

Estonian e-Residency: A Case Study for Business Formation and Practical Blockchain Solutions

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Estonia's e-Residency Program: A Compelling Option for New Businesses Formations

The Republic of Estonia launched a program called e-Residency in December 2014. The program offers a kind of virtual residency to non-Estonians located outside of the country, enabling them to form Estonian-based companies online, access to the means of securely managing a business online, and the ability to change physical locations without the need of changing the location of the company. According to the Republic of Estonia e-Residency website, over 5000 companies have now been established by e-Residents.¹ Since the program's inception, over 33,000 applications have been received from over 150 countries.²

e-Residency Benefits Estonia, But Offers No Tax Haven for Entrepreneurs

The program in no way aims to offer a means through which would-be tax evaders or other criminals can obscure their illegitimate nature. Dmitri Jegorov, Undersecretary for Tax and Customs Policy at the Estonian Ministry of Finance and member of the High-Level Working Party on Taxes at the EU Council, explains that applicants apply to the Estonian Police and Border Guard Board (PPA) and then appear in-person either in Estonia or in one of more than 30 foreign representation offices to obtain their identification card and provide their fingerprints.³

Estonian e-Resident entrepreneurs remain liable for taxes in their home countries. And, while some e-residents have established businesses with residency and tax liability to Estonia itself, the country benefits mostly through other means.

In particular, these companies become "far more likely to conduct additional business in Estonia with companies that are based [in Estonia] or travel to Estonia for business and leisure".⁴ Indeed, Deloitte conducted an independent analysis that projected the program "to return 100 euros to Estonia's state and economy in exchange for every one euro that was invested in the program."⁵

Estcoin: A Blockchain-based 'Token' Compatible with the Euro and other Fiat Currencies?

In August 2017, government officials in Estonia announced plans for a national cryptocurrency; a proposal that has since been called "the estcoin".⁶ In December 2017, Estonia's e-Residency program managing director Kaspar Korjus gave further details on these plans and expressed how the crypto coin

¹ Republic of Estonia E-Residency Website. Homepage. Available at <https://e-resident.gov.ee/>. Accessed on April 30, 2018.

² *Ibid.*

³ Jegorov, Dmitri. Here's why tax evaders are disappointed in Estonian e-Residency. Medium. March 20, 2018. Available at: <https://medium.com/e-residency-blog/heres-why-tax-evaders-are-disappointed-in-estonian-e-residency-2322644f5f59/>. Accessed on April 30, 2018.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ Galeon, Dom. Estonia's Plans to Build a Digital Nation Using Blockchain Are Taking Shape. Futurism. December 29, 2017. Available at: <https://futurism.com/estonias-plans-build-digital-nation-using-blockchain-taking-shape/>. Accessed on April 30, 2018.

could serve as a “community token” for Estonia’s e-residents.⁷ The distinction between a cryptocurrency and a “crypto token” is made due to the fact that Estonia’s official currency is the Euro, and that currency is a key feature of the country’s EU membership. There is no interest in changing that.

Instead, Estonia has been floating the possibility of incorporating one or more variants for estcoin that would serve to benefit their e-Residency program – and operate within their e-Residency ecosystem – without conflicting with the country’s commitment to the Euro and their EU membership.

First of all, any such estcoin variant would eliminate the anonymity issues surrounding crypto currencies such as Bitcoin since e-Resident ‘wallets’ would be linked to their government-backed digital identity.

There are currently three crypto token types under consideration. The first of these, referred to as the community estcoin, would incentivize activities that promote the application for and use of services within the e-Residency program.⁸

A second variant, referred to as the identity estcoin, would associate personalized blockchain-based tokens with e-resident identities. They could not be sold or exchanged. Their purpose would be in servicing the infrastructure of the e-Residency program itself, and their value would be expected to decrease in value over time as the system gains greater economies of scale.

Finally, a “euro estcoin” would simply be pegged to the euro. Such a solution could eliminate transactional costs within the e-Residency ecosystem, with the government ready to buy back every euro estcoin for one euro.

Estonia as a Case Study for Consideration

The idea of using blockchain-based currencies or tokens remains a highly controversial and largely unregulated frontier that may very well be under threat from governments around the globe. But, the debate surrounding blockchain technology and currencies in Estonia seems to emphasize benefits to the technologies that may well be compatible with the interests and concerns of central banks around the world.

Indeed, Estonia is now in a unique position where it stands to benefit from the use of blockchain currency technologies in concert with fiat currencies; not in conflict with, or as an alternative to fiat currencies. The country has shown great success in the development of its e-Residency program. This program would seem the ideal proving ground for blockchain-based currency solutions that would seem to face less regulatory risk. The moves taken in this area by Estonia in the coming years may well serve as a case study for how these technologies can be developed to serve relatively uncontroversial goals and lead to greater security and efficiencies for businesses of all sizes; including the sole proprietor.

⁷ Korjus, Kaspar. We’re planning to launch estcoin — and that’s only the start. Medium. December 19, 2017. Available at: <https://medium.com/e-residency-blog/were-planning-to-launch-estcoin-and-that-s-only-the-start-310aba7f3790>. Accessed on April 30, 2018.

⁸ *Ibid.*