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INSTITUTIONAL STRUCTURE OF LABOUR MARKETS IN THE BALTIC STATES

Abstract

Labour markets of the former command economies of Central and Eastern Europe have gone through profound transformation since the start of political, economic and social reforms. Until 1990, enterprises had been largely protected against the impact of the world markets through centrally organised production and distribution and the dominance of producers in the home market. In addition, labour markets were also strongly regulated so that workers enjoyed very high employment security and job stability. The opening up of the national economies of transition countries to global competition has forced domestic enterprises to adjust their inputs (including labour), production technology and outputs to market demand.

The restructuring of the Baltic societies has involved **fundamental changes in the institutional structure of the labour market** including the elaboration of relevant laws and the formation of relevant institutions, such as government agencies, independent trade unions and employers' organizations.

Within the government the elaboration and execution of social policies, including labour and income policy, is regulated by various agencies whose structure differs in the three Baltic States. Independent trade union organizations, which are inevitable labour market institutions, represent and protect the economic and social interests of employees and pursue the establishment of legal order, using democratic methods. Employers' organizations are forming and actively developing and looking for their place and role in society.

Therefore, labour market in the Baltic States will be reviewed and evaluated from the following **comparative perspectives**:

- 1) institutions of labour administration;
- 2) employers' organisations;
- 3) trade unions.

Keywords: labour market, institutions, transition economies, sustainable employment, the Baltic States.

Introduction

The restructuring of the Baltic societies has involved fundamental changes in the institutional structure of the labour market including the elaboration of relevant laws and the formation of relevant institutions, such as government agencies, employers' organizations and independent trade unions.

The aim of the paper is to review the institutional structure of labour market in the three Baltic States from the comparative perspective. In order to achieve this scientific goal, the methodological framework is proposed as shown in *Figure 1*.

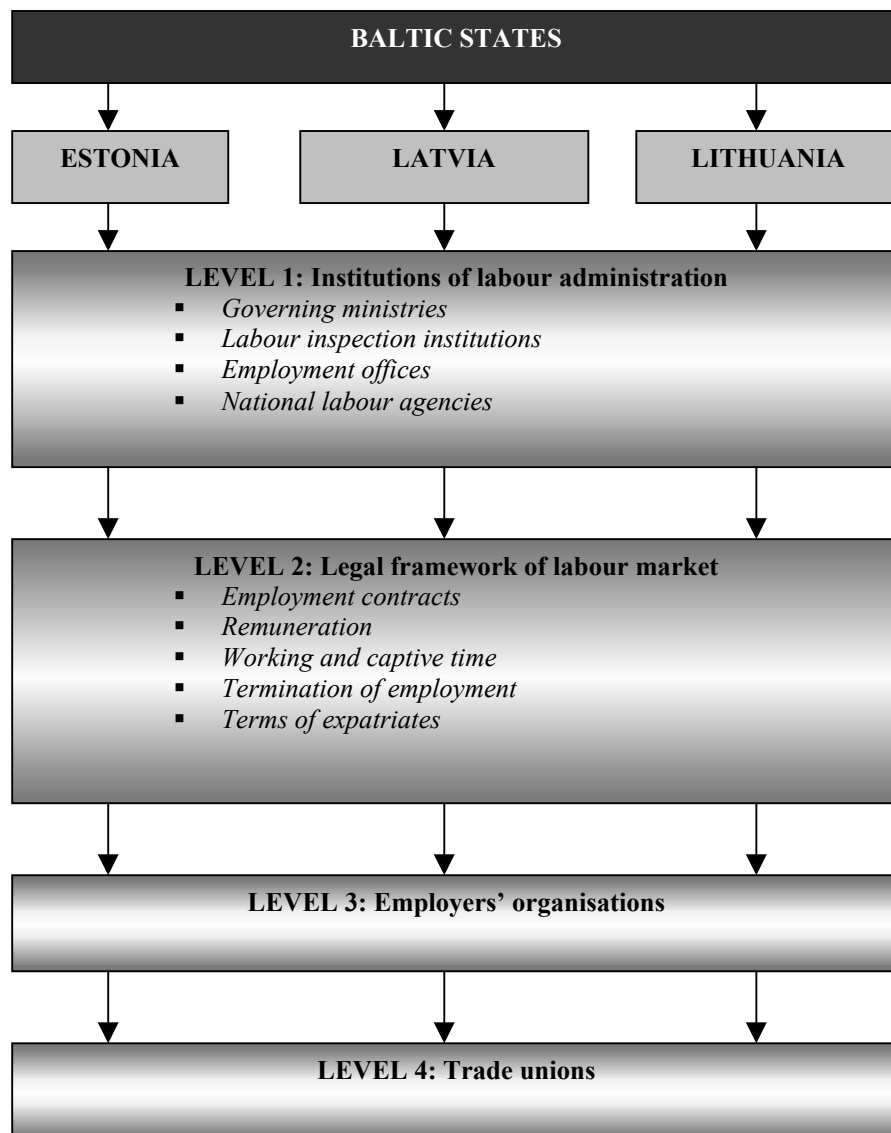


Figure 1. Methodological framework of the current study on institutional structure of labour markets in the Baltic States

Within the government the elaboration and execution of social policies, including labour and income policy, is regulated by various agencies whose structure differs in the three Baltic States. Independent trade union organizations, which are inevitable labour market institutions, represent and protect the economic and social interests of employees and pursue the establishment of legal order, using democratic methods. Employers' organizations are forming and actively developing and looking for their place and role in society.

LEVEL 1: Institutions of Labour Administration

The evolution of labour market institutions has occurred in conjunction with changes in the labour market. Labour market issues in general are the concern of different state ministries which direct the activities of the network of state and regional labour market institutions subordinated to them. Although the functions of these institutions are the same in

Estonia, Latvia and Lithuania, there are some differences in their structural framework.

The governing labour market institution in **Estonia** is the *Ministry of Social Affairs* (formed on February 1, 1993). Its main tasks include planning social policies and solving social problems in the following principal spheres:

- protection of people's health and health care;
- employment and income policies;
- social security and social insurance.

The Labour Market Board and Labour Inspection work under the jurisdiction of the Ministry of Social Affairs. The agency closest to the labour market and influencing it the most is the Estonian National Labour Market Board (established in April 1991). Its main tasks are:

- to administer labour mediation services bringing together employees and employers (including parties outside the Republic of Estonia);
- to administer vocational planning and counselling services which help the labour force adjust to the structural changes taking place in the national economy;
- to coordinate advanced training and retraining programmes designed to enhance and develop the labour potential of the population;
- to organize unemployment registration, regulate the payment of benefits to the unemployed and supervise the entire process.

The network of government institutions overseeing the labour market has been recently reorganized. Until 1993, regional employment offices were under the jurisdiction of county and town governments in Estonia. On January 1, 1993, the formation of a unified system of local employment offices began in cooperation with local authorities. Since May 1, 1994 local employment offices have been subordinated to the Ministry of Social Affairs. The goal of the unified system is to take labour mediation services closer to the clients and create a consolidated system of statistics to simplify the collection of information on the regional labour market situation.

In **Latvia** the *Ministry of Welfare* (formed in November 1991) is the state agency which plans and implements social policies in the following main spheres:

- health care;
- social security and social insurance;
- labour market and employment policies.

Under the jurisdiction of the Ministry of Welfare operate the National Employment Service, the Employability Centre and the Labour Inspection and Tripartite Working Environment Council. Latvian employment policies are implemented by the National Employment Service, whose main functions are:

- placement and vocational guidance activities;
- providing information on vacancies and rendering assistance for job placement;
- intermediary functions for staff training, re-qualification and improvement of qualifications;
- arranging dialogues between employers and employees in order to prevent the growth of unemployment;
- analysing and forecasting labour market conditions;
- elaborating and implementing state and regional employment programmes;
- organizing and participating in socially useful works;
- registering the unemployed and providing them with social security.

The main tasks of the Employability Centre are:

- to give advice to students to help them choose appropriate professions;
- to arrange professional consultations with the unemployed or persons who want to change professions, offering retraining and helping them adapt to the new job;
- to solve problems associated with the rehabilitation of the handicapped;

- to help introduce career guidance programmes in schools and other educational institutions;
- to promote contemporary professional personnel selection methods and tools in enterprises and other organizations;
- to spread information about new career guidance and vocational consultation techniques and help implement them;
- to take part in the career guidance services offered by the employment and educational systems.

In **Lithuania** the government has authorized the *Ministry of Social Security and Labour* (formed in 1994) to form and implement social security and labour market policies. Under the jurisdiction of this ministry are the Labour Exchange (March 1991), the National Adult Vocational Training and Counselling Center (July 1992) and the State Labour Inspection (December 1992).

The main functions of the Labour Exchange are to:

- analyze the supply of and demand for labour in order to forecast possible changes in the labour market and prepare state and local employment programmes;
- register job vacancies and unemployed persons and manage the financial resources of the Employment Fund;
- bring together job-seekers and job vacancies;
- arrange programmes for training, retraining and re-qualification;
- operate an international labour exchange;
- conduct international relations.

The National Adult Vocational Training and Counselling Centre consists of national and territorial centres and is responsible for the development of the vocational training system.

Labour inspection institutions were founded in Estonia in 1992 and in Latvia and Lithuania in 1993. Their main tasks are to inspect labour relations and working conditions in enterprises, monitor the observance of labour laws and advise employers and employees on labour laws, work-place safety, etc. Subunits of the Labour Inspection have been established in regions all over the three Baltic States.

The *employment offices* of the three countries have so far implemented mostly passive labour market policies, limiting themselves to registering jobseekers and the unemployed and paying benefits to them. Unemployment training programmes have been only a minor activity in 1992 and 1993. The share of more proactive labour market policies has been growing yearly and in 1994 the employment offices established numerous advanced training and retraining courses, regional training centres, teacher training programmes, including some employment training financed with foreign aid, etc.

The *national labour agencies* in the Baltic States are assisted by the International Labour Organization (ILO). ILO representative bodies are operating in the three countries. The ILO Estonian Council, the Latvian National Tripartite Consultation Council and the Tripartite Committee in Lithuania were all founded to disseminate ILO principles in the Baltic states. These bodies make proposals on the ratification of labour market conventions and start their implementation.

Latvia (joining in 1919) and Estonia and Lithuania (in 1921) were members of the ILO until 1940. After that their membership terminated. In June 1992, Estonia, Latvia and Lithuania were readmitted to the ILO. This means that ILO principles will importantly affect the future social development of the Baltic states. Trade unions are working in this direction. Efforts are aimed at making national labour laws conform to ILO conventions.

In 1994 a bureau of the ILO was founded within the Estonian Ministry of Social Affairs. Its task is to intermediate ILO materials, principles and conventions, prepare

materials for the ILO Estonian Council, exchange information with ILO headquarters, and forward information from Estonia.

The Latvian National Tripartite Consultation Council was founded in December 1993, when the protocol between the Latvian Confederation of Employers, the Labour Department and the Latvian Free Trade Unions was signed. The main task of the National Tripartite Consultation Board is to coordinate the cooperation of employers, the government and employees in order to work out a joint approach for solving economic problems in Latvia. It also seeks to promote the ratification of ILO conventions.

The Estonian Parliament has ratified (March 1994) three ILO conventions: c.87 “Freedom of Association and Protection of the Right of Organization”; c.98 “Right to Organize and Collective Bargaining”; and c.144 “Tripartite Consultations (international labour standards)”. A number of other conventions have been prepared for ratification. Moreover, the Estonian government has reaffirmed its willingness to comply with the conventions ratified between 1922 and 1938 (21 conventions). This action means that Estonia is going to fulfil the provisions of these conventions.

The Latvian Parliament (Saeima) has ratified 44 ILO conventions (1, 3, 59, 1119, 24, 81, 87, 98, 100, 105106, 108, 111, 115, 119120, 122, 129, 131132, 135, 142, 144, 148, 151, 154155, 158, 160, 173).

Between 1921 and 1940 *Lithuania* ratified 7 ILO conventions (1, 4, 6, 14, 19, 24, 17) and in 1994 another 23 ILO conventions, including the basic ones: 87, 98, 135, 144, 154. However, the basic conventions are officially ratified only when Lithuanian laws conform to international standards.

LEVEL 2: Legal Framework of the Baltic Labour Market

The legal framework of labour markets of the three Baltic States is evaluated from the perspective of the following criteria:

- 1) employment contracts,
- 2) remuneration,
- 3) working and captive time,
- 4) termination of employment, and
- 5) terms of expatriates.

In order to find touching points in each category of the legal framework of labour market, specific parameters were determined as indicated in *Figure 2*, which serve as a methodological background to research and compare Estonia, Latvia and Lithuania in their achievements to adhere to the EU labour market conditions.

Employment contracts. In the three Baltic States the **definition** of employment contracts pertain the same meaning of *an agreement between an employee and an employer under which the employee undertakes to do work for the employer in subordination to the management and supervision of the employer, and the employer undertakes to provide remuneration and the working conditions prescribed in the agreement between the parties, a collective agreement, law or administrative legislation*. All three Baltic countries adopted the EU regulations on employment contacts, for example, Latvia on 1 January, 2002 and Lithuania on 1 January, 2003. When comparing the **duration of labour contracts**, it is also adhered to the EU regulations, where they may be concluded for an unlimited or a fixed period of up to five years. Obviously, certain conditions are discussed and presented in labour Code, such as (in Lithuanian Labour Code) (*Table 1*): employment contract for additional work and secondary work; employment contract with home-workers; employment contract on the supply of services.

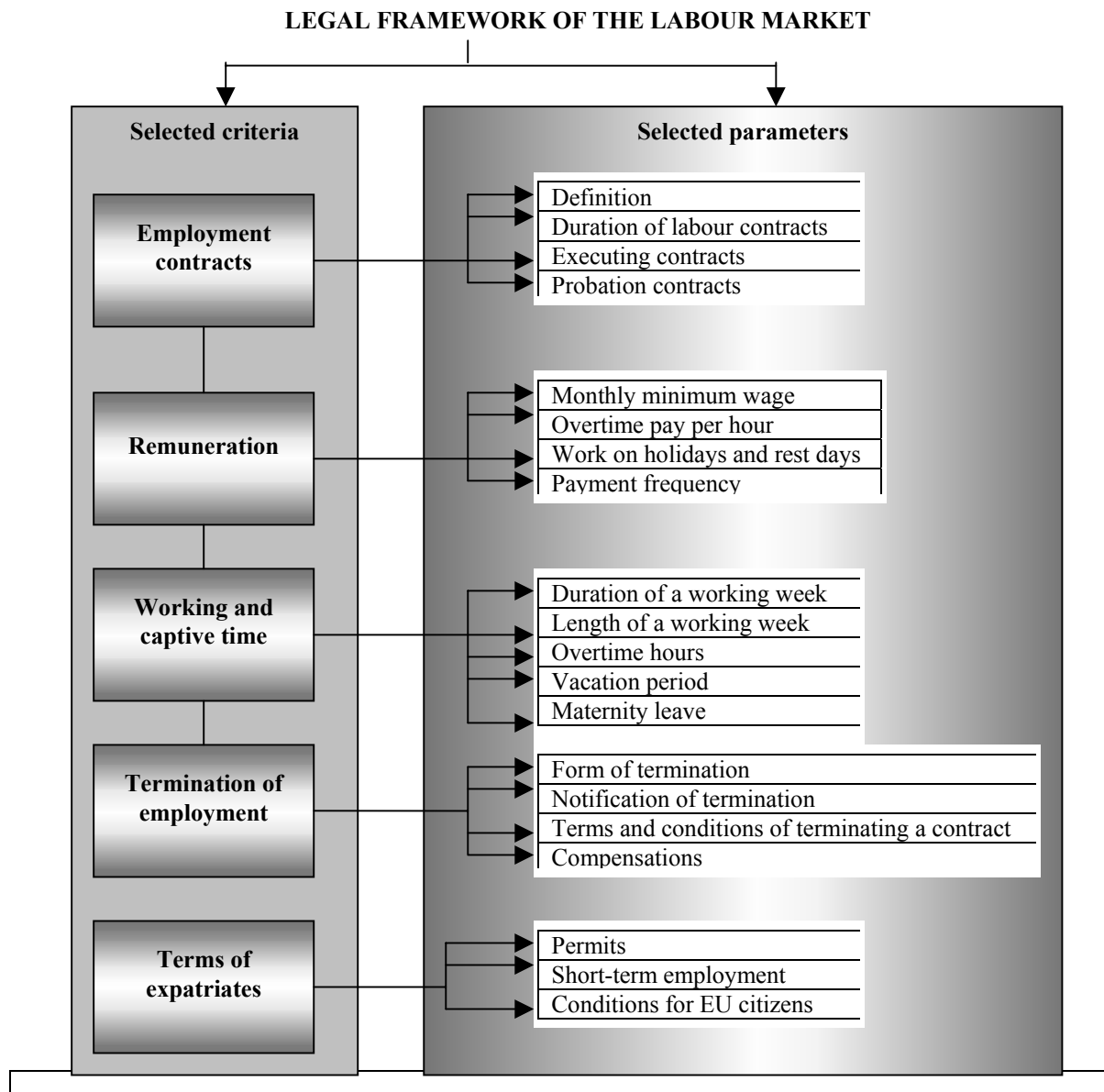


Figure 2. Selected criteria and parameters in the studied legal framework of labour markets in the Baltic States

When **executing contracts**, it is essential that employment contracts must be concluded in a written form, unless they are concluded for a period not exceeding two weeks. When analysing the legislation of **probation contracts** in the Baltic States, some differences were observed. For example, in Estonia, employment contracts may prescribe a probation period of no more than four months (*Table 1*). But in case of Latvia and Lithuania, this period is maximum three months.

Table 1. Employment contracts in the Baltic States

Parameters	Estonia	Latvia	Lithuania
<i>Definition</i>	According to Estonian labour law, an employment contract is an agreement between an employee and an employer under which the employee undertakes to do work for the employer in subordination to the management and supervision of the employer, and the employer undertakes to provide remuneration and the working conditions prescribed in the agreement between the parties, a collective agreement, law or administrative legislation.	A new Labour code took effect as of 1 June 2002. It balances employers and employees rights in accordance with EU directives, International Labour Organisation treaties and requirements of the European Social Charter.	The fundamental legal act regulating labour relations is the Labour Code effective as of 1 January 2003. The Labour Code set terms and conditions of employment contracts, working and rest time, remuneration, liability, etc. Individual labour contracts cannot establish less favourable conditions than those prescribed by the Code.
<i>Duration of labour contracts</i>	Employment contracts in Estonia may be concluded for an unlimited or a fixed period of up to five years .	n/a	The Lithuanian Labour Code provides for the following types of employment contracts: <ul style="list-style-type: none"> • employment contract concluded for an indefinite period of time; • fixed-term, temporary and seasonal employment contract; • employment contract for additional work and secondary work; • employment contract with home-workers; • employment contract on the supply of services. Generally, employment contracts are concluded for indefinite period of time. A fixed-term employment

			contract may be concluded for a certain period of time or for the period of performance of certain work, but cannot exceed a five year term.
<i>Executing contracts</i>	Employment contracts must be concluded in written form unless concluded for a period not exceeding two weeks.	Employees and employers can agree upon that law which shall be applied to employment relations. If an employee and employer do not choose an applicable law, the laws of Latvia or a state where the employee performs his work, or the laws of the country of the place of location of the employer, or the laws of the country to which legal labour relations are closely connected, must apply.	The labour contract may be concluded for an indefinite period of time, except for temporary work. If directors of a company are employed based upon labour contracts, it must be concluded for a definite period of time. The period of the labour contract concluded for a definite period of time cannot be more than two years (including the extensions of the term).
<i>Probation contracts</i>	Employment contracts may prescribe a probation period of no more than four months.	When concluding a labour contract, a trial period of maximum three months may be established for the purpose of determining whether an employee corresponds with the performance of work entrusted.	Parties to an employment contract may also agree on other terms, i.e. a probation period of up to three months , confidentiality obligations, etc.

Source: compiled and structured by the authors from KPMG (2005, p. 85 – 93).

Remuneration. This criterion of the Baltic labour market is viewed from four perspectives. *Firstly*, **the monthly minimum wage** is the highest in Estonia, comprising of 158 EUR per month, while Latvia has the lowest one – 115 EUR per month (*Table 2*). *Secondly*, **overtime pay per hour** is the highest in Latvia, where an additional payment of no less than 100% of hourly or daily salary rate, while in Estonia and Lithuania overtime pay is only 50% of the original rate. *Thirdly*, **work on holidays and rest days** is unanimously determined in the Baltic States as compensated by at least double remuneration, or, in the Lithuanian case – upon employees' request by giving an additional rest day. And, *finally*, payment frequency in Latvia and Lithuania is determined as being payable twice a month, unless employer and employee have agreed that the wage will be paid once a month; while in Estonia, wages must be paid at least once a month.

Table 2. Remuneration in the Baltic States

Parameters	Estonia	Latvia	Lithuania
<i>Monthly minimum wage</i>	EEK 2,480 (ca 158 EUR) (from January, 2004)	LVL 80 (ca 115 EUR)	LTL 500 (ca EUR 145) (from 1 May, 2004)
<i>Overtime pay per hour</i>	50% of the employee's average hourly wage	an additional payment of no less than 100% of that hourly or daily salary rate	at least 1.5 times of the average monthly/hourly remuneration
<i>Work on holidays and rest days</i>	Work performed on a public holiday is remunerated at least double the normal rate, regardless of whether such work is scheduled or unscheduled.	n/a	Unscheduled work during rest days or holidays shall be compensated by at least double remuneration, or upon employees' request by giving an additional rest day.
<i>Payment frequency</i>	Wages must be paid at least once a month .	Wages must be paid twice a month , unless employer and employee have agreed that the wage will be paid once a month.	Wages must be paid twice a month , unless employer and employee have agreed that the wage will be paid once a month.

Source: compiled and structured by the authors from KPMG (2005, p. 85 – 93).

Working and captive time. This factor is illustrated by at least six parameters. **Duration of a working day** is a European standard, where the typical working week consists of five working days from Monday to Friday (*Table 3*). Some exceptions exist, for example, in the education sector, the working week in Lithuania is considered a six-day working week. In Latvia, universities even work on Sundays to cope with the flows of extramural and evening students. **Length of a working week** is calculated in working hours, and in this case all three Baltic States adhere to the EU standard of 40 hours working week.

Table 3. Working and Captive Time in the Baltic States

Parameters	Estonia	Latvia	Lithuania
<i>Duration of a working week (days)</i>	The typical working week consists of five working days from Monday to Friday.	The typical working week consists of five working days from Monday to Friday.	The typical working week consists of five working days from Monday to Friday.
<i>Length of a working week (hours)</i>	The general national standard for working time of employees is eight hours per day or 40 hours per week; the duration of one shift may not exceed 12 hours.	The regular daily work time cannot exceed eight hours and the regular weekly work time is 40 hours.	Normal working hours are 40 hours per week.

<i>Overtime hours</i>	Working time together with overtime shall not exceed an average of 48 hours per week during a four-month recording period.	The overtime work cannot exceed 144 hours during the four-month period.	Generally, working hours including overtime may not exceed 48 hours during a 7-day period. Overtime may not exceed 4 hours within two days and 120 hours per year.
<i>Vacation period</i>	The duration of annual paid vacation is 28 calendar days.	Each employee is entitled to a paid annual vacation. Such vacation, excluding holidays, cannot be less than four calendar weeks.	An employee is entitled to 28 calendar days of annual paid vacation after he/she has worked at a company for six months.
<i>Maternity leave</i>	1) A woman has the right to commence pregnancy and maternity leave at least 70 calendar days before the estimated date of delivery. 2) A woman is entitled to a pregnancy and maternity leave of 140 calendar days.	Women are entitled to pregnancy and maternity leave of 112 calendar days.	1) A woman has the right to commence pregnancy and maternity leave at least 60 calendar days before the estimated date of delivery. 2) A woman is entitled to a pregnancy and maternity leave of 120 calendar days.
<i>Childcare</i>	1) A mother or father of a child may be granted childcare leave at his or her request for raising a child of up to three years of age. 2) A father has a right for additional child care leave of 14 calendar days during the pregnancy leave or maternity leave of the mother or within two months after the birth of the child.	Paternity leave can be granted to a father for a period of 10 days. Such leave must be granted not later than two months after the birth of a child.	A mother or father of a child may be granted childcare leave at his or her request for raising a child of up to three years of age.

Source: compiled and structured by the authors from KPMG (2005, p. 87 – 93).

Overtime hours should not exceed 48 hours as a EU standard. But in Latvia, additional condition is that the overtime work cannot exceed 144 hours during the four-month period. Tougher regulations exist in Lithuania, where overtime may not exceed 4 hours within two days and 120 hours per year.

In Lithuania captive time is specified for certain categories of employees, such as:

Case 1: Annually 35 days of paid vacation shall be granted to certain categories of employees as follows:

- employees under 18 years of age;
- employees who, as single parents, are raising a child before he has reached the age of fourteen, or a disabled child before he has reached the age of sixteen;
- disabled persons.

Case 2: Extended annual leave up to 58 calendar days shall be granted to certain categories of employees whose work involves greater nervous, emotional and intellectual strain and professional risk (e.g. school and university teaching staff), as well as to those employees who work in special working conditions.

Case 3: Employees having more than a 10-year work record in a company are entitled to an additional three annual paid vacation days.

Vacation period in business organisations and civil services is 28 calendar days (*Table 3*). But in the education sector, in Lithuania for example, the duration of annual paid vacation is 58 days. In Lithuania, another limitation to having annual paid vacation exists: he/she should have worked for an organisation for at least 6 months. **Maternity leave** is regulated differently in the three Baltic States. In Estonia a woman has the right to commence pregnancy and maternity leave at least 70 calendar days before the estimated date of delivery, while a woman is entitled to a pregnancy and maternity leave of 140 calendar days. In Latvia, a pregnancy and maternity leave is much shorter (by 28 days), where women are entitled to pregnancy and maternity leave of 112 calendar days. In the case of Lithuania, we can state that it claims a middle position by averaging a woman's right to commence pregnancy and maternity leave at least 60 calendar days before the estimated date of delivery by entitling a woman to a pregnancy and maternity leave of 120 calendar days. Nevertheless, it can be stated that the conditions for women having a child is at prime in Estonia.

Childcare is viewed, firstly, who take care of newborn babies and takes a leave from work: mother or father. In this respect, all Baltic States present equal paternal opportunities for rearing offspring. In Estonia and Lithuania, a father can opt for rearing a child up to three years, and real life cases prove that this right was taken by a number of fathers in Lithuania. Regarding the presence of such provisions, the Baltic States' labour legislations resemble that of the EU countries. In **Estonia**, a father has a right for additional child care leave of 14 calendar days during the pregnancy leave or maternity leave of the mother or within two months after the birth of the child. In **Latvia**, paternity leave can be granted to a father for a period of 10 days. Such leave must be granted not later than two months after the birth of a child.

Termination of employment in this paper is reviewed from the point of view of the form of termination, notification of termination, terms and conditions of terminating a contract, compensations (*Table 4*). **The form of termination** is actually identical in all three Baltic States, where employers and employees should inform each other in writing of any intention to terminate the labour contract. Some differences are observed in **notification of termination**. The longest period for an employer to notify an employee about the termination of a contract is up to four months. While in Latvia it is set for at least one month and in Lithuania – for two. The notification period varies in Latvia from 10 days (employee's misconducts) to 1 month (lay-offs). In Lithuania the period is 2 months (4 months for minors, parents of children, etc.).

Table 4. Termination of Employment in the Baltic States

Parameters	Estonia	Latvia	Lithuania
<i>Form of termination</i>	Employers and employees should inform each other in writing of any intention to terminate the labour contract.	Employers and employees should inform each other in writing of any intention to terminate the labour contract.	Employers and employees should inform each other in writing of any intention to terminate the labour contract.
<i>Notification of termination</i>	1) Depending on the basis for termination, an employer is obliged to notify an employee of termination two weeks to four months in advance. 2) An employee is obliged to inform the employer of termination five days to one month in advance, depending on whether the employment contract was entered into for specified term or not and the reason for the termination.	The employee has the right, a month in advance, to give a notice to the employer regarding termination of an employment contract in writing, unless a shorter period for giving notice is established in the labour contract or in the collective agreement.	The legislation also provides for some additional requirements, such as advance notice of two months (in <i>certain cases four months</i>), priority to stay at work, etc., which must be adhered to if terminating an employment contract.
<i>Terms and conditions of terminating a contract</i>	Employer may terminate fixed term contracts prior to the expiration of the term as well as indefinite term contracts on certain grounds, such as liquidation or bankruptcy of the employer, lay-offs, an employee's unsuitability to do his/her job due to professional skills or health reasons, an employee's breach of duties, etc.	1) An employer is obliged to justify the need to terminate the labour contract in writing to the employee. 1) The giving of notice to the labour contract with the proviso that the legal labour relations will be terminated if the employee will not agree to continue them in compliance with those changes in the labour contract offered by the employer is permissible if it is justified by employee's behaviour, his abilities or by the performance of economical,	1) It is prohibited to terminate an employment contract with a pregnant woman or with an employee having a child under three years of age, unless the employee is at fault. 2) Employment may not be terminated when the employee is ill or on vacation.

		organisational, technological or similar undertakings within a company.	
<i>Compensations</i>	1) An employer is responsible for paying the final severance pay on the day of termination. 2) Depending on the grounds for termination, an employer may be required to pay compensation to employees up to four months' average wage.	1) An employer is responsible for paying the final severance pay on the day of termination.	1) The requirement to pay leave compensation as well as the compensation amount depends on the particular reason for the termination. 2) If the employment contract is terminated due to the employee's fault, no leave compensation is to be paid. If the employee is not at fault, leave compensation may vary from one to six average monthly salaries depending on the work record of the employee.

Source: compiled and structured by the authors from KPMG (2005, p. 85 – 93).

Table 5. Terms of Expatriates in the Baltic States

Parameters	Estonia	Latvia	Lithuania
<i>Permits</i>	In order to work in Estonia, a citizen of foreign nation needs to obtain a permanent residence permit or, besides a temporary residence permit, a working permit.	Foreigners subject to immigration controls must obtain work permits in order to work in Latvia. A permit is issued only for a particular job with a particular employer and may be for a limited period. Application may then be made to extend the permit. The validity period of the work permit depends on the status and citizenship of a person applying for it.	Expatriates may work in Lithuania under an employment contract provided they have obtained work permits. Work permits are issued by the State Labour Exchange. The whole procedure of issuing a work permit takes about one month after the relevant documents are submitted to the State Labour Exchange. Expatriates, irrespective of whether they are from the EU or not, must also have a temporary residence

			permit to stay in Lithuania for the purposes of work.
<i>Short-term employment</i>	For short-term employment, not exceeding a period of six months in a year , a work permit is not required. This will apply to foreigners who stay in Estonia either on the basis of a visa or on a visa-free basis.	An expatriate may not stay in Latvia without a residence permit for a period exceeding 90 days in any given six month period.	Nationals of the EU member states shall be relieved from the obligation to be in possession of residence permit if the person intends to stay in Lithuania for a period not exceeding three months in any calendar half-year from the first day of entry to Lithuania. The procedure for issuing a temporary residence permit takes one month for expatriates from EU member states and three months in other cases.
<i>Conditions for the EU citizens</i>	A citizen of the European Union may stay in Estonia without a residence permit for employment up to three months as of the date of his or her arrival in Estonia, also if he or she is employed in Estonia or engaged in business in Estonia, if he or she is a seasonal worker in Estonia or for up to six months for the purpose of seeking employment if he or she has registered the employment seeking pursuant to the procedure provided for in the Employment Service Act.	In certain cases citizens of other EU member states can stay in Latvia for a period longer than 90 days without having to obtain a residence permit (such cases include seasonal workers, frontier workers, and job seekers). A residence permit can be obtained on a number of grounds, the primary reason being to work in Latvia.	However, work permits are not required for citizens of the EU member states, the temporary residence permit may be issued for a maximum of five years.

Source: compiled and structured by the authors from KPMG (2005, p. 88 – 93).

In Estonia the notification period varies from 2 weeks (long-term incapacity for work) to 4 months (lay-off of workers who have continuously worked for the employer over 10 years). The compensation for the termination varies in Latvia from 1 to 4 months, the average

wage depending on the employee's work experience with the present employer (according to the Labour Code valid until 1 June 2002, the compensation was no less than 1 month's average pay and the notification period was 1 month).

Terms and conditions of terminating a contract (*Table 4*) in the three Baltic States follow the European practice and the employer may terminate fixed term contracts prior to the expiration of the term as well as indefinite term contracts on certain grounds, such as liquidation or bankruptcy of the employer, lay-offs, an employee's unsuitability to do his/her job due to professional skills or health reasons, an employee's breach of duties, etc. It has been discovered that in Lithuania it is prohibited to terminate an employment contract with a pregnant woman or with an employee having a child under three years of age, unless the employee is at fault. In Lithuania, employment may not be terminated when the employee is ill or on vacation. Therefore, when some civil servants and employees of governmental bodies "suddenly" get sick of escape to the distant exotic island, when they are forced to resign or undergo an impeachment.

Perception of **compensations** is quite unanimous in the Baltic States, stating that an employer is responsible for paying the final severance pay on the day of termination (*Table 4*). Additionally, in Estonia, depending on the grounds for termination, an employer may be required to pay compensation to employees up to four months' average wage. In Lithuania, this amount could even go higher – up to six months' average wage.

Terms of Expatriates in the three Baltic States are evaluated from the following perspectives: permits, short-term employment and conditions for EU citizens (*Table 5*). **Permits.** In order to work in any of the Baltic States, a citizen of foreign nation has to obtain a permanent residence permit or, besides a temporary residence permit, a working permit. **Short-term employment.** For short-term employment, not exceeding a period of six months in a year, a work permit is not required. This will apply to foreigners who stay in Estonia, Latvia or Lithuania either on the basis of a visa or on a visa-free basis. **Conditions for the EU citizens.** A citizen of the European Union may stay in Estonia, Latvia or Lithuania without a residence permit for employment up to three months as of the date of his or her arrival in the country, also if he or she is employed in a Baltic State (or engaged in business, is a seasonal worker in this country; or for up to six months for the purpose of seeking employment if he or she has registered the employment seeking pursuant to the procedure provided for in the Employment Service Act). In Lithuania another regulation exists for a long-term residence for the EU citizens, namely the temporary residence permit may be issued for a maximum of five years.

LEVEL 3: Employers' Organizations

Employers' organizations are a new phenomenon of the transition period. The employers are the least organized social group, and this has caused some problems in tripartite negotiations. Their organizations are still developing and they are looking for their place and role in tripartite cooperation.

The **Estonian** employers' unions should be organized as social partners in the near future. *The Confederation of Estonian Industry* (CEI, founded in 1991) is the central organization participating in the tripartite negotiations. At the beginning of 1994, there were 13 branch associations and unions belonging to the CEI as well as some private companies. The CEI unites about 200 mostly state-owned enterprises. The number of members is increasing.

Enterprises belonging to the CEI have experienced an intensive process of privatization and production restructuring. Public, collective and private enterprises have been set up. This promotes the flexibility of the CEI and helps to solve dynamic social and

economic problems on a tripartite basis.

The following employers' and business associations cooperate with the CEI:

- the Estonian Association of Construction Entrepreneurs,
- the Association of Construction Material Producers of Estonia,
- the Estonian Hotel and Restaurant Association,
- the Estonian Agricultural Producers Central Union,
- the Association Estonian Forest and the Estonian Association of International Companies.

The Estonian Small Business Association (ESBA, founded in 1988) is made up of small, private enterprises. This organization offers training and consulting services for entrepreneurs, exhibitions, trade fairs and other events. The ESBA represents about 600 small enterprises. The ESBA operates as a social partner in tripartite negotiations fighting on the national level to create a favourable external environment for small businesses.

The Estonian Chamber of Commerce and Industry (ECCI) is the legal successor of the ECCI founded in 1925 and it represented about 700 enterprises in 1994. The activities of the ECCI are aimed at trade (domestic and international), entrepreneurship and representing the interests of its members. The ECCI actually functions as a service organization of employers. However, it has not yet played a significant role as a social partner.

In **Latvia** employers are united in *the Employers' Confederation of Latvia* (ECL, founded in July 1993), which has 12 members from all over the country, and who participate in the National Tripartite Consultation Council. The founders of ECL are the Central Employers' Association of Latvia and the Union of Private Employers/Owners of Latvia. The aim of the ECL is to unite Latvian employers' organizations for common efforts, to promote their cooperation, to solve social problems of the day by means of dialogue with the trade unions, and to represent employers in Latvia and in international organizations.

There are three large associations of employers in **Lithuania** which can be regarded as social partners:

- the Lithuanian Industrialists' Confederation,
- the Lithuanian Entrepreneurs' Association and
- the Lithuanian Private Capital Alliance.

While the first organization wishes to solve dynamic social and economic problems on a tripartite basis, the other two are important partners for the government at the national level rather than for trade unions, because trade unions do not exist in small and medium-size enterprises.

The Lithuanian Industrialists' Confederation represents the associations of industries and territorial associations of industrialists. The confederation also represents unassociated enterprises. The members of the confederations are mostly large state-owned or privatized enterprises and there are about 800 members. Their main activities are representing the members before government agencies and in tripartite councils.

The Lithuanian Entrepreneurs' Association unites about 4,000 small and medium-sized private enterprises, commercial firms, individual entrepreneurs and handicraftsmen. The main activities are representing entrepreneurs before governmental institutions; providing assistance in arranging development and production programmes for small and medium-sized enterprises, establishing business clubs, information centres, consulting companies, etc.; consulting with members on legal, economic, financial, and international business relation issues; and helping to arrange exhibitions, trade fairs and other events.

The Lithuanian Private Capital Alliance is made up of associated private capital structures (associations, business clubs, unions, and funds) of regions and private companies. The main activities are: representing private capital and employers in governmental structures; coordinating the activity of private capital associated structures; initiating new

laws and revising existing ones; arranging meetings and discussion about economic issues; and establishing funds for financing future programmes.

The Chamber of Industry and Trade in Lithuania has become a specialized service organization for employers, developing international trade and information relations.

The main characteristics of the Lithuanian employers' organizations are that they are most actively involved in providing services for their members, the active dialogue with which they engage the government to prepare laws and represent their members and the comparatively weak dialogue that they have with trade unions. Representatives of the three employers' organizations actively participate in the tripartite councils and commissions.

Employers' organizations are quickly developing in all three countries, trying to define their place and role in tripartite cooperation. Complicated problems can be solved when social partners closely cooperate. Such cooperation is necessary for reforming the national economy and social life in general in light of the shift towards a market economy in the Baltic States.

LEVEL 4: Trade Unions

According to the Constitutions of the Baltic States, employees can freely join trade unions and they enjoy the right to form trade union organizations in their enterprises. Trade unions have been mainly active in three spheres in the Baltic States:

- participation in the elaboration of laws;
- tripartite negotiations with the government and employers;
- consulting with members; offering workshops, etc.

The first steps towards democratic processes in the trade union movement have been taken, but even though there are laws regulating labour relations and the trade union movement in general, there are still some serious shortcomings in providing security for employees. The following problems have occurred: labour laws have been disregarded; employers have taken arbitrary actions; the trade union organizations are weak; and labour disputes have been resolved slowly. Another problem is also the unwarranted legal status of the employees in the reorganization process of state enterprises. Currently trade unions unite about 40% of the labour force in Estonia and Lithuania and 30% in Latvia.

Trade union reform began in **Estonia** in 1988-1989, when the new Trade Union Law (December 1989) was adopted. Although the law was adopted in the Soviet period by the Estonian SSR Supreme Council, it is still in force. This law established the independence of trade unions, the freedom to join trade unions and other generally recognized principles of international law. The Trade Union Laws of Latvia and Lithuania were adopted in 1991.

The major trade union organization in Estonia has been the *Central Federation of Trade Unions* (EATU), which was formed at a congress in 1990 and which unites about 25 trade union federations. EATU mainly represents the interests of industrial, service, trade, public and agricultural employees. At the end of 1993 the federations of higher schools, scientists, cultural, educational and public health workers seceded from the central federation, forming a separate central organization the Estonian Employees' Unions' Association (EEUA). In tripartite negotiations over a general social security agreement a position was taken that officials from both the EATU and the EEUA will represent employees in such negotiations. These organizations represent the majority of trade union members. The tripartite agreements concluded on the state level cover the entire labour force and in some issues even the whole population or a particular subgroup.

In the process of trade union reform, foundations were laid for the Estonian Confederation of Free Trade Unions (taxidriviers and some other groups of employees), but their activity has remained passive. Moreover, trade unions of some institutions and enterprises have not formed a union. Employees of private enterprises and most small

enterprises lack their own trade union organizations. Present owners, farmers, pensioners and, in many instances, enterprise managements (employers) have dropped out of the trade unions.

Table 6. Trade Unions in the Baltic States

Parameters	Estonia	Latvia	Lithuania
<i>Membership</i>	According to Estonian Trade Unions Act employees have the right to be members of trade unions of their workplace or other trade unions.	n/a	Trade unions may be established on the basis of professional, territorial and other principles. Citizens and permanent residents of the Republic of Lithuania working under employment contracts may be members of trade unions.
<i>Structural requirements</i>	A trade union may be founded by at least five employees , a federation of trade unions may be founded by at least five trade unions.	Latvian Trade Union Law states that a trade union can be formed if it consists of at least 50 employees of a particular enterprise, or at least 25% of employees working for a particular enterprise, profession or industry.	There must be at least 30 founders of a trade union or the number of the founders may not be less than one-fifth (at least three employees) of all the employees in a company.
<i>Functions</i>	Trade unions have the right to represent their members in collective labour relations and in personal labour relations on the basis of authorisations from the members. Unions may, for example, conclude collective agreements with employers, represent their members in state institutions and in courts.	Trade unions have the right to represent their members in collective labour relations and in personal labour relations on the basis of authorisations from the members. Unions may for example conclude collective agreements with employer, represent their members in labour dispute resolution bodies, etc.	Trade unions have the right to negotiate collective agreements. They may also organise strikes and participate in solving individual and collective labour disputes.

Source: compiled and structured by the authors from KPMG (2005, p. 89 – 93).

The *Free Trade Union* (formed in May 1990) is the largest trade union in **Latvia** and unites trade unions from 31 branches of the economy. It represents the interests of industrial, agricultural, trade, service and public sector employees. Moreover, in Latvia there is no clear compatibility between branch and territorial structures. The production declines accompanying the economic transition have diminished the role of trade unions. Actually, trade unions do not exist in the small business sector because, according to the Law On Trade Unions, they can only be registered if they organize at least 50 members or 25% of all employees of the enterprise. There are also regional trade union coordination centres whose main function is to foster cooperation with local governments to solve problems affecting all trade union members in this territory.

In **Lithuania**, 65 trade unions and their associations have been registered. The government recognizes five main associations with which it engages in social dialogue on the national level. The Lithuanian *Free Trade Union Confederation* is the largest trade union association with territorial organizations and branch federations. It is followed by the Union of Lithuanian Workers, the Lithuanian Trade Union Association, the Lithuanian Labour Federation and the Centre of Lithuanian Trade Unions. The above-mentioned associations include medical, transportation, construction, railway, agricultural and trade workers, teachers and civil servants. But it is difficult to identify trade unions on the branch level.

Moreover, in Lithuania as well as in Latvia, there is no clear compatibility between branch and territorial structures (*Table 6*). The distribution of responsibilities and their role in the process of social partnership are not clear either. The actual problem is the recognition of trade unions at the enterprise level. Trade unions do not exist in the small business sector. Therefore, the situation is not characterized by stable collective agreements. Trade unions in Lithuania are very active at the national level but their role in collective bargaining is still small.

Similar to other economic and political structures in the three countries, trade unions are also constantly changing and moving towards reformation and reorganization.

Conclusions

1. The governing labour market institution in Estonia is the *Ministry of Social Affairs* (formed on February 1, 1993), in Latvia – the *Ministry of Welfare* (formed in November 1991), and in Lithuania – the *Ministry of Social Security and Labour* (formed in 1994).
2. The main functions of Labour Ministries in the three Baltic States comprise of a) protection of people's health and health care; b) employment and income policies; c) social security and social insurance.
3. The national labour agencies in the Baltic States are assisted by the International Labour Organization (ILO).
4. The legal framework of labour markets of the three Baltic States was evaluated from the perspective of the following criteria: a) employment contracts, b) remuneration, c) working and captive time, d) termination of employment, and e) terms of expatriates. It was concluded in nearly all cases, that labour conditions, terms and regulations mainly comply with the EU requirements and bears only minor differences amongst Estonia, Latvia and Lithuania. For example:
 - 4.1 In Estonia, *employment contracts* may prescribe a probation period of no more than four months. But in case of Latvia and Lithuania, this period is maximum three months.
 - 4.2 The *monthly minimum wage* is the highest in Estonia, comprising of 158 EUR per month, while Latvia has the lowest one – 115 EUR per month.
 - 4.3 *Overtime pay* per hour is the highest in Latvia, where an additional payment of no

- less than 100% of hourly or daily salary rate, while in Estonia and Lithuania overtime pay is only 50% of the original rate.
- 4.4 *Overtime hours* should not exceed 48 hours as a EU standard. But in Latvia, additional condition is that the overtime work cannot exceed 144 hours during the four-month period. Tougher regulations exist in Lithuania, where overtime may not exceed 4 hours within two days and 120 hours per year.
- 4.5 *Maternity leave* is regulated differently in the three Baltic States. In Estonia a woman has the right to commence pregnancy and maternity leave at least 70 calendar days before the estimated date of delivery, while a woman is entitled to a pregnancy and maternity leave of 140 calendar days. In Latvia, a pregnancy and maternity leave is much shorter (by 28 days), where women are entitled to pregnancy and maternity leave of 112 calendar days. In the case of Lithuania, we can state that it claims a middle position by averaging a woman's right to commence pregnancy and maternity leave at least 60 calendar days before the estimated date of delivery by entitling a woman to a pregnancy and maternity leave of 120 calendar days. Nevertheless, it can be stated that the conditions for women having a child is at prime in Estonia.
- 4.6 *The notification period* varies in Latvia from 10 days (employee's misconducts) to 1 month (lay-offs). In Lithuania the period is 2 months (4 months for minors, parents of children, etc.). In Estonia the notification period varies from 2 weeks (long-term incapacity for work) to 4 months (lay-off of workers who have continuously worked for the employer over 10 years).
- 4.7 In Estonia, a father has a right for additional *childcare* leave of 14 calendar days during the pregnancy leave or maternity leave of the mother or within two months after the birth of the child. In Latvia, paternity leave can be granted to a father for a period of 10 days. Such leave must be granted not later than two months after the birth of a child.
- 4.8 In Lithuania, the *compensation* varies from 1 to 12 average monthly wages, depending on the reason of termination and the length of work record with the present employer. In Estonia the compensation for termination varies from 1 to 4-months' average wage.
5. The Estonian employers' unions are presented as *The Confederation of Estonian Industry* (CEI, founded in 1991), in Latvia employers are united in *the Employers' Confederation of Latvia* (ECL, founded in July 1993), and in Lithuania there are three large associations of employers, which can be regarded as social partners: a) the Lithuanian Industrialists' Confederation, b) the Lithuanian Entrepreneurs' Association and c) the Lithuanian Private Capital Alliance.
6. The major trade union organization in Estonia has been the *Central Federation of Trade Unions* (EATU), which was formed at a congress in 1990 and which unites about 25 trade union federations. The *Free Trade Union* (formed in May 1990) is the largest trade union in Latvia and unites trade unions from 31 branches of the economy. The Lithuanian *Free Trade Union Confederation* is the largest trade union association with territorial organizations and branch federations. In Lithuania, 65 trade unions and their associations have been registered.

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