



**Ministry of Economic Affairs and
Communications**

**ESTONIAN ENTERPRISE
POLICY 2007 – 2013**

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1. INTRODUCTION

“Estonian Enterprise Policy 2007-2013”, approved by the Government of the Republic, is an entrepreneurship development plan that sets out strategic goals and the respective fields of activities for enterprise¹ development in Estonia in the years 2007-2013. The policy document is supplemented by a three-year implementation plan that describes in more detail the planned activities, implementing bodies, and the desired outputs for the corresponding period

The Ministry of Economic Affairs and Communications has mapped out the problems and identified priority fields of activity in close co-operation with business representative organisations, consulted with the general public and taken into account the results of a number of analyses and surveys² on entrepreneurship. Experience from implementing the enterprise policy for the previous period, “Enterprising Estonia 2002-2006” has also played an important role in strategic planning.

Enterprise policy is important for guiding and promoting economic growth, and “Estonian Enterprise Policy 2007-2013”, the development plan of the field is related to many government strategies, such as “Estonian National Budget Strategy 2007-2010”, “National Strategic Reference Framework 2007-2013”, “Estonian Action Plan for Economic Growth and Jobs” and “Strategy of the Ministry of Economic Affairs and Communications for the years 2007-2010”. The fields of activity of the Enterprise Policy are reflected in the objectives of the Strategy of the Ministry of Economic Affairs and Communications under measures 5.1.1, 5.1.2, 5.1.3, 6.1.1 and 6.1.2 that support entrepreneurship.

The fields of activity described in the Policy have been influenced greatly by challenges and bottlenecks of entrepreneurship development and measures planned to eliminate them, both of which have been jointly identified and highlighted in the European Union (EU), and described in the Lisbon Strategy, the European Charter for Small Enterprises, European Enterprise Policy and other documents.

“Estonian Enterprise Policy 2007-2013” and the Estonian Research and Development Strategy “Knowledge-based Estonia II”, compiled for the same period under the coordination of the Ministry of Education and Research, are documents that complement each other. Close co-operation between the implementing bodies will avoid duplication and create synergies in the implementation of the development plans and finalisation of the programmes.

¹ The terms “enterprise”, “economic operator” and “company” in the policy are used in a generalized meaning to denote both companies and self-employed persons.

² “Development trends of Estonian small and medium-sized enterprises” (Saar Poll, 2005)

“Entrepreneurial attitudes among the Estonian population” (Estonian Institute of Economic Research, 2004)

“Study of Estonian exporters” (Ariko Marketing, 2004)

“Analysis of the Estonian SME sector” (Ministry of Economic Affairs and Communication, 2005)

“Support Measures for Business in the National Budget Strategy for 2007-2013” (Praxis, 2005), etc.

The innovation policy section of the Estonian Research and Development Strategy “Knowledge-based Estonia II” guides the development of entrepreneurship through purposeful activities to achieve the following objectives:

- foundation and growth of new innovative enterprises;
- co-operation of companies and research and development institutions, transfer of know-how and technology;
- technological renewal of enterprises, growth of their development capacity and productivity.

Enterprise Policy is also related to the development plans of other fields, such as the Estonian Rural Development Plan and the Estonian National Development Plan for Tourism; several activities are planned to be implemented in co-operation with other ministries. There are significant areas where co-operation and links to other ministries are vital for entrepreneurship development – development of the legal environment, reduction of disparities in regional development and creation of conditions necessary for competitive entrepreneurship in regions, development of human resources that match the needs of entrepreneurship, and promotion of the internationalisation of Estonian businesses.

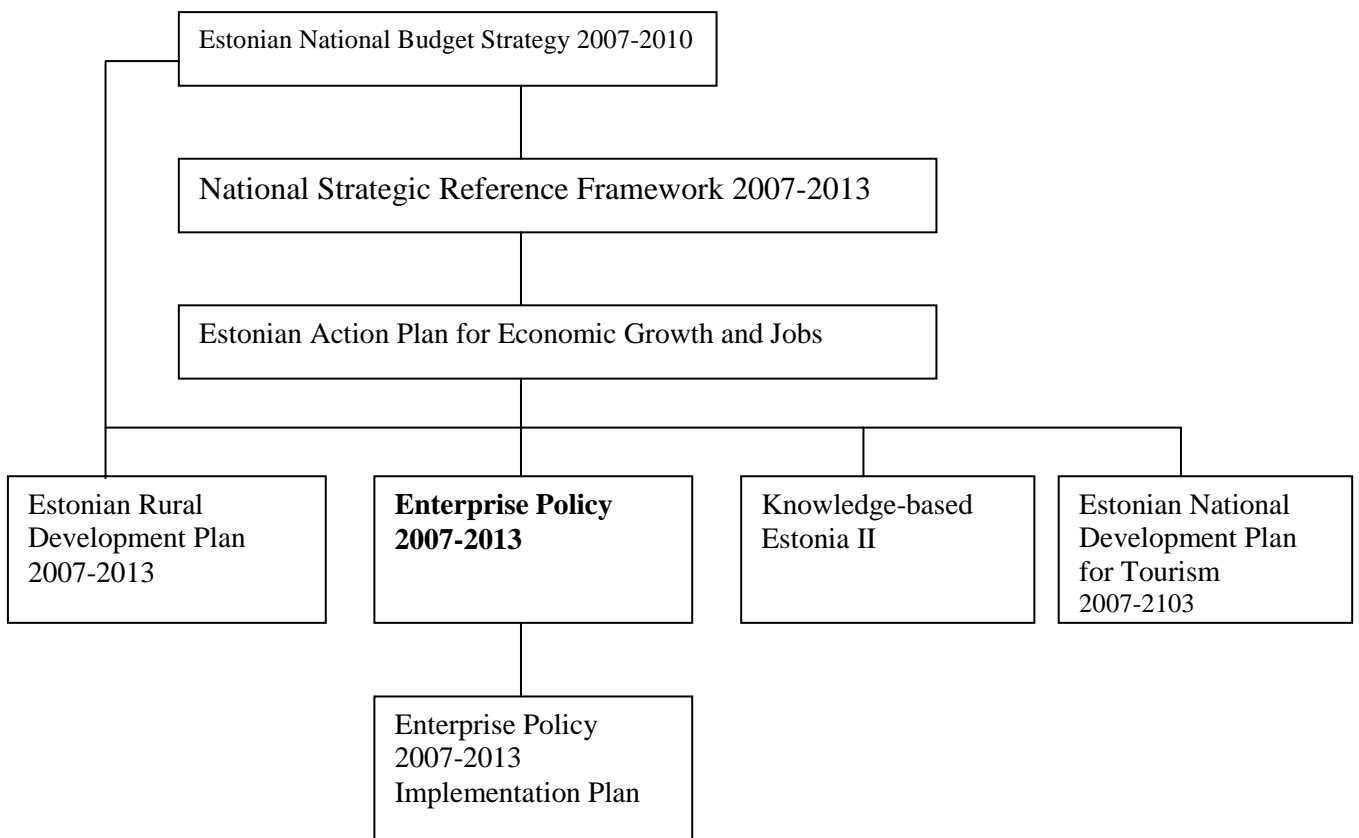
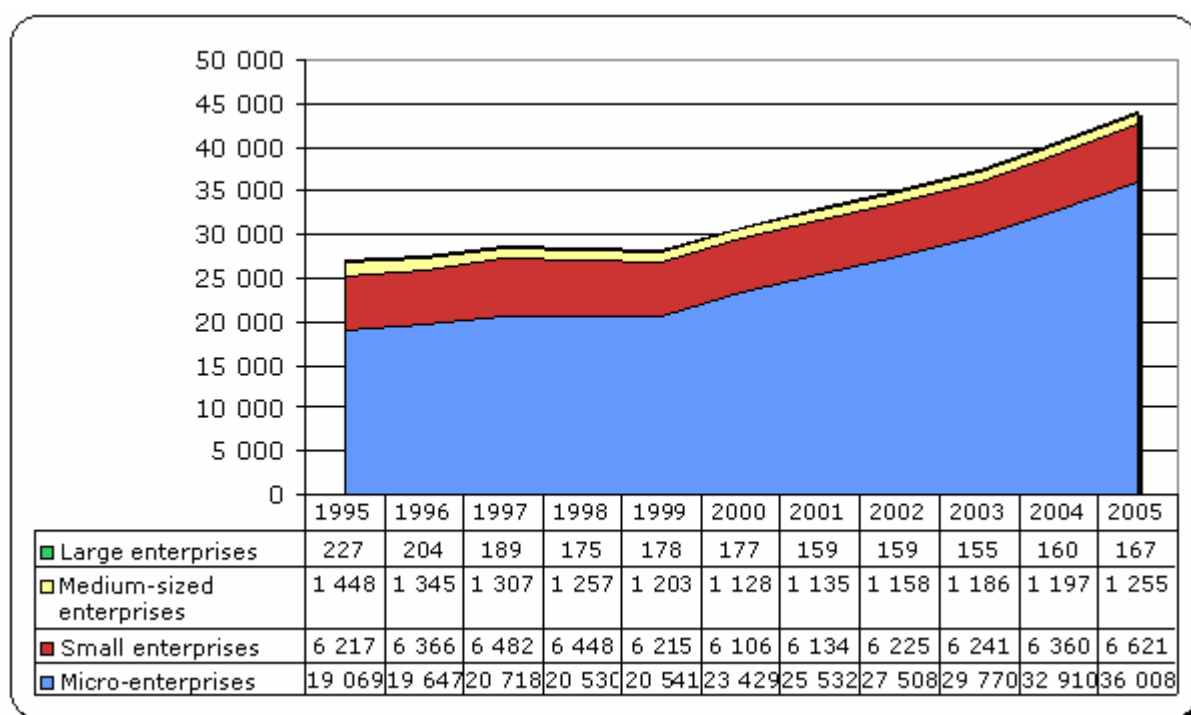


Figure: Links between the Enterprise Policy and other national strategies and development plans

1. OVERVIEW OF ENTREPRENEURSHIP DEVELOPMENT

1.1 Current Situation in Entrepreneurship

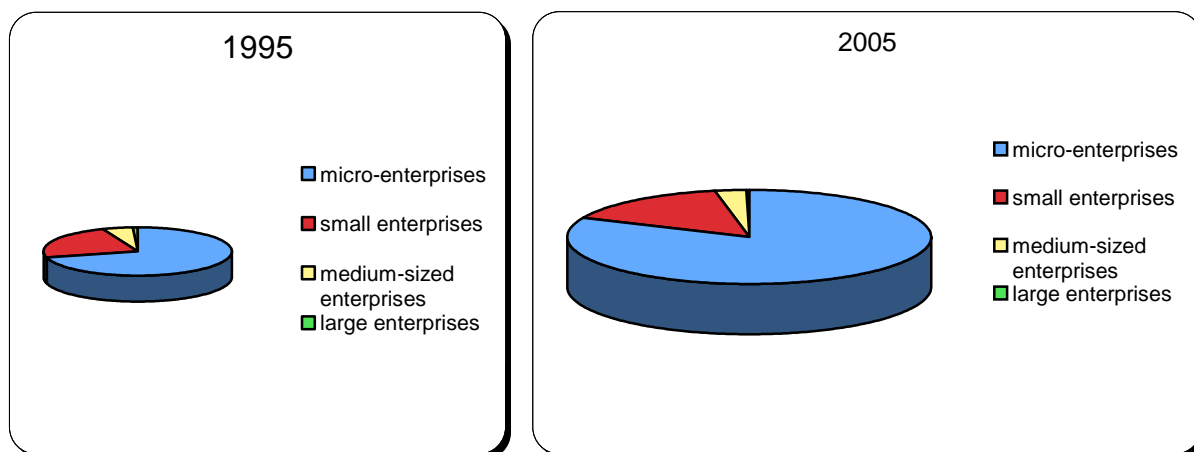
The history of private business in Estonia after the re-establishment of independence is not long. The country has nevertheless come a long way in a fairly short time, which is evident from the faster emergence, improved competitiveness and positive economic results of Estonian companies. Only seven years ago there were 20 active companies per 1,000 residents; today there are approximately 33. In 2005 there were 44,112 active companies and 50,260 active self-employed persons in Estonia³.



Graph 1.1.1 Number of companies in size categories 1995-2005 (Source: Estonian Tax and Customs Board)

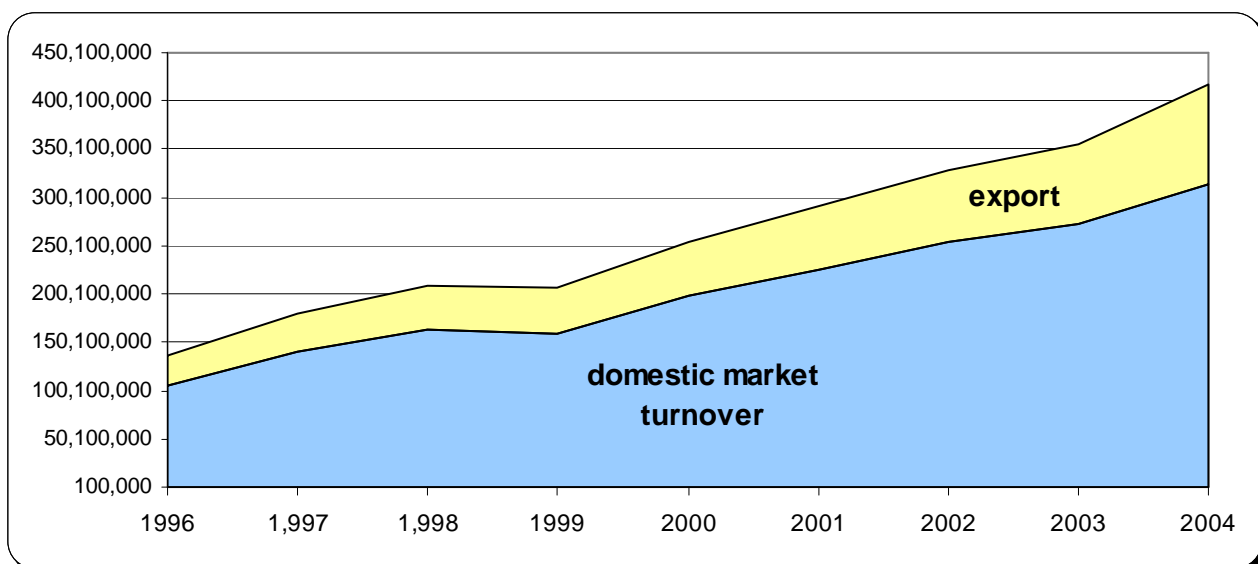
Numerous new micro-companies are the main reason for the rise in the number of companies, although the number of companies from other size categories has started to grow faster over the last few years. Proportions between the number of companies in the size categories have not changed notably over the years and most Estonian companies are still micro-enterprises with up to nine employees.

³ Source: Estonian Tax and Customs Board



Graph 1.1.2 Number of companies in size categories 1995 and 2005 (Source: Estonian Tax and Customs Board)

Operations in both domestic and foreign markets have been growing steadily. The net turnover of Estonian businesses has more than tripled over the past ten years and exceeds 500 billion Estonian kroons today. The export turnover of Estonian businesses has increased three and a half times over the past ten years and medium-sized enterprises have seen the biggest increase.

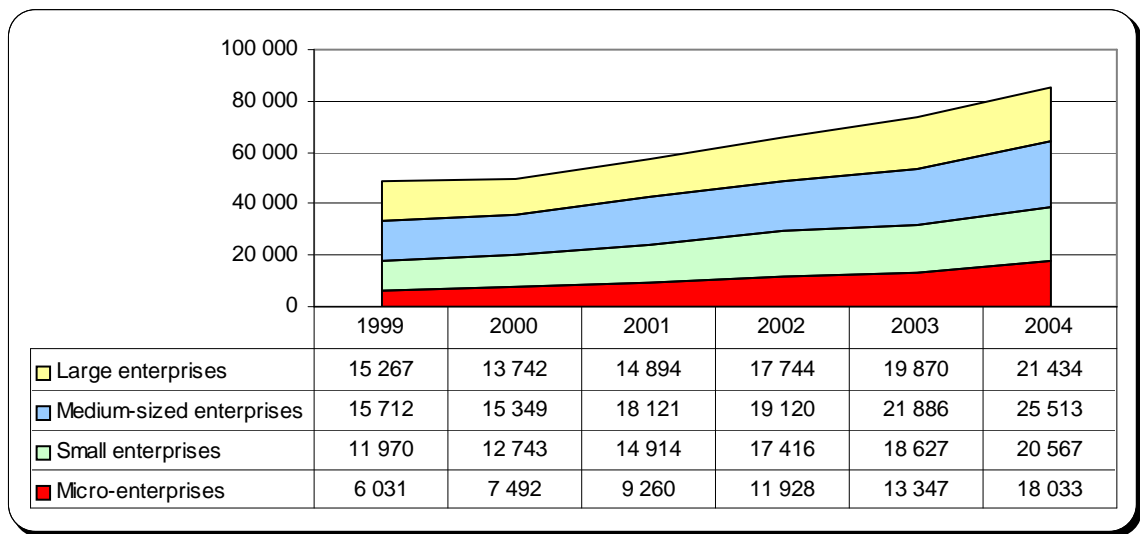


Graph 1.1.3 Increase in turnover of Estonian businesses in the domestic market and foreign markets, 1996-2004 (thousand Estonian kroons) (Source: Statistics Estonia)

In 2004 large enterprises accounted for about one-fifth of exports, although they made up less than 0.5% of all the companies in Estonia. Moreover, in 2005, the 50 largest exporters generated 43% of Estonia's export turnover. Approximately 15% of all businesses are engaged in export; compared to 1999 the number of exporters has increased by 8%.

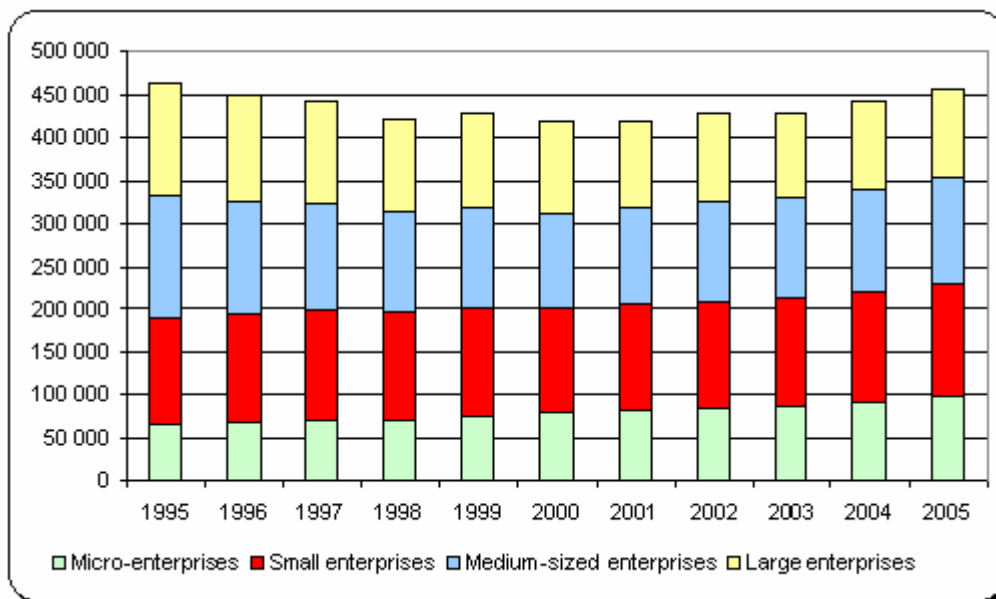
Productivity and the value added in Estonia have also increased. Over the past three years, productivity has increased by an average of 10% a year and the value added has grown by one-third. Value added per company has increased by one-fifth in three years. Still, the productivity

of Estonian companies lags significantly behind that in developed Western countries and makes up only 50.6% of the average productivity per employee in the EU member states⁴.



Graph 1.1.4 Dynamics of the value added in Estonian companies, 1999-2004 (mln EEK) (Statistics Estonia)

Through the increase in value added and productivity companies have improved their competitiveness and, consequently, business results. In 2004, approximately three-quarters of Estonian companies earned a profit and 16% operated at a loss, while in 2001 one-fifth suffered a loss and only 67% were profitable.



Graph 1.1.5 Number of persons engaged in entrepreneurship in the different size categories of companies 1995-2005 (Source: Estonian Tax and Customs Board)

Development of entrepreneurship and emergence of new enterprises has created new jobs: over the past five years alone, the number of people engaged in entrepreneurship has increased by 8%, to 455,626 employees⁵.

⁴ Source: Eurostat, 2005

⁵ Source: Estonian Tax and Customs Board, 2005

Over the past ten years the number of employees of large enterprises has decreased while increasing by approximately one tenth in SMEs. SMEs therefore have a significant role in creating new jobs, thus contributing to achieving a socially balanced economic development.

The majority of new jobs are created in Tallinn, the city that is home to more than half the Estonian companies and where the largest number of new companies are established. Due to well-developed infrastructure Tallinn has become a rapidly developing pull centre for entrepreneurship, and business opportunities in the capital are considered to be better than in other regions. However, it is vital that the business environment outside the capital be equally favourable and attractive for companies, so that the full business potential of all Estonia's regions be realized and regionally balanced development become possible. For that it is important to develop the regions' development engines of which Saaremaa deep harbour and Sillamäe harbour are today's examples.

1.2 Enterprise Policy in Estonia, Past Activities and Performance

The previous source document for the enterprise policy “Enterprising Estonia 2002-2006” highlighted five priority areas of action:

1. *Development of human resources*, which was targeted both at the reduction of regional and structural unemployment and at raising the quality of labour. There are two courses of action: encouraging entrepreneurship and developing the skills and knowledge required in specific fields of activity. The programmes and activities carried out under this section are the following: a training and counselling programme, support for mentoring, organisation of training courses in tourism, on quality of management, on how to start a business etc.
2. *Improvement of access to funding*, giving SMEs better access to the existing financial instruments and developing new financial instruments, to meet the needs of newly established companies and companies with high growth potential. The activities carried out involve start-up support for new entrepreneurs, guarantees for business loans and leases, and support for the development of the infrastructure for entrepreneurship.
3. *Development of a support structure for businesses*, so that existing state support schemes are available to all SMEs throughout Estonia. Another aim in developing the structures was to support the establishment of incubation centres and industrial parks, and thereby the development of services offered in incubators.
4. *Promotion of information on entrepreneurship*. The aim is to guarantee that government agencies distribute the information to economic operators as quickly and effectively as possible and that there is better communication between government bodies and business representative organisations. The main activities of this field include developing www.aktiva.ee, the information gateway for entrepreneurs, providing counselling and information services at the entrepreneurship development centres in counties, and launching the entrepreneurship and innovation awareness programme.
5. *Reduction of the administrative burden* to ensure simplicity and transparency of the administrative and regulative framework of entrepreneurship, which will help to shape a favourable business environment.

Since 2001 there have been support schemes for training courses, further training and retraining for company CEOs and employees, and for the use of external consultants - all in order to develop the knowledge and skills of entrepreneurs. Since 60% of economic operators see cost as the greatest obstacle to employee training, a growing number of them use the respective government subsidy: while in 2002 only 1% of entrepreneurs used the training support there were already 6% in 2005.

Although Estonian businesses are at present prepared to use consultation services, the actual use is still infrequent because entrepreneurs are not used to consultants and have had no previous experience with them⁶. Due to the low awareness of entrepreneurs it is difficult for them to identify the areas necessary for strategic development and to choose appropriate advisers.

⁶ Consultancy and Training Market in the Estonian Business Sector, 2005, Ariko Marketing

Significant differences in the quality of service providers is another problem that has emerged in the implementation of consultation subsidies.

Since 2001 the government has supported business investments by providing start-up support for starting entrepreneurs, and guarantees on business loans and leases to operating and rapidly growing companies. The state guarantees on business loans and leases through the Credit and Export Guarantee Fund (KredEx) so far amount to 1.9 billion Estonian kroons, which is estimated to have created 2900 new jobs. The start-up support from Enterprise Estonia (EAS) has helped 673 new companies. Modernisation of the entrepreneurship infrastructure has received 178 million Estonian kroons of support from companies' projects and through municipal investments into industrial areas developed by local governments.

The national support system of entrepreneurship includes Enterprise Estonia and KredEx. Both institutions were founded when the reform of previous foundations began in 2000. The reform merged previously fragmented activities and several foundations to improve the administrative capacity necessary for implementing the support schemes. In 2003 the Cabinet of the Government of Estonia approved the concept of a county-level network of development centres who are contractual partners to Enterprise Estonia.

Until now, great emphasis has been placed on improving the foundations' organisational capacity and the quality of their services. In 2005, Enterprise Estonia was awarded the ISO 9001:2000 Quality Management certificate which proves that all the activities and processes of Enterprise Estonia comply with the international standard. Enterprise Estonia has attempted to make the procedure of applying for support as user-friendly as possible: the time spent on processing applications has been minimized and applications can be submitted electronically. E-applications for entrepreneurs' start-up support were introduced in 2005 as part of a pilot project within the framework of the respective start-ups' programme, and during the very same year approximately one-third of the applications were submitted electronically. In the future Enterprise Estonia plans to introduce e-applications for other support programmes as well.

In order to raise the awareness of entrepreneurship the information gateway for entrepreneurs, www.aktiva.ee was opened in 2001, and county development centres offer information, consultations and business advice in every county. Awareness of the Aktiva information gateway has increased continuously – while in 2002 a quarter of Estonian entrepreneurs had heard of it and 31% were using it, by 2005 almost half of the entrepreneurs were aware of it and 44% of them were actively using it⁷. In 2005 the Estonian version of the aktiva.ee website was visited approximately 56,000 times a month and the Russian version about 16,000 times a month. On the average, every tenth entrepreneur contacts the county development centre for a consultation once a year; in counties with less entrepreneurial activity approximately one-third of economic operators use the services of the centres. In 2005 the county development centres consulted entrepreneurs on 6,800 occasions.

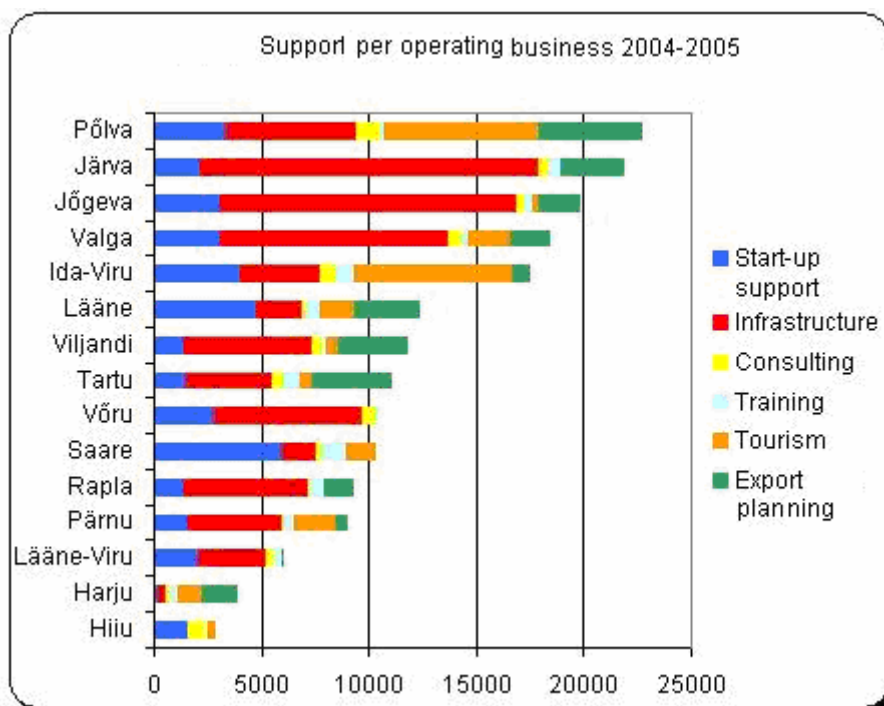
Awareness of various national enterprise support schemes has been growing constantly over the years; at present, 84% of entrepreneurs have at least heard of them. In 2002 as many as 71% of entrepreneurs did not know where to get the necessary information; today only a quarter of entrepreneurs are unaware of where to find information about support schemes.

⁷ Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ

Activities carried out under export policy have also contributed to achieving the enterprise policy goals. Until now the main emphasis has been on developing export activities and serving foreign investors. These activities and programmes have been carried out since the 1990ies already, and support for participation in international trade fairs, consultation services, services of the foreign branch offices of Enterprise Estonia, and services to foreign investors are still ongoing. Since 2001 companies need to have an elaborate export plan to apply for export marketing support which is granted under the export plan programme. Until now, 370 companies have received support to enter new markets.

In 2001, the government export guarantee was launched, and it has been enjoying fast-growing popularity. Export guarantees that amounted to 31 million Estonian kroons in 2001, had by 2005 grown to 783 million kroons, an estimated 0.8% of the total exports of Estonia.

There have only been a few studies so far of impact assessments of the administrative burden and its reduction. A “best practice on inclusion” has been drafted to involve social partners in the decision-making process, and an involvement gateway “Have Your Say” (“Räägi kaasa”) has been set up. There have been proposals to develop a system for regulatory impact assessment.



Graph 1.2.1 Support per operating business in 2004-2005

Regional restrictions have been applied only to a few programmes so far (start-up support and grants for the development of entrepreneurship infrastructure). The amount of support per active company shows that in counties with low entrepreneurial activity, such as Ida-Viru, Jõgeva, Järva and Põlva, the supports have a greater impact on the business sector as a whole. There is therefore no need for regional preferences or quotas in support programmes because experience has shown that subsidies are distributed evenly and have a greater impact in regions with higher unemployment and less entrepreneurship anyway. County development centres play a vital role in activating local economic operators and distributing information about national support

schemes. They work proactively to increase the awareness of entrepreneurs, and provide comprehensive help in preparing projects and submitting applications.

Approximately 7% of all operating entrepreneurs have received support from national support schemes every year (in 2002 2%)⁸. According to the table below, 5,842 projects were supported by different support schemes during 2002-2005; grants amounted to 409 million Estonian kroons and 3,033 million Estonian kroons were used for various guarantees.

Table 1.2.1 Number of projects funded and total supports in 2002-2005 by support schemes

Programme	Number of funded projects	Total sums of support (mln EEK)
Start-up support	673	71
Training support	1 742	54
Consultation support	1 184	24
Development of entrepreneurship infrastructure	166	147
Export planning	372	113
Business loan guarantee ⁹	754	924
Export guarantee ¹⁰	951	1 700
Total number of projects funded	5 842	
Total amount of grant aid	409	

Methodologies for regulatory impact assessment are being developed. Once they have been completed and the relevant data collected, it will be possible to analyse the efficiency and effectiveness of regulatory measures in the previous policy period, and to assess the implementation of structural funds in the business sector. The first phase of impact assessment, which evaluates the selection of programmes supporting entrepreneurship, will be completed during the second half of 2006.

⁸ Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ

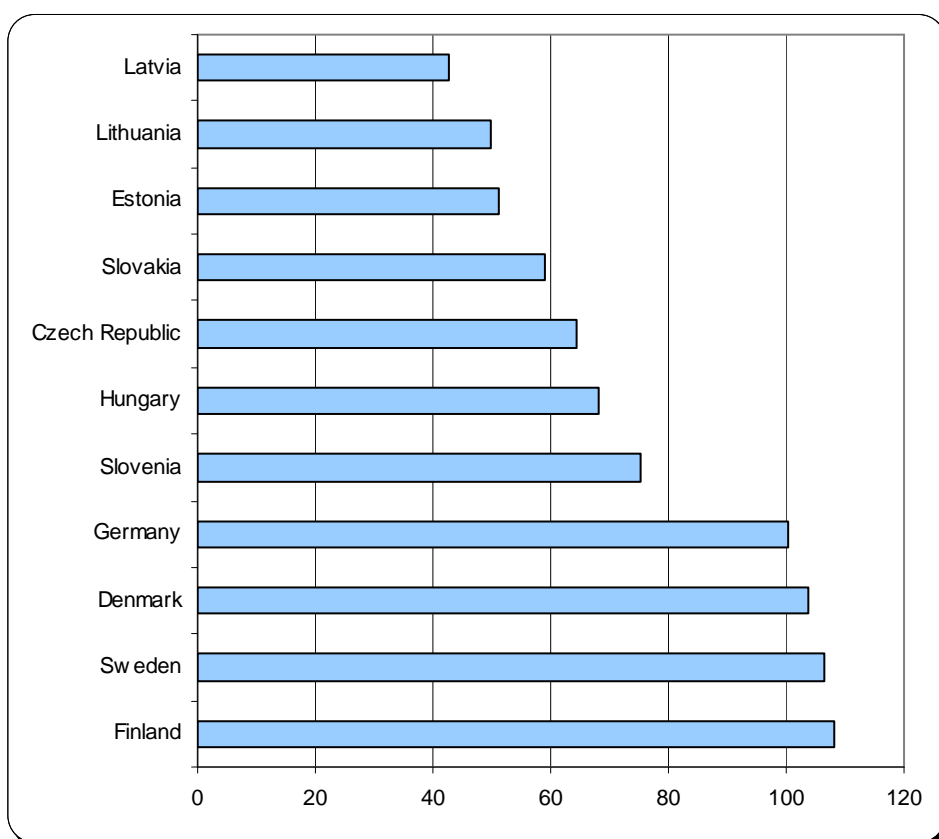
⁹ Total of business loan guarantees issued by KredEx.

¹⁰ Total of export guarantees issued by KredEx.

1.3 Primary Obstacles to Entrepreneurship Development

Although entrepreneurship in Estonia has developed relatively fast and its competitiveness has improved significantly, it continues to be dominated by companies that operate in the traditional sectors and whose productivity and profitability per employee lag seriously behind businesses in the developed industrial countries. The current international competitiveness position has been achieved largely due to inexpensive inputs, and is therefore vulnerable. The possibilities of manufacturers relying on the price-based competitive advantage are diminishing.

Survival in international competition depends increasingly on the ability to convert new know-how and approaches into successful business. Since production costs in Estonia are already close to those in developed countries, greater productivity is the only way to maintain or improve the companies' international competitiveness. There is room for development since, as stated above, the productivity of Estonian companies constitutes only 50.6% of the EU average.

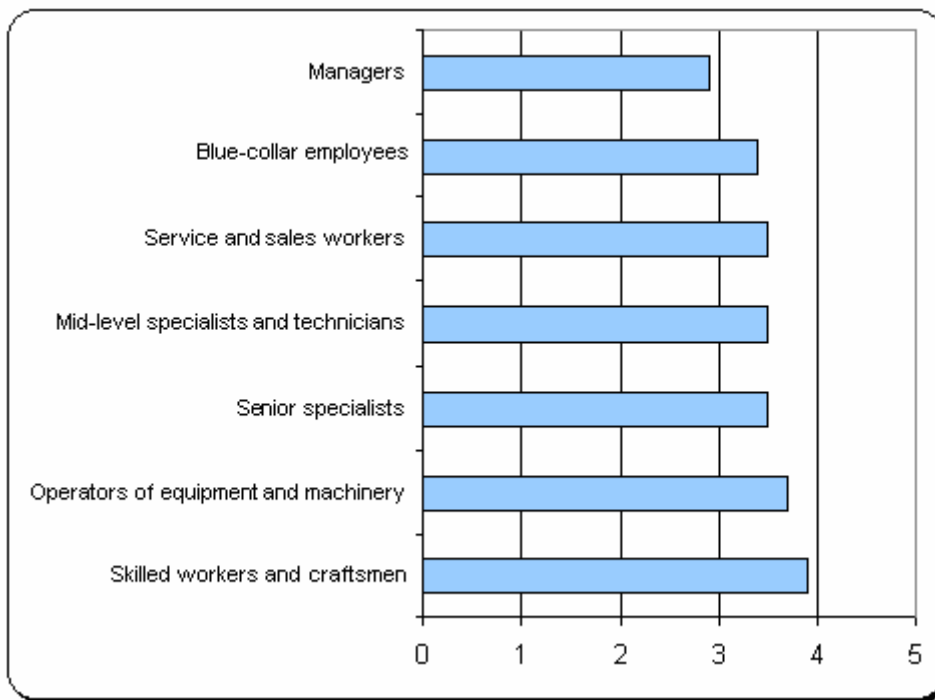


Graph 1.3.1 Productivity of workforce per employee (EU25=100%) (Source: Eurostat)

When moving towards a knowledge-based economy it is important to invest in broadening the knowledge and skills of managers and employees, to focus more on the processes creating value. Investments are also needed in the development and implementation of new technologies, as well as research and development. However, in order to finance investments companies must have access to external finance or be open to external investors who bring new know-how and entrepreneurial experience, in addition to capital.

Successful internationalisation is equally vital to companies because it ensures the market for increased production and lowers production costs by introducing less expensive inputs.

Obstacles in many of the above-mentioned areas are the main reason why companies today fail to increase their productivity. One of the most serious barriers is the lack of qualified labour that companies need. Most economic operators claim to have difficulties in finding employees, and skilled workers and craftsmen are the most problematic, causing difficulties to 70% of respondents in a survey of businesses. The problem has become more serious compared to 2002 when 57% of companies considered finding skilled workers and craftsmen difficult. The following graph illustrates the availability of employees with different qualifications.



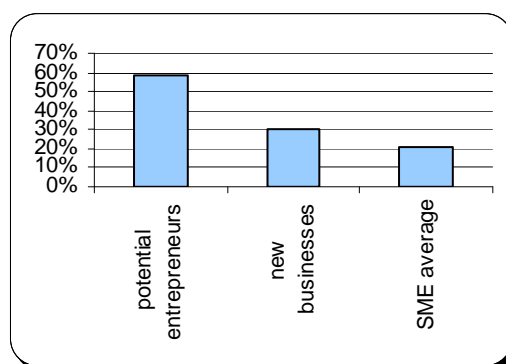
Graph 1.3.2 Difficulties with finding employees (1 – very easy, 5 – very difficult) (Source: Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ)

Since companies consider training courses expensive they train their employees less than needed. Many companies have not seen training as one of the ways to reduce the shortage of qualified labour. The shortage of labour with the necessary knowledge and skills is further aggravated by the “brain drain”, i.e. top specialists and skilled workers leaving Estonia, and the aging of the population. In the coming years Estonia will reach a situation where the number of people entering the labour market will be smaller than the number of people leaving the labour market.

Most Estonian companies operate only in the domestic market. Even though domestic consumption is seen to continue its increase in the forecasts for the near future, the small volumes of Estonia restrict the growth of companies oriented towards the domestic market alone. According to the enterprise survey, one-third of companies say that finding a market for their products and services is already today a serious problem hindering their development. With ongoing globalisation and liberalisation of foreign trade, embarking on internationalisation makes it possible to use the consumption potential of international markets and achieve economies of scale.

Effective co-operation between companies is critical in the case of smaller production capacities. Unfortunately Estonian small enterprises still have a fairly low degree of co-operation with partners, and of other elements of strategic management. In many small enterprises strategic management is not carried out consciously, and managerial knowledge and skills do not meet the requirements of today's increasingly knowledge-based economy.

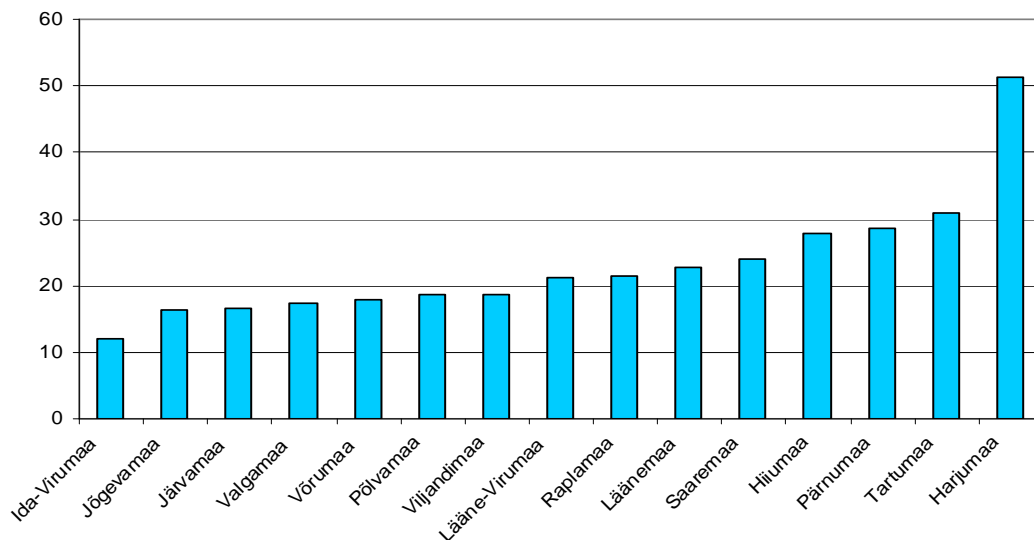
As stated above, companies must have access to capital in order to finance various investments targeted at increasing productivity. Despite Estonia's relatively well-developed financial sector and well-functioning capital markets there are areas where private markets do not function and government intervention becomes necessary. The percentage of companies for whom access to capital is the biggest obstacle to development has dropped from 34% (2002) to 21% (2005), but there are clearly distinguished types of companies for whom the problem is more serious. Potential entrepreneurs are also not to be disregarded. According to the survey of entrepreneurial mindsets among the Estonian population, potential entrepreneurs see lack of financial resources as the greatest obstacle to setting up their own business. In addition to insufficient possibilities to raise capital, (potential) entrepreneurs often lack the skills, i.e. know-how how to raise capital.



Graph 1.3.3 Companies for whom raising capital is the key problem (% of representatives of the corresponding group) (Source: Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ)

As the above graph shows, potential entrepreneurs and new companies find obtaining financial resources more problematic, than the average SME. Rapidly growing and innovative companies and micro-enterprises also have difficulties raising investment capital in the capital markets.

Due to these and other reasons (e.g. complexity of administrative procedures, lack of business idea, scarce knowledge and insufficient skills etc.) the entrepreneurial mindset among the Estonian population is relatively inactive. People who have set up a company or are involved with it constitute 5% of the working-age population. Nine per cent think about setting up a company. Entrepreneurial activity in Estonia is therefore low – 33 companies per 1,000 residents. Entrepreneurial activity varies considerably from county to county.



Graph 1.3.4 Number of companies in counties per 1000 residents in 2005 (Estonian Tax and Customs Board)

Entrepreneurship and the entrepreneurial mindset can develop equally fast in all of Estonia only when large investments are made in the physical infrastructure essential for business, and especially so in the less favourable areas. There are many regions in Estonia where the infrastructure necessary for business has not yet been developed, and where companies with growth potential would not settle.

In addition to the relatively small number of potential entrepreneurs and many obstacles to setting up a company, the survival rate of Estonian companies is also low. Slightly more than half the companies (57%) are still viable three years after registration, which indicates that a large number of new companies are liquidated within three years of their foundation. There are probably several reasons for it but the business environment (capital markets, legal environment, entrepreneurial culture, and support structures for businesses) has a large role to play in the survival rate.

Today's Estonian companies see the tax burden, legislation and bureaucracy as their biggest obstacles to development. That is why Estonia's legal environment cannot be considered favourable to entrepreneurship and the entrepreneurial mindset. The biggest barriers to company development include the regulations of the respective economic sectors well as extensive reporting obligations and time-consuming official procedures. The graph below describes all the obstacles to the development of entrepreneurship.

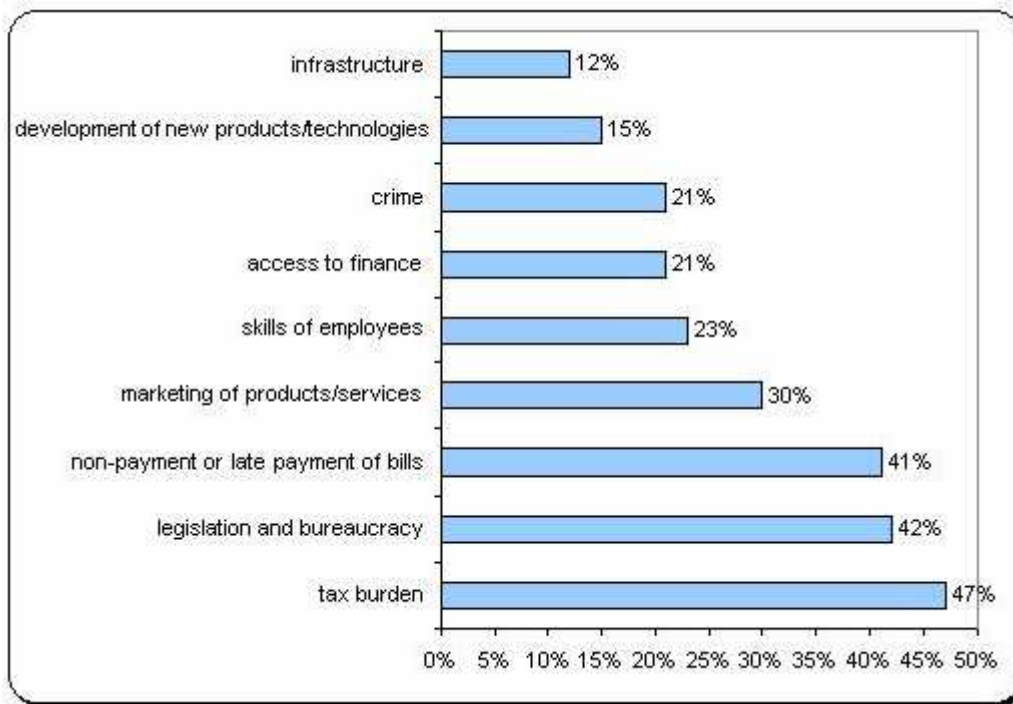


Chart 1.3.5 Hindrances to entrepreneurship development (Source: Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ)

Based on the above, Enterprise Policy focuses on four main fields of activity: developing knowledge and skills, supporting investments, supporting internationalisation and developing the legal environment. Bottlenecks in each of the fields will be discussed at greater length in the beginning of the corresponding chapter.

2. ENTERPRISE POLICY 2007-2013

2.1. Vision

The residents of Estonia are creative, innovative and enterprising. People have the skills and the desire to convert their ideas into a business plan, and are able to get the necessary resources from the markets. The society supports enterprising people with a favourable attitude and acknowledges the role of entrepreneurship as the promoter of the country's economic development and welfare.

Estonian companies are successful in international markets and produce high added value with their activities. High productivity, new or improved products and services, and in-depth knowledge of target markets and of internationalisation enable enterprises to expand into new markets, thereby increasing production volume. Constant learning, innovation and development, and familiarity with the companies' development opportunities enable Estonian businesses to increase their productivity and thereby results and revenue. Estonian businesses practice corporate social responsibility towards the environment and the society, and there is sustainable development of entrepreneurship.

Favourable business environment in all of Estonia supports potential entrepreneurs, starting and practising entrepreneurs, and among other things, attracts numerous direct foreign investments that go to sectors producing high value added. Elements of an enabling business climate include strong entrepreneurial culture, a legal environment conducive to enterprise and entrepreneurship, the infrastructure necessary for business, and well-functioning capital markets.

2.2 General Objectives

The long-term goal of Estonia's economic policy is to increase the prosperity of the Estonian people. Since entrepreneurship is economy's growth engine, guiding the former's development is very important in the process. Enterprise policy shapes the business environment whose inseparable parts today include, among others, national entrepreneurship support programmes and development activities.

As a result of the successful implementation of the enterprise policy Estonia is moving closer to the following general objectives:

- Estonian entrepreneurs and employees are competent and professional and the people are enterprising and innovative;
- Estonian companies have the means to make investments that are future-oriented and increase productivity;
- The export capacity of Estonian companies has improved and their growth results from taking advantage of the opportunities of international operations;
- Estonian legal environment favours entrepreneurship and the entrepreneurial mindset.

Following from the objectives, the activities and instruments to be used in carrying out the enterprise policy have been divided into four areas and the policy into four respective chapters based on the areas.

The following indicators are used for evaluating how the objectives have been met:

Indicator	Explanation	Source	Base level (year)	Target level (2013)
Entrepreneurship activity	Number of businesses per 1000 residents	Estonian Tax and Customs Board	30 (2004)	40
Enterprise survival rate	Number of businesses active three years after registration	Estonian Tax and Customs Board	57% (2003)	70%
Enterprise productivity (of EU-25 average)	Productivity per worker as compared to EU-25	Eurostat	50.6% (2004)	72%
Position of Estonia in the World Bank study of business-related legal environment, titled <i>Doing Business</i>	Comparison of 155 countries on regulations that favour or hinder entrepreneurship environment	World Bank	16 (2005)	Estonia is among the top 15 countries

2.3 Enduring Core Values

Development of entrepreneurship and the business environment are strongly interdependent. Changes in the environment can promote or hinder the development of entrepreneurship and vice versa. Enterprise policy therefore affects directly or indirectly developments in several other fields, such as natural environment, regional and local development, employment rate and social inclusion, culture, public health etc. Some of the developments are desirable and improve the welfare of people. However, thoughtless steps could affect the business environment with an irreversible negative impact that would dominate over the positive results achieved.

The planning and implementation of the Enterprise Policy is based, in addition to the general objectives outlined above, on four enduring core values that are meant to stimulate positive developments in the Estonian society and to prevent negative developments. During programme developing and political decision-making the following arguments help to choose between alternatives that have a similar influence on the main objectives:

- sustainable development – clean natural environment and healthy people;
- regional and local development;
- high employment rate and alleviation of social problems;
- development of the information society.

It is important that the growth and profitability of entrepreneurship are not achieved at the expense of other members of society or natural environment. Enterprise policy supports responsible development of entrepreneurship.

2.4 Fields of Activity

2.4.1 Developing Know-how and Skills

When moving towards a knowledge-based economy it is first and foremost important that economic operators have access to information and new know-how, to educated and skilled workforce and innovations generated by research and development. Besides know-how and skills, creativity, innovation and an enterprising attitude are equally important for generating new approaches and utilising them profitably. Investments in know-how and skills require considerable resources from companies. At the same time they are risky investments because the know-how and skills acquired are not liquid assets that can be sold at any given time. It is difficult to forecast the effect that the development of know-how and of skills could have on the growth of productivity, and the effect may not manifest itself in the short term. As the share of knowledge-intensive fields of activity grows, thereby increasing the importance of know-how as the prerequisite for company development, the government intervenes by partially covering training costs. This is done to promote training which would make the know-how and skills of human resources meet the actual needs of companies. It is unlikely that the education system will ever become sufficiently flexible to provide businesses with appropriately trained employees in a rapidly changing economy.

According to a study conducted among economic operators in 2005, 70% of them had difficulties finding skilled workers and craftsmen, and 50% consider it difficult to find mid-level specialists and technicians. At the same time, only 61% of entrepreneurs have provided training for their employees. Following from that, the government will take the initiative in organising training courses of appropriate content and quality.

In addition to specific training, the problems resulting from the shortage of qualified workers can be somewhat alleviated by promoting co-operation between educational establishments and companies. Students and graduates often have extensive theoretical knowledge but there are few opportunities to gain practical experience. More opportunities to get practical work experience help to mitigate the shortage of qualified workers and to improve the qualifications of the workforce at the same time.

It is not only employees who must continuously develop their skills, but managers as well, because effective management is vitally important for a growing company. Although companies consider finding appropriately qualified managers the least problematic, finding managers is still difficult for 41% of medium-sized enterprises. In more than half of Estonian companies, none of the managers have a university degree in their profession, only 35% of managers have attended long-term management courses, and all managers have attended long-term management courses only in 12% of companies.

At present there is no conscious and strategic management in many micro-enterprises, and there are a number of fields where a novel approach to management could contribute significantly to the company's development. Familiarity with the barriers and preconditions of corporate development is one of the cornerstones of good management, and it is vital to support companies in identifying and analysing the bottlenecks of their development. There are plans to develop for that purpose the so-called diagnostic instruments for companies (including audits of

innovation potential, use of the possibilities of Information and Communications Technologies (ICT), export capacity, company productivity, and general development capacity potential, etc.).

CEOs need many-sided information to make competent decisions. At the same time only 33% of economic operators have used external consultants. Diagnostics, consulting and mentoring help companies to direct more efficiently their efforts and investments targeted at developing productivity, enabling them to make calculated decisions based on thorough analysis. Quality information, consultation and other services need development of the corresponding support structures and networks of consultants offering the services. Small producers and handicraft companies are another important target group for consultation and diagnostic services; they are employers both for themselves and their family and friends.

Entrepreneurs' lifelong learning is as important as the lifelong acquisition and upgrading of knowledge and skills of any other specialist. Among other things, it is important to improve entrepreneurs' knowledge of the challenges that an aging population and a decreasing working-age workforce represent. Entrepreneurs must be aware of the hidden opportunities of flexible working methods, and occupational safety.

In order to inspire entrepreneurs to study it is necessary to help them realise what they do not know and to find the appropriate training and trainers. In addition to traditional ways of learning they need role models and examples; interested parties can get this from true stories that teach a lesson – success stories and best practices.

Prior knowledge of entrepreneurship is a significant factor that influences how enterprising people are. According to the survey of entrepreneurial attitudes among the Estonian population, 49% of the working-age population see insufficient knowledge and skills as the main hindrance to establishing a company. People's knowledge about entrepreneurship and being an entrepreneur is therefore a substantial factor in realising the entrepreneurship potential. The better the knowledge of how processes work, the less groundless fears and ignorant opinions there are about hindrances to establishing a company. Today only 10% of secondary school graduates have had a course in entrepreneurship.

Entrepreneurship education is not on the curricula of schools, vocational schools or institutions of higher education. The knowledge of young people about entrepreneurship and innovation therefore depends on what is available at their school, i.e. teaching staff and their knowledge and initiative. Lack of teaching resources, teaching methodologies and teachers are the main problems. Yet it is important that each graduate has sufficient knowledge of entrepreneurship to be able to spot opportunities and realise them through business. Equally, employees in a market economy also have to be aware of how businesses operate and develop, and what the employees' role is in the value-creating process.

In one way or another entrepreneurship depends on all areas of life that surround us. Formation of a competitive business environment starts from thorough knowledge of and understanding of the needs of the business sector in the society. The society at large also needs to learn; attitudes and values must evolve to make the cultural environment supportive of entrepreneurship and the entrepreneurial mindset. The media, public figures, drafters of policies, public servants, teachers and lecturers, and of course entrepreneurs themselves have an important role in making the society's values more favourable for entrepreneurship and the entrepreneurial mindset. That is why the target group for the enterprise policy in the field of developing the entrepreneurial culture is wider than just entrepreneurs and potential entrepreneurs.

A strong cultural environment supports and emphasises the opportunities and needs of inter-company co-operation and acknowledges the benefit of joint efforts for entrepreneurs. Co-operation is critical for micro-enterprises who wish to expand to foreign markets and overcome obstacles resulting from small production volumes.

Objectives in developing know-how and skills:

- entrepreneurs' decisions are competent and professional;
- employees' know-how and skills meet the company's needs and the company is accustomed to improving the know-how and skills of its employees;
- people are enterprising, they want to and can be entrepreneurs because they have the necessary know-how and skills to be in business;
- the society has a favourable attitude towards entrepreneurs and entrepreneurship and supports new and innovative initiatives.

Measures for developing know-how and skills:

1. Development of the know-how and skills of entrepreneurs, managers and employees through promoting training modules and lifelong learning

- partial co-financing of the training courses purchased, to stimulate the development and updating of the employees' know-how and skills;
- training of CEOs, distribution of new management ideas and guiding SMEs towards more conscious management;
- developing the tools necessary for a systematic development of the quality of management (recognition schemes at different levels, database of comparative analysis etc.)
- providing training services that are not available at a required standard on the market due to low demand, but which have a positive effect on the development of the competitiveness of the company (including training provided by county development centres);
- promoting the co-operation between companies and educational institutions through supporting traineeships with the companies.

2. Consulting companies that are starting, that have growth potential and that are going international, in areas that promote productivity, growth potential and competitiveness

- supporting active companies with growth potential to purchase external consulting services in areas that enable significant improvement of growth potential and competitiveness;
- identifying the bottlenecks of corporate development, and consulting on the elimination of them and realisation of development potential;
- extending the fields of competence of entrepreneurship consultants working in the entrepreneurship support structure and in the private market; developing an accreditation system for entrepreneurship consultants and developing networks of consultants to raise the quality and availability of comprehensive consultations;

- consulting starting entrepreneurs (including at county development centres) and mentoring by experienced entrepreneurs or specialists of a given area;
- developing the incubator services that entrepreneurs need and supporting the supply of services in business incubators.

3. Increasing familiarity with entrepreneurship and innovation through distribution of information and awareness raising in different groups of society

- increasing the awareness and knowledge of active and potential entrepreneurs, company managers, investors and engineers in the fields that are important for increasing the company's competitiveness, such as innovation, technology, internationalisation, export etc.;
- information gateway for entrepreneurs, distributing current and new information about entrepreneurship and improving access to it;
- improving the understanding and general knowledge of decision-makers who work at different levels, on entrepreneurship and how it is affected by policies implemented in different areas;
- increasing awareness of entrepreneurship and innovation in different groups of society through supporting various initiatives;
- drawing up and developing curricula and teaching resources to improve the entrepreneurial mindset and knowledge of entrepreneurship among pupils and students;
- improving the entrepreneurship-related and innovation-related knowledge and attitudes of teachers, lecturers, researchers and other people working in education through training and additional information.

2.4.2 Supporting Investments

In addition to other resources entrepreneurs need money to carry out their business plans. There are a number of ways to raise capital – using personal savings, taking a loan with personal or company property as security, involving investors and venture capital or using the help of friends and family. Even though Estonia's capital market is relatively well-developed by comparison to other European countries, there are three problem areas where the market does not function today.

Based on the required additional investment forecast, companies can be divided into two main groups: businesses needing less than 200,000 Estonian kroons and businesses whose rapid growth or growing needs require one to five million Estonian kroons of additional investment¹¹. Approximately one-third of companies in both groups admit that finding the additional money is a substantial problem for them. The third group includes projects with very high risk where relatively large investments are needed. Since traditional financial instruments do not function in the three areas, economic operators are unable to raise the necessary capital in private markets, and the implementation of innovative ideas directed at increasing productivity suffers as a result.

Difficulties in finding additional funding are particularly acute for starting entrepreneurs who have no security, no well-formulated business plan or company's financial history to confirm their creditworthiness. The riskier the idea the larger the investor's or creditor's risk, which reduces the possibilities of raising additional capital and increases the cost of loans. The smaller the desired loan the less profitable it is for credit institutions. By comparison with the business sector in general, finding additional funding ranks first among the problems of small companies and starting companies – 67% of entrepreneurs found the lack of financing possibilities the largest obstacle that they needed to overcome when starting their business¹².

A large proportion of the population see the lack of financial resources, fear of failure and fear of debt as the greatest obstacles to starting a company. The best start-up scheme for a starting entrepreneur is therefore comprehensive and contains access to other support services and entrepreneurship-related information and knowledge, in addition to investment support and distribution of financial risk. In addition, a good start-up scheme is easily accessible for the economic operator and is based on public-private partnership where the public sector only contributes in areas where private markets do not function.

A rapidly growing company that needs more investments is often not credible for banks due to insufficient equity capital. Companies with bigger turnover (over three million Estonian kroons a year) and growth potential also complain about the lack of financing opportunities; one-fifth considers it to be a substantial hindrance to development¹³. At the same time these companies are more willing than others to take bank loans and involve investors. The solution lies in intermediate financing in the form of an equity loan that makes the project more attractive to both banks and investors.

¹¹ Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ

¹² Entrepreneurial attitudes among the Estonian population, Estonian Institute of Economic Research, 2004

¹³ Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ

Productivity growth in companies stems from the introduction of modern technology. Many manufacturers in Estonia today have been caught in a vicious circle where they have no internal finance to cover the necessary investments, because low productivity has not generated enough profit. Two-thirds of the companies who invested in fixed assets in 2004 only used internal finance and retained earnings from previous periods; leases and bank loans were used mostly by larger companies¹⁴. Government support for investments in technology is above all needed in small companies whose productivity is significantly lower than the industry's average and whose access to bank loans and leases is limited.

Involving external investors presents an opportunity for a simultaneous introduction of capital and know-how necessary for the company's development. However, Estonian entrepreneurs do not have a favourable attitude towards external investors – only 27% see them as an opportunity of raising additional funds. One of the reasons is the short and still developing tradition of investor relations in Estonia. Work should therefore not be limited to improving the possibilities of additional financing for companies with different profiles, but should also include expanding the companies' know-how and skills on how to raise capital in an appropriate form and extent. Here, attention must also be paid to Estonian investors to improve their possibilities of investing their available capital into Estonian business. Mediating contacts between potential investors and companies in need of investment is one way of making the wishes meet the needs of the parties in the capital market

Investments into infrastructure must also be supported, so that entrepreneurship could develop equally quickly throughout the country. Estonia has many regions where the infrastructure necessary for business has not yet been developed and where companies with growth potential would not settle.

Objectives of investment support:

- Seed capital is accessible to new entrepreneurs (including the socially disadvantaged);
- Enterprises of a different nature and characteristics have the skills and the opportunities to raise capital and to make productive and future-oriented investments;
- Estonian investors use their available capital and know-how in Estonian SMEs.

Support Schemes for Investments:

1. Improving the SMEs' access to capital

- State guarantees for start-up and micro-loans;
- Launch of a traditional venture capital fund;
- Intermediate equity financing for operating and rapidly growing small companies;
- State guarantees for loans, leases and bank guarantees.

¹⁴ Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ

2. Supporting Investments

- Start-up support to new companies;
- Support for companies' investments in modernisation of technology;
- Support for companies' investment in the development of infrastructure in less-developed regions.

3. Developing Business Angel Networks and mediation of contacts

- Developing and supporting Business Angel Networks through support of training and of international co-operation;
- Mediation of contacts between Estonian entrepreneurs and potential foreign investors, supporting companies in gaining access to foreign Business Angel Networks.

2.4.3 Supporting Internationalisation

The Estonian market is small, and for local companies to fully realise their growth potential they will sooner or later have to start operating in foreign markets. Entering new markets requires a product that is suitable and adapted to the target market, knowledge of target markets and foreign operations, and a flexible and strong organisation. Non-compliance with these requirements is one of the reasons why only slightly more than one-tenth of Estonian companies are engaged in export today.

Acquiring the relevant knowledge, consultations and information, finding partners and adapting the product to meet the clients' requirements and standards in the target market are connected with very high sunk costs that a small company often cannot afford due to its limited production volume and resources. Furthermore, the company and its product must be competitive enough already before entering a foreign market, to take advantage of the growth potential of the larger market.

Most of the companies surveyed in the Study of Estonian Exporters¹⁵ are small enterprises, and 71% of them have less than 50 employees. According to the study, entrepreneurs see their main export barriers in fierce competition in foreign markets, lack of resources (lack of qualified labour, lack of financial resources for development and marketing), production-related problems (low production volumes and outdated equipment) and in problems associated with products and services (product development, compliance with quality requirements).

Lack of export-related knowledge and skills is also a problem for potential and new exporters. The fact that only one-third of companies have a carefully weighed export strategy or export plan and only one-tenth of companies have an exports department or an exports manager, is a source of considerable concern.

The Study of Estonian Exporters highlights the key contradiction among Estonian exporters: they consider quality and inexpensive inputs their strength but they are unable to guarantee efficiency, profitability and sufficient production volume at the required quality. They lack both the financial and human resources necessary to increase their competitiveness.

Above all, exporters expect the government to support the introduction of innovative and knowledge-intensive products, of export supports and stronger education and regional policy.

The government can support entrepreneurs in the different phases of internationalisation mainly by the reduction of one-off sunk costs and distribution of risks of foreign operations. Supporting internationalisation cannot be limited to supporting only entrance to foreign markets by export or investments in the country of destination, since foreign investments and inexpensive inputs from outside Estonia can have a significant influence on competitiveness.

Various measures and activities directed towards meeting the needs of specific entrepreneurs and the general objectives are therefore envisaged to support the internationalisation of companies.

¹⁵ Study of Estonian Exporters 2004, conducted by Ariko Marketing on the order of Enterprise Estonia

Know-how and consultations on internationalisation are the first thing that new exporters and entrepreneurs who have not yet engaged in export need. A range of marketing support schemes are targeted at enabling more experienced exporters to launch their product in a foreign market. Since a competitive product is essential to succeeding in foreign markets, supporting product development and ensuring production resources are considered very important. Slightly more than half the exporters engage in product development at present.

Co-operation between companies in product development and marketing is important both in the production chain and horizontally. It is therefore important to develop measures to promote the formation of clusters and their successful operation.

Serving foreign investors promotes the inflow of foreign investments which in turn means inflow of capital, technology, know-how, marketing channels and contacts to Estonia. Business and investment climate must be improved continuously to reach the level of developed countries in foreign direct investments per capita and to make Estonia a more attractive destination for investments than our competitors are.

Furthermore, promoting Estonia as a country of origin and Estonia as a business and living environment supports both the export of products and services and the inflow of investments.

Enterprise Estonia follows the same objectives in developing a network of its foreign representations in key export destinations and in countries of origin of investments and tourism.

Government export guarantees are directed towards compensating unreceived payments from foreign buyers and preserving the investments of Estonian companies in other countries.

Objectives of internationalisation support:

- Growth in the export capacity of Estonian companies and wider export opportunities;
- Taking advantage of the possibilities of internationalisation in entrepreneurship;
- More prominence and a growing reputation of Estonia's products and its business and investment environment.

Means of internationalisation support:

1. Development of the export capacity of Estonian companies

- Supporting the expansion of companies into new markets;
- Supporting joint marketing and the formation of clusters in co-operation with professional associations and business representative organisations;
- Supporting participation in international trade fairs;
- State guarantees for export and investments.

2. Support to companies with services supporting internationalisation

- Supporting companies in finding inputs and technologies in international markets;

- Establishing support units for internationalisation and a counselling network to provide advice in the destination markets;
- Internationalisation-related information services (databases on export and investment, mediation of enquiries and business contacts).

3. Activities in the public sector, which promote internationalisation

- Continuous promoting of the reputation of Estonia as an attractive business and investment environment in the target markets for Estonian products and services and in the countries of origin of foreign investment;
- Serving foreign investors to increase the inflow of foreign investments that are technology-intensive and directed towards the creation of high value added;
- Introducing the offset requirement in foreign procurements for defence purposes, in order to get new orders for Estonian manufacturers.

2.4.4 Developing the Legal Environment

The legal environment of a country has significant influence on the freedom of operation and the possibilities of entrepreneurs, their operating costs and thus the long-term competitiveness of businesses. Furthermore, legal environment influences the entrepreneurial mindset of the people: if it is simple to establish a company and to run the business and if the costs related are low, it motivates potential entrepreneurs to realise their business idea.

In a legal environment favourable to entrepreneurship and the entrepreneurial mindset, any regulatory impact on entrepreneurship has been well weighed and justified, and administration is simple and fast. Although Estonia ranks 16th among 155 countries in the World Bank rating on the ease of doing business¹⁶, 42% of entrepreneurs see legislation and bureaucracy as a significant obstacle to development¹⁷. More than a quarter of them (27%), mainly smaller entrepreneurs, feel the direct restrictive impact of specific laws or regulations on their business. The complex administrative procedures related to establishing a company are seen as an obstacle to establishing their own business by 44% of the working-age population¹⁸. One of the problems is excessive notarisation of legal deeds, which is confirmed in the World Bank report *Doing Business in 2006 – Creating Jobs*¹⁹ where Estonia ranks weakest among 155 countries in terms of deeds requiring notarisation.

Current legislation and bureaucracy therefore have a negative impact on both entrepreneurship and the entrepreneurial mindset. Furthermore, there is no common practice in involving interest groups in policy formulation and legislation. On the one hand, half the ministry officials have never or seldom involved representative bodies of entrepreneurs. On the other hand, more than 90% of representative bodies would like the ministries to inform them more and involve them in the preparatory phase of legislation²⁰.

The legislation on entrepreneurship is being currently revised and simplified to reduce the unjustified negative impacts that the legal acts in force have on entrepreneurship and the entrepreneurial mindset. New drafts will include an impact analysis that assesses, among other things, the companies' administrative burden resulting from complying with the proposed law. The objective of measuring the administrative burden is to eliminate excessive bureaucracy and unjustified reporting obligations, which will reduce the time and money spent by the entrepreneur and allow them to concentrate on fulfilling the main objectives more than before.

Business representative organisations and the general public will be involved in legislative drafting, and the organisations' capacity to have a say and to represent their members will be developed, to ensure that new legislation on entrepreneurship and possible amendments are carefully considered, purposeful and implementable. Experience in high-quality legislation on entrepreneurship enables Estonia to participate more effectively in the drafting of EU legislation and to better represent Estonian businesses in the drafting.

¹⁶ <http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=65>

¹⁷ Development trends of Estonian small and medium-sized companies 2005, Saar Poll OÜ

¹⁸ Entrepreneurial attitudes among the Estonian population, Estonian Institute of Economic Research, 2004

¹⁹ <http://www.doingbusiness.org>

²⁰ Study on public consultations in the decision-making process in Estonia 2004, PRAXIS Center for Policy Studies

The action plan drawn up by the Ministry of Justice, Entrepreneur's Law (*Ettevõtja Õigus*), has highlighted several areas that are insufficiently, inefficiently or excessively regulated from the perspective of economic operators. The objectives highlighted in the action plan have been taken into account in the Enterprise Policy when discussing the key areas where the legal environment concerning entrepreneurs requires extensive reforms or faster amendments.

Attempts at shaping the legal environment must bear in mind that any restrictions on entrepreneurship violate one of the fundamental rights – the freedom to conduct business. Violation of a fundamental right is permissible only when it has a legitimate purpose and is proportional with regard to the intended purpose.

Objectives of developing the legal environment:

- Existing and new legislation is carefully weighed, purposeful and involve minimal compliance costs for entrepreneurs;
- Communication with government institutions is efficient, simple and fast for the economic operator;
- Entrepreneurship legislation, the involvement of entrepreneurs and communications with government institutions are based on the principles of the information society and promotion of fair competition;
- All government restrictions on entrepreneurship have a legitimate purpose and are proportional to the intended purpose, promoting free and fair competition.

Measures of the development of the legal environment:

1. Introduction of impact assessments for new and existing legislation on entrepreneurship

- Pilot studies on model implementation and promotion of continuous impact assessment in legislative drafting;
- Training of officials carrying out impact assessments, and distribution of impact assessment methods of entrepreneurship among other ministries;
- Integrating the assessment of the administrative burden into the decision-making process of legislative drafting;
- Developing methodology, including in international co-operation projects on methodology.

2. Effective involvement of companies, business representative organisations and the general public in the drafting of legislative and strategic documents on entrepreneurship

- Using a broader public dialogue (round tables, collecting feedback, exchange of information, etc.);
- Initiating activities directed towards the improvement of the capacity of business representative organisations to enable them to participate in legislative drafting, including training of the organisations;

- Involving companies in the legislative drafting and simplification process at the European Union level.

3. Improvement of the international competitiveness of the legal environment for businesses:

- Company law: simplifying the setting up of a business and communication with government institutions (by creating a one-stop-shop) and internal administration of the company by introducing modern information and communication technology. Revising the taxation of self-employed persons to discourage entrepreneurs from opting for companies instead of the self-employed for taxation purposes alone;
- Economic administrative law: continuing the simplification and harmonisation of the regulation of the fields of activity with special requirements, and making the regulation transparent on the national and local level. Creating the framework where applications for operating licences can be submitted and information about the requirements on operating licences can be given at a one-stop-shop including electronically. Revising areas that require contracts (including national supervisory bodies);
- Improving access to high-quality legal aid (including the availability of the services of the notary public);
- Reform of the labour law: revising the labour law and harmonizing it with other laws, primarily the Constitution of the Republic of Estonia;
- Making government fees and charges cost-based: revising government fees and establishing whether the rates are justified;
- Making the economic penal law clearer: decriminalising the areas where public interests are not violated. Revising preventive measures (prohibition of business and prohibition of operations), including recognition of cross-border preventive measures;
- Reorganisation procedure: creating a reorganisation procedure as a separate type of procedure;
- Organising the regulation of state and local government property: harmonising public law regulations concerning transactions with private companies;
- Conciliation procedure: supplementing the regulations of the conciliation procedure that reduces legal disputes, as a result of which the number of court cases will decrease;
- Revising legislation concerning intellectual property;
- Updating the construction and estate planning law – simplifying and increasing the transparency of procedures to guarantee sufficient protection of the interests for entrepreneurs and consumers, as well as the public.

3. IMPLEMENTATION OF ENTERPRISE POLICY 2007-2013

3.1 Management Structure

Enterprise Policy is implemented according to the three-year implementation plan that describes in more detail the activities to be carried out in the respective period, and the corresponding implementing bodies. The implementation plan is reviewed annually, and the enterprise policy document is also upgraded and the cost estimate is adjusted according to possible discrepancies with the actual need for subsidies among companies.

The preparation and implementation of the Enterprise Policy is co-ordinated by the Ministry of Economic Affairs and Communications, except in the development of the legal environment which is under the Ministry of Justice.

All the fields of activity of the Enterprise Policy are more or less related to other ministries whose contribution will also help to achieve the policy's objectives. The following table gives an overview of the more important points of co-operation in the implementation of the Enterprise Policy (the highlighted activities are not reflected in the cost estimate).

Table 3.1.1 Important areas related to the implementation of the Enterprise Policy 2007-2013:

Area of activity	Ministry responsible	Ministries related	Important points of cooperation
Development of knowledge and skills	Ministry of Economic Affairs and Communications	Ministry of Education and Research	Entrepreneurship education, guaranteeing the availability of workers with relevant qualifications
Support for investments	Ministry of Economic Affairs and Communications	Ministry of Internal Affairs	Development of the physical infrastructure of entrepreneurship in the less-developed regions Foreign labour as a possible source alleviating the companies' need for labour in a situation where the market lacks workers with the necessary qualifications
Development of the legal environment	Ministry of Justice	Ministry of Economic Affairs and Communications	Development of the whole legal environment
Support for investments	Ministry of Economic Affairs and Communications	Ministry of Social Affairs	Start-up support for financially disadvantaged new entrepreneurs, active labour market policy

The implementing bodies for the activities carried out by the Ministry of Economic Affairs and Communications are Enterprise Estonia, the Estonian Credit and Export Guarantee Fund KredEx and county development centres. The planned activities are implemented by the respective implementing body or the beneficiary of aid within the framework of the programme. The foreign representations of Enterprise Estonia support entrepreneurs in the latter's internationalisation projects.

In order to improve the efficiency and effectiveness of the entrepreneurship support system it is important that both programmes and the implementing bodies are developed. The main objective of Enterprise Estonia is to transform itself from an institution processing applications and issuing subsidies into a service-oriented customer service organisation, to offer high-quality support services and reduce procedural expenses. As a result of the development Enterprise Estonia can identify bottlenecks of corporate development and offer the most suitable solutions for them.

The objective of the network of county development centres is to bring consultants who operate in different fields in the county together into a common network, so that every county would have a professional centre of excellence for consultants and implementation of development ideas.

Consultations with entrepreneurs and business representative organisations during the implementation of Enterprise Policy will be arranged through an advisory body, the Small Enterprise Advisory Board (*Väikeettevõtlike Nõukoda*) set up at the Ministry of Economic Affairs and Communications.

3.2 Cost Estimate

The cost of the Enterprise Policy for 2007-2013 is estimated at nearly 3.7 billion Estonian kroons. Most activities will be financed in co-operation with the European Union's Structural Funds. The budget is allocated according to fields of activity and measures. Annual amounts have been calculated using the cash-based method, and all measures co-financed by the EU Structural Funds include an additional government funding of 15% of the cost of each measure.

Table 3.2.1 Enterprise Policy 2007-2013 budget by years

	BUDGET FOR 2007-2013	2007	2008	2009	2010	2011	2012	2013	Total	Source
	TOTAL FUNDING	123 202 909	533 531 863	558 586 609	583 641 356	608 696 103	633 750 849	658 805 596	3 700 215 285	
1.	Developing knowledge and skills	31 597 525	161 682 672	169 381 846	177 081 021	184 780 196	192 479 371	200 178 546	1 117 181 176	Strategy of the Ministry of Economic Affairs and Communications, measure 5.1.1.
1.1.	Development of knowledge and skills of entrepreneurs, managers and employees through promotion of training and life-long learning	8 358 824	58 511 765	61 298 039	64 084 314	66 870 588	69 656 863	72 443 137	401 223 529	EU Structural Funds: Sub-axis-based Operational Programme for Human Resources Development 2007-2013, sub-axis 4.1.
1.2.	Consultations promoting productivity, growth and competitiveness to companies that are new, have growth potential and are internationalising	20 644 583	85 012 083	89 060 278	93 108 472	97 156 667	101 204 861	105 253 056	591 440 000	EU Structural Funds: Sub-axis-based Operational Programme for Human Resources Development 2007-2013, sub-axis 4.1. (510 940 000 EEK). Funded from public revenue (80 500 000 EEK).
1.3.	Improvement of entrepreneurial and innovation-related knowledge through distribution of information and knowledge in different social groups	2 594 118	18 158 824	19 023 529	19 888 235	20 752 941	21 617 647	22 482 353	124 517 647	EU Structural Funds: Sub-axis-based Operational Programme for Human Resources Development 2007-2013, sub-axis 4.1.
2.	Supporting investments	30 041 176	207 347 059	217 164 706	226 982 353	236 800 000	246 617 647	256 435 294	1 421 388 235	Strategy of the Ministry of Economic Affairs and Communications, measure 5.1.2.
2.1.	Improvement of SME access to capital	12 132 353	84 926 471	88 970 588	93 014 706	97 058 824	101 102 941	105 147 059	582 352 941	EU Structural Funds: Sub-axis-based Operational Programme for the Development of the Economic Environment 2007-2013, sub-axis 1.1.
2.2.	Support of investments	17 320 588	121 244 118	127 017 647	132 791 176	138 564 706	144 338 235	150 111 765	831 388 235	EU Structural Funds: Sub-axis-based Operational Programme for the Development of the Economic Environment 2007-2013, sub-axis 1.1 (582 352 941 EEK). EU Structural Funds: Sub-axis-based Operational Programme for Human Resources Development 2007-2013, sub-axis 4.1. (249 035 294 EEK).
2.3.	Development of Business Angel Networks and mediation of contacts	588 235	1 176 471	1 176 471	1 176 471	1 176 471	1 176 471	1 176 471	7 647 059	European Social Fund (ESF). Sub-axis based Operational Programme for Human Resources Development 2007-2013, sub-axis 4.1.
3.	Supporting internationalisation	55 358 495	158 296 419	165 834 344	173 372 269	180 910 194	188 448 118	195 986 043	1 118 205 882	Strategy of the Ministry of Economic Affairs and Communications, measure 5.1.3.
3.1.	Development of the export capacity of Estonian companies	15 882 353	111 176 471	116 470 588	121 764 706	127 058 824	132 352 941	137 647 059	762 352 941	EU Structural Funds: Sub-axis-based Operational Programme for the Development of the Economic Environment 2007-2013, sub-axis 1.2.
3.2.	Providing companies with services that support internationalisation	810 000	5 670 000	5 940 000	6 210 000	6 480 000	6 750 000	7 020 000	38 880 000	Funded from public revenue

3.3.	Activities of the public sector promoting internationalisation	38 666 142	41 449 949	43 423 756	45 397 563	47 371 370	49 345 177	51 318 984	316 972 941	EU Structural Funds: Sub-axis-based Operational Programme for the Development of the Economic Environment 2007-2013, sub-axis 1.2 (114 352 941 EEK). Funded from public revenue (202 620 000 EEK).
4.	Developing the legal environment	6 205 713	6 205 713	6 205 713	6 205 713	6 205 713	6 205 713	6 205 713	43 439 991	Strategy of the Ministry of Economic Affairs and Communications, measures 6.1.1. and 6.1.2.
4.1.	Implementation of evaluation of the impacts of legislation to entrepreneurship-related new and existing legislation *	3 157 142	3 157 142	3 157 142	3 157 142	3 157 142	3 157 142	3 157 142	22 099 994	ESF: Sub-axis-based Operational Programme for Human Resources Development 2007-2013, sub-axis 4.5: Enhancing administrative capacity.
4.2.	Efficient inclusion of enterprises, business representative organisations and the general public in the legislative drafting and strategic documentation *	3 048 571	3 048 571	3 048 571	3 048 571	3 048 571	3 048 571	3 048 571	21 339 997	ESF: Sub-axis based Operational Programme for Human Resource Development 2007-2013, sub-axis 4.5: Enhancing administrative capacity.
4.3.	Improvement of international competitiveness of entrepreneurship-related legal environment	x	x	x	x	x	x	x	0	Funded from public revenue by the Ministry of Justice

* Additional financial resources may become available within the framework of the Operational Programme for Human Resources Development 2007-2013, measure 4.5: Enhancing administrative capacity, activity "Raising the professionalism of officials in state and local government institutions, of employees in agencies and non-profit associations".