



## Estonia: at the leading edge of digital technology and controlled public debt

At a time when many member states no longer fulfil the euro convergence criteria<sup>1</sup> set out by the Maastricht Treaty, Estonia has had the lowest debt rate in the European Union for several years now. Its strategy hinges on the control of public finances, liberal measures, and the development of digital technology.

Prime minister until March 2014 and the current European Vice-President for the Digital Single Market<sup>2</sup>, Andrus Ansip describes his country as follows: "Estonia is a small country, but is highly efficient. It has a stable economy, moderate public debt, and many commercial freedoms". How is it that this state, a member of the European Union since 2004 and no stranger to the 2009 economic crisis, continued to record a public administration deficit of 0.2% at the end of 2013 while its debt represented 10%<sup>3</sup> of GDP? Even if the latter rose by 3.3 points in four years, it is still by far the lowest in the European Union.

In the first place, the country set very strict rules for its public finances: a balanced budget is required under the Constitution (Art. 116)<sup>4</sup>, while the constitutional enactment of 9 June 1999 – completed by the order of 2005 – limits public debt to 20% of state budget receipts. Each year, at the latest seven months before the start of the new budget year, the Ministry of Finance must submit the budget strategy<sup>5</sup> for the next four years to the government for approval. This document must set out the budget policy principles, the government's priorities and financing schedule for programmes planned over the entire period, an analysis of the situation, and economic growth projections that include public-sector expenditure.

### A combination of strict budgets and economic liberalism

On 1 January 2011, Estonia became the first of the three Baltic states to adopt the euro as its currency. In the same year, the country saw a revival of growth after a decline of 13.9% during the 2009<sup>6</sup> recession. The government (a three-party coalition which the social-democrats decided to leave in 2009) reacted immediately with drastic measures to curb public spending. Annely Akkermann, a member of Riigikogu (Estonia's unicameral parliament) and the former Deputy Finance Minister for the county of Pärnu, explains<sup>7</sup> how this unfolded in her community: "Overall, we reduced the annual budget by 28%, or around 600 million euros. We reduced wages by 17%, cut the number of public-sector employees by 10%, cut infrastructure and mobility expenditure, and reduced the scope and quantity of invitations to tender".

The last country to have joined the OECD, on 29 December 2010 (and thus far the only former Soviet Union country to have been invited to join it), Estonia has emerged since the re-establishment of its independence in 1991 as a resolutely liberal economy. In terms of fiscal policy, it was the first European country to establish a single income tax (for both individuals and companies, set at 21% since 2006) while the profits reinvested by companies are not taxed.

<sup>1</sup> <http://www.insee.fr/fr/methodes/default.asp?page=definitions/criteres-convergence-maastr.htm>

<sup>2</sup> [http://ec.europa.eu/commission/2014-2019/ansip\\_en](http://ec.europa.eu/commission/2014-2019/ansip_en)

<sup>3</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-23042014-AP/EN/2-23042014-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-23042014-AP/EN/2-23042014-AP-EN.PDF)

<sup>4</sup> <http://www.president.ee/en/republic-of-estonia/the-constitution/index.html#VIII>

<sup>5</sup> <http://www.fin.ee/budgeting>

<sup>6</sup> <https://www.tresor.economie.gouv.fr/pays/estonie>

<sup>7</sup> [http://www.kas.de/wf/doc/kas\\_34071-1522-2-30.pdf?130416114154](http://www.kas.de/wf/doc/kas_34071-1522-2-30.pdf?130416114154)

## Digital technology as a growth driver

As pointed out by Linnar Viik<sup>8</sup>, researcher and member of the governing board of the European Institute of Innovation and Technology in Budapest, who has been a long-standing advisor of the government of Estonia: "At the beginning of the 1990s, the most fundamental issue facing Estonia was the building of its governmental and administrative structures. We rapidly understood that we would not have the resources for a very big infrastructure, and immediately set out to find solutions that offered the lowest possible operating costs". For its administration, therefore, the country put every effort into the development of new technologies and dematerialised procedures. This year, the UN ranked<sup>9</sup> Estonia fifteenth in the world for eGovernance. Seven European countries, including France, are still more advanced but Estonia shows steady progress. It is among the twenty-five countries that benefit from a very high EGD<sup>10</sup> ranking.

Indeed this Baltic Republic is a pioneer in digital signatures in Europe, having incorporated an electronic chip into all identity cards<sup>11</sup> issued from January 2002. Ten years later, Andrus Ansip says that the policy to use this method of citizen authentication in as many situations as possible generates annual savings corresponding to 2% of GDP, which is the equivalent of one week of work.

Since 2007, the authorities, by law<sup>12</sup>, only have the right to ask citizens for their personal information once. With the citizen's consent, public services can share and reuse this data when necessary. Convinced that this could work in the context of national borders, on 10 December 2013 Estonia and Finland<sup>13</sup> became the first countries to digitally sign an intergovernmental agreement<sup>14</sup> on interconnected systems and data exchange between the two neighbours.

## An innovation laboratory

The savings made by the government naturally hinge on user participation: in 2013, 95% of tax payers made their tax declarations online (pre-filled in since 2002). Users can create a company in a few clicks with an electronic signature, follow their children's education and have access to their dematerialised school report books, and manage their healthcare and health insurance. Data confidentiality is also a key element: the law of 2007 stipulates that at all times the citizen is owner of their data. In most cases, they can restrict access rights and trace the identity of the public officer who has access to their information.

In 2005, Estonia was the first country in the world to establish electronic voting<sup>15</sup>. The system accounted for 2% of voters in the mayoral elections, but this grew to 24% of voters in the 2011 general election and 31% of voters this year to elect the six European Parliament representatives. It underwent an independent assessment in May 2014 by a group of seven international experts<sup>16</sup>.

Taavi Kotka, Deputy Secretary General of Information and Communication Technology for the government, believes that "the internet is a fundamental right". On 9 November 2014, he presented the government's latest innovation, a new "[e-resident](#)" status. This digital identity – which is not a certificate of nationality but allows access to electronic services requiring authentication – will be proposed to non-Estonian citizens around the world for a price of 50 euros. At present, requesting parties must present at a police station but shortly they will have the option of presenting at one of 37 embassies to provide their biometric data (ID photo and digital imprint). 100,000 requests have been recorded in fifteen years. The government is hoping to have ten million Estonian e-residents by 2025<sup>17</sup>, more than seven times the country's population.

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<sup>8</sup> <http://www.slate.fr/story/78990/estonie-administration-numerique-linnar-viik>

<sup>9</sup> [http://unpan3.un.org/egovkb/Portals/egovkb/Documents/un/2014-Survey/E-Gov\\_Complete\\_Survey-2014.pdf](http://unpan3.un.org/egovkb/Portals/egovkb/Documents/un/2014-Survey/E-Gov_Complete_Survey-2014.pdf)

<sup>10</sup> E-Government Development Index.

<sup>11</sup> <http://ec.europa.eu/idabc/en/document/4487/5584.html>

<sup>12</sup> <https://www.riigiteataja.ee/en/eli/512112013011/consolide>

<sup>13</sup> Finland is the country's second commercial partner (after Sweden) and the languages of the two countries are very similar.

<sup>14</sup> <http://estonianworld.com/technology/estonia-finland-become-first-world-digitally-sign-international-agreement/>

<sup>15</sup> For local elections. It was deployed for all elections in 2007.

<sup>16</sup> <https://estoniaevoting.org/>

<sup>17</sup> <https://www.mkm.ee/et/estonia-will-open-its-e-services-rest-world-end-2014>