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<td>Industrial output</td>
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<td>Labour force (annual average)</td>
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<td>Unemployment (annual average)</td>
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<td>16.9</td>
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<td></td>
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<td>Consumer prices (annual average)</td>
<td>4.4</td>
<td>6.6</td>
<td>10.4</td>
<td>0.2</td>
<td>2.7</td>
<td>5.1</td>
<td>3.0</td>
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<td>Consumer prices (end-year)</td>
<td>5.1</td>
<td>9.6</td>
<td>7.0</td>
<td>-17</td>
<td>5.7</td>
<td>4.0</td>
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<tr>
<td>Producer prices (annual average)</td>
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<td>8.3</td>
<td>7.2</td>
<td>-0.5</td>
<td>3.3</td>
<td>4.5</td>
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<tr>
<td>Producer prices (end-year)</td>
<td>5.9</td>
<td>8.7</td>
<td>5.2</td>
<td>-18</td>
<td>5.4</td>
<td>3.0</td>
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<td>Gross average monthly earnings in economy (annual average)</td>
<td>214</td>
<td>23.5</td>
<td>9.5</td>
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<td>-5.0</td>
<td>7.9</td>
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<td><strong>Government sector</strong></td>
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<td>General government balance</td>
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<td>-2.9</td>
<td>0.2</td>
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<td>-2.5</td>
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<td>General government expenditure</td>
<td>33.6</td>
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<td>General government debt</td>
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<td><strong>Monetary sector</strong></td>
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<td>Broad money (M2, end-year)</td>
<td>27.6</td>
<td>41.1</td>
<td>5.2</td>
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<td>2.1</td>
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<td>Domestic credit (end-year)</td>
<td>611</td>
<td>32.4</td>
<td>8.4</td>
<td>-3.8</td>
<td>-4.9</td>
<td>-5.4</td>
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<tr>
<td>Broad money (M2, end-year)</td>
<td>50.3</td>
<td>47.8</td>
<td>50.1</td>
<td>59.4</td>
<td>58.7</td>
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<td><strong>Interest rates</strong></td>
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<td>Deposit rate (all maturities)</td>
<td>2.9</td>
<td>3.9</td>
<td>4.7</td>
<td>1.6</td>
<td>1.5</td>
<td>19</td>
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<tr>
<td>Lending rate (all maturities)</td>
<td>5.3</td>
<td>6.4</td>
<td>8.0</td>
<td>6.2</td>
<td>9.6</td>
<td>4.6</td>
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<tr>
<td><strong>External sector</strong></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Current account</td>
<td>-2,053</td>
<td>-2,563</td>
<td>-1577</td>
<td>513</td>
<td>513</td>
<td>459</td>
<td>na</td>
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<tr>
<td>Trade balance</td>
<td>-2,992</td>
<td>-3,406</td>
<td>-2,426</td>
<td>-783</td>
<td>-508</td>
<td>-610</td>
<td>na</td>
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<tr>
<td>Exports</td>
<td>7.7</td>
<td>8.034</td>
<td>8.470</td>
<td>6.487</td>
<td>8.745</td>
<td>12,022</td>
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<tr>
<td>Imports</td>
<td>-10.71</td>
<td>11,439</td>
<td>10,296</td>
<td>7,270</td>
<td>9,262</td>
<td>12,632</td>
<td>na</td>
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<tr>
<td>Foreign direct investment, net</td>
<td>1432</td>
<td>1986</td>
<td>1,323</td>
<td>1,82</td>
<td>163</td>
<td>na</td>
<td>na</td>
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<tr>
<td>External debt stock</td>
<td>12,945</td>
<td>17,406</td>
<td>12,025</td>
<td>17,205</td>
<td>18,402</td>
<td>15,504</td>
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<td><strong>Memorandum items</strong></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Population (end-year, million)</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Nominal GDP (Euro, million)</td>
<td>13,391</td>
<td>16,069</td>
<td>16,304</td>
<td>13,840</td>
<td>14,305</td>
<td>15,973</td>
<td>na</td>
</tr>
<tr>
<td>Nominal GDP per capita (Euro)</td>
<td>10,000</td>
<td>12,000</td>
<td>12,200</td>
<td>10,300</td>
<td>10,700</td>
<td>11,900</td>
<td>na</td>
</tr>
<tr>
<td>Share of industry in gross value added (in per cent)</td>
<td>21.0</td>
<td>20.3</td>
<td>20.2</td>
<td>19.5</td>
<td>23.0</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Share of agriculture in gross value added (in per cent)</td>
<td>3.2</td>
<td>3.1</td>
<td>2.7</td>
<td>2.6</td>
<td>3.5</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Current account/GDP (in per cent)</td>
<td>-5.4</td>
<td>-7.2</td>
<td>-9.1</td>
<td>3.4</td>
<td>2.9</td>
<td>2.1</td>
<td>na</td>
</tr>
<tr>
<td>External debt/GDP (in per cent)</td>
<td>10.13</td>
<td>18.0</td>
<td>11.7</td>
<td>125.0</td>
<td>15.8</td>
<td>98.5</td>
<td>na</td>
</tr>
<tr>
<td>External debt/exports of goods and services</td>
<td>167.7</td>
<td>216.7</td>
<td>224.6</td>
<td>265.2</td>
<td>187.6</td>
<td>129.0</td>
<td>na</td>
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</table>
ANNEX 5 – GENDER EQUALITY

Gender Inequality and Human Development

According to the UNDP 2011 Human Development Index (HDI), Estonia is among the countries with a very high human development index. It is ranked 34th out of 187 countries, which is above the regional average for the Europe and Central Asia. The HDI is comprised of three dimensions: health, education and decent standard of living. The country ranks slightly better in terms of the UNDP Gender Inequality Index (GII), at 30th globally. The GII is a composite measure which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions to do so: reproductive health, empowerment, and labour market participation.

Labour force participation and gender pay gap

Women are falling behind men when it comes to labour force participation in Estonia, but not very significantly (the gap in employment has been ranging between 1 and 8 per cent over the last decade). According to Eurostat, in 2011 the proportion of women in employment aged 15 to 64 was 62.8 per cent per cent as compared to 67.7 per cent for men. However, in Estonia, the proportion of women comprising part-time workers is 75 per cent as compared to only 25 per cent for men. While the availability of part-time work may be an indicator of family-work balance, it is noteworthy that compared to full-time workers, most part-timers are often low in status, low paid and are not entitled to same occupational benefits, such as access to training.

Although the difference in the male-female participation in the labour market is not significant, Estonia reports the highest Gender Pay Gap (GPG) among the EU economies. In 2009 the GPG in Estonia was 30.3 per cent. This compares to an average of 17.6 per cent for EU countries when the gross hourly earnings of women and men are compared.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Female</th>
<th>Male</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment rates</td>
<td>62.8%</td>
<td>67.7%</td>
<td>2011</td>
</tr>
<tr>
<td>Part-time employment rates</td>
<td>75%</td>
<td>25%</td>
<td>2011</td>
</tr>
<tr>
<td>Full-time employment rates</td>
<td>48%</td>
<td>52%</td>
<td>2011</td>
</tr>
<tr>
<td>Gender Pay Gap</td>
<td>30.3%</td>
<td></td>
<td>2009</td>
</tr>
</tbody>
</table>

Source: Eurostat 2009, 2011

Gender differences in the areas of study undertaken often determine labour market outcomes. According to UNESCO statistics, in 2009 89 per cent of women in tertiary education studies in the areas of health and welfare whereas only 25 per cent of women were enrolled in subjects such as engineering, manufacturing and construction. Gender segregation in education appears to translate into occupational segregation in the labour market, as the table, below, shows. The GPG may thus be derived not only from the fact that women receive less pay for the same work but to a large degree from the fact that disproportionately large numbers of women are concentrated in lower-paying sectors of the economy.
Estonia: total employment by economic activity | Male | Female
---|---|---
Construction | 91% | 9%
Mining and Quarrying | 88% | 12%
Electricity, Gas and Water Supply | 78% | 22%
Agriculture, Hunting and Forestry | 69% | 31%
Transport, Storage and Communications | 68% | 32%
Manufacturing | 54% | 46%
Real Estate, Renting and Business Activities | 52% | 48%
Financial Intermediation | 31% | 69%
Hotels and Restaurants | 21% | 79%
Education | 20% | 80%
Human health and social work activities | 9% | 91%

Source: Laborsta, International Labour Organisation, 2008

According to the 2012 Women’s Economic Opportunity Index of the Economist Intelligence Unit which ranks 128 countries on their ability to support the economic advancement of women, Estonia is ranked 29th globally and 7th in the EBRD region. The extent and form of women’s participation in the labour force is related to several institutional support mechanisms, such as the provision of childcare services, parental leave policies and flexible work arrangements. Estonia performs equally well in the area of labour policy and practice that covers maternity and paternity leave, availability, affordability and quality of childcare services and legal restrictions on job types, amongst others.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Female</th>
<th>ECA(^8)</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of firms with female participation in ownership</td>
<td>36.3%</td>
<td>36.6%</td>
<td>2009</td>
</tr>
<tr>
<td>Percent of firms with a female top manager</td>
<td>25.8%</td>
<td>19%</td>
<td>2009</td>
</tr>
<tr>
<td>Proportion of full-time workers that are female</td>
<td>44.2%</td>
<td>38.4%</td>
<td>2009</td>
</tr>
</tbody>
</table>

Source: Business Environment and Enterprise Performance Surveys (BEEPS) 2009

**Entrepreneurship, access to finance**

According to the 2009 Business Environment and Enterprise Performance Survey (BEEPS), 36.3 per cent of 273 firms surveyed in Estonia had women among the owners; women constituted 44.2 per cent of full-time workers and 25.8 per cent per cent of firms had women in top management. Of the 37.8 per cent of firms within the BEEPS survey sample that applied for a loan in 2008 in Estonia and had a woman among its owners, 13.3 per cent of these firms were rejected for loans. In comparison, only 10.6 per cent of the 55.5 per cent of firms, with no female owners, that applied for loans were rejected.

\(^8\) ECA – Eastern Europe and Central Asia