Entrepreneurship and SME Development in Estonia.

Urve Venesaar

Tallinn School of Economics and Business Administration,
Tallinn University of Technology
Kopli Str. 101,
11712 Tallinn, Estonia.
Email: urve.venesaar@tseba.ttu.ee

Abstract

Development of new member states can be characterized as a distinctive experience that started 18 years ago and where entrepreneurship has been assessed as a driving force of decentralisation, economic restructuring and movement in the direction of market economy. For example, as a result of the growth of SME sector, the share of employment in SMEs achieved nearly 80% of total employment in the business sector by 2005. As countries vary markedly in a way they regulate and provide an environment for enterprise, Estonia is an interesting case with its notably open small economy, extremely liberal economic policy and the ability to stay on the economic growth trend for more than ten years before economic decline last year.

The paper is based on empirical evidence drawn from three large-scale telephone surveys undertaken in 2002, 2005 and 2008. The analysis of the above-mentioned databases is supplemented by a review of secondary data from other studies undertaken in Estonia. A short overview shows continuous development of SME sector and the importance of its contribution to the economy, but also changes in the structure of enterprises by size and activity. Based on these changes and changes in business environment entrepreneurship policy in Estonia have been changed towards supporting the competitiveness of enterprises. Although considerable progress has been made in institutionalisation of entrepreneurship policy, there is a need to offer more actively services which can better consider the needs of newly established firms and entrepreneurs in regions with the aim to strengthen the role of entrepreneurship in economic development.

Introduction

In Estonia, development of enterprise sector has been assessed in general as a positive factor in economic development since the early years of transition, based on the fast growth of enterprises and the role of SMEs in generation of employment (Smallbone et al, 1996; Smallbone et al, 1999; Venesaar, 1999; Estonia country…, 2002; Smallbone & Venesaar, 2004; Smallbone, Venesaar & Xheneti, 2007). A number of studies have been carried out in Estonia about regional development of small enterprises, which have evaluated differences in socio-economic development across regions, sources of regional problems, analysed possible policy strategy choices, use of support from foreign donors (Regional…, 1996; Estonia Country…, 2002; Raagmaa, 1996; Kudela & Venesaar, 1999). In those studies, a kind of success from establishing a support system and participation of foreign assistance in this has been mentioned. The studies about manufacturing SMEs in transition countries and the influence of internationalisation have helped to find out the contribution of SMEs to economic development, characteristics in firms' behaviour and their support needs for future development (Smallbone et al., 1996, 1999). In recent years, some studies have been made to assess the results of measures implemented as entrepreneurship support policies and to identify more precisely entrepreneurs' demands in the

country as a whole as well as in different regions (e.g. Jürgenson et al, 2003; Eesti…, 2005, Eesti... 2008). The survey on business demography undertaken by Statistics Estonia has added a new information about the births and deaths of enterprises.

Despite of changes of the number of enterprises in the country, a number of indicators are referring to the need to raise entrepreneurial initiative in Estonia. For example, the number of enterprises per 1000 inhabitants is still below the respective indicator in the European Union (Estonia Country, 2002). A study of the attitudes toward employment in entrepreneurship of the Estonian population and of the related problems indicated that 29% of people prefer to work as entrepreneurs, which is much lower than in the European Union on average (47%) (EOS Gallup, 2003). The share of people who at the time of the survey were thinking about setting up an enterprise or were already doing this was much smaller in Estonia (11%) than in the USA (25%), or in the European Union (15%) (Entrepreneurial.. , 2004). A recent study among bachelor program graduates showed their considerable interest in entrepreneurship, although because of different reasons most of them experienced low motivation for starting a business after graduation (Kolbre et al., 2005). This indicates the need for measures to raise entrepreneurial initiative in Estonia. For that reason it is needful to better understand and analyse what are those factors that could support increase of entrepreneurial initiative of the population and what are the main constraints hindering new business start-ups and their survival rates of Estonian enterprises in the markets. For eliminating these constraints it would be needful to find appropriate policy measures to support the development of entrepreneurship in the country.

The paper is based on empirical evidence drawn from three large-scale telephone surveys undertaken in 2002, 2005 and 2008. Although the analysis shows that in general entrepreneurship activity during the years between three studies has grown and business environment has become more favourable, start-up activities and their survival rates in different groups of enterprises are influenced differently by internal as well as external factors. Therefore, in the paper, after short overview of business development trends, an emphasis is given to the analysis of factors influencing the development of enterprises (e.g. enabling and constraining factors). The analysis of the above-mentioned databases is supplemented by a review of secondary data from other studies undertaken in Estonia. Based on the results of analysis the paper will conclude with a summary of the implications of the analysis for entrepreneurship and SME policy in Estonia.

2. Data and Methodology

The analysis of SME contribution in the economic development in 1994-2005 is based on the data of the National Tax and Customs Board and Statistics Estonia. The Tax and Customs Board's database provides information about all registered and active enterprises and the self-employed. Enterprises and self-employed are here considered active if their declared yearly turnover is bigger than 0. Differences in declaring the turnover between companies and self-employed lead to a lack of comparable data, therefore self-employed are excluded from the analysis in terms of enterprise sector's structure, employment, turnover and export.

The analysis of factors that influence the development of new firms and existing enterprises is based on empirical evidence drawn from three large-scale telephone surveys undertaken in 2002, 2005 and 2008. The main policy implications are drawn about the support needs of SMEs with the aim of achieving the growth of new firm birth rates and their increasing contribution to regional economic development of the country.

In 2007 Statistics Estonia participated in the pilot project Business Demography on

Employer Enterprises co-ordinated by the Statistical Office of the European Communities (Eurostat). The aim of the project was to change the enterprises' scope, including only enterprises with paid employees. As a result, the business demography data were limited to employer enterprises (at least one employee). In addition, statistics on high-growth enterprises and on "gazelles", i.e. high-growth enterprises that are up to 5 years old were produced.

3. SME Sector and its Role in Economic Development

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. In 2006 there were 47,490 active companies and more than 51,000 active self-employed persons in Estonia. The total number of registered enterprises and self-employed at the end of 2006 was nearly 106,000. To make a distinction in statistics between the registered and operating enterprises hereafter non-trading businesses are excluded from the analysis. More than half of the active self-employed were also employees receiving salary; this percentage has remained stable during last years.

The structure of the SME sector by size class points out that micro enterprises hold the main share comprising 81% of total number of enterprises (Table 1). Small enterprises make up 16% of all enterprises. The average yearly 8% increase in total stock of enterprises during the period of 1999–2004 was due to the increase of micro enterprises. While the number of small and medium-sized enterprises remained stable, the number of micro enterprises increased 60% accompanied by a 10% decrease of large companies. Proportions between the number of companies in the size categories have not changed notably over the last years and most Estonian companies are still micro-enterprises with up to nine employees.

Table 1. Distribution of active enterprises by size groups in Estonia in 1994 – 2006, %

Year	Size groups by employees				
	0-9	10-49	50-249	> 250	Total
1994	66.60	25.60	6.50	1.30	100
1995	70.70	23.10	5.40	0.80	100
1996	71.30	23.10	4.90	0.70	100
1997	72.20	22.60	4.60	0.70	100
1998	72.30	22.70	4.40	0.60	100
1999	73.00	22.10	4.30	0.60	100
2000	76.00	19.80	3.70	0.60	100
2001	77.50	18.60	3.40	0.50	100
2002	78.50	17.80	3.30	0.50	100
2003	79.70	16.70	3.20	0.40	100
2004	81.00	15.70	2.90	0.40	100
2005	82.00	15.00	2.8	0.40	100
2006	82.50	14.50	2.8	0.40	100

Source: Estonian Tax and Customs Board

However, Estonian SME sector's structure differs from the European average and new EU member states. Small enterprises (with 10-49 employees) account for a higher share in Estonia than in other European countries (e.g. 5% in Slovenia and 6.5% in EU19). This can be explained

due to the relatively low entrepreneurial activity in the country, but indicating the continuous growth potential of micro enterprise sector in Estonia (e.g. up to 93% microenterprises in EU19) and on the other hand, the need for governments to implement appropriate measures aimed to raise the entrepreneurial activity.

During the period under study 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.

At the end of 2004, Estonian SME sector employed 339,303 people making up 78% of total enterprise sector employment (Table 2). Micro enterprises accounted for 21% of employment, small enterprises 30% and medium-sized enterprises 28%. The proportion of total employment in micro enterprises has increased considerably (93%) during 1994–2004, whilst that in large enterprises has declined (33%). Similar changes are typical to all post-socialist countries as a result of the privatization process dividing large state-owned enterprises into smaller private companies complemented by the growth of entrepreneurial activity. This has led to a rapid increase in the creation of micro enterprises, which offer jobs to those made redundant during the restructuring of large enterprises.

Table 2. Employment in enterprises by enterprise size group in Estonia in 1994-2004, %

Year	Size groups by employees				
	0-9	**10-49**	**50-249**	**> 250**	**Total**
1994	10,70	25,10	30,10	34,10	100,00
1995	14,10	27,20	30,30	28,40	100,00
1996	14,90	28,60	28,90	27,60	100,00
1997	15,90	29,40	28,10	26,60	100,00
1998	16,50	30,50	27,70	25,40	100,00
1999	17,40	29,70	26,90	26,00	100,00
2000	18,70	29,80	26,20	25,40	100,00
2001	19,30	29,90	26,60	24,20	100,00
2002	19,40	29,60	26,70	24,30	100,00
2003	20,30	29,60	27,30	22,90	100,00
2004	20,70	29,30	26,80	23,10	100,00

Source: Estonian Tax and Customs Board

The average enterprise size in 19 European countries was 6 employees, which is similar also in Hungary, Slovakia and Slovenia. In the Baltic countries this figure is higher than the European average – 11 in Estonia and Lithuania and 15 in Latvia,[1] indicating a continuous growth perspective in the micro enterprise sector in the Baltic countries.

Operations in both domestic and foreign markets have been growing steadily. The net turnover of Estonian businesses has more than tripled over the past decade and exceeds 500 billion

[1] Observatory of European SMEs, 2002/2, European Commission

Estonian kroons today. SMEs together accounted for 80% of the enterprise sector turnover. The export turnover of Estonian enterprises has increased constantly (3.5 times), the most substantial increase was experienced by medium-sized enterprises (average annual growth 20%). The share of exports in total turnover has increased in SMEs, especially in micro enterprises (from 14 to 28%) and decreased in large enterprises (from 35 to 23%).

Large companies contributed about 20% of total exports of Estonia whilst they accounted only 0.4% of total number of enterprises. Estonian SME sector accounts for 80% of total exports. This is considerably higher than that of the counterparts in other new member states[2]. This can be explained with higher concentration of the sector's exports in these countries as a few large manufacturing enterprises account for a majority of exports. 15% of Estonian companies export. But the total growth in the number of enterprises has been bigger than the increase of exporters. Such development may be due to two main reasons. First, the expansions in the share of micro enterprises which obviously are less capable to start export activities. Secondly, sectors where the enterprise birth rate is high – wholesale, construction, business services, hotels and restaurants – are mainly oriented to the domestic market.

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 states[4]. 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.

The contribution of SMEs to the generation of Gross Domestic Product in 2003 was 73%, of which the share of micro enterprises was 18%, small enterprises 25% and medium-sized enterprises 30%. The SME contribution to GDP has grown by 5 percentage points during the period 1999-2001 and remained stable in 2002-2003.

The rapid growth of value added created in micro enterprises slowed down in 2003, which was mainly due to diminishing growth in profits and payroll expenses. The value added in industrial processing and transport and communications was the highest among medium and large companies, while retail and wholesale micro and small enterprises create the highest value added. In the construction sector small and medium sized companies had higher value added than other size groups.

Entrepreneurial activity across regions in Estonia indicates differences in entrepreneurship environment and possibilities, especially between the capital city Tallinn and other counties, as regional economic development has been strongly polarised to the territory around the capital city. Tallinn is the business centre of Estonia. With its close to 400,000 population (29% of the Estonian population) the capital city is the heart of the national economy. The share of Tallinn and the surrounding Harju county in the total number of operating enterprises has been gradually rising. Big differences can be found in the economic structure of counties. One of the reasons for this is definitely the legacy of planned economy but also different paths of development in the transition period and the firm demography among sectors and regions.

[2] For example, SME sector accounts for 18,5% in Hungary, 24,1% in Slovakia, 33% in Slovenia, 34% in Czech Republic and 41,8% in Lithuania. Source: Small and medium sized enterprises in countries in transition, UNECE 2006.

Business Demography on Employer Enterprises[3]

In 2004, there were 3,598 newly born employer enterprises. They accounted for 10.4% of the stock of active employer enterprises in Estonia. Birth rates were the highest in financial services and real estate, renting and business activities — 16.1% and 12.8%, respectively. The lowest birth rate was in electricity, gas and water supply — 3.2%. In 2005, there were 4,614 newly born employer enterprises. They accounted for 12.7% of the stock of active employer enterprises in Estonia and it was more than in the previous period. The highest birth rate was in construction activity — 17.1%. The construction activity had the biggest birth rate increase — up to 6%. The only branch of economy was mining, where the employer enterprise birth rate had decreased. The average number of persons employed in newly born employer enterprises in 2004 was 2.4. Nearly 90% newly born employer enterprises start their activity with less than 5 employees and only 3.3% start with more than 10 employees.

The average number of persons employed in newly born employer enterprises in 2005 was 2.8. The proportion of newly born employer enterprises by employment size classes was relatively equal with the previous year.

There were 3,377 dead employer enterprises in 2004, which account for 9.7% of all active employer enterprises. The lowest enterprise death rate was for mining and water and health and social enterprises — from 2.9% to 3.4%. Death rates were the highest in financial services and distributive trades — above 11%.

The average number of persons employed in dead employer enterprises in 2004 was 3.7. Dead employer enterprises with less than 5 employees accounted for the highest proportion of jobs created by all died employer enterprises — 82.6%. Only 6.5% of dead employer enterprises finished their activity with at least 10 employees. Close to 83% of the employer enterprises that were born in 2004 survived until 2005. Among the NACE sections, the highest survival rate for employer enterprises was for health and social work — 92.3%. This contrasted with the lowest survival rate for a number of mining enterprises — nearly 33.3%.

High-growth enterprise is an enterprise with average annualised growth, which is greater than 20% per annum, over a three-year period, and with more than 10 employees at the beginning of the observation period. The growth can be measured by the number of employees or by turnover. In the period 2002–2005 there were 1,165 high-growth enterprises measured in turnover and 534 high-growth enterprises measured in employment in Estonia. The biggest proportions of both high-growth populations were in manufacturing and trades activity. The lowest rate was in education. There were 337 employer enterprises which belong to both high-growth populations.

A gazelle is a high-growth enterprise that is up to 5 years old. In 2000 and 2001 there were 7,883 enterprises born and only 377 of them (4.8%) had more than 10 employees in the birth year. It appeared that among them there were 122 gazelles measured in turnover and 76 gazelles measured in employment. The distribution of the proportion of gazelles by kind of activity is similar to that of high growth enterprises — the biggest percentage of both distributions was in manufacturing and trades activities. There were no gazelles in electricity, gas and water supply enterprises. There were 51 gazelles measured by both criteria — by turnover and by employment.

[3] This analysis is based on the pilot project Business Demography on Employer Enterprises survey undertaken in 2007 by Statistics Estonia and co-ordinated by the Statistical Office of the European Communities (Eurostat).

4. Development of entrepreneurship policy in Estonia

During the first years of independence the economic policy of Estonia was oriented to minimal intervention. In 1994, State Support of Enterprise Act was passed, which set criteria for enterprises eligible for support: up to 80 employees (this was in use until 2000). And created a legal basis for SME support, but it took some years before it was followed by more serious state budget allocations. But it is already possible to speak about SME policy in that period (Kuura, 2006). In 1993-1996 a network of business development centers were created mostly with the help of foreign funds[4], but also some local support was added. The starting point for coordinated public sector support was in 1997 when the regional Development Agency was established to strengthen the support network of SMEs in counties and for crediting regional programmes. In 1997-2000 some other programmes were introduced although not all measures were directed to SMEs. The support structure was reorganized towards centralization in 2000 and since then a basis for coordinated national SME policy in Estonia was created.

First National Policy for the development of small and medium-sized enterprises in Estonia was written for the period 2002-2006, which recognised that SMEs may suffer from size-related market failures in comparison with larger firms and that SMEs have the potential of contributing to job generation and to regional development. The stated aims of SME policy were: to promote entrepreneurship; to create new jobs; to improve the competitiveness of Estonian businesses (Enterprising Estonia .., 2004). According to the plan the main priority activities for SME policy at the time of Estonia's accession to the EU were:

- The development of human resources
- Improved access to finance
- The development of business support infrastructure
- Improved access to business information
- A reduction in administrative burdens

Enterprise Estonia maintains a web page (government to business portal)[5] to provide information about business start-ups, public support measures, co-operation partners and information about different business fields and a variety of services. The portal has become the main communication channel between the public sector and the entrepreneurs in the web environment. The portal has become a platform for forum: "Entrepreneurship Development in Estonia" to improve access to information and to have better communication between business community and the business support and umbrella organisations. It is a valuable instrument to collect information about the barriers to entrepreneurship and feedback to public programmes.

The principles of a new "The Estonian Entrepreneurship Policy for 2007-2013" (Eesti…, 2006) are based on various studies conducted during 2004-2005 and compared with the previous policy document (2002-2006) it is a step forward in the development of entrepreneurship and entrepreneurial initiative through a favourable entrepreneurship environment and appropriate support schemes. Entrepreneurship policy has established four purposes:

- Strong enterprise culture
- Legal environment favourable to entrepreneurship
- SMEs access to finance
- Capability for SME growth and exports.

[4] The main supporters were a Swedish organisation NUTEK, EU Phare Programme and "Job and Society" from Finland.
[5] www.aktiva.ee

Activities aimed at promoting entrepreneurship culture are needed to achieve three purposes: people are entrepreneurial and want to become entrepreneurs; people have the skills and knowledge necessary for doing business; positive attitudes towards entrepreneurs and entrepreneurship in society. Activities in the following spheres are undertaken to achieve the purposes: entrepreneurship education in schools; life-long learning of the entrepreneur; raising the awareness of entrepreneurship and innovation throughout the society; developing the ability of enterprises to co-operate.

It is possible to develop an entrepreneurship and entrepreneurial initiative supporting legal environment with the following sub-purposes in mind: low administrative burden for enterprises; dynamic start-up and exit market; legal environment favouring fair competition; a single contact point for enterprises to communicate with the state. In order to achieve the purposes activities shall be performed in the following spheres: application of the regulatory impact analysis on the legislation concerning entrepreneurship; wider public dialogue in the process of policy-making; single contact point.

Three objectives have been established in the development of capacities and possibilities of capital involvement of small and medium-sized enterprises, at which to direct activities: enterprises have the necessary skills and opportunities to obtain finance from the capital markets; Estonian investors invest in Estonian SMEs; capital for financing innovation and rapid growth are accessible to SMEs. Activities in the following spheres are undertaken through developing the skills and knowledge of new and growing SMEs to enhance their abilities to obtain own and external capital; reducing the asymmetry of information through investor education and matchmaking; creation of the national venture capital fund, development of loan guarantee programs.

So as the Estonian enterprises could realise all of their growth potential and perform successfully also in international markets, efforts shall be made to achieve the following aims: enterprises have the finance and facilities to develop and bring up to date the skills and knowledge of their employees; information on entrepreneurship and innovation are accessible to enterprises; the management of enterprises is efficient and effective; enterprises have the skills and knowledge necessary for export activities. The following shall be done with that purpose: support for the training of employees, developing the market of training services; dissemination of modern effective management concepts, management training; information dissemination, consulting and awareness raising; support to new exporters; export guarantees.

Against the background of the new entrepreneurship policy we should emphasise the growing role of educational system, particularly that of universities, in creating entrepreneurship culture and particularly in providing high-quality entrepreneurship education on all levels of education, as well as in the development of advanced education, raising awareness of entrepreneurship and innovation among enterprise managers, opinion leaders in the society and the public.

5. Managers' opinions about the constraints of newly established firms

The overall opinion is that indirect support to business development prevailed through macroeconomic stabilisation and improvement of legal external environment during a first decade of private sector development in Estonia (Venesaar, 1999; Estonia Country.., 2002). Since 2000, the aim of SME policy has become increasingly linked to improving the competitiveness of firms in domestic and foreign markets and by today a working support

system has been developed, based on the entrepreneurship support principles used in the European Union. Some studies have been made to ask entrepreneurs' opinions about the impact of entrepreneurship services on setting up new enterprises and entrepreneurship development (Jürgenson et al, 2003; Eesti …, 2005; Eesti..., 2008).

The following analysis is dedicated to the opinions of managers of newly established firms (young firms operating up to 2 years) on the basis of three surveys (2002, 2005, 2008). We try to identify differences in the opinions of start-up enterprises' about which problems and difficulties they seem to encounter more frequently than old enterprises. Not surprisingly, the results of the analysis showed that finding financial resources and markets were more frequently mentioned as factors constraining the development of enterprises by the managers of newly established firms than by managers of older enterprises. The need to improve financing opportunities for SMEs is one of the priorities identified in the SME policy document. The surveys revealed that only a minority of Estonian SMEs received external finance at start-up. This means that the vast majority of business start-ups in Estonia are still reliant on self-financing, in the context where the scope of accumulated or inherited wealth is smaller than in most of the developed countries.

When respondents were asked about the type of information they need to overcome difficulties, then the managers of newly established enterprises mentioned more frequently (in both surveys) the information about markets, regulations and standards in foreign markets, and about foreign partners. As for the reasons for not using consultancy, they explained that consultancy has not been necessary (92% in 2002; 83% in 2005; 84% in 2008) or they did not find appropriate consultancy. The need for consultancy was assessed as needful twice more frequently by managers of newly established firms than by older ones (Table 3). Among the concrete types of consultancy they mentioned more often a need for consultancy about accounting, taxation, sales and marketing, business planning and financial sources. It is noticeable, that a need for consultancy has arisen much in 2005 and 2008 compared with the first survey, which may indicate increasing competitiveness in the markets as well as awareness of managers about the availability of consultancy.

Table 3. What do you think, does your enterprise need advice or consultancy from outside?

Does your enterprise need advice?	**Age of firms**		
	Over 5 years	**3-5 years**	**Up to 2 years**
Definitely yes	7,7	7,6	**14,8**
Probably yes	19,5	20,5	15,8
Probably not	39,8	39,7	36,8
Definitely not	26,6	26,6	25,2
Don't know	6,3	5,5	7,4
What kind of advice is needful?			
Accounting	21,8	26,6	**25,3**
Taxation	26,0	24,8	**32,7**
Sales and marketing	38,5	40,8	**50,6**
ICT technology	14,7	15,2	7,2
Exporting	8,6	13,3	5,2
Legal advice	43,3	42,2	**23,0**
Business planning	36,4	36,3	**54,7**
Financial sources	22,6	23,7	**24,1**
Quality requirements	20,9	18,1	18,6
Other	10,8	10,1	6,8
Don't know	2,5	0,6	4,0

Source: (Eesti väikese…, 2005); authors calculations.

In addition on the growth of awareness of entrepreneurs, the activity of using the offered services by starting companies has also grown. For example the starting subsidy has been used by ca 5% and training subsidy by 7% of respondents, that is still quite a low level. This implies to a necessity to increase the impact of entrepreneurship policy, especially to support the regions and fields where the level of establishing new companies is low.

A new Entrepreneurship Policy Programme is a step forward in the development of entrepreneurship and entrepreneurial initiative through a favourable entrepreneurship environment and appropriate support schemes. A lot of measures on that document are directed towards solving the abovementioned problems and increasing the activeness of establishing new companies. In order to increase the competitiveness of Estonian enterprises in foreign markets, additional guarantees are available for managing export risks.

6. The overview of measures offered to enterprises by the government[6]

Based on the economic survey the year 2007 was a turning point of the economic cycle for Estonian economy. Economy, having grown vigorously by the support of loan money inflow, real estate boom, raising wages and domestic consumption, started to show signs of cooling and this trend continued in 2008. In the coming years, an answer should be found to the question how to raise productivity which has not grown as fast as wages, and how to improve the export capacity of our companies in order to restore balanced development. In order to accelerate the adjustment process and to support the innovation capacity of enterprises, the Ministry of Economic Affairs and Communications with its partners has developed central national strategies, including comprehensive measures for solving long-term and more urgent problems.

The main sector-specific development plans to improve competitiveness of enterprises are: • Estonian Enterprise Policy 2007-2013[7], • Estonian Research and Development and Innovation Strategy „Knowledge-based Estonia" 2007-2013[8],
Estonian national tourism development plan for years 2007-2013[9]. A large part of the measures described in these development plans is funded from the Structural Funds of the EU. The main principles and objectives upon using Structural Funds to boost the competitiveness of enterprises are decribed in the Operational Programme for the Development of Economic Environment 2007-2013[10]. Although each of the above development plans has its more specific focus, allocation of funds is based on the following wider principles:

- Taking into account the level of openness and the current development phase of our economy, **internationalisation** and **innovation** are the central topics;
- The **development ability of managers and employees** is one of the preconditions for raising productivity;
- **Cooperation, sharing of knowledge and joint utilisation of resources**;
- **Foreign investors** as a source of knowledge should be valued and used in introduction of new technologies.

The most important agencies implementing activities focused on innovation and growth and intermediaries of support funds are Enterprise Estonia (EE)[11] and the Credit and Export

[6] These measures are based on the Economic Survey of Estonia 2007. Ministry of Economic Affairs and Communications. Ministry of Finance (pp72-74)
[7] http://www.mkm.ee/failid/Estonian_Enter prise_Policy_2007_2013.pdf
[8] http://www.hm.ee/index.php?popup=dow nload&id=7669
[9] https://www.riigiteataja.ee/ert/act.jsp?id=1 2755212 (in Estonian)
[10] http://www.struktuurifondid.ee/public/maj.keskond_ENG.pdf
[11] www.eas.ee

Guarantee Fund (KREDEX)[12], both in the area of government of the Ministry of Economic Affairs and Communications. The most important activities of strategic development, supported by the state in the coming years, are (Survey of Estonia 2007):

- support to exporting enterprises,
- support to development of products and services and improvement of productivity,
- support to development of knowledge and skills of managers and employees,
- support to enterprises with high growth potential,
- promotion of cooperation,
- involvement of foreign investments and follow-up services,
- development of tourism

The state offers various information services, training events and seminars to companies still searching for export opportunities and to those already exporting. Individual companies and companies planning joint activities are offered opportunities to visit or participate in fairs. To those enterprises that have developed a long-term export plan, support to implement the plan's various stages is offered. Export credit risks can be insured by a state export guarantee, enabling companies to offer better payment conditions to buyers and to enter new markets.

In the field of support to development of products and improvement of productivity, involvement of highly qualified workforce and investments in new technologies is supported. Entrepreneurs and universities can get support to develop new products, services, technologies and product development processes or to improve the present ones. From this year it is possible to apply for support to find and recruit a new employee for carrying out an innovation project. Industrial enterprises can introduce new technological solutions thanks to technology investment support. In addition, companies may use a state's loan or lease guarantee to involve capital and equity loans.

Enterprises are offered support to train their managers and employees and to use consulting services. EE with its partners offers trainings and cooperation seminars and the opportunity to participate in a mentor programme to various target groups. Enterprise diagnostics can help to identify bottlenecks in the future development of companies. Management quality is being developed, comprising training of managers, distribution of new management practices and helping SMEs to use better-informed management. www.aktiva.ee and the information centre of EE offer a wide range of information to enterprises. In addition, there exist activities related to raising the awareness about entrepreneurship and innovation among the general public.

The state offers start-up and growth support and start-up loan guarantees to implement business ideas at various development stages. Incubators and science and technology parks are supported to ensure the best development opportunities for the participating companies. To alleviate lack of capital of enterprises in science and technology parks, the Development Fund offers risk capital investments into the starting companies.

In order to promote cooperation in strategic research among research institutions and enterprises, financial support to technological development centres is an important measure. Development of knowledge and skills and support structures related to knowledge and technology transfer in Estonian R&D institutions is supported under the framework of SPINNO programme. Cluster development programme helps to implements joint activities of various economic fields. Innovation vouchers will be offered to promote cooperation among SMEs and R&D institutions.

[12] www.kredex.ee

The foreign representations of EE in nine countries have an important role in involving foreign investments. The activities to be implemented comprise investor awareness and contact events, arrangement of seminars, compiling and distribution of information materials. It is important to focus on involving foreign investments of high value added in technology development centres, science and technology parks and clusters, and to pay attention to professional consultancy and follow-up services.

The activities focused on the tourist sector involve introduction of Estonia as a tourist destination and increasing the demand for Estonian tourist products in international target markets, but also raising awareness about domestic tourism and promotion of domestic holidays. Support is offered to the development and marketing of tourist products. A lot of attention is paid to promote product quality and ensuring availability of tourist information

Conclusion

Development of entrepreneurship has been a dynamic process in Estonia influenced considerably by changes in domestic business environment as well as the external influences, which is typical for a small country with open economy. Development of entrepreneurship through SME development and regional firm formation has supported economic development in Estonia, the growth in employment and decrease in unemployment. However, based on the firm birth rates by activities and counties, considerable variations can be found, which allows suggesting differences in entrepreneurship environment and possibilities. This allows assuming that the regulation influencing the establishment and activity of enterprises, other policy measures or external influences during the period under study has to be strengthened if to encourage higher birth rates and survival of enterprises.

The results of the analysis showed that finding financial resources and markets for newly established forms were more frequently mentioned as factors constraining the development of these enterprises. The managers of newly established enterprises mentioned more frequently about the difficulties in finding information about markets, regulations and standards in foreign markets, and about foreign partners. The need for consultancy was assessed as needful twice more frequently by managers of newly established firms than by managers of older ones. Although considerable progress has been made in institutionalisation of entrepreneurship policy, there is a need to offer more actively services which can better consider the needs of newly established firms and entrepreneurs in regions with the aim to strengthen the role of entrepreneurship in economic development in Estonia

Connected with the changes in economic development and in order to accelerate the adjustment process and to support the innovation capacity of enterprises, the Ministry of Economic Affairs and Communications with its partners has developed central national strategies, including comprehensive measures for solving long-term and more urgent problems.

References

Eesti ettevõtluspoliitika 2007-2013. Tööversioon (2005). Majandus- ja Kommunikatsiooniministeerium, Tallinn.

Eesti väikese ja keskmise suurusega ettevõtete arengusuundumused. (2005). Saar Poll OÜ uuringu aruanne, Tallinn.

Eesti väikese ja keskmise suurusega ettevõtete arengusuundumused (2008). Saar Poll OÜ uuringu aruanne, Tallinn.

Entrepreneurial Initiative of Estonian Population (results of a population survey) (2004). Estonian Institute of Economic Research, Tallinn (in Estonian).

Estonia Country Assessment (2002) OECD. Forum for Enterprise Development. Baltic Regional Programme. May, 2002.

EOS Gallup Europe (2003) FLASH EB No 146 'Entrepreneurship' (10-23/09/2003) - Report

Jürgenson, A., A. Oks, R. Selliov and K. Varno (2003). Development Problems and State Support Measures of SMEs in Estonia: Final Report, University of Tartu.

Kolbre, E., Piliste, T., Venesaar, U. (2005). Entrepreneurship Education and Entrepreneurial Initiative in Estonia. IntEnt 2005 Conference Proceedings, Surrey University, London, 10.13 July, 2005.

Kudela J.-J., Venesaar U. (1999). An evaluation of Phare SME Programmes. Estonia. Draft Report, European Commission, Brussels;

Kuura, A. Entrepreneurship Policy in Estonia (2006). Munich Personal RePEc Archive, MPRA Paper No. 676.

Raagmaa G. (1996). 'Majanduskeskkonna globaalsed muutused, Eesti regionaalne areng ja väikeettevõtlus selle kujundajana', Avatud Hariduse Liit, Tartu.

Regional SME Study (1996). Estonian Ministry of Economic Affairs, Tallinn;

Smallbone D., Piasecki B., Rogut A., Venesaar U., Rumpis L., Budreikaite D. 1996. *'The Survival, Growth and Support Needs of Manufacturing SMEs in Poland and the Baltic States'.* Final Report under Phare ACE Programme, Centre for Enterprise & Economic Development Research, Middlesex University, London.

Smallbone D., Piasecki B., Venesaar U., Todorov K. , Labrianidis L. (1999). Internationalisation and SME Development in Transition Economies: An International Comparison In: Journal of Small Business and Enterprise Development, Henry Stewart Publications, Vol. 5, No 4, pp. 363-375;

Smallbone D., Venesaar U. (2004). The Strenghts and Weaknesses of Estonian SMEs in the Context of an Enlarged Europe. In: Managing Complexity an Change in SMEs. RENT XVIII Conference Programme and Abstracts, 24-26 November 2004, Coopenhagen, Denmark, Holmen Centertryk, p. 172 (Full paper in CD).

Smallbone, D., Venesaar, U., Xheneti, M. (2007). Entrepreneurship and SME Policy Development in Estonia. Paper presented at the ICSB World Conference, Turku, Finland, June 2007

Venesaar U. (1999). Development of SME Policy in Estonia and the Role of Government, Paper to the 22nd ISBA National Small Firms Policy and Research Conference: "Small Firms: European Strategies, Growth and Development", 17-19th November, 1999, Leeds, UK, pp. 1395-1411.