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## ENTREPRENEURSHIP POLICY IN ESTONIA

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### Abstract

The main task of this article is to explore the entrepreneurship policy in Estonia. The idea proceeds from the book by Lundström and Stevenson (2001)<sup>1</sup>, in which the authors describe, analyse and discuss the development of entrepreneurship policy in ten economies — six EU Member States<sup>2</sup> and four members of APEC. In some respects, this article strives to be a “missing chapter” in the aforementioned book concerning entrepreneurship policy in Estonia. It should be considered as an attempt to apply their approach to a country without a long history in SME development. The article starts with an overview of the theoretical background and goes on to examine entrepreneurship policy (or even economic policy) in Estonia. Examination of SME / entrepreneurship policy documents shows that Estonia is moving towards entrepreneurship policy, but with certain minor reservations. The current Estonian entrepreneurship policy may be regarded as a combination of an extension to SME policy and a holistic policy, the trend of development is towards the latter. The “old” (effective in 2002–2006) policy was almost SME policy and has been mentioned as a basis in the new (for 2007–2013) policy document, which is being prepared now. The policy structures followed the vertical model in the period 1996–2000 (and also earlier), but now Estonia is moving towards a horizontal or multi-ministerial model.

### Introduction: Entrepreneurship and Entrepreneurship Policy

In order to speak about entrepreneurship policy, we should look behind the two words — entrepreneurship and policy, but in-depth look into these broad phenomena seems impossible for the scope of a conference paper.

The term entrepreneurship is widely used nowadays, standing for a phenomenon and/or for an academic discipline (field of research and studies). In some cases it is useful (or even necessary) to distinguish between them. When we look at characterisations of entrepreneurship in academic literature, some authors use word(ing)s like eclectic (Verheul et al 2001) or lacking a conceptual framework (Shane & Venkataraman 2000), etc. Certainly, this does not sound good for a “solid” academic discipline, but it is very disputable for a phenomenon, because entrepreneurship (or entrepreneurial behaviour) is probably as old as mankind. Nevertheless, there is still no unambiguous definition of entrepreneurship. Of course, such a statement could be criticized, especially by those scholars who have proposed a definition for entrepreneurship.

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<sup>1</sup> "Patterns and Trends in Entrepreneurship / SME Policy and Practice in Ten Economies - Volume 3 of the Entrepreneurship Policy for the Future Series", issued by the Swedish Foundation for Small Business Research.

<sup>2</sup> EU stands for the European Union and APEC for the Asia-Pacific Economic Cooperation.

Because defining of entrepreneurship has been challenging for many scholars, there are many definitions. So the problem does not consist in the lack of definitions. As Davidsson (2003) wrote, “the literature is full of definitions of entrepreneurship, which differ along a number of dimensions ...”. This means that there is still a long way to go to a common definition and (more importantly) to a common understanding of entrepreneurship. Speaking about entrepreneurship, some authors like Acs (2005), Busenitz et al (2003) and Richtermeyer (2003) have used the phrase “emerging field” (or “themes”). So far we cannot speak about a consistent, universal theory in entrepreneurship; it consists of several different disciplines, such as psychology, sociology, regional science, economics, etc, and there is no common theoretical framework to synthesize these different approaches. (Virtanen 1997). Considering this, it is not surprising that there is still no unambiguous definition.

At the time, some scholars are more positive about entrepreneurship. For instance, Richtermeyer (2003) points out that entrepreneurship is continuously evolving and also expanding. Davidsson (2003) perceives progress in entrepreneurship research, relying mainly on important works in entrepreneurship, which increasingly appear in highly respected, mainstream journals. Behind this he sees conceptual development that attracts attention. Davidsson also refers to compiled handbooks, providing the field with more of a common body of knowledge (ibid). Thus we can conclude that the “emerging field” is promising, as Shane and Venkataraman (2000) pronounced.

The other word is policy. Avoiding a long (and probably not as fruitful) discussion about policy (or even economic policy) in general, it will be useful to go directly to entrepreneurship policy and start from its roots.

Audretsch (2002) has stated that (new) entrepreneurship policy has grown out of traditional SME<sup>3</sup> policy, but is different from its precursor. He sees two important distinctions in current entrepreneurship policy: Firstly, it focuses on enabling, rather than constraining of economic actors. The second is new orientation, which differs from traditional SME policy. This is caused by the changed role of entrepreneurship in society. During the post-World War II era, the importance of entrepreneurship seemed to be fading, but nowadays entrepreneurship has been recognised as the driving engine of economic and social development. Audretsch (ibid) also brings out two fundamental shifts in entrepreneurship policy. The first one is the policy focus. The “old” constraint approach was sensible as long as the main issue was restraining of large firms in possession of considerable market power. The new policy approach focuses on enabling the creation and commercialisation of knowledge. Such policies usually stimulate research and development (R&D), venture capital and new-firm start-ups. The second is the locus of these enabling policies. Downsizing of government agencies in charge of regulation of business has often been interpreted as the eclipse of government intervention. At the same time, a broad spectrum of enabling policy initiatives, presented during the last decade, fall outside the jurisdiction of traditional regulatory agencies.

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<sup>3</sup> SME stands for small and medium enterprises (or entrepreneurship) or small business

Lundström and Stevenson (2001) also speak about evolution from SME policy to entrepreneurship policy and refer to facts that some governments have focused on traditional SME policy for a longer period of time than others, policy development has progressed through a series of waves, and the move to entrepreneurship policy is quite recent. They (*ibid*) also provide a historical overview on SME policies. In 1953 the USA passed a specific Small Business Act and founded the Small Business Administration (SBA). In 1954 the Taiwan government formulated its initial SME policy to address the financing needs of SMEs, but an institution (SME Guidance Office) was founded in 1966 — thus much later than the SBA in USA. In 1954 the Netherlands Government published its first White Paper on SMEs.

Comparing the chronology presented above to another — courses in the field of SME and entrepreneurship — we can observe concurrences, which are probably not incidental. In 1953 Peter Drucker started his first Entrepreneurship and Innovation course at New York University; in 1954 the first MBA small business course was offered at Stanford (eWeb 2006). The same was also stated by Cooper (1998). This leads to a logic conclusion: entrepreneurship policy is as old as entrepreneurship, but two reservations should be made here. First, this concerns the academic discipline, not the phenomenon; and second, concerning the given period, we should talk about SME policy, not about entrepreneurship policy.

As seen above, entrepreneurship policy is a relatively new phenomenon. According to Audretsch (2002), the main difference between (traditional) SME policies and entrepreneurship policies is that the latter have a much broader focus. SME policies are mostly targeted at existing enterprises and the instruments are designed to promote their viability; entrepreneurship policies include also potential entrepreneurs. It means that entrepreneurship policies are more process-oriented but SME policies are focused on organisational units on the enterprise-level. Entrepreneurship policies encompass multiple organisation units, ranging from individuals to enterprises, as well as clusters or networks, which might involve a sectoral and/or spatial dimension — a city or region, or even country. At the same time Audretsch (*ibid*) considers it important to emphasise that SME policy still remains at the core of entrepreneurship policy, but the latter tends to be more systematic.

Proceeding from this, Audretsch (2002) points out another distinguishing aspect. Traditional SME policies were implemented by ministries or specific government agencies. Such institutions exist in (almost) every country and by now there are well established policy instruments to promote SMEs, but there are no institutions for the promotion of entrepreneurship. Entrepreneurship policies cover a broad spectrum and belong to a number of ministries/agencies, from education to immigration, trade, etc. Thus, no agency exists (and probably cannot exist) for entrepreneurship policy.

Audretsch (2002) also mentions a common problem in SME policy (and research) — it is the actual definition of SMEs, which varies considerably across countries, ranging from enterprises with less than 500 employees in some (the most developed) countries (such as the USA and Canada) to less than 250 employees in the EU or to 50 employees in some developing countries.

Lundström and Stevenson (2001) also note that up to the early 1990s, the SME development was usually driven by acute problems in economic development, such as high unemployment, downsizing of large corporations, etc. During the past decade the situation has stabilised, but there is a growing recognition that dynamism, innovation and entrepreneurship are central elements in transition to an “entrepreneurial” economy. The concept of “entrepreneurial economy” has been taken from Audretsch and Thurik (2004<sup>4</sup>) and is a contradistinction from “managed” (or traditional) economy. The differences between these two types of economies have been presented in Table 1.

**Table 1 Differences between entrepreneurial and managed economy**

Category	Managed economy	Entrepreneurial economy
Underlying forces	Globalisation Continuity Jobs <u>or</u> high wages	Localisation Change Jobs <u>and</u> high wages
External environment	Stability Specialisation Homogeneity	Turbulence Diversity Heterogeneity
How firms function	Control Firm transaction Competition <u>or</u> cooperation Scale	Motivation Market exchange Competition <u>and</u> cooperation <sup>5</sup> Flexibility
Government policy	Constraining Output targeting National locus Incumbent	Enabling Input targeting Local locus Entrepreneurial

Source: Audretsch and Thurik 2004

For comparison, Pages et al (2003) provide a (somewhat wider) approach to four waves of regional economic development thinking. Comparing these approaches we can notice a general concordance, or at least no serious dissention. As Audretsch and Thurik (2004) do not (at least not clearly) set the time boundaries for their periods<sup>6</sup>, the main difference seems to be in the timescale. This is mainly because of the first wave, which is jutting forth. Another open issue is about the 30–40-year-long “grey” period between the first and the second waves. At the same time we can notice that the essential content of the second and the third waves (and in some respect also the first wave) resembles the attributes of managed economy.

<sup>4</sup> Lundström and Stevenson (2001) actually refer to an earlier (2001) publication of Audretsch and Thurik (“What’s New about the New Economy? Sources of Growth in the Managed and Entrepreneurial Economies” *Industrial and Corporate Change*, 10 (1)), but here I use their later publication, which contains some further developments of their ideas.

<sup>5</sup> A new term “co-opetition” is also used for such symbiosis (author)

<sup>6</sup> In fact, Audretsch and Thurik (2004) see the different types of economy as periods, but particularly the beginning of managed economy has left open. Characterizing this period, they refer to publications dating mainly from 1960s, but also Coase’s seminal (1937) article.

Describing the path to entrepreneurship policy, Lundström and Stevenson (2001) underline the basis for entrepreneurship policies — the efforts to increase the supply of entrepreneurs in the economy and thus the number of new firm entries. According to their view, governments develop the SME sector using a set of policies – Policy Mix, which change in content over time.

A traditional policy mix consists of four elements (ibid):

- 1) Ensuring efficient functioning of markets and institutions through the adjustment of legislation and regulations;
- 2) Provision of information and advice;
- 3) Provision of debt and equity financing;
- 4) Provision of tax incentives.

As a certain government moves towards entrepreneurship policy, the mix broadens to encompass another four elements (ibid):

- 5) Elimination of barriers to entry;
- 6) Promotion of entrepreneurship;
- 7) Entrepreneurship education;
- 8) Creation of new structures, products and services to meet the needs of new starters and under-represented target groups.

In addition they (ibid) mention that movement towards entrepreneurship policy will be associated with promotion of entrepreneurial culture. Also they accent the access to seed financing and other start-up support and note that in this movement different governments (countries) display considerable diversity in how, and to what extent, entrepreneurship policy elements are being applied and implemented. (ibid)

To sum up the overview, I would like to provide a compact definition of entrepreneurship policy. Because the following discussion will rely mainly upon the approach of Lundström and Stevenson (2001) and their definition has been cited in many publications, I shall proceed from their definition.

Lundström and Stevenson (2001) define entrepreneurship policy in four clauses:

- policy measures taken to stimulate entrepreneurship,
- that are aimed at the pre-start, start-up and post-start-up phases of the entrepreneurial process,
- designed and delivered to address the areas of Motivation, Opportunity and Skills,
- with the primary objective of encouraging more people to start their own businesses.

We should recognise that entrepreneurship policy (in the contemporary sense) is a complex, interrelated multidisciplinary phenomenon and thus it is not an easy task to provide an unambiguous definition. Thus the situation is similar to the definition of entrepreneurship. Of course, such a statement could also be criticised.

## **Types of Entrepreneurship Policy**

Lundström and Stevenson (2001) have not built their typology of entrepreneurship policy on “an empty place”. They refer to Verheul et al (2001), who outlined five types of policy intervention influencing entrepreneurial activity. These types are briefly referred to below (ibid).

**Type 1** — demand side intervention that (in)directly impacts the type, number and accessibility of entrepreneurial opportunities. Some of these policies help to create demand for entrepreneurship (like policies stimulating technological developments and income policy); others enable small firms to make use of the space created by market demand (like competition policy and establishment legislation).

**Type 2** — intervention to affect the supply (or pool) of potential entrepreneurs at the aggregate level, influencing the characteristics or the number of people within the population. This includes immigration policy, regional development policy (dealing with (sub)urbanisation processes), also fiscal treatment of families with children, including family allowances or child benefits.

**Type 3** — intervention that impacts the availability of resources, skills and knowledge of potential entrepreneurs (these are all internal individual characteristics that can be acquired or developed through training or education). The intervention aims to overcome finance and knowledge gaps by increasing the availability of financial and other (informational) resources. This includes stimulating venture capital, also providing direct financial support and relevant business information (advice and counselling), and offering entrepreneurship education in schools. These policies can also be typified as input-related policies, since they refer to both material (financial capital) and immaterial (knowledge) inputs in the entrepreneurial process.

**Type 4** — intervention that works through the preferences of individuals to become an entrepreneur. Preferences of people, as expressed through values and attitudes, are developed during upbringing. Although preferences are culturally determined, government intervention may help to shape positive attitudes towards entrepreneurship by introducing entrepreneurship elements in education and paying attention to entrepreneurship in the media. These policies are characterised by a broader role for government, including the educational system and overlapping with culture.

**Type 5** — intervention, directed at the decision-making of potential entrepreneurs, influencing opportunities, resources, ability, personality traits and preferences, and the risk-reward profile of entrepreneurship. Relevant policies include taxation and labour market legislation regarding hiring and firing (determining the flexibility of business and the attractiveness of starting or continuing a business), also bankruptcy policy. These are generic macroeconomic policies that apply to all economic actors.

The most important contribution of Lundström and Stevenson (2001) consists in discovering a set of different entrepreneurship policy orientations and organising them into a set of Entrepreneurship Policy Typologies.

Briefly these Entrepreneurship Policy Typologies are (ibid):

- **SME Policy ‘Extension’** — focusing on starting and new firms or broader stimulation of entrepreneurship is ‘an add-on’ to existing SME programmes and services (where it tends to be somewhat marginalised and weakly resourced), the broader areas of regulatory barriers to entry, entrepreneurship education and promotion of an entrepreneurship culture are not normally strategically addressed.
- **‘Niche’ Entrepreneurship Policy** — targeted entrepreneurship efforts are formulated around specified population groups. There are two types of ‘niche’ policies:
  - 1) targeted on groups that are under-represented as business owners — women, youth, ethnic minorities, unemployed, or Aboriginals, etc;
  - 2) targeted on people with the highest potential for starting high-growth firms — researchers, inventors, university graduates, people with technology experience, etc. — a ‘techno-entrepreneurship policy’ because the focus is on R&D support, venture capital support, university-based incubators and incentives for graduates and researchers to build technology-based firms.
- **New Firm Creation Policy** — focusing on facilitating the business creation process, could include a review of business creation processes and procedures, a reduction in the time and costs associated with the business registration process, facilitation of the start-up process through the creation of one-stop shops and streamlined delivery of information and advisory services, etc; efforts are also devoted to encouraging start-ups among specific target groups like women, etc.
- **Holistic Entrepreneurship Policy** — cohesive approach, encompassing all of the policy objectives and measures and integrating other E-policy<sup>7</sup> types.

Lundström and Stevenson (2001) point out a quite common problem related to such typologies — the real objects (in this case the countries or governments or policies) do not fall neatly within these types. In other words, in real life we may not find any country with purely one or another type of policy. It means that there may be certain combinations and the situation (or “picture”) is probably changing over time.

### **Structures of Entrepreneurship Policy**

Audretsch (2002), referred to above, argued that there are no single institutions able to promote entrepreneurship or implement real entrepreneurship policies because they cover a wide spectrum and thus should belong to a number of ministries or agencies. Lundström and Stevenson (2001) affirm that all SME and entrepreneurship policy measures are designed and implemented through different structures. According to their findings every government<sup>8</sup> has a unit responsible for small business / entrepreneurship agenda and these differ in name, size, ministry location, mandate, scope of responsibility and influence.

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<sup>7</sup> E-policy stands for entrepreneurship policy here, but prefix “E-“ or “e-“ is (more often) used also for electronic (or virtual) and thus the usage of such abbreviation may be confusing.

<sup>8</sup> Their research covered ten countries.



Irrespective the structural diversity, Lundström and Stevenson (ibid) noted three prevailing structural approaches, each with its strengths, problems and challenges.

Briefly, the three structural approaches are (ibid):

- ***umbrella agencies with special authorities***. Can effectively influence activities of other departments and target their actions on the SME sector, but (because the responsible agency has own programmes to manage) the management may take a lot of time. Over time, this could result in a more vertical than horizontal focus.
- ***horizontal, multi-ministerial models***. One ministry co-ordinates E-policy, but has a plenty of consensus and co-operation. The policy agenda tends to be transparent and coherent; usually is presented in one document that combines the objectives and measures being pursued by each co-operating ministry, but programme and service delivery is very much devolved to the regional or local level.
- ***vertical or 'silo' models***. Responsibility for different parts of E-policy is split among several departments, each responsible for its sector, region or objective, with minimal collaboration in an integrated manner. Policy objectives are crushed along bureaucracy and buried in documents of several government departments. Each department focuses on its own agenda, which does not support a coherent and integrated policy. Any entrepreneurship development activity tends to take place at the local or regional level with minimal national guiding frameworks.

It is easy to agree with Lundström and Stevenson (2001) that the vertical model has more disadvantages and the umbrella and horizontal models aim to overcome them. In addition they (ibid) note that there is still a lot of experimentation in search of the optimal structure, frequent attempts at restructuring and rationalizing, but structures are difficult to change and often governments end up with 'more of the same'. Because a cohesive E-Policy is impacted by a number of government policy areas, a horizontal approach makes sense, but strong central leadership is also needed. They have noted that the more integrated E-policy becomes in a government's agenda, the more horizontal is its approach.

Regardless of structure, there are a series of challenges to overcome (ibid):

- managing the horizontality of policy issues across many government departments,
- coordinating the activity of different levels of government from federal to local,
- maintaining links between policymakers and entrepreneurs,
- maintaining links between research and policy and between policy development and local, programme delivery,
- maintaining linkages with the network of non-profit and private sector actors.

Summing up with E-policy structures, they (ibid) point out that "sharing a common vision for entrepreneurship development and ensuring that all policymakers and support providers have the knowledge and skills they need to serve the small business client is a big challenge." Also they emphasise the continuity of effort. If normal government terms of office are short and/or there are frequent changes in the government, it is difficult to maintain a steady (E-)policy course.

## **Entrepreneurship Policy Measures and Initiatives**

Summarising the theoretical overview, Lundström and Stevenson (2001) outline the major categories of action in an E-policy agenda. These categories fall within the collective framework of entrepreneurship policy measures and include (ibid):

- 1) regulatory environment for start-ups,
- 2) promotion of entrepreneurship,
- 3) entrepreneurship education,
- 4) small business support infrastructure,
- 5) target group strategies,
- 6) access to financing and seed capital.

For some categories (or areas) they provide more detailed subdivisions. For instance, a comprehensive entrepreneurship education programme requires (ibid):

- inclusion of entrepreneurship as a component in national curriculum guidelines;
- development of curricula, teaching resources and teaching models that emphasize student-centred learning and 'hands-on' project-oriented activities;
- professional development of teachers;
- building of resource centres and networks for the exchange of best practice;
- business-education partnerships;
- entrepreneurial orientation of schools and administrations;
- building of community support;
- opportunities for students to experiment with venture projects and activities;
- student venture programmes and student business loans;
- significant budget allocations;
- commitment from both ministries (economic affairs and education).

Under the small business support infrastructure they point out some of the emerging innovations and approaches geared to reducing the barriers of new entrepreneurs and business starters to information, know-how, networks, expertise, advice on quality, etc.

These are (ibid):

- one-stop shops;
- online portals;
- mentoring;
- incubators;
- target group enterprise centres;
- professional development for business advisers;
- orientation for all professional actors (beyond the business advising community);
- networks (some governments have specifically made this an E-policy issue).

In order to remain within the scope of a conference paper, in-depth discussion of all these major categories or areas is not possible, but most of them will be examined in the subsequent analysis of entrepreneurship policy in Estonia.

## Entrepreneurship Policy in Estonia

This part will examine the actual entrepreneurship policy (or in some context even economic policy) in Estonia. The theoretical overview presented, which summarised the best practices in developed countries, is taken as a normative basis. The structural example is taken from Lundström and Stevenson (2001), but the analysis is presented in a much more compact format.

Estonia is a small country — the population in 2005 was ca 1,332 thousand, the total area ca 45 thousand square km. Estonia attained independence in 1918, but was forcibly incorporated into the USSR in 1940. Estonia regained its freedom in 1991 with the collapse of the Soviet Union and joined NATO and the EU in the spring of 2004. Estonia has performed an effective transition to a modern market economy with strong links with the West, including the pegging of its national currency to Euro. The current account deficit remains high; however, the state budget has had a surplus in the recent years. GDP per capita (purchasing power parity, in 2004) was USD 14,300, which is 53% of the EU average (USD 26,900), but the Gini index is 37, which is much higher than the average index of EU countries (31.2). The GDP composition in 2004 was: agriculture 4.1%, industry 28.9% and services 67%. From the total labour force (ca 660 thousand), 11% was occupied in agriculture, 20% in industry and 69% in services. (CIA 2005)

Before Estonia regained freedom, its economy developed in the context of a system, which is different from countries examined by Lundström and Stevenson (2001). According to Kilvits (2002), at the end of 1930s the Estonian industry was rather competitive; its standards were nearly equal to Finland (the neighbouring country, which is an advanced industrial country today), but the natural evolution of Estonian industry was interrupted by the Soviet occupation. The industrial policy of the Soviet Union was paternalistic and extremely centralised with strong interventions in local production patterns, migration flows and financial redistribution (Jauhiainen & Ristkok 1998). When Estonia regained freedom (in 1991), its economy was in a structural crisis: the structure that had developed during the Soviet occupation did not fit the new situation. In fact, the Estonian industry was a set of enterprises located on the Estonian territory. During the independence, all Estonian governments have pursued a very liberal and un-protective industrial policy. This was not because of a clearly formulated ideology, but simply because Estonia had no choice. (Kilvits 2002) But nevertheless, there are different opinions. For instance, de Jager et al (2001) distinguish two stages in the post-Soviet economic development of Estonia. The first (1991-1997) was “wild West capitalism”, without too much rules and government intervention and without a strong business support infrastructure. From 1999 onwards, they notice a tendency towards more strategic planning, stronger government intervention and stronger business support services. This is not only because of an internal paradigm shift: the accession to the EU and the implementation of pre-accession programmes (like PHARE) are also important in this respect. They also point out a problem – the wish for stronger economic development policies conflicts with the very strict monetary policy, aimed at low taxes. (ibid) The author agrees more with the latter opinion.

In developed industrial countries a special policy focus on SMEs appeared at the end of 1970s. At that time Estonia was a part of the Soviet Union, where the common ideal was a large plant. Despite of the ideal, there were smaller firms, which meet the current SME criteria by the number of employees. So it might seem possible to speak about SMEs in the Soviet system, but none of the “socialist enterprises” (neither small nor big) met another important criterion — the autonomy. It seems somehow paradoxical, but in the middle of 1980s the Soviet authorities understood the positive experience of Western countries and started to promote small “socialist” enterprises. A special legislative act was passed at the end of 1986 and a number of small state enterprises were founded. Private ownership was not yet accepted this time, but these enterprises had more freedom than “normal” (large) socialist enterprises. (Kuura 2001) It means that the Estonian SME policy has its roots in the late Soviet system, in the period called *perestroika*. In addition, at about the same time private business was legalised, but only in the form of co-operatives and self-employment. Estonian people were quite keen to use these new possibilities and this had a certain positive impact on the development of entrepreneurship after the regaining of freedom (ibid).

During the first years of independence the economic policy of Estonia was oriented to minimal intervention. In rhetoric, all political forces declared support to business, sometimes (but not always!) specifically to small (and medium) business, but at the beginning there was not much beyond the rhetoric. However, developments started to appear. In 1994, State Support of Enterprise Act<sup>9</sup> was passed. This 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. Here I would like to point out two specific issues regarding the origin of SME policy in Estonia. First, the process got a strong impact from abroad (from foreign countries and international organisations). During 1992–1998 a Swedish organisation NUTEK implemented a project “Support to Regional Development in Estonia through Business Development”. In parallel, an EU project “Technical Assistance for SMEs in Estonia” was implemented and there were more similar initiatives (Lindahl 2002). These projects forced Estonian authorities to start the formulation of SME policies. The second specific aspect is close relation to regional policy. As Lindahl (ibid) wrote, the projects must be seen in the context of Estonia’s young and shifting framework of regional development. According to Jauhiainen and Ristkok (1998), the regional disparities appeared at the very beginning of the transition period and the new government (from 1992) even acknowledged the necessity of regional policy activities, but no public funds were assigned. Even the few regional policy measures like regional tax reductions were cut off, mainly because they did not fit the *laissez-faire* ideology. Another reason was inefficiency: the benefits, like establishment of new businesses in depressive regions, were minor compared to the costs like decrease in budgetary revenues. As a conclusion (ibid), the main target of regional policy in this period was business development and other priorities were almost forgotten.

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<sup>9</sup> This act did not mention small or medium enterprises but set criteria for enterprises eligible for support: up to 80 employees and this was *de facto* criterion for SMEs in Estonia until 2000.

The aforementioned international (foreign aid) initiatives had a significant influence also on the development of SME policy structures in Estonia. According to Lindahl (2002) the abovementioned initiatives started to develop such structures in Estonia. The main aim of the NUTEK project was to support the establishment of three regional business centres, located in Võru, Viljandi and Jõhvi. This initiative was a pioneer in terms of efforts to stimulate private small businesses in economically depressed areas. It was inspired by the “Swedish model” as the key persons have extensive personal experience from Sweden. In 1993 the EU PHARE programme started to support the creation of Business Advisory Service (BAS) Centres – four centres were established in major Estonian cities Tallinn, Narva, Tartu and Pärnu. In 1993 also a programme “Estonian Jobs and Society” (J&S) was initiated and under this (initially provided with Finnish support) programme, business centres were established in Tallinn, Harjumaa, Saaremaa and Hiiumaa<sup>10</sup>. The ideology of J&S was based on the concept that larger businesses would promote establishment of smaller enterprises. Besides these initiatives, some Estonian counties (those which were not covered by any of these three programmes) established their “own” business centres – this happened in Paide, Rapla and Haapsalu. The difference between the two bigger programmes (NUTEK and PHARE) consists in locations. The PHARE centres were located in main cities where the development of small entrepreneurship was the highest in Estonia, unlike NUTEK centres which were located in depressed regions. Lindahl (2002) also notes that four types of centres had different approaches, objectives, organisational cultures, financing and external ownership. PHARE centres were administratively under the Ministry of Economic Affairs, the NUTEK centres under the Ministry of Internal Affairs and the J&S centres mainly under the local or regional authorities. The PHARE centres were initially set up to eventually become self-financing (like private service providers), while the NUTEK centres were designed to be government agencies. The PHARE centres were assumed to be self-contained, while the NUTEK centres were based on a philosophy of small core staff and buying services from a network of consultants. Also the resources varied considerably – while the original NUTEK centres and the PHARE centres were relatively well financed, the J&S and the “county” centres generally were plagued by limited resources. The need to consolidate these diverse centres was felt in Estonia and amongst the donors. (ibid) As noted before, the SME policy in Estonia emerged in close relation to regional policy and thus it is probably not surprising that the same concerns also the structures – the SME support system.

In late 1996 the Estonian government started to form an “umbrella” for the business centres (and also other regional programmes). In May 1997 the Estonian Regional Development Agency (ERDA) was established with two key functions: 1) implement the government’s regional programmes and 2) implement the programme for small and medium enterprises *Business Support Network*. (Lindahl 2002)

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<sup>10</sup> Thus, two similar (BAS and J&S) centres operated in Tallinn, and were mainly competing. The cited source does not mention the Pärnu J&S center, which was probably in the oddest situation – two centres shared a room and partially even equipment and supporting staff. This information is from first-hand source as the author was the manager of the Pärnu BAS centre.

As a part of this reform, various business centres were organisationally harmonised. ERDA's strategy was to assure "minimum services" through a business centre in each county of Estonia, and in Tallinn. These services would be provided through a contractual arrangement between the centre and ERDA. The centres would become independent foundations, set up by county governments and with representation of local interest groups like municipalities and local entrepreneurs in their boards. The contract implied that ERDA would finance these "minimum services"; the centres would be free to undertake own initiatives and find financing for additional services from other sources. (ibid) Because credit was a big problem for most (new) SMEs in this period, a special credit scheme was also introduced. The role of the Centres was to assist in the supply of credit by assisting SMEs in preparing business plans and (once a loan had been approved by ERDA) monitoring the use of the credit. (ibid)

The reformed Business Support Network (BSN) functioned quite well, but some problems emerged. As noted in the PHARE (1999) report, there was a dramatic plurality of institutions supporting small business: in addition to BSN (and ERDA), a number of private organisations (Chamber of Commerce and Industry, Estonian Small Business Association, etc) and also public organisations (Investment Agency, Trade Promotion Agency, Technology Agency and Tourism Board). Therefore the report (ibid) suggested that "... it is time to change from quantitative to qualitative development of the institutions ...". This was realised also by the government and another reform began: a new organisation "Enterprise Estonia" (EE) was established in September 2000. This was also an "umbrella", but much wider than ERDA. The latter was also incorporated into the new organisation in July 2001. The task of EE is to support the development of Estonian entrepreneurship by implementing approved and effective public measures. EE is a foundation subordinated to the Ministry of Economic Affairs and encompasses all aforementioned agencies. Until now EE has undergone reorganisations, but is still acting according to almost the original model, providing financing, advice, partnership opportunities and training to entrepreneurs, research and development institutions and the public and third sectors. (EE 2006)

The reformed SME support system has a transparent structure, consisting of three agencies. In addition to aforementioned EE, the structure includes the Credit and Export Guarantee Fund "KredEx", which aims to improve financing of small and medium enterprises and to decrease export-related credit risks<sup>11</sup>. (KredEx 2004) The third part of this structure is the Rural Development Foundation (RDF), which was founded by the Ministry of Agriculture in 1996. The purpose of RDF is to support economic development in Estonian rural areas through specific programmes. The main tools are long-term loans, granting of leases and specific support services (RDF 2006). So there is still some overlapping, the reason of which is probably the *lobbying* of some political parties, which have a significant electorate in rural areas and among farmers. KredEx and EE are independent institutions, but in fact they are closely related and co-operate. During the reform there was a proposal to have one institution instead of two, but the main reason for having two separate institutions was (and still is) to ensure the transparency of state funding and guarantees.

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<sup>11</sup> KredEx has also an additional function — to enable individuals to build and renovate homes.

In October 2003 the previous subunits of EE were reorganised into three divisions: the Business Start-Up Division, the Business Development Division and the Business and Living Environment Division. The structural change was based on updated strategy, which stipulates that the priorities are to support newly-established enterprises, enhance and develop existing enterprises and develop entrepreneurship and living environments on a regional level. (EAS 2003) The previous structure of EE was functional; the new one is divisional, based on client groups. Surely the new structure allows ensuring stronger service and client orientation. Besides the internal structure of EE, changes involved the network — its contractual partners in counties were reorganised into Development Centres<sup>12</sup> (ibid).

The development of the SME support system is surely an ongoing process and will never end, but in Estonia the process will probably be normal and evolutionary in the foreseeable future. It is possible to discern different periods in this development process (see Table 2). When the source was published in 2001, the last bigger reform was ongoing and it was difficult to anticipate its results. So the end of the last (III) period was left open and it is actually still open.

**Table 2 Periods of Development of the SME Support System in Estonia**

Periods / years		Main characteristics
<b>I</b>	Until 1996	Foreign initiative and support, absence of coordination
<b>II</b>	1996 – 2000	Domestic state initiative and support, low coordination
<b>III</b>	Since 2001	Domestic state initiative and support, sufficient coordination

Source: Kuura 2001

In early 1990s the main goal of Estonian SME policy was the balancing of regional development, especially job creation in deprived areas. This policy has not been very successful because there are still significant regional disparities in Estonia and so far we cannot see a firm trend towards a positive change. Anyway, without this policy the situation could probably be worse. Looking at the developments in SME policy agenda in Estonia, we can refer to Lumiste et al (2004). They see three periods in SME and innovation policy development: until 1991, 1992–1997 and 1998–2004. The keyword for the first period was transition (from planned to market economy), the second was the formation period. The most essential is the third period, because the aim of SME policy became increasingly linked to improving the competitiveness of firms in domestic and foreign markets associated with a need for institutional harmonisation with EU requirements. In general there is no significant contradiction with de Jager et al (2001), but Lumiste et al point out another important direction — harmonisation with EU. In my opinion there was no rapid change in 1998 because the “European orientation” (also influence and support) could be seen earlier. The reason why Lumiste et al (2004) see the breakpoint in 1998 is probably in their speaking about SME and innovation policy and not making a clear distinction.

<sup>12</sup> Earlier, they were called “Enterprise Centres” or “Entrepreneurship Centres” – there are several possibilities to translate the Estonian word “Ettevõtluskeskus”.

In my opinion these are closely related but not the same. However, I agree that with regard to innovation policy they (ibid) have placed the breakpoint correctly — in 1998 the National Innovation Programme was adopted, which promoted a more active and explicit innovation policy and set out a series of general priorities (like improvement of the quality of products and services; development of innovative products based on local R&D; creation of innovation networks). In addition the industry chapter of the National Development Plan (2000–2002) defines a series of measures for fostering innovation and new technologies. The government<sup>13</sup> has also prepared two programmes related to the National Development Plan: *Inno-awareness* program (aimed at raising awareness of innovation in the society) and *Spin-off* programme (aimed at commercialising the results of university research). (ibid) This will lead to closer relationship of Estonian SME (or entrepreneurship) policy to innovation (or R&D) policy and having “European” orientation (also influence).

At the beginning of January 2002 the Estonian Government approved the national policy for the development of small and medium enterprises for 2002–2006 – “Enterprising Estonia” (Ettevõtlik Eesti 2002). The primary agency responsible for its implementation is the Ministry of Economic Affairs and Communications with agencies in its administrative area, especially Enterprise Estonia. This national policy document contains a quite sizable overview and analysis of main problems and points out several remarkable strengths of Estonian (small) business environment (such as a relatively low tax burden and a simple tax system, good business service infrastructure and trustworthy banking, etc) and weaknesses (such as problems with financing, especially with start-up capital, relatively small co-operation network (in Estonia and internationally), limited domestic market, etc). The analytical part contains also an analysis of support measures applied in 1998–2000. The second part of the document defines the objectives, target groups and SME support measures. The main objectives include the promotion of enterprising spirit, job creation and competitiveness of Estonian SMEs; balanced regional development is emphasized. The objectives include the development of human resources, improvement of financing possibilities, creation of suitable environments (like incubators and technology parks), provision of information and simplification of business management. The target group is the whole SME sector, particularly start-ups, micro-, small and medium enterprises, and potential entrepreneurs. There are no sectoral preferences, but there is one exclusion — agriculture (ibid). This is understandable because the RDF has to serve agricultural businesses. The measures are divided into 13 groups and there are objective(s), target group(s) and description of support measure(s) defined for every subgroup. Implementation of most measures is the task of “Enterprise Estonia” and “KredEx”, but implementation of some measures involves regional business centres, also the Ministry of Economic Affairs. Some measures (like the promotion of enterprising spirit) envisage the involvement of Ministry of Education and Research. (ibid) This is a trend in contemporary entrepreneurship policy.

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<sup>13</sup> This source and some others refer to the Ministry of Economic Affairs, the official name of which is Ministry of Economic Affairs and Communications since November 2002.



Because the “old” (but still valid) national policy document covers the time period from 2002 to 2006, in 2005 the Ministry of Economic Affairs and Communications initiated the elaboration of a new entrepreneurship policy for 2007–2013. This has not been completed yet but a lot of work has been already done and the interim results have been presented in the third draft of the new policy document (Eesti ettevõtluspoliitika ... 2006). This document drafts a quite ambitious vision: by the year 2013 Estonia will be the best place in the world for entrepreneurship (or business activities). Such vision should be supported by four main objective areas: 1) strong entrepreneurial culture, 2) legal environment favourable for entrepreneurship; 3) access to capital, 4) growth and international success of businesses. Also “horizontal” recurrent values have been pointed out, described with such keywords as sustainable development, cultural inheritance, regional balance and the social dimension. In the draft of the new policy document one can find some evaluation of the impact of “old” policy measures. For example, it states that the entrepreneurial activity level is still low — in Estonia we have merely about 30 acting businesses per 1,000 inhabitants<sup>14</sup>, whereas in most EU countries this figure is about 50. (ibid)

Looking at the four objectives one can notice several new elements and elements of modern entrepreneurship policy. For instance, the area of entrepreneurial culture itself is quite a new term, compared to the previous policies. Planned activities in this area include promotion of entrepreneurship and innovation awareness among different groups of population, including students and teachers, researchers, opinion-formers and the media, civil servants and policymakers, entrepreneurs, investors and company managers, as well as general public. The planned activities include also the addition of entrepreneurship education to the curricula of general, vocational and higher education institutions, and the development of supplementary entrepreneurial training in order to increase the number of people with relevant knowledge for setting up and running of businesses. The area of development of a legal environment favourable for entrepreneurship includes such activities as development of a methodology for the analysis of the economic impact of legal acts, simplification of legislation in order to reduce the possible negative impact on entrepreneurs and the administrative expenses of entrepreneurs, also simplifying communication between enterprises and the government by creating “single shops”. The area of ensuring the access to capital for SMEs has an emphasis on venture capital; the planned activities include the development of a network of “business angels” (to direct their money and knowledge into local enterprises), creation of a public venture capital fund (which will offer equity loans to start-ups), also development of knowledge and skills of new and growing companies through training and consultation (in order to improve their ability to obtain equity and loan capital). The area of supporting the growth and international success of businesses includes activities like supporting Estonian SMEs in the training of their staff (including managers) in introduction of contemporary management methods, providing information and consultation in the fields of technology, entrepreneurship and internationalisation, and also supporting of internationalisation activities of companies (with emphasis on export support). (Eesti ettevõtluspoliitika ... 2006)

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<sup>14</sup> This indicator is also called „enterprise density” (index)

Concluding the brief overview of the prospective entrepreneurship policy in Estonia we should note that the elaboration process is not yet completed and therefore some changes may appear. However, the third draft version of the new policy document referred to does not look very “draft” any more. In fact, the incompleteness is clearly seen in one place only — some qualitatively defined indicators (for activities under the third objective) still lack the values. And finally, one more comment. The new policy (document) claims to be complete (document), but there is an exclusion: the relation to the research and development strategy. The new draft entrepreneurship policy document (Eesti ettevõtluspoliitika ... 2006) states that “*Estonian Entrepreneurship Policy and Estonian Research and Development Strategy* are strategic documents complementing each other”.

## Discussion and Conclusion

The following discussion will attempt to position the Estonian entrepreneurship (or SME) policy in accordance with the typology of Lundström and Stevenson (2001). As they (ibid) wrote, the governments of the Netherlands and Finland have adopted the “entrepreneurship policy” lexicon and only occasionally make references to SME policy. Reading the new policy document (Eesti ettevõtluspoliitika ... 2006) we can notice that it also speaks about entrepreneurship policy and the “SME lexicon” is used occasionally. It is possible to point out two types of such occasions: when referring to older documents or when addressing to SMEs as a specific target group of entrepreneurship policy. When reading the old policy document (Ettevõtluspoliitika Eesti 2002) it may also seem that it speaks about entrepreneurship policy but only on the surface. The short name of the document is “Enterprising Estonia”, but the extension<sup>15</sup> should be translated into English as “National Policy for the Development of Small and Medium-sized Enterprises in Estonia in 2002–2006”.

Because the linguistic approach may be inadequate<sup>16</sup>, it is vital to look at it more practically. According to Lundström and Stevenson (2001), movement towards entrepreneurship should broaden the policy mix by encompassing such elements as elimination of barriers to entry, promotion of entrepreneurship and entrepreneurship education, and the creation of new structures, products and services for new starters and under-represented target groups. The new policy document (Eesti ettevõtluspoliitika ... 2006) is targeted to elimination of entry barriers of activities under the objective of favourable legal environment. In fact, there is no strong emphasis on that but we have to consider that bureaucratic barriers are not high in Estonia. There is another barrier, however — financing of new ventures (Eesti elanike ... 2004). Therefore a whole main objective in the new policy document is addressed to the improvement of access to capital. Another main objective (entrepreneurial culture) focuses on the promotion of entrepreneurship and entrepreneurship education.

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<sup>15</sup> In Estonian: “Eesti väike- ja keskmise suurusega ettevõtete arendamisele suunatud riiklik poliitika 2002–2006”

<sup>16</sup> The new (draft) policy document is available only in Estonian and there may be a linguistic problem: usual term for “entrepreneurship policy” is „*ettevõtluspoliitika*”, for “SME policy” „*väikeettevõtluspoliitika*”. So the first part of the compound might be occasionally left out.

Looking at the issues related to the creation of new structures, products and services for new starters and under-represented target groups, we can find activities oriented to new and growing SMEs, some of which are intended for the creation of new structures and services — like the creation of a public venture capital fund. At the same time, the new policy document does not pay attention to under-represented target groups like female and minority entrepreneurs. On the other hand, we cannot say that the main (the Russian-speaking) minority group is totally out of attention. For example, a web portal<sup>17</sup> for entrepreneurs functions also in Russian.

Concluding with the question — is the new Estonian policy a real entrepreneurship policy or is it still a SME policy — it is possible to say that the answer should be yes, but some smaller reservations could be made. The next question to ask is: what type of entrepreneurship policy is it? This is not a simple question. The authors of the typology (Lundström & Stevenson 2001) have claimed that real policies do not fall neatly within types and this is also true about the Estonian one.

It seems that an appropriate way to answer the main question could be the exclusion of some types which do not fit the Estonian policy. The first type to exclude seems to be the 'niche' policy, especially the first subtype (targeted on under-represented groups). The second 'niche' subtype (targeted on the highest potential and growth) cannot be excluded so confidently — there are some signs of that, but not many. Going further with exclusion it seems to become more difficult and there is only one type which can be excluded in some respects — the new firm creation policy. However, this could be done with considerable reservation because of appreciable focus on new firm creation in Estonian E-policy documents. This concerns mainly the "old" (2002 – 2006) policy, but also the new draft document for 2007–2013.

Considering these exclusions, the Estonian entrepreneurship policy has to be a SME policy extension or holistic. Explaining their typology, Lundström and Stevenson (2001) note that they observed countries with longer histories in SME development and these are more likely to fall in the SME extension category; countries newer to the SME policy domain could move more quickly to the 'entrepreneurial' approach. Also they allude to possible combinations and to changes in the situation over time. It seems that the current Estonian entrepreneurship policy is a kind of combination of the SME policy extension and the holistic one and there is a trend of development towards the latter. Despite of the not so long history of SME policy, this was focused on in the first (valid in 2002–2006) policy, and the "old" (SME) policy has been expressly mentioned as a basis for the new (draft) policy document. Whether it is appropriate to call the new Estonian policy holistic remains a matter of discussion — it is possible to find a lot of arguments for such evaluation, but possible opponents could find some arguments as well.

In addition to identifying the type of Estonian entrepreneurship policy we could also identify the type of the policy structure.

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<sup>17</sup> In Estonian <http://www.aktiva.ee>, in Russian <http://rus.aktiva.ee>

Similarly to the policy, we should recognise that the Estonian system probably does not fit to any “pure” type of Lundström and Stevenson (2001) and there have been (and probably still are ongoing) significant changes over the time. Looking back at the overview provided on the SME support system (or structures) in Estonia, the system in years 1996–2000 (Table 2) seemed to be quite similar to the description of the vertical model. Before 1996 the same principle was used, but in a grotesque way — the subsystems were dominating over the whole. Although the ERDA was some kind of an “umbrella”, several institutions were supporting small business. Since 2000 (when “Enterprise Estonia” was established) the umbrella agency model was actually introduced. Now Estonia is moving towards a horizontal or multi-ministerial model. These changes started in October 2003, when functional subunits of “Enterprise Estonia” were reorganised into divisions (by client groups), and branch offices in counties were reorganised into Development Centres. As the new strategy document envisages the involvement of Ministry of Education and Research, moving towards multi-ministerial model seem to be apparent.

Summing up, we can state that Estonia is moving towards entrepreneurship policy. This is evident in the draft of the new policy document. Hopefully this draft will be approved without significant changes and become a basis for the actual policy. As Lundström and Stevenson (2001) said, the countries newer to the SME policy domain could move more quickly to the entrepreneurial approach. So the Estonian case could be empirical evidence confirming their statement. The present compact study should be considered as an attempt to apply their approach to a country, which does not have a long history in SME development.

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## Kokkuvõte

### ETTEVÕTLUSPOLIITIKA EESTIS

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Artiklis antakse ülevaade Eesti ettevõtluspoliitika ja seda teostavate institutsioonide kujunemisest ning analüüsitakse poliitikat ja ka institutsioone. Analüüsi eesmärk on määratleda Eesti ettevõtluspoliitika ning institutsioonide tüüp vastavalt Lundström'i ja Stevenson'i (2001) esitatud tüpoloogiale. Nende tüpoloogia on kirjanduses suurt tähelepanu leidnud, kusjuures mõnedki autoriteedid (nt D. Audretsch) on arvamusel, et see tüpoloogia on laiendatav kogu majanduspoliitikale ning mõjutanud majanduspoliitilise mõtte arengut XXI sajandil. Eelviidatud monograafias vaadeldakse kuue Euroopa Liidu liikme ja nelja Aasia arenenud riigi poliitikat, kus on pikemaajalised traditsioonid väikeettevõtluspoliitika kujundamisel ja teostamisel. Käesolev artikkel on seega katse rakendada eelnimetatute tüpoloogiat (hiljutise) siirderiigi tingimustes, kus ei saa olla nii pikki traditsioone (väike)ettevõtluse arendamisel. Mingis mõttes tahab käesolev artikkel olla „kirjutamata peatükk” eelnimetatud monograafias, kuid konverentsiartikli maht ei võimalda monograafia peatükiga võrreldavat põhjalikkust.

Peamine teoreetiline lähtekoht on, et väikeettevõtluspoliitika ja ettevõtluspoliitika ei ole samastatavad: esimene on küll viimase alus, kuid viimane on märksa arenenum (sh üks ettevõtluspoliitika tüüp ongi „väikeettevõtluspoliitika jätk”). Autori arvates on Eesti üle minemas tõelisele ettevõtluspoliitikale, tüübiks „väikeettevõtluspoliitika jätku” ning tervikliku (holistliku) väikeettevõtluspoliitika kombinatsioon, kusjuures areng toimub viimase suunas. Seega võib Eesti juhtum olla empiiriliseks kinnituseks Lundström'i ja Stevenson'i (2001) väitele, et lühema väikeettevõtluspoliitika „ajalooga” riigid võivad olla kiiremad tõelisele ettevõtluspoliitikale üleminejad.

Vaadeldes (väike)ettevõtluspoliitikat teostavate institutsioonide arengut võib öelda, et kui aastatel 1996–2000 (ja ka varem) oli kasutusel vertikaalne organisatsiooniline mudel, siis nüüd ollakse üle minemas horisontaalsele mudelile, mis eeldab mitmete ministriumite jm asutuste ja organisatsioonide koostööd ühiste eesmärkide nimel. See kinnitab teorias levima hakanud seisukohta, et tõelist ettevõtluspoliitikat ei saa teostada üks ametkond.

Viimaste suundumuste analüüsi põhiallikaks oli Eesti Ettevõtluspoliitika 2007–2013 viimane kättesaadav (kolmas) tööversioon, milles võib mõistagi tulla ka muudatusi. Kuiigi autor loodab, et olulisi muudatusi enam ei tule ja uus poliitiline alusdokument võetakse vastu käesoleval aastal, võivad edasised arengud mõjutada artiklis esitatud seisukohtade paikapidavust.

Autori arvates võiks artiklis esitatul alusel edaspidi üritada süstematiseerida (Eesti) majanduspoliitikat ja seda teostavaid institutsioone.