



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



Georgian Civil Society Sustainability Initiative
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State Funding for Civil Society Organizations

Best Practice Research

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The project is implemented by the Konrad-Adenauer-Stiftung e.V. Civil Society Institute, Center for Strategic Research and Development of Georgia, Center for Training and Consultancy, Kutaisi Education Development and Employment Center



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Researcher:
Mariam Latsabidze

Consultant:
Vazha Salamadze



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I. Introduction

The document aims to introduce the results of best practice research in state funding for civil society organizations (hereinafter “CSO”) and contribute in developing recommendations on the most effective state funding model applicable to Georgia.

The research includes fundamental understanding of CSO finances and offers detailed analyses of state funding mechanisms in four Central and Eastern European Countries - Croatia, Estonia, Hungary and Poland. Based on findings, study outlines the key elements in designing a successful institutional framework for funding CSOs aiming to increase their financial sustainability.

In the beginning, the document reviews state financial support in overall scheme of government-CSO cooperation and outlines the importance of institutionalization of state funding. The next chapter is devoted to the existing forms of state financial support with the main focus on grant support. The integral part of the document summarizes diverse experience of selected countries and offers trends and standards that can be put together in order to help form a system for CSOs public funding. More detailed analysis regarding each country is given in a separate chapter, covering following information: description of state funding models, their specific characteristics and developing tendencies; as well as existing policies and practices, strategic approaches and their implementation process. The analysis is merely concentrated on the funding at the national level, while there are certain issues covered concerning state funding on local level where applicable.

All countries included managed to obtain successful experience in the process of establishing tangible state funding model which nowadays presents a good practice for several positive reasons. According to the CSO sustainability index, Estonia and Poland tend to have the highest level of sustainability not only among CEE countries, but in overall CSO sustainability worldwide as well. In both countries CSOs benefit from a favorable legal environment, infrastructure and public image. Both countries have a strong service providers with a significant organizational capacities. Hungary, was the first country where the percentage mechanism was introduced with the enactment of the Act in 1996 on the Use of a Specified Portion of the Personal Income Tax (the “one-percent law”). One percentage mechanism is a form of tax allocation, which allows taxpayers to designate a portion of the tax they need to pay to a specific organization. Nowadays this mechanism is adopted to different European countries such as Croatia, Estonia, Moldova, Slovakia and etc. Moreover, Hungarian legal and institutional framework for CSOs is considered as one of the most advanced in the region. The Hungarian system is also considered quite complex in comparison with other CEE countries, due to policy innovations which that brewed in CSO environment and legal framework in recent years. For that reason, country has the most lessons learned which nowadays presents a good practice. In case of Croatia, it is the first country in the Western Balkans to develop innovative mechanism for Government-CSO cooperation and support transparent funding for CSOs. As well as that, Croatia remains having the highest levels of

sustainability among Southern Tier (Southeastern Europe) countries. Through its unique model, Croatia could successfully decentralize support for civil society which was previously centralized. Four regional foundations were established as a grant making partners of the foundation. These regional foundations played significant role in effective usage of funding.

To sum up, the countries included have obtained successful experience in implementing reforms and nowadays their experiences are used in setting up similar funds. All of them have introduced effective state funding mechanisms which ensured enabling environment for CSOs and helped the sector to become more rooted within the country in terms of finances and overall sustainability.

II. State funding as a part of Government-CSO cooperation

Governments throughout the world recognize the value of vibrant and sustainable civil society. In order to strengthen the capacity of civil society organizations many governments have set up funding institutions. These institutions come in different forms. However, they all have a common objective – to invest in civil society. For governments investing in civil society is an opportunity to ensure participation of the CSOs in decision making process and to achieve important political goals in a way of establishing cooperation to partners who are closest to the need of the population and are capable of delivering efficient and cost effective product to the society.

The cooperation between the state bodies and CSOs in CEE countries has significantly increased in past decay. There is a well-recognized tendency among the countries to expand the framework of applicable areas of cooperation, to increase the available forms and mechanisms for cooperation and to institutionalize the partnership for ensuring sustainability. The forms of cooperation include a wide range of tools and mechanisms. Primarily, governments have supported the civil sector through enacting a favorable legal environment which stipulates establishment, operation and sustainability of civil society organizations. Moreover, governments have increased support to CSOs through providing grants from various state institutions. Most importantly, they have adopted mechanisms to financially support the development of the sector (e.g. National Foundation for Civil Society Development in Croatia, National Cooperation Fund in Hungary, Civic Initiatives Fund Program in Poland (FIO) and National Foundation of Civil Society in Estonia (NFCS)).

Before the formation of the state funding institutions, CSOs were funded by various state sources such as ministries, local governments, agencies, development programs, endowment funds, foundations, centers and etc. Despite the fact that grants were available from various public sources, financial support was merely focused on the short-term projects in limited fields. For that reason, before the establishment of primary fund, CSOs struggled in institutional development, solving inter-sectorial issues, lacked the competence and professional skills. Hence, establishment of such state funding institutions was a huge step towards long-term and sustainable development of the sector. Defining

characteristic of most civil society funds is that they provide institutional grants rather than project-based grants. The key advantage of institutional grants is that they serve in long-term investment in organizational development of individual organizations, in sector-wide initiatives and in innovative project ideas.

III. Forms of state financial support

In general, financial support provided by the state for CSOs take on different forms. The usage of each form slightly depends on a purpose and the result that is aimed to achieve. The most common distinction in state support to CSOs is direct and indirect state funding. The former is assigned from the public budget at the central or local level. Usually, these type of funds go through various governmental agencies, such as funds, foundations, ministries and etc. In the European third sector, vast majority of CSOs operates its activities through grants which is the most common form of direct state financial support. The latter does not include direct transfer of money or property. Typically, in this case, state guarantees tax benefits by establishing favorable legal environment. Indirect support may also be demonstrated in stipulating mission-related economic activity, as well as supporting volunteerism, corporate social responsibility and etc.

Direct government funding comes through several traditional forms, falling under following main types of financing: grants, subsidies, service procurement and voucher mechanism. These funds may be distributed from the central level as well as through budgets of local governments. Grant is the most common form of large-scale funding of CSOs. Subsidies are dedicated to the certain civil society organizations and are not primarily linked to a specific projects. Typically, subsidies does not require competition and the recipient CSO is entitled to the support as defined in a law. Therefore, granting procedure which is linked to the public calls, offers competition, stresses reporting and determines strong deadlines is considered to be more transparent and accountable. In case of procurement, government orders a specific service to achieve its goals, in most of the cases with only purpose of accomplishing one specific task without any long-term impact. When providing vouchers, the government essentially delegates service provision to an outside provider based on set prices, quality and other criteria.

More detailed overview of each form of direct state financial support is discussed below:

Grant is a most common form of direct state financial support to CSOs provided from the central or local budgets. In the European CSO sector, while having rather diversified income, most of the CSOs operates its activities through grants. Therefore, availability grants are essential in order to keep CSOs finances stable.

In general, grants suggest competition for funding. Public calls are the most transparent and most frequently used type of selection procedures for the allocation of grants. Transparency is a core

principle of public spending. A clear application process, publication of full tender documentation, validated decisions, publication of results, the appropriate time and manner of publication of the calls are all important elements which make the process of public funding transparent.

Grants may originate from the central or local budget or from special funds formed by income from alternative revenue sources: lottery proceeds (Croatia), taxes (Hungary, Poland) and etc. Even though many countries have applied to the integrated mechanism of allocating sum in one fund and provide financial support directly from the fund, CSOs simultaneously benefit obtaining grants from other public institutions i.e. development programs, endowments, ministries, centers, foundations, local government and etc.

Grants are provided in wide range of fields such as education, human rights, welfare, youth, regional development, economic development, sport, arts, culture, health, environment, animal protection, energy, international causes and other. Although fields differ much, vast majority of CSO grants are served to promote sustainable positive changes. With that aim, most of the grant projects are oriented towards raising awareness, strengthening the capacity of the civil society, encouraging innovative initiatives, promoting democratic values, establishing strong partnerships and networks, exchanging information and etc.

One of the most important aspects of civil society grants is that they represent a resource for institutional funding that supports the general operations of a CSO. While activity-based grants are main form of income for the most CSOs, they are limiting in several ways. The biggest drawback of project-oriented grants is that they force CSOs to be focused on grant activities rather than investing in long-term sustainability, developing a strategy or investing in organizational development. Whereas, institutional funding give CSOs financial freedom to expand and increase their full capacity in contrast to the commitments to short-term, activity-based grants.

Subsidies are provided as an institutional support, dedicated for certain civil society organizations which is not linked to a specific projects. Usually there is no competition and the recipient CSO is entitled to the support as prescribed by law. In many countries of Europe subsidies are given to different representative organizations of various types of social groups.

Several European countries have adopted special laws setting guidelines for subsidizing. On the other hand, for example in in case of Hungary, the Parliament used to determine which CSO applicants would receive a subsidy. Subsidies are usually determined through a centralized process but can be allocated and distributed by the separate ministries as well (Croatia, Hungary).

Subsidy model is less favored from the point of view of transparency and accountability of public funding. However, this can still be a good solution for organizations that have not yet achieved financial sustainability, especially in case of limited available foreign funds.

Service procurement is the public authorities' purchase of goods and services delivery procedure by CSOs. Usually the legislative mechanism for procurement is established for all potential participants, for any person able to provide the needed service including CSOs, business entities, individuals and other stakeholders. In contrast with granting, the purpose here is to provide a concrete state service with the help of the recipient. In this case, the government knows exactly what needs to be done and is looking for someone who will deliver the service at the highest quality for the lowest price.

The main problems that CSOs face in accessing this form of funding is that, in most cases projects open to procurement set standards which ultimately exclude CSOs from participation. Majority of CSOs who have participated in state procurements believe the mechanism is not effective due to the fact that applicants can sell only service and not the way for solving the problem. Therefore, in most of the cases institute of procurement does not come in compliance with CSO's overall objectives.

Voucher mechanism is a method of third party payment. In this system potential beneficiaries receive vouchers that entitle them to use certain services free of charge. The beneficiaries are free to choose to which service provider they apply to. Based on the vouchers collected by each provider, the state transfers a fixed fee for each client served.

This mechanism has been successful in the Scandinavian countries.¹ Under this system, a municipality gives all citizens vouchers for the services that fall within the municipality's responsibilities, and the citizens then choose their provider. Recipients of service vouchers can be all citizens or groups with particular needs. Usually, voucher system is relevant in following fields: social welfare, child care, home services for the elderly education, and other similar fields.

IV. General overview of countries' experience

Majority of the funds discussed in the document are the result of highly collaborative processes in which governments engaged civil society in all stages of developing the policy documents and legal regulations that provide the basis for such funds. Common methodologies for engaging CSOs (e.g. Estonia and Croatia) include publishing working documents or drafts online, receiving and analyzing feedback from stakeholders, holding public hearings and etc. Targeted meetings with CSOs, especially those conducted in the regions, ensures that the process includes input from all stakeholders and not only the major players. Although the overall objective of the process is to create a successful fund, the process itself is highly important. High participatory approach creates the sense of ownership among stakeholders and makes the outcome more valuable.

¹ The International Journal of Not-for-Profit Law Volume 7, Issue 4, September 2005

Based on findings, all countries included have adopted an overarching policy documents in support of institutionalization of state funding. These documents are presented in a mutual agreements between parliament and the CSOs (Estonia), between the government and the CSOs (Croatia) and unilateral strategies adopted by the government (Hungary, Poland). The policy documents provide the basis for establishing funds and are usually political documents or legislation that are adopted by the government. There is an evidence that the documents which succeeded in long-term, were built on a profound understanding of the current situation in the sector and were developed through a participatory process in which the government and civil society worked closely to elaborate the product.

The experience shows that established mechanisms supporting less CSOs with a more strategic focus (Croatia and Estonia) achieved greater recognition than in a country (as in Hungary) where it chose to support essentially every CSO. One major risk of introducing such funding mechanism was that it developed a dependence on government funding. Practice also made it clear that governments need to be mindful when implementing practices that aim at reducing such dependence (e.g., limiting the number of years one CSO may be supported from the fund, limiting the proportion of its budget that can be supported etc.).

Selected countries have established separate units, committees, councils, offices in order to enhance coordination between CSOs and state authorities. For example, Croatia has a tri-partite system of CSO strategy implementation. First, in 1998 Government Office for Cooperation with NGOs was established to manage the work of state authorities with civil society organizations. Nowadays institution supports legal, institutional and financial framework of the operation of the CSOs. It is also responsible for monitoring compliance with standards for the financing of CSOs from the state budget. Later in 2002, the Council for Civil Society was created as an advisory body for Croatian government. There is a fine balance between the representatives of CSOs and representatives from State institutions in Council's internal governance. Council complements Office's work in monitoring and evaluates the finances granted by the providers from state budget. Public bodies as a grant providers are required to submit information about financed programs and projects to the council. Both institutions have a huge role in creation of the National foundation of the Civil Society Development which was established in 2003 with the aim to promote sustainability of the sector, cross sectorial cooperation and civic initiatives.

In Poland, the Council on Public Benefit activities was created according to the law on Public Benefit activities and volunteerism. After the several years of discussion in the parliament, it was signed in 2003 by the president. Council's functions are limited to an advisory and opinion-forming role regarding the implementation of public benefit act. The council consists in total of 20 members including representatives of governmental administration authorities, representatives of local self-government authorities and representatives of non-governmental organizations all regulated by the Act on Public Benefit. Council advises the Minister of Economy, Labor and Social Affairs, who share responsibility for implementing and monitoring government policies.

Nevertheless, the situation differs in case of Hungary. The main responsibility for implementation and monitoring lies with an office within a ministry. Each ministry must prepare its plan for CSO cooperation as well as the annual report. In 2011 among other important reforms, the new Law on freedom of association, public benefit status and the operation and support of the civil society organizations was adopted by the Parliament. According to the law, previous National Civil Fund was replaced with the new National Cooperation Fund. Among other significant changes, the internal management structure of the fund was rearranged. Previously, majority of evaluation committees were CSO representatives. Due to new regulations, evaluation committees are now dominated by government-appointed representatives. NCF is currently supervised by the Ministry of Social Affairs and Labor. Among other privileges, it commissions the members of council, decides on conflict of interests and reports to the activity of the fund to the Parliament.

In Estonia, the Parliament plays a key role in the implementation and monitoring process. The Parliament usually holds biannual hearings at which progress reports are presented. The main responsibility for implementation lies at the governmental level. Ministry of Interior is an important actor, which is responsible for implementation of EKAK action plans and does annual reporting to the Government about implementation of action plans. It is also registered as an executive founder of NFCS. However, Ministry does not have right to interfere in everyday activity of the foundation. Furthermore, Network of Estonian non-profit organizations (NENO) plays key role in development of the third sector. NENO is the one and largest Estonian organization uniting public benefit nonprofit organizations. NENO's mission is to give voice to and advocate on behalf of Estonian public benefit organizations and its work is dedicated to the development and promotion of civic action and civil society in Estonia. It was initiator of launching EKAK. NENO is officially delegated to serve implementing and monitoring of the policy process.

As mentioned above, selected countries have created initial funding mechanism to support CSOs as part of the implementation of the policy priorities. The funds vary in legal forms. For example, in Estonia, the Foundation is a non-profit legal entity established by the Minister of Interior Affairs. In case of Croatia, the National Foundation is a public foundation, registered in the Foundation Registry. Hungarian Fund is a central budgetary appropriation. Whereas, Polish Civic Initiatives Fund (FIO) is a governmental long-term program which was initiated based on the Law on Public Benefit and Volunteerism.

The procedural part of providing government funding deserves particular attention. In most CEE countries, mechanisms for distribution of government funding lacked sufficient levels of transparency and accountability and clear procedures. In order to improve the situation, governments have undertaken initiatives and introduced principles of good government funding in codes or regulations. For instance, in Croatia Associations Act came into force in 2014, which among other objectives aimed to prepare a basis and pre-conditions for efficient funding of programs and projects. Subsequently, the new Regulation on Criteria, Standards and Procedures of Financing and Contracting of Projects of General Interest Implemented by Associations was adopted in 2015. Based on this regulation, the Manual was adopted which was developed as a guideline to all public institutions that provide financial

support to CSOs. Further detailed information regarding positive examples of legal framework supporting procedural part of providing funding is included in country profiles.

V. Funding on Municipal level

In general, the principles and objectives of a national policy documents are more easily applied by partners at the local level. The problems are clearer and easier to address when seen through local scope. Hence, local negotiations are considered more practical than national ones.

Local strategies have several beneficial aspects. Firstly, services developed on local level are closest to community needs. Moreover, applying strategies on local level play positive role in improving partnership and enhancing stronger interaction between civil society and local governments.

Several positive trends were demonstrated in funding on municipal level. In case of Poland, the local government is envisioned as the main body responsible for tendering and contracting out local services. Before its accession to the EU, Poland actively implemented decentralization and regionalization reforms, which resulted in the establishment of the most decentralized territorial system among the “younger” EU member countries.

The European Union accession process has played a big role in Estonia as well. When adopting EKAK, local councils and local CSOs have prepared local strategies aiming to implement the principles of the national Concept on municipal level. There was created local county development centers. These development centers worked well with the Network of Estonian Nonprofit Organizations (NENO) and its support centers, which provide assistance and information for the joint activities of local governments, local non-profits and local businesses.

Croatia, through its model, successfully decentralized support for civil society. In partnership with four regional foundations, started the process of funding short-term civic initiatives at the local level. These efforts were accompanied by the activities of the National Foundation’s funded network of CSO partners in five regions which provide various types of training, networking, technical assistance and related services at the local level. It was a crucial steps toward advancing the regional development of civil society in Croatia.

As we see, CSO partnerships with local self-governments is more or less developed. Importantly, CSOs in selected countries enjoy receiving grants directly from the municipalities. Cooperation between CSOs and local authorities continue to grow which are fostering joint undertakings and common goal-setting.

VI. Country profiles

VI.I. CROATIA

1. Brief overview

Croatia is the first country in the Western Balkans to develop innovative mechanisms for Government-CSO cooperation and a mechanism to support transparent funding of CSOs. National government policies on the development of the civil society are based on continuous interaction of the three main institutions: National Foundation for Civil Society Development, Council for Civil Society Development and Government Office for Cooperation with CSOs. In tri-partite system, these institutions work closely together to promote policies and initiatives for the development, support and sustainability of CSOs in Croatia.

According to the statistics, it is clear that the financial support to CSOs has significantly increased through recent years as well as the number of supported projects. In the year 2015 the total amount of 1.672.699.179 HRK from all the public sources on the national and local levels was allocated for CSO programs and projects.²

Financial income of the CSOs in Croatia is rather diversified. By the year 2016, according to data provided by the Ministry of Finance of Croatia, state and local governments represent dominant source of funding CSOs, accounting 28% of overall income. Other sources of income are presented in economic activity 18,6%, from the executing public competences delegated by the special laws 15,04%, Membership fees/contributions 10,27%, revenues from international organizations 8,83% and other sources such as individual donations, transfers from umbrella organizations, and revenues from companies.³

Statistics above indicate that Croatian legal framework for CSOs is generally favorable in terms of availability of diversified income. Law stipulates economic activities of CSOs and they are not taxed, if they are conducted within the framework of the CSO. Furthermore, the capacities for mobilizing volunteers are increasing. In 2015, 52.208 volunteers were involved in different organizations and institutions in Croatia.⁴

² More detailed information is available in the Report on Public Funding of CSOs in 2015 adopted by the Croatian Government

³ <http://taxdesignation.org/croatia/>

⁴ Report from Ministry of Social Policy and Youth for 2015

2. State Policies on the development of the civil society

The most important strategic documents and acts promoting civil society development is National Strategy for Creating an Enabling Environment for the Development of Civil Society (first strategy adopted for the period 2006-2011, second strategy adopted for 2012-2016 period, strategy for 2017-2021 is in progress).

2.1 National Strategy for Creating an Enabling Environment for the Development of Civil Society 2006-2011

Broad consensus has been achieved among civil society and government representatives about the strategic priorities in the period 2006-2011. Among other important priorities, the document aimed at strengthening participation of CSOs in the development and monitoring of public policies, improving legal framework, strengthening capacities of CSOs in the provision of public services, encouraging contribution of CSOs to the EU accession process and strengthening regional cooperation.

Nevertheless, some objectives from this document fell short on the implementation, due to the vaguely set indicators for monitoring the implementation as well as insufficient capacities of the competent implementing bodies, Croatia took next step towards development of the third sector and adopted strategy document for the years 2012-2016.

2.2 National Strategy for Creating an Enabling Environment for the Development of Civil Society 2012-2016⁵

In the period of Croatia's preparations for joining the EU, the National Strategy gave guidelines for the creation of an enabling environment for civil society development in the years 2012-2016. Document was developed through consultation process of one year. The process was based on a high participatory approach including creating working groups, public debates online consultation. All together over 200 CSO involved in the process. Representatives of the public authorities were involved at all stages of the development of the document. Additionally, all ministries gave their final opinion during the consultations on draft strategy prior its official adoption. Due to the broad range of participants involved in the process of drafting the Strategy, the document reflects a consensus of key stakeholders on the measures that need to be taken for further improvement the legal, financial and institutional system of support for the work of civil society organizations.

The document listed in total 26 objectives, 27 measures and 91 implementation activities.⁶ The document has four main parts: the value basis of relations between the state and civil society, civil

⁵ National Strategy for Creating an Enabling Environment for the Development of Civil Society 2012-2016 available at:

http://www.ohchr.org/Documents/AboutUs/CivilSociety/ReportHC/states/5_Croatia_National%20Strategy-Civil%20Society-Croatia-2012-2016-eng.pdf

⁶ <https://udruga.gov.hr/national-strategy-for-the-creation-of-an-enabling-environment-for-the-civil-society-development/3032>

society development in Croatia, National Strategy areas and National Strategy implementation. The most important part is the one which defines the basic areas of the National Strategy: the institutional framework for civil society development support, civil society and participatory democracy, strengthening the role of CSOs for social and economic development and activity, and further civil society development within the international context. For each of the above mentioned areas objectives and measures are defined; as well as that, document indicates funding sources necessary for their implementation and In order to facilitate the evaluation of the progress and implementation, point out monitoring and evaluation indicators for each activity.

2.3 National Strategy for Enabling Environment for Civil Society Development 2017-2021.⁷

In the end of 2016, The Office for Cooperation with NGOs of the Republic of Croatia launched a call for public hearings announcing the beginning of the process for the creation of the National Strategy for Enabling Environment for Civil Society Development 2017-2021.⁸ Members of the working group were appointed by the government of Croatia, composed of representatives of government bodies, academics and representatives of civil society organizations. They worked in subgroups defined according to areas of existing Strategy using innovative methods of discussion to define the key achievements and challenges in implementing the National Strategy 2012 – 2016. National Strategy for 2017-2021 is currently in progress, therefore not much information is available about implementation process. The document was created in order to continue pursuing the objectives of the previous strategies and for further improvements the legal, financial and institutional system of support for civil society organizations' activities.

3. Public institutions supporting civil society development

3.1 Government Office for Cooperation with NGOs - 1998

Government Office for Cooperation with NGOs⁹ (hereinafter “Office”) was established in 1998. The mission of the Office is to encourage legal, institutional and financial framework for CSO activities and support the development of a strong and autonomous civil society as an indispensable partner of the state in drafting and implementing public policy.

Following the mission, Office carries out below listed activities: coordinate the work of state authorities on developing cooperation with CSOs; improve the strategic and normative framework for civil society development; citizen, civil society and other interested stakeholder participation in policy making

⁷ <http://act-grupa.hr/en/odrzan-1-sastanak-radne-skupine-izradu-nacrta-nacionalne-strategije-stvaranja-poticajnog-okruzenja-razvoj-civilnoga-drustva-2017-2021/>

⁸ <http://act-grupa.hr/en/odrzan-1-sastanak-radne-skupine-izradu-nacrta-nacionalne-strategije-stvaranja-poticajnog-okruzenja-razvoj-civilnoga-drustva-2017-2021/>

⁹ <https://udruge.gov.hr/en>

process; effective financing of projects and programmes of associations in the interest of the public good; EU project implementation.

The Office is managed by the Director of the Office, who is appointed by the Croatian Government on the proposal of the Prime Minister, on the basis of a public announcement.¹⁰ The Director of the Office has a deputy who reports to the director of the Office.

The budget of the Office by the year 2015 was composed of 45,49% Games of chance revenue, 24,34 % Operational Programme Human Resources Development - the European Social Fund, 17,64% EU programmes, 12,38% State budget, 0,15% European Union Programmes - Europe for Citizens.¹¹

Originally, the Office was distributing financial support to the CSOs directly. For the first 5 years of operation office directly financed 1,997 project in total.¹² After establishment of National foundation in 2003, office took responsibility for coordination of the tasks performed on national, regional and local levels. Office maintains grant coordination system as an online database and prepares yearly reports on CSO state funding.

3.2 Council for Civil Society Development – 2002

Council for the Civil Society Development (hereinafter “Council”) was formed in 2002, as an advisory body of Croatian Government. Council works on developing cooperation between the Government and civil society organisations, implementation of the National Strategy for Creating an Enabling Environment for Civil Society Development; In addition, it supports of philanthropy, partnership relations and cross sector cooperation.¹³

Tasks of the Council for Civil Society Development: participation in constant monitoring and analysis of public policies affecting civil society development; participation in expressing opinions to the Government on legislation drafts affecting the development of civil society; cooperation in planning priorities for the national programmes for public funding of programmes and projects of civil society organisations along with the analysis of yearly reports of the ministries and offices of the Government of the Republic of Croatia about projects and programmes financed; participation in programming and setting priorities for the use of pre accession programmes and funds of the EU, open for Croatia, based on an efficient system of consultation with the civil society organisations.

The Council has 31 members out of which 15 representatives of relevant state administrative bodies and the Croatian Government offices, 13 representatives of non-governmental, non-profit

¹⁰ http://narodne-novine.nn.hr/clanci/sluzbeni/2012_03_34_820.html

¹¹ https://udruge.gov.hr/UserDocsImages/dokumenti/ActivitiesReport_2015_UZUVRH_EN.pdf Government Office of Cooperation with NGOs 2015 Report

¹² A comparative analyzes of civil society foundations and funds. ICNL

¹³ <http://int.uzuvrh.hr/page.aspx?pageID=75>

organizations and 3 representatives of civil society from foundations, trade unions and employers' associations. The Council has a president, elected by the Council members representing civil society from their own ranks while the vice-president is elected by the members of the Council representing the state institutions. The president and the members of the Council are elected for a mandate of 3 years and can be re-elected.

To support the implementation of specific tasks, the Council have established working groups, which work in the following areas: legal framework for CSOs, financing of CSOs and international cooperation and EU accession. Monthly meetings are being held in order to constantly follow up progress.

The Council has a specific role of in regard to monitoring and evaluating funding from the state budget based on the Code of Good Practice. Public administration bodies and government offices are obliged to submit accurate information about their decisions on financing associations and other civil society organisations in the Republic of Croatia for the last completed fiscal year. This is done through the Office for Cooperation with NGOs. The Council can establish and appoint permanent and temporary working groups in the course of implementing its tasks. The Council reports to the Government about its work once every year.

3.3 National Foundation for Civil Society Development - 2003

Government Office for Cooperation with CSOs and Council for Civil Society Development played significant role in creating National Foundation for Civil Society Development (hereinafter "foundation"). In October 15, 2003 Croatian Parliament adopted the Law on the National Foundation for Civil Society Development. According to the Law, the Foundation is established as a public law, nonprofit entity. The adoption of the law was a crucial step towards development of civil society and financial sustainability of non-profit organizations in Croatia.

The Foundation supports innovative programs as developed by CSOs and informal, community-based initiatives. With financing from state budget funds, Croatian lottery funds, private donations, income from economic activities and certain other sources, the Foundation works to promote the sustainability of the sector, cross-sectorial cooperation, civic initiatives, philanthropy, and voluntarism. Foundation provides following types of support: Institutional support and funding for the projects under the development of civil society. Foundation is mainly oriented on providing institutional support in order to promote the sustainability of the sector, cross-sectorial cooperation through multi-year funding programs.

Through its unique model, Croatia could successfully decentralize support for civil society which was previously centralized. Four regional foundations were established as a grant making partners of the foundation. The regional foundations played significant role in effective usage of funding. However, the regional foundations were more active in the beginning and nowadays the amount of funding has

decreased. However it still successfully manages to provide the small scales grant schemes for local civic initiatives. Program offers networking, technical assistance, consulting, and training services to CSOs at the local and regional levels, with a focus on preparation them for obtaining EU funds.

These efforts are complemented by the supported Program of Regional Development and Strengthening the Capacity of CSOs since 2007. The five regional centers developed through this cross-sectorial cooperation with the aim of strengthening of the capacities of civil society organizations, and offering continuous support to the creation and further development of an efficient nongovernmental, non-profit sector and active citizenship in the Republic of Croatia.

After signing the new Partnership Agreement in 2013, the implementation of an enhanced support system was started under the name of the Program of Regional Development of Civil Society and Local Communities in the Republic of Croatia. The aim of this Program is to improve the existing infrastructure for equal regional development of civil society, development of active citizenship and social capital in local communities, as well as the preparation for the use of EU funds. The new expanded network model of the Program includes strong and efficient Regional networks formed by the Regional support centers and their related county collaborative organizations.

3.3.1 Goals and Sources of Funding

The main goals that National Foundation aims to achieve through its activities are as follows: encouraging citizens to action, involvement and participation in community development, development of cross-sectorial cooperation, increasing visibility of the work of CSOs, increasing the participation of civil society in public policy making process and etc.¹⁴ Additionally, it supports development of social entrepreneurship, philanthropy and volunteerism.

The Foundation is financed from the lottery proceeds. According to the Law on games of chance, 50% of revenues from games of chance are invested into civil society organization's programs. Its budget comprises continues flow from the percentage of lottery proceeds and the state budget. Additionally, Foundation benefits from the income from donations, economic activities and contributions from the international institutions.

3.3.2 Internal Management

Even though the foundation is a public entity, it has a high level of independence. The Foundation is governed by a Management board and Director. Management board consists of 9 members: 3 representative from the ministries (Education, finances and European affairs), 5 representative of CSOs, and 1 representative of local-self-government. The management board adopts and amends the Statute of the Foundation. Also gives approval to the decisions of other bodies and reports to the government of Croatia about the work of Foundations. The members of the management board is appointed by the

¹⁴ <http://www.efc.be/organisation/national-foundation-for-civil-society-development-croatia/>

government for 4 years with possibility to re-elect. The Director is appointed by the management board for 4 years as well. Director represents foundation, prepares financial statements and submits reports to the management board.

3.3.3 Funding procedure

Funding scheme is based on strategic approach which ensures maximization of impact. As described in a research: “priorities and strongly determined areas to be developed, foundation holds large potential to make positive influence even on the part of the sector that is not heavily subsidized through the fund.”¹⁵

Foundation provides financial support to the associations, foundations, institutions, associations of local self-government organizations, and etc.

The Foundation asks CSOs to develop organizational development plans for three years, and submit those with their applications. The plans will include the core activities of the CSO as well as ways in which the CSO would like to improve its services and various aspects of the organization itself (improve its governance structure, its accountability mechanisms, generate new sources of income, increase its visibility with the public etc.). The application is assessed by professional evaluators and the awards are given for three years, thus ensuring that a CSO can really develop a basis for its future sustainability.¹⁶

The tender happens in following procedure: submission of applications by all associations interested in receiving institutional support and the selection of the highest-ranking associations.

Two different expert bodies review the application for two different types of support:

- Projects under the institutional development funding scheme – is assessed by the Council which consists of 5 members selected by the Management board.
- Projects under the democratization and development of civil society funding scheme – is assessed by the Program Committee which is an independent working group of 5 members appointed by the Management board.

Both assessment bodies, the Program committee and the Council submit the recommendations on proposals to the Management board which makes final decisions. They may be asked by the board to reconsider their decisions.

4. Legal framework for Public Funding

The legal framework for public financing of CSOs has undergone some significant changes in the recent years which directed towards improving the transparency and efficiency of the funding procedures.

¹⁵ A comparative analyses of Civil Society foundations and funds. ICNL

¹⁶<http://www.icnl.org/research/library/files/Transnational/National%20Funds%20Paper%20Final%20English.pdf>

Associations Act came into force in 2014. The Act among other objectives aimed to prepare a basis and pre-conditions for efficient funding of programmes and projects in the public interest implemented by associations. Subsequently, Regulation on criteria standards and procedures of financing and contracting of projects of general interest implemented by associations was adopted in 2015, replacing the former Code of Good Practice, Standards and Criteria for Providing Financial Assistance to Programs and Projects of Associations¹⁷.

Based on the newly adopted Regulations, the Manual for Implementation of the Regulation on the Criteria, Standards and Procedures for Financing and Contracting Programs and Projects of Public Benefit Interest implemented by Associations was adopted. The Manual was developed as a guideline to all public institutions that grant financial and non-financial support from public sources to projects and programs of public benefit implemented by associations as well as other civil society organizations. The Manual provides basic standards for planning of financing of programs and projects of associations and for the implementation of procedures and sets preconditions for the providers of public funds, i.e. necessary financial, organizational and human resources.

VI.II. ESTONIA

1. Brief overview

According to the USAID annual CSO sustainability index, Estonia and Poland record the highest levels of sustainability of any country measured not only among Central and Eastern European countries, but in any edition of the CSO Sustainability Index worldwide. CSOs in these two countries benefit from a supportive legal environment, infrastructure, and public image, have significant organizational capacities, and are strong advocates and service providers.¹⁸

The high ranks in the Index is derived from a constructive relationships between the government and CSOs, consistent and long-term foreign funding (initially from USAID, then from Soros Foundation) and the ability of CSOs to form a strong national network for representing their interest.

Estonia is the first among Baltic countries to start working on sustainable development of civil society organizations and elaboration of instruments aimed at establishing cooperation between the Government and the third sector. Nowadays country has achieved a significant developments in all

¹⁷ A Code of Good Practices has been adopted In February 2007, by the Parliament of Croatia. The Code was a simple documents which set out basic rules and procedures for public authorities at all levels of government in distribution of public grants. It ensures whether the decisions are made by the National Foundation, the ministries or the local governments are completed according to established standards.

¹⁸ CSO sustainability Index USAID 2015

aspects of nonprofit and civil society sustainability in recent years. Estonian nonprofits successfully manage gaining support from both the public and business sectors.

Available sources of CSO income include: State funding (on both national and local level), Donations from domestic and foreign individuals and legal entities, Income from lotteries, charity events or collections, Membership fees, Funding from corporate foundations and/or endowment fund, Income from economic activities, International and EU funding mechanisms.

Estonian non-profits are active in all possible fields. Many of them are engaged in culture, social services, sport, health and environment, civic rights, education and local development; fewer in philanthropy, policy analysis and etc. Several CSOs are functioning as business and professional associations. Similarly to other countries, Estonian associations and foundations perform as service providers, advocacy groups, grant makers, societies, think tanks, institutes, clubs, networks and umbrella organizations.

2. State Policies on the development of the civil society

2.1 The Estonian Civil Society Development Concept (EKAK)

The Estonian Civil Society Development Concept – EKAK is a unique policy document relating to Government-CSO cooperation. Concept was adopted by Estonian Parliament in 2002. The initiative was launched and coordinated by Network of Estonian NGOs (hereinafter “NENO”) with a financial support from UNDP. During 2000 and 2001, NENO carried out CSO consultations in all regions of Estonia, via Estonian Nonprofit Roundtable, which has been an open forum for all nonprofits during 2000-2004.

Important to mention, the lengthy process of drafting the document enabled hundreds of CSOs from all over the country to provide their comments and participate in the development of the Concept. It is stated that around 300 CSO representatives, experts and other stakeholders were involved in the development process. Even CSOs from the remote villages were able to share their proposals to the draft. Thanks to the highly participatory approach, nowadays, politicians, ministries, and local governments refer to EKAK as the guidelines for civil society, and the government and the private sector recognize a greater potential role for the nonprofit sector than ever before.

EKAK recognizes the different roles of the public sector and the nonprofit sector which complement each other, and the co-operation principles and values in developing and implementing public policies and building up the civil society. The main goal and purpose for the adoption of the document was to

“phrase the basis of partnership between nonprofit associations and the public sector, and a framework to promote civic initiative and strengthen democracy in Estonia.”¹⁹

In order to promote cooperation between CSOs and public sector and involvement democracy EKAK sets specific aims which among others include: promoting civic initiative and involvement democracy; supporting the idea of voluntary action being one of the essential features in acting as a citizen; establishing a favorable environment for the functioning and strengthening of citizens' associations as an inevitable factor for the development of democracy; involving citizens and their associations more widely in the process of developing, implementing and analyzing public policies and legal acts, to develop necessary information channels and mechanisms; creating an environment supporting charity and philanthropy, and involve business sector.

Concept envisages ways of achieving goals by determining transparent and easily accessible communication channels, co-operate in establishing, implementing and assessing the policies of different areas through their authorized members or representatives according to their areas of activity and competence; use the means at their disposal for promoting voluntary work and involving citizens in the solution of global problems by voluntary action; developing partnerships bearing in mind the principles of openness, trust, tolerance and respect for the specific nature of the other party.²⁰

3. Public Institutions supporting Civil Society

In Estonia the Parliament plays a key role in the implementation and monitoring process, as the parliament adopted policy documents. The Parliament will usually have every two year hearings at which progress reports are presented; the main responsibility for implementation and monitoring lies at the governmental level.

The EKAK joint committee was established in 2003 by the Ministry of the Interior. Among other priorities, committee was assigned to develop Activity Plan for implementing EKAK for 2004-2006. Nowadays, committee mainly works out the action plans for monitoring and evaluation of the concept. It reports its work to the government and currently consists of 21 members from 20 organizations.

The coordination and implementation of the civil society development plan is the responsibility of the Ministry of the Interior. The Ministry of Interior is responsible to coordinate activities, initiate matters, amendment of the development plans and asses the process of implementation. During the preparation phase of the state budget. Currently, Ministry of Interior has 3 strategic partners: NENO - for working

¹⁹ The Estonian Civil Society Development Concept, available at:
https://www.siseministeerium.ee/sites/default/files/dokumendid/Kodanikuyhiskond/estonian_civil_society_development_concept.pdf

²⁰ Estonian Civil Society Development Concept

on activities related to the civil society development, Estonian Village Movement - working on volunteerism and Estonian Social Enterprises Network - for working on social entrepreneurship.²¹

Network of Estonian non-profit organizations (hereinafter “NENO”) plays key role in development of the third sector. It was initiator of launching The Estonian Civil Society Development Concept (hereinafter “EKAK”). NENO is the one and largest Estonian organization uniting public benefit nonprofit organizations. NENO’s mission is to give voice and advocate on behalf of Estonian public benefit organizations. Its work is dedicated to the development and promotion of civic action and civil society in Estonia. In addition, NENO is officially delegated to serve implementing and monitoring of the policy process.

4. National Foundation of Civil Society (NFCS)

Estonian Parliament undertook an obligation to institutionalize the foundation. National Foundation of Civil Society (Hereinafter “NFCS”) was established by the 1st January 2008 by the Estonian government (Minister of interior as a founder) under the non-profit legal entity under the laws of “foundation act” and “state assets act”. The executor of the founder’s rights is the Ministry of interior which is also responsible improving and amending the laws, however it does not have right to interfere in everyday activity of the foundation.

4.1. Goals and Sources of income

NFCS is a primary fund with goal of helping to build the capacity of Estonian non-profit organizations to develop civil society and shape environment that ensures civic engagement. NFCS is affecting the operational capacity of CSOs acting in the public interests of Estonia, regardless of their field of activity.²² Through calls for proposals, applicants can apply for funding based on their development needs identified as a result of self-analysis, or for the development of a pre-determined specific capacity. Fund supports annually over 800 projects and initiatives, ranging from local to international cooperation. With the investment of 2.6 million euros in 2014, more than 100 organizations created new jobs and helped to solve social problems through social entrepreneurship, services offered in public and private sector partnership, volunteering and so forth. In cooperation with county governments and development centers, NSCS offers expertise and consultations on a variety of topics from how to start an NGO to advice on applying for funding.

NSFC actions are based on the following principles and values: Honesty and transparency, competence and professionalism, acting in public interest, involvement and cooperation, effective actions with are achieved by information exchange and taking other parties special interest into account, innovations, ensuring pro activeness and follow-up new development trends and political independence and avoiding interest conflicts.

²¹ http://www.tacso.org/doc/Estonia%20Work%20Visit%20Report_TUSEV_TACSO_eng.pdf

²² <http://www.kysk.ee/nfcs>

The huge part of annual budget consists of funding from government which is complemented by funding from Switzerland Government Cooperation Fund. The budget is mainly spent for granting for CSOs and a very limited amount for administration.

4.2 Internal Management

The NFCS is managed by a Supervisory Board and Management board (executive director). Supervisory board plans the activities, is responsible for the strategy and budget of the foundation. NFCS staff consists of 10 members which are appointed from 3 years: 1 member appointed by the Minister for Regional Affairs, 1 member appointed by Ministry of Finances, 1 member of Minister for regional affairs, 2 members appointed by the Parliament, 5 members appointed by the Government. Management board consists of one member – executive director of the NFCS, which represents the foundation.

Foundation also has an expert group which evaluates the makes recommendations on which project to fund. It is a permanent body consisted of 16 members arranged by the supervisory board. Important to mention, that foundations' supervisory board also occasionally initiates project management trainings, advocacy trainings, researches and etc. Important to point out, that due to investment in organizational capacities, their CSOs dependence on the specific projects has decreased whilst the number of economic activities has significantly increased through recent years.

Also, there is an expert group consisting of 10 people who are responsible for evaluation of the grant calls and applications.

4.3 Funding procedure

The foundation has a CSO support program consisting of different grant calls. There are a lot of funding possibilities for everyday activities of CSOs from other ministries or EU Structural Funds and the CSOs need to improve their capacity to absorb these activity funds. The Foundation tries to enhance CSOs capacity to create funding for their everyday activities. The Foundation launches at least two open calls for capacity development annually. NFCS also supports CSO traditional events and festivals.

NFCS provides a project database on their website so the public can access a short summary of projects along with the financial support allocated. The steps for the funding procedure is following: 1) Announcement of the open call by the supervisory board of NFCS; 2) Submission of the applications - The deadline shall not be shorter than 45 days; 3) Evaluation - Process should be completed within 60 days after receiving applications. Evaluation is carried out in two stages: technical and content evaluation. In case of technical evaluation, Bureau makes sure the document does not have shortcoming. In other case, applicant may be asked to correct the shortcomings. After approval from the Bureau, content evaluation is carried out by the expert group; 4) Decision-making - The

Supervisory board and executive director decide which project to fund based on the recommendation of the expert group; 5) Announcement - The decision is sent to the applicant by e-mail.

5. Legal framework for Public Funding

There are several regulations regarding public funding processes in Estonia. Some of the regulations are adopted based on a provision of a law covering a specific sector or area, while others have been adopted on the initiative of the competent ministry, which saw the need to specify the rules for the preparation of calls, project appraisal and monitoring. The Good Engagement Practices²³ was adopted by Estonian government in 2005, based on EKAK. This was not a binding document, however state authorities were recommended to follow up. The objective of The Good Engagement Practices was to harmonize the principles, from which the public sector institutions and non-profit organizations proceeded in involving the public and interest groups in decision-making.

In 2012, special Guidelines for funding civil society organizations from public budgets were adopted. The Guidelines are a non-binding document introduced by the Government for general use. Before the creation of Guidelines, in 2010 the National Audit Office of Estonia analyzed the situation regarding CSO funding on local level. In most of the municipalities were no rules neither obligations in order to ensure transparent and accountable funding. In order to harmonize the principles of public funding, Guidelines for funding the CSOs was created in 2011 by the working group which comprised of representatives from ministries, public foundations, umbrella organizations and local governments. Guidelines for funding the CSOs are meant for all public or private legal persons who cooperate with CSOs and provide them grant support. Such donors include ministries and other public authorities, local governments, as well as that organizations that operate under the state's supervision and those that were established in order to finance CSOs (National Foundation of Civil society). The guidelines provide a good framework for establishment mutually beneficial relationship between public sector and third sector. Both parties are able to refer to the guidelines for the very beginning of granting process.

In addition to this, most ministries have also developed in-house rules or guidelines for managing open calls and partnerships. While non-binding, the Guidelines are usually followed and are considered to be basic good practice. Since their adoption, many ministries have reformed their procedures with respect to these guidelines.

6. Other financial state resources for CSOs

Estonia has a diverse system of funding of CSOs, which uses various funding resources and distributes funds through a number of different channels. Public resources for funding of CSOs include funds from the central state budget and lottery funds. According to legislation all resources for public funding of

²³ Document available at: <https://riigikantselei.ee/en/supporting-government/engagement-practices>

CSOs on the national level go through the state budget, including proceeds from the gambling tax. However, it is important to note that the Gambling Tax Act predetermines the use of the tax to the benefit of CSOs. It does so by either determining their allocation to CSOs directly or through specific independent funders for specific purposes, which commonly redistribute funds to CSOs, making proceeds from notably more independent and direct resource.

Nowadays, following state resources are available for the CSOs:

1. Regional development programs
2. Gambling Tab Board - the Ministry of Education and Research, the Ministry of Culture and the Ministry of Social Affairs allocated grants to support small projects.
3. The Ministry of Education and Research supported the activities of youth associations and allocated annual grants based on the Youth Work Act.
4. Cultural Endowment of Estonia and its structures in different counties.
5. Environmental Investment Centre.
6. Integration Foundation.
7. Rural Development Foundation.
8. Estonian National Culture Foundation.
9. County Development Centers- in order to consult CSOs active in rural areas, organize trainings and distribute information, CSO consultants are employed by these Centers.
10. County developments funds were also available for CSOs.
11. Local governments included the support of CSOs within their budget and it increased year by year.
12. European Union Aid Programs.

All of these resources exist and creating of the fund did not hinder their operation.²⁴

VI.III. HUNGARY

1. Brief overview

In the CEE region, Hungary tend to have the most extensive system of providing government support to CSOs. Hungary provides state funding through a central and local channels. It distributes money to CSOs through 1% percent mechanism. The 1% Law permits every Hungarian taxpayer to designate 1% of his tax liability to a CSO.²⁵ In 2003, the government of Hungary, enacted the Law on National Civil Fund which ensured establishment of sufficient funding as well as encouraged citizens for private

²⁴ A Comparative Analysis of Civil Society Foundations and Funds - European Center for Not-for-Profit Law

²⁵ "one percent law", adopted by the Hungarian Parliament in 1996 introduced a special mechanism in Hungary by which every taxpayer may designate one percent of his or her paid personal income tax to a qualified beneficiary of his choice

donations. Besides receiving grants from initial fund, Hungarian CSOs also enjoyed obtaining financial support from central channels such as individual ministry budgets, grant programs run by ministries, subsidies allocated to social organizations in the state budget or public foundations, support from local government and other budgetary institutions.

Since 2010, Hungary has carried out numerous profound reforms regarding budget planning, taxation, financial regulations, as well as in public administration. In 5th of December, 2011 the new Law on freedom of association, public benefit status and the operation and support of the civil society organizations (hereinafter “CSO law”) was adopted by the Parliament. According to CSO Law, National Civil Fund was replaced with the new National Cooperation Fund. The new law changed the decision making process for distributing funds. As well as that, internal management structure faced significant changes. Previously, majority of evaluation committees were CSO representatives. Due to new regulations, evaluation committees are now dominated by government-appointed representatives. In addition, the criticized rules that place excessive administrative demands on CSOs receiving grants remain in place.

Currently, almost all funds for CSOs are channeled through the central budget, and the only resource independent from the state budget is the percentage mechanism, which allows taxpayers to designate 1% of their income tax to qualified CSOs. In the past, however, Hungary had already had a successful system of several diverse independent resources of funding. CSOs in Hungary used to receive support from so-called public funds, which were special budgetary appropriations operating under the authority of the competent ministers and were financed by separate budgetary funds and external non budgetary sources, such as taxes, contributions and fines. These funds came from resources, independent of the ministry budget and were also managed by a decision-making body, which was relatively independent from the competent ministry.

Public funding of classical CSOs has not decreased nominally, on the contrary, it has continued to slightly rise from 2012 to 2014. However, the structure of the income of the Hungarian CSO sector has changed significantly in the recent years. Public funds used to represent the biggest source of income for CSOs, but are now in second place. In 2014, for example, 31% of CSO income was public funding, 35% was private funding, 23% was own income related to the mission while business income represented 9%. The majority of public funding of CSOs in Hungary comes from the central (state) level, approximately 80-90 %, while 10-20 % of funds come from the local (municipality) level (local councils, mayors, local tax designation).

Important to mention that, National Cooperation Fund had a substantial increase in budget in 2015 to compare to the previous years. However, according to the Central Statistical Office, the share of state and municipal funding in CSOs’ income continues to decrease, falling from 35 percent in 2012 to 29 percent in 2014.²⁶

²⁶ CSO Sustainability Index USAID

2. State Policies on the development of the civil society

In October 22, 2002, Government of Hungary adopted a Strategy Paper on Civil Society which was a leading document of CSO development. Hungary became one of the first countries in the region to adopt a strategy document, which outlined the core principles of good partnership between the state and the CSOs. The key objective of the Strategy was setting up the National Civil Fund. The Strategy paper states that “The state views an autonomous civil society as its partner” and "ensures the non-profit sector's independence, making funding sources and support grants for non-profit organizations transparent, and the professional delivery of services by NGOs are all important European Union requirements. The government wishes to validate these norms through legislation and collaboration with the non-profit sector".²⁷ With this statements, government of Hungary acknowledged the role of the CSOs and showed willingness to cooperate with them in delivering services. Additionally, the strategy took into account small organizations, which lacked the capacity to obtain financial support.

The concrete measures that were included in the strategy are following: establishing the National Civil Fund as a mechanism to support institutional costs of CSOs and smaller CSOs in particular, the improvement of existing legislation, adoption of the law on volunteerism, reviewing the public benefit status and the percentage law, increasing in the governmental resources provided in support of CSOs. Among other things, the strategy included a financial provision stating that governmental funds in the non-profit sector must represent a minimum 40% share of its total income. Indeed, after that the share of public funding of the non-profit sector was consistently over 40% for a full decade after that (2003-2012).

After successful achievement of above mentioned tasks, in 2006 the Government launched a process of developing a new strategy - Principles of Development of Government and Civil Society Relations. The document reinforced the importance of CSOs and added value they can bring to the table in support of implementing governmental policies.

Furthermore, in 2010 government adopted a Resolution on Provisions Serving the Development of Government-CSO Relations aiming further enhancement of cooperation. The Resolution identifies the governing principles and establishes procedures for cooperation with the third sector on the government level. The Resolution outlines five major goals such as creating supportive environment for governmental funding, establishment and operation of a unified ministerial organization to manage the grants, assuring the transparency of the funding procedure, reducing the administrative burdens, measuring the usefulness of the distributed grants and enhancing the capacity of the organizations to apply for grants.

²⁷ Strategy Paper of the Government of Hungary on Civil Society October 22, 2002

3. Public Institutions supporting civil society development

The key role in implementation lies at the ministry level where also annual reports are prepared. The Ministry of Finance provides important budget information for the monitoring of implementation. Furthermore, the national audit office plays an important role as it audits the use of governmental resources that go towards implementation of the civil society policy.

4. National Fund in Hungary

4.1 National Civil Fund (2003-2011)

In 2003, the Government of Hungary, in accordance with the strategy paper enacted the Law on National Civil Fund. Preparation of the draft law elaborated with a highly participatory approach. In the process government consulted CSO leaders and experts and arranged country wide consultations. Concerning Law, 60% of the fund had to be spend on institutional support. Additionally, the council of the fund (Governing body of the fund) was given a privilege to determine even higher percentage in case of need. Besides covering the costs of the Fund's administration, the remaining funds was devoted in support of various programs related to the development of the third sector, including e.g. sector-wide events, festivals, international representation, research, education or publications.²⁸

The Fund was a considered as an exceptional for several reasons. Firstly, according to the Law, at least 60% of the funding for this institution had to be spent for institutional support and the Fund's Council was entitled to determine even higher proportion. Second, Fund decisions were made through bodies primarily composed of CSO representatives. Third, the state aimed to allocate to the Fund the equivalent amount of funding that was transferred to CSOs through the 1% tax designation system in the previous year.

The National Civil Fund was initially offering coverage of basic operational costs, research and other types of activities, which were deemed a priority for funding of CSOs by its Council. It offered operational grants, which were intended to complement the percentage mechanism.

4.2 Goals and Sources of income

The main goal of National Civil Fund was to promote the partnership between government and civil society for more effective fulfillment of state and local tasks.

In order to finance the Fund, the Hungarian government provided sum from the central budget annually, which was equal to the transferred sum from taxpayer designations under the 1% system. When law came into force, it ensured that the amount of support for the fund from central budget shall not be less than 0.5% of the personal income tax paid by the taxpaying individuals in the previous budgetary year. However, by the year 2010, the law obliged the state to allocate to the fund equal

²⁸ The Act on National Civil Fund Program, June 23, 2003

amount to the de facto sum transferred from CSOs through 1% designation system in the 3d year before the subject year.²⁹

4.3 Internal Management

The Fund was administered by the Council and a number of Colleges. The highest governing body of the Fund was a Council, consisting of 17 members, the majority of which were representatives of non-profit organizations. The Council was the strategic decision-maker, which set the priorities, allocates its resources for the various purposes and develops rules regarding support. It consists of 17 members (2 representatives of the Parliamentary Committee on Civil Society; 3 representatives of the Ministry; and 12 representatives of civil society: 5 elected from national organizations working in various fields, 7 elected on a regional basis). The members of the Council were appointed for 3 years. The Council set the rules of its operation in the “Rules of procedure.” The Rules of Procedure were amended 3 times during the operation of the Fund.

The Fund comprised eleven decentralized Colleges. The Colleges were decision-making bodies organized in all regions. They decided on the main directions and methods to utilize the money allocated to them and decided on the specific distribution of grants. Each College worked out its own funding priorities and guidelines, calls for proposals, and evaluation project proposals.

4.4. Funding scheme

The procedure of issuing grant was following: Receiving Applications. Those applications which do not comply with the requirements receive are excluded or in case of deficiency the applicant was given opportunity to make up the deficiencies; Evaluation After the submission Managing Authorities gave valid applications to the Colleges. The Colleges are authorized to assess the applications and make a decision; Decision-making. The decision of the Colleges are countersigned and approved by the Managing Authorities.

The submission of the document, evaluation process and contracting and the transfer of the support should take place within 180 days. On the basis of the above the whole procedure may even last half a year.

5. New Fund - National Cooperation Fund

In 2012, the National Civil Fund was replaced by the National Cooperation Fund. The latter, however, has a completely new legal basis and a new institutional structure. While the primary goal – to support the operational costs and the programs of CSOs – remains the same, the Fund’s resources are no longer tied to the amount of 1% assignments and are instead defined in the annual state budget. This means that funds have been significantly cut in comparison to the National Civil Fund. During 2012-14 the allocation was around 3.1-3.3 billion HUF (as compared to the Civil Funds annual amount of around 7

²⁹ CSO sustainability index 2015

billion), but was raised again slightly to 5.3 billion. It is also important to note that the amount of organisations funded has fallen by 50% in comparison to the National Civil Fund.

Another important difference is that while in case of the Civil Fund the full allocation was distributed via open grants, now 10 % is distributed at the minister's discretion.

5.1 Goals and Sources of income

The new Law on freedom of association, public benefit status and the operation and support of the civil society organizations (hereinafter CSO law) was adopted by the Parliament on the 5th of December 2011. The law replaced previous fund with new National Cooperation Fund. The aim of the Government was to set up a less administrative and more effective and transparent civil support system. The previous Fund was continuously criticized for conflict of interest issues and the high operational expenses. Furthermore, the Government intended to rationalize the distribution of funds. Government considered that previous financial system was not efficient and organizations were fully depended on it, meanwhile the support they received was not enough for institutional development.

According to the Implementing Decree, nowadays the minimum amount of the institutional grant is 1150 USD while there was no such limit previously. However, the institutional support remained dominant and the same amount of 60% of the fund are dedicated to that type of support.

In 2010 the duties concerning the operation of the Hungarian Civil Fund fall under the responsibility of the Ministry of Public administration of Justice which had a juridical competence over the fund. Moreover, it hold a competence of deciding on distribution of over 10% of the resources based on individual requests.

The Law introduced two new income sources for the Fund: 1. By amending the Law on 1%, taxpayers are able to designate their 1% to the National Cooperation Fund 2. By amending the Civil Code, courts shall appropriate the assets of the terminated foundations, associations and non-profit companies and send them to the National Cooperation Fund unless the founding statute regulates it otherwise. The Fund receives its main source of income from the state budget. However, the budget line reduced almost by half of the previous amount provided for the old fund and 3,380 million HUF.

5.2 Internal Management

The NCF is currently supervised by the Ministry of Social Affairs and Labor. Among other privileges, it commissioned the members of council, decided on conflict of interests and reported to the activity of the Fund to the Parliament.

The main pillars of the internal governing structure remained the same. However, the competence of the bodies and the quantity of the CSO representation have significantly changed. Since 2012 NFC Board is appointed by government, whereas before the decision was made by CSO majority.

The number of the civil delegates was significantly reduced both in the Council and the Colleges and the Minister is entitled to appoint the chairman of the Council and the Colleges. As an example for the change in competence, the Council was given a veto right in the grant making procedure meaning that in case the chairman of the Council does not agree with the positive decision of the College, the Council can change the decision.

5.3 Grant-making procedure

The call for proposals are announced by the Colleges. The deadline for submitting the applications to the Administration Agency shall not be less than 30 days. The Administration Agency reviews the applications within 15 days of the submission to check whether they meet the requirement. Afterwards, the Administration Agency sends the data list of the valid applications to the decision-makers (College or the Minister) within 60 days of the submission and inform them about the formal deficiency of the rejected applications. The College or the Minister decides within 15 days. The Administration Agency asks for the approval of the Head of the Council. In case the Head of the Council gives its approval the Administration Agency informs the applicant organizations within 15 days of the decision. In case the Head of the Council does not agree with the positive decision it may cite the application to the Council for final decision.

6. Legal framework for Public Funding

The rules of announcement of a public call, selection criteria and selection procedure vary significantly from one ministry to another. No general legal document regulates the procedures in detail, which is why it is difficult to describe common rules and standards. Often, procedural rules also differ from one year to another, demanding additional efforts in adjusting from CSOs. One of the standards, which is followed in nearly all public calls is that the selection criteria is always published in the public call.

7. Other financial state resources for CSOs

Nowadays, besides the income from the percentage mechanism, CSOs also obtain funding from centralized channels such as individual ministry budgets, grant programs run by ministries, subsidies allocated to social organizations in the state budget, or public foundations, (quasi-governmental grant-making foundations established by Parliament, the national government, or local governments).³⁰

Direct budgetary support is allocated to CSOs through various channels, e.g. by the Government, a number of ministries or autonomous funds (such as the National Cooperation Fund or the Cultural fund). Nowadays, CSOs mostly receive public funding from ministry budgets. Public funds are special budgetary appropriations and basic programs, which operate under the authority of the competent ministers. Some of them, most notably the National Cultural Fund, have a long-standing tradition and

³⁰ Hadzi-Miceva K., and Suplisson, F., „Overview of State Funding Schemes for Civil Society Organizations, ECNL and COW I/A (2007)

have managed to maintain a certain degree of autonomy. The National Cultural Fund regularly allocates fund to CSOs and has a decision-making body independent from the supervising ministry. Funds from public funds are allocated in the form of grants or service contracts. Procedures for allocating funds are somewhat inconsistent. They can differ significantly from one fund to another and even from one year to another.³¹

VI.IV. POLAND

1. Brief overview

Based on a USAID annual CSO sustainability index, Estonia and Poland record the highest levels of sustainability worldwide.³² Several developments positively impacted the CSO sector in recent years. As CSO-government partnership grew, improved the infrastructure supporting the sector, formal dialogue between CSOs and the public administration at the local and central levels grew significantly and number of CSOs tried to influence public policy increased steadily. As well as that, business sector became more interested in cooperation with CSOs. Local governments continue to be the main source of funding for CSOs, and dependence on this funding continues to grow.

The Law on Public Benefit Activity and Volunteerism has been a major factor which determined the attitude and operations of the state towards CSOs in the past years. The law provided the basis for the adoption of the National Strategy for Civil Society Development and ensured establishment of state funding mechanism. According to law, Civic Initiatives Fund (FIO) was adopted as a governmental long-term program. Civic Initiatives Fund (FIO) size correlates with the “1% institution” provided that the amount cannot be lower than the amount paid within the framework of “1%” mechanism to public benefit organizations by taxpayers in the preceding year. 1% mechanism is an option for taxpayers to designate 1 percent of their tax obligations to an organization with public benefit status, continues to increase. For year 2015, around 12.5 million individuals designated 557 million zloty (approximately \$141 million), around 50 million zloty more than in 2014, to the 7,888 organizations that are eligible for this support.

2. State Policies on the development of the civil society

2.1 Law on Public Benefit Activity and Volunteerism

Poland is unique among CEE countries in a way that cooperation between non-profit sector and government is regulated with a legal Act (in a contrast with other countries that have adopted strategy, memorandum or other related policy documents). In April 2003, the Polish Parliament adopted the

³¹ Comparative analysis of systems of public funding of CSOs (2016) Goran Forbici, Monika Kostanjevec

³² CSO sustainability Index 2015

Law on Public Benefit Activity and Volunteerism.³³ Even though the Law on Public Benefit Activity and Volunteerism is not a policy document but an Act, it plays a major role for civil society development in Poland and determines the attitude and operations of the state towards CSOs.

The main objectives adopting the law was to arrange relations between the government and CSO sector and create mechanisms for CSO support from public sources. With that purpose, the law:

- establishes a basis for cooperation and partnership between the CSOs and Government in Poland;
- Offers list of the fields are considered by the state as being of special importance for public benefit;
- Creates a new category of Public Benefit Organization which in case of adopting is granted with additional benefits and privileges including the possibility of obtaining 1% of personal income tax, acquiring real estate on a preferential basis and etc.

In accordance with law on public benefit activity, non-profit organizations may obtain “Public Benefit” status. By September 2016, approximately 8,700 organizations have obtained PBO status. The status of Public Benefit Organization is granted with special privileges, but simultaneously is subjected to detailed public control which guarantees transparency of operations since the moment of registration. Apart from various tax exemptions, public benefit organizations have been given the possibility to collect 1% of individual income tax. Every citizen is given the right to donate 1% of his or her income tax to a selected Public benefit organization. That provides organizations with additional source of financing. The law sets standards for CSOs to comply with in case they want to obtain Public Benefic status. Among other requirements, in order to obtain the status, first of all non-profit organization must be active in one of the fields given in Law: social care, charitable activities, the development of national, civil, and cultural identity, protection and promotion of health, activities that support economic development, including the development of entrepreneurship, science and humanities, women’s rights, human rights, education, tourism, culture, arts, sports; environment protection, promotion and organization of volunteerism activities, for the sake of the European Integration and development of relations and co-operation among nations.³⁴

2.3 Strategy for the Development of Civil Society

After joining the EU, Polish CSOs and the Public Benefit Council lobbied successfully to integrate the idea of supporting civil society into the National Development Strategy of Poland, the overarching policy which was adopted in 2005. The Strategy set goals and objectives for strengthening civic engagement and CSOs in Poland between 2007-2013. Main benefit was that it provided the basis for the establishment of the Civic Initiatives Fund.

³³ <http://www.legislationline.org/documents/action/popup/id/4594>

³⁴ LAW ON PUBLIC BENEFIT ACTIVITY AND VOLUNTEERISM

In 2014 the realization of the Program of Civic Initiatives Fund for 2014-2020 was planned. The main goal of the Program is to increase the involvement of citizens and NGOs in the public life by increasing the number of the bottom-up initiatives, the number of citizens involved in the activities of the NGOs and in local initiatives, increase of participation of citizens in public affairs and increase of potential of the third sector.³⁵

3. Public institutions supporting civil society development

Council on Public Benefit Activities was created by the Law on Public Benefit Activities and Volunteerism signed by the President in 2003 after several months of parliamentary discussion and almost seven years of work since the first draft was prepared.³⁶

Council's functions are limited to an advisory and opinion-forming role, particularly regarding the implementation of the Public Benefit Act.

The Council's tasks include: issuing opinions on the implementation of the Public Benefit Law and on governmental draft laws concerning public benefit and volunteer work, as well as on the process of commissioning public tasks to be performed by CSOs; Assisting in case of any conflict between the public administration and public benefit organizations; Participating in audit procedures concerning public benefit organizations; Creating mechanisms for informing about standards of carrying out public benefit work.

The Council's works are directed by two co-presidents chosen from among the Council members. One is representative of governmental administration authorities and of units supervised by or reporting to such authorities, and territory self-government units; and second is a representative of non-governmental organizations, non-governmental organizations' unions and associations chosen by the members of the Council who are representatives of those organizations, associations, agreements and entities.

In accordance with Article 36 of the Act on Public Benefit Activities and Voluntary Work, the Council is composed of 20 members: 5 representatives of governmental administration authorities and of units supervised by or reporting to such authorities, 5 representatives of local self-government authorities, 10 representatives of non-governmental organizations, non-governmental organizations' unions and associations, and entities referred to in Article 3(3) of the Act on public benefit activities and voluntary work.

CSO members of the Council are appointed by the Minister of Labor and Social Policy based on nominations submitted by the CSOs. Additionally, Council advises the Minister of Economy, Labor

³⁵ <http://www.pozYTEK.gov.pl/FIO,536.html>

³⁶ <http://www.ceetrust.org/article/153/>

and Social Care, who is responsible for implementing and monitoring the Law on Public Benefit activities. Council meetings are held as needed, not less often than once every two months.

As mentioned above, the Council is a main body entrusted with monitoring the implementation of the Act on Public Benefit Activities and Volunteering. The Council monitors the implementation of the Public Benefit Act by, for example, commenting on the issues that emerge in relation to its application, on the legislative projects relevant to public benefit activities and volunteerism, and collecting and analyzing information about inspections of public benefit organizations.

4. Civic Initiatives Fund Program

Civic Initiatives Fund (FIO) is a governmental long-term program was adopted in August 11, 2004. The particular goals include increasing activity and awareness of citizens and local communities, development of the potential of the third sector, increase of commitment of civil society organizations to social services in the field of social integration and activity.

In order to achieve above mentioned goals, Civic Initiative Fund's tasks have been defined as follows:

- Providing financial support to activities initiated by CSOs in the area of public tasks, as defined in the article 4 of the public benefit and volunteer work law;
- Financing CSO operations aiming to obtain EU funds;
- Supporting comprehensive civic initiatives demanding integrated forms of NGO;
- supporting cooperation between the CSO and public sector;
- Promoting subsidiarity rule implementation; standards of cooperation and shaping the democratic social order.

Fund supports individual activities carried out by CSOs. Additionally, it leaves significant room for CSOs to develop their own proposals Activities include a wide range of following fields: preserving national traditions and Polish values, promoting and protecting women's rights, education, science, ecology, animal protection, promotion and organization of volunteerism activities for the sake of the European Integration and other (Article 4)³⁷. By defining wide range of fields of activities, Polish government ensures broad participation of CSOs in resolving some of the most challenging issues of the country.

³⁷ <http://www.cof.org/content/Poland>

VII. CONCLUSION

Based on the research of international best practices from four European countries, following findings are of key importance in developing an institutional framework for CSO funding:

1. State funding mechanisms have been established. By institutionalization of state funding governments ensured participation of the CSOs in decision making process and established strong cooperation to the partners who are closest to the need of the population and are capable of delivering efficient and cost effective service to the society.
2. Majority of the countries have created government-CSO or parliament-CSO joint committees in order to help coordination between CSOs and state authorities. Based on findings, in countries where these committees are working to implement and monitor strategies significant results are achieved.
3. Funds were part of a more general strategy for improving civil society and its relationship with the government and citizens.
4. Most countries have adopted additional regulations in order to support transparency and accountability in procedural part of providing government funding.
5. CSOs in selected countries enjoy obtaining financial support from various state institutions such as ministries, local governments, endowment funds, foundations, agencies, centers and etc. Establishment of primary fund did not hinder existence of other state sources.
6. Municipalities are source of granting for CSOs.