



Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of the EU Member States' minimum income schemes

Country Fiche - Estonia

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Summary

The main minimum income scheme in Estonia is subsistence benefit (*toimetulekutoetus*), though the unemployment assistance scheme complements this by providing support to jobseekers who are not eligible – or no longer eligible – for unemployment insurance benefit (i.e. unemployment allowance (*töötutoetus*)). Unemployment allowance recipients who have exhausted their right to unemployment allowance but are still unemployed or inactive can also apply for subsistence benefit. Subsistence benefits are paid only when all other measures aimed at alleviating poverty have been taken up.

Ministry of Social Affairs data indicate that the share of household members receiving subsistence benefits was 1.4% of the total population in 2020 (10 501 households and 18 295 household members). The total amount of expenditure on subsistence benefits was EUR 15.9 million. The share of recipients has decreased in recent years, but no studies have directly estimated the non-take up of subsistence benefits.

The subsistence benefit level has been criticised as inadequate (Laurimäe et al., 2019; Koppel et al., 2018; Welfare Development Plan 2016-2023). Previous analysis indicates that the subsistence level is too low. Since 2016, the subsistence level for a single person household is higher than the minimum estimated food basket, but lower than the estimated subsistence minimum or absolute poverty line. However, the average amount of the subsistence benefit that also includes coverage of housing costs is higher than the absolute poverty line (EUR 251.09 vs. EUR 220.48 per month in 2020). In addition, in April 2022, the Estonian Government approved an increase in the subsistence level from EUR 150 to EUR 200. Low-income groups have benefitted from previous increases in the subsistence level (Masso et al., 2019; Vörk, Paulus and Leppik, 2016), and the subsistence level increase will have positive effects on direct poverty reduction (Trumm and Kasearu, 2011; Vörk, Paulus and Leppik, 2014).

Both subsistence benefit recipients and those receiving unemployment allowance are required to meet activation criteria. Studies suggest that active labour market policy (ALMP) measures generally increase the future work prospects of the participants. In addition, two changes have sought to encourage employment: 1) since September 2020, it is possible to take on temporary work while being registered as unemployed; and 2) of January 2018, part of the family's income is excluded when calculating the amount of subsistence benefit payable.

From an administrative point of view, subsistence benefit applications happen locally and may vary - some municipalities allow online applications, while others require an individual to present themselves in person at the office. Several documents are required to prove eligibility, which can be somewhat complex.

The following sections, first, outline the features of the MI support in place; secondly, describe the eligibility criteria and coverage and consider the adequacy of the financial support provided and the links with other benefits; thirdly, examine the extent of integration with labour market measures to help those supported into employment; fourthly, consider the access provided for the people concerned to social services; fifthly, summarise the governance mechanisms in place; and, finally, review the evidence on the impact on reducing poverty and assisting beneficiaries to find work.

Annex 2 outlines the underlying situation in terms of the relative number of people at risk of poverty or social exclusion and the changes that have occurred over recent years, as well as the characteristics of the people concerned – their gender, age, employment status, education level, country of birth and the structure of the households in which they live. As such, it provides the context in which MI support is operating and indicates the groups on which support needs to be targeted.

1 Description of national schemes providing minimum income support

The main minimum income scheme in Estonia is subsistence benefit (*toimetulekutoetus*). The unemployment assistance scheme complements this by providing income support to jobseekers who are not eligible – or no longer eligible – for unemployment insurance benefit (i.e. unemployment allowance (*töötutoetus*)). Detailed information on unemployment allowance (eligibility criteria, coverage, adequacy, link with labour market activation and other services, and governance) is presented in Annex 1.

Some changes in the subsistence benefit system have affected eligibility and adequacy. The main changes relate to the income considered in calculating the benefit (see Sections 1.1. and 1.2) and increase in the subsistence level (see Section 1.3). There were no major changes in the unemployment allowance scheme before 2020.

This section describes the minimum income scheme, its eligibility criteria (Section 1.1), coverage (Section 1.2), adequacy (Section 1.3) and links to other benefits (Section 1.4).

1.1 Eligibility

According to the Social Welfare Act (SHS), subsistence benefit is provided to a person living alone or to a family whose monthly net income is below the subsistence level, after the deduction of the housing expenses (up to a certain limit) (§131). There are no age restrictions and all legal residents in the country are entitled to the benefit.

Income considered in calculating the benefit is defined after deducting taxes and social contributions. According to §133 SHS, income earned by minors, single and periodic benefits, benefits paid to disabled persons (except disabled parent allowance), student loans, income of students still in education, basic allowance, needs-based study allowance and needs-based special allowance, grants, transport and accommodation benefits paid to unemployed persons, and alimony paid for children are excluded from consideration. The local government may also choose to exclude grants and benefits supporting study or work, or benefits paid to cover specific expenses or losses. In addition, since 2018, part of employment income is not considered income under certain conditions (see Section 2).

The subsistence benefit covers housing costs (subsistence benefit = subsistence level + housing costs – income). Housing costs considered include rent and housing, repayment of loans taken for renovation, water, wastewater and heating services, thermal energy or fuel consumed for supply of hot water, electricity and gas, land tax, building insurance, and transport of municipal waste (§133 SHS).

To obtain the subsistence benefit for a given month, an individual submits their application to the local government (in whose administrative territory their residence is located) not later than the last day of the month (§132 SHS). Benefits are applied and processed at local level and may vary between municipalities – some permit online application while others require individual to submit in person. Applying for subsistence benefit requires several complex documents to prove eligibility. During the COVID-19 pandemic, applications could be submitted by email, or on paper to the local government mailbox, while social workers could be consulted by phone. In exceptional circumstances, documents may be submitted retrospectively. There is no information on how the eligibility rules and application procedures affect different sub-groups.

Those who have exhausted their rights to unemployment insurance benefit but are still unemployed can apply for unemployment allowance (*töötutoetus*) (see annex for details).

1.2 Coverage

In 2020, 69 336 applications to Subsistence benefit were submitted, of which 63 340 were approved (91%). The share of household members of total population that received subsistence benefits was 1.4%. In total, 10 501 households and 18 295 household members received the benefits, a decrease compared to previous years. In 2020, the total amount of expenditure on subsistence benefits was EUR 15.9 million and the average amount of benefit was EUR 251. Of those receiving the subsistence benefit, 34% were registered unemployed, 33% were children (aged 0-17), 2% were students, 7% were pensioners, 6% had reduced work ability, and 2% had no work ability. Total expenditure for households with children amounted to EUR 7.4 million, for households with registered unemployed it amounted to EUR 9.4 million, for households with pensioners it was EUR 1.1 million, and for households with reduced work ability it was EUR 1.6 million¹ (Sotsiaalministeerium, 2021a).

In most cases, subsistence benefits are received for one to three months a year (typically in winter, when housing costs are higher) or 12 months a year. In 2020, 21% of the households that received subsistence benefit received it every month, while 20% received it only once (Sotsiaalministeerium, 2021a).

Benefit take-up or non-take-up has not been studied, and evaluation is difficult because of the lack of data on housing costs². Previous reports suggest that while take-up has not been evaluated per se, it might be low for administrative reasons (Viies, 2009). It is possible to compare the absolute poverty rate with the share of subsistence benefit recipients in the total population. Previous evaluations based on poverty rates indicate that the take-up is fairly high: in 2012, the difference in the share of subsistence benefit recipients of total population (3%) and those in direct poverty (4.8%) was 1.8% (Vörk et al., 2015). In 2020 (survey year), the absolute poverty rate was 2.3%³, but the share of benefit recipients was 1.4% of the total population⁴. Nevertheless, the latest statistics indicate that the number of recipients of subsistence benefits has declined in recent years. In 2016, the share of household members of total population that received subsistence benefits was 2.1%, falling to 1.4% in 2020. In addition, as a minimum income guarantee scheme – and thus the lowest level of social protection – even a low non-take-up rate may be too high.

In Estonia, the unemployment assistance scheme provides an allowance for those who have exhausted their rights to unemployment insurance benefit but are still unemployed. In 2020, 28 909 people received unemployment allowance (EUR 17.7 million)⁵. The main challenge for the Estonian unemployment benefit system is low coverage (Laurimäe et al., 2019). In 2019, for example, 38% of newly registered unemployed people received neither unemployment insurance benefit nor unemployment allowance, only 35% were entitled to unemployment insurance benefit and 26% to unemployment allowance. To be considered eligible for unemployment allowance, a person must have been employed or engaged in activity equivalent to working for at least 180 days during the preceding 12 months. This condition is often difficult to meet, especially for those with intermittent income. (See annex for further details).

¹ One person/household could belong to different groups and thus be counted many times.

² Housing costs are considered in calculating the entitlement and amount of subsistence benefit (see Sections 1.1 and 1.3).

³ The absolute poverty rate is the proportion of people whose equivalised disposable income is below the absolute poverty threshold, which is the estimated subsistence minimum. Absolute poverty rate based on the Statistics Estonia Estonian Social Survey (e.g. Estonian EU-SILC) data.

⁴ Information from the Ministry of Social Affairs.

⁵ Data on recipients requested directly from the EUIF.

1.3 Adequacy

The subsistence level is based on minimum expenditure on consumption of foodstuffs, clothing, footwear and other goods and services to satisfy primary needs. It therefore depends on household income, household structure, subsistence level, housing costs and limits of deductible housing costs established by local governments (§133 SHS). The general formula for calculating the subsistence benefit is: $\text{subsistence benefit} = \text{subsistence level} + \text{housing costs} - \text{income}$. The level is fixed for each year by the State budget. In 2021, the subsistence level was EUR 150 per month for the first household member (or a single person) (100%), while in case of children under 18 years of age it is EUR 180 (120%) for each child. The subsistence level for the second and subsequent adult members of the family is EUR 120 per month (80%) (Sotsiaalministeerium, 2021b). However, in April 2022, the Estonian Government approved an increase in the subsistence level (Sotsiaalministeerium 2022). Benefits are granted by local governments and the entitlement and amount payable are reevaluated every month.

The main critique of the subsistence level has been its low value (Võrk et al., 2015). Since 2016, the subsistence level of the first household member is higher than the minimum estimated food basket, but lower than the estimated subsistence minimum or absolute poverty line. In 2020, the absolute poverty line and subsistence minimum was EUR 220.48 per month, the subsistence level for the first (single) household member was EUR 150 per month and the minimum estimated food basket EUR 104.86 per month. However, if the housing costs are also considered, the average amount of the subsistence benefit per application is higher than the absolute poverty line. In 2020, the average subsistence benefit amount was EUR 251.09 per month and the absolute poverty line was EUR 220.48 per month (Sotsiaalministeerium 2021a).

Increasing the subsistence minimum was discussed in 2018, when an evaluation found that the methodology for estimating the subsistence benefit level introduced in 2002 was out of date and needed revision to consider social inclusion and participation needs (Koppel et al., 2018). In April 2022, the Estonian Government approved an increase in the subsistence level from EUR 150 to EUR 200 for the first household member, for the second and subsequent adult member from EUR 120 to EUR 160 and in case of children from EUR 180 to EUR 240. The change is expected to increase the number of households receiving support by about 1,300 (Sotsiaalministeerium 2022).

As regards unemployment allowance, its level increased recently. In January 2021, the unemployment allowance was increased from EUR 189 to EUR 292 per month, putting it at 50% of the monthly minimum wage in 2021 (compared to 35% in 2020 (§31 TTTS) (see annex for further details).

1.4 Links with other benefits

Although there are no restrictions on receiving other benefits at the same time as the subsistence benefit, these are considered income in the calculation of that benefit (see exceptions in Section 1.1). In 2020, family benefits (parental benefit, child allowance and other monthly family benefits) accounted for 35%, disability benefits (work ability allowance and work-incapacity pensions) for 27%, and unemployment benefits for 9% of the (household) income considered when determining subsistence benefits (Sotsiaalministeerium, 2021a).

There are no separate housing allowances or support for essential services for subsistence benefit recipients. However, upon determination of entitlement and amount of the benefit, housing expenses are considered within established limits (rent, electricity, etc.). In 2020, heating accounted for 20% of total costs considered when determining subsistence benefits, electricity accounted for 11%, and water and sanitation for 8.2% (Sotsiaalministeerium, 2021a). In addition, in certain cases, upon calculating a subsistence benefit, a local authority may take into account other single housing expenses within a subsistence limit during one calendar year (§133 SHS).

A lump sum top-up benefit of EUR 15 per month is available to single-parent households, payable to a person receiving the subsistence benefit and whose dependants/family members are aged under 18 years.

Local governments pay various additional benefits from their own budgets, such as special occasion benefits (birthdays, starting school, Christmas, etc.), benefits on unexpected events (tragedies, funerals, etc.). They have their own rules for applying such benefits, but the circle of beneficiaries is typically wider than those in receipt of subsistence benefits. Some of those additional benefits are needs-based and others are universal.

There is no information or data on how many recipients of unemployment allowance receive other social benefits (family benefits, etc.). However, there are some exceptions where benefits cannot be received at the same time (see annex for further details).

2 Links with labour market activation

There is a link between activation measures and social assistance benefits. Local governments can refuse or reduce subsistence benefits to people of working age or who are capable of working who are not studying or working and who have repeatedly and for no good reason refused to accept suitable positions (§134 SHS). Local governments have access to the EUIF's information system to check whether people applying for subsistence benefits have registered as unemployed at the EUIF. In 2020, local governments refused to pay support in 109 cases, usually related to the activation criteria.

Subsistence benefit recipients who are registered as unemployed are subject to the same activation regime as other registered unemployed or other unemployment allowance recipients (e.g. individual action plan). There are no data on the activation services received by the recipients of subsistence benefits from local governments or the EUIF⁶, nor is the number of subsistence benefit recipients required to actively seek work readily available. However, statistics suggest that in 2020, 34% of household members receiving the benefit were registered unemployed (30% in 2019) (Sotsiaalministeerium, 2021a).

Subsistence benefit recipients continue to receive full benefits when participating in ALMP measures. Grants, transport and accommodation benefits paid on the basis of the Labour Market Services and Benefits Act are not included as income when calculating the subsistence benefit (§133 SHS). Local governments can also exclude grants and scholarships that encourage work and study.

Since 2018, if a subsistence benefit applicant or member of a family applying for the benefit starts to earn an income and was granted subsistence benefit for at least two months, the following shall not be included in the income test (§133 SHS): 1) 100% of earned income during the first two months; 2) 50% of earned income during the following four months. This exception can be used by each family member once in a 24-month period. In 2019, 443 unique households used the 50% exception and 1 127 used the 100% exception. In 2020, these numbers were slightly lower (362 and 822, respectively).⁷ Income earned by dependent children (those studying in basic or high school, up to 19 years of age) is not considered income for the purposes of calculating subsistence benefit.

While the changes implemented in 2018 are expected to motivate working (Sinisaar, 2018), there is little research into the effect of subsistence benefit activity measures. At the end of 2021, the Ministry of Social Affairs commissioned a study to assess the impact of subsistence benefits and the effect of changes in the subsistence benefit

⁶ Based on information requested from the EUIF.

⁷ Based on information requested from the Social Insurance Board.

system on economic coping and labour market activity. The results of the study should be available in mid-2022.

The EUIF is responsible for providing ALMPs and the payment of unemployment benefits, including unemployment allowance. All unemployment allowance recipients are required to actively seek work and comply with their individual action plan (§3 TTTS). Failure to comply with activity requirements results in sanctions. Evaluation studies have examined the impact of labour market training (Lauringson et al., 2012; Anspal et al., 2012), wage subsidies (Anspal et al., 2012), work experience and business-start-up grants (Villsaar et al., 2012 and 2014), and mobility support (Melesk et al., 2019). They found that the various measures increased the future employment prospects of the participants. (See annex for further details).

3 Links to social services and integrated provision of targeted social services

Linking benefits with social services is a key challenge for the Estonian social protection system. There is no one-stop shop approach, with benefits, activation services and social services for unemployed and inactive people provided by different institutions, including local municipalities, the Estonian National Social Insurance Board, and the EUIF. While labour market services are provided uniformly across Estonia at a predetermined service standard, the availability and quality of social services depends on the local municipality (Vörk et al., 2015). In 2016, the amended SHS aimed to improve the availability and quality of social services by developing a common quality framework (Vörk et al., 2015; SHS). The quality principles introduced in 2018 include person-centeredness, empowering nature of the service, orientation towards outcome, needs-based approach, integral approach, protection of a person's rights, involvement, competence and ethics of the employee, and the good work organisation and high-quality management of the organisation (§3 SHS). Although the amendment to the regulation and introduction of the quality framework has not been evaluated, there have been some revisions to clarify the standards.

Local governments may require applicants or recipients of subsistence benefit to be registered with the EUIF in order to ensure they are actively seeking a job. A recently published Organisation for Economic Co-operation and Development (OECD) report recommended several areas of improvement for ALMP provision in Estonia, including the need to network with other institutions (including municipalities) to assist those weakly attached to the labour market and find solutions together (OECD, 2021).

Local municipalities must assess whether an applicant for subsistence benefit (or their family members) also need other social welfare services (§134 SHS). According to the SHS, the task of local municipalities is to provide and finance the following social services: debt counselling; domestic service; personal assistant; shelter service/safe house service; provision of dwelling; social transport; general care services provided outside the home; and childcare services.

Services are available for those not fit for work (e.g. personal assistance, social transport) in order to increase their independent coping ability and participation in all areas of life (§27, §38 SHS). Those with reduced work ability can also use services provided by the EUIF (e.g. peer support, working with a support person, work rehabilitation, assistive work equipment, commuting benefits, support for continuation of employment).

If a person needs long-term and diverse assistance to improve their ability to cope independently, the principle of case management will be used to coordinate cooperation between several assistance organisations (§9 SHS). The provision of assistance shall include the preparation of a case plan and coordination of an activity

schedule, determination of a case coordinator, and an agreed procedure for mutual exchange of information.

There is no public information on the participation of the recipients of subsistence benefits in such services. Information on the total number of participants and costs (all service users) shows that in 2020, 2 041 people used debt counselling service (total cost EUR 192 000), 15 500 people received social transport services (EUR 5.3 million), 8 279 people received domestic service (EUR 10.5 million), 3 030 people received support person service (EUR 7.8 million), 9 196 households received provision of dwelling service (EUR 16.1 million), 411 people received personal assistance services (EUR 1.3 million), 5 581 children received childcare services (EUR 14.7 million), and 55 272 persons received other social services offered by local governments (e.g. food aid, health promotion activities, events, counselling services) (S-veeb, 2021). However, by the end of 2022, a study commissioned by the Ministry of Social Affairs will be published, which will analyse the impact of subsistence benefit and debts on socio-economic compliance and labour market activity.

Access to general services information is provided under unemployment allowance (health insurance and dental care). The employability and willingness of those unemployed to find a job are assessed by EUIF on the basis of individual action plans. The EUIF also provides services to meet specific needs, such as debt counselling, addiction counselling or psychological counselling (EUIF, 2021b). All those registered as unemployed are covered by public health insurance, while dental care is subject to a partial co-financing scheme in the form of benefit-in-kind (see annex for details).

4 Governance mechanisms

Subsistence benefits (including supplementary benefit) are financed from general tax revenue, with earmarked funds allocated from the central government to Estonia's 79 local governments each year. The administration of the scheme is the responsibility of local governments, which manage applications, assess eligible households, and arrange payment. The number of employees varies greatly from local government to local government. In 2020, 342 employees were involved in processing applications for subsistence benefits.⁸ While it seems likely that local governments may be best placed to assess the need for benefits and social assistance, personnel differences may affect local government capacity to deliver those services. Similarly, the application process may vary in complexity between local authorities (see Sections 1.1. and 5).

A general evaluation of welfare policy is carried out by the Ministry of Social Affairs. The Ministry has adopted the Welfare Development Plan 2016–2023, which includes evaluation principles and social indicators for performance evaluation (e.g. General objective No. 2. Reducing social inequalities and poverty, with greater social inclusion measured in terms of absolute and relative poverty rates). Each year, the Ministry publishes output indicators on subsistence benefit recipients (numbers of households and household members, average amount of benefits, etc.) and share of applications approved. In general, regular outcome evaluations are missing, but annual EUROMOD updates estimate the effect of subsistence benefit policy rules on alleviation of income inequality. In addition, annual poverty rates with and without subsistence benefit is calculated and used. Again, there is no regular cycle of evaluations, but ex ante or ex post evaluations of the impact of new or existing measures may be carried out as needed. Analyses are also carried out to improve measures or increase their efficiency. In general, these evaluations are published.

⁸ Information received from the Social Insurance Board.

Labour market services and unemployment benefits (including unemployment allowance) are provided by the EUIF, which consists of a central office and 15 county departments, with a total of 29 counselling centres (as at end-2020) (Eesti Töötukassa, 2020). Detailed information on the governance mechanisms of unemployment allowance is presented in the annex.

5 Impact of MI schemes

Previous evaluations indicated that the bottom decile groups benefitted from increase in the subsistence level (Masso et al., 2019; Võrk, Paulus and Leppik, 2016). In 2016, the subsistence level increased to EUR 130 (from EUR 90 in 2015). As a result, the mean income of first decile group increased by 8.3% due to the changes in means-tested benefits (Võrk, Paulus and Leppik, 2016). Ex ante analysis has indicated the positive effect of the subsistence level increase on direct poverty reduction (Trumm and Kasearu, 2011; Võrk, Paulus and Leppik, 2014). Since 2019, the subsistence level has remained unchanged, resulting in income loss among the first decile group in 2021 compared to 2020 (Laurimäe and Piirits, 2021). A study carried out by Praxis found that the current methodology for estimating the subsistence minimum should be changed, as it was established in 2004 and considers only basic needs.

In the case of unemployment allowance, increases in the rate of this as well as of unemployment insurance benefits and unemployment allowance has had a positive effect on income (income increased by 0.12% between 2020 and 2021), especially in the first decile group (+0.73%) (Laurimäe and Piirits, 2021).

How low coverage is one of the key challenges for the Estonian unemployment protection system. In 2019, 38% of newly registered unemployed people received neither unemployment insurance benefit nor unemployment allowance (see Section 1.2). The main reason for this was an insufficient employment record preceding registration as unemployed. In 2020, the Ministry of Social Affairs notified its intention to draft legislation to improve the system (including coverage) (Laurimäe, 2020b). The government's 100-day plan was approved at the beginning of 2021 and work has continued to improve the protection it provides, including extending coverage to new target groups (e.g. sole proprietors) and the adjustment of benefit levels to economic cycles (Vabariigi Valitsus, 2021).

The share of approved applications for subsistence benefits is quite high (91%), but take-up has not been examined directly. Previous estimates based on poverty rates indicate that the take-up of subsistence benefits is fairly high (see Section 1.2). Viies (2009) noted that non-take up is likely affected by administrative issues, with applications being complex and requiring several documents (see Section 1). The Ministry of Social Affairs is working on a draft amendment to the Social Welfare Act that will (among other things) amend the list of documents required to apply for subsistence benefits (Sotsiaalministeerium, 2021d). It also plans to improve the availability of social support services (e.g. debt counselling) to improve benefit recipients' situations as a whole. Previous research found that low incomes can put households in difficult situations, with insufficient income to pay loans, rents, or utility bills. In 2019, for example, 23% of household members receiving subsistence benefits were in debt (Sinisaar and Luide, 2021).

The theoretical and empirical literature suggests that it is important to find a balance between the amount of benefit and maintaining motivation to work. It is suggested that lower benefits will motivate people who are able to work to move to the labour market more quickly (Leetmaa et al., 2012; Laurimäe et al., 2019). In addition, several reforms to Estonian minimum income schemes are expected to encourage employment and working (Sinisaar, 2018; Laurimäe, 2020a). Firstly, as of January 2018, part of the family's income is excluded when calculating the subsistence benefit. Secondly, since September 2020, it is possible to take on temporary work while being

registered as unemployed. The effects of these changes on employment and incomes will be analysed in 2022.

Governance and integrated service provision is complicated by the fact that benefits, activation services and social services for the unemployed and inactive people are provided by different institutions, including local municipalities and the EUIF. Research suggests that the various institutions should work more closely together, for example to provide active labour market services (OECD, 2021). Subsistence benefits are administered at local level, the assumption being that they are better assessed locally. This may, however, make the application process more complex and varied (e.g. not all municipalities allow online applications). When providing social assistance, it is important for social workers to be more proactive to reach those who are not aware of the possibility of assistance/help or who cannot ask for it⁹. Lack of resources remains the main reason for the lack of preventive work, however.

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- **Interviews and consultation with the stakeholders:**
- Data and additional information on unemployment allowance (numbers of recipients, participation in active measures, caseloads) received from the EUIF on 11 November 2021.
- Data and additional information on subsistence benefits requested from the Social Insurance Board on 28 October 2021 (data not yet received).
- Information on take-up of subsistence benefits and participation in active measures offered by the EUIF received from the Ministry of Social Affairs on 14 October 2021.

7 Annex 1

This annex presents detailed information on the unemployment allowance (*töötutoetus*) scheme which complements the main subsistence benefit scheme (*toimetulekutoetus*).

Financed from the State budget, unemployment allowance is a flat-rate benefit and lasts a maximum of 270 days. If an individual has exhausted their right to unemployment benefit but is still unemployed, they can apply for means-tested social assistance benefit.

Before the COVID-19 crisis, there were discussions on the need to change the unemployment benefit system to increase adequacy and coverage. With the outbreak of COVID-19, some changes were introduced earlier than planned, with unemployment allowance and unemployment insurance benefit rates increased and temporary employment allowed.

Eligibility

§3 and §9 of the Labour Market Services and Benefits Act (TTTS) state that a person must be a resident of Estonia and aged between 16 and the pensionable age (64 in 2021) in order to register as unemployed and receive unemployment allowance. Entitlement to unemployment allowance is conditional on previous employment record (180 calendar days of work or equivalent activity in the preceding 12 months). This may exclude those in precarious employment and those with fixed-term contracts. The allowance is also paid to individuals who were not previously been employed but whose previous activity is treated as work, such as full-time study, military service, or various care responsibilities (§26 TTTS). A person may be eligible for unemployment insurance benefits for only 180 days, but can receive unemployment allowance for up to 270 days.

Unemployment allowance is granted to individuals irrespective of the size of their household. To be eligible for unemployment allowance, a person's monthly income should not exceed the monthly (31-day) unemployment allowance rate (EUR 292.02 in 2021) (§26 TTTS). Earnings, the State old-age pension and other benefits (e.g. parental benefit) are counted as income. Assets and property are not considered, nor are grants, transport and accommodation benefits, subsistence benefit, child allowance and childcare allowance (as well as other family benefits received on the basis of the Family Benefits Act, except for the allowance for families raising seven or more children), social benefits for disabled people, child maintenance support, benefits from the voluntary unemployment fund, and remuneration for temporary work. However, an individual cannot receive unemployment allowance and work ability allowance simultaneously - these are both considered unemployment/jobseekers' risk allowances (§26 TTTS). Since September 2020, it is possible to take on temporary work while registered as unemployed.

An unemployment allowance application can be submitted online, at a suitable unemployment fund department, or by phone. An application must be submitted together with an identity document and documents proving previous employment. If a person worked in Estonia before being registered as unemployed and their employment relationship ended after 1 July 2014, the Estonian Unemployment Insurance Fund (EUIF) uses the data on the Employment Register, or it may request additional documents. In the case of sole proprietors or students, data from the Commercial Register and the Estonian Education Information System are used. Overall, the process is quite straightforward, as it is possible to apply online and, in most cases, eligibility documents are considered automatically (EUIF, 2021a).

Coverage

In 2020, 40 934 applications were submitted, of which 25 518 were approved (62%). The main reasons for refusal were insufficient employment periods during the

preceding 12 months (32%), granting of unemployment insurance benefit (25%) or work ability allowance (2% of cases), termination of registration as unemployed (10%) and termination of proceedings (e.g. missing documents) (12%). In 2% of cases, the person's income exceeded the monthly (31-day) unemployment allowance rate¹⁰.

In 2020, 28 909 people received unemployment allowance (EUR 17.7 million), of whom 54% were women and 46% men¹¹. Approximately 25% of the recipients were aged 16-24, 65% were aged 25-55, and 10% were aged between 55 and pensionable age. In 2020, the number of beneficiaries was higher than in previous years due to the COVID crisis and rising unemployment. In 2019, a total of 22 098 (EUR 11.4 million) received unemployment allowance, with 26 650 (EUR 10.4 million) in 2018 (EUIF, 2021b).

The main challenge for the Estonian unemployment benefit system is low coverage (Laurimäe et al., 2019). In 2019, for example, 38% of newly registered unemployed people received neither unemployment insurance benefit nor unemployment allowance, only 35% were entitled to unemployment insurance benefit and 26% to unemployment allowance. This share rose during the COVID-19 crisis because of the increased number of unemployed with longer previous employment (Laurimäe and Koppel, 2021). To be considered eligible for unemployment allowance, a person must have been employed or engaged in activity equivalent to working for at least 180 days during the preceding 12 months. This condition is often difficult to meet, especially for those with intermittent income (e.g. people working under a civil law contract). This criterion is also the main reason for not granting the allowance.

Adequacy

The daily rate that forms the basis for the calculation of unemployment allowance shall be established by the State budget for a budgetary year. However, the 31-fold daily rate shall not be less than 50% of the minimum monthly wage rate in the last year (§31 TTTS). In 2020, the minimum monthly wage rate was EUR 584. The current threshold (unemployment allowance monthly rate EUR 292.02) became applicable in January 2021 (EUIF, 2021a). The amount of unemployment allowance does not depend on the size or composition of the household.

The low level of the unemployment allowance was acknowledged (Welfare Development Plan 2016-2023), being below the absolute poverty line and estimated subsistence minimum until 2020. The low coverage and benefit levels resulted in a high at-risk-of-poverty rate among the unemployed (52.6% in 2019) (Eurostat, ilc_li04). COVID-19 helped to accelerate changes in the unemployment benefit system (Laurimäe and Masso, 2021), with the level of unemployment allowance increased. In January 2021, the unemployment allowance was increased from EUR 189 to EUR 292 per month, putting it at 50% of the monthly minimum wage in 2021 (compared to 35% in 2020 (§31 TTTS)).

Link with other benefits

There is no information or data on how many recipients of unemployment allowance receive other social benefits (family benefits, etc.). However, there are some exceptions where benefits cannot be received at the same time. Family benefits, except the benefit for a parent of a family with seven or more children, may be combined with the unemployment allowance (§26 TTTS). Unemployed people can also apply for social benefits for disabled people. However, unemployment allowance and work ability allowance cannot both be claimed together, as both are considered unemployment risk allowances (§26 TTTS).

¹⁰ Data on applications requested directly from the EUIF.

¹¹ Data on recipients requested directly from the EUIF.

It is possible to receive benefits on the basis of §26 of the Labour Market Services and Benefits Act, including the grants, transport and accommodation benefits to which a participant in labour market training or work practice is entitled. All registered unemployed people are also covered by public health insurance (Haigekassa, 2021).

Link with labour market activation

The EUIF is responsible for providing ALMP and the payment of unemployment benefits, including unemployment allowance. All unemployment allowance recipients are required to actively seek work and comply with their individual action plan (§3 TTTS). The aim is to plan the activities that are necessary to find and continue the person's employment. The individual action plan sets out their professional and occupational skills, recommendations of a career counsellor (if any), and the activities and labour market services necessary. The plan is prepared by the unemployed person and the EUIF together (§10 TTTS).

Failure to comply with activity requirements results in sanctions. The unemployment allowance is suspended for 10 days if the person refuses an offer of suitable work or refuses to comply with their individual action plan (§32 TTTS). If the person does not present themselves at the EUIF at a fixed date for the first time, the benefit is suspended for a period beginning on the day following the date of the person's last visit and ending on the day on which the unemployed person appears at the EUIF for the next visit. The benefit is stopped if the person refuses an offer of suitable work for a second time, does not show up at the EUIF at a fixed date for the second time, or refuses to comply with their individual action plan for the second time (§33 TTTS).

ALMP measures include career counselling and information provision, labour market training for unemployed and jobseekers, job search training, communication support at interview, work experience, and all kinds of counselling activities (e.g. psychological counselling, social rehabilitation, debt counselling) (§9 TTTS; EUIF, 2021b). The grants, transport and accommodation benefits paid by the EUIF, remuneration for temporary work, and degree study allowance are not counted as income and can be received at the same time as the unemployment allowance (§26 TTTS). In 2019, 55% of unemployment allowance recipients participated in the services provided by the EUIF, including 35% in career services, 24% in training, 5% in counselling services, and 11% in other services¹². In 2020, the total share was slightly lower (48%) due to the COVID-19 restrictions.

Since September 2020, it is possible to take on temporary work while being registered as unemployed (§4 TTTS; Laurimäe, 2020a). Previously, an unemployed person had to terminate their unemployment status if they took on work. The possibility of temporary work is intended to help the unemployed person to stay in touch with the labour market and encourage people to return to work. An unemployed person may temporarily work up to eight days per month (e.g. eight days under one contract, or eight contracts for one working day apiece). Work tasks may be undertaken for up to 12 months in a 24-month period. The remuneration paid for the temporary employment may not exceed 40% of the minimum wage for the current year (EUR 233.60 per month in 2021). Since September 2020, 2 297 (6.6%) unemployment allowance recipients worked temporarily, of whom 1 587 were women and 710 were men. The average duration of temporary employment was 2.3 days, and the average salary for days of temporary work was EUR 105¹³.

Evaluation studies have examined the impact of labour market training (Lauringson et al., 2012; Anspal et al., 2012), wage subsidies (Anspal et al., 2012), work experience and business-start-up grants (Villsaar et al., 2012 and 2014), and mobility support (Melesk et al., 2019). They found that the various measures increased the future

¹² Data on participation in services requested directly from the EUIF.

¹³ Data on temporary work requested directly from the EUIF.

employment prospects of the participants. The results of a survey of counselling services (debt, psychological and addiction counselling) carried out by the EUIF showed that one-third of those who received counselling services worked for at least one month in the six months after the service (Villsaar et al., 2015). The labour market participation of those who participated in job search support services (e.g. job search training and job club) was also researched, with a study showing that one year after the end of the service, 42% of the participants were working and one-fifth were registered as unemployed (Medkova et al., 2017).

Links to social services and integrated provision of targeted social services

In Estonia, the employability and willingness of unemployed people to find a job are assessed by EUIF on the basis of individual action plans, which identify the activities necessary for the person to find and continue employment. The EUIF also offers services to meet specific needs, such as debt counselling, addiction counselling or psychological counselling (EUIF, 2021b).

There is no active inclusion for those not fit for work, as unemployment allowance is only paid to those actively seeking work. It is therefore not available to those receiving work ability allowance (§26 TTTS).

All registered unemployed people are covered by public health insurance, while adults' dental care is subject to a partial co-financing scheme in the form of benefit-in-kind. For adults, a 50% co-insurance was implemented, with benefit capped at EUR 40 per year. Those over 63 years of age, pregnant women, mothers of children up to one year old, people with a greater need for dental treatment because of a particular condition (e.g. diabetes), and people eligible for a work incapacity pension or an old-age pension receive dental benefits, with a 15% co-insurance, with benefit capped at EUR 85 per year. Discussions are underway on the extension of those eligible for dental benefit to the unemployed and recipients of subsistence benefits. The target group is approximately 55 000 persons (Sotsiaalministeerium, 2021c).

Governance mechanisms

Labour market services and unemployment benefits (including unemployment allowance) are provided by the EUIF. According to the Unemployment Insurance Act (TKindIS), the EUIF is a legal person in public law (§1), whose statutes shall be established and amended by the Government of the Republic of Estonia. The EUIF is a public-private entity rather than a State agency, and is governed by a tripartite Supervisory Board composed of the representatives of the government, employees (Estonian Trade Union Confederation; Estonian Employees' Unions' Confederation) and employers (Estonian Employers' Confederation) (§28, §29 TKindIS). The structural units of the EUIF are departments, whose competence, rights, duties, and responsibilities are provided in the department's statutes, which are approved by the management board of the EUIF.

The EUIF consists of a central office and 15 county departments, with a total of 29 counselling centres (as at end-2020) (Eesti Töötukassa, 2020). The central office is responsible for strategic management and development, as well as processing all applications for benefits and allowances. Services are provided directly to recipients at regional level. County departments provide services and advice to jobseekers, employees and employers. At the end of 2020, EUIF employed 951 people, 612 of whom were directly involved in customer consulting and services provision (Eesti Töötukassa, 2020).

The EUIF monitoring framework is designed so that stakeholders define its strategic goals and key activities. The current EUIF Development Plan 2020-2023 was approved by the Supervisory Board in December 2019. It sets out the performance indicators used to evaluate progress towards goals and serves as the basis for the preparation of annual action plans. The annual action plan lays down the sub-indicators and targets as set in the development plan. Implementation of the Development Plan is the

responsibility of the Management Board of the EUIF and is assessed by the Supervisory Board once a year. The unemployment allowance is evaluated only within this larger evaluation framework. If necessary, however, an ex-ante or ex post evaluation of the impact of new or existing measures is carried out (e.g. Laurimäe et al., 2019). Analyses are also carried out to improve measures or increase their efficiency.

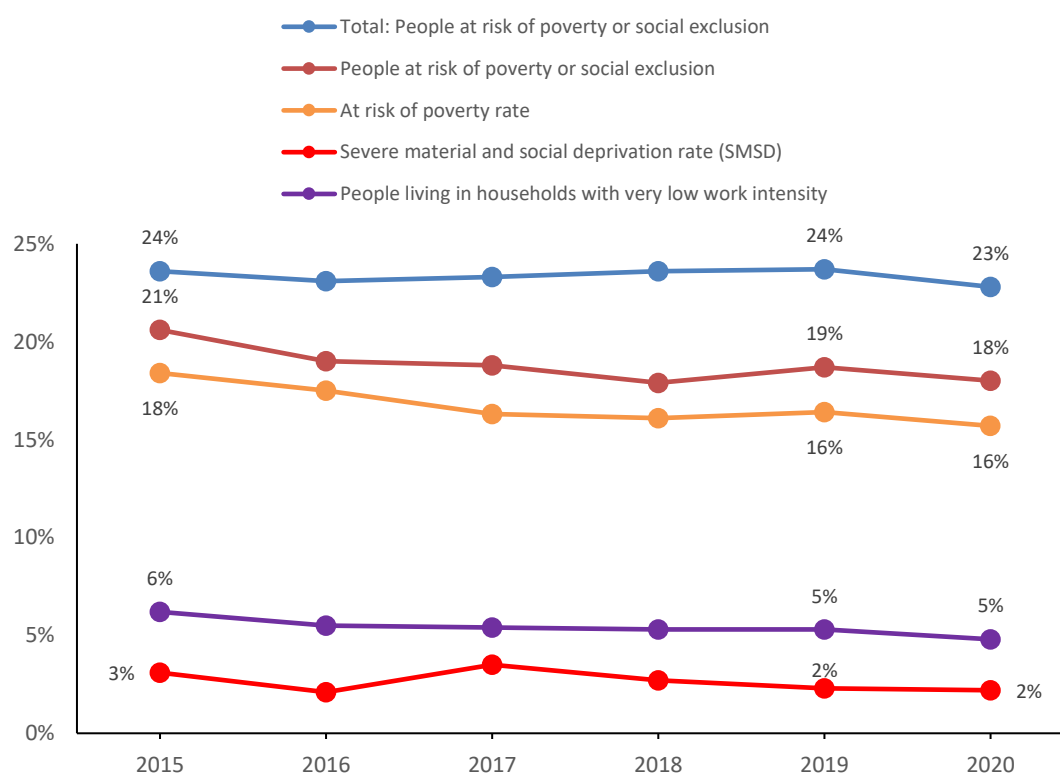
Impact of unemployment allowance

Increases in the rate of unemployment insurance benefits and unemployment allowance has had a positive effect on income (income increased by 0.12% between 2020 and 2021), especially in the first decile group (+0.73%) (Laurimäe and Piirits, 2021).

Low coverage is one of the key challenges for the Estonian unemployment protection system. In 2019, 38% of newly registered unemployed people received neither unemployment insurance benefit nor unemployment allowance. The main reason for not granting the allowance was an insufficient employment record preceding registration as unemployed. In 2020, the Ministry of Social Affairs notified its intention to draft a law to improve the unemployment protection system (including coverage) (Laurimäe, 2020b). The government's 100-day plan was approved at the beginning of 2021 and aimed to continue working on changes to the unemployment insurance system, including the coverage of new target groups (e.g. sole proprietors) and the adjustment of benefits with economic cycles (Vabariigi Valitsus, 2021).

8 Annex 2

Figure 1. AROPE indicator and components, Estonia, 2015-2020 (%)

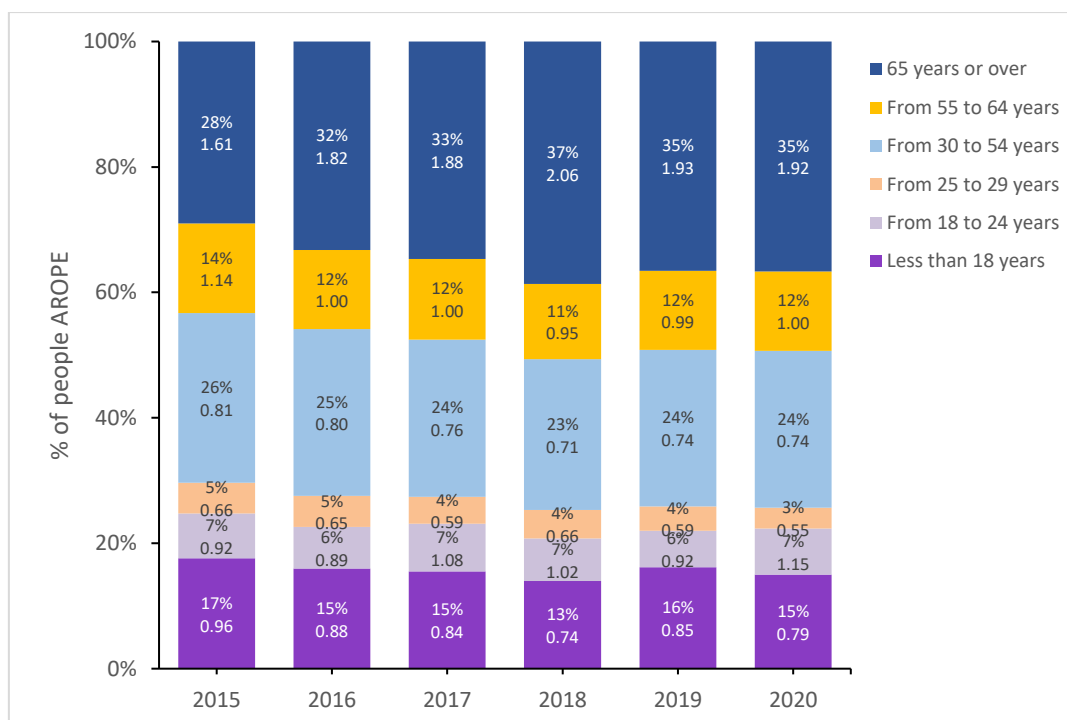


Note: The line for "Total: People at risk of poverty or social exclusion" indicates the trend for overall population, while the other lines show the figures for individuals aged 0-64.

Source: Eurostat EU-SILC indicators [ilc_peps01n], [ilc_li02], [ilc_mdsc11] and [ilc_lvhl11n]. Data downloaded on 14/02/2022.

- In 2020, the share of total population at risk of poverty or social exclusion (AROPE) in Estonia stood at 22.8%, while that of those aged 0-64 was much lower at 18.0%, reflecting the high risk among those aged 65 and over. Over the period 2015-2020, there was a reduction in the share for those aged 0-64, but only a slight fall for those older as the risk for the latter increased significantly.
- Most of the people aged 0-64 at risk of poverty or social exclusion (15.7 % had household disposable income of below 60% of the median (i.e. they were at risk of poverty). The risk of poverty declined for this age group over the period 2015-2020.
- Only just over a quarter of those at risk of poverty or social exclusion in 2020 lived in households with very low work intensity (4.8% of those aged 0-64).
- Just 12% of those at risk of poverty and social exclusion were affected by severe material and social deprivation (2.2% of those aged 0-64).

Figure 2. Division of people aged 0-64 and in AROPE by age group, Estonia, 2015-2020 (%)

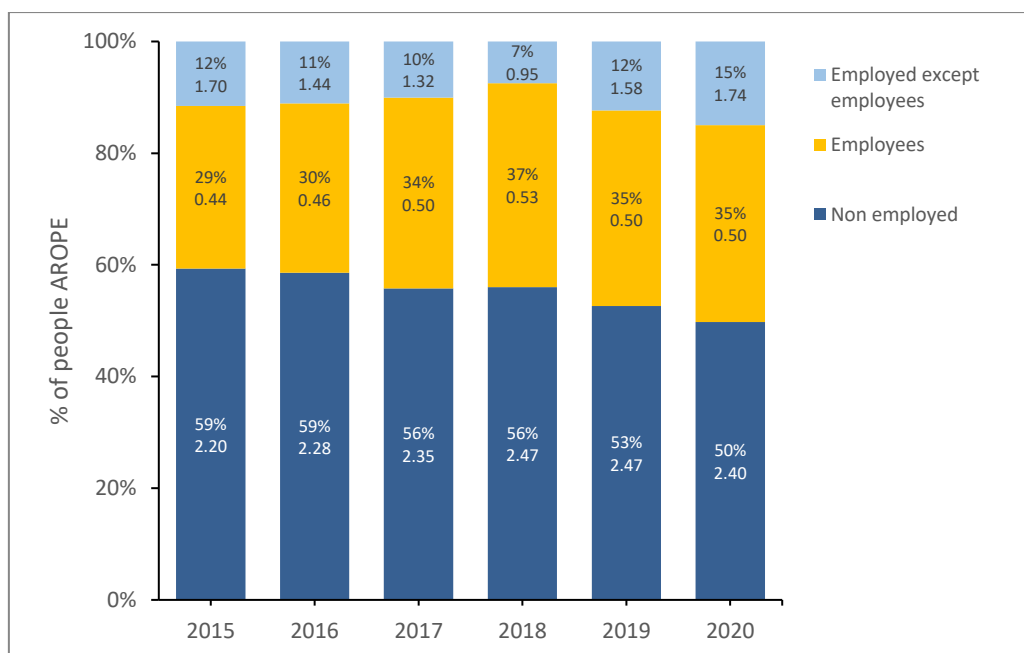


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps01n], own calculations. Data downloaded on 14/02/2022.

- Significantly more men than women aged under 65 were at risk of poverty or social exclusion in 2020 (55% of the total). Although there were more men than women in the population, the difference was only small, so that men were more likely than women to be at risk.
- Older people aged 65 and over are considerably more likely to be at risk of poverty or social exclusion than those in younger age groups, these accounting for 35% of the total at risk in 2020.
- By contrast, children under 18 are no more likely to be at risk than adults, these making up only 15% of the total at risk in 2020.
- Young people aged 18-24 are, however, more likely to be at risk than older people of working age.

Figure 3. *Division of people aged 18-64 in AROPE by most frequent economic activity status, Estonia, 2015-2020 (%)*

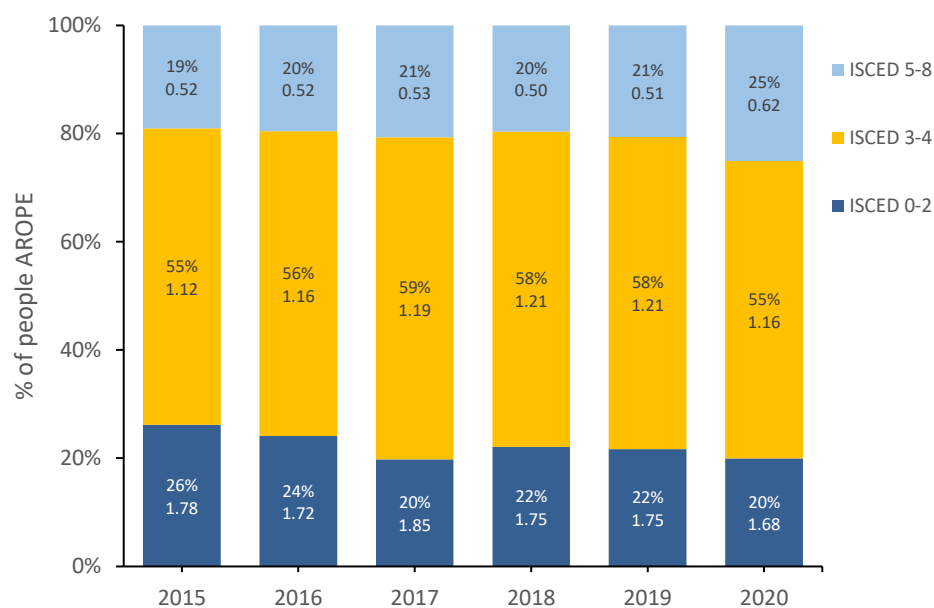


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps02n] and [ilc_lvhl02], own calculation. Data downloaded on 14/02/2022.

- People aged 18-64 not in employment accounted for half of the total at risk of poverty or social exclusion in 2020, their likelihood of being at risk being substantially higher than those in employment. This likelihood, moreover, seems to have increased over the period 2015-2020, though the decline in their numbers mean that their share of the total at risk tended to fall.
- Among the employed, the self-employed - though also family workers whose numbers are much smaller - have a far higher likelihood of being at risk than employees, making up 15% of the total at risk in 2020,

Figure 4. Division of people aged 18-64 in AROPE by education level, Estonia, 2015-2020 (%)

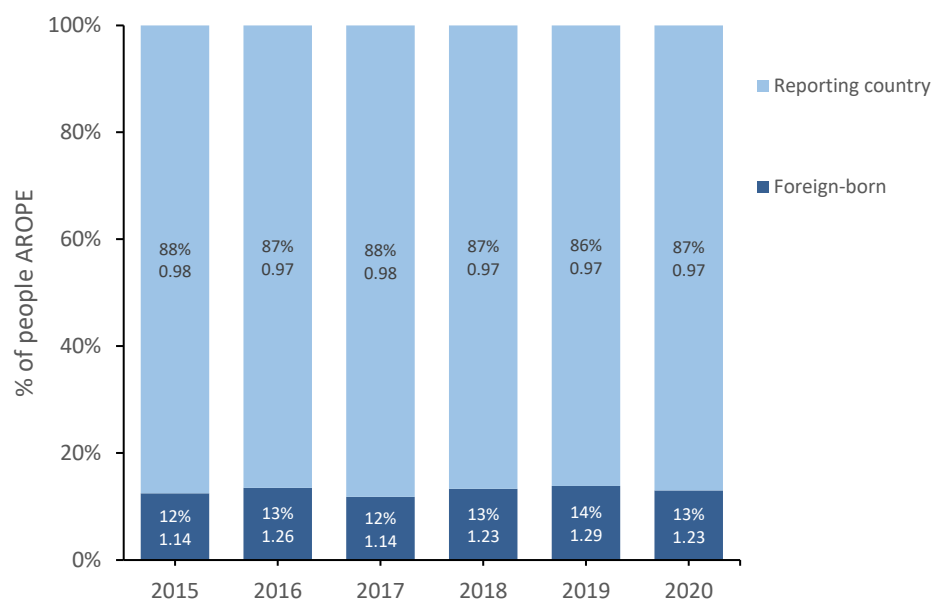


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps04n] and [ilc_lvps04], own calculation. Data downloaded on 14/02/2022.

- People aged 18-64 with only basic schooling (ISCED 0-2) are much more likely to be at risk of poverty or social exclusion than those with lower education levels. Their relatively small numbers, however, mean that they made up only 20% of the total at risk in 2020. This share fell over the period 2015-2020.
- Those with tertiary education, by contrast, have a far lower likelihood of being at risk than other groups, but their relatively large numbers mean that they accounted for 25% of the total at risk in 2020 – i.e. more than those with only basic education. Their share, moreover, is tending to increase.

Figure 5. *Division of people aged 18-64 in AROPE by country of birth, Estonia, 2015-2020 (%)*

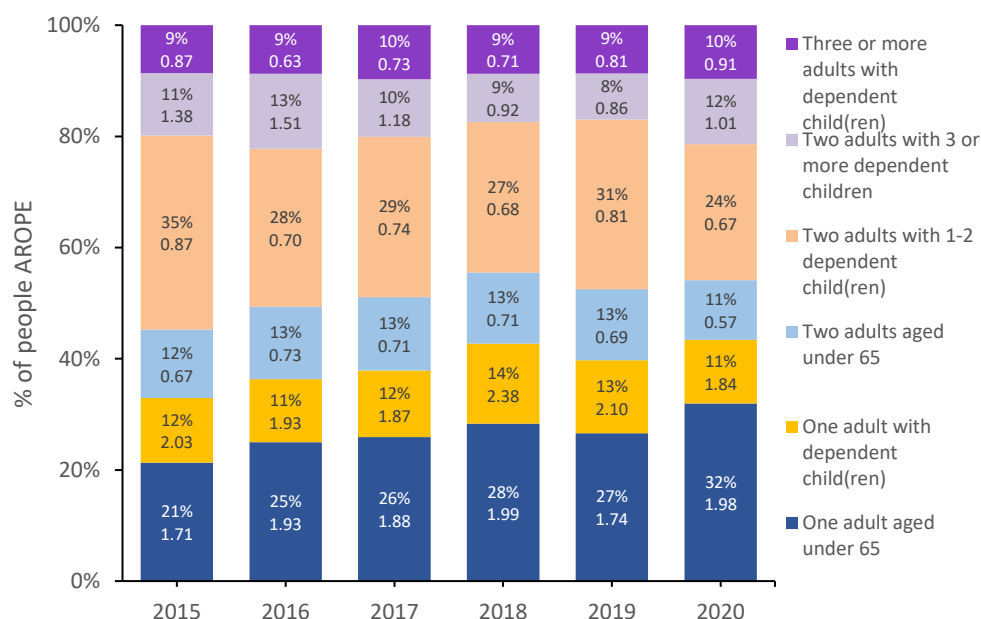


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk. No detailed country of birth data.

Source: Eurostat EU-SILC indicators [ilc_peps06n] (Data downloaded on 14/02/2022) and EU-SILC microdata, own calculation.

- People aged 18-64 who were born outside of Estonia are more likely to be at risk of poverty or social exclusion than those who were born in the country. However, they accounted for only 13% of the total at risk in 2020.

Figure 6. Division of people in AROPE by household type, Estonia, 2015-2020 (%)



Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Note that the chart does not include all household types. In particular, it excludes those aged under 65 living in a household with three or more adults without children, who are difficult to distinguish in the published data.

Source: Eurostat EU-SILC indicators [ilc_peps03n] and [ilc_lvps02], own calculation. Data downloaded on 14/02/2022.

- The likelihood of being at risk of poverty or social exclusion is particularly high among those living alone, both those with and those without children, who together made up 43% of the total at risk in 2020. The proportion increased significantly over the period 2015-2020.
- Couples with three or more children also have a higher likelihood of being at risk than other household types, but the proportion at risk was in line with their share of population in 2020. Having children, therefore, is not a significant cause of being at risk of poverty or social exclusion in Estonia.

Table 1. At risk of poverty rate before and after social transfers, excluding old age benefits, for those aged 0-64, Estonia, 2015-2020

	Before social transfers, excl. old-age benefits (%)	After social transfers (%)	Effect of social transfers on arpop rate (%-point change)
2015	25.4	18.4	-7.0
2016	25.7	17.5	-8.2
2017	25.5	16.3	-9.2
2018	25.3	16.1	-9.2
2019	26.2	16.4	-9.8
2020	26.7	15.7	-11.0

Source: Eurostat EU-SILC indicators [ilc_li02] and [ilc_li10]. Data downloaded on 14/02/2022.

- Social transfers had the effect of reducing the at-risk-of-poverty (arpop) rate by 11 percentage points in 2020, reducing the number at risk by just over 40%, significantly more than in the preceding 5 years.

Table 2. At risk of poverty rate and persistent at risk of poverty rate for those aged 18-64, Estonia, 2015-2020

	At risk of poverty rate (%)	Persistent at risk of poverty rate (%)	Persistent rate as % of annual rate
2015	17.9	11.1	62.0
2016	17.1	10.4	60.8
2017	16.2	12.0	74.1
2018	16.4	10.4	63.4
2019	16.1	10.7	66.5
2020	15.8	9.0	57.0

Source: Eurostat EU-SILC indicators [ilc_li02] and [ilc_li21]. Data downloaded on 14/02/2022.

- Some 57% of people of working age (18-64) at risk of poverty in 2020 were at persistent risk, i.e. they were consistently at risk for a number of years rather than being at risk for only one year, or temporarily. This is significantly less than in the 5 preceding years when those at persistent risk represented, in most cases, well over 60% of the total.

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