



Future of manufacturing **Startup Estonia – Internationalisation policy measure**

Born globals and their value chains

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1. Context

1.1. Circumstances in which the measure was introduced, rationale, and relevance

Startup Estonia (SuE) is an action that was created to support specific objectives of the priority axis ‘Growth-capable entrepreneurship and RD&I supporting it’ of the investment strategy of the [Operational Programme for Cohesion Policy Funding 2014–2020 \(in Estonian\)](#) (henceforth 2014–2020 OP).

Technology-oriented new enterprises started to emerge in the country in the late 2000s, and the services provided by Enterprise Estonia (EE; for more information about EE, see section 4.3) did not meet their needs and expectations. As one of the interviewees stated, in 2010 the Estonian Development Fund (EDF) presented a report to the Estonian parliament regarding the future of the Estonian economy and venture capital market developments. One of the topics covered referred to the development of a start-up ecosystem. The report stressed that, in order to increase the number of new innovative enterprises and to support their development, it was necessary to create an environment where start-up enterprises and investors could communicate directly and where business plans would receive high quality feedback.

In the [Aliens Act](#), a **start-up** is defined as a business entity in Estonia, which is starting operations with the purpose to develop and launch such innovative, replicable and of high global growth potential business model that shall significantly contribute to the development of the Estonian business environment. In the minister’s 2015 directive, the **start-up ecosystem** is defined as an enabling environment that comprises all parties related to start-ups (including universities, R&D institutions, business angels, start-up entrepreneurs, seed stage start-up entrepreneurs, incubators and business accelerators, governmental institutions, entrepreneurs who share experiences, investors and investment funds).

Moreover, in order to grow and stay competitive, newly started businesses need a broader support system including aspects such as professional know-how, rather than just financial support. EE, KredEx (for further info, see section 4.4), commercial banks and other interested parties (ministries) in collaboration with Estonian Private Equity and Venture Capital Association (EstVCA) prepared specific recommendations for decision-makers in this respect. Specifically, the recommendations concerned the need to increase the business support structure’s effectiveness and to make the Estonian legislation and tax system more supportive for the growth of technology intensive start-up enterprises (Kelder, 2010).

EDF had financial capital to invest into start-up businesses but there was also a need for soft measures (as described in the EDF report in 2010) to increase the number of start-up ideas to attract more private capital.

Accordingly, and as confirmed by the interviews conducted for this case study, the general rationale for creating this measure was to promote Estonia as a place where enterprises could grow fast, especially as – at the time where the measure was launched – there was already a whole generation of entrepreneurs who had worked in successful companies, had started to invest into new start-ups and used their previous experience to create their own start-ups.

1.2. The process of developing the measure

The Ministry of Economic Affairs and Communications of Estonia (MoEAC) launched the initial SuE programme in 2011. The programme was developed by MoEAC, EE and EDF.

According to the MoEAC’s website, between 2011–2013, the measure was used to finance three business accelerators through EE in order to support the creation and development of start-up businesses, to organise a start-up conference and to support trips to Silicon Valley. As the interviewees pointed out, there was a need for a bigger team to implement the SuE measure and as a result, in 2014,

EDF took over the implementation of the programme from EE (for further information, see section 4.3). The implementation of the SuE scheme preceeding a new directive of the minister in 2015 was regarded as a pilot project (Eesti Arengufond, 2016). As the implementation of the SuE scheme was not evaluated before 2015 (only concise information on their performance was available in the operational reports and/or annual reports of EE and EDF), the design and activities of the previous 2007–2013 funding period are not discussed in this report (except in case of describing differences between the two funding periods).

In summer 2015, a new ‘Startup Estonia’ programme was confirmed. The programme will last until the end of 2023. According to the explanatory memorandum to the minister’s 2015 directive, EDF in cooperation with support organisations of the start-up ecosystem (for example, those who provided services to or invested in start-ups) prepared the first draft of the measure for MoEAC. According to one of the interviews conducted for the case study, other countries’ experiences (for example, analysis of various accelerator programmes, study trips to Finland and Israel to learn from the accelerator programme *Vigo* and [technological incubators’ programme](#) (in Hebrew) respectively) as well as recommendations from global reports (for example, [GEM Global Entrepreneurship Monitor, in Estonian](#)) were considered during the preparation phase. The provision of the SuE measure was continued to make further qualitative changes in the start-up ecosystem to accelerate start-ups growth. Specifically, the aim of the programme, similar to the 2011–2013 one, is to improve the start-up business environment and increase the development of innovative products and services with great export potential and high added value. MoEAC, EE and EDF representatives were involved in drafting the 2015 directive of the minister for the launch of SuE. The programme was approved in July 2015 and has been implemented since autumn 2015.

1.3. Any changes in policy context over time

The measure was first launched in 2011 and therefore was not affected by the economic slowdown. As start-up entrepreneurship has also been on the agenda of different political parties, the measure has not been impacted by changes in government either.

The smart specialisation growth areas identified by EDF (resulting from an [EU initiative](#)) were incorporated into the SuE objectives outlined in the minister’s 2015 directive as in the case of some other policy measures (for example, development of clusters).

1.4. Evidence of complementarity and/or overlap between the measure and other policy measures

According to the explanatory memorandum to the minister’s 2015 directive, the present measure is contributing to the following 2014–2020 OP actions:

1. ‘Development of co-operation networks’, that is actions within the state funded cooperation structures measure (for example, clusters and technology development centres). Here, start-ups are potential cooperation partners who run joint development and marketing activities through cooperation structures.
2. ‘Development of demand-side policies’ where the state is seen as a client for innovative solutions (for example, through innovative public procurement). Here, start-ups are the companies that create innovative products and services that could be supported by the state as a client.
3. ‘Scholarships in smart specialisation growth areas’. Here, start-ups’ employees are the potential scholarship recipients.
4. ‘Energy and resource efficiency of companies’, where one objective is to implement new innovative and environmentally friendly solutions. As the measure under observation targets smart specialisation growth areas and one of the areas is ‘more efficient use of resources’, start-ups directly contribute to achieving the targets of the action ‘Energy and resource efficiency of companies’ through creating new relevant products and services.

5. Actions from other fields include ‘Improving the availability of capital and credit insurance’; ‘Development of entrepreneurship, favouring the growth of enterprises and advancing business environment’; and ‘Linking studies to labour market needs’.

The process is closely monitored in order to avoid overlaps between the supported activities and other measures and to enhance synergies.

In addition to the above, the [e-Residency Programme](#) can also be seen as complementary to the measure under observation. If an entrepreneur does not want to relocate into Estonia under the the SuE [Estonian Startup Visa](#) programme (for more information, see section 2.2) but wishes to establish the company’s main office in Estonia and visit it from time to time, then he/she can apply for the Estonian e-Residency.

2. Content

2.1. Objectives of the measure

According to the information on the SuE’s website and the minister’s 2015 directive, SuE is a governmental support programme aiming to increase the number of successful start-ups. In general, as the interviewees pointed out, the ultimate aim is to develop the Estonian start-up ecosystem. As in the minister’s 2015 directive, the aim of the policy measure is to support enterprises that will create value for both Estonia and the world, that is businesses with internationalisation potential. Specifically, the SuE initiative aims to provide services for start-ups during their various development phases in smart specialisation growth areas, and to deal with obstacles obstructing the creation and scaling up of start-ups.

The scheme is expected to foster people’s entrepreneurship potential so that start-ups can be established, and their team, product, customer and business model developed as a whole. According to the information on the SuE’s website, the programme also contributes to developing a start-up financing model that would help them to thrive.

The minister’s 2015 directive sets target values for 2018 and 2023. These are based on result and outcome indicators and used in the SuE monitoring process (see Table 1). As SuE is a measure that should help to achieve the 2014–2020 OP expected outcomes, the two first target values (‘number of enterprises supported to introduce products or services new to the firm’ and ‘total number of supported enterprises’) are calculated proportionally and not analysed specifically in relation to SuE.

Table 1. SuE measure: indicators and target values

Type of indicator	Indicator’s name	Baseline value	Target value (2023)	
The measure inputs into 2014–2020 OP proportionally	Number of enterprises supported to introduce products or services new to the firm	0	3	
	(Total) number of supported enterprises	0	156	
Type of indicator	Indicator’s name	Baseline value	Target value (2018)	Target value (2023)
SuE scheme result indicator	Enterprises attracted international capital of €1 million within three years after receiving support	0	2	5
SuE scheme outcome indicator	Number of potential and active start-up enterprises (described by the interviewees as those having benefitted from a SuE activity)	0	600	1,000

Source: minister’s 2015 directive

2.2. General description of the measure

The minister's 2015 directive outlines three types of activities within the SuE framework in the explanatory memorandum to this directive: (1) holistic development plans to advance start-up entrepreneurs' knowledge and skills and provide training in pre-start-up stages; (2) long-term business accelerator programmes in smart specialisation growth areas; and (3) activities for developing a start-up ecosystem.

During the implementation process, however, the implementing agency, for practical reasons, has conceptualised SuE activities into four categories. These are presented on the SuE website and by Vavulski (2016) as follows:

1. **Strengthening the Estonian start-up ecosystem – uniting and building the community through different events and activities, creating and executing unified marketing and branding strategies** (for example, monthly community meet-ups; marketing ecosystem through awareness building and information sharing via social media, monthly newsletter, organising conferences; mapping ecosystem through surveys and analyses and building an Estonian start-up database).
2. **Carrying out training programmes for start-ups in areas where they lack certain knowledge that prevents them from achieving their (international) business goals** (for example, preparing [freely available model documents for start-ups](#); seeking partners for sales and programmes on marketing, founders' coaching and product development and design; public procurement of training programmes on specific topics).
3. **Educating the local investors to help them invest more and smarter, to help attracting foreign investors to Estonia, and to kick-start new business accelerator funds in order to bring more investments from sophisticated investors into the local ecosystem** (for example, seeking cooperation partners; preparing and conducting tender documents for 'Acceleration Services'; promoting business angels).
4. **Working on eliminating regulative issues and barriers that are complicating start-ups' operations, investing or raising funds in Estonia, and implementing start-up friendly regulations such as the Estonian Startup Visa programme** (for example, amending the Aliens Act and implementing Startup Visa/residence permits for work or business purposes; amending business law so that opening a securities account could be done without physical presence in Estonia; analysing the Estonian tax environment; and reporting for the '[Startup Europe manifesto tracker](#)' online tool. The tool tracks the implementation of Startup Manifesto's recommendations for entrepreneurship and innovation in the European Union member states).

As the interviewees pointed out, [Estonian Startup Visa programme](#) is one of the most long-awaited SuE activities. The programme was initiated by the local start-up community and the Estonian Ministry of the Interior. It was launched in January 2017. The programme is meant for entrepreneurial non-EU nationals who wish to join the Estonian start-up community; and for Estonian start-ups wanting to recruit from third countries. The legislation was amended to allow Estonian start-up companies to employ non-EU nationals without meeting the current salary requirements (that is, depending on the employment field, a minimum pay requirement of 1.24 or 1.5 times the average Estonian salary in case of recruitment of foreign labour) and receiving consent from the Estonian Unemployment Insurance Fund (so-called preferential terms) (Startup Estonia, 2017a).

Through Startup Visa, a visa for start-up entrepreneurship may be issued for up to 365 days and further extended for up to 183 days (for requirements and application process, see section 4.2), thus giving foreign entrepreneurs the opportunity to settle in Estonia for up to 18 months to establish their start-up.). Prospective start-up entrepreneurs who have established their start-up in Estonia and wish to stay longer can apply for a temporary residence permit for business. The general investment requirement (€65,000) to apply for a residence permit for business does not apply to start-ups. Temporary residence permits for business may be issued for up to five years (Startup Estonia, 2017a).

Although the objective of the measure is to provide services for developing smart specialisation growth areas, enterprises from other fields are also involved in SuE activities (for instance, the existing entrepreneurial fabric in the smart specialisation field may lack enterprises that would be ready to participate in specific projects).

The present funding period is connected to the 2014–2020 EU Multiannual Financial Framework and all activities should be finalised in 2023 at the latest.

According to the interviewees, the measure is innovative in terms of its design. Firstly, all state supported measures that start-up businesses need are packaged within one support scheme. Secondly, instead of providing services to start-ups directly (and thus becoming a competitor to other start-up ecosystem actors) or direct financial support, the measure focuses on developing a self-organised start-up ecosystem, whose actors provide services to start-ups. Thirdly, partners are actively involved into activities and feedback is gathered to make changes and improve them. In this respect, it is important to stress that SuE is not a package of fixed activities; activities might be modified according to the changes in start-ups' needs.

2.3. Available budget

The initial budget of the measure for the whole period 2011–2013 was €2.24 million (according to the minister's 2011 directive). Then minor changes were made on the basis of the amount of planned and expected eligible costs of the whole period, that is €2.3 million in 2014 (according to one of the minister's directives), €2.32 million in 2015 (according to one of the minister's directives), and €2.28 million as of March 2017 (according to the [data on the use of structural funds - in Estonian](#)).

According to the minister's 2011 directive (in Estonian), 100% of the costs was covered by the European Structural and Investment Funds (ESIF) through the European Regional Development Fund (ERDF).

According to the minister's 2015 directive, the measure's budget for the 2014–2020 period is €7 million (100% from ESIF through ERDF) and is intended to contribute to develop knowledge and skills; provide training; develop a start-up ecosystem in the 2015–20 period and for the procurement of business accelerator services between 2015 and 2023. Annual action plans and the budget are approved for each year (see section 6.1).

2.4. Target groups of the measure

According to the minister's 2015 directive, the three target groups of the current measure are:

1. People or teams interested in start-up entrepreneurship having an idea or a business concept;
2. Start-up entrepreneurs who, in addition to knowledge and contacts, also need capital to develop their business concept systematically;
3. Start-up ecosystem actors who are directly involved in developing start-up business and who provide contact network and capital to start-ups in their early development phases (business accelerators, business angels).

SuE focuses on start-up rather than scale-up processes (however, companies that used to be start-ups also benefit from the Estonian Startup Visa programme).

The measure targets specific sectors that are defined under the smart specialisation growth areas, namely: information and communications technology (ICT) horizontally via other sectors; health technology and services; and more efficient use of resources. These growth areas were identified in the EDF 2013 analysis (Eesti Arengufond, 2013a). These were conceptualised as economic areas with above-average growth and value-adding potential and where there was a potential to achieve a competitive advantage through research and development investments. The growth areas are mentioned and referenced in a minister directive from 2016.

Generally, focusing on smart specialisation growth areas in SuE and other policy measures allows the government to support clearly defined business areas. Furthermore, it also helps to set clearly defined objectives and result and outcome indicators.

Estonia is the target country. However, foreign start-up entrepreneurs can obtain e-residency and, as a result, also access to the measure. The same SuE initiative criteria/aspects apply to all regions/areas in Estonia and different external actors could be involved in several SuE activities (see section 2.2), which are required to contribute to developing the Estonian start-up ecosystem.

3. Relevance of the measure to SMEs/born globals and internationalisation

3.1. Relevance in relation to different types and stages of internationalisation

According to the interviews, as SuE focuses on developing the whole start-up ecosystem and on supporting start-ups to internationalise, the measure is relevant for all their internationalisation efforts. SuE might be able to find solutions and generate activities for start-ups' internationalisation by focusing on market failures and problems and facilitating informal business networks building (as in the case of the IT start-up ecosystem).

These aspects are relevant for born globals, which benefit from SuE activities both directly and indirectly, especially through participation in events to build and grow networks with future partners; undergoing trainings and knowledge raising among start-up investors; finding financing opportunities and conducting business in a well-developed start-up ecosystem.

3.2. Support for cooperation between SMEs/born globals and wider international collaboration (if any)

According to the interviewees, due to its wide range of eligible activities (see section 2.2), SuE supports cooperation between different types of local and international actors (not only enterprises), to foster the start-up ecosystem development (with facilitating companies' internationalisation being a major objective).

3.3. Contribution of the measure to tackle SMEs'/born globals' internationalisation support needs

In addition to providing services through various partners, by communicating with start-up entrepreneurs and using various international and local research studies SuE tries to identify bottlenecks that start-ups face. Furthermore, in collaboration with ministers and partners, SuE tries to find solutions to these challenges, for example by providing monetary support to business accelerators to fund Estonian start-ups, so to help them grow but also to increase knowledge of business angels.

As the interviewees indicated, the measure's activities are relevant for born globals' needs. The activities support start-up enterprises in their various business development stages. They also help start-up entrepreneurs to gain necessary experiences and skills to grow their businesses internationally and develop internationally competitive products and services. This is done, for example, by selling skills programmes on how to choose new markets and test new products, how to learn about the needs of a potential market and its basic operating rules; or by organising international events to build networks with international investors.

4. The operation of the measure

4.1. Promotion of the measure to internationalising businesses

SuE has its own website and, for information sharing, uses actively the following social media platforms: Facebook (more than 8,000 followers), Instagram, LinkedIn, and Twitter. Beyond social media, SuE tries to promote the support scheme among economic diplomats and foreign representatives. Comprehensive and carefully planned promoting activities have been carried out since

the beginning of 2016 (availability of information on social media increased significantly compared to the period when SuE was operated under EDF). SuE aims to develop the whole Estonian start-up ecosystem with fostering an environment where relevant organisations could be created and developed. As a result, SuE's promotion campaign is designed in a way where the first point of contact for start-ups is not the implementing agency but start-up ecosystem actors providing all kinds of services. In case start-up companies or entrepreneurs approach SuE, the team will give advice on whom to contact to receive specific consultation or services.

4.2. The process of application and assessment of applications

Specific application processes and assessment terms apply to the '**Estonian Startup Visa programme**'. This is the only service that SuE provides directly.

According to the information on the SuE' website, in order to run a start-up in Estonia a foreign founder without a registered company in Estonia can apply for a startup visa. A foreign founder who already has a registered company in Estonia can apply for either a startup visa or a temporary residence permit. The applicant should fill in an application in an electronic system called 'StartupIncluder'. The application should include details about the business (for example, product/service description and technologies used; customers/users and market profile) and the team (for example, key team members, including their previous experience in entrepreneurship). The application will be reviewed by a Start-up Committee, which consists of Estonian start-up community members, within ten working days. The committee will decide whether the company qualifies for pursuing the startup visa. In case of a positive decision, a foreign founder can apply for a startup visa or a residence permit at an Estonian embassy in a city of his/her choice or at an Estonian Police and Border Guard Board's service point.

For Estonian start-ups to be able to bring non-EU employees to Estonia using the startup visa, the start-up has to check if it has been included in the [list](#) of Estonian start-ups eligible for hiring non-EU employees on preferential terms by default (the list included 339 start-ups as of 28 February 2017). The implementing agency compiles the list of active companies, who in their annual reports have reported turnover. In case the company is not in the list, it has to fill in an application about the start-up (providing details on the business and the team) in the electronic 'StartupIncluder' system' to qualify for bringing foreign talents to Estonia on a preferential basis. The Start-up Committee will review the application and will decide whether the company qualifies for the startup visa or not within ten working days. In case of a positive decision, the start-up will generally receive a right to bring non-EU employees to Estonia on preferential terms for up to five years. Upon confirmation of the right and if the foreigner is hired for a short-term employment (that is, up to 270 days a year), the company will need to apply for their short-term employment permit and the employee for his/her visa. If the employment is for a longer term, the employee will need to apply for a temporary residence permit at an Estonian embassy in a city of his/her choice or at an Estonian Police and Border Guard Board's service point (EAS, 2016a; Politsei- ja Piirivalveamet, 2017).

Start-ups participating in either the [Buildit Hardware Business accelerator programme](#) (supported by the SuE measure according to the website of Tartu Science Park) or the [Startup Wise Guys Business Tech business accelerator programme](#) (initially supported by the SuE measure to cover administrative costs; funded by EDF (EAS, 2016b))¹ can apply for a fast-track process. In this way they do not need to go through the Start-up Committee evaluation process and can proceed directly to the visa or permit application (Startup Estonia, 2017b).

According to the information on the SuE's website, associated cost is the state fee for a review of a long-stay or a short-stay visa application (€80 and €60 respectively). No additional state fees are foreseen for the review of the application submitted to the Start-up Committee. When applying for a startup visa, the applicant is required to hold a minimum of €130 per month of stay in Estonia.

¹ Confirmed by CEO of Wise Guys Holding OÜ Maris Prii: a two-minute phone call to on 25 April 2017.

Moreover, the applicant's company has to comply with the start-up definition in the Aliens Act (see section 1.1).

4.3. Delivery mechanism of the measure

As the interviewees indicated, the implementing agency of SuE is not a direct service provider; start-up ecosystem actors provide the services (listed in section 2.2) to start-ups. This is mostly done through procurement processes organised by the implementing agency. However, there are several cases where, in addition to financial contributions, the implementing agency makes in-kind contributions to projects; especially in the case of organising international events. For each procurement, the implementing agency has developed their own specifications (including selection criteria for selecting tenderers). The selected service providers, however, should follow the terms of visibility and awareness of the 2014–2020 OP. Furthermore, the implementing agency tries to ensure that the contracting conditions guarantee the provision of high-quality services. For example, according to the [information on the SuE's website](#), one of the [public procurements in 2017 \(in Estonian\)](#) aims to find service providers (from the Estonian start-up community) who would propose new innovative projects for strengthening the start-up ecosystem by developing new or existing innovative services and training programmes. At the same time the content and design of these are not prescribed and they should not serve the interests of specific organisations or individuals. Among other terms, the draft contract sets additional requirements for communicating and promoting the service, including for example the provision of information on its website and social media accounts in addition to the 2014–2020 OP requirements in terms of visibility and awareness.

4.4. Administration of the measure

The Estonian Ministry of Economic Affairs and Communications (MoEAC) is the initiator of SuE. From 2011 until the beginning of 2014, Enterprise Estonia (EE) functioned as the measure's implementing agency. As described on the EE's website, EE is a government agency that promotes business and regional policy in Estonia. It is among the largest institutions within the national support system for entrepreneurship. EE provides financial assistance, counselling, cooperation opportunities and training for entrepreneurs, research institutions, and the public and non-profit sectors.

The Estonian Development Fund (EDF) was the implementing agency from 2014 until mid-2016 (for reasons, see section 1.2). As it emerged from the interviews, the functions of the implementing body were split between two organisations. While EDF became the implementing agency in practical terms, control and payment functions of the SuE measure were left under EE (which might be regarded as the technical administrator of the policy measure).

Due to the reorganisation and subsequent closing down of EDF, the measure's implementation was transferred to KredEx as of 1 July 2016. According to the KredEx's website, KredEx is a government foundation providing financing facilities to Estonian enterprises in the form of loans, state guarantees, credit insurance and so on. The assistance helps businesses to develop quicker and to expand to foreign markets with greater safety. KredEx has a separate team working on the SuE scheme. EE continued to perform its technical and administrative role.

As the interviewees confirmed, the focus of both EE and KredEx is on promoting export and the internationalisation of businesses, as well as supporting SMEs.

The measure's current administration structure is determined by the general working process of the ESIF in Estonia, including by the [2014-2020 Structural Assistance Act](#), the minister's directive from 2015 and 2016. The MoEAC is responsible for establishing and developing the terms and conditions for the provision of support, for monitoring the measure's performance, and for providing guidance to the measure's so-called technical administrator and the implementing agency (see section 4.3). EE, as the administrator, processes payments and controls and audits the implementing agency. The administrator is also responsible for the monitoring and approval of the SuE measure's annual, interim and final reports. The implementing agency is responsible for meeting the set targets and levels of indicators. The agency is also in charge of preparing and implementing annual activity plans and

budgets. These need to be approved by a steering committee. The committee consists of MoEAC's and EE's representatives (voting rights), implementing agency's agents and optionally also representatives of parties connected to SuE activities (no voting rights).

According to the interviews conducted for the case study, there is regular weekly contact between MoEAC and KredEx (the implementing agency) to ensure continuous information sharing on SuE's activities and beneficiaries' needs.

5. Monitoring and evaluation

5.1. Monitoring of the implementation and take-up of the measure: method and contents

According to the interviews, the SuE team prepares quarterly interim and annual reports explicitly on SuE for EE (on how the results were achieved, including what activities had the most impact on achieving relevant targets). These reports are not published. The targets that should be monitored are outlined in the minister's 2016 directive and also described in Table 1 of this document (section 2.1).

The interviews showed that, as the measure is designed to develop the whole start-up ecosystem in Estonia, there is a need to monitor the ecosystem on a regular basis. The implementing agency has started to provide statistical overviews of the Estonian start-up scene. The overview includes statistics on aspects such as the taxes paid, funds raised, the biggest employers and the most popular industries, among others. The first overview covered the year 2016 and was presented in February 2017. The implementing agency intends to start providing the statistical overviews at least biannually (Startup Estonia, 2017c).

5.2. Evaluation of the measure: methods and contents

No assessments of the SuE scheme were carried out before 2015 (the only available type of review was a summary based on the monitoring data of the EDF's and EE's operational and/or annual reports).

The implementing agency commissioned a research project to conduct a preliminary analysis on the start-up landscape in 2016. The analysis addressed the awareness about SuE's activities and included an evaluation of SuE's activities from the perspective of start-up ecosystem actors. Independent experts conducted the analysis between December 2016 and January 2017 and presented the results to the implementing agency in January 2017. For the analysis, experts conducted a number of individual as well as three group interviews. The interviews were based on open questions that had been previously agreed with KredEx. In total, the researchers interviewed 36 start-up ecosystem actors. The analysis described the knowledge about SuE, the perception of its role, criticisms regarding its activities and suggested a list of detailed recommendations for SuE (Sass and Lind, 2017).

As one of the interviewees indicated, the implementing agency would like to commission evaluations on a biannual basis (similar to the 2016–2017 evaluation), especially as the start-up community has voiced expectations of such regular evaluations. To a certain extent, the evaluation of R&D competitiveness, socio-economic impact of R&D&I and policy measures of smart specialisation [planned for May 2018–March \(in Estonian\)](#) should give feedback on the SuE scheme, as should the interim evaluation of the 2014–2020 OP scheduled to occur between June 2018–March 2019.

5.3. Any changes to the content or delivery of the measure following monitoring and evaluation

According to one of the interviewees, the SuE team analysed and discussed the results of the 2016–2017 evaluation with its members. Subsequently, responsibilities for the implementation of relevant activities, which the evaluation had brought attention to, were distributed. Overall, the SuE team committed itself to deal with each aspect reflected in the evaluation report within the six months after

the report was presented (for example, on 13 March 2017 a regular start-up community meeting was held during which the general problems brought out in the report were discussed). As of spring 2017, the SuE team started to enforce some of the report's suggestions, such as the renewal of the start-up database, finding organisations that would provide new or updated services to start-up ecosystem actors or start-ups, and conducting additional activities in relation to the Estonian Startup Visa programme. The latter consisted, for example, of promotion activities in target countries by participating and organising thematic events at labour fairs in Kiev, Lviv and Odeassa in Ukraine in the first half of 2017; additional events are also planned for the second half of 2017.

6. Evidence of outcomes and impact

6.1. Evolution of the measure's spending

According to the [data on the use of structural funds \(in Estonian\)](#), the planned SuE's budget resources for the first EU funding period 2007–2013 were fully used.

According to the 2015–18 [implementation plan of the Estonian Entrepreneurship Growth Strategy 2014–2020 \(in Estonian\)](#), for the period 2015–2018, the planned annual budget was €1.16 million. Every year, the amount is being adjusted according to real costs made in the previous year and expected costs of planned activities of the following years. For instance, according to the 2016–19 [implementation plan of the Estonian Entrepreneurship Growth Strategy 2014–2020 \(in Estonian\)](#), the amounts were €1.183 million for 2016, €1.208 million for 2017, €2.808 million for 2018 and €0.975 million for 2019.

According to preliminary calculations, a little more than €600,000 was spent in 2016. As one of the interviewees pointed out, the underspending occurred because of the postponement of two procurement processes (one was not prepared after the termination of a previous contract because of its inadequate quality and the other one because of insufficient time allocated for preparing the procurement. Both procurements are expected to be prepared during the second half of 2017).

6.2. The quantitative and qualitative outcomes of the measure

There is no publicly available data on result and outcome indicators for the measure (see section 5.1). According to [data on the use of structural funds \(in Estonian\)](#), the analysis of target values' achievement is planned for the second half of the SuE's implementation period in 2019. However, according to the interviewees, the targets Table 1 displayed in section 2.1 are generally perceived as achievable, while some of these will be probably overachieved (the number of potential and active start-up enterprises for example). The achievement of the result indicator 'Enterprises attracted international capital of €1 million within three years after getting a support' can be assessed at the end of SuE implementation period, when business accelerators expected to be launched in summer 2017 will have been operating for two to three years. The outcome indicator 'The number of potential and active start-up enterprises' (the target value in 2023) had been practically achieved by April 2017 already.

Within one month after the launch of the Estonian Startup Visa programme, more than 50 applications in total were received from over 10 countries. Such results exceeded the implementing agency's expectations. Regarding the activity areas of start-ups, a good variety is presented, with topics ranging from aviation to marketing and telemedicine to tourism. By 11 May 2017, 106 applications from 29 countries had been made for the Estonian Startup Visa programme. The Startup Committee has given a positive evaluation to 39 applications, negative to 62 and 5 applications are being evaluated. Most of the Estonian Startup Visa programme's applicants are Ukrainian, Belarussian, Russian, Turkish and Indian nationals. Applicants from Ukraine, Belarus and Turkey have been the most successful ones. Regarding the startup visas for working in an Estonian start-up, 29 applications have been submitted.

The nationals of Ukraine and the USA have been the most successful (Startup Estonia, 2017d; Startup Estonia, 2017a).

Information on SuE's annual activities listed in section 2.2 could be regarded as quantitative and qualitative outcomes of the measure. The full information is submitted to EE in the interim and annual reports, which are not public (see section 5.1). Some information can be found in the implementing agency's annual reports. According to the latest annual report (Sihtasutus KredEx, 2017), the major outcomes in 2016 were as follows: launching a public procurement to create accelerator funds for the provision of venture capital for start-ups in their early stage; hosting the world's largest green technology start-up contest '[Climate Launchpad European Finals](#)' for 90 start-ups from 30 countries (where an Estonian company [became the winner of the Grand Final](#)); co-organising important start-up ecosystem events, namely a start-up business festival, 'sTARTUp Day', and an international start-up conference, 'Latitude59'; creating a [start-up database](#); ensuring a significant increase in social media followers; promoting SuE in two pan-European conferences, namely 'Web Summit' in Portugal and 'Slush' in Finland; providing international sales and marketing training for 20 Estonian start-ups; organising training and other various events for business angels (as it emerged from an interview, in cooperation with the Estonian business angels network EstBAN); and preparing the Estonian Startup Visa programme.

6.3. Impact of the measure on its beneficiaries and other actors

On the basis of the 2016–2017 evaluation results it might be stated that start-ups use various services that SuE supports to increase their contact base and improve knowledge and skills (with events like conferences being the most popular). They also benefit from SuE's lobbying activities towards the government in order to make legislation more favourable to the start-up ecosystem (in the context of the Estonian Startup Visa programme for instance) (Sass and Lind, 2017). As it emerged from the interviews conducted for the case study, start-ups approach SuE to find a solution to their existing problems. They know that SuE could assist them in properly delivering a message to ministries and other partners.

As stated in section 2.2, the Estonian Startup Visa programme has made the process of obtaining a work or living permit much easier for the start-up community. As claimed by the co-founder of Shipitwise, one of the companies that has benefited from the programme, 'building an international culture through an easier access to smart and motivated people makes the company more competitive on a global scale' (Startup Estonia, 2017a).

According to the evaluation report by Sass and Lind (2017), in general, SuE's existence and activities are perceived as necessary. The most valuable of SuE's activities are cooperation with the government (legislative initiatives and lobbying) and participation in the organisation of events for the start-up ecosystem (sTARTUp Day and Latitude59).

6.4 Evidence of economic and employment impact

There is no evidence of SuE's economic impact on the start-up ecosystem's actors. A certain impact on employment might be seen in the case of higher than expected number of applications within the Estonian Startup Visa programme (see section 6.2). According to the [information on the SuE's website](#), since the launch of the measure in January 2017 till mid-January 2018, approximately 100 startup founders have been granted a visa or temporary residence permits and 167 employees have either already joined an Estonian startup or are in a process of doing so.

7. Strengths and weaknesses of the measure

7.1. Strengths of the measure

1. SuE is not a package of fixed activities; activities can be changed according to the start-ups' needs.
2. SuE develops the start-up ecosystem to make it self-sustaining (that is, actors of the start-up ecosystem will be able to provide all necessary services without state support).
3. SuE ensures ongoing communication with the start-up community, which allows to receive feedback on SuE's activities.

The SuE scheme has proven to be a good practice and some countries (Finland and Latvia) have shown interest in its concept with an aim to take over some of its principles. According to the interviews conducted for the case study, the observed policy measure could be easily transferred to other countries but its design should be reviewed and adapted to local socio-economic and cultural contexts.

According to the interviewees, these strengths are equally relevant for different types of enterprises.

7.2. Weaknesses of the measure

According to the interviews, the measure has only one weakness – namely the administrative burden arising from the ESIF requirements. The burden falls primarily on the SuE team but sometimes also on enterprises (for example, in case of participating in a training programme). There are many legislative rules that are not specific or clear enough (for example, differences in submitting business trips related reports). Notably, there is no legal act specifically describing how to prove the eligibility of different occurring costs. This may result in the obligation to review the submitted documents.

According to the interviewees, these weaknesses are equally relevant for different types of enterprises.

7.3. Evidence of policy learning over time

There have been various policy learning cases connected to different EU funding periods. As it emerged from the conducted interviews, before 2015 SuE experimented with various activities to find out the most successful ones. The largest amount of budget allocations went to the creation of start-up business accelerator organisations. Before 2014, no specific attention was paid on the general start-up environment or on legislative aspects, and instead of leverage, the investment focus was on providing operating support for business accelerators. Similarly, less attention was paid to marketing and promotion activities. Compared to the period when EE implemented the measure, EDF started to communicate much more with enterprises to learn about their existing problems and find possible solutions.

Another difference relates to financing start-ups in their very early stage. According to the [EDF's website](#), the EDF's investment strategy, with an aim to develop local venture capital market to support the establishment of internationally competitive companies, focused on two target groups. The first target group were start-ups in the seed or start-up phase, in which the EDF's subsidiary AS SmartCap (a state owned public limited company created in 2012) (Rute, 2016) together with private investors made capital investments. In the framework of the second part of the investment strategy, EDF invested capital in business accelerator funds operating in the pre-seed and seed phase. In turn, the accelerators invested the allocated resources in innovative technology companies.

According to a new investment strategy following the closure of EDF (for more information, see section 4.3) and the information on the SmartCap's website, as of May 2017, SmartCap is reorganising its direct investments and making new investments in early stage venture capital funds (business accelerators). In this manner, both parts of the EDF's investment strategies have been merged and SmartCap continues cooperation with SuE (creation of business accelerators is a SuE activity) (Eesti Arengufond, 2013b).

According to the interviews conducted for the case study and Rute (2016), the following aspects could be regarded as evidence of policy learning over time:

1. It is essential to connect local actors with the international scene.
2. Large international conferences (for example, Latitude 59 and Refresh) bring attention to the start-up ecosystem and generate value for participants (for example, knowledge; networking).
3. Because of market failure, the state should support early access to the capital.
4. In the context of a small economy (as in case of Estonia), start-up entrepreneurs should plan and execute strategies and activities internationally. Hence policy should encourage start-ups to go international.
5. The availability of sufficient human resources in the administering body has a significant impact on the measure's effectiveness and efficiency; in cases of labour shortages (as it happened in the beginning), it becomes impossible to pay enough attention to all necessary activities (this was also reflected in the critical 2016–2017 evaluation of SuE).
6. It is necessary to use available human resources to promote quality, high-value activities rather than merely targeting the quantitative aspect of activities (the number of activities, for instance).
7. SuE is operated in an organisation where the measure has a high reputation and standards – and has its own team with clearly set targets. In other words, it is not just another policy measure among the myriad of others.
8. Collecting data on the start-up ecosystem allows the SuE team to develop its package of activities.
9. It is essential to get feedback from local players and private investors to continuously improve the quality of actions and develop an activity package (also proven by other countries' practices regarding different policy measures).

8. Recommendations

8.1. Overall recommendations regarding the measure

The financing of the measure will continue until 2023 and is connected to the 2014–2020 ESIF financial period. According to the conducted interviews, by then the government should have identified the fields/aspects of the start-up community/ecosystem where the state should intervene to further support its development (for example, skills development, legislative aspects, promotion of the Estonian business environment).

For performance monitoring purposes, the SuE team has specified some of the measure's result and outcome indicators in more detail and it might ask MoEAC to review the indicators and target values (for example, to add the target value called 'number of relocated enterprises to Estonia'). But as it was agreed with the MoEAC, this can be done only after the measure has been under implementation for at least two full consecutive years (after 2017).

The evaluation report by Sass and Lind (2017) includes recommendations for SuE falling under the following four main topic areas:

1. The implementing agency should make further efforts to increase the start-up ecosystem's efficiency by:
 - a. Taking a more transparent role in coordinating the Estonian start-up landscape (for example, setting up a round table consisting of start-up ecosystem actors).
 - b. Providing a more informative overview about the Estonian start-up landscape (enhancing the start-up database; reflecting all start-up events in a start-up calendar; regular monitoring of the current situation and needs of the start-up ecosystem; communication channel should be theme-based).

- c. Giving financial support to the activities of the start-up community activities (for example, providing co-funding for joint visits to conferences or for inviting renowned external experts).
2. The implementing agency should promote Estonia as a good start-up ecosystem by:
 - a. Applying a more strategic approach in international markets by:
 - i. Focusing on the branding of the Estonian start-up ecosystem and start-ups, not on SuE.
 - ii. Cooperating with diplomatic missions in Estonia and of Estonia.
 - iii. Promoting the Estonian start-up ecosystem in the former states of the Soviet Union to attract talents.
 - iv. Developing more specific cooperation with the Finnish start-up community.
 - v. Making joint preparations for conferences and events and their exhibition stands.
 - b. Finding start-up ambassadors.
3. The implementing agency should constantly improve the reputation of start-up business by:
 - a. Developing proactive communication with the media.
 - b. Contributing to transferring the start-up business mindset to mature enterprises.
 - c. Providing entrepreneurial education to the young generation, for instance by involving entrepreneurs in school education (for example, an entrepreneur from the ICT related service economy gives a school presentation).
4. The content of SuE could be restructured by merging SuE, the Estonian Investment Agency and the [e-Residency programme](#) into a single agency, which would promote Estonia as an attractive place for business. ‘Rotterdam Partners’, an agency promoting the city of Rotterdam and attracting talents and investments to the city, as well as ‘Berlin Partners’, an agency promoting Berlin as a good business environment, might be taken as examples.

Additionally, as criticisms towards the SuE measure, the evaluation report by Sass and Lind (2017) pointed out that the outcome indicator (1,000 start-ups by 2023, see section 2.1) should be more specific, preferably by adding quality criteria (for example, X number of start-ups that reach the A round – the first significant round of venture capital financing).

8.2. Recommendations on the national support system for SME/born global internationalisation

Some propositions concerning SME/born globals’ internationalisation could be made on the basis of analysing the interviews and the independent 2016–2017 SuE evaluation by Sass and Lind (2017). More specifically:

1. A relatively small measure like SuE is not enough to foster high-tech entrepreneurship. There should be a separate policy strategy instead.
2. There should be an evaluation mechanism to measure how various policies work together to support businesses.
3. Higher education does not provide knowledge on running an international business and entering new markets. Estonian entrepreneurs lack international sales skills. Moreover, start-up entrepreneurs suffer from skills shortage, which hinders business growth.
4. There is a need to develop a mutually beneficial cooperation between universities and businesses. Every year, several new products and technological solutions are being created in universities but these are not commercialised because of a lack of contacts and networks (in 2017, the government intends to reform/change the principles of science financing by decreasing the importance of scientific articles in favour of patents and objectives relating to entrepreneurship).
5. According to the interviews conducted for this case study, the overall administration of the measure has proven to be efficient. However, from the implementing agency’s viewpoint, decreasing the number of involved organisations might be a reasonable step. EE’s role is

mostly about technical control of documentation and, thus, its value in the process is only relative. Therefore, simplifying the system might be logical (as of the beginning of 2017, discussion on the possibility of the Ministry of Finance taking over the responsibilities of EE was ongoing and EE had expressed readiness for such restructuring).

8.3. Any gaps in the provision of policy support and suggestions

According to the conducted interviews and Sass and Lind (2017), some gaps in the provision of policy support in Estonia can be identified as regards internationalisation; namely:

1. The supply of venture capital for start-ups is limited. There are no investments during the prototype phase of start-ups and it is hard to find investments exceeding €1 million.
2. Investors wishing to invest into start-ups need to go to Estonia personally (to open a bank account and to visit a notary). As a result, some start-ups relocate their business to other countries with fewer barriers and requirements for investors.
3. Start-ups do not value EE's policy measures as these are regarded as 'slow', mainly because of the high level of bureaucracy involved (for instance, the different deadlines and application rounds).
4. Shortage of direct flights between Tallinn and European cities does not support the internationalisation of start-ups.
5. In terms of hiring employees from abroad, finding a job for a spouse and a kindergarten or school place for childer is difficult. Sometimes prejudice towards people of different cultural and racial backgrounds is an obstacle for hiring employees from abroad and keeping them in Estonia.

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