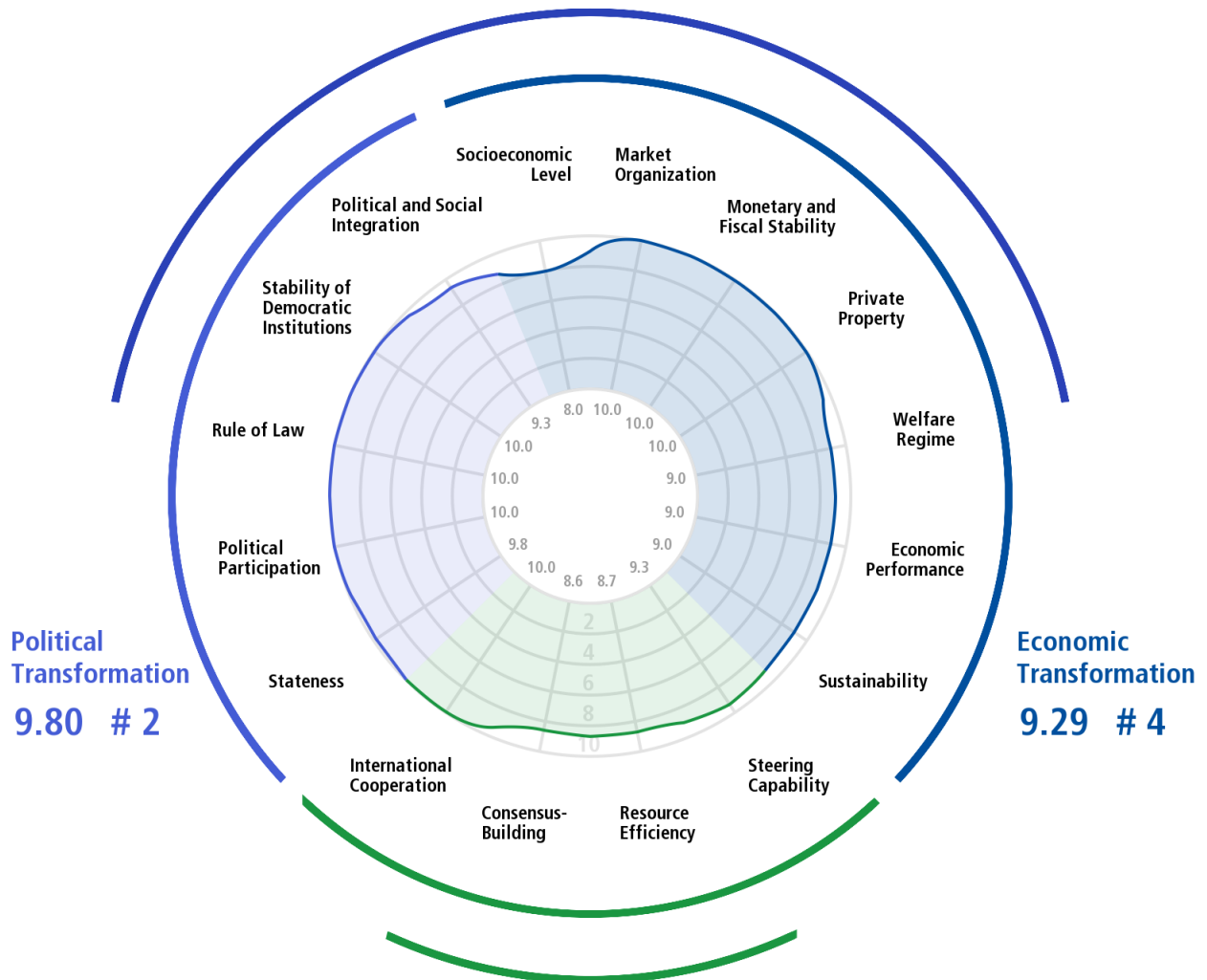


Estonia

Status Index

9.54 # 2

on 1-10 scale out of 137



Governance Index

7.46 # 1

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – Estonia. Gütersloh: Bertelsmann Stiftung, 2020.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	1.3	HDI	0.882	GDP p.c., PPP \$	35450
Pop. growth ¹	% p.a.	0.3	HDI rank of 189	30	Gini Index	32.7
Life expectancy	years	77.6	UN Education Index	0.881	Poverty ³	% 1.0
Urban population	%	68.9	Gender inequality ²	0.091	Aid per capita \$	-

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Estonia has fully recovered from the economic recession of 2008/09 and experienced robust growth in 2017/18. The country's public and private sectors are innovative and efficient, which has aided the recovery. Foreign investors have remained attracted to Estonia due to its openness, streamlined government, strong rule of law and business-friendly environment. The government's financial position continues to be favorable, thanks to the lowest public debt in the European Union. Yet, there are challenges linked to its small size, the openness of its economy and demographic changes. Economic growth is dependent on the inflow of foreign investment and external demand, both of which can be volatile. Continued global political uncertainty as well as an increasingly aggressive Russia remain substantial risks.

Despite the change of government in 2016 and the increasing popularity of the Conservative People's Party (Eesti Konservatiivne Rahvaerakond, EKRE), Estonia's political system has generally remained stable. After Jüri Ratas replaced Edgar Savisaar, perhaps the most controversial politician in Estonia, as the leader of the center-left Center Party (Keskerakond, KE) in 2016, the party became an attractive coalition partner. Ratas was soon sworn in as prime minister, leading a coalition that also includes the Social Democrats (Sotsiaaldemokraatlik Erakond, SDE) and the conservative Pro Patria and Res Publica Union (Isamaa ja Res Publica Liit, IRL). The change of government marked the end of the market liberal Reform Party's (RE) political dominance of Estonian politics as it entered the opposition for the first time in 17 years. The new government has remained committed to prudent fiscal policies and balanced budgets despite its center-left leanings. It has successfully pushed through some difficult reforms, such as an ambitious local and regional governance reform and an increase in fuel and alcohol excises. The government also tweaked the personal income tax so that it became slightly progressive – a long-term ambition of KE and SDE that IRL somewhat reluctantly agreed to.

The Estonian parliament legalized same-sex partnerships in 2016 after frenzied campaigning both in favor and against the law. However, additional acts necessary for the legislation's full

implementation have not been passed by the parliament elected thereafter due to changes in the governing coalition. In 2017, there was an unsuccessful attempt – led by EKRE and IRL – to repeal the law. The radical right EKRE, in particular, has been stoking popular opposition to civil partnerships.

Gender inequality and population decline remain considerable challenges. In 2016, Kersti Kaljulaid was elected the first female president of Estonia (a largely ceremonial post) and women outperform men in educational attainment, but the country retains the highest gender pay gap in the EU. While the generous parental benefit system is a boon for families, it can also pull women away from work for extended periods, thus compounding their status in the labor market. The generous benefits have only had a limited demographic effect – the country's population is on track to further decrease in the foreseeable future. The negative trend has been slightly counterbalanced by positive net migration in recent years, mostly due to return migration from other European countries.

The governing coalition almost collapsed over the country's position on the UN Global Compact for Migration in 2018. While the country eventually signed the agreement, and its population is highly liberal and secular in most of its attitudes, possible immigration triggers anxiety. High levels of unease with people from different racial and religious backgrounds are reflected in public opinion surveys, where Estonia lags behind most of Europe in terms acceptance as colleagues or family members. The radical right EKRE has also sought to create opposition to any possible increases in the number of migrants and refugees.

Interethnic relations between the ethnic Estonian majority and the Russian-speaking minority have not significantly improved over the last decade. The ethnic cleavage is not wholly politicized as the minority has chiefly been represented by the cross-ethnic KE. Rising tensions between Estonia and Russia since 2014 – over Russia's annexation of Ukraine and assertive foreign policy – have put additional strains on interethnic relations as public attitudes on Putin's regime, the conflict in Ukraine and potential Russian threats are divided. The leadership change in KE raised fears that most of its ethnic Russian politicians would follow Savisaar and distance themselves from the new leadership. However, that failed to materialize in the 2017 local elections. The party still remains a firm favorite of Russian-speakers in the run-up to the 2019 parliamentary elections.

History and Characteristics of Transformation

The roots of the Estonian transition lie in the reforms initiated by Mikhail Gorbachev in the mid-1980s. These led to increased openness as well as economic and political reforms. Already by 1988, Estonia enjoyed a fairly free public sphere, with a number of non-communist political organizations campaigning openly and competing for public support. The main political divide ran between the republican Communist Party and various pro-independence forces. However, a notable rift soon opened between radical pro-independence forces (e.g., the National Independence Party, established in 1988) and moderate popular movements (e.g., the Popular Front). The last Estonian Supreme Soviet, elected in free elections in 1990, was dominated by moderate lawmakers. The radicals formed a majority in the Congress of Estonia, a representative body of inter-war citizens and their descendants. In 1991, the two assemblies jointly nominated the Constitutional Assembly that drafted the constitution passed in a 1992 referendum. The divide between the two pro-independence political streams can still be observed in Estonian party politics, especially since the Communist Party disappeared from the political scene. By the early 1990s, the status of the Russian-speaking population – most of whom had migrated to Estonia during the Soviet period, when they enjoyed a more privileged status than the indigenous population – was a source of disagreement between the two factions. The moderates and radicals shared suspicions about the loyalty of the settlers, but the former were keener to reach out and integrate the Russian-speakers. Following independence, the radicals' policies dominated the formation of regulations on citizenship and language.

The return to independence in 1991 was firmly grounded in restorationist ideas and the principle of legal continuity with the inter-war republic. In particular, citizenship was automatically granted only to the citizens of the inter-war republic and their descendants. A significant portion of the population – mostly those who had moved to Estonia during the Soviet period – could only obtain citizenship through naturalization. Many instead chose to become citizens of the Russian Federation (open to all former citizens of the Soviet Union) or remained stateless (a special status of “aliens” was created by the Estonian parliament). Even though the proportion of Estonian citizens has increased over time, about 10% of the population are citizens of a foreign country (mostly the Russian Federation) and 6% remain stateless. The ethnic divide failed to develop into a full-blown political cleavage, partly because of the limited franchise of Russian-speakers.

As support for the ancient regime was low among citizens, the government managed to push through radical economic reforms and completely reorient the country both in its foreign relations and trade patterns. Since the early 1990s, Estonia has firmly pursued integration with NATO, the European Union (EU) and other Western institutions (e.g., IMF, WTO and OECD). The accessions to NATO and the EU enjoyed strong consensus among elites and determination to conform to the membership criteria. In contrast, Euroskepticism among the general population was high compared to most other new member states in Central and Eastern Europe. Euroskeptic sentiments were shared by the less well-off, who endured further increases to their cost of living, hardline

nationalists, who disputed the sharing of sovereignty, and many Russian-speakers, who were repelled by the rhetoric of turning away from Russia. However, since accession in 2004, public opinion has been increasingly positive about the country's EU membership.

Estonia has followed liberal market economic policies since independence. In the first few years after independence, the country established a free trade regime and underwent a radical privatization program, attracting foreign investors. Following a sharp downturn in the early 1990s, the Estonian economy grew on average by 7.1% a year without interruption from 1995 until the Great Recession in 2008/09. Economic growth returned in 2010 and has remained positive. Estonia joined the WTO in 1999 and, following rapid economic development over two decades, was the first former Soviet republic to join the OECD (in 2010) and the European Economic and Monetary Union (in 2011).

Government and party system stability were generally low in the 1990s and early 2000s. Parties that had formed shortly before parliamentary elections witnessed remarkable success in 1995 (i.e., Reform Party) and 2003 (i.e., Res Publica), and a leading party in several governments in the 1990s (i.e., Koonderakond) disbanded itself in 2000. However, the policies of various governments have been remarkably consistent and the party system has become more stable. The overall policy outlook of the government remained fairly intact even when the center-left Center Party replaced the long-governing market liberal Reform Party at the helm of the government in 2016. However, the radical-right Conservative People's Party has recently become the third most popular party in the country. It has polarized the political rhetoric and poses a potential challenge to political stability in the coming years.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state has a monopoly on the use of force across its territory. There have been no extralegal forces or immediate threats to territorial integrity since the early 1990s when there was a short-lived and localized risk that the northeastern part of the country (inhabited mostly by Russian-speakers) might secede to Russia. Since the beginning of the conflict in Ukraine, Russian military activities (e.g., massive annual military exercises and incursions into Estonian airspace) have increased, raising tensions between Tallinn and Moscow. In 2014, Russian security services abducted an Estonian police officer on the Estonian side of the border. The Russian authorities only returned the police officer one year later, in exchange for a Russian spy. In response to the heightened risk of future Russian military incursions into Estonia, NATO deployed a battalion led by the British army to the country in 2016. However, U.S. President Donald Trump's isolationist and pro-Putin views have raised concerns about the future of NATO's principle of collective defense. Other potential threats include unconventional warfare (e.g., cyber-warfare) and hybrid warfare – including hostile Russian online propaganda and potential meddling in elections.

The state enjoys a high degree of legitimacy among both majority and minority ethnic groups. State identity is rarely questioned, even though state legitimacy is generally stronger among ethnic Estonians than Russian-speakers (i.e., ethnic Russians and most other ethnic groups originating in the former Soviet Union). A significant proportion of Russian-speakers are either citizens of the Russian Federation or have no citizenship (the groups constitute about 7% and 6% of Estonia's population, respectively). The latter group is predominantly composed of former citizens of the Soviet Union who did not automatically qualify for Estonian citizenship in the early 1990s and have not undergone naturalization since then, usually because they lack the required level of proficiency in the Estonian language. Only 731 persons acquired citizenship by naturalization in 2018, a decline compared to previous years.

Question Score

Monopoly on the
use of force

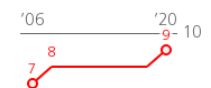
10



1

State identity

9



1

In 2015, changes to the law relaxed conditions for naturalization by granting automatic citizenship to the newborn children of non-citizens and introducing simplified language tests for elderly applicants. In recent years, plans to change the language of instruction in all secondary schools (including Russian-speaking schools) to Estonian have triggered resistance from some Russian-speaking activists and politicians. Despite this opposition, there are calls to also change the language of instruction at lower levels to promote integration and the life chances of children from Russian-speaking families.

Estonia is one of the most secular countries in the world. Although Christian (Lutheran) traditions among the ethnic Estonian majority have a modest conservative influence over culture and politics, their effects are indirect in influencing social attitudes toward gender equality and the rights of sexual minorities, for example. While the 2014 Registered Partnership Act made Estonia the first country from the former Soviet Union to grant legal recognition to same-sex couples, the passage of the acts needed to implement it has stalled in parliament. The Estonian Evangelical Lutheran Church – which comes closest to an “official” church in Estonia – has been increasingly vocal in its opposition to anything resembling same-sex marriage. However, this could be a case of the church jumping on a popular bandwagon rather than it influencing the public discourse on the matter.

The state’s administrative capacity has increased considerably since independence, and the state now fulfills all key functions, including the provision of infrastructure, education and health. The quality of services is generally very good and only occasionally lags behind more affluent neighboring Northern European countries. A crucial element of Estonia’s administrative capacity is the wide array of e-government services. These have made administrative tasks more efficient and less prone to corruption.

2 | Political Participation

Elections in Estonia are free, fair and meaningful in determining public policies and filling political positions. The National Electoral Committee is independent and conducts elections impartially. Most elector complaints submitted to the Supreme Court, which is responsible for resolving them, are not supported by enough evidence and are rejected. Polling is highly accessible as early voting periods are long and advanced online voting has been used since 2005, making it available in the last three parliamentary elections. Internet voting is available using electronic ID cards, which the overwhelming majority of the population possesses (as they are also used for other forms of online identification, such as internet banking). Almost one-third of votes were cast online in the 2015 parliamentary and 2017 local elections.

No interference of religious dogmas

10



1

Basic administration

10



1

Free and fair elections

10



1

Only registered political parties and independent candidates can contest national elections. In local elections, lists based on citizen alliances are also allowed to stand. All permanent residents, including non-citizens and EU citizens, can vote in local elections, but in parliamentary elections, suffrage is limited to citizens.

All political parties have access to the mainstream media, but smaller parties have often complained about being excluded from the main election debates on public television. Electoral campaigns tend to be expensive, giving an advantage to parties that benefit from state subsidies (mostly those already strongly represented in parliament) and parties that can attract considerable private donations. In recent years, there have been a number of accusations concerning the misuse of administrative resources for election campaigning. These have primarily targeted the Center Party in local elections in Tallinn, but also Prime Minister Rõivas, who shot a campaign clip at a military airbase before the 2015 parliamentary elections. A special commission reviews party funding practices and can force politicians or parties to pay back public funds and illegal anonymous donations. For example, the Center Party has had to pay more than 330,000 euros over the last three years because of illegal party funding.

In Estonia, democratically elected politicians have the power to govern without any substantial interference from non-elected bodies. Government policies have generally been business-friendly, but have not given obvious advantages to particular sectors or individual businesses. Civilian control over the military is well-established and strong. The Lutheran clergy does not exert significant political influence, although it affects public opinion.

The Estonian constitution guarantees civic groups full freedom of association and participation. These rights are protected, not only in theory but also in practice, and the government has not been seriously accused of limiting freedoms. Non-citizens are prohibited from joining political parties. Registration rules for associations are non-discriminatory and clearly established in the Nonprofit Associations Act. However, levels of civic activism are generally low and the influence of NGOs on public policy is limited.

Freedom of expression is enshrined in the constitution and is unrestricted. Estonia has consistently ranked highly on the World Press Freedom Index (12th in 2018). Freedom House has also consistently named it as the highest-ranking country in Central and Eastern Europe for media freedom, outperforming many Western European countries.

The media – especially Estonia’s public broadcaster – is generally unbiased and represents a wide spectrum of opinions. The Public Broadcasting Council is

Effective power to govern

10



Association / assembly rights

10



Freedom of expression

10

composed of six members nominated by parliamentary political parties and four experts selected by the parliament. Private media ownership is transparent. The two most popular private television channels are owned by a local media group Estonian Media and the American company Providence Equity Partners. Estonian Media and another company from Estonia Ekspress Group own the main newspapers and the popular internet-based news and entertainment portal Delfi (which also operates news portals in Latvia and Lithuania). The latter has been testing the limits of freedom of expression by pioneering anonymous reader comments on its news stories since the early 2000s. Trust in the media is considerably higher than the EU average – particularly regarding television. Some 79% of Estonians trust broadcasters; by contrast, 66% of all EU citizens express trust in broadcasters (according to Eurobarometer, February 2018).



1

The Russian-language public media has only a limited ability to cater to the Russian-speaking minority, which is an important concern. There are some Russian-language newspapers and the public broadcaster runs a Russian-language radio and TV channel. However, TV channels operating from or controlled by the Russian Federation have been dominant, leaving the minority population exposed to misinformation and propaganda. These concerns have intensified since the beginning of the Russian-Ukrainian conflict, and in 2015, the Estonian government launched ETV+, a public Russian-language television channel. However, it has struggled to win a significant proportion of the audience from the established Russian outlets. In December 2018, less than 1% of all viewing time was spent on ETV+, compared to nearly 12% spent watching the three most popular Russian channels combined.

3 | Rule of Law

There is a clear separation of powers in Estonia, with mutual checks and balances generally working well. The judicial system is independent of the executive and administration of the courts is largely free from unjustified party pressure. In the Estonian parliamentary system, executive and legislative powers are fused, with the former generally dominating over the latter. However, the three-party coalition that came to power following the 2015 parliamentary elections suffered from constant infighting and a successful parliamentary vote of no confidence in November 2016 caused its collapse. Parliamentary committees can request information from the government. They put pressure on the government to provide documents and send ministers to parliamentary hearings. The task areas of committees generally coincide with the portfolios of ministries, supporting effective parliamentary oversight. In recent years, the Parliamentary Anti-Corruption Committee has held many hearings on prominent cases of alleged corruption.

Separation of powers

10



1

The Estonian courts are independent and free from both executive intervention and, by and large, from corruption. When the authorities have discovered acts of corruption, they have investigated and removed judges. Judges of the first and second instance are appointed for life by the president after the Supreme Court proposes them. Parliament appoints Supreme Court justices upon nomination by the chief justice; the chief justice is in turn appointed by the parliament upon nomination by the president. The Supreme Court also performs the functions of a constitutional court. Requests for constitutional review can be initiated by the president, lower courts or the chancellor of justice, and the system of judicial review is well-established. The Supreme Court regularly declares acts of parliament unconstitutional and monitors the implementation of its rulings. For example, in 2017, the Supreme Court declared five out of 43 reviewed non-electoral acts wholly or partially unconstitutional.

Estonia is widely considered to be the least corrupt country in Central and Eastern Europe. Political and administrative corruption are uncommon and are effectively penalized. Perceptions with regard to corruption are more positive than elsewhere in the EU. Eurobarometer data from October 2017 indicated that Estonians were the least pessimistic about corruption. Only 23% of respondents saw an increase in corruption levels in the last three years and 14% perceived a decrease (the corresponding EU averages were 43% and 8%).

However, several high-profile cases have been brought to the courts in recent years. In 2014, two former government ministers were found guilty of office abuse and received custodial sentences. Recent high-profile corruption cases also included charges against the former mayor of Tallinn Edgar Savisaar (for taking kickbacks) and former board members of the state-owned Port of Tallinn (for corrupt tendering procedures). However, both of the court cases were very protracted and the charges against Savisaar had to be dropped at the end of 2018 due to his ailing health. Some municipal office holders in bigger cities and judges have also been arrested or investigated in recent years.

The Estonian constitution bans discrimination based on nationality, race, sex, language, religion, political opinion and social status. State institutions respect these rights and individuals are protected effectively. Apart from the court system, there are two national institutions tasked with protecting civil rights.

The Chancellor of Justice (CoJ) monitors the protection of fundamental rights and freedoms, and also functions as an ombudsman, including with regard to children's rights; this is in addition to the CoJ's role in constitutional reviews. The Gender Equality and Equal Treatment Commissioner (GEETC) monitors compliance with regulations concerning gender equality (enshrined in the Gender Equality Act and Equal Treatment Act). Both positions, which are currently held by women, have generally been effective and remained independent from the government.

Independent judiciary

10



1

Prosecution of office abuse

10



1

Civil rights

10



1

Estonia is one of the least tolerant societies in the EU according to Eurobarometer surveys. However, discrimination and crimes motivated by race, ethnicity or sexual orientation are rare. Growing tensions with Russia have the potential to affect the relationship between ethnic Estonians and Russian-speakers by raising mutual distrust. This has the potential to trigger ethnic discrimination, but there is little evidence of that currently happening. Instead, surveys monitoring integration show that relations between members of the ethnic groups have improved, as has the Estonian language proficiency of Russian-speakers.

4 | Stability of Democratic Institutions

Democratic institutions are robust and follow the procedures established by the constitution and other legal acts. Tensions between different branches of government occasionally surface, but they never significantly undermine democratic governance. Tensions used to be common between the national government and Tallinn city authorities as the latter has been led almost continuously by the Center Party, which was in opposition nationally between 2003 and 2016. However, since the party's leader Jüri Ratas became the prime minister, conflicts between national and local governments have abated.

The efficiency of local governance was bolstered when a large-scale local government reform reduced the number of municipalities from 213 in 2014 to 79 in 2017. The median number of inhabitants per municipality increased from 1,887 to 7,739.

Democratic institutions are accepted as legitimate by all centers of political power and non-governmental associations. There are no significant examples of political players questioning democratic procedures.

Performance of democratic institutions

10



1

Commitment to democratic institutions

10



1

5 | Political and Social Integration

The main political parties have developed strong organizational structures, including efficient central offices and local branches. The central offices tend to dominate the parliamentary groups, which are highly disciplined. Genuine intra-party democracy is limited both in terms of policy formulation and candidate selection. Internal conflicts have sometimes led to defections. Members of the Center Party often left the party due to frustrations with the dominance of former party leader Edgar Savisaar. However, since Jüri Ratas became the party leader and then prime minister in 2016, fewer MPs have left the party. Those who have are Savisaar loyalists.

The party system has been fairly stable since the 2003 parliamentary elections, when Res Publica, a new party, achieved unprecedented success. The party won the election and formed a government, but the coalition collapsed in 2005. No new parties entered parliament in the 2007 and 2011 parliamentary elections. In 2015, two new parties – the center-right Free Party and the radical-right Conservative People’s Party – won seats in parliament. The latter has gained a strong foothold in politics, consistently polling as the third most popular party. It has polarized the political discourse and replaced the controversial Savisaar as the pariah in the eyes of other main parties due to the party’s populist rhetoric.

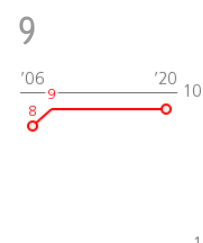
Freedom of association is granted by the constitution but the system of interest representation and mediation is weak. While the absolute number of NGOs is considerable, the number of active NGOs is low. Those that attempt to influence politics have limited sway.

The Estonian Trade Union Confederation (EAKL) is comprised of 17 branches representing different sectors. In comparison to many Western European countries, its policy-formulating capacity is very weak. Trade unions are typically invited to contribute to policy-making process initiated by the government. The Estonian Employers’ Confederation (ETKL) has been more active in making policy proposals, especially in tax policy and industrial policy. Yet, its institutional and analytic capacity is not significantly higher than that of trade unions.

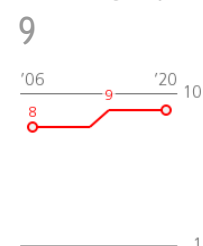
In 2018, 26 men and one woman – mostly high-profile entrepreneurs – set up the Governance Reform Foundation, a very active group lobbying for Estonia’s governance to be streamlined. The impact of the group – which has some overlap with ETKL – remains to be seen. However, it shows that employers and entrepreneurs are becoming more interested in contributing to public policies.

Trade unions and pressure groups have moderately increased their activities in recent years. The government has sometimes been dismissive of the political activities of interest groups, often arguing that views ought to be expressed at the ballot box and through political parties rather than through protests and lobbying. Therefore, interest

Party system



Interest groups



groups often direct their appeals to the (largely ceremonial) president, calling for the president to veto laws passed by what they see as an unresponsive parliament. However, the government of Jüri Ratas, formed in since 2016, has engaged with civil society organizations more constructively. For example, in 2018, the tradition of tripartite meetings between the government, employers and employees' associations were resuscitated after several years of hiatus. However, the frequency and significance of the meetings is still uncertain.

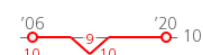
Support for democratic norms and political institutions is fairly high, but it lags behind countries with older democracies. Public satisfaction with the way democracy works in Estonia is close to the EU average. According to a 2018 Eurobarometer survey, the level of satisfaction with democracy at the national level in Estonia (58%) was very close to the EU average and one of the highest among Central and Eastern European member states, as was trust in national institutions. Estonians' trust both the national government and parliament (at 49% and 41%, respectively) significantly more than the EU average (34% and 34%). Trust in political parties is low, but close to the EU average (respectively, 15% and 19%). Levels of trust in the legal system and especially the police were above levels in all other post-communist countries and many Southern European countries according to the 2018 European Social Survey (ESS).

Approval of the democratic system is very high. According to ESS 2012, 85% of Estonian respondents considered it important to live in a democratically governed country, three percentage points less than the average in 28 European countries and Israel, but two percentage points higher than the unweighted average in 12 post-communist countries.

Levels of interpersonal trust in Estonia are high compared to other post-communist countries and many Western European countries. According to the 2016/17 European Social Survey, 40% of Estonian respondents reported that they trust others (meaning they scored seven or above on a ten-point scale where ten stood for "Most people can be trusted" and zero for "You can't be too careful"). That compared to an average of 27% in the seven post-communist countries included in the survey. However, levels of volunteering were low compared to Western European countries and average by European standards – according to 2015 Eurostat data, only a quarter had volunteered in the last year.

Approval of democracy

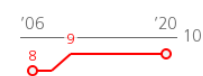
10



1

Social capital

9



1

II. Economic Transformation

6 | Level of Socioeconomic Development

Estonia has a very high ranking on the U.N. Human Development Index – 30th in the world, above all Central and East European countries except for Slovenia and the Czech Republic. Income inequality as measured by the Gini index is slightly above the EU average (31.6 versus 30.7 in 2017 according to Eurostat) and has decreased since 2013. The level of absolute poverty is low (1% of the population were living on less than \$3.10 a day PPP in 2015). Relative poverty – measured as the share of population on an income below 60% of the national median – was 20.7% in 2017, below the EU average (according to Eurostat). Relative poverty was some nine percentage points higher among ethnic minorities (29%) than ethnic Estonians (20%).

Gender inequality is among the highest in Central and Eastern Europe according to the UNDP Gender Inequality Index. Estonia ranks among the top countries in the region in terms of female labor force participation but it is dragged down by the widest gender pay gap in the EU (25% compared to the EU average of 16% in 2016, according to Eurostat).

Enrollment levels of both girls and boys in primary and secondary education are very good, and tertiary education attainment is better than the EU average (48% versus 40% among 30–34-year-olds in 2017). Notably, Estonia also has one of the highest proportions of female university students across the EU (59% in 2016).

Economic indicators		2015	2016	2017	2018
GDP	\$ M	22904.5	23984.3	26611.7	30284.9
GDP growth	%	1.9	3.5	4.9	3.9
Inflation (CPI)	%	-0.5	0.1	3.4	3.4
Unemployment	%	6.2	6.8	5.8	5.5
Foreign direct investment	% of GDP	-3.1	3.9	5.8	3.9
Export growth	%	-1.4	5.2	3.5	4.3
Import growth	%	-1.7	5.5	3.6	6.1
Current account balance	\$ M	419.8	474.8	860.8	570.9

Question
Score

Socioeconomic
barriers

8

'06 '20 10



1

Economic indicators		2015	2016	2017	2018
Public debt	% of GDP	9.8	9.2	9.2	8.3
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-0.2	-0.5	-0.1	-
Tax revenue	% of GDP	21.6	21.8	21.1	-
Government consumption	% of GDP	20.0	20.3	19.9	19.7
Public education spending	% of GDP	5.1	5.2	-	-
Public health spending	% of GDP	4.9	5	-	-
R&D expenditure	% of GDP	1.5	1.3	1.3	-
Military expenditure	% of GDP	2.0	2.1	2.0	2.1

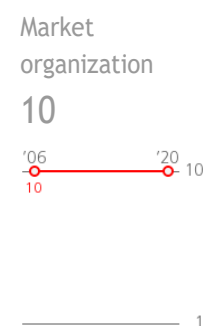
Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Estonia has pursued liberal free market policies. Foreign investment is actively encouraged, first and foremost by an attractive tax regime, in which reinvested profits are exempted from corporate income tax. Tax revenues as a share of GDP have consistently been well below the EU average since 1997 (33% versus 40% in 2017).

Market access is generally free and entry costs are low. According to the 2019 Doing Business Report, establishing a company in Estonia takes, on average, three procedures and three and a half days, and the average costs of registration are 1.1% of Estonia's per-capita income. As a result, the country ranks 15 out of 190 in the report's sub-index on starting a business. Prices are fully liberalized. Estonia fully complies with international standards for the equal treatment of companies. Entry and exit barriers to product, factor and capital markets are low or do not exist.

The country is firmly committed to maintaining balanced budgets and currency stability (which its entry to the Eurozone in 2011 ensured). According to estimates published by the Stockholm School of Economics in Riga, the size of the informal economy in Estonia is not particularly high but has recently crept up from 13% in 2014 to 18% in 2017. Undeclared business revenues and wages are mainly earned in the construction sector.



As an EU member state, Estonia has developed a comprehensive legal framework to prevent monopolistic economic structures and conduct. It is one of the few European countries to impose criminal sanctions on some antitrust infringements (the range of which was narrowed in 2015). Regulations are enforced by the Estonian Competition Authority, which has divisions working on competition (including mergers and railways), and energy and water. In recent years, it has carried out audits on municipal waste collection, fiber optic broadband and a group of supermarkets allegedly forming a cartel to artificially raise the price of vodka, among others. According to a 2017 report by the European Commission, the liberalization of Estonia's electricity and gas markets and construction of new energy infrastructure (Estlink 2) have substantially improved competition in Estonia's energy market.

Estonia's foreign trade is highly liberalized and the country enjoys membership of the WTO (since 1999) and the European Common Market (since 2004). The country's annual combined volume of exports and imports exceeded 150% of the country's GDP in 2017 (according to the World Bank). Non-tariff barriers are largely removed within the internal market and are aligned with those used by the EU in relation to third countries.

Estonia has implemented most of the European Union's banking and finance regulations. Its 11% capital-to-assets ratio is higher than the Basel III minimum requirement (8%). There are no state-owned commercial credit institutions. The banking sector is competitive and dominated by three subsidiaries of Swedish banks (which have about 80% of the market share).

The European Central Bank supervises the three largest banks as well as LHV, the only Estonian-owned bank of notable size (with a market share of 7%). Subsidiaries of non-Eurozone banks are supervised by the authorities in their countries of origin. In 2018, the moderately-sized Estonian branch of Danske Bank – supervised by Danish authorities – was closed following allegations of large-scale money laundering. The scandal later spread well beyond Estonia and the Estonian authorities were not necessarily to blame for the improprieties but it did damage the international reputation of the country's banking sector.

The share of non-performing loans began to increase after the onset of the 2008/09 global financial crisis and peaked at 5.4%. However, it has returned to very low levels, falling to 0.7% – well below the EU average of 3.7%. Total household debt is high at 80% of gross disposable income, following a sharp increase just before the Great Recession (OECD).

Competition policy

10



1

Liberalization of foreign trade

10



1

Banking system

10



1

8 | Monetary and fiscal stability

During the last two decades, Estonia has often faced the challenge of controlling inflation. Annual inflation has been volatile following economic cycles. Recently, it fluctuated from very high inflation in 2008 (10.4%) to mild deflation in 2015 (-0.5%) and back to moderate inflation in 2017 (3.4%). With the adoption of the Euro in 2011, independent foreign exchange policy ceased to exist; however, it was limited even before this point because the kroon (the national currency) had been pegged to the Euro.

Estonia has one of the most prudent public finance systems in the European Union. It has the lowest debt-to-GDP ratio in the EU by some distance: 9% of GDP in 2017, compared to the EU average of 82%. Estonian governments have pursued conservative fiscal policies. State budgets have generally been balanced and often in surplus. During the financial crisis, the budget went into deficit (-3% of GDP in 2008), but it has since returned to being balanced. The government can usually cover a deficit without borrowing because it has built up significant reserves. Estonia's current account balance turned positive during the recession and has remained close to parity since.

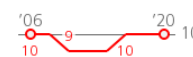
Since 2014, a state budget law has obliged the government to prepare structurally balanced budgets and it established an independent Fiscal Council attached to the Bank of Estonia. The council assesses the extent to which the Ministry of Finance provides realistic fiscal and macroeconomic forecasts and follows the budgetary rules in its annual budget drafts. In both 2017 and 2018, the Fiscal Council and the EU challenged the Ministry of Finance's projections of balanced state budgets. However, any deficit would be fairly minor and presumably temporary (driven to some extent by the approaching parliamentary elections in 2019).

9 | Private Property

Property rights are enshrined in the constitution, widely observed and effectively enforced by the courts. Expropriation follows clearly established rules and compensation is based on market values. The treatment of foreign and domestic capital is equal and there is no discrimination against foreign ownership. Estonia ranks sixth in the world in terms of ease of registering property, which only takes 18 days and requires three procedures (World Bank Doing Business 2019).

Monetary stability

10



_____ 1

Fiscal stability

10



_____ 1

Property rights

10



_____ 1

The private sector dominates the Estonian economy. A radical post-independence privatization program was largely completed by the mid-1990s and currently only a small number of strategic companies (such as major power plants, the railways and the postal system) are still state-owned. In 2018, the Port of Tallinn was part-privatized with an initial public offering (IPO) of one-third of its shares.

The Minister of Finance also suggested that the postal service and national airlines might be privatized. (Estonian Air, the struggling national airline reacquired by the government in 2010, ceased operation in 2015 after the European Commission determined the carrier had received state subsidies illegally. It was replaced by a new state-owned carrier, Nordica.

Private enterprises benefit from business-friendly economic regulations and a highly flexible labor market. For example, during the recession, wages proved to be highly responsive to the deteriorating economic environment.

10 | Welfare Regime

Estonia has developed a comprehensive welfare system based partly on cash transfers from the state budget and partly on insurance payments. Healthcare and most pensions are funded by a 32.5% social tax on payroll paid by employers. Healthcare is funded through the Estonian Health Insurance Fund (EHIF), which also covers the cost of services for most non-working people. However, there are some issues with the coverage of health services, as some groups are not insured (most adults who are out of work but not in receipt of a pension or social benefits, amounting to 6.5% of the population). Total public spending on health (5% of GDP) is much lower than the EU average (8.4%), but comparable to most Central and Eastern European member states. Satisfaction with the quality of health care is high but challenges remain, particularly access, waiting times and inequality.

The pension system is based on three pillars: (1) state pensions, (2) mandatory funded pensions invested in private pension funds and (3) private supplementary pensions supported by tax incentives. The second pillar was established in 2002 to ease the future budgetary burden resulting from the aging population. Compulsory payments into this system were suspended during the recession, but have since resumed. However, the second pillar has been performing very poorly – the funds had an average real annual return of -1.8% between 2007 and 2016 (OECD).

Parental leave and payments from unemployment insurance are generous. Parental leave recipients receive 100% of a parent's prior salary, which is paid for up to three years (the total leave period is 14 months but can be split up rather than taken all at once). The unemployment insurance benefit is paid for up to one year with the initial replacement rate at 50% (this drops to 40% after the first 100 days). To finance the increased payments that occurred during the recession, the unemployment insurance tax was temporarily increased but has been 2.4% since 2015 (paid partly by the employer and partly by the employee).

Private enterprise

10



1

Social safety nets

9



1

Other social benefits are less generous as the levels of income redistribution are low. Old-age pensions and minimum wages have increased considerably in recent years. In 2018, the average monthly pension was €450 (up by 29% compared to 2014) and the minimum wage was €500 (up by 50%). The unemployment benefit for those not qualifying for insurance payments is only €175 and it is paid for less than one year. The levels of family, disability and subsistence benefits are also generally low, but have seen some increases in recent years. Since 2015, monthly child benefits have increased incrementally from €45 to €60 in 2019 (€100 from the third child on).

The Estonian constitution guarantees equal opportunities regardless of social status, religion or ethnicity. Male and female primary and secondary education enrollment rates are very high, while women significantly outnumber men among university students. Estonia also boasts the highest female employment level in Central and Eastern Europe (79% compared to the EU average of 72% in 2017), albeit controversially accompanied by the highest gender pay gap in the European Union (25% compared to the EU average of 16% in 2016).

The status and future of the Russian language in secondary education has been a contentious issue since independence. All secondary schools must teach at least 60% of the curriculum in the Estonian language (education prior to the age of 16 can still take place fully in Russian) due to reforms introduced in 2011. On the one hand, this ought to increase Russian-speaking children's Estonian language proficiency and enhance their educational opportunities and career prospects. On the other hand, concerns have been raised about a very sizable ethnic minority losing the right to education in its native language (Russian is the first language for about 25% of the population). Representatives of the Center Party in the Tallinn city government opposed the law and the government's refusal to grant exceptions.

The Language Act stipulates that employees must have a certificate of Estonian language proficiency to work in certain public and private positions (e.g., doctors, nurses, lawyers, police officers and various transport workers). The requirements may reduce the opportunities available to some Russian-speakers, even though most of the requirements are justifiable in terms of ensuring the quality of services and public safety. Still, national statistics suggest that ethnic non-Estonians are at a greater risk of unemployment. During the Great Recession, unemployment peaked at 23.9% of ethnic Russians and 13.3% of ethnic Estonians. While both the overall level of unemployment and the gap in numerical terms have decreased, unemployment was still twice as high among ethnic Russians compared to ethnic Estonians in 2017.

The previous parliament narrowly agreed to legalize same-sex partnerships in 2014 after heated debates. A majority of MPs in the parliament elected in 2015 oppose the law, however. Parliament has not yet passed the necessary provisions to implement the decision, partly due to the staunch opposition of the increasingly popular radical-right Conservative People's Party.

Equal opportunity

9



1

11 | Economic Performance

Following a robust recovery from the Great Recession, economic growth stalled between 2013 and 2016 but was again robust in 2017 (5%).

In most of the years since its accession to the European Union in 2004, Estonia has ranked among the countries with the highest levels of inflation in the bloc. This level declined significantly during the recession and the country has occasionally experienced deflation (most recently in 2014 and 2015). Unemployment increased considerably during the recession, when Estonia saw some of the European Union's highest levels of joblessness (16.9% in 2009). By 2017, this figure was back down to 5.8%, below the EU average of 7.6%.

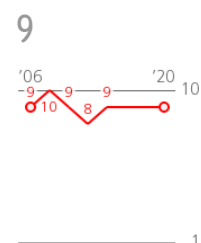
In contrast to the pre-recession years, economic growth has recently been less related to the inflow of foreign capital than to increasing domestic and external demand. FDI peaked in 2007 at 15% of GDP and, though it picked up after the recession, FDI inflows have remained around 5-6% on average.

12 | Sustainability

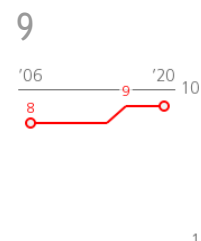
Estonia's environmental performance ranked highly in the Environmental Performance Index until 2018 when, as a result in the decline in some of the scores and changes in methodology, the country dropped from 8th to 48th position. The country scores highly for biodiversity and habitat protection, fisheries and wastewater treatment. The country's performance is less exemplary in terms of declining forest cover, increasing carbon intensity, use of solid fuels in households (burning of wood) and some aspects of greenhouse gas emissions.

Several recent developments show that the government wants to improve the country's ecological credentials; these may lead to improved outcomes in the near future. The Ministry of Environment articulated a vision of an integrated system of environmental protection that covers the entire country and ensures the preservation of a clean environment and sustainable use of natural resources. A third of energy consumed in Estonia is used in buildings, and the government has developed an ambitious program for the renovation of residential housing. Likewise, many other environmental projects have been funded by auctioning Estonia's excess Kyoto CO2 quota. Under the Green Investment Scheme, this has funded the renovation of heating networks, the promotion of public transport (including alternative fuels and electric transport), electric cars for social workers and investments in wind energy. In 2016, 29% of energy consumed in Estonia came from renewable sources – well above the EU average (Eurostat).

Output strength



Environmental policy



Estonia has invested significantly in renovating and expanding its water management infrastructure. While water pollution has decreased and tap water quality has improved, an estimated 26% of surface water continues to be polluted. In 2018, plans to build a €1 billion pulp mill near Tartu were shelved after a mass outcry over its alleged pollution of watercourses.

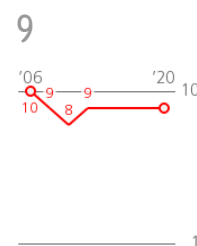
One of the main risks to biodiversity is increasing traffic and road construction, though the newest roads have been constructed in accordance with environmental protection regulations. For example, the first “ecoduct” (i.e., wildlife crossing) has been opened on the main national highway between Tallinn and Tartu.

Education enrollment levels and the general quality of education are high in Estonia. In the 2015 PISA assessment, the country scored third highest globally in science and was among the top 10 in both reading and mathematics. The level of public spending on education is close to the EU average and among the highest in Central and Eastern Europe (around 5% of GDP). Expenditure on R&D has increased by 50% over the last decade (amounting to an increase in percentage of GDP from 0.9% to 1.5%), concealing a decrease in recent years. The level remains above the Central and Eastern European average, but lags significantly behind the majority of EU countries. Estonia has a vibrant digital economy sector and is the most knowledge-intensive of the Central and Eastern European countries. Around a third of total exports to other EU countries involve hi-tech products and services, but the country still produces mostly low- and medium-level technological goods. Also, despite increases in R&D spending, collaboration between research institutes and enterprises (particularly small- and medium-sized enterprises, SMEs) is suboptimal. The government has pioneered several digital initiatives in the public sector, for example, electronic medical records, internet voting and online tax returns. Estonia has also established a system of e-residency by issuing non-residents with electronic ID cards akin to those used by residents. These can be used for a wide range of purposes, including managing businesses, giving electronic signatures and facilitating online self-identification.

Over the years, Estonian governments have been committed to supporting innovation and education, although extra funding has not always been forthcoming. Still, the average salary of teachers has significantly increased in recent years – from €800 per month in 2012 to €1,400 in 2018 – bypassing the country’s average wage in 2014. In 2018, all main parties (except the radical right EKRE) signed a memorandum committing to increasing public R&D spending to at least 1% of GDP (0.8% in 2017).

From 2013, the government eliminated all fees for university students and increased funding for higher education teaching and student support. The full impact of the reform remains to be seen, particularly whether access for students from less affluent socioeconomic backgrounds has improved.

Education policy / R&D



Another major challenge the country has faced is managing a downsizing of schools and higher education institutions across the country due to rural out-migration and fewer university-age students. Many rural schools have closed in recent years while universities have sought to consolidate faculties, degree programs and research teams.

Governance

I. Level of Difficulty

The government faces no severe structural constraints that limit governance capacity. Education levels in the country are high, extreme poverty is rare and disease levels are low. While Estonia is located fairly far from populous Western European countries, it has access to the sea and enjoys proximity to the affluent Nordic countries, particularly Finland. However, the population is increasingly concentrated in a limited number of urban centers, between which the distances are fairly high given the low overall population density. This poses challenges in terms of infrastructure and rural development.

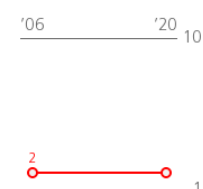
Significant emigration of workers – particularly to Finland – is another key challenge. The movement of labor has created new social problems, such as children being left behind by parents working abroad. This may lead in the longer term to decreasing human capital (a brain drain) and an increasing elderly dependence ratio. Exacerbated by a low natural birth rate (total fertility was 1.6 in 2016), the population is projected to decrease to 1.13 million by 2080, down from 1.57 million in 1990. It will increase the already high old-age dependency ratio (people older than 64) of 30% to 51.5%. This puts obvious constraints on future fiscal and pension policies.

Rising tensions between Estonia and Russia in the wake of the Ukraine conflict have adversely affected some sectors of the economy, primarily the agriculture and food industries (due to a Russian embargo on EU food products) and tourism (Estonia had been a popular destination among Russian tourists). However, the share of foreign trade with Russia was quite limited (9% of exports in 2016).

Estonian civil society may be weak compared to its Nordic neighbors, but it is better developed than in most other former communist countries. For example, Estonia boasts the highest level of interpersonal trust in Central and Eastern Europe. According to the 2016 European Social Survey, 40% of Estonians indicated high interpersonal trust, compared to only an average of 27% in the seven post-communist countries included in the survey (the percentages refer to those who scored seven or above out of 20 for “most people can be trusted”). Various civil society organizations (CSOs) participate actively in public life. Such associations have become more numerous and active since the mid-1990s due to the effect of economic growth and certain policy initiatives. Guidelines for the public funding of civil society projects and studies through the National Foundation of Civil Society were adopted in 2013.

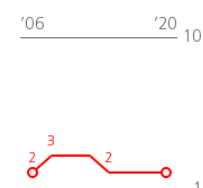
Structural constraints

2



Civil society traditions

2



The government has also adopted the Civil Society Development Plan 2015 to 2020. President Kersti Kaljulaid employs a well-known civil society leader as a special adviser on civil society affairs.

According to a study by the Centre for Civil Society Research and Development at Tallinn University, 31% of the Estonian population are members of civic organizations and slightly more than half of them active. However, sports, recreational and cultural organizations dominate and only 20% of the population is engaged in political activities such as contacting officials, signing petitions or campaigning for a cause. Volunteering and charity are not widespread. Estonia ranks only 109th globally on the World Giving Index, between Albania and Russia and behind many poorer countries (the index reflects how many people donate money to a good cause, help a stranger and volunteer their time).

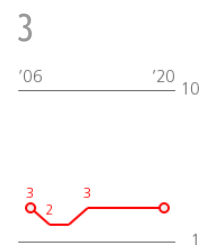
CSOs have increased their social and political activities in recent years – often outside of the institutional framework provided by the government. Protests – on the streets or online – have become more common, ranging from protests against the Anti-Counterfeiting Trade Agreement (ACTA), employment reform for people with disabilities, the UN Migration Compact and a planned pulp mill near Tartu in southern Estonia, and to protests both in favor of and against the legalization of same-sex partnerships.

While the style of national and local politics is often confrontational, there have been almost no instances of violent political conflict. There has been very little mobilization on ethnic grounds, apart from the 2007 “Bronze Night”, when groups of Russian-speakers rioted as the government was about to relocate a controversial World War II monument (the Bronze Soldier) from central Tallinn to a military cemetery.

In recent years, the education reform that requires all secondary schools to teach 60% of the curriculum in Estonian has created tensions between the national government and the Tallinn city government. The Center Party, which governs the ethnically split capital and represents the bulk of the country’s Russian-speaking minority, has been vocal in its opposition to the reform. However, following a leadership change at the end of 2016, Jüri Ratas, the newly elected leader of the party, became the prime minister at the helm of a coalition of three parties. The long-term implications of the new coalition on conflict intensity remain to be seen. While it could ameliorate ethnic divides, it could also lead to the rise of a new, more radical Russian-speaking party based on defections from the Center Party or organizations promoting Russian-speakers’ interests.

Since 2016, the radical-right Conservative People’s Party (EKRE) has been polling at over 10% and is set to become the third largest party in the country. EKRE mobilizes support using populist and polarizing rhetoric and it is widely believed that its rise has intensified political (including ethnic) conflict.

Conflict intensity



II. Governance Performance

14 | Steering Capability

Successive Estonian governments have been able to set priorities and maintain them over time thanks to high levels of political stability. Nearly all governments since independence have been based on coalitions of several parties but they have generally adhered to agreed government programs and coalition agreements. All coalitions have subscribed to key policy priorities such as a prudent fiscal policy and a knowledge-based economy.

The Reform Party's long spell in government – 17 years continuously in government, the final 11 of which were as the leading party – was brought to an end in 2016 when the Center Party's Jüri Ratas became the prime minister following a successful no confidence vote. After Reform Party leader, Andrus Ansip, became a member of the European Commission in 2014, his successor, Taavi Rõivas, presided over two coalitions characterized by increased infighting and “fine-tuning” of policies rather than determined pursuit of priorities and ambitious plans.

The Ratas government adopted an action program structured into four core objectives (increasing population, social welfare and integration, promoting economic development and strengthening national security) and 11 areas incorporating 167 more specific objectives; the program is supplemented with detailed targets and deadlines, and it is annually monitored.

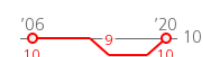
Despite the change of leadership, the Ratas government completed an ambitious local government reform that governments had been attempting for many years. It drastically reduced the number of municipalities and abolished county governments (unified regional government agencies).

Governments have been effective in implementing policies, as nearly all governing coalitions have enjoyed a parliamentary majority and have benefited from a high degree of party discipline. Also, coalition partners generally abide by the policies agreed in coalition agreements, but challenges have arisen during times of crisis or in the run-up to elections. Following the 2015 parliamentary elections, three parties formed a coalition marred by infighting from the beginning, which led to the creation of a new Center Party-led coalition in late 2016. Despite ideological strains, the coalition was successful in implementing its policies, including the controversial ones (local administration reform, increased tax allowances for low earners, increased duties on alcohol and fuel). So far, no cabinet has survived a full four-year term in office. Nevertheless, all governments have been able to balance the state budget – a hallmark policy of all center-right coalitions that has remained unchallenged by the more left-leaning Ratas government.

Question
Score

Prioritization

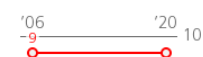
10



1

Implementation

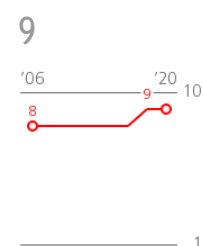
9



1

As a member state of the European Union and OECD, Estonia is thoroughly integrated into international policy exchange networks. Hence, policymakers are continually exposed to new and different ideas. The volatile economic conditions from 2008 to 2011 demanded a particularly high degree of policy flexibility. Regulatory impact assessments are well-established, cover an increasing number of legal acts and require the involvement of relevant interest groups and public consultations in lawmaking process. There is a strategy unit at the Government Office, but it has limited capacity and impact. The government relies on external academic advice, but the extent to which scholarly findings and recommendations influence policy proposals varies greatly. Since March 2014, the Act on National Government allows ministers to be nominated flexibly, based on current needs – it no longer lists ministers, but rather only sets a maximum number for the government as a whole. On the downside, policymakers often appear to be stubborn and changing one’s mind is generally seen as a sign of weakness, which somewhat reduces the scope for policy learning.

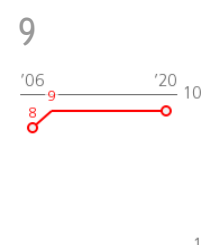
Policy learning



15 | Resource Efficiency

Estonian public administration is generally efficient. There is little political interference in administrative appointments. Because Estonian governments adhere to the principle of balanced budgets, the country has the lowest level of government debt in Europe. Actual state budget expenditures deviate little from planned expenditures, apart from during years of economic boom and recession. Businesses and the opposition Reform Party have increasingly criticized the size of the state bureaucracy. However, the local governance reform completed in 2018 – consolidation of municipalities and abolition of county governments – should improve efficiency.

Efficient use of assets



Estonian governments have also become more efficient by pioneering e-governance and introducing a wide variety of online services to both individuals and businesses. Electronic chip-embedded ID cards – held by nearly all adult Estonians – are used extensively, including for securely identifying individuals online. In 2014, this technology and associated services were made available globally when Estonia started issuing ID cards to non-resident applicants (dubbed e-residents).

The National Audit Office is an independent constitutional institution that monitors the use of budgetary resources by the state and local governments through both financial and performance audits. It has rigorously critiqued administrative practices, the failure of state innovation funds to boost economic development and the use of public resources for party political campaigns.

A strategy unit in the Government Office supports policy planning and coordinates the implementation of the government's action plan as well as strategic development plans. However, there are a high number of strategic documents, which may hinder effective coordination.

Governments have generally been united behind the policies proposed in coalition agreements. There has been limited public friction about policies, not least because of the small size of the country, which makes it easier to iron out disagreements in private. However, the coalition of the Reform Party, the Social Democrats and Pro Patria and Res Publica Union that entered office after the 2015 elections suffered from unusually poor policy coordination from its inception. Ministers representing the different parties often announced policy proposals or ideas without consulting their coalition partners, who then often publicly disagreed.

The new coalition formed at the end of 2016 has been both more ambitious and, most of the time, better coordinated – despite the low ideological cohesion between the coalition partners. It has largely followed a detailed plan of work adopted at its inception. In 2018, there was considerable confusion over the government's position on the UN Global Migration Compact. Instead of risking a collapse of the coalition, the government decided to let the parliament decide the country's position (eventually Estonia signed the agreement).

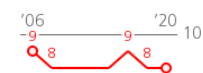
The government is very transparent, allowing citizens and the media access to information. In recent years, Estonia has amended a number of anti-corruption laws, such as the Political Parties Act, the Public Service Act and the Anti-Corruption Act, partly in response to concerns raised by the Council of Europe's Group of States against Corruption (GRECO). However, challenges remain, the most important of which are related to party funding. According to a 2017 Eurobarometer study, most Estonians believe that corruption is widespread among political parties (59%) and politicians at the national and local level (56%) – slightly more than the EU average.

The regulation of party financing continues to be a controversial issue. Edgar Savisaar, the long-time leader of the Center Party (until November 2016) has been accused of accepting funding from business interests in the Russian Federation in exchange for political influence. In 2015, a court suspended Savisaar from his post as the mayor of Tallinn as he was the subject of a bribery investigation. However, the charges were dropped in 2018 as the Supreme Court ruled that he was unable to attend the hearing due to ailing health.

Among the other main parties, the Reform Party has also faced accusations of receiving anonymous donations and being linked to alleged corruption at the (state-owned) Port of Tallinn. A criminal investigation focused on two executives of the company started in 2015 but the trial has been postponed several times and is unlikely to be completed before 2020.

Policy coordination

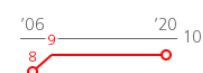
8



1

Anti-corruption policy

9



1

Such scandals have led to increased calls for party financing reform. The Estonian Party Financing Monitoring Commission was set up in 2011, comprising of representatives from the parliamentary parties and members nominated by the Chancellor of Justice, the National Audit Office and the National Electoral Committee. The committee reviews regular financial reports from political parties, electoral alliances and single candidates. The new commission is an improvement over the previous system, whereby campaign reports were submitted to a committee composed exclusively of members of parliament. Still, the effectiveness of the committee is limited as it lacks the resources to check the validity of submitted reports. The committee's leeway is also potentially limited because political parties provide a majority of its members, particularly since 2015 as there are six parties represented in the parliament.

International organizations such as the EU and the OECD have also highlighted corruption risks within public procurement procedures, the overlooking of foreign bribery cases by the legal system and an insufficient regulation of lobbying. To address the latter issue, parliament approved a code of ethics for members of parliament in late 2014, but GRECO still points out issues with MPs' declaration of interests and assets, as well as lobbying among ministers, senior civil servants and political advisers.

16 | Consensus-Building

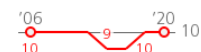
Representative democracy is uniformly accepted by all relevant political actors. However, the increasingly popular Conservative People's Party has somewhat challenged the consensus by advocating a more populist form of democracy.

The liberal market economy enjoys a broad consensus among the major political actors in Estonia. Center-right governments have been in power for most of the time since independence in 1991; they have generally followed neo-liberal economic policies involving balanced budgets, low public borrowing, a flat-rate income tax and currency stability. Even the two center-left parties currently represented in the government (the Center Party and Social Democratic Party) broadly agree with these fundamental objectives.

There are no significant anti-democratic political, military or economic actors although the radical-right Conservative People's Party (projected to increase its numbers in parliament in 2019) nurtures views critical of the current model of representative democracy.

Consensus on goals

10



1

Anti-democratic actors

9



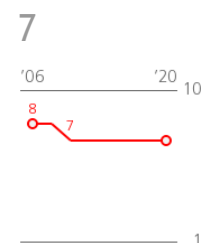
1

The main social cleavage is between the ethnic Estonian majority (68% of population) and a sizable Russian-speaking minority (25%). The communities often live separate lives and are divided by latent issues such as their interpretations of the Soviet occupation, Putin's regime and Russian actions in Ukraine. However, the cleavage is only partially politicized, as ethnic Russian parties have been weak and unrepresented in the national parliament since 2003. Ethnic Russians have been mostly represented by the Center Party (KE), which has been very successful in building up support among the minority community by controlling the municipal government in Tallinn and in northeast Estonia, where most Russians live. Sometimes this has led to sharp confrontations with the governing parties, which are almost entirely ethnic Estonian. However, in 2014, Jevgeni Ossinovski (SDE) was sworn in as the first ethnic Russian minister not representing KE; he became the leader of his party in 2015. In November 2015, following longstanding internal strife, Jüri Ratas was elected the leader of KE, replacing Edgar Savisaar. This was partly seen as a defeat for the pro-Russian wing of the party as most of the leading ethnic Russian members were close to Savisaar. However, eventually most of the party's Russian-speaking leaders sided with Ratas. Savisaar set up his own list in Tallinn for the 2017 local elections. It flopped completely, with Savisaar only winning 3,600 preference votes – compared to 40,000 as the leader of KE four years earlier.

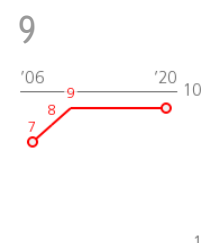
Estonia's political leadership actively enables civil society participation. Even though many CSOs are vocal and constructive, the government sometimes sees their activities as a nuisance and an obstacle to effective governance. However, the government does respond to pressures, even though direct involvement of CSOs in decision-making remains somewhat limited. In 2012, a group of prominent public intellectuals issued a document entitled Charter 12, calling for democracy to be strengthened in response to party-funding scandals. A People's Assembly – an online platform for crowd-sourcing reform proposals – was set up after Estonia's president convened a national political roundtable. 18 proposals for amending the party financing system and electoral law, as well as other democratic reforms, were selected and presented to the parliament by the president. However, critics claimed that parliament had watered most of them down and that the process was elite-led and considered only a limited range of reforms.

To promote participation in civic organizations, the government has created a National Foundation for Civil Society, which regularly awards grants to NGOs. Civil society actors have become increasingly active in politics. In recent years, trade unions have staged national strikes, prominent intellectuals have called for democratic reforms and protesters have campaigned for and against the legalization of same-sex partnerships and disability work reform. Academics have lobbied for increased public funding of R&D, attaining a pledge from most political parties to do so (see "Education policy / R&D") and a foundation set up by prominent entrepreneurs has vocally lobbied for governance reform (see "Interest groups").

Cleavage /
conflict
management



Civil society
participation



Estonia's political leadership recognizes the need to deal with historical acts of injustice, but the country has not implemented any extensive program of lustration. Interpretation of historical events and periods such as World War II, the Soviet occupation and collaboration with Soviet power structures are of some contemporary political relevance. The events of World War II, in particular, are a frequent source of disagreement between the majority of ethnic Estonians (especially the political elite) and many Russian-speakers; many of the latter are proud of the role of the Red Army, while the former mostly see it as an occupying power that refused to withdraw from Estonia at the end of the war.

Two initiatives from Estonia's presidents have sought to reconcile Estonians with their past: the establishment of the Estonian International Commission for Investigation of Crimes Against Humanity by Lennart Meri in 1998 and the Estonian Institute of Historical Memory (focusing mostly on human rights during the Soviet period) by Toomas Hendrik Ilves in 2008. However, the past is often addressed in an understated manner in Estonia. For example, it was decided in 2016 that the Museum of Occupations in Tallinn would be renamed the Vabamu (roughly, the Museum of Freedom).

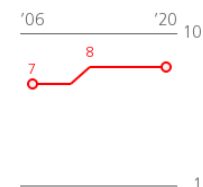
17 | International Cooperation

Estonia has benefited from generous assistance from the EU's Structural Funds. More than 2% of the country's GDP was allocated for both the 2007 to 2013 and 2014 to 2020 financial periods (the ratio to GDP is decreasing due to economic growth). Priorities include accessible education, employment, the quality of work life, a knowledge-intensive economy, efficient use of resources, the environment and sustainable infrastructure. The use of structural funds is linked to long-term strategic plans adopted by parliament and the government, which are generally well coordinated between ministries. However, the projected decline in net benefits from the EU budget after 2020 (because of a declining budget due to Brexit and the country's increased GDP) poses challenges.

The government is seen internationally as highly trustworthy. Estonia has been ranked among the most credible countries in Central and Eastern Europe by international credit rating agencies. Estonia is widely seen as an EU member state that is successfully and tenaciously abiding by nearly all EU norms. Estonian government officials are often openly critical of countries such as Greece that do not follow these rules as meticulously.

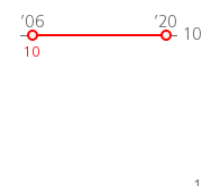
Reconciliation

8



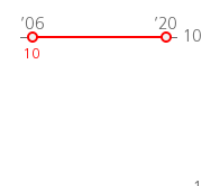
Effective use of support

10



Credibility

10



Since independence, Estonia has been involved in various forms of international cooperation. In the years immediately after independence, cooperation was most active with other Baltic countries, but later the emphasis shifted to cooperation with the Nordic countries and the Baltic Sea region as a whole. This tendency was further strengthened during the process of EU accession. Currently, cooperation within various EU frameworks is a priority and more narrowly defined regional cooperation has lost some of its earlier importance.

Still, in recent years, the Baltic states have made joint efforts to increase their energy security. Three issues in particular have added a sense of urgency to this matter: (a) the closure of a Soviet-era nuclear power plant in Lithuania in 2009, (b) the long-term infeasibility of oil shale-based electricity production in Estonia and (c) the perception that excessive reliance on Russia for energy is undesirable. A plan to jointly construct a new nuclear power plant in Lithuania has been mooted with no tangible progress. Regional cooperation has been more successful in terms of diversifying gas supplies through the development of liquid natural gas (LNG) terminals that should end the pipeline monopoly enjoyed by Russia's Gazprom. A floating terminal has been opened in Lithuania that could, in principle, cover most of the natural gas needs of the Baltic states. Also, in October 2016, a construction agreement was signed on Balticconnector (an undersea natural gas pipeline to connect Estonia to the Finnish natural gas grid, including a prospective LNG terminal in Finland). In 2014, the second stage of Estlink, an underwater power cable between Estonia and Finland, was completed, further integrating the two countries into Nordic electricity markets.

Relations with the Russian Federation have been increasingly difficult, especially in the wake of the "Bronze Night" troubles of 2007, a failure to sign a border treaty between the two countries after 20 years of Estonian independence, and the increased tensions between Russia and the West since the start of the conflict in Ukraine in 2014. There has been renewed optimism concerning the border treaty after it was signed again in 2014 (Russia had withdrawn its signature in 2005). The treaty was sent to the parliaments of both countries for ratification in late 2015, but remains unratified at the time of writing.

Regional cooperation

10



1

Strategic Outlook

Estonia faces few critical challenges in the short- and medium-term. Widespread approval of democratic principles and only modest support for anti-establishment and radical parties make political instability unlikely. The radical-right Conservative People's Party (EKRE) entered parliament after the 2015 elections. By 2018, it was polling in third place, prompting worries about the fragmentation and polarization of the party system. It has also made it more difficult to build governing coalitions with a solid parliamentary majority and strong spirit of cooperation. At the same time, the leadership change in the Center Party (KE), which transformed that long-standing pariah in Estonian politics into an attractive coalition partner, expanded the number of potentially feasible governing coalitions. The fallout between KE's old and new leadership could potentially lead to further changes in the Estonian party system if its ethnic Russian politicians (presumed to be Savisaar loyalists) start feeling alienated under the leadership of Jüri Ratas. However, the threat of a more pro-Russian splinter group emerging has not materialized so far.

The main economic issues have included the continued support of Estonia's flat-rate income tax regime and the low level of social expenditures. The differences between the parties are generally modest as none of the major parties advocate a radical departure from broadly liberal economic policies and balanced budgets. After the market liberal Reform Party was ousted from government, the more left-leaning KE-led coalition tweaked personal income tax allowances, which only amounted to a modest departure from previous policies. In addition to the general commitment of government coalition members to market liberalism, Estonia's memberships of the EU and the European Economic and Monetary Union set significant constraints on the policies that the government can pursue – all major political players are keen to abide by European norms. However, this might be challenged by EKRE's Euroskeptic rhetoric if the party becomes a kingmaker after the 2019 parliamentary elections.

One of the country's main economic risks is its high dependence on exports and foreign investments for economic growth. For a small and open economy such as Estonia, external shocks and credit cycles can pose far more significant risks for economic growth than unfavorable domestic political developments. The country weathered the Great Recession reasonably well by adopting a radical austerity program, aided by limited domestic opposition and a widespread understanding that the crisis was not of the government's making. The post-recession recovery has been linked to increased domestic demand, with all major parties acknowledging its beneficial effects to a greater degree than before the recession.

Another important driver of economic progress has been the EU structural funds that Estonia has benefited from since its accession to the bloc in 2004. However, the country's increased GDP (and the exit of UK, a net contributor to the EU budget) means that this assistance will decrease considerably after 2020. The need for increased national funding for socially and economically important projects raises the risk of the state budget coming under increased strain and becoming the subject of political conflict. The delaying of important projects (for example, infrastructure or R&D funding) risks slowing down economic and social progress.

Labor migration to other EU countries – particularly Finland – has posed challenges. During the recession, migration acted as a safety valve against rising unemployment, and those working abroad injected money into the Estonian economy. After the recession, as unemployment plummeted, skills shortages and the danger of a permanent brain drain have come to the fore. In recent years, net migration has turned positive – helped by fast economic growth in Estonia – but this could change if the economic climate were to deteriorate. Nevertheless, the potential for high emigration, exacerbated by a low natural birth rate, poses a long-term demographic challenge as the country's total population continues to decline and the old-age dependency ratio continues to increase.

Finally, the continued conflict in Ukraine and Russia's international aggressiveness have raised new medium- and long-term risks. In 2016, NATO guaranteed it would station international battalions in the Baltic member states (led by British forces in Estonia), in addition to increasing air defense patrols. The risk of an imminent armed conflict with Russia may be low, but online and media propaganda as well as potential cyber-attacks pose considerable risks. Recent global developments such as the election of Donald Trump and Brexit have raised uncertainties both about the future effectiveness of NATO and the outlook of the EU. These concerns and their potential implications on the global economy could reduce the attractiveness of Estonia among foreign investors and in export markets. Possible economic repercussions could ultimately affect interethnic relations in Estonia and potentially increase Russia's power in the battle over the hearts and minds of the Russian-speaking minority.