

estonia – the new nordic silicon valley

Estonia is roughly the same size as Switzerland, but with 6x fewer people - just 1.3 million - we compensate in other ways, as any tiny overachiever would. Our superpower - Startups.

Index Venture, the international venture capital company, evaluated the business policies of different countries in the world and found that Estonia's economic environment ranks first in terms of startup friendliness. Startups are less prone to fail here, and Estonia is perceived as an extremely attractive place for business thanks to its reasonable business policy.

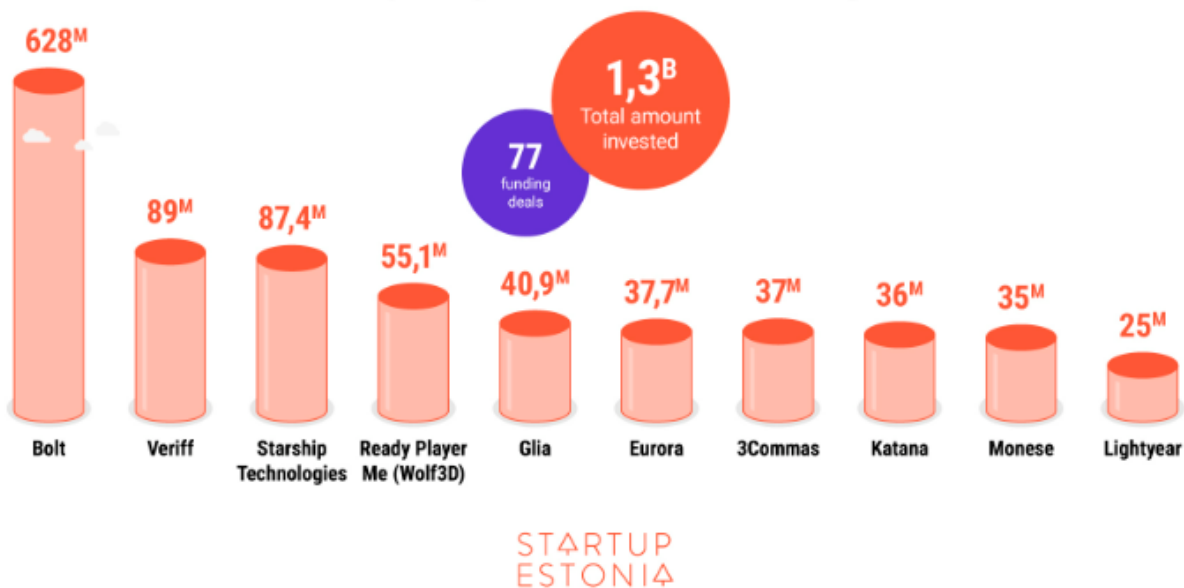
Estonian successive governments have, indeed, been eager to cement Estonia's reputation as a startup miracle. They've adapted laws to reflect fast-growing companies' needs, from introducing startup visas to killing silly rules that held founders back.

2022 in the estonian startup sector

To date, the Estonian Startup Database is home to 1400+ startups with almost 100 new startups created so far in 2022 and 2023 Q1. According to the State of European Tech 2022 report, Estonia has the highest number of startups per capita, followed by Iceland and Ireland.

Based on the crowd-sourced database and the Estonian Startup Database, Estonian startups signed in 77 funding deals in 2022, trespassing for the first time in history the magical 1 B line and landing at 1,3 B EUR, with 54 deals valued at more than a million euros. The investment's average size has increased compared to the previous year. In 2022 the average investment size was 17 million euros, while it was 10.3 million euros the year before. The total investment raised in 2021 was 928 M EUR, which makes the growth rate about 40%.

Investments (EUR) to Estonian startups on 2022



The biggest investment in the first half of 2022 was raised by Bolt (628M EUR), followed by Veriff (89M EUR), Starship Technologies (87,4M EUR), Ready Player Me (55,1 M EUR) and Glia (40,9 M EUR).

2022 started with the news of Veriff becoming the 9th Estonian unicorn and Glia the 10th unicorn, further ensuring Estonia's position as first in Europe in the number of unicorns per capita. Last year also brought a new phenomenon to our startup ecosystem - exit to a unicorn - as Transporeon (Sixfold)-Trimble deal showed how Estonians helped to build a unicorn.

During 2022, we have witnessed 5 acquisitions in the ecosystem. In March 2022, FinTech startup EveryPay, a platform for receiving payments, was acquired by LHV Group. In May 2022, Stebby (formerly SportID), the largest wellness service marketplace in the Baltics, announced an exit from the Funderbeam platform via a management buyout and investment by Livonia Partners. Also in May, Supervisor, building technology to make streets safer with AI and computer vision, was acquired by Motive Technologies. In August 2022, GuestJoy, creating customer relationship management tools for hotels, was acquired by SiteMinder. In September 2022, Jonas Software acquired Brainbase, providing brand licensing management software to global licensing businesses worldwide.

The quarterly data from the Estonian Tax and Customs Board states that Estonian startups have generated 2,1 B EUR in turnover in 2022, which is a 49% increase compared to 2021 results (1,4 B EUR). The largest turnovers were generated by Bolt (1,1 B EUR), with a bit more than half of the turnover in the sector(!), Veriff (71 M EUR), Swappie (58,4 M EUR), Comodule (36,7 M EUR) and Starship Technologies (31 M EUR).

In 2022, the biggest turnover was generated by Transportation & Logistics sector (1,2 B EUR), with Bolt contributing the most (1,1 B EUR), followed by the FinTech sector (196 M EUR), Business software & HR (162 M EUR), CyberTech (142 M EUR) and Consumer products & services (83M EUR). Turnover generated by Estonian startups constitutes 1,7% of the turnover generated by all Estonian enterprises in 2022 (118,2 B EUR).

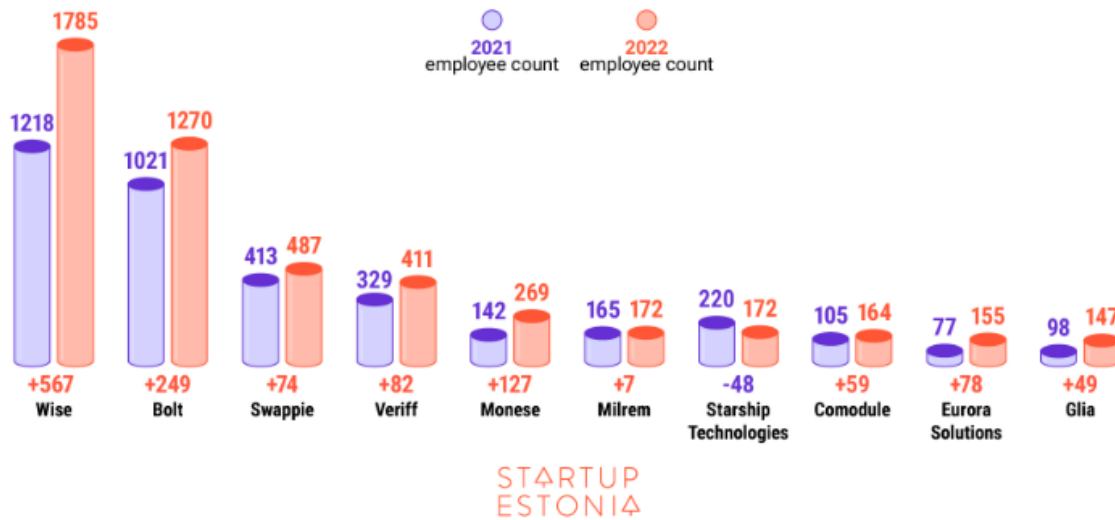
Employee count in Estonian startups



According to the Estonian Tax and Customs Board statistics, Estonian startups employed 9954 people locally at the end of 2022. A year ago, the employee count was 8187, meaning the yearly growth was 22%. Looking at the total number of employees who have worked in startups for at least one day, the number is even higher. According to Statistics Estonia, 13 694 people worked for Estonian startups during 2022, meaning that every 56th person of the Estonian working population was involved with startups!

The top 20 startups in Estonia account for 59% of the jobs in the sector in 2022, and the top employers among Estonian startups are Wise (1785 employees), Bolt (1270 employees), Swappie (487 employees), Veriff (411 employees) and Monese (269 employees).

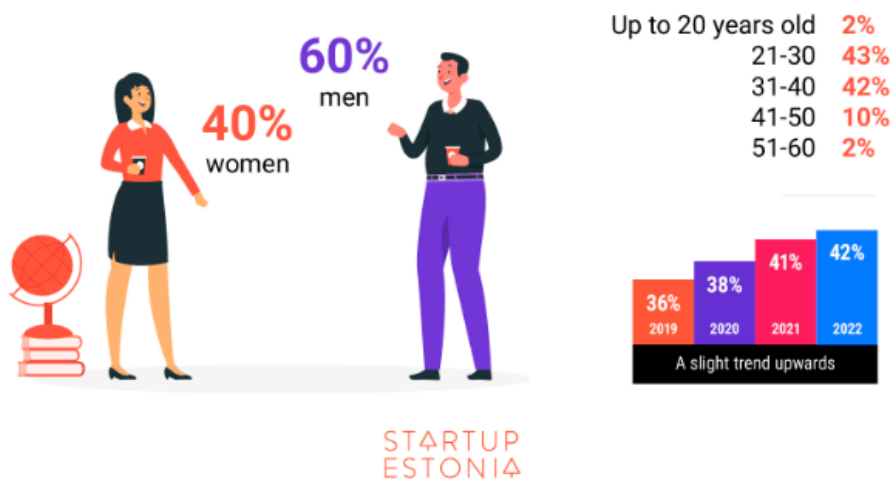
Top 10 biggest employers among Estonian startups



The top recruiter list for 2022 is quite similar: Wise is at the top with 567 new hires in 2022, followed by Bolt (+249), Monese (+127), Veriff (+82) and Eurora Solutions (+78). Based on the Estonian Tax and Customs Board statistics, the employee count in Estonian startups constitutes 1,5% of the size of the workforce in Estonia at the end of 2022 (679 353 employees).

At the end of 2022, women account for 40% of Estonian startup employees and men for 60% of the field's workforce, with a slight increase in females (37% in 2021) and a decrease in males (64% in 2021) employment numbers. The staff of startups is relatively young: 43% of employees are between the ages of 21 and 30, while 42% are aged 31-40. If we look at the demographic statistics of startup employees in Estonia, there have not been considerable changes, and trends are similar to 2019-2021. The Estonian startup ecosystem is also ripening while expanding.

Demographics of Estonian startup employees 2022

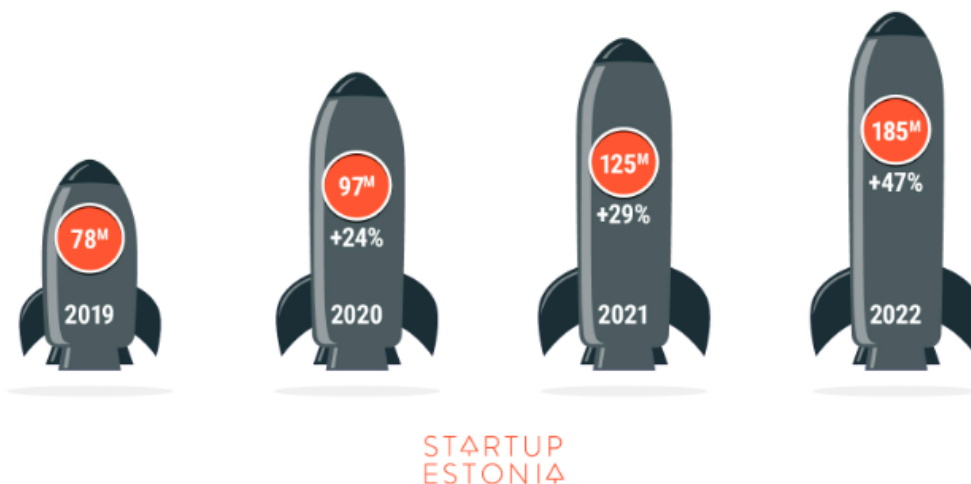


The clearest impact of Estonian startups on country's economy is the increasing sums of employment taxes paid.

According to the Estonian Tax and Customs Board statistics, Estonian startups paid 185 M EUR in employment taxes during 2022, which is 47% more than in 2021 (125 M EUR). The most significant contributors to employment taxes among startups are: Bolt (30,7 M EUR), Wise (25,2 M EUR), Veriff (8,5 M EUR), Starship Technologies (4,9 M EUR) and Monese (4,2 M EUR).

Among startup sectors, the biggest employment tax contributors are FinTech - 52,8 M EUR, Transportation & Logistics - 46,2 M EUR, and Business Software & HR, with 22 M EUR paid to the state. The statistics of the Estonian Tax and Customs Board show that Estonian startup employment taxes paid in 2022 constitute 2,7% of all employment taxes paid in Estonia (6,9 B EUR).

Employment taxes paid (EUR) by Estonian startups

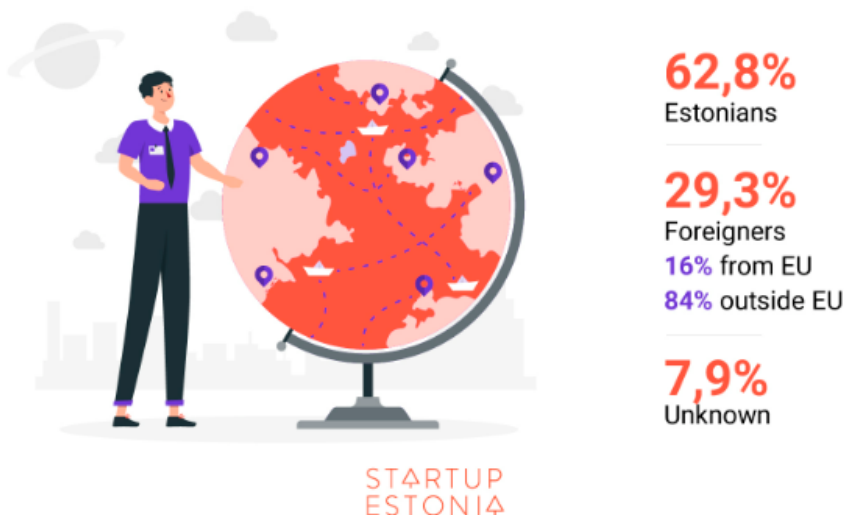


Statistics Estonia appoint that the average monthly gross salary in 2022 in Estonian startups was 2923 EUR, which is 1,9 times higher than the Estonian average (calculations are based on the total number of employees who have worked in startups for at least one day during 2022). Employees aged between 41-50 earn the highest average monthly gross wage (3622 EUR), followed by employees aged between 31-40 whose average monthly gross wage is 3300 EUR. The average monthly gross salary of startup employees with foreign origin is 3082 EUR.

32% of Estonian startup founders are of foreign origin, and the average age of a founder is 37 years old. The proportion of female startup founders is 17%, showing a slight increase compared to 2021 (16%) and 2020 (15%). According to the State of European Tech 2021 by Atomico, 15% of the founders in Europe are women. The State of European Tech 2022 report brings forth the notion that women are more represented among younger cohorts in Europe, which is a step in the right direction regarding diversity in the tech ecosystem. Looking at founders with less than five years of experience, the share of women founders is 14%, compared to founders with 15+ years of experience, where the share of female founders is 6% (data based on founders that received funding in 2022). Most of the founders in Estonia have higher education (55%), with 33% having a master's degree or doctoral degree and 22% with a bachelor's degree or professional higher education. Most of the founders based in Estonia are between 31-40 years old (51%).

62,8% of the Estonian startup employees own Estonian citizenship, while 29,3% have foreign citizenship. Of all foreign citizenships, 16% represent EU citizenship, and 84% are non-EU citizens. All the startup workforce sighted together, 4,7% are EU citizens, and 24,6% are non-EU residents. There are 7,9% whose citizenship we couldn't confirm.

Citizenship of Estonian startup employees 2022



61,4% of startup sector employees have higher education. 35% of them have Bachelor's or professional higher education, 26,1% have obtained a Master's degree, and 1,6% possess doctoral-level classifications. 27,6% of employees have basic, secondary, or vocational education based on secondary education, and 9,8% of employees' education is unknown.

estonian startup scene

Estonia has a busy, supportive and open startup ecosystem eager to support ambitious individuals and startups. [Startup Estonia](#) is supercharging the Estonian startup ecosystem to create more international success stories.

- + #1 startup-friendly country in the world (Index Venture, 2018)
- + 1400+ startups and 10 unicorns – no other small country has that many!
- + 110 partnership organizations,
- + 140 business angels, experienced mentors etc
- + Legislative environment is clear and gives incentives for startups & investors
- + 500+ events annually



The Wise Wallet of the Year 2021, Sten Tamkivi is a part of the most influential investment duo in Estonia. Taavet Hinrikus and Sten Tamkivi make 100+ deals a year, more than half of which goes straight into funding startups. We are seeing the rise of small but powerful investor groups, consisting of experienced CEO's and founders.

First, their funds keep on serving the next generation of startups, locally - Wise's, Bolt's and Pipedrive's money has reached the investment market with an unstoppable flow. Second, they're presenting serious competition to traditional ways of raising rounds through big investment funds.

incubators and accelerators

Cleantech ForEst is an Estonian non-profit that funds early stage green technology startups, advances environmental education and supports energy experts.

TalTech Mektory is providing several services to students and start-up teams who can participate in the STARTERtech preincubation program, start-up competitions, hackathons and use different labs in order to build their first prototypes.

NULA incubation program offers a development to team's needs, with the necessary mentoring - all at the very beginning of the idea, when support is most needed.

The business idea development program "**Starter**" is designed by 8 universities to supervise the process of starting a business. Two main STARTER programs run twice a year - STARTERtallinn (led by Tallinn University and TalTech) and STARTERtartu (led by Tartu University).

Tallinn University offers several entrepreneurship programs like STARTERtallinn, Startup Passion, Loomehäkk, and others, but also specific courses like ELU. It is the place where students can turn their ideas into business by participating in hackathons, entrepreneurship programs, competitions, mentoring events or passing the compulsory course ELU (Enhanced Learning Unlimited).

The University of Tartu IdeaLab is providing pre-incubation services (workshops, consultation, collaboration with experts and scientists) for all students and University of Tartu early-stage start-up teams. It is the place where students can turn their ideas into reality by participating in inspirational events, hackathons, workshops, meet-ups with entrepreneurs and pitching competitions.

You can find a thorough overview of all the incubators and accelerators as well as the whole startup ecosystem in Estonia [here](#).

estonia as the startup's operating system

- + Perfect testbed for bold ideas — sincere, business-minded people and innovation-minded government.
- + Responsive digital government — people trust in government institutions and the technology it employs. We have voted online since 2005 and keep digital health records and other personal data online. Public services are digital, transparent, and secure.
- + Estonians are encouraged to become techies — kids have programming lessons in primary school and in selected high schools building bitcoin apps is being taught.
- + Estonia is fast — 15 minutes to establish a company, 3 min to do taxes!
- + #1 tax system in OECD countries.
- + Nordic standards with lower living costs.
- + Clean environment — 51% of the country covered in forest; #4 in global air quality.
- + Safe — online and off. In 2020, Estonia ranked third in the Global Cyber Security Index, and hosts NATO's Cyber Defence HQ, and the EU's IT agency.
- + Estonia isn't your market, but your accelerator. Find your product/market fit, get ready to scale, and run your lines to where your client. Take Bolt. Launched in 2013 and a unicorn since 2018, it operates rides in 45+ countries, but has kept its HQ and largest office in Tallinn, Estonia.

startup visa

The Startup Visa program was launched in 2017. It helps non-EU founders grow their startup in Estonia, one of the world's best places to start and run a company. It also makes it easy for Estonian startups to hire non-EU talent.

Any non-EU startup that has a tech-based business solution and whose goal is to develop and launch an innovative and repeatable business model with great global growth potential and which contributes significantly to the development of the business environment in Estonia can benefit of the program, can apply for the visa.

Despite the hectic situation, the Estonian Startup Visa program continues to successfully attract talent from abroad and help startups seamlessly relocate to Estonia. Startup Visa program was initiated back in 2017 and since then 868 founders have received a temporary residence permit (TRP) or a visa. That has resulted in 250 startups in the Estonian Startup Database that have been registered by a founder holding a Startup Visa. The main activities of these startups are in the fields of Business software and HR (52), AdTech and CreativeTech (31), Consumer Products and Services (29).

One of the biggest success stories of the Estonian Startup Visa program is the digital customer service provider, Glia. In 2021, Glia raised the second biggest investment of the year in Estonia - 64.1 M EUR. In March 2022, Glia announced a new funding round - a Series D of 41 M EUR, that catapults the company's valuation to over \$1 billion. Glia is the 10th unicorn in the Estonian startup ecosystem!

future - scale-up visa in the making

Some great news ahead for mature startups that no longer qualify for the Startup Visa program (companies older than 10 years) and are struggling with hiring international talent. In 2023 there is a plan to launch a new visa program for scale-ups, which similarly to the Startup Visa program helps Estonian fast-growing scale-ups to hire talent from outside the European Union.

VC funds and investments ecosystem

Estonia stands out as one of the most agile and simple legal jurisdictions to set-up and manage an investment fund. The country is much more cost efficient in terms of operating expenses, staffing expenses, operational speed and transparency with no hidden cost.

The tax system with 0% rate on reinvested and retained profits is unique on its own and in 2018 the tax on regular corporate dividends was lowered from 20% to 14%.

Operating an investment fund is equally simple. Estonian e-business platform together with progressive pro-business legislation and e-Residency is an ideal way to manage your investments and funds overseas without travelling. It allows signing EU business contracts and legal acts, employment contracts, internal agreements in the company and everything on the Estonian e-business platform location independently.

Even online Skype meetings have been legalized as an official board meeting format for businesses registered in Estonia. In Estonia we value time, transparency and technology – so travelling is no longer necessary for board meetings in Estonia.

If the product or service is showing a clear and measurable user growth and there is already a significant funding been attracted, the next step is to go global. A list of partners to help with that:

- + EstBAN - Estonian Angel Investors Association
- + EstVCA - Estonian Venture Capital Association
- + Contriber Ventures
- + Change Ventures
- + Karma.VC
- + Lemonade Stand
- + SuperAngel Fund & AlpineHouse incubator
- + Tera.VC
- + Trind.VC
- + UnitedAngels.VC
- + Startup Wise Guys - B2B Startup Accelerator

advantages of establishing and investing in estonian VC funds

establishing a VC fund

- + Limited Partnership Fund
 - + From January 2017, it is possible to establish a Limited Partnership Fund (LPF) in Estonia – a fund designed for VC investments; until now mostly used in Luxembourg and other Western European countries.
 - + Bureaucratic procedures are easier and the costs in general are lower – no need to outsource administrative services from abroad.
- + The size of Estonia - startups in Estonia see the whole world as their market from day one.
 - + Roberto Bonanzinga, former partner at Balderton Capital, one of the largest European venture funds: *"Countries like Estonia and their companies have a competitive advantage - their local market is so small that from day one, they are forced to think globally."*
- + The AIFM directive in the EU provides favorable licensing exemptions for small fund managers (below EUR 100m in AUM) in Estonia, allowing the creation of loosely regulated Estonian limited partnership fund structure with local or foreign LPs contributing capital to the fund for investing into targets. Enterprise Estonia can recommend to you professionals with experience in creating fund structures in Estonia. Those can operate as dedicated investment vehicles for professional investors, affluent individuals and families.

investing in VC funds

- + Startup ecosystem creates pipeline and accelerates best opportunities to global scale
- + round 94% capital in startups is from international VC-s in 2021
- + Investor friendly mentality and business environment
- + #1 in Entrepreneurial Activity (World Economic Forum, 2017)
- + #1 in Tax Competitiveness (OECD, 2022)

limited partnership fund

Limited Partnership Fund (LPF) is an investment vehicle designed primarily for closed-end collective private equity and venture capital investments, following the best practices from jurisdictions such as UK, Luxembourg and Jersey.

LPF is not considered a taxpayer or an Estonian resident for the purposes of Estonian tax laws, and the income earned by an LPF is immediately allocated to its investors in proportion to their stakes in LPFs. Therefore, there is no profit tax (as there is no profit tax in general in Estonia) and no dividend tax for companies. VAT doesn't apply for the services of the fund manager. Distributions can be made without waiting for annual financial year report to be approved.

An LPF is established by the conclusion of its LPA and its registration with the Estonian Commercial Register. The LPF is registered with the Estonian Commercial Register on the basis of an application executed and submitted by:

- + the GP (or each GP if the LPF has more than one GP)
- + the management company (unless the LPF is established as a self-governed partnership)

A statement by the Estonian Financial Supervision confirming that the GP or the management company has been properly registered or authorised as an alternative investment fund manager (AIFM) must be appended to the application.

The IFA sets forth a limited set of mandatory rules, which each LPF must comply with. It leaves remarkable flexibility and freedom for the partners to agree in the limited partnership agreement on the rules applicable to the LPF. Among others, the partners have the right to regulate the following matters in the LPA:

- + partnership's purpose and investment policy;
- + duration of the partnership;
- + partners' contributions, including capital and loan;
- + allocations, sharing and distributions of profits;
- + payment of carried interest;
- + appointment, removal and withdrawal of general and limited partners;
- + powers of the partners;
- + payment of fees and expenses, including management fees, establishment costs, transaction costs, and general partner's fee income;
- + transfer of partners' interests;
- + termination of the partnership.