Estonian Entrepreneurship Growth Strategy
2014-2020
SEPTEMBER 2013
Foreword

The Estonian Entrepreneurship Growth Strategy 2020 is the most important strategic document on the Estonian economy for the next seven years, focusing on three main challenges in order to increase the wealth of Estonia: increasing productivity, stimulating entrepreneurship and encouraging innovation.

We have set quite ambitious targets up to the year 2020: to turn Estonia into the centre of start-ups in the Baltic states, Nordic countries and north-western Russia and to make Estonia the most attractive country for major corporations’ development centres in Europe. After this seven year period, Estonia should be one of the best countries in the world to establish and develop a company.

Estonia aims to be a country with a smart economy. Therefore, during the forthcoming seven years the state will focus mainly on areas where co-operation between businesses and researchers has the greatest potential to create added value. The analyses drawn up by the Estonian Development Fund have shown that information and communication technology, health technology and services, as well as the more effective use of resources, are the areas with the greatest growth potential for the Estonian economy. These are the priority development areas to which we will commit ourselves.

As one of the innovations in this Strategy we will focus more on the needs of those enterprises that have the greatest impact on the growth of Estonian economy. Approximately 3,700 companies produce a major part of Estonian exports and added value and, keeping them in mind, we are planning to establish a special development programme for these companies. Within this programme the development needs of the companies will be identified and in order to increase their productivity, they will be provided with professional counselling, analysis and support for different projects.

Encouraging entrepreneurship among the Estonian population remains very important – we need much more innovative and successful companies who can employ at least ten or more people and export their products and services. Under those circumstances, we facilitate the creation of ambitious business models and investing in research and development by these companies.

Juhan Parts, the Minister of Economic Affairs and Communications
2. Introduction

The general goal of the Estonian Entrepreneurship Growth Strategy 2014–2020 is to facilitate the achievement of the umbrella objectives within the competitiveness plan "Estonia 2020" to enhance productivity and employment. The plan seeks to reach the goal where Estonian entrepreneurs earn greater income through products and services with higher value added. To that end, entrepreneurial and innovation policy should be dealt within a single strategic framework that ensures the coherence between the policies that have, so far, stood apart at the strategic planning level, and by that ensure better performance.

The strategy comprises five components: vision, goals, focal points, objectives and management. Each component describes a specific aspect of policy planning (Figure 1. Structure of the strategy) but, when regarded as a whole, they give a clear picture of what we want to achieve by the year 2020 and what is our course of action. We have also estimated the costs of the development plan and provided annexes explaining the underlying logic of the strategy.

Figure 1. Structure of the strategy:

What is our goal? What do we want to achieve? What and who do we focus on? What are our policies? How do we do it?

In drawing up the strategy, we have consulted extensively with partners from both public as well as private sector and non-profit sector bodies.

In order to implement the strategy, every year the Ministry of Economic Affairs and Communications draws up an implementation plan approved by the Government of the Republic. The implementation plan sets out planned actions together with respective indicators, budgets and persons responsible (Figure 7. The enforcement scheme of innovation and entrepreneurial policy).
3. Vision

By the year 2020, the Estonian innovation and entrepreneurial policy will have considerably improved the welfare of Estonian citizens and enhanced Estonia’s integration in the international economy as well as the competitiveness of its enterprises.

- **INTEGRATED IN THE INTERNATIONAL BUSINESS ENVIRONMENT**
  Estonian entrepreneurs have become recognised and respected partners in Stockholm, St Petersburg, San Francisco and Shanghai. International companies valuing the advantages of the innovation-friendly environment, transparent, reliable and fast administrative procedures, good infrastructure and easy access to the markets in Scandinavia, the Baltic States as well as North-Western Russia are welcome in Estonia to do business.

- **SPECIALISED, RELIABLE AND ADAPTABLE**
  The international success of Estonian businesses is based on smart specialisation, fast adaptability and a high degree of innovation, efficiency and reliability. For exporters, the world has become their home market. ICT solutions are being widely used by companies.

- **ATTRACTIVE FOR BOLD AND ACTIVE ENTREPRENEURS AND YOUNG TALENT**
  Estonian entrepreneurs have assumed a leading role in implementing change as they are not afraid of trying out new technologies, they do not hesitate to develop new ideas and business models and they dare to be creative and entrepreneurial. For young international talent, Estonia is the best place for pursuing their careers allowing them to be the actual decision makers. Estonia has become an internationally recognised hub for start-up enterprises.

- **AT THE CROSSROADS OF INTERNATIONAL BUSINESS IN A STRONG EU**
  The Estonian economy stands out for its dynamism and outstanding indicators of economic development. For Northern members of the EU, Estonia has become a transit point on their route to Central European markets and for Western members of the EU, Estonia has become a bridge to the fast developing North-Western Russia.

- **SUPPORTIVE PUBLIC SECTOR PROACTIVELY MANAGING DEVELOPMENT**
  The Estonian public sector is oriented towards the development of competitiveness of companies and enhancement of national wealth. The government uses social-economic challenges for enhancing the competitiveness of companies. To meet the key challenges, co-operation across all policy areas including non-governmental actors has become self-evident.
4. State of play

The business environment in Estonia is generally business-friendly with still considerable room for improvement to become excellent for all operators active in Estonia. The Estonian tax system has many features beneficial for entrepreneurs offering opportunities for further development. There is also a well functioning structure in support of entrepreneurship. It is important to improve the international reputation of Estonia which is connected directly with the need to attract the investment necessary for continuous economic growth.

At the same time, the Estonian business community is characterised by several strategic weaknesses that, on a large scale, impede productivity and the growth of national wealth. There are too many operators with not enough ambition both in terms of product development as well as aspiration towards foreign markets. There is also room for improvement in the quality of management and efficiency. Another bottleneck is the lack of co-operation between operators in export markets which, considering the small volume of export, is often essential for succeeding. In spite of the growing trend in recent years, co-operation between operators and research institutions is still not as close and substantive as it should be.

Human resources or the knowledge and expertise of workers is yet another area of concern. The key issue here is the conformity of the content of education with the demands of the labour market, which is a critical factor for enhancing employment and increasing value added and productivity. As the Estonian economy is highly integrated with that of the European Union as well as the world, it is also directly influenced by the external business environment. Economic slowdown or potential downward changes among our primary trading partners is one of the major risks today. To some extent, these risks can be minimised with export-oriented measures in growth strategy but generally this kind of situation is considered a force majeure. At the same time, the vicinity of Nordic countries is putting wage growth under pressure which is forcing entrepreneurs towards efficiency, on the one hand, while it is making it more difficult to find suitable workers on the other as it will probably take a long time before we will be able to offer wage competition to Scandinavian countries. The vicinity of rich markets, however, is a clear competitive advantage that must be made use of.

The aim of the entrepreneurship growth strategy is to do away with the identified bottlenecks and create additional opportunities through actively contributing to an increase in the quality of human resources, the introduction of innovative business models, investing in development, enhancing multilateral co-operation, setting up a talent policy, fostering creative industries and through diverse development of the business environment. Thematic challenges and
ways for addressing them are dealt with separately in every section. Proposed solutions, activities and operations will be combined for fulfilling two important goals or for increasing employment that, in turn, increases productivity and creates high value added.
5. General goal and links with other development plans

In setting general goals we have relied on the two umbrella objectives of the competitiveness plan "Estonia 2020" ¹, namely:

1. **To increase productivity per employed person to 80% of the EU average**
2. **To raise the employment rate in the age group 20–64 to 76%**

In order to increase productivity we shall focus both on raising the ambition of entrepreneurs as well as on enhancing research and development activities, innovation and investments and export. In terms of employment, focus will be on bringing about the structural changes in the labour market by increasing the share of jobs creating higher added value. Based on an estimate that productivity growth will lead, in the long term, to an increase of employment we have set productivity growth as the general goal of the strategy (see Figure 2. General goal and the objectives of the strategy) ². Objectives of the strategy reflect the main components contributing to the achievement of the general goal.

**Figure 2. General goal and the objectives of the strategy**

The strategy also contributes directly to the achievement of the 'Growth of welfare' goal of the National Strategy on Sustainable Development 'Sustainable Estonia 21', the main component of which – economic prosperity – and the basic mechanisms for achieving it largely coincide with that foreseen in the Entrepreneurship Growth Strategy.

The development plan is also closely linked with other sectoral development plans influencing entrepreneurship and the business environment. The following figure (see Figure 3.) depicts links with other development plans and gives the most important keywords ³.
Several national development plans contribute either directly or indirectly to business development. The **Regional Development Strategy** includes the target group of regional businesses (see p 11), amplifying the emergence of enterprises both in centres of attraction as well as beyond them. The **Rural Development Plan** and the **Tourism Development Plan** focus on the development of entrepreneurship in certain economic sectors, while addressing specific bottlenecks.

While the task of developing research potential necessary for the development of a highly skilled workforce and entrepreneurship lies with the **Research and Development and Innovation Strategy** managed by the Ministry of Education and Research, the **Lifelong Learning Strategy** plays a key role in the development of human resources in general.

The Lifelong Learning Strategy sets a goal of providing the next generation of enterprising people with up-to-date knowledge and expertise. Therefore, in the context of business development, the Ministry of Economic Affairs and Communications places the following expectations on the educational system:

- to update science courses in basic schools and upper secondary schools
- to enhance quality engineering education, including linking theoretical study with practical training
- to make the vocational and continuous training system more efficient
- to integrate the development of e-skills in study programmes

The availability of the workforce is greatly influenced by structural unemployment. While entrepreneurs have difficulties finding qualified workers, a considerable number of people on the labour market are today unemployed. Therefore, in order to have more skilled workers return to employment through the active labour market policy (in co-operation with the Ministry of Education and Research, if necessary) much is expected of the **employment policy** managed by the Ministry of
Social Affairs. When bearing in mind productivity, the health status of the population is also of great importance, addressed by the National Health Plan 2009–2020 managed by the Ministry of Social Affairs. Employment policy is complemented by the Information Society Development Plan 2014–2020, focusing on the development of people’s skills to make better use of the opportunities of the information society (while bearing in mind the security of developed services). In co-operation with the Ministry of the Interior efforts are being made to facilitate and expedite the employment process of highly skilled experts in Estonia.

In addition to the abovementioned, the Information Society Development Plan 2014–2020 promotes the development of entrepreneurship through the development of communication and service infrastructure contributing to the increase in competitiveness. This Strategy focal points on co-operation to promote Estonia’s international reputation, where the measures of the Information Society Development Plan contribute to the development and spread of Estonia’s image as a country of e-solutions. The Entrepreneurship Growth Strategy further spreads and amplifies this message.
6. Focal points

The growth strategy focuses on two main issues:

1. Activity areas with major potential (the so-called growth areas)
2. Groups of enterprises with major potential

The following section deals with both of them, explaining their underlying logic and implementation.
GROWTH AREAS

WHY GROWTH AREAS?

The aim of basing policy making on selected growth areas is to concentrate activities for the prioritized development of areas with major potential. The selection of a value chain is based on the level of specialisation and development potential of the Estonian economy and research as well as on the developments in Europe and in the rest of the world. It should be noted that we focus on socio-economic challenges in close cross-border co-operation between enterprises and research institutions.

In furthering the development of growth areas, we aim to increase the competitiveness of Estonian enterprises in global growth areas.

SELECTION METHODOLOGIES

The selection process of growth areas comprised two stages: a qualitative and a quantitative stage. The quantitative analysis determined economic sectors in Estonia that display higher added value, more jobs created and good export potential. An aptitude for co-operation and the quality of Estonian science were also taken into consideration.

The qualitative analysis aimed at complementing the aforementioned analysis with a thorough assessment of the future developments of the economic environment. The analysis involved the creation of a model that assessed sectors identified in the quantitative stage in the following areas: entrepreneurial potential in Estonia; scientific potential in Estonia; the scale of economic impact and the likelihood of its materialisation.

PRIORITY GROWTH AREAS

The analysis carried out by the Estonian Development Fund showed that the following areas have most growth potential:

1. **Information and communications technology (ICT) horizontally through all sectors**
2. **Health technologies and services**
3. **More efficient use of resources**

Specific specialisation niches within each area will be determined during the development of activity programmes. It must be noted that specialisation does not focus on sectors, but rather on activities within sectors.

ACTIVITIES

When enhancing growth areas, it is up to the state to formulate challenges while solutions are worked out in collaboration with enterprises and the academic sector. The state implements its interests through three major instruments:

1. **Development of co-operation networks (including international cooperation networks).** In order to address challenges important to the state, increase synergy with international initiatives (Horizon 2020) and to create preconditions for their adoption and implementation at the national level, cooperation structures funded by the state (e.g. clusters and competence centres) are charged with the task to contribute inter alia to the following:
raise technological awareness and increase R&D implementation capacity of enterprises;

- include R&D intensive and innovative foreign investments;
- enhance co-operation between enterprises and international R&D&I clusters and technology platforms.

Co-operation structures co-financed by the state (e.g. competence centres and clusters) shall be based on a shared vision of entrepreneurs regarding the planning and implementation of development and marketing activities (including international marketing) and, therefore, topics are formulated in co-operation with partners from business and academic sectors.

2. **Development of demand-side policies**. In order to create a market for innovative products and services, we shall increase the state’s capacity and readiness to act as a client for innovative solutions (e.g. through innovative public procurements). We shall ensure the state to be an active innovation partner for entrepreneurs as a client for innovative solutions, while fostering the development and procurement of innovative solutions and implementation of demonstration projects. By doing so we stimulate innovation activities, enhancing thus both the emergence of start-up companies as well as partnerships with foreign enterprises.

3. **Fostering start-up entrepreneurship**. Although the active entrepreneurial policy of the last decade has largely been focused on modernizing traditional areas of the Estonian economy, the development of existing enterprises pays off only to a certain point. It is important to make use of the existing competencies and move on to more remunerative sectors by fostering emerging companies. To that end, we promote structural changes in enterprise, supporting the establishment and growth of new innovative companies in priority growth areas.

We shall give new impetus to the ‘Start-up Estonia’ programme by focusing on three courses of action:

- we support the distribution of learning modules concerning start-up entrepreneurship, the establishment of interdisciplinary teams and spin-offs;
- we contribute to the fast completion of prototypes and to the quick introduction of a minimum product to the market. We make support services necessary for the completion of test products and make financing widely available, in addition to expediting the development of a domestic investment market;
- we support the inclusion and development of management competencies in start-ups and support systems. We also help to recruit managers with international experience, improve leadership skills of ambitious entrepreneurs and raise the quality of coaching.

In addition to the instruments of this strategy, we contribute to the development of growth areas using primarily the research and development policy instruments of the Ministry of Education and Research (national R&D programmes in the area of smart specialisation, specialty scholarships, an institutional development programme supporting smart specialisation for R&D institutions and institutions of higher education) but also involving other partners from public, private and non-profit sectors. Priority development of national growth areas are also supported by activities specified in the regional development strategy by determining regional growth areas with major growth potential and by priority development of these areas.

**MANAGEMENT**

Management principles for smart specialisation are described in the section ‘Implementation and Management’ in this development plan.
TARGET GROUPS

So far we have described focal points based on growth areas. In this section, we shall discuss strategy focal points regarding **target groups** — enterprises forming the impact centre of the Estonian economy and contributing most to the achievement of strategic goals.

The target group based approach relies on client analysis carried out by Enterprise Estonia dividing Estonian enterprises into four large groups: large clients, key clients, growth clients and regional clients (see Figure 4. Target group distribution together with action lines). In case of both regional as well as growth clients distinction is also made between starting and operating enterprises.

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**Figure 4. Target group distribution together with action lines**

The aforementioned client groups comprise the entire business landscape of today. The first three groups with approximately 3,700 enterprises account for the majority of Estonian exports and value added and their potential contribution to the achievement of general goals and objectives is the greatest. Therefore, the strategy aims at influencing positively (see also Annex 2. Strategic objectives and influence model) as many enterprises in these groups as possible:

- **Large clients** - enterprises with significant influence that drive the value added increase in their respective areas. The main criterion is return on export sales amounting to over 30 million euros a year. Today, there are approximately 30 enterprises that meet this criterion. For these enterprises we offer business services and diplomatic support for entering and operating on foreign markets. We also pay attention to the development of supply chain and strategic co-operation
with other enterprises and universities.

- **Key clients** - aspiring enterprises that get either a high return on export sales or whose value added is above Estonia’s average. Their return on export sales amounts to over 1.25 million euros or their value added per employee is over 25,000 euros a year. There are approximately 1,100 enterprises meeting these criteria. We help to enhance their development capacity, develop strategic partnerships and marketing competencies and offer personal support at external representations.

- **Growth clients** - emerging and fast-growing ambitious enterprises. For emerging enterprises it means that by the end of the second year of operation their estimated annual sales must exceed 200,000 euros and their export intensity must be at least 25 %. Today, there are almost 2,600 enterprises meeting these criteria. We help them increase their knowledge base and enhance development activities and help them find new contacts.

Although the Entrepreneurship Growth Strategy focal points mainly on the first three target groups, it is also important to ensure the emergence of new companies. Therefore, fostering the development of regional enterprises that outnumber all other enterprises in Estonia has an important place in the Entrepreneurship Growth Strategy. All competitiveness actions invest in this client group (as in all other client groups) and financial instruments are also available for this target group. Activities intended to foster the emergence and development of sustainable enterprises (regardless of their size or location) are dealt with in the section concerning business models.

Regional enterprises form the most numerous segment of the Estonian business community playing a significant role in employment and addressing social and regional challenges. County level development centres charged with the duty to advise entrepreneurs and offer financial support for starting up their own businesses have a key role in the framework of development activities. They will be among the main promoters of the entrepreneurial objectives of the Regional Development Strategy whose measures are prepared in co-operation with Ministry of Economic Affairs and Communications.
7. Action lines

Action lines of the strategy together with its objectives encompass activities necessary for achieving the objectives. In order to emphasise the entrepreneur-oriented approach of the strategy, we have based the action lines on the logic of enterprise’s business model of an enterprise: business model, development activities, manufacturing, sales and marketing and competitiveness actions. This kind of approach makes it easier to address different elements of a business model and to address better the challenges they pose. In the interest of clarity, we have divided the said areas into four large action lines (see Figure 5. Action lines of the strategy based on the logic of an enterprise’s business plan).

Upon planning the activities of the strategy we build on the following three principles:

1. **Strategic customer management** – we shall strengthen the state’s role in improving enterprises’ strategic planning capacity.
2. **Enterprise development** – instead of project financing we place thorough analysis, planning and implementation of activities in the core of support policy.
3. **Less direct grants and more financial instruments** – transition to a market based support system, e.g. through financial instruments and venture capital solutions and by making services partly chargeable.

When offering support and services, the aim is to focus on enterprise groups that contribute most to economic growth (see previous section 'Target groups').

**Figure 5. Action lines of the strategy based on the logic of enterprise’s business plan**

The following sections deal with action lines, describing challenges they pose and how we plan to address these challenges. For every action line we have established an objective and indicators for assessing the outcomes of our actions.
BUSINESS MODEL

Objective – what do we want to achieve?

Estonians are entrepreneurial and enterprises ambitious.

How do we measure the results of our work?

1. The number of enterprises established three years ago with turnover exceeding 125,000 euros (as the three-year average; source: Business Register)
   initial level (in 2011) 1150, target level (in 2020) 1600

2. Number of enterprises with at least 20 employees (source: Statistics Estonia)
   initial level (in 2011) 3217, target level (in 2020) 4000

Main challenges:

- development of entrepreneurial knowledge:
  According to the GEM survey carried out by the Development Fund, the rate of entrepreneurial activity in Estonia is high but the survival rate is low. The rate of entrepreneurial activity is comparable with that in countries at the same development level. The survival rate of early stage enterprises is much lower than the average survival rate in the comparison group. 17

- emergence of innovative and fast growing enterprises:
  The growth outlook of enterprises is expressed by entrepreneurs’ expectations concerning the increase in employee numbers as well as their ambitions on the international market. While the level of internationalisation in Estonia is comparable with the average level in countries of the same development level, expectations of early stage enterprises concerning a fast increase in employee numbers (i.e. more than 10 employees in five years and over 50 % of growth) are lower, remaining that also when compared with the respective indicators in Latvia and Lithuania. 18

- for entrepreneurs, starting a business is rather a forced move than exploiting market opportunities:
  Although 13% of the Estonian working age population is engaged in enterprise, just over one third of them have made the decision to exploit market opportunities. The remaining two thirds have made the decision in a situation where starting a business was the only way for earning a living. 19 This situation has resulted, among other things, from the shortcomings in entrepreneurial studies in schools as the Estonian school system, when compared to other European countries, does not support the development of entrepreneurial knowledge, skills and attitudes.

- management capacity of Estonian entrepreneurs is low and their planning horizon short:
  Estonian enterprises are run in a uniform way, paying little attention to sectoral specificities or enterprise size. In many of the enterprises the executive manager also acts as an export manager, a marketing manager as well as the chief designer. Highly qualified specialists are needed for the enterprise to move to a higher position in the value chain. The inability of Estonian enterprises to work out globally successful brands remains a problem. Although enterprises have realised the need to plan long ahead, they still make mostly short-term plans. Their capability to implement sector specific management practices is also low. 20

How do we respond to these challenges 21:

- Creation of favourable conditions for new enterprises to emerge and develop:
  we shall popularise an enterprising attitude and the career choice of an entrepreneur in different target groups; form
enterprise-friendly attitudes in society; raise awareness on entrepreneurship; eliminate barriers to becoming an entrepreneur; offer advice and financial support for starting a business; and we shall try to give a second chance for entrepreneurs who have made "an honest mistake". We shall also promote interest towards innovation. The emergence of new sustainable enterprises relies on county level development centres charged with the task to advise entrepreneurs, offer financial support for starting up their own businesses and introducing the basic ICT solutions (e.g. for choosing suitable software). They shall be among the main promoters of the entrepreneurial objectives of the Regional Development Strategy in the development of measures to which the Ministry of Economic Affairs and Communications also contributes;

- **Enhancing the inflow of ambitious business ideas:**
  we shall promote the ability to recognise business opportunities on the basis of technology and market trends; support the development process of business ideas and prototypes and testing of business concepts; support further putting ideas with global potential into practice; support the development of start-up businesses into viable enterprises thus fostering the growth of survival rate of enterprises;

- **The promotion of the creation and implementation of ambitious business models:**
  we shall improve the motivation and knowledge of both potential as well as established entrepreneurs for creating and developing new business models (raising also awareness of the possibilities of ICT solutions bearing in mind both e-business and e-trade). We shall support the development of globally successful brands by offering entrepreneurs trainings and internships in the areas of production design, production processes and management of value chain. It is important for starting but also for established enterprises to keep them competitive in the changing market conditions.

- **Ensuring integrated and high quality entrepreneurial studies:**
  promotion of more systematic and better quality entrepreneurial studies at various educational levels and making a clear distinction between entrepreneurial and economic studies. Integration of entrepreneurial studies into other subjects, enhancement of new playsome and interactive methods (also for teaching science) and better involvement of entrepreneurs in the learning process. Special attention is paid to the possibilities offered by ICT solutions and their advantages;

- **Increasing the availability of capital for starting a business:**
  we shall improve the availability of early stage financing, broaden the selection of financial instruments and foster the activities of business angels;

- **Fostering the creation of spin-off enterprises:**
  we shall encourage specialists in enterprises of high development capacity to found their own businesses by sharing the risks entailed by the process of exchanging paid employment for entrepreneurship. In co-operation with the Ministry of Education and Research we foster the development of spin-offs stemming from universities and research institutions;

- **The improvement of management quality:**
  we shall foster attracting into Estonia internationally renown educators with thorough knowledge of sector-specific matters and management. Sector-specifically we shall support trainings and consultations focusing on internationalisation and export as well as the spread of business practices in leading enterprises of the sector.
INCREASING CAPACITY AND ENTREPRENEURIAL AWARENESS OF ENTERPRISES

We shall increase management and development capacity by raising awareness of entrepreneurs and offering new knowledge.

We shall focus our activities on growth and key clients in three areas:

- business model and management;
- product development;
- contemporary production management.

We shall help entrepreneurs develop and update their business models through the dissemination of contemporary viewpoints and practical experiences and through the development of their management skills. We will develop strategic management capacity among manufacturing enterprises by offering training.

In case of growth clients, it is most important to increase their knowledge base and development capacity. We shall encourage entrepreneurs to find opportunities for improving and developing their products by making better use of innovation, IT and design. We shall support the development of trademarks and brands. We also consider it important to promote activities concerning production organisation and improving the knowledge of production managers. It is also important to introduce contemporary production information systems making enterprises more efficient.

We consider it important to enhance interest towards entrepreneurship and to channel it towards the starting of a business. Therefore, Enterprise Estonia organises events, such as the Ajujaht entrepreneurship competition and entrepreneurship week, intended for the wide audience to popularize entrepreneurship.
DEVELOPMENT AND PRODUCTION

Objective – what do we want to achieve?

Estonian companies manufacture efficiently high added value products and offer innovative services.

How do we measure the results of our work?

1. The share of private sector expenditure on research and development in GDP (Source: Statistics Estonia)
   Initial level (2011) 1.52%, target level (2020) 2%

2. Sales of new to market and new to firm products or services (ratio to total return on sales; source: Statistics Estonia)
   Initial level (2010) 9.7%, target level (2020) 18%

3. The ratio of labour productivity per hour worked to the Eurozone average in current prices (Source: OECD)
   Initial level (2011) 51%, target level (2020) 65%

Main challenges:

- **Weak development capacity of companies**
  The development capacity of Estonian companies is low compared to the countries with higher productivity. The number of enterprises who have declared any spending on research and development has not increased lately (however, the total expenditure on R&D has increased) but in order to improve the competitiveness of the economy it should be accelerated. The low level of expenditure on R&D in processing industry stands out: the companies use too little solutions offered by supporting sectors (such as information and communication technologies (ICT) and design) and the new so called enabling technologies. However, the ICT sector offers ample opportunities to increase the productivity in the manufacturing as well as service sectors. The use of opportunities offered by good product design could lead to the development of new, high quality, tailor-made, economically and environmentally viable products and services.

- **Increase the income from innovative products and services**
  44% of Estonian SMEs have carried out some product or process innovation, 34% have introduced changes in the area of marketing or management and around one third of them have managed to implement those improvements without any external help. However, innovative entrepreneurs in Estonia are still behind their European partners when it comes to the growth of turnover based on new products and services. Therefore, a rather paradoxical situation has appeared where there are more innovative companies in Estonia than the European Union average but the turnover of new products in Estonia is considerably smaller.

- **Co-operation with R&D authorities in the field of innovation**
  During the period from 2008 to 2010 42% of technologically innovative companies co-operated in the area of innovation (EU average was 25%). However, Estonian companies are relatively reluctant to co-operate with R&D authorities – today, suppliers, customers and companies that belong in the same Group are their most important innovation partners. Only 20% of innovative companies co-operate with universities.

- **Lack of efficiency in manufacturing and offering services**
  One of the main challenges for Estonian manufacturing enterprises is how to improve their production management. According to entrepreneurs the monitoring of production processes and the cost-effective use of production equipment is a very challenging task for a lot of companies. In many cases the exiting production capacity has not been fully used and the labour has not been involved efficiently enough.
Actions to respond to these challenges:

- **Support to the improvement of companies’ development capacity and give them incentives to start new development projects:**
  In order to do that we support the acquisition of knowledge and skills and engaging the necessary human resources.

- **Supporting the increase in profitability of the development:**
  We ensure the availability of innovation services (consultations, market and patent research, laboratory, testing and development services, design, implementation of user-friendly design, etc.) and support co-operation in the area of innovation, including the participation in international R&D groups. We also focus on product creation on the basis of development results. We help to find funding for companies’ development projects by combing the funding opportunities of KredEx, Enterprise Estonia, international organisations and domestic venture capital market.

- **Supporting the improvement of productivity:**
  This includes the distribution of production management skills, involvement of international experience and the development of production processes. We support the increase in productivity by introducing ICT, other key technologies and design and by linking the support to investments with training and consulting.

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**DEVELOPMENT PROGRAMME FOR ENTREPRENEURS**

In order to offer comprehensive support to entrepreneurs who are in the centre of impact of the Estonian economy when planning and implementing their ambitions related to growth a new measure will be established - development programme for entrepreneurs.

In co-operation with Enterprise Estonia entrepreneurs will map their development needs and try to find the most suitable ways to implement them.

The activities of the Development Programme are divided into two:

1. identification of the development needs of entrepreneurs;
2. supporting the development activities (related to personnel, processes, development of products and services, as well as sales and marketing).

The new programme means that entrepreneurs will not need to apply for support from different support measures any more. The support will be given to companies who are capable of achieving the set goals. Enterprise Estonia will participate in supporting the development of enterprises within the limits agreed in advance.

The pilot programme will start in autumn 2013 and its full implementation will take place in 2014.
SALES AND MARKETING

Objective – what do we want to achieve?

Estonian companies are active exporters

How do we measure the results of our work?

1. The share of Estonia in the world trade (source: WTO)
   Initial level (2011) 0.099%, target level (2020) 0.11%

2. Number of exporters (source: Statistics Estonia)
   Initial level (2012) 11 281, target level (2020) 15 700

3. Unit value index (UVI) (source: Eurostat)
   Initial level (2011) 130.6, target level (2020) the increase in the value is faster than the EU average

Main challenges:

- Limited export bases:
  The export capacity of Estonian companies is very strongly polarised – 100 larger exporting enterprises account together for approx. one third of export turnover of Estonian products and services. 31

- Exports as strategic measure
  Limited marketing skills, lack of contacts on foreign markets and weak development and long-term planning capacity are the main problems that Estonian companies are facing.

- Lack of co-operation among exporting companies
  Estonian companies consider customers, consumers and suppliers as their most important co-operation partners 32. According to the data of 2011 93.4% of Estonian companies are micro-enterprises who lack resources for exports and foreign marketing. However, if they co-operated they could achieve better results in these areas. 33

- Limited exporting territories
  60% of Estonian exports of products and services go to neighbouring countries in Scandinavia and the Baltic region, as well as to Russia which is the main export market for Estonia outside of European Union. Only 20% of products and services are sold on more distant target markets. 34

Actions to respond to these challenges: 35

- Increase the number of exporting companies and their ability to enter new markets
  We help to communicate the contacts of Estonian companies to possible partners on closer and further markets in order to increase the chances of the companies to enter as exporting manufacturers or service providers to foreign markets. Exporters are provided with information and specific counselling on a target country, as well as training and other services to support export.

- Support to entrepreneurs to enhance their export activities:
  In order to increase the sales capacity of companies who start exports or are already exporting specific support services will be developed by state focusing mainly on long-term export planning, brand development, provision of export guarantees and creation of new business opportunities, for example via e-channels.

- Promotion of export co-operation: 36
  We support the participation of Estonian companies in international value chains, in submission of joint tenders and enhance strategic partnership between companies.
• **Supporting the reputation of Estonia as an innovative country:**
  For example, by building a reputation for Estonia as a country of start-ups, development of responsible entrepreneurship and an e-country.

We support Estonian companies’ export activities by the following actions:

1. **Distribution of information that companies might need to act successfully in target markets, creation of new business opportunities in foreign markets and offering on-spot support for companies operating outside Estonia.**

   We improve the export capacity of Estonian companies by target-country specific trainings and pilot programmes, by expanding the network of representations of Enterprise Estonia abroad and by participating in foreign fairs and organising marketing events.

2. **The issue of state-guaranteed export credit to foreign customers of Estonian exporters**

   We are currently working on the funding scheme to support medium and long-term export transactions of Estonian exporters by issuing operating capital loans to foreign purchasers of Estonian products and services. We also offer state-guaranteed insurance of export credit.

3. **Increasing the number of companies who receive export credit insurance and the amount that is insured**

   We mitigate risks of Estonian exporters by offering export credit insurance and decreasing financial risks related to purchasers.
COMPETITIVE POSITION

Objective – what do we want to achieve?

Enterprises value Estonia highly for its business environment

How do we measure the results of our work?

1. Estonian ranking in the World Economic Forum (WEF) Global Competitiveness Report

2. Estonian ranking in the Doing Business report

Main challenges:

- Development of capital markets
  34% of entrepreneurs are of the opinion that financing different stages of their development causes problems.37 The possibility to use external financial sources (in addition to banks and acquaintances) is limited. In 2011 private and venture capital investment in Estonia accounted for 0.04% of GDP which is 8 times less than the European average.38 The knowledge and skills related to (venture) capital management are limited. Capital products offered by private and public sectors do not guarantee the optimal mitigation of liquidity risks.

- Availability of qualified labour:
  The increasing lack of qualified specialists and skilled workers is a huge problem.39 There is a constant need for engineering and technical competence. The output of the educational system should correspond better to the needs of enterprises. According to entrepreneurs the availability of qualified labour is currently relatively low: 3.17/10).40 The demographic changes that Estonia will be soon facing impose even greater limits on availability of labour.

FIGURE 6. Labour inflow and outflow

The population of Estonia is aging which means that more and more people leave the labour market every year while the number of young people who enter the labour market is gradually decreasing. This means that the existing labour force has to be more efficiently used.

- Attracting foreign investment to support the development:
  So far Estonia has behaved mainly reactively in accepting investments and, therefore, we have not been able to make the maximum use of potential investments to create higher added value. Estonia is not the most attractive spot for
new foreign investment or reinvestment in the North European region. In 2010 only 4% (27 investments) of the total investments made in the region came to Estonia.  

- **Better use of state resources to promote innovation:**
  In 2010 the Estonian public sector expenditure on products, services and work accounted for 19.4% of the GDP (2.8 billion euros). However, today most of the companies do not consider public procurement as a measure to support innovation and public procurement procedures do not have much influence on innovation.  

- **Development of entrepreneur friendly business environment:**
  The simple and smooth business environment should create a unique competitive advantage for entrepreneurs operating in Estonia. There are several possibilities to make the submission of business related data even simple and more comfortable.  

- **Competitiveness of the tax environment:**
  In order to meet international competition Estonia needs an up-to-date and business- friendly tax system that fosters employment and the increase in added value.  

- **Development of the international image of Estonia:**
  Estonia is rather unknown as an exporter, an investment target country or as an easy place for businesses to operate. In order to support the growth potential of local companies and the economy Estonia has to be introduced internationally as an exciting start-up country offering reliable export partners and flexible business environment.  

- **Development of creative industries:**
  Taking into account the potential of this sector the number of companies operating in the field of creative industries is small among the start-up companies – too many good ideas never find their way to business. The existing companies are usually either micro or small companies who are unable to grow and have not much initiative to do so. The sector lacks opportunities for product development and creating innovative solutions. The domestic market is small and the weak export capacity does not allow entering and staying in foreign markets. Entrepreneurs who do not belong to creative circles do not know much about the possibilities of creative industries and often the added value that could be created in co-operation is overlooked.  

**Actions to respond to these challenges:**

- **Development of capital markets:**
  We develop and integrate the venture capital market and the Business Angels Network by supportive instruments and by offering the necessary human resources, diversifying the range of (state) financial instruments (e.g. crowd funding, venture capital, loan guarantees, funds). We develop the environment facilitating capital movement and investment.  

- **Better adjustment of the education system with the actual needs of enterprises:**
  In co-operation with other authorities the existing labour force broadcast system will be improved, taking into account different factors influencing the labour market, such as education, demographic factors, entrepreneurship activity and foreign workers. The synergy between entrepreneurship and educational system will be improved through well coordinated co-operation between ministries, vocational schools and companies and by increasing the popularity of technical higher education and vocational education. We support the training that proceeds from specific needs of companies using flexible study forms and short-term planning cycle.  

- **Effective talent policy:**
  We facilitate finding and recruiting talent, as well as their entry and employment in Estonia as employers or employees. The aim is to make Estonia desirable for talented people by offering flexible personal services necessary for such talent and their family members for adjusting to life in Estonia. We support the creation of networks of talents and the co-operation between them, and contribute to their stay by building the image of Estonia and creating suitable living and working conditions. We promote flexible forms of work.  

- **Increase in foreign investment into development:**
  We try to attract foreign investment by a proactive approach. We identify potentially attractive investors for Estonia
and find a way to offer them the environment and services that help to create value. In order to attract investment with the highest added value we will draw up a compact investor service packet that includes a comprehensive insight into the products and services offered by Estonian scientific and business partners.

- **Simplification of the communication between the state and entrepreneurs by reducing the administrative burden:**
  Companies must have the opportunity to communicate with the state by simple and comfortable means of e-channels. We will stand for this opportunity to expand all over European Union. Different e-solutions must interact smoothly and in a user friendly manner. In order to reduce the administrative burden we will try exclude the situation where the data that has once been submitted to the state has to be submitted again (also in the case of applications by entrepreneurs), we will also introduce the SME test and support the transposition of the EU law imposing as little administrative burden on companies as possible. Projects that contribute to the reduction of the administrative burden will be supported. Special attention will be paid to the development of the national e-commerce environment (including raising consumer awareness).

- **Analyses of the possibilities for the development of the tax system:**
  In co-operation with the Ministry of Finance we will analyse the ways to update the current tax environment in order to ensure the competitiveness of the business environment.

- **Development and marketing of the image of Estonia:**
  Estonia will be introduced to the world as a state with a flexible and business friendly economic environment and as a country which uses versatile, compatible and user friendly e-solutions. While attracting foreign investment to Estonia the main focus is put on the co-operation between private sector and educational and research institutions, as well as on investment in industries with high added value.

- **Increasing the competitiveness of companies operating in creative industries:**
  Due to its innovative approach creative industries have a great potential to create added value for the rest of the economy. Therefore, it is important to facilitate the development of creative industries and to connect it with the rest of the economy. The development of creative industries is based on three pillars: raising awareness and offering training, support for start-ups and their incubation period, support for sectoral development and exports. The companies that need a range of services and a special environment for comprehensive development have the chance to operate in creative incubators. The physical environment of the incubators and their technological basis will be improved and renewed. Competitive companies are provided with sectoral services in order to help them to carry out their product development and marketing and enter foreign markets. We will take special measures to increase exports, use all the potential of creative industries to operate successfully on foreign markets and to develop companies that are able to grow.
In order to reduce the regulatory burden on companies the following actions will be taken:

1. **Simplification and acceleration of the procedure for the issue of building permits**

   An electronic module for applying for, and processing of, building permits will be created. This will allow quick submission of applications and easy circulation of them between parties concerned. The new Building Act will exempt several works that needed a license before from such requirement.

2. **Reinforcement of investor protection**

   The rights and duties of (small) shareholders will be reviewed in order to ensure better protection of their interests. More active small investors would increase companies’ opportunities to attract capital.

3. **Increasing the effectiveness of insolvency proceedings**

   There are three groups of problems related to bankruptcy: duration of procedures, the low rate of satisfied claims and so called “new beginning”. The current duration of proceedings that lasts for three years must be shortened substantially and a considerably large share of creditors’ claims must be met as a result of the procedure. An entrepreneur who has passed a quick procedure can start again and by that contribute to the overall business environment with his/her knowledge and experience.

4. **Reduction of companies’ reporting requirements**

   The state is developing an electronic environment that allows small companies to simplify their accounting process. We are currently analysing the possibilities for making the scope of reporting dependent on the volume of a turnover (incl. for statistical studies).

5. **Supporting the development of the EU internal market**

   A truly integrated internal market of the European Union helps Estonia to achieve considerable economic growth and create jobs. The harmonisation and simplification of regulations, establishment of common standards and development of interoperable solutions, as well as an efficient administrative co-operation that promotes free movement of goods, services and people and supports export opportunities, expansion of foreign markets, development of services creating added value and the availability of qualified labour is very useful for Estonia. Estonia supports any initiatives to promote more integrated and efficient services market, as well as the reform of the EU system for the recognition of professional qualifications.
7. Implementation and management

The implementation and follow-up of the Entrepreneurship Growth Strategy and the Research, Development and Innovation Strategy and, if necessary, making motions to amend them (incl. motions to amend proportions of funding) is carried out according to the procedures provided by law (incl. the Organisation of Research and Development Act, the Structural Assistance Act) and their implementation acts and using the existing co-ordination mechanism and the future Smart Specialisation Steering Committee. The information related to this strategy will be used to implement, manage and follow-up the implementation plan of the cohesion policy.

- The detailed description of the management, follow-up and co-ordination system of the strategies and the division of labour will be included in the implementation plans of the Entrepreneurship Growth Strategy and the Research, Development and Innovation Strategy.

The achievement of the objectives of the smart specialisation is, in addition to the Entrepreneurship Growth Strategy and the Research, Development and Innovation Strategy, also related to the implementation of other development plans, such as the Information Society Development Programme for 2014–2020, the Lifelong Learning Strategy for 2014–2020, the Rural Development Plan for 2014–2020 and other development plans related to growth.

- In order to co-ordinate actions in the area of smart specialisation the Steering Committee will be formed comprising representatives of the Ministry of Education and Research, the Ministry of Economic Affairs and Communications, the Government Office, the Ministry of Finance and, if necessary, other ministries, as well as entrepreneurs. The Development Fund organises the work of the Steering Committee and gives input for decision making but it has no right to make decisions.

  - The Steering Committee follows the implementation process of the set objectives and, if necessary, makes proposals to ministries, the Innovation Policy Committee and the Research Policy Committee to make changes in the measures and actions of the strategies or initiate the amendment of the strategy.

  - The objectives and indicators of the smart specialisation will be planned by measures based on objectives set out by the strategy.

- The Estonian Development Fund will be responsible for the continuous surveillance and analysis of growth areas, unless otherwise agreed. The Fund will invite entrepreneurs, scientists and concerned ministries (incl. the Ministry of Social Affairs, the Ministry of Agriculture and the Ministry of the Environment) and, if necessary, other authorities and partners to participate regularly in the discussions held in specific working groups in growth areas. In close co-operation with enterprises (so called “entrepreneurial discovery”) and scientists necessary actions will be planned and proposals prepared for the Steering Committee.

- The detailed description of the management, follow-up and co-ordination system of smart specialisation will be included in the implementation plans of the Entrepreneurship Growth Strategy and the Research, Development and Innovation Strategy together with the general co-ordination system of the strategies.
IMPLEMENTATION PLAN

In order to carry out this Strategy the Ministry of Economic Affairs and Communications will draw up an annual implementation plan for each year, which will be confirmed by the Government of the Republic. The implementation plans will include planned actions together with indicators, budgets and responsible authorities (see Figure 7, Innovation and enterprise policy implementation system).

Every time a new implementation plan is be submitted to the Government of the Republic it will be supplemented with the report on the execution of the previous implementation plan.

AUTHORITIES INVOLVED

The following authorities will play the key role in the formation and implementation of the innovation and enterprise policy:

- **The Ministry of Economic Affairs and Communications** – sets out the policy and establishes its main implementation principles together with the distribution of roles between the implementing authorities.
- **The Innovation and Enterprise Policy Committee** – advises the Ministry of Economic Affairs and Communications on the most important policy issues and assesses the implementation of the policy.
- **Estonian Development Fund** – carries out development surveillance necessary for long-term policy making and direct investment of venture capital until the launch of the national venture capital fund. It also monitors and analysis the international economic indexes and makes policy proposals based on them.
- **KredEx Foundation** – supports the development of companies by offering different financial instruments. The portfolio of KredEx includes loans, credit insurance and state guarantees. As a new measure KredEx Foundation will start to manage a venture capital fund of funds.
- **Kredex Credit Insurance Foundation** - a state owned insurance company that helps Estonian enterprises to mitigate risks related to exports and domestic sales. The portfolio of the Foundation consists of different credit insurance products such as supplier and buyer credit insurance.
- **Enterprise Estonia** – helps to carry out innovation and enterprise policy through different support schemes, counselling and training. During the period from 2014 to 2020 the Enterprise Estonia will focus more on the development of long-term partnerships with entrepreneurs and supporting them through comprehensive development plan.
Figure 7. Innovation and enterprise policy implementation system

- **Development Fund**
  - Development monitoring
  - Direct investment of venture capital

- **Ministry of Economic Affairs and Communications**
  - Strategic policy making

- **Innovation and Enterprise Policy Committee**
  - Advisory and assessing body

- **KredEx Foundation**
  - Financial instruments to support enterprises, venture capital

- **Kredex Credit Insurance Foundation**
  - Credit insurance products for companies

- **Enterprise Estonia**
  - Grants and counselling for companies
Annex

ANNEX 1. THE CONNECTION OF THE STRATEGY WITH EU LEVEL INITIATIVES

This Strategy is based on agreements concluded at the EU level. It proceeds first of all from the general goals of the EU 2020 strategy 46 to increase the competitiveness of the Union and follows the principles of the flagship initiative "Innovation Union" 47. The Growth Strategy is directly linked to the EU industrial policy initiative 48 and the communication "Entrepreneurship 2020" 49 (incl. the European initiative on small businesses). When planning regional co-operation the main policies of the Strategy of the Baltic Sea Region 50 are also taken into account.

Figure 8. The relationship between the Growth Strategy and EU initiatives

The EU structural funds, 51 especially the European Regional Development Fund and the European Social Fund, meant for funding the regional policy are very important for the implementation of the strategy. EU central financial instruments, such as the EU Framework Programme for Research and Innovation (Horizon 2020) 52 and the EU programme for the Competitiveness of Enterprises (COSME) 53 are equally important for achieving the goals of this Strategy.
ANNEX 2. STRATEGIC OBJECTIVES AND IMPACT MODEL

The impact model is based on targets set out in the Strategy Estonia 2020:

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector expenditure on R&amp;D</td>
<td>1.49%</td>
<td>2%</td>
</tr>
<tr>
<td>The share of Estonian exports in world trade</td>
<td>0.099%</td>
<td>0.110%</td>
</tr>
<tr>
<td>Labour productivity compared with EU average</td>
<td>67%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Enterprise Estonia and the Ministry of Economic Affairs and Communications carried out the analyses of all the indicators in order to find out what the achievement of each target level means in terms of money:

- Achieving the target level of private sector expenditure on R&D means that by 2020 the costs will increase by 205 million euros;
- The increase in the share of Estonian exports in the world trade means that Estonia has to increase its export during the period by 16 billion euros.
- Increasing the labour productivity to 80% of the EU average means that the added value has to increase by 12.3 billion euros.

The segmentation model of Enterprise Estonia showed that the achievement of targets is most of all influenced by target groups, such as "large clients", "key clients" and „growth clients“. Taking into account the desired scope of the state intervention (see the figure below) it means that the annual growth in a customer portfolio in the area of R&D has to be 9.3%, in export 10.4% and 12.6% in productivity.

<table>
<thead>
<tr>
<th>Target</th>
<th>Current intervention</th>
<th>Segment based intervention</th>
<th>Desired intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
<td>72%</td>
<td>100%</td>
<td>75%</td>
</tr>
<tr>
<td>Exports</td>
<td>Approx. 30-35%</td>
<td>86,6%</td>
<td>50%</td>
</tr>
<tr>
<td>Productivity</td>
<td>Approx. 30%</td>
<td>35,6%</td>
<td>30%</td>
</tr>
</tbody>
</table>

The preconditions for the above listed calculations are the following:

- Exports – each invested euro helps to increase the exports by 10 euros
- Added value – each invested euro helps to increase the added value by 4 euros
- R&D – each invested euro means that the private sector also adds 1 euro i.e. the state investment helps to increase companies’ expenditure on R&D by 2 euros.
ANNEX 3. SWOT ANALYSIS

STRENGTHS

- The Estonian economy is internationally integrated and dynamic
- Generally business friendly environment
- Well functioning structure to support the development of entrepreneurship

WEAKNESSES

- The productivity and added value created in Estonia are substantially lower that the European Union average.
- The products and services offered by Estonian companies are usually at the lower end of the value chain.
- Companies are not ambitious enough.
- The management quality of companies is monotonous and planning perspectives short.
- The co-operation between Estonian companies and universities and scientific organisations is weak.
- The co-operation between Estonian companies to act together in the international market is limited.
- The choice of target markets is narrow and volumes produced small.

THREATS

- There is a lack of qualified labour, i.e. the qualifications offered by the education system do not always correspond to the needs of the labour market.
- Demographic situation which refers to the ageing population and relatively high rate of emigration.
- Economic situation in target markets may turn to negative.

OPPORTUNITIES

- Active distribution of entrepreneurship training at different levels of education in order to stimulate an enterprising spirit and promote enterprise as a way of life
- Offering financial instruments to mitigate the capital needs of companies
- Investment in development and facilitation of co-operation between parties
- Building the image of Estonia as a successful and innovative country
- Attracting foreign investment to Estonia in order to create jobs
- Implementation of the talent policy in order to mitigate demographic risks and facilitate knowledge transfer
- Reduction of the administrative burden in order to improve the business environment
- Use the possibilities available to the state as a smart customer
## ANNEX 4. THE ESTIMATED COSTS OF THE ESTONIAN GROWTH STRATEGY

<table>
<thead>
<tr>
<th>Objectives and measures*</th>
<th>Responsible org.</th>
<th>Source</th>
<th>Total for 2014-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective 1. Estonian companies are competitive in global growth areas</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Growth area (development of co-operation, demand policies, start-up programme)</td>
<td>MEAC, EE, DF</td>
<td>SF</td>
<td>77 000 000</td>
</tr>
<tr>
<td><strong>Objective 2: Estonian people are enterprising and companies ambitious</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Business model (raising business awareness and capacity, development of the business environment)</td>
<td>MEAC, EE</td>
<td>SF+RE</td>
<td>54 750 000</td>
</tr>
<tr>
<td><strong>Objective 3: Estonian companies produce efficiently and in a resource-saving manner products and services with high added value</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Development and production (tailor-made development solutions for companies)</td>
<td>MEAC, EE</td>
<td>SF</td>
<td>75 000 000</td>
</tr>
<tr>
<td><strong>Objective 4: Estonian companies are active exporters</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1 Sales and marketing (tailor-made development solutions)</td>
<td>See measure 3.1**</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Objective 5: The Estonian business environment is competitive compared with the rest of the world</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1 Competitive position (Access to capital, involvement of foreign capital Development of creative industries)***</td>
<td>MEAC, KredEx</td>
<td>SF+RE</td>
<td>175 600 000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>382 350 000</td>
</tr>
</tbody>
</table>

* Government of the Republic Regulation No 302 “Types of strategic development plans and the procedure for drafting, amending, implementing, evaluating and reporting thereof” provides that the measures of the Strategy „are sets of various activities to achieve strategic objectives”. The action lines of the Strategy include individual activities, and are, therefore, considered as measures. Therefore, this cost estimation outlines the budgets of action lines of the Strategy.

** The measures “Development and production” and “Sales and marketing” will be carried out within the framework of the same SF implementation measure, therefore, for the sake of transparency the budgets of both measures are presented together.

*** For the sake of simplicity the budget is rounded to the level of 100 000 euros.
2. Analysis carried out by Enterprise Estonia and the Ministry of Economic Affair and Communications shows that three key objectives of ‘Estonia 2020’ (private sector’s expenditure in R&D amounting to 2% of GDP, percentage of Estonian exports in global trade amounting to 0.11% and labour productivity 80% of EU average) means in quantitative terms that:
   - in 2020, private sector’s expenditure in R&D will be higher by 205 million euros;
   - Estonian export must grow during the period by 16 billion euros;
   - value added must increase by 12.3 billion euros.
3. Links with the EU level strategies are set out in Annex 1. Strategy links with EU level initiatives (see also Figure 7. Links of the growth strategy with EU initiatives).
4. Measures taken by other ministries for developing entrepreneurial policy are set out in the Annex to the explanatory letter.
5. By using methods of active learning, making the learning process more fascinating, and through consistent evaluation of learning outcomes, while supporting the gifted.
6. According to the Statistics Estonia, in 2012 the unemployment rate was 10.2 %, meaning that there were approx. 70,000 unemployed persons in Estonia.
7. The audit on entrepreneurial policy carried out by the National Audit Office showed that industries in Estonia experience different problems, e.g. factors hindering the growth of competitiveness and the impact of state support to date are perceived differently, and industries wish state support to be provided in different forms. It is vital to be aware of these differences when developing effective measures for ensuring an increase in competitiveness as different industries need different approaches. The European Commission sees the development of industry specific ‘smart specialisation’ strategies as a mandatory precondition for the allocation of structural funds for the next period.
8. Indicator is ‘Number of enterprises having collaborated in innovation’ (initial level in 2010: 636; target level in 2020: 780). During the development of programmes, more specific goals together with respective indicators are developed separately for each industry.
9. Quantitative analysis was carried out by analysts of the Ministry of Economic Affairs and Communications, Enterprise Estonia and the Ministry of Education and Research led by Urmas Varblane.
10. Qualitative analysis was carried out under the leadership of the Estonian Development Fund. The document is available at: Nutkas spetsialiseerumine 2020 (PDF) (http://www.arenufond.ee/upload/Editor/Publikatsioonid/Nutkas%20spetsialiseerumine%202020_02_2013.pdf)
11. e.g. using ICT in industry (automation and robotisation), cyber-security, software development
12. e.g. biotechnology, e-health
13. e.g. material science and industry, ‘smart house’, health-promoting food, chemical industry
15. Regional entrepreneurs are those with the annual sales and export sales revenue under 200,000 euros. There are approximately 100,000 undertakings meeting these criteria, including emerging companies and self-employed persons.
16. Government of the Republic Regulation No 302 “Types of strategic development plans and the procedure for drafting, amending, implementing, evaluating and reporting thereof” provides that the measures of the Strategy and sets of various activities to achieve strategic objectives. The action lines of the Strategy include individual activities, and are, therefore, considered as measures. In the interest of clarity and to make a distinction between sets of activities and ‘measures’ for planning structural instruments, we use in this document a notion of ‘action lines’.
17. The survival rate of early stage enterprises is defined as follows: percentage of established enterprises divided by percentage of early stage enterprises. The 2012 Global Entrepreneurship Monitor (GEM) Estonian report, www.arenufond.ee (http://www.arenufond.ee)
20. Eesti Juhtimisvaldkonna uuring (Survey of management in Estonia), University of Tartu, Tallinn University of Technology and OÜ EBS Education, 2011
21. In the implementing plan, the activities in this action line are grouped into a single measure of structural instruments: increase of entrepreneurial awareness and capacity, development of business environment
22. Above all, we focus on starting businesses operating in growth areas. See p 11.
23. Only 2.4% of all SMEs spent on R&D (Source: Statistics Estonia data of 2011)
25. EST_DT@2018, Arengufond, 2009
27. Aavo Heinlo, Eesti Statistika Kvartalikiri 3/12; source: Community Innovation Survey 2010
28. Tootmisjuhtimise operatiivtaseandi uuring, Tallinna Tehnikakool, 2011
29. The actions listed in this action line are grouped under one structural measure in the implementation plan: Entrepreneurship development plan support measure for increasing the development, export and management capacity of enterprises.
30. EU average in 2011 was 118.9
31. Statistics Estonia
32. Väike- ja keskmine suurusega ettevõtete arengusuundumused, Praxis, 2012
33. Statistics Estonia
34. Statistics Estonia
35. Measures described in this action line are included in the implementation plan of structural instruments: Support measure to contribute to the development
and export activities and increasing the management capacity of enterprises; entrepreneurial awareness and capacity building, development of business environment, credit insurance, loans and securities.

36. The main focus will be on growth areas that will be addressed within co-operation programmes between these areas.

37. VKEdE arengusuundumused, PRAXIS, 2012

38. Era- ja riskikapitali investeeringud Euroopa rikideesse suhtena SKT-sse (%), EVCA 2011


40. Eesti rahvusvaheline konkurentsivõime aastaraamat, Eesti Konjunktuurinstituut, 2011


42. V. Lember ja T. Kalvet, Innovatsioon ja riigihanked Eestis, Tallinna Tehnikaülikool, 2012 (unpublished manuscript)

43. „Eesti loomemajanduse olukorra uuring ja kaardistus“, Eesti Konjunktuurinstituut 2013

44. Measures described in this action line are included in the implementation plan of structural instruments: entrepreneurial awareness and capacity building, development of business environment, involvement of foreign investment, development of creative industries, venture capital, credit insurance, loans and securities.

45. This is the description of the role of organisations within the context of innovation and enterprise policy. It is important to bear in mind that the field of activities of Enterprise Estonia and KredEx are much wider as they help to carry out the national policy in many other areas.


