

XI. GOVERNANCE, ORGANISATION AND PERSONNEL POLICY OF EESTI PANK

EESTI PANK'S GOVERNING BODIES AND DECISION-MAKING PROCESSES

Supervisory Board of Eesti Pank

Pursuant to the Eesti Pank Act, the Supervisory Board of Eesti Pank is the highest body in Eesti Pank, exercising supervision over all the activities of Eesti Pank. The following issues are within the exclusive competence of the Supervisory Board of Eesti Pank: making a proposal to the President of the Republic for appointment of the Governor of Eesti Pank; appointment to office and release of Deputy Governors, members of the Executive Board and the chief accountant of Eesti Pank and the heads of the independent divisions and representative offices of Eesti Pank; the appointment and removal of the two members of the Supervisory Board of the Financial Supervision Authority¹ appointed by Eesti Pank on the proposal of the Governor of Eesti Pank; approval of the statute of Eesti Pank and the statutes of the independent divisions and representative offices of Eesti Pank; supervision of the implementation of the budget of Eesti Pank; appointment of internal auditors of Eesti Pank, approval of work schedules for internal audits and making of decisions on the basis of the results of internal audits; appointment of internal auditors of Eesti Pank, approval of work schedules for internal audits and making of decisions on the basis of the results of internal audits; approval of Eesti Pank's annual report on the proposal of the Governor; making of decisions concerning the denomination and design of new banknotes and coins; deciding, on the proposal of the Governor of Eesti Pank, on the establishment, reorganisation and liquidation of independent divisions of Eesti Pank; review and approval of written proposals and other documents submitted to the Riigikogu in the name of Eesti Pank.

The Governor of Eesti Pank reports regularly to the Supervisory Board on Estonia's economy, monetary policy, and financial sector as well as on Eesti Pank's budget implementation.

On 17 February 2004, the Riigikogu appointed to office the **Supervisory Board of Eesti Pank**, comprising Professor **Mart Sõrg** (Chairman of the Board), Faculty of Economics of the University of Tartu, Professor

¹ The Supervisory Board of the Financial Supervision Authority comprises six members, two of them – Minister of Finance and Governor of Eesti Pank – are members by virtue of office and others are appointed. Minister of Finance is the Chairman of the Supervisory Board. Half of the members are appointed and removed on the proposal of the Minister of Finance by the Government of Estonia and half on the proposal of the Governor of Eesti Pank by the Supervisory Board of Eesti Pank.

Raul Eamets, Faculty of Economics of the University of Tartu, Governor **Vahur Kraft** (a member by virtue of office), **Andres Lipstok**, Member of the Riigikogu, Professor **Enn Listra**, Faculty of Economics of the Tallinn University of Technology, **Mart Opmann**, Member of the Riigikogu, **Tõnis Palts**, Member of the Riigikogu until end-October 2004 and Mayor of Tallinn since October 2004, Professor **Jüri Sepp** Faculty of Economics of the University of Tartu, and **Liina Tõnisson**, Member of the Riigikogu.

Executive Board of Eesti Pank

Pursuant to the Eesti Pank Act, the Executive Board of Eesti Pank is responsible for planning and organising Eesti Pank's activities. The Chairman of the Executive Board by virtue of office is the Governor of Eesti Pank.

In 2004, the **Executive Board of Eesti Pank** comprised Governor **Vahur Kraft** and Deputy Governors **Rein Minka**, **Märten Ross** and **Andres Sutt**.

Governor Vahur Kraft governs the activities of Eesti Pank. His exclusive competence involves organising the development of monetary and banking policy and overall governance of the activities of Eesti Pank; supervision over the enforcement of the decisions passed by the Supervisory Board and application on measures necessary for that purpose; approval of Eesti Pank's budget and organisation of execution of tasks vested by the European System of Central Banks.

The Governor of Eesti Pank reports to the Riigikogu and responds to interpellations concerning Eesti Pank's activities submitted to him in the Riigikogu. The Governor regularly reports on his activities to the Supervisory Board of Eesti Pank.

Vahur Kraft controls the work of Deputy Governors and is responsible for supervising management mechanisms.

Deputy Governor Rein Minka is responsible for coordinating the activities related to cash circulation, safety of the working environment, reliable, cost-efficient and integrated development of the settlement system of Eesti Pank, development of the information technology working environment and legal environment, as well as personnel management.

Deputy Governor Andres Sutt is responsible for international and public relations of Eesti Pank, development and implementation of financial sector policies, coordination of collection, handling, and disclosure of financial sector information, supervision of payment and settlement systems, as well as for financial accounting and reporting, internal administrative services, and operational working environment at Eesti Pank.

Deputy Governor Märten Ross is responsible for the preparation and implementation of monetary policy decisions, management of the financial assets of Eesti Pank, coordination of collection, compilation, and disclosure of national statistics, as well as for coordinating economic research and activities related to in-service economic training.

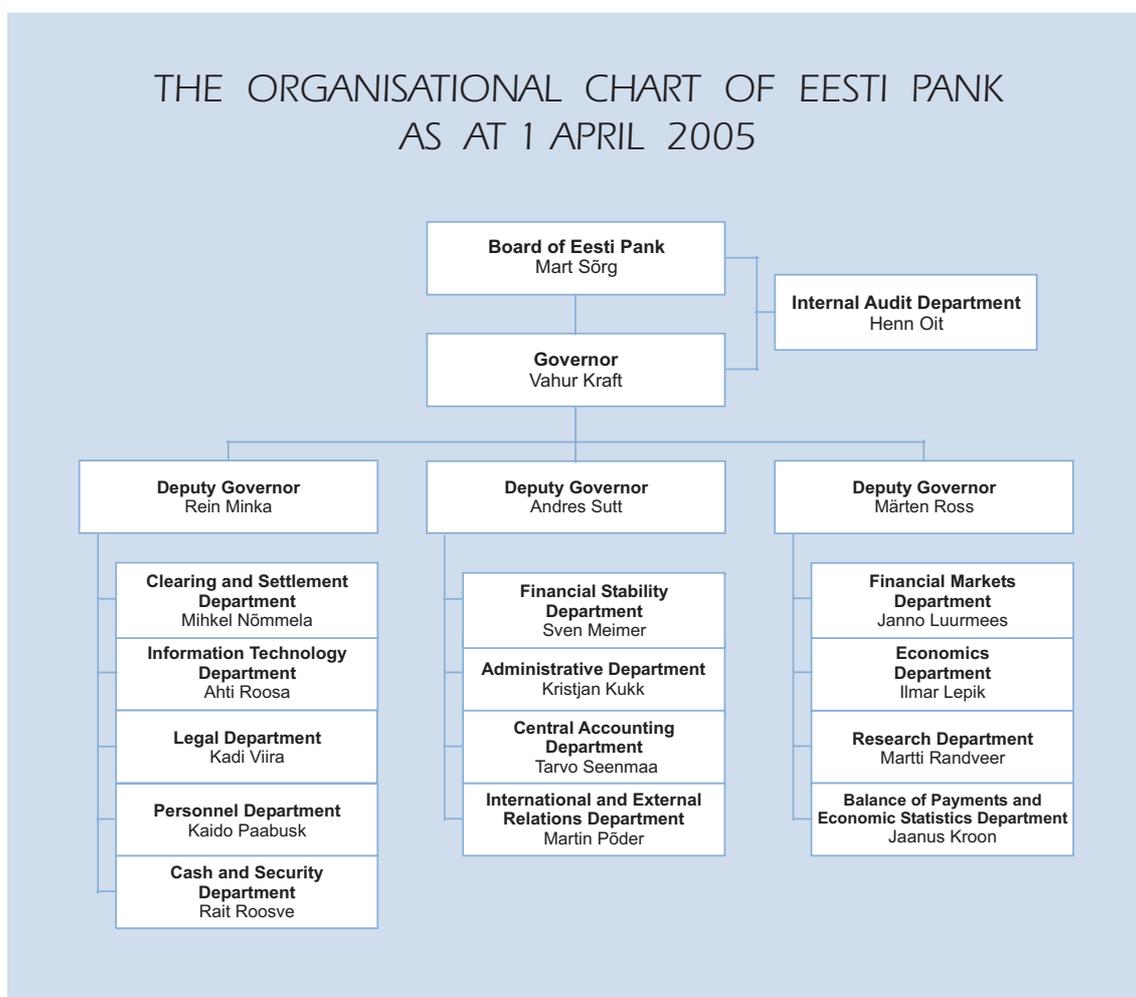
Monetary Policy Committee

A standing **Monetary Policy Committee** established at Eesti Pank elaborates monetary, economic and financial sector policy stands and coordinates the activities of Eesti Pank.

In 2004, the **Monetary Policy Committee of Eesti Pank** comprised the members of the Executive Board Governor **Vahur Kraft** and Deputy Governors **Rein Minka**, **Märten Ross** and **Andres Sutt** as well as **Janno**

Luurmees, Head of the Financial Markets Department, **Ilmar Lepik**, Head of Economics Department, **Martin Pöder**, Head of the International and External Relations Department, **Rait Roosve**, Head of the Cash and Security Department, and **Sven Meimer**, Head of the Financial Stability Department.

THE ORGANISATIONAL CHART OF EESTI PANK AS AT 1 APRIL 2005



Governance Framework

Strategic Management

Eesti Pank followed its 2001 decision in strategic management development to establish development priorities and regular tasks and respective descriptions as well as planning of human and financial resources **for a three-year period**. Implementation of the three-year view enables a more detailed and efficient planning of the budget and related posts. In 2004, it was decided to make drafting of posts and budgeting an annual routine within a three-year perspective.

Process-based overviews elaborated in Eesti Pank in 2004 established prerequisites for process-focused management accounting. For the third year Eesti Pank continued with performance appraisals with the aim to review executive-employee cooperation and plan tasks within the area of responsibility and development, and to get proposals from the staff vis-à-vis strategic development and organisation of work.

Process Management

In 2004, the bank continued improving its management system. In the first half of the year the implementation of quality management based management system components in departments was completed and **key processes in all departments were described**. In the second half of the year the working group defined **bank's processes** which the Executive Board of Eesti Pank approved.

Regular reviews and updates of the bank's processes were included in the annual strategic management cycle. The central bank's management system will be developed further based on the bank's processes: process ownership will be determined to identify persons responsible for process development and coordinated performance as well as for management reporting and risk management.

During the audit Bureau Veritas Eesti OÜ validated the ISO 9001:2000 Quality Certificate issued to the Cash and Security Department in 2002. The certificate serves as a proof that cash handling and security processes at Eesti Pank are compliant with the standard requirements.

Management Competence

As regards management development activities a management competence development project was carried out in 2004. It involved three important stages:

- identification of management competences essential for the bank, i.e. creation of a managers' competence model;
- evaluation of managers on the basis of the 360 degree competence model and provision of personal feedback;
- summary of group results at a management competence seminar.

By launching the project, Eesti Pank intended to facilitate the accomplishment of two objectives: on the one hand, systemic development of management competence of bank managers and, on the other hand, provision of self-based development for managers.

Risk Management

While elaborating a bank-wide risk management system, documents were prepared in 2004 to define distribution of risk management functions in Eesti Pank, principles of risk management, reporting chains and frequency, as well as the logic of risk management process. The Supervisory Board of Eesti Pank has been briefed on upcoming changes in the risk management environment and the Board gets regular updates on the implementation of the risk management system in the central bank.

A Risk Assessment Working Group has been set up with the aim to improve comparability in risk assessment and reduce subjectivity. Potential frequency of identified risks and accompanying impacts are assessed. All risks identified and assessed have been entered in a single register.

The scales applied allow relatively simple comparison and summarising of risks as well as reduction to similar likelihood (frequency). Thus, the Executive Board of Eesti Pank can shift focus from single risks to total risks. The most significant single risks to the bank are still monitored separately.

Various subdivisions of the bank are mostly involved in monitoring single risks, gaining support from analyses by the Risk Assessment Working Group.

Such two-level risk management allows limiting the number of risks monitored and managed by one manager to 30–40.

Coordination of Eesti Pank's Legislative Action with Changing Legislation and Bank's Strategic Goals

In 2004, Eesti Pank continued coordination of its legislative action with changing legislation and bank's strategic goals. This arises from the convergence of Estonian and EU legal environments. The first stage, which peaked in bringing banking and financial markets' legal environment into compliance with *acquis communautaire*, came to an end upon Estonia's accession to the EU.

In the post-accession period the volume of international information exchange about the legal environment increased abruptly. The focus in the ECB and EU committees and working groups has shifted to drafting of positions on pan-European development of central banking and financial law.

The international scope of central bank's legislative action has a retroactive impact on the bank's status in drafting Estonian legislation. The main domestic cooperation partners are the Financial Supervision Authority and the Ministry of Finance. Harmonisation of various institutional interests and integration of practical experience sets a foundation for best solutions, taking into consideration the European Judicial Area. Smooth cooperation is vital as, according to the Treaty establishing the European Union, Member States are obliged to ask for ECB's opinion for each draft legislation within ECB's competence.

A significant strategic task lies in securing legal prerequisites for the adoption of the euro. Agreements and regulations have to be prepared, the applicability of Estonian legislation under new circumstances evaluated, and if necessary proposals made to amend the legislation. In addition, a legal basis has to be set for monetary policy instruments, which will be necessary upon the coming EMU membership.

PERSONNEL POLICY

The aim of Eesti Pank's personnel policy is to ensure recruitment of employees needed for accomplishing the main objectives of the bank, to develop and train as well as motivate and provide fair remuneration to the staff.

Employees

Internal competition is preferred **in recruitment** in order to motivate the staff by providing horizontal career opportunities within the bank. External competition is used if internal competition has failed or in case an employee with different experience is looked for. While recruiting for managerial or other highly responsible posts, a competency model is used, which provides the best opportunity to evaluate candidates' knowledge, skills, and personal characteristics.

Staff remuneration derives from the need to hire and retain highly competent and motivated employees that would contribute to the good reputation of the bank. The compensation should be competitive with that in the labour market where Eesti Pank competes for employees, primarily the financial sector labour market in Tallinn (Harju County). In order to compare the remuneration of the bank employees and that of Tallinn's financial sector, the bank participates in salary market research for comparing last period's labour market indicators with the actual remunerations of the current period. No major changes took place in Eesti Pank's remuneration policy in 2004 though the financial sector of Harju County saw a slight rise in the wage median.

The basic remuneration of the Governor of Eesti Pank Vahur Kraft together with additional remuneration and bonuses in 2004 was 1,277,183 kroons, that of Deputy Governor Rein Minka 1,186,025 kroons, that of Deputy Governor Märten Ross 1,163,205 kroons, and that of Deputy Governor Andres Sutt 1,113,310 kroons. The

remunerations of the Supervisory Board members¹ totalled 2,193,000 kroons in 2004. The non-managerial staff has been assessed on the basis of the Hay method. Depending on the assessment results, all posts have been divided into wage groups in the classification of posts. Eesti Pank has implemented a salary scale comprising all salary grades. The employees, except for the management, receive a remuneration on the basis of their salary grade, comparable by groups of similar work within as well as outside the bank.

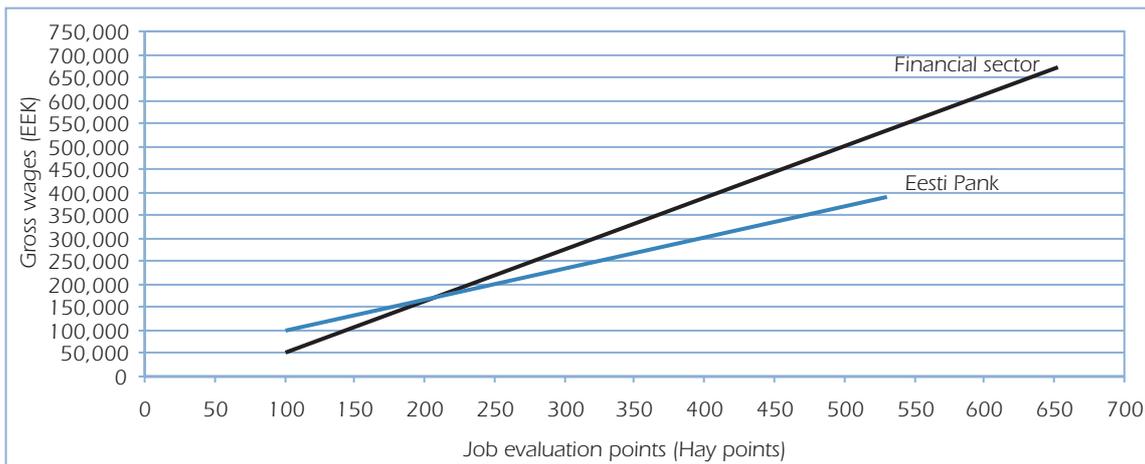


Figure 11.1. Comparison of annual wages of the financial sector of Harju County and Eesti Pank

Source: Fontes

In early-2004, the bank employed 252 employees. Contracts with 23 employees were terminated during the year and 30 new contracts were concluded. In end-2004, the bank had employment contracts with 259 employees, 231 of them were actually at work and contracts with 28 employees were suspended (mostly employees on maternity leave or temporarily employed by the ECB). Employee turnover (23 employees) was slightly above the last year (19), however, excluding the staff reduction (7 employees) due to delegation of the canteen functions, the turnover remains below 2003.

The average age of the staff has been stable over the recent years, being 40 in 2004. The bank employed 110 men (42%) and 149 women (58%). The share of 20–40-year-olds has increased whereas the share of older staff has been relatively stable. As the share of positions with higher qualification requirements has grown in the central bank, the share of senior staff increased further at the expense of junior and service staff in 2004. While in 2002 the senior staff accounted for 55% of the entire staff, by end-2004 the share was 65%. The educational level has improved as well: 10 bachelors, 5 masters and 2 doctors in 2004.

Development and Training

In 2004, the bank staff participated in **internal training projects and seminars**, was seriously involved in **further training**, and actively used **traineeship opportunities in the European Central Bank**.

The resources planned for training at Eesti Pank accounted for about 4% of the payroll and the **training costs were 3.5% of the payroll** at the end of the year. The training costs per employee were 11,000 kroons. 194 employees, i.e. 83% of the staff, participated in training in 2004. The training totalled 11,512 hours, **averaging six days of training per employee last year**.

¹ Including Chairman of the Board and 13 members from various compositions of the Board.

The main training topics were defined in the bank's internal training plan. Departments were independent in deciding internal training needs.

The bank had a total of **200 training events**, a third held outside the bank. 25 internal training courses were organised, including 20 in associated areas (information technology, law, management, and communication) and five in core areas (central banking, financial sector supervision, economic theory and policy). In the core areas **seminars held by internal and external lecturers** prevailed. All in all, 19 such seminars were held in 2004, 17 of which were open (i.e. a third of the audience was from outside Eesti Pank; mainly staff from the Tallinn University of Technology, Ministry of Finance, Ministry of Economic Affairs and Communications, and commercial banks).

Apart from internal training projects and job-specific in-service training there is also a choice of courses run by other central banks or international institutions. These are courses oriented for central banks of transition countries and last year 41 courses were held. The **International Monetary Fund** and **Bank of England** were the main training partners also in 2004.

The key training topics included **management and communication aspects, information technology, economic theory and policy** and **economic statistics**. Language training maintained its volume whereas besides English also proficiency in German, French, Spanish and other European languages has become topical.

47 employees participated in **further training** in 2004. About half of them were aspiring masters (22), and the rest was equally split between doctors and bachelors. **Seven staff members participated in a traineeship programme in the European Central Bank** last year, the traineeship lasted for 3–11 months.

International Cooperation

In 2004, Eesti Pank became more active in the Personnel Managers' cooperation network of the European System of Central Banks. The bank was represented at the biannual ESCB conference for personnel managers in Frankfurt in May and in Brussels in October. Apart from these regular meetings the Personnel Department attended the informal meeting of human resources managers of Nordic central banks in Copenhagen.

Eesti Pank was also invited to participate in a task force describing problems associated with developing common corporate culture within the ESCB. Personnel Departments of national central banks of Denmark, Austria, Finland, Poland and Estonia drafted a working document for the Brussels meeting "Common Corporate culture within the ESCB – a common challenge?".

Cooperation with ESCB training managers continued as well. Eesti Pank was represented at the training managers' meeting in Vilnius in September.

Staff Hobbies and Traditions in Eesti Pank

Sports Club

By the end of 2004 Eesti Pank's Sports Club had 206 members. Basketball, aerobics, swimming, volleyball and bowling are among the most popular fields of sport.

Larger events included a family sports day held in summer at Mõedaku and skiing at Nelijärve. Cyclists took a trip to Rügen Island, skiers went to Tahko, and chess players competed with the representatives of the central bank of France.

Chamber Choir

The Chamber Choir comprised of employees of Eesti Pank and the Financial Supervision Authority first gathered on 15 May 1998. Today Peeter Perens, a graduate of the Estonian Academy of Music both as a conductor and singer, conducts the over 30-member choir. Annually the choir elects a board, which coordinates its activities.

The choir attended "Eurochoir 2004", the choir festival of European central banks in spring and the XXIV Estonian Song Festival in summer. The choir also sang at the euro conference held by Eesti Pank and at the bank's 85th anniversary. In the second half of 2004, a concert at St Paul's Church in Viljandi and a joint Christmas concert with the choir of the Estonian Railways were held at St John's Church in Tallinn.