



2017 SBA Fact Sheet

Estonia



Key points

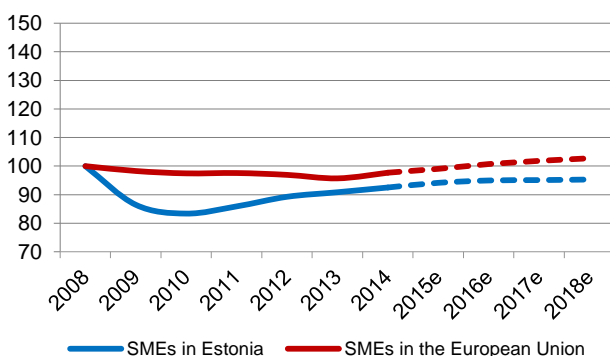
Past & future SME performance¹: In 2012-2016, Estonian SMEs experienced robust value added growth of 17.5 % or 4.1 % a year, and SME employment grew 6.4 % or 1.6 % a year. In 2015-2016, SME growth was more subdued, with a 0.9 % rise in employment and a 2.2 % increase in value added. The slower growth in value added comes with a certain deterioration of the trade balance resulting from falling demand in some export markets. The outlook for SME value added is positive, with predicted growth of 10.0 % in 2016-2018. By contrast, the outlook for SME employment is less positive, with projected stagnation, indicating that the increase in productivity will be the major source of economic growth².

Implementing the Small Business Act for Europe (SBA): Estonia's SBA profile is among the best in the EU. The country is the second best performer in entrepreneurship and access to finance and the best performer in 'responsive administration' among the EU Member States. It also scores above the EU average for single market and is in line with the EU average for 'second chance', state aid & public procurement and environment. Estonia's performance is only below the EU average in skills & innovation and internationalisation. The long-term trend since 2008 shows skills & innovation steadily declining, despite the measures taken, and a small deterioration in entrepreneurship and 'second chance'. By contrast, there is a positive long-term trend for single market and access to finance. Despite having no specific strategy to implement the SBA, Estonia has a universal approach to enterprise policy and has made substantial progress since 2008 in implementing most of the SBA recommendations. The most recent active policy areas have been skills & innovation, environment, 'Think Small First' and access to finance.

SME policy priorities: Skills & innovation is the key priority area for Estonian SMEs. They do not perform well in several innovation indicators. Despite available public R&D resources for SMEs, it seems that this potential is not sufficiently used for the direct benefit of SMEs. Support needs to continue for further training in ICT skills and SME digitisation. Value added and productivity is likely to increase following innovation by SMEs and investment in ICT. The second priority area concerns internationalisation. SME trade, in particular e-commerce, could be improved with simplified procedures, better internal customs cooperation, a better availability of information and a better use of a cluster approach. The third priority remains the official implementation of the SME test under the 'Think Small First' principle. Other areas that need to be tackled are the lengthy time to resolve insolvency under 'second chance' and the low number of SMEs improving their resource-efficiency performance under environment.

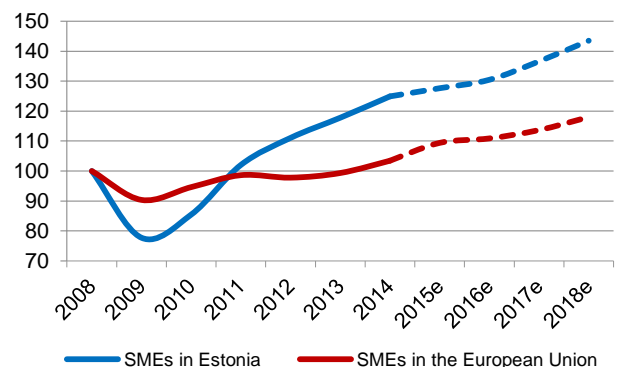
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2015 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2015 onwards)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Estonia		EU-28	Estonia		EU-28	Estonia		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	62 493	90.5 %	93.0 %	127 177	30.4 %	29.8 %	2.8	26.2 %	20.9 %
Small	5 315	7.7 %	5.8 %	101 932	24.4 %	20.0 %	2.5	23.3 %	17.8 %
Medium-sized	1 047	1.5 %	0.9 %	97 155	23.2 %	16.7 %	2.8	26.2 %	18.2 %
SMEs	68 855	99.8 %	99.8 %	326 264	78.0 %	66.6 %	8.2	75.7 %	56.8 %
Large	172	0.2 %	0.2 %	91 918	22.0 %	33.4 %	2.6	24.3 %	43.2 %
Total	69 027	100.0 %	100.0 %	418 182	100.0 %	100.0 %	10.8	100.0 %	100.0 %

These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs play a much greater role in the Estonian economy than the EU average. They account for approximately three quarters of value added, nearly 19 percentage points more than the EU average which is a noteworthy feature of its economy. Similarly, the 78.0 % share of employment generated by Estonian SMEs is 11.4 percentage points higher than the EU average. *Manufacturing and wholesale and retail trade* together account for 44.1 % of total SME value added and 46.9 % of total SME employment. A quarter of SME employment is concentrated in *manufacturing*, some 6 percentage points above the EU average. Estonian SME labour productivity — defined as value added per person employed — is only 57.8 % of the EU average, and

Estonian SMEs employ an average of 4.7 people, almost one person more than the EU average.

Estonian SMEs in the non-financial business economy experienced robust value added growth of 17.5 % in 2012-2016. Micro firms generated even stronger growth, with an increase of 26.8 % in value added. SME employment grew by 6.4 % in 2012-2016 showing productivity gains. In 2015-2016, SME growth was more subdued, with employment rising 0.9 % and value added 2.2 %. The specialised *knowledge-intensive* SMEs were able to increase value added by 35.4 % whereas the value added of *high-tech manufacturing* SMEs remained stagnant in the period 2012-2016.

In the *manufacturing* sector, SME employment grew slowly — by 5.4 % — in 2012-2016. In contrast, SME value added rose by 18.2 %, although annual growth rates have started to slow down more recently. This is mainly due to falling demand in some large export markets. In 2016, the largest recorded drop in Estonian exports was to Latvia, Sweden, the Netherlands and the USA³, while the largest fall in total exports occurred in *mineral products* and *food products*⁴. However, overall, exports and imports of goods were both up 3 % compared to 2015. An important factor in the slowdown of exports in the *food products* sub-sector was the restriction imposed by Russia in 2014 on imports of a range of food products from the EU. In 2014-2016, SME value added in this sub-sector virtually stagnated, increasing by only 1.2 % annually, in contrast with an average annual growth rate of 9.8 % in 2011-2014.

SMEs in *information and communication* experienced strong growth in 2012-2016. SME value added rose by 32.5 % and employment by 15.9 %. An important factor contributing to this growth was success in foreign markets. In 2013-2016, exports of *information and communication services* grew by 33.4 %⁵. Exports of *information services*, in particular, doubled during the same period⁶. The Estonian Government has also encouraged domestic demand for public sector IT services by providing a variety of e-services. These include e-residency, launched in 2014, and a digital identity available to citizens from anywhere in the world, which offers the opportunity to run a location-independent business online⁷.

In 2012-2016, *real estate activities* — solely an SME sector — experienced strong growth, with low interest rates encouraging demand for real estate⁸. Value added rose by 50.3 %, while employment grew by 10.4 %. In 2013-2016, the price per square metre of residential apartments also increased by 43.1 %⁹, resulting in increased productivity in this sector. Overall, in 2012-2016, the number of real estate transactions rose by 29.9 % and the value of transactions by 61.4 %¹⁰.

Value added in *accommodation and food services* rose by 30.9 % and employment unexpectedly by 20.3 % with the creation of some 3 700 new jobs. Likewise, SME employment grew in *professional, scientific and technical activities* by some 15.9 % and value added by 26.2 %.

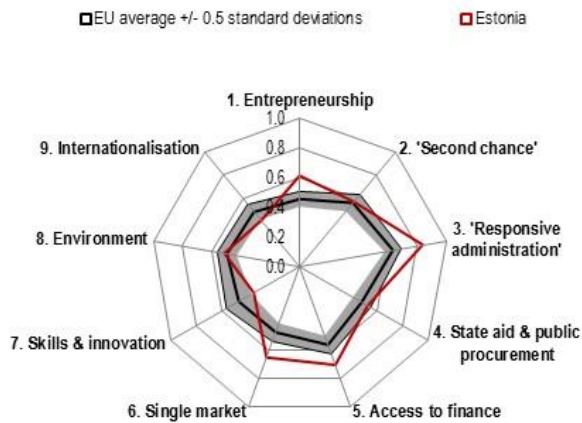
In 2016, there were 20 472 new company registrations, 10 602 de-registrations, 3 603 liquidations and 143 bankruptcies. Overall, the net growth of the number of registered firms was about 5 % per year over the past 4 years¹¹. The number of de-registrations, however, both in 2015 and 2016 was roughly twice as high as in 2014. This is largely due to a more active use of forced liquidation by authorities when firms fail to submit annual accounts¹².

According to the latest available data for 2016, only 9.7 % of all employees in Estonia were self-employed¹³. This is 4.3 percentage points lower than the EU average. The share of self-employment has not changed significantly, increasing by only 1.7 percentage points in 2012-2016.

In 2014, 551 firms in the 'business economy' — 8.6 % of firms with at least 10 employees — were high-growth firms¹⁴, which is roughly consistent with the EU average. In the same year, high-growth firms were most prevalent in *information and communication*. However, at around 11.6 %, this share is sizeably lower than the EU average of 15.0 % high-growth firms in this sector.

For Estonian SMEs, the outlook is quite positive for value added, with predicted growth of 10.0 % in 2016-2018. By contrast, the outlook for SME employment is less positive, with projected stagnation, which indicates that productivity will be the major source of value-added growth.

2. SBA profile¹⁵



Estonia's SBA profile is among the best in the EU. The country is the second best performer in entrepreneurship and access to finance and the best performer in 'responsive administration' among EU Member States. For the single market, it scores above the EU average and for 'second chance', state aid & public procurement and environment it is in line with the EU average. Only in skills & innovation and 'internationalisation' is Estonia below the EU average.

The long-term trend since 2008 shows a deteriorating performance in 'second chance' and entrepreneurship and a worrisome substantial decline in skills & innovation whereas there is a positive trend in single market and access to finance.

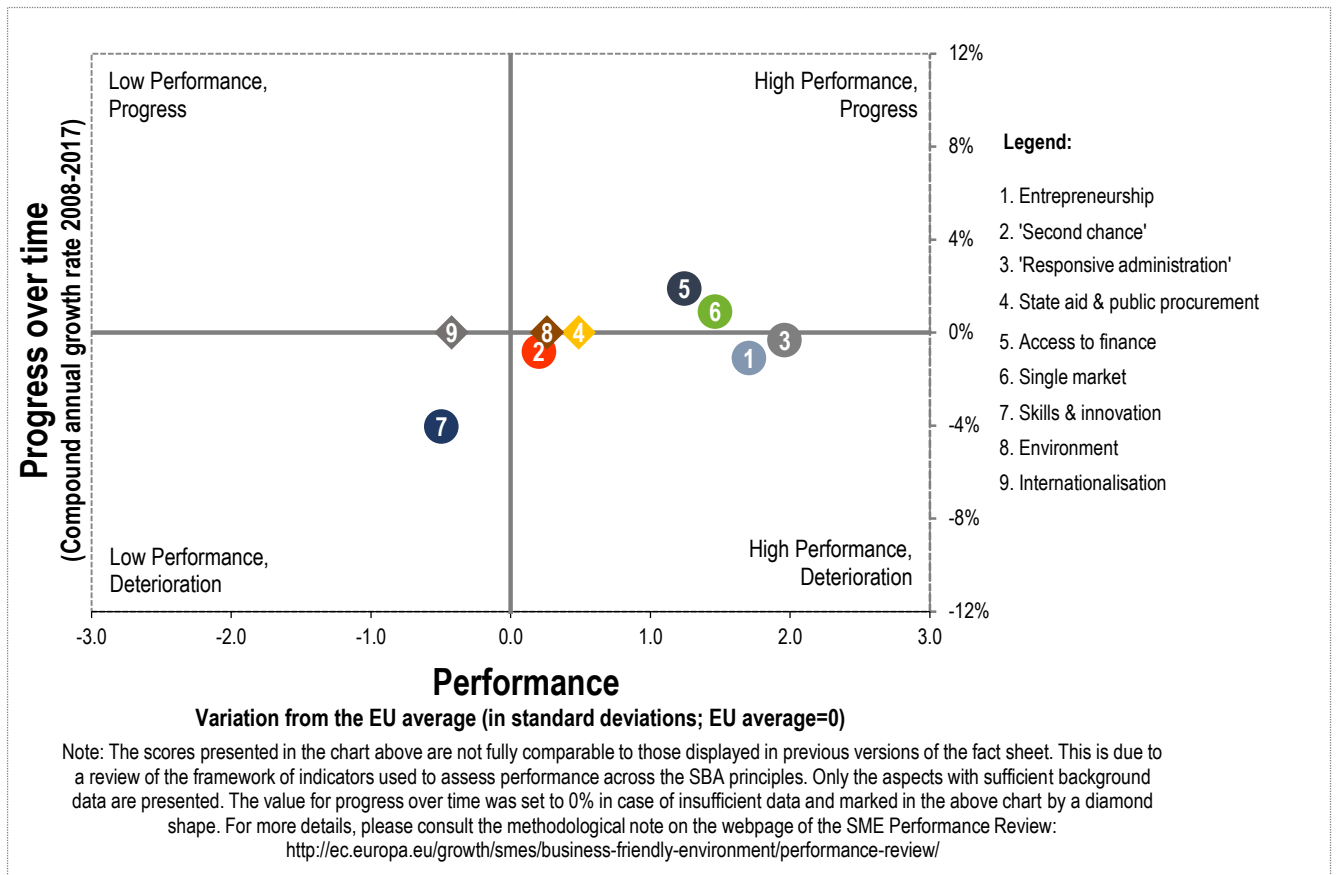
Despite no specific strategy to implement the SBA, Estonia has, with its universal approach to enterprise policy, made substantial progress since 2008 in implementing most of the SBA recommendations. In contrast, little effort was made for 'second chance' and environment. 'Think Small First' is also still one of the least implemented SBA principles.

In 2016 and the first quarter of 2017, which is the reference period for policy measures in this year's fact sheet, Estonia has implemented just five significant policy measures, addressing 4 out of the 10 policy areas under the SBA. This is notably fewer measures than in the previous reporting periods. Nevertheless, Estonia has already covered considerable ground in previous years in implementing the SBA recommendations.

The areas where policy activity was most intense in the reference period were skills & innovation, environment, 'Think Small First' and access to finance. New measures include support to innovation through public procurement, a platform to make cooperation easier between companies and R&D institutions, grants for resource audits and energy efficiency improvement projects and early stage finance integrating support services for start-ups.

The areas with least activity were 'second chance' and entrepreneurship where no new measures were introduced. However, early-stage financing measures were introduced to support start-ups through access to finance, which helped to promote entrepreneurship. All the announced measures from the previous reference period 2015 and the first quarter of 2016 are being implemented or have been completed.

SBA performance of Estonia: state of play and development from 2008 to 2017¹⁶



3. SBA principles¹⁷

3.0 'Think Small First'

The 'Think Small First' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account early on in the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Since 2008, steady progress has been made on the 'Think Small First' principle. But overall, the 'Think Small First' principle is still not fully applied. There is still considerable room for improving the regulatory impact assessment. The successful zero-bureaucracy approach can still be affected by additional burden on SMEs resulting from newly amended legislation which the SME test would counter. Few policies target specifically or solely SMEs. Most policies are universal — i.e. for companies of all sizes, not just SMEs.

A range of measures have been introduced since 2008 to reduce the administrative burden and simplify business-related regulations. For example, accounting/financial reporting requirements were simplified for micro and small businesses, and the 'Zero-Bureaucracy project' was launched to minimise administrative costs and burdens — based on proposals from business. Furthermore, a special task force was established to review the most burdensome business legislation and present amendments.

Stakeholders are regularly consulted by the government. There are formal consultation channels in the form of advisory groups,

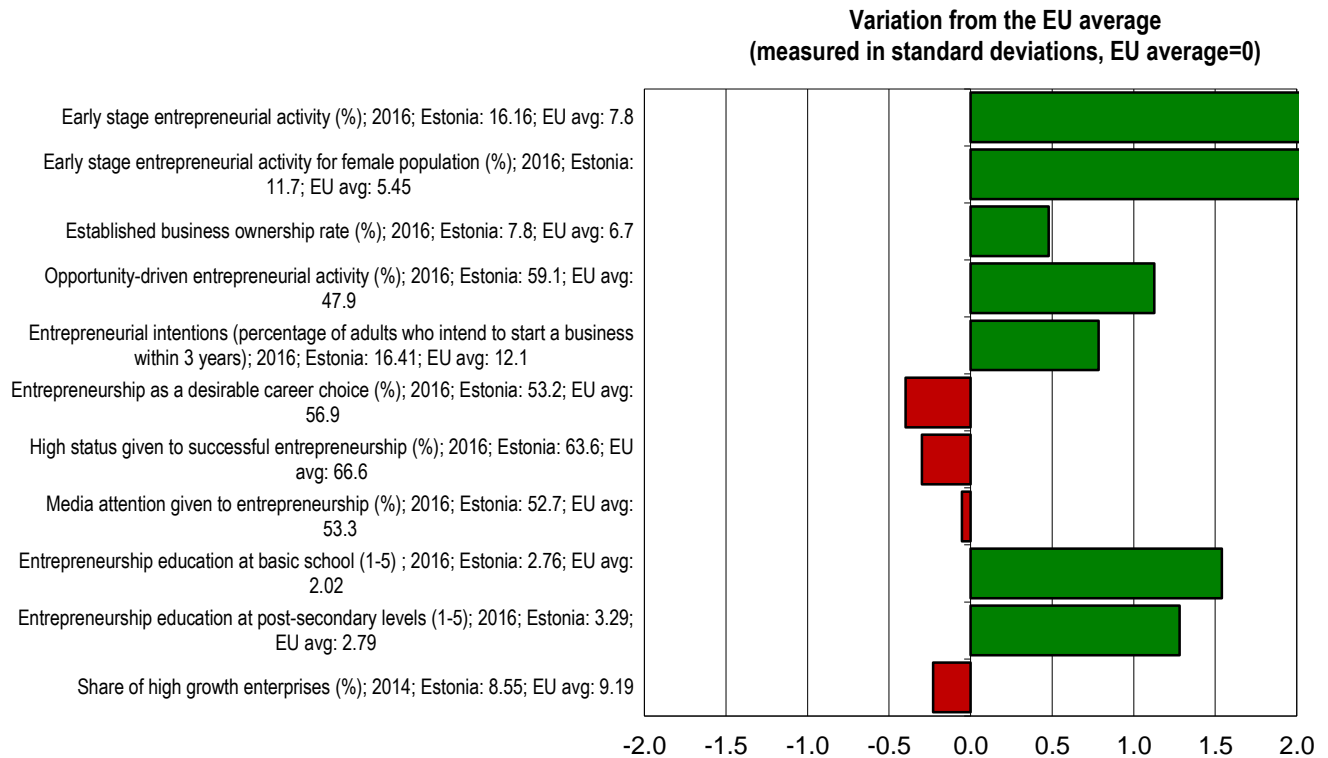
special commissions, supervising committees, etc. However, to be fully effective, these consultations should be held at an earlier stage when developing policy or legislation. More action is expected for greater awareness of the SME envoy role among the SME business community.

The most pressing need for policy action under 'Think Small First' remains the official implementation of the SME test developed in 2013-2014 by the national SME association in cooperation with the Ministry of Economic Affairs. The rationale behind the SME test is that different individual anti-bureaucracy campaigns or special task forces would no longer have to review legislation, thus reducing administrative burden and increasing cost- and time-efficiency. However, there is the general perception that it is not necessary to implement a proper SME test focusing specifically on SME needs because of the small number of large companies in absolute numbers.

There is a formal procedure for regulatory impact assessments, but it does not include an impact analysis for SMEs, except in cases of serious potential impact.

In the reference period for this fact sheet, one key measure was announced under the 'Think Small First' principle, which can have a major impact, specifically on micro-enterprises. The annual turnover threshold for compulsory VAT registration will be raised from EUR 16 000 to EUR 40 000. The amendment to VAT law was approved in 2016 but will come into effect from 1 January 2018.

3.1 Entrepreneurship



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Estonia performs well above the EU average in this area, with the second best score overall of all the EU Member States, although the trend has been downward since 2008. The percentage of early stage entrepreneurial activity has increased significantly since 2014 and is the highest in the EU. This has coincided with a lot more attention being paid to entrepreneurs in the media, a significant increase in entrepreneurial intentions and a big rise in the rate of business ownership. The growing incorporation of entrepreneurship education at basic school level and at post-secondary level (Estonia scored among the best three EU Member States) has been fuelling this strong entrepreneurship performance. Opportunity-driven entrepreneurial activity has become increasingly widespread, reaffirming entrepreneurship's role as a driver of economic growth in Estonia.

Since 2008, Estonia has introduced numerous measures to promote entrepreneurship, including entrepreneurial education in primary and secondary schools and mentoring programmes for the unemployed. There are, however, still no measures addressing specific groups, especially women and minorities, thus reducing the potential for more entrepreneurship. Business transfers also remain largely unaddressed, except for farmers. In 2013, Estonia adopted the '2014-2020 Estonian entrepreneurship growth strategy' with ambitious

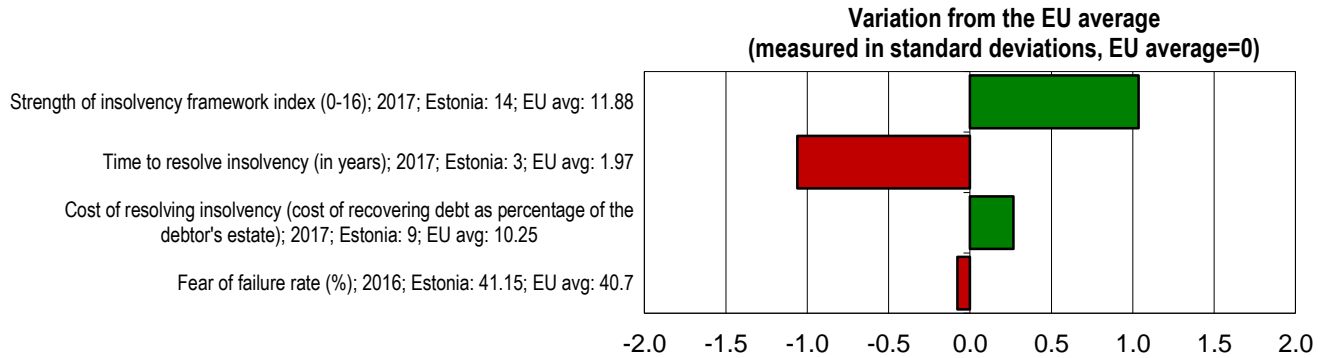
targets. In 2014, Estonia was the first country to introduce 'e-residency', which further opened the country's market and public services to foreign entrepreneurs.

For some years now Estonia has maintained and even improved its reputation as a country with a favourable entrepreneurial environment. In 2016, Estonia ranked 12th out of 190 countries in the overall ranking by the World Bank for ease of doing business and 14th for ease of starting a business¹⁸, an improvement from 2015 (16th and 15th respectively).

Start-ups and scale-ups have been one of the key policy priorities of the Estonian government in recent years. There is a dedicated public initiative in place known as Start-up Estonia whose aim is to support the Estonian start-up/scale-up ecosystem. The initiative includes training programmes for start-ups, measures to attract foreign investors to Estonia, new accelerator funds and the elimination of regulatory barriers. Start-up grants and loans and business plan competitions for young entrepreneurs are also prevalent. In 2016, a new accelerator fund was initiated to support the growth of start-ups. In the beginning of 2017, Estonia had an estimated 450 start-ups.

Like in the previous reference period, no new significant measures were adopted/implemented in the area of entrepreneurship in the reference period for this fact sheet.

3.2 'Second chance'



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Overall Estonia performs in line with the EU average, although the picture is mixed. The index for the insolvency framework, which includes the insolvency proceedings for creditors and the management of debtor's assets, indicates that Estonia has insolvency regulations that work better than in most other EU countries. However, the time to resolve insolvency remains significantly higher than the EU average which is an obstacle to future investments. The fear of failure indicator has also risen since 2012 from 34 % to 41 %.

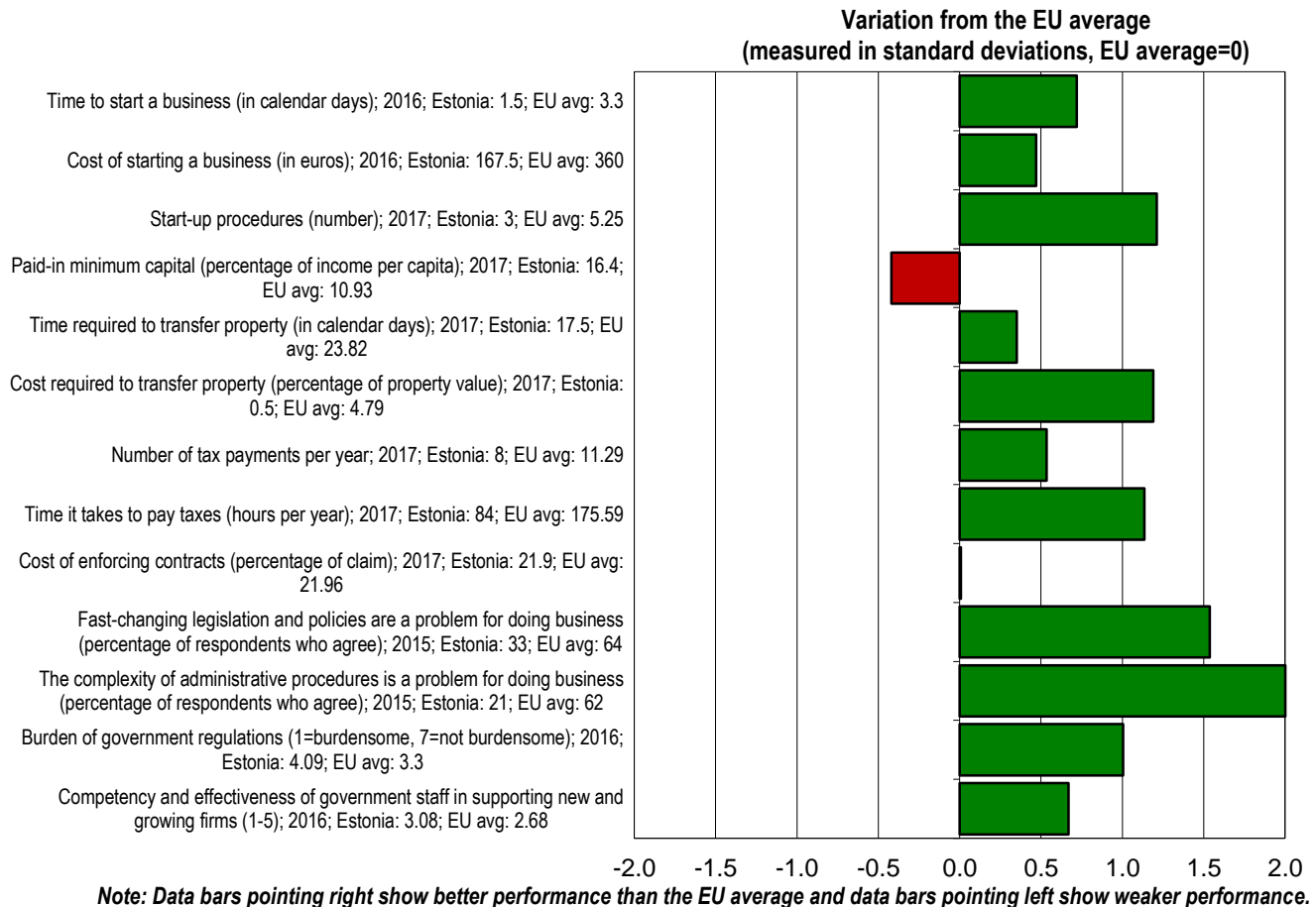
Estonia has not put forward any new policy actions under 'second chance' and there have been no improvements over the years. Estonia has no policy to facilitate a 'second chance' for

honest entrepreneurs or any robust measure with an early warning scheme to help businesses avoid failure. Bankrupt entrepreneurs are generally not perceived favourably in Estonian society, and no campaign to combat the stigma of business failure was initiated. A high number of bankruptcies also remain unresolved.

No significant additional measures were adopted or implemented in the reference period for this fact sheet.

The country's bankruptcy legislation is expected to be revised and insolvency procedures to be shortened. A special committee has been set up by the Ministry of Justice to begin the work, and consultations with business representatives have started. Options on establishing a bankruptcy ombudsman and specialised bankruptcy judges are currently being discussed.

3.3 'Responsive administration'



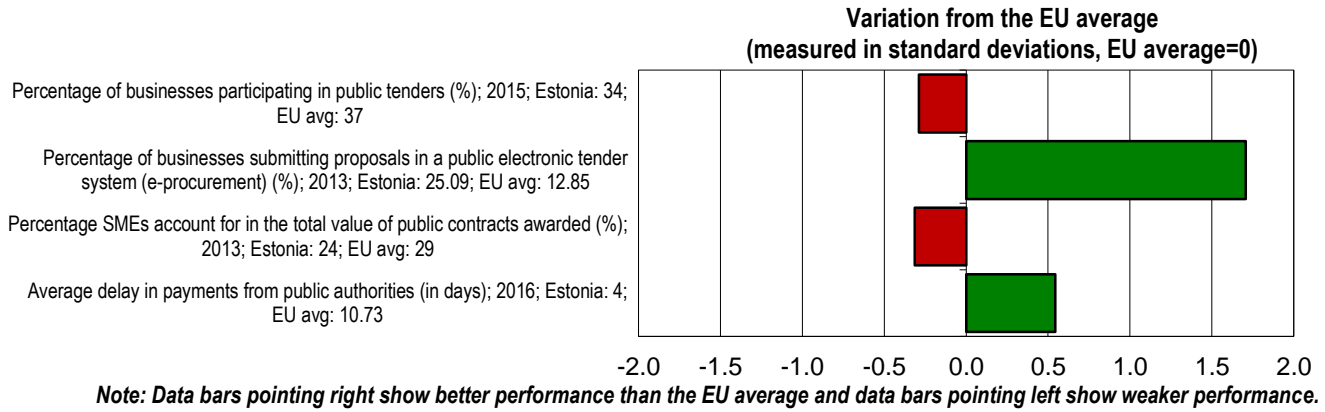
'Responsive administration' refers to public administration being responsive to the needs of SMEs. Estonia performs well above the EU average in this area, with the best score of all EU Member States. It remains Estonia's strongest area. The number of procedures required to start-up a business is the lowest among EU countries, down from 5 to 3 procedures since 2008. The relatively lower administrative burden for business in Estonia is underlined by a single indicator — the complexity of administrative burden — where Estonia scores the best. Fast changing legislation and policies are far less a problem for doing business in Estonia than in other EU Member States. At 84 hours, one of the lowest in the EU, it also takes less than half the time to pay taxes in Estonia than the EU average. Both Estonia's performance and policy actions serve as a role model for other EU Member States in nearly all dimensions in this indicator.

In line with its performance, Estonia has established multiple e-government services since 2008 — setting up an 'E-Tax Office' and a comprehensive single-point-of-contact allowing

companies to submit documents to the business register electronically, including annual reports and other administrative documents. Administrative procedures to establish a company are 100 % based on e-services. Since 2014, these e-services have been available to foreigners registered as 'e-residents' in Estonia. The advanced development and availability of e-services has significantly reduced the administrative burden. The databases of different public administrations are connected by the secure data exchange system 'X-Road' so that there is less duplicated reporting and administrative burden on companies. The 'Zero-Bureaucracy project', initiated in 2015, is ongoing and continues to reduce administrative burdens on businesses.

With few issues left unaddressed or measures pending, no significant additional measures were adopted or implemented under 'responsive administration' during the reference period — though the existing systems are being constantly improved and further developed.

3.4 State aid & public procurement

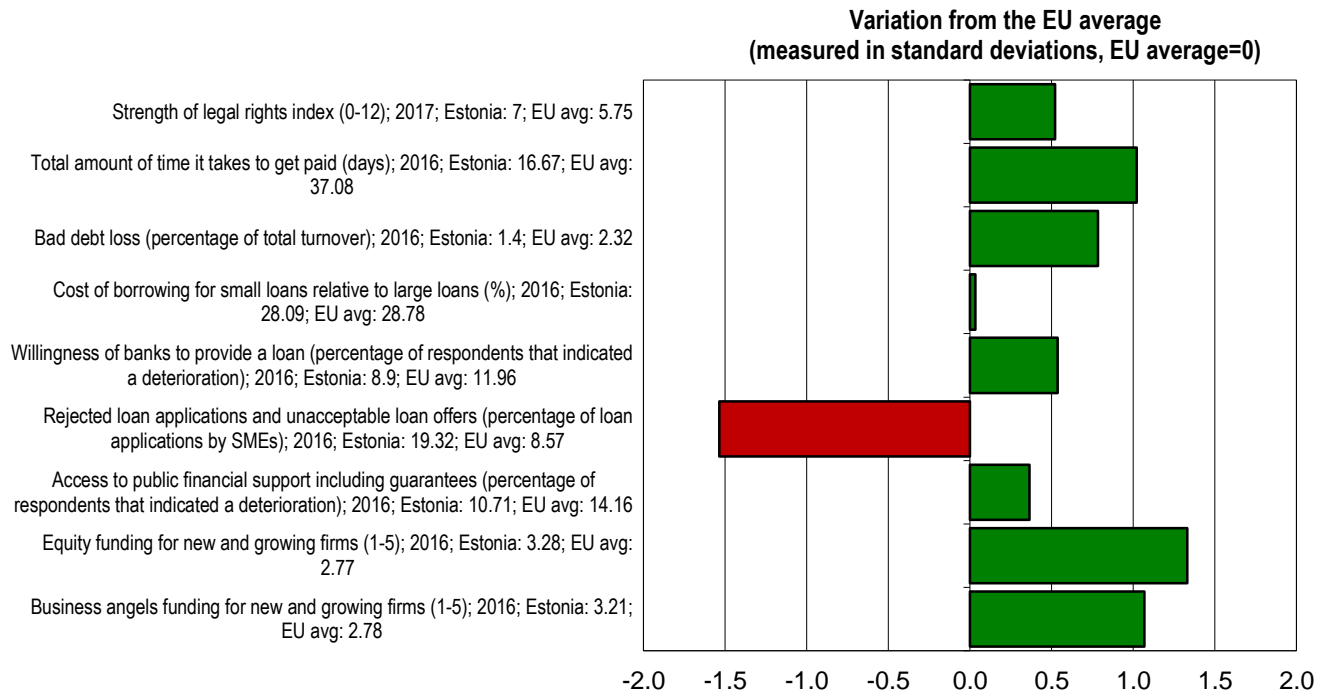


Estonia performs in line with the EU average in this area. However, compared to last year's performance, the delay in payments from public authorities has slightly deteriorated from 3 to 4 days. Despite this, the average delay is 6 days shorter than the EU average and should not deter SMEs from participating in public procurement.

In line with its advanced e-government services, the e-procurement system is highly developed and deployed. Training and guidance to use e-procurement are also available. The Estonian e-procurement portal was launched in 2011 and the Estonian Public Procurement Act encourages the division of tenders into lots.

During the reference period for this fact sheet, the most significant development was the launch of the previously announced 'Support to innovative public procurement' (*Innovatsiooni edendavate hangete toetamine*). This measure is described in detail under the 'skills & innovation' principle. In addition, in early 2017, the Parliament of Estonia started hearings on amendments to the Public Procurement Law. SME stakeholders are being consulted in this process, and the amendments are expected to improve access to public tenders which currently appear over-sized or just not adequately adapted to SMEs. The amendments are also meant to better protect sub-contractors in the construction sector from late payments and non-payments. Estonia is late in transposing the new public procurement directive, and so far, no national transposition measures have been conceived.

3.5 Access to finance



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Estonia performs well above the EU average in access to finance, with the second best score overall among the EU Member States. Access to finance is where Estonia has made the most progress since 2008 thanks to the positive development in a couple of indicators: the availability of business angels and equity funding for new and growing firms is well above the EU average and is continuing on a positive trend. In addition, the number of days it takes for a company to get its invoices paid by customers, other businesses or public authorities has consistently improved since 2010. However, according to a recent report by a credit rating company, late payments have increasingly become a problem for small companies¹⁹.

On the negative side, the percentage of loan applications rejected or with unacceptable conditions has increased substantially since 2014, and the situation is now worse for Estonian borrowers than in the EU on average. This is worrying since bank loans are the second most important source of financing for SMEs in Estonia.

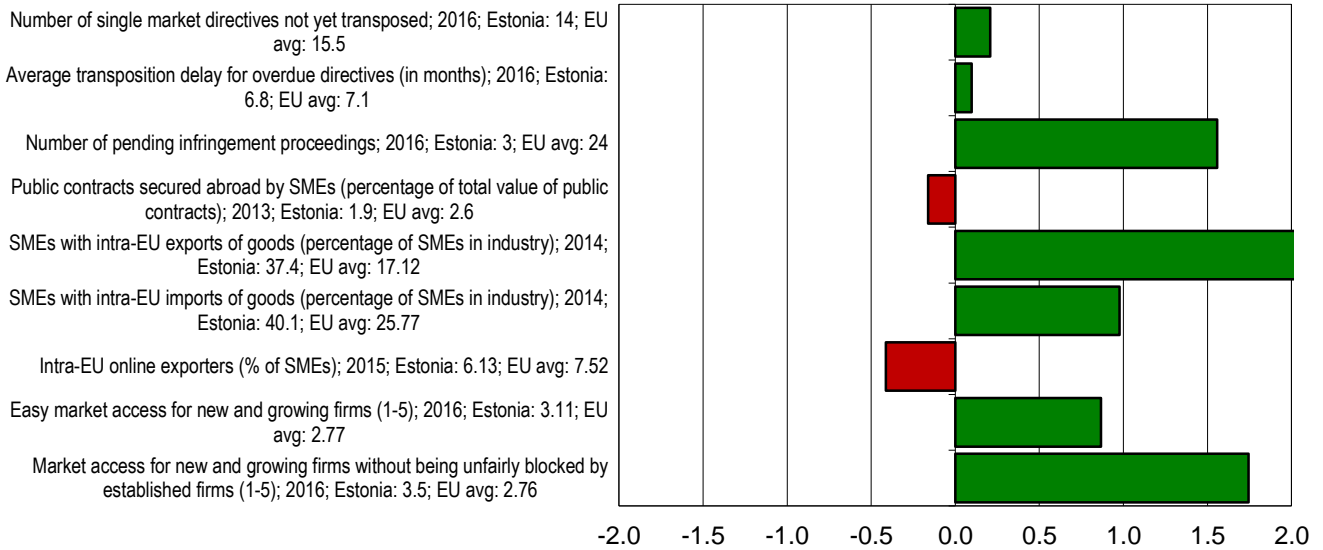
Most of the SBA recommendations related to this SBA principle are formally in place. Numerous measures have been introduced since 2008. Since 2014, a clear emphasis has been on shifting support measures from grants to state-backed loans and guarantees. To address the lack of affordable micro-credit schemes, a financial instrument has been designed under the

2014-2020 Rural Development Plan of Estonia. Loans from EUR 5 000-100 000 are provided with subsidised interest rates, reduced collateral requirements and an extended interest-free period. Some measures have been made available for a venture capital market for start-ups and scale-ups in Estonia co-financed by the Estonian government and international financial institutions: the Baltic Innovation Fund was established in 2013 and the EstFund in March 2016.

During the reference period, the key new measure under access to finance was the launch of the 'Open call for long-term accelerator funds' (*Pikaajaliste ärikiirendiprogrammide elluviimine kasvuvaldkondades*) in May 2016. The measure aims to provide business accelerator services and to make venture capital more available for start-ups. The fund targets investor teams of highly qualified serial entrepreneurs and early stage investors. The selected teams of investors will set up early stage investment funds and provide the business accelerator services, including training, advisory services, mentoring, temporary facilities, etc. for start-ups. The final beneficiaries will be 40-80 start-ups/scale-ups with high-growth potential. The selected start-ups will also be able to attract equity investments for the implementation of their business plans. With a total budget of EUR 11 760 000, the programme is co-financed by the European Regional Development Fund and the Estonian Development Fund, and implemented by KredEx.

3.6 Single market

Variation from the EU average
(measured in standard deviations, EU average=0)



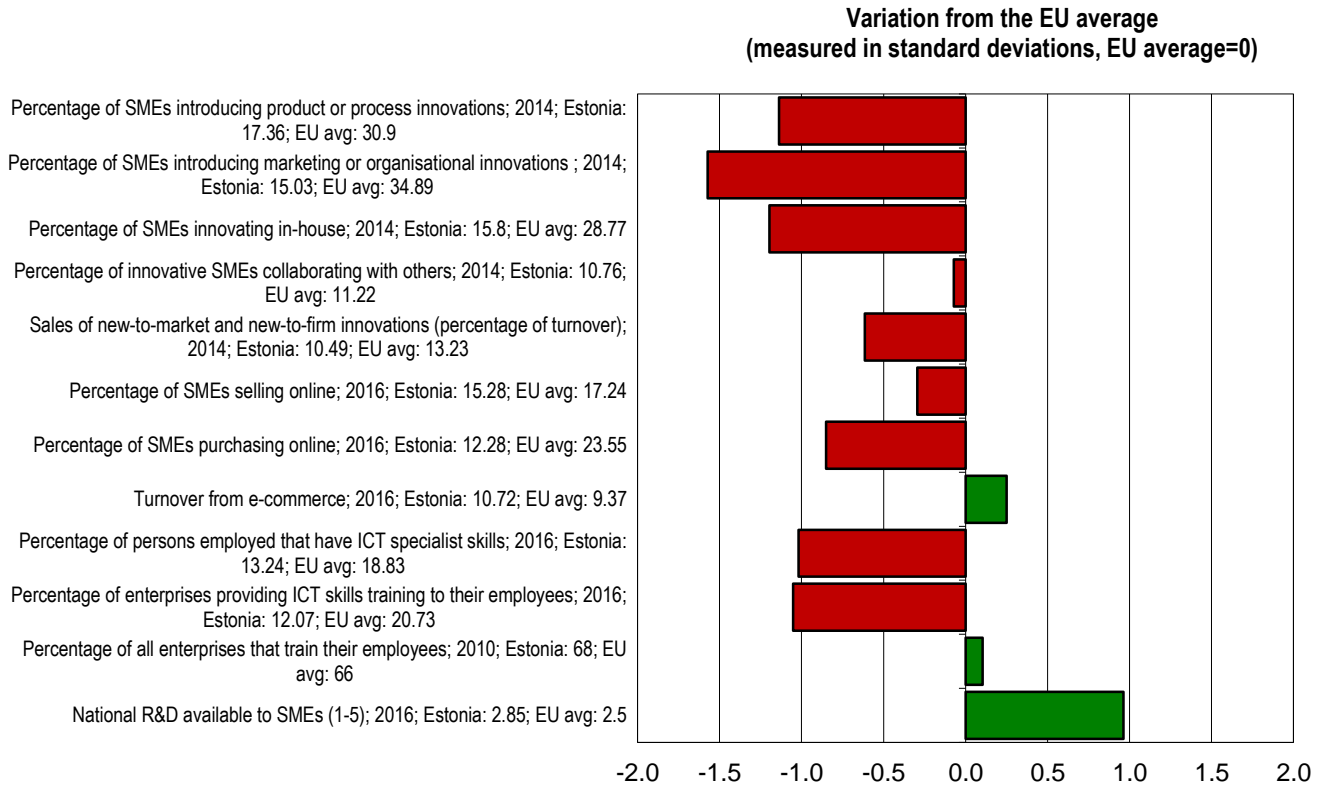
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Estonia continues to perform above the EU average in this area and has improved since 2008. However, it is now taking more and more time to transpose single market directives in Estonia. The number of outstanding single market directives more than doubled — from 6 in 2015 to 14 in 2016. The average time for transposition has continued to rise since 2014 (from 4.5 months in 2014 to 6.8 months in 2016)²⁰. More importantly on the positive side, the percentage of Estonian SMEs exporting to other EU Member States is the highest in the EU, although their performance is lower when it comes to exporting online. Start-ups or new and growing firms in Estonia can also access the Single Market easily and with considerably fewer blockades by established firms than in most EU countries.

Altogether, most of the SBA recommendations under this area have been introduced early on. The infrastructure and services are in place for supporting cross-border activities, including electronic tools such as the Single Point of Contact, an EU benchmark for performance, the SOLVIT centre, and the ‘internal market information system’. Companies in Estonia can also benefit from the services offered by the Estonian Centre for Standardisation. But it is also essential for more SMEs to become aware of these services and make regular use of them, in particular the SOLVIT Centre – ‘Solutions to problems with your EU rights’, the internal market information system and information on accessing patents and trademarks.

No significant additional measures were adopted or implemented in 2016 and first quarter of 2017 in this area.

3.7 Skills & innovation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Estonia scores below the EU average on skills & innovation. The clear downward trend since 2008 gives cause for concern as the country dropped from an overall average performance last year to a below average performance.

Estonia has one of the lowest percentages of persons employed with ICT specialist skills, and there is little, if any, sign of real improvement. This confirms the need for the private sector to invest a lot more in the provision of ICT skills with appropriate incentives to support this. A few measures were launched to improve ICT skills such as the ValiIT initiative (Choose-ICT), a programme retraining adults to become software developers. But the percentage of SMEs introducing product, process, marketing or organisational innovations and innovating in-house is well below the EU average. On the positive side, the share of SMEs selling online has improved. Turnover from e-commerce also improved and is now in line with the EU average. Importantly national R&D available for SMEs scores much better than the EU average.

Despite the underperformance in skills & innovation in Estonia since 2008, a variety of measures have been introduced ranging from employee training, advisory business services, and research and development grants, to innovation vouchers and support for

developing and launching new and innovative products or services. While most of the support measures are targeted at high-growth, high-tech innovative companies, support for applied research and product development is also noticeably in line with Estonia's 'smart specialisation' priority areas. Estonia also adopted the 'OSKA System' — a national coordination system for the monitoring and forecasting of labour market needs and supporting cooperation between employers and providers of education and training.

During the reference period, three new major measures were implemented:

- The internet-based platform 'ADAPTER' was established to make cooperation and communication easier between SMEs and R&D institutions. The platform is a joint project of six major public universities in Estonia, funded by the European Regional Development Fund under the 'Astra' programme. It has a total budget of EUR 700 000 and is managed by the Estonian Ministry of Education and Science.
- 'Support for innovative public procurement' –(*Innovatsiooni edendavate hangete toetamine*) was introduced to support innovation through demand-side 'pre-commercial' public procurement. The measure, with a EUR 20 million budget, aims to develop the capability and skills of public sector

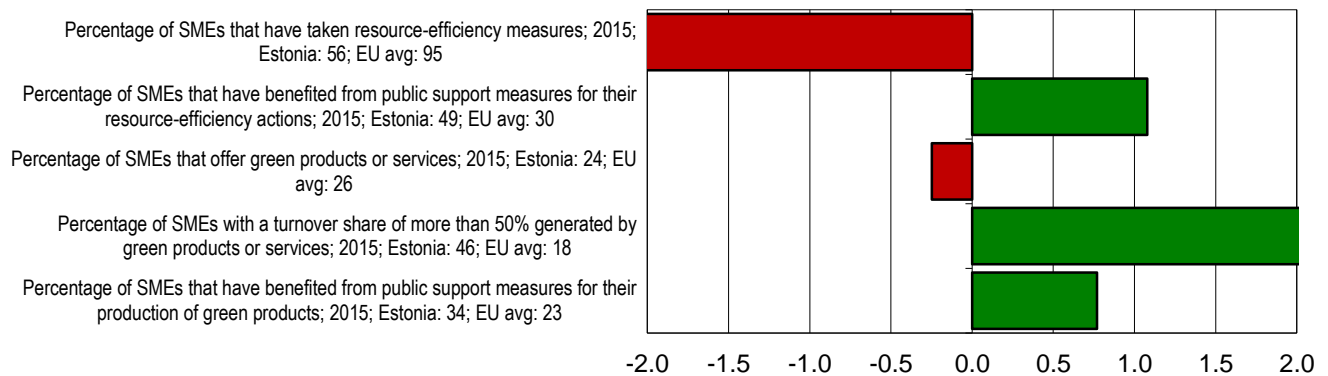
bodies to buy innovative solutions and to develop the capability and skills of R&D suppliers to participate in such tenders. The first pilot call for applications was launched in 2016, and 3 out of 7 submitted applications were funded. There will be two calls for applications per year between 2017 and 2020.

- A support scheme for applied research in smart specialisation growth areas NUTIKAS was launched in 2016.

It aims to contribute to growth in the R&D-intensive sectors of the Estonian economy. The funding supports companies in commissioning applied research or product development projects from universities or research institutions. Furthermore, it is expected to help increase the capability of R&D institutions to carry out the applied research needed for business in smart specialisation growth areas.

3.8 Environment

**Variation from the EU average
(measured in standard deviations, EU average=0)**



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

On the SBA environment principle, Estonia performs in line with the EU average. However, the percentage of SMEs that have taken up resource-efficiency measures is the lowest in the EU, despite the fact that nearly 50 % of SMEs in Estonia benefited from public support measures for their resource-efficiency actions. In contrast, the share of SMEs whose main income is generated by green products or services is the highest in the EU.

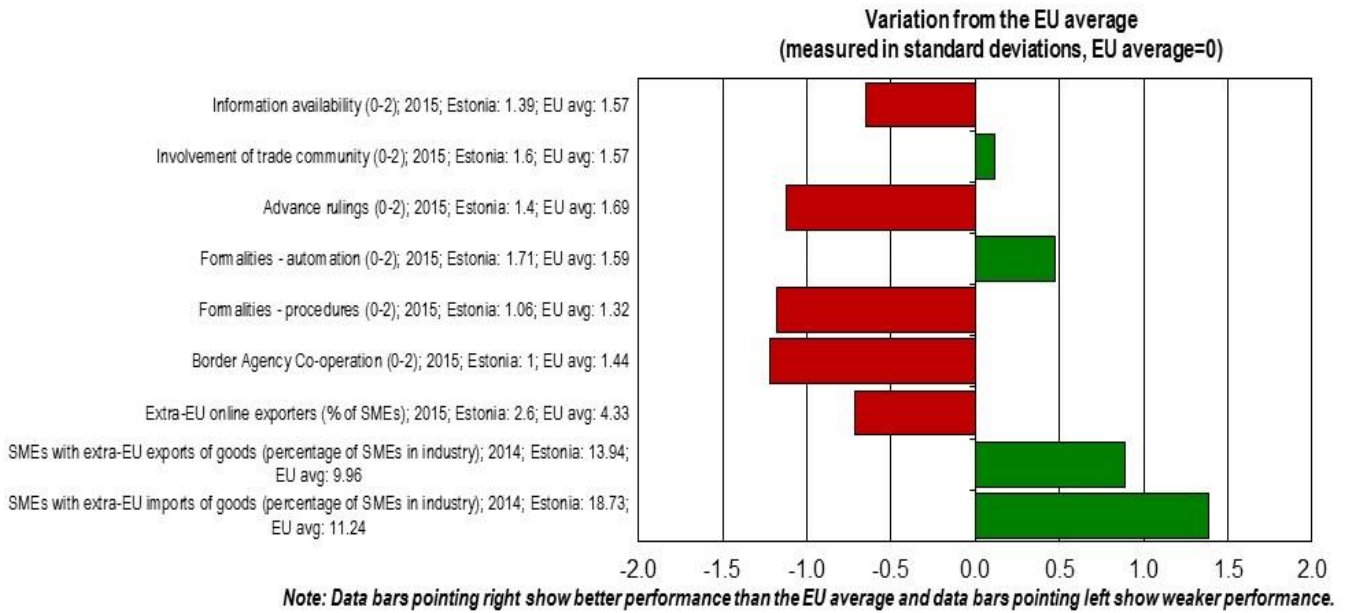
There has been considerable policy action in this area in recent years — such as the ‘Green Industry Innovation Estonia’ and support grants for agricultural, processing and non-farming rural businesses to use renewable energy, organic raw materials or eco-friendly processes. ‘The Environmental Investment Centre’ (*Keskkonnainvesteeringute Keskuse* — KIK) also supports eco-friendly business. Major outstanding gaps include the lack of green public procurement, incentives for the EU Eco-Management and Audit Scheme (EMAS) certification and support

to better ensure compliance with environmental and energy regulations.

During the reference period, a major new measure was implemented:

- The launch of the new multi-annual ‘Resource efficiency measure’ (*Ettevõtete ressursitõhususe meede*) in September 2016 marks significant progress. The measure consists of two main sub-measures: 1) grants for resource audits (up to EUR 7 500); 2) grants for investments in modern technology to improve energy and resource efficiency (EUR 100 000 – 2 000 000). The measure targets directly the environmental challenges faced by manufacturing companies in five industrial sectors: mining, food, wood, paper and mineral materials. It was implemented by the ‘Environmental Investment Centre’ and has a total budget of EUR 109 million.

3.9 Internationalisation



In this area, Estonia scores below the EU average. Formality procedures, internal border agency cooperation, information availability, extra-online exports and the use of advanced rulings are relatively problematic and need to be improved. Nevertheless, Estonia continues to be among the EU's frontrunners when it comes to the trade performance of SMEs outside the EU.

It should be noted that substantial changes have been made in the methodology for this principle in this year's edition, with all World Bank indicators (time and cost to export and import) replaced by six OECD trade-facilitation indicators (following a scale on which 0 is the worst and 2 is the best score)²¹.

Therefore, the overall performance in this area cannot be compared to last year's.

Estonia has implemented many policy measures in support of internationalisation, such as support for clusters, export loans and export credit insurance, and numerous export-related training programmes for SMEs. Schemes to attract foreign investors to Estonia have been introduced. Most of the measures benefit all businesses, irrespective of size.

A new version of the foreign investment and export action plan, 'Made in Estonia', first adopted in 2009 and updated in 2012 and 2014, is in the pipeline.



4. Interesting initiative

Below is an example of an initiative from Estonia to show what governments can do to support SMEs:

'Support for innovative public procurement' (*Innovatsiooni edendavate hangete toetamine*)

Public procurement has a strong influence on economic development and growth, and innovation can be supported by demand-side instruments such as 'pre-commercial' public procurement of innovative solutions. This radically differs from supply-side instruments, such as subsidies and grants. As a major customer, the public sector can play a central role in creating and developing the market for innovative goods and services. Government can serve as a reputable reference for the suppliers of these solutions. The procurement of innovative solutions can also improve society and public services.

The Estonian scheme to support innovation through public procurement consists of upfront public grants and aims to develop the capability and skills of public sector bodies to buy innovative solutions and of R&D suppliers to participate. The scheme requires that innovative services or goods purchased under the scheme have clear potential for commercialisation demonstrated by market research. The owners are recommended to make the intellectual property created during the project available for broader use while retaining the ownership. The criteria for selecting innovation suppliers are based on the total economic benefits as opposed to the lowest price. The maximum amount of support is EUR 500 000 per application, with the maximum rate of support at 50 % of eligible costs. Grants are complemented by support for the development of knowledge, training and skills. The measure is funded from the European Regional Development Fund with a total budget of EUR 20 million. The first pilot call for applications was launched in 2016 and 3 out of 7 submitted applications were funded. There will be two calls for applications per year between 2017 and 2020. The examples of approved projects include: the development of an information system to support decision-making in personal healthcare; the development of methods and prototypes from local materials for road construction in Estonia; and the development of an integrated management system for street lighting. While the scope of this measure is limited and the expected number of final SME beneficiaries is just 20, the measure can lay the foundation for future good practices.

References:

<http://www.eas.ee/teenus/innovatsiooni-edendavate-hangete-toetamine/>

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

² Bank of Estonia: <http://www.eestipank.ee/press/ulo-kaasik-kiiremaks-kasvuks-tuleb-anda-ettevotjatele-kindlust-tuleviku-ees-02032017>

³ Statistics Estonia, press release, 09.02.2017, <http://www.stat.ee/dokumendid/541605>, last accessed 23.03.2017

⁴ ibid.

⁵ Statistics Estonia database, http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=FT06&path=../Databas/ECONOMY/11FOREIGN_TRADE/03FOREIGN_TRADE_SINCE_2004/&lang=1, last accessed 22.03.2017

⁶ Bank of Estonia statistics: http://statistika.eestipank.ee/?lng=et#listMenu/1971/treeMenu/MAKSEBIL_JA_INVPOS/145/436, last accessed 22.03.2017

⁷ E-Estonia, <https://e-estonia.com/e-residents/about/>, last accessed 22.03.2017

⁸ Statistics Estonia Statistical Yearbook of Estonia 2016, p. 333, http://www.stat.ee/publication-2016_statistical-yearbook-of-estonia-2016, last accessed 22.03.2017

⁹ Bank of Estonia statistics, <http://statistika.eestipank.ee/?lng=et#listMenu/2053/treeMenu/MAJANDUSKOOND>, last accessed 22.03.2017

¹⁰ Statistics Estonia database, R5015 NOTARISED PURCHASE-SALE CONTRACTS by Year, Quarter, Type of purchase-sale contract and Indicator, <http://www.stat.ee>, last accessed 22.03.2017.

¹¹ Centre of Registers and Information Systems, data on firm registrations and de-registrations from E-Business Register, <http://www.rik.ee/et/e-ariregister/statistika>, last accessed 22.03.2017.

¹² Comments provided by the Bureau of Business Register, Centre of Registers and Information Systems of Estonia, www.rik.ee, last accessed 22.03.2017.

¹³ Persons employed and self-employed persons refer to persons aged 15-64. Source of the data is Eurostat. To calculate the 2016 value, quarterly data from the LFS series was averaged over all quarters for which information was available on 20.03.2017.

¹⁴ In line with the Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a 3-year period. The share of high-growth enterprises is the number of high growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 10.04.2017). Due to data availability on Eurostat, the data on high-growth firms refers to the 'business economy', which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

¹⁵ The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

¹⁶ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

¹⁷ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2017 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

¹⁸ <http://www.doingbusiness.org/rankings>

¹⁹ <http://majandus24.postimees.ee/4233329/krediidiinfo-juht-oskamatu-vaikeettevotja-on-hadaks-koigile>, last accessed 18/09/2017.

²⁰ Data for 2016 was compiled in December 2016, while the 2015 data is from May 2015.

²¹ Please see Moisé, E., T. Orliac and P. Minor (2011), 'Trade Facilitation Indicators: The Impact on Trade Costs', OECD Trade Policy Papers, No 118, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kg6nk654hmr-en> for more information on the methodology applied to construct the indicators; further information is available at: <http://www.oecd.org/trade/facilitation/indicators.htm>, last accessed 06/07/2017.