

Overview of the organisation of commercial diplomacy

How does the state support Estonian companies in foreign markets?

Summary

What did we analyse?

The objective of the overview is to examine how and with what resources are the activities of the state organised in supporting Estonian business in international relations. The focus is on activities that take place abroad or are related to its planning. Commercial diplomacy is viewed as a tool for implementing foreign and economic policy. At the same time, foreign policy falls within the competence of the Ministry of Foreign Affairs, and economic policy falls within the competence of the Ministry of Economic Affairs and Communications and Enterprise Estonia (EAS) as the implementing body.

The National Audit Office sought answers to the following questions: Why are the state's activities of commercial diplomacy necessary? How are activities of commercial diplomacy targeted, planned, coordinated, and what resources are used for this purpose?

Why is this important to taxpayers?

Ensuring Estonia's security has always been an indisputable priority of foreign policy. However, foreign policy is extremely multifaceted in nature, also involving foreign economic policy and the contribution of diplomats and foreign representatives of Enterprise Estonia in the achievement of its goals.

To a large extent, Estonia's economic success¹ depends on its ability to achieve breakthrough in foreign markets, which is why state support needs to be organised in a targeted and efficient manner in both the realisation of export potential as well as generating investments. The new Estonian Foreign Policy Development Plan 2030 puts the field of foreign economic policy, including commercial diplomacy, to a higher place of importance than before.

Keeping commercial diplomacy going requires at least 20 million euros of public funds every year.² The benefits from this activity in the form of both jobs created and tax revenue received is generally multiple times greater.

What did we find and conclude?

The analysis by the National Audit Office revealed that cooperation between institutions responsible for the substantive management of commercial policy and the development of the field has been volatile. There are no common systems for collecting and sharing information, and the achievement of goals does not go in harmony there is no comprehensive overview of the objectives and activities carried out to achieve them nor the results and costs of the activities.

The state has financed its commercial diplomacy with the support of the European Union funds and through the state budget, the preparation of which is a highly competitive process. As a

¹ In 2019, export accounted for 73% of Estonia's gross domestic product.
<https://ec.europa.eu/eurostat/databrowser/view/tet00003/default/table?lang=en>.

² In 2020, the direct expenses of the Ministry of Foreign Ministry related to commercial diplomacy will amount to 5.1 million euros, and expenses of EAS aimed at foreign markets will amount to 14.4 million euros.

result, funding may come under pressure if European Union grants decrease and/or budgetary opportunities deteriorate.

It is important for the Ministry of Foreign Affairs, the Ministry of Economic Affairs and Communications and EAS to agree on the division of labour and clear responsibilities when planning and carrying out activities of commercial diplomacy, taking account of the impact and risks of potential changes. A longer-term holistic approach to funding the activities of commercial diplomacy is also required.

- The network of the diplomats of the Ministry of Foreign Affairs and foreign representatives of EAS in 38 states and 46 cities allows Estonian entrepreneurs to receive services and knowledge that would be difficult to obtain in the market. Companies that have received support for export and brokerage of investments have generally given positive feedback on the quality of the work of diplomats and foreign representatives of EAS.
- Although entrepreneurs who have received support are generally satisfied with the service and effective work is being done or has already been done to alleviate several bottlenecks, it should be noted that the development of commercial diplomacy in Estonia has had its ups and downs. In previous years, there has been criticism that there is largely no systematic cooperation between the institutions in charge of commercial diplomacy.³ At the end of 2017, the Minister of Entrepreneurship and Information Technology approved the strategy of commercial diplomacy by its directive, pursuant to which the enhancement of commercial diplomacy is now underway. The Ministries are recognising the importance of the role of commercial diplomacy in increasing export, and according to the parties themselves, their cooperation has improved. The new Estonian Foreign Policy Development Plan 2030 of the government⁴ places commercial diplomacy at an important strategic position, and measurable and specific objectives have been planned in the programmes of the implementing level and in the work schedules of institutions.
- Despite the better cooperation between the Ministry of Economic Affairs and Communications and the Ministry of Foreign Affairs and EAS and the diplomats working in embassies as well as the activities supporting the coordination of the field (e.g. reviewing annual plans, round tables, annual overview of commercial diplomacy for the Economic Development Committee of the government), there are still deficiencies both in comprehensively guiding the development of the field at the level of the government as well as in information exchange and cooperation at the level of management and specialists. The parties have outlined the lack of a common information management system as the biggest shortcoming. One of the main concerns for the Estonian Chamber of Commerce and Industry that unites entrepreneurs is the lack of a common network of foreign representatives, which is why entrepreneurs interested in export and foreign investors do not always have a clear idea of which institution they should turn to for help.
- So far, the competence and roles of the foreign missions of the Ministry of Foreign Affairs and the foreign representatives of EAS have been different but have complemented one another. However, it is recognised that the number of specialised economic diplomats is small and there is a shortage of diplomats with expertise to ensure the success of commercial diplomacy. The Ministry of Foreign Affairs has started to recruit business and investment advisers familiar with the specific region and economy for target markets.⁵

³ International Centre for Defence and Security. [Strengthening the Estonian Foreign Service](#), 2018.

⁴ On 8 August 2019, the Ministry of Foreign Affairs introduced the draft foreign policy development plan to the government. On 9 August 2019, the Government of the Republic submitted the development plan to the Riigikogu for discussion. At the time of preparing this overview, the Ministry of Foreign Affairs was guided by the document of the development plan that was being heard at the Riigikogu at the same time. On 19 March 2020, the development plan was discussed at the Session Hall of the Riigikogu.

⁵ Estonian citizenship was not a condition in recruitment advertisements, but successful candidates were expected to either have a permanent residence or a work and residence permit.

- The portal visiidiid.ee has been created to plan foreign visits in which business delegations take part. The portal is used solely as a planning tool, but there is no state-wide systematic overview of visits that have already taken place and feedback from companies.
- The Ministry of Foreign Affairs, the Ministry of Economic Affairs and Communications and EAS have no common information transmission channel or system nor an environment that would help improve the quality of information exchange and save on working time.

Risks areas that need to be decided

- A significant part of the activities of commercial diplomacy carried out by EAS has been funded by European Union grants. In order to operate at a good level abroad in a foreign state, it takes time to adapt to the environment and to establish a network, which is why funding should be planned for a multi-year perspective and more comprehensively. Competition has developed between institutions implementing commercial diplomacy. In the long run, a decision has to be made on how and which activities would continue if the amounts allocated for the support of Estonian companies from the European Union funds or the opportunities of the state budget decrease.
- The Estonian Chamber of Commerce and Industry and the Foreign Affairs Committee of the Riigikogu have expressed their opinion that bringing the foreign representatives of EAS under the management of the Ministry of Foreign Affairs helps to increase the efficiency and effectiveness of using resources aimed at foreign economic policy.⁶ The Ministry of Foreign Affairs has already started recruiting business and investment advisers without a diplomatic status. In the opinion of the National Audit Office, the expected impact of steps changing the current organisation of commercial diplomacy should be assessed before implementation and risks should be alleviated so that the establishment of the new system would bring benefits and not harm. (See the SWOT analysis on retaining the current organisation of work and taking the foreign representatives of EAS under the Ministry of Foreign Affairs prepared by the National Audit Office that includes the feedback of related parties in Appendix A.)
- Transferring the foreign representatives of EAS to the Ministry of Foreign Affairs would take the network of Estonian economic representatives under joint management and would provide exporting entrepreneurs and investors with a single point of contact through which communication takes place and from whom information can be obtained. At the same time, the provision of services created to support businesses in launching in foreign markets (among others, participation in joint stands at trade fairs, putting together business delegations and preparing the schedules for foreign visits, target market-based export trainings) would remain the task of EAS, so the need to coordinate the activities of the institutions would not go anywhere.
- Taking the foreign representatives of EAS under the Ministry of Foreign Affairs, the organisational culture of which is based on a practice, hierarchy, and career and motivational system that differ significantly from those of EAS, involves the risk of losing a number of experienced specialists. The status of foreign representatives of EAS in the service of the Ministry of Foreign Affairs, for example as non-diplomatic contractual employees, should be addressed so that both diplomats as well as non-diplomatic foreign representatives would be sure to have an opportunity, within their competence, to operate in the foreign market as a team supporting one another. It should also be agreed on how their current contribution to the formation of economic

⁶ The Minister of Foreign Trade and Information Technology and the Chairman of the Board of EAS have stated in their feedback letter that neither the Ministry of Economic Affairs and Communications nor EAS were involved in the respective session of the Foreign Affairs Committee of the Riigikogu where the respective recorded position was taken. They were also not asked to provide relevant analyses that would enable assessing the impact of concentrating foreign representatives in charge of foreign economy in the administrative area of the Ministry of Foreign Affairs.

policy in the administrative area of the Ministry of Economic Affairs and Communications can be preserved.

Responses of the audited:

The Minister of Foreign Trade and Information Technology and the Chairman of the Board of EAS noted that the insight of the National Audit Office into the topic of commercial diplomacy helps to further acknowledge and pay attention to the strengths that would ensure Estonia's success but also to the bottlenecks that continue to hinder implementing our full potential in commercial diplomacy.

The Minister of Foreign Trade and Information Technology and the Chairman of the Board of EAS stated that the current best practices and effectiveness must be taken into account upon making decisions on the future of commercial diplomacy and that coordinating the cooperation and activities of institutions is essential in commercial diplomacy.

In his response letter, the Minister of Foreign Affairs pointed out that the field of commercial diplomacy in Estonia needs a comprehensive and orderly approach with the aim of providing our entrepreneurs with effective support in foreign markets and contributing to the desired increase in foreign investments and the promotion of tourism. It is important that the provision of support to entrepreneurs is as effective as possible, and different management lines and fragmentation of activities between agencies should be avoided.

The Minister of Foreign Affairs noted that the overview of commercial diplomacy prepared by the National Audit Office is an important document that presents several organisational issues. At the same time, the Minister of Foreign Affairs pointed out that he would have liked to see policy recommendations in the overview of the National Audit Office that would help improve the quality of services provided to exporting companies.

Comment of the National Audit Office: The National Audit Office avoids interfering in politics and does not prescribe to the executive power how to solve problems. The response letters (see full texts of the response letters on page 34) show that the Ministers have different visions on the governance and future of the field. However, regardless of which organisation or subordination to which Minister the diplomats, business and investment advisers of the Minister of Foreign Affairs and the foreign representatives of EAS supporting the exports of Estonian entrepreneurs work in, it must be ensured that commercial diplomacy is part of a comprehensive system for increasing the export capacity of companies. In the opinion of the National Audit Office, the funds allocated to commercial diplomacy by the state could achieve an even better result if the Ministry of Foreign Affairs, the Ministry of Economic Affairs and Communications and EAS agreed on a clear division of labour and responsibilities and continued on the current course of improving cooperation and coordination.