Estonian Business School

Chair of Management

ESTONIA AS THE LEADING DIGITAL HUB FOR INTERNATIONAL CIVIL SOCIETY ORGANISATIONS

Master's Thesis

by

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Tallinn 2017

I herewith declare that I have written the Master's Thesis independently. References have been indicated for the publications, claims, options and different sources by other authors.

May 25, 2017

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ABBREVIATIONS AND ACRONYMS

CBO - Community based organisations

CSO – Civil Society Organisation

EU – European Union

USA – Untied States of America

INGO – International Non-Governmental Organisation

NGO – Non-Governmental Organisation

E-Residency – a transnational digital identity

E-Government – is the use of electronic communications devices to provide public services to citizens and organisations in a country or a region.

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ABSTRACT

Miljand, K., R., Estonia as a Leading Digital Hub for International Civil Society Organisations. Master's thesis, Estonian Business School, Tallinn 2017, 88 pages, 11 figures, 6 tables, 116 references, 1 appendix, in English.

PUBLIC SECTOR INNOVATION, E-GOVERNMENT, E-RESIDENCY, CIVIL SOCIETY ORGANISATIONS, INTERNATIONAL NON-GOVERNMENTAL ORGANISATIONS.

The thesis provides an overview of relevant literature on public sector innovation as well as described the civil society as a driver of innovation. Scientific articles from social sciences and management field were used to provide a theoretical framework for the empirical study among international civil society organisations managed from Estonia.

The aim of the research is to open discussion and provide initial viewpoints for further research on questions like what is the correlation between civil society and public sector innovation, who are the main customers Estonia should primarily focus when developing digital hub for international civil society organisations? What are the key drivers and barriers of international civil society organisations? That all should contribute in opening the topic of how could Estonia become the leading digital hub for international civil society organisations (INGOs).

In-depth interviews with experts from civil sector organisations were concluded. Sample of the research were executives from Estonian originated INGOs and international experts who have relocated INGOs or advised in the process.

The research disclosed that the key characteristics for establishing digital hub for international civil society organisations are related to advocacy and interest protection, access to funding, digital infrastructure provided by the government, and overall ease of doing business.

INTRODUCTION

The topic of the thesis was chosen as the author is interested in understanding the wider potential the Estonian ecosystem holds. With the development and adoption of e-residency, Estonia became the first county in the world that is providing secure and convenient digital services to foreigners. The primary focus of e-residency is to provide the possibility to administrate location-independent business online for everybody. However, the author trusts that there are other potential areas for the application of e-residency that could be mutually beneficial for State and end user, one potential approach is researched in greater detail in this thesis.

The justification of choosing to focus on civil society is three-folded. Primarily, to the author's knowledge, which was later confirmed by extensive literature review, currently, there is no state concentrating on catering an environment for civil society organisations. Secondly, the main body of the academic literature focuses on the merits of opening up the governmental infrastructure to the for-profit sector, however, there is limited literature available focusing on civil society. Thirdly, the potential the sector holds, especially with the recent trend of professionalization (Carey *et al.* 2009), which captured the interest of the author.

Concentrating State's development activities towards one specific sector enables to build up an ecosystem that benefits organisations operating in the specific sector. With carefully planned strategic activities the State gradually fosters competitive advantage. As it is the case of different hubs, e.g. Luxembourg as a fund administration hub, Silicon Valley as a technology hub, Singapore as a regional hub for South-East Asia, etc. Almost exclusively all States that have opened up their ecosystem for organisations to channel no

State has focused on fostering an ecosystem for civil society – a market the size of the 5th economy in the world (Salamon *et al.* 1999). Therefore, a large market with potentially low competition.

The existing literature on the drivers and barriers of opening up the country's economy for channelling international activities through their ecosystem is mainly focusing on corporations. Hence, researching the civil society sector would be novel and provide an additional viewpoint on the topic. The relevance of the topic is displayed by the fact that raising Estonian competitiveness by fostering an environment promoting innovation has recently become one of the main agenda points in many strategic documents, e.g. Estonian Competitiveness Agenda, Estonian Innovation Policy. Estonian Innovation Policy has also recently deserved attention from politicians when Sulling (2017) opened the discussion for restarting Estonian innovation policy and finding new sources for growth.

Therefore, the aim of the thesis is to **determine an alternative approach for increasing public sector innovation in Estonia** by utilising and possibly adapting the existing digital infrastructure.

Insufficient capacity to innovate is regarded as one of the main obstacles in Estonian economic development and international competitiveness. Therefore, new sources of innovation must be sought. Previous research has disclosed positive effects a strong civil society could have on public sector innovation. Estonian civil society sector is well developed and has little room for organic growth. Hence, in order to seek growth, Estonian digital infrastructure should be opened to international civil society organisations, which could run their operations via Estonia.

The research focuses on the particular case of Estonia. A single case study with embedded units was chosen as a method to be applied. Data was gathered by semi-structured in-depth interviews with field experts.

The research question of the thesis asks **how could Estonia become the leading digital hub for international civil society organisations (INGOs)?**

For concluding the research, the following sub-research questions will be applied in order to provide wider contexts for the research.

SRQ1: **What are the key drivers and barriers of international civil society organisations?**

It is important to determine the key drivers and barriers in the international civil society sector that influence the location-related decisions of the organisations. Understanding the key drivers and barriers enables to foster a suitable environment that would attract international civil society organisations.

SRQ2: **Who are the main customers Estonia should primarily focus on when developing a digital hub for international civil society organisations?**

Determining the potential customer groups provides the chance to evaluate the market size and hence the economic feasibility of developing a digital hub for international civil society organisations in Estonia.

The structure of the thesis is based on four chapters that address the following aspects:

Chapter 1 presents a cross-section of the academic and mainstream literature concerning research on public sector innovation and civil society sector. In addition, the relation between the strength of a civil society and the public sector governance innovation is discussed. Chapter 2 provides the case description that would serve as the basis of the research. Chapter 3 explains the method that will be used to execute the research. The research objectives will be covered by semi-structured in-depth interviews with seven representatives of Estonian civil society organisations. Chapter 4 exhibits the findings of the research and discloses the results on ease of doing business as well as the key drivers for relocating civil society organisation. Chapter 5 opens the discussion on the results derived from the research and finding from the literature review on the impact to Estonian competitiveness that international civil society organisations could have.

1 Review of Literature

The following literature review chapter presents a cross-section of the relevant academic and mainstream literature. Searching the electronic databases of EBSCO, ISI, JSTOR, SAGE, SpringerLink, Wiley Online Libary and Google Scholar identified the population of publications for review. The following keywords were applied during the search of relevant material: public sector innovation, e-government, civil society organisations, open government. The sampling of literature was primarily concluded based on representativeness (i.e. citations) and relevance for the thesis.

1.1 Role of the Public Sector in Business

The role of public sector in fostering an environment favourable for creation and growth of the private sector became important only after abandoning the model of a centrally planned and protectionist economy. However, it would be naive to think that markets and, with them, private initiative and investment will spring spontaneously from economic liberalisation and privatisation programs. The creation and development of a market economy also demands an institutional and legal framework that will establish the rule of law, guaranteed by the courts, and that can provide collective goods and services (Estime 2004). Otherwise, there is a risk of sliding into anarchy. Therefore, governments are responsible for establishing a conceptual framework designed to foster economic development via entrepreneurship, innovation and small business growth.

Professor Daniel Isenberg (2010) defined the conditions in which the individuals, enterprises, and society came together to foster the generation of economic wealth and prosperity as an entrepreneurial ecosystem. The concept is rooted in previous studies in the field of business and industry clustering (Porter 1990; Krugman 1991; Baptista 1998) and innovation (Prahalad 2005; Cohen 2005; Bernardez 2009).

For the purposes of this thesis, the entrepreneurial ecosystem model selected is adapted from that of Isenberg (2010) and the World Economic Forum (WEF 2013). The following figure illustrates the nine prerequisites necessary for a favourable business climate to enhance the entrepreneurial spirit.

Figure 1. Components of entrepreneurial ecosystem. Adapted from: Isenberg 2010 & World Economic Forum 2013. Author visualisation.

Of the nine components first and perhaps most important in the entrepreneurial ecosystem is government policy (Mazzarol 2014). This is not just in relation to areas directly relevant to entrepreneurship but over a wide cross-section of policies relating to taxation, financial services, telecommunications, transportation, labour markets, immigration, industry support, education and training, infrastructure and health.

Also, the importance of the financial sector including sources of funding for new and growing businesses should not be underestimated. Culture plays a part, with respect to the society’s tolerance of risk and failure, whether there are successful entrepreneurial role models and a desire to adopt new ideas and innovation as well a relative openness to the diversified workforce (Mazzarol 2014). Of equal importance is the availability of education that is aimed to generate the human capital and skilled technical workforce that entrepreneurial firms require, including the ability to access immigrant workers. Finally, there must be access to domestic and international markets through large corporate and government supply chain either physically or digitally (Mazzarol 2014).

Government policy must address all components of the system and ensure that they are operating in a healthy and effective manner. This requires government policy to be as holistic as possible, with attention given to both macro and micro level policy settings so as to facilitate the entrepreneurial ecosystem via a simultaneous ‘top-down’ and ‘bottom-up’ approach (Mazzarol 2014). Mason and Brown (2014) suggest that government policy relating to the development of entrepreneurial ecosystems should be grown organically from existing industries that have demonstrated their ability to survive within the local conditions. Hence, it is important to have a solid foundation and experience in the sector prior to opening the governmental ecosystem to foreign corporations and attracting them.

Venkataraman (2004) has further highlighted the factor fostering entrepreneurship and presented these in a form of cycles. These two types of cycles are illustrated in the following figure. The blue cycle referred to as virtuous cycle builds on role models that attract the brightest minds and thereby foster entrepreneurship. There is also a tolerance of failure and an inflow of critical resources such as human capital, money and infrastructure.

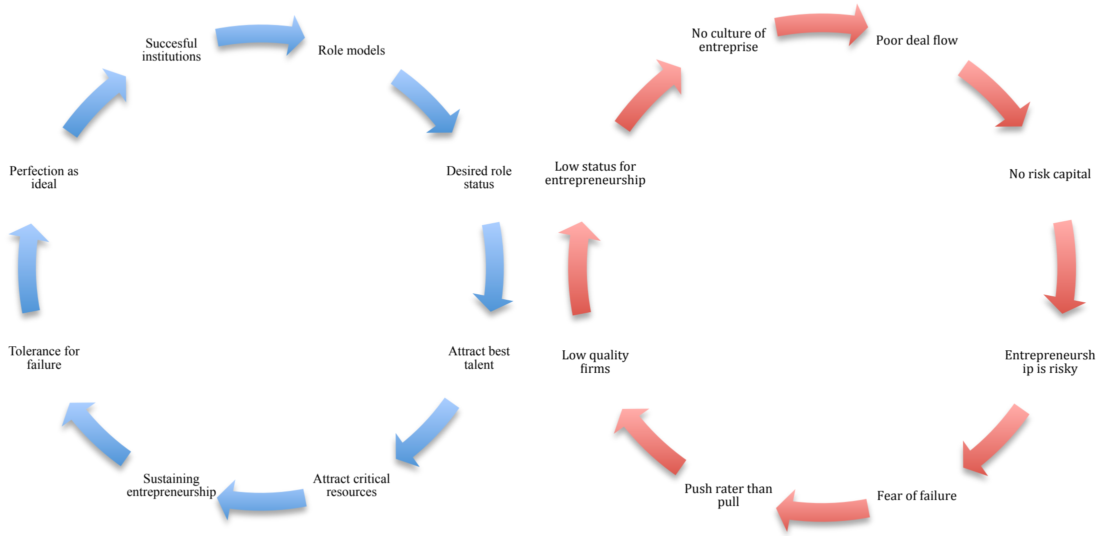

Figure 2. Virtuous and Vicious cycles in fostering entrepreneurship. Source: Venkataraman 2004. Author visualisation.

By contrast, the red cycle referred to as vicious cycle. Presents the culture that is not supportive of enterprise and has a flow of only a few entrepreneurial businesses that are insufficient to attract risk capital. Thereby, creating a more risky environment. This can increase a fear of failure with a need to push or assist firms to grow rather than having them pulled into growth by market forces. The end result is low-quality firms and the overall status of entrepreneurship is low leading to a poor culture in the region in relation to the enterprise.

Entrepreneurial ecosystem fosters the development of sustainable organisations regardless whether they are profit-driven corporation or non-profit organisations promoting civil causes (Mazzarol 2014).

1.2 Civil Sector Organisations

The term civil society is, due to its various historical roots, probably considered as one of the most difficult definable social science concepts. As German sociologist Ulrich Beck puts it: “The most precise statement one can make about civil society is that it is an extraordinarily vague idea” (Beck 2001). Volkhart Heinrich in course of the Civicus Civil

Society Index project proposed the following definition "the arena, outside of the family, the state, and the market where people associate to advance common interests". Another qualification often included in civil society definitions is the promotion of the common public good (Knight and Hartnell 2001). The key features of successful civil societies which emanate from various definitions include the following: separation from the state and the market; formed by people who have common needs, interests and values like tolerance, inclusion, cooperation and equality; and development through a fundamentally endogenous and autonomous process which cannot easily be controlled from outside.

Civil sector organisations in combination are referred to as civil society organisations (CSO). Internationally one of the most recognised terms for referring to civil society organisations has been non-governmental organisation, with the abbreviation of NGO. However, civil society should not be equated to NGOs. They are a part of civil society though they play an important and sometimes leading role in activating citizen participation in socio-economic development and politics and in shaping or influencing policy. Civil society is a broader concept, encompassing all organisations and associations that exist outside the state and the market. Civil view of the third sector highlights the voluntary participation and citizen engagement elements of the third sector (Corry 2010). As the civil society and third sector are closely related terms and simultaneously used throughout the academic literature (Corry 2010; Centre of Civil Society 2009; Jenei and Kuti 2008) they were applied as synonyms in this thesis.

Due to the important role of NGOs in civil society the term was applied as integral part of the thesis. The term roots date back to 1910, when 132 international non-governmental organisations decided to co-operate under the label 'Union of International Associations'. The Article 71 of the Charter of the newly formed United Nations (UN) established the term "non-governmental organisation" already in 1945. According to the definition provided by UN an NGO can be any kind of organisation provided that it is independent from government influence and is not-for-profit.

The author applied the World Bank definition of NGOs, which provides that a NGO is a "private organisation that pursues activities to relieve suffering, promote the interest of the poor, protect the environment, provide basic social services or undertake community development”. NGOs with international focus are referred to as INGOs. INGOs could be further divided by their primary purpose. The typology provided by World Bank divides INGOs as operational organisations and advocacy organisations (Malena 1995). The primary focus of operational INGOs is to foster the community-based organisations in each country via different projects and operations, hence a regional focus. Whereas, the focus points of advocacy-based organisations is more global. Their primary purpose is to influence the policy-makers from different countries’ governments or unions, e.g. European Union, regarding certain issues or promote the awareness of a certain issue. In practice clear division of INGOs by definition is complicated as majority include components of both - advocacy initiatives, proactively protecting their interests and representing their cause and operational projects working together within individual countries.

Building on the basis of the definition provided by the World Bank, the institution also provides a classification of operational civil society organisations into three main groups:

- *Community based organisations (CBOs)* – also referred as grassroots organisations or peoples’ organisations – typically set up as a membership based organisations serving specific population in a narrow geographical area in certain developing countries;
- *National non-governmental organisations (NGOs)* – typically an intermediary organisations which operate in individual developing country; and
- *International non-governmental organisations (INGOs)* – generally intermediary organisations, which are typically headquartered in developed countries and carry out their activities and operations in more than one developing country.

Source: Malena 1995

During the recent years the definitions used in civil sector internationally have changed and civil society organisations have become a common denominator of all above listed operational forms of organisations. Hence, in order to be concise in term of definition author provides the following mind-map to provide an overview of the taxonomy applied and facilitate the understanding of different terms and abbreviations.

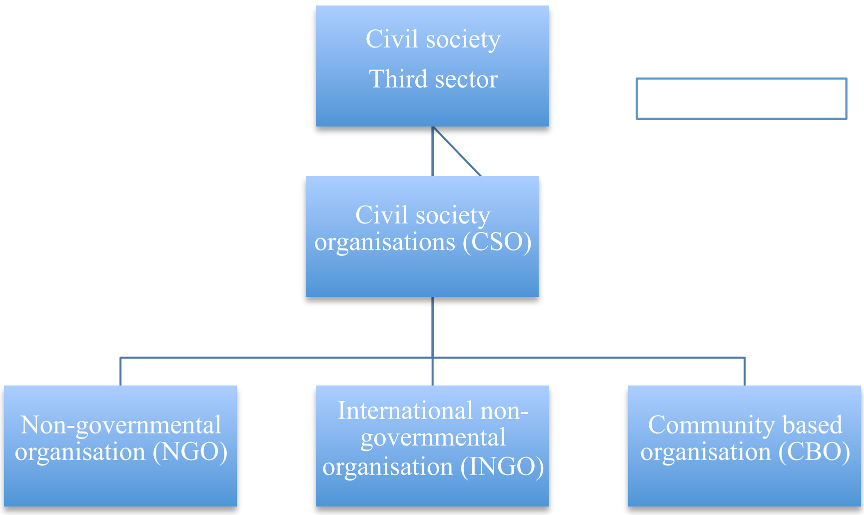

Figure 3. Taxonomy of The civil society organisations. Source: Author visualisation.

Literature often refers to a strong civil sector (Ghaus-Pasha 2004, Bailer *et al*. 2009, Bekkers *et al.* 2013). When analysing the key characteristics necessary for creating a strong civil society, the quality of political institutions stands out most clearly. **It could be argued that shape and performance, i.e. the quality of a country's political institutions are key factors for fostering a strong civil society** (Bailer *et al*. 2009). Citizens in states with reliable and strong political institutions are motivated to formulate their desires and needs in public and are prepared to form and participate in voluntary organisations (Bailer *et al*. 2009). Thus, in order to establish strong civil society merely providing democratic institutions is not sufficient, democracy must be realized effectively, credibly and sustainably in order to promote civil society.

1.3 Civil Society Organisations in Practise

Since statistics regarding the global numbers of NGOs is notoriously incomplete no exact figure in terms of organisations or workforce could be determined. However, according to the Global Journal, it is believed that the total number of NGO-s worldwide reaches to 10 million. The following table presents the largest communities of NGOs worldwide.

Table 1. Leading NGO Communities

Country	NGOs	Capita per NGO
India	2 000 000	600

USA	1 500 000	209
France	1 000 000	66
UK	870 000	73
Australia	600 000	40
Germany	600 000	135
China	500 000	3 000
Italy	300 000	200
Sweden	232 000	43
South Africa	140 000	403
Estonia	32 000	40

Source: Human Rights & Author calculations

In absolute terms the largest markets of NGOs are India, US and France. These three markets are also dominant in terms of civil society initiatives. For example USA is the birthplace of International Non-Governmental Organisations Accountability Charter.

Relative dominators of civil society are countries such as Sweden, Australia as well as Estonia, where there is an NGO for approximately every 40 inhabitants. Therefore, it could be argued that the potential of organic growth in the number of NGOs in these countries is limited.

Statistics provided by Human Rights disclose that approximately 70% - 80% of all civil society organisations are domestic NGO's aimed for solving local problems, e.g. neighbourhood associations, women's and youth groups. When including only these NGO-s that work internationally to solve poverty related problems and other development issues the number according to different estimates is in the framework of 2 to 3 million INGOs.

A recent trend in the civil society sector is the professionalization of the workforce (Carey *et al.* 2009), whereas many former senior leaders and ex-politicians move from the private or the public sector to the third sector. Regardless of the addition of few strong and popular names, the sector still largely rests on the shoulders of volunteers. In 2015, the voluntary activity in NGO-s was at record high. Based on a statistics disclosed by Urban Institute, 25,3% of all adults in the US (62,8 million) took part in some sort of non-profit activity organized by NGO's (McKeever 2015). The total contribution amounted to 8,7 billion hours. One of the reasons for such a high volume of volunteer contribution, could be attributed to the fact that generally the majority of the grant makers do not foresee salary expenses as project costs, (Eckhart-Queenan *et.al.* 2016, Gregory & Howard 2009) hence these will not be reimbursed. The majority of the funders are aware that their indirect cost allocation is indeed too low (Woodwell & Bartczak 2008) so that they are not covering basic cost incurred by NGOs.

Fortunately, volunteers have stepped in to bridge the gap. The value of volunteer time in 2016 was estimated at 24,14 dollars per hour (Independent Sector 2016), hence the total contribution of the US volunteers alone amounts to approximately 210 billion dollars. A colossal figure, that is at par with the GDP of Finland.

The Urban Institute concluded a study on the distribution of the average volunteer time by activity that highlights the main areas where volunteer contribution is used (McKeever 2015). Majority of time is put in direct use and aimed at creating social value. Hence, it could be argued that the overlap of activities and non-value adding activities (e.g. waiting) are downsized.

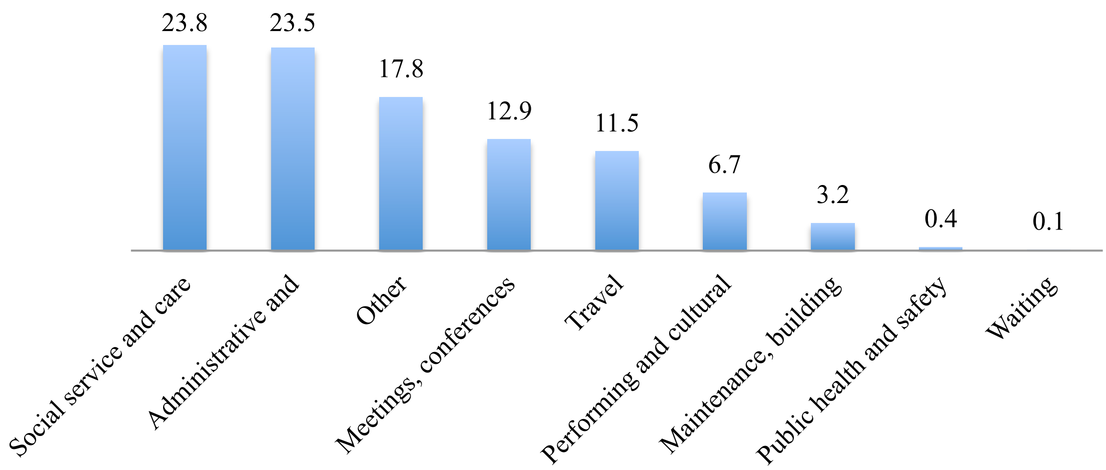

Figure 4. Distribution of Average Volunteer Time by Acitivty 2014 (Percent). Source: Author calculations based on US Department of Labour, Bureau of Labour Statistics, American Time Use Survey 2014

The economic power NGO's hold is significant. According to the statistics gathered by US Inland Revenue Service ('IRS') the reporting NGO's identified 2,26 trillion dollars in revenues and 5,17 trillion dollars in assets in 2015 (McKeever 2016). The non-profit sector contributed an estimated 905,9 billion dollars to US economy in 2013, composing 5,4 per cent of the countries gross domestic product. John Hopkins University, Centre of Civil Society Studies, a think-tank researching non-profit initiatives around the world, has claimed "If NGO's were a country, they would have the 5th largest economy in the world". Significant rise from the 8th place in 1999 (Sustainability 2003).

In terms of the number of NGO-s the overall situation is relatively stable, e.g. the growth of the registered NGO's in US between 2003 and 2013 was 1,38% (McKeever 2015). However, the mix of the organisation has changed and so has the volume of funds increased rapidly. The revenues and assets identified by NGO-s both grew over 30% during that period (McKeever 2015).

According to Charity Navigator, total giving to US charitable organisations amounted to 373,3 billion dollars. Individuals made up majority of the charitable giving accounting to 71% of all giving's. Large proportion of that was made up by donations from prominent high net worth individuals, e.g. Mark Zuckerberg, who in the end of 2015 pledged to donate 99% of their Facebook shares (estimated value of 45 billion dollars) to the cause of human advancement. Warren Buffet, who pledged in 2006 just after the death of her wife, to donate 37 billion dollars to Bill and Melinda Gates Foundation for reducing global poverty and expanding access to healthcare and information technology. The pledge would take effect upon the death of Mr Buffet. However, in the mean time he has been donating approximately 2 to 3 billion dollars annually for solving problems for people who are not responsible for their fate and do not have the means to fight against the injustice. Altruistic act that due to its share size is followed by huge media attention that in turn fuels the cycle of donating by individuals, thereby making USA the largest donator in the world.

According to the statistics disclosed by Charity Navigator the education focused charities where the main beneficiary accounting to 15,4% of all giving's, followed by human services (12,1%) and foundations (11,3%). The following figure provides a detailed overview of the grants made to charities in US between 1975 and 2015. The graph below discloses the overall trend in the US NGO sector. The US example was chosen due to the access of reliable data, however, the overall trend of non-profit sector is showing positive growth worldwide.

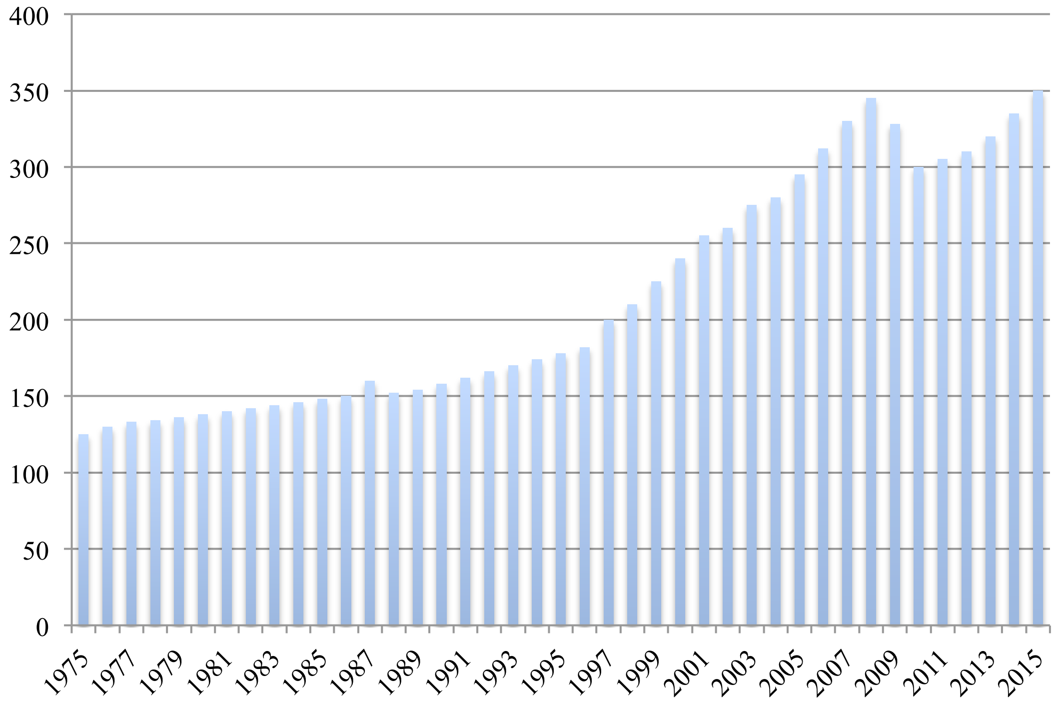

Figure 5. US Charity market size 1975 to 2015 Source: Charity Navigator. Author visualisation.

1.4 Innovation in Public Sector

The academic literature on innovation (disclosed for both private and public sectors) enables to understand what could be characterised as innovation. The literature makes it vivid that innovation has to be more than merely an idea: innovations need to be new ideas and practices brought into implementation (e.g., Tidd *et al.* 2005; van de Ven 1986; Wolfe 1994). Hence, they differ from inventions (Bessant 2003). Merely a novel idea or a practice that is not disseminated and used could not be regarded as innovation. Some researches also supplement that an innovation differs from continuous improvement or other minor changes. For example, Lynn (1997) argues that: ‘‘Innovation must not simply be another name for change, or for improvement. Innovation is properly defined as an original, disruptive, and fundamental transformation of an organisation’s core tasks’’

There has been a great deal of both professional and scholarly interest in innovation in the public sector (see for example Altschuler and Behn 1997; Borins 1998; Hartley 2005; Moore 2005, Mulgan and Albury 2003; Albury 2005; National Audit Office 2006;

Osborne and Brown 2011; Walker 2014). Innovation has been seen as one of the key means of transferring from quality improvement and enhancement approaches of the 1990s into overall efficiency, effectiveness and legitimacy (Bekkers *et al.* 2011). While some researchers focus on the delivery of service, many acknowledge the idea that innovation can contribute to improving the quality of public services as well as to enhance the problem-solving capacity of governmental organisations in dealing with societal challenges (Damanpour and Schneider 2009).

Public sector innovation is a comprehensive and complex theme, therefore innovation types are further differentiated and specified (Moore and Hartley 2008). Distinguishing clear and concise typology is important to understand the behaviour of organisations. Adoption of innovation will not affect organisations identically. Following table provides an overview of the public sector innovation typology.

Table 2. Typology of Public sector innovation

Innovation type	**Focus**	**References**	**Examples**
Process Innovation	Improvement of quality and efficiency of internal and external processes	Walker (2014)	
Administrative Process Innovation	Creation of new organisational forms, the introduction of new management methods and techniques and new working methods	Meeus and Edquist (2006)	Creation of 'one-stop shop' by a municipality, where citizens can access various services at a single location
Technological Process Innovation	Creation or use of new technologies, introduced in an organisation to render services to users and citizens	Edquist *et al.* (2001)	Digital assessment and reporting of taxes
Product or Service Innovation	Creation of new public products or services	Damanpour and Schneider (2009)	Creation of youth work disability benefits
Governance Innovation	Development of new forms and processes to address specific societal problems	Moore and Hartley (2008)	Governance practice that attempts to enhance the self-regulating and self-organizing capacities of policy networks
Conceptual Innovation	Introduction of new concept frames of reference or new paradigms that help to reframe the nature of specific problems as well as their possible solutions	Bekkers *et al.* (2011)	The introduction of the positive paradigms, e.g. when assessing a person's work disability, insurance physicians no longer analyze what people cannot do, but instead analyze what they still can do, hence focusing on potential work ability

Source: De Vries *et al.* 2016.

To date, the literature on innovation has focused primarily on the private rather than the public sector. Academic literature on innovations, which seeks to improve social performance through the improved state governance has not been widely researched (Hartley and Moore 2008). Hartley and Moore (2008) specify that the governance innovation is conceived and implemented above organisational level. Literature on governance innovation generally involve network of organisations to the research rather than addressing changes in solely single organisation. Secondly, the project results are evaluated taking into account also the performance of social aspects. Literature distinguishes five inter-related ways in which governance innovations differs from other innovation types:

Table 3. Governance Innovations

Difference in Innovation	Example
Bursting the organisational boundaries and enforcing network based collaboration	The contracts with community-based organisations shift the production of child protective services from a state bureaucracy to a network of community-based groups.
Tapping new pools of financing, material resources and human energy	The inflow of new knowledge and legitimacy with the local community and strengthened voluntary contributions in terms of man-hours, material resources and private donations.
Exploiting government's capacity to convene, exhort and redefine private rights and responsibilities	Government using other tools than traditional to engage individuals to make contributions for public purposes that were previously wholly government controlled operations.
Redistributing the right to define and judge the value of what is being produced	When State recruits private money and community organisations to its purposes it gives "voice" to the organisation in shaping the governmental policy and actions.
Evaluating the innovations in terms of justice, fairness and community building as well as efficiency and effectiveness	By legislating the obligation for the children to provide elder care in Singapore, the governmental act increased efficiency and effectiveness of public sector service provision, however it also increased justices and fairness in community.

Source: Moore and Hartley 2008

All of the above-described differences were disclosed by a survey concluded in the civil society sector. Moore and Hartley (2008) finding from the survey indicate that by locating and mobilizing vacant resources left on the side-lines, the States were able to solve many public problems. Other researchers have noted a positive relation between public sector innovation lead by civil society organisation and economic success of the state as well. Civil society organisations have for long been recognized as providers of relief and promoter of human rights. Such organisations are now increasingly viewed as critical contributors to a country's economic growth and civic and social infrastructure essential for a minimum quality of life for the people (Salamon and Anheier, 1997; Fukuyama, 1995; OECD, 1995).

Dr. Ghaus-Pasha has also been researching civil society contribution to public sector innovation. His work mainly focuses on determining the characteristics how exactly could civil society contribute to the development of public governance. The following list outlines five characteristics determined by Dr Ghaus-Pasha (2004):

- by policy analysis and advocacy;
- by regulation and monitoring state performance and the action and behaviour of public officials;
- by building social capital and enabling citizens to identify and articulate their values, beliefs, civic norms and democratic practices;
- by mobilizing the vulnerable and marginalized sections of masses, to participate more fully in politics and public affairs;
- by development work to improve the well-being of their own and other communities.

The above listed five characteristics imply that monitoring, actively participating and contributing are the key characteristics how civil society could contribute to development of public governance. Dr Ghaus-Pasha's (2004) findings, where **strong civil society can further good public governance,** are also supported by Bekkers *et al.* (2013) who argues that **strong civil society is expected to positively influence, especially the bottom-up innovation in public sector**.

However, the precondition of civil society involvement in the public sector and policy making is the access to data. Without the knowledge and information it is difficult to expect that citizens would proactively participate. As increasing number of governments work on involving citizens in the policymaking we are witnessing change in governmental data disclosing policies. The analysis on the data disclosing policies among democratic countries conducted by Janssen and Kuk (2016) revealed that the trend is moving towards opening and providing structured data for the public (Janssen & Kuk 2016).

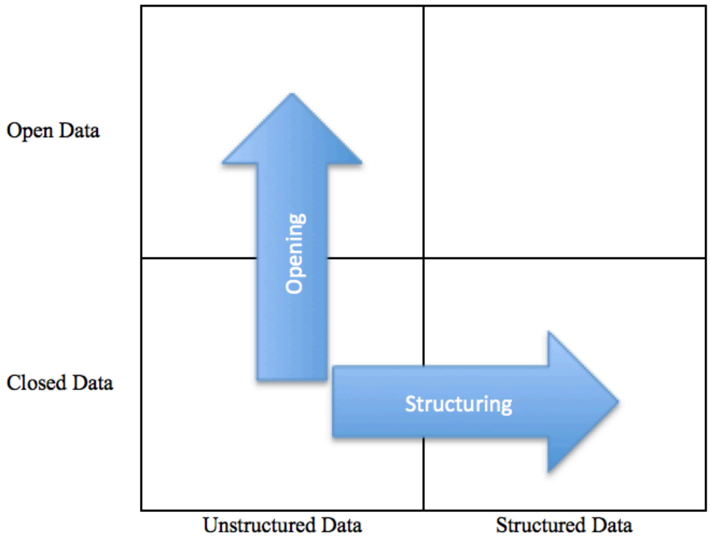

Figure 6. Data disclosing Policy Trends in Democratic Countries. Source: Janssen & Kuk 2016. Author visualisation.

The trend in data disclosing by states have been recognised by other researchers as well. Literature review disclosed that by opening up previously closed data for the general public, countries are decentralizing its governance structure (Pollit and Bouckaert 2011) and are thereby regarded to be applying open government model also referred to as Government as a Platform (GaaP) (Janssen and Zuiderwijk 2012; Janssen and Estevez 2013; O'Reilly 2011).

This recent focus on open data suggests that we need to consider in more detail the extensive literature on e-government. This topic defines the second research stream for the thesis.

1.5 E-Government

The primary focus of the academic literature to date has been on open innovation in the private sector, with limited research having been addressing the public sector (Lee *et al*. 2012). To better understand the context of the research, the following section will consider how the e-government has evolved to embrace openness as a driver for public sector innovation.

Early researchers of government technology treated technological factors as "*peripheral*", outside of the primary management function (Yildiz 2007). The role of technology from this perspective was to support improved decision-making (Simon 1976). While academic interest in this area continued to grow throughout the 1970s and 80s (Danziger *et al.* 1982; Bozeman and Bretschneider 1986), it was not until Internet access became commonplace that the e-government concept really emerged (Ho 2002).

Perhaps unsurprisingly, no single definition for e-government has been universally adopted (Halchin 2004). E-government is defined by the UN as "utilizing the Internet and the World-Wide-Web for delivering government information and services to citizens" (UN & ASPA 2002). Hernon (2004) describes it as "simply using information technology to deliver government services directly to the customer 24/7", where "the customer can be a citizen, a business or even another government entity" (Duffy 2000). Brown and Budney (2001) have broken down e-government actions into three categories:

- Government- to-Government (G2G);
- Government-to-Citizen (G2C), and
- Government-to-Business (G2B).

Yildiz (2003) added two additional categories:

- Government-to-Civil Societal Organisations (G2CS); and
- Citizen-to-Citizen (C2C).

It has been argued that the adoption of open government and user participation will trigger a next stage in the development of e-government the "e-government 2.0" (Baumgarten and Chui 2009; Chun *et al*. 2010; Mergel 2010).

General popularity of technological means of communication between government and citizen has sharply risen among countries. According to statistics disclosed by United Nations (2016) the application of e-government solutions has risen from 45 States in 2003 to 148 in 2016. As the use of e-government is becoming more widespread it is only natural that leading countries progress to advanced solutions.

The move from e-government to e-government 2.0, an upgraded version focusing on the use of Web 2.0 technologies with the aim of increasing collaboration and transparency (Di Maio 2009) is a phenomenon that is clearly recognized by e-government stakeholders and research community alike (Boughzala *et al.* 2014).

The concept of e-government 2.0 has been widely studied over the past years (Chun *et al.* 2010; Dixon 2010; Hui and Hayllar 2010; Traunmüller *et al.* 2010; Nam 2011; Chun and Luna-Reyes 2012; Meijer *et al.* 2012; Susha and Grönlund 2012). The research has provided an extensive overview of the main characteristics of e-government 2.0, that for the ease of reading are provided in greater detail in the following table.

Table 4. E-government 2.0 Characteristics

Characteristics	Definition
Community-driven	Government and citizens interact as equals via social means. Parties are cooperating and co-creating in networks in which all parties contribute
User-generate content and development	Private companies and citizens outside the government become involved in crowdsourcing, provide suggestions for improvements, add ideas and generate innovation
Openness	Public sector data is open to the public and can be used to give insight into the government operations, policy effectiveness, but also could be used for private sector innovations and generating new businesses
Collaboration	Citizens and government both create content and interact with each other. The government becomes platform based - Government as a platform (GaaP) in order to enable the development of communities for sharing, collaboration co-creation and innovation.

Source: Boughzala *et al.* 2014

Boughzala *et al.* (2014) highlight the importance of openness and data sharing as well as the constant dialogue between citizens and public sector for increasing citizen participation. E-government 2.0 model is built on active networks of citizens and private corporations contributing to the development of State. Networks are believed to gather combined knowledge and contribute with novel ideas and generate innovation. The greater the level of participation by different interest groups the greater is the need for change in public sector infrastructure, which in turn would lead to innovation (Ghaus-Pasha 2004).

Literature review also distinguished material differences between e-government and e-government 2.0. First and foremost there is a difference in drivers (Janssen and Estevez 2013). When the e-government was mainly driven by the digitalization of public services then communities and social networks drive the second edition. Secondly there is a material transformation in values and priorities (Boughzala *et al.* 2014). The e-government was driven mainly by the search for efficiency then the e-government 2.0 is driven by participation and accountability. Third important differentiator is in terms of scope (Janssen and Estevez 2013). When the e-government was limited on creating online services, then the e-government 2.0 is focusing on Public-Private networks and collaboration between network of businesses, citizens, NGOs and governmental agencies. Following table provides a detailed overview of the e-government and the e-government 2.0 differences.

Table 5. Comparasion of e-government and E-government 2.0 Characteristics

Characteristics	**e-government**	**e-government 2.0**
Main drivers	Online public services, process digitalization, citizen centric	Online communities, social networks and citizen relationships, open data
Orientation	State, user-connection, financial transactions, technology orientated	Community of citizens, user engagement, social transactions, collective intelligence-orientated
Values and priorities	Efficiency, State reform and control	Service provision, openness, transparency, participation and accountability
Scope	Front-end - creating online services	Public-private networks cross collaboration, network, managing and orchestrating the network of citizens, businesses, NGOs and governmental agencies
Change approach	Change within the inside government, front-end driven, online services are built based on existing processes	Outside-driven, online services are built based on crowdsourcing processes. Opening of government

Indicatives driven by	Bottom-up approaches which are aimed at creating ICT-based applications (champions)	Inside-out open data and outside-in innovation, ICT-based service integration (created by citizens and businesses)
Examples of services	Knowledge management, Online tax returns, applying for services and grants, e-auction, e-procurement	Cross-agency collaboration, Open data, public debates, citizen inquiry, participatory democracy services

Source: Boughzala *et al.* 2014

Findings from literature review suggest that the approach in public sector innovation especially in the field of governance innovation is moving towards collaborative networks of citizens and more towards social value creation and strengthening the civil society. The importance of public-private sector collaboration is increasing and especially the importance of civil organisations is growing. This suggests that we need to consider in more detail the important aspects concerning civil society organisations.

1.6 Summary

Public sector headed by government is the driving force in establishing an entrepreneurship-orientated ecosystem that would foster state's international competitiveness and development sustainable organisations. Supporting governmental policy, developed infrastructure, availability of qualified workforce and capital as well as culture that accepts failures as learning process are considered the main characteristics determining the development potential of the ecosystem (Mazzarol 2014).

Mason and Brown (2014) have found that governments taking the holistic approach with focus to both macro and micro level policy settings contribute to the development of entrepreneurial ecosystems by applying 'top-down' and 'bottom-up' approaches simultaneously. Whereas the top-down approach is a natural element to any decision making body, great work must be done in order to establish a strong and sustainable flow of bottom-up initiatives. Incentives arising from the ground are to large extent determined by the strength and level of development of states' civil society (Bekkers *et al.* 2013). A strong civil society is found to support governmental development also in other areas. Bekkers *et al.* 2013 have proved the positive causal relationship between the public sector innovation and strength of local civil society sector. Innovation in turn is considered as one of the main drivers of state competitiveness and economic welfare.

This indicates to a irreversible cycle, where the gap between highly competitive states with a well developed civil society and less competitive states with lowly developed civil society keeps on widening. However, the development of technology and the recent trend of opening up governmental digital infrastructures, i.e. e-government (Janssen & Kuk 2016), enables to increase the strength of civil society by attracting international organisations to channel their operations via state's provided digital ecosystem. Thereby, creating a leg to stand on in the race of increasing economic development.

2 CASE DESCRIPTION

This research is planned as an exploratory attempt to assess empirically the relative impact the international civil society organisation have on Estonian competitiveness.

According to Yin (1981) a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life contexts, especially when the boundaries between phenomenon and context are not clearly evident. The particular case of Estonia was chosen as the country is relatively advanced in applying new technologies in the public sector, an example of that is the adoption of the e-residency programme. With the unique tool, Estonia has potentially a new source for increasing state competitiveness.

The thesis is built on the evidence from the Chapter 1 that a strong civil society sector enhances public sector innovation and hence improves state competitiveness. According to Yin (1981) the unit of analysis in a case study could be "an individual, a community, an organisation, a nation-state, an empire, or a civilization. The current thesis applies the nation state as a unit of analysis. The case at hand is researched as single case study with embedded units. The single case approach was preferred due to the uniqueness of the e-residency tool resulting in a lack of benchmark data. In addition the focus on single case enables to analyse the case in more detail.

2.1 Estonian Economy and Competitiveness

Estonian economy has undergone continuous and accelerating growth since re-gaining its independence. By 2016, Estonia was the 74th largest economy in the world and the 25th most complex economy according to the Economic Complexity Index. The rapid development was fuelled by increase in demand by household and government sector, growing export and activity by foreign investors as well as the positive impact of the accession of the European Union (Varblane et al. 2008). Over the recent years the growth rate has been slowing and our growth rate is at par with developed Western European countries. Based on the statistics disclosed by OECD, Estonian GDP makes up only 70% of the OECD average and approximately 55% of wealthier European countries. Given the objectives set forth by Estonian Research and Development and Innovation Strategy, Estonia should reach 80% level by 2020. With low growth and significant backlog compared to wealthier neighbouring countries Estonia is at risk zone of falling into the middle-income trap (Männik and Pärna 2013). In order to close the gap with benchmark countries a new source for accelerated growth is needed. Where could the growth be found?

Based on the World Bank (2012) survey, of the 101 nations that belonged to group of nations referred to as middle-income states, only 13 were able to make the leap to high-income states within 50 years. Of these 13 nations, two started employing their countries mineral resources and one integrated with wealthier nation. Remaining 10, who were able to establish their development independently, were differentiated by the fact that all of them had developed national innovation programmes to support knowledge-intensive projects and raise nations competitiveness.

In the 2016-2017 Global Competitiveness Index™ Estonia ranked 30th among 138 countries. Estonia is characterised as innovation driven nation among with 36 other highly developed nations. When researching the results of Global Competitiveness Index™ little further it becomes evident that Estonia has a relatively good macroeconomic environment lags in the innovation and business sophistication.

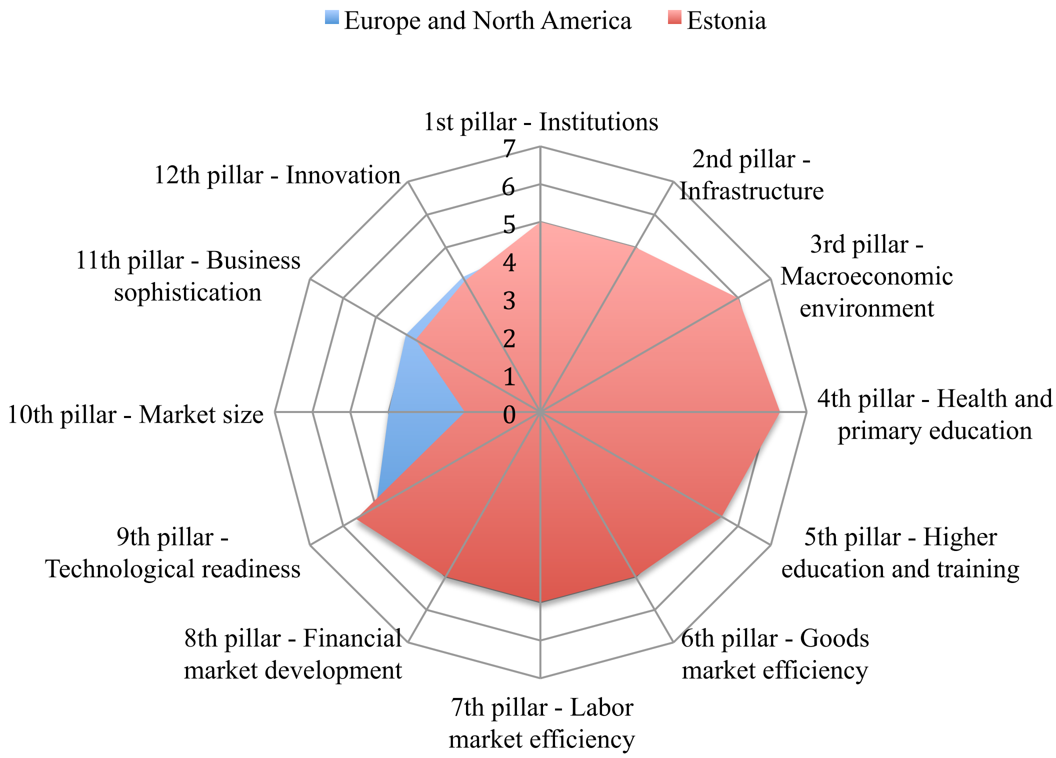

Figure 7. Global competitiviness index – Estonia. Source: Global Competitiveness Index™ Survey. Author visualisation.

The Executive Opinion Survey 2016 concluded by World Economic Forum also highlights the concern on innovation. Insufficient capacity to innovate is regarded among top three most problematic factors for doing business in Estonia.

Considering the argumentation presented in the first chapter whereas innovation is basis of competitiveness and driver of economic growth new sources of innovation must be sought in order to increase Estonian competitiveness. This suggests that Estonian innovation strategies must be researched in greater detail.

2.2 Innovation Strategy of the Estonian Public Sector

"The Open Government Partnership offers a useful platform to develop and share ideas about how to make societies seamless, stop them separating into public and private, elite

and mass, insiders and outsiders."- Kersti Kaljulaid, President of the Republic of Estonia at the Open Government Partnership (OGP) Global Summit in Paris

OGP is an international initiative for promoting good governance and engaging citizens into the political decision-making by using the opportunities offered by the development of technology. As an example of engaging citizens, the priority areas for the Estonian action plan in participating in the OGP were selected on the basis of suggestions by the civil society at an OGP round table. The Estonian focus areas in OGP are the following:

1) Open public policy making process that includes citizens;
2) Transparent state budget and financial management; and
3) Citizen-centred public services.

The focus areas of the action plan greatly follow the commitments taken by the government when joining OGP, when Open Government Declaration was accepted, that among other areas include supporting civic participation. Whereby, Estonia committed to protect the ability of not-for-profit and civil society organisations to operate in freedom of expression, association, and opinion as well as to create mechanisms to enable greater collaboration between governments and civil society organisations and businesses.

Through endorsing the declaration, countries commit to "foster a global culture of open government that empowers and delivers for citizens, and advances the ideals of open and participatory 21st century government."

Researching the documents related to Estonian open government strategy the importance of the civil sector in public sector innovation is greatly reflected. According to the information disclosed in the OGP action plan Estonia is planning to continue the promotion of cooperation between public authorities and non-government agents, which will help improve the openness of public policymaking processes. Lemmik and Pehk (2014) have recognised that although the channels and opportunities for engaging citiens and providing access to information is improving, there are still areas for potential improvement. The benefits of opening data and providing it for the use of citizens has also been highlighted by the report concluded by Estonian Development Fund (2012).

The aim of opening data should be to support innovation, including the creation of social innovation models.

Increasing importance and focus to the civil society sector is also addressed in another national strategy addressing public sector innovation. In 2014 the Ministry of Economic Affairs and Communication published a national information and communication technology (ICT) strategy - Digital Agenda 2020 for Estonia. The main aim of the national strategy is to create an environment that facilitates the use of ICT and the development of smart solutions in Estonia in general. The ultimate goal is to increase the economic competitiveness, the well-being of people and the efficiency of public administration.

The report acknowledges that the possibilities of ICT have not been used sufficiently to make policy-making smarter, including that in the field of information society. The impact of ICT on the Estonian economy and society has not been studied systematically. Inadequacy of information society statistics is another factor making knowledge-based policy formulation difficult both for the public and private sector. Opportunities offered by ICT for meaningful participation and co-production of services has not been fully used.

Therefore, a new strategy with clear goals has been prepared. The strategy incudes elements of e-government 2.0, e.g. increased inclusion and participation at the state level. Actions regarding increasing the inclusion of civil society into the policymaking and to public debates are addressed throughout the strategy document. As on critical focus area attention is set on civil society sector: “Platforms for inclusion and participation will be further developed together with raising the awareness of civil society, public servants and the general public about the existing solutions. Any new solution must be built to be coherent with the existing environments and user-friendly”.

As concrete actions the strategy sets forth a target to increase the number of sustainable services[1] that are co-designed by the public and civil society sector to 15 by 2020.

Given the results of the literature review and Estonian innovation strategy it begs to the question whether Estonia should strengthen its civil society sector in order to increase innovation in public governance?

2.3 Estonian Civil Society Development Concept

The Estonian Parliament adopted a strategy for developing civil society - The Estonian Civil Society Development Concept (hereinafter ECSDC), already in 2002. ECSDC is a framework document that describes the different roles of the public sector and civil society. The concept lays out the principles for co-operation in developing and implementing public policies and building up the civic society.

ECSDC is a statement of mutual devotion of the public sector and civil society for supporting and promoting the self-initiated networks of citizens. By establishing voluntary associations, people create new possibilities for expressing and following their interests, values and goals. A strong civil society contributes to public discussions and to solving daily problems and offering mutual aid. Consideration of the citizens' associations and co-operation with them increases efficiency of public authorities and the legitimacy of public policies in the eyes of the citizens.

The Development Plan comprises five topics: civil education, the operational capability and sustainability of citizens' associations, the partnership of citizens' associations and public authorities in providing public services, involvement, and charity and philanthropy, which are all greatly intertwined. Hence, the focus of ECSDC is to great extent similar to the characteristics of e-government 2.0 discussed in chapter 1.

[1] Services developed in the course of public and non-governmental sector co-operation projects, which are still functioning at least a year after the launch.

Active work in improving the governance and increasing the attention for developing civil society in Estonia has lead to a situation where there are more than 32 000 registered CSO in Estonia. The activity of the Estonian civil society sector could be better understood by comparing the number of CSO per capita with other leading countries in the sector. The following table provides an overview of registered CSO per capita in ten leading countries with a strong civil society and Estonia.

Table 6. CSO per Capita.

Country	**Capita per CSO**
Estonia	40
Australia	40
Sweden	43
France	66
UK	73
Germany	135
Italy	200
USA	209
South Africa	403
India	600
China	3 000

Source: National Business Registers and Author calculations

Estonia has one of the most active civil societies among the leading countries in the field. The relative activeness discloses that there is one civil society organisation per every 40 person in Estonia and in Australia. Whereas, in Germany the respective figure is 135 and in China there is only one CSO for 3 000 persons. The lower number does not adequate reflect the strength of civil society nor the quality as in many cases it could only illustrate that the civil society is fragmented. However, it could be argued that in Estonia where one CSO represents the interest of 40 people in Estonia compared to 3 000 in China, citizens have grater chance for advocacy.

According to the statistics disclosed by the Network of Estonian Non-profit Organisations it is estimated that about 28 000 people or 4-5% of the Estonian workforce is employed in the non-profit sector. When adding the workforce employed by other civil society organisations (in Estonian *Sihtasutus* and *Seltsing)* besides NGOs (in Estonian *MTÜ)* the number amounts to approximately 56 000 or 8% of the Estonian workforce according to data disclosed by the Estonian Statistics Board. For a comparison, according to Australian Charities and Not-for-profits Commission, the workforce employed by civil society also amounts to 8% in Australia.

Considering the potential for public sector innovation held by civil society organisations as discussed in chapter 1 and the current status of Estonian competitiveness along with the status of Estonian civil society development, it begs the question how a state with a relatively active and developed civil society could further tap into the potential civil society organisations hold. It could be argued that governmental digital infrastructure could be further utilised to foster Estonia as a leading digital hub for international civil society organisations.

3 RESEARCH DESIGN

The literature review shows that currently there are no states that have created digital governmental ecosystem specifically for civil society organisations. Hence, currently no state is sharing its developed capabilities or enabling civil society organisations to utilise its technology and web-based infrastructure. Mark Thompson (2016) has argued “when the business model of government is progressively based on shared capabilities, enabled by utility technology and web-based infrastructure, we can expect radical disruption of the market, opening up opportunities for innovation and investment by citizens, public, private, and civil society alike - unleashing unprecedented innovation, efficiency, and savings”.

Within the academic literature on both open government and government as a platform, the focus has been predominantly on the private sector. The public sector provides a very different context, including regulatory requirements (DiMaio 2009), cultural norms (Borins 2001), questions around value measurement (Irani *et al*. 2005) and value capture (Reichman and Samuelson 1997), and other factors. Empirical research on international civil society organisations and their impact on State competitiveness would cast a useful light on the topic.

3.1 Research Framework

Bekkers *et al.* (2013) research provides an integrative framework (Figure 8. Framework of Potential Drivers and Barriers for Innovation in the Public Sector) of relevant factors that influence the process of social innovation in the public sector. The framework is applied in course of the research of this thesis.

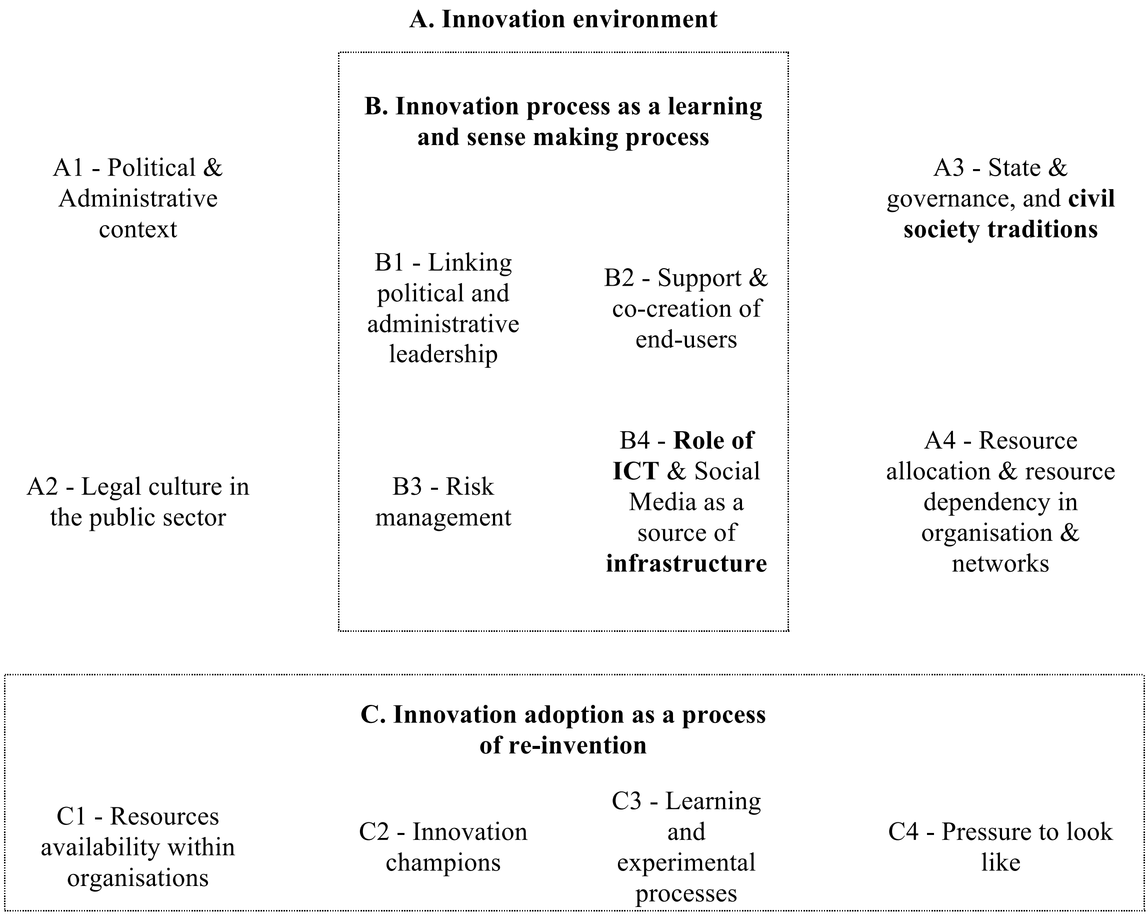

Figure 8. Framework of Potential Drivers and Barriers for Innovation in the Public Sector. Source: Bekkers *et al.* 2013. Author visualisation.

Based on the findings from chapter 1 the thesis focuses on the state governance and civil society traditions section as an innovation environmental element of Bekkers *et al. (*2013) framework. Regardless of the growing importance, civil society organisations remain only partially understood. Even basic descriptive information about these institutions – their number, size, area of activity, sources of revenue and the policy framework within which they operate – is not available in any systematic way (Ghaus-Pasha 2004). Moreover, the civil society sector falls in a conceptually complex social terrain that lies mostly outside the market and the state. For much of the recent history, social and political discourse has been dominated by the two-sector model that acknowledges the existence of only two actors – the market (for profit private sector) and the State. This is reinforced by the statistical conventions that have kept the civil society organisations largely invisible in official economic statistics (Salamon 2003; Sokolowski and

Associates 2003). On top of this, the sector embraces entities as diverse as village associations, grass roots development organisations, agricultural extension services, self-help cooperatives, religious institutions, schools, hospitals, human rights organisations and business and professional associations. As such, a comprehensive and representative understanding of the role and significance of the civil society sector continues to be a major gap in the literature (Ghaus-Pasha 2004).

Therefore, author researched the academic literature on international civil society organisations and concluded a brief market analysis to determine the potential market size of international civil organisations sector displayed in greater detail in paragraph 1.3.

3.2 Research Questions

Starting point for thesis is based on the Bekkers *et al.* 2013 argument, of the notion that strong civil society is expected to positively influence, especially the bottom-up innovation in the public sector. Innovation is considered as the key driver of country's economic growth, improve welfare and is foundation of competitiveness (World Bank 2010). In combination with the notion that civil society organisations are increasingly viewed as critical contributors to country's economic growth and civic and social infrastructure essential for a minimum quality of life for the people (Salamon and Anheier 1997; Fukuyama 1995; OECD 1995).

Taking into account the active civil society in Estonia and the fact that number of NGOs per capita exceeds the dominant countries in the sector, it could be argued that Estonian civil society sector has little room for organic growth. The finding from the literature review suggests that open digital infrastructure which facilitates the exchange of information, knowledge and communication across borders enhances positively public sector innovation. Therefore, in order to enhance bottom-up innovation it is needed to open the digital infrastructure for international civil society organisations.

The thesis researches **how could Estonia become the leading digital hub for international civil society organisations (INGOs)?**

Following sub-research questions that constitute the basis of this research were prepared to guide data collection.

SRQ1: **What are the key drivers and barriers of international civil society organisations?**

With the first sub-research question the thesis seeks to determine the characteristics that influence the location related decisions of civil sector organisations. Understanding the key drivers and barriers enables to foster suitable environment that would attract international civil society organisations.

SRQ2: **Who are the main customers Estonia should primarily focus on when developing a digital hub for international civil society organisations?**

By understanding the potential customer groups we can evaluate the market size and hence the economic feasibility of developing Estonia as the digital hub for international civil society organisations.

The scope of the research was limited to non-governmental organisation with international focus and outposts in multiple locations around the world to deal with specific issues in many countries. Hence, all domestic organisations were outside of the scope of the research. In addition the scope of the research was limited by the function of the NGO. Only NGOs with non-operational functions were included in the research, as the operational function requires physical essence that will prevail over the location of digital presence in case of potential relocation. In literature, the abbreviation INGO is used for describing international non-governmental organisations, that is also applied in the contexts of this thesis.

3.3 Research Method

Author set up the thesis in order to find answers to particular case of Estonia, the structure of the thesis argumentation is highlighted in the following figure.

Figure 9. Thesis argumentation. Source: Author visualisation

For concluding the research author concluded a qualitative analysis by applying a single country single case study with embedded units. The author decided in favour of single case as it will provide an opportunity to devote careful attention to the case of Estonia and the unique circumstances e-residency has catered. Due to the rational that no other state has adopted digital residency or anything alike, there is no adequate benchmark data that would enable to research the contemporary phenomenon by comparison, i.e. multiple case study method.

Case study method is considered as pertinent when the research addresses either a descriptive question (what happened?) or an explanatory question (how or why did something happen?) (Shavelson and Townes 2002). Applying case study method allows a researcher to illuminate a particular situation and to get a close (i.e., in-depth and first-hand) understanding of it. The case study method helps to make direct observations and collect data in natural settings, compared to relying on "derived" data (Bromley 1986).

In order to gather materials for thesis and discussion the author gathered information by concluding semi-structured in-depth expert interviews. Compared to other methods, the strength of the case study method is its ability to examine, in-depth, a "case" within its "real-life" context (Yin 2004).

The aim of the qualitative research is to learn about social phenomena through the interpretation of the examined subject. Hence, the main questions used during the interviews were whether? which? and how? Qualitative method was preferred as it enables to obtain information from expert's previous experience and personal opinion that would quantitatively be hard or even non-measurable (Koskinen *et al*. 2005). The author chose to apply semi-structured interviews as it enables to focus directly on the case study topic and provides perceived causal inferences. In addition it provides a certain level of flexibility in addressing the topic and gaining access to the accumulated knowledge of the interviewee. An interview is often the best means to acquire information pertaining to a subject's interpretation and given meanings for questions.

Face-to-face interviews were the preferred option as it provides the possibility of modifying responses and investigating underlying responses (Robson 2002) as well as it leaves little room for misinterpretation. However, due to geographical restraints one interview was concluded via electronic means, e.g. a Skype call was used. Skype call could be considered as a telephonic interview method, however with the merit of having the chance to actually interact and see the other person, hence the risk of 'facial anonymity' is limited and the interviewer is able to determine any important facial impression that could have importance in interpreting interviewee responses.

Expert interview was chosen as research method considering that the knowledge of that respective subject is drawn up from combination multiple different sources. Chosen method describes the cognitive aspects of the phenomena in the approach of personal experience of the subject, i.e. how she acknowledges and interprets as well as uses the phenomena. The sample is considered sufficient and representable once certain elements start to become repetitive in nature during the course of the interviews that enable to draw up a structure of independent phenomena, i.e. phenomenology.

The interviews were recorded, they were transcribed in full length and coded. The coding was done by initially charting main themes that were manifestly stated in the interviews. Initially these coincided with discussed questions, however subsequently the themes were listed across all interviews and finally categories of interest from the themes were developed. Extra subjects that emerged that were considered outside of the main focus were discarded from the end report.

Unlike most other methods, when doing case studies researcher may need to do data collection and data analysis simultaneously (Yin 2004). For instance, a field interview of one person may produce information that conflicts with that from an earlier interview. Doing the interview is considered data collection, but surfacing the conflict is considered data analysis. Researcher want that analysis to happen quickly, so that you can modify your data collection plans while still in the field, either by re-interviewing the earlier person or by seeking to find a third source to resolve the conflict. During the whole course of the analysis investigator must display skill and expertise at pursuing an entire (and sometimes subtle) line of inquiry at the same time as (and not after) data are being collected (Yin 2004).

Therefore, case study method was chosen as it is considered as the best research method applicable when research addresses descriptive or explanatory questions and aims to produce a first-hand understanding of people and events (Yin 2004).

3.3.1 PROCEDURE

The research was performed by means of seven semi-structured interviews, with experts in the field who all had experience in the civil sector for more than ten years. The interview procedure was initiated by a telephone call or e-mail. The interview reasons and purpose of the research were discussed, the time and place of the interview as agreed upon. Mostly the interviews were held in person by way of face-to-face interview type, however in certain cases, due to geographical restrictions interviews via electronic means was chosen. For that purpose Skype calls were used in order to limit the negative effects of "facial anonymity". The researcher throughout the conversation recorded the interview with previously agreeing on it with the interviewee. The interviews were concluded during the period of March – April 2017 with the duration of 40 minutes up to 150 minutes. Only in one case a follow up meeting was arranged to complete the interview.

The interview questions were semi-structured, based on a previously prepared questionnaire. However, the questions were subject to change as the interview progressed. The order of asking question were not strictly regulated and it was modified based how the interview progressed.

Semi-structured questions were preferred as they enabled the responder to open the topic in a wider perspective and for the interviewer to ask specifying questions. This was relevant as the potential contribution arousing from stronger civil sector to the public innovation has not been widely researched in Estonia. Therefore, it was perceived that the responders define many of the topics initially only during the interviews.

After setting up the main research question, developing the research framework, related sub-research questions and the propositions, the empirical research method was chosen. It was decided to carry out the case study research based on a interview questionnaire. Prior to the survey, the questionnaire was tested with field.

The structure interview questionnaire follows the logic of the research framework. While developing the interview questionnaire, four basic principles were followed. Firstly, to keep the interview questionnaire short, not asking anything irrelevant from the perspective of our research question and propositions. Secondly, to keep to the open-ended questions, which do allow the interviewee to expand on their experience. Thirdly, to develop questions in a way that allows performing reasonable analyses afterwards. The interview questionnaire was developed according to the best practices of similar interview questionnaires available. Detailed information regarding the basis of interview quesionnaire is available in appendix 1.

The interview questionnaire developed has three sections; two of them are core sections. The first section is for background information. First section is for identifying the general framework and understating the respondent opinion of the current status of Estonian civil sector (1b) and its future trends (1d). In addition the respondent is asked to describe the challenges of civil society sector internationally (1a) and highlight the key success factor of the sector (1c). The second section opens the discussion on the public sector innovation topic whereas the interviewees are asked about their experience regarding the relationship between civil society and public sector innovation (2a); and the specific experience they have had from their organisation in terms of contribution to the governance (2b); as well as covering the main influencers of the sector (2c). In the third section, the technological infrastructure is analysed, from the perspective of the civil society organisations (3a) as well as the experience based question on the state technology infrastructure (3b).

The interview plan relied upon a qualitative questionnaire of nine questions following into following four categories.

1) Respondent's opinion about civil sector:
    a. How do you define the strength of civil sector?

       After a pilot interview clarifying probe was included.
        i. In your opinion how strong is the current Estonian civil sector?

       After a pilot interview clarifying probe was included.
    b. Could you describe in as much detail as possible what are the main challenges of civil society organisations?
    c. Can you please tell me about the key characteristics that determine the success of a civil society organisation?
    d. What are the main changes that you perceive are happening in the civil sector currently?
2) Public sector innovation:
    a. What is your opinion on the notion that civil society organisation are the drivers of public sector governance?

       After a pilot interview clarifying probe was included.
        i. What do you mean by good public governance?
    b. Could you please elaborate in which way activities of your organisation benefit the public governance of the region the organisation operates in? Can you please provide further examples of this?
    c. Who would you say are the main influencers, whose decisions have a material effect on the operations of the civil society organisations and how material is their influence?
3) Technology infrastructure:
    a. In which way could an e-government solution benefit the operations of civil society organisation? Do you have further examples of this?
    b. What are the characteristics of good open government program that civil society organisation requires?

       After a pilot interview clarifying probe was included.
        i. Have you experienced any good program in your career?

The interview questions were shared with interviewees prior interview upon request. Only one person of the sample submitted such a request. During the course of the interview not all questions in the initial sample were presented. The aim of the author was to keep the interview as smooth and fluid as possible, hence in case the interviewee had previously covered the topic the question concerning the same area was ignored in order to avoid repetitions and to decrease the fluidity of the conversation. Some additional questions were also added in course of the interview in order to specify certain elements of the conversation or in case the interview opened up a new approach or presented a novel view to topic. This relative openness of the subject enabled the interviewees to expand upon the initial responses. The interviews were recorded in most parts and in if it was not possible to record, the interview transcription were used.

The abstract of the research and the conclusions are based on in-depth interviews with the experts in their respective field. In the analysis and discussion section author has applied his perception and understanding from the civil society sector and the interviews concluded with the experts. Majority of the interviews are incorporated as fragments or paraphrases into the body of the analysis and discussion section. Author has used the knowledge gained from the research of literature and the interviews as a basis for providing a model prior the concluding the marks for the reader to be able to think along.

3.4 Population and Sampling

The sample for the thesis was concluded based on the non-probability sampling approach. Primarily the sample was chosen based on convenience, considering the geographical factors that might pose difficulties in obtaining the consent for participating in the research as well as the obstacles in concluding the interviews. Secondly, the sample was combined by way of referrals from the convenience group (i.e. snowball approach).

The convenience group comprised of NGO-s with international operations and scope that were headquartered in Estonia. The population of the research was limited as at the time of writing this thesis only two Estonian originated non-profit organisations met the international focus criteria. In addition, at the time of writing the thesis there are no foreign INGOs that have relocated it’s headquarter to Estonia.

Hence, the initial sample was fully comprised of Estonian originated NGO-s with established international scope. The sample includes:

- Let's do It (*Teeme Ära)* – an environmental organisation focusing on cleaning the Earth;
- Mondo – non-profit organisation devoted to development cooperation, global education and humanitarian aid.

After applying snowballing method the sample gained broader perspective. The list of referrals was longer than the list of the expert with whom the interviews were finally concluded. The selection of the sample was made on the basis of relevance. In order to produce a sample that will enable to develop the theoretical ideas that will be emerging in an iterative process between the theory and the data, and to enable to test these emerging ideas. Hence, the second group was chosen to supplement the knowledge obtained from the interviews from the first group. The sample includes:

- Kristina Mänd – former executive at Civicus during the period of relocating of the organisation head office.
- Maris Jõgeva – head of Network of Estonian Non-profit Organisations;
- Kadi Sumberg – head of Partnership of SOS Children Village;
- Susan Saxon-Harrold – former CEO of CAFAmerica an organisations providing charitable financial services to global corporations, charities and foundations;

In addition to the participants interviewed the sample initially included four experts who had had experience with international civil society organisations. However, they were not willing to participate in the research.

4 RESULTS

In this chapter, the author presents an analysis of information obtained through in-depth interviews with experts. The author summarizes the research and its findings and states the conclusions.

4.1 Ease of Doing Business

"*If you want to understand NGOs all you need to be able to do is understand Christopher Columbus. When he set off he didn't know exactly where he was going, and when he came back he didn't know exactly where he had been. But he had a huge impact on the world and he did it all on somebody else's money*" Kumi Naidoo, CEO of Greenpeace (2011 WWF Annual Conference) explaining how NGOs in general operated before their professionalization.

NGOs are generally value-based organisations that depend, in part or a whole, on charitable donations and voluntary service (Malena 1995). Regardless, of the fact that the NGO sector has become increasingly professional over the past decades, principles of altruism and voluntarism are still deeply embedded in the nature of the sector and remain as the key defining characteristics (Saxon-Harrold 2017). For that purpose, the driving force of the civil society is the voluntary service.

Regardless of the fact that the aim of the work of INGOs is not to generate profit for the shareholders, but to generate social capital for the stakeholders, the working principles, the internal hierarchy and legal structure are often similar to for-profit organisations. As companies working across boarders need to set up their subsidiaries and representative offices or permanent establishments, so does the same regulations apply for INGOs.

Hence, the legal structure of the major INGOs resembles multinational corporations. In addition to resemblances in the legal structure, there are similarities also in operational structure. As an extension to the professionalization of the civil society sector, a trend we are witnessing is engaging business executives with excellent track record and former politicians at INGOs. Therefore, similarly to professional goods and service sector the value of great leadership and management is also in the focus at civil society sector. As one of the most remarkable examples is Save the Children an INGO lead by Helle Thorning-Schmidt a former prime minister of Denmark.

As an example corporation like structure, Mondo – Estonian largest humanitarian aid and development INGO, its operational model sees forth a headquarter based in Tallinn, Estonia and regional organisations based in respective countries to carry out activities supporting the cause of the organisation, e.g. fundraising, merchandising and specific campaign work. Functions carried out by headquarter are related to strategic development and protection of Mondo strategy, safeguarding the independence and integrity of the organisation in campaigning and fundraising. Mondo headquarter is acting as the conduit for redistributing global Mondo income according to global priorities as well as coordinates the process of establishing and monitoring the fulfillment of the long-term organisational development plans for all offices.

The following figure provides a simplified overview of the operational structure of Mondo.

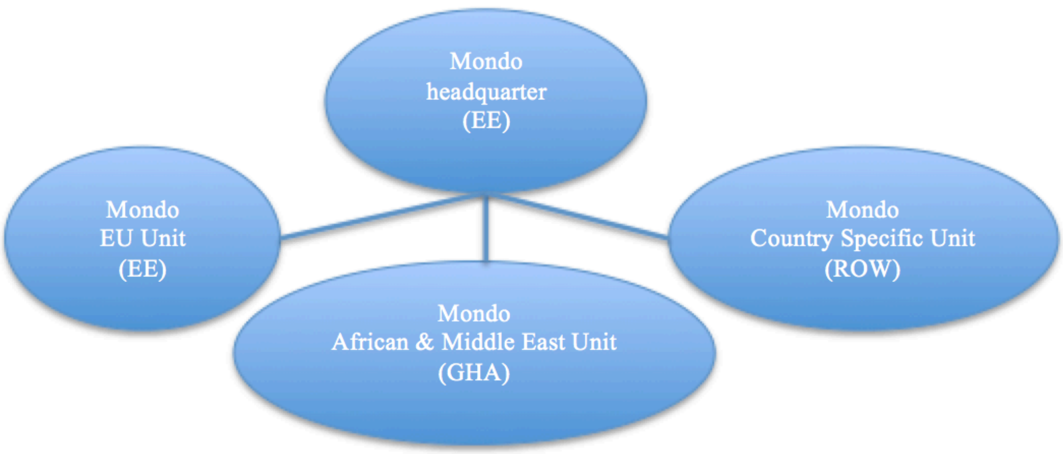

Figure 10. The structure of Mondo. Source: Mondo.org. Author visualisation.

The above-described functional division at the example of Mondo is a great example of how similar could the operational model of INGO be to a multinational corporation. In fact, also many CEO's of INGOs are former executives of multinationals and the problems executives are facing in the daily operations of INGOs are in broad extent the same as in the case of for-profit organisations (Kenk 2017). Unfortunately, there are not available any recent representable survey researching how big is the problem of compliance burden for INGOs. Considering that the broad similarities and the fact that to a certain extent the management and supervisory boards are manned with former executives from multinationals, the Global CEO survey was utilized. According to the survey, there are a number of barriers that CEOs of multinational corporations are encountering. Astonishing 42% claimed that compliance due to unclear and inconsistent regulations is the greatest barrier and cost of doing business (PwC 2016). Whereas, the majority of the compliance burden for multinationals arouses from governments, then in the case of INGOs they have additionally compliance burden from donors that in most cases are greater cost of doing business compared to governmental requirements (Truuverk 2017). Compliance could be considered as one of the three main concerns of INGO, just after interest protection and fundraising (Helin 2017).

Ease of doing business is crucial for a sector trying to create change and make a social contribution. As a general trend, the focus of non-profits is on reducing the overheads often referred to as leakage, in tunneling the funds from foundation to the receiver. Funders often have unrealistic expectations for the NGOs in terms funds provided for overheads to deliver results. The majority of the funders are aware that their indirect cost allocation is indeed too low, finds a recent Grantmakers for Effective Organisations study. In the survey of 820 grant-making foundations, mere 20 percent of the respondents said that their grants include enough overhead allocation to cover the time that grantees spend on reporting (Woodwell & Bartczak 2008). Individual donors' expectations are also skewed, a 2001 Better Business Bureau's Wise Giving Alliance survey indicated that more than half of American adults felt that non-profit organisations should have overhead rates of 20 percent or less, and nearly four out of five felt that overhead spending should be held at less than 30 percent. In fact, those surveyed ranked overhead ratio and financial transparency to be more important attributes in determining their willingness to give to an organisation than the success of the organisation's programs (Gregory & Howard 2009).

In order to determine the spread between to funding allocation for indirect costs and actual indirect costs of NGOs, consultancy group Bridgespan examined the cost structures of 20 well-known, high-performing NGOs across four different segments. At those organisations, indirect costs ranged from 21 percent to 89 percent of direct costs. The median indirect cost rate for all 20 non-profits was 40 percent, nearly three times the 15 percent overhead rate that most foundations provide (Eckhart-Queenan *et.al*. 2016). In order to cover the spread equal to approximately 25 percent multiple work-around are done to ensure the needed funding. Ultimately, if workarounds do not sufficiently cover indirect costs, organisations scramble to make up the difference. They often end up short of funds. Some non-profit CEOs, for example, report spending up to 40 percent of their time dealing with indirect cost reimbursement issues, between negotiations and fundraising to cover the gaps (Eckhart-Queenan *et.al.* 2016).

The level of indirect costs is a combination of multiple elements, however, one of the best measures is the overall ease of doing business. The World Bank analyses the complexity of business regulations and the compliance burden associated in 190 countries around the world on annual basis. As a general trend, the average result is improving on the yearly basis. The index that is mostly topped by wealthier countries attracting foreign direct investments displays highly also Baltic countries. In the last report, Estonia received the nomination of 12th place overall and third in the EU, an important prerequisite for international organisations for considering relocating part of their functions.

4.2 Key Drivers for Relocation of the Key Functions

"There are two main reasons why NGO-s would set up new organisation in foreign jurisdiction, first and foremost to be nearer and more **approachable for the charities granting donations** and secondly to **advocate their interest towards lawmakers and raising their awareness** to the issues close to the heart for the NGO" Eva Truuverk – CEO at Let's Do It. "The critical success factor of NGOs are how well they are able to protect their interests" Johanna Helin – member of the management board at Mondo. Eva Truuverk, who argues that in order to be successful at the international level NGO needs to proactively make its voice heard among the politicians, i.e. the importance of advocacy supports Helin's claim. This is one of the reasons why we see most international NGOs headquartered in either Brussels; Washington, New York, Geneva, Berlin, Paris or

London (Mänd 2017). These seven cities are political think-tanks and places where major symposiums are organized where also influential decisions are formularized. In order to secure funding or supporting legal framework, dozens of lobbyists of different NGOs work hard months prior to the drafting of new legislation and the activity increases when the voting day is approaching (Helin 2017).

Considering that two regions comprise the majority of the non-profit donations, namely Western Europe and the United States of America, these are the most attractive regions from NGOs when considering relocating or setting up a new organisation in the foreign jurisdiction. "Another reason for setting up a branch of an organisation to a foreign state is for fulfilling specific project in that respective state, e.g. providing humanitarian aid at Nigeria" Kadi Kenk – Head of Partnership at Let's Do It. However, the latter could not be regarded as the driver for the NGO's for relocating the headquarter functions to a state away from their origin.

The above-described arguments were repetitively arising from other interviews, however, in addition to advocacy and funding, a third factor arose. As a reason for relocating the head office function to other jurisdiction a developed **infrastructure**, physical or digital, **enforcing participation, collaboration and accountability** could be considered as other important factors (Mänd 2017).

Mänd (2017) added that other business factors, e.g. availability of qualified workforce and beneficial tax treatment are also considered, especially in the case of social entrepreneurship. However, it was recognized that most likely in the case of actual decision the first three will prevail, hence the combination of the critical value added factors must all be displayed.

When the discussions went on to the hypothetical relocation of the headquarter functions to Estonia, all interviewees remained hesitant. "At this stage, I am struggling as to what the benefits to a charity and its donors would be" Susan Saxon-Harrold. The ecosystem that Estonia has catered provides ease of doing business, e.g. digital signing of agreements, submitting a tax return online, communicating with public sector via social media, are all great merits, however, they are of little use when the other party is not a member of the ecosystem (Helin 2017). One of the most active grantmakers to NGOs are donors situated mainly in the US or Western Europe. Grants are mainly directed for the benefit of developing country or for solving certain bottleneck in the country where the grant maker is residing. Estonia is no longer considered a developing country, hence the inflow of funds is limited. Considering that in combination with weak charity culture and disadvantageous employment tax system for making grants for foreign projects, Estonia is not on top of the wish-list for charities (Truuverk 2017). In addition, it should be considered that relocation of headquarter of international NGO is a burdensome process and is subject to heightened media attention. The management of NGOs and wider publicity generally tend to be overly patriotic to its organisation origin (Mänd 2017). This is considered as one of the main reasons why so few international organisations have relocated their headquarter function in the past.

Considering the span of attention of fundraising and mainly for covering the indirect costs inapt for funding the potential reduction in compliance provided by the Estonian e-residency has its merits. However, the argumentation of e-residency reducing compliance and enabling to focus the management attention to core operations could be internationally considered as a disadvantage. In the NGO sector, the majority of the compliance comes from the donor and the regulations stipulated by the grant maker. "In general, charity compliance has increased since 9/11 because the abuse of charitable status has increased together with money being laundered for terrorism and criminal use" Susan Saxon-Harrold, she adds that "*whilst there have not been many prosecutions, money laundering through various vehicles commercial and non-profit has increased in recent years.*" It is true that all NGOs must comply state regulations and submit the respective filing, however, the volume of work associated with state regulations fall short of the compliance requirements stipulated by donors (Helin; Truuverk; Kenk 2017). Hence, for many charities compliance in the jurisdiction, it is operating in has become another cost of doing business. Considering the recent pitfalls in using charities for illegal activities the donors have become more conservative. Therefore, the electronic form of signing and reduced compliance could reduce the credibility of the system for the donors (Saxon-Harrold 2017).

5 DISCUSSION

5.1 Emerging Digital Infrastructure

Soughing the delicate balance between decreasing the compliance and the same time maintaining or even increasing credibility in NGO sector has been a question many international NGO's have struggled with. As currently there is no good solution on the international scale, at least not one concerning any state. NGOs are on their own to increase collaboration, accountability, build up trust and share best practices. In order to tackle that challenge ten leading CSOs including development, humanitarian, environmental, right-based and advocacy organisations founded an umbrella organisation - International Non-Governmental Organisations Accountability Charter already in 2006. By 2017, the charter represents 26 active members and a large number of their national entities. The organisation was renamed to Accountable Now and the main focus is providing a global platform that supports CSOs to be transparent, responsive stakeholders and focused on delivering impact. As one of the key question Accountable Now is tackling is how to take advantage of the opportunities digital ages is offering and at the same time remaining the focus on the mission of the CSOs. As a one potential focus area Accountable Now has been researching how could digital means facilitate the rise of civil society in countries where the democracy development level is still low (Mänd 2017).

One crucial component of digital infrastructure is the legislative framework of the country. Considering the legal framework of Estonian civil society organisations, it is arguably one of the best in Europe if not in the whole world (Jõgeva 2017). Estonian legislation does not set limits or specify the purposes for which the CSO can be established. Setting up, operating and funding a CSO in Estonia is relatively easy compared to other jurisdictions, for example, CSO could be set up by just two people, that is a unique in the majority of other countries (Jõgeva 2017). In addition, CSOs pay no taxes in Estonia on grants and enjoy exemptions or deductions for income earned on the investment of grant funds or endowments.

As among corporations stable and easily understandable legal framework is a strong value-adding, often deciding factor, when two different jurisdictions are considered. Estonian simplistic regulation for CSO along with e-residency program facilitating foreigners the access to the governmental infrastructure provides a chance for civil society activists residing in countries where setting up a CSO is limited, to set up a base for their international activities in Estonia (Jõgeva 2017). An example of countries with discriminatory nature for CSO should not be sought far, Russia, Belarus, and Ukraine are among one of the most difficult jurisdictions for setting up and operating CSO (Jõgeva 2017). Again parallels from for-profit sector could be drawn. Based on current statistics at the time of writing this thesis the e-Residency program whereby, to date, Estonia has approximately 17 000 e-residents, who have established approximately 1 500 new companies in Estonia. The largest contributors to the establishment of new companies in Estonia by e-residents are Ukrainians (Veskioja 2017). Hence, the one of the main key value driver of the civil society sector – the access to (local) policy makers and advocacy could in certain circumstances be considered as a disadvantage, that an international hub could mitigate.

5.2 Becoming the Leading Digital Hub for Civil Society Organisations

The finding from the research reveals that there are two potential groups of civil society sector organisations that theoretically could benefit the most from the establishment of the environment for digital headquarter of civil society sector organisations. From one end of the spectrum there are the group of activists wishing to solve a bottleneck in their respective country, however, to due to the limitations of lowly developed democracy, the civil society initiatives are not encouraged. For that purpose, they are seeking a foreign jurisdiction to set up a digital presence. In the second end of the spectrum are highly developed and successful civil society organisations with international scope. The main challenge for INGOs is to cover the spread between the non-coverable indirect costs (e.g. overheads) and the funding received from donors.

The problems these two groups are facing in terms of location are different, however, the key value drivers for them are similar. It became evident from the interviews that the key success factors of CSO and in turn a country trying to establish a hub for digital civil society organisations are determined by the possibility for advocacy and access to funding as well as the infrastructure the government is providing.

5.3 Access to Funding

It could be argued that access funding is one of the key success factors of NGOs today. However, when considering the trends, we are seeing a major shift in financing due to decreasing contribution from public sector funding to civil society.

The international scene of CSO funding is rapidly changing. Historically CSOs have strongly relied on project-based financing, however as many formerly grant receiving country, such as Estonia has emerged from developing country in 1990 to a developed country the public sector funding is decreasing (Helin 2017). The main concern with project-based funding is that the resources are granted solely for project-based costs, e.g. salary costs of the personnel are mainly excluded from support eligible costs (Truuverk 2017). In order to secure stable workforce and attract the best talent, CSOs have two options, either to scale so that funding attracting costs would cover the salary base or to widen the income base and sought for alternative revenue streams. As a new trend more and more CSOs are leaning towards to social entrepreneurship. As an example, Mondo, an Estonian headquartered NGO devoted to development cooperation, global education and humanitarian aid, is selling goods at western markets that have been made by natives from the project countries. Mondo is focusing on the social entrepreneurship, in order to generate the alternative revenue stream to provide stable cash flow for salary payments and finance the activities in the project countries falling outside the scope of project-based funding (Helin 2017).

This recent trend of shifting the revenue streams with the aim of widening the income sources and providing stable cash in-flow puts additional pressure on the managements of

INGOs to emphasize on the taxation aspects. By the traditional income tax system, applied in the majority of the states around the world, earnings are subject to taxation. There might be certain deductions and exemptions available for civil society organisations varying by state, however, it is theoretically possible that non-profit organisation generating revenue from social entrepreneurship to fund its activities in the project countries that fall outside the scope of donations is obligated to pay corporate income tax on its earnings. This might challenge the management of INGOs to consider revisiting the legal and operational structure and opt for jurisdictions with simpler and more favorable tax treatment. In that perspective, Estonia stands out with relatively simplistic economic environment providing ease of doing business and unique tax system deferring the corporate profits until distribution (Mänd 2017).

Disadvantages of e-Residency

There also were skeptics of the potential application of e-Residency for civil society organisations. "*e-Residency is a unique and beneficial tool to for-profit organisations, however of little use for NGOs*" Eva Truuverk. The majority of the compliance in the non-profit sector is a two-way street between the grantor of funds and the NGOs. According to Kadi Kenk the burden of proof on NGOs for certifying the proper use of funds is significant.

Considering that the aim of e-Residency is to facilitate the compliance burden between the e-resident and the government, the CSOs do not benefit from the regime. It is especially true for operational type CSO, whose main purpose is to handle the project. However, as the operational CSO, at least these legal bodies responsible for fulfilling the operational functions in the structure of INGO do not benefit from the regime, they remained outside of the scope of this thesis.

The second merit of e-Residency is the secure and easy possibility of concluding the agreements with the digital signature. The interviewees reckoned that it could be a considerable asset when the members of the management board or supervisory board are foreigners and some agreement needs to be signed. Unfortunately, the digital signing merit only applies if the other party recognizes digital signature. Based on current practice with US charities and corporations a signature sent over faxing, a significantly riskier option open for fraud and abuses, is still regarded acceptable.

Considering the latest trends in privacy and data protection it is highly probable that the securer options (e.g. e-Residency or block chain based technology) will become more widespread compared to less secure alternatives.

5.4 INGO Headquarter Relocation in Practise

Civil society organisations have historically been evolving around the activist groups who fought for injustice, generally against government actions. For example, Oxfarm was founded in British university town Oxford in 1942 by a group of social activists who wanted to pressure the British government to allow cargos with food through the Allied blockade to help the starving in occupied Greece (Moorhead and Clarke, 2015). By achieving their cause the activist generally sense's that their voice is actually heard and they have a change to actively contribute to the policymaking. Hence, their ties to the country and the government increase, thereby increasing their patriotism. Patriotism, is quite often of the main hurdle international civil society organisations need to overcome prior relocating their headquarter (Mänd 2017). That might be the second main reasons why historically there has been so little headquarter relocations among civil society organisations (Mänd 2017).

There has been much discussion in the development and human-rights circles on decentralization and internationalization – the process by which international NGOs based in the global north increase their presence and decision-making in countries in the global south (Campolina 2015). Civicus was the first international NGO to relocate its head office from global north to global south. Their relocation took place in 2002. Action Aid soon followed and by January 2004 they had set up a new headquarters in Johannesburg, South Africa. It has been quiet decade, whereby not many international NGOs have been relocating to global south, although now others are set to follow. Amnesty International and Oxfam are the ones considering (Moorhead and Clarke 2015). According to Winnie Byanyima, Oxfam international executive director, it is contemplated the Oxfam will already 2017/18 have a new global headquarter in Nairobi, Kenya.

When considering the Civicus headquarter relocation, three main reasons appear. Firstly, the decision was driven due to the fact that organisation that had a strong focus on developing world, geographically Africa, should also be located and be managed in Africa (Mänd 2017). At the time Civicus took a strategic decision to start looking for a new headquarter location the organisation was small, hence due to the smaller size of staff facilitating the relocation of employees.

When considering the state, few options were on the table, Nairobi, Kenya which already was home to some civil society organisations with international scope and Johannesburg, South Africa, that was open and inviting at the governmental level (Mänd 2017). The decision was made in favor of Johannesburg. Party due to economic justifications as the government provided significant taxation benefits for international NGOs as well as the cost of doing business was significantly lower in South African than in the USA. Party due to personal reasons as the head of Civicus at that time was native South African (Mänd 2017).

Similar patter arises in the case of Action Aid. “We are trying to empower people and we are letting them shape the future” Salil Shetty, chief executive oversaw the trailblazing relocation of ActionAid’s HQ from London to Johannesburg. Shetty continues, “the best way to do so is by being near the local people residing in the underdeveloped countries”.

The critical success factor of civil society organisations still requires access to policy makers and financing. Hence, although the headquarter is relocated the operational structure largely remains intact, for both organisations there still are regional offices or representations in major financing centres London, Zurich, New York and major political powerhouses Brussels and Washington.

In order to foster the relocation of INGOs digital function to Estonia, a clear leading position should be obtained in the niche sector of digital headquarter location for civil society organisations. A vision, for which fulfilment clear activities could and should be taken.

Estonia has a strong basis to build a digital hub for international organisations. The state has a strong reputation as an innovative and digital country. Governmental digital infrastructure is well developed and already easily accessible for foreign private individuals and legal bodies through e-residency. In addition, Estonian civil society is well developed and manned with qualified personnel. The importance of knowing well the sector and having demonstrated the ability to survive in the international environment is considered as a supporting factor for establishing international hub (Mason and Brown 2014). Therefore, new international hubs should grow organically on a solid local basis.

The governmental policy should be directly in line with the vision of establishing leading digital hub. By following the example of Luxembourg and other successful platform States it should be considered to set up the governmental organisation and granting it the sole responsibility to develop and implement the vision of becoming the leading digital hub for international civil society organisations. This would include areas such as advocacy, where Estonia should proactively participate in policy making at the EU and wider international level. The focus would be on policies concerning State as a hub as well as representing civil society organisations. It is also important to address compliance, where Estonia could be a pioneer in implementing and communicating newly contemplated legislative frameworks. By consistent communication, State would build up an image of stable and reliable legal framework increasing its trustworthiness among international organisations.

Secondly, as highlighted by Isenberg (2010) universities act as catalysts, therefore the educational sphere should be also focusing on civil society sector. Educating civil society professionals in Estonian universities would provide the access to qualified workforce. That in turn, would establish a strong sector of advisors, mentors and support system for developing and growing organisations, thereby fostering growth. Additional educational and training programs should be considered outside the universities with a more practical approach.

As a third aspect for fostering the relocation of the digital functions of international civil society organisations is the aspect of environmental culture. How supportive is the environment towards foreigners, at what level of development is the equality of genders, how is failing regarded. Findings by Isenberg (2010) disclose that open environments that embrace changes and novelty are more likely to succeed and attract the best talent. Therefore, in fostering environment for international organisations that have the chance to choose among 200 other countries, the cultural aspects of environment might become decisive in some cases.

Following the definition of entrepreneurial ecosystem provided by WEF (2013) funding and access to global markets are considered as key drivers of attracting bright talent and fostering economic growth. When relocating the digital functions of civil society organisation the importance of access to financing is mitigated. Especially, as the operating bodies of the civil society organisations would still be located in the areas of operations, e.g. Middle East, Africa, Asia. Considering the traditional funding process, these operational units would be the grant receivers. In terms of access to global market, the digitalisation is mitigating any potential hurdles and fostering the communication and international trade, hence the digital environment Estonia is catering should sufficiently provide access to global markets.

With the support from governmental level and clear strategy as well as using the experience from previous success stories, Estonia could foster its digital ecosystem to provide a basis for international civil society organisations.

5.5 The Impact of Estonian Economic Structure and Public Sector Innovation

In 1956, USA economist Robert Solow introduced a model that explained long term economic growth through capital accumulation and labour and productivity growth. Solow model demonstrated that GDP growth can be established by increasing one of three components – workforce, capital or technology. Estonian demographics have been declining for the past decade is showing marks of stabilisation, however, there are no signs of significant growth in the near future. Foreign direct investments to Estonia have been remarkable compared peers from the former Soviet Union, however still lagging European holding jurisdictions, e.g. Ireland. In technological development, Estonia has been able to maintain a growth rate that has exceeded the peers and has developed a leading position in digital development in Europe and in the World (Barclays 2017).

The strong international image of a highly developed digital country that Estonia has established in the world facilitates commencement of new initiatives. Establishment of a digital hub for civil society organisations could be considered as one. The potential market size is difficult to assess due to the inadequate data. However, should the platform be able to catch 5 per cent market share among international NGOs it would correlate to approximately 100 000 organisations, for a reference according to data disclosed by Ministry of Interior in 2015, there were 31 631 NGO registered in Estonia. Considering, that each company set up by e-Resident generates 4 300 € tax revenue annually (Liive 2016) by mere digital residency it would correlate to 430 million € in tax revenues, approximately 2 % of Estonian GDP in 2016. This does not take into account the impact on the economy it has through the employment or any indirect contribution to the economy.

Opening up Estonian economy for international civil society organisations could have significant benefits on the existing economic structure.

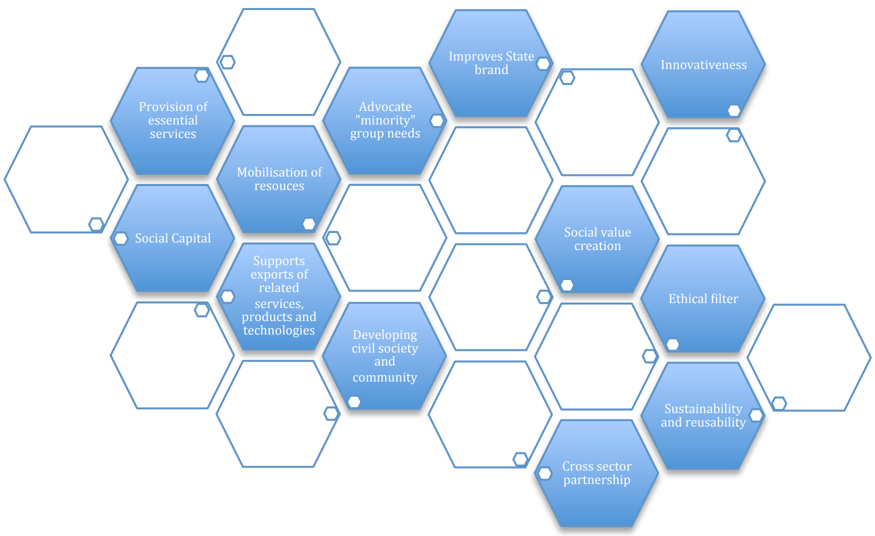

Figure 11. Benefits of strong civil society for the state. Author visualisation

Starting from establishing a stronger social sector and addressing certain social issues (e.g. gender pay cap, that is currently the largest in EU) to mobilization of resources and enhancing cross-sector partnership by improved communication and dialogue between different parties.

The direct influence of bringing new organisations to Estonia would be reflected in the rise of demand for occupations such as accountants and auditors required maintaining the compliance of Estonian registered digital organisations to lawyers working to set up the legal framework and keep it operational. There would also be new requirements for government officials that would mean additional white-collar position at the public sector.

Considering that it would be digital hub of international NGOs there would be an increased demand for ICT sector specification. Potentially, a certain extent of these services would be outsourced to service providers located in foreign countries. It could be argued that it would be easier to outsource certain services, e.g. IT competence as the language is universal and there is no country specific regulations as in the case of lawyers and accountants that most likely need to be engaged from Estonia. In Silicon Valley case we see that each high-tech employee creates the demand for four additional positions. Hence, increasing the labour activity.

The increase of demand for white-collar positions would also generate indirect benefit for the economy by placing stronger demand for Estonian school system to provide sufficient level of qualified staff over the coming years, increase innovativeness and political exposure as the digital headquarters of international would provide a beneficial base for important international political gatherings. There are also numerous sectors that are influenced indirectly and possibilities that could arouse from hub location, e.g. development of international conferences and an increase of business tourism in Estonia.

5.6 Challenges and limitations

No claim is presented in relation to achieving a significant representation of the subject. As saturation size is considered to be in correlation with the generalizability of the results (Saaranen-Kauppinen and Puusniekka 2009), the limitations on the latter are clear. The research is limited in its design by the small sample size of the respondents. Ideally, the sampling would be saturated and cover all phenomena within a population (Elliott *et al.* 2005) The sample size is limited considering the limitations of Estonian originated INGOs. However, based on the initial recommendations regarding the potential set up of platform state the validation could be sought from a wider basis of INGOs on the international scale. It is, therefore, recommended that in the case of interesting preliminary results, the study to be expanded on the account of wider base of INGOs.

This work also acknowledges the limitations of confirmation bias, both by author and interviewees. It is proven that by nature humans has the tendency to search for or interpret and recall information in a way that confirms one's pre-existing beliefs and hypothesis (Scott 1993). The author was fully aware of the existence of confirmation bias during the literature review and interview phase, however, no claim is presented that the bias was fully avoided. In interpreting the findings of the thesis the reader should carefully evaluate the validity of the information and the interpretations one could have from the certain piece of knowledge.

5.6.1 RESEARCHER BIAS

A distraction in the semi-structured interview is to large extent the essential concern in concluding two person interviews and the role the interviewer plays in the dialogue. Therefore, risking limiting the interviewee in answering questions without reflecting her experience or developing the ideas. In order to minimise the researcher bias, the interviewer applied skills though during coaching classes whereby one of the key methods is the applied active listening and wait until the very last second with your next question to provide the other party change to develop the idea and provide additional side to the conversation.

5.6.2 VALIDITY AND RELIABILITY

The criteria of validity and reliability, while invariably used in quantitative research, are ill-suited in qualitative research (Koskinen *et al* 2005; Seale 1999). Additionally, validity in qualitative research can rarely present an entire array of a phenomenon; a more functional definition could be the ability to convince – to arrange information in a clear manner in order for the general public to understand the topic (Saaranen-Kauppinen and Puusniekka 2009).

It was sought to increase the reliability of the research interviews by adjusting questions based on interviewee feedback. Additionally, during discussions, confirmation was requested as to whether the various points of view the interviewees expressed were understood as they were initially intended.

CONCLUSIONS

The thesis attempted to provide an overview of relevant literature on public sector innovation and civil society as one of its drivers. Scientific articles from social sciences and management field were used to provide a theoretical framework for the empirical study among international civil society organisations managed from Estonia.

With the current research the author aimed to open discussion and provide initial viewpoints for further research on questions like what are the key drivers and barriers of international civil society organisations, Who are the main customers Estonia should primarily focus when developing digital hub for international civil society organisations and how could Estonia become the leading digital hub for international civil society organisations (INGOs).

The starting point for the thesis was based on the Bekkers *et al.* 2013 argument, of the notion that strong civil society is expected to positively influence, especially the bottom-up innovation in the public sector. Whereas, innovation is seen as a key driver of country's economic growth, improve welfare and is the foundation of competitiveness (World Bank 2010). In combination with the notion that civil society organisationsations are increasingly viewed as critical contributors to country's economic growth and civic and social infrastructure essential for a minimum quality of life for the people (Salamon and Anheier, 1997; Fukuyama, 1995; OECD, 1995). The research was constructed as a single case study with embedded units, for data gathering semi-structured in-depth interviews with field experts were used.

Thesis researched **how could Estonia become the leading digital hub for international civil society organisations (INGOs)?**

Results of the research supported the findings from the literature that strong civil society sector has a positive influence on public sector innovation. The key feature contributing to the development of the civil society is considered to be advocacy and interest protection, as the ability to communicate the cause and implement the ideas is crucial for civil society organisation. Secondly, as civil society organisations are brought to life for a certain cause and they are intermediary typo organisations tunnelling funds and generally not generating cash flow it is crucial that civil society organisations would be able to get funding. Hence, access to policy makers as well as funding is crucial, however, the empirical study also determined that great leadership at the level of civil society organisation is required.

The basis for public sector technology innovation driven by civil society lays in the existence of supporting digital infrastructure enabling participation, collaboration, and accountability as these are considered as the key drives in the emerging public sector technology innovation.

Therefore, in response to the first sub-research questions **what are the key drivers and barriers of international civil society organisations,** based on the findings disclosed in chapter 3, possibly the most important value drivers for international NGOs for relocating their digital core functions are:

a) Access to policy makers enabling the civil society organisations to advocate for their interest protection;
b) Access to financing providing the civil society organisation a possibility for funding their cause;
c) Ease of doing business, mitigating the compliance and hence minimizing the spread of indirect costs non-eligible for funding;
d) Stabile and reliable legal framework;
e) Tailored digital infrastructure enabling participation, collaboration and accountability.

Author recognised that with the unique tool of e-Residency and with a supportive legislative environment, Estonia could attract civil society organisations, however clear strategy taking into account the findings listed above and support from governmental level is needed for such initiative. Therefore, author concluded empirical study to answer to the second sub-research question **who are the main customers Estonia should primarily focus when developing a digital hub for international civil society organisations?**

By providing digital registration and by facilitating compliance Estonian infrastructure could primarily provide value for two groups of users.

Firstly, civil society activists located in countries (e.g. Russia, Belarus and Ukraine) where the legislative framework is underdeveloped and barriers for setting up civil society organisations are high, i.e. the civil society is weak. The second group of early adopters could be international civil society organisation that has grown in size and looking to mitigate the compliance by digital means and facilitating the regulatory requirements (e.g. signing legal agreements, submitting annual reports) in case the executives are located in different parts of the world. Therefore, mitigating the cost of indirect costs non-eligible for funding.

With the regards to further research on the given topic validation could be sought from a wider basis of INGOs on the international scale, because the current study was limited in its design by the small sample size of the respondents of only Estonian originated INGOs. It is therefore recommended that in the case of interesting preliminary results, the study could be expanded with the aim to validate the usability of proposed open digital infrastructure approach by INGOs. Secondly, it would be interesting to widen the scope of the research and study how the diversified workforce of INGOs who have established a digital hub in Estonia would contribute to the public sector innovation.

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APPENDICES

Appendix 1. Interview questionnaire

1) Respondent's opinion about civil sector:	Based on:
a. How do you define the strength of civil sector?	Ghaus-Pasha 2004, Bailer et al. 2009, Bekkers et al. 2013
i. In your opinion how strong is the current Estonian civil sector?	Author interest
b. Could you describe in as much detail as possible what are the main challenges of civil society organisations?	Ghaus-Pasha 2004, Bailer et al. 2009, Bekkers et al. 2013
c. Can you please tell me about the key characteristics that determine the success of a civil society organisation?	Salamon and Anheier, 1997; Fukuyama, 1995; OECD, 1995
d. What are the main changes that you perceive are happening in the civil sector currently?	Author interest
2) Public sector innovation:	
a. What is your opinion on the notion that civil society organisations are the drivers of public sector governance?	Moore and Hartley (2008)
i. What do you mean by good public governance?	Moore and Hartley (2008)
b. Could you please elaborate in which way activities of your organisation benefit the public governance of the region the organisation operates in? Can you please provide further examples of this?	Dr. Ghaus-Pasha (2004
c. Who would you say are the main influencers, whose decisions have a material effect on the operations of the civil society organisations and how material is their influence?	Author interest
3) Technology infrastructure:	
a. In which way could an e-government solution benefit the operations of civil society organisation? Do you have further examples of this?	Janssen & Kuk 2016
b. What are the characteristics of good open government program that civil society organisation requires?	Janssen and Zuiderwijk 2012; Janssen and Estevez 2013; O'Reilly 2011
i. Have you experienced any good program in your career?	Author interest

EESTI KUI DIGITAALNE JUHTRIIK RAHVUSVAHELISTELE KODANIKUÜHISKONNA ORGANISATSIOONIDELE

Karl-Rauno Miljand

Resümee

Hiljutises arvamusloos väitis endine väliskaubanduse- ja ettevõtlusminister Anne Sulling, et Eesti riiklik innovatsioonipoliitka vajab ülevaatamist (Sulling 2017), eesmärgiga tõsta avaliku sektori innovatsiooni ning seeläbi parandada majandusliku heaolu ja riigi konkurentsivõimet.

Töö lähtepunktiks võeti Bekkers *et al.* 2013 väide, mille kohaselt tugev kolmas sektor edendab innovatsiooni avalikus sektoris. Seejuures innovatsiooni peetakse peamiseks teguriks riigi majanduslikus kasvus ja heaolu tõusus (World Bank 2010). Üha enam nähakse just kolmanda sektori organisatsioone oluliste panustajatena riigi heaolu ning elanike elatustaseme tõusu (Salamon and Anheier 1997; Fukuyama 1995; OECD 1995).

Arvestades Eesti konteksti ning asjaolu, et MTÜ-de suhe kodanike arvu ületab enamusi domineerivaid riike, kus on aktiivne kolmas sektor, võib argumenteerida, et kolmanda sektori organaaniliseks kasvuks Eestis on ruum limiteeritud. Selleks, et kasvatada majandus laiemaks (Männik ja Pärna 2013) ja turgutada innovatsiooni on vajalik avada riigi digitaalne taristu rahvusvahelistele kolmanda sektori organisatsioonidele, et viimased koliksid oma digitaalsed funktsioonid Eestisse. Töö käigus avab autor teemat täiendavalt koos eriala ekspertidega.

Magistritöö raames uuritakse kuidas saaks Eestist luua digitaalne juhtriik rahvusvahelistele kolmanda sektori organisatsioonidele. Töö teostamise eelduseks on rahvusvaheliste kodanikuorganisatsioonide ratsionaalne tegutsemine ning eeldus, et toetava infrastruktuuri loomisel ollakse valmis kaaluma oma digitaalsete funktsioonide ümberkolimist.

Autorile teadaolevalt ei ole hetkel ükski riik keskendunud oma ökosüsteemi loomisel rahvusvahelistele kodanikuorganisatsioonidele. Tulenevalt piiratud võrdlusandmetest lähtus autor analüüsi koostamisel rahvusvaheliste kodaniku organisatsioonide vajadustest ja sektori organisatsioonidele seatud piirangutest.

Magistritöö raames otsis autor vastust küsimusele, kuidas saaks Eestist digitaalne juhtriik rahvusvahelistele kolmanda sektori organisatsioonidele. Töö käigus käsitleti järgmisi alamküsimusi:

1) Millised on peamised rahuvaheliste kodaniku organisatsioonide edutegurid?
2) Millistele rahvusvahelistele kolmanda sektori organisatsiooni gruppidele peaks Eesti digitaalse keskkonna loomisel keskenduma?

Peamisteks eduteguriteks kolmanda sektori organisatsioonide asukoha valikul peetakse huvikaitset (*advocacy)* ja finantseeringutele ligipääsu tulenevalt asjaolust, et võime oma eesmärke selgitada ja seista nende ellurakendamise eest paljuski määrab kolmanda sektori organisatsioonide jätkusuutlikuse.

Avaliku sektori innovatsiooni toimumise eelduseks peetakse toetava digitaalse taristu olemasolu. Edukas digitaalne taristu peab võimaldama osalemist poliitika kujundamises, koostööd teiste organisatsioonidega ja looma kindlust ja läbipaistvust.

Analüüsi tulemusena selgus, et e-residentsus kui tööriist võimaldab Eestil luua taristu rahvusvaheliste kolmanda sektori organisatsioonide tarbeks ning spetsiifiline fookus kindlatele organisatsiooni gruppidele, kes võiksid taristut kasutada sai välja selgitatud. Pakkudes digitaalset organisatsiooni loomise võimalust, elektroonilist maksudeklaratsioonide esitamist ning digitaalset lepingute allkirjastamist, võiks Eesti keskkonnana keskenduda eelkõige kahele kasutajagrupile.

Esimese grupina oleks Eesti keskonnast kasu kolmanda sektori aktivistidel riikides, kus kolmandat sektorit puudutav seadusandlus on vähe arenenud ning riigipoolsed piirangud on kõrged (nt Venemaa, Valgevene, Ukraina). Teiseks grupiks oleksid edumeelsed rahvusvahelised kolmanda sektori organisatsioonid, kelle puhul bürokraatiast tulenev kulubaas on niivõrd kõrge, et uue digitaalse peakontori loomine oleks majanduslikult põhjendatud, eriti arvestades, et üldreeglina ei loeta bürokraatiaga tegelemiseks kuluvaid vahendeid abikõlbulike kulude hulka.

Samas tõdes autor, et hoolimata unikaalsest e-residentsuse tööriistast ning toetavast juriidilisest keskkonast vajab Eesti selget strateegiat mis võtaks arvesse muuhulgas ka käesoleva töö järeldusi ning valitsusepoolset tuge initsatiivi elluviimisel. Oluline on Eesti puhul kolmanda sektori organisatsioonidele fokuseeritud keskkona visiooni elluviimisel detailse strateegia läbi mõtlemine ja planeerimine.

Uurimustöö edasiseks teemaarenduseks soovitab autor avada teemat täiendavalt lisades rahvusvahelist kogemust eelkõige väljatoodud kahe kasutajagrupi pinnalt. Teostatvusuuringu läbiviimisel tasuks kaasata konkreetsete organisatsioonide esindajad töögruppi töötamaks välja sobiv digitaalse keskkonna mudel.