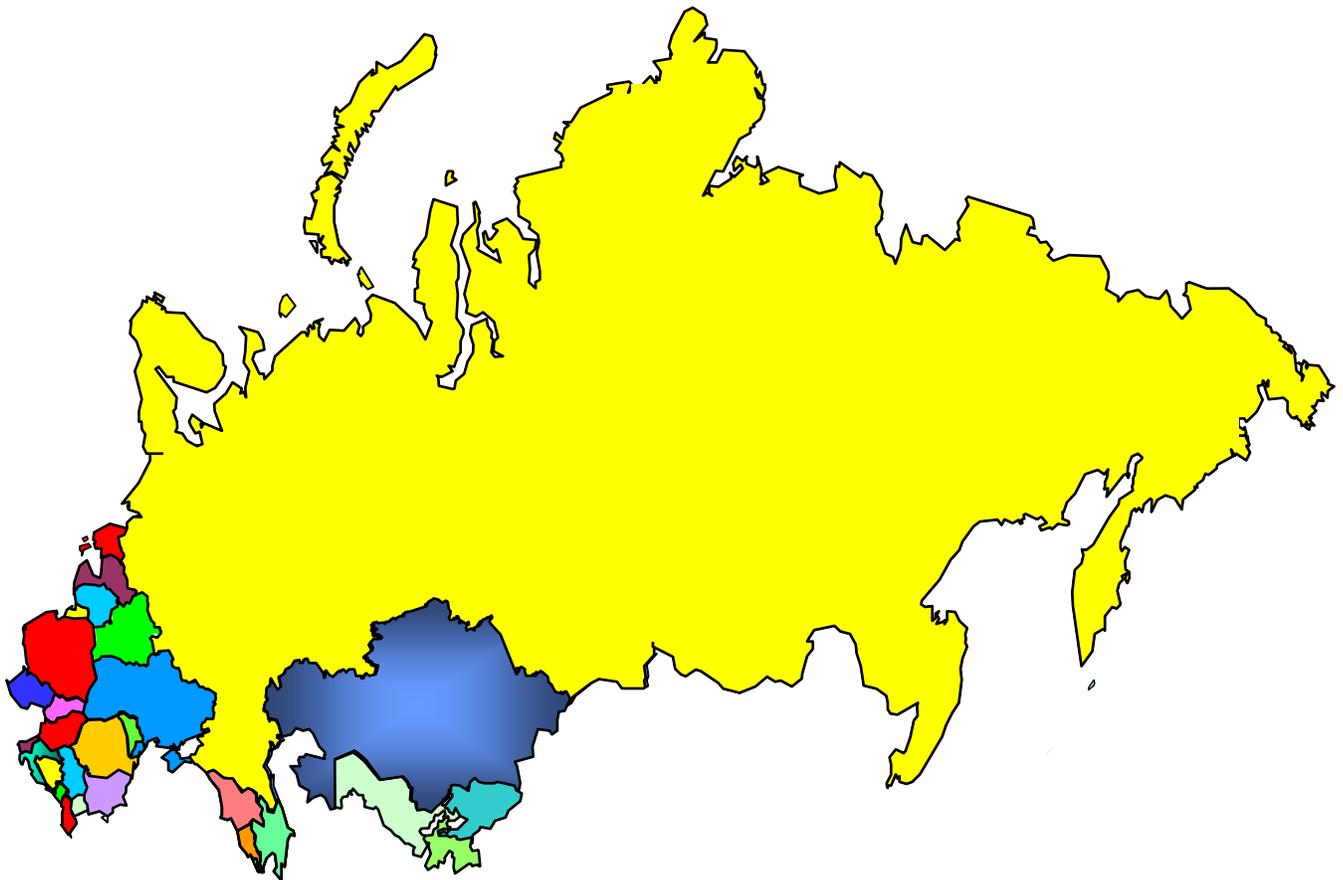


The 2004 NGO Sustainability Index

for Central and Eastern Europe and Eurasia



Eighth Edition - May 2005



Developed by:
United States Agency for International Development
Bureau for Europe and Eurasia
Office of Democracy, Governance and Social Transition

The 2004 NGO Sustainability Index for Central and Eastern Europe and Eurasia



USAID
FROM THE AMERICAN PEOPLE

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INTRODUCTION

The 2004 NGO Sustainability Index for Central and Eastern Europe and Eurasia is the 8th Edition of the publication. This year the Index reports on 26 countries, plus Serbia, Montenegro, and Kosovo (each of which is reported on separately.)

In order to provide readers with analysis of trends suggested by the scoring and country reports, the Index features an Executive Summary discussing regional highlights and examining methodological questions that arose during this year's scoring process. This year's Index also includes a new feature. For the first time, the Index provides articles exploring key issues relating to NGO sustainability in the region. This year, Robert G. Herman considers the current environment for building NGO sustainability across the CEE/Eurasia regions, continuing impediments to further sectoral development, and some of the innovative ideas and initiatives that could be employed to meet the challenges posed in "*NGO Sustainability in a Time of Hope and Apprehension.*" David Moore highlights laws and other mechanisms that have been used to promote NGO financial sustainability. And Stephen Larrabee summarizes significant writings relating to civil society generally and in the region, identifying the year's "must read" books and articles for practitioners. It is anticipated that future indices will include similar articles, with topics reflecting the most significant issues arising that year.

The index includes another new feature – a questionnaire (appearing at the end of the Index) seeking information about how readers are using the Index. This information will be used to improve future editions of the Index. We ask all readers to take a few minutes to fill out the questionnaire (which can be completed on line as well).

Other features will be familiar to readers of prior editions of the Index. The 2004 Index includes at the outset of each report a statistical summary showing this year's scores for each dimension, plus the overall score, as well as identification of the capital, population, and a summary of basic economic indicators. Reports include comparative information regarding prior years' dimension scores, this year encapsulated in easy-to-read charts. The Index further includes statistical appendices summarizing this year's dimensions scores as well as scores for 1998-2004.

A publication of this type would not be possible without the contributions of many. Specific acknowledgements of the USAID field personnel and NGO implementers responsible for the Index appear on the following page. USAID would also like to thank the local NGOs who helped to organize expert group discussions and draft reports in many of the countries. We would further like to express our deepest gratitude to all of the local NGO experts, USAID partners, and international donors who participated in the expert group discussions in each country. Their knowledge, perceptions, ideas, observations, and contributions are the foundation upon which this Index is based.

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EXECUTIVE SUMMARY

2004 marked a dramatic turning point for civil society in several countries that are the subject of the Index. Among the year's most significant developments were the increased public regard for the NGO sector following its pivotal role in the 2003 Rose Revolution in Georgia, and the leadership shown by the sector in Ukraine in the events preceding the 2004 Orange Revolution. Both events are striking examples of the power of civil society to effect social change, and hold promise for significant advances in NGO sustainability in those countries.

An interesting question will be how the new governments in Georgia and Ukraine will respond to civil society in the wake of the reforms. Early signs in Georgia suggest potential for greater influence by NGOs as their allies assume governmental positions and further improvements in NGO public image. In Ukraine, advances in NGO advocacy demonstrated by the sector's role in the revolution built on promising improvements in several dimensions of NGO sustainability – whether these advances can form the basis for an even stronger role for the sector is a challenge for the coming years.

The Southern Tier of Central and Eastern Europe also made gains this year, albeit in a less dramatic fashion. Most countries continued to make modest progress towards greater sustainability, with improved laws governing the NGO sector coming into effect, continued growth in organizational capacity, and a number of examples of effective NGOs advocacy campaigns reported this year. The financial sustainability dimension continued to be a weak spot for these countries, however, with most reporting difficulties in building local sources of support for NGOs and heavy reliance by the sector on foreign funding.

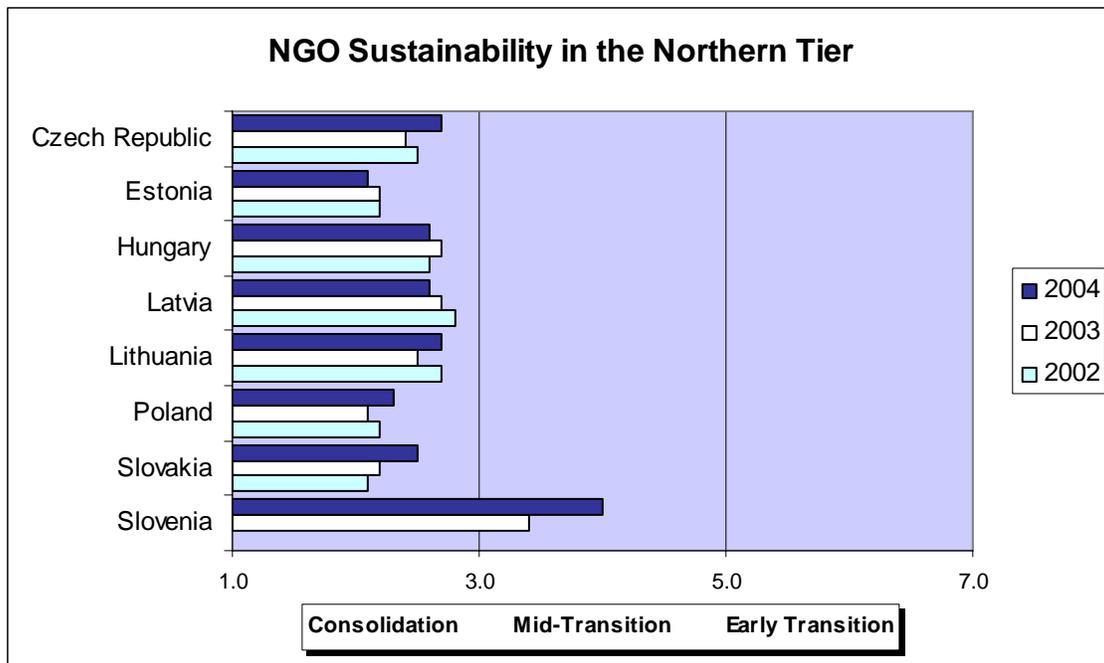
Elsewhere, progress has been uneven. In the Northern Tier of CEE, several countries continued to consolidate gains in NGO sustainability, but for most, scores reflect a sense of pessimism as slower progress fails to meet the expectations of NGO leaders. In Russia, despite consolidation of government authority that has led Freedom House to label the country “not free,” this year's report indicates that NGO sustainability has improved. This development is attributed in part to the increased focus on civil society under President Putin and the positive recognition that some of his reforms have brought to at least a few NGOs, but perhaps more significantly, to the pragmatic approach taken by NGOs in the regions to working with municipal and local governments, which have resulted generally in more open channels of communication with them.

In Moldova and Armenia overall sustainability scores did not change, while Azerbaijan saw a modest increase. Belarus again ranks among the two countries scoring lowest on the index, as continued government hostility to the NGO sector thwarted its development. In the Central Asia Republics, results were mixed. Turkmenistan joined Belarus as one of the lowest scoring countries, as NGOs continued to struggle to survive under a repressive government, although there were some signs of progress, leading to a slightly

improved score. In Uzbekistan, sustainability as measured by the Index declined as government restrictions on the sector increased. Tajikistan had a slight improvement in score, while Kazakhstan and Kyrgyzstan showed modest improvement in some dimensions, which was offset by a continued lack of progress in the areas of financial viability, advocacy, and service provision.

NORTHERN TIER

Progress towards greater sustainability slowed in the Northern Tier countries during the past year. There are several possible explanations for this. First, all but one of the countries in this region – Slovenia – had already entered the “consolidation” phase of NGO sector development in most dimensions of the Index (see below “Ratings: A Closer Look”) demonstrating the maturity of their NGO sectors. As a result, there are fewer developments capable of producing dramatic gains in scores. Moreover, reports this year suggest that in a number of these countries, there is a sense of frustration among the implementing partners when progress does not meet the high expectations that the NGO sectors have come to set for themselves, resulting in decreased scores in some dimensions.



All eight of the Northern Tier countries joined the European Union on May 1, 2004. It is still early to tell, however, what the effects of EU membership will be on NGO sustainability in these countries in the long term. Immediate consequences have been the loss of certain VAT exemptions as countries conform their tax regimes to EU standards, and termination of pre-accession funding vehicles. Several positive developments were reported as well. NGOs in several of the countries have begun efforts to access EU structural funds. And in Slovenia, the EU accession process gave rise to two documents reflecting greater cooperation between the NGO sector and the government: the

Government Strategy on the NGO Sector, and an agreement currently being negotiated between the NGO sector and the government to increase dialogue, advance legal reforms, and increase financial viability.

One encouraging trend reported this year is that in several countries, laws intended to improve the financial sustainability of NGO sectors became effective. In Lithuania, legal reforms ensure that all organizations may engage in economic activities to sustain themselves. In addition, NGOs began receiving funding from the new “2% law,” which allows taxpayers to designate 2% of their income tax liabilities to NGOs, schools, and hospitals. Under Slovakia’s 2% rule, private and legal entities assigned more than 816 million Slovak Crowns (\$27.2 million) to civil society organizations last year. The Hungarian National Civil Fund began operations, providing a new government source of institutional funding to service providing NGOs, and showing the value the government attributes to NGO service providers. The Slovenian agreements between the NGO sector and the government are expected to contribute to greater longer term financial sustainability. And in Latvia, the new Laws on Association and Foundations and on Public Benefit Status create a new and progressive legal framework that provides the foundation for building a more sustainable NGO sector.

Nonetheless, only three countries in the Northern Tier – Estonia, Latvia, and Hungary – showed improvements in their overall sustainability scores this year, and even these improvements were modest. In Estonia, improvements in the infrastructure dimension, attributed to well-developed partnerships by the sector with government and business, and strengthened umbrella organizations, led to an improved score. In Hungary, developments associated with the start up of the National Civil Fund produced a small overall score increase. The implementation of the National Civil Fund was not without controversy; however, as 60% of applications to the fund were rejected in the first instance for failure to comply with requirements, and questions arose regarding whether appropriate standards for transparency, professionalism or effectiveness of recipient NGOs were in place.

In a third country, Latvia, there was a modest increase in the overall sustainability score. Improvements in the Legal Environment dimension attributable to the new legal framework and the financial sustainability dimension resulting from improved domestic funding sources (community foundations and an internet based service to assist individuals in identifying NGO donees) were key factors in the score increase.

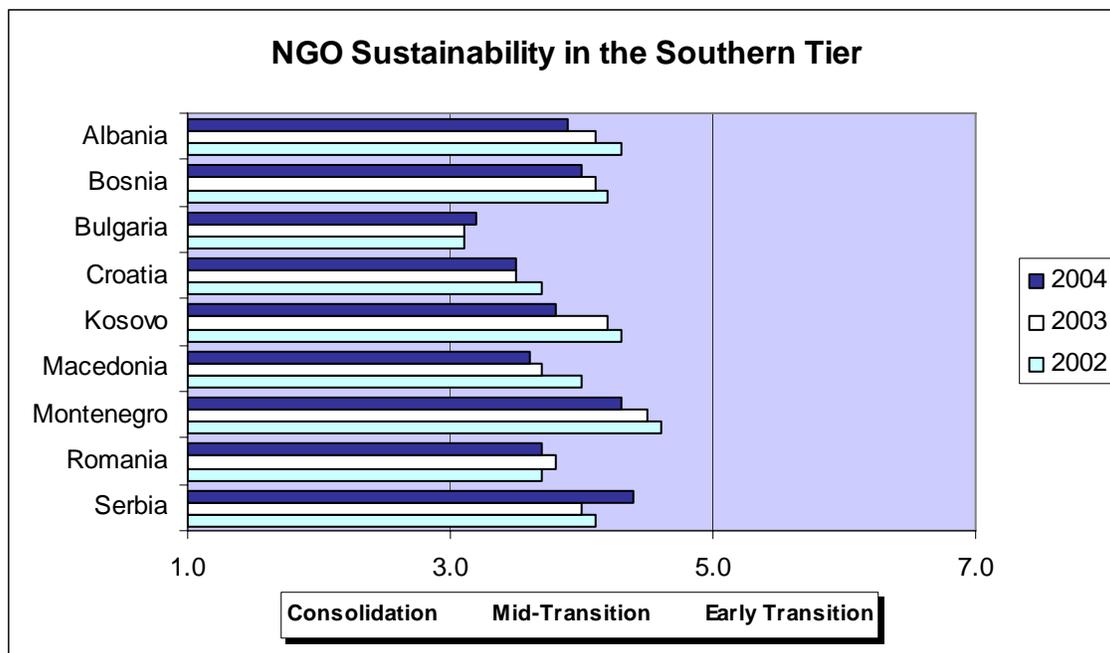
In the Czech Republic, Lithuania, Poland, Slovakia, and Slovenia, overall sustainability as measured by the index decreased. Reasons varied. In the Czech Republic, the downward trend, not only in this year but in the past, appears to be spurred by a perceived need to recalibrate scoring of past years to bring it more in line with Czech realities, as well as frustration with the slower pace of improvements in recent years. Nonetheless, the NGO sector in the Czech Republic has shown progress, with financing of the sector almost entirely from domestic sources, including corporate contributions and government financing – a marked contrast from the many countries that report continued dependence on foreign donors. In Lithuania and Slovakia, the downward trend in scoring

similarly represents a readjustment of past scoring that brings that country's scores more in line with those of other countries in the northern tier.

In Poland, the Legal Environment and Service provision dimensions pulled down the overall score, reflecting disappointment with the implementation of the new Public Benefit Activities and Volunteerism Act, unfavorable changes in the VAT Law, and tendencies on the part of NGOs, particularly with the opening of new EU funding possibilities, to adapt their mission and activities to the availability of funding prospects rather than the needs of constituents or a coherent strategy for advancing their missions. Slovenia has since its inclusion in the index lagged behind the other countries in this tier. Its scores dropped in six out of seven dimensions, in some cases as a result of the availability of new data reflecting on the state of the sector.

SOUTHERN TIER

The countries of the Southern Tier for the most part continued to advance steadily towards more sustainable NGO sectors. All of the countries but two either retained or showed modest gains in their overall sustainability scores.



The Advocacy dimension was a bright spot for a number of countries in this group, including Albania, Kosovo, Bosnia, Macedonia, Montenegro, and Romania. Each of these countries saw improvement in this dimension, the result of visible, successful NGO advocacy campaigns -- an important factor in the increases in their overall sustainability:

- In Albania, NGOs participated in several campaigns targeting government corruption, some of which succeeded in reversing government policies on, e.g., utility rate hikes.

- In Kosovo, successful issue-based coalitions included the Reforma 2004 campaign, which joined groups from across the sector and educated the public in support of Electoral Law reform; and the GOTV campaign that increased voter turnout in the 2004 elections.
- In Macedonia, NGOs have led a number of successful policy advocacy initiatives, and advanced network and coalition building initiatives, including the Citizen Platform, an NGO coalition that is developing a strategy to advance the sector and address sector-wide obstacles.
- In Montenegro, NGO advocacy campaigns focusing on political reforms, women's rights, and minority rights yielded results, while NGOs successfully built strong coalitions around consumer protection and environmental issues.
- In Romania, NGO lobbying played a significant role in Parliament's adoption of a "1% Law"; other campaigns focused on a wide range of issues in areas such as corruption and lack of transparency, parliamentary ethics, electoral law, equal opportunity, environmental issues, and child protection and social services.

In all countries in this tier, financial sustainability remains a challenge. The NGO sectors remain dependent on foreign donors, and NGOs are for the most part not viable without foreign donor support. If the NGO sectors in these countries are to continue progress towards greater sustainability, they will need to find ways to diversify funding, and particularly to build local sources of support. This will continue to be difficult under the economic conditions prevailing in some of the countries, as it is unlikely that, for example, local philanthropy and income generation will develop significantly without economic improvements. Indeed, the Bulgaria report reflects concerns about the NGO sector's financial viability, stemming primarily from the withdrawal of foreign funding at a time when Bulgarian NGOs have not yet diversified their funding bases.

This year's reports reflect a number of initiatives to address the challenges of improving financial sustainability. In Croatia, the National Foundation for Civil Society Development began operations, providing educational opportunities for civil society, as well as grants that support grassroots activities and programs. In Bulgaria, new legal provisions permitting local governments to contract out services to NGOs came into effect, and hold out the promise of greater opportunities for municipal government funding for NGO service provision in coming years. In Romania, new fiscal code provisions aimed at strengthening NGO financial stability include a "1%" provision, and an increase in the amount of the tax deduction for businesses that contribute to charity.

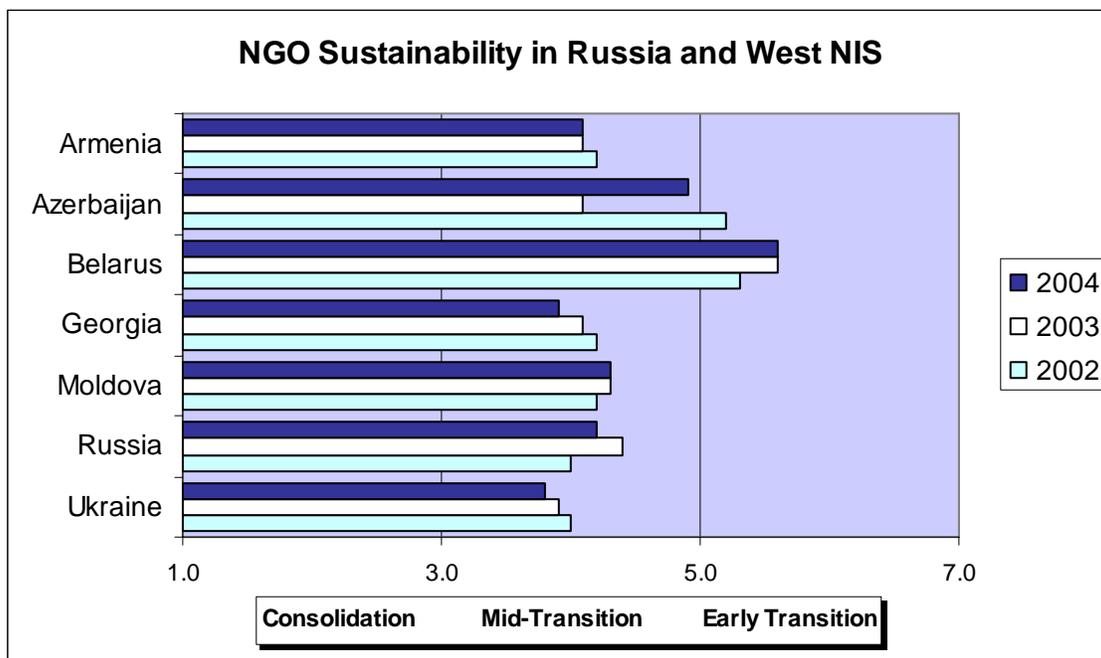
In two countries, issues surrounding NGO sector relations with government affected scores. In Serbia, the environment in which the sector operates has deteriorated since the 2003 assassination of Prime Minister Zoran Djindjic, and worsening relations with the new government have pushed most dimension scores down. In Croatia, the overall sustainability score remained the same. Any gains were offset by reverses in the legal

environment and advocacy dimensions as a result of new obstacles created by a government that is less supportive of the NGO sector than the previous one.

EURASIA

RUSSIA AND WEST NIS

Profound political changes brought about in part by the actions of the NGO sector in Georgia and Ukraine had significant ramifications for the sector. In Georgia, NGOs played a major role in blowing the whistle on election fraud, helping to bring about the defeat of the Shevarnadze regime and the election President Michael Saakashvili in 2003. This led to positive developments for the sector in the past year, as NGO leaders now filling posts in the new government are thought to be more likely to consider legislation benefiting the sector and to turn to the NGO sector for expertise and assistance, and NGOs received substantial media exposure and improved their image with the public. In Ukraine, the sector's participation in events leading up to the electoral victory of Viktor Yushchenko was a sign of its growing strength. As this year's report makes clear, even before the Orange Revolution, NGOs in Ukraine had made advances, capitalizing on two new, progressive laws that simplify registration procedures and specify better internal management practices, as well as securing funding from the business community and government, and engaging the media.



The report from Russia raises another interesting development from the past year. News reports during the year focused on the consolidation of executive power under President Putin. Freedom House, in its Index of Freedom Around the World, changed its rating for

Russia to “not free” as a result of increased state pressures on the media, opposition political parties, and independent business leaders. Indeed, even this year’s report suggests that “the Russian Government continued to implement policies that created a ‘managed’ civil society that paralleled Russia’s ‘managed’ democracy.” Nonetheless, the report for Russia asserts that the NGO sector made gains. The reports cites, among other improvements, advances in organizational capacity, greater financial sustainability due to increases in corporate philanthropy and in financing of NGOs by municipal and regional governments, improved access to policy makers and advocacy at the municipal and regional levels, and better infrastructure, given the role of regional resource centers as catalysts for NGO activism and stronger NGO networks.

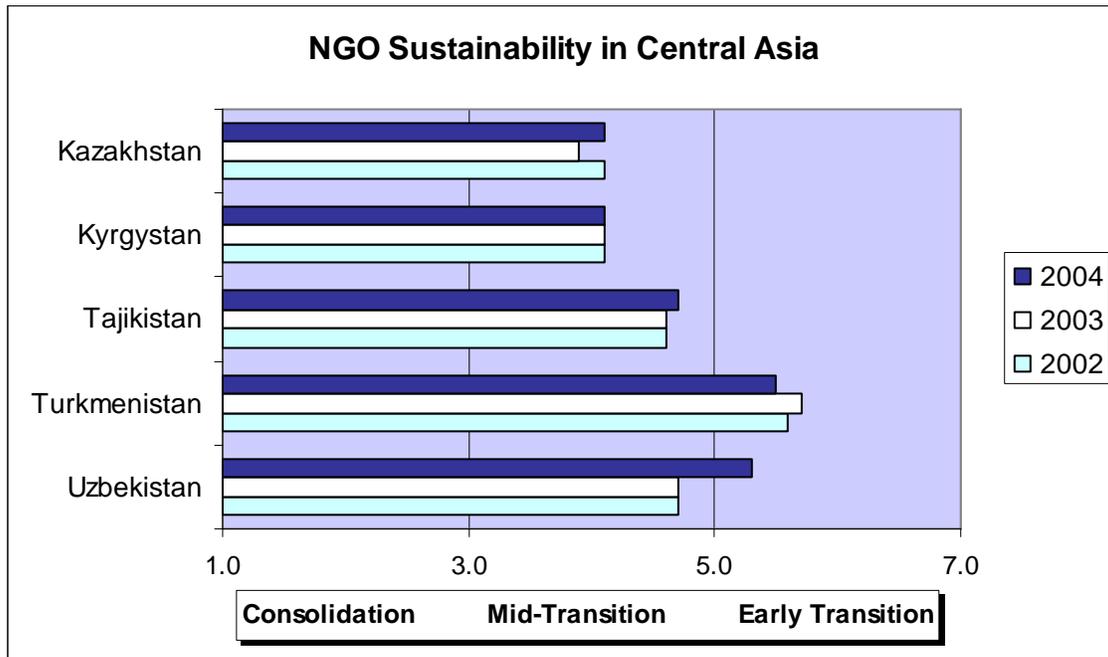
While Azerbaijan had a modest increase in its overall sustainability score, Armenia and Moldova retained their scores from last year. The legal environment dimension has presented challenges in each of the three countries in the past year. In Moldova, the legal environment has deteriorated due to government attempts to control financial and technical assistance provided by foreign donors to NGOs; the limited impact of the 2002 Law on Philanthropy and Sponsorship; and increasing governmental harassment of the of the NGO sector. In Armenia, government officials have resisted fiercely law reforms that would permit NGOs to generate income from economic activities, and NGOs have been subjected to visits by government officials demanding social insurance payments for their volunteers. In Azerbaijan, new rules create hurdles for NGOs receiving grants, implementation of registration rules continues to thwart NGOs from registering, and inconsistent application of a ban on NGO participation in political activities has chilled NGO advocacy activities.

But each of the three countries has shown improvements as well. All cited strengthened NGO infrastructure, due in part to an increase in the number of training and resource centers as well as in the services these centers provide. Armenian NGOs have improved their ability to tap funding from cash and in-kind donations from a number of sources, including the Diaspora, and have seen growing improvement in their cooperation with government. Moldovan NGOs have developed cooperative efforts with both central and local government bodies and have had some success in opposing legislative proposals.

The NGO sector in Belarus continued to struggle under the repressive regime of President Lukashenko. Its overall sustainability rating remains among the lowest of all countries in CEE and Eurasia. The Belarusian legal environment continues to restrict the development of the sector, with new government controls on foreign aid and technical assistance that have made the legal environment even more harsh, limited advocacy, deprived NGOs of support and training programs, and further prevented access to the national media. In spite of these obstacles, NGOs have made modest progress in improving their provision of services, and, on the organizational capacity front, in increasing their understanding of internal governance and strategic planning.

CENTRAL ASIA REPUBLICS

Sustainability scores were mixed in the Central Asia Republics, with Kazakhstan, Kyrgyzstan, and Uzbekistan showing declines in overall sustainability, while Tajikistan and Turkmenistan had small increases.



Turkmenistan remained with Belarus at the bottom of the index, with the government continuing to control most NGO activities. Few NGOs can register as a result of restrictive laws, and the receipt of grant and other funds by NGOs is also controlled to the point where their survival is difficult. Nonetheless, there were signs of progress, as reflected in a small increase in the sustainability score, in part because of improvements in the legal environment due to improvements in registration rules, and because of infrastructure improvements, including Civil Society Support Centers. Uzbekistan experienced a serious drop in both the overall score and the scores for most dimensions as a result of new legal impediments imposed upon the sector as well as deterioration of the economy and the public's frustration with the slow pace of democratic reforms.

In Tajikistan, scores improved, in large part due to better NGO organizational capacity and infrastructure. The report notes greater maturity among NGOs, as well as stronger ability to monitor current social issues, design and implement programs, and maintain a dialogue with donors, constituents, and local authorities, and greater access to information and communications, widening access to training programs and donor information.

In Kyrgyzstan, improvements included a legal environment that is more supportive of NGO activities, a lack of government interference in voter education campaigns and

election monitoring by NGOs and growing NGO experience in conducting advocacy campaigns and building partnerships. These developments presaged the significant political changes in March 2005.

Kazakhstan's NGO sector saw some improvements in the legal environment (easier registration procedures) and in advocacy skills, as NGOs were successful in lobbying against legislation. These developments were offset, however, by new tax provisions that may compromise the NGO sector's financial stability, as well as withdrawal of some foreign funding, and government attempts to limit some NGO advocacy efforts.

CONCLUSION

The year's events demonstrate the growing strength of civil society, and the achievements of which a vigorous civil society is capable. This year's Index further points to progress in a number of countries as NGOs demonstrate greater ability in advocacy and organizational capacity, and legal and infrastructure improvements created a more enabling environment for NGOs. In a number of countries, however, there is still substantial work to be done, particularly those in which NGOs labor under repressive governments. And in all countries, NGOs must rise to meet the continuing challenge of strengthening the sector's financial viability.

DIMENSIONS OF NGO SUSTAINABILITY

Seven different dimensions of the NGO sector are analyzed in the 2003 NGO Sustainability Index: legal environment, organizational capacity, financial viability, advocacy, service provision, NGO infrastructure and public image. In the Index, each of these dimensions is examined with a focus on the following questions:

1. What has been accomplished?
2. What remains a problem?
3. Do local actors recognize the nature of outstanding challenges?
4. Do the local actors have a strategy and the capacity to address these challenges?

A brief explanation of the criteria used to evaluate each dimension of sustainability follows:

LEGAL ENVIRONMENT

For an NGO sector to be sustainable, the legal and regulatory environment should support the needs of NGOs. It should facilitate new entrants, help prevent governmental interference, and give NGOs the necessary legal basis to engage in appropriate fund-raising activities and legitimate income-producing ventures. The legal environment dimension of the Index analyzes the legal status of non-governmental organizations. Factors shaping the legal environment include the ease of registration; legal rights and conditions regulating NGOs; and the degree to which laws and regulations regarding taxation, procurement, access to information and other issues benefit or deter NGOs' effectiveness and viability. The extent to which government officials, NGO representatives, and private lawyers have the legal knowledge and experience to work within and improve the legal and regulatory environment for NGOs is also examined.

Questions asked include: Is there a favorable law on NGO registration? Is the internal management, scope of permissible activities, financial reporting, and/or dissolution of NGOs well detailed in current legislation? Does clear legal terminology preclude unwanted State control over NGOs? Are NGOs and their representatives allowed to operate freely within the law? Are they free from harassment by the central government, local governments, and tax police? Can they freely address matters of public debate and express criticism? Are there local lawyers who are trained in and familiar with NGO law? Is legal advice available to NGOs in the capital city and secondary cities? Do NGOs receive any sort of tax exemption? Do individual or corporate donors receive tax deductions? Do NGOs have to pay taxes on grants? Are NGOs allowed legally to compete for government contracts/procurements at the local and central levels?

ORGANIZATIONAL CAPACITY

A sustainable NGO sector will contain a critical mass of NGOs that are transparently governed and publicly accountable, capably managed, and that exhibit essential

organizational skills. The organizational capacity dimension of the Index addresses the operation of NGOs.

Questions evaluated include: Do NGOs actively seek to build constituencies for their initiatives? Do most NGOs have a clearly defined mission to which they adhere? Do most NGOs incorporate strategic planning techniques in their decision making process? Is there a clearly defined management structure within NGOs, including a recognized division of responsibilities between the Board of Directors and staff members? Is there a permanent, paid staff in leading NGOs? Are potential volunteers sufficiently recruited and engaged? Do NGOs' resources generally allow for modernized basic office equipment?

FINANCIAL VIABILITY

A critical mass of NGOs must be financially viable, and the economy must be robust enough to support NGO self-financing efforts and generate philanthropic donations from local sources. For many NGOs, financial viability may be equally dependent upon the availability of and their ability to compete for international donor support funds.

Factors influencing the financial viability of NGOs include the state of the economy, the extent to which philanthropy and volunteerism are being nurtured in the local culture, as well as the extent to which government procurement and commercial revenue raising opportunities are being developed. The sophistication and prevalence of fundraising and strong financial management skills are also considered.

Questions asked under this dimension include: Do NGOs raise a significant percentage of their funding from local sources? Are NGOs able to draw upon a core of volunteer and non-monetary support from their communities? Do NGOs typically have multiple/diverse sources of funding? Are there sound financial management systems in place? Have NGOs cultivated a loyal core of financial supporters? Do revenues from services, products, or rent from assets supplement the income of NGOs? Do government and/or local business contract with NGOs for services?

ADVOCACY

The political and advocacy environment must support the formation of coalitions and networks, and offer NGOs the means to communicate their message through the media to the broader public, articulate their demands to government officials, and monitor government actions to ensure accountability. The advocacy dimension looks at NGOs' record in influencing public policy. The prevalence of advocacy in different sectors, at different levels of government, as well as with the private sector is analyzed. The extent to which coalitions of NGOs have been formed around issues is considered, as well as whether

NGOs monitor party platforms and government performance. This dimension does not measure the level of NGOs' engagement with political parties.

Questions include: Are there direct lines of communication between NGOs and policy makers? Have NGOs formed issue-based coalitions and conducted broad-based advocacy campaigns? Have these campaigns been effective at the local and/or national level at effecting policy change? Are there mechanisms and relationships for NGOs to participate in the political process? Have NGOs led efforts to raise awareness of problems or increase support for a particular position? Is there awareness in the wider NGO community on how a favorable legal and regulatory framework can enhance NGO effectiveness and sustainability? Is there a local NGO advocacy effort to promote legal reforms that will benefit NGOs, local philanthropy, etc.?

SERVICE PROVISION

Sectoral sustainability will require a critical mass of NGOs that can efficiently provide services that consistently meet the needs, priorities and expectations of their constituents.

The index reviews questions such as: Do NGOs provide services in a variety of fields? Do the goods and services that NGOs produce reflect the needs and priorities of their constituents and communities? Are there goods and services that go beyond basic social needs provided to a constituency broader than NGOs' own memberships? When NGOs provide goods and services, do they recover any of their costs by charging fees? Do NGOs have knowledge of the market demand – and the ability of distinct constituencies to pay – for those products? Does the government, at the national and/or local level, recognize the value that NGOs can add in the provision of basic social services? Do they provide grants or contracts to NGOs to enable them to provide such services?

INFRASTRUCTURE

A strong sectoral infrastructure is necessary that can provide NGOs with broad access to local NGO support services. Intermediary Support Organizations (ISOs) providing these services must be able to inform, train, and advise other NGOs; and provide access to NGO networks and coalitions that share information and pursue issues of common interest.

Questions include: Are there ISOs, NGO Resource Centers, or other means for NGOs to access information, technology, training and technical assistance throughout the country? Do ISOs and Resource Centers earn some of their operating revenue from earned income and other locally generated sources? Do local community foundations and/or ISOs provide grants from either locally raised funds or by re-granting international donor funds? Do NGOs share information with each other? Is there a network in place that facilitates such information sharing? Is there an organization or committee through which the sector promotes its interests? Are there capable local NGO management trainers? Is basic NGO management training available in the capital city and in secondary cities? Are training materials available in local languages? Are there examples of NGOs working in partnership, either formally or informally, with local business, government, and the media to achieve common objectives?

PUBLIC IMAGE

For the sector to be sustainable, government, the business sector, and communities should have a positive public image of NGOs, including a broad understanding and appreciation of the role that NGOs play in society. Public awareness and credibility directly affect NGOs' ability to recruit members and volunteers, and encourage indigenous donors. The Index looks at the extent and nature of the media's coverage of NGOs, the awareness and willingness of government officials to engage NGOs, as well as the general public's knowledge and perception of the sector as a whole.

Typical questions in this section include: Do NGOs enjoy positive media coverage at the local and national level? Do the media provide positive analysis of the role that NGOs play in civil society? Does the general public have a positive perception of NGOs? Do the business sector and local and central government officials have a positive perception of NGOs? Do NGOs publicize their activities or promote their public image? Have NGOs adopted a code of ethics or tried to demonstrate transparency in their operations? Do leading NGOs publish annual reports?

RATINGS: GENERAL DEFINITIONS

The NGO Sustainability Index uses a seven-point scale, to facilitate comparisons to the Freedom House indices, with 7 indicating a low or poor level of development and 1 indicating a very advanced NGO sector. The following section elaborates on the characteristics of each level of development:

- 1 NGO sector's sustainability enhanced significantly by practices/policies in this area. While the needed reforms may not be complete, the local NGO community recognizes which reforms or developments are still needed, and has a plan and the ability to pursue them itself.
- 2 NGO sector's sustainability enhanced by practices/policies in this area. Local NGO community demonstrates a commitment to pursuing reforms and developing its professionalism in this area.
- 3 NGO sector's sustainability somewhat enhanced by practices/policies in this area or commitment to developing the aspect in question is significant.
- 4 NGO sector's sustainability minimally affected by practices/policies in this area. Progress may be hampered by a stagnant economy, a passive government, a disinterested media, or a community of good-willed but inexperienced activists.
- 5 NGO sector's sustainability somewhat impeded by practices/policies in this area. Progress may be hampered by a contracting economy, authoritarian leader and centralized government, controlled or reactionary media, or a low level of capacity, will or interest on the part of the NGO community.
- 6 NGO sector's sustainability impeded by practices/policies in this area. A hostile environment and low capacity and public support prevents the growth of the NGO sector.
- 7 NGO sector's sustainability significantly impeded by practices/policies in this area, generally as a result of an authoritarian government that aggressively opposes the development of independent NGOs.

RATINGS: A CLOSER LOOK

The following sections go into greater depth about the characteristics in each of the seven dimensions of the sector's development. These characteristics and stages are drawn from empirical observations of the sector's development in the region, rather than a causal theory of development. Given the decentralized nature of NGO sectors, many contradictory developments may be taking place simultaneously. Therefore we do not attempt to break out the characteristics of the seven dimensions into seven distinct steps of development. Instead, these characteristics are clustered into three basic stages: Consolidation, Mid- Transition and Early Transition. The Consolidation stage, the highest level of sustainability and development, corresponds to a score between 1 and 3 points; the Mid- Transition stage corresponds to a score between 3 and 5 points; and the lowest level of development, the Early Transition stage, corresponds to a score of 5 to 7 points on the scale.

LEGAL ENVIRONMENT

Consolidation (1-3): The legislative and regulatory framework makes special provisions for the needs of NGOs or gives not-for-profit organizations special advantages such as: significant tax deductions for business or individual contributions, significant tax exemptions on CSOs, open competition among NGOs to provide government-funded service, etc. Legal reform efforts at this point are primarily a local NGO advocacy effort to reform or fine tune taxation laws, procurement processes, etc. Local and comparative expertise, as well as availability of legal services and materials, on the NGO legal framework exists.

Mid-Transition (3-5): NGOs have little trouble registering and do not suffer from state harassment. They are permitted to engage in a broad range of activities, although taxation provisions, procurement procedures, etc. may inhibit NGOs' operation and development. Programs seek to reform or clarify existing NGO legislation, to allow NGOs to engage in revenue raising and commercial activities, to allow national or local governments to privatize the provision of selected government services, to address basic tax and fiscal issues for CSOs, etc. The local NGO community understands the need to coalesce and advocate for legal reforms benefiting the NGO sector as a whole. A core of local lawyers begins to specialize in NGO law by providing legal services to local NGOs, advising the NGO community on needed legal reforms, crafting draft legislation, etc.

Early Transition (5-7): The legal environment severely restricts the ability of NGOs to register and/or operate, either through the absence of legal provisions, the confusing or restrictive nature of legal provisions (and/or their implementation), or government hostility towards and harassment of NGOs.

ORGANIZATIONAL CAPACITY

Consolidation (1-3): Several transparently governed and capably managed NGOs exist across a variety of sectors. A majority of organizations have clearly defined mission statements, and many NGOs utilize strategic planning techniques. Boards of directors exist, and there is a clear distinction between the responsibilities of board members and staff. NGOs have permanent well-trained staff, and volunteers are widely utilized. Most NGOs have relatively modern equipment that allows them to do their work efficiently. Leading NGOs have successfully developed strong local constituencies.

Mid-Transition (3-5): Individual NGOs demonstrate enhanced capacity to govern themselves and organize their work. Some individual NGOs maintain full-time staff members and boast an orderly division of labor between board members and staff. NGOs have access to basic office equipment, including computers and fax machines. While these efforts may not have reached fruition yet, leading NGOs understand the need and are making an effort to develop local constituencies.

Early Transition (5-7): NGOs are essentially "one-man shows," completely dependent upon the personality of one or two major figures. They often split apart due to personality clashes. NGOs lack a clearly defined sense of mission. At this stage, NGOs reflect little or no understanding of strategic planning or program formulation. Organizations rarely have a board of directors, by-laws, staff, or more than a handful of active members. NGOs have no understanding of the value or need of developing local constituencies for their work.

FINANCIAL VIABILITY

Consolidation (1-3): A critical mass of NGOs have sound financial management systems in place, including independent audits and the publication of annual reports with financial statements, to win potential donors' confidence. NGOs raise a significant percentage of their funding from local sources, including government, corporate and individual philanthropy, and earned income. Most NGOs have multiple sources of funding, which allow them to remain viable in the short-term. A growing economy makes growth in domestic giving possible.

Mid-Transition (3-5): NGOs pioneer different approaches to financial independence and viability. While still largely dependent on foreign donors, individual NGOs experiment with raising revenues through providing services, winning contracts and grants from municipalities and ministries to provide services, or attempting to attract dues-paying members or domestic donors. However, a depressed local economy may hamper efforts to raise funds from local sources. Training programs address financial management issues and NGOs begin to understand the importance of transparency and accountability from a fundraising perspective, although they may be unable to fully implement transparency measures.

Early Transition (5-7): New NGOs survive from grant to grant and/or depend financially on one foreign sponsor. While many NGOs are created in the hopes of receiving funding, most are largely inactive after attempts to win foreign donor funding fail. Local sources of funding are virtually non-existent, in part due to a depressed local economy. NGOs have no financial management systems and do not understand the need for financial transparency or accountability.

ADVOCACY

Consolidation (1-3): The NGO sector demonstrates the ability and capacity to respond to changing needs, issues and interests of the community and country. As NGOs secure their institutional and political base, they begin to 1) form coalitions to pursue issues of common interest, including NGO legislation; 2) monitor and lobby political parties; and, 3) monitor and lobby legislatures and executive bodies. NGOs demonstrate the ability to mobilize citizens and other organizations to respond to changing needs, issues, and interests. NGOs at this stage of development will review their strategies, and possess an ability to adapt and respond to challenges by sector. A prime motivator for cooperation is self interest: NGOs may form alliances around shared issues confronting them as non-profit, non-governmental organizations.

Mid-Transition (3-5): Narrowly defined advocacy organizations emerge and become politically active in response to specific issues. Organizations at the Mid-Transition level of development may often present their concerns to inappropriate levels of government (local instead of national and vice versa). Weakness of the legislative branch might be revealed or incorrectly assumed, as activists choose to meet with executive branch officials instead ("where the power truly lies."). Beginnings of alternative policy analysis are found at universities and think tanks. Information sharing and networking within the NGO sector to inform and advocate its needs within the government begins to develop.

Early Transition (5-7): Broad umbrella movements, composed of activists concerned with a variety of sectors, and united in their opposition to the old regime fall apart or disappear. Some countries at this stage have not even experienced any initial burst of activism. Economic concerns become predominant for most citizens. There may be an increase in passivity, cynicism, or fear within the general public. NGO activists are afraid to engage in dialogue with the government, feel inadequate to offer their views and/or do not believe the government will listen to their recommendations. NGOs do not understand the role that they can play in "public policy" or do not understand the concept of "public policy".

SERVICE PROVISION

Consolidation (1-3): Many NGOs provide a wide range of goods and services, which reflect community and/or local donor priorities. Many NGOs deliver products beyond basic social services in such sectors as economic development, environmental protection or democratic governance. NGOs in several sectors have developed a sufficiently strong knowledge of the market demand for their services, the ability of government to contract

for the delivery of such services or other sources of funding including private donations, grants and fees, where allowed by law. A number of NGOs find it possible to cross-subsidize those goods and services for which full cost recovery is not viable with income earned from more lucrative goods and services, or with funds raised from other sources. Government bodies, primarily at the local level, recognize the abilities of NGOs and provide grants or contracts to enable them to provide various services.

Mid-Transition (3-5): The contribution of NGOs to covering the gap in social services is recognized by government, although this is only rarely accompanied by funding in the form of grants or contracts. NGOs recognize the need to charge fees for services and other products – such as publications and workshops – but even where legally allowed, such fees seldom recover their costs. While NGO-provided goods and services respond to community needs, needs are generally identified by foreign donors, or by NGOs in an unsystematic manner. The constituency for NGO expertise, reports and documents begins to expand beyond their own members and the poor to include other NGOs, academia, churches, and government.

Early Transition (5-7): A limited number of NGOs are capable of providing basic social services--such as health, education, relief, or housing – although at a low level of sophistication. Those who do provide such services receive few if any government subsidies or contracts. NGOs that produce publications, technical services or research do so only for their own members or donors. There are rarely attempts to charge fees for goods and services.

INFRASTRUCTURE

Consolidation (1-3): NGO Intermediary Support Organizations (ISOs) and/or NGO resource centers are active in all areas of the country and provide advanced training, informational services, legal support and advice, and philanthropic development activities. Efforts are underway to establish and endow community foundations, indigenous grant-making institutions, and/or organizations to coordinate local fundraising. A professional cadre of local experts, consultants and trainers in non-profit management exists. NGOs recognize the value of training, although the lack of financial resources may remain a constraint to accessing locally provided training. Topics of available training cover: legal and tax issues for NGOs, accounting and bookkeeping, communication skills, volunteer management, media and public relations skills, sponsorship and fundraising. NGOs work together and share information through networks and coalitions. NGOs are beginning to develop intersectoral partnerships with business, government, and the media to achieve common objectives.

Mid-Transition (3-5): ISOs and resource centers are active in major population centers, and provide services such as distributing grants, publishing newsletters, maintaining a membership database, running a library of NGO literature, and providing basic training and consulting services. Other umbrella organizations and networks are beginning to be formed to facilitate networking and coordinate activities of groups of NGOs. Local

trainers have the capacity to provide basic organizational training. Donors' fora are formed to coordinate the financial support of international donors, and to develop local corporate philanthropic activities. The value of intersectoral partnerships has not yet been realized.

Early Transition (5-7): There are few, if any, active ISOs or resource centers, networks and umbrella organizations. Those that do operate work primarily in the capital city and provide limited services such as access to computer equipment, faxes, email and meeting space. Local training and NGO development capacity is extremely limited and undeveloped. Primarily programs of international donors provide training and technical assistance. There is no coordinated effort to develop philanthropic traditions, improve fundraising or establish community foundations. NGO efforts to work together are limited by a perception of competition for foreign donor support and mistrust of other organizations.

PUBLIC IMAGE

Consolidation (1-3): This stage is characterized by growing public knowledge of and trust in NGOs, and increased rates of voluntarism. NGOs coalesce to mount campaigns to increase public trust. Widespread examples of good working relationships between NGOs and national and local governments exist, and can result in public-private initiatives or NGO advisory committees for city councils and ministries. Media covers the work of NGOs, and NGOs approach media and public relations in a professional manner. Increased accountability, transparency, and self-regulation exist within the NGO sector, including existence of a generally accepted code of ethics or a code of conduct.

Mid-Transition (3-5): The media does not tend to cover NGOs because it considers them weak and ineffective, or irrelevant. Individual NGOs realize the need to educate the public, to become more transparent, and to seek out opportunities for media coverage, but do not have the skills to do so. As a result, the general population has little understanding of the role of NGOs in society. Individual local governments demonstrate strong working relationships with their local NGOs, as evidenced by their participation in advisory committees, consultations, public-private initiatives, and the funding of an occasional grant, but this is not yet widespread.

Early Transition (5-7): The general public and/or government are uninformed or suspicious of NGOs as institutions. Most of the population does not understand the concept of "nongovernmental" or "not-for-profit", including government officials, business leaders and journalists. Media coverage may be hostile, due to suspicion of a free but uninformed media, or due to the hostility of an authoritarian government-controlled media. Charges of treason may be issued against NGOs. Due to a hostile atmosphere caused by an authoritarian government, if individuals or businesses donate to NGOs at all, they do so anonymously.

NGO SUSTAINABILITY IN A TIME OF HOPE AND APPREHENSION

*Robert G. Herman*¹

A CLIMATE OF CHANGE AND STAGNATION

This year's edition of the *NGO Sustainability Index* is issued against the backdrop of dramatic democratic transitions in Ukraine, Georgia (2003), and possibly Kyrgyzstan, the latter still very much in flux as the report goes to press. The influence of Georgia's so-called "Rose Revolution" on political processes in the other two countries and on activists across the former Soviet Union and beyond has generated speculation that inspiring developments in these heretofore only nominally democratic countries could presage a new wave of popular movements leading the way to far-reaching political reform. That leaders in Russia, Uzbekistan and other former communist countries and Soviet republics have clamped down on civil society in response to these events elsewhere in the region is testament to the possibility of a democratic contagion.

At a time when many analysts and assistance providers were despairing about backsliding across the former communist space, particularly Eurasia, and lamenting the seeming inability of democracy and human rights forces to drive the reform process forward, this recent set of breakthroughs has reinvigorated academic and practitioner discourse about the potentially transformative role of civil society in moving countries along the democracy and governance continuum.

From the standpoint of this report, the stunning success of non-governmental organizations (NGOs) and ordinary citizens in helping to bring about the demise of increasingly authoritarian and/or corrupt quasi-democratic regimes --what noted commentator Thomas Carothers calls "gray zone" countries-- does not mean that the Third Sector has attained a level of political, organizational and financial capacity required for sustainability. Indeed there is legitimate concern on the part of NGO activists and their backers in the foreign policy and donor communities that the coming to office of demonstrably reform-minded governments in Kyiv, Tbilisi and perhaps Bishkek will lead to a misguided sharp decline in funding for and attention to civil society in those

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three countries as attention predictably and perhaps inevitably shifts to bolstering the capacity of state institutions.

In this view, civil society would now be looked upon as having only a minor, supporting role in the central drama of effective governance, the main elements of which are widely understood to include a legal and regulatory environment based on the rule of law and that fosters a flourishing market economy, and provision of other public goods (e.g. security, education, health care etc.), which serves to garner popular support for the reform process. Within the ranks of civil society, in contrast, NGOs are seen as pivotal to consolidating democratic momentum in part by holding governing institutions accountable and ensuring sound implementation of reforms. These advocates draw a distinction between the formal institutions of *government* and the processes and norm-based practices that constitute *governance* and contend persuasively that the latter necessarily involves a consequential role for civil society.

The *2004 NGO Sustainability Index* also is published against the backdrop of an elevated priority within USAID and the State Department to address state fragility. One of the central lessons emerging from the horrific events of September 11, 2001 is the danger of ignoring weak states that can become a haven for transnational networks of extremists that pose serious security risks for the U.S. and the wider international community. President Bush stated in his second inaugural address, that the expansion of democracy -- processes, practices, and values-- is a powerful antidote to the injustice and hopelessness that is thought to fuel political extremism.

Well-functioning democratic systems built on the rule of law and the safeguarding of minority rights usually enjoy high levels of legitimacy and have an array of mechanisms to help channel dissent and political competition in constructive ways that minimize the risk of deadly conflict. For this reason, democracy building, of which empowering civil society is an essential component, is a central pillar of U.S. foreign policy. Further, creating greater space for citizens to express their views, to organize around common interests and to hold decisionmakers accountable through regular, competitive elections (and other means) is seen as ameliorating the conditions that often radicalize the marginalized and alienated segments of the population.

But while the long-term time horizon does not countenance serious trade-offs between democratic advance and system stability, the near-term can pose significant challenges. The introduction of democratic principles and practices together with the empowerment of ordinary citizens can be highly destabilizing as entrenched elites respond by staunchly defending their privileged position. In some regions, most especially but not only the wider Middle East, the numerous failings of many authoritarian regimes has resulted in strong popular support for more radical groups with orientations and programs generally considered inimical to U.S. interests. Free and fair elections and unfettered political space would almost surely result in dislodging many sitting regimes, some of them closely

aligned with the U.S. Of greater concern to democracy proponents, these opposition political forces could use the democratic process to subvert it -- a scenario summed up in the clever, ominous phrase "One person, one vote, one time".

In the post-communist nations, this dilemma confronts U.S. policymakers most directly in Central Asia. In Uzbekistan, for example, a country judged by Freedom House to be among the most repressive in the world, USAID, the State Department and other USG agencies have been pushing political liberalization, including through support of the nascent civil society sector, to the chagrin and discomfort of President Islam Karimov. At the same time, Washington seeks the host government's cooperation on a range of programs to enhance U.S. security, not least of which involves the presence of a large military base considered vital to military operations in Afghanistan. With the rise of Islamic militants (to many observers a predictable outcome of harsh government repression), Uzbekistan is now seen as the front lines in the war on terror, as well as the war on drugs and prevention of trafficking in weapons of mass destruction technologies. In sum, efforts to bolster the capacity of democracy and human rights groups to advocate for greater openness of the political system could stand to weaken a government deemed essential to advancing other key U.S. interests.

The potential trade-off is much less stark in other post-communist countries where regime instability is either a low risk (e.g. Russia, where President Putin remains highly popular) or of less concern (e.g. Belarus, where the downfall of Alyaksandr Lukashenka's Stalinist regime would be welcomed in Western capitals). Still, a robust civil society better able to press its demands with governments that may have a modicum of political will but lack the capacity to respond effectively, has not always been welcomed by host-government reformers or bilateral and multilateral donor allies who worry about ill-advised concessions to popular demands.

It is certainly the case that new pro-reform governments in Ukraine and Georgia like their predecessors in Slovakia, Bulgaria and elsewhere find themselves under greater pressure to deliver, especially on the socio-economic front, and face greater scrutiny precisely because civil society is a potent force in political life. On the other hand, governments that come to power through popular democratic movements as in Poland and Czechoslovakia have tended to enjoy more room for maneuver owing to the greater legitimacy and concomitant patience they are accorded by the citizenry. Governments committed to political and economic reform also are more likely to create conditions conducive to NGO sustainability (i.e. the countries regarded as the most democratic register the best scores on the *Index*) even as they attract many NGO veterans, leaving the Third Sector at least temporarily depleted of some of its most capable leaders.

IMPEDIMENTS TO BUILDING A ROBUST NGO SECTOR

Balancing competing and at times orthogonal U.S. interests in empowering citizens to influence decisions that affect their lives while bolstering stability is but one of the challenges involved in the larger process of promoting NGO sustainability. The ex-communist countries of Central and Eastern Europe and the former Soviet republics continue to confront a panoply of problems that profoundly affect the prospects for sustainability of the Third Sector. Even in countries that have successfully navigated the transition to free-market democracy, civil society still faces formidable challenges in becoming an effective and durable force in national political life. In many countries, stagnant economies, inept and/or authoritarian political leaderships, deficient legal frameworks (covering everything from NGO status to laws on charitable giving), and sharply reduced donor resources combine for an inhospitable climate for achieving sustainability of the NGO sector.

Perhaps having learned the advantages of avoiding unnecessarily antagonizing Western governments and publics, leaders in the least democratic former communist countries/republics are expanding their repertoire of ways to stifle civil society and NGOs to include less heavy-handed tactics. While some regimes still reflexively resort to the club and have engaged in heinous acts against real and imagined political opponents, others also have adroitly employed seemingly legalistic means to scuttle or control civil society. Primarily in the former Soviet Union, governments have used selective enforcement of convoluted tax laws, excessively bureaucratic licensing and registration requirements, creation of compliant state-sponsored groups to compete with genuine NGOs, and other less harsh but nonetheless effective ways to limit the ability of citizens to organize to advance shared interests.

The Sustainability Index reflects the growing political-economic development divide between the western and eastern halves of the former communist empire, which has been ably documented by Freedom House (*Nations in Transit*), the European Bank for Reconstruction and Development (*Transition Report*) and others. Repressive and corrupt regimes in Central Asia, Belarus and parts of the Caucasus alongside democratic backtracking in Russia pose significant obstacles to NGOs --particularly those involved in promoting democracy and human rights-- and their prospective impact on public policy. The Third Sector in Europe's southern tier faces its share of hardships but nowhere near that of their counterparts in most of the former Soviet Union.

The combination of economic decline and authoritarian rule also helps to fuel extremist movements, which in turn are used by some governments already hostile to democracy to justify curbing civil liberties and clamping down on NGOs, political parties, independent media and other non-state political actors. Rampant corruption, transnational crime (principally trafficking in drugs and persons), and the spread of infectious diseases all

contribute to instability and retard socio-economic and political development that would make sustainability for the Third Sector a more achievable goal.

The difficult economic conditions that continue to beset the large majority of the region's population (robust growth rates in some countries, notwithstanding) adversely impacts NGO sustainability not just in terms of diminished prospects for local fundraising, but also in seeking to attract volunteers to power indigenous groups and movements.

Neither philanthropy nor volunteerism is well developed, the latter another of the sad legacies of the communist past when citizens were all but compelled to participate in a kind of contrived public life in the form of state-sanctioned organizations. With so many individuals and families having fallen below the poverty line, recruiting people to donate their money, time and energy to a given cause on an ongoing basis (as opposed to short-term mobilization) has become an even tougher sell. This is all the more true in countries where involvement in democracy and human rights work can be dangerous. So just at a time when there is new hope and also tremendous need, the nascent spirit of volunteerism is being put to the test.

Macro political and economic constraints are not the only brake on NGO sector development. Many of the impediments to Third Sector maturation are internal and cannot be attributed mainly to resource shortfalls. These often self-inflicted shortcomings are chronicled in the individual country reports and include deficiencies in constituency identification and outreach, strategic planning, coalition building, media relations, and financial management to name a few. Together with the aforementioned problematic political and economic environment in which NGOs in the post-communist world have to operate, it is not difficult to see why robust sector sustainability has proven elusive some fifteen years after the collapse of the Berlin Wall.

HOW TO THINK ABOUT SUSTAINABILITY IN THE EUROPE AND EURASIA CONTEXT

Given the raft of challenges confronting civil society actors and donor institutions it is fair to ask what sustainability means in the context of the post-communist space. What are realistic expectations in a part of the world struggling to make the transition to stable, democratic and prosperous societies and which lacks a history of both civic culture and philanthropy? What can reasonably be expected of a relatively young sector in old and brand new countries that have thrown off the decades-long communist yoke less than a generation ago and in many cases traded one form of authoritarian rule for another? How far can NGO sector sustainability advance where highly restrictive regimes impede the all-important requisite legal environment and how much democratic backsliding can the sector be expected to prevent or to weather? Is a linear progression spanning the *Index's* main categories possible? Is the emergence of a small set of generally effective,

financially independent NGOs based mostly in the capital city sufficient to declare success in achieving sector sustainability?

Experts do not necessarily agree on whether the NGO sector should be able to stand on its own after several years of financial and technical assistance. Nor is there a consensus on whether to apply the same standard to different types of NGOs, for example, social service delivery groups versus human rights and democracy organizations or those involved in truth, justice and reconciliation work. The latter set are championing an abstract public good the value of which is often unrecognized by the citizenry, thereby rendering sustainability less feasible. The *Sustainability Index* provides a fairly sophisticated way to gauge headway across several categories by defining different stages within each but the *Index* cannot answer the larger question of what constitutes acceptable progress.

There is legitimate concern even in the most developed of the former communist states that hard-won progress in building an effective NGO sector could be eroded as groups face the reality of greatly reduced donor funding and mediocre prospects for tapping indigenous sources of financial support while contending with a spate of other daunting challenges.

It is instructive to examine the Baltic States and the northern tier of Central/Eastern Europe. As documented in the *NGO Sustainability Index*, the Third Sector in all of these countries has made substantial strides, registering strong scores across the board. And yet the decline in USG resources, even if offset by new funding from the European Union, in tandem with other problems plaguing the sector has demonstrated just how difficult sustainability is to achieve. A mostly NGO-friendly legal environment along with strong marks in organizational capacity, service provision, public image and other dimensions of the *Index* still do not ensure overall long-term viability. In many cases, the sector remains vulnerable to forces both within and beyond its control.

This reality is one of the main motivations behind USAID's central role in establishing post-presence assistance mechanisms to support civil society after the Agency closes its Missions. These innovative mechanisms involving other national and foundation donors constitute an implicit recognition that sustainability remains a long-term objective even in the countries that are farthest along in the post-communist transition.

EVOLUTION OF USAID CIVIL SOCIETY PROGRAMS

Issues related to sustainability should be viewed in the broader context of changes over time in USAID's thinking about civil society and NGOs. The institution is not monolithic but it is possible to trace the evolution of a dominant orientation, the content of which has been influenced by the Agency's own on-the-ground experience and important works in

the academic literature and foreign policy commentary. (See Stephen Larrabee's essay on some recent works on civil society.)

USAID's view of civil society and corresponding expectations about the NGO sector's ability to bring about fundamental change has predictably evolved since the Agency first began democracy and governance programming in the former communist countries/Soviet republics. In the early days, USAID saw civil society largely as an end in itself, a pillar of a well-functioning, robust democratic polity. The hegemonic position of the communist party and the virtual elimination of any competing source of power and authority, whether NGOs, business entrepreneurs or the Church, led assistance decisionmakers to place a high value on the emergence of civil society as a bulwark of a democratic system.

Questions of effectiveness and impact were secondary considerations, though advocates of support to civil society could point to the Velvet Revolution in Czechoslovakia and the triumph of Solidarity in Poland as evidence of civil society's ability to influence political outcomes. For the most part, the emphasis was on expanding the size of the NGO sector and boosting citizen participation. Policy-centered organizations were not necessarily privileged over social service delivery groups, owing to the sound premise that in countries where civil society had all but been proscribed, citizens joining together for even narrowly self-interested ends represented enormous political progress. Perhaps reflecting the less targeted goals of the early period, funding of the Third Sector was not terribly strategic. The guiding principle appeared to be 'let a thousand flowers bloom,' an approach content to spread assistance resources fairly widely and wait to see where it gained the most traction.

Over time and for a variety of converging reasons, decisionmakers in Washington and the field developed higher expectations with respect to the impact of efforts to support the NGO sector. Part of a larger shift toward results-based programming, the Third Sector was increasingly judged on its ability to effect change, particularly policy at the national level --albeit allowing for poorer performance in the more repressive political environments. As a consequence, civil society programs, including those to fortify NGOs, became more targeted and focused on contributing to the introduction and implementation of second-generation political and economic reforms. It remains a question for debate whether the tilt away from service provision organizations was the product of a false trade-off between different kinds of groups. NGOs in various regions of the world, most notoriously groups such as Hamas and others affiliated with radical Islamic activists, have demonstrated the effectiveness of using a primarily service delivery strategy in order to leverage advocacy and political mobilization potential of beneficiaries and the wider population.

Another aspect of the evolution in thinking and practice with respect to USAID's approach to civil society strengthening involved the gradual shift in focus by the Agency and other donors to geographic areas beyond the national capital and other major urban

centers so as to support organizations in the provinces. In the early years of assistance in this sub-sector, USAID and other donors unconsciously reinforced the hyper-centralization of the Soviet period in which urban-based elites viewed the regions with disdain, which goes a long way to explaining a history of enormous disparity in resource allocation between center and periphery.

It is not hard to see why foreign funding for NGOs initially went disproportionately to groups clustered in the national capital. The leaders of these groups were often courageous, compelling men and women, highly- Westernized English speakers who seemed well positioned to effect change and were keenly attuned to what donors wanted. But the organizations they headed were all too frequently personality-driven entities that lacked both capacity and influence with policymakers and were wholly isolated from the larger body politic.

The U.S. and other donor nations came to appreciate the importance and instrumental value of strengthening civil society in smaller municipalities and rural areas. The majority of these groups were engaged in social service delivery, filling part of the void left with the collapse of the much-vaunted communist cradle to grave social welfare system. At one level this seemed at odds with the increasing priority accorded advocacy-oriented organizations seeking to influence the course of government policy. But it also was a recognition that a country's political future is not determined solely by elite-level machinations in Moscow or Kyiv or Belgrade. Not only did the regions matter in this regard but USAID, confronted with national governments hostile to reform and conscious of growing disillusionment vis-à-vis the implicit promise of free-market democracy to improve people's material circumstances, balanced its support for national think tanks and advocacy organizations with funding for grassroots groups trying to address day-to-day struggles confronting the citizenry.

There is good reason to think that this dual track strategy has contributed to enhanced sustainability of the sector by forging links between NGOs and communities and implementing programs that have readily identifiable beneficiaries. Organizational capacity, sector infrastructure and public image improved in many countries as did the know-how to provide services and to tap into local resources. More surprising is that advocacy at the grassroots level was also strengthened as NGOs found themselves seeking to influence governmental processes at the municipal level, often times having greater success, for example, in expanding opportunities for popular participation -- through public hearings on the budget, town hall meetings, community development committees-- than their better-funded counterparts in the capital and other major cities.

Still, USAID had set a more exacting standard for civil society in terms of catalyzing the acceleration of reform at the national level. With the State Department and USAID emphasizing graduating countries from USG assistance, program architects and managers

were anxious to see movement along the reform path and a plausible case that the U.S.-supported Third Sector had contributed to the outcome.

Judged against this tougher standard, civil society was hard pressed at times to fulfill the expectations of some donor agencies. With the notable exceptions of civil society's prominent role in the ouster of Serbian strongman Slobodan Milosevic and the defeat of the Meciár government in Slovakia, the Third Sector was seen as failing to propel significant progress on economic and political reform and as having limited effectiveness in preventing democratic backsliding across much of the post-communist landscape. Popular political mobilization in Georgia, Ukraine and Kyrgyzstan in response to election malfeasance by sitting governments has rekindled expectations among both activists in the region (and beyond) and donors that civil society can be instrumental in producing fundamental political change.

Whether these greater expectations are based on an accurate analysis of the breakthroughs in Georgia and Ukraine is a subject of inquiry among regional and functional specialists inside and outside USAID. Key questions include: What role did long-standing USG support for the Third Sector play in helping to lay the groundwork for developments in those two countries? What are the implications for present and future programming? What if any generalizations can we make about the efficacy of support for NGOs? Where and how should USAID target its limited resources?

Assessing the impact of civil society on macro political processes is not the same as gauging progress of the NGO sector with respect to sustainability. That Ukrainian NGOs were pivotal in Viktor Yushchenko's becoming president does not necessarily tell us about the sector's prospects for long-term viability. This points up a potential minor tension between competing imperatives in the democracy sphere. On the one hand, USAID is firmly committed to helping the Third Sector become a vibrant and enduring part of the post-communist political landscape. The Agency has dedicated considerable time, energy and resources to enhancing the NGO sector's staying power, including devising legacy mechanisms to provide post-presence support. On the other hand, there is a natural inclination to press NGOs to demonstrate near-term impact (at its most ambitious, bringing about regime change in quasi-democratic or full-fledged authoritarian systems) that may entail approaches that are not necessarily the most efficacious choices if the paramount goal is sustainability.

Near-term success can be pivotal to the prospects of longevity but trade-offs between the two objectives cannot be ruled out. Stated differently, does USG emphasis on sustainability encourage the Third Sector to adopt strategies that may well increase its long-term potential but which miss or even retard promising near-term opportunities for advancing democracy-related goals? In practice, these two goals are quite compatible. Support to NGOs to help them develop the set of skills they need to exploit sudden targets of opportunity to influence political outcomes will not work at cross purposes

with efforts to promote sustainability in the form of headway across the various dimensions that comprise the *Sustainability Index*.

Evidence of congruence can be found in the fact that among the former Soviet republics, Ukraine, Georgia and Kyrgyzstan, the three countries most recently rocked by popular (and at least in the first two cases, democratic) movements, received the highest score in the 2003 version of the *Sustainability Index*. To be sure, the capacity to mobilize supporters for short-periods ought not be confused with long-term staying power. But the ability to organize effectively, to work in coalitions, to advocate forcefully on behalf of a few galvanizing ideas, and to use the media with considerable skill all reflect discernible progress in key *Index* categories.

REFLECTIONS ON MEETING THE CHALLENGES OF NGO SUSTAINABILITY

In looking at the broad sweep of countries that fall within the purview of the *NGO Sustainability Index* and even taking account of the shared legacy of communist autocracy, increasing variation since the collapse of communist rule makes it difficult to generate even qualified generalizations about efficacious strategies and approaches to bolster NGO sustainability. Moreover, this essay does not offer an in-depth evaluation of past and present programs so as to yield confident conclusions about best practices. Rather, this section presents some key findings and highlights a select number of innovative ideas and initiatives pursued by field Missions and USAID/Washington that hold out promise to advance the capacity of the Third Sector in the various *Sustainability Index* categories.

Across the region, USAID Mission staff and their Washington colleagues are implementing a range of programs designed to strengthen the Third Sector so it help shape political developments in the short-term while acquiring the combination of skills and resources to persist in those efforts over the long haul.

A reading of the individual country submissions makes clear there is no one model strategy or program that will ensure NGO sector viability. Similar approaches have met with widely different levels of success in seemingly comparable countries.

It remains the case that efforts to fortify NGO sector sustainability should be tailored to the particular circumstances of the target country. The starting point must necessarily be a deeper understanding of the constellation of inter-acting forces that drive the evolution of that society. This is the rationale behind the Office of Democracy and Governance developing a strategic assessment framework, which is supplemented by sector specific assessments. Taken together, these analytical applications help answer first-order questions for program architects and managers. Who/what are the fundamental drivers of change? Who/what are the major impediments to realizing that goal and how can they be

overcome? Answers to these and other first-order questions must undergird any attempt to devise an assistance strategy to promote NGO sustainability.

* Recent events in Ukraine, Georgia, and Kyrgyzstan, and earlier in Azerbaijan and Slovakia, illustrate the **potential catalytic role of elections in galvanizing political parties and civil society** in the face of actual or perceived illegalities perpetrated by ruling elites intent on retaining their hold on power despite flagging support and legitimacy. Importantly, all of these countries could be considered quasi-democratic/authoritarian in that there existed some latitude for political contestation (e.g. opposition political parties, functioning democracy and human rights NGOs, elements of an independent press), though by no means a level playing field. Reaching back a bit further, even Serbia on the eve of Milosevic's ouster from power was characterized by the active engagement of opposition political forces, which had actually succeeded in defeating ruling party candidates in mayoral elections in the major cities prior to the contested presidential election that brought down the dictator. In most of these cases, NGOs and pro-reform political parties also learned a great deal from earlier unsuccessful political mobilizations that served as something of a dress rehearsal.

The impact on the NGO sector in each of these election-centered mobilizations was to raise the sector's sustainability quotient in many of the *Index's* main categories. This suggests that local NGO actors with support from donors should continue to approach elections as both singular events around which to organize pro-reform constituencies and as part of a longer-term and larger process of citizen-centered accountability and broad-based participation in public life.

* Introducing and **integrating a concern for sustainability at the earliest stages of large-scale assistance** appears to increase significantly the likelihood of sector progress in that direction. Challenging assistance recipients and the sector as a whole to internalize the goal of sustainability from the outset and to orient their organization strategy accordingly does pay dividends. At a minimum, this involves getting groups to think seriously about revenue-generation, whether charging for in-demand publications, providing services (e.g. technical advice, training), becoming a membership-based organizations with dues-paying members, putting together a viable fundraising strategy or other ideas.

* More ambitiously, donors could **make local capacity building a core requirement of all civil society related programs** as well as of interventions in other areas where NGOs could play a role, whether health, humanitarian relief, social sector restructuring or even economic growth. The establishment of intermediary support organizations (ISOs) and NGO resource centers, which have been a signature feature of many USAID country strategies, provides a firm foundation. Nurturing a 'sustainability mindset' would also seem to require a greater emphasis on local ownership, including a partnership with donors that cedes to indigenous groups more decisionmaking authority over priorities and strategy development.

* **NGO-government relations** have improved in virtually all of the countries covered by the *Index*, including in some of the most authoritarian, where local officials have cooperated to mutual advantage with NGOs and civic groups. Conscious of the need to maintain independence and vigilant in safeguarding their watchdog function, NGOs are eagerly demonstrating they are skilled and valuable partners in meeting society's development challenges through delivery of social services, informing citizens, protecting minority rights, helping to craft and secure passage of legislation, training government officials etc. However, for those organizations engaged in democracy and human rights work, particularly in more authoritarian political settings, government funding is rarely available or appropriate.

* One of the more innovative ideas that has been tried in several countries with discernible impact is the **creation of community-based foundations**. Given the generally lower level of socio-economic development found in the provinces compared to the capital and other major cities, it may seem surprising that these foundations have met with success. But organizations that are firmly embedded in the community and that carry out work that affects people's lives in tangible ways are more likely to elicit support, including financial backing, even where monetary resources are scarce. (See David Moore's essay on promoting financial sustainability.)

* Another promising idea that is gaining wider application is **legislation that allows individual citizens to direct a small percentage of their tax bill (usually 1 or 2%) to non-profit organizations**, including NGOs. Hungary was one of the pioneers and several other Central European and Baltic countries have followed suit. The advantages and drawbacks of "percentage philanthropy" are discussed elsewhere in this report. Suffice to point out here that these mechanisms appear to have generated more resources for the sector as a whole but still represent a small percentage of total sector revenue and hence do not constitute a solution to the ongoing challenge of long-term financial viability.

* **Post-presence and legacy mechanisms**, as mentioned elsewhere, were established as a way to ensure an ongoing level of financial and technical support for the NGO sector following the phase out of USAID assistance. With an eye toward fortifying sector sustainability, USAID secured additional funding and adroitly helped to leverage resources from large foundations and other governments. The well-founded motivating concern behind the concept of post-presence mechanisms was that an abrupt termination of U.S. assistance would cause the NGO sector in a given country to undergo a significant disruption that could put at risk hard-earned progress to date and push into the distance any hope of sustainability.

* **Public-private collaboration** between host-country NGOs and the international and local business communities is expanding, generating an alternative source of funding and creating opportunities for civil society and private sector cooperation in pursuit of common interests, such as combating corruption, promoting business associations etc. With the assistance of USAID and other donors, NGOs across the post-communist space have employed a variety of ways to link with indigenous and foreign for-profit firms,

occasionally in a tripartite arrangement with the host government, at both the national and local level.

* **Forging effective coalitions** is an area widely acknowledged to require significant improvement if the NGO sector is to gain a permanent foothold in the post-communist political terrain. The overall record of forming coalitions with the requisite capacity and leadership to effect change and to advance Third Sector long-term viability is decidedly mixed. But across the region, home grown and donor-instigated efforts have resulted in more, better coordinated activity undertaken by coalitions. Especially in repressive countries where the overriding common problem is so evident, NGOs have a powerful incentive to work collaboratively, for example, on enactment/ enforcement of laws that affect the sector, public outreach, resisting government harassment etc. Multi-pronged anti-corruption campaigns have shown promise in settings as diverse as Albania and Russia. There is reason to hope that coordinated action in the Rose and Orange Revolutions will give a boost to coalition building efforts beyond Georgia and Ukraine. Effective coalitions do not guarantee Third Sector longevity but feckless ones divorced from the citizenry almost certainly preclude that outcome.

The **establishment of secretariats** to help carry the administrative and coordinating burden of coalitions has been used to some success in a few countries. A comparable, more common approach has been the **creation of umbrella organizations** under which NGOs with different issue orientations and varying levels of influence can gather in pursuit of a shared goal. Another strategy designed to boost coalition vitality and impact while also embedding NGOs more firmly in the larger society is to **include both urban-based and local community groups and to forge links between them**. The combination of some groups focusing on national policymakers while others build grassroots support in favor of desired reforms has proven effective in several former communist countries of varying levels of political and economic development.

The cause of NGO coalition building and of sector sustainability more broadly would be aided by **better coordination among the key donors at the country level**. Differing agendas and other structural constraints make this easier said than done but trying to devise a more or less common strategy (preferably starting with joint sector analyses) for supporting civil society would be a welcome first step. With overall U.S. assistance to the region in decline, USAID has every reason to cooperate with other donors to agree on a division of labor that exploits their respective comparative advantages in order to maximize programmatic impact. When donors are on the same page they are better positioned to encourage groups, which can be reluctant to cooperate with competitors for funds, to identify areas of common interest and develop a strategy to pursue them.

* As part of a concerted effort to connect to the larger body politic, **NGOs have to hold themselves to a higher standard in terms of accountability and integrity**. NGOs can claim impressive headway in overcoming the negative image that has dogged them since the fall of communism. The low standing in which the sector was held has its genesis in a residual mistrust of virtually all organized political activity and the questionable behavior of some individuals and groups in winning grants from donors but doing little to advance

the goals of reform and a better life for beleaguered citizens. Occasional misuse of funds --enthusiastically chronicled by a cynical press-- has also hurt the Third Sector's public image.

In addition to having to overcome the popularly-held view that most NGOs are out of touch with the day-to-day concerns of ordinary citizens, **NGOs need to counteract the perception that they do not follow their own advice when it comes to promoting good governance, transparency and accountability.** The sector has a ways to go in putting those principles into practice internally in conducting its own affairs. The prominent role played by NGOs and civil society activists in the revolutions in Ukraine and Georgia will help to raise the visibility and burnish the image of NGOs but should not lessen the urgency of efforts to garner public confidence through Codes of Conduct, solid board oversight and other measures supported by USAID civil society strengthening programs to infuse democratic principles and quality management. These steps underscore an admirable, growing acknowledgement on the part of many leading NGOs in the region of the need for effective self-regulation if the Third Sector is to overcome persisting public skepticism and bring its own behavior in conformity with the values and reforms it strenuously champions.

* **Relations with the media**, another area with considerable room for improvement on the part of the NGO sector, **have benefited from training programs that bring together journalists and NGO officials.** These sessions are reported to have increased the quantity and quality of coverage of Third Sector activities --more at the local than the national level-- and given NGO leaders greater access to the press. These links also better position NGOs to influence public policy discourse and to connect with present and future supporters, which in turn, contribute to long-term sustainability, especially for groups that develop integrated communications/outreach and fundraising strategies.

* **Training and exchange programs**, long an important component of USAID civil society strengthening efforts, **have lacked follow-up and any way to gauge impact.** In many post-communist countries and former Soviet republics, program implementers have begun to track participants and help establish alumni groups ranging from judges to high school students. This gives program managers a much better sense of the degree to which participants apply what they learned. These networks also provide a conduit for disseminating ideas and a mechanism for organizing like-minded, usually pro-reform, citizens for lobbying and other political objectives. There is a consensus that the full impact of well-crafted training and exchange programs is more fully realized in the long-term and this would seem to apply to NGOs as well insofar as the sector's chances for sustainability are markedly increased by these programs.

Two final observations bear mentioning. First, the **NGO sector** in almost every country continues to grapple with the complicated issue of its **relationship with political parties.** For readily defensible reasons, NGO leaders have generally proceeded cautiously if at all down this road. Particularly in highly polarized political environments, prominent NGO activists have consciously tried to nurture a popular perception of independence and non-partisanship even as they engage head-on in the most fundamental of political struggles.

With few exceptions, they have avoided close collaboration with ruling or opposition political parties for sound tactical reasons (i.e. in order to portray themselves as not having electoral ambitions but only the public's best interest at heart) and perhaps because they also understand that even when reformers come to power, NGOs still have a crucial role to play in holding the new team of decisionmakers accountable, in advocating for policy reform etc. How to work in common cause with political parties on a given issue without compromising the Third Sector's non-partisan orientation is a challenge requiring adroit leadership and coordination among leading organizations and is also best dealt with on a country-by-country basis.

Lastly, it is well understood by program designers and implementers that their **efforts to bolster civil society and render the NGO sector more sustainable are far more likely to yield meaningful results if closely aligned with broader policy and diplomatic objectives**. This is again all the more true in repressive political settings, which make democracy and governance work both harder and more controversial. Given that NGO sector sustainability and hospitable political environments are so closely correlated, USG efforts to press host governments to permit greater space for civil society and, more expansively, to view indigenous NGOs as capable and valuable partners in the development process, are indispensable to the goal of Third Sector sustainability.

CONCLUSION

The NGO sectors in many countries in the Europe and Eurasia region have registered impressive progress toward the highly desirable goal of sustainability in the years since the collapse of communist rule. In other countries, the road is much longer and more daunting. Yet even where the sector has made the most impressive gains, it is far from achieving long-term staying power. Dissemination and possible replication of best practices, tighter congruence between program and policy, greater ownership and strategic collaboration by host-country NGOs all have potential to contribute to sustainability. At the same time, expectations more closely aligned with the reality of contemporary challenges, especially for democracy and human rights groups that often serve as the courageous and locally undervalued vanguard of the Third Sector, would be an important step.

The inspiring popular democratic movements in Ukraine and Georgia along with a number of promising innovations emerging from the ranks of NGOs across the full span of the former communist empire offer a vivid reminder that the Third Sector is a resilient, dynamic, powerful and potentially enduring force helping to shape the evolution of these societies in transition.

LAWS AND OTHER MECHANISMS FOR PROMOTING NGO FINANCIAL SUSTAINABILITY

*David Moore*¹

INTRODUCTION

Among the most pressing questions facing the non-governmental, not-for-profit (NGO) sectors in countries in the CEE/Eurasia region is financial sustainability. From Albania to Uzbekistan, NGOs are still predominantly dependent on foreign donor funding. In many countries of the region, foreign donors are withdrawing or reducing their levels of support, thereby increasing the urgency of the challenge of long-term sectoral sustainability.

This paper seeks to present an overview of legal mechanisms that have emerged in the region of Central and Eastern Europe (CEE) and the Newly Independent States (NIS) relating to financial sustainability, and particularly, for promoting indigenous sources of NGO funding. Section I sets the context by examining potential NGO income sources. Section II provides a brief overview of good regulatory practices that support a sustainable sector and have developed as trends in the region. Section III then turns to highlight innovative funding mechanisms that contribute to financial sustainability of the NGO sector.

This paper does not seek to focus on the financial sustainability of any individual NGO, but rather on legal and infrastructure aspects of financial sustainability of the NGO sector as a whole. Any of the good practices and innovative mechanisms highlighted here may be appropriate for some NGOs but not appropriate for others. In considering the sector as a whole, however, it is important to adopt a holistic approach, as we find below.

CONTEXT: SOURCES OF NGO INCOME

To appreciate the challenge of financial sustainability it is necessary to understand the potential sources of revenue for the NGO sector. This is particularly true in countries where the NGO sector is largely dependent on a single category of NGO income. While there is, of course, tremendous variation in the sources of NGO revenue among countries and NGOs within any sector, there are at the same time identifiable trends of NGO financing.

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Nearly all NGO revenue falls within three broad categories. They include (1) government funding, and (2) private giving, or philanthropy, and (3) self-generated income. Government funding includes a broad range of direct and indirect support. Direct funding comes in the form of state subsidies, government grants, and contracting. Exemptions from taxation can be considered a government subsidy. Private giving usually comes in the form of cash and in-kind donations from individuals, businesses, and foundations or other grant-making legal entities. The efforts of volunteers may also be considered donations and can be embraced by the concept of philanthropy. Self-generated income includes membership dues, fees and charges for services (that is, economic activity), as well as income from investments.

In 2003, the John Hopkins University Comparative Nonprofit Sector Project published a comparative analysis on global civil society, which based its findings on research in 35 countries, including five countries of Central and Eastern Europe.² Among other issues, the overview examines the sources of NGO income. The results are revealing:

- Self-generated income is the dominant source of revenue in nearly every country surveyed (53%);
- Government or public sector support also ranks as a significant source of NGO income (35%);
- Private giving – that is, individual, corporate and foundation-based philanthropy – accounts for a smaller portion of NGO income (12%).

It is critical to underscore that there is no ‘magic bullet’ for the financial sustainability of the NGO sector. Solutions to the challenge of sectoral sustainability must lie in a holistic approach, recognizing the relative importance of all categories of NGO income.

LAWS AND MECHANISMS TO PROMOTE FINANCIAL SUSTAINABILITY

Good regulatory practices have emerged in many countries throughout the region to support the financial sustainability of NGOs. Each major category of NGO income, from self-generated income to government funding to private philanthropy, can be encouraged through appropriate regulatory mechanisms. While not all countries have adopted such progressive regulatory approaches, they are common enough to be identified as trends and referred to as ‘international good practice.’

Government support

Government support comes in the form of tax exemptions – in effect, indirect government subsidies – and in the form of direct financing, via budget subsidies, grants

² The study included 16 advanced industrialized countries, 14 developing countries from Africa, Asia and Latin America, and five countries from Central and Eastern Europe, including the Czech Republic, Hungary, Poland, Romania and Slovakia. See “Global Civil Society: An Overview,” Lester M. Salamon, the John Hopkins Comparative Nonprofit Sector Project, 2003.

for specific purposes, and contracts to perform certain work. Tax exemptions recognize that NGOs are using income to pursue a not-for-profit mission, often for the public benefit. For example, income from grants and donations is typically exempt from income taxation. Direct government financing is growing in importance as an income source for NGOs. As recipients of government grants and bidders for government contracts, NGOs are becoming increasingly engaged in service delivery. Legal frameworks generally allow NGOs to receive government funding and, to a somewhat lesser extent, to participate in public procurement procedures. Furthermore, governments in several countries have developed innovative approaches to government funding, from the creation of public funds to taxpayer allocation mechanisms.

Private philanthropy

The most common mechanism for encouraging individuals and corporations to make cash and in-kind donations to NGOs is through tax incentives for donors. Corporate tax incentives for giving to NGOs are commonly available throughout the region, and generally in the form of tax deductions.³ Individual tax incentives are also available in a substantial number of countries. While important, tax incentives are not sufficient to promote corporate philanthropy; donors give based on a variety of motivations, of which tax preferences are only one. The establishment of community foundations in several countries has sought to appeal to a wider spectrum of donor interests in giving. At least equally, if not more important to NGO sustainability are the donated efforts of volunteers.⁴ Yet few countries in the region have developed a framework to support and encourage volunteering.

Self-generated income

One of the most significant issues affecting the ability of NGOs to generate their own income are the laws and regulations governing income from economic activities. In nearly all countries, NGOs are able to engage directly in economic activities, within certain defined limitations. Furthermore, in many countries, income from economic activities is exempt from taxation, albeit to a limited extent. Critical to many associations and membership organizations is income from membership dues; such income is exempt from taxation in nearly all countries in the region.

Grant-making foundations may rely significantly on investments and the income generated from those investments, in the form of interest, dividends, and capital gains. While a substantial number of countries in the region do provide full or partial exemptions from taxation of investment income, few countries have created an environment that supports the maintenance and growth of endowments.

³ The only countries that do not provide donor incentives for corporate giving to NGOs are Azerbaijan, Belarus, Macedonia and Russia. Reform initiatives are underway in Macedonia to provide such incentives.

⁴ According to the John Hopkins study referenced above, the picture of civil society organization revenue changes when the contributions of time represented by volunteers are added to the contributions of money and treated as part of philanthropy. The resulting proportion of sector revenue breaks down as follows: self-generated income (43%), government support (27%) and philanthropy (30%).

MECHANISMS TO PROMOTE FIANCIAL SUSTAINABILITY

Government Funding

Funding trends indicate that government funding is the second largest source of NGO revenue internationally (second to self-generated income). Indeed, for NGOs engaged in health and social service activities, government funding represents the predominant source of income in most countries. And in many EU countries, including Ireland, Belgium, Germany, the Netherlands, France, Austria and the U.K., government funding represents the largest source of revenue for NGOs. This Western European funding pattern is indicative of the significance of the welfare partnership approach, in which the state provides financing for public services, but relies on NGOs for their delivery.⁵

It is inevitable that CEE/Eurasia governments with shrinking resources will increasingly look to partnership with private actors to deliver public services. Yet the potential impact of government funding is far broader and can potentially affect the entire NGO sector, including advocacy and human rights organizations. Government funding takes many forms, from tax exemptions to subsidies and grants, to more innovative mechanisms, which we will examine here.

Percentage Philanthropy

A tremendous amount of attention has been devoted to the rise of percentage philanthropy in recent years – and for good reason. Percentage philanthropy – that is, legal mechanisms allowing taxpayers to allocate a certain percentage of their tax payment to beneficiaries, including NGOs – is one of the most truly innovative funding mechanisms to have emerged from Central and Eastern Europe. Nevertheless, it is not without controversy. Nor is it not a panacea for NGO sector sustainability.

The first controversial issue relates to how to classify taxpayer allocation mechanisms. The very name “percentage philanthropy” directly labels this mechanism as philanthropic giving. After all, the taxpayer is choosing to give a percentage of his tax payment to a private beneficiary rather than to the State. At the same time, the money received by the beneficiary is government money (that is, money owed by the taxpayer to the State) and not a donation of the taxpayer’s own money. In this way, the taxpayer allocation seems to fall more properly within the category of government funding. At best, the percentage mechanism can be seen as a hybrid and called transitional philanthropy.

Hungary introduced the mechanism to Central Europe in 1996, where it has become known as the “1% Law.” Interestingly, the initiative came from the Ministry of Finance, and the goal was to increase resources for NGOs, while also promoting development of a philanthropic culture. Individual taxpayers can designate 1% of their taxes to an NGO (and 1% to a church). There is no cost to the taxpayer; the allocation simply requires

⁵ See “Global Civil Society: An Overview”, Lester M. Salamon, the John Hopkins Comparative Nonprofit Sector Project, 2003.

filling out a form and submitting that form with the filing of tax returns. To be entitled to receive 1% contributions, a foundation or association must carry out public benefit activities.

Following Hungary's lead, several other countries have adopted similar mechanisms: Slovakia, Lithuania, Poland, and most recently, Romania. In Slovakia and Lithuania, taxpayers can designate 2% of paid tax to NGO beneficiaries. Corporations can also take advantage of the 2% allocation in Slovakia. Poland uses a somewhat different procedural approach by requiring the taxpayer, rather than the tax authority, to transfer an amount equivalent to up to 1% of his or her income tax.

The second and more controversial issue relates to the true impact of the percentage mechanism on NGO sustainability and on the development of a more philanthropic culture. There are clear positive benefits to NGOs. First, the sector benefits from receiving a pool of unrestricted funds. In 2001 alone, for example, the equivalent of more than 15 million USD was allocated for NGOs in Hungary. In 2004, the equivalent of more than 22 million euro was allocated to NGOs in Slovakia. Second, NGOs have increased incentives to reach out and develop stronger links to the community, thereby improving their marketing skills and public image. Third, taxpayers develop a greater awareness of civil society and the contributions that NGOs make to society. This may be especially important in countries with low levels of trust and understanding of civil society and may signify an important shift to a more philanthropic culture.

The challenges and limitations of the percentage mechanism are also clear. Despite the impressive amounts allocated to NGOs in Hungary and Slovakia, these resources represent only a small fraction of overall sector revenue; in Hungary, for example, taxpayer allocations are less than 1% of overall sector revenue. Moreover, there is little room for growth of this category of income, as taxpayers are limited to giving only 1%, and in Hungary, the number of taxpayers who designate seems to have reached a plateau of about 35%. In addition, the most likely beneficiaries are those NGOs pursuing causes that resonate with the public (children, animals, disease prevention).

Perhaps most troubling, however, is the impact of percentage laws on "true" philanthropy. A taxpayer may be less likely to make actual donations, because of a sense that he or she has already 'given' to NGOs through the taxpayer allocation. In both Slovakia and Lithuania, following the introduction of the percentage mechanism, the government abolished traditional donor incentives for individuals (and corporations in Slovakia). The net impact on both NGOs and philanthropy could turn out to be negative; in other words, the NGO sector may receive less funding over the long term and fewer individuals and corporations may engage in philanthropic giving. It is too early to assess the full impact of the percentage mechanism, but it does appear to bring mixed blessings.

Privatization Proceeds

The privatization of state-run enterprises has been a pressing and problematic issue in countries across the region during the past 15 years. The Czech Government developed a

truly innovative approach in its privatization process, which provided a significant boost to NGO sustainability, by creating the Foundation Investment Fund (FIF) and by distributing 1% of all privatization proceeds to the Fund, for re-distribution to foundations as endowments. The FIF is governed by a board, which includes representatives elected both by the government and by the NGO sector.

In 2002 alone, 27 million euro was distributed to 64 foundations by the FIF. One-third of all Czech foundations received significant contributions from the FIF. This distribution process created the need for more enabling legislation and led to the enactment of amendments to the Czech Foundation Law (see above). In 2002/2003, there were more than 330 registered foundations in the Czech Republic with endowments valued at more than 80 million euros.

Lottery Proceeds

Lotteries and games of chance offer an alternative source of revenue for NGOs. By directing a designated percentage of lottery proceeds to public benefit purposes, the Government can provide significant support to the NGO sector. In Croatia, for example, the Government directs 50% of proceeds from the national lottery to support certain public benefit purposes, including amateur sports and civil society. Of these proceeds, 14% is currently sent to the National Foundation for the Development of Civil Society (see below), which in turn provides funding to NGOs and community initiatives. Similarly, in Montenegro, the Government has established a lottery mechanism and directs approximately 60% of lottery proceeds to finance plans and programs of organizations active in social services, humanitarian activities, and other public benefit areas, though the criteria for distribution of the funds have yet to be defined. In addition, in Macedonia, the law provides that 50% of proceeds from games of chance shall be used to finance the programs of associations of disabled persons, sports and for the Red Cross of the Republic of Macedonia. The distribution procedures remain opaque, however.

National Funds and Foundations

Strong NGO/government cooperation is fundamental to a healthy funding relationship. NGO/government cooperation can take many forms, from compacts to government strategy documents, to NGO/government liaison offices. In recent years, both Hungary and Croatia have established public funds or foundations specifically dedicated to support civil society and to provide funding to NGOs. Neither, however, has remained free from controversy.

Hungary's National Civil Fund was created by law in June 2003 as an instrument designed to help provide institutional support to Hungarian NGOs. The Fund is financed by the Hungarian government, which provides matching funds based on the amount of actual taxpayer designations under the 1% tax designation law each year, and in no case contributes less than the 0.5% of personal income taxes collected. Thus, the more money designated by taxpayers, the more money contributed by the Government. At least 60% of the Fund's resources each year will be dedicated to providing institutional support to

NGOs in Hungary. Besides covering the costs of the Fund's administration, the remaining funds may be directed towards the support of various programs related to the development of the NGO sector, including sector-wide events, festivals, international representation, research, education or publications. The highest governing body of the Fund will be a Council, consisting of 17 members, the majority of which (12) are delegated by nonprofit organizations.

The Croatian National Foundation for the Development of Civil Society was established through legislation enacted in October 2003. As a public law, not-for-profit entity, the Foundation's mission is to serve and strengthen civil society in Croatia. The establishment of the Foundation marks a shift from a highly centralized public financing system, in which the Government Office for Cooperation with NGOs played the critical role, into a more de-centralized system. The new model of public financing for NGOs -- in which the National Foundation plays an integral part -- envisages an increased role for multiple stakeholders, including the respective ministries, thus ensuring a more equitable distribution of responsibility among government stakeholders. Accordingly, while the ministries will be responsible for the funding of and cooperation with NGOs within their own jurisdictions, the Foundation will focus on supporting grass-roots initiatives and programs that do not necessarily fall within the competence area of any particular ministry.

The clear benefit of the Hungarian National Civil Fund is that NGOs will have a new opportunity to apply for much needed institutional support. At the same time, NGOs will have an additional incentive to increase their efforts at reaching out to citizens for the 1% designations. There are claims, however, that the Fund is being administered so badly that it may have negative effects on the NGO sector over the long term. (See the Hungary report for more details.) Somewhat similarly, the Croatian National Foundation has been at the center of controversy since the 2004 call for proposals was issued, with claims from some Croatian NGOs that grant decisions were not properly carried out under the law. The future shape and impact of the new National Foundation thus remains uncertain.

Private Philanthropy

Throughout the region, there are significant challenges in developing local sources of income. The development of local philanthropy presents perhaps the greatest challenge. NGOs routinely report low levels of citizen understanding and interest in civil society, leading to low levels of donations in the form of either monetary support or volunteerism. Despite the fact that nearly every country has enacted corporate donor incentives, the complaint that few corporations give still rings loudly. Individuals are even less likely to donate money, given difficult economic circumstances and distrust of the NGO sector.

In promoting the development of a more philanthropic culture, the focus is properly on greater community involvement, stronger ties to constituencies, and civic activism. Undeniably, however, there is a strong beneficial impact on the sustainability of organizations that receive support from philanthropic donations of time and money. It is

through this lens that we will now examine two innovative trends in the area of philanthropy.

Community Foundations

As of September 2004, community funds have been established in several cities in Bulgaria. Four of these community funds have raised a total of \$144,506 in cash and \$69,140 as in-kind contributions from local sources. Foundation resources were then used for a variety of community-based projects, including modernizing streetlights, renovating a public swimming pool, and creating a children's playground.

A "community foundation" is a local not-for-profit organization that works to gather, manage and redistribute local resources for the good of the community. Governed by a cross-sectoral board with representatives of business, government and NGOs, the community foundation has a diversified funding base, fed by contributions from business, local government and NGOs, as well as individuals. Usually organized on the local level, the foundation makes targeted grants to a specific geographic region. In some cases, the foundation will develop an endowment to support its goals.

Bulgaria is not the only country to boast of the growth of community foundations. Indeed, the community foundation concept has gained momentum in several countries in Central and Eastern Europe, and in Russia. In Slovakia, for example, there are at least a dozen community foundations, perhaps the most famous being the Health City Community Foundation. In only a few years after establishment, this Foundation was able to create an endowment of \$300,000. In Russia, at least 15 community foundations have been established and have actively supported scholarships, study visits and exchanges, among other activities.

The impact of community foundations is clear. They raise public awareness of local needs, increase local participation in meeting local needs, stimulate cross-sectoral dialogue and partnerships, and promote individual giving. Finally, the establishment of community foundations can, if managed properly, create a long-term local source of funding for civic initiatives and local NGOs. While community foundations are more about building communities than endowments, the community foundation concept is an important model for promoting philanthropy and the sustainability of the NGO sector.

Volunteerism

While usually viewed through the prism of civic activism, volunteerism is also a critical aspect of NGO sustainability. Indeed, the picture of civil society revenue portrayed above changes when the contributions of time represented by volunteers are added to the contributions of money and treated as a source of philanthropy. According the John Hopkins overview, "the inclusion of volunteers in the revenue stream of civil society organizations boosts the average philanthropic share of total revenue from 12% to 30%. This reflects the fact that contributions of time, even when valued conservatively at the average wage in the fields in which volunteering occurs, are twice as large as contributions of money or material."

Since the UN International Year of Volunteers in 2001, there has been increased attention on promoting volunteerism in many countries, especially in Central and Eastern Europe. With greater attention being paid to the benefits of volunteerism, the importance of the regulatory framework for volunteerism has been brought into sharper focus. An enabling legal framework is one of many factors affecting volunteerism; others include public awareness of the importance of volunteerism, promoting private sector support, and research on the impact of volunteering.

Regulatory barriers to volunteering vary from country to country. Often there is simply no clearly recognized legal status for volunteers. Without a recognized legal status for volunteers, host organizations – including NGOs – may risk violating labor code provisions if volunteers do not receive paid compensation. Contract laws may not recognize a volunteering contract. In addition, unemployed individuals serving as volunteers run the risk of having their unemployment benefits rescinded by the State. Tax laws also may not provide proper treatment for volunteers; for example, tax exemptions may be extended to employees for reimbursement compensation, but not to volunteers.

To overcome these barriers, several countries in the region have launched initiatives to improve the legal framework for volunteerism. Some countries in the region, such as Poland and the Czech Republic, have enacted specific legislation on volunteerism. Other countries, including Lithuania, have adopted amendments to existing regulations in the labor law. In several other countries, including Bosnia, Croatia, Hungary and Russia, specific laws have been drafted and are currently under consideration by the respective governments. A supportive legal framework is even more critical in countries that lack a tradition of volunteering – or have a tradition of ‘coercive’ volunteering, as is the case in some NIS countries. Indeed, in Belarus and Uzbekistan, coercive volunteerism (i.e., government requirements that citizens provide their services free of charge to various public projects) is still practiced.

Self-Generated Income

Key to the long-term sustainability of the NGO sector in any country is self-generated income. The NGO sectors in the Czech Republic, Hungary, Poland and Slovakia already receive the bulk of their revenues through self-generated income.⁶ In the countries of Southeastern Europe and the NIS region, the percentage of income through self-generated income is certainly much lower, but will need to rise significantly to sustain the sector.

Social Enterprises

Enabling NGOs to engage effectively in economic activities is of paramount significance. Once the legal framework is in place, the greater challenge lies with developing the capacity of NGOs. Specifically, more NGOs need to develop available services, financial plans, and business skills to be able to conduct economic activity effectively. ‘Social enterprise’ projects are one approach to addressing NGO capacity. A ‘social

⁶ Czech Republic (47%), Hungary (55%), Slovakia (55%), Poland (60%).

enterprise' is a business venture operated by an NGO with a social purpose. Social enterprise projects seek to empower NGOs to operate income-generating ventures and to make a social impact.

Among the most innovative approaches to social enterprise development is that promoted by the Nonprofit Enterprise and Self-Sustainability Team (NESsT) through the Venture Fund. The NESsT Venture Fund is a philanthropic investment fund providing financial and capacity-building support to a select portfolio of social enterprises owned and operated by NGOs in Central Europe. All of the social enterprises are intended to generate revenues to help diversify their financing bases and further the mission of the nonprofit organization.

For example, "Vydra" is a national association of young people dedicated to promoting sustainable rural development in Slovakia. To support this mission and to sustain its operations, Vydra has launched a "Tourist Camp" designed to encourage tourism and to create local employment opportunities. The camp will include a buffet near the new Museum of the History of Forestry, offering refreshments and meals to tourists, cultural events on an outdoor wooden stage, environmental education programs for schools, and recreation areas for tourists. As another example, a Hungarian NGO – the BTA "Megálló" Group – offers rehabilitation services, self-help, work groups and education for alcohol and drug addicts. Megálló plans to launch an alcohol- and smoke-free social meeting point to generate income and further its mission.

Investment Income

The use of "endowments" as a means for creating wealth to finance grant-making foundations and other organizations is not widespread in the region.⁷ There are, however, innovative approaches that have been adopted in some of the new EU Member States. The approach taken in the Czech Republic is particularly instructive.

The Czech Law on Foundations requires foundations to have an endowment with a value of at least 500,000 CZK (approximately 16,000 Euros).⁸ Due to amendments adopted in 2002, foundations may now take advantage of a wider range of investment opportunities, offering potentially higher yields than the more restricted investments permitted under the prior law. In addition, tax-free investments now include capital gains and exchange rate gains, which should allow further growth of endowments. At the same time, the law contains rules for safe investment, limiting investment in designated high-risk instruments. Foundations are also subject to stricter governance rules and independent

⁷ The term "endowment" is used here to refer to that part of organizational assets consisting of money and/or property dedicated to a specific purpose, which cannot be diminished during the life of the organization; periodic income generated by the endowment may be expended to support organizational purposes.

⁸ It is worth noting that many countries do not require minimum levels of capitalization for foundations. This is a policy decision that depends on the desired concept of a foundation. Grant-making foundations need to have some minimum level of capital; operating foundations do not. In countries requiring foundations to have significant capital (as in the Czech Republic and Slovakia), there should be an alternative non-membership form available that does not require minimum capitalization.

audit requirements. Perhaps most important, foundations may now contract with professional financial institutions to handle their investments and provide consulting. Taken together, these improvements in law and practice have created far more stable conditions for endowed foundations – and therefore for the entire NGO sector in the Czech Republic.

CONCLUSION

Financial sustainability is an ongoing challenge for NGO sectors in countries around the world. As the Index reports make clear, the problem is particularly acute, for the NGO sectors in the transitional countries of Southeastern Europe and the former Soviet Union. Those countries that have been most successful in meeting this challenge have employed a range of legal mechanisms that allow NGOs broad opportunity to diversify their funding bases as appropriate to their organizational needs. As these examples demonstrate, to address the transition of NGO sectors to greater financial sustainability, governments in partnership with NGOs will need to consider the multiple potential sources of NGO income. Issues will include promotion of greater opportunities for philanthropy, but also improved mechanisms for government funding and consideration of frequently overlooked areas, such as support for volunteerism.

THE YEAR IN REVIEW: AN OVERVIEW OF SELECT WRITINGS ON CIVIL SOCIETY IN 2004

*Stephen Larrabee*¹

SUMMARY

As in recent years, 2004 provided scholars, practitioners, students and the general public with a number of note-worthy publications related to civil society, some of which will be of particular interest to readers interested in the Central and Eastern Europe/Eurasia regions. This year, many books and articles seemed to focus on two themes: 1) what exactly is civil society? and 2) how can one measure the effectiveness and the impact of civil society and then use this information to further the goals of the civil society sector? Several useful legal resources were issued this year as well, among them the second edition of *Guidelines for Laws Affecting Civic Organizations*, published by the Open Society Institute -- an excellent overview of the legal issues pertaining to Non-Governmental Organizations. Finally, in 2004 the Social Economy and Law Journal (SEAL) compiled a set of papers that analyzed the cooperation between government and civil society organizations, a timely topic given recent events around the globe.

DEFINING CIVIL SOCIETY

The term civil society certainly has come into vogue in last few years as events have pushed this sector into the spotlight. However, when one asks individuals from major donor organizations, government agencies, the media, or even people on the street how they would define this concept, one is likely to get as many answers as individuals asked. The concept seems fairly simple at first blush, but pinpointing an exact definition has proven quite difficult. Indeed, a review of this year's works which attempt to do just that -- define civil society -- shows that even the leading thinkers on the issue have concluded that no one definition really captures the concept adequately.

Michael Edwards explores, in *Civil Society*, several ways of defining exactly what civil society is and how it affects the world. He reaches a simple conclusion -- there is no one definition. Edwards looks at three different theories on how to define this sector: civil society as *part of a society*, civil society as a *kind of society*, and civil society in the *public sphere*. He argues that all three add value in helping to define and explain what civil society is, but no one theory is all-inclusive.

The first theory holds that civil society can be viewed as *associational life*, one that embraces many different groups and helps bring individuals together to help identify and

¹ The author is Program Director for Central Asia for the International Center for Not-for-Profit Law.

resolve community needs while creating a sense of mutual identity. While this phenomenon does indeed occur, Edwards points out that it is often difficult to distinguish these groups from other entities (government agencies, for-profit organizations and religious movements) and also that associational life can actually curb and deter individual and diverse thinking.

The second theory views civil society as the *good society*, one that represents a consensus on values and norms, and helps to achieve them, by acting to realize the desired results. Once again, the theory is of some added value in understanding what civil society is, but it also falls short in several aspects. For example, the author points out that civil society organizations may well be more concerned with issues that concern a certain group, not society as a whole. Also, other entities, such as government bodies, businesses, and even families, can affect the values and norms of the society as much if not more than civil society organizations.

The final theory turns to the *public sphere* as a way of defining civil society. The public sphere is a place where people gather to discuss and debate issues to help promote a better society. As with the other two theories, Edwards argues that there is some validity to using this definition to help understand exactly what civil society is but it is not comprehensive. The author includes several examples in the book which show how the public sphere can actually be a place where no civil debate ever occurs and special interest groups use the forum to help promote their own ideas.

In conclusion, the author stipulates that all of these theories, along with others, help describe what civil society is and does, but on their own, they fail to suffice in their goal of being a “true” definition of civil society. Considered together, however, they can enable us to understand better why civil society has drawn the devotion of so many people, so many resources, and so much toil, particularly during the past quarter century or so.

Another book that takes an in-depth look at the role that civil society plays is *Creating a Better World: Interpreting Global Civil Society*, edited by Rupert Taylor. As the title suggests, this work focuses on the meaning and significance of civil society at the global level. Taylor notes in his opening essay the many attempts to define and explain exactly what “global civil society” is, as well as the ambiguity and disagreement that have accompanied these efforts. Taylor faults the tendency of most social science work in the field to define global civil society in negative terms, and more particularly, for adopting a non-normative approach to consideration of the global civil society phenomenon (i.e., one that considers the structure of global civil society in terms of the types of organizations of which it is composed). In contrast, Taylor and the contributors to *Creating a Better World*, attempt to advance “a more sociologically informed interpretation of global civil society and its transformative potential . . .”

Specifically, Taylor argues for re-introduction of norms into the definition of global civil society, reflecting that “at a subjective level, the intent of global civil society is to confront neoliberal globalization and create a better world through advocating a fairer,

freer, and more just global order. . .” To illustrate, Taylor includes studies of a number of organizations and social movements, including the Seattle WTO protest, the Genoa G-8 protest, labor movements in the global south, environmentalists in Europe, as well as the work of development NGOs. Taylor suggests that civil society may be best studied by how the actors themselves view these types of movements challenging the status quo, because how the actors view the movement often represents the normative values of the community.

Civil Society in Democratization, edited by Peter Burnell and Peter Calvert, compiles essays presenting different theories of civil society along with critical studies of the role of civil society, and relate this information to the democratization of a society. The book suggests that the term “civil society” now denotes a very different kind of activity than it did in the 1970s and 1980s, when civil society was seen as opposing governmental objectives. In an example of this turn-around, civil society in Central and Eastern Europe now has a role in the preservation of liberal-democratic political systems and free market economies.

Two articles focus in particular on how democracy-building efforts in the CEE region have affected the development of civil society. In the first, “*Democratization in Bosnia: The Limits of Civil Society Strategies*,” David Chandler somewhat provocatively suggests that funding from the European Union and the United States has done little to promote democratization and peace-building, and has mainly created dependency on these nations and furthered disincentives for Bosnians to solve their own problems. Chandler argues that democratic institutions will only emerge after the development of a strong civil society sector, and suggests that the top-down approach of international regulators, like the OSCE mission in Bosnia, and the bottom-up approach of civil society have not complemented each other, adding to further conflicts. He then goes on to suggest that the basic questions of political self-government among other core issues need to be resolved before civil society has space to develop. This will be a daunting task, according to Chandler, because the international community has dictated the process of democratization instead of giving the Bosnian people an opportunity for an active role in the decision-making process in the country.

In “*Building Civil Societies in East Central Europe: The Effect of American Non-governmental Organizations on Women’s Groups*,” Patrice McMahon, analyzes the relationship between American NGOs and women’s groups in Hungary, Poland and Russia. The conclusion she draws is that the influence of American organizations may actually have a detrimental effect on the other NGOs in these countries. She concludes that the western agenda of these NGOs has led to a backlash in the promotion of western feminism, and has led to the development of more indigenous concepts of feminism in these countries.

ASSESSING AND EVALUATING CIVIL SOCIETY

As hard as it is to define exactly what civil society is, it may be even harder to evaluate the impact that civil society has in the world and the benefits that organizations involved in this sector bring to their respective communities. As in prior years, studies have been conducted and articles published that try to measure this impact. Given the purpose of USAID's Sustainability Index – measuring development of civil society organizations – these studies offering alternatives means of assessing civil society's impact are like to be of particular interest to readers of the Index, and they are briefly highlighted below.

In *Civil Society: Measurement, Evaluation, Policy*, Helmut Anheier offers a methodology for analyzing and understanding the impacts of civil society. The author notes the emerging prominence of civil society, and the concomitant need for more and better information to include civil society in policy dialogue. Anheier's work aims to support understanding of civil society, and its place within the broader social sciences, and to facilitate better policy development through a systematic means of collecting and presenting data. The information thus developed should be a useful tool to measure the impacts of civil society achievements and to facilitate improvements.

The book introduces a methodology – the Civil Society Diamond, or CSD -- to assess the contours, strengths, and weakness of civil society in a particular environment as a means of facilitating the development of policy options. The CSD is intended to be an applied research tool. The “points” of the CSD focuses on four dimensions of civil society: structure, values, the external environment, and impact. Anheier details a number of indicators built around these dimensions, and offers preferred, standard and optional measures as to whether these indicators are met. The methodology suggests means of compiling this data to predict civil society's strategic and policy options. This information can then be used to directly influence policy-making decisions. The book includes studies of the application of the methodology to four former communist countries in Central and Eastern Europe and Eurasia: Belarus, Croatia, Estonia, and Ukraine. The use of this new methodology in these countries allowed civil society stakeholders for the first time not only to gather descriptive information and statistics, but also to be active participants in the development, implementation, analysis and discussion of the project.

Anheier's methodology provided the framework for another recent project that aims to provide tools for assessing the impact of civil society – the CIVICUS Civil Society Index. CIVICUS describes the Civil Society Index as a “participatory, action-research project to assess the state of civil society around the world.” Its goal is to create a “knowledge base and impetus for civil society strengthening initiatives.” In 2004, CIVICUS released its paper on the project's design (Volkart Finn Heinrich, “Assessing and Strengthening Civil Society Worldwide” 2:1 CIVICUS Civil Society Index Paper Series (2004).) The paper describes the project methodology, which anticipates implementation by local civil society organizations in a given country, and has been applied in 60 countries thus far. It provides in addition the 74 indicators that were built around the CSD dimensions.

Global Civil Society: Volume Two: Dimensions of the Nonprofit Sector, prepared by Salamon, Sokolowski, and Associates, continues a well-known and regarded effort to assess the effectiveness of civil society. The book introduces a new “Global Civil Society Index” to provide information on the nonprofit sector in 36 countries. The Index helps measure the development and sustainability of civil society and focuses on several different components, considering, among other issues of significance in the development of the non-profit sector: the privatization of the state welfare system; fostering legitimacy of the non-profit sector through self-regulation; capacity building and sustainability of the non-profit sector. The Index includes examples from the CEE region, such as its consideration of the development and sustainability of civil society in Poland. This work highlights the significance of time in the development of the non-profit sector, noting that it far exceeds the role that contributions of money play in the success of the sector’s institutions.

LEGAL RESOURCES

For anyone interested in a simple, straight-forward, in-depth review of the issues and laws that effect civic organizations, the OSI sponsored *Guidelines for Laws Affecting Civic Organizations* is a must read. The book provides a comprehensive review of all the major issues relating to civil society including: Legal existence of civic organizations; structure and governance; activities; fundraising; reporting and enforcement; tax preferences; government relations; and methods of voluntary regulation.

Combining the use of different theories, examples of best practices and current legislation in a variety of countries, the reader is presented with an overall picture of the development and regulation of the civil society sector. The book emphasizes that one single set of rules will not work for each country, but rather, that governments and organizations must explore a variety of options to determine what will work best for its particular needs.

The book is a very useful resource and guide for all interested stakeholders: scholars, students, NGO leaders, government officials and the layman on the street. Each will be able to glean the information in which he or she is interested, and can use it to help understand civil society better and also to make more informed judgments and decisions about this particular sector.

Several publications focusing on taxation of NGOs were issued this year; these cover a number of issues that have been a focus of efforts to create a more enabling environment for and ensure the financial sustainability of NGOs in CEE and Eurasia. *The Tax Treatment of NGOs: Legal, Ethical and Fiscal Frameworks for Promoting NGOs and their Activities*, edited by Paul Bater, Frits Hondius, and Penina Kessler Lieber, compiles essays focusing on a number of critical NGO taxation issues, including theories of NGO taxation, and comparative and international problems relating to NGO taxation, and national and regional tax treatment of NGOs in 9 countries and regions. The book notes that most national taxation regimes allow certain privileges to non-governmental, non-

profit organizations of public benefit. However, there has been little done to resolve the cross-border treatment of NGOs, thus international extension of these tax benefits has been stagnant.

One of the book's essays addresses a problem also noted in this publication – the difficulties posed for international NGOs seeking to gain tax benefits in Russia. Natalia Bourtseva, in *Status and Taxation of Representative Offices of Foreign and International NGOs in Russia*, describes the cumbersome and expensive registration process that is required in Russia for international non-profits to gain tax-exempt status. For instance, the representative office of the international non-profit is required to pay at least one-thousand US dollars annually to gain and retain accreditation. However, the requirements for tax exempt status in establishing a domestic NGO are less stringent with a one-time thirty-five US dollar registration fee. Once tax-exempt status is given both international and domestic non-profits are entitled to the same tax benefits.

For those interested in taxation of NGOs in the CEE and Eurasia region, the International Center for Not-for-Profit Law published two USAID funded books that collectively survey the tax rules governing NGOs in 27 countries and provinces: *The Survey of Tax Laws Affecting Nongovernmental Organizations in Central and Eastern Europe (2d edition)* and *The Survey of Tax Laws Affecting Nongovernmental Organizations in the Newly Independent States*. The *Surveys* provide a practical summary of the tax rules in place that can serve as a reference work for those seeking legal reform.

COOPERATION BETWEEN GOVERNMENT AND CIVIL SOCIETY

In the last few years, some government leaders have turned an ever more critical eye towards the role that civil society plays in their respective countries and the ultimate goals and reasons for their existence. These leaders have stated publicly, and privately, that the agendas of some civil society organizations are not in the best interests of the government or the countries they serve. Given this set of circumstances, it is now more important than ever that government agencies and civil society organizations work together to develop a vibrant third sector that works in cooperation to benefit society as a whole and puts to rest any negative speculation that surrounds the operations of civil society. In the winter of 2004, the SEAL journal published a set of articles on-line that examined this relationship and the recent trends; key points are summarized below.

Several countries have made inroads in recent years to establish permanent working relationships between government agencies and members of the civil society sector. The two main components have been an increase in participation of NGOs in the legislative process and funding mechanisms established by the government. Through legislative initiatives, some of these countries have created Public Councils at the regional and local levels that bring government officials and NGO representatives together to work in cooperation to help initiate, discuss and implement new legislation that affects the sector. These relationships include NGO representatives' participation in working groups with government officials; evaluating and commenting on draft laws; conducting public hearings on draft laws; and helping to initiate new draft laws.

Many countries have also established direct funding mechanisms from the state budget to NGOs. These include procurement regulations allowing NGOs to take part in the bidding process; direct social contracting through which the government provides direct funding for NGO-run institutions such as orphanages, facilities for the disabled, or housing for the elderly; or direct subsidies that allow NGOs to be agents, partners or subcontractors of government agencies in implementing programs.

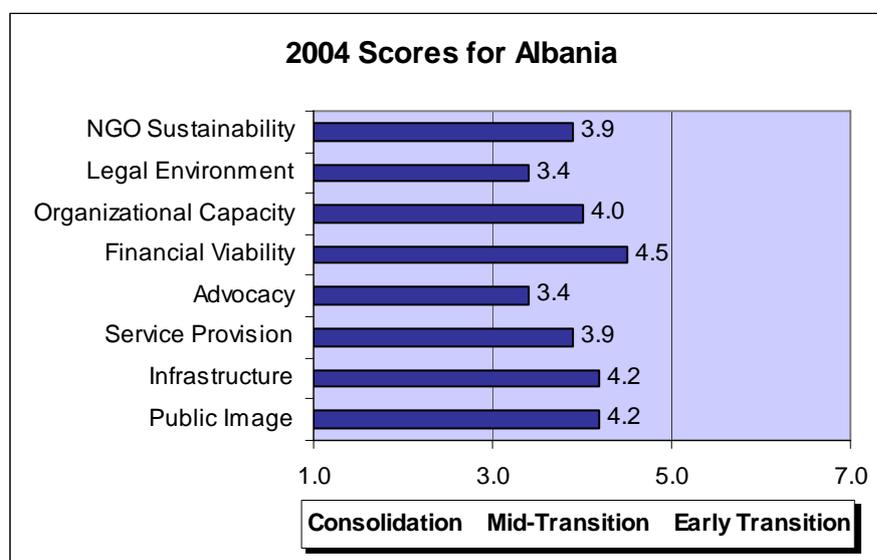
These initiatives represent a positive step towards improving relations between the two sectors, but have also raised some concerns. The Public Councils which have been created generally serve only advisory and opinion-forming roles, minimizing their influence over the legislative process. Also, in most countries, the NGO members who serve on the councils are selected by government agencies, putting into question the ability and influence of these members.

Even though most NGOs welcome the opportunity to receive direct funding from their respective governments, some of the programs that have been initiated are not seen as being completely favorable. For instance, in some countries there is a total lack of transparency in the awarding of public funds. These include awarding funds based on individual decisions of government officials, rather than through a transparent grant-making process; awarding funds based on a prior year's activities without a current budget submission from the NGO; and award of a disproportionate share of the state funds to certain NGOs based on affiliation with the political party in control of the country. Also, NGOs in many countries complain that most state funding ends up going to quasi-non-governmental organizations, or QUANGOS. These are state sponsored organizations that often have connections to government officials. Finally, increased government funding often results in an increase in paperwork and a decrease in independence of the NGO receiving the funds – developments that are not seen as advantages by NGOs and other stakeholders.

CONCLUSION

The concept of civil society and its role in shaping the decisions made by each country continues to evolve over time. Several of this year's publications have tried to conceptualize and evaluate this process to help assess the impact that civil society has played. These works provide a useful guideline for the layman as well as the scholar. The issues presented are of global significance, as the works here make clear, and the challenge for practitioners in the CEE/Eurasia regions will be to determine how to adapt the lessons encapsulated in them to local context.

ALBANIA



Capital: Tirana

Polity:
Presidential-
parliamentary
democracy

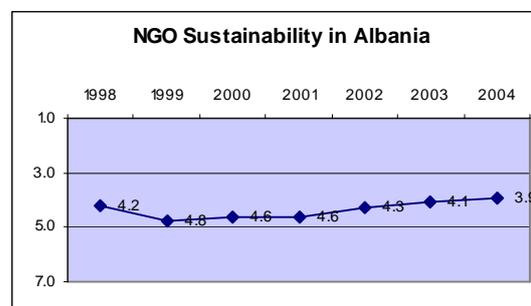
Population:
3,540,000

**GDP per capita
(PPP):** \$4,500

NGO SUSTAINABILITY: 3.9

In 2004, the overall NGO Sustainability score rose significantly, overcoming what had been a sluggish but upward trend over the past few years. The score change is driven primarily by improvements in the Advocacy dimension, a reflection of civic participation in anticorruption and public sector reform movements. There were, for example, several visible campaigns by NGOs and coalitions on the issue of government corruption, several of which generated mobilizations that eventually reversed government policies on such controversial issues as utility rate hikes. In a few instances, government officials harassed NGOs participating in reform efforts, but these were isolated events. These advocacy efforts provided NGOs with many media and public relations opportunities, which they used effectively, leading to a more positive public image for the sector, as well as greater public

awareness of the issues for which NGOs advocate.

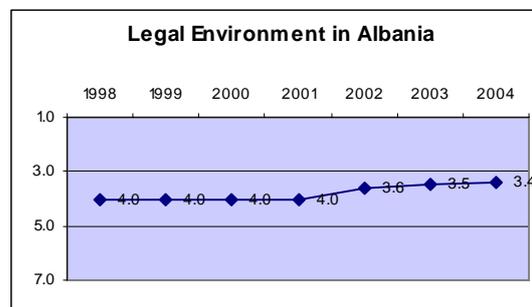


As most active NGOs remain dependent on external funding, the Financial Viability dimension was the weakest again this year. Some in the sector are searching for alternative and more sustainable sources of support such as government funding and local philanthropy. While organizations are beginning to contract more with local governments and charge fees for their services, funding of the NGO sector is still not sufficient or sustainable.

LEGAL ENVIRONMENT: 3.4

Though the legal environment did not change significantly in 2004, the government has another year of experience in implementing the laws, allowing for more efficient application, as well as a consolidation of the rules that govern organizations and their relations with the government. Legal assistance for NGOs is available in larger cities, and in Tirana, specialized centers such as the Women Advocacy Center provide NGOs with legal counseling to register NGOs pursuant to the new NGO law. The pool of attorneys trained in NGO law is still small and there are no ongoing efforts to train others. NGOs have begun making greater use of the legal provision adopted in 2001 that allows them to conduct fee for service activity. In one example, Tirana-based think tanks were hired by the government to draft various pieces of

legislation, including a conflict of interest law.



Though the Citizens Advocacy Office, which was involved in the anti-corruption campaigns this year, reported instances of harassment by the State Tax Office, public debate continues and citizens enjoy the freedom to express criticism of the government without fear of being harassed. The limited cases of harassment did not have an impact on the groundswell of civic engagement on social issues, and advocacy remains strong.

ORGANIZATIONAL CAPACITY: 4.0



Though the NGO sector remains generally weak and donor dependent, several of the larger organizations have made notable progress in their organizational development over the past year. More NGOs have strong organizational structures and generally recognize the division of responsibilities between their boards of directors and staff. In addition, more organizations are operating with

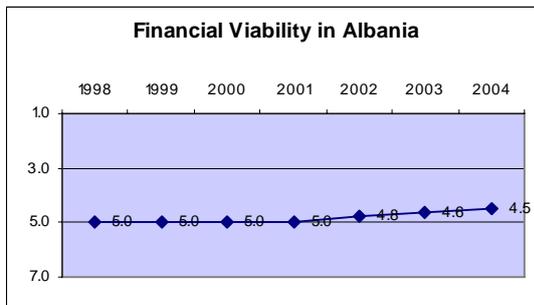
clear strategic plans and greater transparency, publishing annual activity and financial reports. The sector has also created national NGO networks that organize around public interest issues. Outside Tirana, organizations have increased access to modern office equipment such as computers, internet and email, and phone services.

More NGOs are developing partnerships with prestigious international organizations. One example is the Citizen Advocacy Office, which is partnering with Transparency International to strengthen the organizational structures of beneficiary NGOs, providing necessary resources and capacity building. The continued implementation of small grants by these international organizations ensured that

local NGOs were able to provide a variety of social services to hundreds of underserved people across the country. As NGOs have become more involved in

advocacy projects, their constituencies have increased.

FINANCIAL VIABILITY: 4.5



The NGO sector remains heavily dependent on donor funding. This dependence is due in part to the historical lack of autonomous organizations in Albania. In addition, government officials have never trusted the NGO sector and at times see NGOs as adversaries rather than allies. NGOs have never had the benefit of local philanthropy or favorable tax provisions that provide sufficient incentives for giving. Relations with the government are improving, as evidenced by the increased number of NGOs partnering with local governments to provide basic services. Some organizations have started contracting with local officials to assist with municipal

planning, as well as developing and implementing certain community services.

Albania's economy has had several years of continual growth, though per capita income remains among the lowest in Europe. Because incomes have not risen, the already low levels of corporate and individual philanthropy have stagnated, leaving most organizations financially precarious, similar to NGOs in the neighboring Balkan countries. NGOs are taking greater advantage of the provisions allowing them to engage in economic activities, providing services to the public and private sectors for fees. For example, in 2004, NGOs provided training services for local government officials, covering topics such as transparency and accountability, financial reporting, and ethics. While NGOs are charging fees for their services on a regular basis, these fees are rarely sufficient to cover their costs. Most organizations are diversifying their funding sources, as foreign donors decrease their finding.

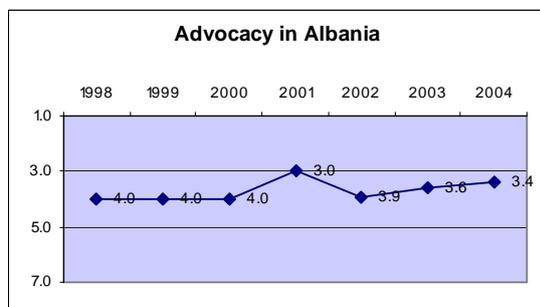
ADVOCACY: 3.4

The NGO sector's greatest advances in 2004 were in advocacy, as NGOs initiated more campaigns and had more successes than last year in terms of changes or reforms of laws and policies. Successes included campaigns by the Albanian Coalition Against Corruption, the Citizen Advocacy Office, and the "Mjaft" movement, which resulted in the repeal of

a series of controversial government decisions regarding utility rates and other issues. The Citizen Advocacy Office and Transparency International, a global anti-corruption organization, partnered to focus on anti-corruption issues. In addition, the Albanian Coalition Against Corruption and the Citizens Advocacy Office monitored asset disclosures for the High

2004 NGO SUSTAINABILITY INDEX

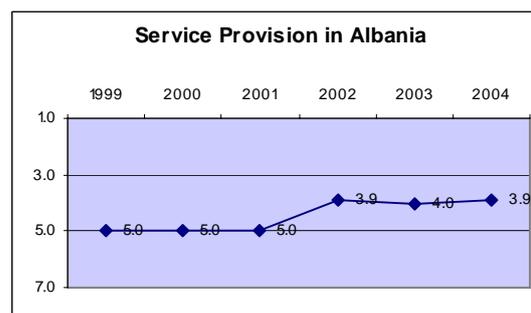
Inspectorate for the Declaration and Audit of Assets (HIDAA). These advocacy organizations and coalitions have pursued aggressive, media savvy approaches that have resulted in increased media coverage of their anti-corruption activities.



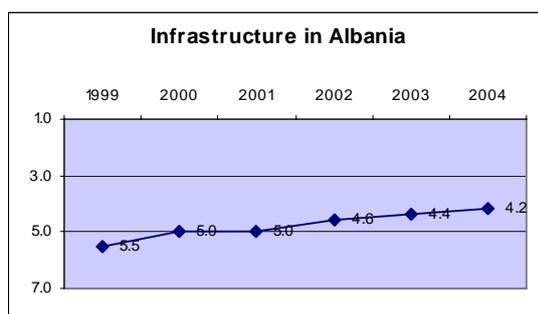
Increased visibility of NGOs has, in some instances, resulted in better relationships between the NGO sector and government, evidenced by an increase in the number of services entrusted to NGOs by government. The government recently contracted with a group of NGOs to assist with strategic planning. One example is the Ministry of State's Planning Anti-Corruption Monitoring Unit, which includes regular consultations with representatives of the Albanian Coalition Against Corruption (ACAC).

SERVICE PROVISION: 3.9

The NGO sector has expanded the variety of goods and services it offers. Over the past year, an increasing number of NGOs have addressed the needs of marginalized citizens who lack access to social programs. NGOs offer education, health, and conflict mediation services for rural citizens who have migrated to urban areas such as Tirana, Durrës, and Vlora. Some local governments contract out a variety of services exclusively to NGOs. These include services for the disabled, human trafficking, and domestic services. Such contracts are generally granted where NGOs have developed projects based on needs identified at the grassroots level. While such contracting has led to more organizations identifying their constituents, few NGOs design projects based on the needs of a well defined constituency.



More organizations are now charging fees for their services, but it is generally insufficient to cover costs and the practice is not widespread. The organizations that have had the most success charging fees are those that have focused on training and technical assistance for the not-for-profit sector and business community. The organizations that provide services such as health and education for women and children in remote areas are generally less able to charge fees for their services.

INFRASTRUCTURE: 4.2

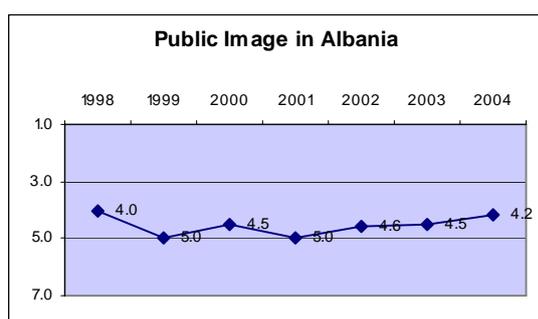
Contributions from international donors have increased the number of ISOs and resource centers offering services to NGOs. As these resources depend heavily on foreign funding, their financing is not sustainable and their long-term survival is

questionable. Some do charge fees for their services or have other alternative funding sources. Unfortunately, most of the training services are offered in the capital with far fewer in the secondary cities. Albania does not have any local grant-makers, other than those that redistribute foreign grant money.

One improvement is that grassroots organizations are more willing to be involved in coalitions and take on projects together, as evidenced by the advocacy efforts mentioned above. Inter-sectoral partnerships, however, are few and far between.

PUBLIC IMAGE: 4.2

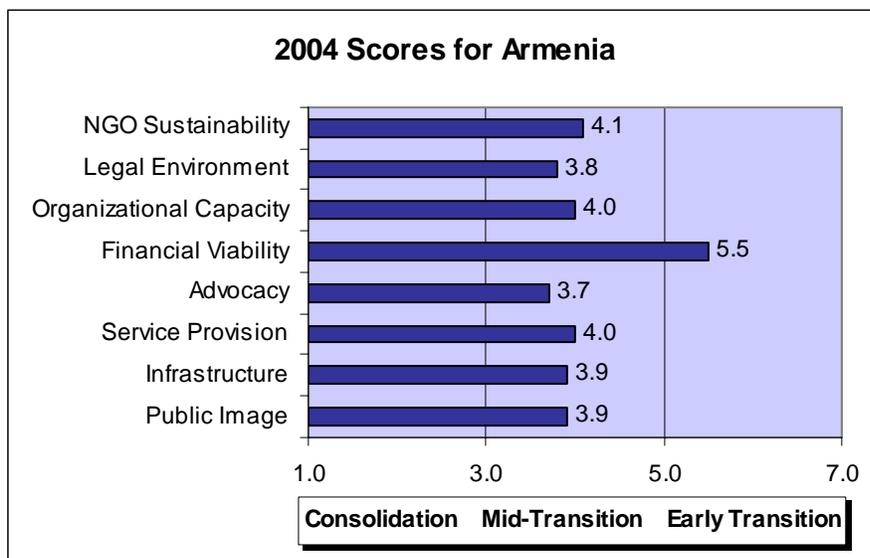
Local NGOs improved their public image this year with successful advocacy campaigns and increased attention from the media. The general public and business sector have a much better perception of NGOs, no longer seeing them as extensions of the government, but more as monitors and watchdogs.



NGOs employed more media-savvy approaches and strategies this past year. These efforts are beginning to pay dividends in terms of public recognition of the groups themselves, as well as public awareness of the issues for which they advocate.

The NGO sector does not yet have a code of ethics, though efforts are being made to draft one. More organizations are increasing their transparency by publishing annual activity and financial reports.

ARMENIA



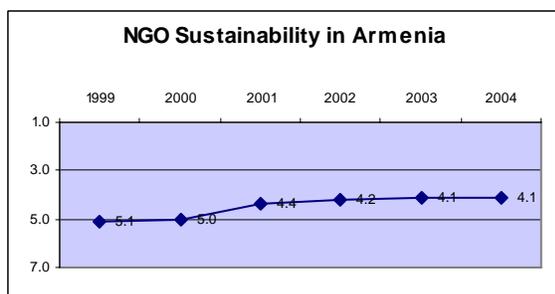
Capital: Yerevan

Polity: Presidential-parliamentary democracy

Population: 2,990,000

GDP per capita (PPP): \$3,500

NGO SUSTAINABILITY: 4.1



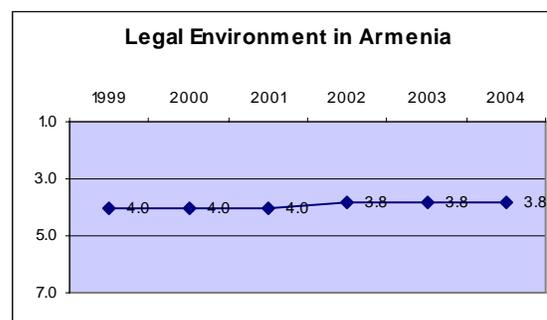
In 2004, the Ministry of Justice reported that there were 3,964 NGOs registered in Armenia, one-third of which were active. Despite deteriorating economic conditions and the government’s over-reaction to opposition protests, the NGO sector made progress or remained steady in each of the seven dimensions of the index. Tension between the government and NGO community grew when a coalition of NGOs responded to the government’s crackdown on demonstrations by conducting peaceful protests, theatre performances, concerts, and

photo exhibitions in front of the Prosecutor General’s office.

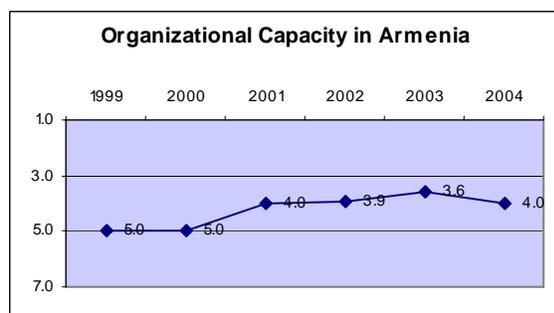
International donors are still the primary source of funding for the majority of NGOs, though cash and in-kind donations from diverse sources, such as the Armenian Diaspora, has increased. NGOs continued their unsuccessful attempts to reform the Law on Public Organizations so that they would be able to engage freely in economic activities. Despite the government’s blockage of these efforts and the tensions concerning public protests, more government ministries are actively seeking NGO input on national action plans, and a few agencies are even awarding small grants. The government has recently convened the Anti-corruption Monitoring Commission and National Action Plan on Gender, both examples of the small but growing cooperation between the government and NGO sector.

LEGAL ENVIRONMENT: 3.8

Even though NGOs may form under one of three laws, the Law on Public Organizations (2001), the Charity Law (2002), and the Law on Foundations (2002), the majority are registered under the Law on Public Organizations. In 2004, NGOs began lobbying for changes to the Law on Public Organizations that would allow them to engage in economic activities. Government officials, many of whom have personal business interests, have put up fierce resistance, and so far, prevented changes to the law. In response to Social Insurance Fund officials visiting NGOs and demanding payments to the Fund for NGOs' volunteers, a coalition of NGOs and lawyers began drafting a new Law on Volunteerism. One organization from the region challenged the practice of requiring NGOs to pay into the Social Insurance Fund for volunteers in court, but lost at the appellate level and is now preparing to take the issue before the European Court in Strasbourg.



While the tax system provides some benefits and incentives for NGOs and their donors, it is inadequate to support NGO activities or promote local philanthropy. The International Center for Not-for-Profit Law and other NGO law experts have been advising the NGO community and government on a possible 1% law, which would allow tax payers to allocate 1% of their tax liability to support an NGO. Otherwise, the tax system does not provide other incentives to encourage philanthropy and limits deductions for corporate philanthropy to .25% of a business' income. Many in the NGO community are opposed to efforts to reform the laws, fearing increased scrutiny from tax authorities.

ORGANIZATIONAL CAPACITY: 4.0

Despite overall changes in NGO management and effectiveness, there is still

need for continued training in several areas. Organizations are increasingly using boards of directors but few fully understand their roles and responsibilities. Similarly, NGOs are increasingly reaching out to their constituencies, but often confuse them with their beneficiaries. There are approximately a dozen NGO managers that have begun to think more strategically and are more focused in their programming, pursuing their own agendas rather than those of donors. However, the majority of organizations still have broad, elastic mission statements that

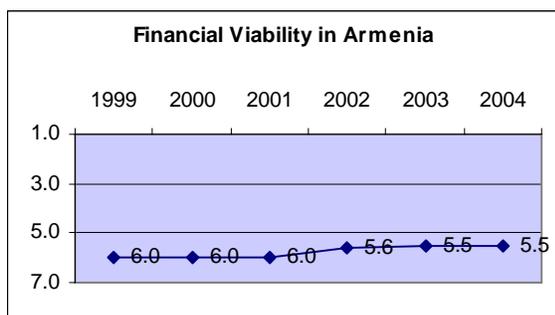
2004 NGO SUSTAINABILITY INDEX

allow them greater access to a wider variety of donor funding. Often, NGOs are still led and represented by a single charismatic leader instead of a strong management team. The exceptions are those organizations founded by members of the younger generations, who often adopt more progressive, team-oriented management structures.

Earlier in 2004, a coalition of NGOs drafted, circulated, discussed and approved a Code of Standards for NGOs. The Code of

Standards contains, among others, sections on management, board of directors, legal compliance, conflict of interest, financial accountability, openness and public policy involvement. The Code has been posted on a website and NGOs who wish to endorse it can do so online. To date 84 NGOs have done so. A group of NGOs is currently drafting enforcement mechanisms. A coalition of Georgian NGOs requested a copy of the Armenian Code to assist in their deliberations on a similar code.

FINANCIAL VIABILITY: 5.5



The NGO sector made important progress in the financial viability dimension over the past year, although dependence on foreign funding continues to be a problem. Training and capacity building efforts have paid off, with more NGOs producing brochures and seeking support from a variety of different sources, including the Armenian diaspora which has provided funding for projects on domestic violence, environment, and civic education. Though most government

agencies have not included significant support for NGOs in their budgets, the Ministry of Youth is leading the way with small grants for youth-led organizations.

Local philanthropy remains limited to a few businessmen (oligarchs) who support local schools and orphanages. As yet, the government does not provide NGOs with any amount of significant support. Some “social partnerships” have been formed with municipalities, but the funding originates with foreign donors. A number of NGOs have created limited liability companies in order to produce income to support their organizations. Generally, organizations are not allowed to charge fees for their services. Counterpart International, funded by USAID, is looking into the possibilities of changing or challenging the status quo on fees for services.

ADVOCACY: 3.7

NGOs are increasingly conducting long-term advocacy campaigns, and no longer limiting themselves to strictly legislative

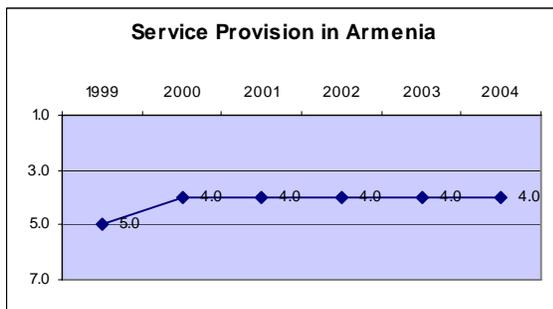
drafting activities. Following last year’s success in helping to enact Armenia’s first Freedom of Information Act, the Freedom of

Information Civic Initiative is now heavily involved in the Act’s implementation and in monitoring compliance with it. Coalitions of NGOs have worked together on a variety of campaigns, such as drafting the Code of Standards and reforming the Law on Public Organizations. A women’s advocacy group successfully lobbied for amendments to the Labor Code to stop sexual harassment in the workplace. Another group lobbied for legal reforms to address issues of domestic violence. In addition, a coalition of NGOs partnered with journalists, academics, and citizens in a large campaign against a proposed law on Mass Media.

Government-NGO relations have improved over the past year, as government officials have started to appreciate the value of NGO expertise. At the national level, NGOs have been asked to participate on and advise government committees such as the Anti-corruption Monitoring Commission and the National Action Plan on Gender. It is too early to see the impact on the Anti-corruption Monitoring Commission of the NGO sector’s participation. However, it is already evident that the women’s NGOs have played an active role in gender issues. NGOs have also worked at the national level to advocate against social insurance funds for volunteers. At the local level, organizations are developing closer relations with mayors and municipal councils. In some regions, NGOs have persuaded local councils to hold open meetings and allow citizen input.



SERVICE PROVISION: 4.0



There was little change in the service provision dimension this year, as NGOs continue to provide a wide range of services including soup kitchens, legal and medical assistance, shelter for victims of domestic violence, and care for the elderly. As has

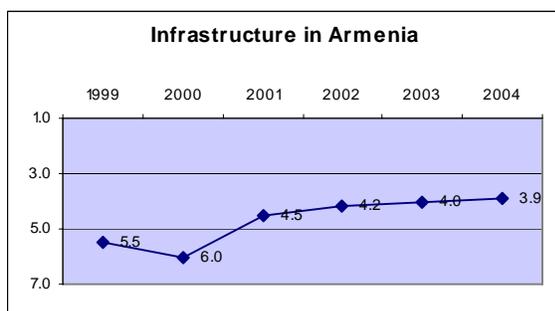
been the case for many years, service providers are heavily dependent on international donors, and receive little domestic support for these services. Service providers are still not able to charge fees for their services, and those few that can are taxed like for-profit businesses. Despite years of lobbying, NGOs are still not permitted to compete for government contracts, which severely inhibit them from achieving their potential in providing services to their constituents. In addition, the government is still not giving NGOs the licenses they need to provide many services. Two integrated Social Service Centers have

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been opened in the regions in which NGOs and government share premises and provide

services.

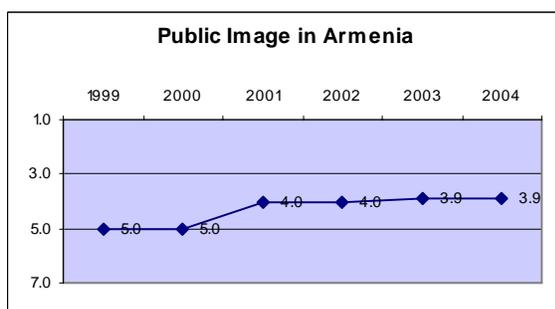
INFRASTRUCTURE: 3.9



The network of NGO training and resource centers grew this year. In addition to World Learning and the NGO Center, both funded by USAID, the UN, EU and Soros are now

funding training facilities. In addition, there are local organizations that have started training programs for other NGOs and have the potential to become Intermediary Support Organizations in the coming year. With USAID funding, Counterpart International will be assisting local organizations to become Intermediary Support Organizations. While there are organizations in both Yerevan and the regions that provide training and some re-granting to NGOs, this training has been done on an ad hoc basis. The Counterpart program will provide technical assistance, capacity building and training to three ISOs located in various parts of the country.

PUBLIC IMAGE: 3.9



The Public Image dimension did not improve little over the past year. The most significant event was the second annual NGO Conference and Exhibition in Yerevan. The opening speakers for the event included the speaker of the National Assembly and a representative of President Kocharian, offering hope that despite tensions between the NGO sector and parts

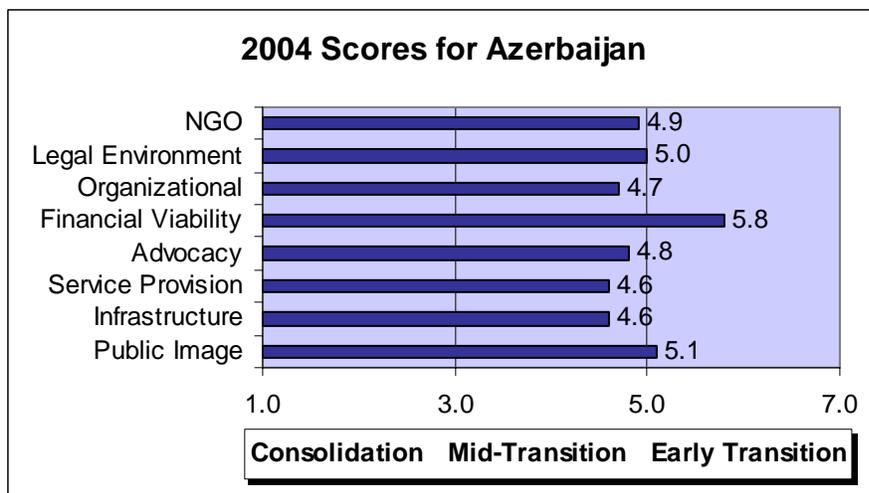
of the government, relations are strengthening. The event received significant coverage from both print and broadcast media, highlighting the growing understanding between the NGO sector and media. Though NGOs in general have done a better job of getting their messages out to the public, there is still question as to whether the general public knows about or understands the role of the NGOs. According to a public opinion survey carried out this year, many people still equate NGOs with humanitarian assistance.

There is a perception among the general public that NGOs are little more than a mechanism for creating high salaried positions for a few of the country's elite, while ordinary citizens struggle to find

employment. The NGO sector must overcome these and other perceptions if it is ever to garner support from the local

community and become independent of foreign donors.

AZERBAIJAN



Capital: Baku

Polity: Republic

Population:
7,870,000

GDP per capita (PPP): \$3,400

NGO SUSTAINABILITY 2004: 4.9

The NGO sector’s overall sustainability and capacity has not changed significantly over the past year. The sector consists of approximately 2,000 NGOs, 1,600 registered and 400 unregistered, of which only about 400 are active and visible. Of those 400 that are active and visible, only a small number are well-established, financially viable, and have reasonably developed organizational capacity. In general, these well-developed NGOs also have good relations with donors, and to a lesser extent the government and private sector. The majority of all other NGOs have yet to achieve a sustainable level of development.

Implementation of the legal framework remains a major obstacle to NGO sector development. The Law on State Registration was amended in 2003, but many NGOs are still unable to register. Amendments to the Law on Grants

became effective in 2003, creating new operational and financial hurdles, such as requiring NGOs to register all grants. The amendments also require NGOs to pay 27% of their consolidated payroll into the Social Insurance Fund, threatening the financial viability of many NGOs.



The NGO sector provides a wide variety of services in the areas of humanitarian relief, environmental protection, gender, youth, human rights, civic and legal education, and economic development. However, the majority of NGOs still depends on donor

funding and consider donor priorities as much as they do the needs of their constituents. NGOs in general are still not very successful advocates, and lack the capacity to effectively engage in advocacy initiatives on a wide scale. Their

underdeveloped support structures, inter-sectoral competition, weak relationships with constituents, and lack of positive public image limit the NGO sector's influence over public policy.

LEGAL ENVIRONMENT: 5.0

The NGO legal framework currently consists of: the NGO Law of June 2000, the Grants Law of 1998, the Tax Code of 2000, the Civil Code of 1999, the Law on State Registration of Legal Entities of 2003, and the Ministry of Justice regulations on NGO registration. Most NGO representatives consider the laws as written to be satisfactory, despite inconsistencies and ambiguities. Their primary complaint with the legal framework is that interpretation and application vary according to the government officials and NGOs involved.



Registration of NGOs, which has been de facto suspended for the past few years, was supposed to be addressed by the December 2003 Law on State Registration of Legal Entities (1996). While official numbers are hard to find, the anecdotal evidence suggests that there has been little improvement, and that few NGOs have successfully registered in the past year.

In theory, NGOs are able to operate freely. Unfortunately, inconsistent application of the law creates restrictions according to affiliations, activities, and geographic area of operation. The ban on NGO participation in political activities has been applied so inconsistently and at times so broadly, that it has had a chilling effect on NGOs engaged in advocacy activities. While most NGO leaders claim they are free to criticize public policy, many admit that they choose their words carefully.

The number of local attorneys trained in NGO law is limited, and the majority of those who are trained work for Baku-based non-profit legal organizations. Outside of the capital, access to reliable attorneys is inconsistent. Most legal services are provided through legal centers and short-term projects associated with organizations like the Center for Legal and Economic Education (CLEE), the Legal Education Society (LES), and the Azerbaijan Young Lawyers Union (AYLU).

In 2003, amendments to the Law on Grants became effective, requiring that NGOs register their grants. While this has created logistical problems, as registration documents must be translated, notarized, and submitted to the Ministry of Justice, it has not prevented the majority of NGOs from receiving or using foreign grants. Nevertheless, NGOs fear that if they register their grants, they may be targeted

2004 NGO SUSTAINABILITY INDEX

by the tax authorities, and are therefore reluctant to register. Also of great concern to the NGO community, the law now requires that an organization pay 27% of its monthly consolidated payroll into the Social Insurance Fund. While the requirement is not unreasonable on its face, it is imposed in addition to an income tax of between 30-35%, such that NGOs pay approximately 60% of salaries in tax. This high rate of taxation not only discourages employees from working for NGOs, which are not able to pay high salaries to start with, but also impedes philanthropy, as donors are reluctant to give when significant portions of their funds will be used for taxes instead of programs. In some instances, grants are exempt from the Social Insurance Fund tax under bi-lateral agreements.

Other tax issues present obstacles to the NGO sustainability. “Non-commercial organizations” (NCOs) and charitable organizations are exempt from paying taxes on charitable money transfers, membership fees, donations, and grants. While NGOs are technically exempt from paying VAT on foreign grants, reimbursement is complicated and requires great persistence with the tax officials. NCOs and charitable organizations are permitted to engage in economic activities but the income is taxed like that of for-profit entities. Efforts to develop local philanthropy are frustrated by the lack of tax deductions or other incentives for individuals or corporations.

ORGANIZATIONAL CAPACITY: 4.7

The NGO sector remains largely donor driven, and constituency building is often limited to short-term projects. Few NGOs have yet to understand the importance and benefit of building long-term relationships with their constituencies.

Most NGOs are built around the leadership and control of a single charismatic leader, and managed in an authoritarian manner with little organizational structure. The exceptions are youth organizations and those founded by young leaders, which often have more of a democratic and participatory-styled structure. Though many NGOs have clearly defined missions, few have undertaken significant strategic planning, a problem that NGO leaders often attribute to donor dependency, lack of managerial experience, and the centralized nature of their decision-making processes.



NGOs continue to face staffing challenges. Though competition for grants and donor pressures are increasing recruitment and promotion of more qualified professionals, NGOs are often staffed with friends and family of the organization’s leadership. Those that do hire qualified professionals have trouble keeping them on staff due to funding shortages and project cycles. Employees often work for local NGOs long enough to gain the experience necessary to qualify for higher paying

positions with international NGOs or in the private sector. Some NGOs use volunteers to meet staffing needs for project implementation, but volunteer recruitment is hampered by negative public perception and the lack of recruiting experience. Volunteerism has increased among Azerbaijani youth, as noted in Ganja and Lankaran. The AYLU has created an internship program for Baku students to increase participation and staff their projects.

Though the NGO sector does enjoy improved access to office equipment and technology, many still do not have what

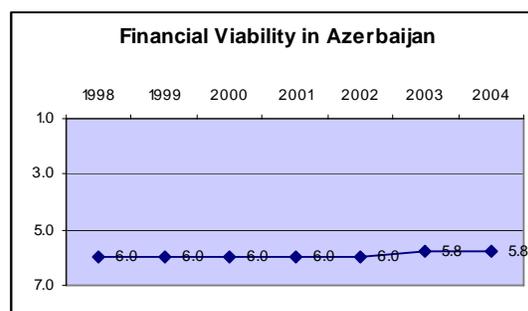
they need to operate effectively and efficiently. NGOs with support from foreign donors are more likely to have access to technology through their project grants or special programs designed to increase access to technology and equipment. NGOs based in the capital have better technology and equipment than those in rural areas. While funding is certainly an issue, rural NGOs face other obstacles such as inadequate infrastructure, inconsistent electricity supplies and unstable communication links, which limit the use of internet and other forms of communication.

FINANCIAL VIABILITY: 5.8

As local funding is still insubstantial, NGOs rely heavily on grants from international donors, such as the Eurasia Foundation, Open Society Institute, BP's community investment program, and small grant programs from the embassies. A few well-established NGOs have expanded their donor bases by developing relationships with donors and international networks of professionals and academics.

Generally, NGO representatives recognize that heavy dependence on international donors leaves their organization vulnerable. Many in the NGO community have been discussing ways to increase local support and diversify their funding. They have identified obstacles such as the lack of tax incentives for charitable giving, poor relations with local businesses, and negative public perceptions. The BP Community Investment Program -- a partnership between international and local

NGOs to address issues along the Baku-Tbilisi-Ceyhan pipeline corridor -- is considered by many to be a good model for encouraging business support of local NGOs.

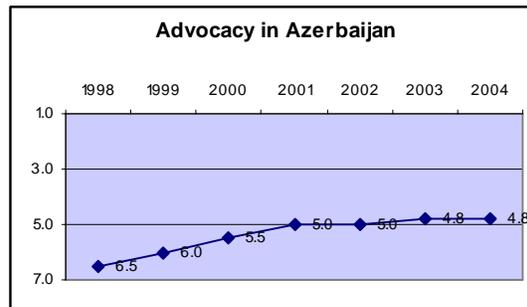


NGO financial management systems and internal controls remain weak, as few have well-defined financial management systems, produce annual reports or have independent audits. Many NGOs manage their finances according to different donor requirements, which can be challenging for those with several donors.

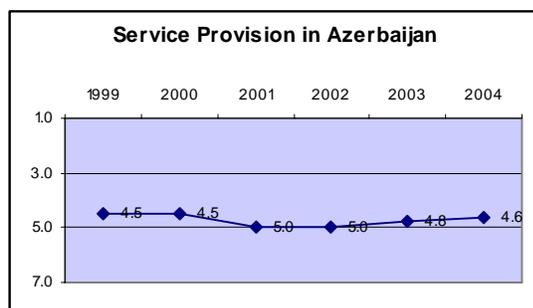
ADVOCACY: 4.8

NGOs increasingly understand the concept of advocacy, though several barriers still prevent the sector from having any real influence over public policy or the legislative process. The government has yet to create any significant public participation mechanisms, and when an NGO does communicate with government officials, it is through personal relationships. NGOs have partnered with the government on a few joint projects, but they are small in scale and the government remains the dominant partner. Competition and ego-driven management limit advocacy efforts by preventing NGOs from building important coalitions and campaigns to overcome the public's distrust of the sector.

International donors continue to focus resources on building NGO advocacy capabilities. USAID, for example, funded the CRS Azerbaijan Civil Society Development (ACSD) program. Other examples include advocacy skills trainings provided by the Public Interest Law Institute Initiative and the OSCE.



Though they often consider themselves well-positioned to influence public opinion and the public agenda, NGOs have limited experience and few successes. NGOs recently partnered with the CRS ACSD program to conduct six public awareness campaigns, which resulted in the presentation of several proposals to the government. The public interaction and identification of the appropriate government bodies were good experiences for all involved, but little of substance came of their efforts. Similarly, NGOs that engage in lobbying activities have enjoyed little success. The Election Monitoring Center, for example, lobbied unsuccessfully to have the restriction on NGO participation in election monitoring lifted. The lack of transparency in the legislative process leaves those outside the proceedings to react to legislation after it passes, rather than participating in shaping it.

SERVICE PROVISION: 4.6

Across Azerbaijan, NGOs provide services in many fields including humanitarian aid, community and economic development, human rights, civil society, elections, health, and basic social services. However, activities, programs and area of coverage are generally determined by donor priorities and not the needs of

constituencies. Organizations have begun to conduct more needs assessments and surveys to increase the quality of their proposals, and in a few instances, their assessments have led to modifications of donor priorities.

Few NGOs charge fees for their services. Many NGO leaders hold on to the belief

that their non-profit status and the economic conditions of their constituents make it inappropriate to charge for their services. There are, however, a few examples of organizations charging fees to cover their operating expenses, e.g., organizations that provide computer or English classes, or similar services.

INFRASTRUCTURE: 4.6

NGOs have access to a number of resource centers located around the country. Unfortunately, most resource centers are only able to provide basic services such as libraries, computers, and photocopying. Only a few resource centers, located primarily in the capital, offer more technical services such as legal aid, donor information, or tax assistance. The Azerbaijan Human Rights Foundation recently established the League of Regional Resource Centers (LRRC) to increase the quantity and quality of services offered outside the capital. To accomplish this, the LRRC has created an information and experience exchange, and offers grants to support the activities of their six resource centers.



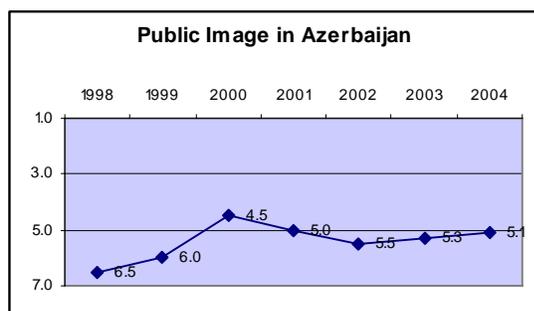
The internet is becoming an important information resource for Azerbaijani

NGOs, who increasingly have access to computer equipment and internet access. The most popular resources are the Open Society Institute's site "Azerwed" (www.azerweb.com), and the Society for Human Research's site (www.ngo-az.org), which is supported by USAID and CRS. These two sites provide information about NGO activities, grant and training opportunities, and job postings.

Most NGO leaders consider the available training resources to be sufficient, though they have identified two shortcomings. First, the majority of training programs are located in the capital, and the few resources that are available in the rural areas do not offer the same broad range of topics. Second, some training programs have been offered by international organizations whose training materials are out of context or unprofessional. NGO representatives would like training programs to employ more qualified Azerbaijanis, and to further develop the capacity and experience of trainers from rural communities so that they may increase the training resources in the rural areas.

PUBLIC IMAGE: 5.1

The quality and quantity of the media's coverage of NGOs depends on the type of organization, the geographic area of their activities, and their media relations skills. Most NGOs have stronger relations with print media than they do with broadcast media, which is more expensive and has little interest in NGO activities. Many in the NGO community still do not trust the media, especially those in broadcast who have at times been unprofessional in their coverage. However, organizations do recognize that the media is an important vehicle for promoting their activities and informing the public about who they are. NGOs do employ media relations strategies, but most still lack the skill and experience to develop and implement effective strategies that will improve their public image.



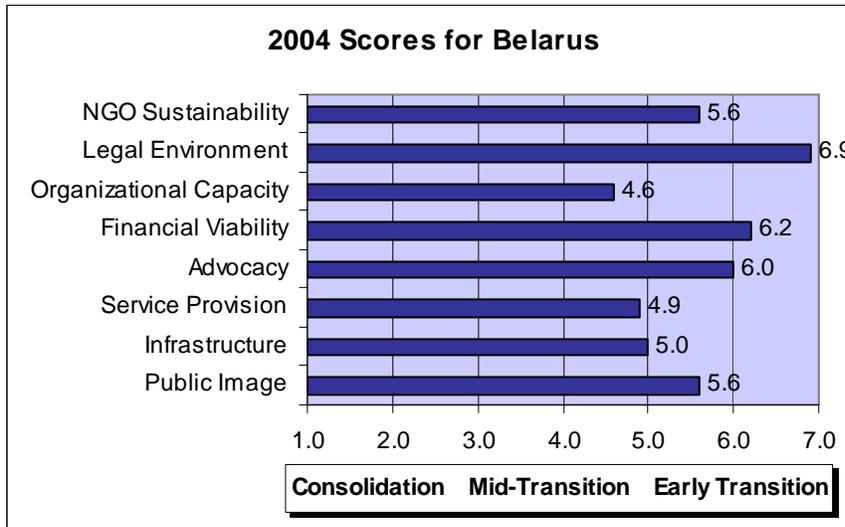
The general public's opinion and awareness of NGOs and their activities remains low. NGOs have reached out to the public via brochures, press releases, and other media outlets, but with little success. The donor community, especially the CRS ACSD project, has funded projects to increase

media coverage and public opinion, including a six month public awareness campaign, and community meetings and roundtable discussions. Other national NGO coalition partners have contributed to these efforts, giving those in the NGO community hope that public opinion and awareness will improve.

Many in the NGO community are concerned that the actions of a few NGO leaders following the October 2003 presidential campaigns damaged the image of the entire NGO sector. Even if these NGO leaders were acting as individuals, independent of their NGOs, they were viewed by the public as members of the NGO sector. Their actions have made it difficult for others within the NGO community to establish themselves as credible and non-partisan.

The government's overall opinion of the NGO sector is improving, though still unfavorable. Relationships between NGOs and the government vary according to the organization and agency involved. The government has yet to consider the NGO community as a resource, either as service providers or sources of information and expertise. A few government officials have requested information from NGOs, or have responded to NGO queries for information, but they are still rare. At the local level, authorities have at times conducted joint activities with NGOs though it is often limited to assisting with logistics and recruiting volunteers.

BELARUS



Capital: Minsk

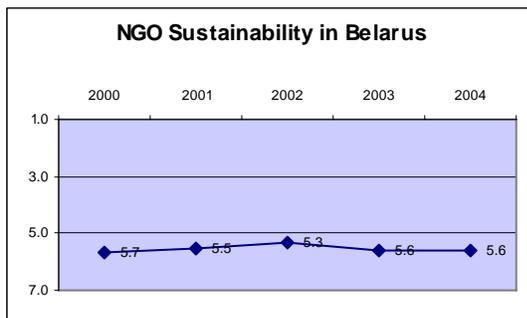
Polity: Presidential

Population:
10,300,000

GDP per capita (PPP): \$6,100

NGO SUSTAINABILITY: 5.6

The overall NGO Sustainability score for 2004 did not change with declines in some dimensions offset by improvements in others. The Organizational Capacity dimension improved slightly as NGOs increased both their overall understanding of strategic planning and implementation of beneficial organizational structures. The Service Provision dimension also improved, due to an increase in the quality of services provided and a greater awareness of constituency needs.



The sector was greatly influenced by many political events over the past year and NGOs continued to be harassed and pressured by the government. New regulations came into effect giving government authorities greater control over foreign aid and technical assistance and creating significant obstacles for donor programs. Implementation of the regulations resulted in the closing of two U.S. aid and assistance organizations, neither of which were re-registered, and the European Humanities University, one of the most progressive Universities in Belarus that had the only NGO management graduate-degree program. The new regulations and subsequent government actions have damaged the NGO sector by creating an even harsher legal environment, limiting advocacy efforts, depriving NGOs of support and training programs, and further preventing access to the national media.

Despite these difficulties, members from the NGO sector, trade unions, pro-democratic parties, and others joined together to defeat a controversial referendum that proposed a Constitutional ban against presidential term limits. The fall 2004 elections were equally contentious, as NGOs engaged in election

monitoring. Partnerstvo (Partnership), which is an unregistered, non-partisan grassroots organization, monitored voting stations in each of the 110 electoral districts, however, the government did not generally welcome these activities and restricted them when possible.

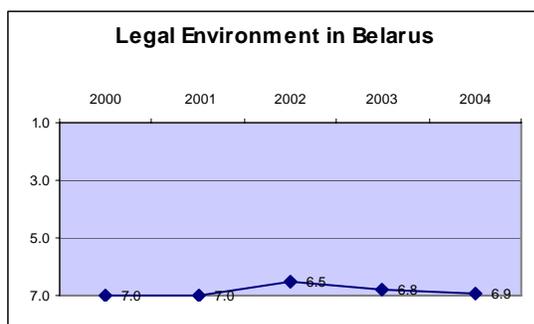
LEGAL ENVIRONMENT: 6.9

The legal environment continues to be restrictive and has even deteriorated due to new regulations on foreign aid. Presidential Decree #24 “On Obtaining and Using Foreign Gratuitous Aid,” November 28, 2003, and Presidential Edict #460 “On International Technical Aid Granted to the Republic of Belarus,” October 22, 2003 came into effect in 2004. These regulations distinguish between “foreign aid” and “technical assistance,” and create separate procedures for the registration and use of each type of aid. The new reporting and approval mechanisms give the government control over donor funds and projects, and while the regulations provide tax exemptions, many NGOs still have to pay up to 30% tax on foreign aid, causing some donors to reconsider their support. These new regulations not only limit NGO activities, but deprive would-be beneficiaries of important services.

In June 2004, the Parliament drafted amendments for the Law on Public Associations that, if approved, may further complicate NGOs’ registration, and simplify their dissolution. NGOs can already be dissolved for violating the law on mass meetings. The new amendments will allow dissolution for violating the new foreign aid regulations, require NGOs to report periodically to an appropriate government agency, introduce “suspension of activities,” and stipulate a number of other complex requirements. Advocacy groups have made efforts to lobby against the amendments, but with little success.

Other laws and regulations create more obstacles for NGO formation and operation. The registration process is expensive, costing US\$ 100-200 depending on the organization. While government agency initiatives or others that the government considers to be non-threatening to the regime are less difficult to register, it is extremely difficult to register new, independent initiatives.

The National Commission on Registration of Public Associations, which has assumed powers not created by law and is thus non-transparent, advises the various ministries, such as the Ministry of Justice, on registering particular organizations. When a ministry receives a registration



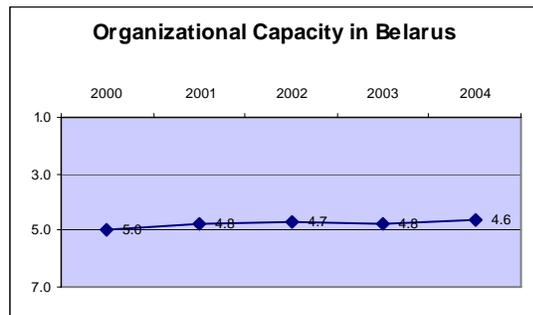
application, it has one month to respond, although some applicants have waited for more than a year only to receive negative responses with no explanations. An applicant may appeal, but the courts usually side with the government, with little basis in law. The law prohibits unregistered public associations from engaging in any activities, and in 2004, dozens of activists were fined or arrested for carrying on activities without being registered with numerous others being similarly accused.

Unclear and vague legislation allows the tax authorities and registration officials to inspect NGOs and subject them to arbitrary decisions. In 2003, government officials dissolved fifty-one leading NGOs, while seventy-eight others ceased operations due to harassment from government officials. In 2004, the government dissolved more than twenty organizations, and thoroughly inspected and issued warnings to 800 others. The GOB also denied renewal of registration permits for two U.S. organizations implementing USG-funded programs. The national security agencies and the Office of Public Associations questioned and searched some NGOs, and in some instances, confiscated their publications and print materials. These inspections made it nearly impossible for organizations to concentrate on their primary activities, and have proven to be a successful instrument for the government

to control the activities of the majority of NGOs.

The law permits NGOs to engage in economic activities, but requires that they pay taxes as if they were a for-profit entity. Similarly, while NGOs do not have to pay income tax on domestic donations, donors receive no exemptions or incentives and are still liable for all applicable taxes. The government-controlled NGOs, however, enjoy beneficial tax treatment, including tax exemptions and reduced rent. The Government and NGO sector have yet to develop sufficient social contracting or service procurement mechanisms. If passed, the amendments to the Law on Public Associations will further hamper NGOs' right to engage in economic activity by requiring them to form separate commercial enterprises.

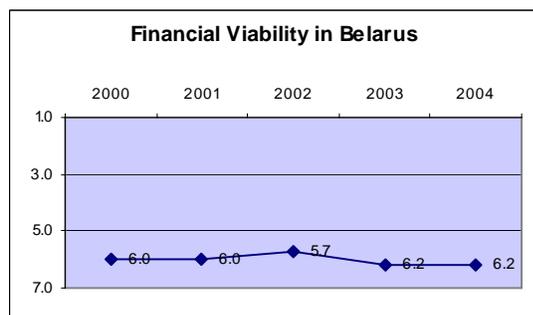
NGOs benefit from a network of lawyers that offers pro-bono legal services. The Assembly of Pro-democratic NGOs partnered with human rights groups and other specialized NGOs to launch the Collective Defense of NGOs, which is currently the strongest legal services initiative for NGOs. Some NGOs even have their own staff of qualified attorneys. However, government licensing requirements for legal consultations and dissemination of legal information limit access to these services. In addition, public associations only have standing to defend their member's interests in court, which prohibits human rights groups from assisting other NGOs.

ORGANIZATIONAL CAPACITY: 4.6

Training programs and knowledge-sharing by the more advanced organizations has increased the understanding that strategic planning is necessary for an NGO or coalition of NGOs to survive and develop. Most of the more advanced organizations, such as the NGO Assembly and the BOWW, have made significant achievements over the past year in terms of their organizational capacity. Some NGO leaders, who have benefited from such training programs and developed their membership bases and regional structures, are now sharing the experience with the others. Unfortunately, the knowledge gained from these training programs and learning opportunities is not always implemented, as many NGOs are consumed by the challenges of day to day survival. Without strategic planning, most

organizations lack the ability to expand their existing constituencies.

Many NGOs are still “one-man-shows,” run by a charismatic leader, with no clear division of responsibilities within the organization. A growing number of NGOs, however, have improved their internal management systems and now follow the provisions set forth within their statutes, as required by law. Few organizations are able to maintain a permanent staff, and primarily hire employees for specific projects. Although volunteerism is generally considered an important resource, only a few NGOs are able to attract, motivate, and retain volunteers. Most organizations have access to basic equipment and communications technology, although access is better in urban areas that have stronger infrastructure. In general, internet and email access has become more available with the growth of internet cafes, and more importantly, international aid programs like the Internet Access and Training Program funded by the USG. Despite these improvements, government liquidation of a number of resource centers has made NGO access substantially worse.

FINANCIAL VIABILITY: 6.2

Financial instability is still an important issue for most NGOs. The business community is developing a greater awareness and interest in social responsibility and philanthropy. At the local level, the USG-funded Counterpart Alliance for Partnership program has encouraged businesses to be involved in addressing local problems. At the national level, twenty-two international and

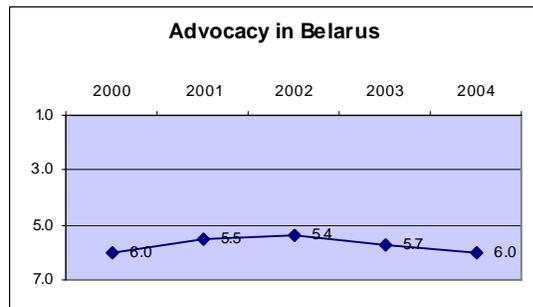
domestic corporations and NGOs have partnered to form the For Social Corporate Responsibility initiative. Overall, the general public believes that corporations owe society more than the rent and taxes they pay and the goods they produce. Businesses, however, do not receive any tax incentives for supporting civil society, and are often forced to finance government-initiated campaigns. Financing such projects is viewed as an extra cost of doing business.

The current political atmosphere often precludes even those local governments that were once supportive from co-sponsoring NGO projects. Low income levels in the general population prevent membership fees from becoming a significant source of funding for NGOs. Organizations and associations that provide fee-based services are in somewhat better shape, but are still far from stable. Significant obstacles have prevented NGOs from engaging in economic activities, which remains an underdeveloped source of funding. As all of these potential funding sources are still insufficient, foreign aid remains the major source of NGO financing. But even foreign aid has become problematic as the recent presidential decrees that regulate foreign aid and technical assistance have complicated the process for registering projects and in some instances made costs prohibitively high for donors. The ability

to diversify funding is restricted by the limited number of donor organizations working with NGOs, and funding is not sufficient to meet the needs of the sector. Many public associations operate without registering, and are therefore not supposed to receive funding.

Government-controlled NGOs however, enjoy significant financial and administrative support from the government. One example is the Belarusian National Union of Youth that receives support under presidential edict #16, which directs the national and local authorities to provide financial resources to maintain its central and local infrastructure and pay salaries to its managers. This support is in addition to the substantial funds being collected from a huge membership base, which has been formed in large part by coercing youth to become members.

The law requires that NGOs as legal entities, keep proper and transparent financial documentation, and report regularly to the fiscal authorities. To fulfill this requirement, organizations have to hire at least a part-time professional bookkeeper, which is an expense that only the most well established organizations can afford. Financial management beyond that is uncommon. These organizations are, however, transparent with their donors.

ADVOCACY: 6.0

NGOs and government authorities have at times cooperated on efforts at the local and national levels. Some officials look to professional organizations for expertise in solving difficult issues, although NGOs are not allowed much of a voice and officials often take credit for NGO achievements. This is particularly true when NGOs are invited to partake in councils and working groups concerned with business development, youth activities, the environment, and public health. The government benefits the most from NGOs with expertise in those niches that state bodies are not able to fill or in situations in which larger international programs encourage NGOs to participate.

Examples include the implementation of the Aarhus Convention, the UNDP/GEF Small Grants Program, grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria, and others. Some state officials welcome NGO input more than others, and in some instances, cooperation has led to repression against lenient authorities or orders from the national government to stop.

Public associations have formed coalitions to solve problems in specific areas such as environmental protection, HIV/AIDS, and defending and promoting religious

freedoms. Coalitions also promote constituency interests such as the Collective Defense of NGOs, and the Solidarity campaigns. These types of coalitions are usually not formally registered, but are well-organized. Authorities seldom distinguish between NGO coalitions and political parties and are hostile to both. In 2004, Partnership developed an advocacy campaign to organize communities and mobilized election observers, achieving significant results despite heavy criticism and government harassment. Partnership was able to certify 3,500 independent observers that monitored polling stations during both early and election day voting. Partnership had monitors in all of the 110 electoral districts, covering 25% of the polls throughout the country. The observers registered approximately 1,700 violations of the election law. Written appeals and acts were sent to the election commissions and to the Prosecutor's office in accordance with the legislation, although most appeals were denied.

Advocacy groups do attempt to lobby, but have found it difficult to influence public opinion without access to mass media. Another barrier is the Parliament's lack of real power and its loyalty to the executive authority. NGOs are also limited in their success as lobbyist by their fear of repression. Despite these barriers, professional organizations, at times, achieved a high level of dialogue with government authorities, were included in topical working groups, and even prepared draft laws for GOB consideration. Business associations were active in a number of interdepartmental commissions and working groups to improve legislation on small business, diminish administrative barriers, and improve investment climate.

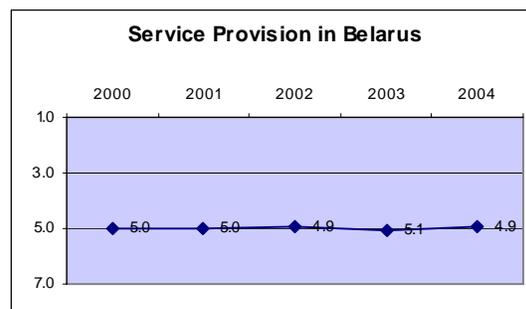
NGOs also increased their participation in the national strategy for poverty reduction

(a UN effort) and contributed to environmental protection legislation.

SERVICE PROVISION: 4.9

NGOs provide a wide range of services, mostly in areas such as education, culture, humanitarian assistance, and public health. Although organizations seldom conduct needs assessments, especially at the local level, many services are provided by professionals and are of top quality, often rivaling and even surpassing services offered by the state. NGOs are increasingly providing services to their members, each other, and other clients, although licensing and other administrative barriers reduce their potential, and limit services to a small segment of the population.

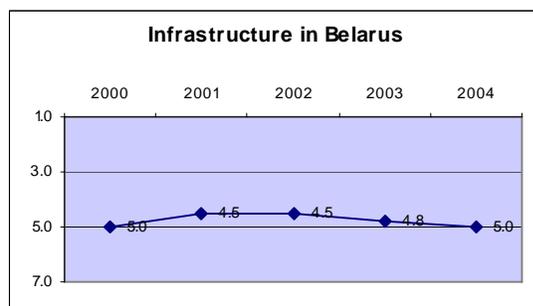
NGOs still have difficulty recovering the cost of services provided due to limited clientele, the range of services offered, the inability for beneficiaries (including state institutions) to pay, obstacles to commercial activities, and the prevailing belief that most services ought to be offered for free. Some organizations are cautious about fee-based services, fearing the loss of their non-profit status. NGOs also have difficulties competing with government controlled public associations that enjoy considerable benefits and privileges.



At times, the government recognizes that NGOs have much expertise and are effective service providers, and welcomes NGO participation and assistance in providing services for the general public. However, the government also fears being perceived as unable to provide for the needs of its citizens. Donor funded projects have not only contributed to advances in NGO skills, but they have increased the awareness among government officials that cooperation with NGO service providers can be beneficial. Whether the government and NGOs are able to cooperate often depends on personal contacts, a great deal of patience, and how proposals are tailored to meet the needs of the government.

INFRASTRUCTURE: 5.0

The NGO sector will have a difficult time recuperating from the government's liquidation of a number of NGO resource centers, which weakened NGO networks, especially in the regions. The remaining resource centers have had to learn how to operate under the tough new regulations concerning foreign aid, but continue to provide information and technical and consultative services to NGOs. Most resource centers offer services free of charge since most recipients are still not able to pay. The NGO sector benefits from a few local grant-making organizations, but they are generally not sustainable and face many constraints.



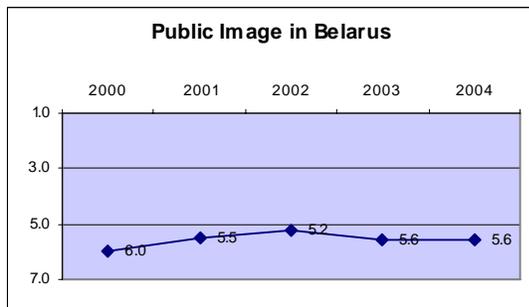
NGOs continued to build coalitions and alliances around specific issues, such as the environment, and have become more vocal in promoting their members interests, although significant results are rare. Information exchanges between NGOs include various levels of regional and national publications, although circulation of the print publications is limited. The Assembly of Pro-democratic NGOs, which continues to provide support to more than 500 public associations and informal groups, has gained influence and strives to promote the interests of the entire sector.

Partnerships between NGOs and the government have, at times, been productive at both the national and local levels. For example, NGOs and business associations were included in topical working groups and prepared draft laws or amendments to existing legislation. NGOs also increased their participation in the national strategy for poverty reduction, a UN effort, and contributed to environmental protection legislation. These partnerships are often required as conditions for foreign aid, and are therefore sporadic and unstable.

The range and qualifications of specialized NGOs and training experts has grown over the past few years, although training programs are often too expensive for most organizations. Training materials are readily available, and while there is a demand for basic training programs, the advanced level courses are offered with greater regularity. Training services often lack post-training consultations and informational support, weakening their effectiveness. Many training services for local organizations are provided as part of donor-funded programs. While some are targeted specifically for smaller communities, training programs are more readily available in larger cities. This year, the government liquidated the European Humanities University, which had the only graduate program in Belarus that focused on the management of non-profit organizations. To make the situation worse and more difficult for foreign donors, the government closed the comprehensive USAID NGO capacity building and training program.

PUBLIC IMAGE: 5.6

The public image of civil society in Belarus is affected by the political and ideological influences that the government has instilled in the general public. The majority of citizens has never experienced true democracy, or did so for a very limited period, and are therefore more susceptible to the government's propaganda machine. Any kind of democratic initiative is spoiled by government propaganda, which leads to widespread misperceptions, pessimism, and apathy.

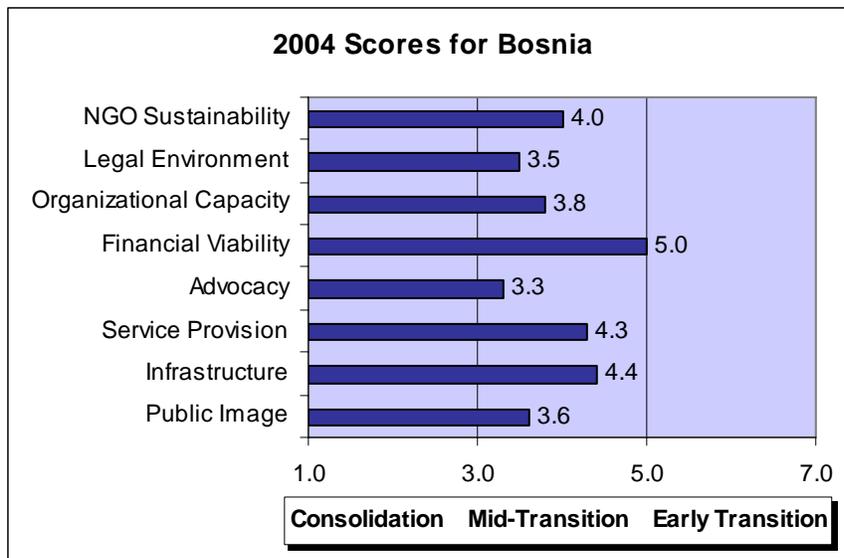


In 2004, the government continued its massive attack on the independent media. Most information sources are controlled by authorities, making it difficult for NGOs and others to disseminate independent information. The state-controlled media rarely presents civil society in a positive light, and at best ignores it. Generally, NGOs only get press coverage when they are involved in a discussion of a hot issue, like HIV/AIDS, anti-trafficking prevention,

but they rarely get credit from the government for their efforts to solve a problem. NGOs get greater coverage from the independent press, but the circulations are limited, and long-lasting, productive relationships and substantive articles are rare. Government-controlled NGOs, on the other hand, are well received by the state-run media. In the current political and social environment, it is difficult for NGOs to get their messages out and maintain a positive image.

Despite these obstacles, organizations have been working on public relations and disseminating information. Success is primarily at the community level, where NGO initiatives are the most visible and receive support by local residents and authorities. Donor-funded public relations training programs, local talk shows, and information networks helped to improve public relations efforts. The general public's knowledge about NGOs and their activities remains very low. Certain specialized NGOs and networks are well known and have good reputations with state officials, international organizations, and segments of the population. Business associations, for instance, have increased their profiles within the business community by advocating for business interests. The idea of an NGO publishing an annual report is new and extremely rare.

BOSNIA AND HERZEGOVINA



Capital: Sarajevo

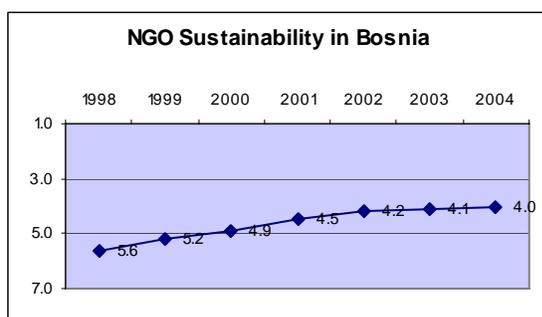
Polity: Federal Democratic Republic

Population: 4,000,000

GDP per capita (PPP): \$6,100

NGO SUSTAINABILITY: 4.0

The overall sustainability of the NGO sector has improved over last year with equal or higher scores in each of the seven dimensions. While the scores reflect only this year's achievements, there is reason to be optimistic that measures currently in the planning and drafting phases will lead to further improvements for next year.



As reported last year, there are 7,874 associations and 55 foundations in BiH. While it is difficult to say how many are active, the best estimate is half. The Directory and Perspectives on the NGO

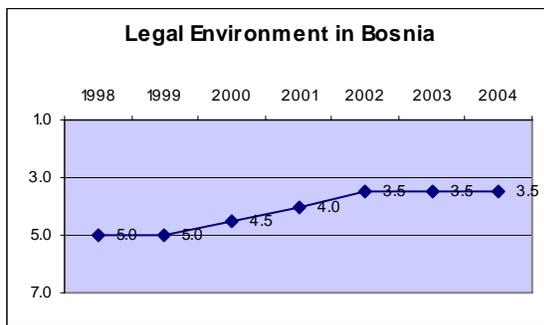
Sector in BiH by the International Council on Volunteer Agencies lists a wide variety of NGOs, the most active of which operate in the areas of training and education (17%), civic services (14%), children/youth (14%), women (10%), health (9%), and other (46%).

One indication of the NGO sector's growing stability is that advances are no longer measured in terms of quantity, rather by the quality of organizations and the services they provide. Another is the increased collaboration with both government agencies and other NGOs. Government officials and the general public now see the NGO sector more as positive elements of society, as the sector's "anti-government" reputation fades. NGOs, citizens, and the government have all begun to understand that advocacy and public participation are indeed worthy and valuable endeavors.

The greatest concern for the sustainability of the NGO sector is the Financial Viability dimension. The NGOs sector continues to rely heavily on international assistance. With a lack of domestic philanthropy, especially from the business community, and local grant making foundations that do little more than re-grant foreign funding, NGOs will be increasingly unstable as

foreign donors withdraw their support. Nonetheless, the financial viability dimension showed some improvements over the past year, as local philanthropy increased, and local governments provided greater financial support and eased regulatory restrictions.

LEGAL ENVIRONMENT: 3.5



The legal environment did not change significantly over the past year. The primary issues with the laws are not in the way they are written, but the way they are implemented. This is especially true for the registration requirements in the State Law of Associations and Foundations. There are three governing bodies within the BiH, the State at the national level, and the Federation and the Republic of Srpska (RS) at the entity level. All three governing bodies have laws that affect NGOs and therefore, will be discussed separately.

State Level

Since enactment, the registration requirements of the 2001 State Law on Associations and Foundations have been implemented inconsistently. The Ministry of Justice is considering solutions, but no

action has been taken. Though organizations like Lex International (Banja Luka) and the Civil Society Promotion Center (Sarajevo) are training attorneys in NGO legal and financial issues, there are not enough to satisfy the demand.

NGOs are permitted to engage in economic activities related to their primary purpose, but the law limits income from economic activities to either 10,000 KM or 1/3 of the NGO's budget, whichever is greater. NGOs are also permitted to compete for government contracts and collect fees for providing goods and services. Though NGOs may earn income, tax treatment is unclear, as both the Federation and the RS have jurisdiction over taxation issues. The GTZ, with input from the taxation group, has drafted a new Corporate Income Tax Law, which will be enacted at the entity level and harmonize the Federation and the RS laws under one system. The draft law recognizes public benefit organizations (PBO) and provides them with generous tax exemptions as well as incentives for their supporters, but fails to specify clear procedures for obtaining recognition as a PBO.

Federation of Bosnia and Herzegovina

The registration process under Federation law remains inconsistent, and in many cases requires an organization to hire an attorney to meet with the registering officials to resolve problems. If an organization wishes to engage in economic activities, it must form a separate corporation. Grants made by foreign or domestic donors appear to be exempt from tax.

The current Federation tax law gives a deduction of up to 0.5% of a business' gross income for donations supporting humanitarian, cultural, educational, scientific or athletic purposes. A separate provision allows businesses a deduction of 0.5% of gross income for representation costs, and this provision is considered broad enough to cover sponsorship payments. In March 2003, the Office of High Representative enacted regulations that restrict donations by public sector companies; gifts may be made only for athletic, cultural, social welfare, and humanitarian purposes, and are subject to a number of procedural restrictions to safeguard public funds. Membership fees and contributions to professional associations and political parties are deductible up to 0.1% of the business' gross income. Donations by individuals are not tax deductible.

Republic of Srpska

The 2001 Law on Associations and Foundations has created a more supportive legal environment for the NGO sector. In 2004, amendments were proposed that included inadequate procedures for public benefit organizational status. However, these amendments were withdrawn in January 2005. The law in the RS permits NGOs to engage in economic activities and charge fees for goods and services as long as the activities are related to the organizations' primary purposes. In addition, the National Assembly enacted the Law on Youth Activities that regulates youth organizations and emphasizes the government's commitment to supporting them.

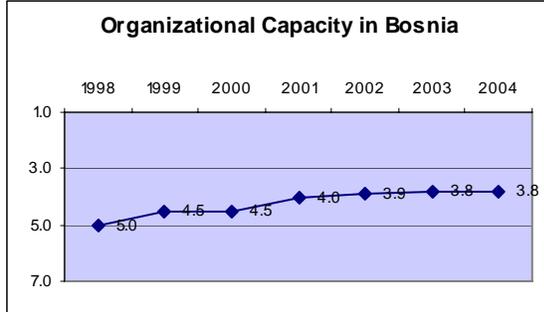
The RS provides tax incentives for corporate giving. Corporations may deduct up to 1% of their gross income for donations to athletic, humanitarian, cultural or educational purposes. They may also deduct up to 1% of their gross income for membership fees and contributions to professional associations. Representative costs that cover NGO sponsorship payments are deductible up to 3% of a legal person's gross income. There are no deductions for donations made by individuals. Oversight of NGOs by the tax authorities remains inconsistent.

ORGANIZATIONAL CAPACITY: 3.8

NGO organizational capacity has not changed much over the past year. There is a small group of NGOs in the capital that has adequate staffing, effective management, and conducts strategic planning. Otherwise, the majority of NGOs lack a significant level of organizational capacity, limited in part by insufficient institutional funding.

State registration law requires that all NGOs have an assembly, but most organizations use friends and family rather than a qualified group of independent professionals. Most NGOs are still not very open or transparent, even within the organization. There are some organizations that are starting to use external auditors. However, most

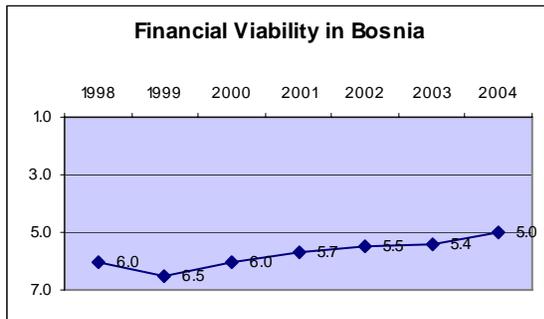
organizations are still not able to afford them, highlighting a need for inexpensive auditing services that charge according to the size and complexity of the organization.



The larger, more developed organizations that have gone through the process of identifying their shortcomings and the actions necessary to improve, have much to offer in the way of training and organizational capacity building for smaller, less developed organizations. Overall, the NGO sector has increasingly identified its constituents and their needs and focused energy on building their support, rather than starting more organizations. As in other dimensions, improvements are generally limited to those NGOs in the urban areas, with the rural areas remaining less developed.

FINANCIAL VIABILITY: 5.0

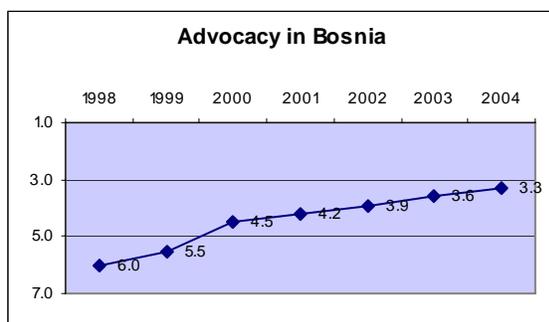
Despite improvements over the past year, the NGO sector remains financially unstable. Organizations still depend heavily on foreign funding, but this funding is expected to decrease dramatically over the next few years. As the amount of foreign funding decreases, the absence of corporate philanthropy and the lack of legal incentives for giving will present the entire sector with many challenges.



The NGO sector made progress in building individual philanthropy and support from local governments. Many municipalities now welcome project proposals from NGOs, and one municipality even offers matching grants for community service initiatives that promote problem solving at the local level. The level of support varies among the municipalities and there is still not a central office at the entity or state levels to promote or coordinate collaborative efforts between the local governments and NGOs. Individuals have expressed a greater willingness to pay for NGO services, and in one case, teachers paid for a teacher training program that their school administrator would not. Citizens have also increased their support for the NGO sector by volunteering more of their time.

ADVOCACY: 3.3

Advocacy efforts continued to improve this year, with progress in areas such as primary and secondary education, youth policy, gender equality, local election laws, and minority issues. In the past, advocacy was limited to closed discussions between government officials and civil society representatives. NGOs now make use of additional forums for advocacy, including public hearings, direct meetings, and written correspondence with government officials. NGOs and the government have both used the media to invite public input on important community matters. These efforts have increased the frequency and effectiveness of advocacy efforts.



Increased participation is due in part to the government’s recognition that NGOs are often a valuable source of information, expertise, and training as well as a way to access foreign funding. State, entity, and local governments look more and more to civil society for policy advice, research, community input, and information

SERVICE PROVISION: 4.3

Service provision has improved over the past year, as NGOs base projects more on the needs of constituents, and less on the priorities of foreign donors. NGOs now

concerning “best practices” on specific policy issues. At the moment, NGOs and government officials are circulating a draft compact to develop a more collaborative relationship between the NGO sector and the national government.

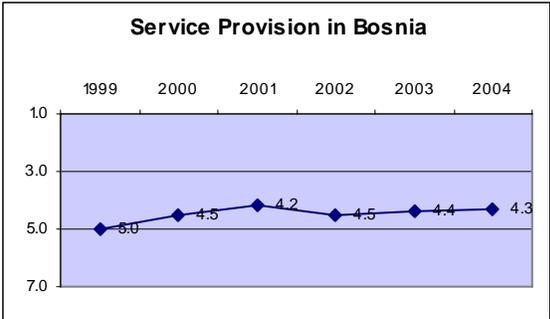
One example of a successful advocacy organization is The Center for Civic Initiatives (CCI), which has worked with over 20 municipalities to improve the local budgetary process and increase citizen participation. CCI has also been successful in lobbying for new election laws that allow for the direct election of mayors. Advocacy groups have also been promoting the Law for Volunteers, which will be important in facilitating cooperation between local and foreign volunteers and NGOs. Another improvement is that OSCE and USAID have stepped back to a more supportive role and allowed local coalitions take the lead in advocacy efforts.

Recent successes in influencing government policy, specifically NGO laws, by NGO coalitions have earned advocacy organizations a great deal of public trust. It is important to note that most political advocacy efforts take place in urban centers and that NGOs in rural areas are far less likely to have access to and influence over national matters.

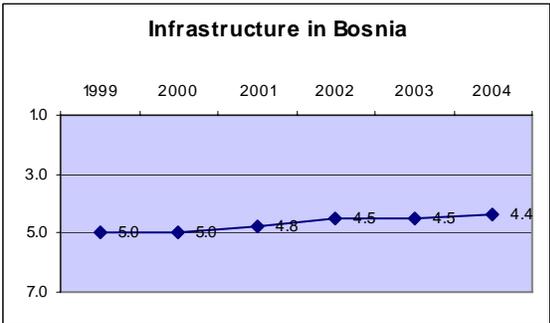
conduct more needs assessments, and allow constituents to participate in the design and implementation of their programs. In addition, NGOs provide more services for local governments and officials.

Governments often pay for services such as training in English and computer technology, but there is still a perception that “nonprofit” means that organizations ought to provide services free of charge.

NGOs have increased training programs as their portfolio of goods and services offered has grown. While these programs are needed and welcomed, organizations and their staff require further improvement of their teaching and training skills.



INFRASTRUCTURE: 4.4



The Infrastructure dimension reflects two key developments over the past year. First, the NGO community has made efforts to build collaboration and partnerships among organizations, as well as with various government agencies, the business community, and the media. Though these efforts have already led to improvements in advocacy efforts, there is still a need to

improve the sector’s information sharing network.

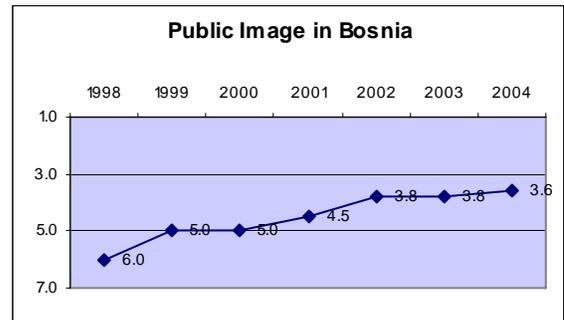
Second, the NGO community took the initial steps for building a series of intermediary support organizations and resource centers. The existing network of training facilities is based in urban areas, and often fails to account for local customs and cultural relevance; for example, many training materials are still not translated into local languages. This year, Tele-Domovi (Tele-Cottage) was created and is developing a nation-wide umbrella organization for resource centers with the goal of increasing capacity and outreach to rural areas. In addition, local grantmaking organizations have started operating, but so far they do little more than regrant international funding.

PUBLIC IMAGE: 3.6

Many individual organizations have improved their visibility and transparency, and now have a better public image or are recognized by name or associated with a specific issue. Despite these advances, the general public still does not fully understand the role or potential of the NGO sector in Bosnian society. An OSCE public opinion survey this year confirms that public opinion of the NGO sector has improved. Forty percent of the respondents believe that NGOs provide assistance for those who have been marginalized by the state. Twenty percent, however, believe that NGOs are of little societal use and provide nothing more than good salaries for their members and staff¹⁰.

NGOs have yet to fully recognize the importance of public and media relations and organizations rarely have public relations offices. However, journalists have become more open to the NGO sector and have increased their coverage of NGO activities. One example is the national media coverage CCI has received for its

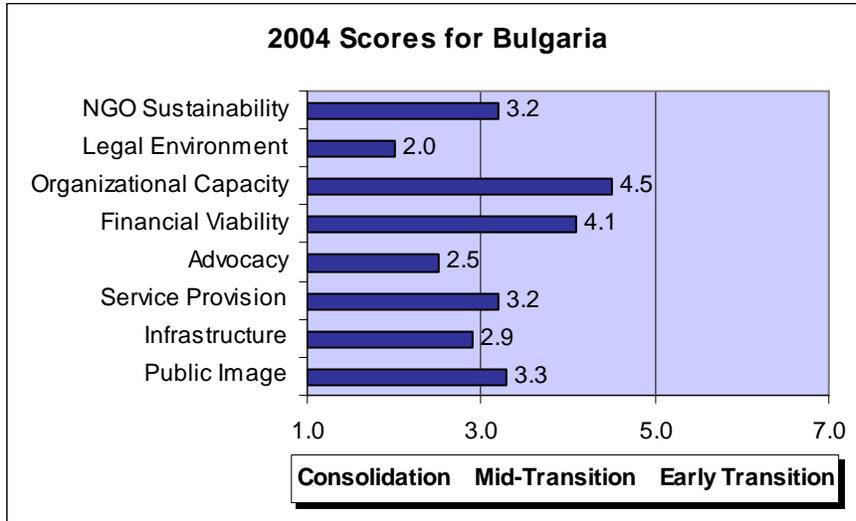
campaign for direct elections for mayors. The government has also continued to have a more positive perception of the NGO sector, which has led to greater NGO-government cooperation over the past year.



The NGO community has much work to do in educating the general public about its work and potential role in society. This will require a continued increase in the quality of services and greater public relations efforts. In addition, public discourse ought to shift from broad concepts of democracy and civil society to more tangible achievements, activities and benefits with which the public can identify.

¹⁰ OSCE Department of Democratization and Prism Research, 'Public Opinion Research.' October 2003. Responses to the question, 'Which of these statements expresses an opinion concerning NGOs closest to your own?'

BULGARIA



Capital: Sofia

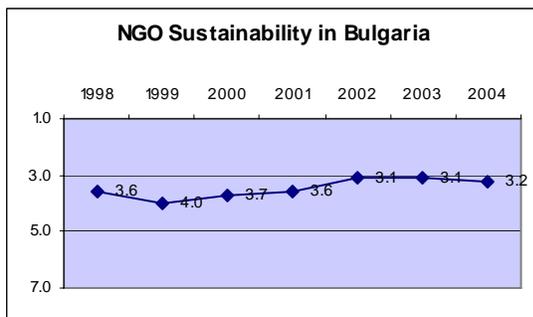
Polity: Parliamentary democracy

Population: 7,500,000

GDP per capita (PPP): \$7,600

NGO SUSTAINABILITY: 3.2

In 2004, there were 8,000 NGOs in Bulgaria, approximately 2,000 of which were active. The NGO sector continues to expand its scope as organizations represent citizen interests in shaping public policy and provide needed services to marginalized communities. NGOs developed stronger partnerships with the government, business community, and media, and are finally appreciated and sought after for partnerships in various activities.



One trend over the past year has been the sector’s increased focus on community

development in the more marginalized, poorer regions of the country. These efforts, however, are weakened by the withdrawal of foreign funding. The NGO sector has been dependent on foreign donors for many years. The decrease of their financial support has caught even the most secure NGOs off guard and created instability among organizations that have been developing expertise and organizational capacity since the 1990s.

These instabilities are reflected in this year’s Sustainability Index Scores, as the overall NGO Sustainability fell score slightly. Before this year, the NGO sector had positioned itself to move from the Mid-transition to the Consolidation phase, but setbacks in the Financial Viability and Infrastructure dimensions offset any progress that was made in other dimensions.

Bulgaria has recently become a full member of the North Atlantic Treaty

Organization, and will soon be a member of the European Union. NGOs ought to take advantage of these new opportunities by institutionalizing their achievements and realizing their potential role in society.

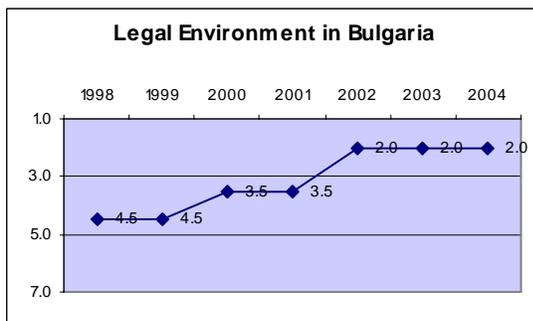
But to achieve their potential and remain stable, Bulgarian NGOs must continue strengthening and diversifying their funding through local philanthropy and other resources.

LEGAL ENVIRONMENT: 2.0

The Law on Legal Persons with Nonprofit Purposes, which came into effect in 2000, has created a legal environment that is generally supportive of NGO development. Despite a few complaints about the registration fee, the law does not pose any real barriers for those seeking registration as non-profit organizations. The few problems concerning the law relate to implementation. Examples include delays in processing applications and the lack of government officials competent to administer the law. While the law is generally supportive of NGO activities and management, reporting requirements remain excessive. NGOs are not distinguished from for-profit entities and are often required to file separate reports with the courts, tax authorities, census bureau, and social insurance agency.

authorities risk exclusion from government programs or administrative problems. This year, the Center for Independent Life, one of Bulgaria’s leading NGOs, was subjected to administrative inspections after openly criticizing the Ministry of Labor and Social Policy. Similarly, the Democracy Foundation was illegally audited by the State Financial Control Agency, which does not have the power to conduct audits, after it publicly criticized the agency.

Though incentives to encourage corporate and individual philanthropy exist, the NGO sector has yet to develop significant local philanthropy or financial independence. The most important development in 2004 was that amendments permitting government bodies to contract out services to NGOs came into effect. Few organizations benefited this year due to state and municipal implementation problems, but the NGO sector has greater hope for accessing funding through municipal governments in 2005.



Despite the supportive legal environment, NGOs are not adequately protected from government harassment and political pressures. NGOs that openly criticize

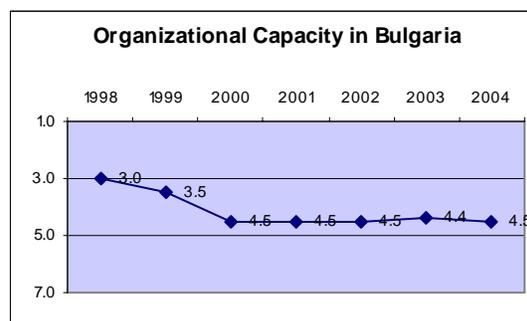
Access to NGO legal assistance is increasing, but services in small towns and rural areas are still limited. The Bulgarian Center for Not-for-Profit Law is building a network of legal resource centers around the country to address this problem. However, Bulgaria still lacks means to provide the legal consultations necessary to satisfy the existing demand.

ORGANIZATIONAL CAPACITY: 4.5

Despite the increase in available expertise and greater awareness of best practices, NGO organizational capacity remains weak. Even the most developed NGOs employ good organizational practices only when necessary for project implementation or when subjected to regular audits. A contributing factor is the decrease of foreign funding, which interferes with NGOs' ability to invest in their organizational structures.

Bulgarian NGOs generally lack formal organizational structures, and still manage and govern their organizations informally. Similarly, organizations have yet to engage in strategic planning or adhere to the objectives and mission statements set forth in their Articles of Association. Only a few NGOs have made efforts to develop their human resources. As a result, professionals and experts often leave the NGO sector for jobs in the better organized and more stable corporate and public administration sectors. With few

permanent paid staff, NGOs are often left to rely on volunteers. However, weak recruitment programs and the absence of regulations on volunteer labor have resulted in a stagnation of volunteer levels since the early 1990s.



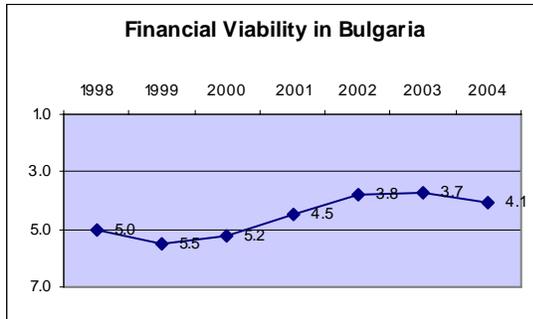
The only really significant change in organizational capacity is access to equipment and technology. Even though foreign donors no longer fund institutional expenses, organizations have managed to acquire modern office equipment, software, and internet access.

FINANCIAL VIABILITY: 4.1

The biggest issue in the NGO sector over the past year has been the decrease of foreign funding, which has caused instability among even the most solid and well-established organizations. Donors like USAID and the Open Society Institute, who once built up and supported the NGO sector, do not have the presence they once did. PHARE funding under the EU Civil Society Program now requires greater financial contributions from grantees, and despite increasing overhead costs, offers fewer grants for operational expenses. NGOs are forced to rely more

on local philanthropy and government funding, especially from state-managed programs. Though such funding has increased and other funding efforts have been fruitful, these sources are not yet sufficient to cover the loss of support from foreign donors. Even organizations that were once strong and stable are finding it hard to adapt to the new funding environment.

2004 NGO SUSTAINABILITY INDEX



A few NGOs have started to be more creative in their fundraising. Some organizations are starting community funds to attract local resources, while others are building partnerships with local authorities and developing projects with the Ministries of Labor and Social Services, Regional Development, and Environment. Some

organizations look to the business community for funding, although success has been limited to unions and business associations with members that pay annual fees. NGOs have tried to use fundraising campaigns to get the general public more involved in their work. Many NGOs are engaging in economic activities and charging fees for services, but are hampered by competition from other organizations and an unwelcoming business community that does not want added competition. Despite all of these efforts and advances, most NGOs still search for adequate funding alternatives and fundraise for survival rather than for the organization's development.

ADVOCACY: 2.5

The NGO sector plays a key role in shaping the public agenda and implementing public policy at both the local and national levels. NGOs are trying to fortify their role by formalizing their relationships with government and creating mechanisms for continued participation and information sharing. Accession into the EU will aid in these efforts as the government harmonizes Bulgarian law with EU law.



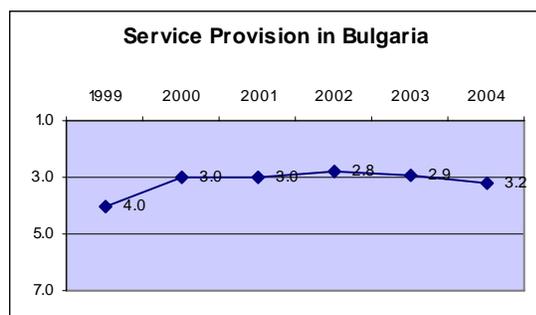
In 2004, advocacy groups were very active in lobbying the legislature and monitoring the executive and judicial branches. NGOs organized one campaign around amendments to the Penal Code. Others used the media and public pressure to counter any efforts by the government to limit their access to information and freedom of speech. However, efforts to enact a Law on Lobbying, which would have created a registration system for all lobbyists, failed again this year. In general, the public continues to perceive lobbying activities as a form of corruption.

The largest obstacle for NGOs developing future advocacy efforts is that donors prefer to invest in community service projects rather than advocacy projects. The lack of support is weakening the effectiveness and power of existing advocacy organizations. Such weaknesses allow government officials to reclaim some of the influence that NGOs have had

on public policy by limiting their access to information and presence in government

proceedings.

SERVICE PROVISION: 3.2

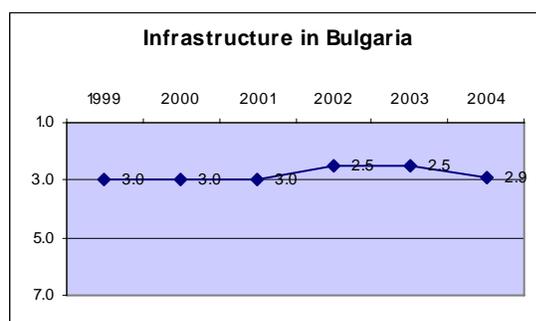


NGOs are developing a wide range of services and an increasing number of government officials and businesses are seeking out their expertise and assistance. The Government, however, still underutilizes the NGO sector in providing basic services such as education, health care, and social development to the large population of marginalized citizens. The parliament passed a law in 2004 that

permits local governments to contract out some basic services. Unfortunately, most municipalities were not aware of the new opportunities and few budgeted for NGO services. There is promise for 2005, as the Ministry of Labor and Social Services and a few municipalities have begun negotiating possible contracts with NGOs.

NGO service providers conduct needs assessments to design programs that reflect their constituents' top priorities. The decreases in foreign funding and lack of local philanthropy, however, have made it difficult for NGOs to operate efficiently or address constituency priorities as they used to do. This has damaged their public image and further limited their fundraising potential, leading to even greater organizational instability.

INFRASTRUCTURE: 2.9



This year, improvements in the infrastructure dimension were offset by fairly significant setbacks. NGOs have a greater appreciation of the importance of exchanging information, and building

coalitions and networks around common issues. They have also come to appreciate the benefits of partnering with the government, business sector, and media, which are increasingly reaching out to them.

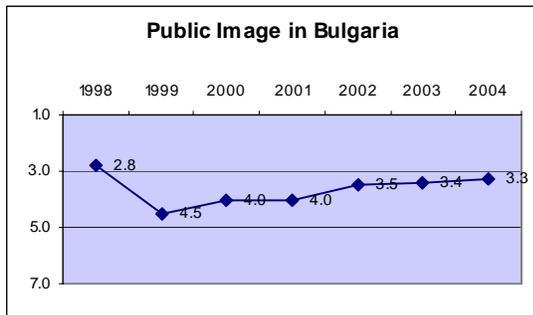
Despite these advances, the once stable and effective network of NGO training facilities is cutting back its services. The shortage of local philanthropy and the decrease in foreign funding has caused resource centers to restructure their programs in order to keep their doors open, depriving NGOs of many valuable services. In addition, NGO associations

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established in the mid-1990's have long abandoned their initial missions, as local NGOs have little interest in building long-term partnerships. The smaller

independent community foundations set up to provide services in towns have also been forced to cut back or have closed altogether.

PUBLIC IMAGE: 3.3

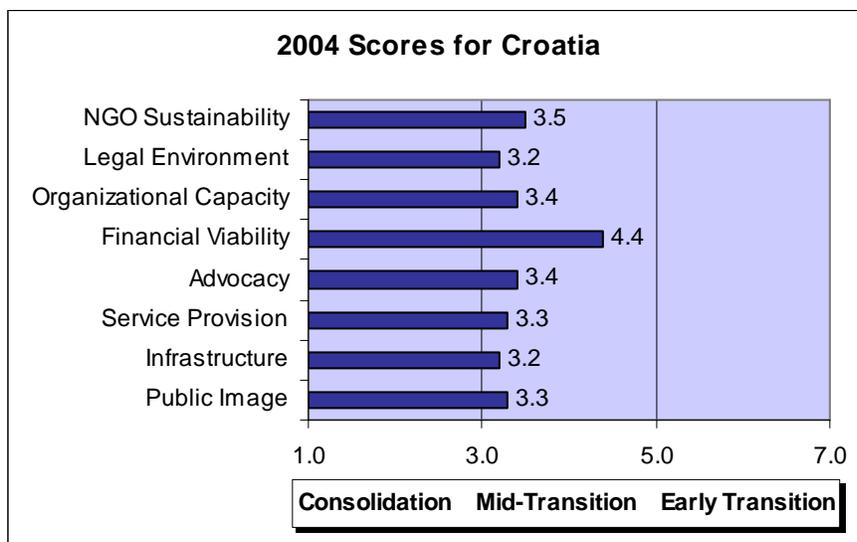


Over the past year, the NGO sector has improved its image and reputation with the general public, government, and business community. Better NGO public and media relation skills, as well as publicity from partnerships with the government and business community on successful community development projects, have contributed to this improved image. As a

result of these successes, NGOs have gained reputations as leaders in community development, which in turn, should lead to even more partnerships and government contracts.

As NGOs have become more media-savvy, they are better able to inform the general public of their missions, activities, and successes. Increased knowledge about the media has been particularly important in engaging local media, which has had negative impressions of the sector due to its concentration in the capital. NGOs are providing more services in marginalized communities and local media has been important in publicizing these efforts and building support among NGO constituents.

CROATIA



Capital: Zagreb

Polity: Parliamentary democracy

Population: 4,500,000

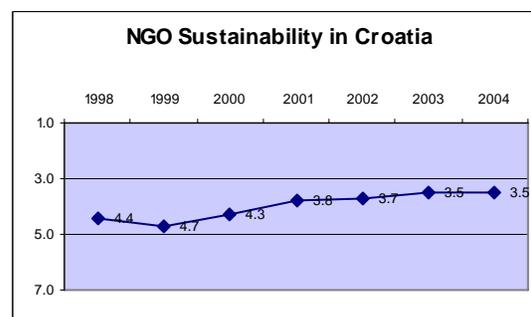
GDP per capita (PPP): \$10,600

NGO SUSTAINABILITY: 3.5

The overall NGO Sustainability remained the same from last year. While dimensions such as Organizational Capacity and Infrastructure improved, the government created new obstacles that resulted in considerably lower scores in both the Legal Environment and Advocacy dimensions. The number of registered associations continued to rise in 2004, reaching almost 30,000, less than one-quarter of which are thought to be active. The strongest organizations are based out of the capital and three largest urban areas, though new grassroots initiatives are appearing throughout the country. Generally, the more active NGOs operate at the local level, and are involved with sports, culture, social services and education. In comparison to the large number of registered associations, the number of foundations (71) and funds (2) is relatively small.

The newly established National Foundation for Civil Society Development has become a

broad supporter of civil society organizations, offering grants and technical assistance, and promoting networking, volunteerism and legal reform projects.



The legal environment has not improved in the past year. Government officials have introduced amendments to the VAT regulations that now require goods donated to NGOs by foreign donors be taxed. These VAT amendments, while generally consistent with the EU directive on VAT, place additional financial and administrative burdens on the larger NGOs that receive a

great deal of support from foreign donors. Two new laws and a regulation governing NGO operations have been drafted; the laws have not yet been approved by the government.

In 2004, a new administration, which many in the NGO community perceive as less supportive of civil society than previous administrations, took office. The Government Office for Cooperation with NGOs and the Council for Development of Civil Society, which served as an advisory board to the national government, were two mechanisms that facilitated NGO-Government cooperation. The new

administration has stymied both, and it is uncertain whether they will even continue to operate. Similarly, initiatives started in 2003 that engaged NGOs active in youth development, health, and social welfare issues have been discontinued.

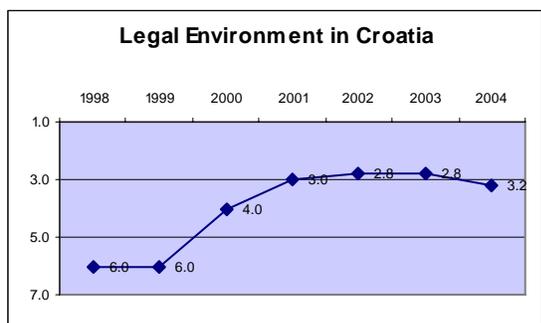
The financial sustainability of most NGOs remains unstable. Smaller local organizations continue to receive support from the local governments, and the better developed NGOs are still largely dependent on foreign donors. Overall, the image of the NGO sector has slowly continued to improve.

LEGAL ENVIRONMENT: 3.2

The NGO legal environment has not improved over the past year, and in fact has deteriorated in some respects. Though the Croatian Law on Associations is relatively progressive, smaller NGOs have had difficulties with bureaucracy related to the registration process. In addition to inconsistent application of law by the various registration bodies, the law does not clearly define the extent to which associations can engage in economic activity. The number of registered foundations is limited primarily by the restrictive requirements in the Law on Foundations and Funds.

NGOs are generally free to speak out on public issues and criticize the government, though in 2004, one NGO was audited for two months after complaining about the VAT amendments to the Ministry of Finance. The government rarely interferes with NGO financial affairs, but as a result of the audit, it is possible that the NGO will be fined 30,000 Kuna. This example raises concerns in the NGO community that the case was politically motivated, and that weaker NGOs that cannot afford legal services would not survive such an ordeal.

The NGO community as well as representatives from other sectors participated in drafting amendments to the Law on Foundations, Law on Volunteerism, and the Code of Good Practices in Grant-making, although the Government has yet to approve the two laws for submission to the Parliament. The Government did, however, adopt new regulations on VAT. While generally consistent with EU directives on VAT, they have increased the financial and administrative burden on NGOs as they



impose VAT on goods donated to NGOs from foreign donors. An organization is subject to VAT and required to pay 22% of the total value of goods and services, if it applies for to be included in the VAT system, or if its taxable income exceeds 85,000 Kuna (USD \$13,000). The Red Cross, political parties, trade unions, religious groups, and cultural organizations organized under separate laws, are exempt from the VAT. In addition, domestic humanitarian organizations are still considered to be final consumers and are not subject to VAT.

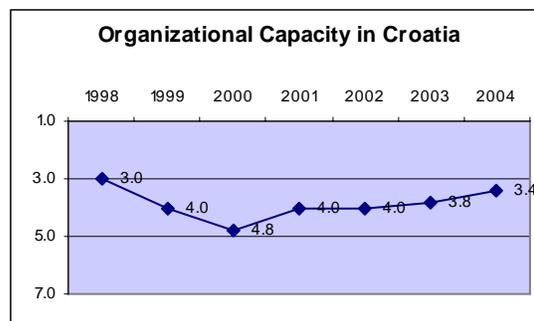
Other than the new VAT regulations, the tax laws are generally favorable for NGOs, as grants and donations are not taxed if used to finance non-profit activities. Corporations

or individual donors may deduct donations of up to 2% of their taxable income for donations made to organizations pursuing cultural, scientific, educational, health, humanitarian, sport, religious or other activities. The sector is still advocating for reforms concerning the criteria for organizations to receive public benefit status, as well as setting forth internal governance mechanisms for NGOs.

A cadre of local attorneys was trained in NGO law, but a few have stopped providing assistance. As organizations demand more services, the need for trained attorneys will rise. Though legal resources are available now, many of the smaller organizations are not aware of them.

ORGANIZATIONAL CAPACITY: 3.4

Despite obstacles, numerous organizations in both urban and rural areas improved their organizational capacity in 2004. While foreign donors are a large motivating factor behind the improvements, the Croatian government and business community have also played a role. Local grassroots organizations generally identify and build constituencies with greater success than the national organizations since the public generally takes greater interest in programs that address local issues. Likewise, NGOs have an easier time generating interest in projects in the smaller towns. All NGOs have greater difficulty building relationships with constituencies when they are engaged in politically sensitive activities, though several organizations have been successful at the national level in areas such as human rights, consumer affairs, and the political process.



Many organizations have clearly defined mission statements and are more aware of the importance of strategic planning. The larger NGOs that benefit from foreign funding generally engage in strategic planning more often than others. Organizations increasingly have strong internal management structures. Most have assemblies that serve as the highest supervisory bodies, while fewer NGOs have managing boards due to the lack of knowledge and understanding about governance and management

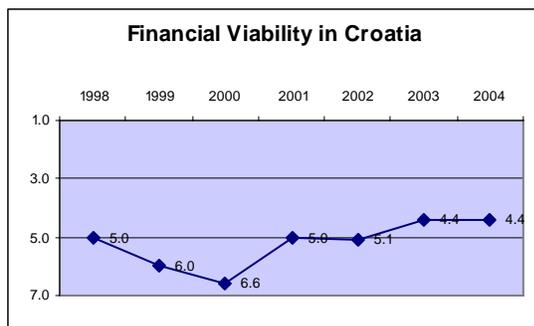
2004 NGO SUSTAINABILITY INDEX

responsibilities, as well as insufficient transparency and openness. In addition, organizations often have weak financial management systems, due to limited funding to hire qualified financial managers. Most NGOs are well equipped with computers and other necessary office equipment, and email and internet access is common even for the smaller grassroots organizations.

Due to a lack of resources, a large number of small NGOs have to depend on a volunteer staff, while only a small number of larger

organizations are staffed with paid professionals. Despite this trend, NGOs do have a greater sense of professionalism. A new development within the sector is the growth in new volunteers, as organizations have taken advantage of the general public's increased interest in volunteering. Generally, NGOs still lack the capacity to manage volunteers efficiently and therefore have not been able to take advantage of the opportunities presented by this growth of interest in volunteerism.

FINANCIAL VIABILITY: 4.4



The Croatian NGO sector enjoys continuous support from all levels of government. Local governments such as those in Zagreb, Split, Rijeka, Istrian County, Osijek and Slatina often provide NGOs with office space for free or very reasonable rent. Financial support is often limited to sports, culture, health, and social services organizations. More sensitive advocacy activities in areas such as human rights, peace, or political activism seldom receive government support. Local governments and Ministries at the national level have made some progress in ensuring that their grant-making procedures are more open and competitive. In larger towns, municipal support has even grown to include public events that promote NGO networking and greater public awareness.

Over the past year, the National Foundation for Civil Society Development began operating as the first public, non-profit organization with the mission to serve and strengthen civil society in Croatia. The Foundation provides an independent and decentralized mechanism for public financing, which is a major advancement in the development and financial stability of the civil sector. The Foundation's core activities include providing educational opportunities and publications, leading public awareness campaigns, and giving grants to NGOs. The Foundation's grants focus on supporting grassroots activities and programs that are within the competence of government ministries. Funding for the Foundation was established by the Law on the National Foundation and the Law on the Lottery, which accounts for 14% of the Foundation's income. The Foundation also receives other funding from various donor sources.

The larger NGOs that operate at the national level often enjoy greater diversity in their funding than grassroots organizations that receive a majority of their support from local governments. The business community has increased its support of

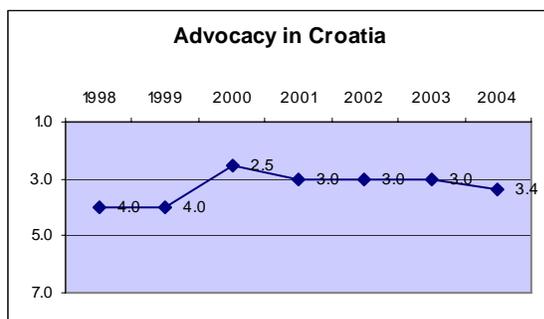
NGO activities, with more grants and in-kind donations. Despite the NGO sector's progress in fundraising, especially in the business community and local government, many NGOs do not engage in economic activities and therefore do not enjoy significant levels of financial stability.

Only the larger organizations have the resources to hire qualified accountants and to publish an annual report on the internet. Even these larger organizations, however,

still lack sufficient financial controls and have much room for progress. For example, in the past year two well-known NGOs had to file for bankruptcy due to serious mismanagement of funds by their financial managers. As most organizations cannot even afford to hire professional accountants, these types of issues are common.

ADVOCACY: 3.4

Despite a few successful collaborative efforts between the NGO sector and the Government, NGOs generally have not been successful in their advocacy activities due to the lack of openness and interest in cooperation by the current administration and policy makers. One example is the NGO/Government youth development and social welfare programs implemented in 2002-2003, which has recently been terminated by the new administration. Another example is the Government Office for Cooperation with NGOs and the Council for Development of Civil Society, which are both mechanisms to promote cooperation between the NGO sector and the Government. The new administration has essentially shut these institutions down by not appointing new leadership.

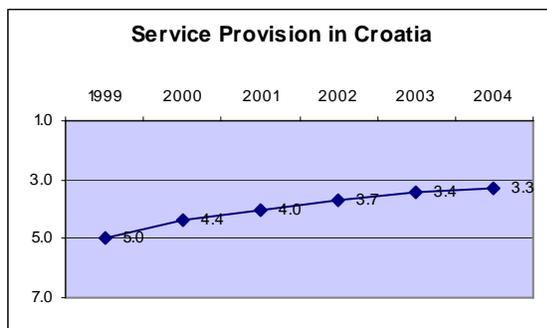


Some NGOs have had success in their advocacy efforts, despite the unfavorable environment. The Croatian Helsinki Committee and the Legal Services Coalition were successful in advocating for the Freedom of Information Act (FOIA). Women's rights organizations made recommendations for the prevention of violence against women. Organizations also made progress with respect to minority rights. Environmental groups advocated against the Druzba-Adria project and have increased public awareness about issues concerning the Adriatic Sea. Consumer advocates have been successful in advocating for consumer rights. A coalition of fourteen NGOs has created a new initiative against corruption, bringing together for the first time veterans' associations and peace groups. Associations for the disabled have successfully advocated changes regarding "personal assistants." Other NGOs have been successful in lobbying for a new law on election and campaign finance for presidential elections. Although organizations are aware of the weaknesses in the NGO legal framework, none have initiated activities to change the laws. In general, NGOs have been more successful in advocating than lobbying, as

the new administration and the Parliament have been less open to building partnerships and working with lobbyists.

SERVICE PROVISION: 3.3

NGO service providers generally offer services to a large number of beneficiaries in areas of health, education, social welfare, human rights, and environmental protection. Unfortunately, the sector has not responded effectively to important social needs like employment, corruption, patient rights, judicial reforms, and good governance. NGOs are more successful responding to community needs and are involved in working in schools to offer training in conflict resolution, elections, gender rights, and health issues related to drug use and HIV/AIDS. Other organizations provide services to vulnerable groups such as the disabled, elderly and victims of the war.



Most NGOs are not able to recover the costs of their services, and rely on government support for social welfare projects. In 2004,

the national government provided over \$2 million in grants to more than 300 NGOs in areas of education (98), disabilities (71), drug addiction (59), health (41), and environmental protection (35). Although many organizations receive government funding, the current administration has yet to recognize the potential and capacity of the NGO sector, and has only contracted with a few organizations for services. Good models for social services contracting have been established in municipalities like the City of Split, though many other local governments still lack open and transparent grant-making processes, or mechanisms to monitor and evaluate grants. Civil society development continues to be hindered by problems related to the reform of the Croatian public sector.

Other than organizations that provide training, few others charge fees for their services. NGOs that publish materials generally distribute them free of cost with most being funded by donors. Most organizations undervalue their work, and when possible should begin charging fees for their goods and services where possible in order to end their dependency on the donor community.

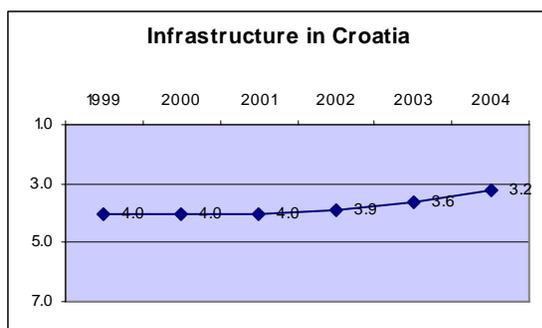
INFRASTRUCTURE: 3.2

The Infrastructure dimension score improved over last year's, as grassroots organizations continue to enjoy access to support services. Most ISOs are based in

three regional centers, and receive most of their support from international donors. In addition, some of the leading NGOs provide informational support to associations within

their specific sub-sector. Though Croatia has a relatively large number of NGO trainers, few are able to provide advanced programs in areas such as strategic planning, monitoring and evaluation, financial management, and other important topics.

One significant development in 2004 was the establishment of the National Foundation for Civil Society Development, which is the first foundation dedicated primarily to the development of civil society in Croatia. The Foundation has already had an impact by providing a number of grants to promote changes in the legal framework and the promotion of volunteerism. The Split Foundation was the only foundation created this year despite efforts by several local initiatives. Another positive development was the Trainers Forum, which is an informal initiative started by NGO trainers to increase the levels of professionalism within their field. The Trainers Forum's first point of business was to adopt a Trainer's Code of Ethics.



PUBLIC IMAGE: 3.3

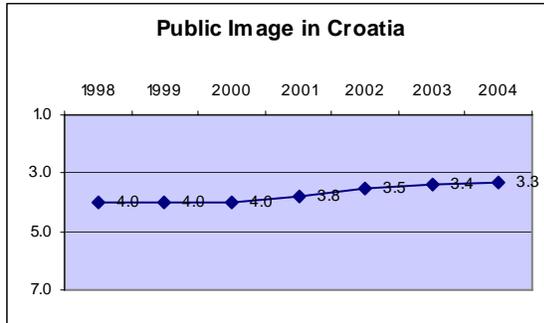
Though the NGO sector has slightly improved its public image, organizations still have much work ahead of them, as most Croatians are still unaware of NGOs and their activities. NGOs continue to receive more media coverage, and are increasing their efforts to improve their public image

Most organizations exchange information within an informal network of coalitions connected by email list-serves, newsletters, and regional or national conferences. Organizations have increased their cooperation across a variety of sub-sectors. One example is a coalition that includes the largest veteran's association, women's rights groups, and human rights organizations, all working together to develop anti-corruption programs. ZamirZine has increased the informal exchange of information in the NGO community by providing daily updates on the developments in civil society. A growing number of NGOs publish their own newsletters and bulletins, and various other publications to disseminate information within their networks. Some NGOs have even created resource centers and libraries of NGO publications, literature and other information.

Partnerships have increased as NGOs, local governments, and businesses all have an increased awareness of the benefits and potential of cooperation. The cities of Rijeka and Osijek were the first to adopt charters on cooperation with NGOs. Croatian businesses have become more open to promoting corporate social responsibility and in building partnerships that include grant-making mechanisms with the NGO sector.

by holding more press conferences, giving public presentations, and publishing annual reports and newsletters. One coalition organized the GRAK campaign with the intent of improving the sector's public image and visibility, though the impact, especially in the capital, was weak.

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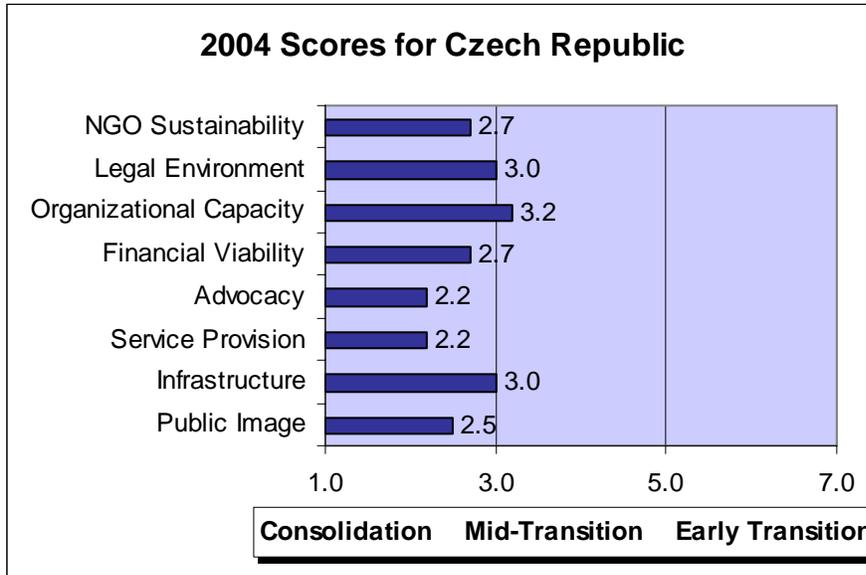


Media coverage of NGO activities is generally inadequate. Most coverage tends to be positive, but stories are often short and lack the information necessary to promote interest among the general public. The only NGO events that receive significant coverage are those attended by well-known government officials. Editors are often more interested in the sensational stories that sell papers, than coverage of the more mainstream civil society events. Generally, four or five well-known NGO leaders represent the sector in the national media, as

many in the NGO community are still uncomfortable engaging the media. Local print media provides the most frequent coverage of NGO activities.

Improvements in public image have come from efforts by the sector to build and maintain strong relationships with journalists, especially at the local level. It is generally easier to promote NGO issues and activities now than it was five years ago, as the media is better informed about and more open to the NGO sector. These developments have had a direct impact on the level of cooperation between NGOs and the government. Despite the public's general lack of understanding of civil society issues, the sector's image continues to improve slowly, as the public become better informed and less skeptical of NGO activities.

CZECH REPUBLIC



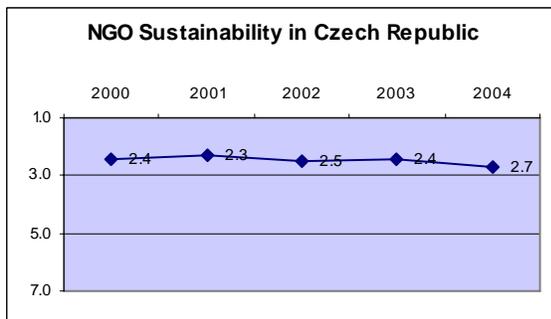
Capital: Prague

Polity: Parliamentary democracy

Population: 10,500,000

GDP per capita (PPP): \$15,700

NGO SUSTAINABILITY: 2.7



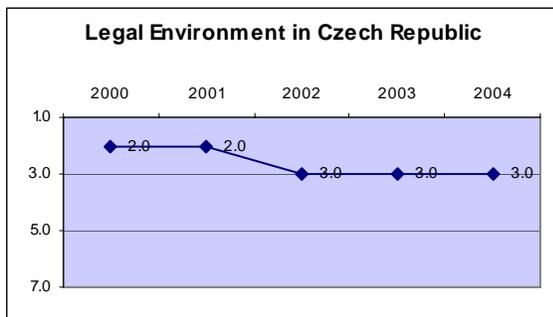
The non-profit sector is comprised of the following types of organizations: civic associations, foundations, foundation funds, public benefit organizations, church-related legal entities, local chapters of foreign not-for-profit organizations and associations of legal entities. Organizations established by public administration entities are also

understood to be part of the non-profit sector.

In 2004, there were no fundamental changes in the non-profit sector development. Organizations continued to diversify their funding sources, but NGOs could not yet apply for EU support, as the Czech ministries were not ready to distribute these monies. Positive developments included the establishment of the first economic research center for the non-profit sector and the release of a study by the Governmental Council for Non-State Non-Profit Organizations, commissioned by the Government of the Czech Republic, which recommended changes in legislation. It was the first official document of its kind.

LEGAL ENVIRONMENT: 3.0

The establishment, operation, and liquidation of all legal NGOs in the Czech Republic is regulated by the Law on Foundations and Foundation Funds, the Law on Public Benefit Organizations, the Law on Association of Citizens and the Law on Churches and Religious Organizations. All organizations follow the Law on Volunteerism. The legislative framework for non-profit organizations is generally operational, though there is some confusion about which organizations are included in the definition of “non-profit organization” (NGO). The preparation of the new Civic Law is still in progress and experts anticipate it to be passed in 2007.



The rights and duties of various forms of organizations are regulated by the laws mentioned above. Legislation regulating the activities of civic associations—which form a significant majority in the non-profit sector—is loose in nature. In contrast, legislation concerning foundations, foundation funds, and public benefit organizations is very strict and binding. Given the varied level of complexity of the procedures and resulting confusion, registers and statistics on Czech NGOs are not completely accurate.

NGOs can operate freely within the boundaries of the relevant legislation. Government entities do not by themselves create legal impediments to the operation of

NGOs. Instead, difficulties are the result of the long-term neglect of outstanding legal issues (e.g., a social services law has been awaiting passage since 2000) and by a persistent ignorance about the non-profit sector on the part of public administration. The process of decentralization of public administration is, in practice, unfinished and also presents a problem.

There are only a few specialists in NGO legislation in the Czech Republic. Legal consultancy services are available in the capital and in some regional towns, but they are hard to find at the local level. Some colleges and universities teach courses on the legal aspects of NGO management, contributing to a better-informed public. Nevertheless, there is no specialized training for lawyers in this field.

According to the income tax laws, all subsidies, grants and donations to NGOs are tax-deductible. Individuals may deduct donations from their taxable income, but the ceiling for these deductions so low that the provision is not an incentive for people to contribute. The tax situation in the Czech Republic worsened with the passing of a new VAT law under which NGOs and for-profit enterprises are considered equal. The law fails to clearly define those activities that are exempt from VAT, and does not prohibit NGOs from earning income from the provision of goods and services.

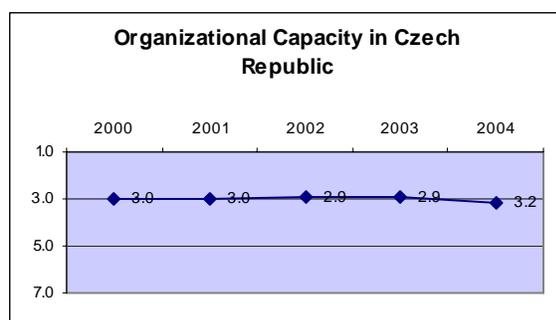
The impact of this law in practice will not become clear until 2005. Meanwhile, NGOs are pushing for the adoption of new legislation that would enable tax assignments, in this case to allow individuals to designate up to 1% of their due taxes for an NGO. This attempt at increasing NGO income has so far been unsuccessful as proposals for legislative

measures were prepared but did not succeed in advancing beyond the pre-legislative

review phase.

ORGANIZATIONAL CAPACITY: 3.2

The public still regards the role of the state as a paternalistic and expects its needs to be served by the government and various public administration entities. In spite of this view, people are generally receptive to NGO programs and feel that the organizations meet their needs. For the most part, NGOs do not have the capacity to perform needs assessments and therefore often craft their programs based on their own interpretation of what the communities' priority needs are.



NGOs in the Czech Republic function effectively, in general, but need to apply some important planning and management tools. While defining an NGO's mission is a condition for the registration of all legal non-profit entities, not every organization defines its mission clearly and in intelligible language. This situation is improving particularly in the area of social services thanks to standards emphasizing this point. NGOs are also aware of the value of strategic planning, but most do not write strategic development plans; if they do, those plans outline activities for the short term. The most established NGOs have permanent staff, but employees do not have firmly defined job descriptions. In fact, staff is often hired only for the life of a particular

project. Development of human resources among NGOs is practically non-existent. NGOs work with volunteers who have been accredited by volunteer centers that provide training and education as outlined in the Law on Volunteerism, but the biggest problem in this area remains the prevailing lack of skills among NGOs in working with and managing volunteers. Occasionally, NGOs have systematically organized databases of volunteers.

Certain kinds of NGOs are required by law to act transparently and publish annual reports that include annual financial statements, but not all organizations fulfill this requirement. There are a number of civic associations that regularly publicize their reports (even though they are not required to do so), because they know that it is good practice and encourages others to consider partnerships with them. NGOs must also—but do not always—document their management structure and the responsibilities and duties of management bodies. Boards of Directors tend to delegate their duties and responsibilities to the management of their organizations.

The financial means for purchasing technical office equipment exists among NGOs in the Czech Republic (sometimes in the form of grants and gifts from for-profit entities), although equipment is for the most part not the most modern. Nearly 90% of NGOs are able to use computers and communicate using the Internet. NGOs that do not own their own equipment can make use of the library, which provides Internet access.

FINANCIAL VIABILITY: 2.7

NGOs obtain the bulk of their financing from domestic sources of support. Most comes from public budgets, companies, foundations and individual donors. Support from donors is not only financial; corporate donors provide products and services to NGOs at a discount or free of charge. Most NGOs have diversified their funding sources and have three or four reliable donors, but usually one or two sources provide more than 75% of the support. The majority of NGOs do not maintain financial reserves, though some are financially secure for several months (at most one year). Membership organizations are more stable.

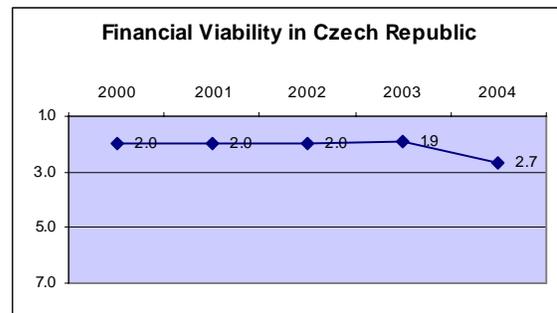
Most NGOs do not fundraise systematically, and some organizations even consider fundraising to be a luxury. Only financially stable NGOs can afford to allocate resources for fundraising. Organizations use membership fees and proceeds from public collections, but do not solicit individuals.

The most serious reason for the unsatisfactory state of fundraising is the lack of responsibility assumed by boards of directors. Boards are not fulfilling their basic duty—to seek out and secure financial support for their organizations. Instead, Directors pass off these duties to the executive staff of the NGO. Qualified and committed board members are difficult to come by because membership of an NGO Board is not deemed prestigious.

Corporate philanthropy is gradually developing as firms join large, multinationals that support corporate responsibility. The number of corporate foundations is growing, but they prefer to support NGOs by awarding them contracts rather than by giving donations. Corporations do express an interest in seeing

more interesting ideas and projects being proposed by NGOs. Small and medium-sized companies do not participate in supporting NGOs.

Individual donors represent the least significant source of income for NGOs in the Czech Republic, and are not sought after by NGOs. Again, there is a lack of creativity among NGOs in approaching individual donors.



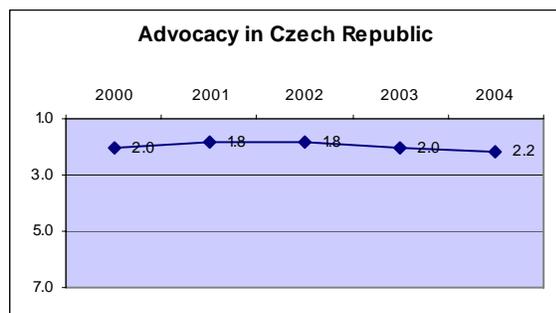
Most NGOs are trying to supplement their financial resources portfolio by selling products and services to earn money. Often, because of a lack of financial management skills, prices are set too low and the organization does not gain the income expected. Public administration entities purchase services from NGOs in the form of subsidies and grants, but these are not easily won, as government-owned non-profit organizations are favored in the award process. These organizations are managed by public administration bodies and are guaranteed ongoing funding.

Financial management is not systematically practiced among NGOs, largely because of the lack affordable, qualified staff. Some NGOs are required to perform annual audits by the Czech legislature, as are NGOs implementing projects financed by the EU. Some NGOs that are required to publish

annual reports do so, but do not publicize them as they should, thereby defeating the

purpose of transparent reporting requirements.

ADVOCACY: 2.2



Channels for communication between NGOs and central and local level authorities are well established. NGOs are represented on the advisory bodies of various ministries and on the Czech government advisory body (the Government Council for Non-governmental Non-profit Organizations). At the regional level, NGOs are often relied upon to assist in developing the community plans and regional development strategies that inform government planning. Government entities work with NGOs in certain sectors—especially Roma populations, drug-abuse prevention, community and minority issues and human rights—to implement projects, and contract them to work in the social sectors. Towns and regions developing the local Agenda 21 (a government development program based on principles of

sustainable development) rely on NGOs to be professional partners and on the participation of active public groups (like the Healthy Cities Program which solicits public participation in planning the healthy development of cities).

NGOs feel strongly that a high quality legal framework is necessary to regulate the sector, but they overestimate the importance of an effective legislative environment and assume that legislation alone will solve their problems. Within their regions or areas of activity, NGOs are able to cooperate in promoting a piece of legislation, but lobbying is not a priority of the non-profit sector and NGOs do not have the skills to conduct large-scale campaigns. There exist interest groups in the Czech Republic that lobby effectively, for example, Natura 2000—an environmental group affiliated with the EU program that defines protected areas. In the past, NGOs led campaigns at the local level to encourage solutions to socio-political issues in various areas such as children's' rights, domestic violence, cancer prevention and urban transportation issues.

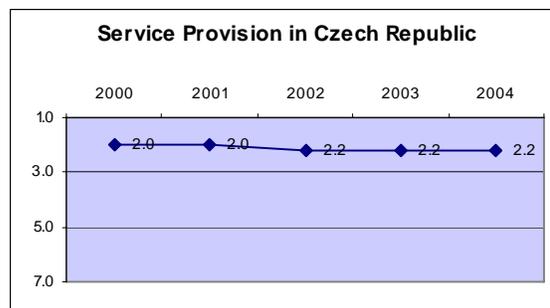
SERVICE PROVISION: 2.2

NGOs provide a variety of services in a range of sectors—health care, social care, education, assistance after natural disasters, environment, culture, historical site restoration, youth, human rights, and others.

Most of these services are of a high professional standard. The quantity and quality of such services differs in the various Czech regions.

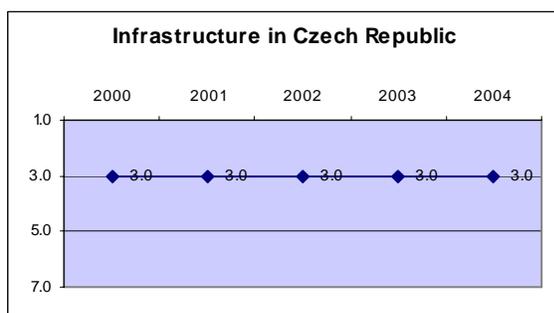
NGO SUSTAINABILITY INDEX

In general, NGOs respond to the needs of their constituents and to their perception of market demand. However, their priorities are often connected to the stated priorities of the public authorities. Recently, NGOs have been very active in conducting assessments for community planning of social services whereby the needs of local inhabitants are assessed with the participation of clients, providers and local authorities. In general, the quality of marketing skills (market research, pricing, budgeting and cost recovery calculations) is very uneven among NGOs, and they get varied results as they sell products and services to their constituents and to the wider public.



Public authorities claim to appreciate NGO services, and support the sector by purchasing services through subsidies and grants to NGOs. Appreciation of NGOs is generally highest at the ministry level and lowest at the local level. This situation differs from region to region.

INFRASTRUCTURE: 3.0



NGO information and support organizations exist in the Czech Republic; tens of organizations provide a wide range of information, educational and consulting services, but quality of these services is very uneven. These organizations also provide training in areas such as management, fundraising, marketing, public relations, accountancy and legislation, but is often not as tailored as NGOs need. Services are fee-

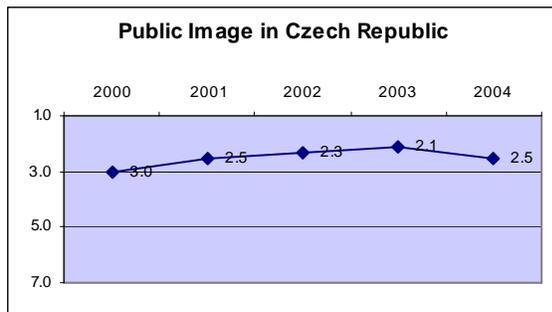
based, and difficult to access by NGOs outside of the largest cities.

Czech foundations provide grants for implementation of local projects in accordance with their own priorities, but often have limited financial resources. There are no large foundations in the Czech Republic, but the number of corporate foundations is growing. One example of foundation support for the NGO sector is a grant program to support strategic planning provided by the VIA Foundation. This program provided 50 NGOs with small grants, and 12 regional foundations and 20 NGOs with institutional grants.

NGOs form coalitions both regionally and around sectors of interest. Intersectoral partnerships are relatively rare, and are created largely to win EU funding.

PUBLIC IMAGE: 2.5

The media provide significant coverage of NGO activities, and often focus on the positive aspects of the activities. Only on rare occasions does the media focus on negative cases. Reports usually appear in regional media outlets and focus on local events. Czech Radio, a public broadcaster, gives time to NGO coverage daily. Another public broadcaster—Czech Television—reports on the non-profit sector on its less-watched channel. There has been a growing trend of providing media time to NGOs experts on specific issues of public interest.



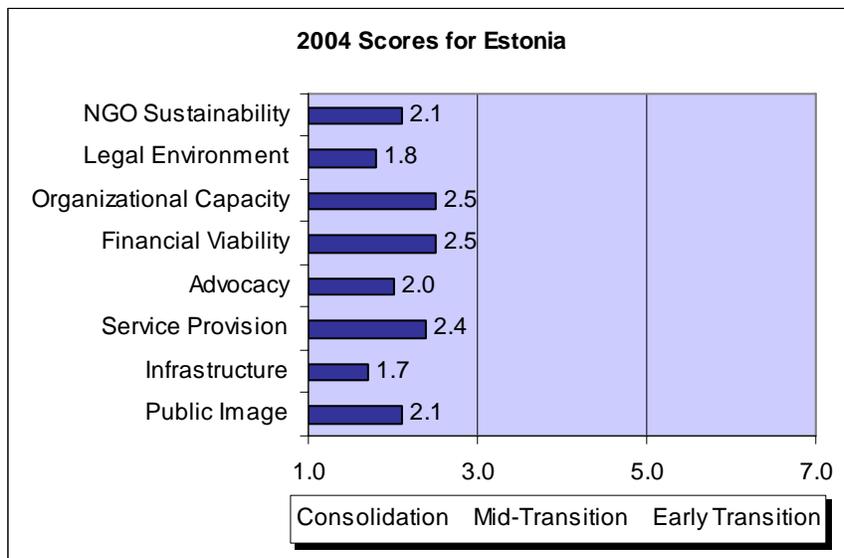
The public still does not fully understand the importance of NGOs and their role in society, but generally views NGO work and volunteerism positively—especially those with which they are familiar. The most well known NGOs are those that organize public collections. Roughly half the public considers NGOs to be influential organizations that help to solve important societal problems rather than local issues. NGOs more and more strongly perceive public relations to be a necessary condition

for their sustainability, so they are more often promoting their activities. However, NGOs are not capable of intensive and systematic public relations campaigns because they lack human and financial resources. Also, they are not always able to communicate their organizations' intentions effectively such that the public receives and understands their message.

Public administrators officially claim that NGOs are their partners, but in practice, NGOs' survival is dependent on public authorities' decisions. Foreign and large companies expect NGOs to be part of their corporate social responsibility programs and cooperate with them in providing support for certain issues or regions. Working with NGOs improves a company's image but has not become a standard part of corporate culture yet.

An accepted code of ethics does not exist among the NGO sector, and the idea of introducing one has not yet been discussed. Small groups of organizations are able to reach a consensus on the issue. For example, a Code of Ethics for foundations has been established, and organizations providing social care services have well-established ethical rules for clients' treatment, as this is one of their fundamental principles. Some NGOs create their own ethical principles and publicize them in their promotional materials, but there are no sector-wide standards.

ESTONIA



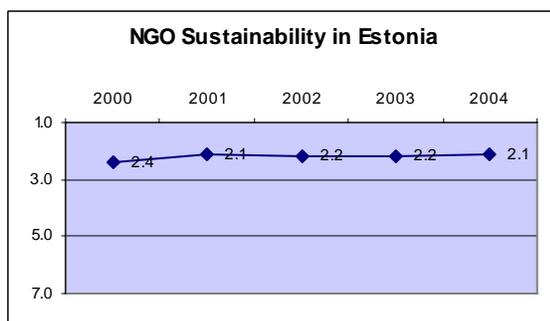
Capital: Tallinn

Polity: Parliamentary republic

Population: 1,340,000

GDP per capita (PPP): \$12,300

NGO SUSTAINABILITY: 2.1



The year of 2004 brought the consolidation of several initiatives and included a number of attempts to secure the principles and values of civil society in Estonia. On August 12, 2004, the Estonian Government adopted a plan of action for the implementation of the Estonian Civil Society Development Concept (EKAK) for 2004-2006, thus agreeing to develop and support most important steps needed to secure the sustainability of the nonprofit organizations:

- Establishing structures to increase cooperation between the government and nonprofits;
- Developing clear mechanisms for the involvement of nonprofits in the development and implementation of policies and legislative acts;
- Working out transparent and clear funding strategies to provide for the development of civil society and nonprofits from the state budget;
- Improving the targeted system of tax benefits and charitable giving;
- Enhancing the capacities of umbrella organizations, and their current and potential future role in cooperation with the public sector;
- Creating an adequate register of non-profit organizations;
- Facilitating cooperation between schools and volunteer centers; and
- Supporting infrastructure and networks supportive of civic engagement and civic initiatives.

Media reflected the topics of civil society regularly and mostly in a positive light. People understand nonprofit organizations to be an integral part of the Estonian society, and nonprofits see themselves as the main channels of participation for the public. They understand the growing accountability that accompanies such development. Estonian National TV (together with Baltic-American Partnership Program) portrays principles of good citizenship on national media. County Development Centers provide counseling and training to local governments, local businesses and local nonprofits on a regular basis and are supported by the state budget. Projects undertaken by nonprofits include good governance, board development, quality

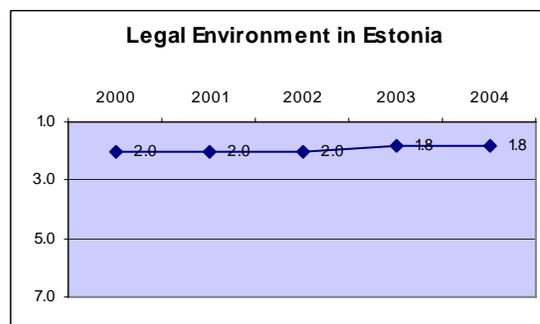
management, member involvement, public services delivery by nonprofits, and corporate social responsibility. These few specific examples demonstrate the health of the Estonian nonprofit sector.

In a 2004 article about governance in Estonia, Sociologist Juhan Kivirähk from FAKTUM stated that Estonian civil society is well developed *in spite* of public sector support, meaning that Estonian nonprofits themselves have aimed to improve the condition and participation of civil society in the country's development and have succeeded. They have succeeded, over time, to get the public sector and business sector involved and interested as well.

LEGAL ENVIRONMENT: 1.8

The large number of NGOs per capita in Estonia—a total of 21,000 registered nonprofit associations and foundations (14 organizations per 1000 people)—is proof that current legislation allows for easy registration of associations and foundations. Nonprofits are registered according to one of three laws: the Act on Associations, the Act on Foundations, and the Law on Obligations (for non-registered organizations). Specific governance duties and obligations are detailed in other laws such as the Law of Parties, the Law on Apartment Associations, and the Law on Trade Unions. The legal requirements for all organizations, irrespective of their size and founders, are the same. It has been argued that to treat the self-initiated-citizens' associations on the same basis as, for example, associations of business organizations, is unjustified. Furthermore, nonprofit associations and foundations created by the public sector cannot be treated as civic initiative organizations, nor do they qualify for tax

benefits or promotion. Therefore, including citizens' associations into current legislation would not necessarily resolve these problems, and might inhibit legislative clarity.



Like any legal entity, nonprofits must also act in accordance with the Income Tax Law, the Value Added Tax Law, and the Accounting Law. The laws guarantee independence from the state, freedom of speech and the right to profit. There is no legal separation between public benefit and mutual benefit organizations. Article 11 of

the Income Tax Law defines the public interest to a certain degree. However, the regulations that govern whether an organization is able to benefit from income tax incentives, as allowed for by Article 11, do not sufficiently differentiate between organizations acting in the public interest and those acting for private interests. Regarding financial management systems, independent financial audits are required by law from foundations, but not from associations (although some larger associations also perform independent audits).

Although donations can be made to any organization, up to any amount, tax deductions are limited. Individuals may deduct income tax on documented gifts and charitable contributions only to those public benefit organizations on the Ministry of Finance list (according to the Income Tax Law). Deductions from individuals are limited to 5% of their previous year's taxable income. Corporate donations made as charitable contributions to public benefit organizations on the Ministry of Finance list can be deducted one of two ways: 1) to deduct up to 3% of the total remuneration paid to employees in the previous calendar month; or 2) to deduct up to 10% of reported profits from the previous year. Businesses

in Estonia only pay income tax on dividends and on non-business related costs. Donations to nonprofits fall in the latter category.

The main legal impediment concerns the need to regulate voluntary work. Nonprofits that include volunteers in their activities are dissatisfied that the term "volunteer," arguing that it lacks the definition and content that ought to be clarified by legal norms and protected by law. The Dictionary of Civil Society, recently published by the Estonian NGO Roundtable, however, helps to regulate the most common terms in the field that have thus far remained vague.

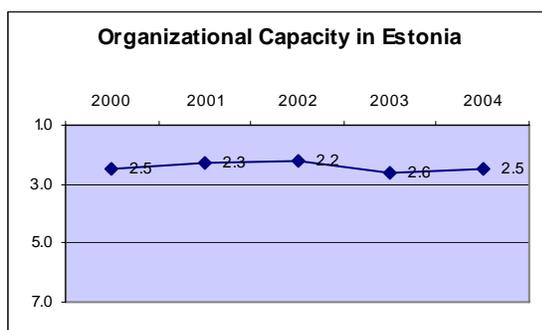
Joining the EU has not had a great impact on the legal environment in Estonia, although one significant change involves the Value Added Tax (VAT) Act. NGOs are no longer eligible to a VAT refund on European-funded projects. Otherwise, the legal environment has remained the same. The Estonian Law Center's Internet forum, Themis, carried out a survey in the fall of 2004 on laws, which concluded that, existing laws are coherent, but the overall understanding of them needs to be improved.

ORGANIZATIONAL CAPACITY: 2.5

Most Estonian NGOs have a clearly defined mission and vision that focuses on the current situation and specific target groups. Most NGOs rely on project-based funding, making strategic planning, especially for the long-term, a challenge. Strategic planning is, however, recognized as an important process and organizations often hire external experts to facilitate the process.

Although laws outline the general structure of NGOs, they do not prescribe internal management structures. Many organizations rely on one or two leaders, which can lead to problems when these individuals leave their positions. Though management practices tend to be transparent, there is a general lack of participation in decision-making from staff and volunteers. Together with the Latvian NGO Center, the Network of

Estonian Nonprofit Organizations (NENO) provided training to NGOs on good governance, accountability, sustainability, and board development. It was very successful and reached both umbrella organizations (15) and potential trainers (8). Based on the results of the project, NENO will continue with a project to include more organizations across Estonia to secure that a critical mass of influential organizations are properly trained.



With the goal of creating an advocacy-savvy Estonian nonprofit sector, the Estonian Law Center (ELC) has initiated an advocacy training program for 200 such organizations. ELC performs a thorough, interactive training including problem analysis, coalition building, public and institutional engagement, media relations and lobbying. The program is an ongoing process during which the participating organizations attend social events allowing them to share their experiences and form a strong advocacy group identity.

Like in many countries, NGOs suffer from insufficient staff and unskilled volunteers. Though volunteers are valued, organizations do not take advantage of their full potential. The training opportunities available NGOs are high quality and considered sufficient.

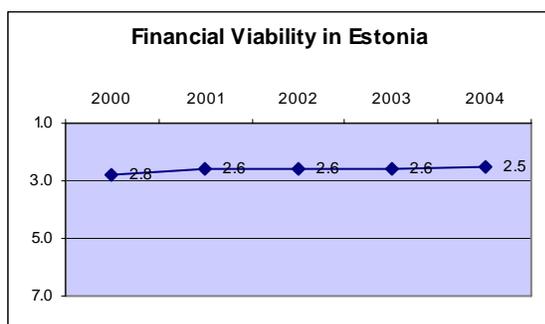
Various trainings are offered through NENO, development centers, local governments and the European Movement. For more tailored trainings, NGOs often turn to the private sector. Special grants are awarded by local governments for local trainings, study visits and trainings abroad. In spite of these opportunities, NGO staff is generally under-skilled and overburdened. As a result, salaries are often a contentious issue within the sector.

NGOs are generally adept at using computers and the Internet, as hardware is affordable and Internet access is available countrywide.

Two programs initiated in 2003 and that have become very active in 2004, are working to build the capacity of the NGO sector. The first, launched by the Charities Foundation (www.heategu.ee), is *The Deskmates* initiative, that pairs NGO managers with executives from the business community for one year. These individuals exchange experiences about organizational management—offering the NGO representative advice for service provision and sustainability, and offering business leaders an opportunity to donate three hours each month to social service. The second initiative is the Tartu County Chamber of Nonprofits, which has the mission of assisting in the gathering and disseminating of information to NGOs on a local level, coordinating NGO activities with local governments, and representing nonprofits on a state level. Nonprofits assist in these processes by sharing their existing resources (e.g., rooms and equipment), and are looking to fund funds to provide the Chamber with a part-time coordinator.

FINANCIAL VIABILITY: 2.5

Estonian NGOs are funded by a variety of sources: membership dues, public sector appropriations, grants, project grants (financed by local and international foundations), payment for products and services, and donations from private persons and businesses. Indirect assistance comes in the form of tax allowances and in-kind contributions. Another important resource for the associations is the contribution of time and energy by members and volunteers. In general, however, NGOs do not have diverse sources of funding; the norm is to have one big donor. There are exceptions, including Estonian Chamber of Disabled People and NENO, and NGOs are becoming increasingly aware of the necessity of having multiple donors among NGOs.



In 2004, the fundraising situation has improved. Many NGOs benefit from loyal donors, ongoing partnerships and increased member support. The Baltic-American Partnership Program (BAPP) has also solicited applications from NGOs for infrastructure support, member development, local development, and the

ADVOCACY: 2.0

Participation in the political process is most common among larger NGOs. Most draft

promotion of EKAK—with a budget of USD 400,000. This year, earned income for NGOs has also increased, especially in the social, cultural, sport and liberal education fields—noteworthy support partnerships include the Altmõisa Guest House which contributes to community projects, Forselius Travel Agency which supports the B.G. Forselius Society, and Von Krahl Bar which supplements the Von Krahl theater in Tallinn. The private sector has also been actively involved in supporting NGOs, including the work of Charities Foundation mentioned above.

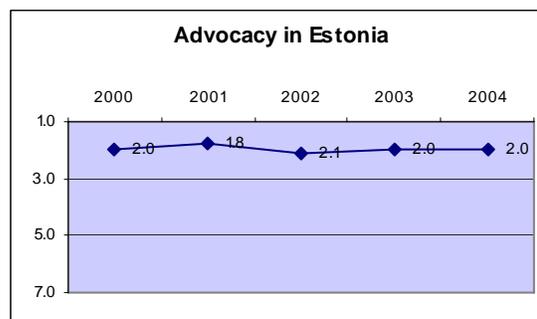
The EKAK (Estonian Civil Society Development Concept), was drafted between 1999 – 2002 (adopted by the Estonian Parliament in December 12, 2002), and is a document that defines the complementary roles of public authorities and civic initiatives, principles of their cooperation, and mechanisms and priorities for cooperation in shaping and implementing public policies and building civil society in Estonia. One of the goals of its 2004 activity plan was to establish transparent funding mechanisms to support civil society organizations with state funds. Local support for NGOs is relatively good (though varies by region) as local governments increasingly recognize the work of NGOs, and issue contracts for services. In addition, local community foundations have been established in three regions in Estonia (Paide, Peipsi and Viljandi)

laws are forwarded to NGOs for comments, but frequently NGOs are given very short

period in which to respond. In some cases, NGOs have attempted to impact the law-making process in public by organizing public seminars and forums, analyzing the impacts of the drafts on the air, publicly asking questions of politicians, and by broadcasting expert opinions. As an example of NGO involvement in the political process, NENO has been working actively with the Ministry of Finance to change the public benefit status of nonprofit organizations in the Income Tax Law. With support from the ICNL and professional expertise from the law firm Raidla & Partners, NENO has prepared an amendment to the law, presented it to the nonprofits, and lobbied it in Parliament. We expect it to be submitted to the parliamentary process in the beginning of 2005. Another example is the current work of the Joint committee of the Estonian Civil Society Development Concept (EKAK), where representatives of both the government and NGOs work on implementing EKAK principles. All materials related to this cooperation are available on the Ministry of the Interior website (www.sisemin.gov.ee).

“Participation” was a common theme in 2004, with the State Chancery promoting the concept among civil servants. As a result, two projects encouraging participation between the state and civil society were initiated: the Estonian-Danish joint project “Strengthening Cooperation Between the Estonian Public Sector and Business Associations” was commissioned by the Ministry of Economic Affairs and Communications, and Open Estonia Foundation (OEF) has commissioned a

project entitled “Participation and Consultation in the Decision-Making process: Research, Analysis and Recommendations.” The study will be finished by the fall of 2005.



Issues-based coalitions of NGOs have been formed in Estonia; those active in 2004 include NGOs both supporting and fighting EU membership, the Council of Estonian Environmental Associations, and the Estonian Roundtable of Estonian Non-Profit Organizations. The Roundtable is a public and open form of co-operation for Estonian non-profit organizations (non-profit associations, foundations, informal partnerships), which was established for discussing the principal issues and forming opinions concerning the non-profit sector, as well as for protecting the interests of the sector and its constituent organizations. Grassroots advocacy efforts are also underway, including social action to protect an ancient sacrificial site from the development of a skiing center, to protect ancient trees on a street in the Tallinn city center, and to promote a car-free day in Tallinn—among many others.

SERVICE PROVISION: 2.4

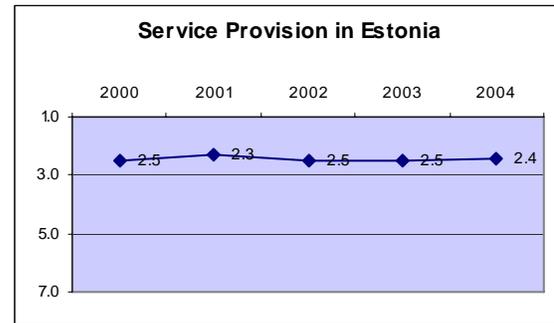
Compared to the previous year, service provision provided by NGOs has remained

basically unchanged, though the range of goods and services offered has diversified

due to EU membership and demand from the international community. Nonprofits in Estonia offer training, consulting and counseling services. Nonprofits active in the social sectors offer services that are important to local communities and are supported by local governments (services to people with disabilities, children, people in need, etc). In most cases, their clients are individuals and other nonprofits, and also local governments and local businesses. In Estonia, any person of legal age may act as a nonprofit association provided that s/he does not earn profit, so the range of services nonprofits offer is very diverse.

In most cases the services provided by NGOs are much needed, but is a lack of systematic thinking about long-term results. NGOs are increasingly better at serving the needs of the communities, in large part due to recent trainings on assessing the needs of target populations. NGO need to learn to better recover their costs, as offering services in exchange for payment remains a relatively novel approach among nonprofits in Estonia. Budget planning has become more detailed as donors have demanded a better evaluation of necessary costs. Therefore, it is necessary to improve the

marketing skills of nonprofits in an effort to make them more financially independent.



Government recognition and support differs between areas and levels. On the national level, relations tend to be formal and institutionalized; on the local level relations occur on a more personalized basis. Grants and contracts are awarded to NGOs so that they might offer needed services, however, in many cases the funding is inadequate to reach the project goals. Contracts, usually valid only up to one year, make hiring highly qualified staff and funding investments problematic for NGOs, resulting in low quality service. A number of local governments have recognized the potential contributions of the nonprofit sector, but a lack of awareness is still widespread.

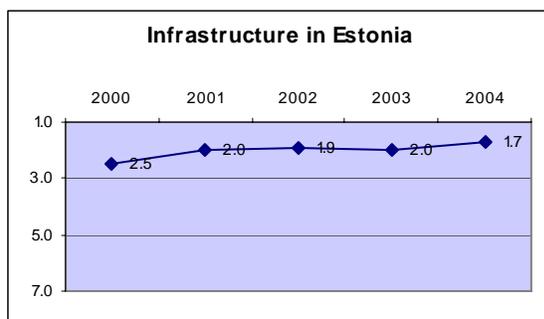
INFRASTRUCTURE: 1.7

In 2004, because of funding cuts, NENO scaled down its nine resource centers into fifteen NGO development centers, one for each county. Though previously the centers provided counseling and development activities, now they simply provide the former (and often with minimally trained staff). As a result of the downscaling, the governments recognized the need for these centers and began providing funding. Some centers, however, don't receive any state support (e.g. the Tartu Voluntary Center),

but they do receive local grants from such organizations as the Open Estonia Foundation, the Baltic American Partnership Program, Enterprise Estonia Local Initiative Program, and other foundations.

Currently there are well-developed partnerships being carried out on a national level in various fields (e.g. the Estonian Roundtable of Estonian Non-Profit Organizations, the Concept of Estonian Civil Society). These organizations are working

together on EU issues and cooperate when providing opinions to the ministries regarding the state budget, the national development plan (a plan for the utilization of EU Structural Funds), and similar issues. On a regional level, NGO roundtables are organized in Tartu, Narva, Hiiumaa, Viljandi and Lääne counties (of 15 total counties). There is a growing appreciation of the strength and benefits of engaging in cross-sectoral partnerships, as well, though there is a lack of guidance and models for such collaboration. In addition, many private sector organizations are seeking partners among the nonprofit sector, and NENO has been active in negotiating discounts from businesses for its members. Other umbrella organizations have since pursued similar arrangements.



PUBLIC IMAGE: 2.1

In general, the media does not offer a positive analysis of the role of NGOs. That said, there are national and local level variations with media coverage; local media tends to cover NGOs positively, while national media tends to present a less positive image. Different media also have different perspectives, radio and television using a positive lens, and written news tending towards a more critical view. NGOs now seek out opportunities to talk with the various media and take advantage of public image opportunities, and some NGOs have

NGO umbrella organizations have received special attention in 2004, particularly in regards to their role as liaison with government entities. Umbrella organizations are more able to organize citizens and interest groups, and to relay coherent, issue-specific opinions in a professional manner. NGOs are involved in the development plans of a number of local governments as well.

In the fall of 2004, a conference on Corporate Social Responsibility was organized by the Estonian Association of Small and Medium Sized Enterprises, the Chamber of Industry and Trade, the Network of Estonian Non-profit Organizations, AIESEC-Estonia and the Estonian Business School. The conference brought together more than 150 people, and several businesses have since begun developing their CSR strategies. Their next conference is planned for the spring of 2005.

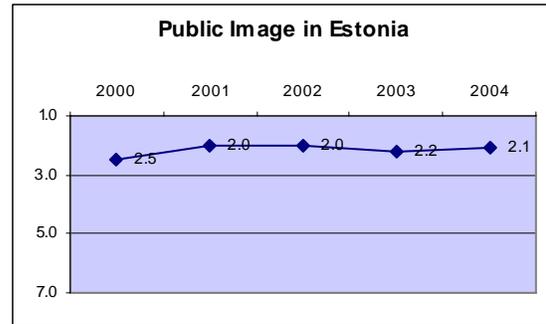
even hired PR specialists to ensure that their image is more professional. A number of media sources publish NGO news for free or at a minimal cost; it is dictated by law that information related to nonprofits be given coverage on national television and radio stations at no charge. Local governments and some businesses also cover the costs of advertising for NGOs.

Although NGOs are often associated with difficult and uncomfortable themes, the NGOs do maintain a positive perception

2004 NGO SUSTAINABILITY INDEX

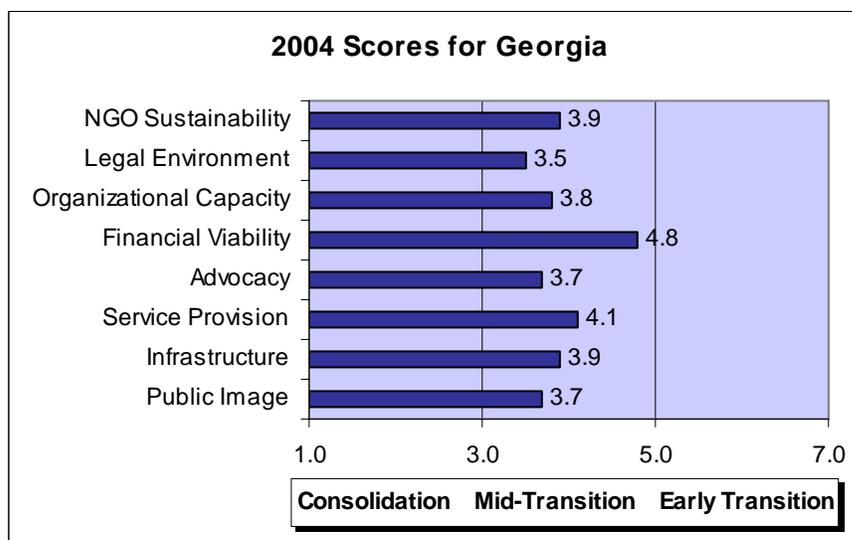
when compared to the perception of the government. Although the common perception of NGOs in both the public and private sectors may not be fully clear, it is generally positive. The public at large, however, does not fully understand the concept and goal of the nonprofit sector, and is therefore somewhat apathetic, as was proven by a study conducted in 2003 by the research center FAKTUM. Still, a remarkable change in public attitudes towards and expectations to the role of nonprofits has occurred since 1999 when the first study with similar questions was conducted. Such change has occurred in large part because of the work done by leading nonprofit organizations that promote, support and develop the general environment and infrastructure of nonprofit organizations (NENO, Open Estonian Foundation, BAPP, etc.). The government's image of the nonprofit sector has improved as well, as a result of the stable structures and clear communications presented by the institution representing NGOs. The government's understanding of NGOs is best at the local level where most interaction takes place: the transfer of public services to the nonprofits, involvement of nonprofits in the local development plans, and cooperation between the local governments and local nonprofits. At the national level, the relations remain distant, with every

ministry wanting to develop its own policy of engagement. However, the State Chancellery's working group aims to develop the basis for uniform involvement model.



The mechanism of self-regulation demonstrating transparency in the NGO-sector is the Code of Ethics (yet no sanctions currently exist). The Estonian Roundtable of Estonian Non-Profit Organizations adopted it in 2002, and many organizations use it for their own governing purposes as well. The quality of annual reports has generally improved, and the bigger NGOs now make their annual reports available over the Internet. The Internet is a common tool for representing the NGO sector, and there are a great many sites where people are involved both actively and passively in presenting and commenting on the nonprofit sector in Estonia.

GEORGIA



Capital: Tbilisi

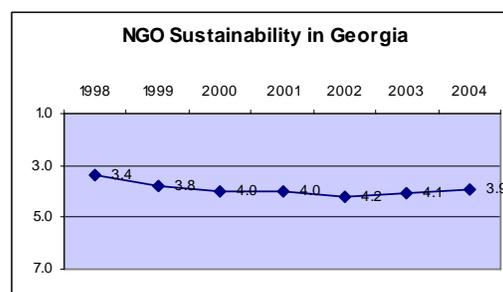
Polity: Presidential-parliamentary democracy

Population: 4,700,000

GDP per capita (PPP): \$2,500

NGO SUSTAINABILITY: 3.9

The overall NGO Sustainability score improved from 4.1 to 3.7 over the past year. The improvement was due in great part to the NGO community’s significant contribution to the Rose Revolution, in which NGOs, charging election fraud, led an opposition movement that ended in President Shevardnadze’s resignation. The downfall of the Shevardnadze regime created both opportunities for further development of the NGO sector, and new challenges. On one hand, the NGO leaders now filling posts in the new government are more likely to turn to the NGO sector for expertise and assistance, and consider issues of accountability and accessibility. On the other hand, many NGOs have been destabilized as their leaders leave for posts in the government. The Rose Revolution also gave NGOs a great deal of media exposure, and improved their image among the general public.



The NGO sector still faces many challenges including: financial instability and dependency on donor funding; lack of local philanthropy and incentives in the law to promote philanthropy; few identified constituents; underdeveloped services in rural areas; and insufficient networking within the NGO sector and with the government, media, and business community. In the absence of a strong, clear opposition party to check the ruling party’s power in Parliament and the executive branch, NGOs will have an important role in monitoring government

officials, offering objective and constructive criticism, and ensuring transparency and accountability.

This year, two panels were convened, one in Tbilisi and the other in Kutaisi. The panel results vary widely, as Kutaisi came back with significantly better scores. Kutaisi is Georgia's second largest city, and since Georgia gained independence, it has gained a significant amount of foreign funding, and

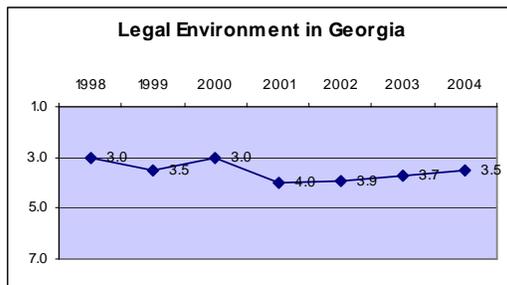
developed a strong network of support and information sharing among NGOs, as well as with the government and media. Another factor affecting the Kutaisi score is linked to the multi-year USAID-funded Georgia Community Mobilization Initiative Program (GCMI), which has increased levels of capacity within the local NGO sector in Kutaisi, the center of West GCMI.

LEGAL ENVIRONMENT: 3.5

The current NGO legislation is progressive, and allows NGOs to form, express themselves, and seek funding without interference. Most NGO laws remain unchanged this year, including those governing registration procedures and taxation. The only development is a new provision that allows for reimbursement for accrued VAT.

the sector's dependence on foreign funding.

Many in the NGO community claim that the laws and regulations on NGOs are still unclear and ambiguous, and that critical issues remain unresolved. For example, the definition of "non-entrepreneurial organization" does not distinguish between NGOs and community-based organizations.



A coalition of NGOs has been lobbying the Parliament as it reviews a new Tax Code to preserve the benefits and incentives of the current law. The same coalition has lobbied for introduction of a broader definition of "charitable activities" and a deduction from the profit tax for businesses that make charitable donations. If adopted, the new tax provisions will create incentives to promote local philanthropy and decrease

The legal capacity of the NGO sector has significantly improved. NGOs now have much greater access to attorneys trained in NGO law. The Civil Society Institute, Georgian Young Lawyers Association, and the Horizonti Foundation are all providing training and continuing legal education opportunities to guarantee a well-trained population of attorneys to provide services to the NGO community. These services are made available in many locations, including online at www.advocacy.ge, other NGO websites, and at the head offices of these organizations. There is still a problem with availability of services. Most are available in the capital and urban areas, but in small towns and rural areas, none

of the large national organizations are present.

The government has not harassed NGOs, either directly or with administrative penalties, though there are cases of tension with a few government officials. One example occurred in August 2004

when the Governor of Gori unofficially imprisoned an “excessively independent” editor of a newspaper. A number of NGOs organized a petition and protests in response, which drew unwelcomed visits from the local Tax Inspection Department.

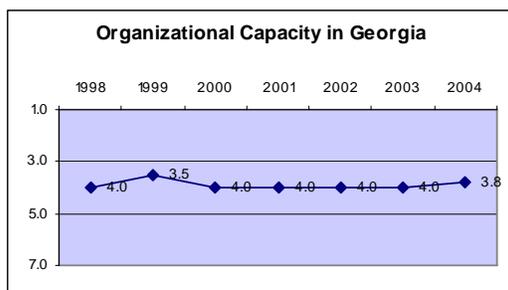
ORGANIZATIONAL CAPACITY: 3.8

While many NGOs have made significant advances in organizational capacity over the past year, many others have experienced setbacks as their leaders have left for posts in the government following the Rose Revolution. The NGO sector’s organizational capacity has also been compromised by the dependency on foreign funding. Though most NGOs understand the importance of strategic planning, short-term funding prevents organizations from looking much farther than their current grants. Despite these limitations, organizations are paying closer attention to their mission statements and better defining their visions. In Tbilisi, some of the leading NGOs have developed their organizational capacity and financial systems to the point that they are now able to directly access foreign donors such as USAID and the EU.

The NGO community’s failure to identify and build constituents has prevented it from developing credibility

and trust with the general public. Most organizations are not constituency-based but rather are built around a strong leader with a small staff of professionals. These organizations do not have a strong volunteer staff and only identify constituents project to project. The exceptions are groups such as teacher unions, journalist associations, and grassroots organizations that are all generally organized around a specific constituency and have a strong volunteer workforce.

Internal management and human resources are the weakest elements of NGO organizational capacity in Georgia. As mentioned, most NGOs are built around one strong leader and seldom follow the advice and guidance of their boards of directors. In addition, insufficient funding prevents most organizations from hiring long-term professional staff, leading to high rates of employee turnover and migration to for-profit entities. Most organizations do have access to some equipment such as printers, photocopiers and computers, but there is always a need for more. Unfortunately, the donor community does not generally fund such office



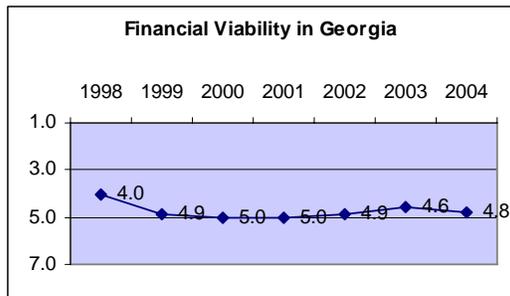
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supplies and equipment, leaving many organizations without sufficient resources.

Despite these continued weaknesses, there is progress in that NGOs generally have a better understanding of the

importance of a well-developed organizational structure, procedures for their own institutional development, and mechanisms for diversifying their donor base.

FINANCIAL VIABILITY: 4.8



Though most other dimensions improved over the past year, financial viability actually slipped .2 points, as local philanthropy remains almost non-existent. The largest source of NGO funding is grants from foreign donors (95%), followed by economic activities (4%) and local philanthropy (1%). NGOs are becoming aware of their continued donor dependence and are developing strategies and tools to ensure their financial stability. More organizations, mostly larger NGOs in the capital, are taking financial management seriously, preparing annual budgets and financial reports, and commissioning external audits. Though this is in large part a response to pressures from foreign donors, the growing importance of financial transparency and accountability has also contributed to improvement in this area, as reflected by the Five Silver Principles of compliance to the Code of Ethics. Despite the realization that transparency is important, meaningful

and trustworthy external audits are expensive, and only twenty or so organizations have other transparency mechanisms, such as an active board or public annual reports.

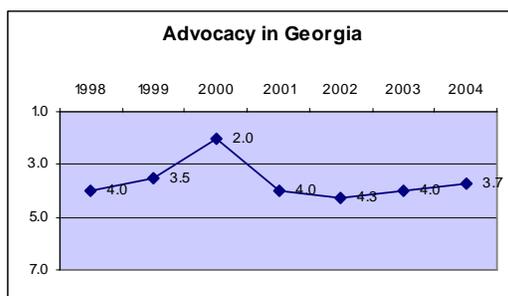
The NGO sector has many funding alternatives, as the law permits NGOs to charge fees for membership and for providing goods and services, as well as to compete for government contracts at both the local and national level. However, last year there was only one government contract awarded. The Kutaisi Council took bids for development of a Culture and Sports Program, and the final contract was awarded to a coalition of five NGOs, led by the Reform Support Center. There are other organizations that charge fees. The Humanitarian Charity House “Abkahazeti” charges fees for its business management training and micro-financing programs, and the Georgian Young Lawyers Association collects membership fees. Community organizations often recover thirty percent of the cost of their projects through in-kind contributions from their constituents and local governments. Many service organizations are trying to create alternative sources of public financing but lack the experience and public trust to be successful.

ADVOCACY: 3.7

The NGO advocacy dimension has improved over last year, as coalition-building and lobbying efforts have matured. The USAID-funded Citizens Advocate! Program (CAP) is a good example of sector-wide improvements. CAP-funded coalitions are addressing numerous topics and issues, targeting many different policy makers and representing a wide variety of constituents. Other newly-formed coalitions reach out to the media and government. One coalition has joined the Georgian Young Lawyers Association and Young Economists Association of Georgia (YEAG) with the Mother and Child Protection League to address youth-services issues. The Caucasian Environmental Defense Center has joined with the Inter-sectoral Committee of Interested Parties to address environmental issues. This coalition includes NGO representatives, officials from the executive branch and parliament, local government officials, teachers, and medical professionals. Yet another coalition advocates international donor rights.

powers and weakened Parliament, but the protests were not heard. Many in the NGO community had hoped that the government would more regularly seek out their expertise now that NGO leaders had become government officials, but only a few select NGOs have been consulted. Local and regional governments are more willing to seek out NGO expertise; in one recent example, the Head of the Kutaisi School Department thanked local NGOs for their much needed expertise and assistance.

There have been few improvements in political lobbying efforts, and again, most successes are at the local and regional levels. NGOs have a limited role in decision-making discussions and review of government initiatives, such as the review of educational reforms and the new draft tax code. The office of the Ombudsman has also requested that NGOs participate in independent public councils within the Ministries of Justice and Internal Affairs. However, political lobbying still focuses on the process and not the result.



Government officials still do not seek out NGO expertise except on important issues, and even then NGO opinions are not given much consideration. NGOs were very vocal about the constitutional changes that strengthened the executive

Lobbying coalitions have had some success in legislative efforts focused on social services, water and infrastructure, state budgeting and monitoring, and education. The Civil Society Institute is leading a coalition to lobby Parliament about retaining all of the benefits and incentives in the tax code, as well as introducing new charity exemptions. The Horizonti Foundation is lobbying to institute a 1% rule in which a portion of an individual's tax liability is dedicated to a charitable organization. The Caucasus Environmental NGO Network is lobbying to decrease the impact of the

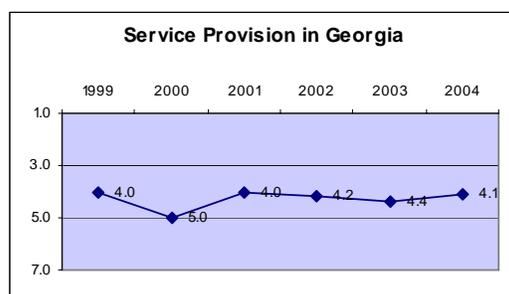
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BTC/SCP pipeline construction on the Borjomi National Park. Some NGOs were actively involved in the Rose Revolution, and the International Society for Fair Elections and Democracies played a crucial role in publicizing the fraudulent election results.

Information exchanges and dissemination via Advocacy.Ge and the

Caucasus Environmental NGO Network as well as informational domains of local NGOs have promoted and facilitated coalition-building. These electronic news services are trying to bridge the divide between urban and rural NGOs and enable national rapid response to unfolding events.

SERVICE PROVISION: 4.1



The sector has made progress in the service provision dimension this year, as NGOs became more focused in their activities. NGOs are now providing services in all areas, including human rights, HIV/AIDS prevention, humanitarian assistance, training, agriculture, and others. Though all of these services are needed, they are not necessarily the result of thorough needs assessments that determine the priorities of communities and constituents. Government agencies, citizens, and other NGOs all take advantage of NGO services. With the exception of training providers, most NGOs do not charge

fees for their services, and income from fees makes up a small part of their budgets. NGO service providers are very attractive because they often do not charge fees and they are very accessible. Similarly, NGOs are at times a much better source of information because they lack the barriers and bureaucracy of government.

The government is very supportive of NGO service providers, and officials freely admit that many NGOs provide higher quality services than the government and reach more citizens. However, state funding is still not accessible, even though former NGO staff members were offered positions in the government following the Rose Revolution. The Government bidding process is generally not open and transparent, and most contracts are the result of personal relationships. Even when contracts are made, it can often take a long time to receive the funds.

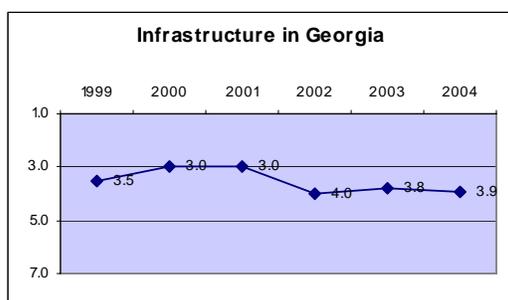
INFRASTRUCTURE: 3.9

Overall there are many capacity building organizations and experts in Georgia, though many of them charge fees for

their services. The main problem is that most of their services are available only in the capital, with an extreme shortage

of quality services in small towns and rural areas. While there are many capacity building organizations, there is a lack of NGO resource centers. The trend is to develop resource centers around themes such as the environment, human rights, health, advocacy, and so on, allowing NGOs to facilitate coalition building and networking. Over the past year more coalitions are forming around common interests, and taking advantage of the growing funding available for coalition efforts.

The sector also enjoyed other positive developments such as increased information sharing among NGOs and with the media and local government, as well as steps to develop links with the business community. For example, the Business Association and the NGO Code of Ethics Working Group have shared experiences and information about their codes of conduct. Despite these positive developments, the overall score for the Infrastructure dimension slipped due to the dissolution of the Kutaisi NGO House. The NGO House provided space for NGOs, as well as other services, resources and institutional development tools. Most NGO resources are now located in Tbilisi, leaving those in the region without.



PUBLIC IMAGE: 3.7

The Public Image dimension has significantly improved over the past year. Since the Rose Revolution, the media has taken much greater interest in the NGO sector and its activities, though media outside the capital provide better coverage and are more interested in NGO activities. Media in Kutaisi, for example, have been more than willing to cover environmental issues and often contact environmental NGOs for ecological and environmental information.

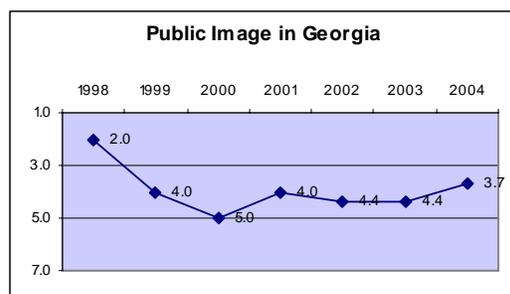
Department of Imereti suggested that teachers contact the Georgian Young Lawyers Association and other organizations if they have issues concerning their rights. Such endorsements give the NGO sector credibility. This is also a positive sign that the government recognizes NGOs as a resource for expertise and information.

The general public is beginning to trust the NGO sector more. In addition to positive coverage from the Rose Revolution, the government has been referring citizens to NGOs. For example, the head of the School

The business sector, on the other hand, has little interest in NGOs and generally views them as little more than freeloaders looking for donations. As it stands, the business community provides little support for NGOs, and NGOs provide few services for the business community. At times, NGOs do help develop relationships between the business sector and communities. In

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April and May of 2004, the Horizonti Foundation was asked by a group of businesses to assist with a joint review of the new tax code and in developing relationships with the government. In addition, the city councils of Batumi and Kutaisi asked the Georgian Young Lawyers Association to share the results of its campaign in Tbilisi to introduce mechanisms for approving project-based budgeting.



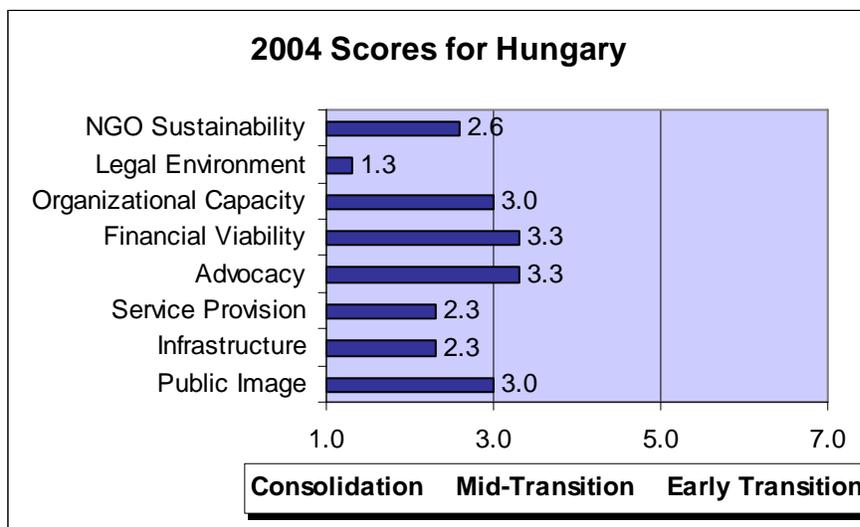
In general, NGOs realize they need to be more proactive in engaging the media and in developing a dialogue with the government and business sectors. To do so, NGOs have given more presentations and press conferences, and published articles and information about their work, all to enhance their public image. One problem has been that the media does not always cooperate, especially in the capital, where journalists focus on scandals or the most egregious human rights or social injustice cases. Public relations campaigns are often too expensive, and media outlets have yet to accept the idea of social advertising or public service announcements. Most NGOs do not have a clear media relations strategy and do not yet promote their activities or public image.

As NGOs take a greater role in society, the general public's knowledge of and trust in NGOs continues to grow. NGOs were very active during the public

hearings on the new Tax Code and the Constitutional amendments of 2003. They have also assisted different groups, including businesses, with legal advice and expertise. Both national and local governments have a good working relationship with NGOs. NGO representatives are often invited to city council advisory committee meetings in cities such as Tbilisi and Kutaisi, as well as meetings with Ministries of Environment, Finance, Infrastructure, Defense and International Affairs. The media is increasingly providing coverage of NGO activities, and NGOs often engage media outlets to publicize their activities. Many NGOs have started to hold press conferences and stakeholder forums, prepare and publish annual reports, and maintain websites.

One of the most important developments concerning the Public Image dimension is a new NGO Code of Ethics that promotes self-regulation. The sector considers the new Code of Ethics as a way to help organizations become more disciplined and professional, and in the end, gain the trust of the donor community and general public. Most organizations were able to provide input concerning the content and implementation of the Code. A signing ceremony began in Tbilisi in September 2004, and will travel to other cities until the end of the year. Once the signing ceremonies are complete, follow-up activities will ensure that signatories adhere to the Code's principles.

HUNGARY



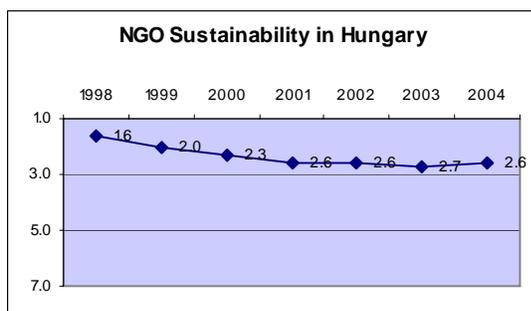
Capital: Budapest

Polity: Parliamentary democracy

Population: 10,000,000

GDP per capita (PPP): \$13,900

NGO SUSTAINABILITY: 2.6



The formal establishment of the National Civil Fund (NCF) was a major development in the Hungarian nonprofit sector in 2004. The Hungarian government pledged to match all funds designated by individual taxpayers to the NCF under the “1% Law” to support the operational costs of civil society organizations in Hungary. The NCF, along with a few other new major sources of funding, such as the Trust for Civil Society in Central and Eastern Europe and the European Union’s Structural Funds, provided some relief this year after the serious liquidity crisis in 2003, which drove many of those NGOs that managed to

survive it to scramble for funding, often to the neglect of other forms of fundraising or constituency development.

The first year of the NCF’s existence has proven to be analytically useful because the turmoil surrounding its operations shed some new light on the state and functional capacity of the nonprofit sector. The first two rounds of applications to its grants provided ample evidence of a lack of strategic planning and financial management (or even just proposal-writing) capacity, as well as concerns about conflicts of interest within the majority of Hungary’s nonprofit organizations. On the other hand, the successful institutionalization of the NCF can also be interpreted as evidence of the Government’s political will to recognize and empower the nonprofit sector. Such an interpretation should, however, acknowledge the continued lack of consultation with the sector by the Government on other serious budgetary or legislative issues.

The “1% Law,” which allows individual taxpayers to allocate 1% of their annual payments to a qualifying NGO of their choice, is now in its 7th year. Increased participation in the program by NGOs and the public is indicative of a gradual rise in the professional capacity of a pool of organizations within the sector that are making serious efforts to mobilize public support for their causes.

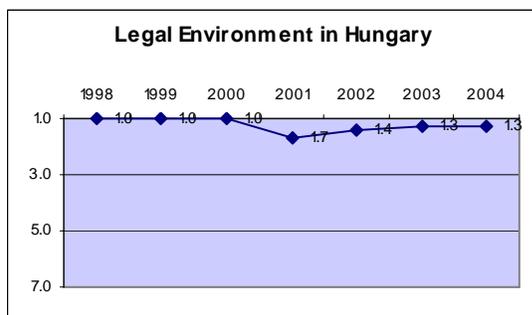
Although the financial situation of the sector improved since the liquidity crisis in 2003, Hungarian nonprofit organizations in 2004 continued to be significantly challenged by organizational sustainability concerns, by their exclusion from political policy-making processes, by difficulties encountered with mobilizing local resources, and by their struggles to respond effectively to changes in the environments within which they operate.

LEGAL ENVIRONMENT: 1.3

No actual legislative changes were introduced in 2004 to positively or negatively affect the legal environment of NGOs in Hungary. Unfortunately, the Parliament has adopted neither the new Law on Legislation nor the new Law on Volunteerism, which together would have helped address both the lack of an enabling legal environment for public participation as well as critical NGO needs in general. The bills were submitted to Parliament in late 2003 and early 2004, respectively.

framework, including problems with the establishment of foundations, which in its current state encourages people to find purely symbolic founders to register the NGO for them.

Operationally, NGOs are relatively well protected by legislation and are not subject to arbitrary dissolution by the state. Indeed, in some cases, it is arguable that they are *too* well protected, and the state is too willing to support organizations that are dysfunctional, hopelessly unsustainable or bankrupt. On the other hand, the government has perhaps been less interested than its counterparts in neighboring countries in the region to involve the NGO sector in issues directly affecting them (such as budget and tax reforms) and there continues to be a serious lack of negotiation and public participation of any form before the final drafting of legislation.



It is relatively easy for Hungarian NGOs to legally register themselves, although gaps in current legislation still make it very difficult for branches of international NGOs to register. Furthermore, a recent comprehensive study of the legal environment affecting NGOs raised a number of issues about the basic legislative

Local legal capacity is characterized by the presence of adequate legislation, but also by the absence of NGO capacity to take advantage of it. Legal assistance to NGOs is generally available, but expensive and therefore inaccessible for most NGOs beyond meeting their registration needs. Legal assistance outside of Budapest is

even more difficult to find. This is also the case for issues regarding earned income, where legal mechanisms exist, but where problems have arisen with implementation due to a great deal of confusion within the sector about what constitutes taxable “business” activities.

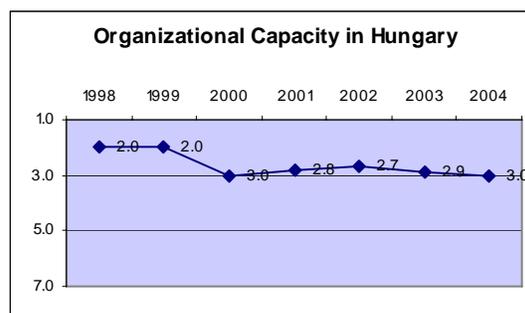
Hungary’s high levels of taxation continue to be seriously burdensome for the non-profit sector. This burden was added to in 2004 with the introduction of the 25% VAT on several services often provided by nonprofits that were previously exempt, such as adult education, which has

increased costs significantly. Although a tax benefits system is in place and is functional, incentives for charitable giving decreased in 2004 with the introduction of an income ceiling level above which taxpayers cannot take advantage of any tax benefits, including tax credits for donations. Furthermore, there does not appear to be a great deal of effort being made by the NGO sector to explore ways of making better use of the tax system for fundraising purposes, which is symptomatic of the sector’s heavy focus on donor sources of funding.

ORGANIZATIONAL CAPACITY: 3.0

A major source of new funding came in the form of the NCF that was established to support the operational and institutional costs of Hungarian NGOs. However, the process by which that funding was distributed was criticized, particularly with regards to its transparency and the consistency of the decisions made, as well as for the relative lack of substantive requirements for proposals. However, what made the first two rounds of applications for NCF grants unexpectedly dramatic were the high number of applications that were rejected (e.g. 60% of all applications in the first round), largely for applicants’ failure to comply with the overly rigid formal criteria. On the other hand, concerns have been raised about the NCF’s lack of a concrete overall strategy to develop the Hungarian civil society sector, without which the Fund was not properly selective of those organizations that did manage to submit complete applications. As a result, the NCF now supporting a number of NGOs, rather than providing incentives for them to reform or dissolve. Serious cases of conflicts of interest were also common,

which was also evident in the results of the NCF grant applications, where some of the most successful applicants were NGOs enjoying special relationships with one or more members of the decision-making bodies (NCF Council and Colleges).



Over the past few years, the 1% Law has motivated NGOs to build bases of support with the public. However, in spite of the increased level of competition for 1% tax funds, it seems that most NGOs are limiting these constituency-building efforts to the time of the year when people file their taxes. For the rest of the year, NGOs tend to turn their attentions elsewhere and devote

more of their resources to writing proposals for external donor funding opportunities.

The applications for grants from the implementing partners of the Trust for Civil Society in CEE was also a litmus test for the sector and clearly indicated a low capacity for strategic planning among Hungarian NGOs. Many applicants failed to qualify precisely because of their lack of strategic plans. Although there is a small 'elite' group of NGOs that has made serious efforts to develop plans for their sustainability, the majority of NGOs are very donor-driven and structure their short-term planning according to external funding fluctuations. The need to improve planning capacities and management structures is evident throughout the sector, but thus far sector-wide changes have yet to materialize.

The combination of rigorous labor protection offered by the Hungarian Labor Code with high taxation levels for employers has made it very difficult for

NGOs to afford full-time staff and to be flexible enough to respond to market and liquidity fluctuations. As such, the state administration enjoys a relatively unequal competitive advantage over NGOs in providing services to the public. In addition, the abolition of compulsory military/civil service removed over 5000 young people from the labor market, who would otherwise have chosen to complete their service requirements with NGOs.

There is a huge technological gap between urban and rural NGOs, with the latter being less able to access information or communications technology, while the former have adequate access to equipment and office space. The very high prevalence of the use of pirated software is also an object of concern for the sector's legal legitimacy, yet at the same time, the systems of several organizations are vulnerable to virus threats for lack of adequate protection software.

FINANCIAL VIABILITY: 3.3

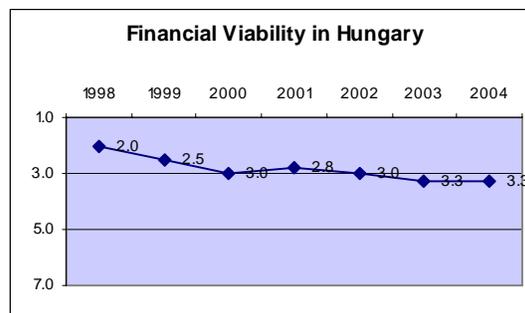
Despite the controversial disqualification of many aspiring grantees in the first two rounds of applications, the NCF distributed 25 million USD after receiving 4,179 applications, of which it gave 18.5 million USD to support the operational costs of 3,478 organizations. At this stage, it is difficult to predict how much the NCF will actually contribute to the long-term financial sustainability of the nonprofit sector, given that the absence of guidelines or restrictions to ensure that those nonprofit organizations who received funding spend accountably and reliably.

A great deal of new funding is also now available in the form of EU structural funds. These funds specifically encourage pooling resources and partnerships between NGOs and local stakeholders, but have proven to be as much of a distraction for NGO fundraising efforts as the NCF funding has been.

Despite the withdrawal of many international donors from Hungary in recent years, and a continued lack of local grant/giving foundations, there are still a number of major funding sources for NGOs to draw from, such as the NCF, EU, Trust

for Civil Society in Eastern and Central Europe, and a few private foundations. Despite this, there is still relatively little willingness on the part of NGOs to diversify their funding bases, and most are content to depend heavily on one or two major donors and hope for the best, a tendency that was ruinous in 2003. Furthermore, all of the changes to the funding environment have made NGOs less motivated to actively fundraise this year than perhaps in the past. Some feel that it would be better to wait until it becomes clearer how the changes will affect them before launching laborious fundraising campaigns, while others are more interested in only targeting NCF grants. At the same time, however, there was a noticeable increase in competition for funding from taxpayers via 1% tax scheme. Although this is an encouraging sign of an increased willingness to engage the public, the earning potential for each participating organization is getting lower and lower as more and more organizations enter the 1% arena to compete. More NGOs are also experimenting with direct mail campaigns, although it is too soon to know how successful these efforts have been.

Larger NGOs have to date developed rather good internal financial management systems, and more and more bookkeepers are available who have experience working with nonprofit organizations. On the other hand, the first two rounds of NCF funding revealed that many smaller NGOs in Hungary have weak and underdeveloped financial management systems. It is difficult to know for certain, though, because so few NGOs make their finances publicly available, and it is only the public benefit organizations that are required to do so by law.

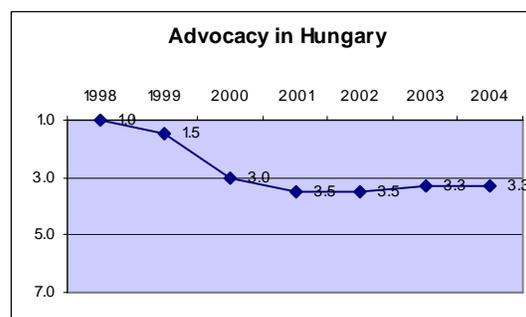


Corporate private philanthropy is slowly emerging in Hungary and this is particularly evident with the creation of private foundations by wealthy Hungarian entrepreneurs. In a 2003 study of corporate philanthropy in Hungary, almost two-thirds of the interviewees had given some kind of support to nonprofit organizations, with a further 20% indicating a willingness to do so. The main mission areas that corporate giving supported in 2004 were generally the same priorities shared by the majority of individual donors: children, health and education. Although it is clear that the business and corporate community in Hungary is thinking in increasingly ethical ways, one cannot yet say that corporate social responsibility is widespread or that it has become an entrenched part of Hungarian business culture.

A functional legal framework exists in Hungary for NGOs to conduct income-earning activities, however it does not appear to be properly implemented by NGOs and there is still some confusion on their part as to which activities are legitimate and which are not. Membership dues are rarely collected by membership organizations, partly due to the general assumption that one cannot ask for money from one's members (especially in organizations of the disadvantaged), and partly due to a lack of proper member databases and a general lack of communication between the organizations and their members.

ADVOCACY: 3.3

The 2003 government pledge to expand consultation with the NGO sector has unfortunately not materialized beyond the establishment of the NCF. Indeed, any consultation generally followed past patterns, where NGOs might be consulted on the areas of their particular expertise, but not in more sensitive areas such as budgeting or funding decision-making. Any consultation that did occur was done on terms decided by the government, often leaving NGOs powerless to shape the discourse in any way other than responding when given the opportunity to do so. Often government agencies seemed to be reluctant to ask for consultation, and often made the process awkward, such as by giving very little time to review lengthy documents, thereby limiting the amount of input that NGOs can provide. At the same time, however, the lack of regular consultation is also because many NGOs don't exercise their rights or potential to influence the lawmaking process. In some cases they are deterred because of a lack of know-how and experience in lobbying and affecting decision-making processes, or their inability to research and acquire adequate public interest data. Despite this, there is a possibility that Hungary's accession to the EU will encourage closer consultative contact between governmental bodies and NGOs, due to EU-level policies, as well as funding requirements.



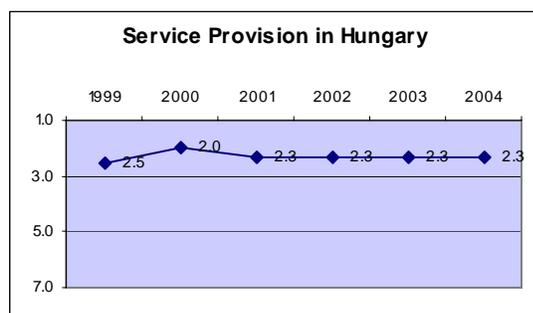
Over the past year, there were a few successful advocacy initiatives, most of which were launched by environmental activists. An encouraging example of a success came in the form of a large campaign against NATO and the Hungarian Army to prevent the installation of a radar locator in the mountainous region outside the city of Pécs. The campaign sparked a huge media debate over the relative importance of national defense over environmental conservation and vice versa. If anything, this experience demonstrated that the Hungarian media and the public are capable of holding and sustaining advocacy-related debates of this sort on a national level. In general, though, the majority of advocacy campaigns in Hungary are normally initiatives of individual organizations or associations with limited capabilities for outreach, an indication that issue-based coalitions are still rather untypical and rare in Hungary.

SERVICE PROVISION: 2.3

The 1% Law scheme and the requirements for EU Structural Funds were strong motivators for nonprofit organizations to improve the services that they provide and to be more responsive to the priorities of those sectors of the public that they serve.

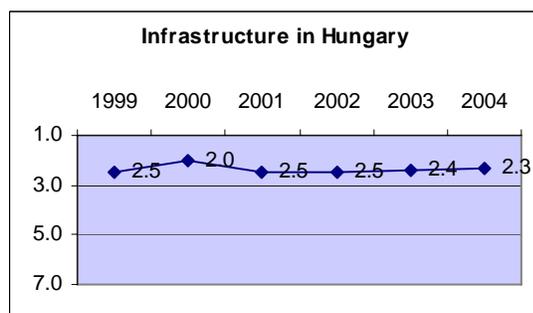
This was mostly the case with organizations that work in children's health, disability and employment issues. It does appear that the NGO sector as a whole is becoming increasingly conscious of the need to improve the quality of its services, but this

has not actually translated into concrete improvements across the whole sector as of yet. The services that Hungarian NGOs are providing are almost invariably directed beyond their membership, but that is largely because the concept of membership is still not very well understood by the sector. Indeed, the main time when serious efforts are made to communicate to members is in the spring, when they are encouraged to support their NGOs via the 1% Law (see also “Organizational Capacity” above).



Cost recovery for services provided is seriously affected by the fact that many NGOs lack adequate financial systems that can calculate costs accurately. Again, the application procedure to NCF funding exposed the infrastructural weaknesses that are apparently typical of the majority of smaller NGOs in Hungary. Despite these apparent weaknesses, one should not forget that the creation of the NCF did essentially demonstrate that the government values the presence of NGOs as service providers, enough so that it is willing to provide a considerable amount of basic institutional funding to support them. In addition, a separate budget and grant program is available from the NCF for quality development.

INFRASTRUCTURE: 2.3



National Civil Houses act as ISOs to the Hungarian nonprofit sector and continue to receive support from the state to provide local infrastructural support to the sector, but it is hard to tell whether their work has been effective or not. The success of their work is partly dependant on their own capacity, but also on whether or not the NGO sector makes serious use of their support and assistance. ISOs themselves are not grant-making bodies, and therefore

are of less interest to many NGOs than institutions that can provide funds, all of which exist at only the national or international levels, with practically none functioning locally.

Through the National Civil Fund, the Hungarian government has made itself a leader in the region for the amount of funding it is providing in support of nonprofit research in a wide array of topics. This year, the NCF provided 514,000 USD in funds to 36 research projects.

Similar to the problem of a relative lack of issue-based campaign coalitions, there is also little in the way of NGO coalition-building in Hungary. Communications technology allows for a significant amount of information sharing between NGOs, but actual collaborative efforts on shared

projects is rare. In rural areas, there appears to be more cooperation, both within the sector and outside of it, as NGOs work with each other and with farmers on local development projects. Some progress is being made to develop NGO networks within the sector as a number of organizations have realized that their 'in-house' and informal networks are limited in their usefulness and that there is a need for more formal network-building efforts.

Training opportunities within the sector have increased since the previous year,

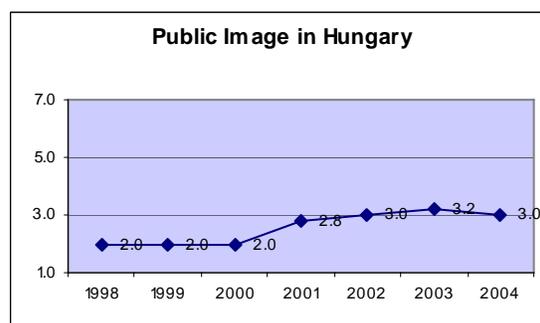
largely because of the significant investment made by the Trust for Civil Society in advanced training-of-trainer programs. This is particularly the case in rural areas where there is evidence of increased competition among training providers, when a few years ago this was not the case. In addition to externally funded programs, the NCF provided 693,000 USD for 76 applications from NGOs for training this year, although these will largely be delivered next year so their impact will not be felt imminently.

PUBLIC IMAGE: 3.0

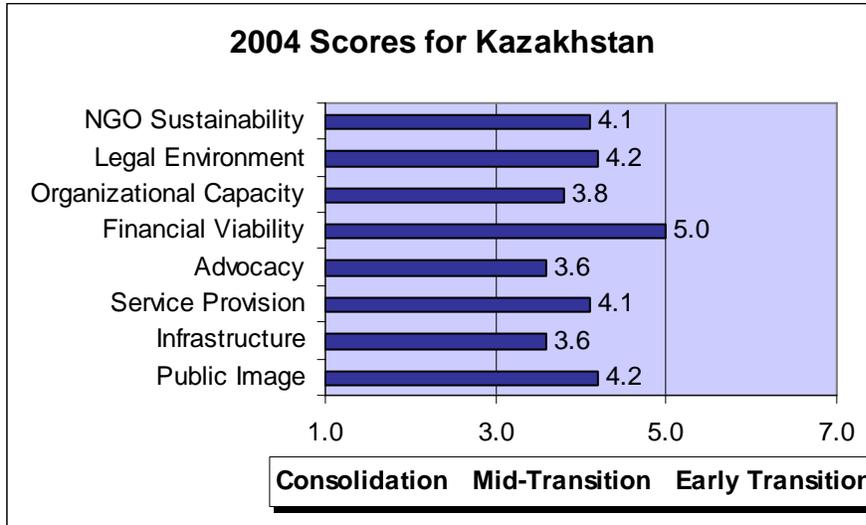
The big media story for 2004, of course, was the institutionalization of the NCF, which generated more media interest than the nonprofit sector has normally enjoyed in the past. This interest tapered off by the beginning of the summer, however, and for

the rest of the year there was very little coverage of the nonprofit sector. Any coverage that did make it into print usually focused on scandals and negative issues, rather than on communicating NGO visions and achievements. Although it is evident from the increasing rate of response to the 1% Law that the public is becoming increasingly aware of the NGO sector, one must wonder how the media is shaping that impression given how selective it has been with the stories it published. Recent research has indicated that attitudes regarding the NGO sector within the business community are generally negative. Although rates of business giving are slowly increasing, the business sector is rather critical of the nonprofit sector, particularly for its lack of professionalism. The formation of the NCF was a clear indication of the Hungarian government's

interest in supporting the nonprofit sector, yet its uncritical funding policy is also indicative that it has only a superficial understanding of the players within the sector. At the same time, there is a similar lack of knowledge about the nonprofit sector within the sector itself. Although leading NGOs publish and disseminate annual reports regularly, this is not necessarily the case for the majority of the smaller, less developed organizations, and few opportunities are explored to share experiences and learn from one another. Furthermore, on the rare occasions when NGOs do come together to collaborate, it is to join forces to lobby the government, and not to improve their transparency or self-regulate.



KAZAKHSTAN



Capital: Almaty

Polity: Republic-authoritarian presidential rule

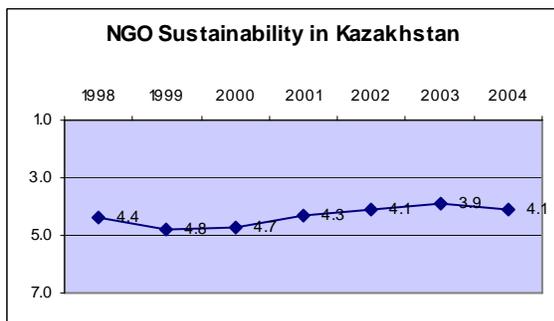
Population: 15,100,000

GDP per capita (PPP): \$6,300

NGO SUSTAINABILITY: 4.0

During 2004, the overall sustainability of the NGO sector declined slightly. Only a small portion of the 4,000 to 8,000 officially registered nonprofit organizations are active, and of those active organizations, the majority is inactive, casual, or quasi-governmental. The number of registered organizations is inflated in part by groups registering so they can access a special government fund for NGOs. Quasi-governmental organizations that compete with politically active and independent NGOs inflate the number of registered organizations even more.

The NGO sector continued to develop its advocacy skills over the past year, lobbying successfully against several pieces of environmental and media legislation. However, the government was at times successful in limiting advocacy efforts, and prevented significant input on matters such as the new legislation on invalids. The legal environment improved, with a new “one-window” registration procedure for legal entities, although the NGO community is concerned that the process allows for corruption and fosters disagreements between government officials. However, new tax provisions that limit exemptions and incentives may well compromise the NGO sector’s financial stability.



The Constitution does not permit the government to fund public associations, and though some agencies have started offering contracts to local organizations, the bidding process does not seem to be open or transparent. The government is still considering a new Law on Social

Contracting, which has received much criticism from the NGO community and expert organizations. The government continues to minimize the impact that international donors have on civil society, so that they may exercise greater control. Some NGOs report that local government officials have discouraged them from accepting international assistance.

Though NGOs are dependent on foreign donors, Kazakhstan's recent economic growth has caused many foreign donors to reduce their funding or withdraw it

completely. Advocacy, human rights, and political groups will be particularly hard-hit by these funding reductions, because the government and business community have not provided any significant support. There are exceptions; for example, the Kazkommertzbank, one of the largest banks in Kazakhstan, established a \$1 million fund in which NGO representatives participate on the grant committee. Otherwise, the entire NGO community is dependent on international donors.

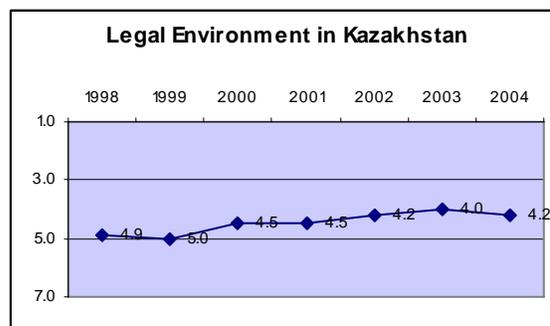
LEGAL ENVIRONMENT: 4.2

The government has not made further attempts to pass restrictive NGO laws this year. However, amendments to the tax code removed two important exemptions. NGOs are no longer exempt from paying tax on income earned from engaging in economic activities. Instead, if they derive 50% or more of their revenue from such activity, they may deduct only 50% of expenses associated with it. NGOs are also no longer exempt on passive income earned from loan securities, bonds, and so on, though deposits are still fully exempt. These amendments have not yet had a widespread effect, and the NGO sector is lobbying the government to find alternatives, such as requiring NGOs to set up separate corporations to conduct economic activities.

The Parliament is now considering a Law on Fighting Extremism, which may adversely affect NGOs. One provision in the draft law increases the penalties against NGOs and their leadership for repeatedly conducting activities outside those stated in their charters. In addition, if an NGO organizes a demonstration that becomes disorderly, the organizers may be held responsible. These

amendments will have no effect on public foundations or associations of legal entities, but may nonetheless affect public associations, which account for 40% of all organizations in Kazakhstan.

The "one-window" registration system was introduced to simplify registration procedures for legal entities, though many believe it only increased corruption, and fueled a power struggle between the Ministry of Justice and Tax Police about who controls the system. The registration fee is still thought to be too high considering the economic resources available to NGOs.



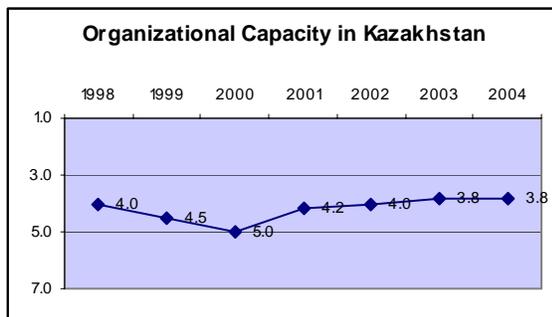
The government is preparing a Law on Social Contracting, which, if passed, will

permit NGOs to compete for social service contracts, ending the constitutional ban on such support for NGOs. Many in the NGO community have criticized the law for its potential negative effects. Criticisms include that the laws regulating the budget process have not been amended to reflect provisions of the new law, and executive authorities still have too much discretion to decide in decisions about distribution of funding. The NGO community has also pointed out that it is not clear under the draft law how funds from procurement contracts will be taxed.

The government continues its efforts to control NGO activities. Organizations involved in political activities or advocacy efforts are often visited by the National Security Committee (former KGB). The government also continues to harass organizations with numerous tax inspections and administrative requirements.

USAID has staffed the Civil Society Support Centers to provide free legal assistance for local organizations.

ORGANIZATIONAL CAPACITY: 3.8



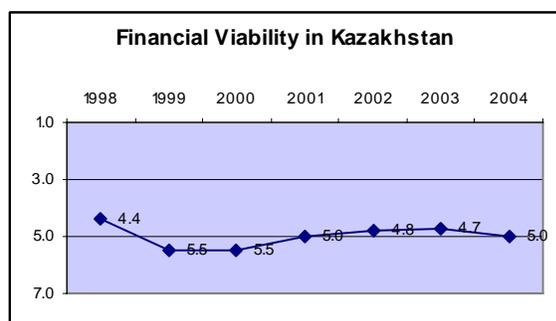
A small group of NGOs has clearly defined missions and strong organizational capacities. However, government rural and community development programs have supported the growth of those NGOs involved with social issues such as health and water, and other small grassroots organizations that are more “casual” and have limited organizational capacity. Thus, while the number of NGOs has increased, the NGO sector’s overall organizational capacity has decreased. The government and foreign donors have not responded with systematic approaches to institutional development; institution building grants are rare and becoming rarer. Internationally funded programs are reducing their presence

in Kazakhstan. As mentioned, higher oil prices and nation-wide economic growth has not led to greater funding for the NGO community or investments in NGO capacity building.

The NGO sector’s organizational development is stagnant in other areas as well. Overall, NGOs have not improved their development of Boards of Directors, due in part to the lack of adequate legal provisions requiring a Board of Directors or addressing conflicts of interest. Most NGOs are still organized around one strong leader, and at most will create an advisory council. Most organizations are only able to employ a few full-time paid personnel, and though volunteerism exists, most volunteers generally work project to project and do not develop long-term relationships with an organization. Many volunteers are students looking to gain work experience and take advantage of computer and internet access when possible. Most NGOs, especially those with outdated equipment, still do not have access to adequate technology and the internet.

FINANCIAL VIABILITY: 5.0

Despite the establishment of a new government fund for NGO activities, most organizations remain heavily dependent on international donors. Local governments are offering more contracts, but bidding generally lacks transparency and is open only to those organizations affiliated with the Kazakhstan Government. Advocacy groups and politically active organizations are unlikely to receive government funding anytime in the near future. As international funding decreases and donor programs close, the financial viability of the entire sector, especially local organizations, becomes less stable.



The business sector's increase in philanthropic giving is thought to be a result of a presidential order to support social projects, rather than tax incentives or a sense of greater social responsibility. Similarly, businesses, which generally do not understand the NGO sector, see philanthropic giving more as a public relations opportunity than a benefit to society.

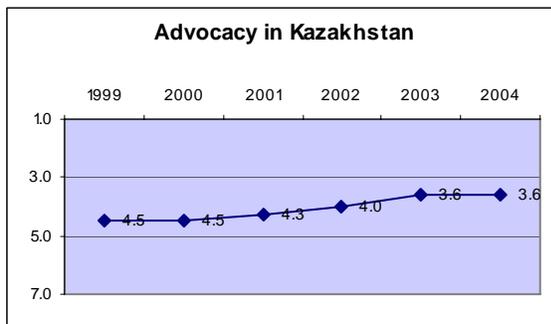
In a recent example of corporate philanthropy, the Kazkommerzbank created a \$1 million fund to support activities of individuals and arts collectives. A number of NGOs are involved in the grant committee, and are now lobbying to include NGOs as potential beneficiaries of the next round of grants. On a smaller scale, other philanthropic activities include farmers and local businesses making in-kind donations to community organizations, and philanthropic clubs in the industrial north that provide financial assistance to NGOs. However, NGOs do little to inform the business community about their activities, or create reporting and other transparency measures that might foster strong relationships and ensure future support.

NGOs have yet to take advantage of all the financing opportunities available to them. Some organizations charge membership fees, but these contribute little to their sustainability. A few organizations engage in economic activities, but these are primarily organizations that still enjoy exemption from tax on the income from such activities, such as the Invalid Union.

Some of the better known organizations tried to improve their financial stability by collaborating with political parties. This was especially true during the recent 2004 Parliamentary elections. Organizations like the Business Women Association and Consumer Rights Protection League had their leaders co-opted by pro-government political parties.

ADVOCACY: 3.6

Advocacy organizations continue to be active on many issues, though there were no nation-wide coalitions like the one that defeated a restrictive draft NGO law in October 2003. One campaign led by environmental advocacy groups introduced a ten-year ban on deforestation, and successfully lobbied against the Law on Ecological Information, which contained many negative provisions. One coalition that had lobbied for years against the Law on Importation of Nuclear Waste was finally successful in getting it repealed. Despite these victories, the advocacy movement still primarily reacts to bad legislation, and is unable to conduct proactive or preventative campaigns.



Local donors generally do not fund politically and socially active advocacy groups, favoring less controversial activities such as street cleaning. Without support from local donors, advocacy groups have become especially dependent on

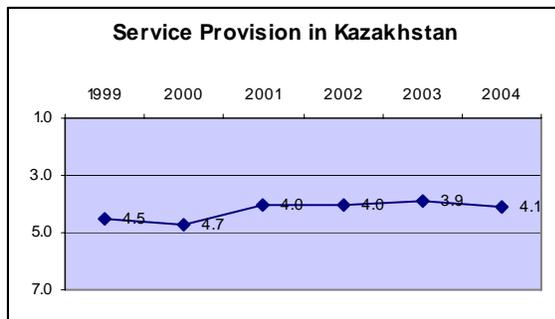
international support. As international support decreases, it is increasingly difficult for advocacy groups to form strong coalitions and take on national issues. This comes at the unfortunate time when the government is applying more pressure and putting up greater resistance to advocacy efforts, making strong coalitions even more important. One recent example is a coalition of disabled person's advocacy groups that proposed amendments to the new Law on Invalids, but whose comments were ignored by the government. Efforts at the local level are even more difficult, as advocacy groups lack the leadership, experience, and strength to push for reforms at the local level. Human rights organizations have developed little and have difficulty acting as successful advocates.

Relationships with the local governments vary from governor to governor, ranging from cooperative to obstructive. In many cases, NGOs that receive support from international donors have a difficult relationship with the local government. Many government bodies have been creating quasi-NGOs to support government positions and programs, and to counter NGO advocacy groups. The government has also been trying to pry into the internal affairs of many advocacy groups by sending law enforcement agents to investigate them.

SERVICE PROVISION: 4.1

NGOs continue to provide a wide range of services in areas such as health, education, humanitarian relief, housing, etc. Most service providers however, are not familiar with marketing, and build programs around their donor's needs rather than the needs of

their constituencies? NGO leaders have access to analytical reports, but few have the resources or experience to conduct any serious research or needs assessments that would improve their services.



Though many NGOs and donors believe that there was a decrease in services provided this year, due in part to less beneficial tax incentives for NGOs, the NGO community still provided many valuable services. One example is an NGO that received donor

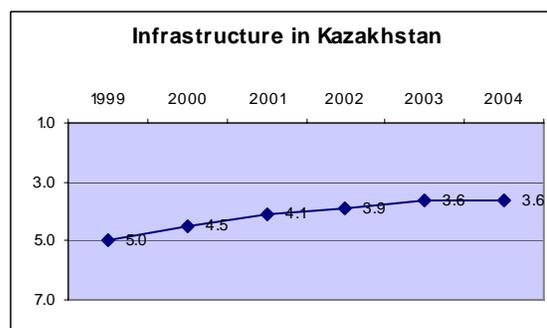
support, government funding, and in-kind donations to provide rehabilitative services for disabled children. Other examples include organizations, generally health providers such as HOSPIS in Pavlodar, which receive payment for their services. The government generally appreciates and respects NGO service providers and has even established the National Grant Fund to provide funding for social service. The funds are not distributed in a transparent manner, however, and are only sufficient to support a few organizations.

INFRASTRUCTURE: 3.6

The NGO Infrastructure dimension included one primary improvement over the past year. With the support of USAID, the Association of Civil Society Support Centers was developed and officially registered. The Association Centers provide technical and legal assistance, offer internet services, facilitate information sharing, and serve as catalysts and resource centers for nation-wide advocacy campaigns, such as the movements against the 2003 draft NGO law and the law on social contracting. The Association also established partnerships with civil society organizations, the business community, and government officials throughout the Central Asia region.

Several coalitions and networks, like the Coalition of Environmental NGOs, Network for Anti-Nuclear Campaign, and Coalition against Deforestation, have addressed various social issues. Following Presidential orders, the government has officially expressed interest in partnering with NGOs, though few government officials take the NGO sector seriously. In instances when

NGOs do work with government agencies, it is often more as subordinates than as actual partners, and in many cases, local governments insist that NGO report to them.



NGOs have the benefit of a network of professional trainers, with training available in both Russian and Kazakh language, though the quality of training available in Russian language is better than that available in Kazakh. Some of the courses offered are directed to the business community and are intended to increase professional business skills. Although they are still uncommon, organizations such as the Association of NGOs in Kustanai serve

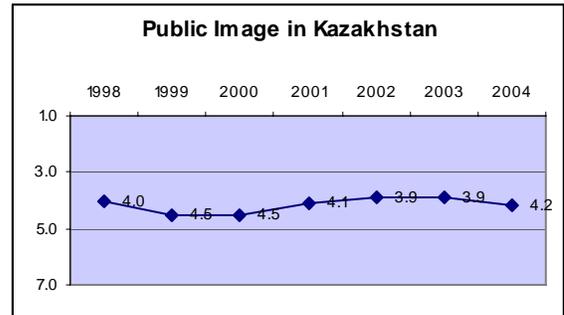
as intermediary organizations and distribute funds received from the business

community.

PUBLIC IMAGE: 4.2

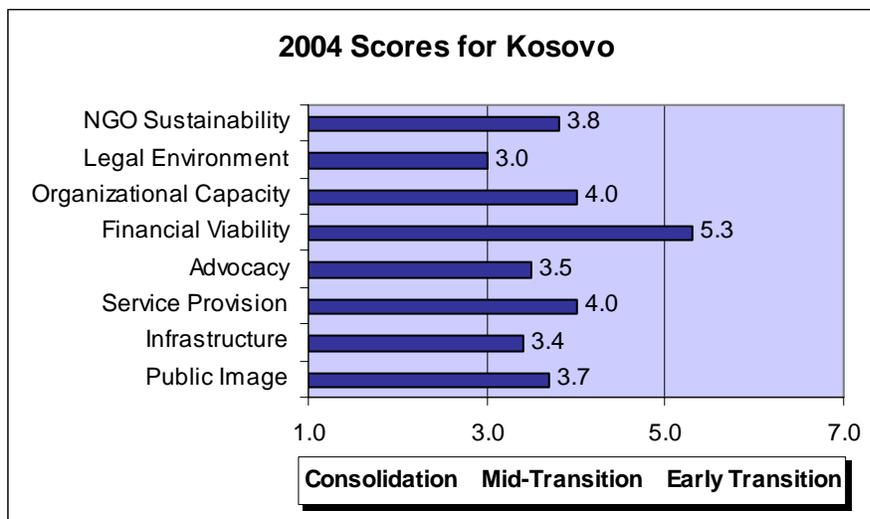
Some NGO leaders argue that the entire NGO sector lost an opportunity to improve its public image following the Civic Forum in October 2003. While there has been some good media coverage of the social service NGOs in the past year, there has also been negative media coverage concerning both domestic and international organizations. Some link the media coverage to the September 2004 Parliamentary elections, arguing that it was an attempt to discredit NGOs engaged in the various campaigns. It is still common that the media covers only NGO activities that are supported by or not a threat to the government. Any advocacy and lobbying efforts, particularly those funded by international organizations, received negative media coverage, especially in the wake of the Rose Revolution in Georgia. These kinds of attempts to target internationally funded NGOs are few, but occur on a selective basis.

Political parties, both ruling and opposition, have realized the importance of allying with NGOs, and have attempted to co-opt them. Several leaders of prominent NGOs have joined political parties and are no longer viewed as independent by the public.



The public remains fairly unaware of the NGO sector. According to a USAID-funded public opinion poll taken in October 2004, 31% of the population was aware of NGOs, and only 2.1% of those surveyed said they were members of NGOs. During a meeting with fourth-year law students, not one could name a single non-profit organization. The public continues to view NGOs as groups created to receive grants and not pay taxes. Many NGOs admit that they are responsible for the lack of public awareness and negative attitudes because they do little to change them. Grassroots organizations and community-based groups have begun to address this problem by increasing their visibility at the local level and among their constituents.

KOSOVO



Capital: Pristina

Polity: International protectorate

Population: 2,200,000

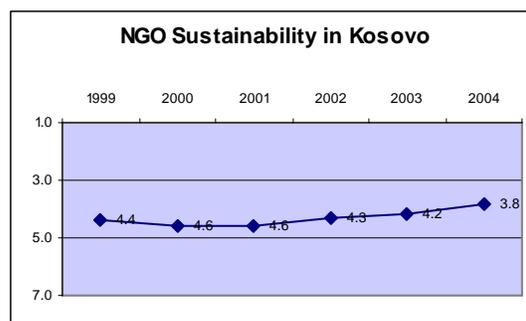
GDP per capita (PPP): \$2,200

NGO SUSTAINABILITY: 3.8

In 2004, the United Nations Interim Administration Mission in Kosovo (UNMIK) entered its fifth year, and tensions with Kosovo's elected Provisional Institutions of Self-Government (PISG) were high. Sources of frustration included the lack of progress over final status, and the lack of indication over how much longer UNMIK's mandate would last. Unemployment in Kosovo remains very high, and the economy was challenged by reduced foreign assistance and the lack of strategy for generating investments.

There were many significant events over the past year, including serious delays in the privatization process, and a joint effort between UNMIK and PISG to develop the Kosovo Standards Implementation Plan. The tragic events of March 17-18, 2004 were important, as they exposed the complexity and fragility of the inter-ethnic relations between Albanians and Serbs, as well as the growing disconnect between the

international community and Kosovar population. In addition, Parliamentary elections were held in October.



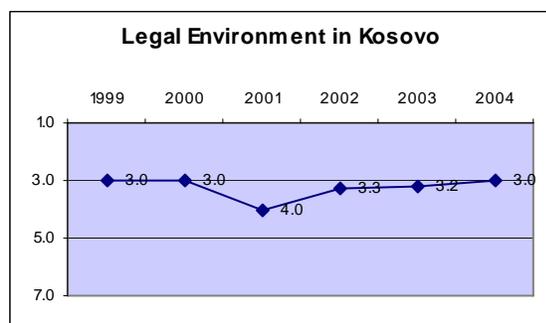
The NGO sector was very active this year. There were between 2000 and 2500 registered NGOs in Kosovo, an estimated 200 to 250 of which were active. A number of NGOs built successful issue-based coalitions that carried out successful campaigns. The Reforma 2004, VOTE coalition, and FORUMI 2015 brought together the most influential think tanks with community, human rights, women and

minority organizations to advocate on issues such as electoral law reform, get out the vote campaigns, and the missing persons of Kosovo. These activities received excellent media coverage and were widely supported by large constituencies. The Kosova Action Network (KAN) collected more than 200,000 signatures to petition UNMIK to increase efforts to bring back the bodies of Kosovars killed during the war and buried in mass graves in Serbia.

Kosovo does have approximately two hundred registered Serbian NGOs, the

majority of which are active. Serbian NGOs in general do not enjoy the same capacity levels as the Albanian NGOs, and are predominately donor driven. These active Serbian NGOs are open to cooperating with Albanian NGOs, and there are several well established multi-ethnic collaborative efforts, especially between NGOs that focus on women and youth issues. In addition, many of the prominent think tanks in Kosovo have hired Serb staff and consultants.

LEGAL ENVIRONMENT: 3.0



The legal environment for NGOs is quite favorable, featuring a progressive law on registration. The increased efficiency of the NGO Registration Office in the Ministry of Public Service permits NGOs to register in much less time in the previous years. The law permits NGOs to engage in a wide range of activities and protects organizations from unwanted state control. NGOs have been active on many controversial issues, such as negotiations with Belgrade, and have criticized government and political leaders in response to the March 17 - 18 events, as well as the work of the central and local assemblies. Despite the nature of these activities, there have not been any reports of retribution or harassment from the government officials or tax authorities.

The civil sector does not have a great wealth of NGO law experts. The Kosovo Institute for Not-for-Profit Law (IKDO) is the only organization that provides NGOs with legal assistance and training on NGO legal issues. The lawyer who heads the organization is the only expert trained in not-for-profit law. Fortunately, NGOs do not encounter many legal barriers in their work, keeping the demand for expertise in NGO law to a minimum.

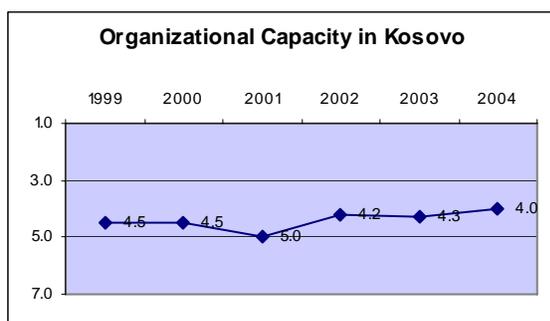
NGOs receive tax exemptions, although there are some concerns about the efficiency of tax refund procedures. Grants and membership fees are not specifically exempt from taxation; however, if such income received by organizations without public benefit status exceeds allowable expenses, it is considered "taxable profit." Individuals are not allowed a deduction for donations, although businesses are allowed to take a deduction of up to 5% of their taxable income. Many organizations are dissatisfied with the way that the laws define beneficiaries. The law does permit NGOs to earn income from the provision of goods

2004 NGO SUSTAINABILITY INDEX

and services, as long as they do not engage in economic activities with any regularity. The income from these activities is exempt if the activities are related to the organization's primary purpose. NGOs are also permitted to compete for government grants. In 2004, UNMIK adopted a

regulation to deter money laundering, and although it has not been implemented yet, many NGOs are concerned about the impact that it may have on their operations.

ORGANIZATIONAL CAPACITY: 4.0



This year, NGOs have been much more successful in building constituencies for their initiatives. The coalition REFORMA 2004, the VOTE coalition, KAN, and the network of Council for Defense of Human Rights and Freedoms (CDHRF) have engaged more than 5000 volunteers in their activities. Key Kosovar NGOs have also started the process of better defining their mission statements and incorporating strategic planning. The process is in its early stages and is still very much prompted by international donors. The majority of NGOs registered in Kosovo is small and still

without defined missions, lack clear strategic plans, and can be considered "briefcase NGOs."

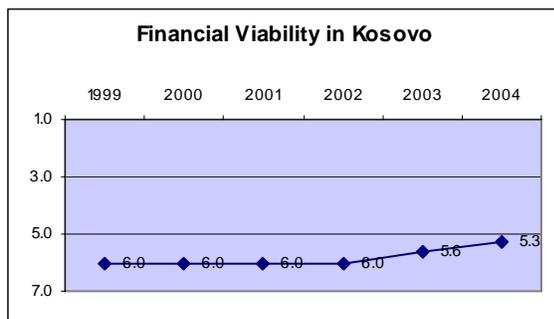
A core group of NGOs, both in Pristina and in the regions, has developed internal management structures. As donor funding becomes increasingly scarce, more NGOs will realize the importance of clearly defining organizational structures. Generally, NGOs clearly delineate the responsibilities between their boards and staff members. However, most organizations do not have rules or statutes that clarify the role and responsibilities of their boards. In most cases, boards are weak and lack the power to affect or change the work of their NGOs. Organizations have permanent, well paid staff, and this year especially, NGOs have been successful in recruiting large numbers of volunteers for their campaigns. Organizations have modernized their basic equipment and in Pristina with all NGOs being connected to the internet.

FINANCIAL VIABILITY: 5.3

The Financial Viability dimension has improved over the past year, despite some lingering issues. Some NGOs have started raising funds from local sources, but the amounts are insignificant, and few see local

funding as a source of financial viability in the near future. Some local governments and small businesses provide public office space or other support to service delivery NGOs. One example is a private transport

company that supports women's organizations by providing free bus transportation for women in rural areas. Other local NGOs receive non-monetary support from local private media outlets in the form of free airtime.



Spurred in part by the decrease in international funding, NGOs have begun to diversify their funding sources and most are sustainable at least in the short-term. Financial management, however, remains weak and only a core group of NGOs publicizes its financial statements and annual reports. Many NGOs are expressing a greater interest in increasing financial transparency, realizing its importance to the donor community. A small number of organizations have even recruited international interns to assist them with newsletters and annual reports. The Advocacy Training and Resource Center (ATRC) has adopted transparent financial management systems and has raised funds

from a variety of donors. The Foundation for Democratic Initiatives (FDI) is a local grant making organization that has developed fundraising strategies that target the Albanian Diaspora and international organizations. The Kosovo Women's Network frequently holds fundraising events to support specific projects; not only raising funds, but also increasing awareness of issues. One of their efforts in 2004 included supporting Serbian and Albanian families that suffered in the March 2004 violence. With greater frequency, local philanthropy is supporting community needs as identified by NGOs.

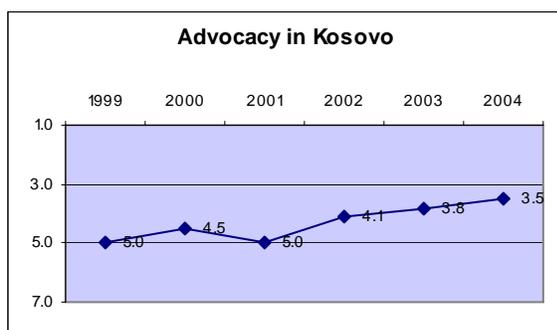
NGOs have started competing for government service contracts with some success. The Community Development Fund (CDF) was contracted by the Kosovo government to reconstruct more than one hundred houses after March 17, and has already assessed the property for the government. HandiKos, a local organization dealing with disability issues, was successful in raising funds and support from local governments and businesses to finance operations of its rehabilitation centers in the field. While HandiKos has had success in diversifying its funding, nonetheless, most of its funding continues to be provided by the Finnish Government.

ADVOCACY¹¹: 3.5

In general, municipal and national governments have been very open to NGOs. In some communities, organizations continue to work with municipal government officials to develop written procedures and regulations for public participation. Local Assemblies easily passed these laws, which were written

collaboratively between local government and NGOs. Though NGOs are more successful in cooperating with municipal governments, there are examples of collaboration on the national level. Unfortunately, successful collaborations at the national level are limited to issues like the environment, education, health, gender,

and procurement¹² where UNMIK's authority and interests are not impeded. The Kosovar Women's Network ensured public participation in writing the Gender Law, and facilitated direct public input on the Kosovar Assembly Gender Equality Committee. HandiKos has worked closely with the government to ensure that the new Kosovar Construction Law meets human rights standards that guarantee access to public buildings by persons with disabilities.



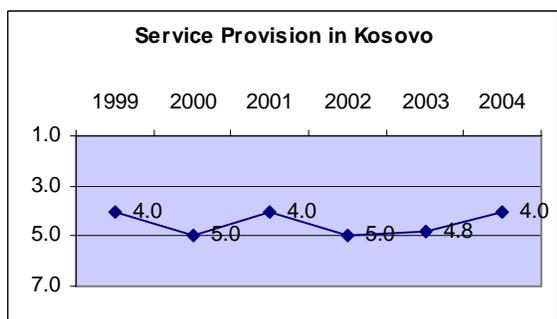
This year, many strong issue-based coalitions were successful in getting the public's attention. The Reforma 2004 coalition included more than 200 NGOs that

campaigned to change the Electoral Law. The campaign did not end in law reform due to the unwillingness of the OSCE and UNMIK. However, the campaign was valuable in that it brought together groups that traditionally have not worked together, such as women's NGOs, political think tanks, and business associations, and educated the public about different electoral systems. In another coalition effort, the GOTV campaign mobilized over 2,700 volunteers for door-to-door canvassing, and involved 30 municipal volunteer coordinators and the staff from over 70 Kosovar NGOs. This tremendous effort increased voter turnout, reversing a dramatic slide in voting rates. At the local level, NGOs have built strong relationships with municipal governments. One example is FerNet, a network of NGOs in Ferizaj that played a crucial role in monitoring the Municipal Assembly and its process of nominating a new mayor following the 2004 elections.

¹¹ Kosovo is an international protectorate. There are two layers of government: UNMIK and PISG. UNMIK still retains the bulk of competencies of governance, but the NGO sector, in its advocacy efforts deals with both. In the last five years of UNMIK administration, the NGO sector has had major difficulties in influencing UNMIK decisions. For the purpose of this exercise this section of the report will define PISG as local and federal government.

¹² In the case of the laws on Anti-corruption and Freedom of Information, UNMIK used its authority to exclude itself from being the subject of these laws at the last moment before promulgation.

SERVICE PROVISION: 4.0



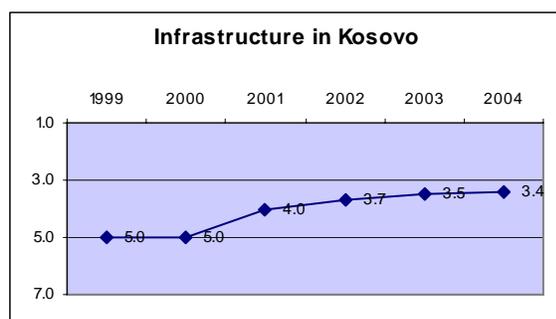
NGOs are increasingly providing services that reflect the needs of their constituents and communities. One example is HandiKos, the only provider of specialized medical services and materials for paraplegics and other disabled citizens. In Gjakova, a town in Western Kosovo, the municipal government has contracted with HandiKos to provide services for the

disabled within the community. Other local governments also support NGOs providing services to their citizens. The local governments of Gjilan and Peja have supported women's organizations addressing domestic violence issues by providing public space to open shelters. Such support is an indication that NGO services are held in high regard by government officials.

NGOs provide a wide range of goods and services. A large number of organizations work on rural literacy, health, education, housing, internet technology, and more. The Kosovo government contracted NGOs to oversee the re-building of one-third of the 900 houses damaged in violence this past

March. The Ministry of Environment and Spatial Planning contracted the CDF to assess the value of the property belonging to those families in the village of Hade, who were displaced by a landslide. The Ministry trusted CDF with the sensitive task of assessing the proper compensation for the loss of property, demonstrating a great success for the sector. In addition, several think tanks and business development organizations have developed projects and services that are offered to government agencies or international organizations for a fee. Despite these successes, NGOs have not improved their ability to recover their costs. Sustainability of these service projects is still very much dependent on donor funding.

INFRASTRUCTURE: 3.4



The Infrastructure dimension has made a slight improvement over the past year. Many of the NGO support services and training facilities created by USAID and OSCE programs are still operating, although OSCE support ended two years ago. The ARTC has been able to recover some of its operating costs by charging fees for services provided to other NGOs. There are five local grant-making foundations, one of which is located outside of Pristina. Almost all of the grants offered are funded by international donors, although the projects funded are chosen based on the needs of the

local communities, not foreign donor priorities.

Overall, information-sharing among NGOs is improving, although there are no formal mechanisms to ensure it will continue. Instead, NGOs share information on a case by case basis when they think there is a need for it. No single NGO represents the interests of the entire NGO sector, although ad hoc coalitions address particular issues and sub-sectoral needs. NGOs have easy access to management and specialized training services in Pristina and secondary cities, and over the past three years, a pool of local trainers was created through a USAID-funded NGOs support program. Government institutions often recognize the expertise of these trainers, and hire them to provide training to civil servants.

Cross-sectoral partnerships have gotten stronger over the past year. One example is a partnership between business/professional associations and economic think tanks that lobbied the Assembly to change the law

establishing a Chamber of Commerce, so that businesses had the option of registering with the Chamber instead of being required to do so. NGOs are also building strong

partnerships with the media, and with the Kosovo Police Service (KPS) community units that cooperate with community groups and NGOs on domestic violence issues.

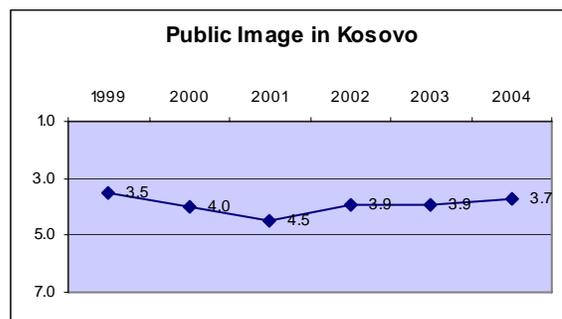
PUBLIC IMAGE: 3.7

Media coverage has improved considerably over the past year. One example is RTV21, a private station with national coverage that has given significant airtime to NGO activities. In general, local media outlets provide better coverage of NGO activities than nation-wide media.

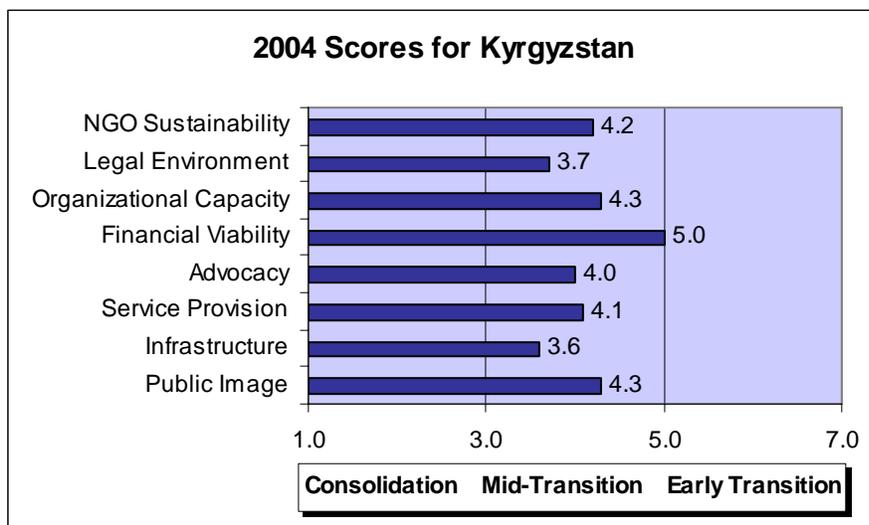
Over the past year, public perception of NGOs improved significantly for the entire sector. A survey commissioned by USAID Kosovo reported that 4% of all respondents claimed to be directly involved in NGO activities. 73% of all respondents believe that NGO activities influence government actions at the municipal level, and 31% believe that NGO activities influence government actions at the national level. One reason for the improvement is that the NGO sector has been involved in many high profile activities over the past year, including the election reform campaign, Get Out the Vote Campaign, and its reaction to

the March 2004 events. Even before the elections, many political parties were active in recruiting NGO representatives, offering them important positions in their Parties. The Prime Minister's office hired NGO leaders to troubleshoot its management systems.

NGOs could always do better in promoting their activities. Some organizations neglect the importance of keeping the media informed of their successes and accomplishments and therefore, often go unnoticed by the general public.



KYRGYZSTAN



Capital: Bishkek

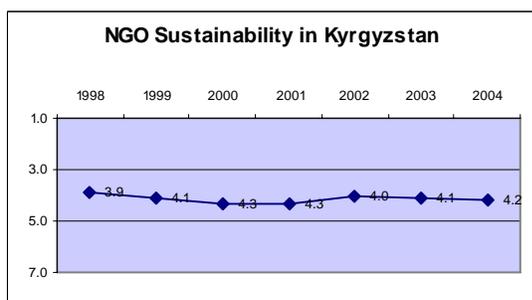
Polity: Republic

Population:
5,100,000

GDP per capita (PPP): \$1,600

NGO SUSTAINABILITY: 4.2

In Kyrgyzstan, the NGO sector continues to play an important role. In 2004, there were 8,000 registered organizations, 2,000 of which were active. NGOs still depend primarily on donor assistance to continue their operations, but are beginning to diversify by exploring other funding sources, such as charging fees for services.



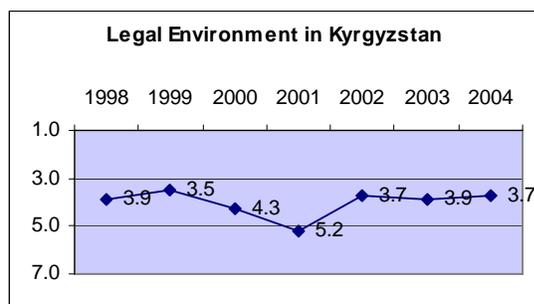
This year NGOs conducted voter education campaigns and monitored the October elections with little or no interference from government officials. This is in stark contrast to 2003, when authorities applied a great deal of pressure

and scrutiny to NGOs that were active in the politically charged constitutional referendum. NGOs continued to gain experience in conducting advocacy campaigns on issues such as NGO legislation and the right to public assembly.

The NGO sector continues to build new partnerships. In many areas, NGOs maintain good relations with local governments and even pursue joint projects. As donor resources diminish, competition between NGOs for funding has increased, though in some instances, cooperation between NGOs has increased as donors encourage organizations to conduct joint projects. In one example, donors that supported NGO activities during the local and parliamentary elections asked that organizations working in the same geographic areas develop projects together.

LEGAL ENVIRONMENT: 3.7

Though there was little legislative change in the past year, the legal environment became more permissive and supportive of NGO activities. The NGO registration process is still without significant problems and is free of charge. Once registered, organizations do not have any legal restrictions on their involvement in economic activities, although NGOs generally lack sufficient information about the different ways to generate income and compete for government contracts.



NGOs complain that local attorneys do not have great capacity or an adequate understanding of NGO law and issues. USAID began addressing the problem this year by training a cadre of lawyers providing legal services to NGOs and civil society activists in the network of Civil Society Support Centers. In addition, other NGO networks like the LARC Centers offer services, but for a fee. Even these services, however, are offered in oblast or rayon centers, and NGOs in

remote areas are not always able to take advantage them. Although harassment by government officials is not as bad as in previous years, organizations are still subject to unannounced visits by local law enforcement authorities, and some NGOs complain that tax inspectors make arbitrary demands for documents. Another persistent issue is that many NGOs only work in Kyrgyz, the local language, while the government sometimes requires them to submit legal documents in Russian.

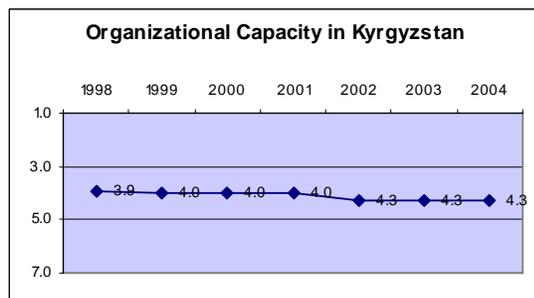
NGOs had feared that the 2003 amendments to the Constitution would create a stricter operational environment for NGOs; however, these fears have generally not materialized. On October 14, 2004, the Constitutional Court repealed three articles from the Kyrgyz Law on Public Meetings that created unconstitutionally complicated barriers to receiving government authorization for holding demonstrations. In addition, government authorities did not interfere with NGO activities concerning the October 2004 local elections. Organizations around the country conducted educational programs, and trained and mobilized hundreds of independent election observers, who were generally given good access to election day procedures.

ORGANIZATIONAL CAPACITY: 4.3

While a few of the larger NGOs located in urban areas have a strong organizational structures and internal management, most organizations are small and poorly staffed. Often, an NGO revolves around one or

two people that are fully committed to the organization's mission. In small towns and rural areas, many NGOs base operations out of their directors' homes

and list the directors' home phones as the organizations' contact numbers.

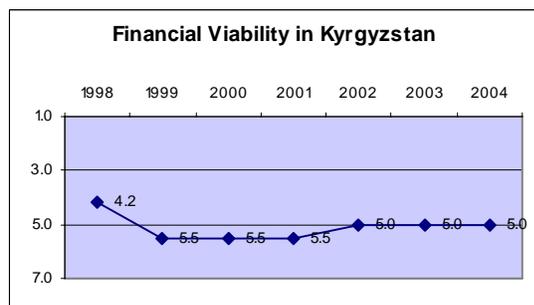


Many organizations do not understand the importance of strategic planning, and few outside the capital even have a strategic plan. While many organizations have boards of directors, these boards are rarely

used effectively. Few organizations understand the different roles that staff and board members play in the organization's structure, and individuals often confuse their responsibilities. Most NGOs do not have financial resources beyond what they receive through grant programs. Due to limited resources, it is rare that NGO staff receive regular salaries, making it difficult to attract young people to the NGO sector. More NGOs are, however, recruiting high school and university students to volunteer on projects.

FINANCIAL VIABILITY: 5.0

Generally, the financial condition of the NGO sector did not deteriorate over the past year, despite the slow Kyrgyz economy, which limits local philanthropy and other economic opportunities for the NGO sector. The relationship between the local business community and NGOs continues to be underdeveloped and donations are still rare.



While local governments, at times, provide assistance to NGOs for specific projects, few are able to take advantage of a law that permits the Ministry of Finance to provide community organizations, via

local governments, with grants to initiate projects. The procedure for accessing these funds from the Ministry of Finance is extremely bureaucratic, requiring requests to pass through every level of local and regional government before reaching the Ministry. Despite these obstacles, some organizations have succeeded in securing grants. Assistance from local governments is generally limited to non-monetary support such as space for an event. One exception is the town of Nookat, in Osh Oblast, where the local government sets aside funds to support local NGOs in the city's budget. At the national level, there are ongoing discussions concerning funding for the NGO sector. While these discussions are a sign of progress, the specific mechanisms to provide actual grants have yet to be developed.

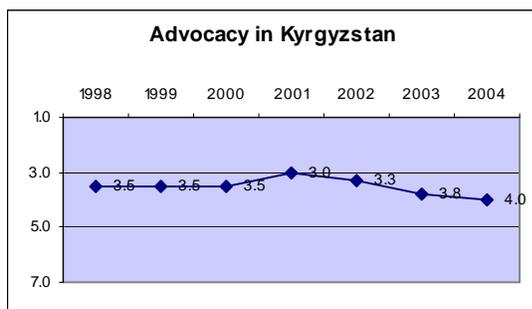
Donors tend to provide support for specific initiatives rather than institutional development, which causes problems for many organizations. The lack of economic

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opportunity presents greater obstacles for NGOs than lack of fundraising knowledge. Some NGOs have, however, succeeded, in developing economic activities. One organization in the Issyk-Kul region generates income by operating a small hotel. Other organizations earn income by

providing training for local government officials and consulting services for businesses. Some NGOs are taking steps to increase their transparency by making their financial records public and publicizing the results of their efforts.

ADVOCACY: 4.0



There were numerous advocacy campaigns conducted over the past year, some of which were successful. The Civil Society Resource Centers funded by USAID successfully lobbied against a draft law on community-based organizations that would have created unnecessary regulations for NGOs. A USAID grant also helped a local human rights organization successfully lobby for changes to the Law on Public Meetings, strengthening the right to assemble. At U.S. State Department-funded information centers around the

country, local groups organized campaigns to monitor government compliance with legislation on women's and children's issues as well as health and education policy.

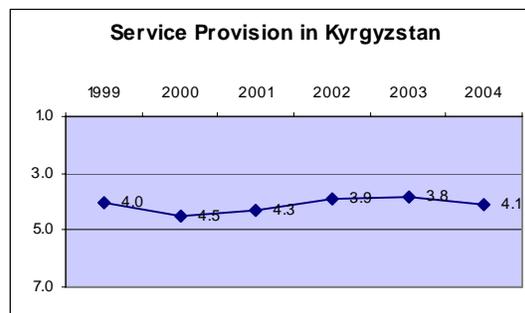
In many areas, NGOs work well with local authorities, although lobbying at the local level is often limited to participation in budget hearings. In Talas, the Oblast governor initiated a MOU between the government, NGOs, and local business community, expressing general agreement that the parties will cooperate on issues of joint interest whenever possible. Only a few strong NGOs with a national presence are able to launch independent nation-wide advocacy campaigns. Smaller organizations are not generally able to take on national campaigns on their own, and tend to join coalitions supported by the international NGOs.

SERVICE PROVISION: 4.1

While some NGOs have the capacity to provide consulting and training services for a fee, the Kyrgyz economy is not yet strong enough to provide many opportunities for NGOs to receive adequate compensation. In addition, NGOs often lack the knowledge and

capacity to create or tap into existing markets. A few of the well-established organizations provide training materials, reports, handbooks, and research for other organizations, political parties, and government ministries. Other well-established organizations provide training in their areas of expertise, including one

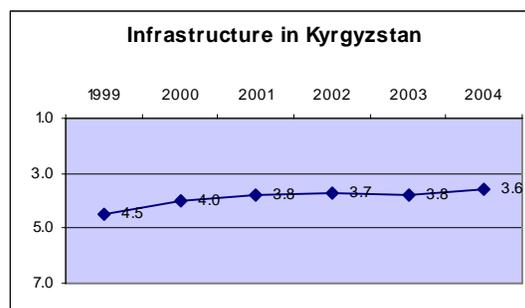
organization that provides training in domestic violence issues to law enforcement officials. An NGO in Naryn charged participants in a popular course a nominal fee, surprising others in the NGO community when the participants agreed to pay.



INFRASTRUCTURE: 3.6

NGOs in Kyrgyzstan enjoy access to numerous resource centers that offer training and other services, although many of the services are not offered in small towns and rural areas. The Civil Society Support Centers funded by USAID provide technical assistance, access to computers, information, and legal consultation for local NGOs. The NDI Information Centers for Democracy, funded by the U.S. State Department, offer infrastructural support for NGO activists by providing access to media resources, facilitating discussions, and providing meeting space. Other NGOs provide numerous training opportunities, including training of trainers programs that have led to a growing cadre of local trainers. Other donors fund resource centers that provide NGOs with internet access and computer training. Media resource centers in Bishkek, Osh and Karkol often host NGO press conferences. Most resource centers

tend to be located in oblast or rayon centers, while NGOs in small towns and rural areas still face difficulties with communications and access to information.



While decreased donor funding has limited the pool of available grants to individual organizations, NGOs are increasingly exploiting opportunities to forge partnerships with others in the sector and with local governments.

PUBLIC IMAGE: 4.3

Both the state-controlled and independent media continue to increase their coverage of NGO activities. However, state-

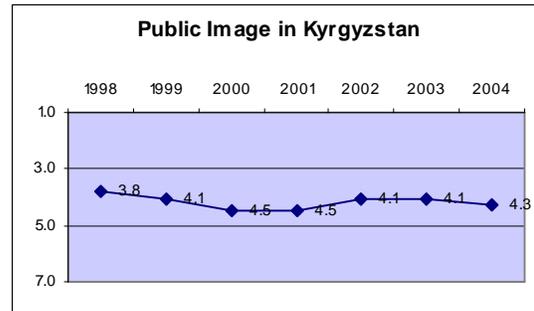
controlled media tends to be very critical of NGOs involved in human rights or pro-democracy activities, labeling them as

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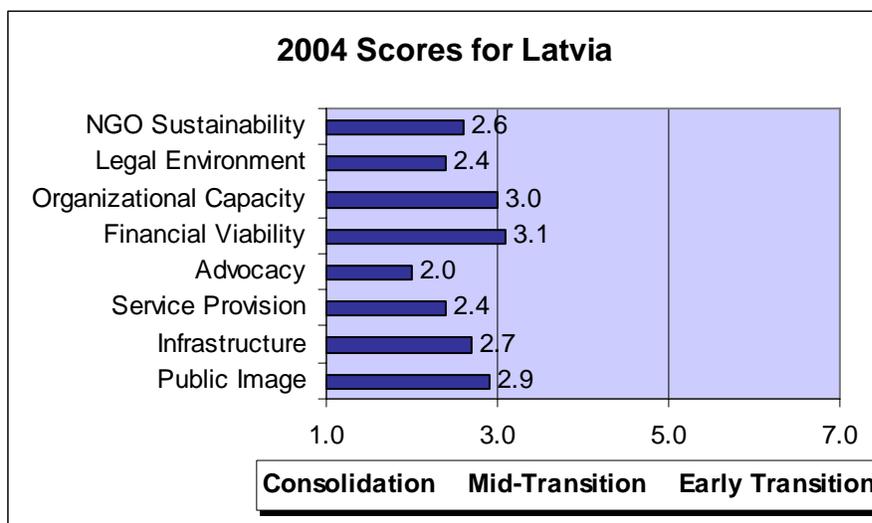
radical opposition. Independent media sources, while more balanced in their coverage of NGOs, are more passive in seeking out information about NGO activities. One Russian-language newspaper engaged in what some in the NGO community saw as a negative campaign against NGOs. Most NGOs lack the sophistication and knowledge to counter such attacks and attract positive media attention or promote their organizational image.

A USAID funded poll found that public awareness of NGOs tends to be high in comparison with other Central Asian republics, although this does not necessarily

translate into a positive public image. Individuals who receive NGO services are more likely to have a positive image of NGOs, but these aid recipients are still in the minority, as most citizens are not interested in the NGO sector.



LATVIA



Capital: Riga

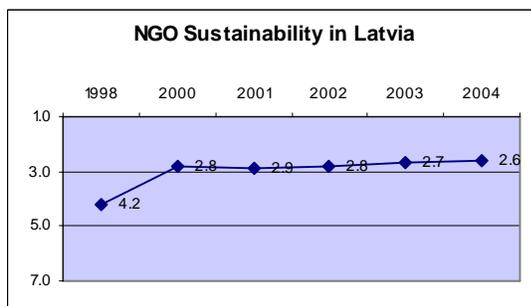
Polity: Parliamentary democracy

Population: 2,310,000

GDP per capita (PPP): \$10,200

NGO SUSTAINABILITY: 2.7

During 2004, two events dominated the attention of the NGO sector in Latvia. The first was the new Law on Associations and Foundations that governs the NGO sector; it came into force on April 1st, and makes significant positive changes regarding the status and functioning of NGOs. The second was a statement by the country's president, which forced the NGO sector into the spotlight.



In August, the government nominated its candidate to be Latvia's representative on

the European Commission, the current Speaker of Parliament, in a manner that many thought was less than transparent. Consequently, two NGOs—including *Delna*, the Latvian chapter of Transparency International) — demonstrated against the proposed European Commissioner's method of selection and the candidate's integrity for office. Following the demonstrations, the president held a news conference and stated that the actions of the organizations were unconstitutional and that they had no right to protest against a duly elected Member of Parliament. The Minister of Interior then stated that *Delna* was going 'to be observed' without specifying what that meant. He later said that his statement had been misunderstood.

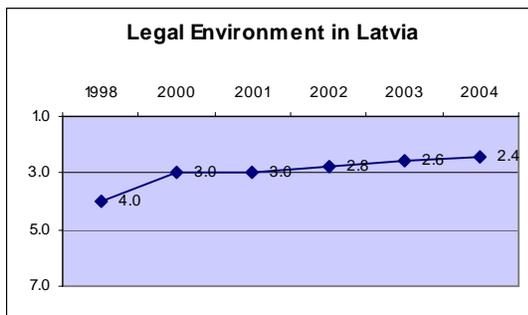
The controversy that followed the president's statement brought NGOs and the NGO sector to the attention of the public. The role of NGOs was questioned by some members of the government and

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in the press, and the issues of “who do you represent?” and “who funds you?” were raised specifically about NGOs that advocate for transparent and open government. The incident demonstrated that the government is unable to differentiate between politics and the political process and that it does not understand the right of NGOs to engage in the political process. Following their

public confrontation, the president and leaders of the NGO sector met to discuss their positions on the issue, and the president refused to change her opinion. She considers the issue now closed, but activists in the sector are still working to enlighten members of government and the general public about the NGOs’ possible role as advocates and watchdogs.

LEGAL ENVIRONMENT: 2.4



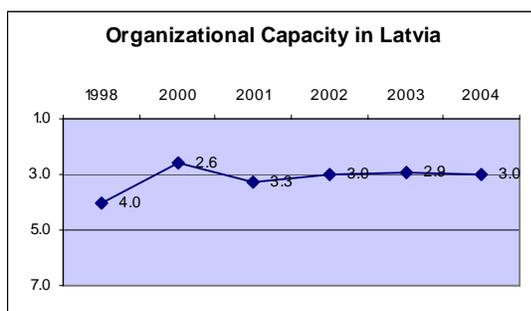
In April 2004, a new law governing the NGO sector in Latvia came into force. The Law on Associations and Foundations is a first step in developing a revised package of legislation that will govern the sector. The new law lessens the registration fee for NGOs, and now only requires two people to create an NGO. Political parties are now no longer considered NGOs; they will be governed by additional legislation. Another significant addition is that the law provides guidance on the proper dissolution of NGOs and outlines clear procedures for what happens to the property of organizations that close. Although the new law is seen as a positive step

forward for the sector, it will take some time for all organizations to understand completely the provisions of the new law. Organizations such as the NGO Center in Riga have assisted NGOs throughout the country to understand the new law and how it will affect them.

In October 2004, the Law on Public Benefit came into force, but the mechanisms for implementing the law have not been created. The new law is designed to create a standard process for determining an organization’s tax benefit status, but the commission that will make the determination has yet to start work. It remains to be seen how effective the commission will be in granting tax deduction status to NGOs. The government is in charge of establishing public benefit status, which affects tax benefits, but the legislation allowing for tax deductions to the sector has yet to be passed by Parliament.

ORGANIZATIONAL CAPACITY: 3.0

According to research conducted in 2004 by the research firm Lursoft, Latvia has 8376 registered non-governmental organizations. The data was collected from the Latvian and European Business Registers, mobile phone company listings, telephone directories, and public financial records, and thus it is not guaranteed that all 8376 organizations are active. Of these organizations, 60 percent registered in the capital and the remaining 40 percent are distributed disproportionately throughout all of the regions of the country. Most organizations outside of Riga are concentrated in or near Latvia's largest secondary cities. The organizations have a wide array of target populations ranging from pensioners, street children, the homeless, and persons affected by HIV/AIDS; their work has similar breadth, spanning from preserving Latvia's cultural heritage to running sports clubs to advocating for transparent government.



Most NGOs in Latvia are still small and underdeveloped, and their staffs are usually project-based. When funding for a particular project ends, the organization

can no longer afford to have paid staff. Any technical equipment that the organization has is also from a particular project and any upgrades can come only from future projects.

Most organizations do not have clear governance structures. The new Law on Associations and Foundations is of little assistance to organizations in developing their internal management systems because it does not require—but does allow for—a governing board. The law does, however, require a management board, which may be comprised of only one member, usually the executive director.

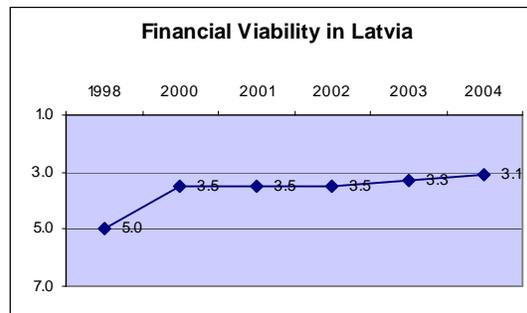
A draft Law on Volunteers is currently awaiting action by the Ministry for Society Integration, which oversees the NGO sector. If passed, the law will clarify the role of volunteers as unpaid workers in organizations, but passage of the law is not foreseen in the near future. Currently, the State does not recognize the status of volunteers, so actions such as reimbursing a volunteer for expenses have negative financial and legal consequences for an organization. The State continues to allow only employees with legal work contracts to be reimbursed for expenses, and anyone with a legal work contract must be paid at least the minimum salary with all income and social taxes.

FINANCIAL VIABILITY: 3.1

Over the last few years, Latvia has seen a shift in funding sources from mostly international donors to increased domestic sources. Although domestic sources are still limited, within the last year, two community foundations have completed their first full year of operation and have proved to be successful in finding local sources of support. One of the foundations has been so successful that it has become a model for other communities wishing to start their own foundations.

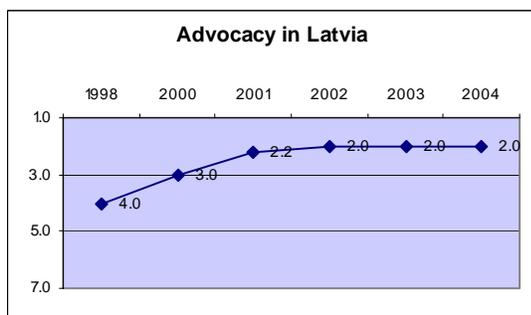
In addition, the NGO Center in Riga has started an Internet-based fundraising organization designed to raise funds from individuals for specific NGOs. The NGO Center acts as an intermediary body that links individual donors with worthy recipients. In order to ensure the organization’s high standard of operation, the recipient organizations are vetted by

the Center prior to being posted on its home page.



The new Law on Associations and Foundations clarifies the issue of earned income. Earned income is now allowed under the condition that any income is used to promote the mission of the organization and is not distributed to individuals associated with the organization.

ADVOCACY: 2.0



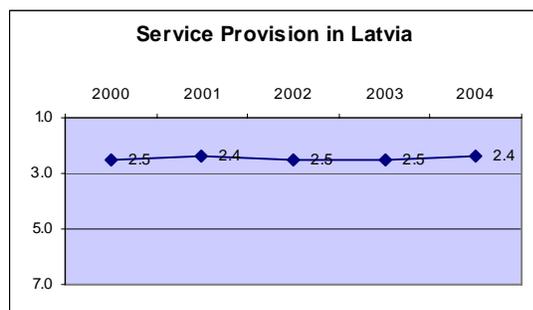
The NGO sector has had some success this year in developing coalitions based on common interests. For example, one coalition was created to oppose the government’s negative view of the NGO sector. The question now is whether the coalitions will have any success in

winning over the government. Regardless, the NGO sector is now on the country’s political agenda, and the Ministry for Society Integration has created a national Strategy for Civil Society Development, a series of policy guidelines intended to assist the government in taking steps to strengthen civil society for the next 10 years.

The new legislation governing the sector—including the Law on Associations and Foundations, the Law on Public Benefit, and the draft Law on Volunteers—is a direct result of lobbying efforts made by the NGO sector.

SERVICE PROVISION: 2.4

The NGO sector in Latvia continues to provide a wide-range of services in all geographic regions of the country, but the organizations only provide the services when they have the resources to do so, usually from specific project funding. Sustainability and longevity continue to be chronic problems.



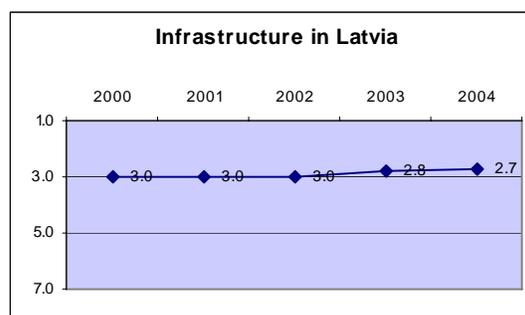
The main difference between the services provided by the sector now and in previous years is that the services are becoming more diverse and more specialized with smaller target constituencies. For

example, an organization that was created to help empower women is now working specifically to prevent the trafficking of women for prostitution. Similarly, an organization founded to help those affected by HIV/AIDS is now working specifically with intravenous drug users to provide them with clean, sterilized needles.

The ongoing problem for organizations trying to recover their costs for providing services is that, although they now can legally charge for their services, their clients cannot afford to pay anything close to the actual costs for the services. Organizations are, therefore, forced to rely on financial support from other sources. Organizations are becoming more aware that they must ask local communities to help them fund their activities; they can no longer rely solely on international donors for support.

INFRASTRUCTURE: 2.7

Latvia has a small cadre of NGO trainers, but the opportunities for the trainers to receive additional professional training are limited. They cannot afford to attend international conferences or to join professional networks that would enhance their knowledge base. Also, most organizations cannot afford the training provided by these trainers. The NGOs must have an outside source pay for them to hire the trainer.



Latvia officially has a network of 13 NGO support centers located around the country. The centers were founded with international funding, but now many are

barely operational. Others are financially strong and are working effectively in their regions because they have developed linkages to other organizations, like local municipalities. At their inception, the centers provided basic services to organizations such as photocopying, computer access, and grant writing seminars. Today, the centers provide their members with information, such as where to find project funding or answers to questions about the new NGO law.

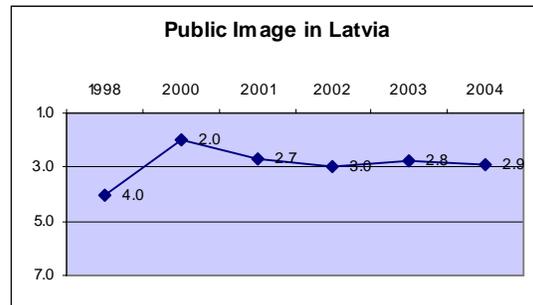
Also in the last year, Latvia's two community foundations have been successful in raising funds to award grants within the local community, and the

country's first private foundation was created to award educational scholarships.

Finally, a number of networks were created this year, bringing together those organizations with common interests. These include a network of women's organizations, a network for those involved with reproductive health issues, a network for those working with homeless people, and a network for those worked with the disabled. These activities were undertaken to benefit the member organizations, and will be advantageous in the future as the funding provided to the sector by the European Union (EU Structural Funds) favors these kinds of partnerships.

PUBLIC IMAGE: 3.0

Assessing the public image of NGOs is difficult because of the recent controversy that focused much national attention on the sector. In the spring of this year, the Baltic American Partnership Program conducted a survey of 500 residents of Latvia about their attitudes towards NGOs. At that time, 38% said that they had heard nothing about NGOs, but the remaining 62% of the respondents said that they had heard of NGOs and they had a positive attitude towards them. No data has been collected about the image of the NGOs following the controversy with the president, but NGO activists assume that it has damaged the sector's reputation because of the highly favorable image of the president, particularly amongst the rural population. For better or worse, the public is certainly more aware of the sector now than at the beginning of the year.



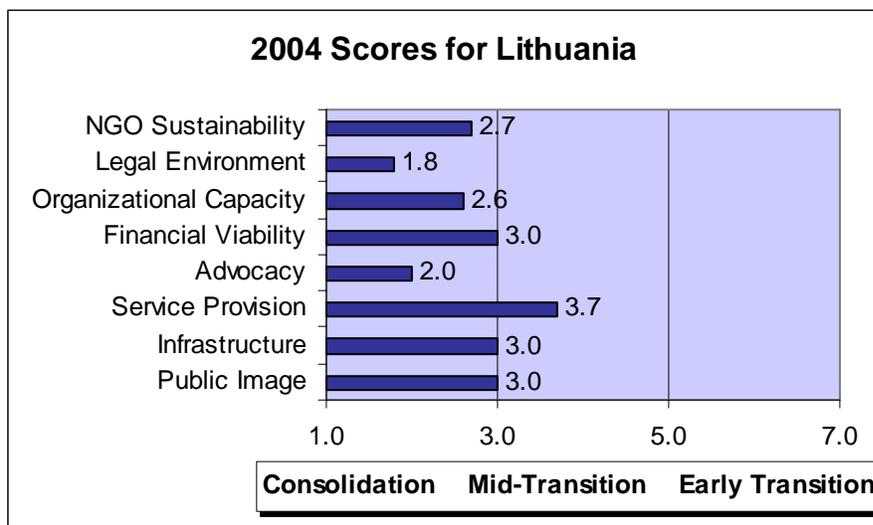
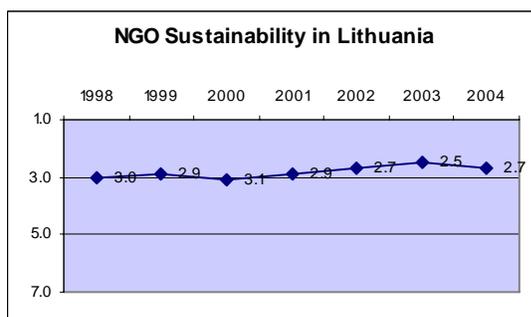
In general, government officials do not fully understand the role of the NGO sector. Based on comments from members of the government, they believe that NGOs should only be service organizations and not involved in advocacy. Businesses have a slightly better image of the NGOs because they are often involved in specific projects with organizations, but they, too, do not fully understand the sector.

Although many organizations do good work in their communities, few NGOs are adept at promoting their activities because

Latvians, in general, are not good at self-promotion. Media coverage for NGOs in the smaller towns and regions is generally good because the work that they do is covered in the local news reports. Coverage of NGOs in the larger cities and

the national press is positive for service organizations, but some of the national press has been quite negative when reporting on the activities of advocacy organizations.

LITHUANIA

**Capital:** Vilnius**Polity:** Parliamentary democracy**Population:** 3,610,000**GDP per capita (PPP):** \$11,400**NGO SUSTAINABILITY: 2.7**

The past year can be characterized as a period of stability for Lithuania's NGOs. The most significant positive development was an improvement in public image, as the national media have been forming a new public perception of the sector by recognizing its power and importance in public life. The reorganization of the NGO information and support centers has been one of the more significant causes of deterioration in the areas of advocacy and infrastructure. Previously, the NGO center in Vilnius provided lawmakers with comments on proposed legislation affecting the sector, a service they now

lack. Since individual organizations are unable or unwilling to advocate for the sector as a whole, this niche might not be filled soon.

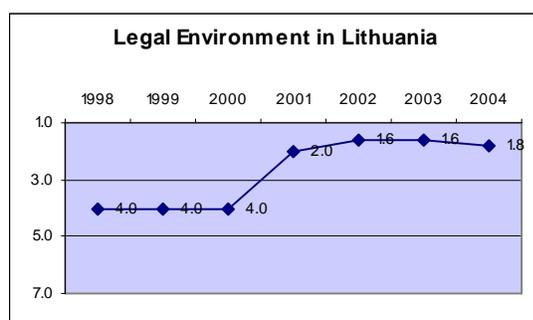
Market forces are becoming a governing influence in the NGO world. So-called "soft" NGO funding continues to decrease, yielding ground to European Union structural funds that impose very high and standardized requirements on all participants in the market. NGOs lack the initial capital to be able to compete with businesses to have their projects funded, and the only way for them to access structural funds is to convince local governments to become their shareholders or partners. Despite emerging contracting opportunities with businesses, the market for NGO services remains very small. This poses a threat that many NGOs will not survive and that the divide between small local NGOs and highly professional national NGOs will become even more pronounced. Nonetheless, the improving

public perception of NGOs and growing support of local constituencies are positive

trends that give hope of further progress for the country's NGO sector.

LEGAL ENVIRONMENT: 1.8

In 2004, the scope of permissible activities was made uniform for all types of Lithuanian NGOs. All organizations—whether registered as associations, charity and support foundations, societal organizations or public institutions—are now allowed to engage in economic activity, i.e., to sell services and products.



The personal income tax deduction for charitable contributions to NGOs has not been reinstated by the Seimas (the Lithuanian parliament). While businesses can deduct twice the amount of their donation from their taxable profits, there are no tax incentives to encourage individuals to donate to NGOs. An amendment to the Law on Lobbying that can affect NGO activities also awaits

consideration by the Seimas. The proposed amendment foresees a 10,000 Litas (about USD 3,200) registration fee for an organization to engage in lobbying activities, with advocacy understood as lobbying.

Since May 2004, NGOs are no longer refunded the VAT on foreign assistance funds. A VAT refund will be allowed only in several programs funded by the European Union. By the end of 2004, nonprofits will have received the first funds from the 2% personal income taxes earmarked to them by the 230,000 people who exercised their right to designate an eligible organization, allocating 8 million Litas (four times greater than the sum anticipated in the 2004 national budget). It is not yet known how much of these allocations will go to NGOs, as schools, hospitals and other facilities registered as public institutions are also eligible recipients. The 2% income tax provision has resulted in some unanticipated misuse, whereby some businesses established public institutions as a conduit for funds, and new unknown organizations have appeared to compete for them as well.

ORGANIZATIONAL CAPACITY: 2.6

NGOs—especially those in rural areas and small towns—have made notable efforts to build their local constituencies, increasing the numbers of volunteers and funds generated from small individual donations. These NGOs are particularly visible in

their communities and would not be able to survive if they did not work in an open, transparent and constituent-oriented fashion.

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NGOs operating on the national level have also been progressing in volunteer recruitment, and though their funds and staffing have not increased, their organizational capacity has continued to grow. In order to access European Union funding, Lithuanian NGOs have been joining international NGO networks and organizations, and adapting their manner of operation to that of European Union NGOs.

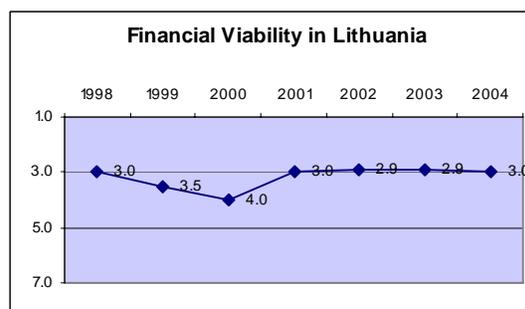
Lithuanian NGOs have come to recognize the importance of clearly defining their missions and of strategic planning. As NGO laws do not clearly separate or

adequately define the responsibilities of NGO administrations and boards of directors, functions are frequently combined, impeding a clear division of responsibilities between staff and boards.



FINANCIAL VIABILITY: 3.0

After a noticeable downward trend in the previous few years, the NGO funding situation has stabilized somewhat during 2004. Even as they engage in hard competition for a share of the significant European Union structural and other funds allocated to Lithuania, NGOs have been successfully diversifying their funding sources. More in-kind support is generated and more funds come from small businesses and individual contributions. One example of a successful jointly-funded EU and GOL project is EQUAL, a program that seeks to develop and test new and innovative ideas and practice to combat discrimination and inequality in relation to the labor market. By the end of 2004, 50 million Litas—approximately USD 18.8 million—will have been distributed by the EQUAL program to participating NGOs.



Small local NGOs, unable to compete for EU funds, survive exclusively on local resources coming from local philanthropy and membership fees. These resources are just beginning to be tapped, and NGOs put much effort into designing philanthropy development programs and activities

which, while not resulting in immediate returns, make NGOs more visible and promote the culture of philanthropy in their communities and in the country.

Government funding for NGOs has not been increasing and does not comprise a substantial share of overall NGO funding. While some local governments have

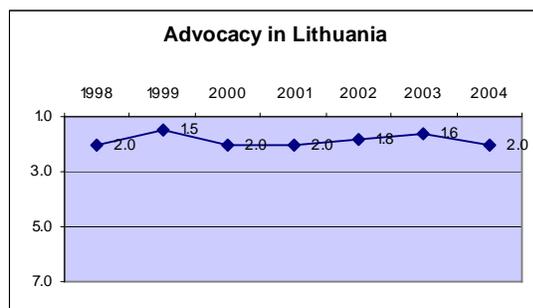
continued funding at the same levels as in 2003, others have reduced NGO funding in order to co-fund European- Union-supported programs. Co-funding is a precondition for receiving EU support and local governments are consequently revising their priorities to maximize their resources.

Local government funding for NGOs usually come as grants. There are as of yet few contracting opportunities, but there is increasing understanding among NGOs that they need to sell their services and products to generate income. While government contracting has not progressed

during the year, a new market for NGO services has been emerging. As more businesses start to recognize and adopt the principle of corporate social responsibility, the need for NGO-provided services to businesses grows.

The 2% personal income tax designation measure has served as a strong incentive for NGOs to pay more attention to financial management and accountability. The need for independent financial auditing is increasingly recognized, yet NGOs can rarely afford this expensive service.

ADVOCACY: 2.0



NGOs have been forming coalitions and some of their issue-based campaigns have yielded results. In the field of equal opportunity, NGOs have achieved some success in cooperation and advocacy at the national level, both in the legislature and with the government. Both nationally and locally, NGOs providing on-line psychological counseling have lobbied the government successfully to secure funding for their services in next year's budget. Efforts by an NGO coalition on education resulted in a voice for parents in the policymaking process of schools. The NGO coalition of Siauliai has formed an NGO consultative board to the local

government. Organizations uniting people with disabilities were actively promoting candidates in the October parliamentary elections and, for the first time in the history of Lithuania, a blind man was elected to the Seimas.

Notwithstanding these individual successes, the general trend in NGO advocacy has not been favorable. The group of parliamentarians that formed a caucus three years ago to promote NGO interests dispersed, and examples of abuses in NGO practice cited by lawmakers are coloring judgments about the sector and have served to make new legislation adopted by the Seimas more restrictive and less favorable to NGOs. The NGO Information and Support Center in Vilnius, which provided lawmakers with analytical material on issues of importance to the non-profit sector, is experiencing a crisis, and no other organization has taken over this important task. Many NGOs are themselves passive and do not show any effort to

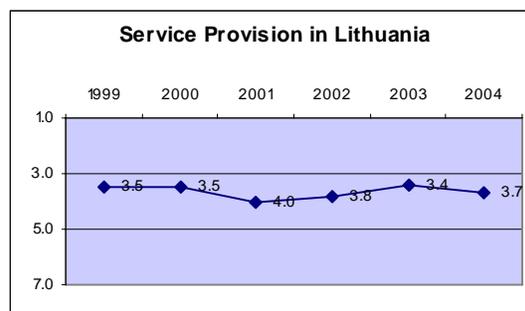
communicate with local or national governmental bodies. For this reason, neither a public commission established at the municipal board of the capital city of Vilnius, nor the citizens' advisory committees established at the level of the smallest local administrative unit (the

seniunija), have been successful. On the central government level, an attempt to create an NGO commission has stalled because because the NGOs themselves cannot agree on the composition of such a commission or the criteria for membership.

SERVICE PROVISION: 3.7

The most common activities engaged in by NGOs are providing basic social services, protecting the environment, and organizing cultural and sports events; however, the range of goods and services has broadened slightly. Occasionally, municipalities contract with NGOs to assist in development planning, conducting social monitoring, and providing expertise. More frequently, municipal authorities tend to give out small grants to appease NGOs rather than encouraging them to bid for contracts. There is a preconceived mistrust of NGOs as service providers. This mistrust is based partly on a widely held view among the general public that all NGO work should be free of charge, and that all grants received should pay only for the actual services rendered. Another factor that creates a negative impression of NGOs as service providers is a lack of continuity in funding. NGO clientele are usually vulnerable and unable to pay for services themselves. Clients rely on NGO services, and then the services stop because a project comes to an end. In an attempt to ensure continuity and quality of services, local governments demand proof of long-term financial sustainability and a guarantee that a contractor is able to cover his own basic administrative and overhead

costs. Such requirements put NGOs in an untenable and uncompetitive position, as neither their founders nor funds generated from local sources can cover administrative costs in such contracts. Unless municipalities become shareholders of NGOs, they will no longer be able to act as service providers to local governments.

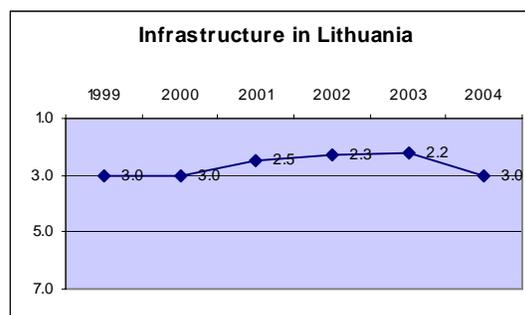


Demand for NGO services is increasing within the business sector, where they are asked to administer charity and support programs and to serve as intermediaries between businesses and local communities. Lack of communication with local communities has recently caused a serious delay in several ambitious business ventures, and now businesses seek the advice of local NGOs before they start implementing their plans.

INFRASTRUCTURE: 3.0

Lithuanian NGO resource centers are undergoing reorganization. They have fulfilled their primary mission of assisting the emergence and consolidation of the non-profit sector in the country, and now face new tasks and challenges. Many NGO umbrella organizations, including the two formerly very significant NGO information and support centers in Kaunas and Vilnius, are in crisis. As traditional funding sources decline, so do their budgets, and their attempts to generate income from membership fees and paid service provision have not yielded sufficient funding. NGO centers could be viable if they redefined their missions and recognized their important role in advocacy. The centers, however, seem to lack the initiative and competence for this task.

The number of local community foundations increases. The funds they distribute are still small, but their visibility continues to grow. There are five community foundations, as well as several regional associations of local community organizations. These institutions play an important educational role in their regions.

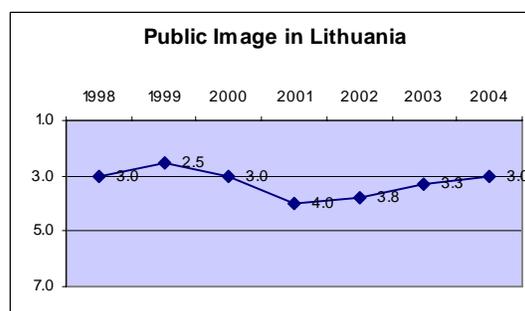


This year, NGOs more actively exchanged information on the Internet. An electronic NGO conference and a Web site for community organizations have become the main information-sharing networks and the only countrywide specialized information source for NGOs. Since NGO information and support centers have reduced their activities, sector-specific publications no longer exist.

The need for traditional basic NGO training has been diminishing. There is a growing need for practical and highly specialized training to meet the changing accounting, bookkeeping, job safety, and other requirements imposed by law. However, most NGOs cannot afford such training, or the associated tools (e.g., computerized accounting systems).

PUBLIC IMAGE: 3.0

Although local governments still lack trust in NGOs, the relationship between NGOs and the local media has been very good. For example, the Alytus regional daily has dedicated one page a week to cover the activities of local non-profits.



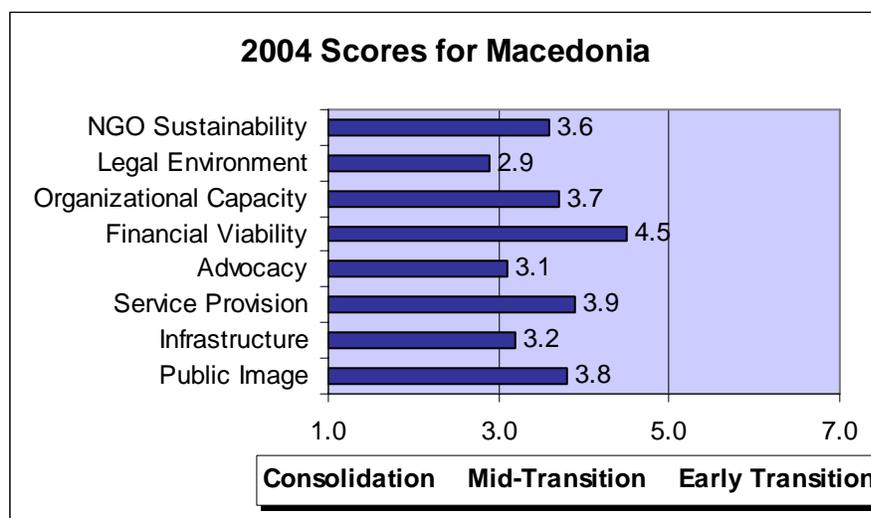
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This year has also witnessed an upsurge of attention to NGOs in the national media. From time to time, the media disclose fraud and money-laundering schemes involving NGOs. However, after several highly visible scandals involving development projects when NGOs successfully defended the interests of local communities against business interests, the media have come to recognize the key role NGOs play in public life. The image of NGOs in the media has been changing from one of supplicant to that of public voice. The message was conveyed that the non-profit sector cannot be ignored, and discussion of issues in the national media rarely occurs without the participation of NGOs.

The increased visibility and improved public image of the non-profit sector is a direct result of more active marketing. The two-percent income tax measure has served as a strong incentive for NGOs to publicize their activities and accomplishments, and NGOs are increasingly being asked by businesses to cooperate on specific projects. NGOs are also often invited to serve on governmental commissions and on municipal and community boards.

An NGO code of ethics has been discussed for a few years, but one has not yet been adopted. The discussion itself is a positive development, building awareness and encouraging NGOs to demonstrate transparency in their operations.

MACEDONIA

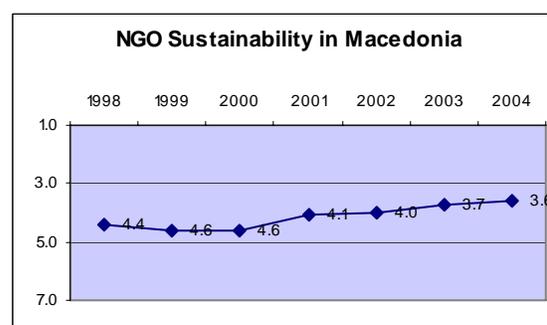
**Capital:** Skopje**Polity:** Parliamentary democracy**Population:** 2,100,000**GDP per capita (PPP):** \$6,700

NGO SUSTAINABILITY: 3.6

Of the 5,500 NGOs registered in Macedonia, approximately 5% are thought to be active. Despite the continuing economic difficulties and political turmoil of the past year, civil society expanded its influence and assumed a more confident role in Macedonian society. The NGO sector is increasingly making positive contributions to the development of democracy and civil society, and shaping the public agenda and legislative process. Over the past year, civil society has improved significantly in the areas of organizational capacity, advocacy, service provision, and infrastructure, while financial viability remains the biggest challenge.

This year, efforts to improve the overall NGO legal and fiscal environment continued. Draft laws to address the legislative obstacles to NGO development were prepared, and although adoption of these laws has been delayed due to other government legislative priorities, the

reforms are expected to move forward in early 2005.



NGOs have also expanded their constituencies and increased their memberships. Over thirty NGOs have undergone strategic planning and a few organizations now have strong governance and well developed Boards of Directors. While only a few NGOs have advanced organizational capacity, they serve as models for other organizations. The majority of NGOs still rely predominately on volunteers for staffing, as only a few

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organizations have a full-time, professional staff.

The economic situation continues to make it difficult for NGOs to increase the small amount of local support they receive. Poverty, high unemployment, and the lack of public awareness and tax incentives are all barriers to NGOs achieving financial sustainability. Research data from the Institute for Sustainable Communities (ISC) reports that up to 75% of all NGO income is provided by international donors.

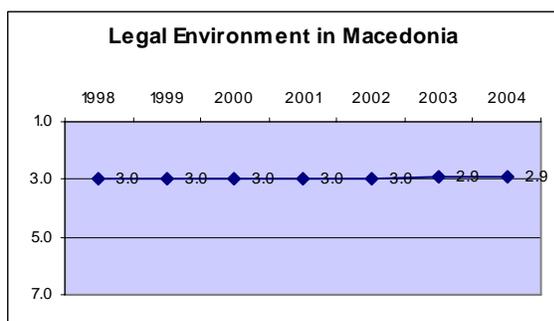
NGOs have led a number of successful policy advocacy initiatives. The NGO community has also made significant advances in building networks and

coalitions. One example is the Citizen Platform, which is a coalition of 35 of the most active organizations and foundations in Macedonia. The coalition is working to develop a strategy for advancing the sector and addressing sector-wide obstacles. New resource centers and intermediary support organizations have also been established within the past year.

An annual survey commissioned by USAID reports that 48.7% of the population trusts NGOs, and 48% feel that NGOs are effective in solving the country's problems, placing them ahead of the parliament, the executive, and other institutions.

LEGAL ENVIRONMENT: 2.9

Over the past year, amendments to the Law on Citizen Associations and Foundations were drafted by a commission made up of representatives from three ministries, NGOs, and independent experts. The changes introduced include the concept of "Public Benefit Organizations" and the ability for legal entities and foreign citizens to establish associations or foundations in Macedonia. Three NGO networks promoted public discussion on the amendments, eliciting comments from the broader NGO community about the proposed amendments.



The registration process is still easy and routine, without major difficulties, although insufficient judicial training on NGO registration remains a problem. The number of lawyers trained to provide NGO-related services has increased, although in many towns outside of the capital, lawyers are only able to assist with registration, forcing organizations to go to the capital for more complex issues. Few NGO legal services are available in local languages other than Macedonian.

Macedonia's tax code has the fewest incentives for charitable donations from individuals or corporations of any other country in the region. The Ministry of Finance, with technical support from ICNL, has incorporated new tax exemptions and incentives for corporate philanthropy into the draft law on Corporate Profit Tax. The law is pending with the government. In addition, the government has created a working group to consider the introduction of a one-percent payroll tax deduction in Macedonia.

The number of NGOs earning an income by providing goods and services has increased over the past year, even though the current law requires NGOs to create separate limited liability corporations, which are taxed like for-profit businesses. Pending amendments to the Law on Citizen Associations and Foundations will soon remedy the situation by providing tax benefits and allowing

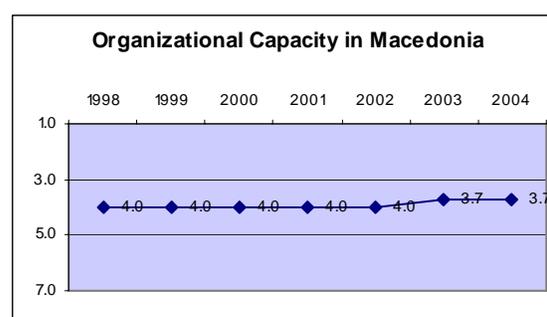
organizations to conduct economic activities without creating separate organizations. Though important legislative initiatives to improve the legal environment were ready to be adopted this year, priority was given to a package of laws necessary for the continued implementation of the Framework Agreement. These amendments are expected to be considered in 2005.

ORGANIZATIONAL CAPACITY: 3.7

Improvements in the Organizational Capacity dimension this year include successful efforts by NGOs to expand their constituencies and increase their membership. NGOs have implemented numerous campaigns to address important issues and needs. Twelve NGO Support Centers around the country now serve as hubs for organization and coordination, not just for NGOs but citizens as well. NGOs have attracted widespread public support for their initiatives; in one example, NGOs organized a campaign to protest the Telecom's increased service rates. NGOs and local governments are cooperating to address local issues, and in Kratovo, NGOs are working together with the local government to promote their tourist industry.

USAID's Democracy Network Program, the Open Society Institute's NGO Support Centers, and the Macedonian Center for International Cooperation (MCIC) have all offered practical seminars and technical assistance, which has resulted in thirty to forty NGOs engaging in strategic planning over the past year. While the number of NGOs participating in strategic planning continues to grow, the numbers of organizations that actually develop and follow through with their strategies are few.

NGOs in Macedonia still have problems with internal organizational management. The majority of NGOs are grassroots organizations that do not have well defined structures or divisions of responsibilities. The concept of a Board of Directors is new for many organizations and not applied with any frequency, with many NGOs questioning how a Board will make them more effective. Some of the stronger, well-developed NGOs do have functional Boards, even though the registration process only requires that an NGO have an Assembly. An increased number of NGOs have developed policies and procedures for internal operations, but these are only applied sporadically.



As mentioned, the majority of NGOs still rely predominately on a volunteer staff, with only a few organizations employing full-time professionals. NGOs have improved their volunteer recruitment significantly over the past year, although legal barriers to

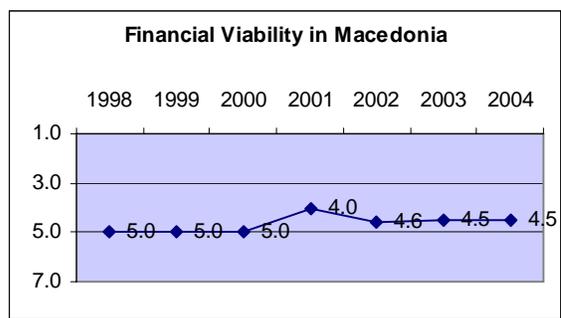
volunteerism remain. The majority of NGOs have the basic technical resources to run a modern professional office, and the NGO sector in general is better equipped

than some public institutions or local government offices. A recent study reports that while only 4% of citizens have internet access, 6% of NGOs have regular access.

FINANCIAL VIABILITY: 4.5

The economic situation in Macedonia prevents NGOs from increasing the small amount of local support they receive. Poverty, high rates of unemployment, and lack of public awareness all stand in the way of organizations generating financial or in-kind support from their constituencies and local communities. The business sector remains generally unaware of civil society, and while corporate philanthropy has increased this year, the source is primarily foreign and joint-venture companies, not domestic corporations. The current law does not provide incentives for businesses to support NGOs, although reforms to the Law on Corporate Profit Tax have been drafted and are before the Parliament. Despite the lack of tax incentives, several NGOs, primarily those working with physically disabled citizens, are practicing social entrepreneurship.

NGOs have not been able to diversify their funding and still rely primarily on international grant programs for their funding. Recent data from the Civil Society Index of Civicus (CSI), implemented in Macedonia by MCIC, shows that between 75% and 90% of NGO income is from domestic and foreign foundations and donors.



In addition to the barriers mentioned, NGO fundraising capacity is underdeveloped, a direct result of weak internal structures. Generally, NGOs still have little internal financial management. Many organizations lack the means to cover their overhead costs, as donors are not willing to pay for them, and NGOs have not yet begun to manage indirect rate mechanisms. Many organizations cannot even compete for projects under the European Financial Support Programs (CARDS) because they lack sufficient financial skills and experience managing large amounts of money. The biggest obstacle to such funding is that NGOs do not obtain audits of their financial statements as required by the EU. In a promising sign, this year ten organizations published their annual reports together in the major daily newspapers in an effort to promote transparency and financial accountability in the NGO sector.

NGOs do not generally have well developed fundraising strategies. Instead, organizations generally rely on personal contacts and ad hoc financial support from individuals and businesses. Some NGOs

have been successful in organizing fundraising events. The SOS KinderHoff Children's Village sells postcards every year to raise money for children, while an international Women's association holds a successful fundraiser in the capital every December and donates the proceeds to those in need.

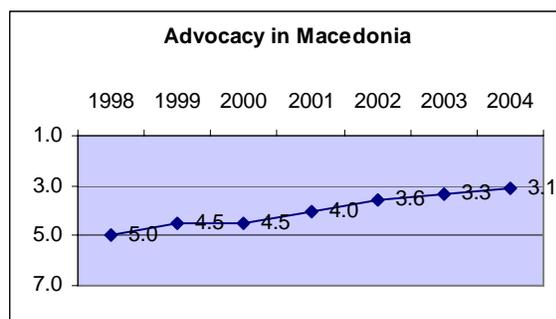
NGOs have limited opportunities for government contracting, with only a few Ministries, such as the Agency for Youth and Sport, the Sector for EU Integration, and the Ministry of the Environment, providing contracts. The Ministry of Finance distributes \$300,000 in grants every year, and while NGOs are able to apply, the

criteria and process for awarding the funds is not clear or transparent. Municipal governments like Kumanovo, Kocani, Prileo, and Kisela Voda in Skopje have dedicated a portion of their budgets for NGO contracts.

More often, NGOs earn an income by providing goods and services, such as training programs, equipment, and internet services, for full or reduced prices. The Association of Beekeepers even created a revolving fund based on an equipment donation, using the proceeds to purchase new equipment for its existing members and to attract new members.

ADVOCACY: 3.1

Once again, NGOs have increased their ability to shape the public opinion and agenda, and to have a more direct influence on the legislative process. Information sharing between civil society and government officials has also increased and the government is planning to open an NGO Liaison Office supported by the European Agency for Reconstruction (EAR) and FOSIM.



Government officials and NGOs at the local level have expressed a greater willingness to cooperate with each other than those at the

national level. Community initiatives in Delcevo, Kumanovo, and Veles were all implemented by partnerships between local organizations and government officials. NGO support centers around Macedonia have developed supportive and open working relationships with local government officials. Although these types of cooperative efforts have increased, they are often in word only, with the enactment of concrete projects and joint activities being rare.

NGO advocacy groups were successful with a number of policy initiatives this year. NGO Transparency Macedonia brought together several different stakeholders in drafting a new Law on Access to Information, which the NGO community expects Parliament to adopt this year. SEGA, a coalition of 29 youth organizations, worked closely with the State Agency for Youth and Sport to develop a National Youth Strategy, while FOSIM facilitated the process for preparing a National Strategy for Education. In the "Say

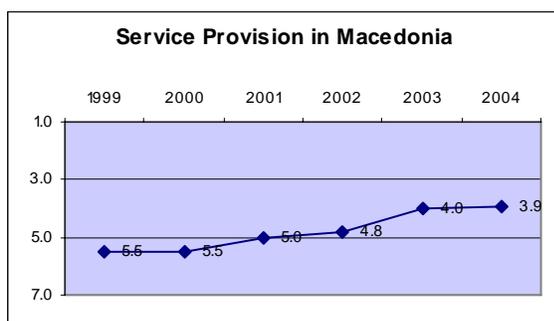
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Macedonia” campaign, a coalition of NGOs organized an effort to protect Macedonia’s Constitutional name with the European Council. Polio Plus organized the “Nobody’s Perfect” campaign to promote the acceptance and inclusion of those with physical disabilities. Women’s groups have initiated changes to the Criminal Code to include provisions that make domestic violence a crime. The Union of Women’s Associations of Macedonia (SOZM) joined with the Macedonian Women’s Lobby to ensure that the laws require that women

make up 30% of the parties’ lists for the municipal elections. Parliamentary committees now include more NGO input in their deliberation on legislation.

As authority and power is distributed to the local governments, NGOs are likely to have more opportunities to become involved in NGO advocacy and other collaborative efforts. The Association of Units of Self-Government in Macedonia worked closely with the Parliament to draft and amend laws that will decentralize government power.

SERVICE PROVISION: 3.9



NGOs have initiated a number of successful new initiatives to improve delivery of services to their constituents. HOPS and HERA, organizations working on HIV/AIDS issues, are expanding their basic care and counseling services for those who are HIV/AIDS positive or in high risk groups. GAMA, from Berovo, provides youth with vocational training and job placement services, while Nijazi from Resen offers alternative tour packages in the Lake Prespa region.

As mentioned, decentralization of government power is likely to result in greater contracting opportunities at the local level. In addition, amendments to the Law

on Social Protection will provide greater opportunity for organizations to contract with the central government to provide social and community services. The Ministry of Education has already started licensing NGOs to train teachers. These new contracting opportunities ought to be viable funding options for the NGO community in the years to come.

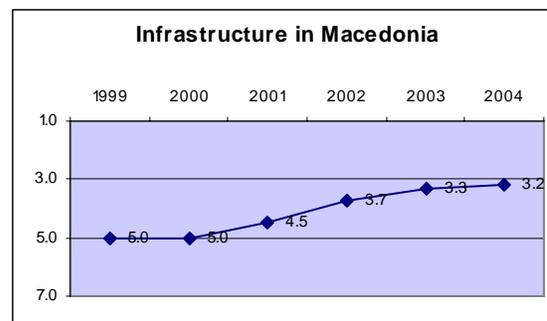
NGO services generally reflect the needs and priorities of their constituents and communities, although mechanisms to assess, research, and gather information on clients is still lacking. Generally, NGOs still lack the entrepreneurial skills or quality control mechanisms necessary to diversify their markets and expand their client-bases to include other NGOs, academic institutions, the government, and the business community. Similarly, most organizations only charge symbolic fees for the services they provide, if they charge fees at all. The general public still has the perception that NGO services ought to be free of charge, and NGOs do little to change this notion.

INFRASTRUCTURE: 3.2

Over the past year, FOSM and EAR funded eight new NGO support centers that will serve the rural and underdeveloped regions of Macedonia. The NGO Information Center was established in the capital to provide public relations, media and promotional support for NGO activities. The Center for Institutional Development (CIRA), funded by the USAID Democracy Network Program and implemented by the ISC, also opened its doors to provide capacity building programs and support for NGOs and communities. Municipalities, with assistance from the USAID funded Local Governance Reform Project, opened 17 new Citizen Information Centers, responsible for providing citizens with information about the community and the services it provides. Despite their good work, all of the ISOs mentioned are dependent on foreign financial support. NGO support centers provide limited grant support for organizations, although they do little more than re-grant foreign funds. No grant money is raised domestically and community foundations do not exist.

Coalition building has improved, and responsibilities are being delegated among coalition partners with greater efficiency. In addition to the previously discussed Citizen Platform of Macedonia and “Together for Transparency,” NGOs have formed the coalition MOST, which has been successful in working to promote accountability of government institutions and transparency in the electoral process. Another example is

“NGOs for Free and Fair Trials,” which was established to monitor court trials.



Programs throughout Macedonia make high quality training programs readily available. Training resources are also available to NGOs in print and on internet sites. More advanced materials that cover topics such as board development, the use of volunteers, and financial management are in short supply.

Intersectoral partnerships have become more visible, and all parties are more aware that cooperation is both needed and beneficial. Generally, these partnerships exist only on paper, although there have been successes at the local level. One example in Zrnovci is a partnership between NGOs and local officials to create a communal composting facility to handle the problem of waste disposal in the community. Another example is MCIC, which works with daily newspapers to publish an insert that addresses inter-ethnic issues. The National Multi-Sectoral Commission for HIV/AIDS is one final example of an inter-sectoral partnership.

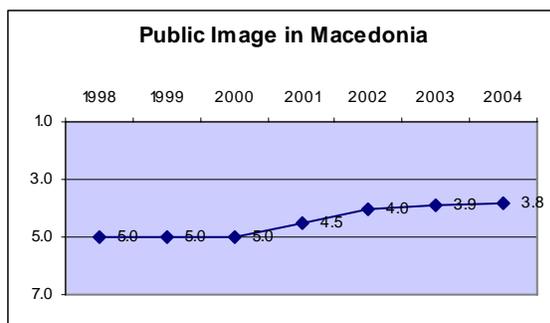
PUBLIC IMAGE: 3.8

NGOs have improved their public image slightly over the last year. An annual survey commissioned by USAID found that the

public trust of NGOs remains around 48.7%, placing them ahead of the executive and Parliament. The media has provided slightly

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more positive coverage of NGO activities, although NGOs are often presented as tied to political parties or serving personal interests. Local media portrays NGOs more positively than the national media, and print media covers the NGO sector more than television. One development is the NGO Media Initiative, in which NGOs have an opportunity to present their activities during a weekly show on national television.



Many NGOs are still paying market price for media services, such as public announcements and advertising, though some local media provide regular coverage for free. The NGO Fair in 2003 was promoted by 30 media sources, free of charge.

The general public's perception of NGOs is strongly influenced by the national media.

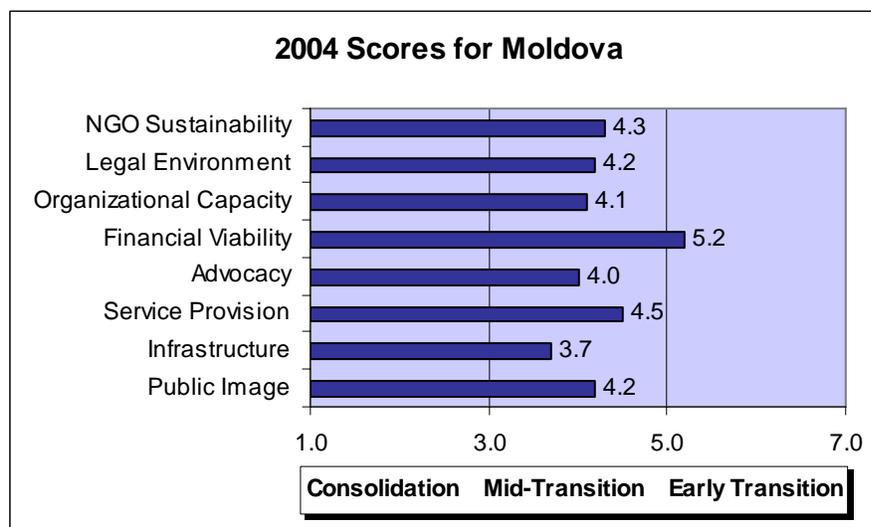
Reporters seldom take the time to learn about NGOs and their issues, and base their stories on their audience's interests and not

necessarily importance. NGOs have yet to engage actively the media or package information to make it easier for reporters to understand and cover NGO issues. NGOs have to refine their public relations skills and capacity. Some advocacy campaigns were not well organized and actually damaged relations with journalists and the general public.

Government institutions have made progress in increasing awareness about the benefits of NGO cooperation and the role of NGOs. Encouragement by the EU and international community for greater civil society participation has increased cooperation between the government and NGOs.

The larger, more professional NGOs receive better media coverage than others, due in part to better public relations skills, internal mechanisms for media communication, and relationships with journalists. The NGO Fair last year had official media sponsors to cover the entire event. The "Together Transparency" publication of annual reports was important in increasing public opinion and promoting transparency among the NGO community. The NGO Code of Conduct, published by the Citizen Platform of Macedonia, also contributed to the increase in public knowledge and awareness of the NGO sector.

MOLDOVA



Capital: Chisinau

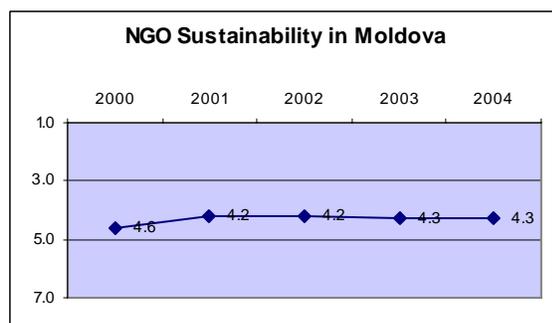
Polity: Parliamentary democracy

Population: 4,500,000

GDP per capita (PPP): \$1,800

NGO SUSTAINABILITY: 4.3

The Ministry of Justice reports that in 2004, 3156 national and international NGOs were registered in Moldova, 35% of which worked at the local level. As in previous years, only half of the NGOs registered are active, the majority of which are located in Chisinau, Balti, and other large cities where they have access to information, training, consulting and donor resources. Local organizations have been most successful in areas such as youth development, public and media relations, healthcare, and human rights.



The greatest obstacle for the NGO sector remains financial viability, as most organizations remain heavily dependent on international donors. The NGO sector is fairly diverse, and active in almost all segments of society. Unfortunately, the sector is still considered to be untrustworthy, fragmented, and lacking collective responsibility. Therefore, the sector has a great deal of work ahead in order to improve its public image and credibility. Organizations must promote the tangible impacts of their programs, and involve more beneficiaries and supporters in their work. NGOs must also expand their support bases by increasing membership and volunteerism. In order to gain the trust of the general public, NGOs ought to increase their transparency and be more aware of potential conflicts of interest. Organizations in general lack media savvy and must become more adept in public relations and discussing sensitive issues publicly. Similarly, organizations must begin engaging members of the media so as to

increase their understanding of the sector and garner their support for fundraising and advocacy initiatives. Finally, NGOs must

involve other sectors in their work by promoting partnerships.

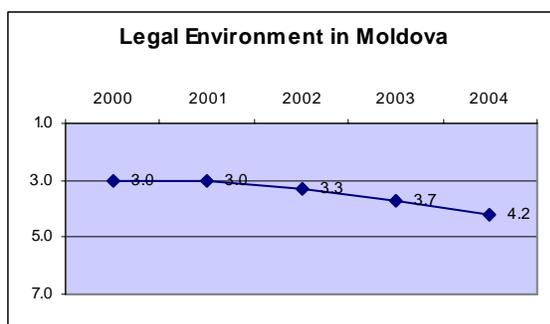
LEGAL ENVIRONMENT: 4.2

The NGO legal framework includes the Law on Public Associations (1996), the Law on Foundations (1999), the Law on Philanthropy and Sponsorship (2002), and the Civil Code (2003). On paper, these laws allow NGOs to operate freely. Due to a number of recent inconsistencies in implementation, NGOs have encountered restrictions on their ability to operate freely. These restrictions are imposed based on factors such as the organization’s affiliations and type and geographic area of its activities. NGOs may be harassed by means of unscheduled inspections from tax authorities or police in retaliation for engaging in political activities. As a result, NGOs avoid public debate on controversial issues and do not expressing criticisms of Government policy, often censoring themselves to avoid undue attention. The government in the Gagauzia region closed the bank accounts of ten local NGOs for their involvement in politics and only two of the ten have been re-opened.

control all financial and technical assistance provided by foreign donors to Moldovan NGOs. In addition, the impact of the Law on Philanthropy and Sponsorship passed in 2002 has been limited. The legal framework lacks proper mechanisms and incentives that allow for and encourage NGOs to engage in economic activities to earn an income. Finally, the government has increased administrative interference and political harassment of the sector, with the result of freezing many NGO activities.

The procedures for creating and registering an NGO are clear and the same for both domestic and international NGOs. However, special provisions in the Civil Code make registration of “public institutions” more difficult by requiring that a notary public authenticate all registration documents. In Southern Moldova, the government created a new barrier this year by introducing regulations that prohibit the registration of NGOs using the founder’s home address.

The only tax benefit left for NGOs is the exemption from paying income tax; otherwise, NGOs pay taxes at the same rate as for-profit corporations. The Public Benefit Certificate (PBC) is the official document that gives an organization public benefit status and provides total or partial exemptions from certain taxes and state fees. However, the PBC is not effective, as it has become more difficult to receive, and the regulations are vague and subject to various interpretations. NGOs are eligible for some



The Legal Environment dimension slipped .5 points from 3.7 last year to a 4.2 this year. Many factors contributed to the decrease. Recently, public authorities have tried to

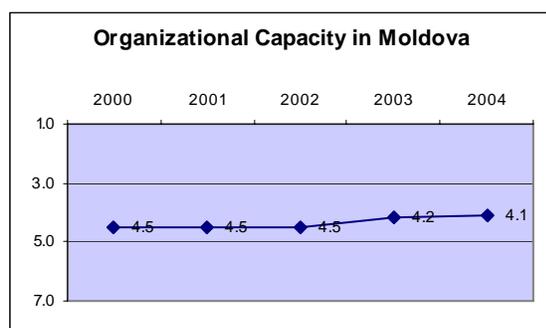
tax exemptions on grants, but re-granting by a foundation is subject to taxation.

The number of local attorneys with a working knowledge of NGO law is limited, and those who do, work primarily for legal NGOs based out of Chisinau. Most legal services are provided by the Center for Non-Commercial Law, an off-shoot of Contact, a national assistance and information center for NGOs in Moldova. The community of local NGOs understands the need to build

coalitions and lobby for legal reforms to create a more enabling NGO legal environment.

The Law on Public Associations permits NGOs to engage in commercial and economic activities, although there is not a sufficient mechanism that encourages NGOs to earn an income from the provision of goods and services.

ORGANIZATIONAL CAPACITY: 4.1



In 2004, Moldovan NGOs continued to build their organizational capacities. Most NGOs, however, still rely heavily on international donor support and, as a result, organize their activities around satisfying donor interests. However, donors have recently become more open to input from local NGOs in establishing grant program objectives and priorities.

NGOs are increasingly aware that they need to improve communication with their

constituencies, especially at the local level. Most organizations have mission statements, but few have the knowledge or capacity to engage in any form of long-term strategic planning. The Law on Public Associations leaves organizational structure decisions to the NGOs. As a result, most NGOs do not clearly delineate the roles and responsibilities of their boards of directors and their management. Typically, organizations are staffed by unpaid volunteers. Paid staff generally serves on a contractual basis, subject to an organization's access to grant funding.

All of the major national organizations have established offices with basic office equipment and some permanent staff, although the modernization of their office equipment depends on the availability of grant money.

FINANCIAL VIABILITY: 5.2

Moldova is one of the poorest countries in Europe, with a per capita GDP of only \$542, which constrains NGOs as well as most

individuals and businesses. NGOs continue to depend on international donors for most of their resources, as service fees, state

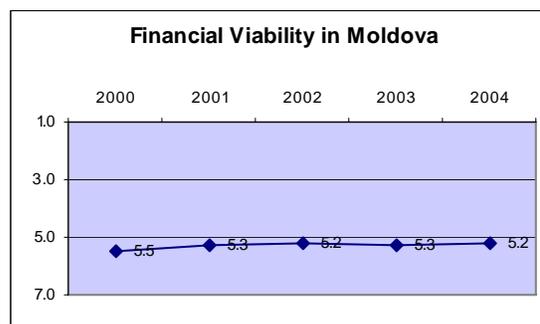
2004 NGO SUSTAINABILITY INDEX

allowances, and income from economic activity remain very limited. The lack of a tradition of charitable giving or social responsibility and the country's slow economic growth, both contribute to the limited levels of local philanthropy. Local governments are weak and generally do not have sufficient discretionary resources to provide financial support for NGO initiatives.

In most cases, the major national and regional organizations, roughly 10 percent of all public associations publish annual reports that include financial statements. The rest of the sector has neither the funds nor the capacity to undertake the production and publication of annual reports. Due primarily to the high costs, few organizations undergo independent financial audits. NGOs generally prepare their financial reports according to requirements for commercial organizations, as financial accounting and reporting standards for the NGO sector have yet to be established. Organizations such as the Association of Professional Accountants and Auditors are working on developing such standards, but they are not complete.

While few NGOs are able to diversify their funding, many have been able to diversify their range of services and activities. Fundraising at the community level still requires substantial efforts, without comparable returns. Some NGOs, primarily those in rural communities, have had some important successes in attracting local funding for social initiatives, raising funds from local businesses, citizens and local governments. A number of service providers have been able to cover part of

their operational costs. One example is the Association of Agricultural Producers, which covers 45% of its operational expenses by charging members for services rendered. Many other organizations seek funding from foreign donors by writing project proposals for grants.



At the end of 2004, approximately 14% of NGOs had contracts for services and projects with government entities. As one example, the Ministry of Ecology, Construction and Territory Development of Moldova allocates \$15,380 every year for grants to NGOs to implement environmental protection projects. The government has also created a National Ecological Fund that allocates slightly more than \$1 million in grants to NGOs. Another example is the National Extension Agency of Moldova, an NGO that bids out approximately \$500,000 in annual contracts to regional NGOs for agricultural extension services for the government. Despite these successes, the central and local governments both lack clear policies for contracting with NGOs. Further development of contractual relationships and opportunities is limited by the lack of funding and trust, and the government's underestimation of NGO capabilities.

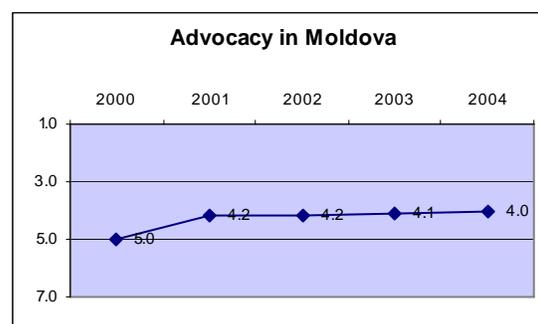
ADVOCACY: 4.0

NGOs are beginning to understand the importance of building alliances and coalitions to promote their initiatives, ideas, and image, as well as influence government decisions. Most NGO lobbying efforts, however, are reactive to events and negative government policies, rather than proactive measures to ensure positive and constructive policy making. The Government's lack of transparency in decision-making significantly reduces the NGO sector's ability to influence government policy and pending legislation. As it stands, NGOs have had limited success in lobbying and there are few examples of issue-based advocacy groups.

Most social service NGOs have formed coalitions and alliances such as the Alliance for Child and Family Protection, the Alliance of NGOs for HIV/AIDS Prevention, the Forum of Women's NGOs in Moldova, and the National Youth Council. Other NGOs have established the Civic Coalition for Free and Fair Elections to support and monitor the upcoming 2005 parliamentary elections, monitor election media coverage, provide nonpartisan civic education, and promote a get out the vote campaign. Information about the coalition, including its charter, can be found at <http://www.e-democracy.md/en/ngo/civiccoalition/>.

NGOs and both central and local government bodies have developed several cooperative efforts over the past year. Youth for the Right to Live, a well-known NGO working in HIV/AIDS prevention, has partnered with the Ministry of Health to develop and monitor the National Strategy on HIV/AIDS prevention. The European Youth Exchange – Moldova participated with the Youth and Sports Department and other stakeholders in developing the

National Strategy for Youth. The World Bank selected the Forum of Women's NGOs to facilitate the participatory component in the development of the Economic Growth and Poverty Reduction Strategy Paper for the Government of Moldova. Biotica, an ecological society and leading environmental protection organization, is cooperating with the Ministry of Ecology, Construction, and Territory Development of Moldova, with additional support from the Global Environment Facility and World Bank, on the Biodiversity Conservation in the Lower Dniester Delta Ecosystem project. The National Center for Child Abuse Prevention partnered with the Chisinau Municipal Department for Child Rights protection and UNICEF to open Amicul, the Center of Psycho-Social Assistance for Children and Families.



The majority of projects in which the NGO sector and government work together are initiated and funded by international donors, and success is most likely when they work together to engage foreign donors to solve societal problems. Without donor support, NGOs have greater difficulty reaching and influencing public authorities.

The NGO sector has had some success over the past year in opposing legislative proposals. One example is the Moldovan Media Coalition, an informal group of media NGOs, which was successful in

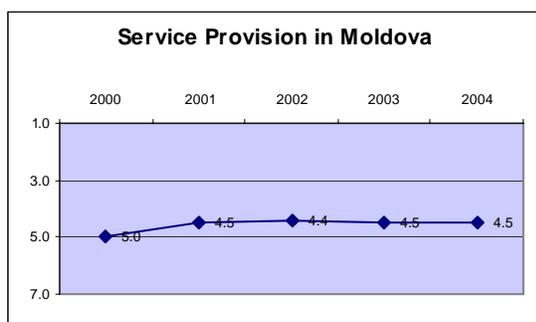
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stopping amendments that would have required all newspapers to register, like NGOs, with the Ministry of Justice. In another example, the Union of Agricultural Producers Associations collaborated with

international donors to lobby against government proposals to consolidate agricultural land through administrative measures rather than the free-market.

SERVICE PROVISION: 4.5

Overall, NGOs offer a wide variety of services in many different fields, including environmental protection, education, human rights, healthcare, economic development, and others. While NGO services respond to community needs, they are generally identified by foreign donors or NGOs in an unsystematic manner. NGOs that specialize in a field are able to focus their work on a specific group of beneficiaries.



NGOs recognize the need to charge fees for services and products such as publications and workshops, but even when permitted by law, NGOs are seldom able to recover their costs. A small number of NGOs, including the Center for Non-Commercial Law, Association of Independent Press, the

UniAgro Project, and the Association of Professional Accountants and Auditors, do offer fee-based services. Otherwise, the ability of most NGOs to receive payment for their services is limited by the small number of clients that are able to pay.

Despite the fact that the government offers little support and recognition of NGO services, some NGO social programs and policy development activities do receive government funding. The Poverty Reduction Strategy Paper published by the Government and World Bank involved many NGOs in the discussion of a variety of issues. At the 2003, 4th National Forum of NGOs, NGO representatives from around the country discussed, among other things, government relations. One major issue was the government's lack of political will to cooperate or even trust the NGO sector. They also discussed the government's attempts to form "GONGOs," (Government Oriented NGOs) which enjoy state facilities, are led by government officials, and whose role seems in large part to be to convince the international community that the government's policies support civil society.

INFRASTRUCTURE: 3.7

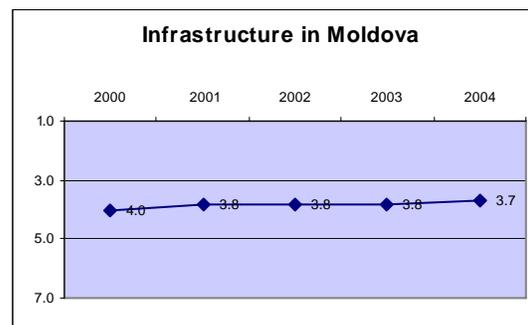
NGOs have access to a large network of NGO resource centers that offer a broad range of training, information, consulting, and technical assistance services. The

Contact Center has well established resource centers that assist NGOs from various fields within the sector. CREDO, another network of resource centers, provides training and

consulting services to strengthen the institutional and organizational capacities of human rights NGOs in Moldova. The Independent Journalism Center (IJC) provides programs, training, information and technical resources, as well as specialized services targeted at all media organizations, professional journalists, journalism lecturers, and students. Other resource centers work with NGOs in areas such as the environment, youth services, and education.

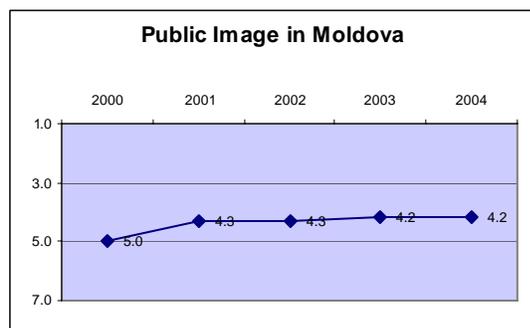
Moldova still does not have any community foundations or local funding institutions, although a group of local NGOs has started to re-grant funds from international donors. Contact has a grant program for community development, and the National Center for Child Abuse Prevention uses its grant program to encourage partnerships between NGOs and local governments. The Mostenitorii, a youth organization, provides

grants for developing entrepreneurial and vocational skills among the country's youth.



Most NGOs have the capacity and desire to collaborate with local institutions including the public administrators, mass media, and the church. Cooperation with the private sector, however, is limited by imperfect laws, absence of a tradition of cooperation, insufficient knowledge about NGOs and how to work with them, and lack of communication and finances.

PUBLIC IMAGE: 4.2



Generally, NGOs enjoy positive media coverage at the local and national level and the independent media provides a positive assessment of the role of the NGO sector. However, the media does not recognize the difference between public service announcements and commercial advertising, charging NGOs full price. Since broadcast

media is costly, NGOs have a difficult time promoting themselves and their work.

Public perception and understanding of NGOs has continued to progress slowly and many citizens still do not know what an NGO does. In November 2004, the Barometer of Public Opinion, a poll conducted by Imas, Inc., reported that 35% of the population has a significant level of trust in NGOs, while only 28% has a significant level of trust in political parties. Fifty-five percent of the public has significant trust in the media, and 47% have significant trust in the government. NGOs still lack the capacity and ability to engage in public debate with citizens and organize public awareness campaigns. Although NGOs generally cooperate with the media, only elite NGOs can afford a public

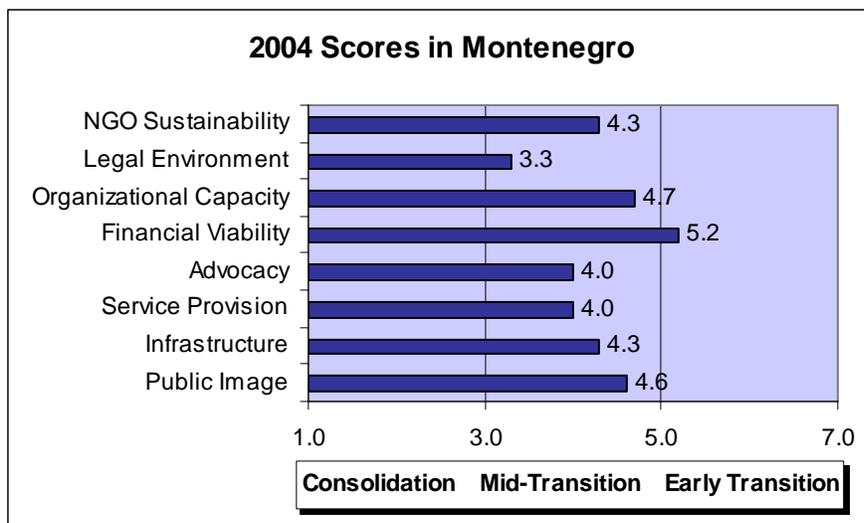
relations staff or advice, and few even have a clearly defined public relations strategy. NGOs lack both the resources and skills necessary to implement a successful public relations plan.

One major issue is NGOs' inability to protect their intellectual property. According to the Center for Non-Commercial Law, the legal system provides a mechanism for copyright protection, but NGOs are still not able to protect their materials from being used for commercial purposes without their permission. Another issue with transparency is that many NGOs, especially smaller ones, have a difficult time drafting annual reports, contributing to an

appearance that they lack transparency. NGOs lack the writing and analytical skills, as well as the funds, to put together their reports, and as mentioned above, only the well-established organizations are able to produce and publish annual reports.

A Code of Ethics for NGOs has been a topic for the past two National NGO Forums. In 2002, NGOs at the 3rd Forum drafted a Code of Ethics that individual NGOs could adopt on their own volition. In 2003, participants of the 4th National NGO Forum pled for the NGO sector to amend and promote the Code of Ethics for the entire sector.

MONTENEGRO



Capital: Podgorica

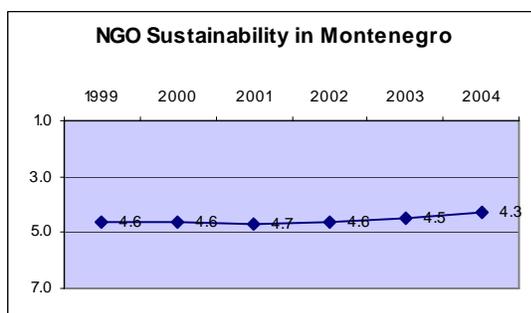
Polity:
Parliamentary
democracy

Population:
867,000

**GDP per capita
(PPP):** \$2,200

NGO SUSTAINABILITY: 4.3

Montenegro's overall sustainability score has improved over last year's score, with improvements in the Advocacy, Infrastructure, and Public Image dimensions. Specifically, a large number of long term advocacy projects initiated by NGOs in 2002 and 2003 began to realize results in 2004. This has had several effects, including improved inter-sectoral partnerships, an increase in the number of NGOs skilled in using the media to communicate their goals effectively to the public, and a growing awareness among citizens of the work of NGOs.



The 1999 Montenegrin NGO Law continues to provide simple registration procedures and allows NGOs to operate free of state control. However, a lack of any clear operating, financial, or control guidelines in the legislation continues to allow a large number of businesses and cafés to register as NGOs, harming the overall reputation of the NGO sector. A number of key NGOs participating in large donor funded programs, such as the USAID/ORT Montenegro Advocacy Program, have developed clear organizational, financial management and governance structures. This development, however, is in large part confined to NGOs with sustained donor funding. At least five strong NGOs offer training resources, expertise, and technical assistance to other NGOs. Two of these providers are even located outside of the capital. Other local NGOs offer a wide range of training products, meeting and even exceeding the demands from the local markets. At least

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two of these training organizations have started to charge fees for their services, although there is not a significant market that will provide any long-term sustainable funding.

Without long-term support at the local level, the NGO sector continues to be predominately donor driven. Ironically, the larger, more well-established NGOs based in the capital, which have always enjoyed greater access to donor resources, are now experiencing the greatest challenges to their financial sustainability. Local NGO service providers from smaller

communities have already undergone the process of identifying alternative funding sources, contributing to their long-term sustainability.

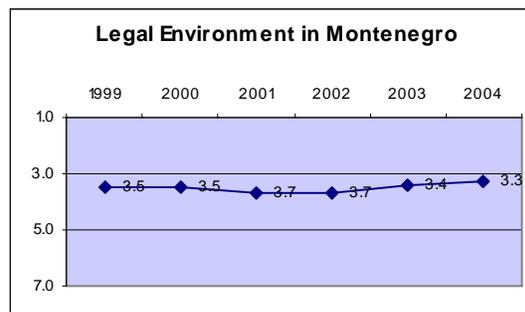
In 2004, the Federal Government guaranteed more than €800,000 in grants to fund local NGOs through the Parliament Grants Commission. Although the authorities did not manage the grant distribution well, the funding was a welcomed improvement over the past two years, in which the government blocked NGOs from accessing any state funds.

LEGAL ENVIRONMENT: 3.3

The 1999 Montenegrin NGO Law continues to provide simple registration procedures and allows NGOs to operate free of state control and without the threat of dissolution for arbitrary or political reasons. The current legal framework still does not provide clear guidelines for NGO operations, financial transparency, or governance. While the law provides for a very liberal and informal arena in which to operate, it also allows for abuse. Hundreds of businesses and cafés have registered and operate as NGOs, detracting from the benefit and good work of the genuine NGOs.

Montenegro's NGO sector still has a shortage of attorneys that specialize in NGO law and are capable of providing legal advice to NGOs. The Center for the Development of NGOs (CRNVO), along with USAID/ORT funded resource centers in Kotor and Kolasin, are three organizations that offer high quality advice on registration and other legal issues to NGOs. As they are located outside the

capital, the resource centers in Kotor and Kolasin offer organizations from the regions greater access to much needed services. Many NGOs that do not have access to adequate legal services compensate by becoming experts in NGO law.

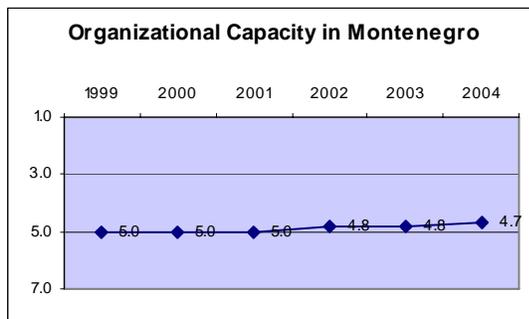


Under the current legal framework, NGOs are permitted to earn an income by providing goods and services and even receive a tax exemption for profits of less than €4,000. According to the new VAT Law introduced in 2003, NGOs are not exempt from paying VAT for goods and services procured under grants. The Montenegrin tax policy has shifted gradually from taxation of personal

income to taxation of consumption. VAT can be rebated if the NGO is not treated as the final user. The Procurement Law allow for all legal entities, including NGOs, to compete for government

contracts and procurement at both the local and national level.

ORGANIZATIONAL CAPACITY: 4.7



Although it remains rare for NGOs to build constituencies for their initiatives, a key group of organizations has learned the importance of this skill. NGOs still do not often have well-defined missions, visions, goals or objectives, and those that have engaged in strategic planning have usually done so as a requisite for donor funding. Once an organization has engaged in strategic planning, it generally realizes its value. Other NGOs have developed boards of directors, thanks in part to the ORT MAP program. It is still too early to know whether these organizations will truly take advantage of their new governing bodies, or discard them for the more common “assembly governance” structure.

Only a small number of NGOs have a permanent paid staff, while volunteerism is underdeveloped and dependent on specific project requirements. ADP-Zid, a youth development organization, has created its own volunteer program, while CDT and CEMI (election monitoring groups) have developed a network of community activists throughout the country that may be quickly mobilized for specific project needs.

Organizations with donor funding are those most likely to have access to modern office equipment such as updated computers and software, fax machines, and the internet. Two resource centers funded under the USAID Montenegro Advocacy Program provide NGOs with access to communication facilities, but the sustainability of these types of technical resources is questionable since most donors are not interested in funding non-project specific NGO development.

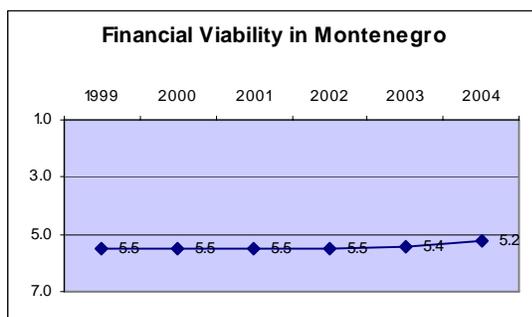
FINANCIAL VIABILITY: 5.2

NGOs continue to draw the majority of their financial support from international donors, though they are increasingly

gaining support from sources such as the Republican Grants Commission or local community grant commissions. The

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allocation of state grants to NGOs was poorly managed in 2003 and 2004. Although the influx of €800,000 in grants was a vast improvement, access to state funds was blocked, as it has been over the past two years.



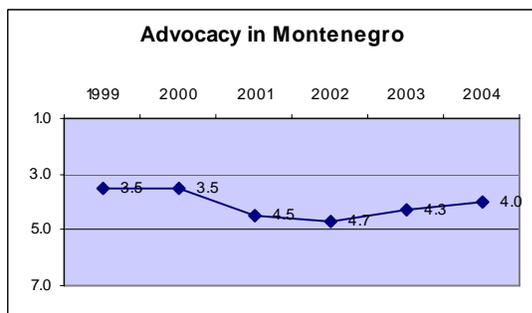
NGOs, the business sector, and the general public do not take advantage of the tax deductions offered for donations. Corporations are able to deduct up to 3% of their taxable income, while individuals may deduct 10%. One NGO has organized annual fundraisers to benefit HIV/AIDS patients, the main sponsor of which is Pro Monte, a mobile phone company that supported many disability organizations in 2004. This is the lone example in a field of untapped corporate philanthropy. As philanthropy is directly linked to the

strength of the economy and to a culture of giving, progress in this area may be slow to come.

A group of highly specialized NGOs has diversified its funding base, has grants from a wide variety of donors, and tends to have the most developed financial reporting and control systems in place. Other than these organizations, the majority of NGOs are small, lack human resources, and do not have the financial management capacity for handling donor funding. As the more developed organizations have greater financial accountability and are more established, donors generally prefer to grant funds to them.

A small group of NGOs has begun to charge fees for goods and services, including training seminars, translations, calendars, books, designs, and architectural services. Few organizations, however, have been successful in collecting membership fees. This is due in part to the cultural memory of obligatory association membership fees under the former Socialist models.

ADVOCACY: 4.0



In 2004, advocacy projects initiated in 2003 by NGOs operating under the USAID/ORT Montenegro Advocacy

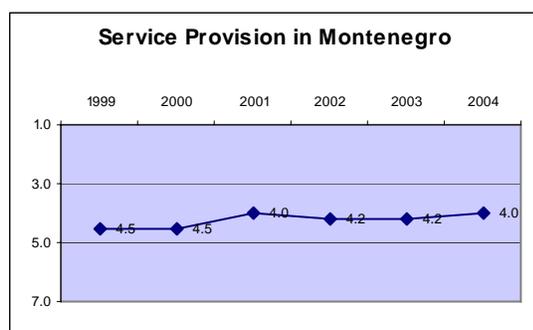
Program began to yield clear results. One example is an NGO that advocated for the adoption of two key political reform laws in 2003, collecting over 12,000 signatures for a petition to get the laws sent to Parliament. In 2004, the organization defended the proposals in Parliament, which ended up passing the bills. Women's rights organizations succeeded with their efforts to get 90% of their proposals into a new Law on Witness Protection, and were lauded for their

efforts by the Ministry of Justice. In 2003, an Albanian minority rights association's tireless efforts to convince the government to move language teacher training courses from Niksic to Podgoica, where the Tuzi Albanian community resides, were successful. All advocacy initiatives successfully completed in 2004 were backed by large scale public education campaigns.

The NGO sector improved its ability to build coalitions to address legal and popular reform issues. The Akcija NGO Network, funded in part by USAID, conducted large-scale consumer protection campaigns. The campaign's goal was to increase public awareness of consumer rights and expedite the passage of the Law on Consumer Protection. These efforts

resulted in a 14% increase of the number of consumer complaints. A coalition of environmental organizations and activists headed by Most, an environmental NGO, collected over 13,000 signatures from outraged citizens and forced the Parliament to reconsider its support of a hydro-electricity project that would have destroyed the famous Tara River Canyon. The coalition instead offered up a viable alternative that the legislature may consider in the future. Although the alternative has yet to be accepted, the coalition and its initiative is a good example of how the NGO sector has become adept at taking the pulse of the community and when necessary, responding with a large-scale advocacy effort on its behalf.

SERVICE PROVISION: 4.0



The NGO sector offers, at both the national and local levels, a diversified line of products and services that include health services, education, and environmental protection. Organizations at the local level provide the basic, under-funded social services, such as working with the disabled, elderly or youth. Stronger, more institutionally developed organizations offer more complex services

such as monitoring the government. Generally, the smaller, community-based organizations that target specific groups have a better defined constituency, while larger organizations that offer broad spectrum services, such as advocacy, have constituencies that are not as well defined.

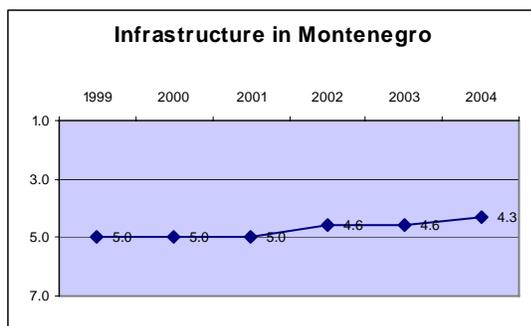
NGOs seldom recover the costs of providing services, although there are a few examples of NGOs charging fees for services. FONDAS, a community-based organization, charges fees for training and has even conducted market research to identify demand. Another NGO covers part of its overhead by providing graphic design services for a fee, although its market is small. NGOs provide services to other NGOs as well as to government bodies. Many government officials do not trust the NGO sector, but they are willing to include services such as training,

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graphic design, and media monitoring in the government budget. The government is less willing to pay for other services such as environmental protection efforts

(e.g., river clean-ups), social care, and health services, and limits its support to national and local grant programs.

INFRASTRUCTURE: 4.3



Montenegrin NGOs benefit from several ISOs and NGO resource centers, including CRNVO, MANS, FONDAS, the CEMI PR, and Expeditio and Natura, two Regional Advocacy Centers established by ORT. These centers offer training, educational and networking resources, legal assistance, project development assistance, and access to information resources like the internet and fax machines to NGOs. In 2004, the Regional Advocacy Centers network, which was launched in 2003, began offering training programs, support and advice on grantwriting, technical assistance, mobilization, and information sharing opportunities. Similarly, the USAID MAP

program offered training in advocacy, financial management, and monitoring. CEMI PR charges for-profit entities a fee for use of its facilities, but NGOs have free access. Although the range and quality of training services are good, they often exceed demand, as NGOs often do not have much interest in training.

Inter-sectoral relationships have improved as many of the larger, more developed NGOs at the national level are working directly with government officials on common initiatives. NGOs have formed partnerships to pursue consumer protection issues, a law on forensic science, a law on veterinarian medicine, and other technical areas that are not seen as threatening by the government. The NGO sector has also strengthened its networking capabilities in Montenegro. Positive examples include the Akcija NGO Network and the ecological campaign called “I want the Tara, not a Sinkhole.” Despite efforts, the NGO community continues to experience difficulties in getting members of the business community to commit to partnerships.

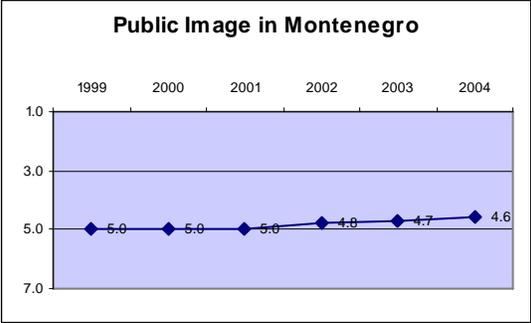
PUBLIC IMAGE: 4.6

The quantity and quality of media coverage of NGOs and their initiatives has improved dramatically. In instances when the media has lacked professionalism, NGOs have been able to compensate by engaging the media to effectively

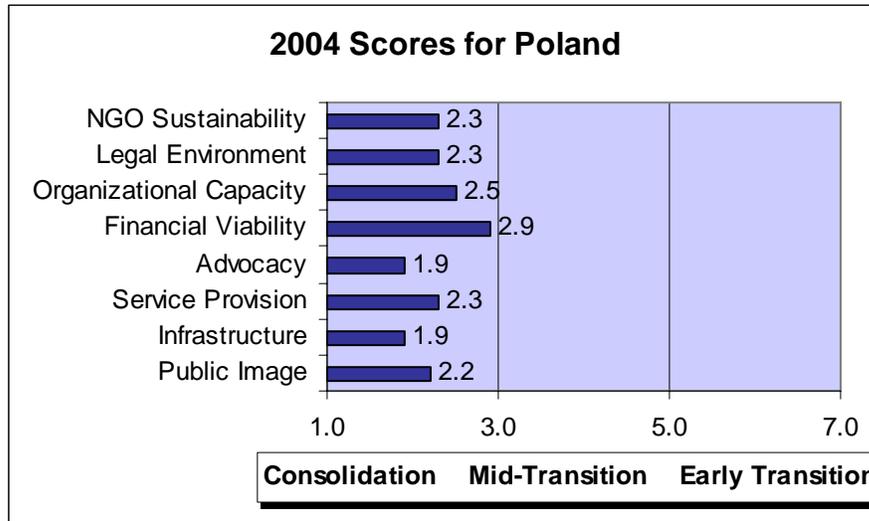
communicate their goals to the public. This year, more NGOs have come to appreciate the value of well-organized press conferences and well-written press releases. A group of NGOs has become very good at designing and implementing

public education campaigns. The general public still has a poor perception of the NGO sector, although in 2004, CRNVO conducted an opinion poll that found 74.5% of the population believe that NGOs are indeed non-profitable, and non-political, an increase from 45% in 2001. The government and business sector, however, continue to have a poor perception of the NGO sector.

The NGO sector has not organized any effort to develop a comprehensive set of self-regulatory standards and controls.



POLAND



Capital: Warsaw

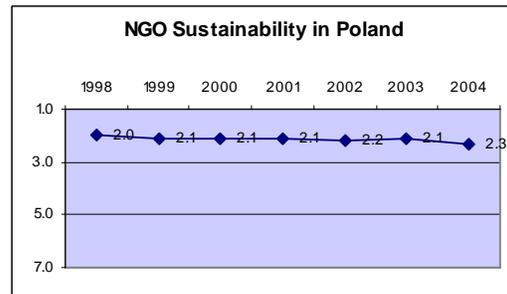
Polity: Republic

Population:
38,630,000

**GDP per capita
(PPP):** \$11,100

NGO SUSTAINABILITY: 2.3

According to a survey in April 2004, there are approximately 52,000 registered non-governmental organizations in Poland—of which 41,000 are associations and 11,000 are foundations. Almost half of the registered NGOs are headquartered in large cities. Two-thirds of Polish NGOs do not have any permanent paid employees, so the third sector accounts for a much smaller percentage of employment than the EU average (about 1.2% of the non-agricultural employment). Organizations are active both in providing services to their beneficiaries, and in advocating on behalf of their constituents. Most NGO programming is in the areas of sports and recreation, culture and art, education, social services, and health care. A significant number of NGOs that provide social and educational services are affiliated with the Catholic Church.



Overall, the annual budgets for NGOs have declined by approximately 20% between 2001 and 2004. Most Polish NGOs remain financially dependent on grant support from various donors. Public sources (local and national) continue to provide the largest percentage of revenues to the NGO sector: 30% of the total receipts. More and more organizations have started engaging in economic activities, and many have great expectations of EU funding that has come available—more

than 70% say that they plan to submit proposals.

The Public Benefit Activity and Volunteer Work Act, which was passed in May 2003, introduced a mechanism under which taxpayers can dedicate 1% of their Personal Income Tax to Public Benefit Organizations (PBO is a new legal status available for NGOs focused on public benefit activities). While public contributions could be made in

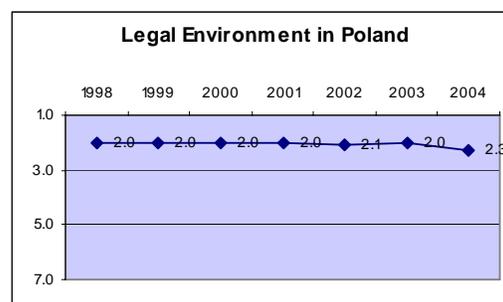
2004, most taxpayers were not aware of this opportunity. In addition, many organizations did not obtain PBO status on time. As a result, only 0.35% of Polish taxpayers dedicated 1% of their Personal Income Tax to PBOs, a total of 10,305,000 PLN (about USD 3,200,000). Higher numbers are expected for 2005, as NGOs mount aggressive awareness campaigns about the act.

LEGAL ENVIRONMENT: 2.3

In 2004, the civil society sector continued to be hampered by Poland's ambiguous legal regulations and their inconsistent interpretation. The Public Benefit Activity and Volunteer Work Act—referred to as the PBA Act and considered the “third sector constitution”—was passed into law in 2003, but has yet to live up to expectations. One key mandate that remains unmet charges the government at the municipal and district levels with passing annual cross-sector co-operation programs. NGOs were also expecting more opportunities to bid on government-issued contracts to provide public services, and clearer legislation with regard to non-profit tax law. Some provisions of the Act were stifled because of their contradictions to other regulations contained in previous legislative acts. However, the PBA Act did provide clarification on a number of issues that had previously been omitted in legislation, and gave NGOs an opportunity to build their awareness about laws governing the sector.

The freedom of assembly is a civic right guaranteed by the constitution, but the

mandatory process of registering an organization in the National Court Register is dissuasive — it involves protracted court proceedings, very complex administrative procedures, and high registration fees.



The freedom for operations to conduct their activities is also guaranteed by law, as is the freedom to address matters of public debate. In practice, state officials rarely consider the opinions of those in the NGO sector, though many organizations, especially those at the grassroots level, have informal relationships and personal connections with local authorities. In addition, there is also a lack of balance in the state's capacity to monitor NGO compliance with the law. In many cases, audits are

administered in a way that they become harassment, and in other cases, NGOs that act as a cover for business or criminal activities are not caught.

The 1% law, whereby taxpayers can designate 1% of their tax liabilities to go to specific public benefit organizations (NGOs can register as such), was introduced this year, one year ahead of schedule. NGOs were taken by surprise and only a few had time to register and campaign for support among their constituents. As a result, only 80,000 (less than 1%) of taxpayers allocated their 1% of tax due to an NGO of their choice. By the end of 2004, more than 2,700 NGOs were registered as public benefit organizations and they have awareness campaigns well underway to encourage the public to take advantage of the new law. The Polish government has not yet committed to matching any of these funds.

Finally, the VAT Act passed in 2004, has been detrimental to NGOs, in that VAT is now imposed not only on their revenue-generating activities but also on the organization's statutory operations for which they received payment. In the past, the law permitted NGOs to charge fees for services that were within their mandate, so that they could recover their costs. The VAT has been likewise applicable to donations and endowments from corporate donors. The tax for in-kind contributions is calculated using the value at the time of production, not the market value at the time of donation. Consequently, the amount of the due VAT often surpasses the costs of utilizing some products (e.g., food). While the challenges of adopting the VAT are common for countries working to achieve EU harmonization, this is a notable change from prior years where the Polish taxation system was one of the most advantageous in Europe for NGOs.

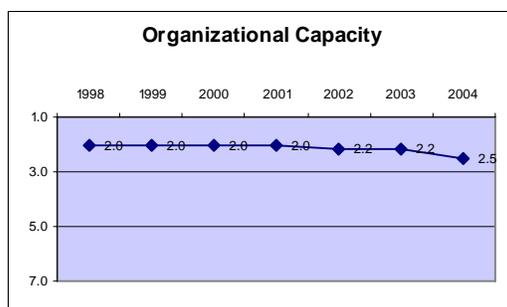
ORGANIZATIONAL CAPACITY: 2.5

Challenges continue to exist in expanding the member base of Polish NGOs, but the 1% law may generate new interest as organizations now have tangible incentives to build public awareness about their activities and successes. The NGO sector is also optimistic that the PBA Act will provide guidelines for NGO operations, increasing and using the capacity of the sector—a sector that is functional but in need to some revitalization. In general, the strategic planning capacity of the NGO sector is weak. Some organizations may plan for the coming year, but most are constantly in crisis. Urban organizations are generally better

at planning than those in rural areas, and the larger organizations are better positioned and better qualified to compete for the EU structural funds.

One example this year of the NGOs' success in winning EU funds was the competition under the EQUAL Community Initiative (counter-acting discrimination in the labor market), in which both public institutions and NGOs could apply for funding. The great majority of the projects selected were submitted by NGOs. The NGO community had great expectations for the regional development programs financed by EU funds. Unfortunately,

these programs have fallen victim to the highly centralized administrative system whereby the ministries take control of managing these funds, even though most projects are carried out at the local or regional level. The NGO community is hopeful that the PBA Act will help to decentralize control of these funds.



NGO staff is generally under-skilled and turnover is high, due to low wages. NGOs cannot afford to hire professional staff (lawyers, accountants) or consultants, and their most committed members suffer from burnout. While training opportunities exist, they are too

expensive for NGO staff and are often not available to organizations outside of the major cities. Volunteerism is growing, and is considered a valuable job experience, and a good way of entering the “real” job market. As a result, turnover of volunteer workers is high. Many NGOs are not aware that they can offer volunteer opportunities to students. The government is using the PBA Act as a tool to encourage volunteerism, requiring written contracts and accident insurance of host organizations.

Only a handful of organizations meet formally, few coalitions exist, and the “culture of association” is not well developed. Procedures for organizing groups and holding effective meetings are not well practiced. On the other hand, more and more Polish NGOs use the Internet to access information, and they tend to have the modern technical equipment they need.

FINANCIAL VIABILITY: 2.9

NGOs rely heavily on state funding, with only a small portion of support coming from private sponsors and revenues from products and services. Diversity and multiple sources of funding can be found only in the biggest, leading organizations; most NGOs need to diversify their funding base, and work towards long term strategies so they don't have to operate “from hand to mouth.” More than a half of these organizations face financial problems, and only one in five NGOs deems their financial situation as stable and unlikely to deteriorate.

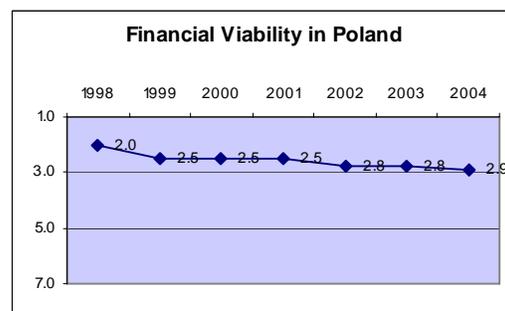
As in previous years, local governments are one of the primary supporters of the non-profit sector. Local government representatives often admit that social problems are more easily addressed with the help of NGOs, but NGOs are still commonly contracted to perform support functions. The PBA Act has caused confusion about who can be awarded contracts for such work by creating a designation of Public Benefit Organization (PBO). PBO status is a special legal status reserved for only those NGOs that provide public benefit services. Receiving PBO status provides some privileges, such as access to the

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1% tax benefit, but also some additional obligations, such as reporting and public control. Though the PBA Act guarantees equal treatment to all NGOs with regard to open tenders issued by the government, in practice, local governments tend to favor PBOs.

Another challenge for NGOs results from the tendency of local government authorities to award grants and contracts at the end of a year, as late as December, to spend out their annual budgets (unspent money is returned to the state). NGOs run their programs using their own financial resources throughout the year, waiting for public subsidies to flow in at the end of the year to retroactively cover some of the costs. From a legal standpoint, the government cannot buy services delivered in months prior to the contract/grant being awarded, but the system persists.

Though less than one-third (800 out of 2500) of local governments had annual cross-sector co-operation programs at the end of 2004, the number is expected to increase in 2005 as a result of the PBA Act provisions that require such collaborations. While this promises to increase the sector's involvement, a challenge remains. NGOs often have to compete with the local governments, some of which have formed associations of a special kind (Polish law allows this) with the intention of accessing the financial resources intended for non-profit organizations. In such cases, a group of public officials gain control of public money as the leaders of quasi-NGOs; in their view, the day-by-day control of spending public resources is more effective than an occasional decision to award a tender.



Local businesses are more inclined to cooperate with NGOs than in previous years, and there are many local partnerships emerging. It is also easier to build relations between businesses and NGOs as the business sector is becoming more aware of their social responsibility. Small businesses also prefer to invest in local initiatives, feeling strongly that “the benefit must remain in the community”.

As the practice of developing a membership base is practically nonexistent, membership dues make up some 2% of the average NGO budget. NGOs are hopeful that the 1% law will gain momentum; in 2003, the first year of this provision, only 80,000 people (less than 1% of taxpayers) contributed to supporting NGO activities. The government is launching awareness-building campaigns in early 2005 directed at both NGOs and the public to encourage participation.

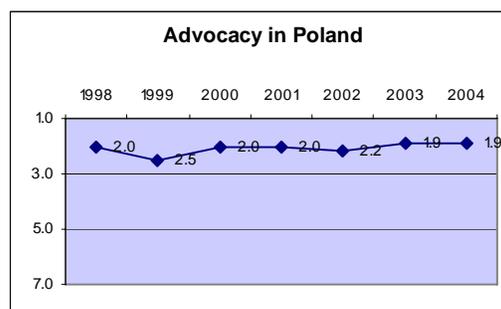
NGOs' financial management systems are improving, but still only few NGOs employ accountants. Relatively few organizations publish their annual reports, and only the large organizations can afford to perform annual audits.

ADVOCACY: 1.9

In 2004, NGOs were more often engaged in dialogue with local and central governments, in spite of there being no official guidance requiring such consultation. The PBA Act did establish the Public Benefit Activity Council, an advisory body to the cabinet minister created to formalize the relationship between public authorities and NGOs. It is composed of twenty members—five representatives from the central administration, five representatives from local governments, and ten NGO representatives. The Council was involved in organizing the Civic Initiatives Fund to increase redistributive effect of 1% tax allocations (this Fund, a three-year government program, has been accepted by Polish Parliament in 2005 with an annual budget of 3,000,000 PLN—approximately USD 937,000).

The number of NGO coalitions is on the rise, as NGOs begin to understand the power of collective action. A number of small coalitions are proving quite effective in their advocacy efforts, including their role in the campaign for EU accession. As a result, a group of

NGO experts have been named “liaison officials” to represent the sector in dealing with the EU structural funds. But, while NGO opinions were being solicited, there is little evidence that they were being used to affect the legislative process.



Especially at the local level, NGOs still feel the need to be cautious while they engage government officials on the issues and programs, as they are often financially dependent on the contracts and grants that are awarded by those same officials. As they become more active in advocacy campaigns, NGOs also need to ensure that they remain connected to their constituencies, providing them with information and representing their interests.

SERVICE PROVISION: 2.3

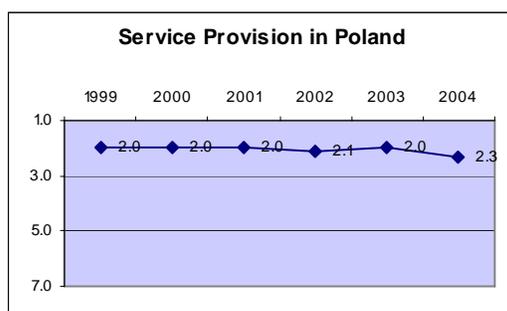
The range of goods and services offered by the NGOs in Poland is varied, but tends to focus on the social sectors and environmental conservation. Few NGOs address business development or economic growth opportunities. While NGOs are not looking to expand their services to serve new markets, some

have begun to realize the value in diversifying and are looking to broaden how they define their constituency.

In general, NGOs do not conduct formal, systematic needs assessments. There are some organizations that are in tune with the needs of the local communities they

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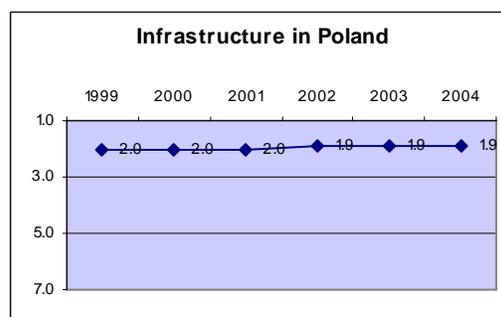
serve, and are able to justify support for their programs. These are often able to recover their costs. NGOs that are unable to articulate the needs of their constituents are unable to recover their costs from goods and services provided, and often lose their public funding. When this occurs, officials argue that they are more knowledgeable about the communities' needs and implement programs themselves.



Because financial sustainability is such a challenge, NGOs tend to “follow the money.” Currently, they are applying for EU funds, rather than staying focused on their own missions and continuing to address the needs they know exist. Though this strategy is sometimes necessary for the survival of an NGO, it is detrimental to their long-term viability as they are unable to articulate, rationalize and show progress towards their own goals.

INFRASTRUCTURE: 2.9

NGOs that seek support and assistance have wide access to Intermediary Support Organizations (ISOs), which operate in most big cities. ISOs are financed by domestic and foreign funds, and the thematic range of support it offers to local communities is continuously growing. However, only a small part of the support organizations' income comes from the fees for service (this form of earning income is still developing) and local sources. While ISOs are increasingly able to provide tailored services and products, funding constraints keep them from meeting all of the needs of their clients. Training courses are expensive and only offered at the ISO offices in urban areas. Universities have been invited to assist in increasing the quality of the content of the ISOs' courses.



ISOs also offer legal advice to NGOs, as there are still not enough lawyers trained in NGO law, and their services are expensive.

An important informational resource for Polish NGOs is the www.ngo.pl portal and associated regional portals. Many NGOs use the Internet to exchange information.

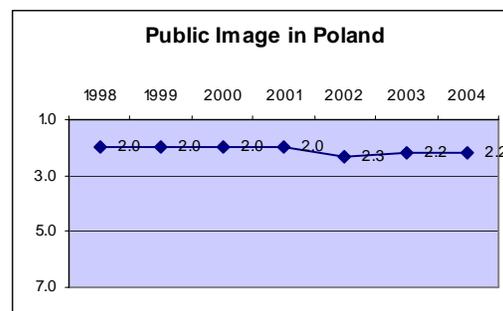
PUBLIC IMAGE: 2.2

Public opinion of the NGO sector is neutral, mostly influenced by what the media reports and the little common knowledge that exists about the work that charities do—but correct attribution is often a problem. People who have direct interaction with NGOs appreciate their contributions. There is hope for improving the sector’s public image through the campaigns for 1% provision, an impetus for NGOs to build their skills in public relations. NGOs are also increasingly successful in circulating information in towns and villages using the Internet.

Media interest in the non-profit sector is growing, but coverage is usually of “hot” news—scandals and large events—without including in-depth analysis or context. Local media are more likely than national media to cover NGOs, but are heavily monitored and at risk of being taken over or dissolved.

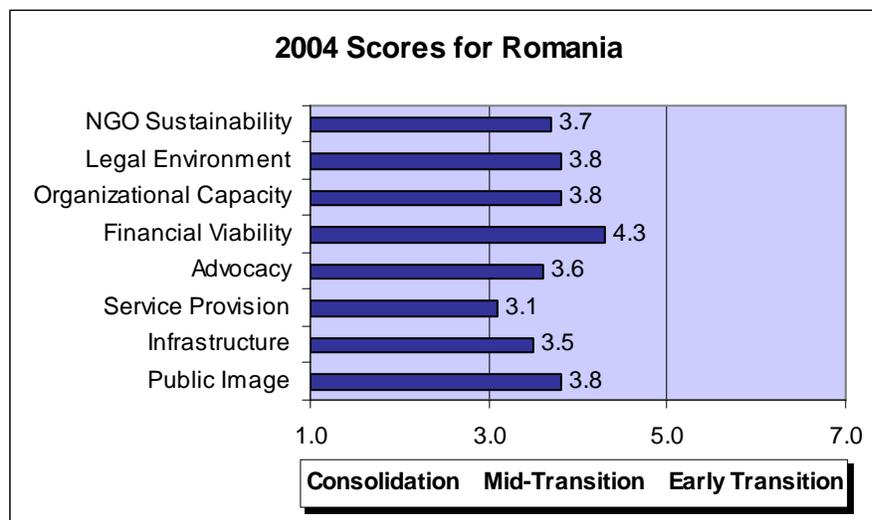
The government and businesses treat NGOs instrumentally, as useful partners for their “image” and to validate their actions. Sometimes this type of

collaboration results in funding for the NGO to implement projects.



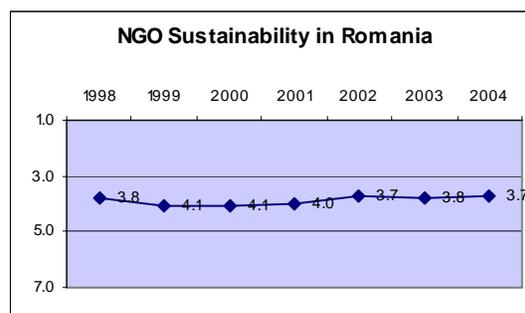
Self-regulation of the NGO sector proceeds very slowly, as no further developments have taken place since the NGO Charter of Rules (a code of ethics) was put in place in September 1997. Only few organizations are aware of the importance of such guidance for building relationships with the public, the government, businesses and the media. Too few organizations publish their annual reports. Many organizations believe that their mission excuses them from being transparent in their own management. The PBA Act may be the catalyst for change, as it requires public benefit organizations to operate in a transparent manner.

ROMANIA

**Capital:** Bucharest**Polity:** Republic**Population:**
22,400,000**GDP per capita
(PPP):** \$7,000**NGO SUSTAINABILITY: 3.7**

Overall, the NGO Sustainability score improved slightly in 2004. The improvement is due in part to increased NGO advocacy and lobbying initiatives, as well as changes in the legal environment that may lead to greater financial stability of the NGO sector. In addition, NGOs helped shape public opinion by organizing debates and campaigns on issues concerning the 2004 elections and EU accession.

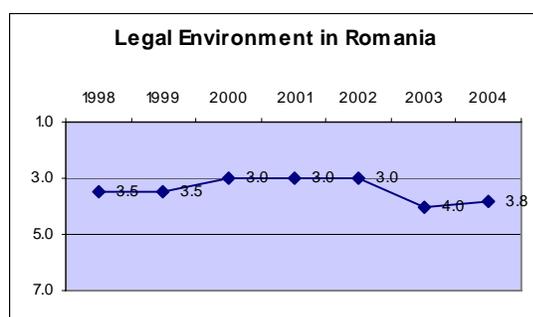
In 2004, NGO lobbying played a significant role in Parliament's adoption of a "1% Law." The impact of this legislation is hard to predict, as implementing regulations have yet to be written. The laws governing organizational structure and operations, which many consider to have been changed for the worse last year, were not amended. Improvements in the laws governing social services were offset by the introduction of cumbersome and redundant implementing regulations.



The NGO sector still faces several long-term issues such as its dependence on international donor funding and limited development of local resources, including local grantmaking and corporate philanthropy. NGOs continue to have low rates of membership, as only 8% of citizens are members of nonprofit organizations, and special advocacy groups often fail to have a true constituency. However, at the community level, citizens are taking a greater interest in volunteer activities.

LEGAL ENVIRONMENT: 3.8

Despite efforts, the NGO community was not able to modify the legislative framework regulating the organizational structure and operation of NGOs. Registration regulations still require that NGOs receive approval from the relevant ministry before they are registered. Amendments to the law covering registration of corporations, which apply to NGOs as well, further require that founding members of an organization provide their personal financial record from the state, certifying whether or not they have committed any financial crimes.



Although Government Ordinance 37/2003 makes the process of obtaining “Public Utility” status more difficult in some respects, it also requires that ministries adopt procedures for granting such status. As a result, in the past year, the government has recognized over 33 organizations as “Public Utility,” up from only 12 in past years. In order to receive “Public Utility” status, NGOs must submit the appropriate documentation to the “relevant ministry,” although many organizations struggle to identify which ministry is the “relevant ministry” for their organization. Often, NGO activities (e.g., community development, human rights, and social responsibility) do not correspond to the authority of any specific ministry. These ambiguities allow for

different government officials to interpret the requirements in different ways, causing unnecessary delays and abuses in response to NGO applications.

The new Fiscal Code came into effect in January 2005 and includes several provisions aimed at strengthening the financial sustainability of NGOs. The most important provision is the new 1% rule that permits individual tax payers to allocate 1% of their income tax bill to NGOs. If implemented properly, the new 1% rule could increase philanthropy and a sense of civic responsibility among Romanians, and reduce the NGO sector’s overwhelming dependency on foreign funding. In addition, businesses may now deduct up to 3% of their total income, but not more than 20% of their total taxes due, for donations to NGOs.

Social service organizations must now comply with requirements and procedures imposed by new laws governing licensing and accreditation and some organizations are having difficulty as the new rules can be cumbersome and duplicative. GO 68/2003 (revised and completed) requires that beginning January 1, 2005, social service organizations obtain accreditation for the services they provide. Law 272/2004 requires further that NGOs involved in child protective services obtain all appropriate licenses required to work in that field. In addition, those working in child protective services, domestic violence, and disability must meet new minimum and special standards and be accredited and licensed. As the government enforces these new requirements, social service organizations have changed how they operate. As the social assistance system in general

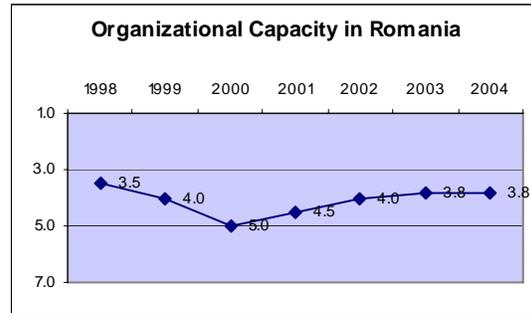
reorganizes in the near future, legislation and regulations are likely to continue

changing as the social assistance system reorganizes.

ORGANIZATIONAL CAPACITY: 3.8

The majority of Romanian NGOs continue to be donor-driven and often ignore their mission statements in pursuit of funding. Similarly, NGOs and local authorities often base their relationships on available donor funding, not a common mission. One example is a series of 23 Citizen Advocacy Bureaus (CAB) that were created in collaboration among local authorities and NGOs with EU project funding. While the CABs have only garnered the support of a few local authorities and are not yet sustainable, they illustrate the ability of the NGO sector to collaborate with local governments.

Boards of Directors generally do not participate in their organizations' strategic planning; limiting the sector's potential for achieving long-term sustainability. The recent "Good Practices for the Work of Boards," edited by Centras in 2004, reports that only 5% of NGO boards list strategic planning among their activities. Instead, the survey reveals, boards are involved in organizational management issues, such as representing the organization (89%), implementing projects (89%), and promotion (78%).



With the uncertainty of future funding, volunteers are crucial to keeping NGO programs active. Romania has 17 Volunteer Centers that recruit volunteers and place them in community projects. In addition, special information materials, training sessions, and summer camps have been organized to encourage volunteerism. The Pro Democracy Association has increased volunteerism by launching specific programs that involve primarily volunteers. The sector is also promoting volunteerism via the internet.

NGOs often require office equipment for implementing their programs, but continue to rely on project funding from international donors to obtain up-to-date equipment.

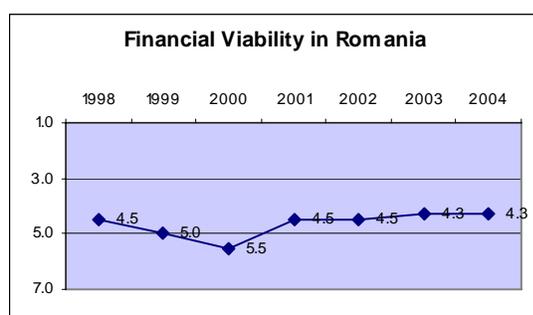
FINANCIAL VIABILITY: 4.3

Financial viability continues to be a major barrier to the NGO sector's development, as most organizations still depend on international donors. International support will decrease as donors begin pulling out

of Romania in anticipation of EU accession. The situation is exacerbated by NGOs' limited domestic support and lack of success in generating income through local fundraising efforts. The Civil

Society Development Foundation (CSDF) data on two important grant programs funded by the EU and the World Bank shows that partnerships between NGOs and local communities usually consist of only in-kind contributions. A few NGOs have organized annual charity events in which local community members provide financial support for their programs. In order to be financially sustainable, the NGO sector must increase cooperation between NGOs, support organizations, and the local donor community to accommodate anticipated changes in the availability of funding.

NGOs have become aware of the need to diversify their funding. Every year, more NGOs initiate new income generating activities, such as offering training and consultancy services, or selling products made by their beneficiaries (e.g. the disabled, or victims of human trafficking). Grassroots organizations also acknowledge the importance of training in areas such as fundraising and proposal-writing, and CSDF data shows that in 2004, 30% of their clients for training courses were from newly formed NGOs.



ADVOCACY: 3.6

NGOs were more active in advocacy and lobbying initiatives in 2004 and took advantage of advocacy opportunities

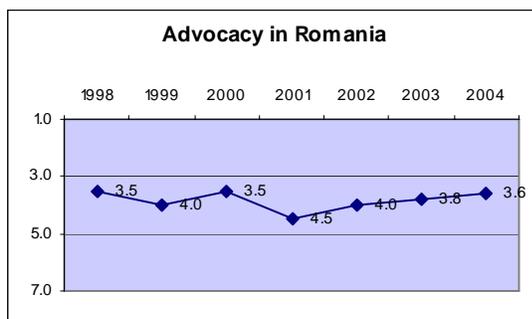
The most critical issue, however, is the sustainability of advocacy organizations that have not been successful in attracting local donors, and given the nature of their activities, will not be able to rely on government funding. In addition, advocacy organizations generally do not have sufficient membership base to support their activities. In order for advocacy organizations to increase their capacities as advocates and watchdogs, they must broaden their constituencies and develop appropriate fundraising strategies.

Legislation enacted this year promotes individual and corporate philanthropy and creates a basis for greater support from local donors. The implementing regulations have yet to be adopted, limiting the effectiveness of the new law. In order for the law to be effective, NGOs must take advantage of its provisions by reaching out to the public and attracting donors. There are obstacles to building local philanthropy. The business community tends to support their own community development programs rather than donating to NGOs, while the general public is still not accustomed to donating. Romanian NGOs have much to learn from successful local or international models in developing coherent funding strategies.

presented by the negotiations for EU accession and elections. New training opportunities included a Masters Program

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in advocacy, developed by the Advocacy Academy in Timisoara, in cooperation with Banat University. Advocacy projects covered a broader range of issues than in 2003, and included campaigns focusing on corruption and lack of transparency, parliamentary ethics, electoral law, equal opportunity, environmental issues, the “1% law,” and child protection and social services.



There are many examples of the growing diversity of advocacy projects. A group of 25 NGOs led by Partnership for Equality Center lobbied the leaders of the major political parties to allocate 30% of the eligible seats on the electoral lists to women. The Pro Democracy Association successfully advocated for an amendment to the Constitution and the electoral laws that decreased the number of signatures required for citizen legislative initiatives from 250,000 to 100,000. The Coalition for a Clean Parliament launched a campaign to increase transparency in the candidate selection process within the political parties. CAFA, a coalition of 15 business women’s associations, increased its visibility by promoting dialogue between the public and private sectors. Their initiatives and events encourage public hearings, legislative proposals, and dialogue between the government and

groups like trade unions. One of its successes includes changes in the Labor Code regarding collaboration contracts and home work.

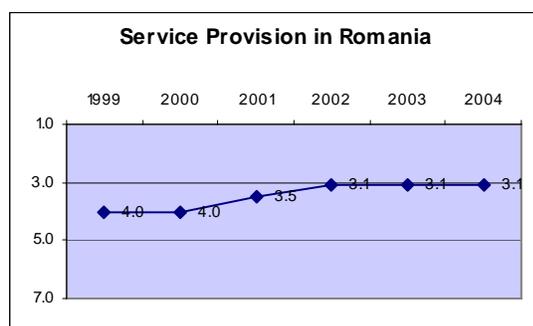
The Transparency Law provides NGOs with the opportunity to participate in and influence government decisions. This year, organizations cited provisions of the law in demanding public debates on draft legislation published on the Ministries’ websites. Similarly, the Ministry of Labor, Social Solidarity, and Family organized eight public debates on new legislation regarding social services, while the Ministry of Justice organized debates on new judicial reform legislation. NGOs nonetheless often complain that their participation is little more than a formality and their comments are rarely taken seriously.

In 2004, NGOs initiated several lawsuits against local authorities to enforce the Free Access to Public Information (FOIA) provisions of the Transparency Law. In one decision the courts overturned the Cluj County Council’s decision to withhold information, which was the first time that a government body was found to be in violation of the Transparency Law. In a similar decision, the Selimbar Local Council was penalized for FOIA violations. The national courts produced similar decisions that held government bodies in violation of the Transparency Law.

Though not all advocacy efforts were successful, the increase in the number of advocacy initiatives by NGOs demonstrates a willingness to mobilize and unify around similar issues and interests.

SERVICE PROVISION: 3.1

NGO service providers continue to offer primarily traditional social services. A law passed this year concerning social services creates a framework in which both public and private service providers have equal access to government funding. New regulations setting minimum and special standards for organizations working in child protective services, domestic violence, and disability are expected to increase the quality of services provided. Another law established mechanisms for financing public social services through fees-for-services, but implementing regulations have yet to be written. In the future, the NGO sector ought to pay close attention to the implementation of these social service regulations and their impact on NGO service providers.



The government has come to recognize the value of the social services provided by the NGO sector. National Interest Programs implemented by child welfare organizations received another \$4.5 million this year. NGO service providers benefited from Law 34/1998 which covers the allocation of funding to Romanian associations and foundations. The Ministry of Labor, Social Solidarity and Family reports that 71 projects were funded under the law in 2004, serving 8,550 NGO clients. However, the Romanian Sociological Association reports that these funds cover only 25% of the necessary costs per beneficiary, while NGOs have to cover the difference from other sources.

In addition to basic social services, NGOs also provide training, consultancies, information, education and health, and other services. The long-term sustainability of these other services depends heavily on their nature. Organizations that offer training programs have recently been able to charge fees for services, increasing the likelihood that their programs will be sustainable.

INFRASTRUCTURE: 3.5

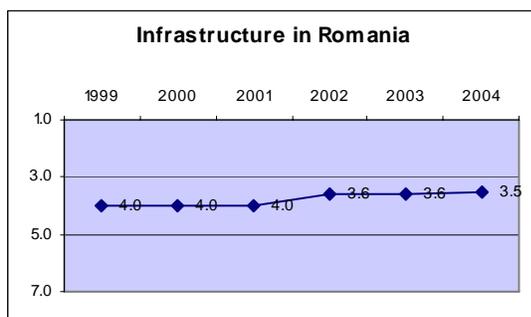
Over the past year, the number of NGO resource centers has increased, as the EU supported the establishment of new centers in Botosani, Iasi, Teleorman, and Alba. Based on past history, the NGO community is concerned that their dependency on foreign funding makes these resource centers less sustainable than

if the centers received domestic sources of income.

In 2004, several local organizations continued to assist other NGOs achieve sustainability. The Romanian Donor's Forum, The Princess Margarita of Romania Foundation, and the Association for Community Development and others

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promote corporate and individual support of NGOs or offer grants to strengthen organizational capacity. This year the United Way formalized its presence in Romania and may stimulate future local grant-making.



The NGO sector continues to be concerned about issues such as communication, cooperation, and ability to network. Although information exchanges between NGOs did improve over the past year, due in part to increased use of the internet and heightened media coverage, the number of formal NGO coalitions is still very small. Most members of formal coalitions, such as the Alliance for European Justice in Romania and the Coalition for a Clean Parliament are the well-established organizations based out of Bucharest and other urban areas. The two federations of child welfare NGOs, FONPC and Pro Child, are based in Bucharest and struggle to attract organizations from outside the capital. Small and medium-sized organizations generally do not join networks or coalitions at the national level because they lack the necessary resources and information. In addition, meetings

PUBLIC IMAGE: 3.8

Even though the media has increased its coverage of NGO activities and events, the

generally take place in major cities, precluding smaller organizations that cannot afford to travel from attending.

Informal, issue-based coalitions and networks were able to engage NGOs of different sizes and from various geographical regions. Examples include the coalition that supported the “1% law” and the working group on the new social service law, which was comprised of both NGO and public administration representatives. Internet listserves also played an important role in bringing NGOs together, and over 200 organizations were included in the listserve for the “1% law.”

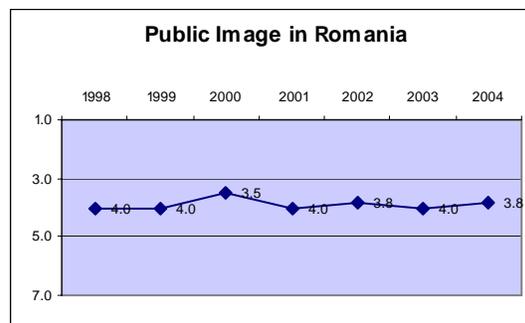
NGO requests for specialized training increased over the past year, due primarily to international donor influence. The quality and cost of training programs vary across the country with most organizations preferring Bucharest-based trainers because of their experience. CSDF reports that in the first ten months of 2004, 52% of the 320 participants in their training courses were representatives of organizations from outside Bucharest. Specialized websites on training have been developed in response to the increased demand for services. In addition, the international donor community, led by the EU, has increased the number of professional trainers by developing training of trainer programs. These programs have led to the establishment of training organizations such as the Association of Training Suppliers and the Association of Professional Trainers.

NGO sector still does not receive extensive media coverage.

Media publicity of studies and papers issued by well known NGOs like the Romanian Academic Society, Transparency Romania, Institute for Public Policy, the Media Monitoring Agency, Academia Catavancu, and the Pro-democracy Association attracted attention from many policy makers. NGOs continued to develop social awareness campaigns with the support of international donors, targeting children's rights, domestic violence, corruption, HIV/AIDS, human rights and health. TV and radio stations have publicized the campaigns, but they failed to consistently convey that NGOs were behind the activities.

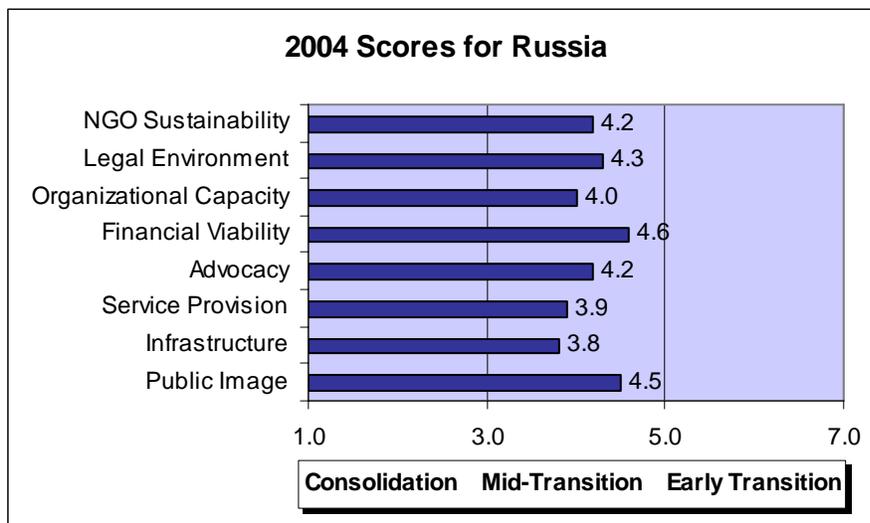
NGOs are still having difficulties educating the public about their organization's mission, programs and activities. The Romanian Donors Forum and other donors continue to encourage Romanian NGOs to increase their transparency and use their annual reports as public relations instruments. However,

NGOs generally lack public relations skills and are therefore less able to, among other things, attract volunteers or members.



The Government's perception of NGOs is increasingly positive, as officials increasingly acknowledge NGO expertise and contributions. NGOs have tried to provide input concerning EU negotiations and several draft bills, but the results have been mixed. Social service NGOs, especially those active in child protection, have developed codes of ethics and best practice manuals. New legislation requires them to adopt performance guidelines based on quality standards in their field. If implemented and enforced properly, these new requirements may contribute to a better public image of social service NGOs.

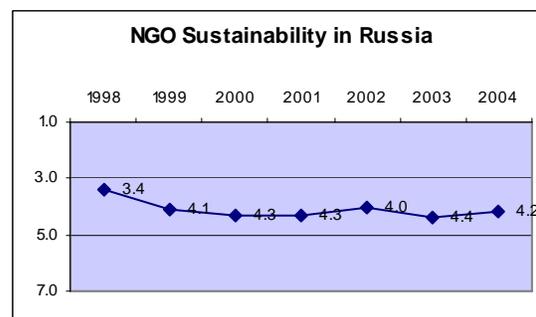
RUSSIA

**Capital:** Moscow**Polity:** Federation**Population:**
143,780,000**GDP per capita
(PPP):** \$8,900**NGO SUSTAINABILITY: 4.2**

The 2004 scores have improved over last year, which may at first glance seem difficult to justify. In 2004, the Russian Government continued to implement policies that created a “managed” civil society that paralleled Russia’s “managed” democracy. In part, the President has questioned the legitimacy and efficacy of foreign aid to foster civil society development, resulting in increased scrutiny by police and tax authorities of some foreign funded NGOs. Proposed draft amendments to the Tax Code, if enacted, will impose registration requirements on all types of grants, and further complicate the work of foreign donors and recipient NGOs.

The Government has also reconfigured the mechanisms that allow NGOs to access and participate in government decisions. In November 2004, the President’s Commission on Human Rights was transformed into the Council for Civil Society and Human Rights. The Presidential Administration also proposed

legislation to create a Public Chamber at the federal level that would consist of 126 members and would potentially advise the government on important social issues. One-third of the membership however, will be appointed by the President, and those members will then in turn appoint the remaining members. The legislation has yet to be approved, but the result could be the further co-optation of civil society groups.



Despite all of the changes, President Putin has declared his desire to strengthen civil society, and has given much more discussion to the subject than his

predecessor Boris Yeltsin, who allowed NGOs to develop in an atmosphere of benign neglect. Even though the President's intentions are not clear, the effects of his reforms provide attention and recognition to a few NGOs, primarily those that are able to contribute to the process of economic modernization, social reform, and political centralization. The government is less willing to work with organizations that are not in line with this agenda and the more overt political organizations continue to experience difficulty.

Despite challenges at the federal level, the NGO sector continues to develop, particularly in the regions of the country that are more removed from developments in Moscow. As a result, these NGOs have developed a more pragmatic approach to working with municipal and local governments and are generally successful in opening channels of communication with public sector actors. These improvements in

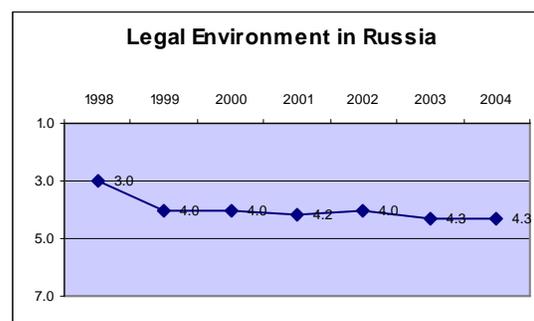
collaboration between NGOs and local and municipal governments are essential to the long-term viability of civil society and contribute to the increase of the overall NGO sustainability score.

Meanwhile, organizations within the sector address varied issues, represent diverse interests, and are affected differently by national-level developments. This diversity is exemplified by the perceptions of different organizations, some of which, like the environmental groups, have a more positive view of sector-wide developments, while others, like the human rights organizations, have an overwhelmingly negative view. The challenge of this report is to provide an overview of the changes at the federal level, while tracking the variations in NGO development within the sector, as well as the regional and municipal levels.

LEGAL ENVIRONMENT: 4.3

The Legal Environment dimension score did not change from last year when the laws were described as "primitive, outdated, and unclear." The federal government has not approved any new legislation to further define NGOs or their activities and operations since 1995 when the government adopted the Law on Non-Commercial Organizations. At the federal level, Russia still lacks adequate legislation that supports non-profit activities and clear and consistent policies that govern interactions between NGOs and the State. Crucial legislation languishes in draft status in the State Duma, e.g. the Law on For-Profit Activities of NGOs, the Law on Foundations, and the Law on Volunteers. Russian tax law does not support the existence of a self-sufficient

third sector. Unfavorable tax regulations include the lack of tax-deductible corporate contributions, the severe limitations placed on NGOs' ability to generate tax-free revenues and a legal environment that does not permit endowments or trusts.



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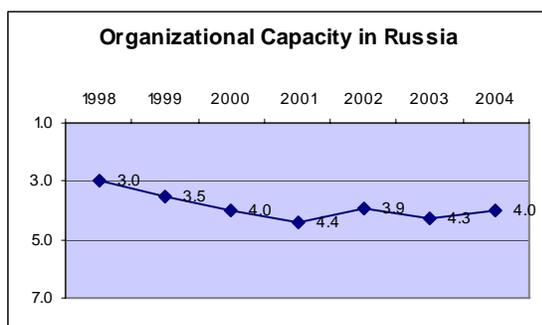
While laws exist to permit NGOs to register and operate, they are not well-defined or consistently executed. As a result, many NGOs are at the mercy of local and regional administrations, many of which interpret the guidelines differently. NGOs have nonetheless been unable to advocate for a new NGO law, largely because inter-sectoral divisions have prevented them from coalescing and presenting a united front.

Fears that the registration procedures adopted in 2002 would lead to increased persecution of NGOs have not materialized and, for the majority of NGOs, the primary impact has been the high cost of registering. Moscow-based NGOs had relatively few complaints about registration process, although the new fees were a substantial setback for NGOs existing on little income. In addition, local and regional administrators often required that organizations repay their registration fees, citing incorrectly filed paperwork. In several instances, NGOs were denied registration after the review of their organizational charters. Since 1999, all

organizations receiving technical and humanitarian assistance from foreign donors have had to register their projects with a state inter-ministerial commission to get an exemption from certain taxes. Recently, poorly structured registration procedures have led to delays in obtaining tax exemptions and adversely affecting the reputation of these organizations.

Meanwhile, the government has increased scrutiny of organizations that receive grants and technical assistance from abroad. During his State of the Union address in May 2004, President Putin charged that some NGOs were primarily concerned with obtaining international funding, which later led to an increase in tax and police scrutiny of some organizations that receive foreign funding. In July 2004 and on the first reading, the Duma adopted amendments to the Tax Code, which will require that all types of grants be registered if enacted. The legislation has stalled in its second reading and has not yet been adopted.

ORGANIZATIONAL CAPACITY: 4.0



The overall number of NGOs in Russia continues to rise; however, the numbers do not accurately reflect that only a small percentage of groups carry out their activities on a regular basis. The majority of organizations are still “one-man shows,”

meaning that they are led by a single charismatic leader who runs the organization when the time and money permits. These organizations also have little turnover of leadership and are generally not transparent in their operations.

The level of organizational capacity is often differentiated by ability to attract resources: there are organizations that receive grants from western organizations and others that struggle to operate on domestic funding alone. Groups with a stable source of funding have the office space, staff, computers and technical expertise to implement programs and they are more

likely to be run by a cadre of professional staff that is specifically trained to work in the NGO sector. These organizations are also more likely to develop clearly defined management structures, utilize boards of directors, and/or publish annual reports. By contrast, many locally-funded NGOs often lack the resources to consistently strengthen their staff and administrative capacities.

The organizational capacity of many organizations has been affected by the decline in western assistance. Many NGOs report that their office technology has become outdated, adversely affecting their ability to work. The greatest loss has been the departure of talented personnel. Without funding to pay professionals, many well trained specialists have taken their skills to the private sector or government. “Burnout” among the more experienced workers drives them to other sectors as well. The presence of new activists in the sector is limited by

the lack of university programs in nonprofit sector management.

Despite these trends, participants in the scoring felt more optimistic this year. Despite likely decreases in financial resources, external support over the past five to ten years enabled organizations to significantly build organizational capacity. NGOs in many regions have witnessed an increase in support from municipal governments providing office space, small grants or other forms of support. This support tends to be issue specific, as local and regional governments tend to favor groups that work on issues such as youth development, or children’s welfare. Organizations that address the environment, human rights or gender issues are less likely to receive government support and are therefore, more dependent on western funds for organizational support.

FINANCIAL VIABILITY: 4.6

Attracting sufficient financial resources continues to trouble the NGO sector. The Open Society Institute, a major international contributor, left Russia. Other donors are also scaling back their commitments or limiting their focuses to specific themes. NGOs are also negatively affected by the lack of tax incentives to promote corporate and individual philanthropy. In a country where checkbooks do not yet exist, NGOs are not able to take advantage of “checkbook activism” that benefits organizations in some other countries. Most significantly, as seen in other countries, the lack of a substantial middle class means that citizens do not have the time or income to dedicate to NGOs.



Despite the lack of legal incentives for philanthropy, a small but growing number of national corporations is providing support to NGOs. An emerging trend in corporate philanthropy has evolved as businesses try to increase community investments, as well as respond to government calls to assume greater levels of social responsibility. Several major organizations are now

sponsoring their own grant competitions; other profitable business owners are devising ways to give back to the community. Overall, however, the business community's interest in and financial support of the NGO sector has increased. For example, a nascent network of 16 community foundations has emerged in cities across Russia, and the community school movement has become more active throughout the regions. Both of these developments point to growing civic consciousness among key actors such as schools, businesses, and political leaders, who are all interested in improving their local communities.

The municipal and regional governments have also become more active financial supporters of NGOs. In more than 20 Russian regions, authorities fund substantial annual NGO grant competitions, significantly increasing public sector resources for local civic initiatives. Local authorities are also contracting out services and finding alternate ways to support organizations, such as providing free office space, telephones, and/or office staff. These developments are not happening evenly across Russia. Although governments in the

Volga and Siberia regions have increased their support of NGO initiatives, NGOs in Russia's Far East are still in the early stages of building linkages with local and regional governments.

Among the most persistent challenges to NGOs is the difficulty in finding stable sources of funding when each funder has distinct interests and priorities. Governments and private sector donors generally do not financially support politically sensitive themes, such as women's rights, human rights, or environmental organizations, but rather these donors generally support organizations that provide social services or work on practical and "safe" issues such as education, children or veterans issues. As reflected in President Putin's speeches, any project that addresses social responsibility has become popular while overtly political activities have become off limits. Yet, despite these problems, NGOs have a greater diversity of funding opportunities than they did several years ago when foreign donors were the primary source of funding for many groups.

ADVOCACY: 4.2

NGOs are gaining greater access to policy makers at the regional and municipal government levels; however, in general they continue to have difficulty influencing policy, particularly at the federal level. NGOs generally have the most success when advocating for specific issues. Independent think tanks have informed public debate and shaped key public decisions on housing and budgetary reforms and environmental policy. For example, in Siberia, the analysis and public hearings of the Baikal

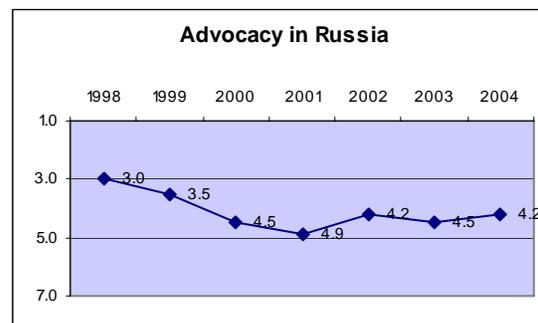
Environmental Expertise Center effectively stopped an environmentally and socially dangerous plan for gas drilling under Lake Baikal.

NGOs have also found success in creating direct lines of communication with regional and local policy makers. In regions where the local governments offer grant opportunities, NGOs often sit on selection committees to assist with selecting grantees. NGOs in Samara often participate in

roundtable discussions with the local government, providing expertise on a wide variety of issues. In other regions, such as Novosibirsk and Kemerovo, NGOs are involved with local Public Chambers of Commerce and offer counsel, advice, and expertise on critical social issues. In Irkutsk, the coalition of local business associations advocated and won a legislative program in support of small businesses in the region. The local legislature in Primorsky Krai established the first Public Youth Council as a result of public hearings organized by local youth groups, now allowing young people to participate directly in the locality's budgeting and policy-making process.

Although NGOs generally do not launch advocacy campaigns at the federal level, both regional and Moscow-based groups have organized to prevent passage of a new tax code that would have required the registration of all grants. Some organizations have also made progress in developing relationships with departments in the federal government by securing

positions on commissions, committees, and advisory councils.



Overall, the current ability of NGOs to participate in shaping policy is still limited, and the impact is minimal and dependent on the good will of the government. Developing constituencies that are highly visible will give NGOs credibility and add weight to their claims and legislative demands. Unfortunately, Russian NGOs have a long way to go in developing the constituencies, unified agenda and broad public support that will be necessary conditions to influence public policy consistently and successfully at the federal level.

SERVICE PROVISION: 3.9

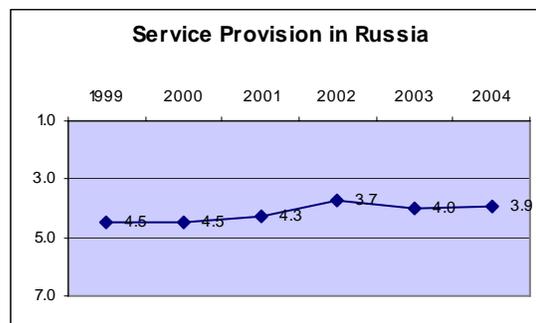
The Service Provision score did not change much from the previous year, due in part to stagnation on this issue at the national level. The Russian Government has traditionally been the sole provider of services and is hesitant to relinquish that responsibility to any significant degree. Laws governing service provision exist in just a few regions and are applied unevenly or lack mechanisms for implementation. In addition, many local governments think that NGOs are too inexperienced to handle the cumbersome reporting and taxation requirements or lack the capacity to deliver the services promised.

The fast changing political and socio-economic situation in the Russian Federation, including “de-governmentalization” of social service functions, provides new opportunities for civil society organizations. Increasingly, regional and municipal governments are tasked by federal authorities to develop, finance, and deliver social service programs. The limited capacity of local governments to execute these tasks creates an opportunity for NGOs. The Ministry of Economy has identified a realistic economic approach to strengthening civil society in Russia, which includes equal opportunities for NGOs and

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state organizations in the “market” of social service delivery and increased grant-making. In order to take advantage of these opportunities, NGOs must strengthen their skills to meet the contracting demands of regional governments. Through improved quality and increased quantity of social service delivery, NGOs have enhanced their capacity to respond to the public interest, which will ultimately strengthen the Russian third sector.

The service provision of NGOs is maturing, but remains an underdeveloped mechanism for NGO development. NGOs are gradually building their capacities to deliver services, but the range of services is relatively limited and provided to a restricted clientele group. Additionally, recipients often cannot afford to pay for the services rendered, or are only able to pay a small amount. As a result, providing services is not a self-sustainable endeavor for supporting the NGO sector.



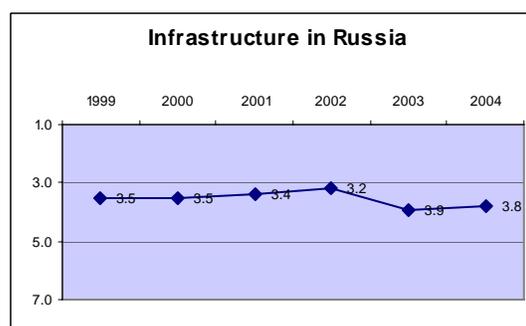
In the more progressive regions, where public administrations are supportive, NGO service provision is growing rapidly. However, in general, NGOs are hesitant to compete for contracts when they are made available, fearing that ambiguous legislation and suspicious tax police will only bring them additional administrative problems. The government currently requires that NGOs pay taxes on the value of their services, even if they provide them free of charge, serving as a deterrent to providing services at all.

INFRASTRUCTURE: 3.8

The 2004 score for the Infrastructure dimension improved over last year, in part because NGO resource centers have served as catalysts for increased NGO activism in the regions. Russia spans eleven time zones and has over 35 cities with populations over 500,000. In a country of this size, NGO resource centers are vital providers of NGO training and expertise. In all, Russian NGOs are connected by 40 resource centers across the country.

Over the years, various resource centers have evolved to meet the demands of regional NGOs and community organizations. Some centers concentrate on training and consulting for NGOs, while others facilitate community and citizen activism, or work to impact government

policy. All of the centers have evolved to conduct activities that directly strengthen the infrastructure of the sector. Resource Centers have also expanded into grant-making organizations, and are working towards becoming indigenous foundations that are able to support NGO activities within their regions.

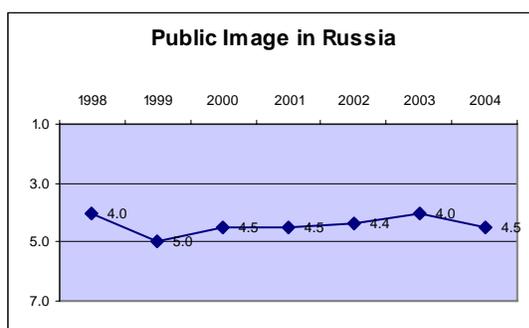


Several strong networks exist that address specific areas, such as the environment, health, migrants, and youth development; however, NGOs rarely organize to form larger umbrella organizations or coalitions. Russian NGOs, with their large variety of interests, have difficulties in identifying and collaborating on common issues. One recent example occurred when the NGO community was split on whether to participate in the government-sponsored All-Russian Civic Forum in Perm. Some chose to participate and attempt to collaborate with

the government, while others perceived it to be a closely-controlled event and chose to organize an alternative forum in which they were able to air their grievances about backsliding in democracy. The division in the broader NGO community about such matters weakens the sector's ability to act on common issues, such as better regulatory legislation or taxation policies, that affect the operating environment and potential effectiveness of all NGOs.

PUBLIC IMAGE: 4.5

Overall, the NGO sector's public image has improved somewhat, but in general, the public is still uninformed and suspicious of NGOs. Although in his 2004 State of the Union address, President Putin credited the work of citizens' groups and civic organizations, he flatly criticized organizations that serve "dubious groups and commercial interests." He argued that these organizations do not serve the real interests of the people, although the reality is that thousands of Russian organizations continue to serve their communities while going unnoticed. Such public comments from the very highest levels of government stir negative sentiment and distrust or disinterest in NGOs.



Many NGOs are aware that they have a low public image, but they are still averse to or unskilled at building their constituencies and developing greater public support that will help to improve their public image. Without greater domestic support, both financial and moral, NGOs will be unable to sustain themselves in terms of either financial or human resources. Over the past few years, NGOs have been building constituencies, although this area remains a problem for many organizations that are better at speaking on behalf of their constituents than communicating with them. Lacking a visible constituency or positive public image, NGOs will continue to have problems being taken seriously by government administrators.

An issue that contributes to the low public image of NGOs is the general public's lack of participation in civic life. In Russia, there are only .65 organizations per person—low even for post-communist countries, which as a group have the lowest rates of organization among democratizing countries. Furthermore, citizens are still unfamiliar with concepts such as civil society, a term with which only 16% of Russians are

familiar, according to a 2001 survey. More recent focus group studies (2004) indicate that some citizens might tolerate or even welcome democratic “centralism” where civic debate would be channeled and controlled by a central hierarchy, thereby undercutting the role of NGOs in building positive public opinion, fostering public discussion, and demanding government accountability.

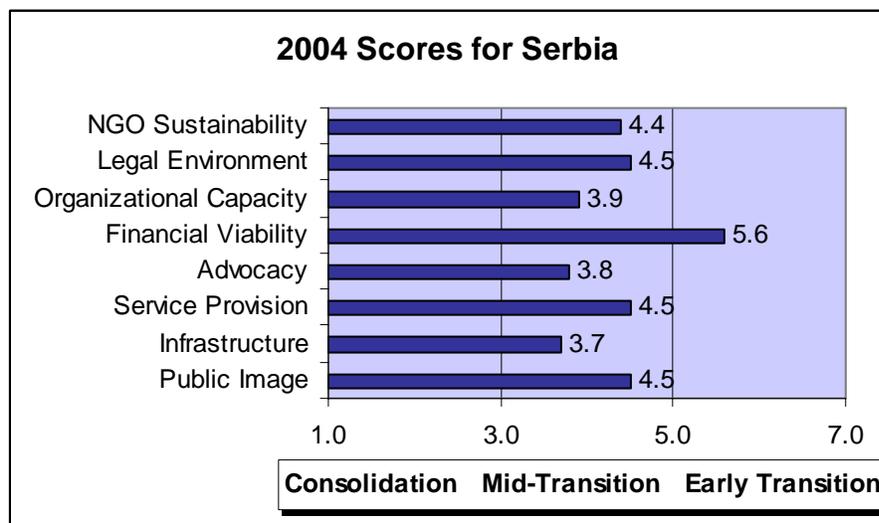
NGOs often fail to promote their activities, forfeiting an opportunity to educate the public about their functions in society and their contributions. Instead, for example, they might concentrate on publishing newsletters that are only circulated among a few NGOs rather than to the general public. NGOs that receive foreign funding compile annual reports, but these are rarely made available to the public. In some cases, with donor encouragement, NGOs put in place mechanisms such as boards of directors to enhance their organizations’ status or public outreach; however, they do so solely to please their donors, again sacrificing an

opportunity to improve their internal governance, external outreach and public image.

NGOs have had the most success in improving their image with local and regional governments and businesses. Over the past several years, NGOs have been able to educate government officials about their activities. Businesses are slowly turning to NGOs in an effort to distribute charity or funding opportunities for community groups. In a few regions, NGOs have promoted their activities by hosting NGO fairs or sponsoring public initiatives, such as special volunteer weeks, which have galvanized hundreds of thousands of citizens to participate in their communities.

Overall, NGOs have been able to improve their public image when they are involved in issues that are compelling to the general public and when they are able to meet the public’s needs—two essential factors in future sustainability and growth of the NGO sector.

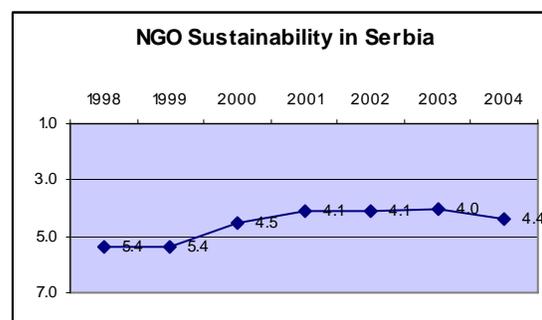
SERBIA

**Capital:** Belgrade**Polity:** Republic**Population:**
9,960,000**GDP per capita
(PPP):** \$2,200

NGO SUSTAINABILITY: 4.4

The current political situation and lack of an enabling legal framework in Serbia have prevented the NGO sector from achieving higher levels of sustainability, and in fact have caused a slide towards greater instability. Since the current government took office in March 2004, Serbian citizens have been treated more as subjects than as partners. A political and media campaign orchestrated by various officials from the current government has damaged the NGO sector's public image and eliminated from public discourse those issues that have been most important to the NGO sector since democracy began to take hold in 2000. These issues include cooperation with the Hague Tribunal, peaceful resolution to the Kosovo problem, decentralization of powers within Serbia, integration with Western Europe, cooperation with the international community, and others. Though the government no longer considers these issues

to be of national importance, NGOs remain dedicated to bringing Serbian society to terms with its recent past, and to laying the foundation for future democratic reforms.



The NGO sector has not yet formed any significant relationships with officials from the current government, and therefore has not been able to participate in the policy arena as it had in the past. However, after two years of lobbying by the NGO sector, Parliament finally passed a new Free Access to Information Act, although the final

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version of the bill was altered to lessen its impact. It is difficult to determine the actual number of NGOs, though many

estimate the number of active organizations to be close to 3,000.

LEGAL ENVIRONMENT: 4.5

As of the end of 2004, the NGO sector operated under an unclear and inconsistent legal framework. A coalition of NGOs organized a campaign in 2002 and 2003 to draft and lobby for new laws, but Parliament has yet to act. The Ministry of State Administration and Local Self-Government drafted a new NGO law, and towards the end of 2004 hosted a roundtable to discuss the new draft. Unfortunately, if it is enacted in its current form, the draft will still provide for less than favorable conditions for the NGO community. There are reports that other drafts are in circulation, though many in the NGO community believe that these are also the work of the government. NGOs are currently surviving by registering under legal forms not appropriate to their purposes.

According to opinion polls and political analyses, the right wing, nationalist parties, which are the home to officials indicted on war crimes, will win control of the Parliament in extraordinary election expected in 2005. Without laws to protect

them, NGOs will be especially vulnerable to pressure and harassment from government officials.



Serbian tax law does not explicitly address whether NGOs are exempt from paying income or profit tax. The law provides exemptions for “other legal entities,” which include associations, foundations, religious groups, and sports organizations. Unfortunately, in the absence of a clear NGO legal framework or explicit exemptions, government officials are able to apply the existing tax provisions as they see fit. The result is disparate treatment of NGOs by the various government officials.

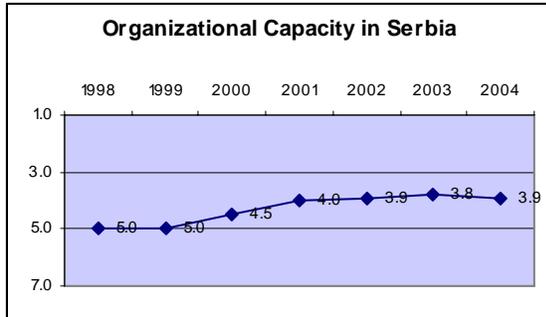
ORGANIZATIONAL CAPACITY: 3.9

The organizational capacity of most NGOs is limited by their ability to fund more permanent staff, which would ensure greater stability, strategic planning, and operations that are more efficient. NGOs generally are not capable of generating funds on their

own, and local philanthropy in Serbia is still in its infancy. Few professionals are able to be full-time volunteers, and the public ought to understand that in order for NGOs to produce quality work, they must have more funding. Central and local governments

provide some support for NGOs, although there are no regulations that govern how public funds are to be distributed and handled. Increased support from the international donor community would permit more NGOs to hire the staff necessary to develop their organizational capacity and achieve a greater level of sustainability.

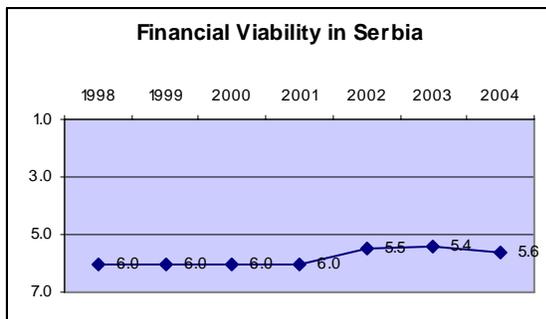
Most NGOs have at least one staff member and a number of volunteers, but they are generally equipped with just a personal computer and telephone. Any equipment that an organization has was most likely donated by a foreign donor many years ago, and will soon need to be replaced. Almost no NGOs own property or have proper business offices.



FINANCIAL VIABILITY: 5.6

In 2004, NGOs were not successful in fundraising at the local level, and remained dependent on foreign funding. As donors have imposed tighter criteria on grants, and foreign funding sources have decreased, many NGOs have ceased to exist, while others struggle to comply with donor funding requirements. New VAT regulations take effect in January 2005, and will present the NGO sector with yet another set of challenges. Fortunately, NGOs are generally more informed about VAT provisions than the tax authorities are.

Because the legal framework does not adequately consider the needs of the NGO sector, organizations often have to comply with the financial requirements designed for the business sector; for example, they are in some instances required to maintain point of sale computerized cash receipts that allow authorities to monitor tax liabilities. This is a result of the tax authorities' failure to understand how an NGO differs from a business. One challenge for the NGO sector is to spark a sense of social responsibility and introduce the concept of the "good corporate citizen" among the local and international businesses operating in the country. The primary obstacle, however, is the Corporate Income Tax Law. Although the law provides some incentives to promote corporate philanthropy, its provisions regarding qualifying public benefit activities are construed very narrowly, limiting its effectiveness. This highlights yet another law in need of reform if the legal



environment for NGOs is promote their sustainability.

NGOs may engage in economic activities without rendering their other income taxable. In fact, income under 300,000 dinars is tax exempt if: it is not distributed as profit; it is used to further the organization's purpose; the salaries of board

members and employees are not double the average in the field; and NGOs do not obtain and unfair market advantage, hampering competition. NGOs rarely receive government contracts for services, and when they do, it is a result of pressure from foreign donors. These contracts are limited to provision of training.

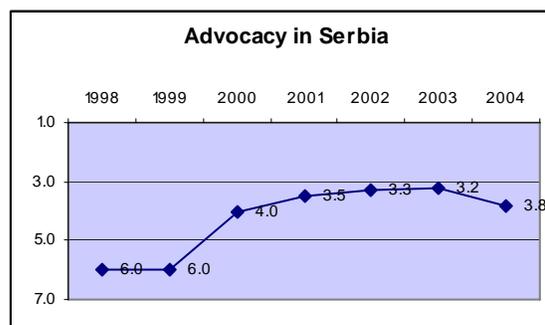
ADVOCACY: 3.8

In 2000, a civil society-led democracy movement, backed by great popular support, toppled the Serbian government. Since then, the civil society movement has dissipated, and is no longer able to mount national advocacy campaigns as it once did. The sector enjoyed some success collaborating with the Djindjic government on national legislative issues, but since the assassination of Prime Minister Djindjic in 2003 and the inauguration of the Kostunica government in March 2004, NGOs have not had a significant role at the national level. Now only a few strong organizations are able to overcome harassment from the government and keep human rights issues as a part of the public discourse.

The majority of NGOs have not yet figured out how to be effective advocates under the current government, which offers few democratically oriented officials with whom to partner. Many of the older human rights organizations have recently begun to consider strategies on how to restore the image of democracy organizations and confront what they see as the state of crisis state in the third sector.

Many in the NGO community report that the government neglects the interests of minority groups and focuses primarily on

protecting ethnic Serbs. Complaints have come primarily from the Vojvodina region in the North, and Sanjak in the South. In Vojvodina, some Hungarian families have begun to leave Serbia for Hungary, while those that remain try not to speak the minority language in the presence of police or representatives from the nationalistic political parties. NGOs that are involved in ethnic issues have been labeled "destabilizing" by the government.

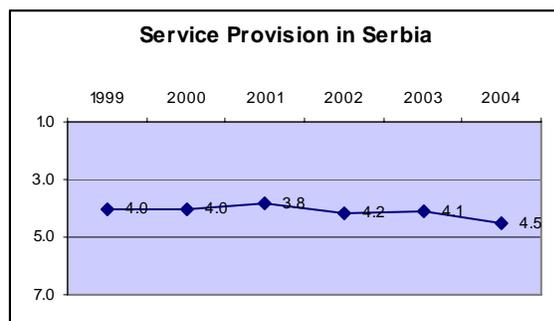


The NGO sector's greatest advocacy achievement in 2004 was the passage of the new Free Access to Information Act, which was adopted after two years of lobbying and even then was amended to limit the Act's impact. Many NGOs do not believe that the government will adhere to the law, and instead will make efforts to ensure that information remains inaccessible. In the past, the government has labeled NGOs that request access to sensitive information as

“traitors of the national interests” or “foreign agents.” In fact, the government is quick to

call NGO actions confrontational or acts of animosity.

SERVICE PROVISION: 4.5

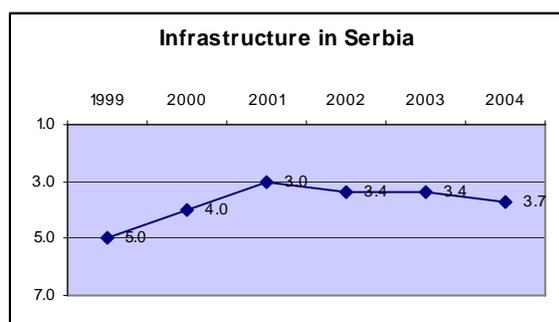


Just as advocacy groups face growing challenges, service providers are concerned that the implementation of restrictive laws will make their work more difficult and demanding. For example, CeSID, the most prominent national election monitoring NGO, experienced difficulties obtaining permission to monitor recent elections. The government first denied CeSID access to the

polling sites, but finally granted permission under pressure from the NGO community. The government made it more difficult for civilians to serve their mandatory military service working for civil society organizations, a program for which the NGO community had advocated. Confronted with a large number of civilians who wanted to participate, the government has reduced the number of requests it approves, decreasing the benefits of the program.

Despite the harsh environment, NGOs continue to provide a wide range of services including social welfare, education, environmental protection and management, and others. The services that are in highest demand however, are those associated with human rights.

INFRASTRUCTURE: 3.7



The largest NGO support center, originally located in Belgrade, has established offices in several parts of the country, and remains the primary center for gathering and disseminating information concerning NGOs. Recently, the EU and other foreign

donors have helped create other NGO information centers that provide information on NGO activities and grant opportunities from EU donors.

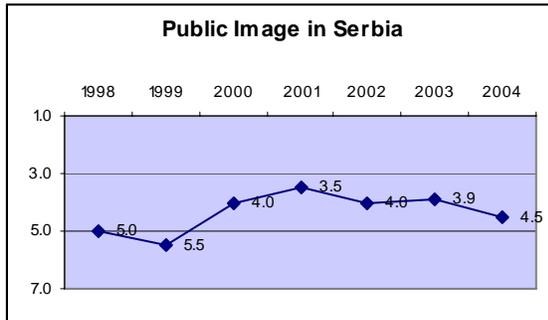
The Federation of NGOs (FENS) is still the largest NGO coalition of in Serbia. Though FENS has 400 members, some of the most active organizations are not affiliated. Coalitions are frequently formed on an ad-hoc basis to address important issues, and generally only last as long as their advocacy campaigns. The government does not partner with NGOs unless pressured by foreign donors to do so. The few organizations created by the governing

2004 NGO SUSTAINABILITY INDEX

political parties are exceptions, as they have received favorable attention from the state

controlled media.

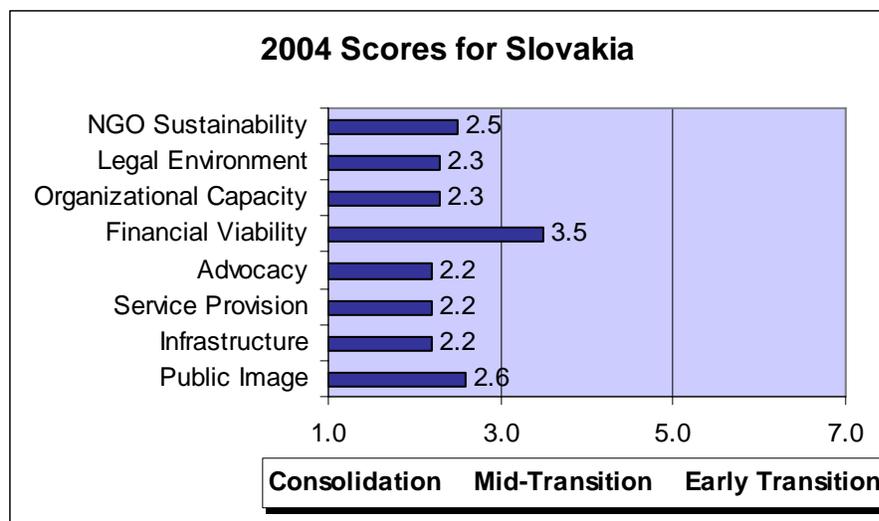
PUBLIC IMAGE: 4.5



Because NGOs continue to address controversial social and political issues, the government-controlled media, including the Serbian State Television, has made a

concerted effort to promote an unfavorable public image of the NGO sector. Other media outlets controlled by powerful Serbian interests have joined the campaign against NGOs. One media corporation with political connections has filed suit against a human rights activist who has five separate cases pending against her. In the past, NGOs have found some professionals in the media with whom they could partner in their advocacy efforts. This year however, the sector has not been able to form any such partnerships, in the media or government.

SLOVAKIA



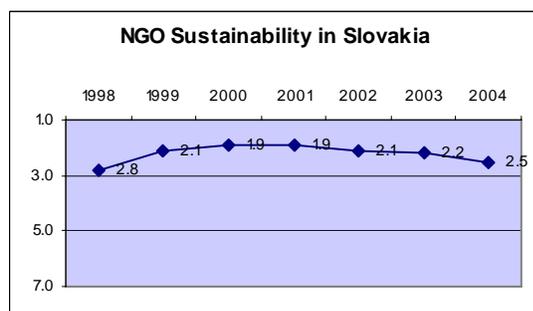
Capital: Bratislava

Polity: Parliamentary democracy

Population: 5,420,000

GDP per capita (PPP): \$13,300

NGO SUSTAINABILITY: 2.5



In 2004, the NGO sector in Slovakia stabilized considerably. Many traditional international donors withdrew from Slovakia after the national elections of 2002, leaving NGOs scrambling for new ways to continue operating and to remain financially viable in 2003. Having survived the transition, the sector is more optimistic now about its future.

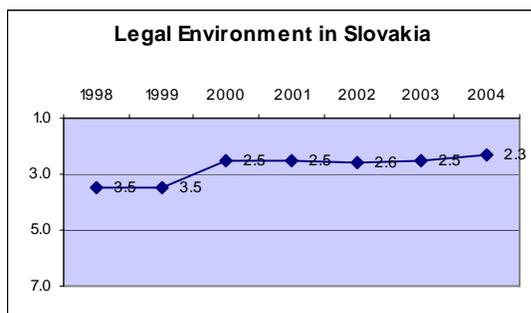
A change in the tax legislation that came into effect in January 2004 was another important breakthrough for nonprofit organizations in Slovakia. The new

provision allows individuals as well as legal entities to award 2% of their tax liabilities to NGOs. The public campaigns about this opportunity—conducted by both the national government and the NGOs themselves—resulted in more than 816 million Slovak Crowns (approximately 27.2 million USD) awarded to NGOs, and a much wider public awareness about NGOs' programs and the benefits of their work. Many NGOs now better understand the value of marketing and public relations, as well as the need to ensure operational transparency and linkages with the business sector.

NGOs have also begun financing some of their core activities with the intention of generating revenue. They have also tended to focus their activities—either geographically or by addressing specific issues within their sectors of expertise.

LEGAL ENVIRONMENT: 2.3

NGO registration is relatively easy, as demonstrated by the large number of registered NGOs (21,661 organizations per *Súhrnná správa o stave v spoločnosti*, 2003.) There exists an effort in Slovakia to change the registration process from one where approval is given by an administration officer, to one where the NGO provides written proof of eligibility to the appropriate office. Issues have been raised with respect to international organizations with a branch office in Slovakia, which are often neglected by the legislation. NGOs registered in this form have problems in their everyday lives, and because the legislation does not address certain issues, they manage their activities according to the law on civic associations. However, this situation should be solved by the passage of the Code of Non-Profit Law. Other problematic issues are the nonexistence of a unified NGO register, and the fact that volunteerism is not properly defined in the legislation.



NGOs in Slovakia are free from harassment by the central government, local governments, and tax police, and can express their opinions on topics of public debate and make criticisms. For example, the *Alliance for Fair Play* and *Transparency International* are watchdog organizations, both of which openly criticize the political environment in

Slovakia. There are lawyers specializing on NGO legislation in Slovakia and a legal clinic that specializes in NGO legislation at the Law Faculty of Comenius University. In general, officials possess legal rights and control mechanisms but have not yet exercised them. On the other hand, NGOs have not undertaken activities that would provoke reactions by the authorities.

New tax legislation came into effect in January 2004 allowing individuals and legal entities in Slovakia the opportunity to assign 2 % of their tax liabilities to Slovak NGOs. Previously, only individuals were given this opportunity, and only for 1 %. This year individuals and legal entities assigned more than 816 million Slovak Crowns to NGOs (approximately \$27.2 million).

On the other hand, there are other changes in the legislation that are not so beneficial. In the past, legal entities could claim a tax deduction (legal entities up to 2 %, and individuals up to 10 %) for their donations to an NGO – this provision was eliminated. Some NGOs criticized this change quite vehemently. There were also some changes in VAT legislation. Until 2004, NGOs were not required to pay VAT as long as they did not generate income from prize competitions. This term was not understood by many NGOs, and in reality, the majority of them did not pay VAT at all. As of 2004, all income-generating activities are taxed, with the exemption of the income from purpose-related income up to 300,000 Slovak Crowns.

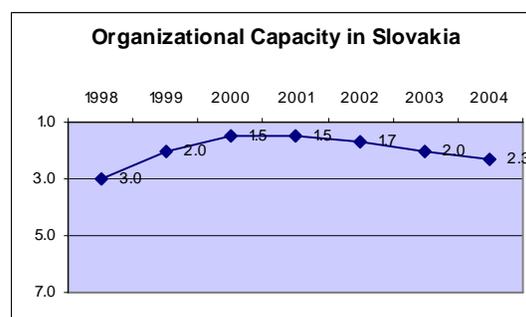
Preparation of the Code of Non-Profit Law is the next important step to unify NGO

legislation. The Code must be compatible with EU legislation. In September, comments on a draft were solicited, provoking significant debate among supporters and opponents of the sector. However, opponents were out-voted, and the Code has moved forward for further work. The Code is expected to come before the Legislative Council of the Government, which will decide how the draft will proceed, in January 2005. Preparation of the Code was the subject of discussion within the NGO sector, and NGOs were polarized. Some were of the opinion that the Code was an unnecessary restriction on the sector, and others saw the necessity of the Code and the benefits that it might bring. An external evaluator has been invited to review the process of creating and passing the Code. With regard to contracts between NGOs and central or local governments or

municipalities, the situation is not yet consolidated. On the VUC (higher administrative districts) level, cooperation presumably will be established in the future, even though it already exists in regions. Cooperation with municipalities is good—there is wide support for NGOs, especially for socially-oriented NGOs, and community, advisory and information centers. These organizations are connected with municipalities, but there is no formal system in place for cooperation, which is often based on individual contacts. These relationships also contribute to the politicizing of the sector, as cooperation exists only when a specific party has power. NGOs have expressed interest in creating formal communications systems between themselves and local government authorities, motivated by the availability of EU funds for joint municipal-NGO projects.

ORGANIZATIONAL CAPACITY: 2.3

In 2004, donors saw declining NGO interest in broad-based, introductory training activities—except from organizations serving Roma communities. Instead, the more sophisticated NGOs, of which there are about 40, requested tailored trainings (e.g., in advocacy, marketing, and financial management), to complement their already strong internal management and strategic planning. In spite of this, there are still NGOs that prepare project proposals not related to their missions for the sole purpose of obtaining funding. To answer the demand for assistance, a group of consultants is available to assist individual NGOs with their needs.



Internal management structures exist in the majority of NGOs, and in 2004 professionalism was on the rise among many of them. Boards of directors are renewed more often than in the past, and their members play a more active role in supporting the missions of their organizations and take their roles seriously. More often now, members of

the business sector are nominated to NGO boards of directors, which is to be expected given the shift in funding sources from international donors to local corporations.

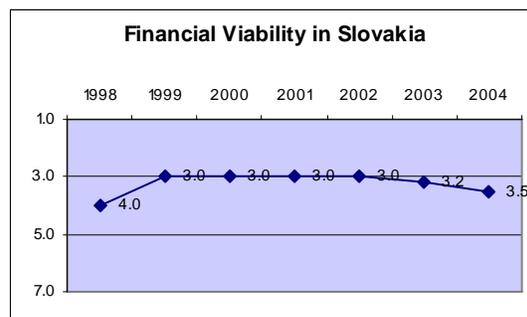
Slovak NGOs are still chronically understaffed because of a lack of funds to pay full-time employees. Many of those who work for NGOs are volunteers or part-time employees. The majority of NGOs employ independent contractors, relieving them of the responsibility of providing social security payments, health insurance, and taxes. There is a need for skilled staff, especially fundraisers and PR managers. This is especially important now that the 2 % percent law is in place, and many NGOs are implementing campaigns targeting individual and corporate donors, both at the local and national levels. Some organizations have

employees of this kind, but many are struggling without them. The “2%” campaigns have been implemented and brought new experience to many NGOs. Grants from the *Institutional Development Programs of Trust Slovakia* are available to pay for fundraisers for NGOs. The impact of this program will be known in 2005 after its completion.

Finally, there have been positive trends in the use of technical equipment. Computers and the Internet are seen as critical tools supporting NGOs’ operations —so much so that individuals who work with NGOs without equipment will access it at work or go to a cyber café. There are some foundations in Slovakia that request applications from grantees only via email. There are also more companies willing to donate computers to NGOs.

FINANCIAL VIABILITY: 3.5

While the NGO sector in Slovakia is not yet sustainable, 2004 brought several systematic changes that improved the situation significantly. With increased funding for NGOs from the 2% legislation, domestic funding for NGOs has increased significantly. Given that most large international donors withdrew from Slovakia in 2003, this shift has been welcomed and is much needed. There is also continued support for the sector from the local private sector. Many corporations will expand their support for an NGO once they are satisfied with the results of the initial funding provided. For example, two-thirds of Junior Achievement Slovakia’s budget is provided by Slovak businesses.



As a result of the increased attention and competition, Slovak NGOs have become more sophisticated in their fundraising strategies and public relations campaigns. In addition, an informal association of corporations called the Business Leaders Forum formed by the Pontis Foundation will build even more awareness about the NGO sector among corporations in Slovakia. This association aims to promote

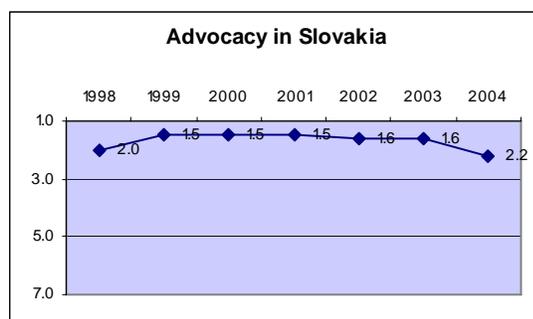
the idea of corporate social responsibility (CSR), and to equip Slovakia's corporate leadership with the tools for mainstreaming CSR. Its members will work to develop a framework, standards, and systems to measure and report CSR activities. The goal is to increase impact on stakeholder relationships, reputation, brand value, and ability to attract and maintain talented people—all based on ethical and intensive partnerships among all three sectors of Slovak society, who will lead by example.

Local government also provides support for local NGOs, mostly those working in the social sectors (which have guaranteed financial support from government ministries), usually in the form of in-kind donations or free rent. NGOs are also exploring their ability to self-finance, and several NGOs with coherent business plans can count on profit generated from self-financing activities. Often, these are small local NGOs sell their products on a small scale, and profit is invested into implementation of other projects. Membership fees have also started to become a reliable source of funding.

NESsT, the Jan Hus Educational Foundation, and Pontis Foundation provide support to NGOs pursuing self-financing as a sustainable method of financing.

EU Structural funds are another large potential source of funding for NGOs. Preparation of project proposals for EU structural funds is very complicated and requires teamwork lasting several months. There are some examples of NGOs, including Integra Foundation, and Foundation-Centre for Contemporary Arts, which have been successful in obtaining EU funding. Because the applications require NGO-local government partnerships, government officials are providing NGOs with much support and encouragement. Many NGOs simply do not have the internal capacity, however, to engage in development of these large proposals, but there is a loan program carried out by the Pontis Foundation to assist with co-financing or pre-financing of some of the activities. Additionally, there are advisors available to provide consultations on the proposal writing.

ADVOCACY: 2.2



In 2004, there was no issue that brought together the support of the entire NGO sector. The Code of Non-Profit Law could

have had a uniting effect, but instead brought conflict between two groups of NGOs, as discussed in the Legal Environment section. Advocacy activities were focused more on specific topics and areas. As there is no legal framework for lobbying or advocacy, and NGO capacity is stretched, NGOs often do not have the ability or time to monitor the legislative process throughout and ensure that their comments are not lost. In spite of this, they have had notable successes in some

legislative efforts, such as the 2 % assignment initiative.

There are a number of examples of advocacy successes resulting from NGO efforts in 2004: environmental NGOs ensured that the secret agreement between the Slovak Government and KIA corporation was made public; Slovak NGOs established an EU Watchdog Fund available for advocacy activities; Junior Achievement Slovakia was active in lobbying the EU for support in the area of youth education on business management; Slovak NGO platforms are active in Slovak Aid; the Open Society Foundation

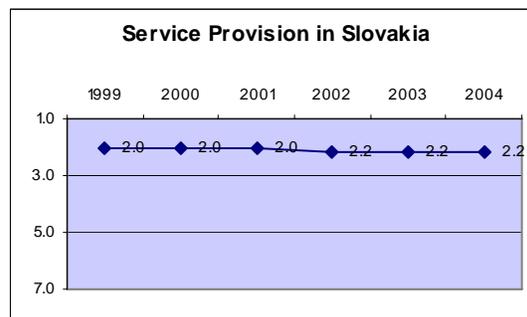
achieved partial success in its advocacy to prevent further criminalization of drug users in the new Penal Code; Youth Council of Slovakia and other youth NGOs are official partners of the Ministry of Education and make comments on various documents and regulations; the NGO Návrat lobbied the Ministry of Labor, Social Affairs, and the Family to remedy weaknesses in the adoption system; the Alliance for Fair Play criticized the internal political situation. These can all be seen as progress -- progress that took place in spite of NGOs' continued, expressed need for advocacy training.

SERVICE PROVISION: 2.2

The majority of Slovak NGOs were established to meet the needs of a particular constituency (especially those working in the social sectors.) In 2004, NGOs began to realize that in order to ensure their sustainability, they needed to get feedback from their constituencies so that they could continue to meet their needs. In general, NGOs charge fees for products and services, and are broadening the range of services they offer in attempts to attract new clients—individuals and other NGOs, as well as corporations and the local and state administrations.

Though not common, grant making is a new service that NGOs have begun providing this year to both the state and the private sector. For example, The Open Society Foundation administers funds of the Plenipotentiary for Roma Issues, which provides scholarships for Roma students. The Center for Philanthropy administers funds for the SPP Foundation (Slovak Gas Industry) and those of Orange (the mobile telephone operator); the Pontis Foundation

administers World Bank grants and funds from various corporations.



Another new development in 2004—one that has especially benefited NGOs that serve Roma populations—is the state's establishment of a system for providing unemployed citizens with public service jobs. Many of these people are trained and placed with qualifying NGOs. Also, the state decentralized almost 74% of the state's own service provision centers. The opportunity for NGOs to get accreditation for service provision by relevant ministries contributes to increasing professionalism

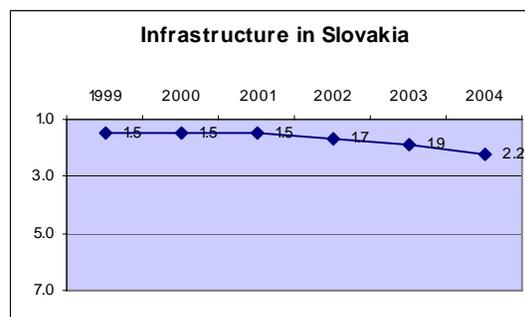
among NGOs, as well as quality of the services provided to citizens.

INFRASTRUCTURE: 2.2

In January 2004 the Service Center for the Third Sector (part of Slovak Academic Information Agency) ceased to exist, although there are other organizations working nationally or regionally that provide services for the NGO sector, including: the First Slovak Non-Profit Service Center (1.SNSC), Forum Information Center, STUŽ, VOKA, the Association of Supervisors and Social Workers, Fenestra, and ProFamilia. Information services are provided by an Internet portal (ChangeNet) and are focused on activities for the sector as a whole, with several active servers focused topically, such as socio-forum (social issues), mladež.sk (youth issues), a mail server for environmental NGOs, and a Web page focused on partnerships between sectors (www.partnerstva.sk). A monthly magazine, *Efekt*, published by 1.SNSC, also covers events in the sector and includes supplemental products like “Flash News” and “Monthly Information Summary” about changes in laws and regulations, and implementing procedures governing taxes, accounting, and management. *Efekt* currently has 800 organizational members, and an associated Web site www.mvoservis.sk.

In 2004, several national NGO conferences were cancelled due to lack of interest, but the sector-wide coalition—the Governmental Council for NGOs—has been active in its advocacy role, serving as a point of contact for the sector in negotiations with the Slovak government.

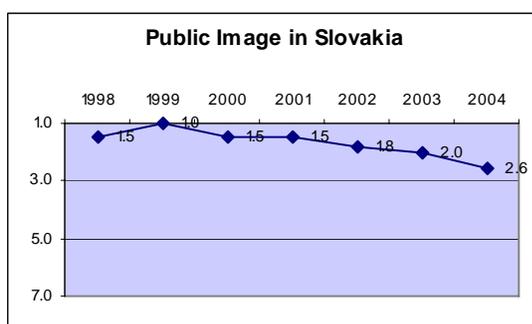
Several research efforts were undertaken this year on the NGO sector and its relationships with other organizations, including the PANET study on inter-sectoral cooperation, and three studies published by the Institute for Public Affairs: one on corporate philanthropy, one focused on opinions of politicians on how NGOs function, and one entitled *The Global Report on the NGO Sector*.



In 2004, libraries of NGOs were mapped and 1.SNSC started the preparation of the Database Informational System (DIS). DIS is a comprehensive, adjustable, and thoroughly Internet accessible system that provides statistical and analytical information about NGOs, projects, activities, donors, and finances. This tool will help to improve exchange of information among donors, and should also help to identify unsupported programs and geographic areas, and to increase transparency of NGOs. DIS is currently in the pre-realization phase, and it should be made public in the spring of 2005.

PUBLIC IMAGE: 2.6

Thanks to the 2 % campaigns organized by many NGOs, there was a slightly positive change in the public image of NGOs. These campaigns were implemented on national, regional, and local levels, and there was also one general campaign implemented by 1.SNSC with the goal of raising public awareness on the opportunity to assign 2 percent of tax liability.



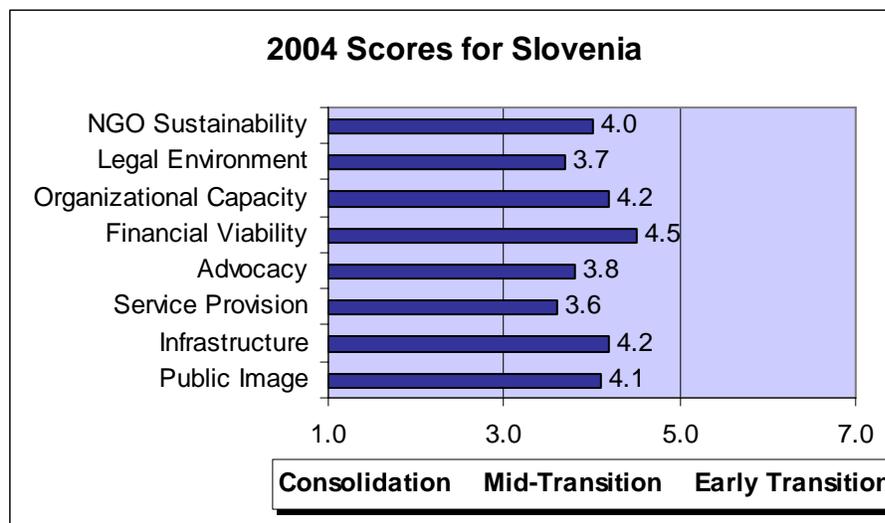
Cooperation with journalists is still difficult and depends on individuals' contacts with the media. In addition, journalists often misrepresent information and omit important details when covering NGO activities, thus confusing the public and requiring an affected NGO to clarify.

That said, media coverage of NGO projects is quite wide, and specific events such as *One Hour for Children* and *Daffodil Day* are usually well covered. Media are usually willing to provide discounts for NGO advertisements as well.

The public is generally interested in sectors such as health care, children, and social issues, but the perception of human rights, watchdog, and environmental NGOs is weak. The state and certain politicians use the expertise of NGOs in the some policy areas.

There are several other developments in 2004 that contributed to the transparency of the sector and the positive public image of NGOs: a code of ethics established and respected by donors; obligatory audits for foundations and NGOs that earn more than 1 million SK through the 2 % provision; and the requirement that NGOs earning more than 100,000 SK must inform the public on how they spent the funds (published in *Business Magazine*).

SLOVENIA



Capital: Ljubljana

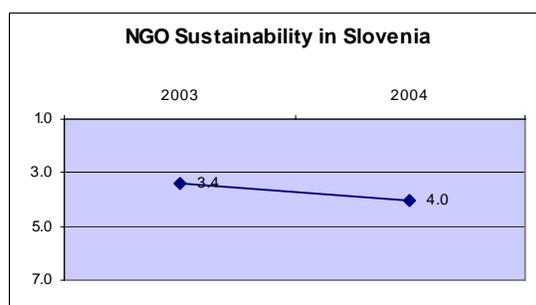
Polity: Parliamentary democratic republic

Population:
2,000,000

GDP per capita (PPP): \$19,000

NGO SUSTAINABILITY: 4.0

There are over 20,100 NGOs in Slovenia; 19,200 of them are associations or federations of associations, among them approximately 2,000 have the status of association in the public interest (among which 80 percent are voluntary fire brigades and sport organizations). The rest of the NGOs are foundations (approximately 150) and private institutes (approximately 850). Not all of these are active, but there is no current data as to which are defunct.



The primary field of work in which NGOs operate are voluntary fire brigades, sports,

culture, and social welfare. Most NGOs have their headquarters in urban areas, particularly Ljubljana. 0.7% of all working people are employed in NGO sector.

Slovenia is becoming a member of the European Union, which is the impetus for two important strategic documents. One is the government strategy on the NGO sector in Slovenia, in which the government recognizes the importance of NGOs, and the second is the agreement between the government and NGOs, which is still being negotiated. In this agreement the government promises implementation of civil dialog, necessary needed legal reforms, regulation of mechanisms for financing NGOs, and increased employment in the NGOs sector. While these are not yet yielding positive effects on the NGO sector, they will, as the NGO community and the government both understand the need to cooperate and promote legal reforms to benefit the NGO sector as a whole.

LEGAL ENVIRONMENT: 3.7

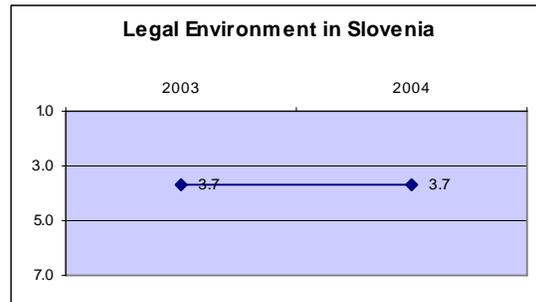
Little has changed in the last year. NGOs still face long administrative processes to register, and are governed by the same laws that apply to for-profit entities, thus requiring NGOs to keep accounts and publish annual reports. There has been progress on three new relevant laws. New laws, one for associations and one for public institutions, have been proposed but not yet adopted by the parliament. A new law on voluntary work was also prepared but the responsible government body is still reviewing it. In general, NGO laws are written in a manner that allows for interpretation and inconsistencies in how they are applied. NGOs themselves tend to determine how to manage their operations, and make decisions that may leave them vulnerable to political influences. So although NGOs and their representatives are allowed to operate freely and can address matters of public debate or express criticisms, they often do not have the funds to campaign widely.

There are no local lawyers trained and familiar with NGO laws, but some individual NGOs are advising other NGOs

ORGANIZATIONAL CAPACITY: 4.2

The lower score in this dimension is as a result of new data on the state of NGOs, which is being systematically researched and analyzed by the Center for Information Service, an organization that supports the coordination and development of NGOs. The research has shown that organizational capacity is especially low in rural areas and less developed regions, and that while volunteers provide an important service to the sector, they are often inexperienced and lack needed skills. Established NGOs

on legal matters. This kind of consultation is only happening in the capital and the second largest city.

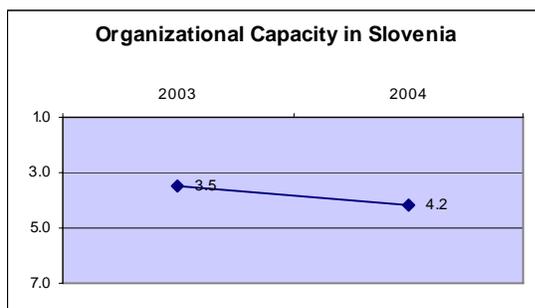


Taxation provisions are not favorable for NGO development, and NGOs have been pushing for changes in the tax legislation. Individuals and corporate donors can receive tax deductions, but they are too low to be an incentive to giving. NGOs are excluded from paying taxes on grants or endowments, but are required to pay VAT on goods and services they provide. In the social sectors, NGOs compete for government contracts and procurements at the local and central levels.

can rely on their constituents, and newer NGOs are quite active in defining themselves before the public and working to gain its support.

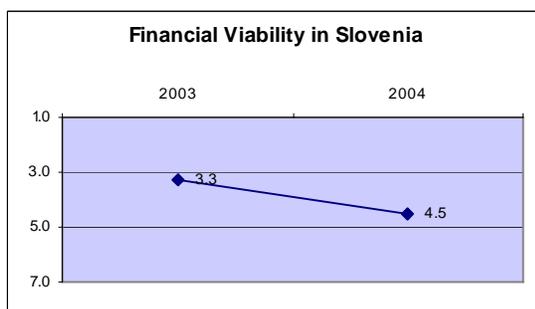
The majority of NGOs define a broad mission at their onset, allowing them to be flexible in the activities that they carry out. NGOs that have continual sources of funding—the government, voluntary work or private contributions—are usually not interested in other kinds of funding. Those

that do note will explore a variety of funding sources. Many of the activities undertaken by NGOs are ad hoc; strategic planning is not commonly practiced. NGOs suffer from a lack of full-time, qualified staff.



Clearly defined management structures can only be found within some NGOs, mostly

FINANCIAL VIABILITY: 4.5



Initiatives to raise funding through local foundations are currently underway. NGOs raise funds from local municipalities, as well as from foreign donors, service provision, grants and contracts from the government, and from membership fees. Many NGOs rely on volunteer work, and in many cases, the contributions of volunteers enable them to remain viable. Contracts with local business are mainly limited to sponsorship and advertising. The percentage of money raised from local sources is higher than from central sources, and private donations are limited due to

the ones with more funds, more members and more professional staff. Still, many organizations rely on a handful of people who handle all aspects of the organization's operations, and most are volunteers. Similarly, the degree to which an NGO is transparent and accountable depends on the staff and resources available.

Only leading NGOs have sufficient resources in terms of office equipment (personal computers, fax machines, scanners, etc.). Most do not have modernized basic office equipment, and are reliant on the support of their local communities to provide space and other in-kind resources needed.

lack of tax exemptions. There have been cases where private donations have been given as in-kind contributions. Services and products sometimes supplement the earned income, and in rare cases the rent from assets can also be an important part of income.

Most NGOs rely on a small number of funders, and are unable to diversify their funding bases because of a lack of staff with knowledge about fundraising. Though NGOs have recently engaged in membership outreach and philanthropy development programs, there is no evidence yet that they have successfully expanded their funding bases. Generally, large NGOs that are well known and have clear humanitarian goals get more support. Slovenian membership in the European Union provides more opportunities for NGOs to qualify for EU funds, but given NGOs' limited capacity to participate in such tenders, few have applied.

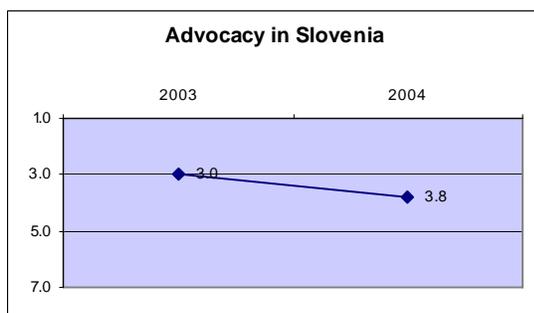
NGO SUSTAINABILITY INDEX

Only a small percentage of NGOs publish annual reports with financial statements.

Most do not have the capacity, but do operate transparently in many other ways.

ADVOCACY: 3.8

Formal communication channels exist between NGOs and policy makers, as there are many working groups and advisory bodies that take on an advocacy role. Central or regional governments invite NGOs to policy-making procedures more often than in the past. Notable progress was made in improving communication between NGOs and central government in the areas of environmental protection and social affairs, where NGOs are invited to discuss legislation before it is adopted. NGOs have played an important role in providing social services under government contracts, and have begun having a voice in the policy process as well.



Each ministry has its own rules about communicating with the NGO sector, as there are no general regulations on the

issue; in this way, it is not unusual for select NGOs to be privy to information. Informal direct lines of communication are still commonly used, whereby NGOs use personal relationships to access government officials and vice versa.

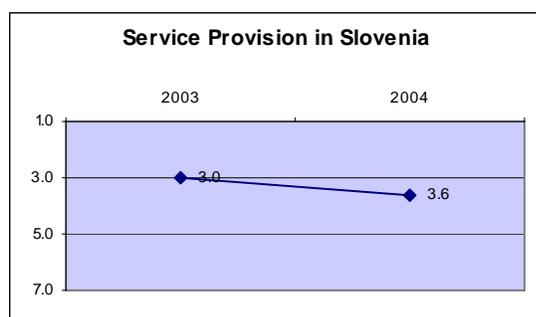
In general, NGOs are not comfortable and do not understand the concept of lobbying. There are some, however, that are very successful lobbyists. One example is the Initiative for the Future of NGOs, which was the foundation to start the negotiation with the government about the civil dialog, legal reforms, mechanisms of financing and employment in the sector. Lobbying by NGOs was also a crucial part of preparation of the Association Act. It is too early to see tangible results, but there has been rising awareness in the NGO community on how to press for a favorable legal and regulatory framework in order to enhance its working environment and sustainability. Only some individual NGOs push for legal reforms that will benefit NGOs and local philanthropy. Some NGOs have formed coalitions and have formed a Strategy for Development of NGO Sector (covering tenders for legal reforms, public awareness, relationship to the government and financing), which was a good framework for the negotiations about the agreement with the government.

SERVICE PROVISION: 3.6

NGOs provide services in a variety of fields, including some basic social services

such as health care, education, help for the disabled, relief and housing, and

environmental protection. In the social sectors, many NGOs cover the gap in services not provided by the government on a national and local level; this has led to recent discussions about further privatization of public services. The government at the national and local levels increasingly recognizes the value that NGOs add in the provision of basic social services. There are many multiple-year programs contracted by government entities to NGOs that are being extended and expanded.



Goods and services that NGOs provide reflect the needs and priorities of their constituents and communities. NGOs successfully track needs, though more on

an ad-hoc basis than a strategic one. Goods and services that go beyond basic social needs are provided to members and non-members of NGOs. NGOs that have a status of association in the public interest are obligated by law to provide the service to members as well as to non-members.

NGOs recognize the need to charge fees for services and other products—such as publications, workshops and expert analyses—which are marketed to other NGOs and government officials. Though NGOs generally have a good sense of the market demand for their products, two issues complicate their ability to earn revenue through sales. When NGOs provide goods and services, they recover their costs by charging fees, but they are obligated to charge VAT as well, making the products expensive—sometimes too expensive for their customers. Also, because of a lack of staff and resources, few NGOs have the capacity to provide the high standards of service provision expected.

INFRASTRUCTURE: 4.2

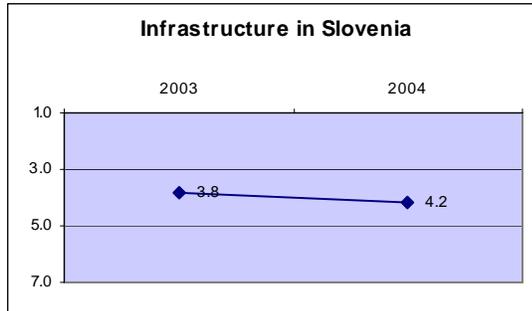
NGO resource centers were established in the two biggest cities, providing access to the Internet and to computer hardware and software for free. Such centers were proven successful and there is a need for more regional offices like these.

There are no local community foundations, but some are in the process of being established.

NGOs are aware of the importance and advantages of networking and sharing information with each other, so many networks have been established and operate successfully (for example: CNVOS – Centre for Information Service, Cooperation and Development of NGOs; ZDOS – Association of Slovenian Societies; ZSU – Association of Slovenian Foundations; ZZZ – Federation of Private Institutes; MISSS – Information, counseling youth centre; Mama network). There are also some networks specific to

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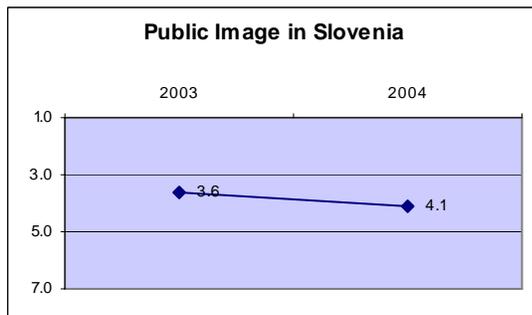
issues such as culture and environmental protection. Most of them communicate using the Internet.



Some local NGOs provide management training, seminars and workshops on strategic management, accounting, fundraising, media relations and human resource management. These opportunities are available in the local language, and only held in the larger cities.

There are only a few good examples where NGOs have developed partnerships with the private sector and media, and this will most likely slowly improve in the future as awareness grows about the utility of such relationships.

PUBLIC IMAGE: 4.1



In general, the media is well disposed toward the NGO sector, sometimes reserving special columns for NGO activities. At the local level, the media gladly provide coverage, and on the national level, the media is very interested in NGOs' work in particular sectors. The media tends to report on NGOs in negative situations more often than positive ones, but NGOs are partly to blame, as they do not communicate well with the media. There is much room for improvement, whereby the NGOs could enjoy more positive public exposure.

The public has a neutral perception of NGOs, because it does not know what NGOs do. The perception is more positive on the local level, where people are more in contact with the NGOs that operate in their municipalities. When the media reports negatively on affairs in NGOs, it affects public perception.

The relationships between NGOs and the business sector are positive on an individual level; however, the function of the NGO sector as a whole is often not understood. The perception is also more positive than negative from governmental officials, as demonstrated by their reliance on NGOs as a source of expertise in public competitions.

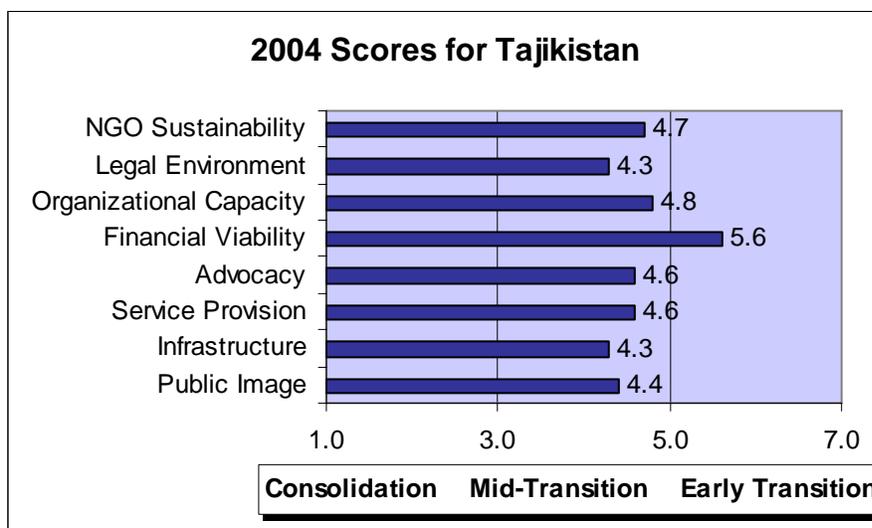
In general, NGOs do not publicize their activities or promote their public image, but there are individual NGOs that do, and they have been very successful at forging relationships with the media. Small and newly established NGOs lack the skills to deal with the media. NGOs are aware of

the importance of publicity, but do not have the staff or knowledge to harness it.

Unchanged from last year, some leading NGOs publish their annual reports, but others do not due to lack of resources.

NGOs are becoming aware of the importance of transparency for their public image and are trying to demonstrate it in their activities. As for now, there is no code of ethics on transparency.

TAJIKISTAN



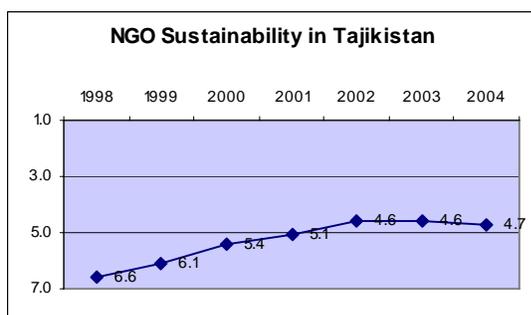
Capital: Dushanbe

Polity: Republic

Population:
7,011,000

GDP per capita (PPP): \$1,000

NGO SUSTAINABILITY: 4.7



Both the NGO sector and legal framework governing it continued to develop in 2004. The number of NGOs continued to increase, especially in rural areas such as the mountainous regions and border districts. Approximately 1,500 NGOs are currently registered with the Ministry of Justice, 400 of which are active. NGOs have greater access to information systems and have improved communication networks. Although access is still limited, greater information and communication has provided NGOs with more opportunities to participate in training

programs, to access donor project information, and to submit timely proposals for grants.

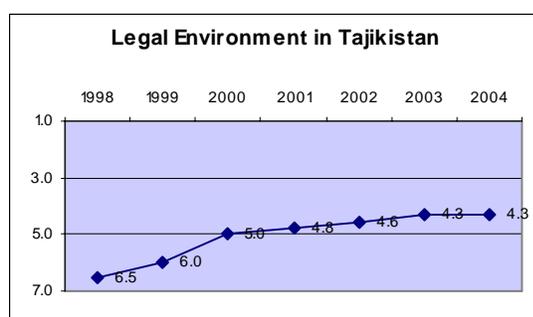
The social, political and economic developments in Tajikistan have led the large and diverse NGO community to segregate into distinct sectors according to their missions. This development has also been the result of the ability of NGOs to monitor current social issues, design and implement programs, and maintain a dialogue with donors, constituents, and local authorities. These characteristics have been most evident when the country and donor community respond to emergency or high priority events. Examples include the upcoming Parliamentary elections and the increasing rates of infectious diseases, which have drawn donors' attention to community development. NGOs have been more efficient and strengthened their ability to

work at the community level and to reach out to the public.

Over the past year, NGOs have demonstrated greater maturity, a firm commitment to their ideals, and an ability to mobilize strong intellectual resources to achieve their ends. However, the efficiency and effectiveness of the sector was negatively affected by widespread

corruption within the local governments, as well as the incompetence of many local officials and their unwillingness to commit resources to or permit activities outside the scope of government-approved work. Even though top government officials welcome and encourage social partnership, these limitations at the local levels limit collaboration.

LEGAL ENVIRONMENT: 4.3



The NGO legal environment has not changed significantly over the past year. The registration process remains fairly simple, but is in need of further reform. The NGO sector is also still in need of qualified legal assistance and as reported last year, organizations face harassment from tax authorities and other officials. The tax laws concerning NGOs have not changed and still do not offer the benefits and incentives necessary to promote philanthropy.

Although the law still requires an NGO to re-register if it changes its legal address or any other data in its charter, the registration process remains fairly simple. An organization is generally able to register in two days, but there are cases in which applications have been ignored for weeks or months. The Civil Society Support Centers (CSSC) help to expedite

the process by providing NGOs with assistance in drafting the required registration documents.

The law permits only those organizations registered as Foundations to engage in micro-finance activities.

Access to qualified legal assistance remains insufficient to meet the growing needs of the NGO sector. New laws, regulations, and instructions, as well as a shortage of lawyers trained in NGO law, have increased the demand, especially among grassroots organizations. NGOs and government officials often do not understand the rights and obligations set forth in Tajik law. For example, provisions in the law prohibit unjustified interference with NGO activities by government authorities, although NGOs are continually subjected to such interference. Organizations, especially in the rural areas, generally lack access to legal information and the justice system. In the Sughd Region, NGOs are inspected by local tax authorities, per instructions from the regional tax inspector. In the Rasht Valley of the autonomous region of Badakstan, inspections by the Ministry of Justice, although not permitted, have become a regular practice. As local and

national government officials are often corrupt and ignore the law, development of local legal capacity has become valuable for advising and protecting grassroots organizations. Some law schools have developed courses in NGO law to train lawyers in NGO issues. However, more training and information programs are needed to build local capacity for protecting organizational interests.

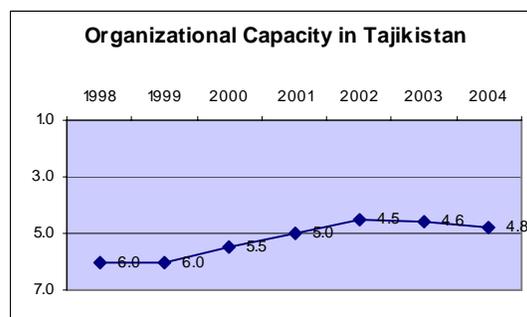
In addition to inspections, local authorities throughout the country request that NGOs provide periodic advance reports on their activities. To overcome impediments such as the lack of understanding within the government, some organizations have made efforts to develop relationships with local officials and inform them of current and planned activities.

ORGANIZATIONAL CAPACITY: 4.8

The Organizational Capacity dimension declined in the past year. Many NGOs still see their donors as customers and therefore, tailor their programs to donor priorities instead of the needs of an identified constituency. Only the most advanced NGOs operate according to long-term strategies and visions. These organizations often enjoy greater community partnerships, support from the local authorities, and benefit from the current legal environment. The majority of NGOs however, operate under very broad mission statements that allow them to undertake many different activities.

As reported in last years Index, NGOs are often driven by a single charismatic leader. While such organizations generally develop and perform well, they often lose their momentum with losses or changes in leadership.

NGOs are exempt from paying taxes on grants. However, employees of NGOs must now pay social security tax and the organization, as an employer, must pay a social security tax at a rate of 26% of the total payroll. While this is consistent with practices in many other countries, NGOs have resisted the change as it has increased their tax burdens and has affected the competitiveness of their proposals. NGOs do not have a sufficient understanding of tax issues. For example, few know that part of the social security tax may be used to pay for sick leave. Greater knowledge and compliance with the tax laws are vital, as tax authorities are becoming more efficient and failure to comply may invite further corruption and abuse.



Many NGOs have permanent key staff such as a director and an accountant, while others are hired on a per-project basis. Organizations frequently lack the institutional mechanisms and internal regulations necessary to manage their staff properly and often fail to provide contracts. NGOs often attract bright and talented people by offering creative work and allowing them to participate in project development. In a majority of NGOs, key staff have a great deal of experience and

education, and combine their research interests with practical application in the field, disseminating the results of their studies and increasing levels of knowledge and skill. NGOs have written and published many analytical works and other publications concerning legislation, economics, education, and other topics.

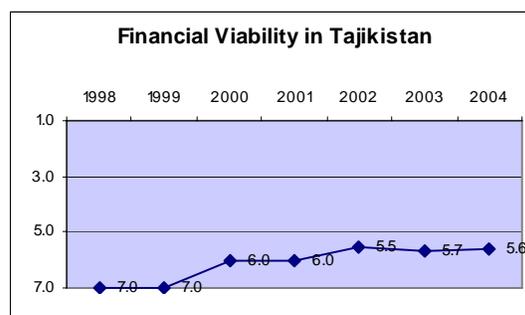
NGOs have gradually increased their use of volunteers to strengthen projects and lower the costs of their services. Volunteerism needs to be developed further, however, if NGOs are to improve their public image and increase the impact of their activities. Overall, the entire

sector would benefit from receiving grants for training programs aimed at institutional capacity building, developing organizational structures, and raising the levels of skill and professionalism.

The vast majority of equipment and internet services used by NGOs are paid for with grant funding, as few organizations have other resources to expend. In some instances, NGOs provide services and in return negotiate discounted or free use of property or telecommunication services.

FINANCIAL VIABILITY: 5.6

Overall, the NGO sector has not developed the capacity to generate sustainable funding sources and most organizations remain heavily dependent upon the donor community. Local philanthropy is still not a significant source of funding for NGOs and is limited by heavy tax burdens and the lack of incentives for potential individual and corporate donors. Local support often involves in-kind donations and other contributions from local authorities and the general public. Generally, local governments do not have the means to offer financial support, although in a few districts, governments have been able to provide local NGOs with small grants. Slow increases in the level of volunteerism are reducing project costs and contributing to the overall financial viability of the sector.



Diversification of funding remains weak and the majority of NGO activities have only a single source of funding. Many organizations collaborate with donors with a presence in-country, while others receive support from those that are otherwise not involved in Tajikistan. Only a few organizations have the funding needed to keep staff on past the expiration of a grant.

As most organizations depend on donor funding, the majority have developed financial management and reporting systems that conform to their donor requirements. NGOs do not publish their

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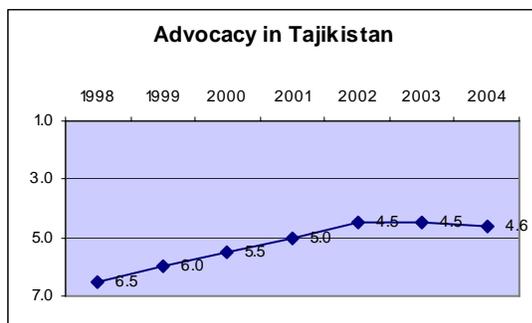
financial reports, fearing unwanted attention from tax authorities.

The NGO sector has yet to be successful in fundraising and securing sustainable funding sources. The business community remains an untapped source of support and the NGO sector needs to increase its efforts to build collaborative and supportive relationships with local businesses. While a few local governments have provided financial support for NGOs, they are still not a significant source of funding. Without greater diversity and sustainability in their fundraising, NGOs will have to develop other mechanisms such as engaging in commercial activities. The NGO sector needs to improve efforts to form coalitions

to better inform the sector and the government of its potential role in society, as well as its needs. Local governments need to begin providing more municipal grants, taking into account the potential for international funding for the NGOs in their jurisdictions.

As mentioned, the existing level of support from the state or local governments is far from sufficient to serve as a source of long-term funding. In addition, NGOs are not permitted to participate in government procurements. A few NGOs have the opportunity to lease out their property or provide small services that allow them to survive between grants.

ADVOCACY: 4.6



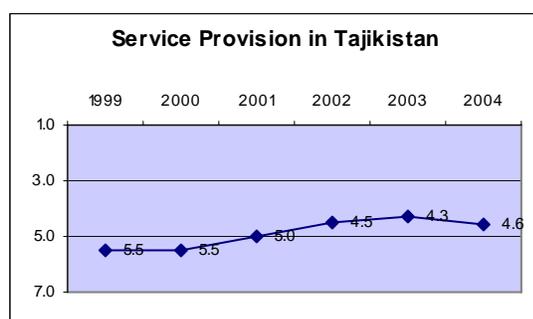
For the most part, NGO advocacy efforts have focused on promoting the sector's own national and local interests. This focus is part of an ongoing effort to inform the government about the role and importance of the NGO sector and to demonstrate that collaboration can benefit all levels of government. As a result, the central and local governments recognize the potential for cooperating with NGOs.

Even though the number of NGOs is small, some local governments acknowledge that NGO contributions to community development are valuable, and support NGO efforts with municipal grants. NGOs have been engaging in Tajik political issues, and some have even participated in discussions of the draft Law on Election of Parliament, resulting in significant legislative reforms. In addition, NGOs continue advocating for a Law on Non-commercial Organizations.

One development in 2004 is a tax reform project to promote greater local philanthropy begun by the NGO sector. Organizations are engaging the business community to promote information about the advantages to philanthropic activities and tax incentives.

SERVICE PROVISION: 4.6

NGO service providers offer a wide range of services in fields such as education, vocational and business training, health, infrastructure and power projects, irrigation networks, community mobilization, and others. Some NGOs also conduct public opinion surveys, operate micro-credit programs, promote environmental protection, and engage in sociological research.



Most NGO service projects are designed around the needs of a specific constituency, and at times prioritize the needs of a vulnerable segment of the population. This approach is contrary to the methods generally adopted by donor

grant programs which prioritize the needs of the general public. The community based approach allows the public to identify its own needs.

NGOs provide many important goods and services to the public, and are often the only providers of certain services. In light of the current economic crisis, NGOs seldom recover their costs, as beneficiaries are rarely able to pay for the services they receive. A number of NGOs resource centers charge a symbolic fee for use of office and communication equipment, but it is seldom sufficient to cover actual costs.

The central government and local authorities generally recognize that NGOs are often able to address issues they lack the resources and personnel to provide. The central government continues to encourage all levels of government to support and cooperate with NGOs, but few include support for NGOs in their budgets or view NGOs as able to implement government programs in the health, education, or other sectors.

INFRASTRUCTURE: 4.3

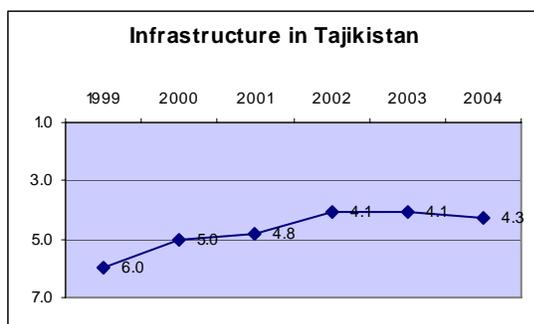
The NGO sector has the benefit of a network of seven CSSCs located around the country. These CSSCs offer training programs in all aspects of NGO operation, as well as access to telecommunications, office equipment, and information. It is impossible for CSSCs to recover their operational costs, except when their clients are funded by international donors, or when they sublet space to other organizations and local businesses. The CSSCs remain the only local grant-makers. However, because an

insignificant amount of funding comes from local sources, these CSSCs do little more than re-grant foreign funding.

The NGO sector has a developed number of coalitions around specific issues, such as those in Khatlon that have formed to address micro-financing and youth development. Many of the coalitions that develop around specific issues dissolve at the end of their campaigns. Organizations that work within a coalition generally have healthy relationships and freely exchange

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information. The network of CSSCs, however, is the only coalition with a stable system for information exchanges.



A corps of qualified NGO trainers provides various capacity building programs and continuously develops new ones around the needs of specific organizations. Organizations in the regions often employ qualified, experienced trainers from the capital, while the CSSCs and the more advanced NGOs have an experienced staff that

provides training. In 2004, the CSSC in Dushanbe collaborated with fourteen international and local organizations to certify trainers. The trainers were tested and certified at a specific level according to their qualifications and experience.

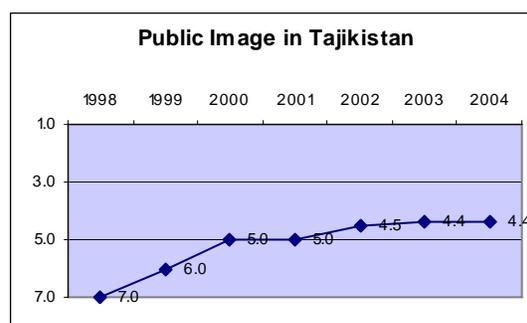
Many NGOs have taken advantage of inter-sectoral partnerships in addressing specific issues, and some continue to cooperate with local authorities and other organizations even after a grant has expired. One example is a group of organizations that is cooperating with political parties, international organizations, and the government to prepare for the 2005 parliamentary elections. Unfortunately, the business community is not generally aware of the potential for such inter-sectoral collaborative efforts.

PUBLIC IMAGE: 4.4

Media coverage of local NGOs is limited by the sector's desire not to engage the government-run media outlets, as well as the lack of interest by the for-profit independent press. In addition, NGOs generally do not have the resources to pay for coverage and journalists have little understanding of the sector.

The public is generally aware of NGOs and their activities in their respective areas, and constituents generally learn about the sector and individual NGOs through projects located in their areas. However, the lack of media coverage has made it difficult for NGOs to inform the general public, beyond an immediate group of beneficiaries, about their work, and despite efforts to disseminate

information through brochures, familiarity with NGOs is limited.



Government authorities generally understand the role and recognize the importance of NGOs in addressing the current social and economic issues. Local authorities are interested in cooperating with NGOs and are prepared to support

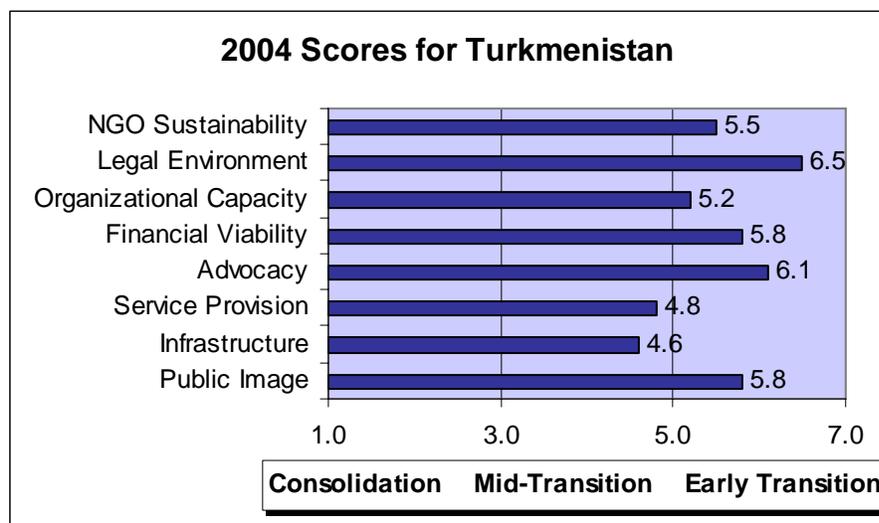
projects in their communities. This support is due more to a view of NGOs as a means to access outside funding than as credible sources of information.

CSSCs are trying to disseminate information and promote the image and potential of NGOs among government officials through various forms of cooperation with the media. In some instances, local authorities try to downplay the role of NGOs, and take credit for

successful projects. In extreme cases local authorities see NGOs as a destabilizing component in society.

NGOs are generally not interested in the media spotlight, preferring to operate under the radar of the tax authorities and criminals. However, NGO activities are becoming more visible to the general public, especially those who are working with the more vulnerable populations.

TURKMENISTAN



Capital: Ashgabat

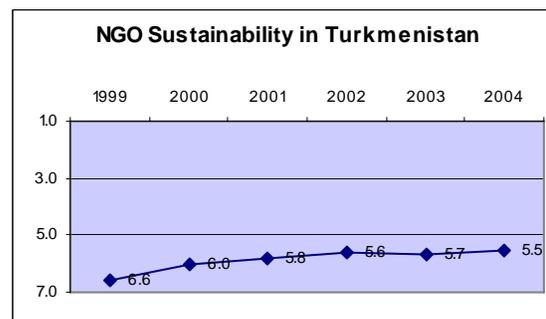
Polity: Republic-
authoritarian
presidential

Population:
4,860,000

**GDP per capita
(PPP):** \$5,800

NGO SUSTAINABILITY: 5.5

In 2004, the NGO sector continued to survive under difficult conditions. By the end of the year, however, the government began to make some concessions, including abolishing a law that criminalized participation in an unregistered organization. The government also permitted Counterpart International to conduct the NGO and Community Leaders Forum. However, a new Law on NGOs came into effect this year, creating a more burdensome registration process that gave government greater control over organizations and requiring registration for all grants. The registration process remains very slow. Counterpart International reported that only two new organizations were registered this year, adding to the 89 other registered organizations. Before the government decriminalized participation in a non-registered NGO, many organizations were shut-down for violations, including long-standing organizations such as Katena and Eco Club.



The political situation this year was more stable than last year, as no mass arrests took place and exit visas were officially abolished. However, the government still keeps a list of “not reliable” persons who are prohibited from leaving the country, and internet cafes remain closed. Fear of government harassment still has a chilling effect on citizens and civil society activities. The government abolished the dual-citizen agreement with Russia, forcing much of the Russian-speaking population to migrate. One result has been that the NGO sector has become much more Turkmen speaking.

NGOs still have few opportunities for producing revenue. The business sector does not engage in any real philanthropy, and without proper registration, NGOs are deprived of grant opportunities. Only those NGO leaders who have been granted an individual patent, which is government permission for conducting entrepreneurial activities, are able to access donor funding and carry out a limited range of activities.

The NGO sector is comprised of a variety of organizations, the majority of which are led by women. The sector has recently experienced a growth in professional associations such as the Association of Accountants and more intellectuals, such as former researchers and those involved in the arts. These types of organizations have grown to be the leading NGOs in the sector.

LEGAL ENVIRONMENT: 6.5

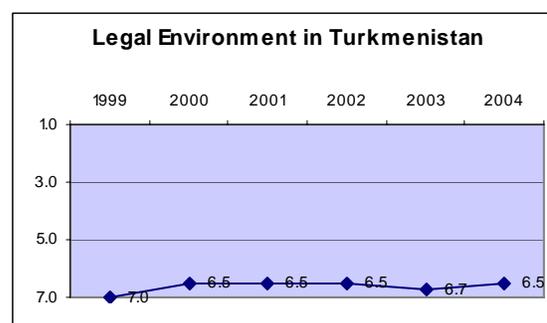
The legal environment still does not support a healthy NGO sector, although a slight sense of confidence and optimism grew throughout 2004. The sector benefited from ICNL-trained legal advisors who provided assistance with registration and other technical issues. Adding to this sense of optimism were changes in the draft regulations implementing the new NGO law, and the decriminalization of participation in a non-registered NGOs. By the end of 2004 the legal environment was less repressive than at the beginning of the year, as the State Agency for Foreign Aid reconsidered some of the registration rules, and repealed many of the complicated requirements related to opening banking accounts.

The government adopted a new NGO law in the November 2003. The Ministry of Justice drafted the law without conducting any research into the needs and issues of the

The majority of organizations struggle to provide their full range of services. NGOs that offer social services in the areas of education, health care, water and utilities, and support for orphanages generally have the most difficulty registering and engaging in activities. Local governments and NGOs partner with greater frequency, and local governments are now consulting NGO activists on sensitive topics such as juvenile delinquency and services for victims of domestic violence.

With all the challenges the sector faces, Counterpart International in Turkmenistan continues to provide NGO training programs and maintains a location in which NGOs may have meetings and discussions, the only such place in the country.

NGO sector, and many provisions are difficult to interpret. The law has had a negative impact on NGO development by giving government officials greater control over the sector. The requirement that NGOs register all of their grants has forced many organizations to discontinue their activities. Many other organizations were forced to cease their operations until they were properly registered under the new regulations.



The registration regulations were not in place until the beginning of 2004. In one draft, the Ministry of Justice required that organizations consult an appropriate Ministry, most of which are negative towards NGOs, before their registration would be approved. Another restrictive provision prohibited an organization from using a private home as its address. Donors, ICNL and NGOs all met with the Ministry of Justice and provided comments and advocated for less complicated procedures. As a result, both of these restrictive provisions were left out of the final regulations.

As mentioned above, the registration process is still very slow, and only two organizations were registered this year. Fifteen others were denied registration, but for reasons that did not comply with the law. ICNL staff researched the denials and found that all were politically motivated. Keik-Okara received approval of its registration application after a number of refusals and four months waiting. Its success has encouraged other NGOs that were denied registration to re-submit their papers. Counterpart International recruited four attorneys trained in NGO law to staff all of the civil society support centers to provide legal consultations and assist NGOs with the

registration process. Some NGOs have bypassed the registration requirements by obtaining individual patents or registering as commercial entities. Some examples include the Hemayat Legal Services Center, the Women's Issue Center, Eco Center, My Right, Arma (a club for retired persons), Medet, and Merjen.

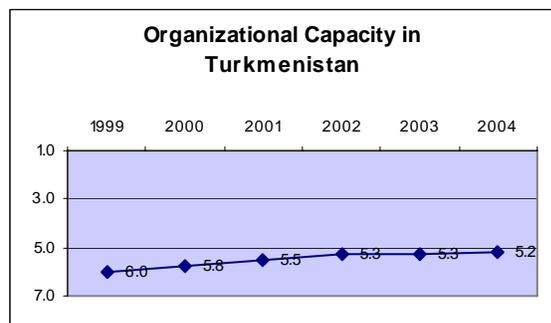
All registered NGOs are subject to social tax, personal income tax, and property tax. NGOs are not required to pay taxes on grants, although local tax inspectors are often not aware of the law and force NGOs to pay regardless. Similarly, only commercial entities are required to pay rent tax under the new law, but tax authorities collect it from NGOs anyway. The rent tax does cause some issues for organizations, who under the new law are required to have a legal address in order to register. For example, tax authorities tried to collect a rent tax from Michel Hoptian and the League of Radio Fans. After consulting an ICNL attorney, the organization showed the tax official the new law and was exempted. ICNL training programs have focused on building the capacity of advocacy groups to address these tax issues.

ORGANIZATIONAL CAPACITY: 5.2

Over the past year, NGO organizational capacity was negatively affected by the registration obstacles discussed above. Organizations have had to divert funds from institutional development and program implementation to finance their registration efforts and even then, their applications are not guaranteed to be approved. If an NGO is not approved and registered, it is not able to receive grant money. Those

organizations that have not been able to register have become more secretive about their activities and even less transparent. The difficult conditions created by these registration issues have made it essential that NGOs improve their organizational structure and take greater responsibility for their programs. Organizational capacity has also been weakened by the economy, as the

country's best and brightest migrate in search of better opportunities.



The sector did enjoy some positive developments over the past year. Legal restrictions are a significant obstacle for NGOs, but those that have been able to persevere have gained valuable experiences, developed their professionalism and capacity for strategic planning, and strengthened their human resource potential. In addition, NGOs have had to carefully consider their financial accountability and reporting mechanisms, as well as their organizational structure. NGOs have also had to overcome great barriers such as registration requirements and many have opened offices whether they are registered or not.

Most organizations remain primarily donor driven and do not operate according to a clearly defined mission. The new restrictions on NGOs have limited the availability of grants from foreign donors. A small number of organizations have

responded by clearly defining their missions and diversifying their funding. One example is the Women's Issue NGO, which was granted an individual patent and now contracts with the Ministry of Internal Affairs to provide psychological services to young criminals. However, most organizations lack an understanding of the need for strategic planning, and are led by a single charismatic leader. Nonetheless, a small number of NGOs has developed a better understanding of how a board of directors can strengthen their organizational structures and increase internal transparency. Most organizations that apply for registration understand the significance of public transparency. For example, Keik Okara is a registered organization and is planning to issue an annual report this year.

Most social activists participate in NGO activities on a volunteer basis. Many NGOs fear that having paid personnel may jeopardize their not-for-profit status with the government. Many organizations have access to modern technological resources through a network of USAID funded resource centers. These centers provide NGOs in four regions with technological assistance, informational support, and internet access. A number of organizations have computers, printers and other equipment through grants from international donors.

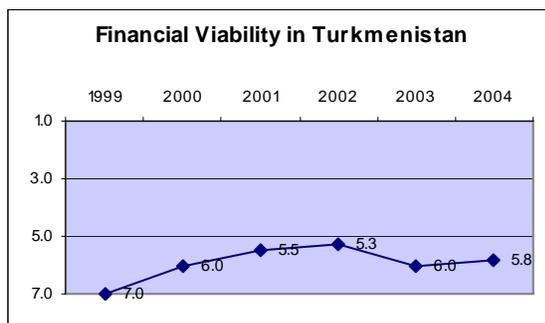
FINANCIAL VIABILITY: 5.8

The majority of NGOs depend on international grants for their existence. Domestic philanthropy remains underdeveloped, due in part to the weak business sector and the fear that the government will sanction any individual or

entity that provides support. In addition, the business sector does not understand the NGO sector, and there are no tax deductions to serve as incentives for corporate giving. Businesses have therefore limited their gifts

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to orphanages and organizations that support disabled persons.

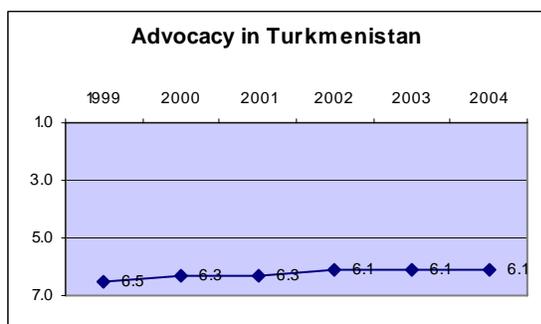


The government generally does not fund the NGO sector. A limited number of local governments have offered in-kind support and, in a few instances, have provided financial support. Keik Okara recently built a new medical health unit for refugees in Badadurmaz, and the local government paid

for and shipped in the construction materials. Mercy, Family and Health built a playground for children in its community with the local government providing the materials. Only a few organizations such as Umit, Keik Okara, and Mercy, Family and Health charge membership fees, but these fees are never sufficient to sustain the organizations.

More organizations consider sound financial management important, and would hire a professional bookkeeper if the funds were available. As discussed above, the new law on NGOs adversely affected the financial sustainability of those organizations that are unable to register and gain access to grant funding. Many such organizations are now seeking alternative funding sources.

ADVOCACY: 6.1



Even though the NGO sector did not engage in many advocacy efforts at the national level, it enjoyed limited success with local governments. Local officials and NGOs continue to expand their collaborative efforts, as governments actively support community based initiatives. USAID is providing training for NGO leaders to improve their leadership capacity and commitment to civil society values. Despite these advances, cooperation and social

partnership still depend in large part on the personalities of NGO leaders.

The registration and funding restrictions created by the new NGO law have increased the importance of NGO advocacy at the local level. USAID is supporting these efforts with legal services and technical training to arm NGOs with the confidence and skills necessary to engage government officials. In one example, officials in the Lebap region prohibited sports trainers from starting a tennis club, arguing that as teachers they are not permitted to be involved in public activities. A local attorney with USAID training in NGO law informed local officials that teachers may engage in public activities if they do so after hours. The officials conceded, and were so impressed with the tennis club initiative that they provided the club with funding. Another success in 2004 involved

Boldumsaz Ecological (BE), an environmental organization in Doshoguz. BE discovered significant violations of the environmental and sanitary regulations in the Boldumsaz community and informed the local officials, who in turn called in the Departments of Sanitation and Epidemiology, Water Management, and the municipal government. Officials formed a committee with representatives from local NGOs and different levels of government. The committee discussed the environmental issues and came up with a satisfactory solution. Local officials have also reached out to the NGO community. Eight

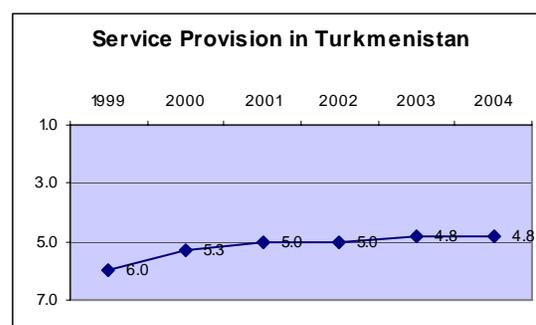
representatives from local governments participated in the Counterpart International Forum in 2004 and expressed interest in becoming part of civil society network centers.

NGOs did not engage in many national advocacy efforts, due to the government's attitude towards the sector. NGOs did mount a campaign to change provisions in the draft regulations for the new law on NGOs. As discussed, NGOs succeeded in convincing the Ministry of Justice to delete two restrictive provisions from regulations that implement the new NGO law.

SERVICE PROVISION: 4.8

The new NGO law and registration provisions presented obstacles for NGO service providers. The majority of NGOs are not registered, but most found ways to continue their activities, either registering individual patents, or maintaining partnerships with local government agencies. Despite the new barriers, NGOs provided a more diverse range of services compared to last year. In addition to education, health care, water, and utilities, NGOs provided legal consultations and social services such as drug prevention and treatment and juvenile delinquency programs. The Women's Resource Center provided legal services on gender equality issues, and opened a hot-line to provide counseling services to increase their clients' confidence and inform them of their rights. Mercy, Family and Health organized a summer camp for orphans and children from at risk families, as well as a critical thinking training program for government school teachers in Ovadan and other regions. The Meiletinchi organization collaborated with

local authorities to organize a nation-wide football campaign to keep children away from drugs. Mashgala Bahgala provided drugs and AIDs prevention programs in conjunction with the Ministry of Internal Affairs. The Union of Economists offered new services to Parliament, conducting research on the development of a legal framework for small and medium size enterprises.



Local governments generally recognize and value NGO services and their great contributions to solving social problems. Counterpart International's new community focused strategy has increased social activism in local communities considerably,

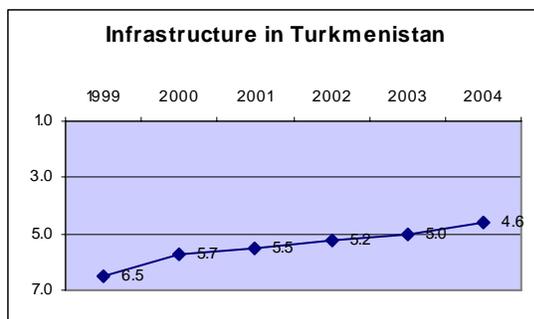
and has led to close partnerships between NGOs, community members and local authorities. The USAID community grants and development training provide tools for

identifying community needs, as well as good opportunities to increase the range and quality of service provision.

INFRASTRUCTURE: 4.6

Currently, USAID is funding four civil society support centers in Turkmenistan. NGO services include access to information and the internet, consultations on projects, trainings, and news bulletins. The discussion clubs are among the most popular services offered. These clubs offer NGO activists and the general public a forum in which they are free to discuss most any issue, including public life and culture, and allow them to exchange information. These resource centers are also the only places where many NGOs are able to access the internet.

Production requires that if farmers receive subsidies from the government, they have to sell their products to the government. Farmers that do not receive subsidies or state support are free to manage their farms and sell their goods in the open market. An agricultural cooperative in Ilkinjiler used only a few government services, but was charged for receiving the full range of services, meaning that it had to sell its goods to the government. Counterpart International challenged the Ministry of Agriculture on behalf of the Cooperative and the central government reimbursed the Cooperative 400 million mantas.



The new NGO law has increased the importance of civil society support center legal services. In the spring of 2004, USAID and ICNL hired four well-trained attorneys, one for each of the resource centers. These attorneys have already provided 380 consultations and trainings on NGO law, registration, and other legal issues. These consultations have helped many organizations apply for registration and advocate for their rights at the local level. One example involved an agricultural cooperative. The Law on Cotton and Wheat

Several organizations provide training and other services to NGOs. The Union of Economists provides information, computer facilities, a library, and consultations for many projects. Ecosodruzherstvo, Unit, and Ufologists also provide information and consultations, and publish information bulletins, all to support other organizations. Qualified trainers offer capacity building programs in strategic planning, fundraising, advocacy, financial management, and other topics, both in Russian and Turkmen. Counterpart International recently introduced a new community project management training module that was translated into Turkmen. The more well-established NGOs have requested even more advanced, specialized trainings. Unfortunately, the well-developed organizations often compete for funding, public attention, and government support. In order for the NGO sector to grow, these

organizations need to increase their cooperative efforts, share information, and consolidate their activities. Some organizations have been building links around specific issues, examples of which

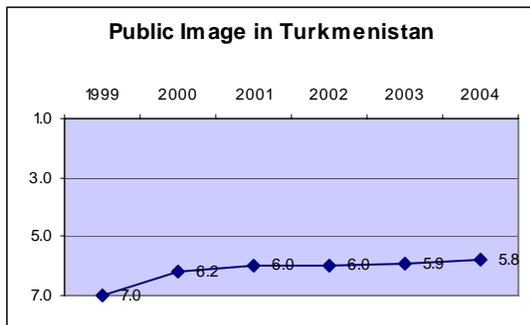
include the joint efforts of Meiletinchi, Arma, and Mashgala Bashgala to address the issues of youth and retired people.

PUBLIC IMAGE: 5.8

The national government does not significantly recognize NGOs and still maintains the belief that NGO members are dissidents who create a bad national image. Government bodies try to closely monitor and control NGO activities and several organizations were visited and interviewed by KNB officers. Interestingly, several NGOs reported that once the KNB officers learned more about their programs, they changed their negative attitudes and stopped harassing them.

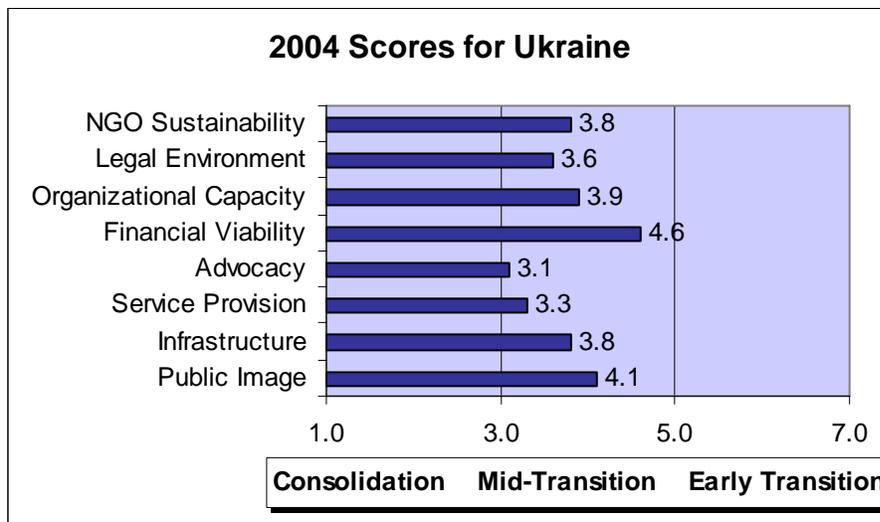
Economy and is a part of the Ministry’s Methodology Committee, and the Women’s Issues and Mashagala Bashgala, which both cooperate with the Ministry of Internal Affairs on working with juveniles and drug prevention issues.

Local governments often have a better understanding of the role and importance of NGOs and their capacity to provide professional services. Fifteen local government representatives, including a high ranking city administrator, local education authorities, and others visited Mercy, Health and Family, which provides educational services and psychological assistance, and operates a day center for at risk children. The local government representatives were impressed by its activities and asked the organization to share its experience, teaching methodologies and other activities. In general, local governments see NGO leaders as valuable assets in the development of their communities and have hired NGO leaders to work for them. The general public has yet to recognize the roles that NGOs play in society, as most either lack awareness or think of NGOs simply as groups of people asking for money.



As evidenced by successful advocacy to changes in the NGO regulations and a few examples of government cooperation, NGO-government relations have experienced some positive developments over the past year. Other examples include the Association of Accountants, which collaborates with the Ministry of the

UKRAINE



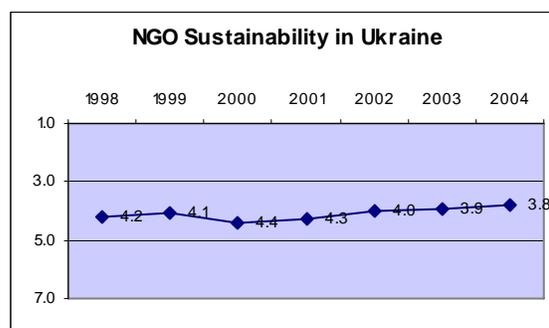
Capital: Kyiv
Polity: Republic
Population: 47,730,000
GDP per capita (PPP): \$5,400

NGO SUSTAINABILITY: 3.8

Even before civil society led the successful “Orange Revolution,” the NGO sector had made incremental improvements in a number of dimensions. The Legal Environment dimension improved following the enactment of two new, progressive laws. The Financial Viability dimension also improved, as a growing number of organizations were successful in securing funding from the business community and government. Similarly, the Public Image dimension improved steadily as NGOs continued to engage the media and develop relations with other sectors. Although more organizations acknowledge the importance of and apply strategic planning in their work, the divide between the levels of capacity and management skills of NGOs in

the rural and urban areas has increased. As a result, the Organizational Capacity score remained static, despite significant progress by Ukraine’s leading organizations. The

Service Provision and Advocacy scores also remain unchanged from last year.



In 2004, the total number of NGOs in Ukraine increased to approximately 40,000 organizations, 10% of which are active. The exact number of registered organizations is still unknown as the Single National Register is not yet operational. As in the past, Ukrainian NGOs address a number of issues from social services to public policy and politics and represent a variety of demographic groups.

LEGAL ENVIRONMENT: 3.6

Improvements in the NGO legal framework have increased the potential for sector-wide development. A new Law on the State Registration of Legal Entities and Individual Entrepreneurs, adopted in spring 2003, simplifies registration procedures for NGOs and creates an automated public Single National Register of NGOs. The Law requires that the Register be continuously updated to ensure that accurate information about registered NGOs is available at all times. The Civil Code and the Law on State Registration further specify NGO internal management mechanisms and dissolution procedures. Amendments to the Criminal Code repealed the provisions that made participation in non-registered organizations illegal.



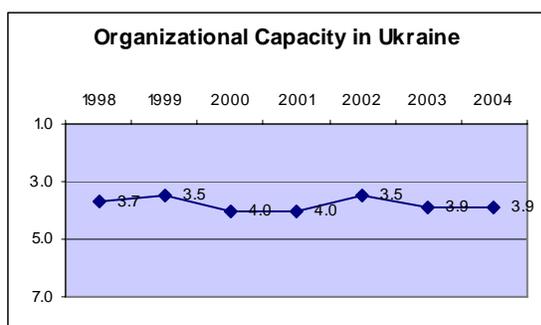
The Law on Social Services came into effect on January 1, 2004, creating a more conducive environment for NGOs to expand their income generating activities. While the law was under consideration, many organizations discussed the legislation, provided comments, and proposed a number of amendments. NGOs also provided the Ministry of Labor and Social Policy with their legal expertise in drafting the

implementing regulations for the new law, offering counsel on issues such as licensing, standards, and quality control. NGOs participated in preparing draft amendments to the Law on Public Associations with the goal of bringing the law in line with the Constitution, Civil Code, and international agreements.

However, implementation of these legislative advancements has been complicated by vague or unclear wording, which has allowed authorities to ignore some provisions and interpret others at their discretion. In addition, NGOs are still generally unaware of the new opportunities provided under the Law on Social Services, and have yet to take advantage of their new rights to engage in economic activities. NGOs that provide services in the rural communities are often more passive, and few take advantage of available legal services provided by clinics, hot lines, and mail services. They are generally unaware of their legal rights and obligations as well. To address this issue, the Academy of Municipal Governance offers classes in NGO legislation. The Ukraine Citizen Action Network (UCAN), funded by USAID, is also offering training courses to NGOs so they may better understand and use the existing legal framework. Other training and support programs such as legal consultations, hotlines, newsletters, and roundtables all permit NGOs to operate freely and with the greatest latitude permitted.

ORGANIZATIONAL CAPACITY: 3.9

Overall, the level of organizational capacity in the NGO sector did not increase much in 2004. While the leading NGOs continued to steadily improve organizational capacity, the majority of grassroots organizations are still slow in their development. The result is an expanding divide between a few well developed organizations and the rest of the sector. While some organizations improved their management skills and capacity and operate according to a strategic plan, others acknowledge that they either do not consult their plans or do not have plans.



The larger NGOs that were active in promoting democracy and involved in Ukraine's recent Presidential elections generally have well-defined structures and missions, a paid staff, job descriptions, work plans, annual reports, and audits. These organizations have also increased their volunteer staff, operate effectively in both the urban and rural areas, and have access to basic office equipment. These improvements may be a temporary result of

the recent elections, and may soon fade. This is unlikely, however, as the NGO sector will soon be turning its attention to the Parliamentary elections, and ought to be able to maintain its current level of support and participation. Donors often require their grant recipients, who are primarily the larger NGOs, to meet strategic planning requirements and clearly define their missions. As a result, recipient NGOs, including think tanks and social organizations, have increasingly become more professional and businesslike in their operations and public relations.

Organizations in the regions tend to have weaker technical capacity than those in the urban centers, as they generally receive less support from donor organizations. Many organizations outside the urban areas, especially those that work in the social sector with disabled or retired persons, are without access to offices or equipment, and unable to afford a paid permanent staff. In addition, these organizations rarely take advantage of training opportunities, and are not always transparent. NGOs in rural areas are often "one-man shows" that operate without registration and do not comply with the applicable laws and regulations.

The Law on Associations of Citizens does not have any provisions that create requirements and standards concerning the internal structure and management of NGOs.

FINANCIAL VIABILITY: 4.6

The financial viability of NGOs in Ukraine continued to improve in 2004. A few organizations even reported annual budgets between 3-5 million US\$. Many organizations complied with their donors'

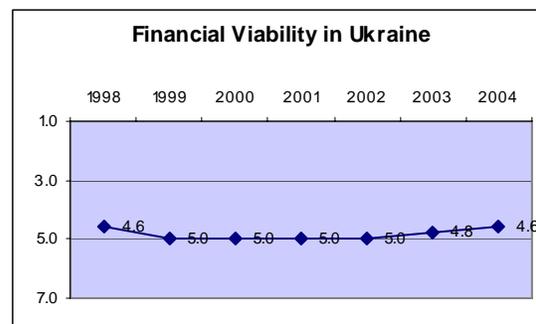
auditing requirements, which are necessary for healthy operations. Further evidence of progress is the growing number of

organizations that have published their financial statements.

Smaller organizations with less funding, however, may prove to be the most financially stable in the immediate future. As foreign donors phase out their support, which may or may not happen in light of the recent elections, larger NGOs that have enjoyed significant funding will have to consider carefully other sources of income. Provisions in the new Law on Social Services and the Civil Code address this issue by creating opportunities for NGOs to increase their incomes. Some local governments and businesses have already begun to take advantage of these new provisions by contracting with NGOs. This contracting is still not a significant means of financial support, and the priorities of local donors often differ from those of the international donor community. Many NGOs, such as resource centers, may be forced to close as the international funds that support them dry up.

Often smaller organizations, especially those in the regions, do not have or need much funding. Many conduct low-cost activities such as the distribution of humanitarian assistance for at risk communities, or pre-school education, and survive on small

charitable donations. With small amounts of funding, such organizations are generally able to operate without complex financial management systems.



Many organizations lack sufficient funding because their managers are not business savvy and are unable to diversify their organizations' funding beyond its existing donor support. Overall, the sector lacks sufficient financial management capacity and experience, and few organizations seek out professional accounting services. A number of NGOs even prefer to remain informal to avoid paying taxes on their activities. As they are unregistered and wish to avoid attention from the tax authorities or other officials, informal organizations do not advertise their work or get involved with the media. Generally, all types of organizations lack the funding necessary for audits and reporting.

ADVOCACY: 3.1

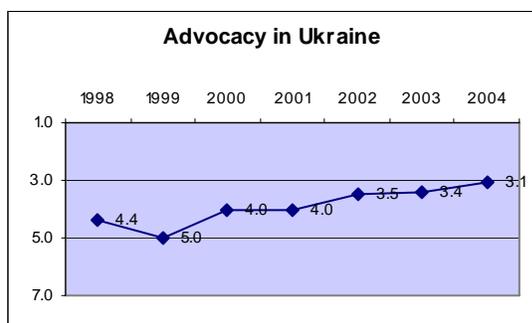
The 2004 score for the Advocacy dimension marks improvements made over the past year. Early in the year, civic groups and coalitions became increasingly active in initiatives to ensure a free and fair presidential election in Ukraine. The Committee of Voters of Ukraine (CVU), Ukraine's leading election monitoring organization, issued a series of reports on governmental transparency and

parliamentary activity, generating significant national and international attention. The citizens' initiative Znayu! (I know!) brought together 68 civic organizations, and provided legal assistance and conducted nationwide voter education activities. The Pora! (It's Time!) is a youth group that organized young activists throughout Ukraine and became a key player in Ukrainian politics. Two NGO coalitions,

2004 NGO SUSTAINABILITY INDEX

The Freedom of Choice and The New Choice, effectively coordinated and consolidated civic actions to educate and mobilize voters, as well as advocate for fair elections.

Other NGOs advocacy efforts continued as well. According to the Law on State Regulatory Policy, legal entities, individuals and all associations have the right to submit proposals and comments on state initiatives. Public organizations that have a strong background in policymaking may also participate in official discussions and provide expert opinions in drafting legislation. Accordingly, one coalition of NGOs has participated in drafting the regulations to implement the Law on Social Services, which includes licensing and public procurement provisions. The coalition lobbied for amendments to the legislation when it was under Parliamentary consideration.



NGOs continue to develop their lobbying skills and increasingly are cooperating with

local and central government officials in policy discussions. Unfortunately, while the central government allows NGOs to participate, it is seldom in a productive manner. The Public Advisory Boards of the various Ministries, for example, often include representatives from think tanks, but fail to include membership organizations that represent larger constituencies. Membership organizations have yet to sufficiently pressure government officials for adequate participation, or exploit the limited opportunities that are made available.

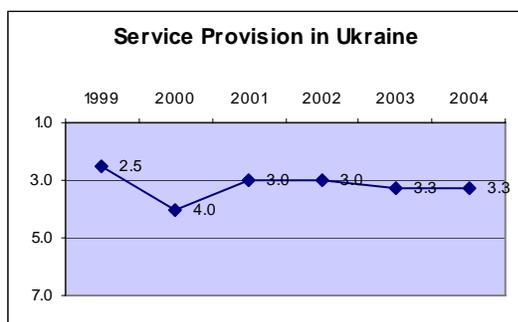
At the regional level, the local governments often lack funding to provide certain services, and instead turn to NGOs. The Mykolaiv Association of Business Employers, for example, provided one municipality analysis on the effectiveness of its tax policy. As a result, the municipality adopted two regulatory documents containing decisions that had been stalled for two years. The Kolomyia Economic Development Association initiated dialogue between local governments, the business community, and citizens on the reform of residential services. The public dialogue increased civil society's trust in the local government, and helped municipal authorities make effective decisions on local development issues.

SERVICE PROVISION: 3.3

NGOs increasingly address the needs of their communities by providing services in areas such as health care, education, trade, and the environment. The Law on Social Services promotes NGO service providers by allowing them to participate in

government procurements and grant opportunities. The Regulations on Conducting Competitions for Government Funding of Social Services creates a fair and competitive process for awarding grants and

contracts to NGOs. Municipal governments, however, are not always transparent in their decision making processes.



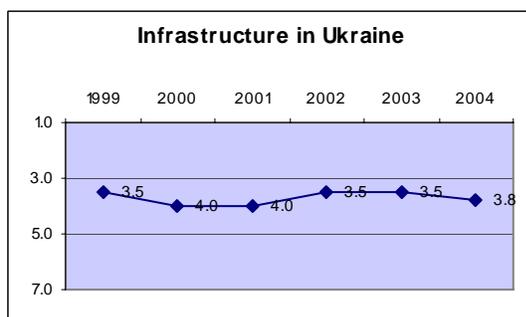
Because necessary mechanisms such as licensing and service classification rules have not been adopted, NGO service providers have yet to benefit from the Law on Social Services. The government, in

collaboration with NGO representatives, is currently drafting a number of these important implementing regulations that will allow NGOs to benefit from the new law.

Another challenge for NGO service providers is pricing policy. NGOs are generally uncomfortable charging money for their services, and often undersell themselves. Although pricing should reflect government and for-profit market prices, NGOs generally do not charge enough to cover their costs. Such below-cost pricing contributes to the stigma that NGO services are not worth much. Basing price policy on current market prices, together with proper licensing procedures, will improve the image of NGOs as service providers.

INFRASTRUCTURE: 3.8

Due in part to a reduction of international donor financing, the number of NGO resource centers has decreased from sixteen to four. These resource centers offer NGOs access to information and databases, computers, fax machines, and printers, as well as capacity building, conferences, seminars, and trainings.



NGOs are increasingly taking advantage of more diverse and informal mechanisms of resource-sharing. The Kamyanyets-Podilsky city executive committee, for example,

offers NGOs the use of its conference hall, space in the municipal paper, and access to information. The municipality has also designated a special contact person to facilitate communication between civil society organizations and the mayor. As

municipalities offer such support to NGOs, formal resource centers will become less necessary.

NGO coalitions vary in type and structure and include the ad-hoc groups that organized around the recent presidential elections.

Coalitions often send out press releases to announce their creation as well as their achievements. “New Choice” is an effective coalition that includes the “Spilny Prostir” Association and the “Equal Access” Committee. The “New Choice” coalition consolidates public efforts to monitor, educate, protect rights, and advocate for credible and fair presidential elections.

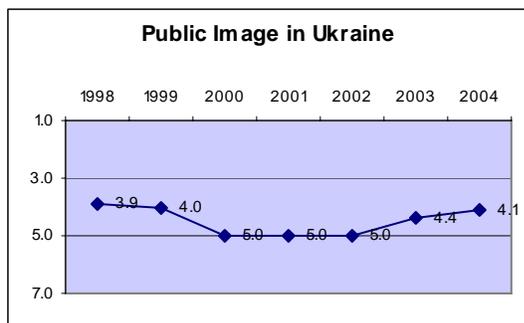
Another example is the all-Ukrainian Coalition for Advocacy for Disabled and Mentally Disadvantaged Persons, which unites 57 NGOs to engage in discussions with authorities, draft a paper on Social Adaptation of Mentally Disadvantaged Persons, and introduce new regulations. In 2004, this coalition organized a nation-wide information and discussion campaign on the

UN International Convention for the Protection of Rights and the Dignity of People with Disabilities. In addition, it analyzed and evaluated the UN Convention to determine whether it complies with Ukrainian legislation, and made proposals to the Convention for ratification.

PUBLIC IMAGE: 4.1

The role and influence of the NGO sector in Ukraine is steadily growing. At the end of 2003, the Head of the Communist Party Faction in Parliament requested the creation of a commission to investigate “foreign interference in the financing of election campaigns via NGOs,” resulting in the “grant-eaters” case. The proponents of this Parliamentary investigation intended to weaken the NGO sector and reduce its influence, but instead, the investigation raised the sector’s profile and galvanized its place in Ukrainian society.

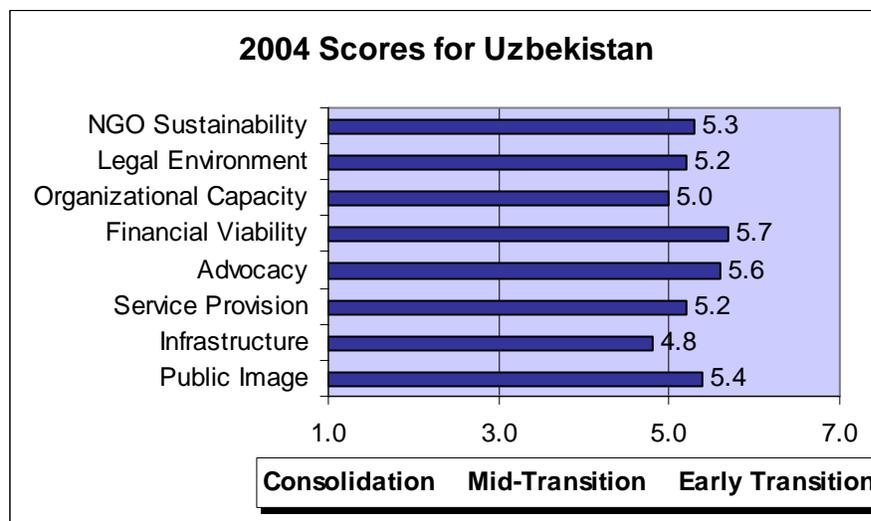
UCAN, was held September 2003. The Conference produced a draft Declaration of Ethical Principles, which was later reviewed and discussed by 371 NGOs throughout the country, and adopted at the second Ethics Conference in September 2004. The Ethical Principles are expected to improve the NGO sector’s public image, generate more trust and support, and increase the levels of volunteerism.



The media has increased its coverage of the NGO sector significantly. NGOs increasingly inform the general public about their activities by holding press-conferences, inviting journalists to public events, publishing articles at the national and regional levels, printing books and brochures about the sector, and using the internet effectively. Despite these efforts, the general public still does not have sufficient access to quality information about the NGO sector’s work. USAID-funded programs are addressing the issue by holding information campaigns about civil sector activities via press clubs, television programs, a weekly radio program, and providing media and public relation trainings to NGOs.

NGO relations with the business community, the government, and other NGOs have improved as the general public increasingly understands that NGOs are a transformational force in society. The NGO sector’s first major Ethics Conference, sponsored by USAID and its partner ISC-

UZBEKISTAN



Capital: Tashkent

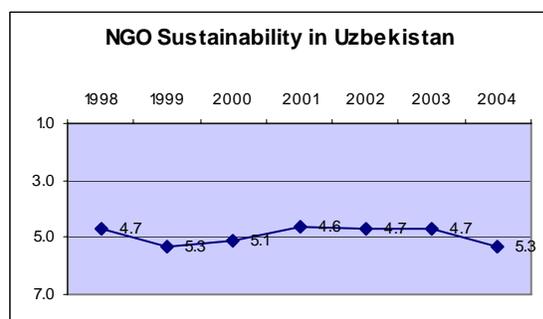
Polity: Republic-
authoritarian
presidential

Population:
26,410,000

**GDP per capita
(PPP):** \$1,700

NGO SUSTAINABILITY: 5.3

The NGO Sustainability score decreased dramatically in 2004, due in part to changes in the legal environment concerning grants, the registration of international organizations and the re-registration of women's groups. The NGO sector was negatively affected by the deterioration of the economy and the public's frustration with the slow pace of democratic reforms.



At the end of 2004, the Ministry of Justice reported that there were more than 5,000 NGOs in Uzbekistan. While the NGO

community is made up of organizations with diverse goals and missions, the most successful organizations operate in women's rights, health care, and environmental protection. Constituency building is still rare, and organizations in these fields are successful because they have developed projects based on priorities identified by donors. Most NGOs are led by a few dynamic personalities and lack transparency in both their governance and finances.

The majority of NGOs are based out of Tashkent, Nukus, Samarkand, Ferghana Valley, and Bukhara, although the southern regions of Kashkadaryo, Surkhandaryo and Khorezm have recently experienced a rise in NGO activity. In Karakalpakstan, the NGO sector has been quite active and even received support from local governments. Organizations based outside the capital continue to enjoy a little more freedom from government control, and generally develop

constituencies more than other organizations. Even though some authorities have started to cooperate with human rights organizations, many of which

are still unregistered, the government has not completely stopped harassing them.

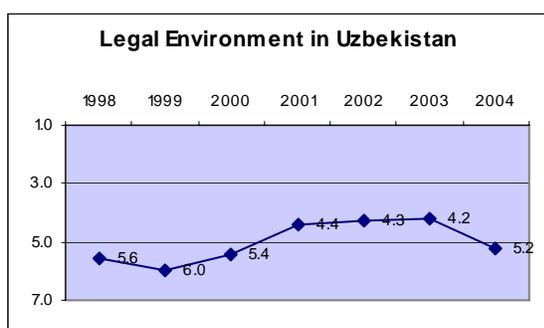
LEGAL ENVIRONMENT: 5.2

The NGO legal environment in Uzbekistan deteriorated over the past year. In order to take greater control of foreign funding and prevent possible “money laundering,” the government reformed the Law on Non-governmental Non-commercial Organizations. NGOs are now required to deposit their funds with the two government-controlled banks, the National Bank of Uzbekistan and Asaka, allowing officials to monitor and control all money transfers. Since the reforms were enacted, the government has stopped the transfer of over 80% of foreign grants to NGOs. This move has led some donors to make illegal disbursements in cash. As this system is administered according to unwritten policies and verbal instructions from the government, it is difficult for NGOs to follow the rules or to appeal adverse decisions.

register and cease their activities, while others, at the close of 2004, were still waiting to learn their registration status.

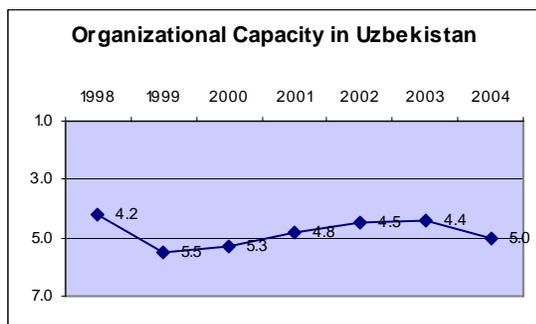
In addition, Parliament and other government officials have ceased their work on more beneficial NGO law reform efforts. In 2003, Parliament passed a new Law on Public Foundations, but the implementing regulations have yet to be written and not one foundation has been registered under the new law. Parliament was drafting legislation, including a Law on Public Associations, a Law on Charitable Activities, and a Law on State Support of NGO Activity, but recent elections created a two-chamber Parliament, causing all legislative drafting to be put on hold.

Generally, NGOs are taxed on all economic activities. The tax laws grant a few specific exemptions, but few take advantage of them due to a lack of awareness or inability to stand up against the tax authorities. The government does not tax grants or donations made to NGOs, but under new vague and “secret” procedures for approving NGO grants, few organizations have been able to access donor funding. The government has not implemented any procurement system, and neither NGOs nor commercial entities are able to compete for state funding.



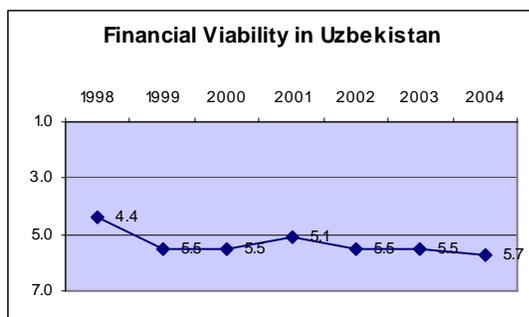
Another setback was the Presidential Decree on Women NGOs that required that all women’s organizations, which make up 70%-80% of all NGOs, to re-register with the Ministry of Justice before November 1, 2004. Some organizations chose not to re-

One positive development is a new network of lawyers providing legal services to NGOs and start-up groups on a variety of issues such as registration, taxation, accounting, labor regulations, and economic activities.

ORGANIZATIONAL CAPACITY: 5.0

As reported in past years, only a few NGOs in Uzbekistan have sophisticated and advanced organizational structures. Most often, organizations set goals and build mission statements according to the goals and priorities of the international donor community. And although many

organizations have received training in strategic planning, most develop their projects and activities around the availability of donor funding, not the needs of their constituents. Constituency building is still hampered by the lack of accountability and good governance. NGOs are slowly developing boards of directors and a volunteer-base, although many still rely on a single charismatic leader, who is often inflexible and unwilling to share control of the organization with a board of directors. Many NGOs, especially those in the rural areas, do not have access to telephones, fax machines, computers, internet or email.

FINANCIAL VIABILITY: 5.7

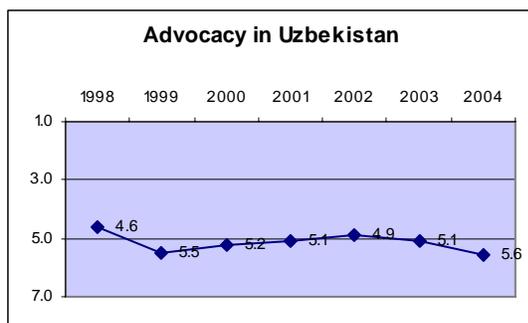
Overall, the NGO sector has not been able to achieve any significant level of financial stability, and most organizations still depend on the foreign donor community for support. In 2004, the two biggest influences on the sector's financial viability have been the new banking regulations and the bad economy. The government has blocked approximately 80% of all grants from reaching NGOs. NGOs are not able to

access their funds through the banks, and often face problems as the banks often do not have sufficient cash to convert the donations into local currency. As a result, some donors are distributing grants in cash. Such distribution is technically illegal and raises issues of transparency.

Local philanthropy has been rare in the past, but the current economic conditions have made local giving even rarer, limiting support primarily to in-kind donations. Local governments have, in a few instances, provided NGOs with grants for specific projects, but are still not a significant source of support. Few organizations are interested in engaging in economic activities to increase their income due to poor tax laws and problems with the convertibility of the currency. The majority of Uzbek NGOs do not have financial management systems.

ADVOCACY: 5.6

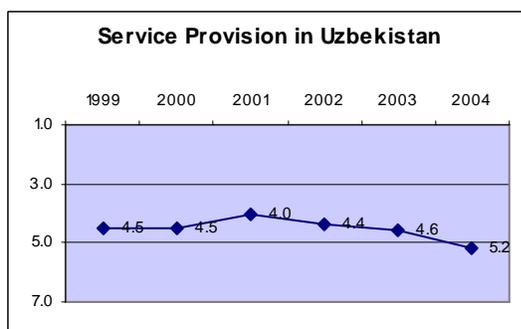
The government continues to apply pressure on organizations that engage in advocacy initiatives. Regardless, NGOs participate in campaigns concerning unemployment, rights for the disabled, low standards of living, and small to medium business development. Only the most developed organizations are involved in advocacy efforts.



While only a few advocacy campaigns led to the intended policy reforms, some efforts did result in the inclusion of NGOs in

oversight and monitoring. NGO advocacy campaigns were generally more successful at the local level than at the national level. For example, local governments and law enforcement agencies increased their cooperation with NGOs to combat human trafficking. In Termez, Samarkand, Kokand, Navoi, Nukus, and Nurabad, NGOs have been successful in their efforts to increase access for the disabled. New regulations require that new and renovated public buildings be equipped with access ramps, and include roles for NGOs in monitoring public construction projects. One current campaign is aimed at developing mechanisms for NGOs and government agencies to engage in joint monitoring of dumping waste into the Sir-Darya and Zerafshan rivers. These successes demonstrate that advocacy is possible in Uzbekistan.

SERVICE PROVISION: 5.2



NGOs were unable to provide many of their services in 2004, due to the monetary controls and banking regulations that kept almost 80% of grants from reaching their recipients. Generally, NGOs develop service programs according to donor priorities. As a result, projects do not always reflect the

needs and priorities of their communities. In some instances, organizations are providing services primarily to other NGOs, without the general public being aware of or involved in their activities.

Many local governments are reconsidering their cooperation with NGO service providers, as the government consolidates power, and the lack of understanding between the government and NGO community grows. Some local governments are, however, realizing that grassroots organizations are working to improve standards of living, and are cautiously taking note of proposals and analyses regarding community problems. These instances are

the exceptions, and in general, NGOs are being forced out of business or are being harassed by state controlled organizations like the Women's Committees, the Makhala Foundation, "Soglom Avlod Ucham" (a health GONGO), "Kamolot" (a youth services GONGO), and others.

Improved access to training services and greater responsiveness to community needs

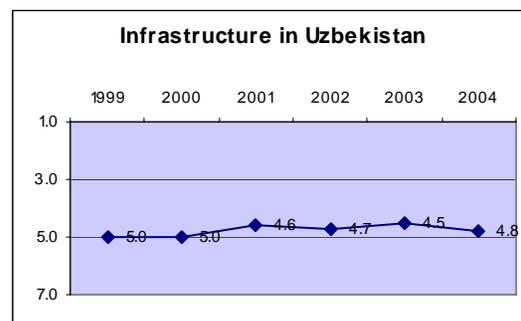
INFRASTRUCTURE: 4.8

A network of NGO support centers continues to operate in seven of the regional capitals. These centers offer training seminars, technical support, information resources, networking opportunities, and other professional services to NGOs and other associations. Each of these support centers have worked to design their programs around the specific needs in that region, and have proven to be quite important for the health of the sector.

The quantity and quality of trainers has improved over the past year. A new cadre of trainers that speak Uzbek is trying to establish an Association of Trainers to provide services in Uzbekistan and neighboring countries. Services and training materials are still not available in the Karakalpak language. Few NGOs undertake activities that might improve their technical capabilities; rather they focus on providing

have resulted in the increased ability of some NGOs to provide services to their communities. NGOs are not able to successfully market these services, due to the poor economy, restrictive new banking regulations, limited clientele, and the common belief that NGO services ought to be offered free of charge.

services to attract donor attention and funding.



Coalitions and networks are forming in some sectors of the NGO community, especially among those organizations involved in national advocacy campaigns. The lack of grant funding has created an atmosphere of competition and suspicion among NGOs, interfering with partnerships and collaborative efforts. A few organizations have made efforts to build sector-wide coalitions around issues such as gender rights and environmental protection.

PUBLIC IMAGE: 5.4

Overall the general public's perception and understanding of NGOs did not change over the past year, and the government became

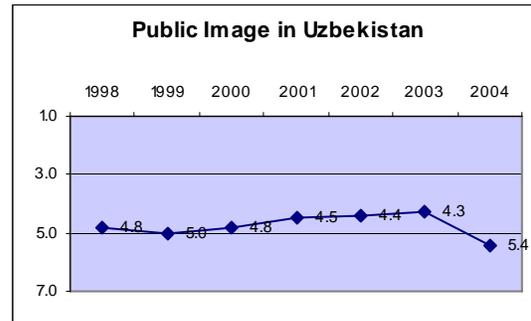
even more suspicious of the sector's activities. The new banking regulations that allow the government to monitor grants

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alluded to foreign funding activities as possible “money laundering.” Such references by the government have not helped NGOs, which rely primarily on foreign funding, to develop a positive public image. NGOs are making more information and materials available to the public in an effort to improve their public image and increase their transparency, but misperceptions of the sector persist.

The current administration is providing less space for civil society initiatives, and independent NGOs are increasingly seen by the central government as a threat. The government maintains tight control over the media, and NGOs have almost no means of

addressing the public. Government-run organizations, which receive nothing but positive coverage, are the exception. NGOs generally lack the experience and resources necessary to take advantage of the few existing independent media outlets.



STATISTICAL ANNEX

COUNTRY SCORES 1998-2004

NORTHERN TIER							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Czech Republic	N/R	N/R	2.4	2.3	2.5	2.4	2.7
Estonia	N/R	N/R	2.4	2.1	2.2	2.2	2.1
Hungary	1.6	2.0	2.3	2.6	2.6	2.7	2.6
Latvia	4.2	N/R	2.8	2.9	2.8	2.7	2.6
Lithuania	3.1	3.0	3.2	3.0	2.8	2.6	2.7
Poland	2.0	2.1	2.1	2.1	2.2	2.1	2.3
Slovakia	2.8	2.1	1.9	1.9	2.1	2.2	2.5
Slovenia	N/R	N/R	N/R	N/R	N/R	3.4	4.0
<i>Average</i>	2.7	2.3	2.4	2.4	2.5	2.5	2.7
SOUTHERN TIER							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Albania	4.2	4.8	4.6	4.6	4.3	4.1	3.9
Bosnia	5.6	5.2	4.0	4.5	4.2	4.1	4.0
Bulgaria	3.6	4.0	3.7	3.6	3.1	3.1	3.2
Croatia	4.4	4.7	4.3	3.8	3.7	3.5	3.5
Kosovo	N/R	4.4	4.6	4.6	4.3	4.2	3.8
Macedonia	4.4	4.6	4.6	4.2	4.0	3.7	3.6
Montenegro	N/R	4.6	4.6	4.7	4.6	4.5	4.3
Romania	3.8	4.1	4.1	4.0	3.7	3.8	3.7
Serbia	5.4	5.4	4.5	4.1	4.1	4.0	4.4
<i>Average</i>	4.5	4.6	4.3	4.2	4.0	3.9	3.8
EURASIA							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Armenia	N/R	5.1	2.0	4.4	4.2	4.1	4.1
Azerbaijan	6.4	5.7	5.0	4.9	5.2	4.1	4.9
Belarus	N/R	N/R	5.7	5.5	5.3	5.6	5.6
Georgia	3.4	3.8	4.0	4.0	4.2	4.1	3.9
Kazakhstan	4.4	4.8	4.7	4.3	4.1	3.9	4.1
Kyrgyzstan	3.9	4.1	4.3	4.3	4.1	4.1	4.2
Moldova	N/R	N/R	4.6	4.2	4.2	4.3	4.3
Russia	3.4	4.1	4.3	4.3	4.0	4.4	4.2
Tajikistan	6.6	6.1	5.4	5.1	4.6	4.6	4.6
Turkmenistan	N/R	6.6	6.0	5.8	5.6	5.7	5.6
Ukraine	4.2	4.1	4.4	4.3	4.0	3.9	3.8
Uzbekistan	4.7	5.3	5.1	4.6	4.7	4.7	5.2
<i>Average</i>	4.6	5.0	4.6	4.6	4.5	4.5	4.5

N/R=Country was not studied in that year

COUNTRIES RANKED BY SCORES

LEGAL ENVIRONMENT	ORGANIZATIONAL CAPACITY	FINANCIAL VIABILITY
CONSOLIDATION	CONSOLIDATION	CONSOLIDATION
Hungary 1.3	Slovakia 2.3	Estonia 2.5
Estonia 1.8	Estonia 2.5	Czech Republic 2.7
Lithuania 1.8	Poland 2.5	Poland 2.9
Bulgaria 2.0	Lithuania 2.6	Lithuania 3.0
Poland 2.3	Hungary 3.0	MID-TRANSITION
Slovakia 2.3	Latvia 3.0	Latvia 3.1
Latvia 2.4	MID-TRANSITION	Hungary 3.3
Macedonia 2.9	Czech Republic 3.2	Slovakia 3.5
Czech Republic 3.0	Croatia 3.4	Bulgaria 4.1
Kosovo 3.0	Macedonia 3.7	Romania 4.3
MID-TRANSITION	Bosnia 3.8	Croatia 4.4
Croatia 3.2	Romania 3.8	Albania 4.5
Montenegro 3.3	Georgia 3.8	Macedonia 4.5
Albania 3.4	Kazakhstan 3.8	Slovenia 4.5
Bosnia 3.5	Serbia 3.9	Russia 4.6
Georgia 3.5	Ukraine 3.9	Ukraine 4.6
Ukraine 3.6	Albania 4.0	Georgia 4.8
Slovenia 3.7	Kosovo 4.0	Bosnia 5.0
Kyrgyzstan 3.7	Armenia 4.0	Kazakhstan 5.0
Romania 3.8	Russia 4.0	Kyrgyzstan 5.0
Armenia 3.8	Moldova 4.1	EARLY TRANSITION
Kazakhstan 4.2	Slovenia 4.2	Montenegro 5.2
Moldova 4.2	Kyrgyzstan 4.3	Moldova 5.2
Russia 4.3	Bulgaria 4.5	Kosovo 5.3
Tajikistan 4.3	Belarus 4.6	Armenia 5.5
Serbia 4.5	Montenegro 4.7	Serbia 5.6
Azerbaijan 5.0	Azerbaijan 4.7	Tajikistan 5.6
EARLY TRANSITION	Tajikistan 4.8	Uzbekistan 5.7
Uzbekistan 5.2	Uzbekistan 5.0	Azerbaijan 5.8
Turkmenistan 6.5	EARLY TRANSITION	Turkmenistan 5.8
Belarus 6.9	Turkmenistan 5.2	Belarus 6.2

COUNTRIES RANKED BY SCORES

ADVOCACY		SERVICE PROVISION		INFRASTRUCTURE	
CONSOLIDATION		CONSOLIDATION		CONSOLIDATION	
Poland	1.9	Czech Republic	2.2	Estonia	1.7
Estonia	2.0	Slovakia	2.2	Poland	1.9
Latvia	2	Hungary	2.3	Slovakia	2.2
Lithuania	2.0	Poland	2.3	Hungary	2.3
Czech Republic	2.2	Estonia	2.4	Latvia	2.7
Slovakia	2.2	Latvia	2.4	Bulgaria	2.9
Bulgaria	2.5	MID-TRANSITION		Czech Republic	3.0
MID-TRANSITION		Romania	3.1	Lithuania	3.0
Macedonia	3.1	Bulgaria	3.2	MID-TRANSITION	
Ukraine	3.1	Croatia	3.3	Croatia	3.2
Hungary	3.3	Ukraine	3.3	Macedonia	3.2
Bosnia	3.3	Slovenia	3.6	Kosovo	3.4
Croatia	3.4	Lithuania	3.7	Romania	3.5
Kosovo	3.5	Albania	3.9	Kazakhstan	3.6
Kazakhstan	3.6	Macedonia	3.9	Kyrgyzstan	3.6
Romania	3.6	Russia	3.9	Serbia	3.7
Albania	3.7	Armenia	4.0	Moldova	3.7
Armenia	3.7	Kosovo	4.0	Russia	3.8
Georgia	3.7	Montenegro	4.0	Ukraine	3.8
Slovenia	3.8	Georgia	4.1	Armenia	3.9
Serbia	3.8	Kazakhstan	4.1	Georgia	3.9
Montenegro	4.0	Kyrgyzstan	4.1	Slovenia	4.2
Kyrgyzstan	4.0	Bosnia	4.3	Albania	4.2
Moldova	4.0	Moldova	4.5	Montenegro	4.3
Russia	4.2	Serbia	4.5	Tajikistan	4.3
Tajikistan	4.6	Tajikistan	4.6	Bosnia	4.4
Azerbaijan	4.8	Azerbaijan	4.6	Azerbaijan	4.6
EARLY TRANSITION		Turkmenistan	4.8	Turkmenistan	4.6
Uzbekistan	5.6	Belarus	4.9	Uzbekistan	4.8
Belarus	6.0	EARLY TRANSITION		Belarus	5.0
Turkmenistan	6.1	Uzbekistan	5.2	EARLY TRANSITION	

COUNTRIES RANKED BY SCORE

PUBLIC IMAGE

CONSOLIDATION	
Estonia	2.1
Poland	2.2
Czech Republic	2.5
Slovakia	2.6
Latvia	2.9
Hungary	3.0
Lithuania	3.0
MID-TRANSITION	
Bulgaria	3.3
Croatia	3.3
Bosnia	3.6
Kosovo	3.7
Georgia	3.7
Macedonia	3.8
Romania	3.8
Armenia	3.9
Slovenia	4.1
Ukraine	4.1
Albania	4.2
Kazakhstan	4.2
Moldova	4.2
Kyrgyzstan	4.3
Tajikistan	4.4
Serbia	4.5
Russia	4.5
Montenegro	4.6
EARLY TRANSITION	
Azerbaijan	5.1
Uzbekistan	5.4
Belarus	5.6
Turkmenistan	5.8

NGO SUSTAINABILITY- COUNTRY RANKINGS

		2004	2003	2002
CONSOLIDATION				
Estonia	2.1	1	2	2
Poland	2.3	2	1	2
Slovakia	2.5	3	2	1
Hungary	2.6	4	6	5
Latvia	2.6	4	6	7
Czech Republic	2.7	6	4	4
Lithuania	2.7	6	5	6
MID-TRANSITION				
Bulgaria	3.2	8	8	8
Croatia	3.5	9	9	9
Macedonia	3.6	10	10	12
Romania	3.7	11	11	9
Kosovo	3.8	12	16	22
Ukraine	3.8	12	12	12
Albania	3.9	14	21	22
Georgia	3.9	14	16	18
Bosnia	4.0	16	12	9
Slovenia	4.0	16	16	18
Armenia	4.1	18	12	16
Kazakhstan	4.1	18	16	18
Kyrgyzstan	4.1	18	23	12
Russia	4.2	21	16	12
Montenegro	4.3	22	24	24
Moldova	4.3	22	22	18
Serbia	4.4	24	15	16
Tajikistan	4.7	25	27	27
Azerbaijan	4.9	26	25	24
EARLY TRANSITION				
Uzbekistan	5.3	27	26	26
Turkmenistan	5.5	28	28	28
Belarus	5.6	29	29	29

DIMENSION SCORES 1998-2004**LEGAL ENVIRONMENT**

NORTHERN TIER							
	1998	1999	2000	2001	2002	2003	2004
Czech Republic	N/R	N/R	2.0	2.0	3.0	3.0	3.0
Estonia	N/R	N/R	2.0	2.0	2.0	1.8	1.8
Hungary	1.0	1.0	1.0	1.7	1.4	1.3	1.3
Latvia	4.0	N/R	3.0	3.0	2.8	2.6	2.4
Lithuania	4.0	4.0	4.0	2.0	1.6	1.6	1.8
Poland	2.0	2.0	2.0	2.0	2.1	2.0	2.3
Slovakia	3.5	3.5	2.5	2.5	2.6	2.5	2.3
Slovenia	N/R	N/R	N/R	N/R	N/R	3.7	3.7
<i>Average</i>	2.9	2.6	2.4	2.2	2.2	2.3	2.3
SOUTHERN TIER							
	1998	1999	2000	2001	2002	2003	2004
Albania	4.0	4.0	4.0	4.0	3.6	3.5	3.4
Bosnia	5.0	5.0	4.5	4.0	3.5	3.5	3.5
Bulgaria	4.5	4.5	3.5	3.5	2.0	2.0	2.0
Croatia	6.0	6.0	4.0	3.0	2.8	2.8	3.2
Kosovo	N/R	3.0	3.0	4.0	3.3	3.2	3.0
Macedonia	3.0	3.0	3.0	3.0	3.0	2.9	2.9
Montenegro	N/R	3.5	3.5	3.7	3.7	3.4	3.3
Romania	3.5	3.5	3.0	3.0	3.0	4.0	3.8
Serbia	5.0	6.0	5.0	5.0	4.5	4.5	4.5
<i>Average</i>	4.4	5.5	3.7	3.7	3.3	3.3	3.3
EURASIA							
	1998	1999	2000	2001	2002	2003	2004
Armenia	N/R	4.0	4.0	4.0	3.8	3.8	3.8
Azerbaijan	7.0	6.0	5.0	5.0	5.0	5.0	5.0
Belarus	N/R	N/R	7.0	7.0	6.5	6.8	6.9
Georgia	3.0	3.5	3.0	4.0	3.9	3.7	3.5
Kazakhstan	4.9	5.0	4.5	4.5	4.2	4.0	4.2
Kyrgyzstan	3.9	3.5	4.3	5.2	3.7	3.9	3.7
Moldova	N/R	N/R	3.0	3.0	3.3	3.7	4.2
Russia	3.0	4.0	4.0	4.2	4.0	4.3	4.3
Tajikistan	6.5	6.0	5.0	4.8	4.6	4.3	4.3
Turkmenistan	N/R	7.0	6.5	6.5	6.5	6.7	6.5
Ukraine	4.6	5.0	5.0	5.0	4.5	4.0	3.6
Uzbekistan	5.6	6.0	5.4	4.4	4.3	4.2	5.2
<i>Average</i>	6.4	6.3	4.7	4.8	4.5	4.5	4.6

N/R=Country was not studied in that year

DIMENSION SCORES 1998-2004**ORGANIZATIONAL CAPACITY**

NORTHERN TIER							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Czech Republic	N/R	N/R	3.0	3.0	2.9	2.9	3.2
Estonia	N/R	N/R	2.5	2.3	2.2	2.6	2.5
Hungary	2.0	2.0	3.0	2.8	2.7	2.9	3.0
Latvia	4.0	N/R	2.6	3.3	3.0	2.9	3.0
Lithuania	3.0	2.5	2.5	3.0	2.9	2.9	2.6
Poland	2.0	2.0	2.0	2.0	2.2	2.2	2.5
Slovakia	3.0	2.0	1.5	1.5	1.7	2.0	2.3
Slovenia	N/R	N/R	N/R	N/R	N/R	3.5	4.2
<i>Average</i>	2.8	2.1	2.4	2.6	2.5	2.7	2.9
SOUTHERN TIER							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Albania	4.2	4.5	5.0	5.0	4.5	4.2	4.0
Bosnia	5.0	4.5	4.5	4.0	3.9	3.8	3.8
Bulgaria	3.0	3.5	4.5	4.5	4.5	4.4	4.5
Croatia	3.0	4.0	4.8	4.0	4.0	3.8	3.4
Kosovo	N/R	4.5	4.5	5.0	4.2	4.3	4.0
Macedonia	4.0	4.0	4.0	4.0	4.0	3.7	3.7
Montenegro	N/R	5.0	5.0	5.0	4.8	4.8	4.7
Romania	3.5	4.0	5.0	4.5	4.0	3.8	3.8
Serbia	5.0	5.0	4.5	4.0	3.9	3.8	3.9
<i>Average</i>	4.0	5.6	4.6	4.4	4.2	4.1	4.0
EURASIA							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Armenia	N/R	5.0	5.0	4.0	3.9	3.6	4.0
Azerbaijan	6.0	5.8	5.2	5.0	5.0	4.8	4.7
Belarus	N/R	N/R	5.0	4.8	4.7	4.8	4.6
Georgia	4.0	3.5	4.0	4.0	4.0	4.0	3.8
Kazakhstan	4.0	4.5	5.0	4.2	4.0	3.8	3.8
Kyrgyzstan	3.9	4.0	4.0	4.0	4.3	4.3	4.3
Moldova	N/R	N/R	4.5	4.5	4.5	4.2	4.1
Russia	3.0	3.5	4.0	4.4	3.9	4.3	4.0
Tajikistan	6.0	6.0	5.5	5.0	4.5	4.6	4.8
Turkmenistan	N/R	6.0	5.8	5.5	5.3	5.3	5.2
Ukraine	3.7	3.5	4.0	4.0	3.5	3.9	3.9
Uzbekistan	4.2	5.5	5.3	4.8	4.5	4.4	5.0
<i>Average</i>	5.8	5.9	4.8	4.5	4.3	4.3	4.4

N/R=Country was not studied in that year

DIMENSION SCORES 1998-2004**FINANCIAL VIABILITY**

NORTHERN TIER							
	1998	1999	2000	2001	2002	2003	2004
Czech Republic	N/R	N/R	2.0	2.0	2.0	1.9	2.7
Estonia	N/R	N/R	2.8	2.6	2.6	2.6	2.5
Hungary	2.0	2.5	3.0	2.8	3.0	3.3	3.3
Latvia	5.0	N/R	3.5	3.5	3.5	3.3	3.1
Lithuania	3.0	3.5	4.0	3.0	2.9	2.9	3.0
Poland	2.0	2.5	2.5	2.5	2.8	2.8	2.9
Slovakia	4.0	3.0	3.0	3.0	3.0	3.2	3.5
Slovenia	N/R	N/R	N/R	N/R	N/R	3.3	4.5
<i>Average</i>	3.2	2.9	3.0	2.8	2.8	2.9	3.2
SOUTHERN TIER							
	1998	1999	2000	2001	2002	2003	2004
Albania	5.0	5.0	5.0	5.0	4.8	4.6	4.5
Bosnia	6.0	6.5	6.0	5.7	5.5	5.4	5.0
Bulgaria	5.0	5.5	5.2	4.5	3.8	3.7	4.1
Croatia	5.0	6.0	6.6	5.0	5.1	4.4	4.4
Kosovo	N/R	6.0	6.0	6.0	6.0	5.6	5.3
Macedonia	5.0	5.0	5.0	4.0	4.6	4.5	4.5
Montenegro	N/R	5.5	5.5	5.5	5.5	5.4	5.2
Romania	4.5	5.0	5.5	4.5	4.5	4.3	4.3
Serbia	6.0	6.0	6.0	6.0	5.5	5.4	5.6
<i>Average</i>	5.2	7.2	5.6	5.1	5.0	4.8	4.8
EURASIA							
	1998	1999	2000	2001	2002	2003	2004
Armenia	N/R	6.0	6.0	6.0	5.6	5.5	5.5
Azerbaijan	6.0	6.0	6.0	6.0	6.0	5.8	5.8
Belarus	N/R	N/R	6.0	6.0	5.7	6.2	6.2
Georgia	4.0	4.9	5.0	5.0	4.9	4.6	4.8
Kazakhstan	4.4	5.5	5.5	5.0	4.8	4.7	5.0
Kyrgyzstan	4.2	5.5	5.5	5.5	5.0	5.0	5.0
Moldova	N/R	N/R	5.5	5.3	5.2	5.3	5.2
Russia	4.0	5.0	5.0	4.7	4.4	4.9	4.6
Tajikistan	7.0	7.0	6.0	6.0	5.5	5.7	5.6
Turkmenistan	N/R	7.0	6.0	5.5	5.3	6.0	5.8
Ukraine	4.6	5.0	5.0	5.0	5.0	4.8	4.6
Uzbekistan	4.4	5.5	5.5	5.1	5.5	5.5	5.8
<i>Average</i>	6.4	7.2	5.6	5.4	5.2	5.3	5.3

N/R=Country was not studied in that year

DIMENSION SCORES 1998-2004**ADVOCACY**

NORTHERN TIER							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Czech Republic	N/R	N/R	2.0	1.8	1.8	2.0	2.2
Estonia	N/R	N/R	2.0	1.8	2.1	2.0	2.0
Hungary	1.0	1.5	3.0	3.5	3.5	3.3	3.3
Latvia	4.0	N/R	3.0	2.2	2.0	2.0	2.0
Lithuania	2.0	1.5	2.0	2.0	1.8	1.6	2.0
Poland	2.0	2.5	2.0	2.0	2.2	1.9	1.9
Slovakia	2.0	1.5	1.5	1.5	1.6	1.6	2.2
Slovenia						3.0	3.8
<i>Average</i>	2.2	1.8	2.2	2.1	2.1	2.2	2.4
SOUTHERN TIER							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Albania	4.0	4.0	4.0	3.0	3.9	3.6	3.4
Bosnia	6.0	5.5	4.5	4.2	3.9	3.6	3.3
Bulgaria	2.8	3.0	3.0	3.0	2.5	2.5	2.5
Croatia	4.0	4.0	2.5	3.0	3.0	3.0	3.4
Kosovo	N/R	5.0	4.5	5.0	4.1	3.8	3.5
Macedonia	5.0	4.5	4.5	4.0	3.6	3.3	3.1
Montenegro	N/R	3.5	3.5	4.5	4.7	4.3	4.0
Romania	3.5	4.0	3.5	4.5	4.0	3.8	3.6
Serbia	6.0	6.0	4.0	3.5	3.3	3.2	3.8
<i>Average</i>	4.5	5.6	3.8	3.9	3.7	3.5	3.4
EURASIA							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Armenia	N/R	5.0	5.0	4.0	4.2	3.8	3.7
Azerbaijan	6.5	6.0	5.5	5.0	5.0	4.8	4.8
Belarus	N/R	N/R	6.0	5.5	5.4	5.7	6.0
Georgia	4.0	3.5	2.0	4.0	4.3	4.0	3.7
Kazakhstan	N/R	4.5	4.5	4.3	4.0	3.6	3.6
Kyrgyzstan	3.5	3.5	3.5	3.0	3.3	3.8	4.0
Moldova	N/R	N/R	5.0	4.2	4.2	4.1	4.0
Russia	3.0	3.5	4.5	4.9	4.2	4.5	4.2
Tajikistan	6.5	6.0	5.5	5.0	4.5	4.5	4.6
Turkmenistan	N/R	6.5	6.3	6.3	6.1	6.1	6.1
Ukraine	4.4	5.0	4.0	4.0	3.5	3.4	3.1
Uzbekistan	4.6	5.5	5.2	5.1	4.9	5.1	5.6
<i>Average</i>	5.4	6.1	4.8	4.6	4.5	4.5	4.5

N/R=Country was not studied in that year

DIMENSION SCORES 1999*-2004**SERVICE PROVISION**

NORTHERN TIER						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Czech Republic	N/R	2.0	2.0	2.2	2.2	2.2
Estonia	N/R	2.5	2.3	2.5	2.5	2.4
Hungary	2.5	2.0	2.3	2.3	2.3	2.3
Latvia	2.5	N/R	2.4	2.5	2.5	2.4
Lithuania	3.5	3.5	4.0	3.8	3.4	3.7
Poland	2.0	2.0	2.0	2.1	2.0	2.3
Slovakia	2.0	2.0	2.0	2.2	2.2	2.2
Slovenia	N/R	N/R	N/R	N/R	3.0	3.6
<i>Average</i>	3.1	2.0	2.4	2.5	2.5	2.6
SOUTHERN TIER						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Albania	5.0	5.0	5.0	3.9	4.0	3.9
Bosnia	5.0	4.5	4.2	4.5	4.4	4.3
Bulgaria	4.0	3.0	3.0	2.8	2.9	3.2
Croatia	5.0	4.4	4.0	3.7	3.4	3.3
Kosovo	4.0	5.0	4.0	5.0	4.8	4.0
Macedonia	5.5	5.5	5.0	4.8	4.0	3.9
Montenegro	4.5	4.5	4.0	4.2	4.2	4.0
Romania	4.0	4.0	3.5	3.1	3.1	3.1
Serbia	4.0	4.0	3.8	4.2	4.1	4.5
<i>Average</i>	5.9	4.4	4.1	4.0	3.9	3.8
EURASIA						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Armenia	5.0	4.0	4.0	4.0	4.0	4.0
Azerbaijan	4.5	4.5	5.0	5.0	4.8	4.6
Belarus	N/R	5.0	5.0	4.9	5.1	4.9
Georgia	4.0	5.0	4.0	4.2	4.4	4.1
Kazakhstan	4.5	4.7	4.0	4.0	3.9	4.1
Kyrgyzstan	4.0	4.5	4.3	3.9	3.8	4.1
Moldova	N/R	5.0	4.5	4.4	4.5	4.5
Russia	4.5	4.5	4.3	3.7	4.0	3.9
Tajikistan	5.5	5.5	5.0	4.5	4.3	4.6
Turkmenistan	6.0	5.3	5.0	5.0	4.8	4.8
Ukraine	2.5	4.0	3.0	3.0	3.3	3.3
Uzbekistan	4.5	4.5	4.0	4.4	4.6	5.2
<i>Average</i>	5.6	4.7	4.3	4.3	4.3	4.3

N/R=Country was not studied in that year

*Service Provision was not a dimension studied in 1998

DIMENSION SCORES 1999*-2004**INFRASTRUCTURE**

NORTHERN TIER						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Czech Republic	N/R	3.0	3.0	3.0	3.0	3.0
Estonia	N/R	2.5	2.0	1.9	2.0	1.7
Hungary	2.5	2.0	2.5	2.5	2.4	2.3
Latvia	3.0	N/R	3.0	3.0	2.8	2.7
Lithuania	3.0	3.0	2.5	2.3	2.2	3.0
Poland	2.0	2.0	2.0	1.9	1.9	1.9
Slovakia	1.5	1.5	1.5	1.7	1.9	2.2
Slovenia	N/R	N/R	N/R	N/R	3.8	4.2
<i>Average</i>	3.0	2.0	2.4	2.3	2.5	2.6
SOUTHERN TIER						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Albania	5.5	5.0	5.0	4.6	4.4	4.2
Bosnia	5.0	5.0	4.8	4.5	4.5	4.4
Bulgaria	3.0	3.0	3.0	2.5	2.5	2.9
Croatia	4.0	4.0	4.0	3.9	3.6	3.2
Kosovo	5.0	5.0	4.0	3.7	3.5	3.4
Macedonia	5.0	5.0	4.5	3.7	3.3	3.2
Montenegro	5.0	5.0	5.0	4.6	4.6	4.3
Romania	4.0	4.0	4.0	3.6	3.6	3.5
Serbia	5.0	4.0	3.0	3.4	3.4	3.7
<i>Average</i>	5.9	4.4	4.1	3.8	3.7	3.6
EURASIA						
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Armenia	5.5	6.0	4.5	4.2	4.0	3.9
Azerbaijan	5.5	4.5	3.0	4.6	4.7	4.6
Belarus	N/R	5.0	4.5	4.5	4.8	5.0
Georgia	3.5	3.0	3.0	4.0	3.8	3.9
Kazakhstan	5.0	4.5	4.1	3.9	3.6	3.6
Kyrgyzstan	4.5	4.0	3.8	3.7	3.8	3.6
Moldova	N/R	4.0	3.8	3.8	3.8	3.7
Russia	3.5	3.5	3.4	3.2	3.9	3.8
Tajikistan	6.0	5.0	4.8	4.1	4.1	4.3
Turkmenistan	6.5	5.7	5.5	5.2	5.0	4.6
Ukraine	3.5	4.0	4.0	3.5	3.5	3.8
Uzbekistan	5.0	5.0	4.6	4.7	4.5	4.5
<i>Average</i>	6.1	4.5	4.1	4.1	4.1	4.1

N/R=Country was not studied in that year

*Infrastructure was not a dimension studied in 1998

DIMENSION SCORES 1998-2004
PUBLIC IMAGE

NORTHERN TIER							
	1998	1999	2000	2001	2002	2003	2004
Czech Republic	N/R	N/R	3.0	2.5	2.3	2.1	2.5
Estonia	N/R	N/R	2.5	2.0	2.0	2.2	2.1
Hungary	2.0	2.0	2.0	2.8	3.0	3.2	3.0
Latvia	4.0	N/R	2.0	2.7	3.0	2.8	2.9
Lithuania	3.0	2.5	3.0	4.0	3.8	3.3	3.0
Poland	2.0	2.0	2.0	2.0	2.3	2.2	2.2
Slovakia	1.5	1.0	1.5	1.5	1.8	2.0	2.6
Slovenia	N/R	N/R	N/R	N/R	N/R	3.6	4.1
<i>Average</i>	3.1	1.5	2.3	2.5	2.6	2.7	2.8
SOUTHERN TIER							
	1998	1999	2000	2001	2002	2003	2004
-							
Albania	4.0	5.0	4.5	5.0	4.6	4.5	4.2
Bosnia	6.0	5.0	5.0	4.5	3.8	3.8	3.6
Bulgaria	2.8	4.5	4.0	4.0	3.5	3.4	3.3
Croatia	4.0	4.0	4.0	3.8	3.5	3.4	3.3
Kosovo	N/R	3.5	4.0	4.5	3.9	3.9	3.7
Macedonia	5.0	5.0	5.0	4.5	4.0	3.9	3.8
Montenegro	N/R	5.0	5.0	5.0	4.8	4.7	4.6
Romania	4.0	4.0	3.5	4.0	3.8	4.0	3.8
Serbia	5.0	5.5	4.0	3.5	4.0	3.9	4.5
<i>Average</i>	4.4	5.9	4.3	4.3	4.0	3.9	3.9
EURASIA							
	1998	1999	2000	2001	2002	2003	2004
Armenia	N/R	5.0	5.0	4.0	4.0	3.9	3.9
Azerbaijan	6.5	6.0	4.5	5.0	5.5	5.3	5.1
Belarus	N/R		6.0	5.5	5.2	5.6	5.6
Georgia	2.0	4.0	5.0	4.0	4.4	4.4	3.7
Kazakhstan	4.0	4.5	4.5	4.1	3.9	3.9	4.2
Kyrgyzstan	3.8	4.1	4.5	4.5	4.1	4.1	4.3
Moldova	N/R	N/R	5.0	4.3	4.3	4.2	4.2
Russia	4.0	5.0	4.5	4.5	4.4	4.0	4.5
Tajikistan	7.0	6.0	5.0	5.0	4.5	4.4	4.4
Turkmenistan	N/R	7.0	6.2	6.0	6.0	5.9	5.8
Ukraine	3.9	4.0	5.0	5.0	5.0	4.4	4.1
Uzbekistan	4.8	5.0	4.8	4.5	4.4	4.3	5.4
<i>Average</i>	6.0	6.3	5.0	4.7	4.6	4.5	4.6

N/R=Country was not studied in that year

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