



MINISTRY OF  
ECONOMIC AFFAIRS AND  
COMMUNICATIONS

# ***Miracle of Estonia*** **Entrepreneurship and** **Competitiveness Policy in Estonia**

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# Triggers for Reforms at the Beginning of 90's

- Readiness for **radical political change**
- Political consensus, starting from nothing, **no need to change but create**
- Totally **inefficient economic system**, too weak to survive in case of soft reforms
- Economy has been a part of the huge machine and was left 'alone'; therefore **urgent need to find new markets**



## Starting position:

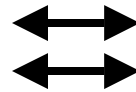
- State owned companies
- Guaranteed product-markets
- Fixed prices
- Deficit in goods and services
- No open economy, no real value for money
- No real financial intermediation
- Guaranteed jobs, no motivation



# Management of Transition

## Macroeconomic stabilisation

Monetary policy  
Exchange rate policy  
Fiscal policy

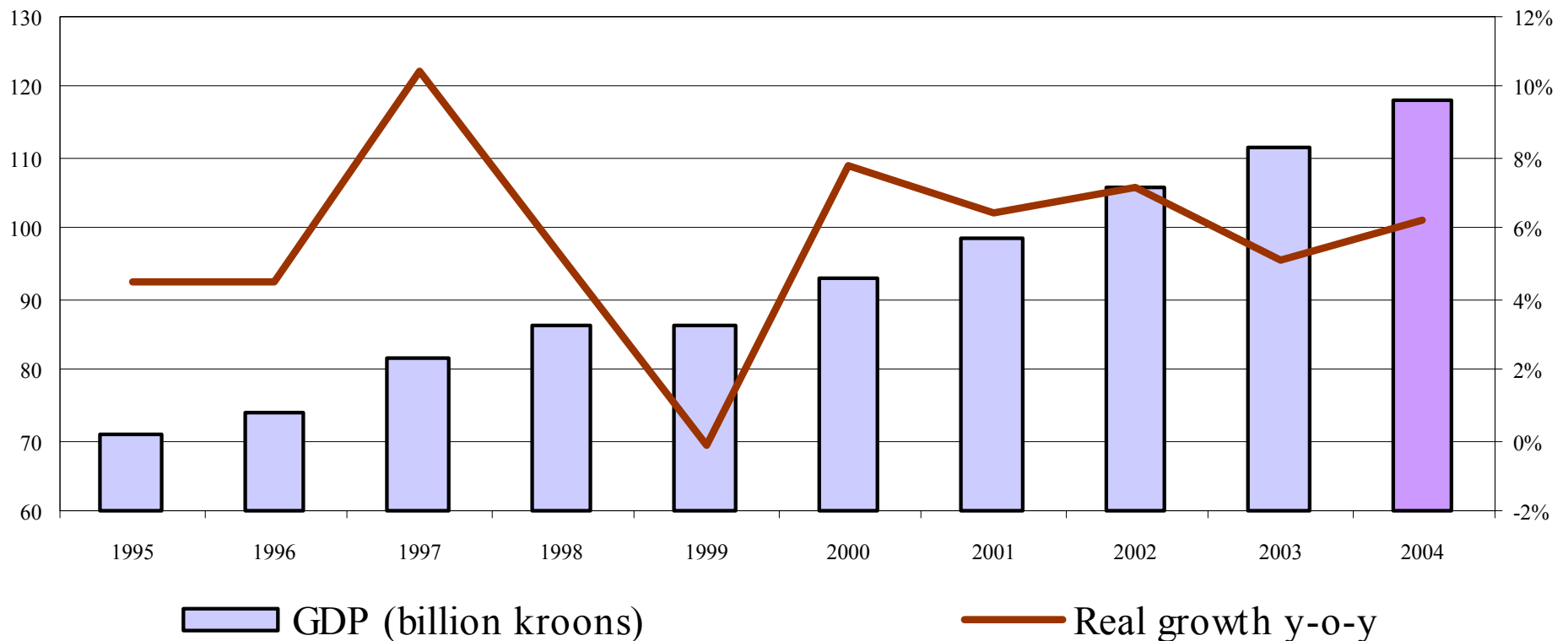


## Structural reforms

Price liberalisation  
Trade liberalisation  
FDI liberalisation  
Banking sector  
Privatisation  
Enterprise reform  
Competition policy

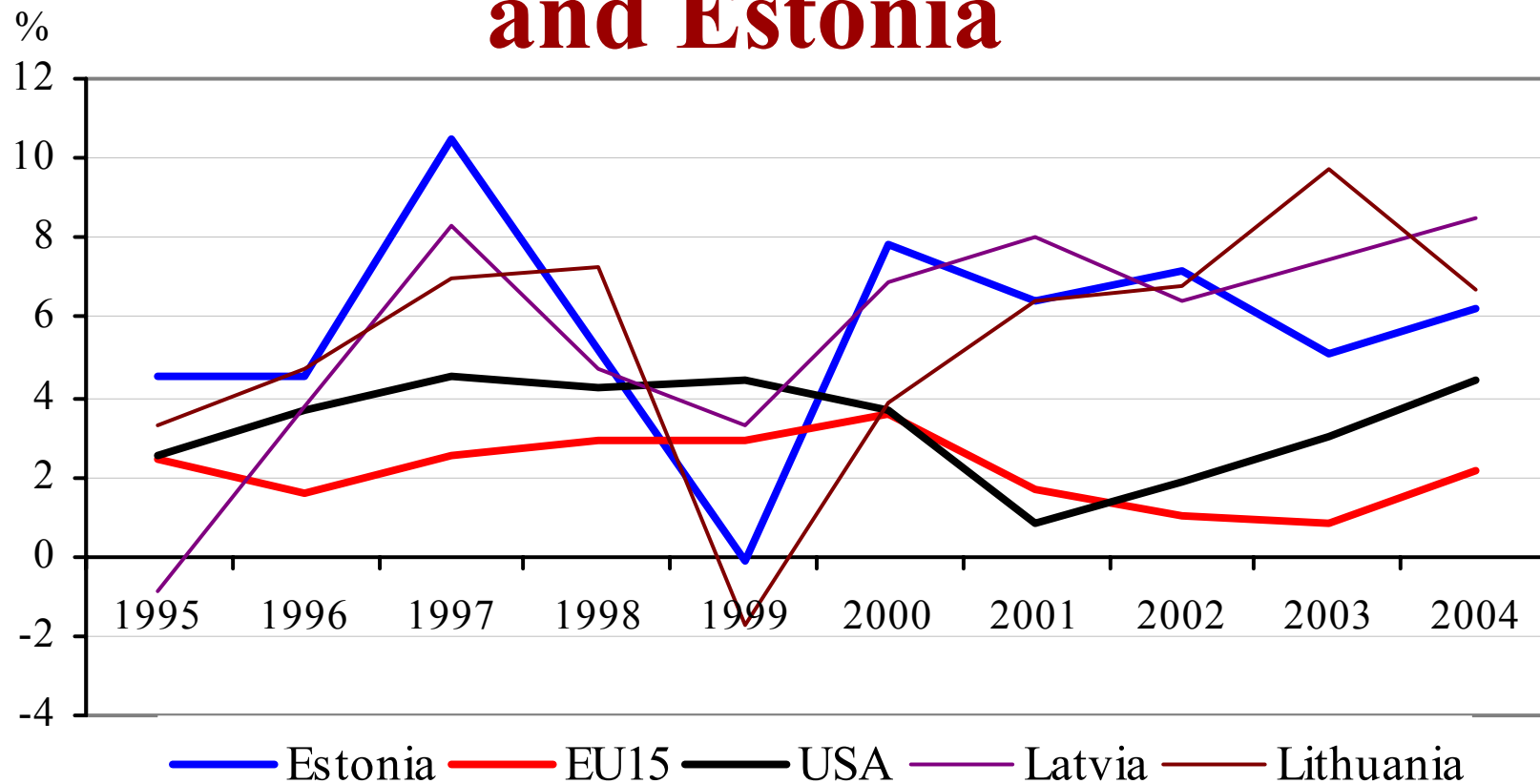


# Real growth of GDP in Estonia in 1995-2004



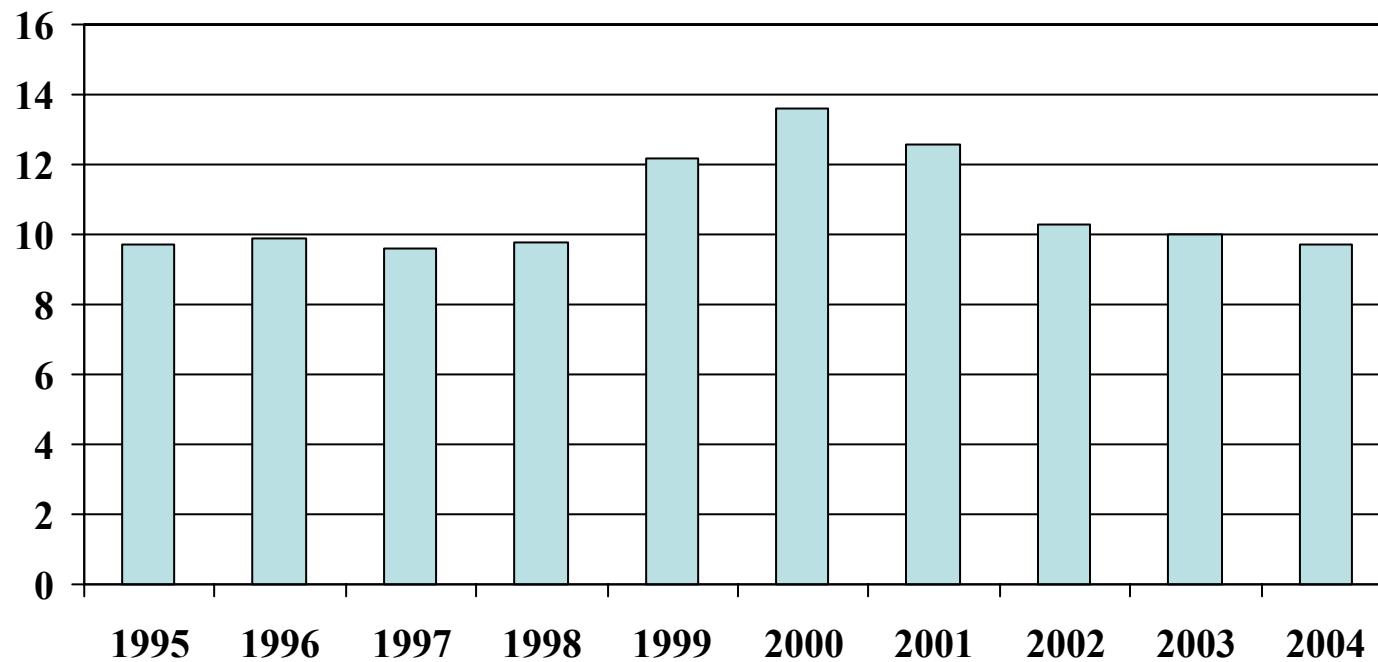


# Real Growth of GDP in EU15, USA and Estonia





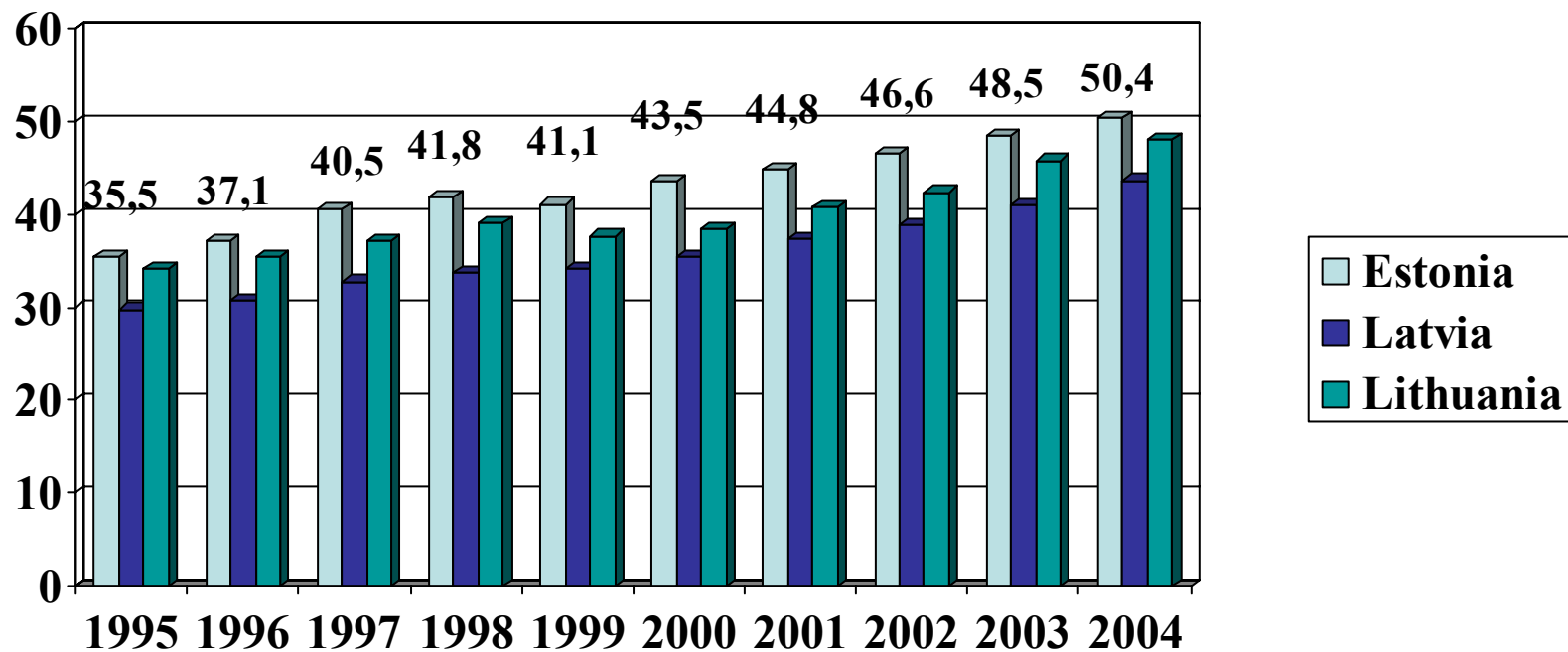
# Unemployment rate in Estonia in 1995-2004 (%)



Source: Statistical Office of Estonia



# GDP per capita in PPS (EU 25=100)







## **Success Factors of Initialing Growth:**

- **1. Simple and transparent tax system**
- **2. Liberal trade regimes**
- **3. Attaining and maintaining the  
macroeconomic stability – economical  
openness**
- **4. Well focused enterprise support system**



## ➤ 1. Macroeconomic Stability

- balanced government sector budget
- fixed exchange rate and tight fiscal policy - currency board system
- conservative foreign borrowing policy
- successful structural reforms



## ➤ 2. Simple and Transparent Tax System -

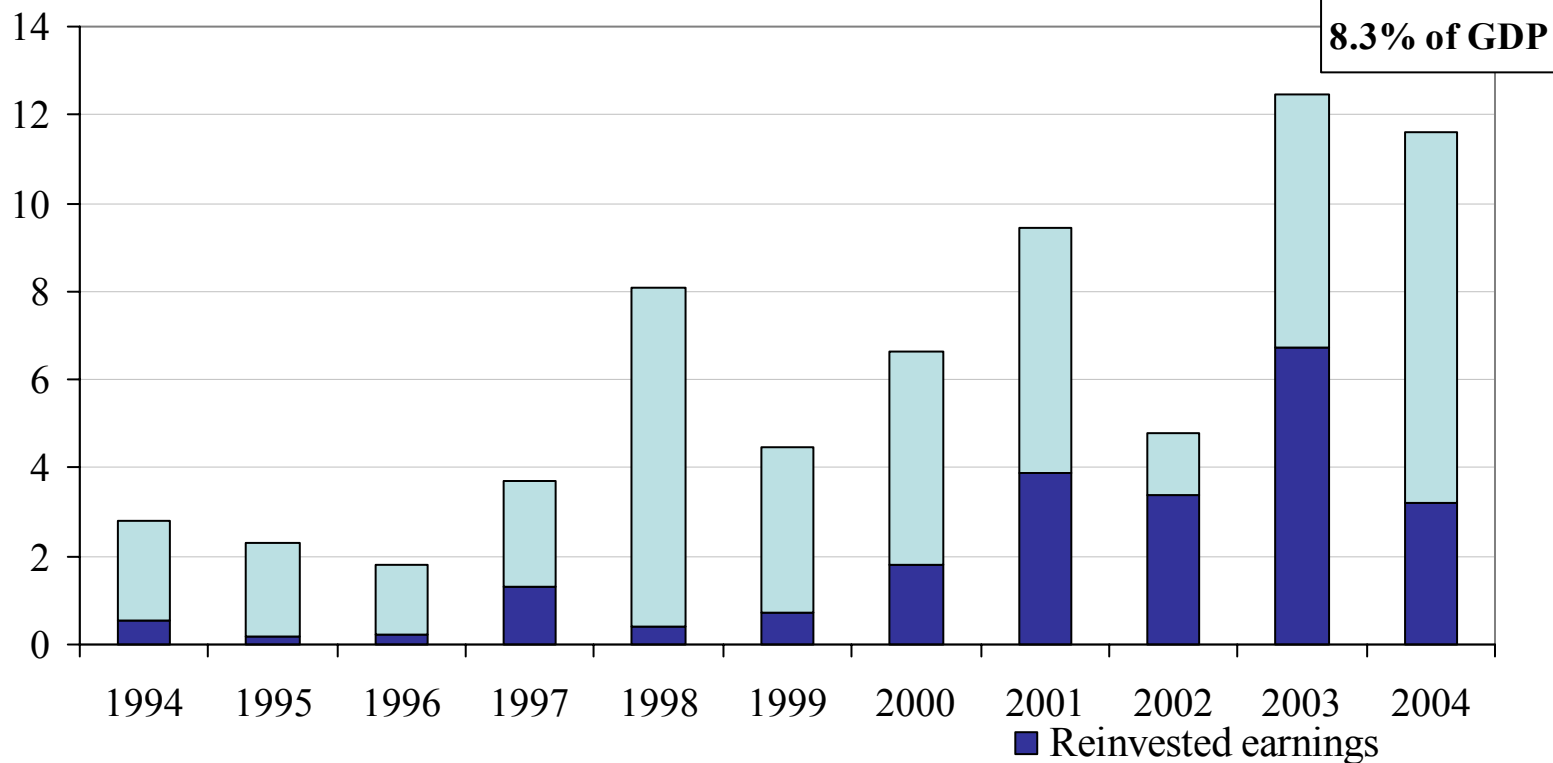
**No corporate income tax on reinvested profits -**  
taxing areas that need intervention instead of taxing entrepreneurial initiatives

- low flat tax rates
- collection of tax is deferred until the time of profit distribution



# FDI into Estonia

bln kroons



Source: Bank of Estonia



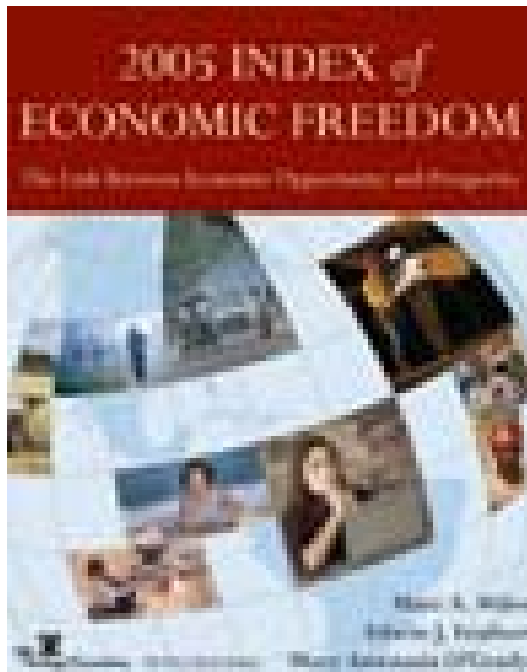
## ➤ 3. Liberal Trade Regimes

- by 1992, Estonia had abolished all tariffs, subsidies and other trade distortive measures on both industrial and agricultural products; after 1 May 2004, Estonia implements the Common Trade Policy of the EU
- no export duties, no import duties except for some agricultural goods against “third countries”
- no non-tariff barriers in place
- no restrictions of free movement of capital



# 2005 Index of Economic Freedom

## Rankings



- |                           |               |
|---------------------------|---------------|
| 1. Hong Kong              | 14. Sweden    |
| 2. Singapore              | 15. Finland   |
| 3. Luxembourg             | 23. Lithuania |
| 4. Estonia                | 28. Latvia    |
| 5-6. Ireland, New Zealand | 124. Russia   |
| 12. Switzerland, USA      |               |



## World Competitiveness Ranking 2003-2004

	2004	2003		2004	2003
Finland	1	1	Japan	9	11
USA	2	2	Iceland	10	8
Sweden	3	3	United Kingdom	11	15
Taiwan	4	5	Germany	13	13
Denmark	5	4	Canada	15	16
Norway	6	9	<b>ESTONIA</b>	<b>20</b>	<b>22</b>
Singapore	7	6	Lithuania	36	40
Switzerland	8	7	Latvia	44	37
			Poland	60	45



# Innovation: Rankings and Scores of New EU Member Countries 2004

1. Estonia
2. Slovenia
3. Latvia
4. Malta
5. Czech Republic
6. Hungary
7. Lithuania
8. Slovak Republic
9. Poland
10. Turkey
11. Romania
12. Bulgaria





## ➤ 4. Well-focused Enterprise Support System

We have tried to make a difference without  
creating a distortion

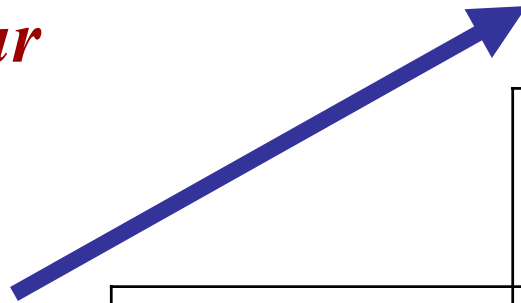
Support measures oriented directly to the  
market failures



*Changing  
business  
behaviour*

a few  
SMEs

Export and  
innovation  
projects



SME  
projects

All SMEs

Diagnosis  
tools

Information  
Seminars  
Awareness

*Accessing  
specialist  
services*



## Strategic Documents

- **“Enterprising Estonia”** - national policy for the development of small and medium-sized enterprises in Estonia in 2002-2006
- Research and Development Strategy **“Knowledge-based Estonia”** 2001-2006
- **“Success Estonia 2014”** – Estonian competitiveness strategy



# Enterprising Estonia (1)

## National Policy for the Development of Small and Medium-sized Enterprises in Estonia in 2002-2006

### Objectives:

- Promotion of enterprising spirit
- Creation of new jobs
- Increase of competitiveness of Estonian businesses

### Target group:

- Focused on the SMEs along with enterprises in the start-up phase and potential entrepreneurs
- No preferences are set among industries



## Enterprising Estonia (2)

### Priority fields of activity:

1. Development of human resources
2. Improvement of access to finance
3. Development of business support structure
4. Distribution of information (interactive gateway Aktiva - [www.aktiva.ee](http://www.aktiva.ee))
5. Reduction of administrative burden



# Knowledge-based Estonia (1)

## Knowledge-based Estonia – Research and Development Strategy for years 2001-2006

- establishes the framework and the scope of public sector support measures for R&D activities for 5 years
- addresses to renewal of the knowledge base and increasing the competitiveness of Estonian businesses

### Targets:

- Competitiveness and value added of traditional industries
- Creation and growth of new technology based companies
- Modernisation of public sector services



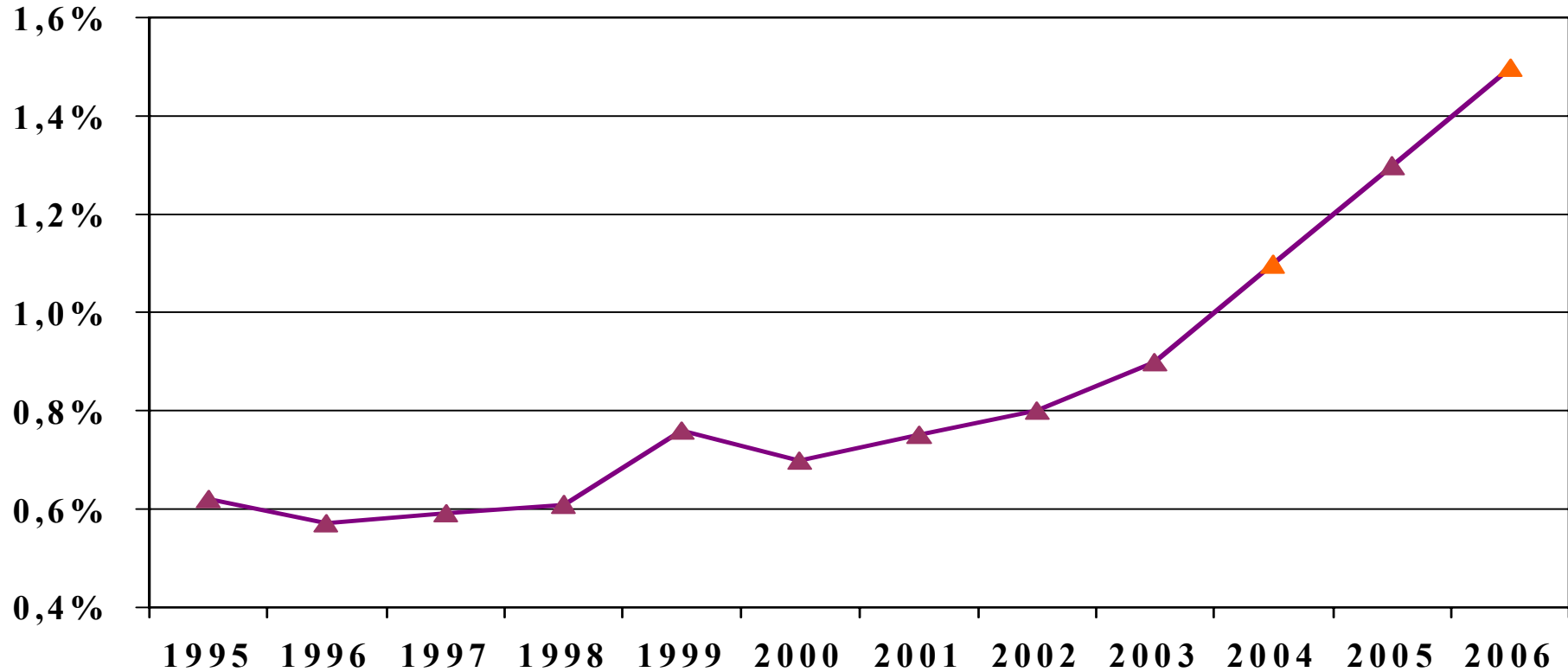
## Knowledge-based Estonia (2)

### Priority fields of action:

- **user-friendly information society technologies**
- **bio-medicine**
- **material technologies**
- *New strategy for years 2007-2013 by the end of 2005.*



# Estonian R&D expenditure 1995-2006E, % of GDP







## **“Success Estonia 2014” – Estonian competitiveness strategy**

- **Largely proceeds from the principles of the Lisbon strategy to be implemented with a view to Estonia’s circumstances and peculiarities. Targets as:**
  - **labour productivity growth**
  - **increased employment**
  - **birth rate increase**
  - **reduced inequalities in society**
  - **reduced pollution load**



# Implementing Agencies



**Export and Credit  
Guarantee Fund**

**KredEx**

**[www.kredex.ee](http://www.kredex.ee)**



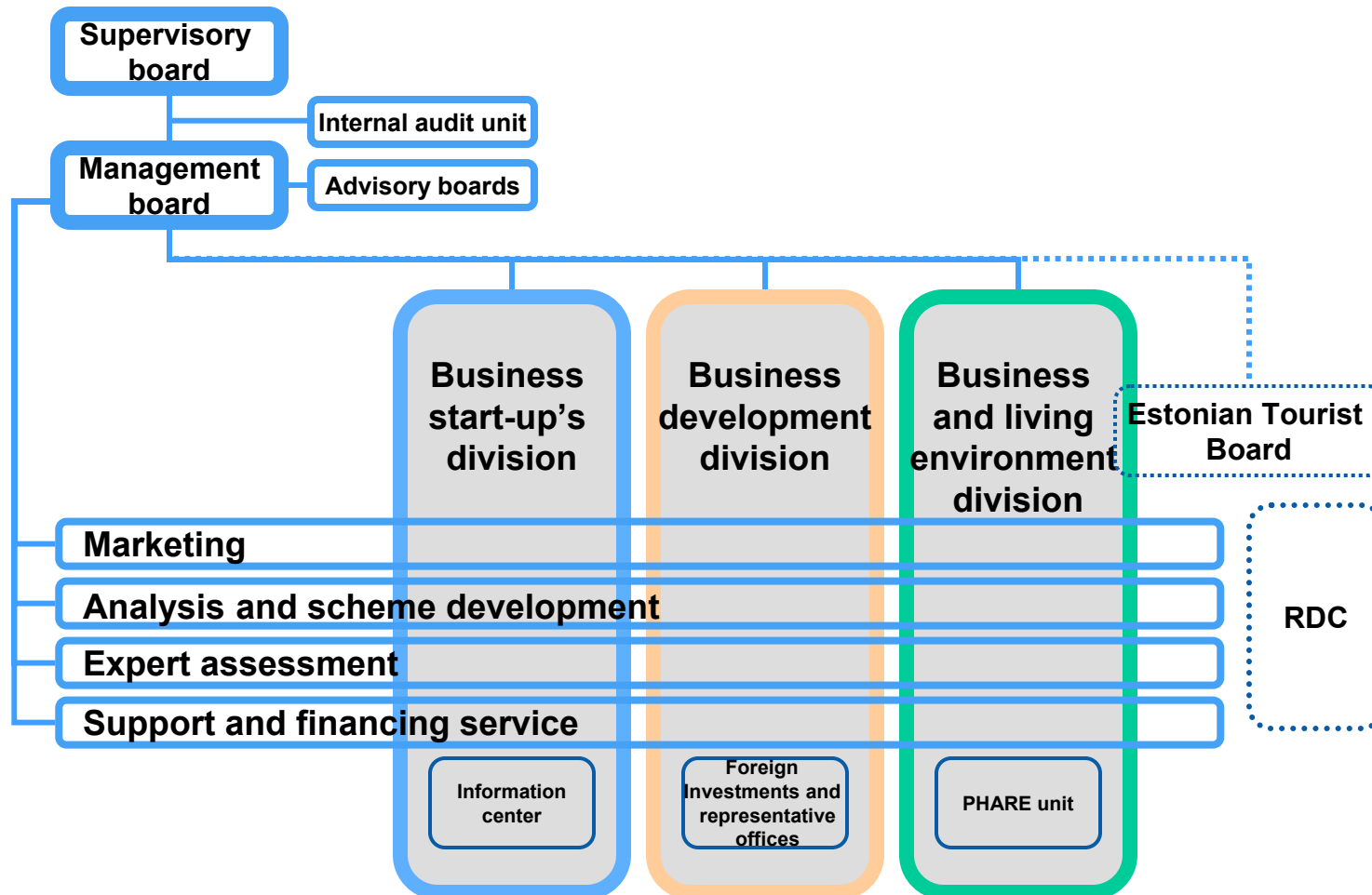
**Enterprise Estonia (EE)**

- **Local Business  
Advisory Centres**

**[www.eas.ee](http://www.eas.ee)**



# Reform of the Enterprise Estonia





# Support Measures of Enterprise Estonia (1)

## Basic services – All SMEs

- [www.activa.ee](http://www.activa.ee) G2B gateway
- Information services
- Awareness raising
- Entrepreneurship promotion

## Diagnostic services – Few SMEs

- Start-up grant
- Promotion of Quality Management
- FDI promotion
- Infrastructure Development Grant
- Export and Business Guarantees
- Export Plan Preparation Grants
- Export Markets Information
- Innovation awareness, awards etc
- Training and Consultancy grants
- Innovation Audit
- Mentoring Programme
- Loan, leasing and export guarantees (KredEx)



# Support Measures of Enterprise Estonia (2)

## R&D Projects support – Selected Partners

- Competence Centre Program
- R&D Feasibility Grants
- SPINNO Program
- R&D Infrastructure
- Technology Parks and Incubators



# KredEx: instruments

**Business loan and  
leasing guarantees**

**Loan guarantees**

**Leasing guarantee**

**Small loan guarantee**

**Export guarantees**

**Short-term credit risk  
guarantee**

**Long-term credit risk  
guarantee**

**Production risk  
guarantee**

**Housing loan  
guarantees**

**Loan guarantee for  
young families**

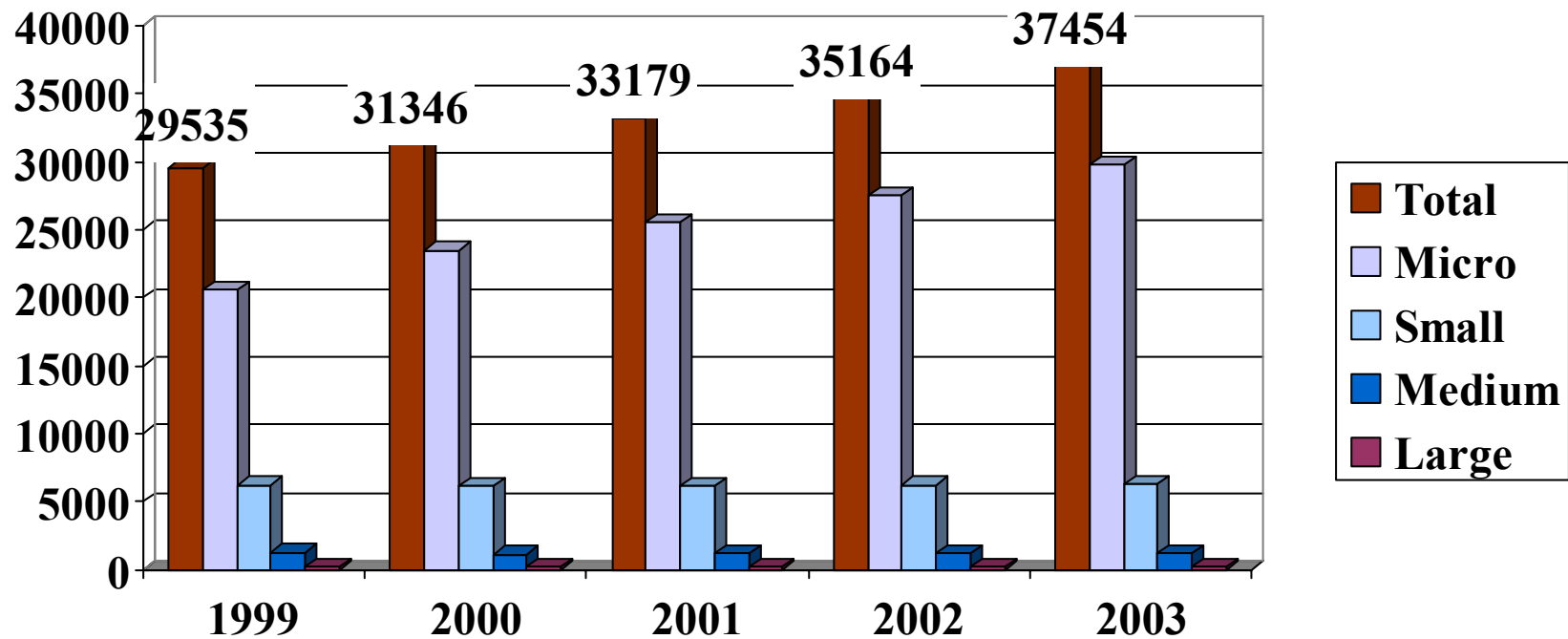
**Housing loan  
guarantees**

**Loan guarantees  
for apartment  
associations**

**Loan guarantee for  
tenants of  
restituted buildings**



# Number of Active Enterprises





## **Estonian Businesses**

- **28 enterprises per 1000 inhabitants**
- **99.3% of enterprises are SMEs**
- **survival rate is 54%**
- **74% of GDP is created by enterprises, SME share of GDP is 53%**
- **15% of Estonian companies export**
- **total R&D expenditure of Estonian enterprises is 0.83% of GDP**





# Current situation

## Strengths

- Stable macroeconomic environment
- Simple tax system
- Liberal trade regimes
- Well-focused SME support system
- Political stability

## Weaknesses

- Slightly low competitiveness of enterprises - low survival rate of enterprises
  - Low level of entrepreneurship
  - Weak enterprise culture
- ! Estonia and most likely also the other new member states suffer from low awareness on entrepreneurship as well as unfavourable attitudes!**



# **The future agenda - draft SME policy for the period of 2007-2013 to:**

## **To bring up the international competitiveness of Estonian enterprises**

- **build strong enterprise culture – new goal in SME policy**
- build the capability for small business growth - internationalisation
- improve access to finance for small businesses
- improve small businesses' experience of government services
- develop better regulation and policy



**If there is a will there is a way!**

**Our greatest problem today is the lack of  
entrepreneurial spirit**

**For the sake of enhanced growth we need to  
boost our entrepreneurship**



## **According to the Estonian entrepreneurship survey:**

- **61% of Estonian working age population has never thought about establishing a business**
- **9 % of population thought about starting their own business in future**
- **11% of population was starting or running a business**
- **16% of population had in the past thought about starting their own business but they had already given up the idea**
- **3 % did not have clear opinion**



# Perceived obstacles for not starting a business

- Lack of sources of funding
- Fear of debt
- Loss of security, fear of failure
- Low consciousness and knowledge

**All mentioned reasons (besides the lack of funding) refer to lack of knowledge about being entrepreneur!**



*Government can make efforts with business environment - but without population with entrepreneurial mind-set those efforts won't lead to the success!*



## Challenges:

- *In one hand:* we have to preserve the attained growth enhancing stable business environment
- *And the other:* we have to make efforts to build strong enterprise culture in all of its possible aspects.



## Enhanced business culture:

- *Willingness to be an entrepreneur*– positives attitudes
  - *The ability to be an entrepreneur*– competence, knowledge and skills
  - *Possibility to be an entrepreneur*– suitable environment
- +
- **Co-operation at all levels**





- Like years ago we don't have a clear package of "must do's" - we have to take the risk of experimenting
- We don't have a full and “ready-to-implement package” to use **but we have a clear vision of what we want to achieve**



People of Estonia have faced many challenges in our history. I believe, that we will achieve the set goals once again and **achieve success as a knowledge-based society with stable business environment and strong enterprise culture ...**

....and we know that ...



... on one fine day Estonia will be the best  
place in the world to start and grow your  
own business!!!



WEL  
COME  
TO EST  
ONIA

# Estonia. Positively transforming.

Estonia. Unique and magical.

A peaceful revolution that has radically transformed society. Positive and invigorating. It happened here. A rich heritage that inspires everything we do. The innovative and creative solutions of tomorrow. It is here.

Welcome to Estonia.

