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Unicorns at the Baltic Sea: Estonia is the forge of start-ups

Estonia is harvesting the crops were sowed over a quarter of a century ago as the Tiger Leap (est. Tiigrihüpe). It was an initiative aimed to expand infrastructure and develop citizens' skills in the field of digitization, with a focus on the education of the youngest. The generation of Estonians educated in such an environment is already on the labour market and are successfully developing innovative ideas and creating start-ups. In 2021 the greatest number of start-ups per capita in Europe were created in Estonia, and a large number grew to the rank of "unicorns" – reaching a valuation of over one billion dollars.

European leader of start-ups. Start-ups, as enterprises with the potential for very rapid growth, are important for the economy. Most often they are related to information and communication technologies (ICT) and the high-tech sector. The above-average risk in the case of this type of entity means that only some of them achieve market success. However, those that manage to do so have the opportunity for huge profits and global expansion, which, from the point of view of the national economy, is conducive to the development and creation of GDP and new jobs. In Estonia, there are 1,107 start-ups per million inhabitants, the highest among European economies, for which the average is 237 (by comparison, in Lithuania it is 523, in Latvia – 315, in Poland – 90). This is the result of the State of European Tech 2021 report, which covers data up to September 2021. The current one – from the Estonian Start-up Database as of July 8, 2022 – already mention 1,384 Estonian start-ups.

The best of them join a group of the so-called "unicorns" – start-ups whose valuation exceed one billion dollars. Estonia already has 10 such success stories: Skype in 2005, Playtech in 2007, Wise in 2015, Bolt in 2018, Pipedrive in 2020, Zego, ID.me, and Gelato in 2021, and Veriff and Glia already in 2022. According to the Estonian Investment Agency (EIA), this result translates into 7.7 unicorns per million inhabitants, which places Estonia as a leader in Europe. Further, in 2021, Wise became the first Estonian "decacorn" – the start-up valued at over 10 billion USD.

According to the Estonian Tax and Customs Office, a total of 8,187 people were working in Estonian start-ups at the end of 2021, an increase of 35% compared to the previous year. The average monthly gross salary in Estonian start-ups in 2021 amounted to 2,591 EUR, 1.9 times more than the average salary in this country. The staff of start-ups are mainly Estonian citizens (65%) and relatively young people (45% of employees are aged 21-30, and 41% aged 31-40). On the other hand, the average age of an Estonian start-up founder is 37 years. Only 16% of this group are women, while in the case of people employed in start-ups, 37% are women.

Among innovators. Estonia maintains a stable position among the most innovative European countries. This feature of the Estonian economy is confirmed by the latest edition of the European Innovation Scoreboard (EIS) published by the European Commission in 2021. Estonia, as the only Central European country, is mentioned in the group of strong innovators. Overall, in this ranking, Estonia it ranks 9th among European countries, but in individual categories, it achieves higher results, including:

- 1st place in total entrepreneurial activity
- 1st place in employment in innovative enterprise
- 2nd place in terms of SMEs introducing product innovations

- 3rd place in innovative SMEs collaborating with others
- 3rd place in trademark applications
- 3rd place in basic-school entrepreneurial education and training

Conclusions: success factors of start-ups in Estonia. Estonia is described as “region’s most entrepreneurial country for tech startups”¹. This success is the result of the synergy between the government and the private sector to create a suitable start-up ecosystem in Estonia with the following activities:

1. Development of the ICT sector, including education of qualified staff. In 1996, when internet users accounted for less than 1% of the world's population, the Tiger Leap (est. Tiigrihüpe) initiative was launched in Estonia, aimed at expanding the infrastructure and skills of citizens in the field of digitization, with a particular focus on providing digital infrastructure in schools. It was decided to allocate 1% of GDP to the development of the ICT sector. Within five years, internet access was provided to all schools, supplemented with appropriate teacher training in this field, and in the following years the initiative was extended to the development of ICT competence education in vocational schools and universities. As a result, Estonia is today one of the leading countries not only in the region but also in the world in terms of the development and use of Internet services, especially in the field of public services.

2. Concern for transparency and fairness of the tax system. Estonia's tax system supports entrepreneurship through minimal bureaucracy, allowing companies to concentrate on developing their products and services. Its key element is the structure of the corporate income tax (the so-called Estonian CIT). It assumes that the enterprise does not have to pay income tax if it invests its profit in further development. In addition, entrepreneurs running their business in Estonia can use a number of digital solutions to server their businesses. As early as in 2000, it was possible to submit tax declarations online. Establishing a company in Estonia is also exceptionally straightforward. According to the latest record set in June 2022 during London Tech Week, it took just 15 minutes and 33 seconds. All this means that Estonia, for the eighth year in a row, is at the top of the International Tax Competitiveness Index 2021 (ITCI) developed for OECD countries.

3. Implementation of e-residence. In 2014, Estonia became the first country in the world to offer e-residency, a digital identity granted by the Estonian government which gives access to Estonian digital services, including – above all – the possibility for quick online company registration. So far, e-residents have established 21,000 companies in Estonia, and e-residents number around 93,400. The largest number of them comes from Russia (5,800), Finland (5,500), Ukraine (5,500), Germany (5,400) and China (4,500). At the same time, it should be noted that since February 24 and Russian aggression against Ukraine, the Estonian government suspended the possibility of considering applications filed for the first time by citizens of Russia and Belarus.

4. Establishment of Startup Estonia. Startup Estonia is a government initiative created to strengthen the Estonian start-up ecosystem. Its tasks include, among others, co-organizing events, educating local investors, and attracting foreign investors, as well as providing information on accelerators, incubators, co-working spaces, training, and all materials, including the know-how of establishing and developing innovative enterprises. The initiative's task is also to follow the fate of start-ups emerging

¹ State of European Tech 2021, https://soet-pdf.s3.eu-west-2.amazonaws.com/State_of_European_Tech_2021.pdf, [access date?], p. 77.

in Estonia. The largest ones in terms of revenues and employment in Q1 2022 are Bolt at 178 million EUR and 1,144 employees, Swappie at 20 million EUR and 519 employees, and Veriff at 13 million EUR and 386 employees.