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The 2005 NGO Sustainability Index for Central and Eastern Europe and Eurasia



Ninth Edition – May 2006

The 2005 NGO Sustainability Index for Central and Eastern Europe and Eurasia

**Developed by:
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Introduction

The 2005 NGO Sustainability Index for Central and Eastern Europe and Eurasia is the 9th Edition of the publication. This year the Index reports on 27 countries, plus Montenegro and Kosovo (each of which is reported on separately.)

This year's index continues a feature begun last year – inclusion of articles examining trends affecting NGO sustainability. This year, in “*Civil Society under Threat: Common Legal Barriers and Potential Responses*,” David Moore and Catherine Shea examine an issue that has affected NGOs not only in the region but around the world – the use of repressive NGO laws to stifle NGO activities and free association. Robert Herman considers the evolution of NGO advocacy in Central and Eastern Europe and the former Soviet Union, as well as challenges to advocacy organizations, in “*Advocacy in the E&E Region: Progress, Promise and Peril*.”

Other features will be familiar to readers of prior editions of the Index. The Index as in prior years measures seven dimensions of NGO Sustainability on a scale of 1 to 7, with 7 indicating a low or poor level of development and 1 indicating a very advanced NGO sector. The 2005 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 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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USAID Field Personnel

Albania	Suzana Cullufi and Bruce Kay, USAID/Albania
Armenia	Gavin Helf and Bella Markarian, USAID/Armenia and Alex Sardar, Counterpart CASP Program
Azerbaijan	Livia Mimica, USAID/Azerbaijan
Bosnia	Marc Ellingstad, Selma Sijercic and Mirjana Popovic, USAID/Bosnia
Bulgaria	Kiril Kiryakov and Nora Ovcharova, USAID/Bulgaria
Central Asia	Abdurahim Muhidov, Gulnar Khadyrova, Dinara Mirzakarimova, Igor Tupitsyn, and Andrew Segars, USAID/Central Asia Republics
Croatia	Slavica Radosevic, Klara Benko and Rebecca Latorraca, USAID/Croatia
Georgia	Keti Bakradze, Nick Higgins and Khatuna Kunchulia, USAID/Georgia
Kosovo	Argentina Grazhdani, Perihane Ymeri, Arben Nagavci and Luljete Gjonbala, USAID/Kosovo
Macedonia	Melita Cokrevska and Kathy Stermer, USAID/Macedonia
Moldova	Mark Levinson, Vasile Filatov and Corneliu Rusnac, USAID/Moldova
Montenegro	Ana Drakic and Claire O’Riordan, USAID/Montenegro
Romania	Larry Sacks, Ruxandra Datcu, Gabriela Manta and Cate Johnson, USAID/Romania
Russia	Erin Krasik, Inna Loukovenko and Lyubov Maximova, USAID/Russia
Serbia	Jan Emmert, Dragana Stevanovic Kolakovic, Milan Popovic and Cara Stern, USAID/Serbia
Ukraine	Assia Ivantcheva, Victoria Marchenko and Svetlana Kolesnik, USAID/Ukraine

Implementing Partners

Estonia	Kristina Mänd
Czech Republic	Marek Šedivý and Marta Adamova
Hungary	Balazs Sator and Lilla Jakub
Latvia	Rasma Pipike and Zinta Miežaine
Lithuania	Jolanta Blažaitė
Poland	Agnieszka Rymsza, Marek Rymsza and Kamila Hernik
Slovakia	Lenka Surotchak
Slovenia	Primoz Sporar, Tatjana Strojjan and Biljana Konjevic

Project Managers

Management Systems International, Inc.

Robert Herman
Saira Abbasey

The International Center for Not-for-Profit Law

Douglas Rutzen
Catherine Shea
Thomas Roddy Hughes
Erin Means

Editorial Committee

Claire Ehmann, Marguerite Galaty, Arsala Deane, Robert Herman, Douglas Rutzen

Executive Summary

2005 was a year of uneven progress for civil society in Central and Eastern Europe and Eurasia. While sustainability in the European countries continued to progress or consolidate, the NGO environment in many Eurasian countries deteriorated. Some of the most dramatic developments of the year centered on efforts of governments, primarily in the former Soviet Union, to constrain civil society activities, particularly where they appear to pose a threat to the government in power.

One of key lessons that can be drawn from nine years of Sustainability Index data is that there is no single intervention that a government can make that will dramatically improve the sustainability of NGOs over the course of a single year. Progress on overall NGO sustainability tends to be gradual. For example, as the scores from this year's index bear out, it is difficult to trigger improvements in organizational capacity of NGOs so widespread and effective that scores in that dimension will improve (or decline) significantly from year to year.¹ On the other hand, as events of 2005 highlight, it is possible for a government to engineer considerable and immediate deterioration in the environment for NGO sustainability using a single weapon – repressive legal environments governing the sector. The Legal Environment Dimension of the Index captures both deterioration in the conditions for NGO sustainability due to, e.g., harassment within existing legal frameworks, as well as adoption and implementation of new laws that lay the groundwork for even greater repression and harassment. This volume of the Sustainability Index focuses on how the laws governing civil society organizations have become a key weapon in the efforts of authoritarian regimes to control civil society organizations in the article, “*Civil Society Under Threat: Common Legal Barriers and Potential Responses.*”

Probably the most prominent example of this phenomenon in this year's index is Uzbekistan. In Uzbekistan, the government's violent suppression of the May 2005 civilian uprising in the Andijan region was followed by increased harassment and human rights abuses targeted at civil society. This included requests that organizations “voluntarily” cease their operations, lengthy questioning of NGO employees, and suspending the operations of some NGOs. Banking restrictions enacted in 2004 have left 90% of all organizations without access to foreign funding.

But there are other examples as well. In Russia, one of the year's key developments was the enactment of amendments to the laws governing various types of NGOs which gave the government greater power over NGOs. Among other things, the law allows the government broader authority to deny registration to NGOs, oversee their financing by foreign donors, and control their activities. A campaign by over one hundred civil society organizations was successful in combating provisions in an earlier draft of the law that would have imposed even more significant restraints on civil society, including a provision that would have required even small informal organizations to notify the government of their existence. Despite this partial success, the law ultimately enacted by the Duma and signed by the President Putin contains a number of regressive provisions and – just as worrisome – creates new areas within which government agents have wide latitude for discretionary decision-making regarding NGO activities.

¹ The Editorial Committee for that reason was restrained this year in according score increases of more than .1 or .2, reflecting that in most dimensions it is difficult to achieve significant and lasting change over a short period of time.

In Kazakhstan, in advance of the 2005 elections, the Parliament passed a law severely restricting foreign funding of NGOs; this law was ultimately not signed by the President after the Constitutional Court found portions of it unconstitutional. However, the Law on National Security was adopted, and it provides criminal sanctions for formation of informal associations. Turkmenistan continues to use its laws to restrict NGO formation to the extent that only a handful of NGO have been registered in recent years; those that are able to register suffer invasive oversight. In Belarus the adoption of new repressive laws and regulations, including a provision permitting the government to suspend an organization's activities for up to six months and liquidate its assets for, e.g., the "illegal" use of foreign aid, caused NGO sustainability as measured by the Index to deteriorate to its lowest point to date.

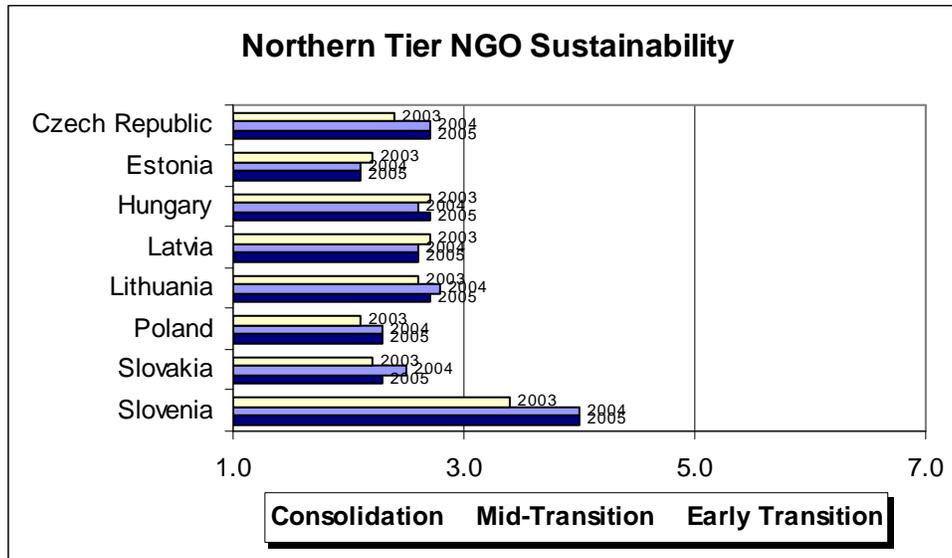
One question posed in last year's index concerned the revolutions in Georgia, Ukraine and Kyrgyzstan. These events reflected significant growth in the advocacy capacity of the NGO sectors. Whether this progress could be sustained remained to be determined. This year's reports suggest both promising developments as well as disappointments. In Georgia, improved relations between the sector and the government following the Rose Revolution gave way to disillusionment when continued improvements did not occur as anticipated. NGOs in 2005 found themselves stymied in attempts to influence policy by a government in which decisions were made by a few officials, as well as by their own lack of capacity to work cooperatively to advocate their positions. In Ukraine, by contrast, in the wake of the Orange revolution, both the overall sustainability score and the scores in most dimensions improved, as NGOs throughout the country demonstrated an increasingly sophisticated understanding of advocacy and engaged in a number of significant initiatives. In the Kyrgyz Republic, the March 2005 revolution resulted in the institution of a new government. Civil society had an unprecedented opportunity to raise its agenda with the new government, and played an important role in the events leading up to elections. As a result of improvements in NGO advocacy and public image, Kyrgyzstan's overall sustainability score increased.

The countries of Central and Eastern Europe did not experience these types of extraordinary political developments. In the Southern Tier, overall scores either remained the same or showed modest improvement, reflecting even progress for the sectors in these countries. In the Northern Tier, most countries experienced little change, perhaps a result of the fact that scores are already in the consolidation phase.

The following summary considers some of the trends on key components in the countries covered by the index.

Northern Tier

In the Northern Tier no country significantly improved its score either overall or in any dimension. This continues a trend observed last year, in which most countries, having reached the consolidation stage with relatively mature NGO sectors, have more limited opportunity to make dramatic improvements in the sustainability of their NGO sectors. The one exception is Slovenia, which remains in the mid-transition phase, as the failure to close a planned agreement between the NGO sector and the government, and the government's refusal to prioritize NGO development, led to a decrease in the overall sustainability score.



The Northern Tier countries completed their first year as members of the EU. EU membership thus far has not contributed to significant improvements in NGO financial sustainability, largely because of the complications involved in accessing EU funds. Organizations in Hungary, Poland, Latvia and Lithuania all report difficulties in obtaining EU funds due to complex bureaucratic procedures, as only the larger, well-developed organizations were able to navigate the funding process. Hungarian and Latvian organizations report that they have not received expected government funding and training to prepare and qualify them for EU funding. The reports from Slovakia and Hungary note that EU requirements that organizations front project costs, and receive payment only when projects are underway or complete, have strained the capacity of many NGOs.

Legal environment scores declined in several countries. This year's reports make clear that even in countries that have reached the consolidation stage, vague laws and undefined terms can interfere with NGO activities, and that ongoing attention to the legal framework is necessary. In some countries, basic framework legislation has not been addressed since the early 1990s, and is often incomplete or ambiguous. In Hungary, to highlight this problem, an NGO filed the same registration application in twenty different courts, and received twenty very different responses, indicating that the law gives too much discretion to judges. In the Czech Republic, unclear definitions (e.g., of what constitutes a "non-profit organization") make application of the laws difficult. The new Value Added Tax (VAT) law in addition is unclear and complicates the financial management of NGOs. In Lithuania, failure to provide appropriate support for the new 2% law and new not-for-profit accounting rules that treat NGOs like businesses and fail to consider their particular needs led to a decrease in the legal environment score.

There were several new law reform initiatives this year. In Hungary, the government passed a new Law on Volunteerism and a new Law on Freedom of Electronic Information, which will increase the public's access to government information and promote public participation. The government in Slovenia passed amendments to the Foundation Act, and is now considering a new Tax Law, although NGOs have reported that the current draft fails to take into account their interests. In a troubling legal development, Latvia's new Law on Public Organizations and Associations may narrow the freedom to demonstrate and picket.

This year's reports also highlight the rise of volunteerism. The Hungarian government recently enacted a new law on volunteerism that allows organizations to reimburse volunteers for their expenses without being taxed, and generally creates a supportive environment for volunteers. In Lithuania, as foreign funding has decreased, organizations have begun to rely more on volunteers; many are students fulfilling

their internship and social credit requirements. In the Czech Republic increased volunteerism poses a challenge, as organizations need to build capacity to manage their volunteer activities. Estonia requires new regulations to support volunteer activities, especially now that interest in volunteerism is increasing.

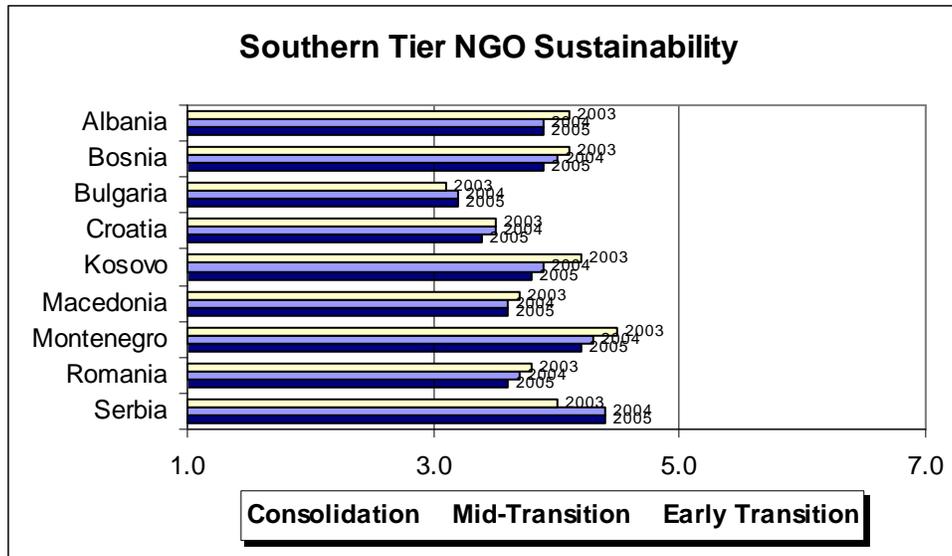
The financial viability dimension in the majority of countries showed little change. NGOs in most Northern Tier countries have succeeded in diversifying their sources of income and overcoming the loss of foreign funding, but this has not necessarily translated into greater financial viability. In the Czech Republic, NGOs receive the bulk of their funding from domestic sources. Nonetheless, the financial viability score decreased because of stagnant corporate and individual donor development, and lack of good financial management and fundraising skills on the part of NGOs. In Hungary, the financial viability score also declined, as 1% law revenues decreased for the first time in eight years, the government was slow to execute procurement contracts and distribute funds from the National Civil Fund, and Ministries were required to make cuts in their budgets, decreasing the funds available for NGO activities.

Lithuania was the only country in which the financial viability score improved. The increased score resulted from implementation of the new 2% law, increased support of NGOs by municipalities, greater cooperation with the business community as the economy improves, and new opportunities for NGOs to carry out projects in other countries as a result of Lithuania's trilateral agreements.

In a key development affecting the advocacy dimension, several countries put in place mechanisms to increase public participation. In Hungary, the dimension score increased, as NGOs were involved with drafting and passing a new Law on E-information that gives the public greater access to government information online, allowing for more informed participation, and NGOs engaged in a number of ambitious sector wide advocacy initiatives. Similarly, in Poland, the Public Benefit Association Act requires that NGOs be included in government decision-making, and they have been invited to consult on legislation, and elect members to a council that advises the government, and have improved cooperation with local governments. In Latvia, the National Program for Strengthening Civil Society requires that all ministries have an official that is responsible for involving NGOs in the Ministry's decision-making process. The Lithuanian government similarly created lobbying mechanisms that led to greater participation.

Southern Tier

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



NGOs in a number of countries assert the need for additional law reforms, citing vague, unclear, and at times unsupportive laws and regulations. Some countries that have already undertaken significant reform of the laws governing NGOs report a need to build on earlier efforts by addressing tax reform or drafting amendments to address ambiguities, unclear provisions, or poor implementation. In Albania, for example, NGOs report the need for new laws to improve the registration process, as judges have exercised significant discretion in applying the law, and to expand tax benefits. In Macedonia, there is a need to amend the Law on Citizens Associations and for tax reforms to promote philanthropy. Indeed, Romania was the only country with a significant improvement in its legal environment score this year; the improvement was attributable to its new Law on Associations and Foundations, regulations implementing the 1% Law, and amendments to the social services laws. Several new law reforms also were adopted in Bosnia, but the impact of these initiatives on the NGO sector is not yet clear.

One positive trend affecting the organizational capacity dimension in the Southern Tier is the improved ability of NGOs to identify and develop local constituencies. Albania, Bosnia, Croatia, Macedonia and Romania all report that organizations are identifying and reaching out to their constituents more than in past years. For example, the new 1% Law in Romania has motivated NGOs to identify and court their constituents, who are the key to accessing 1% contributions.

One of the most important issues affecting the financial viability of NGOs in the Southern Tier is the decrease of international donor funding and the need to develop local funding sources. In many countries, the increase of local funding is insufficient to make up completely for the loss of foreign funding, but it is enough to offer hope that NGO sectors will achieve a greater level of self-sufficiency. In several countries, NGOs have been able to develop stronger relations with local governments, which are providing more contracts, grants, or in-kind donations. Albania, Bosnia, Bulgaria, Kosovo, Macedonia, and Montenegro all report that NGOs have been able to secure greater support from local governments. However, weak economies in many countries limit the ability for NGOs to turn to corporations or individuals for support. In Bosnia, relationships with corporations are stymied by bad tax laws and a stagnant economy. Similarly, in Bulgaria support from the business community is limited. In Montenegro, the economy is not strong enough to support the NGO community.

The advocacy dimension improved in a number of countries in the Southern Tier, in part because of NGO progress in developing more cooperative and participatory relationships with different levels of government. Following the national elections in Albania, NGO representatives were appointed to government offices, and NGOs now have greater confidence in their abilities to develop more

participatory relations with policy makers at the national level. In Kosovo, government institutions and NGOs have partnered on numerous projects, and almost all government policy groups include representatives from the NGO sector. Organizations in Montenegro enjoy a direct line of communication with policy makers and often partner with government institutions on a variety of projects. NGOs are able to propose legislation and submit policy papers, as well as monitor government activities. The government in Romania has recently created the College for Civil Society Consultations and other mechanisms to give NGOs and members of the media greater access to the political process.

Even where national cooperation mechanisms did not succeed, NGOs were sometimes successful in building collaborative relations with local government. In Croatia and Macedonia, despite the national government's reported unwillingness to foster cooperative relationships, local governments are signing charters of cooperation with NGOs.

The public image dimension has also shown improvement in a number of countries, as NGOs throughout the Southern Tier continue to improve their relations with the media. Albanian organizations enjoy a great amount of coverage and in most instances it is positive. The media, however, still fails to recognize the difference between for-profit corporations and NGOs. In Bosnia and Croatia, the media is providing more coverage of the NGO sector and seeks out its expertise on specific issues. Bulgaria, Kosovo, Montenegro and Romania have all experienced similar improvements in coverage.

Eurasia

As discussed above, scores across Eurasia for the most part were either static or fell. Only three of the twelve countries in the region saw even a slight increase in their overall sustainability scores, and six saw their scores decrease.

Russia, West NIS, and Caucasus

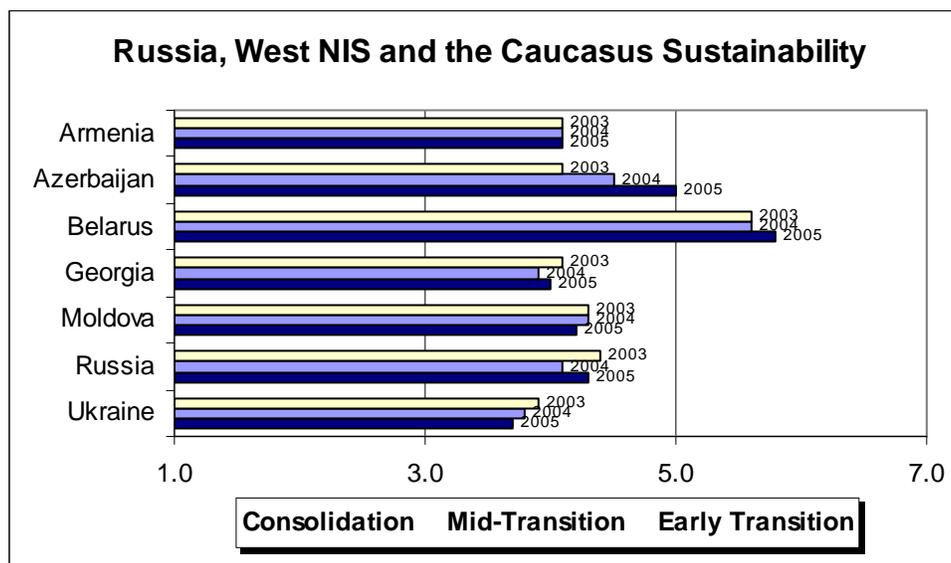
As discussed in the opening paragraphs of this paper, restrictive law reform initiatives by a number of governments in the region were one of the year's most significant developments. One of the most publicized initiatives was Russia's new amendments to the laws on non-commercial organizations and public associations. The amendments expand the grounds on which the registration authority may deny registration; increase the reporting burden on organizations by, e.g., requiring them to report of all funds received from foreign sources and how these are allocated or used; and give to the government invasive powers to interfere in the internal operations of organizations. The law in draft form received criticism internationally from among others, the Council of Europe, international NGOs, and United States Secretary of State Condoleezza Rice, who said, "We would certainly hope that the importance of nongovernmental organizations to a stable democratic environment would be understood by the Russian government."²

With Presidential elections scheduled for March 2006, the government of Belarus put in place five new laws or edicts to restrict NGO activity. The legal environment deteriorated due to the adoption of new laws and regulations and the administration's harassment of independent NGOs. This has had a negative impact on most of the other dimensions of the Index. Restrictive laws, for example, have made it difficult for Belarusian NGOs to obtain foreign funding, and thus are an obstacle to NGO financial viability. The government's relentless campaign to restrict NGO rights led to a decrease in Belarus' legal

² G. Kessler, "Secretary Criticizes Russia's NGO Law: Rice Defends Right To Freely Associate," The Washington Post, December 8, 2005; Page A27.

environment score to 7, the lowest score available on the Index, and deterioration in its overall score to 5.8, the worst score on the Index this year.

Georgia was an exception to this trend of deteriorating legal environments. In Georgia, the government has enacted a Tax Code that preserves existing benefits and allows corporations to deduct 8% of their income and creates new mechanisms for NGO VAT exemptions, thus liberalizing tax benefits for NGOs.



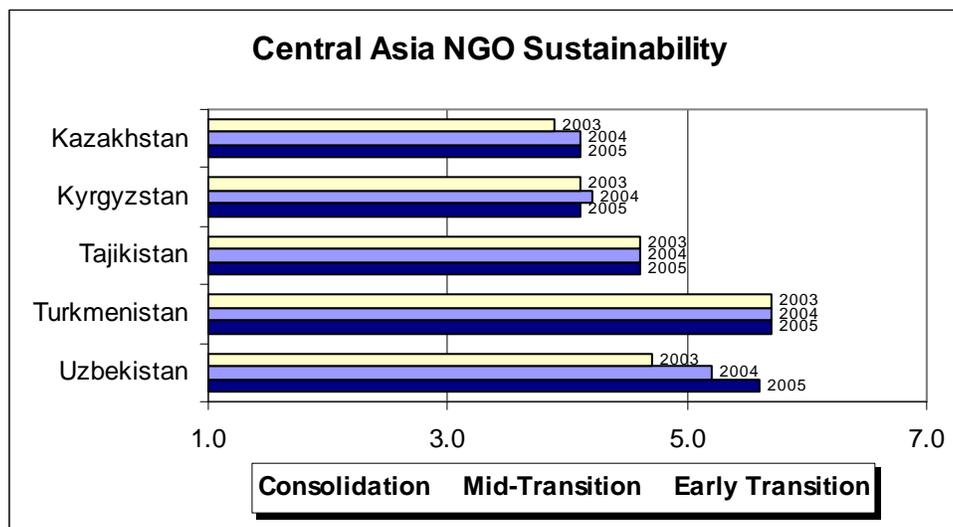
As foreign funding of NGO activities continues to decrease, organizations struggle to improve local sources of funding. In many countries, laws and regulations restrict the ability of organizations to develop local funding sources. The effect of the decrease in foreign funding and NGOs' inability to find domestic sources has had a negative impact on financial viability throughout the region. In Azerbaijan, for example, the financial viability of NGOs has begun to deteriorate as foreign donors have reduced their presence. The laws in Belarus restrict both NGO economic activities and philanthropy, cutting off two potential sources of NGO income. Individuals do not support NGOs in fear of being audited by the tax authorities. In Moldova, domestic philanthropy is hampered by, e.g., slow economic growth and the absence of a culture of charitable giving, and local governments often lack the resources to provide support for local NGO initiatives. Only in Ukraine have NGOs reported an increase in domestic funding and a consequent increase in the score for the financial viability dimension. Following the revolution in Ukraine, domestic funding of NGOs has risen dramatically and decreased the sector's overall dependence on foreign funding.

NGO participation in governing and policy making has not progressed in this region. The Azerbaijani government tried to limit the role of NGOs in the buildup to the November 2005 elections, and mechanisms for participation in the political process do not yet exist. The government in Belarus has effectively excluded NGOs from participating in government policy-making; there are few channels NGOs to cooperate with government agencies, and no mechanism exists to organize participation. NGOs in Moldova generally lack the capacity and political strength to influence policy. The NGO sector in Georgia was expecting to have a significantly better relationship with the government following the Rose Revolution, but has been disappointed. Many government officials are of the mindset that those from the NGO sector worthy of participating are now in the government and that NGOs have little more to offer.

The countries in this region also experienced frustrations in their relationships with the media in the past year. For example, in Armenia, organizations have become more adept at reaching out to the media, but have nonetheless failed to do so. Similarly, in Azerbaijan, some organizations have developed media strategies to improve their public image, but lack the skills, finances, and experience to implement them. Cooperation between Georgian NGOs and the media was high during the revolution, but has decreased over the past year. NGOs in Belarus generally avoid the media altogether as a matter of self-preservation.

Central Asian Republics

Sustainability scores in this region showed little progress, and in one case, reflected a serious deterioration in the environment for NGO sustainability. Of the five republics, only Kyrgyzstan had an improvement in its overall sustainability score. Scores for Kazakhstan and Tajikistan remained the same. Turkmenistan and Uzbekistan both saw their scores worsen, with Uzbekistan experiencing a substantial decrease in score for the second year in a row as a result of the government’s continuing efforts to crack down on the sector.



Turkmenistan once again 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.

Uzbekistan experienced serious decreases in both the overall score and the scores for most dimensions. Since the government’s violent suppression of the May 2005 uprising in the Andijan region, NGOs in Uzbekistan have been subject to harassment and human rights abuse. All independent organizations are subject to monitoring and many have been asked to close down voluntarily. Banking restrictions passed in 2004 have left over 90% of organizations without access to foreign funding, and staff and volunteers are leaving NGOs in fear that they will be targeted by tax officials.

In Kazakhstan, increases in the financial viability, service provision, and infrastructure dimensions were offset by decreases in organizational capacity and advocacy. The financial viability dimension improved as a result of increases in domestic funding of NGOs, by the government, the business community and individuals.

Tajikistan also saw some individual dimensions – organizational capacity, infrastructure, and public image – improve, while others, e.g., legal environment, declined. Declines in the legal environment score were driven by increased administrative harassment in the form of audits and inspections.

In Kyrgyzstan, improvements in NGO advocacy and public image in the wake of the March 2005 change in government led to an increased overall score. Improvements in the advocacy dimension stemmed from increases in NGO advocacy activities following March 2005, including participation in a nationwide campaign for fair elections and local NGO campaigns to monitor government compliance with the law. NGO public image improved in part as a result of a reduction in criticism of human rights and pro-democracy NGOs following the change in government, as well as emerging evidence of high levels of public awareness of the NGO sector.

Conclusion

The year's Index reflects a widening split in the Europe & Eurasia region. While there has been steady progress in a number of countries, developments with respect to restrictive laws in Eurasia suggest backsliding on the part of some governments. These events will require careful monitoring in the coming year.

Section 1: 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?

Section 2: 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. 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.

Section 3: 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.

Section 4: Articles

Civil Society Under Threat: Common Legal Barriers and Potential Responses

Catherine Shea and David Moore¹

INTRODUCTION

On January 17, 2006, Russia adopted a new federal law amending the legal framework governing non-governmental organizations (NGOs) and giving the government greater control over NGO activity. On July 8, 2005, the President of Kazakhstan signed a new Law on National Security introducing criminal and administrative liability for those who manage or participate in informal associations, such as neighborhood associations. No fewer than five new presidential decrees, edicts, and ministry resolutions were issued in Belarus during 2005, each of which tightened government control over NGOs operating in the country.

These are not isolated events. They are part of a growing regulatory backlash against NGOs in many parts of the world. In little more than a year, over twenty countries globally have introduced restrictive regulations aimed at undermining civil society (including at least five countries in Europe and Eurasia.) These countries join scores of others with existing laws, policies and practices that stifle the work of civil society organizations.

In the former Soviet Union, this trend almost certainly springs from the perception that NGOs played a fundamental role in the recent revolutions in Georgia and Ukraine, and the fear that similar citizen action is a realistic threat to the authoritarian regimes in other countries. But the trend to constrain civil society is clearly global in nature; countries from Eritrea to Zimbabwe, Bangladesh to Nepal, Algeria to Iraq, Burma to Laos, and Cuba to Venezuela have enacted or proposed new laws and regulations which diminish the legal space in which civil society can operate. In terms of their relation with civil society, these countries can be described as politically challenging environments.

The stated rationale for laws and regulations which inhibit NGO activity varies from country to country, and can include curbing NGO abuse, counter-terrorism, and national security. Even where the goals themselves are legitimate, the means used to achieve them are disproportionate as well as unjustifiably harsh and over-reaching. In politically challenging environments, governments perceive civil society as a threat and use the law as a sword to diminish the space in which it operates, and to undermine the strength of NGOs. These politically challenging environments tend to exhibit one or more of the following characteristics:

- The country operates a 'closed' or command economy (e.g., China, Cuba) or is governed by leaders with autocratic tendencies (e.g., Belarus, Turkmenistan, Uzbekistan);
- There is political dissension in the country or neighboring country that is perceived as threatening the current government regime or incumbent party (e.g., Russian, Sudan, Zambia);
- There are concerns about religious fundamentalism (e.g., Egypt, Uzbekistan);

¹ Catherine Shea is Program Director and David Moore is Program Director for Central and Eastern Europe for the International Center for Not-for-Profit Law.

- Similar legislation or practices have been enacted or introduced in neighboring regimes (e.g., the former Soviet Union and the Middle East);
- The country has a history of human rights abuses (e.g. Belarus, Zimbabwe);
- The country is concerned about “foreign influence” (e.g., Russia, Venezuela.)

Governmental restrictions on private initiative are nothing new. Authoritarian governments throughout history have sought to limit the space for non-governmental activity. The current backlash against civil society is especially troubling, however, coming as it does on the heels of a renaissance of civil society in Central and Eastern Europe and nascent civil society growth in the former Soviet Union.

This paper first seeks to identify common legal barriers to civil society and NGO activity that emerge in various politically challenging climates. Secondly, the paper tackles the more difficult task of identifying possible responses available to threatened NGO sectors to combat the repressive legal measures.

LEGAL BARRIERS CONSTRAINING CIVIL SOCIETY

Prohibition of Informal Groups (Mandatory Registration)

Fundamental to the freedom of association is the right of individuals to act collectively through informal groups, associations and networks. From community-based organizations to chess clubs, these groups are often better able to pursue their goals on an informal basis – that is, without the benefit and protection of legal registration. Indeed, informal groups make up one of the most vibrant segments of civil society in many countries.

Some countries, however, require all NGOs to be legally registered and either expressly or implicitly prohibit informal activity of collective entities. Through such mandatory registration requirements, governments seek greater control over civil society groups and seek to clamp down on those groups deemed undesirable.

While most countries in the CEE/NIS regions provide for voluntary registration, thereby affirming the right of informal groups to exist, a few countries have been slow to reform. For example, NGOs in Macedonia and Serbia remain subject to mandatory registration requirements, at least under the law as written. Reform initiatives in each country are seeking to address this issue; for example, a draft Law on Associations in Serbia, if enacted, would address this issue and bring its legal framework in closer compliance with European standards.

Similar reform efforts are not underway in Belarus, Kazakhstan, Uzbekistan or Turkmenistan. On the contrary, in a Resolution from September 13, 2005, the Ministry of Justice in Belarus provided that all civic initiatives, coalitions, and movements are subject to formal registration – underscoring the already existing mandatory registration requirement for NGOs in Belarus. In Kazakhstan, the Law on National Security goes beyond outlawing informal association, establishing substantial penalties for individuals managing, participating in or providing financing to informal groups. The Turkmen Law on Public Associations (2003) specifically prohibits activities by unregistered public associations, a major change from prior law and practice, which allowed informal groups to operate legally. This restriction is of particular significance, because the substantial barriers to registering public associations in Turkmenistan left the informal group as one of the few options for exercising the right to carry on associational activities.

Barriers to Establishing NGOs (Restrictions against Foreigners)

The right to freedom of association includes the ability of individuals to form groups for collective action. In some countries, the law restricts who may found an NGO, thereby denying this right to certain persons. Perhaps most common are restrictions against foreigners to found and sometimes even to join associations or other forms of NGOs.

The initial draft of the Russian law threatened to restrict the activities of foreign persons on the territory of Russia. Foreign citizens and persons without citizenship, if not permanently residing on the territory of the Russian Federation, would have been prohibited from establishing a public association or non-commercial organization, or from becoming a member or participant in such organizations. The provisions that appeared in the law ultimately enacted and signed into law were not as sweeping; they required only that a foreign national or person without citizenship be physically present in the Russian Federation in order to found an organization. The law did, however, give to the registration authorities broad and discretionary grounds to deny registration to branches of foreign organizations.²

The 2003 Turkmen Law on Public Associations makes it almost impossible to establish an association by requiring international and national public associations to have five-hundred (500) members, and fifty (50) members, respectively. The same law denies foreigners the right to be founders or members of associations. Such laws violate international standards relating to freedom of association and the extension of this freedom to everyone – not only citizens – in the given jurisdiction.

Barriers to Registration

In addition to the right to act through informal entities, the freedom of association also embraces the right to attain legal entity status and to receive all the legal protections attached to it. Whereas some European countries (e.g., the Netherlands, Sweden and Switzerland) require only the drawing up of an establishment act or notarial approval to be recognized as a legal entity, most countries require some kind of formal registration, which, according to international good practice, should be clear, quick and inexpensive, with appropriate procedural safeguards for the applicant.

Barriers to registration come in a variety of forms, including, for example, burdensome documentation requirements, no time limit for government decision-making, vague and overbroad grounds for denial of registration, the failure to provide for an appeal of a denial, and high registration fees. In Azerbaijan, the regulations governing the registration process are vague and leave great discretion to registration officials, leading to excessive delays, repeated requests for information, and sometimes outright denial of registration. In Belarus, laws give the government substantial discretion over the registration process, vesting authority in a National Commission on Registration of Public Associations to advise the Ministry of Justice on which organizations to register, a process wholly lacking transparency. Applicants have sometimes waited a year for a decision on applications, only to be denied without explanation.

Recent legislative proposals in Eurasia have targeted foreign organizations for special restrictions. As discussed above, under the new Russian law, a foreign organization may be disallowed from registering a branch if its “goals and objectives . . . create a threat to the sovereignty, political independence, territorial integrity, national unity, unique character, cultural heritage and national interests of the Russian Federation.” The European Court of Human Rights has specifically held that it is not consistent with the right to free association to deny registration on grounds almost identical to these.

² Restrictions against foreign founders remain in some countries, such as the Czech Republic, Macedonia, Poland, Slovenia and Serbia. In many countries, these restrictions are found in laws dating back more than ten years. In some countries, such as Macedonia, these restrictions are the focus of current reform initiatives.

Re-registration Requirements

New laws may trigger re-registration requirements for all previously registered organizations. Re-registration is not always problematic. Where the law introduces substantial changes, re-registration may indeed be appropriate to ensure that organizations' structures and governing documents are in accord with new legal requirements, provided there are appropriate procedural safeguards in place. Recently, for example, in order to correct for inadequate past registration practices (which reportedly led to the registration of for-profits as NGOs) the Afghan Government required all previously registered NGOs to re-register or face termination. The re-registration process was reasonably quick, clear and inexpensive; all NGOs who applied for re-registration were indeed re-registered.

In some cases, however, the process may be so burdensome as to discourage NGOs from seeking re-registration. In still other cases, the government may inject arbitrary, subjective decision-making into the re-registration process to eliminate select NGOs. In Uzbekistan, for example, President Karimov issued a decree in 2004 requiring all women's organizations (which make up more than 70% of all NGOs in Uzbekistan) to re-register with the Ministry of Justice. The proposed Draft Law in Kazakhstan, had it been enacted, would have required all international and foreign NGOs operating in Kazakhstan to re-register. In Belarus, President Lukashenka issued a decree in 2005, increasing registration fees and ordering foundations to bring their charters in line with the new regulations by May 1, 2006. The new Russian legal framework requires all Russian public associations and non-commercial organizations to bring their founding documents into compliance with the Law's provisions – a provision that is likely to affect many organizations, and require all to review their documents to determine whether changes need to be made.

Barriers to Foreign Funding of NGOs

Once established and registered, NGOs can be subject to financial constraints, which threaten their ability to pursue their missions in the short-term and undermine their long-term sustainability. Restrictions on foreign financing are among the most common. Indeed, in light of the perceived link between foreign financing and the recent revolutions in Georgia and Ukraine, many countries have created new barriers to foreign funding. Such restrictions, whether in the form of advance approval or grant registration requirements, government approved lists of grant-makers, banking limitations, or excessive taxation, run counter to international good practice. These requirements can be particularly injurious to the NGO sector in countries where foreign donors remain the dominant means of support for NGOs.

Advance approval or separate registration of foreign funding is now required in several countries. In Belarus, this is nothing new. In March of 2001, Decree No. 8 ("On Certain Measures to Improve the Order of Receiving and Using Foreign Aid") introduced a system in which NGOs were required to obtain state permission to use funds received from foreign governments, international organizations and individuals, and imposed total state control over all programs and projects being undertaken through support from foreign organizations. In 2003, a presidential decree ("On Obtaining and Using Foreign Gratuitous Aid") established a separate procedure for the registration and use of foreign aid. Similarly, the Law on Grants was amended in 2003 in Azerbaijan to require that NGOs register their grants. While this requirement has not necessarily prevented NGOs from receiving foreign grants, NGOs are often reluctant to register, for fear of being targeted by the tax authority. Turkmenistan's 2003 Law on Public Associations requires all NGOs to record their foreign funds or grants, including humanitarian and technical assistance, at the State Agency on Foreign Investment and the Ministry of Justice. This requirement has severely affected the NGO sector in Turkmenistan, where many NGOs have been forced to suspend their activities.

On March 7, 2006, the president of the separatist government in the Transnistria region of Moldova signed a decree prohibiting foreign funding of NGOs registered in Transnistria. According to the decree, NGOs are prohibited from receiving funding directly or indirectly from any international or foreign organization, foreign government, Transnistrian organization having a foreign capital share in excess of 20%, or foreign citizen or stateless person, or from any anonymous source. These persons may also not be founders or members of Transnistrian NGOs.

Some countries require foreign grant-makers to be approved by the government and included on a government list of grant-makers in order to give tax-exempt grants to NGOs. These requirements place an additional burden on donor organizations and thus discourage grant-making. Russia introduced such a requirement in 2000. This requirement has proven burdensome and inefficient, as the Government failed to define any procedure for inclusion on the government list, and failed to update the list for long periods of time.

In Uzbekistan, in 2004, the government began requiring NGOs to deposit foreign funds in one of two government-controlled banks, thereby allowing monitoring and control of all money transfers. The government has used this requirement to obstruct the transfer of over 80% of foreign grants to NGOs. Worse still, the system is administered according to unwritten policies and verbal instructions, making it difficult for NGOs to follow rules or appeal adverse decisions.

Excessive taxation of foreign grants and foreign aid also can severely discourage foreign grant-making organizations from supporting local NGOs. NGOs in Belarus, for example, must pay up to 30% tax on foreign aid, causing some donors to reconsider their support.

Interestingly, the concern with foreign funding for NGOs is spreading both east (Kyrgyzstan) and west (Latvia). In early 2006, the Minister of Justice in Kyrgyzstan has been assigned to monitor all NGOs receiving foreign financial aid, with a focus on determining whether the NGOs are threatening national security. More surprisingly, perhaps, is the proposal in Latvia made by one of the governing parties in the coalition government. The proposal would introduce legislation banning NGOs that receive foreign financing from participating in the political process and from receiving state financing for any research that could influence the choices of the electorate.

Restrictions on Speech and Advocacy

The freedoms of association and speech are inextricably intertwined. According to international law, NGOs, like individuals, have the right to speak out on issues of public importance, whether through research and publications, advocacy of a particular issue, or criticism of the government and government policy.

Governments seeking to contain the influence of NGOs have commonly sought to restrict their ability to engage in advocacy activities or to limit the range of legal speech. Such restrictions are often dressed as legitimate government concerns such as counter-terrorism, anti-extremism or national security, but couched in such vague and overbroad language as to have a chilling effect on NGO advocacy. Russia's 2003 Law on Counteracting Extremist Activity, for example, prohibits the advocacy of extreme political positions, imposes liability on organizations that do not refute the 'extremist' statements of their members, and allows government authorities to suspend, without court order, social and religious organizations, as well as political parties. The law's vague definition of 'extremist activity,' gives the government discretion to label NGO activities as extremist and to dissolve those that advocate positions counter to the state's.

The December 2005 amendments to the Belarusian criminal code prohibit "providing a foreign state or foreign international organization with knowingly faulty information about the political, economic, social,

international, and military situation of the Republic of Belarus, the legal status of the Republic of Belarus and its government bodies.” Those convicted of this crime can be punished by a prison term of 6 months to 2 years. Such direct prohibitions on free expression threaten to have a severe impact on the participation of NGOs in public policy discussions.

Stringent Supervisory Oversight and Control

Once an NGO has formed and registered as a legal entity, governments may continue to obstruct its activity through supervisory oversight and control that unnecessarily intrudes on the organization’s internal affairs.

The recently adopted amendments to Russian law strengthen the government’s control over the activities of organizations by authorizing registration authorities to audit their activities and finances. The authorities may also request any financial, operational or other internal documents from an organization at any time and without any limitation, and even send government representatives to the organization’s events. These provisions are overbroad, lack protections for organizations, and could well have a chilling effect on an organization’s activities.

In Belarus, many NGOs have ceased operations due to government harassment. In 2004 alone, the government inspected and issued warnings to 800 NGOs. The national security agencies and the Office of Public Associations questioned and searched some NGOs (sometimes by breaking into NGO premises after hours). These inspections proved successful in disrupting NGO activity and diverting NGOs from concentrating on their missions and activities.

Discretionary Suspension and Termination

The suspension of NGO activity or termination of the NGO altogether, like the denial of NGO registration, is as direct and severe an interference with freedom of association as can be taken by the state. Procedural safeguards are therefore critical to protect NGOs from arbitrary suspension and termination. Based on international good practice, the grounds for suspension and termination should be clearly stated, objective and exhaustive. Laws containing vague and overbroad language open the door to the exercise of arbitrary, subjective government discretion, allowing the government to terminate NGOs and quash opposition.

In 2004, Belarus enacted the Law on Public Associations, which gives authorities the power to suspend the activity of any NGO for up to six months and to liquidate an organization for a single violation of the Law on Mass Events and for the illegal use of foreign aid. The Belarusian government has not been hesitant to use its powers to dissolve NGOs. In 2003, the government dissolved 51 NGOs, and in 2004, twenty more.

Criminal Sanctions

NGOs and members of NGOs are routinely subject to the criminal laws generally applicable to legal entities and individuals. Laws criminalizing money laundering, terrorist activity, fraud and tax abuse, for example, are of course applicable to NGOs and their members and governing authorities. There is rarely a need, therefore, to include separate criminal sanctions targeting NGOs in particular.

Nonetheless, countries seeking to restrict NGO activity, especially in the advocacy area, have used criminal sanctions to create a climate of fear and make NGOs reluctant to speak out. The 2005 Kazakh National Security Law, discussed above, is but one example. In addition, President Lukashenko, on December 14, 2005, signed a new law (“On Completing and Amending some Legislative Acts of the Republic of Belarus to increase accountability for actions aimed against humans and the public order”),

which amended the Criminal Code and Criminal Procedure Code, and introduced more severe penalties, including prison sentences, for those who train people to participate in street protests, tell lies about Belarus to foreign countries, or ask others to act against the country's "sovereignty." In Uzbekistan, several US-based organizations are under criminal investigation for alleged violations of law, such as having an unregistered logo and failing to register specific activities with the government. Individual staff members have in some cases been questioned for up to 12 hours at a time, and prosecution of individuals remains a threat.

POTENTIAL RESPONSES TO CIVIL SOCIETY CONSTRAINTS

The question of how to respond to repressive regulatory measures stifling civil society presents a daunting challenge. Nonetheless, civil society organizations have devised a number of strategies to counter repressive regulation. The appropriate strategy will of course depend on the local context; not every strategy is effective in every country or circumstance. Taken together, however, they constitute a useful array of tools to protect the basic rights of NGOs against government incursion.

Diplomacy

Diplomatic efforts can be critical to communicating concerns at the higher echelons of government. Leaders of other nations and international organizations can initiate discussions with a government to dissuade it from introducing repressive regulatory measures, providing the government with sufficient space to change course publicly. In a recent example, US Secretary of State Condoleezza Rice urged Russia to revise restrictive draft legislation, remarking on the critical link between democracy and the freedom of association. Multilateral diplomatic efforts have also borne fruit in advancing NGO law reform in Albania (World Bank), in Kazakhstan (the OSCE) and in Russia (the G8).

Awareness Raising

In many cases, as an initial step, civil society groups must work to raise awareness internationally of the threats posed to civil society domestically. Through such awareness-raising campaigns, local groups and coalitions can secure support from other nations and international organizations, leading to diplomatic efforts or international pressure on the domestic government. Civil Society Watch, operated by CIVICUS, an international organization dedicated to citizen participation, is but one example of a program dedicated to mobilizing responses to events threatening civil society and freedom of association.

Domestic Litigation

Where courts are reasonably independent, domestic litigation offers another potential tool to challenge restrictive NGO regulation. A direct challenge to the Constitutional Court in Kazakhstan in 2005, for example, resulted in a finding that the restrictive laws enacted by Parliament were not constitutional.

Where courts lack independence and fail to offer a realistic avenue of relief, domestic litigation may still constitute a necessary step as a means of exhausting domestic remedies before petitioning international tribunals (considered below).

Litigation before International Tribunals

There are a number of international tribunals whose mandate is to protect basic human rights afforded by international conventions by adjudicating claims of affected parties against member states. Perhaps the best known and most effective of these tribunals is the European Court of Human Rights. In a series of cases springing from Greece and Turkey, decided in 1998 and 1999, the Court elaborated on the scope of freedom of association and the rights protecting political parties and associations. In these

cases, the aggrieved parties (having been denied registration or terminated) obtained judgments against their governments requiring registration of the organizations.

Law Reform Campaigns

In certain circumstances, civil society groups can work to improve regressive legislation. While this strategy may appear far-fetched in politically challenging environments, there are a number of countries where it has worked successfully, including Albania (during the period of martial law imposed by Berisha), Slovakia (under Prime Minister Meciar), and Russia (where the recently enacted law was substantially revised and improved based on the technical assistance provided by NGOs). Such law reform campaigns are most likely to succeed where there is true local ownership of the initiative, where international assistance providers have credibility in the eyes of key stakeholders, and where reformists make efforts to respond constructively to government concerns.

Public Action

Public action against repressive measures can take a wide variety of forms, including demonstrations, letter-writing campaigns, public comments, and media campaigns, just to name a few. At the domestic level, NGOs have organized against repressive draft legislation by issuing public statements and joint petitions against the legislation, by distributing analyses of the provisions to a wide range of stakeholders, by holding meetings, and generating media attention. These domestic campaigns have proved successful in the past year, at least to some extent, in both Kazakhstan and Russia.

In some countries, however, domestic NGOs are unable to organize effective public action, due to severe constraints and isolation. Here the international community can play an important role by publicly applying pressure against a regime to re-consider repressive tactics against civil society. In addition, focused international attention can give hope to oppressed groups. The recent draft law in Russia again offers a good illustration of this approach. In addition to diplomatic efforts, awareness-raising efforts of local groups and reform efforts to improve the draft, the U.S., Germany, European Union, and international organizations joined hundreds of domestic organizations in applying pressure to the Russian Government to re-consider its position. These efforts ultimately proved successful in convincing the government to revise the draft law substantially.

Legal Triage

Some politically challenging environments may be impervious to all the foregoing strategies. In such circumstances, it is appropriate to provide legal support to those under attack – a strategy of “legal triage.” This may include provision of legal or human rights defense resources to civil society. Often this type of assistance, however, poses risks to both the providers and the civil society organizations taking advantage of these services.

CONCLUSION

The current regulatory backlash against civil society groups in politically challenging environments is likely to continue for some time. Because NGOs and other civil society organizations act as alternative power centers, they will often be perceived as threatening to authoritarian regimes. Moreover, even in the most progressive countries, there is always some risk of backsliding on commitments to freedom of expression and association. While the specific circumstances of politically challenging environments will of course vary, the legal barriers used to constrain civil society and freedom of association are quite common, generally falling into one of the categories outlined in this paper. And where these legal barriers exist, the struggle to respond constructively and to protect and enlarge the space for civil society continues.

Advocacy in the Europe and Eurasia Region: Progress, Promise and Peril

Robert Herman, Ph.D.¹

No issue is of greater importance to the future of democratic progress across the former communist space of Europe and Eurasia than the ability of Non-Governmental Organizations (NGOs) engaged in advocacy and watchdog activities to bolster their effectiveness and financial sustainability. Since the beginning of the political “Big Bang” in 1989 and buoyed by the more recent spate of democratic upheavals in Georgia, Ukraine and Kyrgyzstan, civil society in general and the NGO sector in particular have made impressive strides in terms of advancing citizen interests through advocacy.²

However, against the larger backdrop of growing disenchantment with the decidedly mixed record of post-communist governments to meet popular expectations in delivering a higher quality of life, the gains registered by civil society have not been evenly distributed across the region. Moreover, NGO sectors in a number of repressive countries face an array of daunting challenges that call into question their efficacy and viability, while groups engaged in advocacy in more hospitable settings still must contend with a number of impediments that have practitioners apprehensive about the future.

What are some of these challenges and how has advocacy evolved in Central and Eastern Europe and the former Soviet Union over the past decade and a half in response to the combination of constraints and opportunities? Where must it go in order to survive and thrive in the region’s varied and complicated political terrain?

INTRODUCTION

Overall, the *NGO Sustainability Index for Central and Eastern Europe and Eurasia* scores for advocacy registered by NGO sectors across the region reflect some 15 years of increasing capacity, sophistication, durability, and in many instances demonstrated influence in governmental decision-making at the national and local levels. While progress has been very uneven, with the record in countries in the Northern Tier bearing little resemblance to those in most of Central Asia, the dominant trend since the collapse of communist rule has been one of citizens organizing themselves more effectively to advance shared interests. Financial viability, a key factor in NGOs’ capabilities to persuade decision-makers and ordinary citizens, remains a long-term, uphill battle. But despite an uncertain financial future, the NGO sectors in almost all the countries in Central and Eastern Europe and a few of the former Soviet Republics have seen a steady improvement in the advocacy sphere.

This progress is the direct consequence of the efforts of extremely dedicated and often times courageous men and women who understand the importance of capable NGOs in establishing and maintaining a vibrant, well-functioning democratic polity. A number of these individuals made their way into government when reformist parties or movements came to power and continued to be strong advocates for an influential NGO sector.

¹ Robert Herman is Senior Technical Director with the consulting firm Management Systems International, which together with the International Center for Not-for-Profit Law compiled this year’s edition of the *NGO Sustainability Index*. The opinions expressed here are solely his own.

² There is no consensus in the scholarly literature as to how broadly or narrowly to define the concept of civil society. The author subscribes to a more inclusive view that covers an array of both formal and informal groups, ranging from professional and business associations to cooperatives, women’s organizations, religious groups etc. The focus of this essay is advocacy-oriented and watchdog organizations, largely in the democracy and governance sphere.

The trajectories of these countries in terms of the evolution of civil society and the development of democratic institutions, practices and values more broadly, are not independent. Regional progress is a manifestation of political inter-connectedness in as much as transnational networks of democracy advocates and activists serve as conduits for the diffusion of ideas, techniques and inspiration. International donors, including USAID, the Open Society Institute, the Mott Foundation and others have devoted considerable funds to help democracy activists in the region (or smaller sub-regions) to come together in various venues, thereby facilitating the transmission of knowledge about advocacy as well as the other issues represented in the *NGO Sustainability Index*.³ Information sharing and learning and adaptation of best practices is also facilitated by the ever expanding availability of the Internet.

International donors can justifiably take pride in the contribution they have made over many years in the form of financial and technical assistance and political-diplomatic support to civil society with the explicit goal of strengthening advocacy and related skills that have helped to bring citizen concerns to the attention of policymakers, and in some cases helped to bolster the capacity of civic groups that (working in coalition) brought about far-reaching political change. Notwithstanding sometimes legitimate criticisms about under-performing donor programs aimed at strengthening democratic governance in Europe and Eurasia, these international efforts have played a significant role in making the region's diverse NGO sector one of the most robust outside the developed world. Donor attention and resources dedicated to boosting the state of civil society in the E&E region together with the commitment and ingenuity of local NGO activists has made a demonstrable difference in the capability, influence and staying power of the sector.⁴

In a region reeling from economic dislocation accompanying the move to a free-market system, where civil society barely existed and indigenous philanthropy was in its infancy, assistance from the donor community was instrumental to the emergence of NGOs capable of articulating, aggregating and working on behalf of citizen interests. In countries with repressive regimes, foreign funding and expressions of steadfast political support have been indispensable to the survival of the comparatively small pro-democracy advocacy segment of the NGO sector. In countries contending with deep-seated social cleavages, as in the Balkans, advocacy (and other) programs have contributed to dialogue and reparative initiatives that in turn may have helped to ameliorate tensions and show the way to an alternative future free from violent conflict.

And yet, for all the demonstrable progress in enhancing the advocacy capabilities of the respective NGO sectors in more than two-dozen countries, there is reason for serious concern and no room for complacency on the part of local practitioners and their international allies. Perennial laggards like Belarus, Turkmenistan, and Uzbekistan suffer from dictatorial regimes that afford little if any space for unfettered, independent political activity perceived as challenging state power and prerogatives. In addition, there is backsliding in countries that had been moving, however haphazardly, along the democratic path with NGOs actively engaged in advocacy. In Russia, under the increasingly authoritarian

³ Support for these activities range from funding for USAID's DemNet Program and other periodic gatherings of NGO participants for exchanging lessons learned and best practices to backing for various advocacy campaigns, including bringing together veterans of successful campaigns to defeat at the polls Serbian dictator Slobodan Milosevic and Slovakian leader Vladimir Meciar, with democracy activists in Georgia, Ukraine and other countries.

⁴ See, for example, Thomas Carothers, *Aiding Democracy Abroad: The Learning Curve* (Washington, D.C.: Carnegie Endowment for International Peace, 1999) and *Funding Virtue: Civil Society Aid and Democracy Promotion* (Washington, D.C.: Carnegie Endowment for International Peace, 2000) and *Promoting the Rule of Law Abroad: In Search of Knowledge* (Washington, D.C.: Carnegie Endowment for International Peace, 2006). A 'friendly critic,' Carothers has been a vocal supporter of democracy assistance programming but argues persuasively it could be done more effectively and efficiently.

hand of Vladimir Putin, outspoken pro-democracy and human rights groups face intimidation and harassment, often through clever, selective application of both vague and very specific laws (e.g., related to taxes, libel etc.).

In several other countries, progress has stalled as advocacy and watchdog groups encounter various hurdles, from increasingly cynical, apathetic and economically-preoccupied citizenries, to funding shortfalls that threaten program impact and diminish the prospects for sustainability. NGO professionals in higher performing countries, particularly in the Northern Tier, express frustration over the sector's failure to take advocacy to the next level by exploiting new opportunities.

There is also much greater recognition among NGO activists of the enormity of the challenge of full-fledged democratic transformation and the prospective role that capable advocacy-oriented groups can play. The hopefulness and even euphoria that greeted populist democratic upheavals in Georgia, Ukraine and Kyrgyzstan has given way to a more sober view of that complex, monumental process.

More dispiriting, in response to these encouraging democratic turns, several governments in the region vowed to quash any such movements in their own countries and cited the role of "outside forces" (i.e. foreign donors, governments and institutions) in fomenting trouble – regardless whether the leaders actually believed this to be the case or were simply appealing to nationalist sentiments predictably hostile to any notion of foreign meddling as part of a larger strategy to suppress political opponents.⁵ Authoritarian governments understand that empowering citizens, giving them the means to advocate on behalf of their own interests, whether through political parties, independent media or NGOs, can be deleterious to a despotic regime's long-term health.

That authoritarian leaders would resort to the "outside interference in internal matters" formula is predictable, but apprehension on the part of more moderate voices about foreign donor and especially more aggressive U.S. support for democracy promotion (via civic groups, political parties, rule of law, etc.) should be a cause for concern in Washington and other Western capitals. Thus far, instances of local NGO grantees declining to accept foreign donor support or to participate in training and related programs appear to be very much the exception. But that could change and any international community strategy for addressing the mounting counter-offensive to U.S.-led democracy promotion efforts is untested.

The awful dilemma posed by the backlash against international democracy promotion is that at precisely the moment when local NGOs need the financial and political-diplomatic support of the foreign donor community, those very ties may be making them more of a target of authoritarian regimes. It is also ironic that just as local NGOs are becoming capable of more equal partnerships with their Western backers such relationships are a political liability at least in parts of Europe and Eurasia.

Western governments and their NGO implementing partners rightly defend their support for democratic reforms by pointing out that they provide assistance openly and are committed to the integrity of democratic processes, not to specific outcomes such as the electoral victory of a particular party or the removal of an authoritarian regime. But these arguments will not assuage ardent critics and more importantly, they probably won't be of much help to indigenous democracy proponents who find themselves under assault in part because of their ties to foreign donors, who are skillfully portrayed by the regimes as infringing on national sovereignty.

For democracy opponents in the E&E region and elsewhere around the world, the U.S. intervention and continued presence in Iraq and Afghanistan and the prosecution of the global war on terror is

⁵ See Thomas Carothers, "The Backlash Against Democracy Promotion," *Foreign Affairs*, March/April 2006.

inextricably linked with the U.S. Government's stated goal of expanding human freedom and has given ammunition to foes of democratization seeking to deflect attention from their own reprehensible behavior. This is the highly charged political context within which democracy and governance assistance is carried out in the E&E region.

In short, the combination of declining donor resources for civil society, government crackdowns on pro-democracy advocates amidst an intensifying backlash against Western democracy promotion efforts, and a host of other obstacles to erecting an effective and sustainable NGO sector, makes it more urgent than ever for local NGOs and Western supporters to develop a common strategy to address these burgeoning challenges.

WHAT CONSTITUTES ADVOCACY?

It is helpful to be clear about what constitutes advocacy. The literature offers different conceptions that are more and less comprehensive but there is agreement about the core idea: citizens organizing collectively to advance shared interests with the expressed purpose to influence decision-making, usually of government officials at the national level, although increasingly local level officials are the targets of these efforts.⁶

Frequently the near-term objective of advocacy is to shape legislation or policy. This can be done directly, by lobbying the relevant authorities, or indirectly by mobilizing popular support to which government decision-makers --parliamentarians and executive branch (or municipal government) officials, perhaps even judges-- are compelled to respond.⁷

The process is often contentious but need not be, as when government officials invite NGO representatives to help craft legislation or to provide expert analysis and recommendations on policy matters.

Advocacy usually involves constituency identification, outreach and mobilization, which in turn necessitates an agenda spelling out what proponents want (e.g. change in actual legislation or governmental policy/behavior). Crafting the 'message' must also be accompanied by a strategy aimed at the target audience. Working with the media can be critical to ensure coverage of whatever issues or demands are being put forward.

NGOs often seek to work in cooperation with like-minded groups, particularly where interests converge as in the case of enabling legislation for NGOs, tax laws, access to information, anti-corruption -- issues and areas that are cross-cutting. Coalition building has been a central objective of much of the advanced training provided by donors to recipient organizations.

From the standpoint of supporting the consolidation of democratic governance it is less important that there is agreement on precisely what constitutes advocacy than that those who are involved in seeking to advance shared interests have both the right and capability to do so effectively.

⁶ As the countries of the E&E region take steps to decentralize political power and responsibilities and grant more decision-making authority to local governments (e.g. control over locally generated revenues), there has been a corresponding rise in advocacy efforts focused at the sub-national level, from citizen groups concerned about spending priorities and transparency in the budgeting process, to associations of small businesses seeking to influence community development plans.

⁷ Lobbying, a targeted attempt to engage legislators and policymakers in order to persuade them to take a particular action, should be thought of as a subset of advocacy. Professional and ordinary citizen lobbyists generally seek access to make their case face to face, and are advisedly well prepared with substantive and political arguments in support of the desired action.

GREATER DIFFERENTIATION ACROSS THE POST-COMMUNIST WORLD

As is evident across the full spectrum of the *NGO Sustainability Index* and to the casual observer of political developments in the Europe and Eurasia region, a decade and a half after the beginning of the end of communist rule, there is tremendous variation among countries along the democracy and free-market continuum and in the capacity and effectiveness of the respective NGO sectors. There is nothing surprising about large disparities in efficacy given the radically different enabling environments that exist in Hungary and Estonia on the one hand and Turkmenistan and Belarus on the other. Nor is it surprising that, with a few notable exceptions, there is a fault line running along the bi-continental divide. Proximity to Western Europe is a reliable albeit imperfect predictor of both the legal/regulatory environment and NGO sector prowess in the advocacy sphere.⁸ The point is that the largely mythical monolith that was communism has now given way to a set of more than two dozen countries increasingly differentiated in the degree of democratic consolidation and strength of NGO advocacy.

Regardless of the principal causal factors, the point here is to identify the different rates of progress of the respective sub-regions within Europe and Eurasia from the standpoint of the evolution of civil society and the development of advocacy-oriented NGOs. The high degree of variation suggests that E&E countries are not merely moving at different speeds but are actually on altogether different trajectories, making meaningful comparisons all the more difficult. It is certainly helpful to consider the relative progress of the Northern Tier and most of Central Asia but at some point sufficiently large differences in magnitude become differences in kind, raising the possibility of two sets of criteria for assessing the evolution of NGO advocacy and of the sector as a whole.

Less appreciated and perhaps inadequately captured by the *NGO Sustainability Index* is differentiation within countries. For a variety of reasons, many having to do with access to international donor resources, NGOs based in the capital city and other major urban centers experienced a much faster rate of increase in overall capacity, especially in advocacy, since the intended target of such efforts was usually national government decision-makers in the legislative and executive branches. To be fair, donors did take steps to level the playing field, shifting assistance resources to the regions in support of grassroots organizations. But these groups are overwhelmingly geared to service delivery and much less engaged in advocacy and watchdog activities. Now, as some of the major international donors historically involved in funding civil society are slashing budgets or closing up shop altogether, there is renewed emphasis on legacy strategies that put advocacy-oriented NGOs front and center.

The fact that so many of the most advanced NGOs are donor-dependent advocacy groups may, quite unintentionally, help close the urban-rural capability gap as foreign funding becomes scarcer. Indeed, it is conceivable that grassroots groups will be largely unaffected by the decline in international donor resources and could emerge in relatively healthier financial condition because of tighter ties to the communities where they work and the emergence of institutions such as community foundations. Moreover, and as alluded to earlier in this essay, more and more NGOs and community groups are engaging in advocacy at the local level, targeting municipal government officials, in pressing for more resources for community needs as well as greater accountability and transparency in government

⁸ An alternative view is that almost a generation after the fall of communism, citizenries and perhaps NGO sectors in the E&E region's Northern Tier have become complacent and take democracy for granted whereas counterparts in quasi-democratic or authoritarian countries in the region (moving east, further and further from Western Europe) are more vigilant and actively engaged in public life because they know backsliding is an omnipresent risk.

operations.⁹ Decentralization of political authority, a strategic objective of many USAID Missions in the region, has created more opportunities for effective grassroots advocacy given the shift in the locus of decision-making to the local level, at least in some issue areas.

A BRIEF EVOLUTION OF ADVOCACY AND DONOR SUPPORT IN THE EUROPE & EURASIA REGION

In order to chart a course for the future, it is instructive to look briefly at the history of advocacy in the formerly communist dominated countries of Europe and the newly independent states of the former Soviet Union. Communist autocracy had largely succeeded in eliminating all major political and social actors independent of the State. Helsinki Human Rights Committees were one prominent exception;¹⁰ the Polish Catholic Church, which enjoyed widespread authority and influence, and the Solidarity labor movement, were two others -- and go a long way to explaining why the implosion of communist power began in Poland. Hungary and Czechoslovakia were two of the other countries that had popular democratic movements that came to power, arguably accounting for much of the impressive progress in erecting durable democratic institutions and practices. It would appear that the experience of a genuinely democratic, non-violent political movement that succeeds in ousting a communist regime places those countries on a much more promising trajectory in terms of democratic consolidation and a robust civil society.¹¹

As successive regimes fell and the West contemplated how to support the advent of free-market democracies in Eastern Europe and the former Soviet Union, policymakers in the donor countries concluded that a vibrant “Third Sector” was a key to democratic sustainability. The resulting support, a combination of financial and technical assistance as well as political-diplomatic backing (especially in the more repressive regimes to emerge during the post-communist transition), was invaluable in helping nascent civil society to find a foothold insofar as advancing the interests of various groups and causes and to begin to exert influence over political decision-making, though again the impact of NGOs was quite uneven across the former communist terrain.

From the start, the U.S. Government exhibited a strong interest in providing assistance to organizations actively engaged in advocacy work, often around democracy and human rights issues, so that their voices might be part of the larger political process. Within USAID and other donor agencies there unfolded an intense debate over the efficacy of a disproportionate focus on advocacy at the expense of groups primarily concerned with service delivery. Proponents of a more balanced approach contended that the eradication of civil society under the communists together with the economic freefall of the transition to a free-market system made it easier and more fruitful to begin with service delivery groups. They reasoned further that such organizations produce tangible benefits around which coherent constituencies form, in contrast to the comparatively small and inchoate groupings loosely coalescing around more abstract public goods championed by democracy and human rights activists.

Those subscribing to this view also argued that service delivery groups can and often do evolve into advocacy NGOs, and ones that have the added advantage of a grassroots base. A common pattern is that a group primarily involved in providing government-funded services for some underprivileged or

⁹ This conclusion is based on reliable anecdotal information from NGOs and donor institution officials as well as a number of democracy and governance assessments carried out by MSI in the E&E region.

¹⁰ For a discussion of the role of Helsinki Committees in keeping the issue of human rights before the public and helping to undermine the legitimacy of communist regimes see Daniel C. Thomas, *The Helsinki Effect: International Norms, Human Rights and the Demise of Communism* (Princeton, NJ: Princeton University Press, 2001).

¹¹ See Adrian Karatnycky, *How Freedom Is Won: From Civic Resistance to Durable Democracy* (New York, NY: Freedom House, 2005).

marginalized segment of the population begins to press for additional resources to expand the number of beneficiaries or engages decision-makers about the need to address the root causes of a given social malady rather than simply treating the symptoms. Such an evolution can give the group greater credibility and clout in part because it has an existing, well defined support base that grounds any advocacy work firmly in the body politic. In contrast, many democracy and human rights advocacy groups are not sufficiently embedded in the broader civil society, and do not have a large, well-defined constituency, reducing their overall advocacy capabilities.

In practice, most donors, including USAID, provided funding to both types of groups. Where governments established a legal and regulatory framework favorable to the development of an influential Third Sector, the bulk of resources devoted to strengthening civil society tended to be channeled toward advocacy programming. In countries with leaderships apprehensive about or overtly hostile to reform and/or with less developed civil societies, funding was skewed toward social service delivery groups. Over time, a number of the NGOs that have made the most progress in achieving financial viability are hybrids that combine both advocacy and service delivery.

Looking back, the NGO sector has come a long way from the early days of the political upheaval that swept Central and Eastern Europe and soon thereafter triggered the dissolution of the Soviet Union. Nationalist movements, at times infused with democracy themes and goals, brought down communist regimes across the region. This political mobilization was the crucible for the emerging civil society sector and advocacy-oriented NGOs, providing a proving ground for a cadre of men and women to develop a set of skills they would put to good use in the Third Sector as well as in government.

Over the years, the advocacy skills and political impact of the NGO sector have increased considerably. This is not to say that the Third Sector is a major force in all or even most of the countries in the E&E region. The inability of democracy and human rights NGOs to prevent backsliding in Russia, to offer more resistance to the crackdown on progressive forces in Uzbekistan, or to shape more palpably the political evolution of E&E societies, attests to the immense work that still must be done. But these setbacks and shortcomings should not obscure the enormous progress that the NGO sector has registered over the past decade and a half.

In virtually every component of advocacy enumerated in the *NGO Sustainability Index* and in companion categories such as the legal environment, organizational capacity, and infrastructure that are crucial to progress in the advocacy sphere, NGO sectors in the E&E region have been getting steadily stronger -- allowing for year-to-year fluctuations over this time period.

Professionalization of the NGO sector has continued apace as talented and dedicated individuals now have the possibility of making a career of such work. They have been the beneficiaries of a great deal of training and organizational capacity-building programs by top-flight assistance implementers, often involving extended stays in Western countries, and participation in transnational civil society networks that function as conduits for disseminating best practices and lessons learned.

More specifically, NGOs have developed a deeper understanding of the political process and leverage points for well-designed attempts to influence policy decisions. In country after country, NGO leaders have forged ties with like-minded government officials, provided empirically-grounded policy advice, and been invited to help craft legislation owing to their substantive expertise. In addition to lobbying, another area of advocacy where NGOs have made big strides is in dealing with the media. An ever growing number of senior NGO representatives are adept at cultivating professional relationships with journalists, bringing to bear their expertise and becoming sources for stories and quoted commentators. By helping to frame how the press covers issues and to some degree influencing what issues get covered, NGOs are more actively engaged in shaping public awareness and attitudes. To the extent they have some visibility these groups also convey an important message about citizen involvement and the

idea that ordinary people can make a difference. This in turn gives them more credibility, another factor in successful advocacy (captured under “Public Image” in the *NGO Sustainability Index*.)

Constituency identification and outreach, while not nearly as advanced as one would hope, nevertheless has improved appreciably as the more capable NGOs make use of surveys, demographic analysis and other instruments/data to help focus their energies and hone messages. This is in addition to good old fashioned grassroots organizing, which remains a work in progress for national, usually capital-based advocacy groups. The task confronting NGOs (as well as political parties) is much more demanding in cases where advocacy groups seek to enlist broad-based support that goes beyond narrowly self-interested segments of the citizenry.

One other area where the maturation of the NGO sector is in evidence and has paid off in terms of greater overall political impact is in the enhanced ability and willingness of groups to work together in coalition. Overcoming the competitive pressures surrounding the omnipresent search for funding, groups have succeeded in transcending structural and other impediments to cooperate on matters of common interest such as the passage and implementation of progressive NGO laws or on issues related to combating corruption, access to information etc. The coalitions can be durable arrangements with their own infrastructure (e.g. steering committee, secretariat) with the goal of being the leadership body for the wider NGO community, or ad-hoc, ephemeral entities coalescing around a time-bound campaign. In Ukraine, for example, numerous groups involved in various aspects of elections work came together to in an attempt to ensure a free and fair electoral process and later helped Viktor Yushchenko to win the presidency by exposing ruling party malfeasance and demanding a re-run.

Coalition building is also expanding beyond the traditional national versus local dichotomy. In several countries, capital-based NGOs have linked up with groups primarily operating in the regions, giving the resulting coalitions a top-down and bottom-up approach that brings more citizens into the advocacy arena and better grounds often elite organizations into the body politic.

RESOURCES FOR ADVOCACY

Financial viability, one of the other key dimensions of the *NGO Sustainability Index*, is integrally linked to effective advocacy. This is not to say that impact-generating advocacy efforts are not possible with very modest financial resources. The historical record is replete with instances of informal groups of citizens or meagerly-resourced NGOs successfully influencing the actions of public policymakers without expending significant funds. This has certainly been the case in poorer countries where people’s time and energy is the principal resource, but also in moderate income countries when a catalytic event (e.g. a seriously flawed election) leads to the rapid mobilization of citizens that generates enormous pressure on decision-makers to alter course.

However, even when citizen mobilization appears spontaneous, lacking in advanced planning and organization, the truth is often otherwise. Laying the groundwork, often with foreign donor support, has proven key. It is doubtful that demonstrations and calls for some action on the part of the targeted authorities would have been effective without an earlier investment of time and money/funding to build organizations and networks capable of galvanizing citizen activism or at least harnessing it to secure concrete political concessions.

It could be argued that, especially in the E&E region, foreign funding has played a pivotal role in the emergence of advocacy groups involved in promoting democratic governance and monitoring government behavior, ranging from compliance with internationally-recognized human rights norms to combating corruption. These groups face a major uphill struggle to end their dependence on

international funders and achieve financial sustainability.¹² A common refrain in some quarters of the international development community is that if donors think the continued existence of this segment of civil society is important to the region's future democratic evolution then they are going to have to provide the requisite financial resources to support it. It is quite possible, even likely, that a relatively large number of capable and effective democracy-oriented advocacy groups will not survive or will operate at much reduced levels in the absence of foreign donor support no matter how adept they may be at fundraising and other income-generating strategies.¹³

Commendably, tax laws designed to encourage charitable giving have been adopted in many of the Central and Eastern European countries, putting NGOs in this sub-region in the forefront of innovative efforts worldwide to increase resources for civil society strengthening.¹⁴ These laws can take the form of permitted tax deductions for contributions to qualifying groups and so-called "one-percent (or two-percent) laws" that allow individuals and businesses to direct that percentage of their income taxes to designated organizations. The results have been generally positive but modest, with some experts suggesting that taxpayers tend to reduce their annual giving by a comparable amount of the money designated under these novel laws.¹⁵ In the former Soviet Union, much less progress has been made in putting in place laws designed to stimulate philanthropy to benefit the Third Sector.

In general, what might be termed "harder core" advocacy groups, most of which are typically active in promoting democracy and human rights (but other spheres as well such as environmental protection or HIV/AIDS), that are willing to criticize and confront the government have far fewer funding options than do NGOs and community groups primarily engaged in social service delivery. Because government remains such a major source of NGO funding around the world, groups that seek to change government policy and don't shy away from sharp criticism are not particularly promising candidates to receive money from public coffers. Similarly, outspoken political NGOs are not likely to attract funding from the private sector, which is rarely eager to court government opprobrium or to alienate potential customers by choosing sides on controversial issues.

In Europe & Eurasia, harder-edged advocacy NGOs are purveyors of public goods for which there is a potentially sizeable but largely inchoate constituency. Also, in a region where economic well-being has yet to reach the levels that prevailed on the eve of the communist implosion and where philanthropic culture is highly under-developed, the chances of tapping into indigenous sources of funding are not encouraging. Wealth is being generated as new money-making opportunities arise for the entrepreneurial-minded and/or the politically well-connected but with few exceptions advocacy NGOs are not the beneficiaries of any increase in charitable giving.

Adding to the generically difficult situation facing NGOs in the E&E region is a decline, sometimes very sharp, in donor funding for advocacy-oriented civil society programming. In Central and Eastern Europe, USAID and the Open Society Institute, two of the largest assistance providers in the region, are "graduating" countries and closing down Missions and foundation offices, respectively. The combination

¹² MSI is completing work on a study of financial sustainability of civil society organizations for USAID's Office of Democracy and Governance.

¹³ This is one of the preliminary findings of the MSI draft report, which is global in focus.

¹⁴ The transitional nature of USAID programs in the E&E region makes them qualitatively different than more conventional development approaches employed throughout much of the rest of the world. One way this was manifested was in the early introduction of sustainability considerations into many USAID civil society support programs, although not in a systematic or consistent fashion.

¹⁵ One study in Hungary reached a different conclusion, using statistics to show that those who designate their one percent under the tax code also gave more tax-deductible contributions or were more inclined to do volunteer work. See Kuti-Vajda, 2004 at www.nonprofitkutatas.hu.

of post-presence mechanisms such as the Trust for Civil Society, and new sources of funding from the European Union, will not be nearly enough to offset the reduction in resources dedicated to advocacy.¹⁶ Unless present practice changes, pro-democracy advocacy groups will not be the main object of EU largesse.

There are a number of factors that hamper such NGOs from gaining access to EU funding. One is the topical areas that are the primary candidates for EU support. The main financing mechanisms, so-called structural funds, focus on regional development, employment, agriculture, and fishing; while cohesion funds focus on environment and transportation in countries that are lagging behind economically, particularly new member states. Many different types of activities get funded under each, including various types of social services, but typically advocacy NGOs, and especially “harder core” ones, have difficulty fitting under any of the tenders.

Another factor is the level of funding that is usually required to “enter the game”. Most tenders are of a budget size (hundreds of thousands to several million Euros) that necessitates a level of financial and other administrative competency beyond that of even high capacity NGOs. If they do pursue such funds, NGOs usually do so in consortia with other, governmental or for-profit actors, which is generally hard to do for advocacy organizations. Finally, the tenders are usually project oriented, with strictly prescribed activities and include a very low --7% is the standard-- overhead rate, which is not sufficient for the type of institutional funding support that advocacy NGOs continue to need (e.g. an ability to charge overhead for their services).

In 2005 the EU established a fund for the support of NGOs in the new member states. In its first year, the so-called “watchdog fund” distributed some 3 million Euros among 32 projects in 10 countries. While a welcome contribution to strengthening advocacy groups, this modest amount will not come close to making up the shortfall from steep cuts in USAID and other governmental and international foundation support.

Meanwhile, the deteriorating political climate in large swaths of the former Soviet Union presents another impediment to financial sustainability for pro-democracy advocacy groups as governments crack down on their activities and take steps to severely restrict or prohibit outright funding from foreign sources, be it government or foundations. With fears about the transportability of the Orange and Rose revolutions very much on their minds, repressive leaderships in the rest of the former Soviet Republics are using the highly controlled press to step up propaganda aimed at vilifying pro-democracy advocacy and watchdog groups in order to undermine their credibility with the polity. As David Moore and Catherine Shea make clear in their insightful companion essay, unscrupulous regimes are increasingly and cleverly couching their harassment in legal terms, for example, accusing NGOs of violating financial or libel laws, and then relying on compliant courts to rule in the government’s favor. In these repressive countries, many of which have not experienced cuts in foreign donor-funded civil society programming, the paramount challenge is minimizing government interference. Worrying about long-term financial sustainability is somewhere between irrelevant and a luxury.

¹⁶ There is a dearth of endowed, indigenous, independent grant-making foundations with a democracy building focus that could become a natural source of funding for “harder core” advocacy NGOs, which have poor prospects of securing financial support from government or the private sector. This local donor dimension of the NGO funding universe is nascent in Northern Tier countries, less developed in the Southern Tier, and virtually absent in Eurasia. With few exceptions, notably the Stefan Batory Foundation in Poland, Open Society Institute/Soros foundations are not endowed and despite being registered locally have been shrinking in terms of their resources and influence. Several foundations that were set up as re-granting organizations lacked a strategic approach to their own sustainability and now find themselves competing for resources with NGOs they were designed to help support.

Notwithstanding the myriad obstacles to achieving a high degree of financial viability, harder core advocacy organizations have made headway. Groups have pursued different strategies, usually a combination of strategies, to reduce their dependence on foreign donors. One route has been to diversify the number of international donors (looking beyond the usual suspects) such that an NGO does not find itself receiving a hefty share of its budget from one or two assistance providers. Identifying and then pursuing a broader array of international donors has paid off for a number of democracy and human rights groups that have managed to secure support from foreign development agencies and foundations with a history in the region, including the Mott, MacArthur and Ford Foundations, Open Society Institute, as well as lesser known institutions.

A second path, which more concerns the sector as a whole than individual groups, stresses the importance of a supportive legal and regulatory environment. As mentioned above, tax laws can provide incentives to promote philanthropic giving, though most experts contend the vast majority of money goes to social service delivery organizations, not hard-charging advocacy groups. Concern with tax laws assumes that basic legislation providing for the free operation of NGOs is in place and respected by government.

Another possibility is more open to NGOs that conduct serious research. Even groups that are critical of government policy and lobby accordingly have had success in attracting government funding because they have skillfully couched differences in less sharply drawn terms and/or shunned the media. These groups are typically capital-based and are not grassroots or membership organizations. They have solid research abilities that governments sometimes want to access to provide policy expertise and practical recommendations. Being more of an ‘insider advocacy’ group does run the very real risk of self-censorship, altering the research so as not offend the client for fear of jeopardizing a financially advantageous relationship. It also runs the risk of simply shifting dependence from one main donor to another and host governments can be as mercurial as foreign donors when it comes to priorities.

A final approach to becoming more financially viable focuses on revenue producing activities. These run the gamut from membership dues/contributions and fees for products and services (e.g. publications, videos, trainings, consultancies) to purchase of income-generating property and creation of for-profit business operations.¹⁷ NGOs particularly skilled in survey work, for example, have made that expertise available to paid clients -- private businesses, international donors, and the host government—or even established a separate for-profit arm with the idea of cross-subsidizing the other, advocacy-oriented activities. Preliminary research suggests that the closer the for-profit operation is to the core mission of the NGO, the more likely the former is to be successful.¹⁸

But make no mistake; there is no silver bullet for achieving financial viability for advocacy and watchdog NGOs. Well-researched, designed and implemented strategies can increase the odds and NGOs are strongly advised to raise their public visibility and stature to help achieve this goal. These groups must continue to explore innovative ways to bolster the effectiveness and staying power of their advocacy efforts in the absence of abundant resources that would render them financially sustainable over the long-term.

¹⁷ It should be noted that membership dues are generally not a significant source of funds in the E&E region or in the developing world. However, expanding an organization’s membership can give it greater credibility and advocacy potential, which in turn could translate into attracting more financial support.

¹⁸ op.cit., MSI’s forthcoming study on CSO financial sustainability.

THE ROAD AHEAD

Depending on where one looks, the nature of the challenges confronting the E&E region's NGO sectors can be quite different. In Europe's Northern Tier and an increasing portion of the Southern Tier, NGOs are trying to build on a fair degree of influence they have achieved with government decision-makers while also grappling with a sharp reduction in international donor resources, notwithstanding new funding opportunities available through the European Union. In contrast, advocacy and watchdog NGOs in hostile, often resource-poor environments are necessarily pre-occupied with survival.

Progress for the NGO advocacy sector in largely consolidated democracies is likely to be incremental. The combination of relatively high capability and auspicious enabling environment means the advocacy-oriented groups have to look for new ways to capitalize on these advantages to achieve greater impact on government policy, expand and deepen citizen participation in the governing process and attract the needed resources to continue to function effectively over the long haul.

More in-house analytical capacity would allow NGOs to serve as expert sources for the media as well as for government policymakers. Many of the more capable NGOs have already shown themselves to be reliable partners in the development process. Better targeting of advocacy campaigns and lobbying efforts using sophisticated survey data and improved information gathering would boost NGO impact in influencing executive branch officials and legislators. Gaining access to policymakers and legislators can be a challenge. Regarding the latter, party list systems do not offer as many opportunities for citizen lobbying as do ones where representatives are elected from actual geographic constituencies but both have leverage points that can be exploited by skilled NGOs.

Advocacy groups in the more advanced new democracies also have better prospects for weaning themselves from foreign donor support owing to the availability of greater resources in government and the surrounding society. With financial viability a realistic goal but international funding drying up, NGOs will have to get serious about multi-faceted strategies to tap indigenous resources, possibly including the formation of for-profit operations that are closely linked to and a source of financial support for groups' core advocacy work

With little chance to affect government decision-making the focus of NGO advocacy efforts in repressive political settings is a longer-term strategy of trying to educate an often misinformed and/or skeptical citizenry vis-à-vis democracy, calling attention to government abuse of power, and simply persevering -- providing an ongoing symbol of hope until such time that changes in the political environment lend themselves to a reorientation of purpose. This is not a passive stance, only a tactical concession to the reality that there are fewer opportunities to bolster advocacy capacity under an authoritarian regime.

In countries such as Azerbaijan, Belarus, Turkmenistan, and Uzbekistan, where advocacy NGOs face repressive governments that engage in systematic harassment, the international community must play a prominent role in providing funding and political-diplomatic support to create a modicum of space within which these groups can maintain operations. Advocacy groups that have a service delivery orientation may be judged by the authorities to present little threat – or even be an asset by reducing potential pressure on the state to provide basic services.

Government domination of the media requires advocacy groups to devise clever ways to get their message out. And while the target audience is like-minded individuals in the wider public rather than government decision-makers, there may be small pockets of enlightened thinking in some ministries, opposition political parties or municipal-level government, which may be resentful of the heavy hand of central authorities and be under some pressure from citizens whose basic needs go unmet. Any of these could be worthwhile objects of advocacy attention.

Forging coalitions among advocacy groups is especially important but also that much more difficult in harsh political environments with governments wary of any potential challenge to their hegemonic position. Following the wisdom that there is (at least some) safety in numbers, advocacy groups would be well advised to put forward a united front whenever possible and to lend support across different issue areas.

Regardless of the level of democratic political development in a country, NGOs engaged in advocacy work also face some common challenges in building capable organizations and networks. The opportunities will vary and the strategies employed may differ dramatically from country to country, but NGO activists across the E&E region must make progress in a few areas if the advocacy sub-sector is to survive and prosper.

One such area is increasing participation of young people in politics. The rise in the number of alienated and indifferent youth is a disappointing and potentially dangerous trend for a number of reasons. For one, survey data across the former communist countries and republics underscores that young people as a group are solidly in favor of political and economic reform and strongly support democratic values (e.g., tolerance, pluralism, compromise etc.), hence their withdrawal from politics deprives progressive forces of a strong, potential ally. Second, generational change will eventually and inevitably bring to power those now in their twenties and thirties. Their participation in the country's political life, especially in the Third Sector, is bound to reap dividends for democratic development when members ascend to positions of authority and influence. Third, in chronically unstable settings, a youth cohort that is economically marginalized and largely disconnected from political and social institutions is historically more prone to mobilization for violence. In societies with ethnic and other cleavages, and there are many such polities in the E&E region, this is extremely worrisome.

Innovative approaches, from revising school curricula to include civic/citizenship education and creation of NGO internship opportunities, to establishment of multi-purpose community youth centers and encouraging political parties to speak to and court young people, are being implemented in many countries and need to be evaluated to yield insights into what works under varying conditions.

Likewise, advocacy NGOs also need to reach out to women, who are over-represented in the Third Sector, including as the heads of leading democracy and human rights groups, but do not participate in other aspects of public life as much as their male counterparts. Nor do they have nearly as many opportunities when it comes to serving in decision-making positions in government – legislative, judicial and executive branches. Facing an array of serious problems, from the feminization of poverty to discrimination and domestic violence, women have to amplify their collective voice if the E&E region is to have a sustainable democratic future. In more traditional societies, where women face additional obstacles to full-fledged political participation, culturally-sensitive strategies are needed to circumvent these barriers without inviting intense backlash.

More controversially, advocacy NGOs should explore the issue of strategic partnerships with political parties. There are very good reasons why NGOs in the former communist countries for the most part have steered clear of affiliating with political parties, not least of which has been the desire to avoid any perception of partisanship as well as becoming entangled in petty in-fighting among personality-driven factions. But not all political parties are created equal and advocacy NGOs should at least consider making common cause –even on an ad hoc basis-- with parties that are serious about pushing a compatible agenda. For groups that have a fairly large membership or enjoy high standing with the general public, political parties and individual candidates might be very eager to receive an endorsement – giving NGOs some leverage in helping to shape the platform.

Collaboration with the private sector is another avenue meriting further exploration as NGOs seek to get to the next level in terms of effective advocacy. While NGOs have begun to transcend their initial

apprehension and increasingly come to view the private sector as a possible source of financial support, they have been slower to recognize the political potential of alliances with the business community. The establishment of the rule of law and the battle against corruption, including the push for greater transparency and accountability, are two areas where the interests of large portions of the business community –indigenous and international-- and pro-democracy NGOs converge.

Two other ideas contained in an essay in last year's version of the *NGO Sustainability Index* are worth repeating here.¹⁹ Coalition building can be maddeningly labor intensive and ultimately not cost effective, but when done well can boost the fortunes of an NGO sector in terms of enhanced financial sustainability, influence with decision-makers and standing with the general public. At the nuts and bolts level, this can include formation of umbrella organizations, establishment of secretariats to help shoulder the administrative and coordination burden involved in coalition building, and forging links between urban-based NGOs and local community groups.

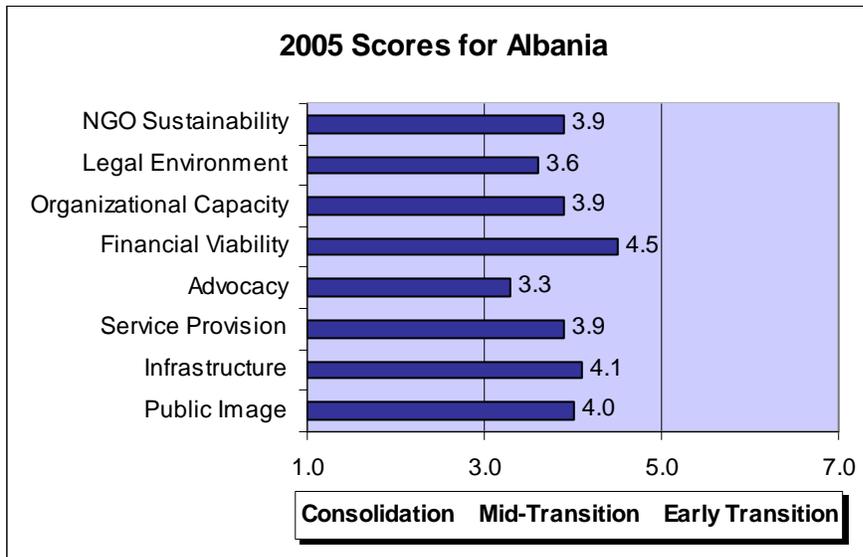
Lastly, NGOs have to hold themselves to a higher standard in terms of accountability and integrity both because doing so will enhance their effectiveness over the long-run and because fairly widespread public perceptions about NGOs as little more than financially self-serving entities must be countered for the sector to attract broad-based support. To put it succinctly, NGOs need to follow their own advice when it comes to promoting democracy and good governance

The way forward for NGOs engaged in advocacy is neither obvious nor easy. As international donor support declines the need for ongoing dialogue and links is even greater as is the need for the international community to continue to press authoritarian regimes in the region to allow NGOs to form and to carry out their core mission of aggregating and advancing citizen interests. Formal and informal mentoring of groups in less open societies by counterparts in the region's more consolidated democracies will facilitate the diffusion and implementation of lessons learned. There is reason for optimism. In Central and Eastern Europe, NGOs have steadily become more capable and more effective in carrying out advocacy activities and are widely considered an important and permanent part of the political landscape. In the former Soviet Union, recent democratic breakthroughs in some countries has boosted the fortunes of advocacy-oriented NGOs while crackdowns on such groups by authoritarian regimes attests to citizens' potential power to bring down despotic regimes over the long term. Empowering citizens by giving them the tools they need to advocate on their own behalf remains the central dynamic shaping the democratic evolution of Europe and Eurasia.

¹⁹ Robert G. Herman, "NGO Sustainability in a Time of Hope and Apprehension."

Section 5: Country Reports

Albania



Capital: Tirana

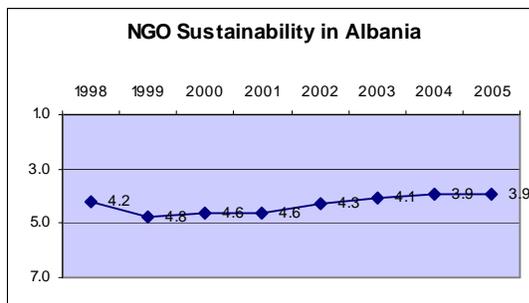
Polity: Presidential-parliamentary democracy

Population: 3,581,000

GDP per capita (PPP): \$4,900

NGO SUSTAINABILITY: 3.9

Over the past year, Albanian NGOs made only slight advances in their march towards sustainability. Progress was less than expected, given the flurry of concerted and visible NGO activities leading up to the July parliamentary elections and the level of volunteerism both on Election Day and during the vote counting. One factor explaining the lower than expected score is the deterioration in the legal environment.



Utilizing the media with more skill and frequency than in previous years, Albanian NGOs took center stage during the elections. They were involved in monitoring all aspects of

the election process, including news coverage during the campaign, the voting and counting processes, and campaign finances and public spending. NGOs were regularly in the news disseminating the findings of their various monitoring efforts, releasing public statements, or announcing public events, such as the demonstration held on International Anti-corruption Day. Advocacy organizations also found new niches, like polling, and causing disquiet in political circles.

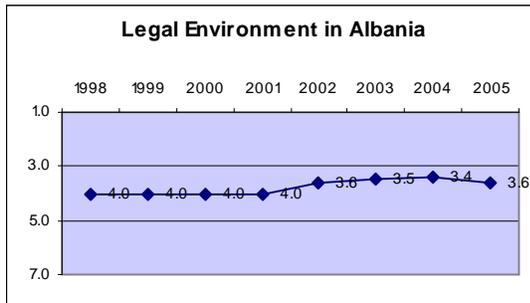
The financial viability of Albania's NGO sector has not changed dramatically over the past year. Most of the country's active registered NGOs remain dependent on external funding sources. A few organizations, however, have successfully diversified their support by securing funding from multiple donors or private sources. These are the exceptions, and private philanthropic support for Albanian organizations is generally absent from the civic culture, despite several consecutive years of economic growth. Organizations often find themselves in

precarious financial situations with little prospect of continued donor support.

The public image of NGOs has continued to improve despite attempts to smear NGO

leaders. Following the July elections, numerous NGO leaders were tapped for top positions in the new government.

LEGAL ENVIRONMENT: 3.6



The NGO sector as a whole was significantly more active this year, the obvious inadequacies of the legal environment appeared in sharp relief. For example, it has become clearer to the sector that the registration process is a problem. Organizations in the regions do not have the same access to legal services as those in the Capital. Donors are no longer funding

projects that provide training in NGO law to judges and lawyers. The legal framework lacks clear implementing rules and regulations, causing confusion and allowing government officials and judges significant discretion in applying the law. The tax framework affecting the sector is also incomplete and deficient.

Another factor in the deterioration of the legal environment is the increased administrative harassment from government officials. In an election year dominated by political parties that have great control of the media, NGOs were often caught in the partisan crossfire on certain legal issues. The most notable was a charge by Democratic Party operatives that MJAFT, a highly visible national youth organization, conducted a poll that violated U.S. trademark law.

ORGANIZATIONAL CAPACITY: 3.9

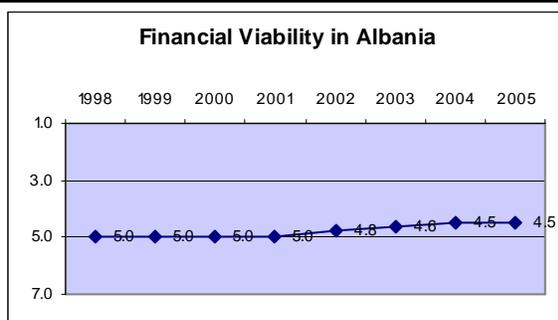


A slight improvement in the Organizational Capacity score is warranted by positive changes over the past year. Some organizations have begun developing new local constituencies for their projects. In one example, the Citizens Advocacy Office (CAO) and MJAFT have sought and received support from the Albanian business and private sectors, expanding their areas of expertise. MJAFT, in addition to being active in various political issues from anti-

corruption to opposing casinos, is now conducting opinion polls.

More organizations are publishing their annual work plans, though most of these NGOs are based in Tirana. Organizations in general have a slightly improved capacity for strategic planning. A few prominent NGOs have developed better strategies for communicating with their constituencies and members, allowing them to enlist volunteers and conduct “get out the vote” campaigns, as well as to monitor elections. As expected, well-established, professional organizations have paid staff and are less dependent on volunteers. In general, NGOs have more clearly defined organizational structures and divisions of responsibility between the board and executives.

FINANCIAL VIABILITY: 4.5



The majority of Albanian NGOs continue to depend on donor funding. Only a small number of large, well-established organizations have sound financial management systems in place

and publish their annual reports and financial statements. In most cases, these organizations are complying with donor requirements and conditions to ensure eligibility for future funding.

More organizations were successful in securing support from local businesses and the government, or at least in diversifying their international funding sources. This augers well for the small number of organizations that are more astute and agile. Local governments are more aware of the role that NGOs play. The increase in citizen participation has motivated local organizations to make more of an effort to achieve financial viability.

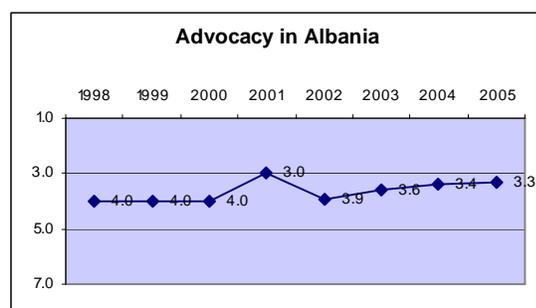
ADVOCACY: 3.3

The NGO sector made improvements in the Advocacy dimension as well, as organizations increased their efforts during the parliamentary elections and in monitoring the media. The Albanian Coalition Against Corruption (ACAC) involved seven organizations which mobilized more than 3000 election observers, many of whom dedicated days and weeks working during the prolonged vote-counting process.

in advocating for free and fair elections include MJAFT, the Albanian Disability Rights Foundation, Co-Plan, and others.

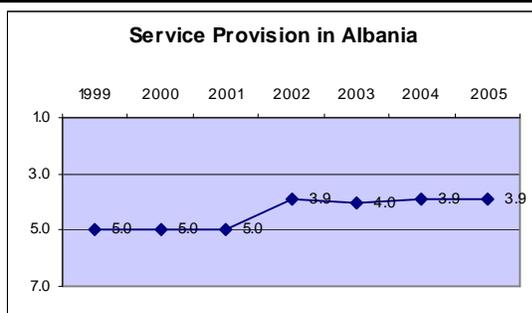
Three organizations participated in the media monitoring campaign, increasing the quality of coverage of the election campaign. For the first time in Albanian history, public opinion polls were taken by local NGOs, such as MJAFT. Such organizations are more capable of mobilizing resources than they were last year. The organizations that played the greatest role

NGO relations with the new government are dramatically better than with the old. Improved relations are expected to have a positive impact on NGO participation in policy making. Numerous NGO representatives have been appointed to key government positions, and many organizations are now active in trying to influence legislation. ACAC is active in the implementation of the conflict of interest law as well as campaigns against a power plant project in Vlora and the opening of casinos. The organizations participating in the decentralization of the government are both active and capable.



Though positive, these developments as well as active organizations are based in the capital; NGOs in the regions lack appropriate advocacy skills.

SERVICE PROVISION: 3.9



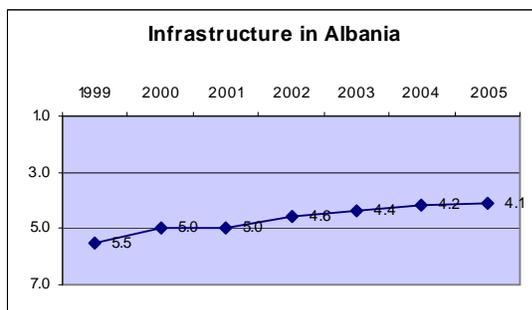
The NGO sector made slight improvements over the past year. While the range of services offered by NGOs has diminished, the quality of the remaining services has improved significantly. The number of services that organizations offer has decreased as a result of the decrease in support from foreign donors.

NGOs offer a range of services, such as education, psychological counseling, and housing, for marginalized groups, including victims of human trafficking. Numerous organizations offer free legal services and represent victims of corruption; these organizations understand their market and have become recognized.

The range of goods and services do not always reflect the needs of constituencies and local communities and service providers are often driven by donor priorities. NGOs generally understand the idea of recovering costs by charging fees, though they do not generally understand the concept of market demand. Though the public does not yet value NGO services, local governments generally do.

INFRASTRUCTURE: 4.1

The five NGO resource centers funded by the Dutch GTZ, SIDA, and the OSCE continue to provide training, computer and internet services, photocopying, and meeting spaces in cities throughout Albania. The fees they charge are inadequate for their services, and they are far from being financially viable or sustainable. Local grant making is scarce, and in some areas nonexistent and NGOs continued to be donor driven. A small number of organizations provide small grants to other NGOs, but they are primarily re-distributing funds from the international donor community.



NGOs have improved their ability to form coalitions, and a network is now in place to facilitate information sharing. ACAC was very active during the parliamentary elections. Its network coordinated election observers, distributed training and other materials, and provided observer credentials to member organizations and volunteers. On Election Day, ACAC and its seven election observation groups coordinated observer feedback from almost 1,600 voting centers and all 100 vote counting centers. Those field reports were relayed to the ACAC monitoring headquarters in Tirana, where they were organized, analyzed, and then reported in media conferences. This was the first attempt at such a national communications network and it was successful. NGOs also began using the internet more as a means of disseminating information and raising modest financial contributions.

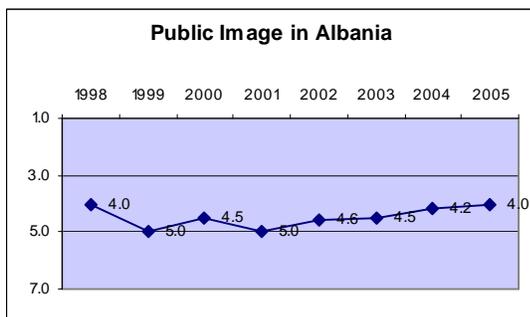
PUBLIC IMAGE: 4.0

The Public Image dimension has improved since last year. The sector enjoyed a great amount of media coverage, and in most instances it has

been positive. However, many in the media fail to distinguish NGOs from businesses and charge them for public service announcements,

including notices of events that would otherwise be newsworthy.

Few organizations have a public relations strategy, though many have begun planning events that involve officials from bilateral missions or multilateral organizations to increase their profiles. The events planned for foreign officials perpetuate the perception that NGOs are dependent on political and financial support from foreign governments. NGOs have participated in more public policy debates and organized public awareness campaigns, especially during the parliamentary elections. This increased activity was newsworthy and attracted free publicity. One indication of the change of the sector's image is that many leaders were appointed to positions in the new government. A recent survey asked the public to rate on a scale of 1 to 10 the level of corruption of various leaders and government officials. Leaders from the NGO community received 5.3 in 2005, a .8 improvement over last year.

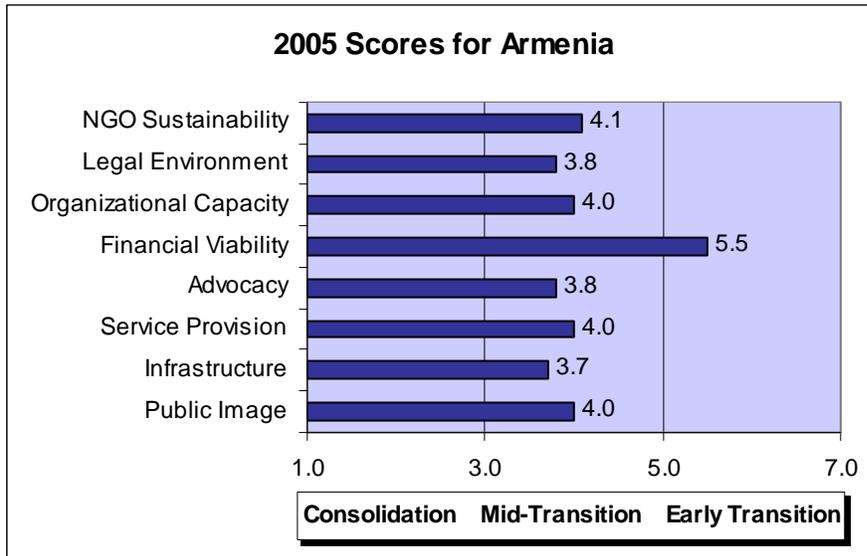


NGOs have not adopted a code of ethics to promote transparency in their operations. This has raised concerns among the political elite, and exposed NGOs to perceptions of conflicts of interest. A few minor allegations of conflicts of interest made the news this year. NGOs improved their public image 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

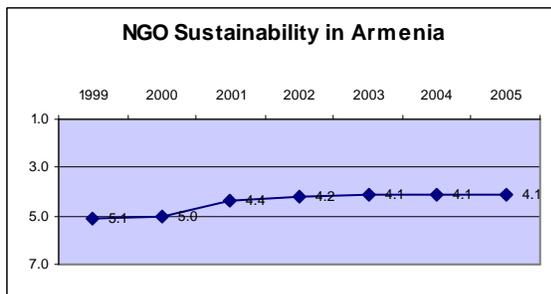
Polity: Presidential-parliamentary democracy

Population: 2,976,000

GDP per capita (PPP): \$5,300

NGO SUSTAINABILITY: 4.1

The overall sustainability of the NGO sector in Armenia did not change over the past year. This stagnation is primarily the result of a regressive and restrictive draft law on lobbying. If adopted, the new law will limit the ability of NGOs to participate in forming policy and serving as advocates.



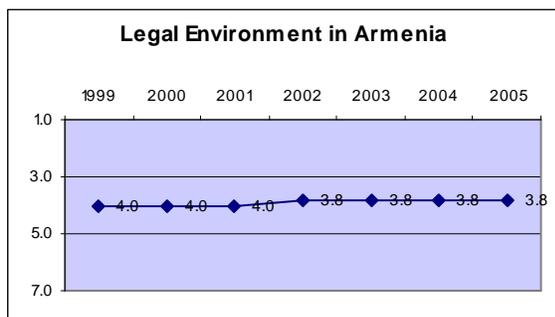
On a positive note, while many organizations continue to depend heavily on donor funding, many have secured alternative sources. NGOs have also been more active in building partnerships with each other. The National Task Force Group was formed to develop recommendations on the Constitutional amendments that were put to referendum in November 2005. The amendments incorporate forty of the forty-six recommendations that the NGO community submitted to the Council of Europe's Venice Commission. NGOs have actively participated in policy and legislative working groups in the National Assembly and other government institutions. In addition, more NGOs have clearly defined goals and missions than last year.

LEGAL ENVIRONMENT: 3.8

The NGO sector is regulated by the Law on Public Organizations (2001), the Charity Law (2002), and the Law on Foundations (2002). The majority of organizations are registered under the Law on Public Organizations. Although the process has improved over the past year, registration takes place in Yerevan, creating a burden for organizations in the regions. The concept of volunteerism continues

to be an issue, as tax officials do not yet consider volunteer work to be tax free. One organization appealed to the court system to defend its right to use volunteers without being taxed, and was not only unsuccessful, but was ordered to pay court costs and damages. In addition, the law prohibits NGOs from generating income by engaging in economic

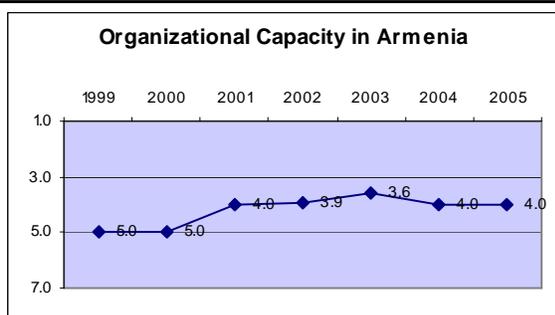
activities. As a result, organizations continue to depend on donor funding.



The government recently introduced a new draft law on lobbying that is being circulated in the National Assembly. If passed, the law will permit the government to exert a great deal of

control over NGOs through an onerous registration process. The new draft law employs a broad definition of “lobbying” activities. Instead of being limited to actions by paid professionals and commercial activities that attempt to promote the interests of a third party, the draft law applies to all those who engage in activities that influence the adoption, amendment, or abrogation of legislation. Thus, “lobbying” includes virtually any interaction with lawmakers, as well as efforts to disseminate information concerning legal provisions or the legislative process (e.g. reaching out to the mass media). The NGO community is very concerned about the implications of this bill and is advocating for its substantial revision or complete withdrawal.

ORGANIZATIONAL CAPACITY: 4.0



The decline in grant opportunities has many organizations surviving from grant to grant and seeking funding alternatives. Organizations that have membership fees as their only source of income are unable to maintain a permanent staff, which often leads to chaotic internal

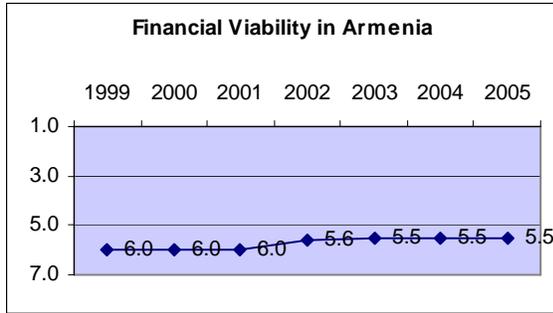
management. NGOs have a greater capacity for conducting internal strategic planning. Though many organizations continue to be dependent upon their leaders for direction and vision, NGOs with younger leadership are embracing a team-approach to management. Their organizational development agenda, however, is still largely donor-driven and not an organic part of the local NGO culture.

FINANCIAL VIABILITY: 5.5

While NGOs continue to rely largely on funding from foreign donors, most are actively searching for alternatives. The law, however, restricts the ability for NGOs to engage in income-generating activities and does not provide tax benefits for charitable donations. Both government officials and corporations are afraid such activities will lead to NGOs living in a financial “grey zone.” Organizations fear that in the current environment they could easily be targeted by tax authorities should they engage in economic activities. With an underdeveloped private sector and high unemployment, creating

While most organizations utilize volunteer services, the concept of volunteerism has not been fully accepted by NGOs, and none have appropriate policies or internal procedures. Volunteer services are the most common in construction projects at the community level.

an NGO is often viewed by the public as a means of securing a salary. Fundraising has increased as a result of training and consulting, but NGOs continue to be financially unstable. More organizations now obtain in-kind donations. The government has also provided Presidential grants to numerous organizations working in tourism, health, and the social services sector.



NGOs often are not transparent or accountable. Financial reporting does not always present a complete picture of an organization's finances, as organizations fear that accurate reporting may draw unwelcome attention from the tax authorities.

ADVOCACY: 3.8

Over the past year, NGOs have partnered with the government more than any time in the past; however, the relationship between the two is at times artificial and communication is often unclear. The government has been creating government-organized NGOs (GONGOs) and at times co-opting existing NGOs, and government officials have also excluded the most progressive organizations from the policy-making process. Motivated by increasing foreign pressure, many government officials have created advisory councils that include both government and NGO representatives. The purpose of the advisory councils is to give an impression of inclusiveness and participation, rather than receive input and advice. The intentions of government officials is evidenced by their process for forming the advisory councils, the lack of any clear results, and the sense that the council meetings are more media events than productive discussions. NGOs are generally willing to participate in the advisory councils to gain the unprecedented access to government officials, though they often lack the skills necessary to convert these opportunities into positive action. NGOs take part in open public hearings organized by the National Assembly.

While NGOs enjoy a great deal of visibility among donors and government officials, they have not developed political advocacy skills. Organizations are comfortable with the idea of lobbying, but lack the skills and knowledge of

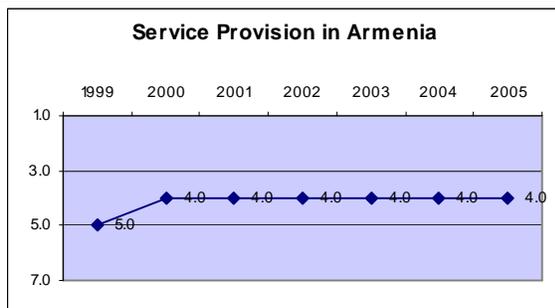
policy necessary to be successful and make a contribution. NGO advocacy efforts are also hindered by the sector's lack of understanding of the legal environment, which limits its ability to effect change.



Mechanisms to promote inter-sectoral partnerships improved over the past year, both legally and practically. One such partnership was successful in getting a fairly progressive Freedom of Information law passed. In 2005, NGOs have closely monitored the implementation of the law and have reported numerous violations, taking some to court. One NGO has created a FOI "black list" for those government agencies that refuse to provide information they are required to give.

Coalitions are most often ineffective and donor-driven. The culture of cooperation and information-sharing has not taken root in the NGO community with NGOs competing for the same few grants and seeing little benefit in cooperating.

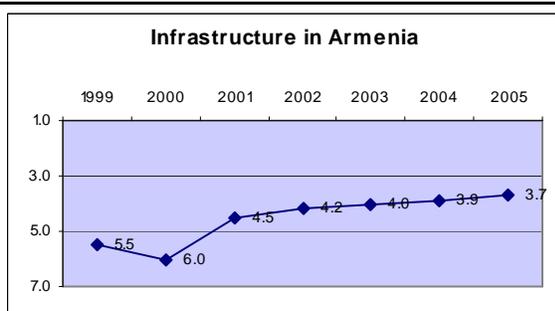
SERVICE PROVISION: 4.0



Organizations continue to provide a variety of services ranging from soup kitchens to legal and medical services for the elderly and defenseless.

NGOs receive wide recognition for the increasingly wide variety of services that they provide. The government, however, rarely partners with NGO service providers; officials do not conduct cost/benefit analyses and fail to understand the impact of not partnering with NGOs to provide very important services. NGO services continue to be driven by donor agendas and not government policy. Discussions between the government and NGOs concerning fees for services, licensing and procurement have not led to the legalization of income-generation.

INFRASTRUCTURE: 3.7

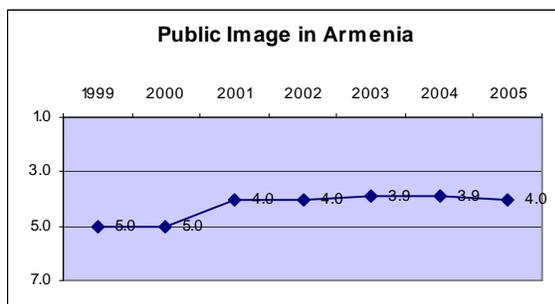


The number of organizations providing services to NGOs has increased over the past year. Two new Intermediary Service Organizations (ISOs)

were opened in two regions of Armenia. The UNDP, OSI, the EU and the NGO Center have all provided training and services to NGOs. The only local grant programs regrant USAID-CASP program funding. Another ISO that will provide training and other services is planning to open in Yerevan. At the local level, organizations work closely with the community and their government. Organizations generally do not share information with each other or form coalitions unless they are pressured to do so by their donors.

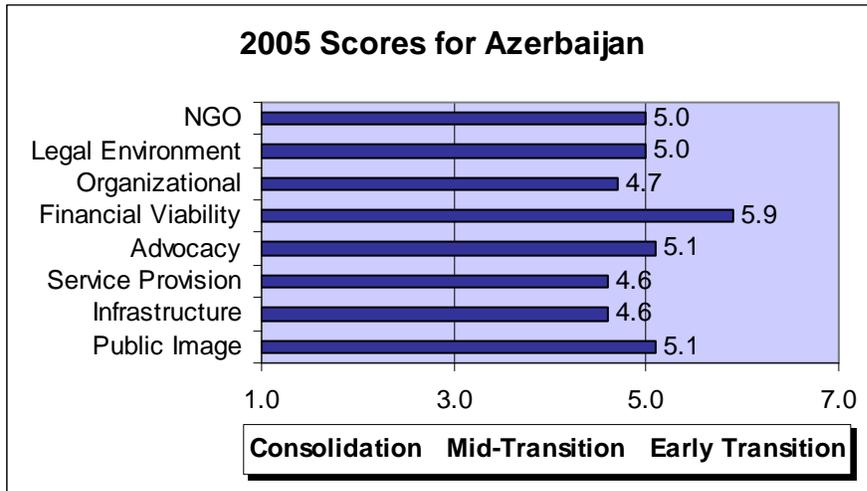
PUBLIC IMAGE: 4.0

NGOs are increasingly more sophisticated in their efforts to reach out to the media, though their outreach to the public is lacking. Media coverage of NGO activities, however, is infrequent and negative; organizations are often portrayed by the media as commercial organizations that consume grants without providing any real benefit to the general public.



A recent national survey reports that only 4% of those polled had been a member of an NGO, while 25% had not heard the term NGO and 5% "didn't know." Those organizations involved in political or human rights are often portrayed by the government, and perceived by the public, as being supported by foreign funding and serving their own interests. Organizations rarely publish annual reports, which can in part be explained by the unclear regulatory environment which dissuades NGOs from making information public. The NGO community has adopted a code of ethics, though it was done so under pressure from donors and has little impact on NGO behavior or the public's perception.

Azerbaijan



Capital: Baku

Polity: Republic

Population:
7,961,000

**GDP per capita
(PPP):** \$4,700

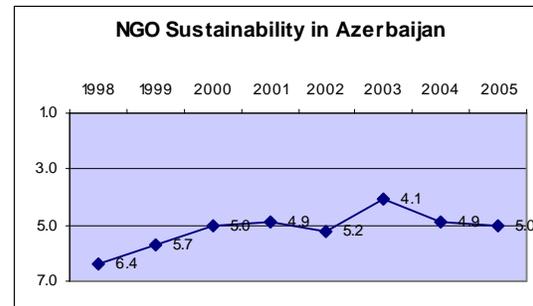
NGO SUSTAINABILITY 2004: 5.0

While Azerbaijan's economy has improved over the past year, the NGO sector's capacity and overall sustainability have deteriorated. The government continues to mistrust NGOs and aspires to have greater control over the third sector. Despite the 2004 amendments to the Law on State Registration, government officials continue to create impediments that prevent NGOs from registering. Similarly, amendments to the Law on Grants that came into effect in 2003 have failed to prevent government officials from creating new obstacles to financial stability, which now include a requirement that NGOs register all of their grants. Without an independent press or transparent judiciary, NGOs are limited in their ability to defend their rights.

NGOs continue to experience difficulties in securing local financing and must rely on foreign donors. Many in the executive branch are wary of NGOs, and consider them mechanisms by which citizens misappropriate public funds or grants.

Government officials have created NGOs that receive preferences in the distribution of government grants and other public funding. NGOs received some limited tax relief this year when a Presidential Decree lowered the amount to be paid into the Social Insurance

Fund from 27% to 22%. In addition, a tax holiday through 2007 exempts all organizations that receive grants for social-sector projects from paying the Social Insurance Tax, though they are still required to pay a 14% income tax.



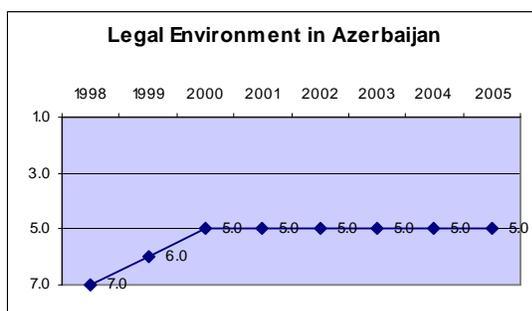
According to data released by the NGO-Forum, the number of NGOs in Azerbaijan has increased. The NGO Forum also reports that some progress has been made in registering organizations; as of November 2005 the NGO sector consists of approximately 3000 organizations, 60% of which are registered. Of the 3000 NGOs, only 600 or so are active and visible. NGOs are particularly visible in the areas of humanitarian relief, environmental protection, gender and youth services, human rights, civic and legal education, and economic development. The international donor community's smaller presence and the

reprioritization of its programs have had an adverse impact on the financial viability of many NGOs. Only a few organizations have successfully developed strong relations with the remaining international donors.

Overall, the NGO sector is negatively affected by the same issues of paternalism, nepotism,

LEGAL ENVIRONMENT: 5.0

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, the State Register of 2004, and the regulations on NGO Registration are the key laws and regulations that govern NGO activities. In 2003, amendments to the Grants Law created a new requirement that NGOs must register all grants with the Ministry of Justice, as well as administrative penalties for noncompliance. NGOs fear that this new requirement will allow the government to assert greater control over the NGO sector and create excessive bureaucracy.



NGO representatives generally agree that the legal framework, which was adopted under pressure from the European Council and the European Commission on Human Rights, is supportive on paper. They also agree that the legal framework is not implemented effectively and fails to protect NGOs from corrupt government officials. The mechanisms necessary to ensure equal and just application of the law do not yet exist. The courts are not independent from the executive, and government officials allegedly instruct judges how to decide cases to protect their personal political interests. In one example, the judiciary has authority over the dissolution of an organization; but the executive branch's

and corruption that plague the whole of society. The ability of NGOs to develop civil society is limited by pressures from government authorities, absence of a developed market economy, a negative public image of NGOs, lack of altruistic ideas and volunteerism, and the amateur nature of some organizations.

influence over the judiciary renders NGOs defenseless against the interests of individual officials. The legal framework also fails to clearly define the activities in which NGOs are permitted, or prohibited, to engage. The lack of clarity provides government officials with discretion to interfere with an organization's activities. The provision banning participation in political activities, for example, is vague and allows government officials to apply the provision in a broad and inconsistent manner, creating a chilling effect on all NGO advocacy efforts.

Local authorities often have a sense of being above the law and harass NGOs in a variety of ways. NGOs are also subject to abuse from the control of the central government and often have difficulties in registering. Some organizations, especially those involved with human rights, do not register and are limited to receiving grants from foreign donors operating outside the country, as it is prohibited for donors with an in-country presence to provide grants to unregistered organizations.

A small number of local lawyers are trained in NGO law, but the majority of them work for non-commercial organizations based out of Baku. Access to legal council outside the capital is inconsistent.

Tax reforms have provided some relief for NGOs. The law used to require that organizations pay 27% of their payrolls into the Social Insurance Fund. In January 2005, a Presidential Decree reduced the tax to 22% and created an exemption for NGOs that receive grants for social programs. Those that take the exemptions are still subject to an income tax of 14%, and an additional 3% is deducted from all

salaries for the Social Insurance Fund. Azerbaijan has signed bilateral agreements that provide international donors such as USAID and other multilateral aid agencies with tax privileges. NGOs and charitable organizations have the right to engage in economic activity,

but their income is taxed as if they were commercial organizations. The high taxation levels and the absence of a law on philanthropy are major obstacles to developing local philanthropy.

ORGANIZATIONAL CAPACITY: 4.7

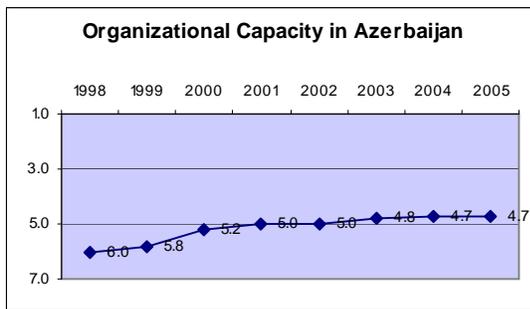
NGOs often develop their activities according to donor priorities and not those of their constituents. Donors, however, are not always aware of a community’s needs, which may limit an organization’s ability to affect sustainable change in a community. Organizations often operate outside their missions, which are generally clearly defined, in order to access new grants and funding.

Most organizations now only plan short-term activities since NGO leaders often lack sufficient training in strategic planning and management, or experience with public relations. While on paper, most organizations clearly distinguish their

unclear and management often falls under the direction of one or two people. Organizations are generally open and transparent about their use of funds with their donors, but do not provide information to local contributors and volunteers.

The NGO community has yet to significantly develop the coalitions and long-term programs necessary to engage in collective actions.

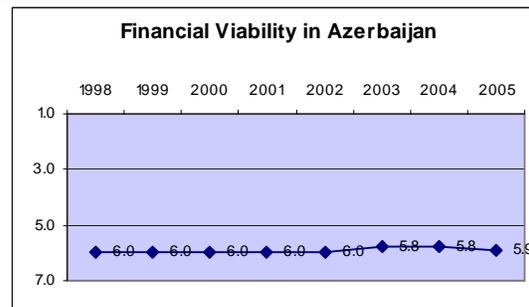
Insufficient funding has hampered the organizational capacity of many organizations, preventing NGOs from hiring full-time, qualified professionals. NGOs generally hire according to the demands and availability of current projects and grants. Similarly, volunteerism remains undeveloped and underutilized. NGOs purchase most of their office equipment with grant funding. Over the past two years, many donors have stopped providing funding for equipment, and as a result, the majority of organizations use outdated technology. Organizations in Baku have better technology and equipment than NGOs in the regions. Though financing is a problem, the most serious barriers are the shortage of electricity and the unstable infrastructure that limits the use of the internet and other forms of communication.



Boards of Directors from other management structures, in practice the division remains

FINANCIAL VIABILITY: 5.9

Though the government has greater economic resources, an insignificant number of NGOs receive local support. Government officials often create organizations to access government funding. Such organizations generally lack transparency and conduct their activities without the public’s knowledge, permitting abuse and misuse of government funds. Foreign donors also fail to monitor how grantees use their funds and implement projects.



Organizations receive limited non-financial support from local groups and infrequently benefit from volunteerism.

This is the result of the general lack of altruism and charity, which stems in part from the poor economic conditions that force most individuals to focus on their own well-being. Most organizations are only active when they receive a grant operating in a “standby” mode with minimal staff between grants. For most organizations, an independent audit is unaffordable. In an effort to build stronger relations with the donor community, organizations are generally amenable to being audited.

ADVOCACY: 5.1

As political tensions rose in the buildup to the November 2005 parliamentary elections, government authorities tried to limit further the role of NGOs. These efforts have complicated the execution of large-scale advocacy campaigns and public discourse of election issues. NGOs generally understand the importance of creating coalitions, and over the past year they have carried out a number of campaigns, some of which were successful. In one campaign, local NGOs partnered with international organizations like the International Association of American Lawyers and OSCE to amend the Law on Legal Professionals and the State Register.



Despite these efforts, the number of coalitions remains limited. Personal ambition, narrow views on social problems, a lack of collective thinking and decision making by NGO leaders all interfere with NGOs forming productive coalitions. Government officials have exploited

Since foreign donors have decreased their presence over the past two years, the financial viability of NGOs has begun to deteriorate. Donors that continue to have an in-country presence are focusing more on the regions and smaller organizations, and away from the capital. As a result, smaller organizations and those in the regions appear stronger than those in the capital.

In the absence of a law to promote philanthropy, NGO efforts to provide services and aid have been reduced. Nevertheless, NGOs continue to provide for groups such as invalids and refugees. Few organizations experience success with economic activities, and few collect membership fees.

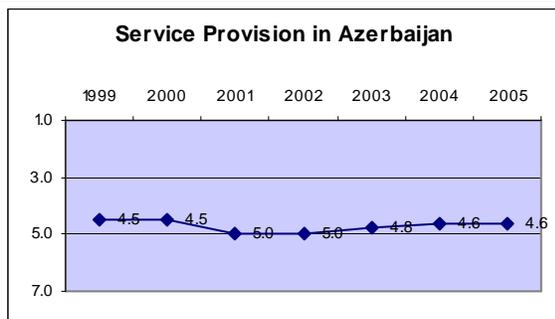
this lack of cohesion by seeking to divide and control the sector further. While the government has partnered with NGOs on a few projects, the organizations involved are those created by government officials and parliamentarians.

Though NGOs made efforts to monitor the November 2005 parliamentary elections, government officials prohibited all organizations that receive more than 30% of their funding from foreign donors from engaging in monitoring activities. As a result, the only organizations that qualified were those controlled by government officials.

The mechanisms necessary for NGOs to participate in the political process do not yet exist, and therefore, NGOs generally do not engage in lobbying activities. In one exception, NGOs helped to shape the law concerning aid to diabetics. Public debate in which NGOs express their views and criticize the government is also limited by the lack of open and free public space.

Overall, advocacy efforts deteriorated over the past year. The two primary reasons are the buildup to the Parliamentary elections and interference by government officials, and the overall strengthening of the government institutions that seek to control NGOs.

SERVICE PROVISION: 4.6



The NGO sector is able to provide a variety of quality services, including humanitarian relief, economic development, defense of human rights, health, and basic public services. The services that NGOs offer, however, do not always reflect the needs and priorities of constituents and communities, rather those of their donors. A limited number of local

INFRASTRUCTURE: 4.6

NGO resource centers are located throughout Azerbaijan's provinces, including Ganja, Lenjoran, Khachmaz, Sheki, and others. Organizations no longer have adequate access to high-quality resource centers such as the Institute for Soviet and American Relations (ISAR), a U.S. based organization formed in 1983 that until recently operated in Azerbaijan. Despite financial support, the majority of resource centers is only able to provide basic services such as libraries, computers, and photocopying; others are able to provide other information services and training. Only a few centers located in the capital provide legal assistance, information on donor organizations, or tax advice. Centers such as the Resource Center of

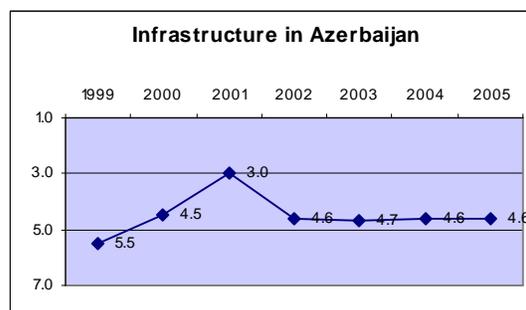
Economic Reforms at the Ministry of Economic Development are well equipped and provide quality services. Few resource centers are able to generate substantial income by providing their services. Domestic organizations and resource centers do not provide or even redistribute grants with generally only international donors serving as grant-makers.

organizations offer quality services that meet the needs and priorities of their constituents.

Many NGO leaders believe that their nonprofit status and the difficult economic situation of their clientele make it impossible to charge fees. Some organizations, however, are able to charge fees for their services. One organization, for example, covers some of its expenses by charging a fee for its English and computer classes.

The State does not appear interested in strengthening NGOs. Government officials often create barriers that prohibit the development of service organizations. In only a few cases have government institutions approached NGOs and offered them grants or contracts to provide social services.

NGOs benefit from an advanced information exchange network that covers the majority of Azerbaijan. In addition to Azerweb (www.azerweb.com), a popular online resource funded by the Open Society Institute, and the Society of Human Research (www.ngo-az.org), many credible online resources are now available; they include www.ngoforum.az, www.alumni.az, and www.3-cusektor.org. These organizations provide information on vacancies and trainings, and create a virtual arena for open debates and exchanges of views.

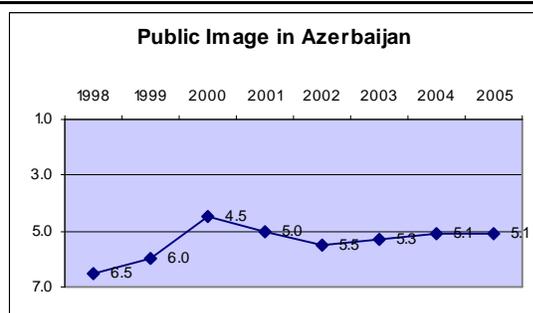


Skilled trainers, including those that offer training in NGO management, are more readily available in Baku than in the regions. Specialized training on topics such as strategic management

or fundraising is generally unavailable in the provinces. While information is available in the Azeri language, translations of materials on topics such as human rights are frequently of poor quality. Training programs are now outdated and fail match their audiences' growing educational capacity.

Inter-sectoral partnerships with the government and local businesses are rare. NGOs generally form better partnerships with mass media companies.

PUBLIC IMAGE: 5.1



The press covers NGO activities in a variety of ways. Newspapers such as Zerkalo and Ganjabasar generally have a positive view of the NGO community and regularly publish information on its activities. Some in the NGO community, however, are of the opinion that published materials often lack professionalism or are used for malicious ends such as blackmail. NGO relations with radio and television remain underdeveloped. Generally, local media is indifferent to the NGO sector and does not distinguish public service announcements from commercial advertisements. Overall, the press does not adequately depict the role of NGOs in the development of a civil society.

The population of Azerbaijan has a poor knowledge and a generally negative perception of NGO activities, often associating them with political opposition. This perspective is in many respects due to government officials,

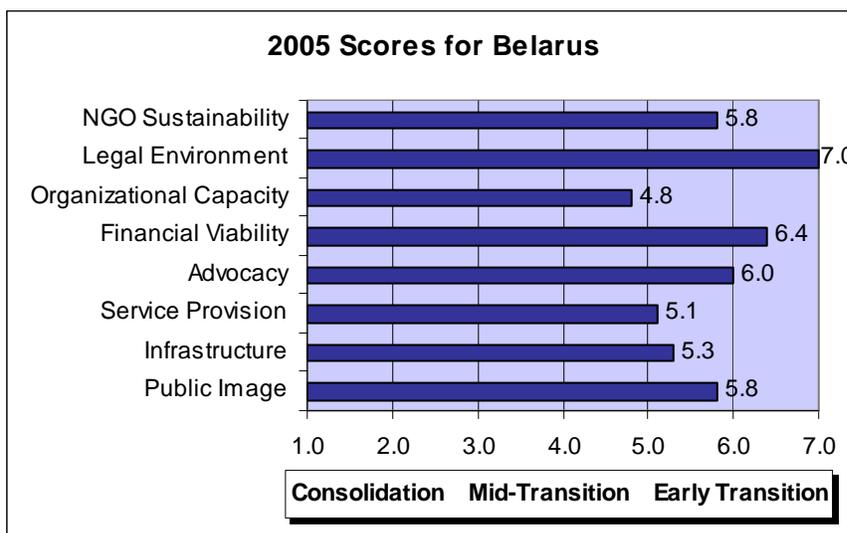
particularly those in the regions. Government officials often consider the third sector a threat to their economic and political power, and express their discontent publicly.

The business community and government officials at the local and national levels have a rather ambivalent perception of NGOs. Their opinions vary from region to region, as well as the area of expertise, and at times the personalities involved. In some instances, officials, especially from the central government, consider the NGO sector a community resource or at least a source of expertise and credible information. Unfortunately, this perception is often marked by jealousy and obstructionism, particularly towards human rights organizations.

Some organizations have adopted strategies to strengthen relations with the press so as to improve their public image, though the majority of organizations still lack the skills, finances and experience to do so. NGOs generally employ print media such as brochures and press releases, though their success is marginal.

The NGO community has not adopted an ethical code, and organizations are not fully transparent and do not publish annual reports.

Belarus



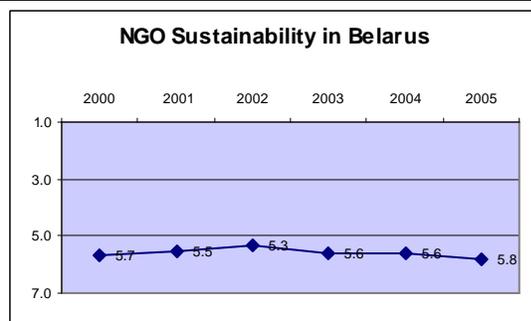
Capital: Minsk

Polity: Presidential

Population:
10,293,000

**GDP per capita
(PPP):** \$7,700

NGO SUSTAINABILITY: 5.8



Over the past year, the NGO Sustainability score dropped to its lowest point since 2000, with declines in every dimension except for advocacy. The legal environment deteriorated due to the adoption of new laws and regulations and the administration's harassment of independent NGOs. This government

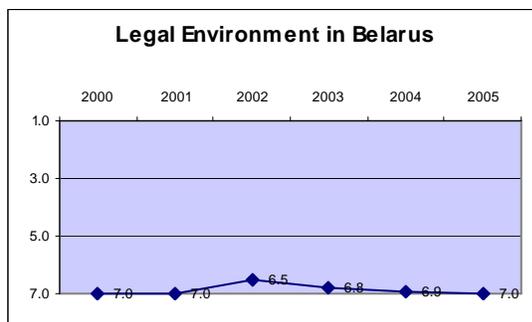
LEGAL ENVIRONMENT: 7.0

In 2005, the legal environment governing NGOs became even more restrictive. The new Government adopted the Law on Public Associations, which permits government officials to suspend an organization's activities for six months and liquidate its assets for a single violation of the Law on Public Mass Events or the "illegal" use of foreign aid. The law requires NGOs to file reports on their

regulation has had a negative impact on most of the other dimensions. NGO cooperation with the government or business sectors is rare and ineffective. Domestic funding is scarce, and though the primary source of funding is the international donor community, restrictive laws make it difficult to obtain foreign funding. While traditional organizations struggle to survive and deal with various administrative issues, quasi-NGOs and GONGOs enjoy preferential treatment and government support. State propaganda and the lack of independent media prevent Belarusian society from gaining an understanding the role of democratic institutions. In July 2005, the Ministry of Justice press office reported that 2,280 NGOs and 17 unions were registered in Belarus.

members and activities. It also grants formal authority to the National Commission on Registration of NGOs, which has been operating de facto since 1999. The commission is comprised of presidential appointees and is not accountable to the public. The law permits organizations to engage in economic activities to pursue their goals, but they have to create separate commercial entities to do so. This

forces NGOs into a business marketplace where the regulations, principles and roles are significantly different from those in the not-for-profit sector. Most NGOs lack the capacity and resources to start and operate a business in what has become one of the harshest business environments in the region. In addition, organizations lose their tax benefits by engaging in economic activities.



On September 13, 2005, the Ministry of Justice issued Resolution #49 “On Some Aspects of the Creation of Public

Associations and their Unions” requiring that all civic initiatives, coalitions, and movements be formally registered. Presidential Edict #320 “On Establishment, Activity, and Liquidation of Foundations” came into effect on September 1, 2005 increasing registration fees and ordering foundations to bring their charters in line with the new regulations by May 2006. Presidential Edict #382 of August 17, 2005 amended Edict #460 “On International Technical Assistance to the Republic of Belarus.” Now all events, such as conferences, seminars, and public debates that are organized using donor funding must be registered; the registration process is vague, lengthy and subjective. Edict #382 also forbids; 1) the use of technical assistance for conducting elections and referenda; 2) recalling deputies and members of the Council of the Republic; 3) staging gatherings, rallies, street marches, demonstrations, picketing, or strikes; and 4) producing and distributing political campaign materials. Presidential Edict #300 of July 1, 2005 “On Provision and Use of Gratuitous Sponsorship Aid” bans all support for “anti-Constitutional” goals, and stipulates reporting

requirements for providing and using domestic financial support.

All activities conducted by unregistered organizations and initiatives are illegal. While the law creates a registration process, it is cumbersome and expensive, and can be difficult and almost impossible to complete. Reasons for denying registration are often arbitrary and in some cases, NGOs have waited for three years without being approved or denied. In 2005, authorities continued to close organizations based out of residential buildings; it is extremely difficult to find other legal addresses as businesses and state institutions will not accommodate NGOs. Rent is prohibitively high for most organizations and even mature organizations have been forced to close some of their regional branches.

The judiciary does not stop the government from interfering with an organization’s internal affairs, even when the government is in violation of the law. The State interferes with an organization’s freedoms in numerous ways. NGOs are forced to spend a great deal of time corresponding with government officials, which could be better spent serving constituents. The government also harasses “unreliable” NGOs and imposes fines on organizations and their members, conducts tax inspections, denies them office space, orders visits from the KGB, and intimidates their constituents. On some occasions, after meeting with foreign diplomats, NGOs have been interrogated by the KGB. Firemen, plumbers, or policemen can break into meetings, and policemen may inspect passports and take participants into custody for questioning. Government institutions maintain a list of organizations that are acceptable partners, and a blacklist of those that are not.

NGOs have access to quality legal services in the capital; although the number of lawyers specialized in NGO law is small. Attorneys from the Collegium of Lawyers, the local Bar Association, lack training in NGO law and are unable to provide services to NGOs. Organizations in the regions do not have access to adequate legal services.

The legislation envisages certain tax benefits to NGOs but they are generally of little benefit. The government taxes grants and payroll, which undermines NGO sustainability, and the government often refuses to register grants from foreign donors. Some organizations have been ordered to pay taxes on past projects. The Belarus Helsinki Committee endured a long judicial process in order to avoid paying taxes

on a grant from TACIS and, even after rulings by higher courts, the government has attempted to force the issue.

While an NGO has the right to bid for government contracts, it is not realistic to expect that it will be awarded one. Government contracts are reserved for pro-government organizations.

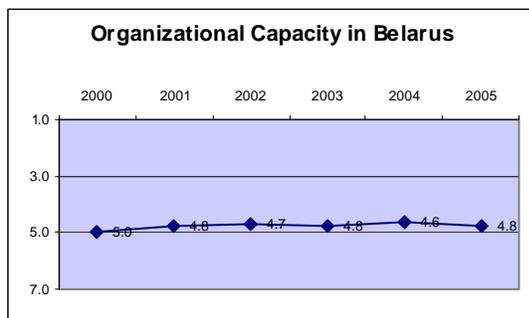
ORGANIZATIONAL CAPACITY: 4.8

The legal environment has affected the organizational capacity of NGOs, as many organizations struggle just to survive. Constituency building is not a high priority, and is hindered by several factors. Organizations do not have long-term projects and are generally dependent on external funding. In addition, few NGOs are able to conduct appropriate assessments to better understand the needs of their constituencies. Exceptions do exist as some well-developed organizations realize the importance of constituency building and identify their clientele. Registered NGOs have a greater ability to reach out to their constituencies than unregistered organizations, which face legal barriers that interfere with constituency building. In contrast to member-based organizations, infrastructure organizations that have long-term service-provision projects have well-defined constituencies. The NGO Assembly has taken the lead in promoting research. Many NGO experts question whether constituency building in crisis-countries like Belarus is even necessary.

planning and the formulation of mission statements are promoted by competition for donor funding. Many organizations will be unable to fulfill their missions in the short-term. Strategic planning is often the result of international assistance programs by USAID, ABA/CEELI, Counterpart International, Forum SYD, the German Support Program for Belarus, and others. For some NGOs, strategic planning has become a part of their organizational culture. Outside of the capital however, many organizations are unaccustomed to strategic planning. Many organizations argue that strategic planning does not promote sustainability, and that short-term planning allows them to adjust to their ever-changing environment.

A growing number of organizations understand the importance of clearly defining the different responsibilities of their executive and governing bodies. Many organizations, however, are unable to afford to pay executives and lack volunteers, requiring governing bodies to fulfill the executive role as well. NGO leaders are liable for the actions of their organizations. This situation creates a conflict between the organization's transparency and the individual security of the NGO leader, and a disincentive for sharing reports.

Few organizations have a permanent staff as most employees are hired only for specific projects and work without a contract, an official income, pension, or other benefits. Numerous organizations still have volunteers, but they are not used to their greatest potential. Rates of volunteerism are declining due to the sector's negative image and the discrediting of volunteerism. Some organizations have



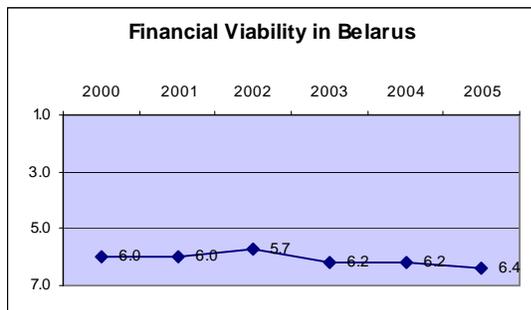
Almost all organizations have knowledge concerning strategic planning, and most also have defined missions that they are willing to share with other organizations. Both strategic

volunteer training programs and work to make full use of volunteers as a permanent resource.

The U.S. government's IATP program offers the public free computer training, as well as access to internet and personal computers at IATP

FINANCIAL VIABILITY: 6.4

Application of donor assistance regulations and the general deterioration of the environment in which NGOs operate have adversely affected the financial viability of NGOs. Local philanthropy offers minimal support to NGOs. An organization's members and staff provide the majority of local support. Individuals who make donations run the risk that they will be audited by the tax authorities, who may examine their income and expenses and determine whether they could afford to make donations. Local charity does not exist and businesses come under scrutiny for making donations. The new laws also create restrictions that limit support from business enterprises. In-kind support is limited to volunteerism.



Organizations realize that foreign funding is not very reliable, as donor priorities and policies change. Many organizations would diversify their donor sources, but the restrictive laws limit the number of donors that are able to work in Belarus. The reduction of foreign funding has forced NGOs to seek out local support, though legal barriers make it almost impossible to obtain support domestically.

ADVOCACY: 6.0

Channels for cooperating with government institutions are limited. On occasion, organizations are able to find mid-level officials and local governments that will cooperate,

sites. Many organizations have necessary equipment and access to the internet, which is especially important in the provinces. Organizations that operate without foreign grants often have outdated technology.

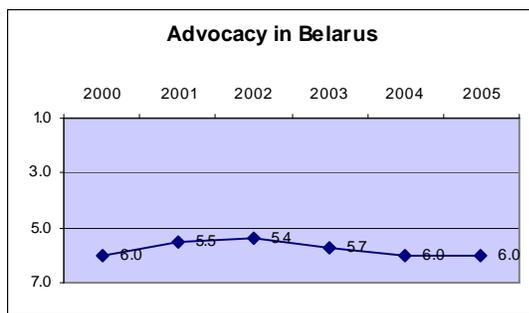
Membership fees and other contributions comprise a small portion of an organization's budget. NGOs generally lack the funding to engage in new activities or projects and therefore do not recruit new members; in addition, few people are able to afford the membership fees required to join. In theory, organizations are able to receive government contracts or engage in economic activities by creating commercial enterprises, though in reality, these are not viable options. The state does continue to provide substantial support to quasi-NGOs and GONGOs.

The law does not promote philanthropy and benefactors often prefer that their support not be made public. Some examples of local philanthropy include clothes and toy drives on Christmas Eve and on the Day of the Child. Some regional organizations with no donor funding manage to find assistance from local authorities, though usually such support is a one-time event.

Due to the increasingly hostile environment, organizations often lack transparency and only allow donors and paying members to access information. Similarly, NGOs generally do not distribute or publish detailed activity reports on the internet. At times donors and the state are requesting independent financial audits. While the State requires that organizations keep their books in order, accountants are generally hired only on a part-time basis, and the reports they produce and submit to donors are less than professional. Many organizations do not conduct financial planning or analysis.

generally when it is advantageous for the official involved. In a few instances, organizations have been able to collaborate with officials at the national level of government. In one example,

NGOs and the state collaborated on the National Sustainable Strategy Development. Such examples are rare and no mechanism exists to organize discussions that might lead to systemic changes. Similarly, the government is not obligated to include NGOs in any decision-making processes. Donors may request that organizations be included during implementation of international technical assistance projects. Even in these limited examples, NGOs have no real means of influencing policy or securing representation in the discussions.



Despite the lack of cooperation, partnership is still possible on issues such as social transition, the environment, prevention of human trafficking, and eco-tourism, which are all priorities for the state. The government has joined NGOs in roundtable discussions on anti-trafficking and eco-tourism in both the Capital and the regions. In another example of cooperation, the Commercial Lawyers Association and the Ministry of Justice partnered to draft professional licensing standards for commercial lawyers. The Aarhus Convention requires that the Ministry of Natural Resources and Environmental Protection allow community participation on environmental issues. The Ministry has created a public council whose members may not vote but can influence decision-making.

Coalition-building grew over the past year. RADA, a council of youth organizations, revived and developed new approaches to youth policy. The Women’s Independent Democratic Movement worked with other organizations on proposals for the national gender plan and

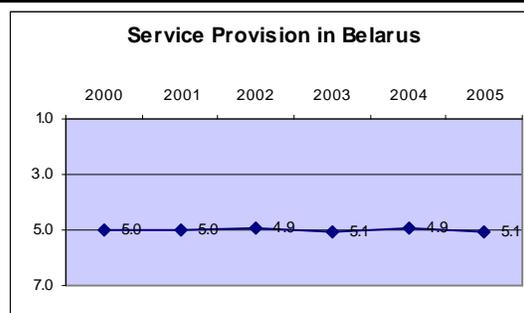
created a coalition of women-entrepreneurs. The United Nations Education, Science and Cultural Organizations (UNESCO) has been advocating for an ombudsman for children. Members of the NGO Assembly continued the “Our Solidarity” self-defense campaign. In addition, representatives from NGOs and trade unions developed partnerships to complete numerous short-term contracts. For example, local NGOs analyzed the impact of the new mandatory short-term employment contracts on employee rights, and conducted a legal education campaign that included publishing pamphlets and holding seminars. As a result, numerous lawsuits filed against employers for violation of labor rights were successful. In the spring of 2005, entrepreneurs went on strike over the VAT requirements. The strike resonated with many across the country. In addition, several organizations formed a coalition to influence the future strategies of the political parties, but had little success in changing their policies.

NGOs have not had much success in lobbying, and opportunities for influencing legislation have become even scarcer. Some professional organizations, such as business associations, work with different government commissions in drafting legislation, which infrequently materialize as improved laws. The NGO Assembly led a large campaign to lobby for changes to the Law on NGOs, and even turned to the Constitutional Court, members of Parliament, and the Parliamentary Commissions. The campaign failed to achieve its goals and the legislature reacted harshly; as a result, many organizations became disheartened. General principles of lobbying and campaigning do not work in Belarus, in part because the judicial system is paralyzed and Parliamentarians are dependent on the President and his administration. Increasingly, members of the NGO community understand the components of a strong piece of legislation, though they spend more of their energy adjusting to new laws than advocating for changes in legislation. NGO leaders fear that government officials will not make any positive changes.

SERVICE PROVISION: 5.1

The market for NGO services is underdeveloped. The variety of goods and services offered by NGOs is unstable and decreasing, in part due to the lack of cooperation on behalf of the state. Government officials do appreciate some social initiatives, such as hospice.

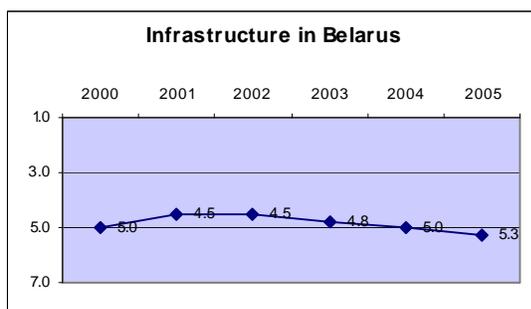
Few organizations conduct assessments to understand the needs of their communities. Some conduct market research, but always to only ensure that they are in line with their donor's priorities. At times, the need for services is identified by an organization's membership. International organizations collaborating with the government try to ensure that NGOs are able to participate in designing and implementing projects. While numerous organizations are able to provide quality services, the government often does not recognize their right to do so. NGOs, for example, are not always able to advertise. Organizations provide goods and services to other organizations, government institutions, and other sectors, but do so informally and on a small scale. Oftentimes, they do not receive credit for their efforts.



Generally, the only organizations that recover their costs are those that participate in international programs, provide training, produce publications and other materials for a fee, or collect membership fees. Recovering costs has become extremely difficult now that organizations are no longer permitted to sell their services directly. Some organizations do not even know how to price their products.

Generally, NGOs are not adequately recognized at the national level, and only rarely are they recognized at the local level. Organizations that serve more vulnerable populations are at times recognized by the state. In one example, state officials recognized those organizations that offer employment programs and provide professional skills training for the disabled.

INFRASTRUCTURE: 5.3



Over the past year, resource centers have either reduced their activities and are unable to satisfy the demand for services, or closed altogether. The Belarusian Association of Resource Centers (BARC) remains active, though it has become politicized. Alternative

networks do not exist and access to resource centers in the regions is more difficult than in the capital. Information concerning services is not transparent and services are available to only a limited group of organizations. Numerous organizations have responded by providing basic services to others.

A small number of organizations have projects that allow them to offer sub-contracts or grants. Such funding is generally for one specific event and not for long-term projects. The process for procuring such opportunities lacks transparency, and the process for selecting grantees is often unclear.

NGOs continue to exchange information and some have taken the lead in networking, disseminating information via email, and creating thematic groups. Many organizations do have websites.

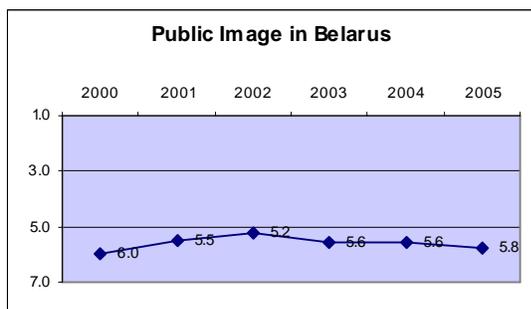
When competing for limited resources, however, NGOs are reluctant to share important information with others. Publications such as “Adukatar” are of better quality than other such publications in neighboring countries, and trainers are often invited to other countries to deliver training. There is, however, a shortage of up-to-date and relevant training materials. Basic-level training resources are available in abundance in the capital and oblast centers. Though more difficult to find, advanced training materials in Russian and Belarusian are also available. Access to high quality consultants and training materials is limited in the smaller regional towns, though

the demand for such services may be insufficient to justify the creation of local training centers.

Formal partnerships between the NGO sector and others have weakened due to the law restricting sponsorship. Businesses are generally afraid to cooperate with NGOs, with the exception of business associations, and even then they refrain from disclosing details of their joint activities. A few inter-sectoral partnerships continue to function and make in-kind contributions to local communities, consistent with the USAID-funded program to support local community initiatives. Other international programs such as the German program to support Belarus also support inter-sectoral partnerships. Cross-sectoral partnerships, however, are underdeveloped and NGOs consider it a success if the government does not interfere with their activities.

PUBLIC IMAGE: 5.8

The Public Image dimension deteriorated over the past year. The state and media have generated a negative and distorted image of the sector. Organizations, especially those working on environmental or social projects, take advantage of every opportunity to present their activities in the local media. Both the Association of Handicapped People and “La Strada,” an organization that works on the issue of human trafficking, produce high quality public service announcements for television.



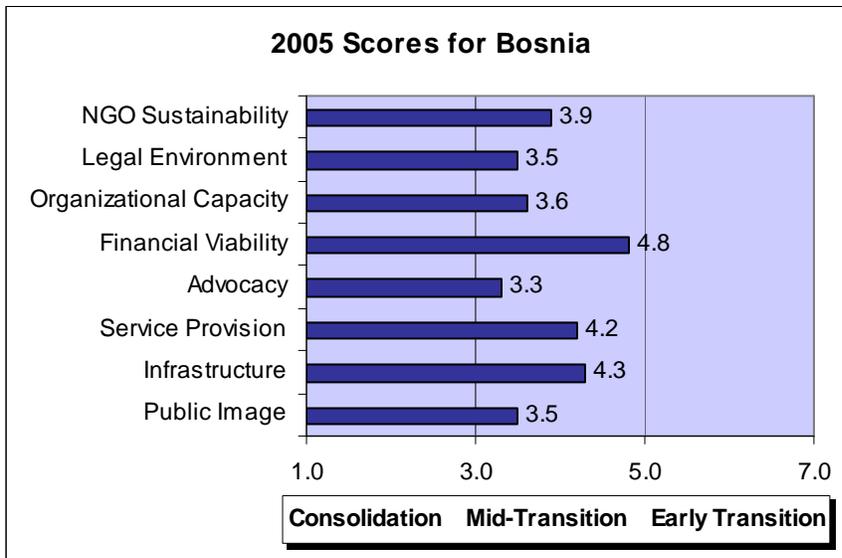
In general, Belarusian society fails to understand the concept of non-governmental organizations or the benefits they can provide. Many organizations avoid coverage from state media as a matter of self-preservation, and censor themselves when they advertise their activities.

Independent media outlets cover NGO activities, but the stories are generally negative. When approached by NGOs about a potential story, journalists from independent media are still of the opinion that such a story constitutes advertising and try to charge fees. Only a few organizations have managed to produce strong public relations strategies. At times, NGOs hold press conferences and are covered by state or independent print media. Some organizations have developed relationships with journalists and educate them about what they do. NGOs are limited in how they can disseminate information, and as a result, the public has to search for news and information. NGO access to official media outlets is very limited with organizations in small towns generally announcing their activities only through independent newspapers and brochures. In some cities, the independent media has been forced out of operation, and is no longer an option for NGOs. Unlike the public, local and central government officials are often aware of NGO activities and products, which they often approach with suspicion and distrust.

The sector does not yet share an overarching Code of Ethics. Some organizations, most often

youth groups, have informal codes of ethics which guide them in choosing partners. NGOs acknowledge that they often take credit for achievements and products of others, yet the sector does not have an agreement on how to act in such cases. Organizations do attempt to observe the major principles of communication and cooperation.

Bosnia And Herzegovina



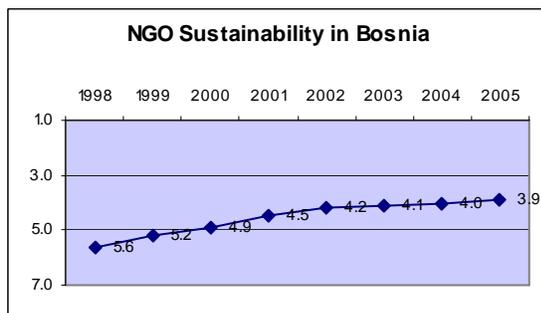
Capital: Sarajevo

Polity: Federal Democratic Republic

Population: 4,498,000

GDP per capita (PPP): \$6,800

NGO SUSTAINABILITY: 3.9



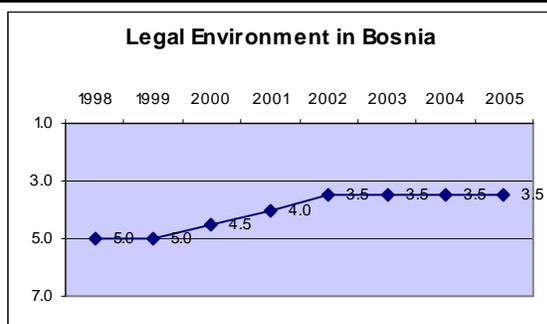
In 2005, the NGO sector in Bosnia and Herzegovina accelerated the improvement of its overall sustainability. Each of the dimensions improved over previous years, some dramatically so. The improvements are the result of the increased effectiveness of NGOs, rather than improvements to the external environment in which they operate. This is reflected in the score for the Organizational Capacity dimension, which showed the greatest improvement and affected other dimensions, including Financial Viability, which remains the most tenuous. The improvements are also the result of greater cooperation among NGOs, as

well as between NGOs and the government, which increased the sector's activity and legitimacy.

Despite these improvements, the sector still faces many challenges. The Financial Viability dimension remains the weakest, as NGOs depend heavily on the international donor community. Organizations have begun to diversify their funding sources in an effort to counteract the withdrawal of international donor funding, which would otherwise cause the NGO sector to contract. In addition, cooperation between NGOs and the business community is minimal.

Approximately 7,000 local associations, foundations, and organizations are registered in BiH. Of those, one-half are active. Only 229 organizations and associations are registered at the state level, while others are registered only at the local level.

LEGAL ENVIRONMENT: 3.5



The score for the Legal Environment dimension did not change over the past year. Bosnia has three governing bodies, the State, the Federation, and the Republic of Srpska (RS). All three have laws that affect NGOs and will be discussed separately.

State Level

The 2001 State Law on Associations and Foundations helped to create a favorable legal environment for NGOs operating throughout BiH. However, NGO registration has been inconsistent since the inception of the law, a trend that continued through 2005. The registration authority denied numerous umbrella organizations and trade unions registration on the grounds that they are not technically associations. The law and implementing regulations are vague on a number of important points, which contributes to inconsistent regulation. In addition, registration officers often abuse their authority. In the absence of written instructions and documented procedures, registration officers are able to deny applicants for reasons such as submitting their applications at an inconvenient time.

As the separate governing bodies have jurisdiction over taxation, the state does not have any tax laws, other than a new VAT Law that will come into force January 1,

2006. The impact of the new VAT on NGOs remains unknown. Organizations may generate income by providing goods and services, though the tax treatment of their income is unclear. NGOs may engage in economic activities, but

the income generated by a separate corporation created by an NGO is limited to 10,000 KM, or a third of the organization's budget, whichever is higher. NGOs may compete for government contracts.

Laws adopted in 2003 restrict donations by public sector companies to gifts that support athletics, culture, social welfare, and humanitarian purposes. Such donations are subject to numerous procedural restrictions to safeguard public funds. Another barrier for many organizations, especially those in the rural areas, is the dearth of lawyers who are both trained in NGO issues and affordable.

Federation of Bosnia and Herzegovina

Registration at the Federal level continues to be inconsistent. Officials often exercise too much discretion in making decisions concerning requests for registration, and organizations are regularly denied registration when their goals are thought to be insufficiently "serious." Similarly, supervision remains inconsistent, and inspections, especially of humanitarian organizations, are often conducted without timely notice.

The tax laws governing NGOs remain unchanged. Corporate donations for amateur sports, or to support humanitarian, cultural, educational, scientific causes, are deductible, but only up to 0.5% of a business' gross income. Donations to NGOs that pursue other public benefit activities do not appear to be deductible. 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. Membership fees and contributions to professional associations and political parties are deductible up to 0.1% of a business' gross income. Both foreign and domestic grants are in practice exempt from taxes.

The new Personal Income Tax Law allows taxpayers to deduct up to 0.5% of gross income for donations that support recognized public benefit activities. In addition, a donor may take

a deduction if its donation is approved by the competent ministry and supports specific programs deemed to be for public benefit. Though NGOs may generate income by providing goods and services, they must create a separate corporation to engage in all economic activities. All profits from such corporations are taxed at 30%. Only those services provided by religious and humanitarian organizations in realization of their statutory goals are tax exempt. NGOs may compete for government contracts.

Republic of Srpska

In 2005, the RS National Assembly enacted amendments to the Law on Associations and Foundations, creating the criteria and procedures for attaining public benefit status. It is yet unknown whether public benefit status will provide any tangible benefit for organizations, given that the tax law supercedes any tax benefits offered by these amendments. A new draft law on donations to public enterprises and institutions, if passed, will further regulate donations to associations with public benefit status, but not foundations. The draft law seems to make public benefit an imposition by the government rather than a mechanism by which to attain favorable conditions.

Corporations may deduct up to 1% of gross income for donations that support humanitarian, cultural, educational, sports activities. They may also deduct up to 1% of gross income for membership fees and contributions to professional associations. Donations made to support other activities are not tax deductible, even if made to a public benefit organization. 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.

NGOs may engage directly in economic activities related to their statutory purposes, including the provision of goods and services. All "legal entities," including NGOs, are subject to a 10% tax on profits. Only those legal entities engaged in "labor and professional rehabilitation, and employment of disabled persons" are exempt. In addition, services provided by religious and humanitarian organizations in realization of their statutory goals are tax exempt. Both foreign and domestic grants are in practice exempt from taxes. The tax authorities apply the tax law inconsistently. NGOs may compete for government contracts.

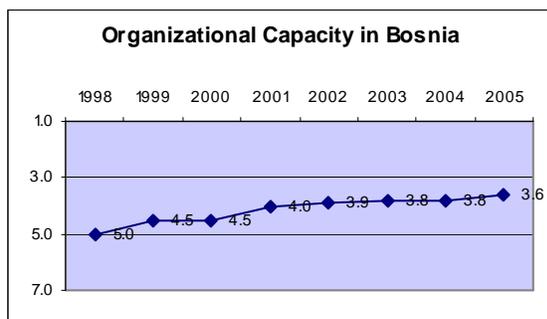
ORGANIZATIONAL CAPACITY: 3.6

In both rural and urban areas, the NGO sector has improved its organizational capacity dramatically over the past year. At least one-third of all organizations are reported to be "professional organizations" with fully equipped offices, internet access, organizational charts, proper allocation of responsibilities, diversified funding, and transparency. In general, organizations have a greater capacity for building constituencies and engaging the communities that they serve. All of the well-developed and many of the smaller organizations have boards of directors whose role and responsibilities are distinct from those of the staff. The April 2005 "Qualitative Study: Employment, Social Service Provision, and the Non-governmental Organization Sector"

published by DFID reports that on average, NGOs employ ten full-time staff and seven part-time staff. The study also reports that 42% of all organizations surveyed have a full-time staff, which represents 2.3% of the active work force. On average, each organization has 44 volunteers, representing 5.36% of the active workforce.

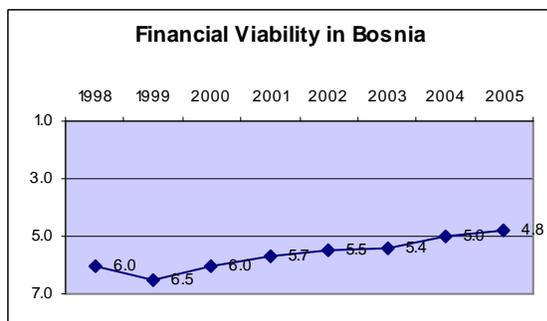
Project strategies increasingly include public participation and building community awareness, as well as special efforts to include local youth. With a new emphasis on the needs of their constituents, organizations are remaining true to their strategic goals rather than adapting them to qualify for new proposals. NGO staff members have greater skills in

drafting effective project proposals, addressing donors, and communicating with local government officials. These efforts are all important steps towards improving the sustainability of both individual organizations as well as the entire sector.



FINANCIAL VIABILITY: 4.8

While it remains the weakest dimension, NGOs made significant progress in overall financial viability over the past year. One improvement is that organizations have stronger relations with municipal governments. Another, related to improvements in the Organizational Capacity dimension, is the more advanced financial management skills and knowledge among NGOs. Overall, organizations have adopted adequate accounting systems, internal monitoring mechanisms, different bank accounts for different donors, and the means to monitor their labor expenses. The NGO Expert Committee found that the more well-developed organizations conduct regular audits and publish their annual reports.



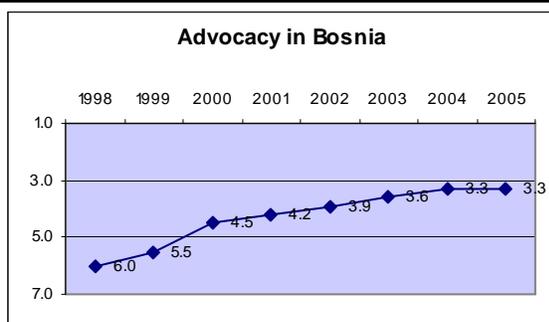
Domestic NGOs have made private philanthropy, which had been promoted by international organizations in the past, a top priority and have had some success in increasing

Financial barriers continue to impede the organizational capacity of most NGOs, in part limiting their ability to pay for professional services such as auditors and lawyers. In addition, many organizations are underdeveloped in other areas such as strategic planning, public relations, and effective and transparent management. The sector is in need of training and continued capacity building from both the international and domestic NGO community.

donations. Corporate philanthropy, however, remains stymied by unfavorable tax laws and a stagnant economy. While corporations have supported specific projects for sick children and orphans, they have yet to contribute to advocacy, watchdog or other democracy-building initiatives. Individual and corporate giving is slowly increasing, especially for humanitarian, cultural and sports activities. Numerous companies are beginning to develop corporate social responsibility strategies as a marketing tool. NGOs are unaware of the general principles of corporate responsibility and therefore, do not apply the pressure necessary to increase corporate philanthropy.

Organizations have improved their fundraising and diversified their funding sources. These improvements are enabling organizations to survive the drop in international funding, which would have otherwise posed significant setbacks. The tax laws remain a barrier to financial viability, as does the lack of transparency at the higher levels of government, including the Cantonal, Entity and State levels. Cooperation between NGOs and municipal governments has improved, though municipal funding remains inadequate considering the role that NGOs often play in meeting the basic needs of Bosnian citizens.

ADVOCACY: 3.3

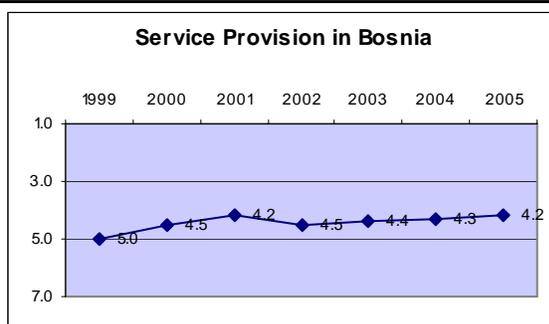


NGO advocacy efforts improved both in visibility and the number of stakeholders involved. Organizations have played a role in writing and reforming new laws in the areas of disabilities, cantonal social care, and gender and domestic violence. Local NGOs have begun approaching larger national organizations for assistance in advocating for issues that originated at the local level. This outreach by local NGOs is a reflection of increased

mobilization of local citizens. NGO coalitions have also improved, growing in both strength and size. The Coalition to Work and Succeed Together is noteworthy for its efforts to develop a cooperative agreement between the Council of Ministers and the non-profit sector.

Despite these improvements, NGOs continue to miss opportunities to work together. Throughout Bosnia, many grassroots organizations are working on similar issues, but few collaborate. Advocacy efforts, including those of the Coalition to Work and Succeed Together and the Working Group for the Law on Volunteers, have resulted in few concrete results or legislative changes. Expertise in advocacy is concentrated within a few leading national organizations. Smaller NGOs are generally not staffed with professionals who have the expertise necessary to conduct effective advocacy efforts.

SERVICE PROVISION: 4.2



The Service Provision dimension continued to improve over the past year. With greater frequency, local governments invite NGOs to assist them with drafting policy papers for municipal planning and development, putting

together project proposals for international funding, and reaching out to citizens. The Poverty Reduction Strategy Report led to the government's recognition of NGOs as partners in addressing social welfare needs.

The government does not take advantage of NGO experience in areas such as health and reconstruction, instead taking that work onto itself. Efforts in these areas are resource intensive and the government is not willing to provide the funding necessary for NGOs to become involved. State and Ministry officials rely more on international organizations for implementation of their projects than local organizations.

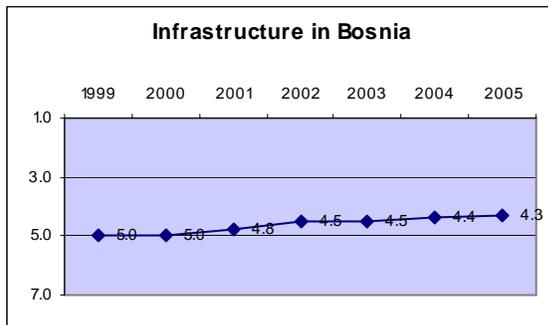
INFRASTRUCTURE: 4.3

The NGO community also made progress in the Infrastructure dimension. Intermediate support organizations and the more developed NGOs included smaller organizations in their joint initiatives. The new Center for Civil Society Promotion opened and became fully operational in December 2005. The Center maintains the first electronic database of local

NGOs in BiH, provides legal and financial management services, facilitates information sharing, and offers a library of materials for NGOs. Prominent local NGOs have developed culturally appropriate training programs in the local language, focusing on activities such as writing proposals, managing projects, monitoring and evaluation, and the mobilization

of local resources. These larger national organizations are also reaching out to regional networks. NGO coalitions have become more inclusive, and have improved their effectiveness. Although these coalitions help facilitate information sharing within the sector, the lack of NGO resource centers prevents the regular and effective exchange of information.

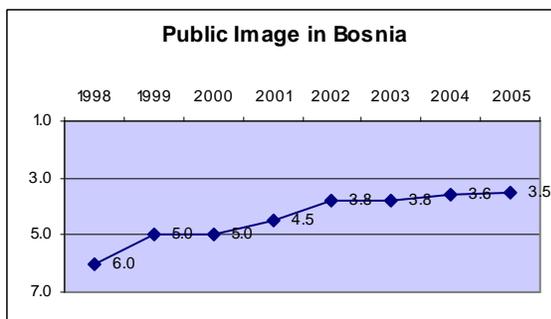
Partnerships with the other sectors continue to be weak, despite some slight improvements. NGOs have particularly weak relations with the media and business community. Local grant-making organizations operate throughout Bosnia, and while they have diversified their funding sources, they primarily re-distribute grants from international donors.



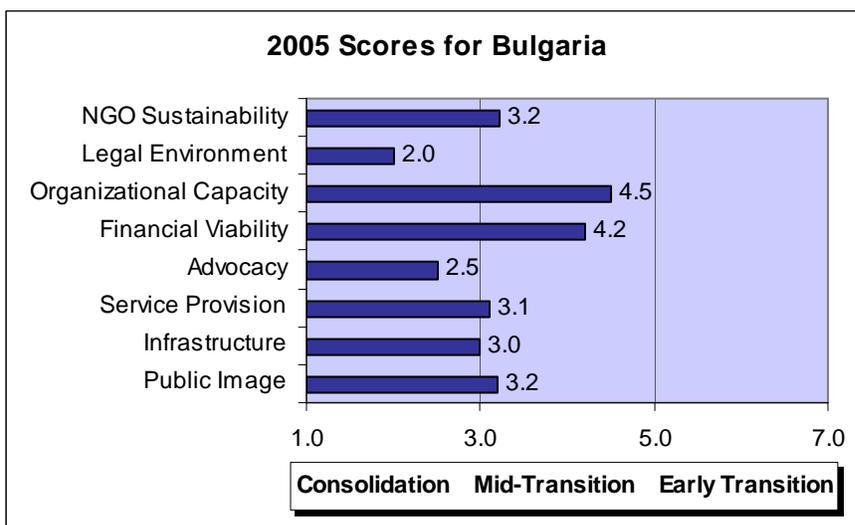
PUBLIC IMAGE: 3.5

Over the past year, NGOs have increased their overall visibility, but especially that of their work. The media has been more willing to cover NGO activities and some organizations have taken advantage of the coverage to inform the public of their day to day activities. With greater frequency, media is seeking out NGO leaders to comment on NGO activities as well as on larger social issues.

Over the past year, NGOs have increased their overall visibility, especially with regards to their activities. Lacking public relations skills and the ability to express their ideas clearly, many organizations have failed to convert the increase of publicity into an improved public image. NGOs have also failed to improve their standing with the business community. While corporations have begun cooperating with NGOs on humanitarian, cultural and sports initiatives, they are motivated by marketing and public relations and less by desire to serve local communities.



Bulgaria



Capital: Sofia

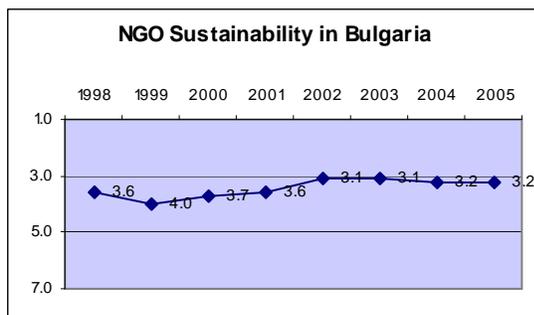
Polity: Parliamentary democracy

Population: 7,385,000

GDP per capita (PPP): \$9,000

NGO SUSTAINABILITY: 3.2

Midway through 2005, more than 20,000 nonprofit organizations, including community centers and sports clubs, were registered in Bulgaria. Of the 20,000, only 3,500 are registered as public benefit organizations, and similar to last year, 2,000 are considered active.



Over the past year, the nonprofit sector enjoyed greater freedom to realize its capacity, and provided a wider variety of services to the public, as well as the government and business sectors. Both the central and local governments increasingly prefer to partner with NGOs in

strategic planning and the development and implementation of national and regional policies. Despite these positive developments, the sector is experiencing a difficult period. The reduced level of support from foreign donors is only partially offset by the increase of local philanthropy. As the NGO sector restructures itself, advocacy organizations are facing significant organizational and financial challenges. Service organizations, on the other hand, are improving their capacity and financial viability.

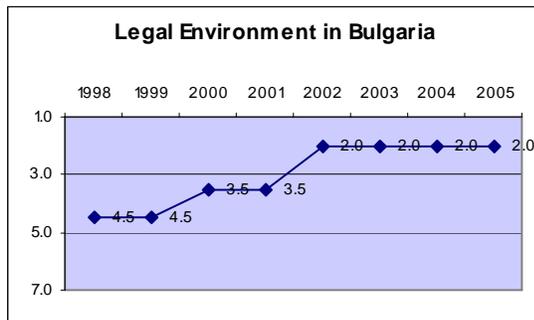
The Organizational Capacity and Financial Viability dimensions have prevented the sector from entering the “Consolidation” phase of NGO sustainability. In fact, these two dimensions are mutually dependent, and when weak, result in the defection of the sector’s most qualified professionals. If the sector continues to lose its most experienced personnel, it will no longer be able to provide the government with the professional expertise that the government and business sectors seek in their partnerships with NGOs.

LEGAL ENVIRONMENT: 2.0

The legal environment governing NGOs did not change over the past year. The registration process remains easy and quick, and the

associated fees are acceptable. Training programs for the court staff that oversee the registration process have increased efficiency in

processing applications. NGOs do not consider other laws, which address issues such as management, scope of permissible activities, and accountability, to be an impediment to their development. The rules and regulations are thought to be supportive and prohibit undue government interference.



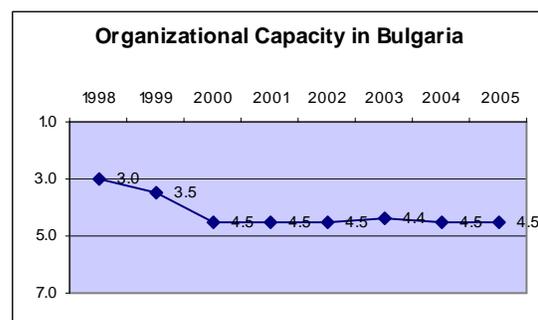
Over the past year, however, a growing number of NGO representatives have become more cognizant that the law precludes NGOs from providing health services while allowing for-profit corporations to do so freely. The government introduced new licensing and monitoring provisions that regulate organizations providing social and educational services. NGO representatives welcome these new regulations.

ORGANIZATIONAL CAPACITY: 4.5

Organizational Capacity remains the weakest dimension. While the government and business sectors continue to develop their organizational capacity, NGOs do not. The majority of NGOs lacks both a clear mission and strategic plan. A growing number of organizations participate in training at the national, regional, or local levels to improve their capacity for strategic planning. Few, however, have been able to use this experience to formulate broader strategic plans for their organizations. The majority of NGOs also lacks a clearly defined administrative structure delineating specific job descriptions and responsibilities. Apart from the approximately one-hundred leading organizations that work with foreign donors, typical NGOs are not able to adhere to accepted standards of transparency and accountability. Any efforts to do so are generally initiated in response to donor

Though the legal framework fails to guarantee that organizations will not be subject to administrative or political pressure, no problems were reported in 2005. Organizations are free to criticize or even sue government authorities without fear of repercussion. Tax benefits and exemptions remain unchanged, and difficulties with the VAT exemption continue to be the primary tax problem facing the sector. The UNDP and World Bank successfully negotiated some important concessions, but implementation of the VAT remains plagued by technical impediments. The sector took advantage of beneficial amendments adopted last year allowing organizations to participate in government contracting and procurement opportunities. Though legal services have improved in quality and are more readily available, they are often prohibitively expensive and inconvenient for organizations in small towns and villages. The Bulgarian Center for Not-for-Profit Law (BCNL), with its network of advisory centers, is one of the few organizations that provide accessible legal services to the NGO sector.

requirements and do not survive far beyond the life of the donor's funding.



As foreign funding recedes, organizations have stopped investing in organizational capacity. New local donors, such as the central and local governments, have yet to show an interest in funding organizational capacity building. The number of persons engaged in NGO activities

has increased, primarily due to the rapid growth of the social-service organizations. Though the number of salaried employees continues to rise, they are primarily short-term staff and the number of permanent employees is actually decreasing. NGOs, particularly the largest ones, are increasingly becoming incubators for professionals who defect to the government or business sectors. Organizations are no longer

able to attract top professionals as they once did. One reason for optimism is the growing number of youth who are becoming involved in NGO activities as volunteers.

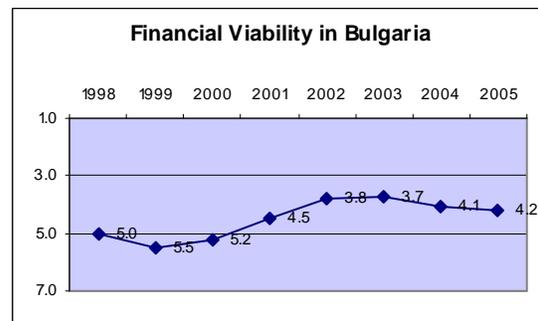
Access to technological resources is no better this year than last, with the exception of internet access. Technology is another area in which NGOs are not able to keep up with the government and business sectors.

FINANCIAL VIABILITY: 4.2

The environment in which NGOs exist is shaped by two factors, the waning of foreign funding and the sharp increase in funding from local sources. Though the availability of resources has increased, NGOs generally are not close to achieving financial viability. NGO service providers have benefited the most from the new government programs, especially those initiated by the Ministries of Labor and Social Policy and the Environment, and the Home Office. Advocacy organizations are increasingly unstable due to their continued dependency on foreign donors, who are withdrawing support. The Civil Society PHARE program offered some stabilizing relief for those NGOs that qualified for grants, though it has had little impact on the sector's overall financial viability.

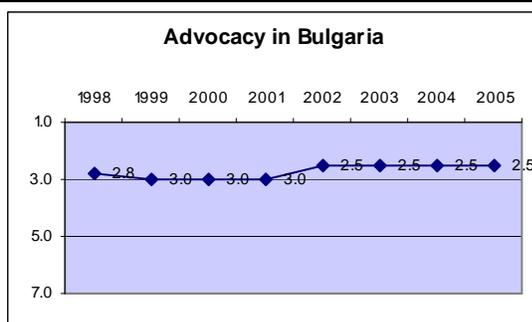
The majority of organizations are actively searching for alternative sources of funding. Those that have developed the capacity to engage in economic activity and provide services for a fee are most likely to achieve the greatest level of financial viability. Businesses continue to offer minimal financial support for

NGOs. An increasing number of public benefit organizations, however, have initiated income-generating activities supporting their not-for-profit cause. There were some successful fund-raising campaigns in 2005, especially following the summer floods. These efforts, however, were led by the private and public media and not the NGO sector.



Only the leading national NGOs have a stable, properly functioning accounting system. Most organizations are unable to afford independent financial audits or publish their annual reports. To do so would strain the financial stability of most organizations.

ADVOCACY: 2.5



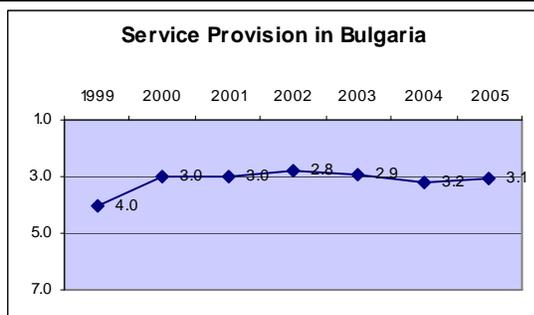
Over the past year, NGOs have increasingly collaborated with officials from both the central and local governments to develop and implement policy. The dialogue between the government and NGO sectors has become more frequent and direct. Government officials have a growing appreciation for the expertise that NGOs have to offer and are solidifying partnerships and cooperation with more contracts. Despite these improvements, NGOs have failed to organize any coalitions around

particular events or issues. To the degree that civil society committed to an issue such as the summer floods or protests, the media and informal civil associations were the forces behind the movements.

NGOs have not forfeited their roles as critic of government policy. Instead of achieving their goals by applying public pressure, organizations are engaging in direct dialogue with government officials. While this is a positive development,

NGOs must be careful not to lose the ability to communicate with their constituencies. Many organizations seem to have already lost their abilities to defend the public interest as evidenced during the 2005 parliamentary elections. Many NGO experts believe that had civil society organizations been more active, they may have prevented the nationalist Attack political party from gaining the popularity and strength that it did.

SERVICE PROVISION: 3.1



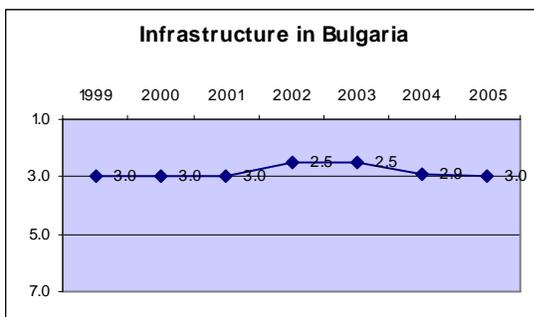
In 2005, NGOs increased their capacities to provide goods and services, in part due to procurement opportunities offered by the central and local governments. NGOs are most successful when providing social, educational, public relations, and IT services; the sector is recognized as a market leader in these areas and is becoming more competitive in others.

Financial instability forces organizations to market their products and services, and react to the needs of their customers. Organizations are working to broaden their portfolios. Competition with for-profit corporations has forced NGOs to lower prices for their services, which has, in turn, brought accusations of unfair competition.

Both the central and local governments appreciate the benefits of the public services that NGOs offer. They also recognize the risks associated with NGOs offering educational and social services. Officials continue to restrict NGO involvement in providing health services, though for-profit corporations have provided these services for many years.

INFRASTRUCTURE: 3.0

The Infrastructure dimension continued to be affected by both negative and positive developments. Intermediary Support Organizations (ISO), NGO Resource Centers, and local grant making organizations continued to depend on the support of foreign donors, who are withdrawing support.



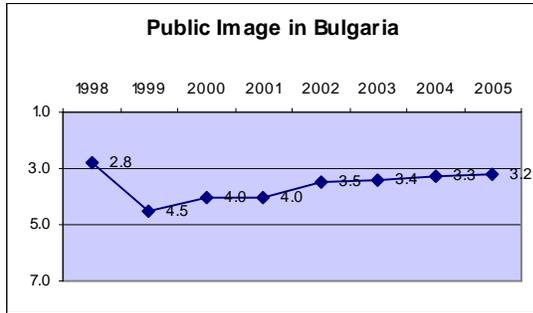
The demand for partnerships among NGOs is growing, though NGO partnerships often take the form of bidding consortiums rather than coalitions networking around specific issues. The tendency towards consortiums is a result of the business models promoted by the public procurement process in which service organizations now participate. Advocacy organizations are the only organizations in the NGO sector that build coalitions or networks.

NGO infrastructure has improved, with greater access to training available in areas such as strategic planning and financial management, in which the internet and universities play an important role. The greatest improvements came in the area of inter-sectoral partnerships

between NGOs, government and media; not a single local or regional strategic plan, required

by the European Union, is developed without the active participation of the NGO sector.

PUBLIC IMAGE: 3.2

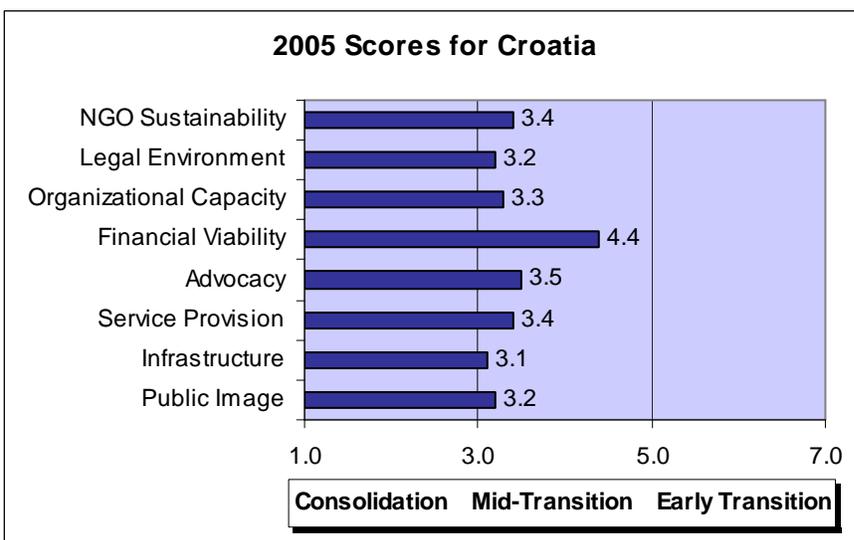


The Public Image dimension slightly improved over the past year. The NGO sector avoided involvement in scandals, which have marred its public image in the past. Partially a result of sustained cooperation with the media, organizations continued to use public relations skills to promote their activities. Government

officials and corporations that do not compete with service providers have a positive view on the NGO sector. Specific segments of the population, however, have an increasingly negative view of NGOs, specifically those involved with Decade of the Roma Declaration and other human rights organizations. This can be explained in part by the increase in xenophobia and nationalism that gave rise to the Attack party in the June Parliamentary elections. The future impact of the movement could harm the greater NGO sector.

NGOs have not adopted a code of ethics, nor have they demonstrated a willingness or preparedness to do so. Leading national NGOs fronted the most serious campaign in years to address corruption within the NGO sector.

Croatia



Capital: Zagreb

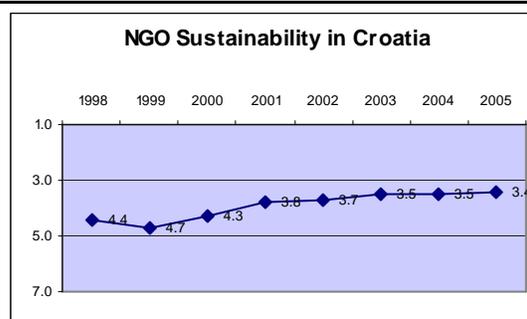
Polity: Parliamentary democracy

Population: 4,494,000

GDP per capita (PPP): \$11,600

NGO SUSTAINABILITY: 3.4

The NGO sector's overall sustainability has not improved significantly over the past year. Even though NGOs representatives participated in the drafting of several new laws, the legal environment remains unchanged. Similarly, ongoing efforts to build a cooperative relationship between NGOs and the national government have yet to succeed. The Government Office for Cooperation with the NGO Sector has yet to play a significant role in promoting NGO-government cooperation; similarly, the Council for Civil Society Development, an advisory board to the government, has been ineffective and led to the resignation of five NGO representatives. Most government officials are unwilling to engage more directly with civil society organizations at the national level. Though cooperation with the ministries and government offices has not improved, a small number of government officials do support and cooperate with NGOs. While the national government is generally unwilling to partner with NGOs, the local government is more willing, as evidenced by the increased use of charters and social compacts that facilitate NGO-government cooperation.



Numerous organizations have strong lobbying and advocacy skills but have been unsuccessful in influencing policy. In one advocacy success, a number of NGOs united to protect the Adriatic Sea. The organizational capacity dimension improved slightly, as more NGOs have become aware that strong organizational capacity is necessary for their long-term sustainability; a few have begun to use self-assessment tools to improve their capacity. Financial viability continues to hamper civil society organizations. Foreign funding for NGO activities continues to decrease and domestic donors such as the national and local governments and businesses have little interest in supporting advocacy or watch-dog groups. The National Foundation for Civil Society Development has begun to provide significant support to NGOs from lottery

proceeds. The NGO sector has made some improvements in networking and infrastructure, as more NGOs and intermediary support organizations (ISOs) are providing support to smaller, grassroots organizations. The media provides greater coverage of NGO activities, though only a small number of organizations attract regular coverage. Similarly, media

coverage of the NGO sector is often negative and sensational, especially at the national level.

The number of organizations registered in Croatia has not changed much over the past year. Of the approximately 28,000 organizations registered in Croatia, one-fourth is considered active, and there are only 86 registered foundations.

LEGAL ENVIRONMENT: 3.2

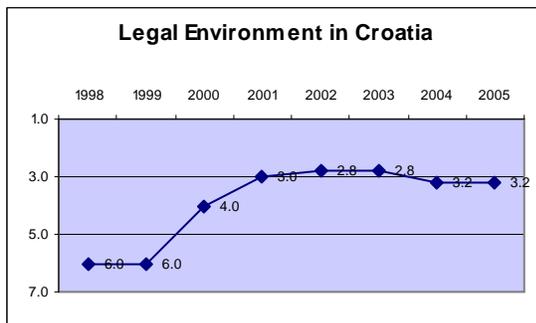
The NGO legal framework remains unchanged. Drafts for a new Law on Funds and Foundations and a Law on Volunteerism, as well as a Code of Good Practices in Grant Making, were all submitted to the government in 2004, but none have been adopted. The government has been unable to advance these drafts.

must work around a provision that requires a foundation to secure the funding necessary to ensure perpetual existence before it is entered into the registry.

The legal framework fails to distinguish adequately between an organization's economic activities and its volunteers. For example, the government may fine an NGO \$1,600 to \$6,600 for not registering a volunteer. Larger, well-developed organizations have greater access to legal experts and therefore are able to ensure that they are in compliance with the law. NGOs are able to operate freely and criticize the government openly, and government officials rarely abuse their regulatory authority in response. Few lawyers have training in NGO law; their services, including those offered by the Croatian Law Center, are available almost exclusively in the larger urban areas. A system for providing legal assistance to the greater NGO sector does not yet exist, and organizations in need of technical assistance have difficulty accessing services. Resources, such as manuals on legal and fiscal issues and other publications, are now available on a number of websites maintained by local NGOs.

The Law on Associations provides a clear, decentralized process for registering new associations. Though registration ought to be easy, government bureaucracy very rarely may complicate the process. The Central State Office for Public Administration, however, now provides information and guidance online to assist organizations with the registration process, and they have also made it easier to navigate and access the electronic database of all registered associations. While registering an association is relatively easy, the process for registering a foundation continues to be complex and time-consuming. The legal framework governing the registration of foundations is restrictive, and government officials in charge of registration have to be creative in their application of the law to circumvent some of the more stringent requirements. For example, government officials

Despite reform efforts, the legal framework continues to narrowly define public benefit status so that many organizations that should qualify for tax exemptions do not. The tax laws provide deductions for donations to religious organizations, the Red Cross, trade unions, chambers, political parties, and others engaged in charitable, humanitarian, scientific, cultural or similar activities. Such organizations are exempt from paying VAT. If an organization applies to be included in the VAT system or if its taxable



income exceeds 85,000 Kuna or approximately \$14,166, it is subject to VAT rate of 22% of the total value of goods. Though NGOs often criticize the tax laws, they are exempt from paying income tax if the income generated from their economic activities is used to further their not-for-profit activities. Corporations and individuals are both able to deduct up to 2% of their taxable income for donations that support cultural, scientific, educational, sport, health,

ORGANIZATIONAL CAPACITY: 3.3

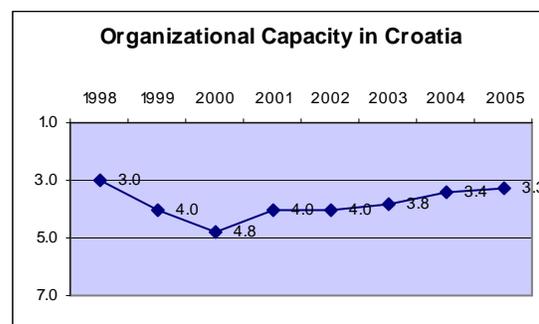
Organizations, especially those involved with environmental protection, are more active in identifying and increasing their constituencies. NGOs have increased their use of strategic planning, which is often required by foreign donors and the National Foundation for Civil Society Development. Well-developed NGOs are more likely to develop and implement a strategic plan than smaller, grassroots organizations.

Organizations generally have clear internal management structures that define the roles and responsibilities of their employees. NGOs, however, are often managed by two or three of their most active members. In many cases, an NGO's assembly has the greatest power, and while some organizations have a managing board, it is rarely engaged in the NGO's governance. Croatian NGOs generally need to improve their governance practices. The interest and need for continued growth in organizational capacity is evidenced by the development of the Croatian Quality Assurance System and the sector's interest in applying appropriate standards. Similarly, the sector's recent formation of a good-governance working group demonstrates its awareness of the need to improve governance practices and to create an appropriate governance model to identify best practices that NGOs ought to follow.

The NGO sector can be divided into those organizations that have a professional staff and those that have a volunteer staff. The majority of organizations have between one and three full-time employees. Most organizations are unable to hire a larger staff because they operate primarily on short-term project

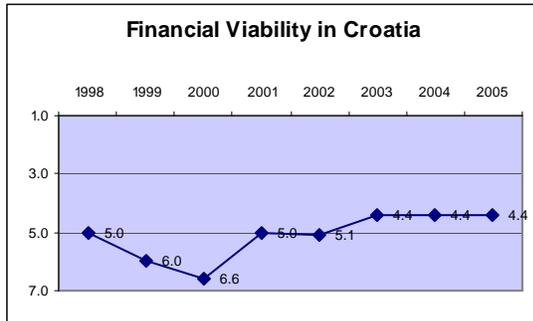
humanitarian religious or other activities. In order to improve the legal environment governing NGOs, reforms are needed in the areas of tax benefits, volunteerism, and government procurement. NGOs are entitled to compete for government contracts. Fewer public-sector organizations are engaging in social contracting with NGOs, especially for provision of social services.

funding. Volunteerism has grown with the increase of civil military service, which was introduced several years ago. Associations for the disabled are especially successful in attracting volunteers who fulfill their service requirements. The public is knowledgeable of volunteerism and citizens are willing to devote their time, though few do so in an organized and continuous manner. A few organizations actively promote volunteerism and several, along with the National Foundation for Civil Society Development, organized the second National Conference on Volunteerism. This conference is becoming an annual event in Croatia and attracts a large number of NGOs. The sector is developing a more systematic approach to effectively recruiting and utilizing volunteer support, which will require additional investment and training.



The NGO sector as a whole benefits from a high level of knowledge in information technology. Most organizations have fax machines, computers, email and internet access which they use regularly; many even have websites, underscoring the importance of IT in networking and communication.

FINANCIAL VIABILITY: 4.4



Financial viability continues to be the weakest dimension for the NGO sector. Domestic funding, including that from local and national governments, has not made up for the recent decrease in foreign funding. Domestic grants are insufficient to replace the long-term funding that foreign donors once offered. The National Foundation for Civil Society Development, however, has become the key donor and provides the largest domestic support to Croatian NGOs, using funding from lottery proceeds. Funding is increasingly scarce for watch-dog, human rights, and other advocacy groups involved in developing civil society and promoting democracy. Such funding restraints

ADVOCACY: 3.5

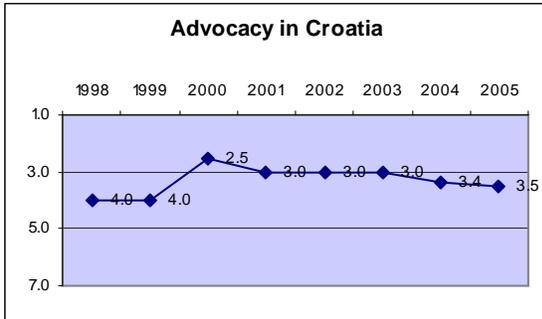
While NGOs generally have strong lobbying and advocacy skills, they have been less successful effecting changes in government policies. Similarly, NGO representatives have struggled to establish cooperative relationships with government officials, and some ministries have excluded them from working groups. NGOs are especially active in promoting issues such as greater access to information, election monitoring, corruption, and environmental protection; the most successful advocacy efforts of NGOs, however, were in the area of environmental protection, election monitoring, and domestic violence.

GONG, a citizens' participation organization, has successfully advocated for the creation of a permanent state electoral commission. Though it has established working relations with

make it difficult for organizations to budget and plan and improve their overall sustainability. Many NGOs are making efforts to diversify their funding sources, but with little success. Though raising financial support has become more difficult and time-consuming, many organizations report greater success in securing in-kind donations.

In general, organizations publish their financial reports and undergo regular audits, as required by their donors. Larger NGOs have full-time accountants or hire outside accounting firms; smaller NGOs are generally unable to pay for such services. Many organizations are still unable to attract a loyal base of financial support or to increase their membership fees. Initiatives to establish community foundations are still in their early stages, and it is unclear whether they will be operational in the near future. Though local philanthropy remains undeveloped, recent fundraising efforts indicate that citizens are willing to donate to a good cause. The sector's future financial viability depends on its ability to explore new, non-traditional ways of fundraising.

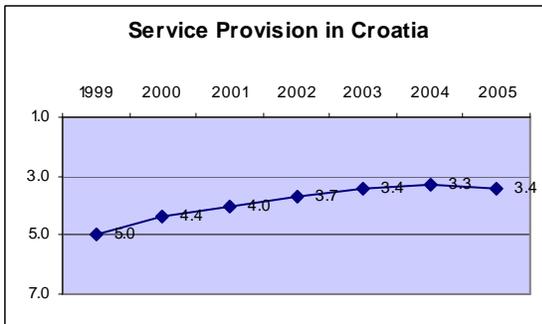
numerous individuals within the government, many NGOs have been unable to develop official relations with government institutions. A system to facilitate continuous cooperation between NGOs and the government on policy issues does not yet exist. In one positive development, local governments and local NGOs have enacted charters of cooperation in Rijeka, Osijek, Vukovar, Slatina, Osijek-Baranja and Vukovar-Sirmium County. Cooperation has also improved in areas such as rule of law and domestic violence.



The most successful advocacy campaign, the NGO Campaign for the Protection of the Adriatic Sea, successfully stopped the government from moving forward with the Druzba Adria Project. Another advocacy success was the Civil Society Forum's efforts to encourage the government to improve the process for the development of a civil society strategy. Organizations, however, have been less active in advocating for changes regarding NGO legislation.

SERVICE PROVISION: 3.4

NGOs have proven their ability to provide citizens with a wide variety of services in the area of human and gender rights, social services, health, education, environmental protection, economic development, relief and governance. These services often reflect the needs and priorities of the communities where NGOs operate and of Croatia as a whole. For example, in communities affected by the war, NGOs continue to provide relief for refugees, legal assistance, education, and economic development services.

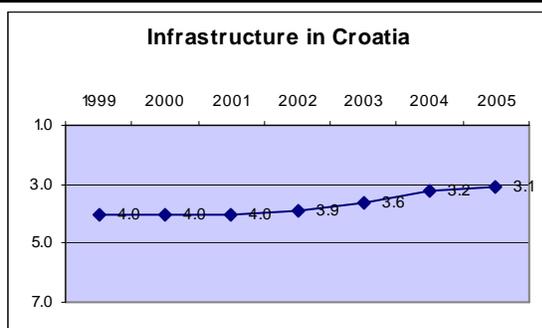


corruption, health services, human rights, and others. Such publications are not only interesting to other organizations and the government, but to the public as well. NGOs are collaborating more with academic institutions to publish their materials. Organizations are rarely able to generate income from their publications, though this ought to change in the future. The exceptions are training associations, which are generally able to generate an income from their training manuals. New donor initiatives are encouraging organizations to generate income through such activities.

NGOs are increasingly interested in publishing books on topics such as project management, volunteerism, community building, conflict resolution, environmental protection,

The national government has yet to fully recognize the potential contribution that NGOs can make to the provision of basic social services. Though the government has contracted out services to NGOs in the past, in recent years, it has not supported new initiatives. Local governments in cities such as Split, Rijeka, and Osijek and in Istrian County have a greater level of trust in the NGO sector and are more willing to develop partnerships.

INFRASTRUCTURE: 3.1



The NGO sector has made less progress in developing infrastructure and the ability to provide support services to grassroots organizations. The number of ISOs that provide training, information, and technical assistance, and that often serve as NGO support centers, has increased. More well-developed organizations, however, are offering assistance to other NGOs operating in their fields and others. Some local governments have supported NGOs by donating large office space that is shared by numerous organizations. While most NGOs that offer training programs are capable of providing basic management trainings, they are less qualified to provide the specialized and advanced programs appropriate for more developed NGOs. The NGO sector is publishing more materials in the Croatian language, covering topics such as community building, volunteerism, proposal writing, strategic planning, guides to accessing EU funding, and others. Numerous organizations also publish bulletins to a wide readership. Training associations have enjoyed the greatest success in charging fees for their services and publications, though many also provide services free of charge. The Trainers Forum, which is the first association of Croatian NGO trainers,

PUBLIC IMAGE: 3.2

Over the past year, Croatian civil society organizations have received more media coverage than ever before. The coverage most often involves NGO leaders appearing on TV or radio programs to provide their expertise. These appearances have had a positive impact on the public's perception of NGOs. In fact, a

has already become active in improving the professionalism and quality of trainers.

The number of NGO networks and coalitions, which are important contributors to the NGO infrastructure, has continued to expand. Organizations involved in areas such as legal assistance, gender equality, environmental protection, youth development, and the handicapped have built active networks. Over the past year, networking at the regional level has improved with the creation of regional NGO forums. These include the Regional Forum of NGOs from Slavonia and the Civil Society Forum from Zagreb which advocates for groups active in promoting human rights, democratization, political participation, and civil society. Another important coalition, iZmiR, was created to overcome the polarization among veterans and human rights and peace activists, and to promote democracy and civil society throughout Croatia.

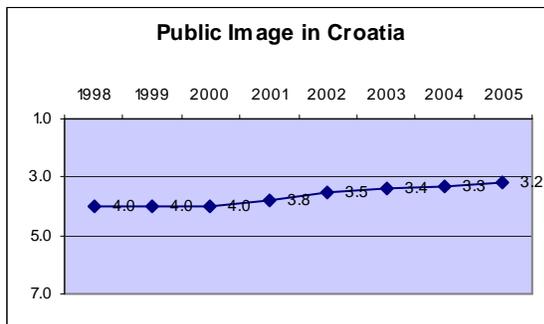
Local grant-makers are generally limited to re-distributing foreign funding. The National Foundation for Civil Society Development, a major grant-maker, has initiated a decentralization process exploring possibilities for partnering with associations located throughout the regions. Numerous community foundation initiatives are still in the early stages of development. NGOs with grant-making experience are providing technical support to local governments in communities such as Osijek, Split, Rijeka, Sibenik, and Istria. Partnerships between NGOs and local governments have improved with the use of charters on NGO-government cooperation, which set a more concrete framework for NGO/local government cooperation.

recent poll found that four-fifths of all Croatian citizens have a positive view of the NGO sector. The public was already largely familiar with terms such as

“NGO” and “association,” and media coverage has now increased the understanding of “civil

society.” The same poll also found that over half of the population demonstrates an understanding of these terms. The more well-known organizations are active in veteran’s affairs, environmental protection, the political process, poverty, consumer rights, and gender equality. NGOs, however, have been less successful in problem solving or improving quality of life. The public perceives NGOs as most effective in increasing awareness of citizen rights, development of civil society, and democratization.

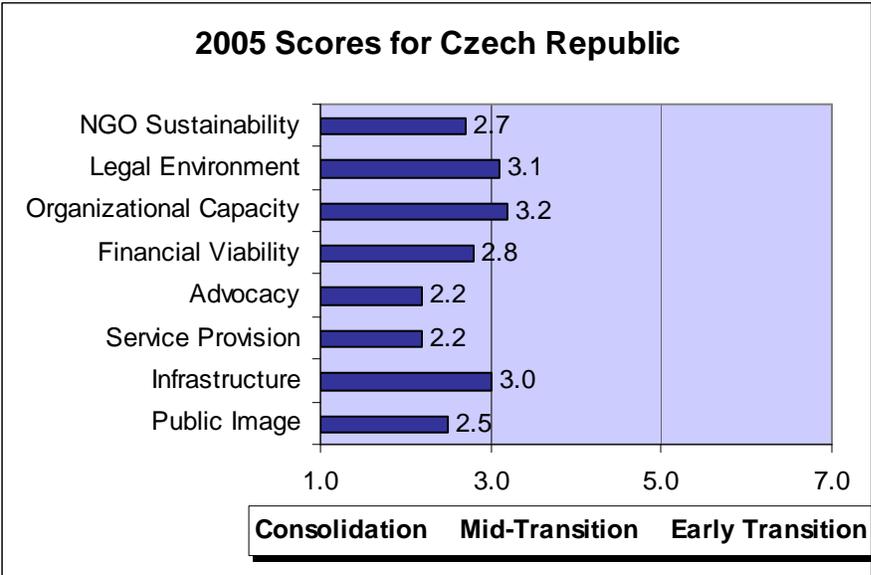
Despite these developments, NGOs continue to report that media coverage is often sensational and places greater emphasis on scandals than achievements. Numerous well-known representatives from the largest organizations continue to represent civil society as a whole, while those NGO leaders outside the capital receive less coverage. Overall, NGOs need to improve their media relations in order to be more successful in presenting their stories.



Over the past year, NGOs have improved their relations with local governments and received greater support from Croatian businesses. The Croatian Guide Dog and Mobility Association is partnering with the Zagrebacka Bank and Peugeot, while the Lastavica organization in Split and the Association MI have partnered with the Brodomerkur Company. Nine companies provide grants for NGOs working in social services, environmental protection, culture, and sports. Similarly, more local governments have signed charter agreements with NGOs to increase cooperation at the local level. These developments demonstrate good prospects for future development of corporate philanthropy and stronger relationships with local governments.

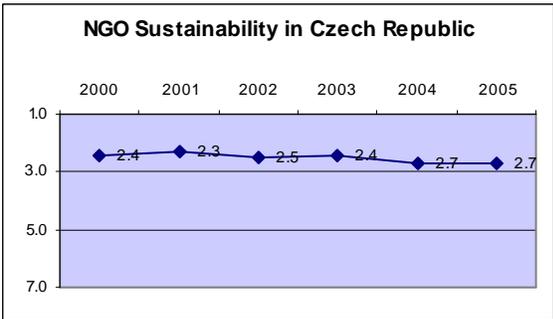
Larger organizations continue to increase their openness and transparency by creating websites, publishing annual reports, and holding public relations events. The NGO good-governance working group exemplifies the interest of civil society organizations in improving their management systems. ZamirZine, H-Alter, the UKE association’s internet radio program, independent media for the environment, and other alternative electronic information sources have increased the opportunities for information sharing and promote an overall better public image of civil society.

Czech Republic



Capital: Prague
Polity: Parliamentary democracy
Population: 10,235,000
GDP per capita (PPP): \$18,100

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

organizations, foreign organizations, and associations of legal entities, as well as those organizations created by public administration entities. Approximately 95,000 organizations exist in Czech Republic; the majority is civic associations, of which there are almost 56,000. The exact number of organizations is unknown, as many organizations cease operations without removing their names from the registry. NGOs engage in a variety of activities including culture, preservation of monuments and arts, research and education, health care, social services, environmental protection, human rights, youth services, sports and many others.

LEGAL ENVIRONMENT: 3.1

The legal framework governing NGOs has yet to clearly define the term, non-profit organization, which leads to problems in interpreting and applying laws such as the VAT. Otherwise, the legislative framework is generally in place. 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 regulate the registration,

operation, and dissolution of the various kinds of NGOs. All organizations take advantage of the Law on Volunteerism.

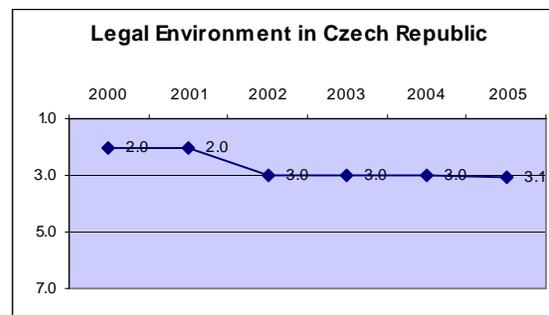
The different laws regulate the rights and duties of the different types of organizations in their various details and specifics. Legislation governing civic associations is very general, which allows associations great freedom in their activities, but makes it difficult for government

officials to regulate their activities. The registration process is fair, quick, and easy and an association can generally register with the Ministry of the Interior within 10 days. This year, the Ministry of the Interior has begun denying registration to or suspending associations that provide services for a fee to non-members. This policy has a profound impact on those associations that are unable to cover their costs with public grants, donations, or dues. Associations that provide social care and are involved in cultural fields are the most affected, which has a detrimental impact on the NGO sector as a whole. The issue stems from an incomplete regulation that regulates the dissolution of civic associations, many of which cease operations without following procedures or removing their organizations from the official register. While registration of civic associations is fairly easy and fast, registering foundations, foundation funds, and public benefit organizations can take as long as two years, though that time has shortened recently.

Government institutions do not create legal obstacles for NGOs, and as long as an organization remains within the parameters set forth in the legal framework, it is able to operate freely. NGO activities are, however, stymied by numerous other factors. One is the lack of a clear definition for “non-profit organization,” as discussed above. In addition, the costs for financial audits and other services are rising. The social services law, which affects 90% of the NGO sector, has been approved by the government, but has not been passed by Parliament and is therefore not yet in effect. Another issue is that the process of decentralizing the public administration remains unfinished, and the government’s responsibilities and the powers of the regional authorities concerning civil society are unclear.

ORGANIZATIONAL CAPACITY: 3.2

While the public continues to expect the State and its various administrative offices to meet its needs, people generally feel that NGOs represent their interests. Organizations make an effort to understand the needs of their constituents. Most, however, lack the capacity

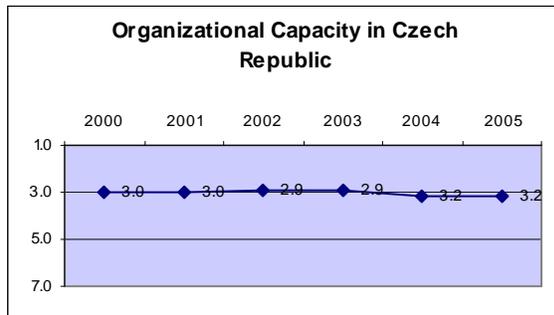


Only a few lawyers in the Czech Republic specialize in NGO law. Legal services are therefore limited and available primarily in the capital and in some cities in the regions, but rarely in the smaller towns or communities. Some colleges and universities offer courses on the legal aspects of NGO management, contributing to a better-informed public.

According to the income tax law, subsidies, grants and donations for NGOs are tax deductible. The maximum level for deductions, however, is low and does not promote philanthropy. As mentioned, the vague terms within the new VAT law complicates the overall tax scheme. Civil society organizations involved with social services, healthcare, and education are exempt from paying the VAT. Those that are subject to the VAT are forced to pay on all incomes, including grants and donations, though donations made by individuals via cell phone are exempt. Attempts to enact a provision to allow a tax payer to direct 1% of his or her tax liability to an NGO have been unsuccessful. NGOs are permitted to earn income by engaging in economic activities, though the government does not actively support such activities and in some instances indirectly limits them.

to conduct formal market research and needs assessments on target groups, and define needs based on qualified assessments. NGOs conduct strategic planning on a more regular basis, often to meet requirements set forth by the public administration and the E.U. structural fund

regulations. Similarly, NGOs are required to have a clear mission statement in order to register. While not all have a clear mission statement, there has been improvement, especially in the area of social services.



NGOs are required by law to define their management structures and delineate the responsibilities and duties of the different governing and administrative organs. Not all organizations adhere to this requirement and oftentimes, Boards of Directors delegate

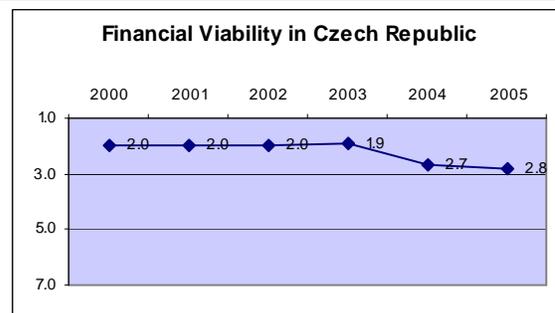
their duties to the management. One problem is that it is still not considered prestigious to be a member of a Board of Directors. Most organizations lack skilled and qualified management. The most important organizations

FINANCIAL VIABILITY: 2.8

NGOs obtain the majority of their financing from domestic sources such as public budgets, corporations, foundations, and individual donors. Support often includes products, services, and other in-kind donations. Corporate philanthropy, however, is stagnant primarily due to the lack of media attention surrounding donations. Media outlets consider such publicity to be advertising and require fees. Another reason for the lack of corporate philanthropy is the growing economic divide between those businesses that are growing and those that are not. Large corporations are beginning to adopt corporate responsibility programs. Corporations often prefer to support NGOs by providing advertising contracts, for which NGOs have to pay taxes. Financial support, while exempt from taxes, is less common.

are able to employ a permanent staff, though employees do not always have well-defined job descriptions, and this affects the gradual introduction of strategic planning. Generally, staff is hired only for the duration of a project. The public administration and the E.U. structural fund regulations have begun to create pressure for greater human resource development within the NGO sector. NGOs utilize volunteers and, at times, have organized volunteer databases. Accredited volunteers provide training and education to volunteers according to the Law on Volunteerism.

Specific forms of organizations are required to submit annual reports and financial statements, but not all do so. Though they are not required to do so, some civic associations publicize their reports, allowing the public and supporters to monitor how effectively they use their funds. Non-profit entities provide the financial resources necessary for NGOs to have appropriate office equipment, though it is rarely state of the art. Almost 90% of organizations are able to use computers and use the internet to communicate. NGOs that do not have their own equipment have access to the internet at local libraries.



Foundations are not a significant, stable source of funding for NGOs since their assets generally are too small to have a large impact. Foundations often obtain their resources from the same donors that fund the rest of the NGO community. As mentioned, volunteerism is on the rise, though the main issue is the lack of management skills within the NGOs to properly manage and organize their volunteer labor. Individual donors are the least significant source

of funding. In fact, recent studies indicate that NGOs do not count on individual donations, and instead look primarily to public budgets and firms. Organizations generally have three or four sources of funding, though one or two of those sources often account for over 75% of an NGO's budget.

NGOs are financially secure for up to several months or even a year into the future, but not much more. The majority of NGOs are unable to maintain a financial reserve. Membership organizations are more stable than NGOs that depend on subsidies and grants. NGOs generally do not have financial management systems, due to the lack of professionally trained accountants and financial managers. This is a problem considering the increasingly stringent financial management requirements for public administration grants, E.U. structural funds, and the VAT.

The legal framework requires financial audits for certain organizations; those who are not required to conduct audits consider them unnecessary. Similarly, some organizations are required to publicize their annual reports, though they are often incomplete. The lack of financial reporting limits transparency and damages the trustworthiness of NGOs.

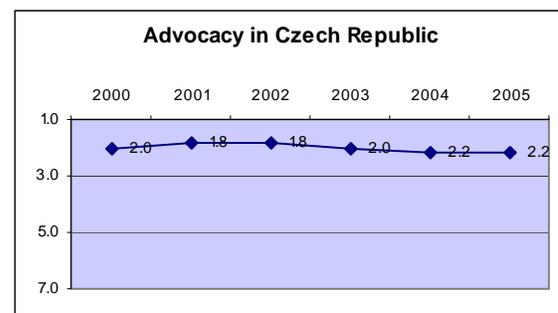
ADVOCACY: 2.2

Communication between the central government and NGOs is satisfactory. NGOs are represented on the advisory boards for a number of Ministries, as well as the Government Council on Non-governmental Non-profit Organizations and are regularly invited to comment on draft laws and other policy matters. At the regional level, NGOs play a significant role in community planning and creating regional development strategies. This involvement is not true in all regions. While regional governments have produced grant strategies and rules for supporting NGOs, smaller communities do not yet have a systematic approach for supporting NGOs. Public administration bodies partner with NGOs in only a few specific areas such as Roma projects, drug-prevention, community and

minority issues, and human rights. Public administration bodies act as clients in other areas such as health care and social services. The regions and small communities are still developing the local Agenda 21 (Healthy Cities Program), which relies on NGOs as professional partners.

NGOs increasingly consider fundraising to be necessary, though they can only count on certain groups of donors. Individual philanthropy remains underdeveloped and organizations depend on membership fees and the proceeds from public collections. NGOs point to the low level of management and unclear fundraising plans as the cause of their insufficient funding. Boards of Directors also fail to fulfill their basic duties in securing financial support for their organizations, instead shifting this responsibility to the management. Most NGOs do attempt to generate income by providing goods and services for fees. Some organizations, especially those in health care and social services, only charge minimal fees. Their lack of marketing and management skills limits their success. The Ministry of the Interior has recently interpreted the Law on Association of Citizens to mean that a new civic association is not permitted to provide public benefit services for a fee. Public administration entities purchase services from NGOs in the forms of subsidies and grants. Government-owned NGOs are favored in the procurement process. Because these organizations are owned by public administration officials, they are guaranteed to receive their grants every year.

In the past, NGOs have led campaigns to solve socio-political issues in areas such as children's



rights, domestic violence, oncological disease prevention, and transportation. Though the results are varied, they are generally able to take steps in solving these large-scale issues.

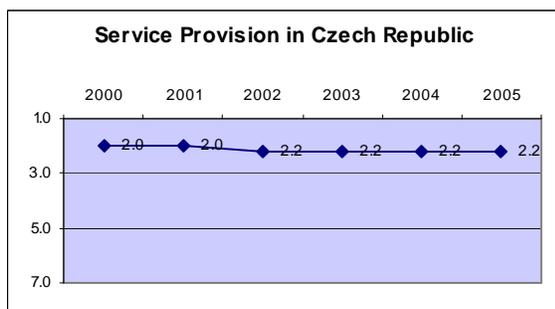
The public generally has a negative view of the lobbying. NGOs do not give lobbying activities high priority, though they do realize that such activities are necessary at times. The Czech Republic does have strong special interest groups that are able to lobby effectively. They are often environmental organizations, and more recently, social service and health care

groups. The introduction and negotiations for the Law on Social Services in the Government is an example of a successful lobbying effort.

The NGO community feels strongly that a more supportive legal framework is necessary to regulate its activities. Organizations within specific areas are able to organize and cooperate on promoting legislative initiatives. The successes with respect to the Law on Social Services and encouraging NGO comments on the new Civil Code are two examples of such collaboration.

SERVICE PROVISION: 2.2

NGOs offer a diverse range of services including health care, social care, education, disaster relief, environmental protection, culture, historical site renovation, youth, human rights, and others. Most organizations offer professional services, though quantity and quality varies from region to region.

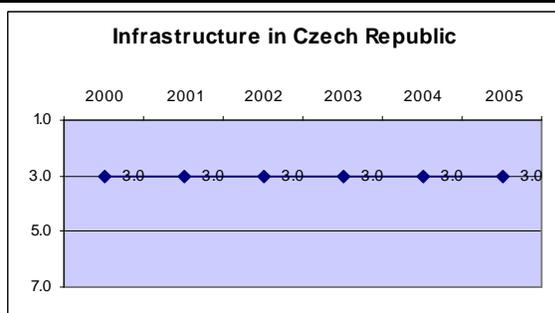


NGOs generally develop services according to the obvious needs of society and the market.

Organizations, however, often respond to the priorities of the public administration or E.U structural funds. NGOs generally lack the funding to conduct needs assessments and market research, and depend instead on their intuition and knowledge. They learn to respond to the public's reaction and the demand for specific services. NGOs are realizing that they lack marketing skills; the capacity to conduct market research and calculate budgets and cost recovery are uneven throughout the sector.

Government officials claim to appreciate NGO services, but fail to understand their real potential. Authorities do not have an interest in the development of the non-profit sector, and generally only care about purchasing services through subsidies and grants. Appreciation of NGOs in the regions varies from government to government.

INFRASTRUCTURE: 3.0



NGO information and support organizations operate in the Czech Republic, but there is not a nation - wide network, and access to services

is more difficult for organizations in the remote regions. Service organizations generally provide services for a fee. Czech foundations provide grants for local projects according to their own priorities. The definition of these priorities and the needs of civil society are often a topic of discussion. Domestic foundations are young and rarely have sufficient assets. There are a limited number of philanthropic and corporate foundations.

The NGO sector has a coalition open to all organizations, though the number of members

is limiting its ability to represent the sector as a whole. In addition, numerous topic-specific and regional coalitions have formed. One example is the Government Council for Non-governmental Non-Profit Organizations that promotes the sector's interests. Intersectoral partnerships are being established in response to European funds and programs which stress the importance of partnership. NGO representatives, however, continue to see partnerships as a requirement, and not necessarily a benefit.

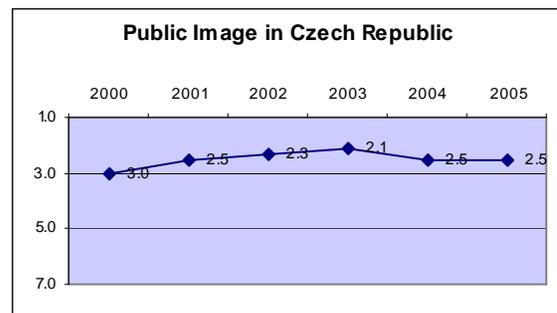
PUBLIC IMAGE: 2.5

The media provides good coverage of NGO activities, and their reports are fair and at times positive. The media focuses on negative issues only on rare occasions. Media coverage is generally regional and focuses on local events. Czech Radio, a public station, provides NGOs with a significant amount of coverage. Czech Television, another public network, also reports on NGO issues, but on its less popular channel. NGO representatives that are experts in specific areas receive the most attention. The media does not provide significant coverage to corporate donations because they consider it to be advertisement.

The public understands the important role that NGOs play in society. Their views on NGOs changed following the NGO sector's quick response to recent catastrophes around the world. Individuals have a positive view of organizations that receive coverage from the media as well as those that conduct activities locally. The public, however, does not have a clear understanding of the term "non-profit." Public administrators claim NGOs as their partners, but in reality the relationship is unequal. Foreign and large corporations integrate NGOs in their social responsibility

NGOs have access to sufficient training and consulting services, though the quality is not always high and they are at times expensive. Training is most often held in Prague and in other large cities, and because it is a small country, most organizations have access to trainings. NGOs understand the importance of continuing education, but few can afford it; European grant programs are providing some relief.

programs and partner on certain issues and in specific regions. Though corporations' images benefit from partnering with NGOs, such partnerships are not yet a part of the corporate culture.



NGOs increasingly understand that strong public relations are necessary to their sustainability and are more actively promoting their activities. They are incapable, however, of systematic public relations campaigns due to the lack of human and financial resources. In addition, NGOs are not always capable of communicating their organization's intentions in a manner understandable to the public. Key organizations have created their own ethics principles and standards, and publish them in their promotional materials and annual reports.

Estonia



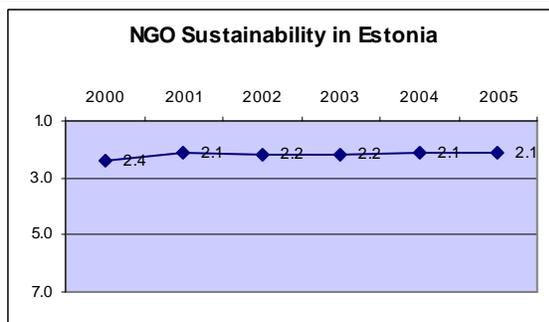
Capital: Tallinn

Polity: Parliamentary republic

Population: 1,324,000

GDP per capita (PPP): \$16,400

NGO SUSTAINABILITY: 2.1



Estonian Civil Society has four notable strengths and characteristics. It has been developing for over fifteen years with support from the Soros Foundation, which funded the development of infrastructure and training for the NGO workforce. Another important strength, which many countries in the region do not have, is the Network of Estonian Nonprofit Organizations, which advocates for the interests of the entire sector. Over the years, civil society has developed in a multifarious manner, adapting to competition, as well as the need for marketing

LEGAL ENVIRONMENT: 1.8

The legal environment did not change significantly in 2005; the legal framework has been functioning well for many years. Several areas of reforms have been identified and

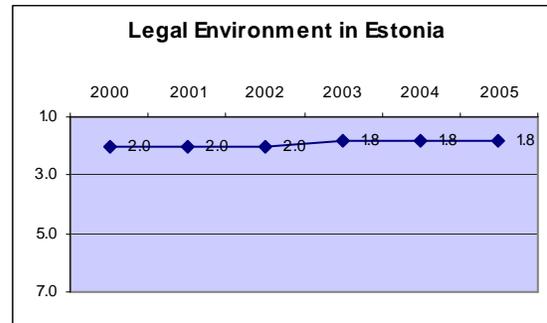
and planning. Finally, Estonia's small size allows NGOs to operate in all regions at the same time.

By 2005, the harmful competition between NGOs was almost non-existent, due to the Estonian Civil Society Development Concept (EKAK) ratified by the government. EKAK is an action plan based on a joint strategy between the NGO sector and the government; the goal is to sustain the systematic development of the Estonian Civil Society, which has depended on foreign funding. The process for providing NGOs with government funding is neither informed nor transparent. EKAK and the joint committee's work benefit from the increased awareness of all participants and the increased organizational capacity of NGOs. Almost all of the obstacles and barriers that civil society faces have been identified and are being addressed.

initiatives are underway to address them. The main impediment is the absence of regulations governing volunteerism. In addition, the law does not provide sufficient incentives to

encourage philanthropy. The tax exemption levels are low, and NGOs could do more to fight for the cause. NGOs have reached the stage in their development where support from active citizens and legal persons has become more essential, as well as attainable. This year, the government, NGO sector and business sector collaborated to produce a booklet on tax laws concerning giving and receiving donations.

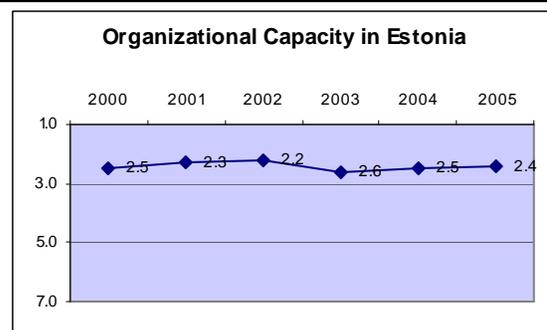
NGO legal services are not available in all rural areas. The regional development center of Enterprise Estonia, an entrepreneurial foundation that provides support and training for NGOs, provides some legal assistance. The municipalities do not yet provide support in a systematic manner, though civil servants are expressing more interest. NGOs have learned to seek advice and training from experts such as tax officers. The various taxes each have their own individual law, which can be difficult for NGOs to keep track of.



NGOs generally lack the capacity to express their views or advocate for their causes. The larger organizations, however, have begun stressing the need for law reforms and for more lawyers trained in NGO law; NGOs have the desire to do things in a proper and fair manner. The legal framework does not contain any regulations that govern either procurement of government contracts or funding, or income generated by economic activities. Future law reforms ought to include clear definitions of volunteerism and public interest, and new accounting requirements; the old ones have been rendered obsolete by the simple process for founding NGOs. Many legislative proposals have been submitted to the Parliament.

ORGANIZATIONAL CAPACITY: 2.4

Organizational capacity is likely the fastest developing feature of the Estonian NGO sector. NGOs are becoming increasingly sophisticated in long-term strategic planning and constituency building. Training modules on strategic planning, marketing, and competition are more readily available from Kodukant, Estonian Village Movement, umbrella organizations and networks, regional development centers, and NENO. This has help smaller communities access new investments via the third sector.



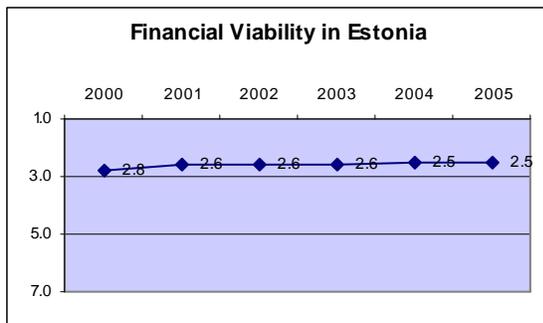
At both the national and local levels, organizations have learned to reach out to their constituents; a result of increased knowledge of memberships and community involvement, as well as challenges by the state and local governments to provide opinions and comments. NGOs host seminars and meetings, publish topics for discussion on their websites, and hold open meetings.

NGOs occasionally have a problem in that they offer technical assistance without considering the needs, capacities, and potential impacts on local communities. Similar problems occur in their management structures, which are far below the standards set in the business community. The NGO sector has begun to feel the need for greater transparency and openness.

Small organizations rarely have paid staff members, though they increasingly are in need of paid staff to offset their costs. Though several well-respected experts are now working in the NGO sector, most employees work from project to project on short-term contracts. NGO employees now account for approximately four or five percent of the workforce. Most NGOs conduct their activities

with volunteer staff; volunteer training and commitment are areas of potential development. Awareness of volunteerism has improved significantly. In 2005, the NGO sector held the first national volunteer recognition contest. NGOs do not have satisfactory technical resources in rural areas. Financing of information centers and new internet connections continues.

FINANCIAL VIABILITY: 2.5



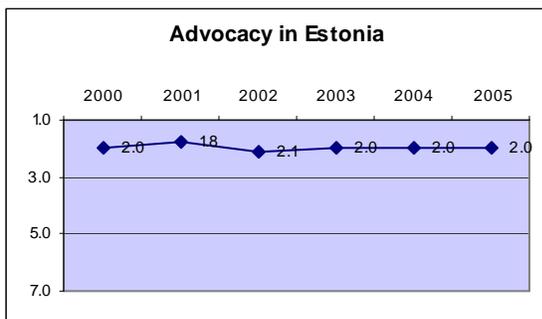
Numerous long-term foreign donors have stopped funding NGOs in Estonia and the NGO sector has not replaced them with local funding. Funding has become more diverse; the increased number of organizations has also been accompanied by a broader range of support. NGOs are less likely to wait to bid on a contract, and more likely to generate revenue themselves, by either providing services or planning other economic activities.

Organizations are providing more services to the public sector as well, though exact statistics are not available. Government agencies and municipalities are able to create organizations, which disrupts the competition for contracts and makes it more difficult to assess the financial viability of public interest NGOs. Municipalities, however, have begun to delegate services to NGOs and put in place procurement guidelines. Membership fees are an insignificant source of income for NGOs. Self-regulation has become more professional as donors are increasingly interested in financial statements.

NGOs have improved their ability to generate revenue and are developing services for other NGOs. Village associations, especially, have improved their ability to generate income.

In 2005, a two-year project financed by the Baltic-American Partnership Program began with the goal of creating feasible funding ideas to support civil society development and NGO viability. The ideas are being prepared by NENO with an eye towards transparency, parsimony, and purpose, since they are based on the government budget. A project to build NGO viability and sustainability is scheduled to begin in 2006.

ADVOCACY: 2.0



Civil society's mission and goals are listed in the EKAK, which is a strategy document that defines the complementary roles of public authority and civic initiative, the principles of cooperation, the mechanisms and priorities for participation in shaping and implementing policy, and the plan for developing civil society. EKAK will be implemented by a joint committee of twenty-two representatives from the public and non-profit sectors which is chaired by the Minister of Regional Affairs. The committee started in October 2003 and organized its work

into three groups: (1) a working group on involvement, consultation, policy appraisal, and legislation, (2) a working group on funding and statistics, and (3) a working group on awareness, civic education, media, and infrastructure. The working groups then created an implementation plan for 2005-2007 with eleven goals. Every two years, the Estonian Parliament organizes a public hearing on the EKAK implementation and serves as the governing body for the entire process. Through the EKAK process, NGOs create an agenda for the entire sector and the agenda for greater society. EKAK goals deal with the following issues:

1. Mechanisms to increase cooperation between the government and CSOs in developing civic initiative;
2. Mechanisms to involve CSOs in the development and implementation of policies and legislative acts;
3. Overview of different forms of civic engagement and the appropriate legal environment for the support of civic initiatives;
4. Effective use of ICT for the involvement of citizens in the decision-making process;
5. Transparent and clear funding schemes targeted to support the development of civil society and CSOs from state budget;
6. Improved system of tax benefits and charitable giving;
7. Overview of umbrella organizations and their current and potential roles in cooperating with the public sector;
8. A register of non-profit organizations and improved data collection methods describing civic engagement;
9. Educational institutions that foster the development of caring and responsible citizens who value participation and volunteering;

10. Infrastructure and networks that support civic engagement and initiative; and

11. Opportunities for everyone to benefit from life-long learning.

The level of advocacy skills in the NGO sector varies; some are developing advocacy skills quickly and creating initiatives that include the entire sector, while others organizations are not improving at all. Clear mechanisms for encouraging participation are lacking, though the Praxis policy center has recently completed a research project concerning the participation in the decision-making process. The State Chancellery is developing a series of good practices concerning public participation. The nonprofit umbrella organization and the public sector associations are planning to conduct a public awareness campaign to complement these efforts.

Government institutions have developed as well; several ministries have drawn up principles of participation, and mechanisms for electronic participation are being adopted. Government institutions are also completing a survey of potential partners. Civil servants are continuously receiving instruction and training. The first attempt to measure the quality of participation has been initiated; organizations that have participated in the decision-making process are polled to determine whether they were satisfied with the process or not. NGOs are also taking part in devising the state budget strategy, though the politics, budgetary provisions, and E.U. requirements have the greatest influence.

NGOs have come to realize the importance of gathering and communicating the opinions and views of their constituents. For example, larger organizations are occasionally able to pressure their partners to get more time to voice their opinions, for example. Many NGO representatives are on several committees and working groups, but their communication with NGOs is likely to suffer as a result. The capacity for NGOs to participate in the decision-making process is unevenly distributed. Both highly professional NGOs, as well as those with no

grasp of the decision-making process of the public sector or of the possibilities and means of advocacy prevail. There is plenty of room for development.

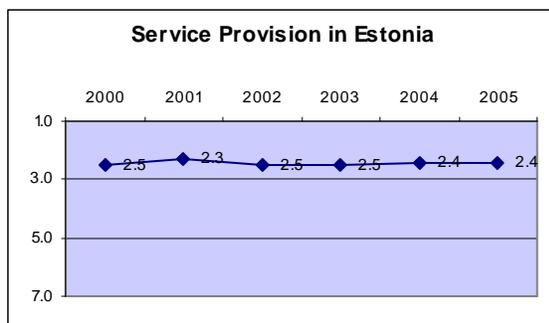
As representatives of local communities, NGOs are trying to establish more channels of direct communication. One such opportunity presented itself when the state began to allow election coalitions, through which NGOs are able to participate directly in local politics. At the local level, the power to lobby is not always good; NGOs could do more to build their own capacity. In 2005, the pan-Estonian training on letting one's voice be heard took place to build the lobbying capacity of local NGOs. Lobbying and participation at the E.U. level is a separate issue.

The EKAK has provided Estonian NGOs with a clear two-year agenda to implement changes in collaboration with the public sector. Many changes have already taken place and the Good Practice of Involvement of Nonprofits is being prepared and working. The plan to fund nonprofits from public resources is being developed, and changes to civil society education are being introduced. Umbrella associations are mapped and coordinated, and transfer of the delivery of public services to NGOs is being implemented. Finally, the Good Practices of the Delivery of Public Services by the non-profit sector is being finalized and the Estonian Government has started the Civic Initiative Support Strategy based on the EKAK.

SERVICE PROVISION: 2.4

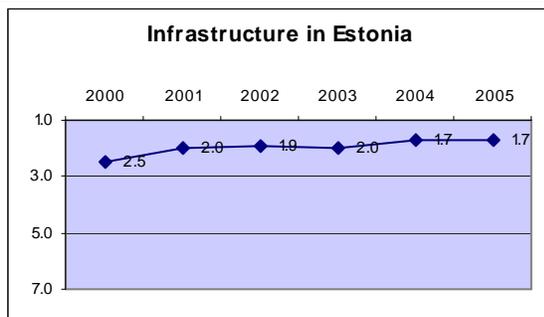
The legal form of NGOs is increasingly important. The new line falls between social entrepreneurs and entrepreneurial nonprofits; NGOs are no longer considered as volunteer-based, non-income earning entities. They have the right to make a profit and employ staff, like a for-profit organization, the difference being that an NGO can not distribute profits or assets. As a result, more NGOs view fee-based services as a means of income. The public sector is turning more services over to local municipalities that in turn contract out with NGOs, though exact data is unavailable. Some municipalities still presume that NGOs provide their services for free.

At times, it is difficult to know whether an NGO has been given a contract for services or whether it works per project; the public sector may provide funding either way. It is widely recognized that services are not always provided by the public and business sectors, and NGOs need more time to become comfortable with concepts such as "service," "client," and "marketing." NGOs offer a range of services to many different sectors, though organizations need improved instruction and training to better understand topics such as market demand and identifying target groups. In general, NGOs provide quality services and are able to recover their expenses, and at times are able to generate profits. NGO service providers work in the areas of social security, culture, education, environment, and childcare; they still lack the funds to provide more comprehensive and long-term services that generate a greater income.



One of the goals of EKAK is to create the mechanisms necessary to transfer public services to NGOs, and provide appropriate training to NGOs and local governments. Another goal is to develop a common code of good practices.

INFRASTRUCTURE: I.7



In addition to the mission-driven umbrella organizations and local networks, every county in Estonia has an Enterprise Estonia regional development center that gathers information regarding NGOs. They also create

opportunities through training, information booklets, and other materials. If an organization is interested, it has access to a variety of training in every county. NGOs have learned to ask for more, which has fostered problems regarding capacity and financing.

Local resources are distributed through umbrella organizations such as the Chambers of Disabled People and Kodulant-Estonian Village Movement. Few regions have community foundations or representational bodies, as is true for advocacy networks and organizations. These functions are largely performed by either mission-driven umbrella organizations or NENO.

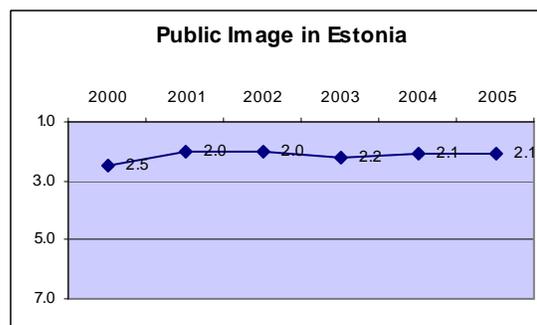
PUBLIC IMAGE: 2.1

The media is increasingly providing coverage of NGO activities. The meaning and broader significance of civil society and civic initiatives, however, are not given much consideration by NGOs, and analytical coverage is rare. Associations of entrepreneurs have been responsible for building a positive image of the NGO sector. Media outlets do not generally provide NGOs with special rates on advertising, though the biggest daily newspaper in Tallinn and Northern Estonia, Eesti Päevaleht, created a special column devoted to village news.

The public has a positive view of NGOs, and though the media does not always understand the principles of not-for-profit, it tends to be supportive of NGO activities. Civic initiatives in charity and volunteerism are on the rise among people without connections to NGOs.

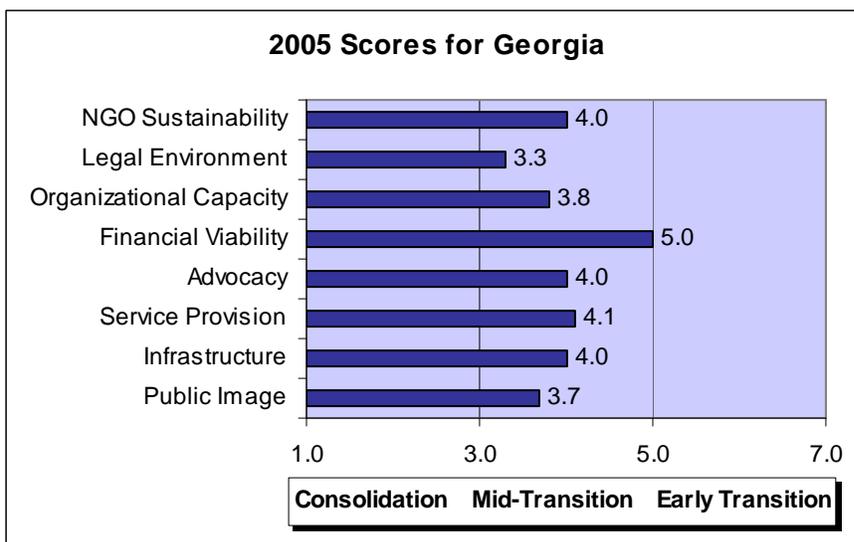
Civil society has found its way into the world of politics. Politicians and civil servants have learned the NGO vocabulary.

The opposition has recognized a potential ally when the government has little enthusiasm for a cause. The relationship between NGOs and civil servants is more focused on issues. Often times, NGOs are considered a trustworthy source of information and expertise. NGOs have higher expectations of politicians.



Despite their efforts to create their public image, NGOs have made little progress, though they are more accustomed to journalists and familiar with their working principles.

Georgia



Capital: Tbilisi

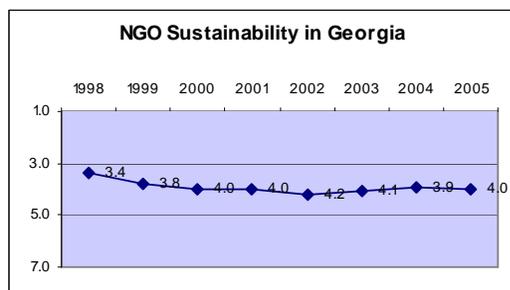
Polity: Presidential-parliamentary democracy

Population: 4,661,000

GDP per capita (PPP): \$3,300

NGO SUSTAINABILITY: 4.0

The overall NGO sustainability score decreased slightly over the past year. While improvements were made in the Legal Environment, Service Provision, and Infrastructure dimensions, they were offset by backsliding in the Financial Viability and Advocacy dimensions. The setbacks are attributed to the lack of progress that was expected in the period following the revolution.



The relationship between the Georgian government and civil society is occasionally contentious and is marred by limited cooperation. While NGO experts provide technical support, they have little influence over government policy. The reason is two-fold. First, government decisions are made by only a few officials, with little public participation and strategic planning. Second, NGOs still need to improve their ability to plan and work together in the constantly changing political environment. This includes balancing and better managing their sometimes conflicting roles as community watchdogs, policy advocates, and government partners. Organizations must also partner with one another to present a united front and build stronger working relationships with the business community and media, as well as improve their public image and increase their accountability to their constituents.

LEGAL ENVIRONMENT: 3.3

Reforms to the legal framework have led to improvements in the Legal Environment dimension score. The legal framework is now fairly supportive and permits NGOs to operate freely. The laws with the greatest impact on civil society are the Civil Code, the Law on Grants, the Tax Code, and the General

Administrative Code. The Freedom of Information Act is found in the Administrative Code and is especially important for the monitoring and watchdog groups. The Civil Code allows for an organization to exist as a union or a foundation. Since legal reforms in March of 2005, the Ministry of Justice oversees

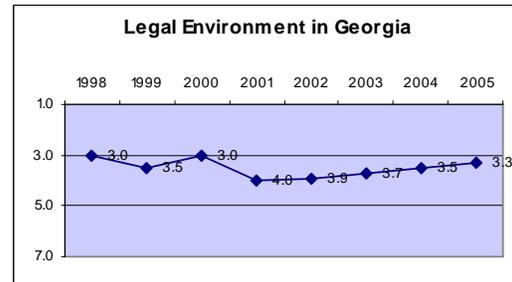
the registration process; the only problems have been the registration of local branches of NGOs located in the urban areas, attributed to the inexperience of the Ministry's staff in the regions. Generally, the law does not interfere with an organization's activities, and only a court can suspend or ban NGO activities. When the laws were adopted, many feared that the regulations were too vague and would allow government officials to take legal action against NGOs. To date no court has terminated an NGO's activities.

The new Tax Code, adopted in January of 2005, preserves the existing benefits and exemptions for NGOs. The Tax Code now clearly defines the term "charitable organization" and creates a new incentive for corporations, allowing them to deduct up to 8% of their total profits for donations that support charitable activities. This new deduction is the product of lobbying efforts led by the Civil Society Institute and other organizations. The changes provide incentives to NGOs working on social issues to re-register as charitable organizations, which allows them to take advantage of the new tax benefits. The Tax Code also creates a new mechanism for exempting NGOs from the Value Added Tax, though the administrative process, especially in the regions, continues to be problematic. Government officials must make a greater effort to fine-tune the implementation procedures for approving exemptions from the VAT and customs duties for international support of humanitarian activities. Despite the improvements to the Tax Code and other reforms, NGO representatives continue to express concern. While NGOs have generally not experienced any interference from the government, watchdog and monitoring

ORGANIZATIONAL CAPACITY: 3.8

The most significant trend to emerge with respect to organizational capacity of Georgian NGOs is the growing gap between the most well developed NGOs and the rest of the sector. The few top tier organizations improved their institutional capacity, and developed activities and set strategic planning consistent with clearly defined mission statements. They generally have sufficient funding to provide

groups are experiencing difficulties obtaining public information from some state agencies. Ironically, access to information has been most difficult from law enforcement agencies where former NGO workers now work.



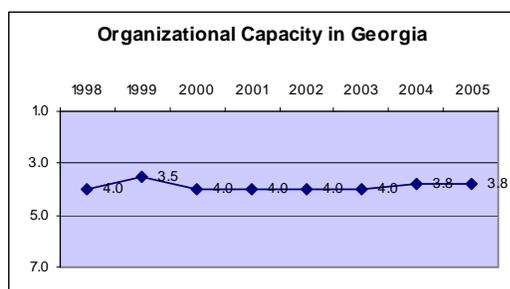
The law permits organizations to generate income by engaging in economic activities, as well as by competing for government contracts at both the local and national levels. In one recent example, a coalition of regional organizations won a contract worth \$145,000 from the Georgian Social Investment Fund, which supports institutional capacity building for local governance and community development. The NGO community must now start lobbying for a new Law on State Grants that would improve the state system for issuing grants and offering procurement opportunities in social services.

The demand for legal services increased over the past year. Despite their diminished funding, organizations such as the Georgian Young Lawyers Association and the Civil Society Institute continue to provide quality legal services for free, though they have been unable to meet the increased demand for their services. In the regions, NGOs find it nearly impossible to access quality legal services.

continuous services. Oftentimes they are members of coalitions and NGO networks, and have experience working with state agencies. These organizations also disseminate information through annual reports and other publications, and a few even boast annual budgets between \$100,000 and \$200,000. Relatively stable funding allows these

organizations to develop continually and improve their organizational structures.

The organizational capacity of the rest of the sector continues to deteriorate. NGOs, especially those in the regions, operate from project to project, often with large periods of time between these projects. While more of these organizations realize the importance of strategic planning, such dependence on short-term funding makes planning difficult to accomplish. Organizations that are able to contract from Tbilisi-based organizations generally have better organizational capacity than those with no links to the capital.



Even the advanced organizations that are able to influence public policy and advocate for reform have had difficulties identifying their priorities, which have shifted with the changes in the socio-political environment. Relationships with the government have grown more complicated, deteriorating from cooperative to antagonistic, interfering with the ability of NGOs to clearly define their goals. Overall, the NGO community understands the need to improve its planning process and the importance of working together in the constantly changing environment.

Georgian NGOs continue to struggle in their efforts to build constituencies and few have memberships. This is due in part to a lack of tradition and experience, but also society's lack of interest in influencing policy. Getting over these barriers is a long-term goal that will require a change in attitude. Organizations that

FINANCIAL VIABILITY: 5.0

Only a few organizations have a variety of funding sources. NGOs continue to rely heavily

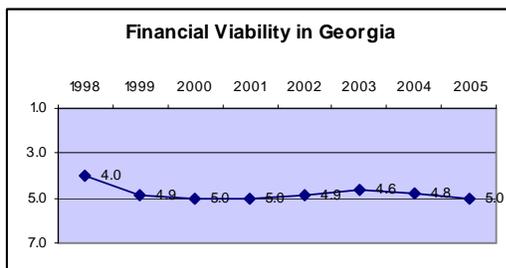
on donors, as only 5% of their total funding is earned from economic or charitable activities. survive project to project and are unable to provide ongoing services have difficulties building constituencies. These organizations are often considered to be professional groups with a paid staff, while those in the regions lack the funding to maintain a professional staff. Young professionals often work with NGOs only long enough to get the experience they need to get jobs in the capital. Similarly, volunteers are often motivated by their desire to gain the experience they need to find another job or to secure a full-time job with the organization. Otherwise, incentives for promoting volunteerism are nonexistent in Georgia. Following the revolution, numerous leaders within the NGO community left their organizations for positions in the government. While this exodus of NGO leaders has had an adverse impact on a few organizations that relied on the vision and initiative of their leaders, it has not had a negative affect on the sector as a whole.

NGOs have laid the groundwork for a self-regulatory system and some organizations now follow both informal and formal codes of ethics. The Code of Ethics brought together a variety of civil society organizations under common principles of transparency, accountability, non-partisanship, publication of annual reports, availability of internal regulations, a functioning board, and dissemination of information. Seventy organizations have signed onto the Code of Ethics and sixteen have received awards for compliance.

NGOs have a greater appreciation for the importance of well-organized plans for obtaining and managing donor funds. Internal governance and the use of boards of directors, however, are still inadequate even for the more advanced organizations. Most NGOs have the necessary office equipment, but internet access continues to be inconsistent since the service is expensive, power sources are unreliable, and communications networks are outdated.

on donors, as only 5% of their total funding is earned from economic or charitable activities.

The new definition for charitable activities and the tax deduction for corporations, both found in the new Tax Code, were created to promote philanthropy. It is still rare for a corporation to create a charitable foundation and creating a culture of philanthropy will require long-term societal changes. The majority of membership organizations charge symbolic fees. For example, one organization in Ozurgeti only charges members 10 cents per month. At most, membership fees do not exceed 5% of any organization's budget. The Federation of Accountants and Auditors and the Federation of Businessmen, which collect 15 to 50% of their budget from membership fees, are the exceptions.



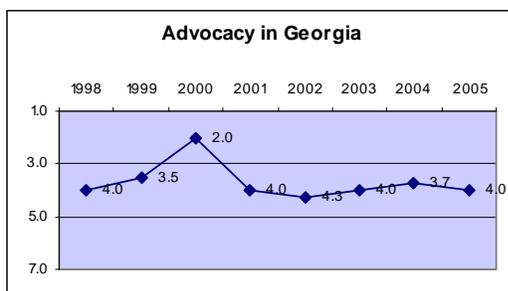
Organizations with funding sources are making efforts to improve their financial management

ADVOCACY: 4.0

The relationship between the government and civil society can be both cooperative and confrontational. Following the revolution, the government's perception of the importance of NGOs diminished. Government officials believe that they have integrated the best that civil society had to offer, and consider those that remained to be of little consequence. At the federal level, communication and cooperation vary from case to case, based on the personalities of the government officials and their perceptions of NGOs. The Ministry of Science and Education and the Ministry of Health and Social Welfare include NGO expertise in their policy discussions, and several organizations are involved in reforming the Tbilisi Mayor's office. Others are involved in drafting legislation, discussion of draft laws, and developing State programs. The political will of government officials still has tremendous

influence on the outcome of such activities and each government institution relies on its own team of NGOs making it difficult for others to get involved. The circle of NGOs collaborating with the government has narrowed.

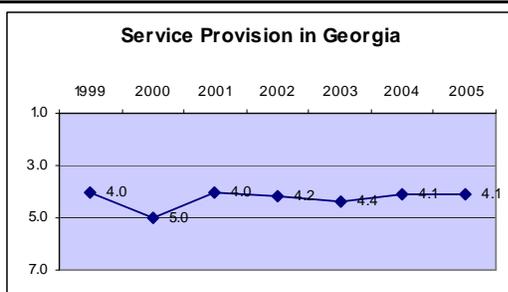
Although their technical expertise is often appreciated by government officials, NGOs have difficulty introducing and affecting new policies. In one example, government officials drafted and approved the major principles of the new Election Code then asked NGOs to fill in the technical details. Policy changes are more likely to succeed when officials are willing to consider the analysis and recommendations of NGOs. Watchdog organizations that criticize the government and its resistance to political opposition are "blacklisted." As a result, their activities are limited by government officials, they are unable to access information, and they become the subject of harmful rumors.



Coalition building is in large part initiated by international donors. The Citizens Advocacy Program was funded by USAID and supported eight coalitions, comprised of thirty-seven civil society organizations. These coalitions pursue issue-based grassroots advocacy campaigns

concerning water and sanitation, local governance and policy-making, elections, and human rights. In one advocacy campaign, which could serve as a successful model for other NGO coalitions working with local and regional governments, a coalition successfully advocated for improvements to a water supply system in Ozurgati. Another coalition in Adjara conducted four successful advocacy campaigns. Most recently, a coalition of NGO donors and local government officials totaling eight-thousand people applied significant pressure on the government to decentralize the decision-making process concerning territorial administrative reform. The issue is still under consideration.

SERVICE PROVISION: 4.1



The diversity of services offered by Georgian NGOs was exemplified by the organizations that attended the first Forum of Civil Society Organizations held in April 2005. Fifty-six organizations representing all of the different regions participated, including groups that offer services in human rights, education, local governance, economic development, environmental protection, and other health and social services that have been a top funding priority for the donor community. At the federal level, leading Georgian NGOs are now approaching government officials with quality analysis and advice on policy issues. Depending on the reception, organizations either partner with state agencies or have to resort to pressuring or lobbying for change. Local governments fail to recognize NGOs for their high quality expertise and services, and even if they did, local budgets limit opportunities for formal contracting.

Service organizations do target populations outside of their own membership. In one example, the Association of Young Economists, the Georgian Young Lawyers Association, and the Civil Society Institute directed approximately 60% of their resources towards building broader constituencies. Expert analysis, consultations, advocacy and lobbying are all directed towards serving the public, and information is regularly distributed throughout the NGO community. Organizations in the regions are not constituency-based, though they often respond to local demands.

Donor-dependency is an issue for NGOs. Donors often set their priorities according to their own views, and domestic organizations have little input. Instead, domestic organizations are forced to alter their priorities to match those of their donors, which may have a negative impact on their organizational and professional development.

NGOs know their markets and the needs of the public; they also know whether their constituents are able to pay or not. Because the primary consumers of NGO services are low-income citizens, organizations generally do not charge fees, or do so at a low rate. As mentioned, the services available do not satisfy the current demand.

INFRASTRUCTURE: 4.0

The majority of NGOs has less access to training and other technical assistance services than in the past. Though legal services are one of the few remaining services offered free of charge, the growing demand for such services limits access. While at the local level the capacity for offering such services is increasing, the best providers of NGO training charge significant fees and often become for-profit businesses. Most services are available in Tbilisi but not the regions. Organizations do not have access to comprehensive NGO Resource Centers, though the various services are offered by different organizations. Ozurgeti is an exception; the Internet Resource Center offers NGOs and the public significant services, and other NGOs offer specialized trainings, with materials available in the local language.

The Open Society-Georgia Foundation and the Eurasia Foundation, two grant-making organizations, are decreasing their presence and making fewer grants. A few local NGOs regrant international donor funds, though they are limited by a requirement that organizations register as foundations before issuing grants. This requirement creates a problem in

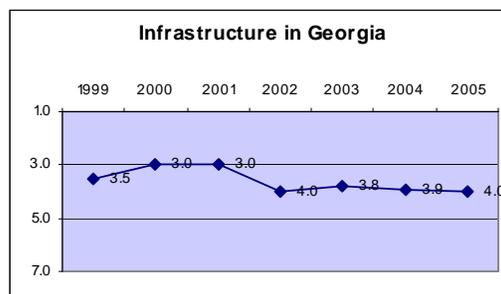
PUBLIC IMAGE: 3.7

The score for the Public Image dimension did not change from last year's score. During and shortly after the Rose Revolution, the public held NGOs in great trust. This was in part because NGO leaders were frequently on television. The public also associated parts of civil society with the new government due to the numerous NGO leaders that took positions in various government offices.

Civil society places great emphasis on its members sharing both common visions and values, and is often viewed as a single entity. An April 2005 poll found that though public perception of NGOs has improved, the public continues to be unclear about their role and activities.²⁴ This indicates that NGOs are

²⁴ The Public Opinion Poll was conducted by the Center for Strategic Research and Development of

networking and coalition-building because leading NGOs are limited to issuing grants to their coalition members.



Networking, coalition building, and inter-sectoral partnerships have been initiated largely by donors and are linked to specific projects. For example, the Citizens Advocate Program initiated the NGO-Business communications campaign in an attempt to build collaboration, but as soon as the program ended, the collaboration ended. In the regions, NGOs partner more with local governments than with businesses.

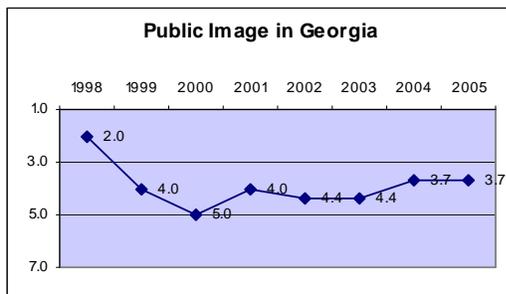
somewhat isolated from their constituencies and the target groups they are supposed to represent.

The cooperation between NGOs and the media during the Rose Revolution has gradually diminished. Over the past year, the media's attention to NGO activities has decreased considerably. Media coverage, especially in Tbilisi, is focused on scandals or meetings with high - ranking officials or other public figures. Ironically, the media continues to turn to civil society for analysis and commentary, though its coverage of NGO activities is lacking. NGOs in the region have greater success attracting media attention than those in the capital. Organizations in Ozurgeti report that local

Georgia (CSR DG), within the framework of USAID funded Citizens Advocate Program.

media will cover NGO activities when they are invited, but never do so by their own initiative.

The business sector is very cautious with NGOs, in large part because NGOs have not successfully presented their skills to business representatives. Even those corporations that may otherwise participate in charitable activities choose not to support NGOs, especially if the organization has tense relationships with the government.

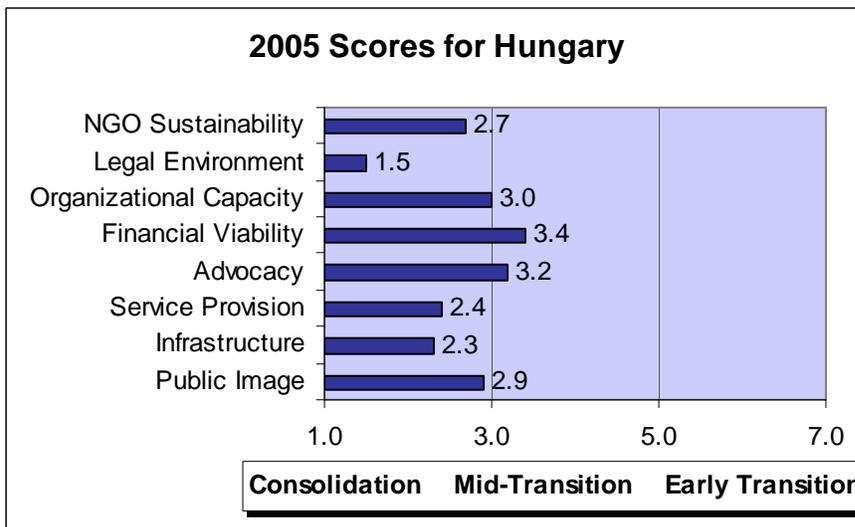


As NGOs take a greater role in society, the general public's knowledge of and trust in NGOs continues to grow. NGOs were very active during the public hearings on the new Tax Code and the Constitutional amendments of 2003. They have also assisted different groups, including businesses, with legal advice 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



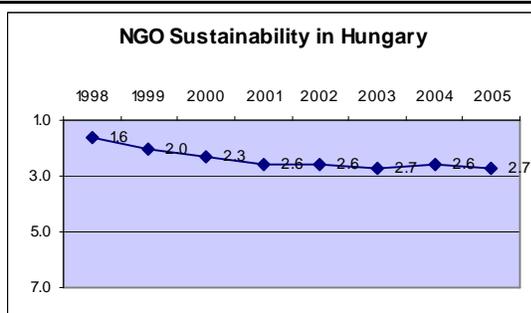
Capital: Budapest

Polity: Parliamentary democracy

Population: 9,981,000

GDP per capita (PPP): \$16,100

NGO SUSTAINABILITY: 2.7



Over the past year, the NGO sector has experienced both positive and negative developments. It was a disappointing year in terms of financial viability. The E.U. Structural Funds became available to NGOs, and it was the second year that the National Civil Fund (NCF) was available to support NGO operational costs. Neither the E.U. Structural Funds nor the NCF has fulfilled expectations. Contracts for the Structural Funds were seriously delayed and NGOs that were awarded funds in the fall of 2004 did not have access to them until a year later causing serious liquidity

LEGAL ENVIRONMENT: 1.5

In June of 2005, Parliament adopted the Law on Public Interest Volunteering, which will govern volunteers with public benefit organizations,

and capacity issues. The NCF also experienced delays, as well as budget cuts and accusations of self-dealing. In addition, for the first time since the program was developed in 1997, the percentage designations to NGOs decreased.

A test project on the registration process of associations revealed that the court practices in registering NGOs are more of a constraint than would be expected fifteen years after the Law on Associations was adopted. The Law on Volunteering was finally adopted in June of 2005 with mixed expectations about its implementation. On a positive note, the corporate sector has taken a greater interest in NGO activities, as evidenced by the increased number of philanthropic foundations created by private and corporate entities, despite the meager tax incentives. NGOs joined together on more advocacy efforts, with a greater level of success.

government institutions and certain service providers. The law provides some benefits to both the host organization and the volunteer,

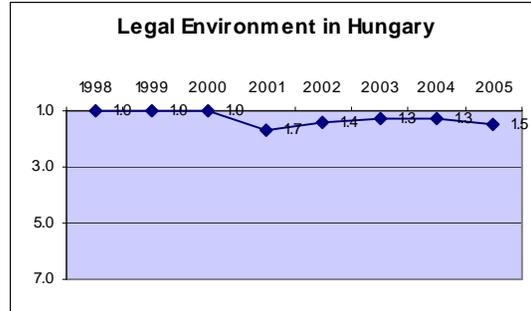
including tax-free reimbursement for expenditures related to the volunteer activities. The law also requires that in order to be eligible for these benefits, the organization and volunteers must sign a volunteer contract, register the organization with the appropriate Ministry, and keep records of the volunteer activities. While the law is important for greater recognition of volunteerism and ensures a safer working environment, it only covers public benefit organizations. The majority of organizations do not have public benefit status, creating an unduly high burden on NGOs that wish to register as a host organization. An expert working group recommended a broader, more enabling approach, but legislators chose a more bureaucratic and regulatory scheme, raising concerns about the impact on grassroots organizations.

The Environmental Management and Law Association (EMLA) conducted a study on the registration of public benefit associations. The EMLA filed the same founding statutes with each of the twenty different courts, and received twenty different resolutions in response, requiring a wide range of modification to the statutes, many of which did not have any legal foundation. The legal team leading the project reported a lack of predictability in the application of the Law on Associations and the Law on Public

Benefit Organizations and raised serious concerns about the infringement on citizens' freedom of association.

ORGANIZATIONAL CAPACITY: 3.0

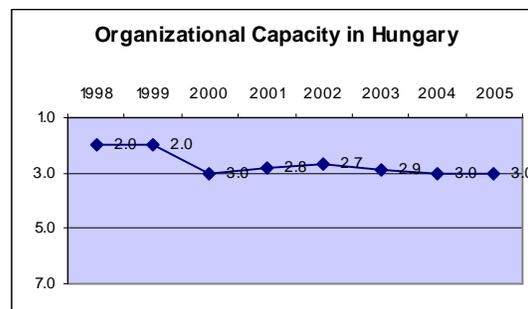
Delays and cuts in the E.U. and other state funding have seriously affected the organizational capacity of Hungarian NGOs. Most organizations have to focus on mobilizing their resources, including their financial reserves, rather than building capacity. Many organizations have gone into debt, which is a problem because most debts are outside of the banking system (as banks generally do not give loans to NGOs.) The overall situation has not improved since 2004 when NGOs' failure to comply with NCF requirements revealed



While Parliament has yet to enact the new Law on Legislative Process, other legislation affecting NGO participation in the decision-making process was enacted. One example is the Law on Freedom of Electric Information, which introduced the concept of e-government and other public participation opportunities. As of January 1, 2006, ministries will be required to publish draft legislation on the internet. Parliament is debating a draft Law on Lobbying. NGOs are not listed in the law as potential lobbying organizations, which may adversely affect their ability to access political decision-makers.

Measures have been taken to improve regulation of the NCF. For example, applicants are now permitted to submit missing documents after the deadline for applications. The law and regulations governing conflict of interests have not changed, however, and the system continues to permit self-dealing. This is important because NGOs continue to elect their peers to sit on the Colleges that make decisions concerning the distribution of funds.

deficiencies in their organizational management and financial operations.



NGOs are increasingly capable of mobilizing their constituencies through one-off campaigns. Examples include the Day of Cyclists, the Pink Ribbon Walk, and others. NGOs, however, lack the long-term thinking necessary to identify and maintain continued support, and have to start afresh each time. Most organizations do not consider it important to reach out to their members and other constituents, and concentrate on building relations with government in order to secure funding.

NGOs continue to lack a culture of strategic planning, though a Trust for Civil Society Program has provided approximately 300 organizations with strategy development training and exercises. In addition, 100 key organizations received funding and technical assistance in the process. Generally, NGOs have had to focus instead on their short-term

survival and crisis management instead of capacity building and strategic planning.

High tax rates have stifled NGO employment. The government continues to raise the minimum wage and NGOs are having even greater difficulties paying the increased salaries. More “mid-sized” organizations resolve staffing issues with volunteers because they are still not big enough to be employers. Though statistics are not yet available, it is likely that layoffs increased while hiring decreased. The impact of the Law on Volunteering on human resources is still unknown. The number of applications for NCF support for operational costs doubled this year and it is likely that even less funding will be available per organization next year. When the E.U. funding is finally distributed to the NGOs, many will upgrade their technology with the funds they had requested for that purpose.

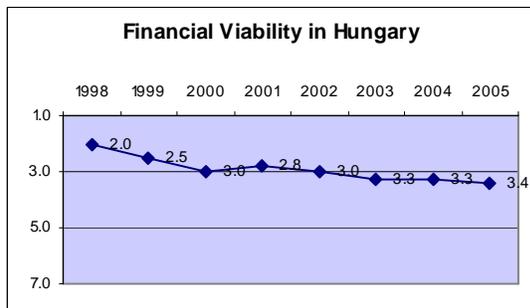
FINANCIAL VIABILITY: 3.4

This past year was disappointing for the NGO sector. While this was the first full year in which organizations could take advantage of the E.U. Structural Funds dedicated to social and economic development, they experienced delays, administrative burdens, bureaucratic restrictions, and serious cash shortages. The government was nine to twelve months late in executing the contracts and transferring the funds, and required NGOs to advance millions of forints before they signed the contracts. The strict accounting regulations from Brussels required that projects start up as planned in order for their expenses to be reimbursed, regardless of whether the contracts had been signed or not. The largest non-profit creditor reported that NGOs had to advance on average of 17 million HUF (\$85,000 USD); one NGO had to front 56 million HUF (\$280,000 USD).

Even the larger organizations had to empty their reserves and suffered serious losses as a result.

NGOs reported similar issues with non-E.U. government funding; in 2005, all ministries were required to cut between ten and fifteen percent of their budgets and ensure that reserves be carried forward for the next year. As expected, many ministries made cuts to NGO budgets. In one example, the Ministry of Social Affairs made cuts that affected almost all NGO service providers.

Funding from the National Civil Fund was also delayed due to government bureaucracy. The NCF was also required to ensure that it carry a small reserve forward for the next year, which decreased its budget even further. The NCF was involved in a major scandal this year, in which the supervising Minister called transparency issues in the grant distribution to the attention of the Council. NGOs affiliated with members of the Council and the Colleges consistently received a higher amount of funding than others. The criteria for selecting grantees were unclear and the event shed light on ongoing conflict of interest issues.



For the first time in eight years, the amount of funding available through 1% contributions decreased, as did the number of taxpayers that participated. Though the decrease was not significant, the trend towards stagnation has become clear, signaling that the 1% mechanism may have reached its limit. One factor was the tax reporting period was extended from two and a half months to five months, which adversely affected 1% campaigners who often made miscalculations about timing. The extended tax period also interfered with other fundraising activities, which were practically impossible to execute during the tax period. All of these factors forced NGOs to focus all of their financial and human resources on surviving, and exhausted their reserves.

The NGO sector did experience some positive developments. Local fundraising efforts increased, as witnessed by the Trust Program Implementers, and the corporate sector took

greater interest in NGOs. In 2003²⁵, the European Commission issued a directive that permits member states to adopt accounting legislation that considers non-financial aspects of certain types of corporations in the audits of their financial reports. Guidance is provided by the International Accounting Standards (IAS), which all member states are required to follow as of 2005. Numerous public relations firms and financial institutions are preparing to enter the new “social-auditing” market across Europe. Hungarian corporations are also exploring the possibilities of improving their corporate social responsibility practices, which may provide accounting benefits in the near future.

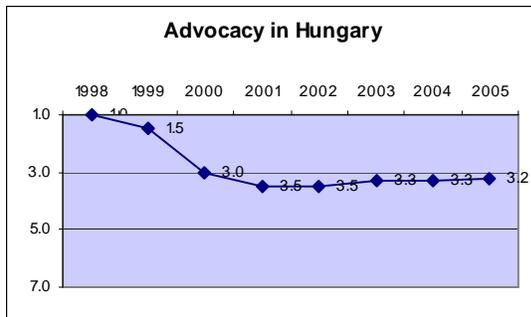
²⁵ [Directive 2003/51/EC amending Council Directives 78/660/EEC, 83/349/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies and insurance undertakings](#) (June 2003)

ADVOCACY: 3.2

The NGO sector showed greater interest in being involved in government decision-making, as demonstrated by several initiatives. While sub-sectors in areas such as environmental protection and disability rights had been effective in the past, this was the first year that the sector united as a whole around specific issues. The NGO sector, for example, influenced the Freedom of Electronic Information Act; an organization drafted the law and allowed for comment by many others. The law permits NGOs and citizens to access data on public institutions, drafted and adopted laws, court decisions, and other important information that will improve their abilities to monitor government activities and engage in advocacy activities. Another success in NGO advocacy and partnership is the Law on Public Interest Volunteering. Early in the year, newly appointed Ministry officials annulled the draft law that the NGO community and government officials had worked on for more than two years, and replaced it with a more restrictive regulatory approach. The legislative effort, however, is a good example of NGOs initiating

and developing a draft law, and pushing it through Parliament.

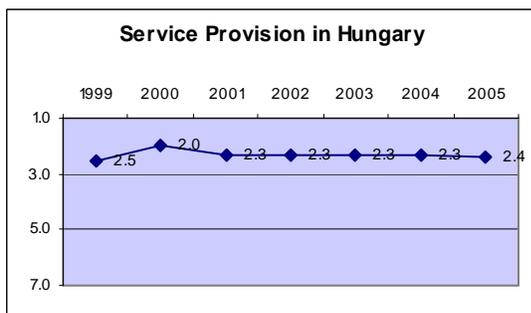
Other sector-wide initiatives include the Civil Organizations for the Openness of the National Development Plan Process (CNNy), which reported on the Development Plan Process and forced Ministry officials to consider more open consultation methods. The HAND Platform for Development NGOs was able to attract more of the Ministry of Foreign Affairs’ attention to their agenda. NGOs also demonstrated against the forced budget cuts, though it is typical that NGOs only demonstrate when the issue is their access to funding. While these initiatives did not reach a wide audience, other initiatives received a fair amount of media attention. According to the Media Monitor of the Trust Program, media coverage of lobbying and advocacy activities has not increased as much as other news stories covering NGOs. The result is that the overall coverage of advocacy and lobbying efforts decreased by almost ten percent.



Despite encouraging events such as the initiation of sector-wide advocacy projects, the level of understanding of and capacity for effective advocacy remains low. NGOs are often unable to define a proactive advocacy

SERVICE PROVISION: 2.4

Funding issues have weakened the NGO sector's ability to provide continuous, high-quality services. NGOs, motivated by the prospect of E.U. funding, invested in quality assurance and developed other services; they were hoping to rely on government normative and other budget funding for long-term support. These organizations were discouraged by the delays and other problems, and they now seek only to fulfill the conditions to receive funding.



The legal framework regulating services such as health care, education, and social support is another obstacle for NGO service providers. According to a legal analysis issued this year, the legal framework does not facilitate contractual relationships between the government and NGO sectors. The law takes a paternalistic approach in which the government

agenda, define goals, build effective coalitions, reach out to beneficiaries and wider audiences, or follow up on their efforts. As a result, the influence of the NGO sector remains low.

Local advocacy efforts continue to depend on the factors such as political affiliations, strength of local NGOs, and community traditions. One rare example of a success is the initiative to disseminate the learning of a successful advocacy project from north-east Hungary within the KORTE program, the results of which will be available within two years.

grants a privilege to NGOs that receive government funding, even when they are providing basic services that the government would otherwise have to provide. All types of funding for NGOs are called "support" in the laws, regardless of whether an organization competed for and won a grant or it is being paid for services it provides. The concept of "public service" is not clearly defined.

Overall, the NGO sector's ability to provide services has increased. In 2003, 21% of all local governments offered services to their communities via NGOs, compared to only 11% in 1996. Similarly, in 2003, 2200 organizations offered services, compared to 900 in 1996. Community support for service organizations is higher than for other types of organizations, as exemplified by the outstanding support for cancer-related NGOs.

With the support of the Trust Program and the NCF, new NGO quality assurance systems have been introduced. For the first time, NGOs are able to become familiar with and start to apply quality control systems that are adapted more to the needs of non-profit organizations than other systems such as the UK "import" PQASSO model or the locally piloted Trademark of Trust.

INFRASTRUCTURE: 2.3

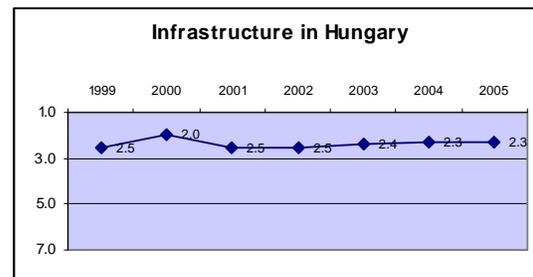
Over the past year, the number of training courses for NGOs increased, especially in areas related to project management, proposal writing, communications, and other areas related to management and planning. Most of these are funded by the E.U. and their quality varies. Training and consultations related to capacity building are limited. The Trust Program now supports the first nonprofit leadership-coaching program.

Local NGO support organizations, mainly the Civil Houses, are struggling. While they receive some state funding and provide basic services, they have been unable to develop strategies and profiles. Many NGO support initiatives, for example, emerge from NGOs in other parts of the country.

Local grant-makers re-grant foreign support and have been unsuccessful in raising local capital, though corporations and philanthropists have greater interests in creating their own foundations. In 2005, three of the five wealthiest individuals in Hungary created their own foundations to support various activities such as contemporary culture, children with disabilities, and regional development. Almost all banks and telecommunications companies

have foundations or sophisticated grant schemes.

Several issue-based NGO coalitions emerged this year, unlike previous years. Examples include the CNNy group, which formed to address the draft law on lobbying. NGOs also petitioned the DG Justice “Watchdog Fund” concerning the delay in the E.U. funding for human rights and advocacy NGOs after the U.S. withdrew its funding.

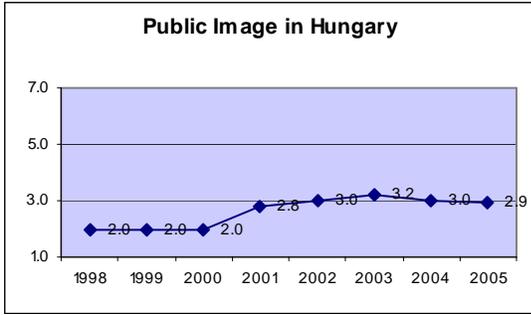


Full statistical data is available again on the Hungarian NGO sector serving as an important basis for advocacy and research purposes as well; although it is not ensured for the long term. A number of new higher education courses were launched this year dealing with the nonprofit sector and NGOs.

PUBLIC IMAGE: 2.9

One issue that received significant media attention is the activities related to the July presidential elections in Parliament. The three large parliamentary parties were unable to agree on a candidate that was acceptable, and Parliament delayed its decision. Led by an NGO, a group of leading intellectuals signed a petition to nominate Mr. Laszlo Solyom; all three parties agreed to his nomination. As a result, the President of Hungary was nominated by an NGO. While this case shone a very positive light on NGOs by showing that NGOs can be truly independent and can influence important events. On the other hand, it also raised concerns about how involved or how much influence they ought to have over politics.

A major trend over the past year, related to the issue of political independence and influence, was the attempt by both parties to use NGOs as a means to gain political leverage. One new organization was formed to investigate government corruption, though it became clear that the organization was formed by an opposition political party. In another example, members of the governing party sent letters to local units to ensure that they encourage other “affiliate” organizations to register as electors for the NCF. All political parties started their campaigns well in advance of the May 2006 elections.

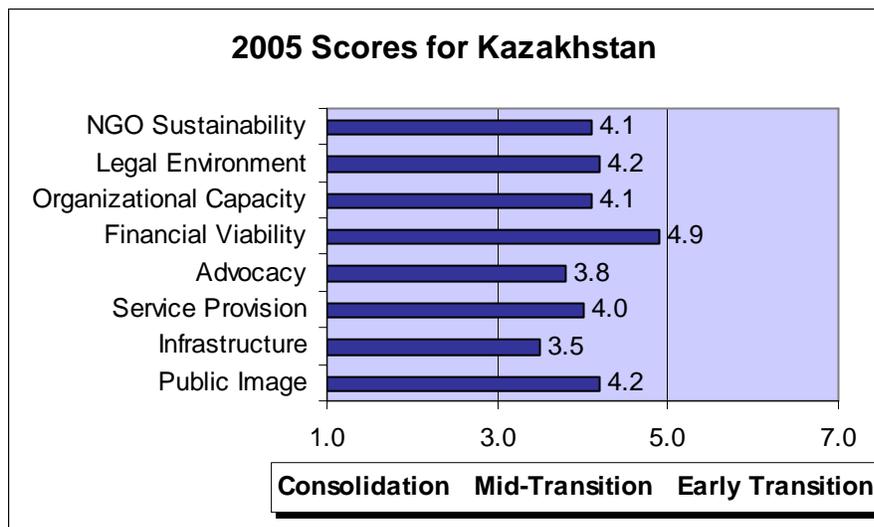


The Civil Media Monitor, supported by the Trust program in Hungary, demonstrated that local news outlets, whether they are print or electronic, cover the NGO sector much more

than national news outlets. Only a handful of topics received outstanding national media attention, and those related to sensitive social issues such as environmental protection-NATO locator, legalization of drugs, women and abortion, or budgetary corruption issues.

Perhaps due to the corporate sector's increased interest in NGOs, more articles have been published in economic weekly papers on the transparency and accountability of NGOs and the non-profit sector. However, the sector seems to be far from effective in self-regulation, other than some encouraging initiatives at the local level.

Kazakhstan



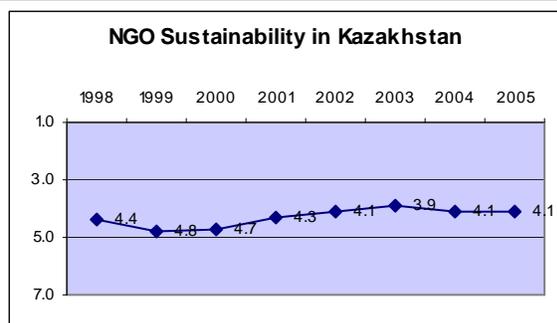
Capital: Astana

Polity: Republic-authoritarian presidential rule

Population: 15,233,000

GDP per capita (PPP): \$8,800

NGO SUSTAINABILITY: 4.1



The overall sustainability of the NGO sector improved slightly over the past year. Advances were made in the Financial Viability, Service Provision and Infrastructure dimensions. The recent events in Georgia, Ukraine, and Kyrgyzstan motivated the government to propose restrictive legislation in the lead-up to the December 2005 elections. The advocacy efforts of a coalition of over two-hundred organizations were successful in preventing the passage of two restrictive laws, though Parliament did pass the third, the Law on National Security. While the law has yet to be enforced, it could have a significant impact on NGO activities that are perceived as threats to the government.

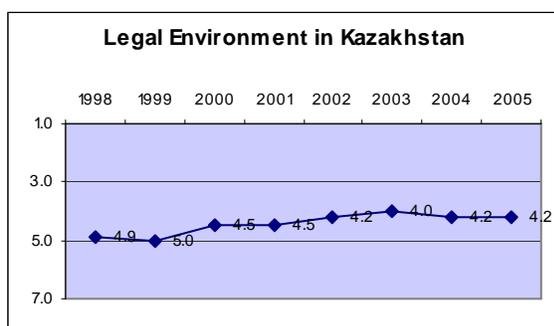
At the Second Civic Forum in September of 2005, the President acknowledged the importance of NGO service providers and

pledged government support for their activities. Government institutions have begun funding NGO initiatives, but many organizations complain that the procurement process lacks transparency. The government often awards contracts to newly formed GONGOs or as favors to friends or relatives. The organizational capacity of NGOs has deteriorated, as foreign funding decreased and the government has yet to fund training and other similar programs. Kazakhstan does not have a culture of philanthropy, though some in the business community support civil society organizations and it is believed that overall support of NGOs from businesses has doubled in the past year. These examples, however, are limited and NGOs continue to depend largely on international donors.

The NGO infrastructure has improved. Various government officials, however, have damaged the NGO sector's public image by linking it to the U.S.-funded organizations that they claim led the revolutions in Georgia, Ukraine, and Kyrgyzstan. The government tightened control over the sector before the Presidential elections and the general prosecutor's office inspected thirty-two human rights and international organizations at the demand of a Member of Parliament.

LEGAL ENVIRONMENT: 4.2

In 2005, government officials proposed three restrictive draft laws affecting NGOs. The draft Law on National Security was enacted by Parliament, while the drafts for a Law on Amendments Related to NGOs and Other Laws of Kazakhstan and a Law on Foreign and International NGOs were rejected after lobbying by local and international organizations. Representatives of the NGO community agree that the laws were an attempt to limit the role of NGOs in the 2005 Presidential election. The Law on National Security prohibits domestic and foreign NGOs from any activities that promote a specific candidate or political party. The government has not used the law to close down any NGOs, but the threat is very real



The Law on the Registration of Legal Entities simplified the registration process, but the associated fees continue to exceed \$200 and include translation and notary services. The implementing regulations also create potential bureaucratic obstacles to registration. For example, organizations are required to obtain

ORGANIZATIONAL CAPACITY: 4.1

The government policy of encouraging social partnership between government institutions and NGOs has led to the creation of many new civil society organizations. The government, however, does not have the capacity or experience to assist new NGOs with organizational development; rather, it supports specific projects. Similarly, the number of donors willing to invest in developing the organizational capacity of local NGOs continues to decline, albeit gradually. The result is that

certification from the tax authorities that they do not owe any taxes. Overall, the registration process is more consistent, the requirements are more systematic and clear, and the bureaucracy has been minimized by the designation the Ministry of Justice as the point of contact for NGOs.

Generally, there is a shortage of NGOs that focus on social issues such as invalid support, children and youth, and others in the rural areas. The government has made it a priority to encourage organizations in the regions to address these issues. The sector also enjoyed an increase in the number of attorneys trained in not-for-profit law.

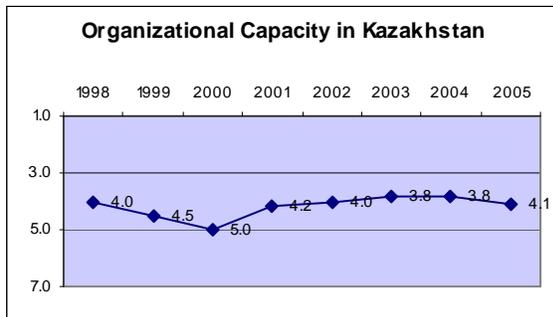
The legal framework now provides more incentives and mechanisms to promote philanthropy. Corporations may now take a deduction of up to 3% of their incomes for their donations to NGOs, up from 2% in the past. Although the number of businesses that make donations has not changed, the amount of donations has grown significantly. The Law on State Social Order was adopted by Parliament and signed into law by the President in April of 2005. The law has yet to have an impact, because it continues to be in conflict with other laws. The President's office, Parliament, and other government institutions are working to resolve these conflicts and harmonize all of the laws.

both new and existing NGOs are unable to achieve or maintain a sufficient level of organizational capacity.

Foreign donors generally require organizations to have appropriate organizational structures and engage in strategic planning. As foreign donors decrease their presence in Kazakhstan, NGOs no longer have the impetus to develop their organizational structures or engage in strategic planning. The more established

organizations have recently begun to experience brain-drain. Kazakhstan's economic growth, accompanied by high inflation and devaluation of the U.S. dollar, has caused salaries to double over the past five years. Donors have been unwilling to increase their support to keep up with growing administrative costs, forcing many experts to leave the NGO sector for jobs in the private or government sectors.

NGO representatives are not optimistic that the Law on Social Order will sufficiently address the weakened institutional capacity of NGOs, even when it is fully implemented. Volunteerism has yet to become a part of the Kazakhstan culture. Young volunteers generally do not see a future in working for NGOs, preferring jobs with the government or business sectors.

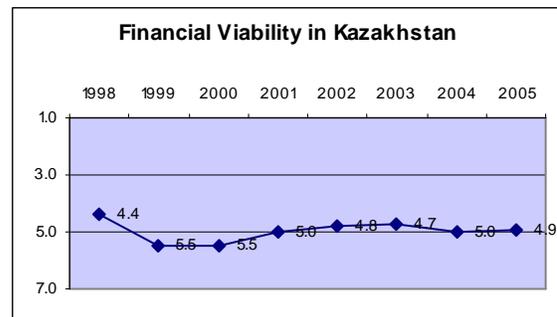


FINANCIAL VIABILITY: 4.9

The government continues to increase its funding of civil society organizations. The Ministry of Culture, Information, and Sports has a fund of approximately 400 Million Tenge (US \$3,000,000) to provide grants for various organizations, while the Ministry of Education funds the Youth Congress, a GONGO. Though the government institutions have funding for NGOs, they do not have the mechanisms necessary to manage and monitor these funds.

Despite the positive trends in NGO sustainability, civil society organizations depend heavily on international donors. Government grants to NGOs are often little more than funds channeled through NGOs to specific projects, rather than funding for the organizations themselves. Often times, NGOs only receive 30% of the amount of the grant.

The amount of financial support from the business community also continues to grow. The Kazkommertzbank continues its funding efforts, providing approximately US \$600,000 to the NGO sector. This amount is a decrease from US \$1,000,000 last year and is reportedly due to the poor quality of the proposals submitted. More funding is now available for individuals and art cooperatives. Businesses prefer to invest in social projects that do not necessarily involve NGOs. In general, NGOs are seen as beggars, and a culture of philanthropy does not yet exist. Often the akims (governors) force businesses to choose between funding social projects or the NGO sector. Advocacy and politically active organizations are unlikely to receive funding from the government or business sectors.



Overall, organizations continue to lack transparency. They do not inform the business community about their activities or create reporting mechanisms that would possibly foster stronger relations or ensure future support. Few organizations collect membership fees, and when they do, they are generally only enough to cover administrative expenses, and are insufficient to improve financial viability.

ADVOCACY: 3.8

Organizations continued their advocacy efforts over the past year, motivated primarily by the government's attempt to enact legislation that would restrict NGO activities. Approximately two-hundred domestic organizations and international donors created coalitions to lobby against the draft Law on Amendments Related to NGOs and Other Laws of Kazakhstan, and the Law on International Not-for-Profit Organizations. The President withdrew these drafts in the face of the NGO campaign against them. The Law on National Security, however, passed quickly, without any serious attempts to stop it. Some believe that the government proposed the other draft laws to distract the coalition of NGOs, enabling it to enact the Law on National Security with little resistance.



The fact that only two-hundred organizations joined the coalition indicates that numerous NGOs are still wary of participating in lobbying activities. Their anxiety was elevated by the Prosecutor General's inspection of thirty-two domestic and international organizations. The inspections were initiated by a Parliamentarian

SERVICE PROVISION: 4.0

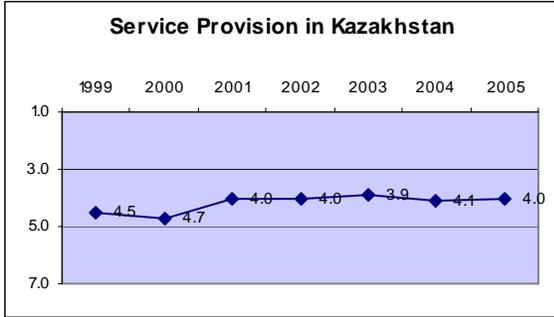
The demand for services expanded over the past year, though availability did not. NGO representatives noted that the quality and professionalism of services has improved. NGOs offer services including expert analysis, education, health, humanitarian relief, environmental protection, training, monitoring and evaluation, and others. Organizations offer training courses in teambuilding, strategic

responding to public accusations that NGOs funded by the United States may lead a revolution like those in Ukraine, Georgia, and Kyrgyzstan. Representatives of the NGO community believe that the inspections were directly related to December 2005 elections. Many organizations were already uncomfortable about cooperating with or receiving support from international, specifically U.S.-based, donors. The inspections further exacerbated their unease.

Only a few organizations engage in advocacy efforts and they generally do so at the local level. NGO representatives report that government officials actively try to prevent NGOs from participating in discussions and advocating for their interests. In one example, "Namys," an organization that serves invalids, lobbied the government on the law for the social protection of invalids. Officials, however, only allowed those who supported the government's position to participate in the discussions, while organizations such as "Namys" that had a different position were excluded.

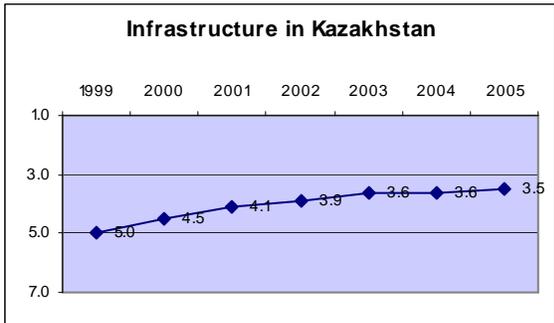
The most active advocacy organizations have begun to use the internet, listserves, and other communication technology in their big advocacy campaigns. Smaller advocacy efforts at the local level are implemented via telephone calls to local authorities. Though this is generally effective, it depends on personal relationships with those in the government and supplants greater public discussion and participation.

planning, and other areas. These training programs have become popular among the business community and government officials, and participants generally pay for the courses. NGOs, on the other hand, are unable to pay for training and, due to the decrease in funding, few training programs are being offered to the NGO sector.



Many believe that NGO services are on the rise to meet the needs of the public. Most of service providers, however, are still not familiar with marketing, and build programs around donor priorities rather than the needs of their constituents. State authorities open tenders to NGO, and government officials generally appreciate and respect NGO service providers.

INFRASTRUCTURE: 3.5

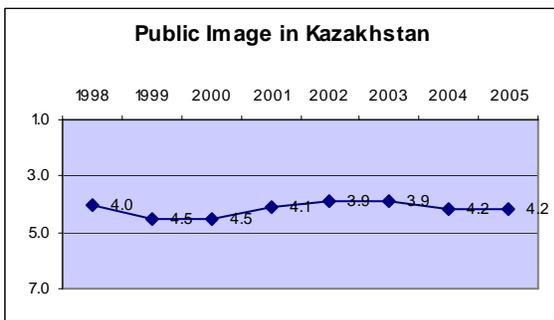


Asia. It also supported NGO activities associated with the Parliamentary elections, including election monitoring and similar activities. Each member of the Association has a satellite office which expands its work out into the regions.

The NGO sector made improvements over the past year. With the support of USAID, the Association of Civil Society Support Centers continued to develop and become more involved in providing NGOs with basic services, as well as to support civic activism on various issues. The Association Centers provide technical and legal assistance, offer internet services, facilitate information sharing, and serve as a catalyst for advocacy campaigns, such as the movement against the proposed amendments to further restrict NGO activities. The Association established partnerships with civil society organizations, the business community, and government officials throughout Central

Numerous coalitions and networks addressed a variety of social issues. During the Civil Forum, the President and other government officials expressed interest in continuing to partner with the NGO sector. Organizations benefit from a network of professional trainers, and training is offered in both Russian and Kazakh. Some courses are adopted from the business community in an effort to increase business skills. Though few, organizations such as the Association of NGOs in Kustanai continue to operate as intermediaries and distribute funds received from the business community. In general, NGO representatives reported improvements in all aspects of the infrastructure dimension.

PUBLIC IMAGE: 4.2



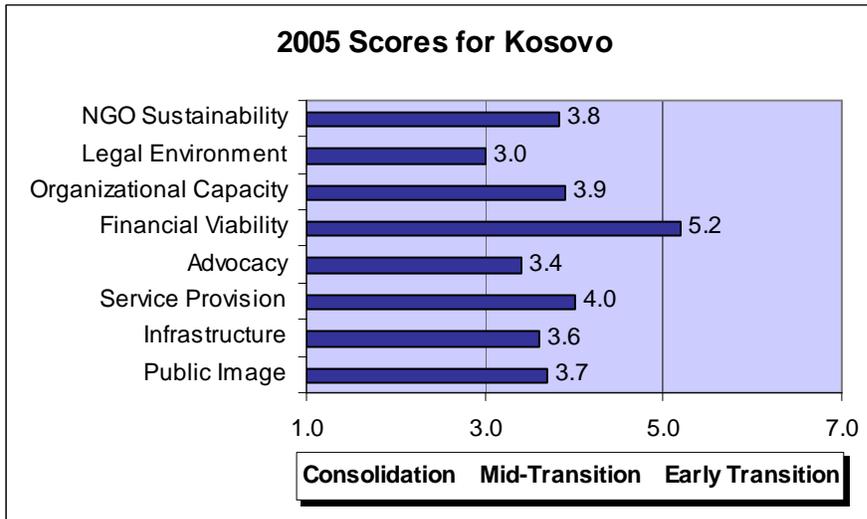
Many believe that the public's view of civil society organizations deteriorated over the past year. Publications and television programs promoted the idea that U.S.-funded NGOs will cause instability as they did in Ukraine, Georgia and Kyrgyzstan. One talk show reported that 70% of viewers linked the Orange Revolution to NGOs. The inspection of thirty-two NGOs also had a negative impact on the public image of various organizations. The coalition's efforts

against the restrictive NGO draft laws, however, were well covered, and NGO representatives report that many journalists supported their advocacy efforts. Numerous articles on NGO activities revealed an increase in professionalism of the media, and a willingness on the part of journalists to maintain contacts with the NGO community. The Second Civic Forum also received significant coverage.

The public continues to be unaware of the NGO sector. According to a USAID-funded poll taken in October 2005, only 38% of the

population was aware of NGOs and merely 4.2% reported being a member of an NGO. Organizations do not publicize their activities very well. Numerous organizations publish narrative reports or post them on their websites, but conceal their financial information. The NGO sector has yet to establish financial reporting standards. Some organizations do not have permanent budgets and survive from one project to another. Organized constituencies are very weak. As a result many organizations fail to understand the importance of being transparent to the public, thinking it is sufficient to report to their donors.

Kosovo



Capital: Pristina

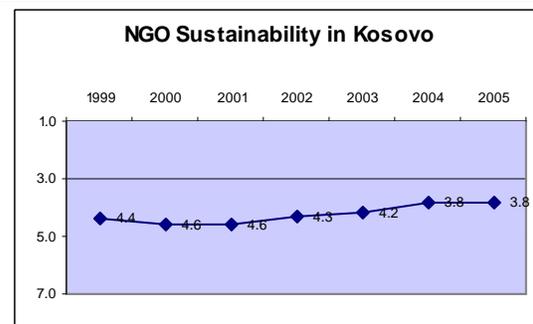
Polity: International protectorate

Population: 2,200,000

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

NGO SUSTAINABILITY: 3.8

This past year was the most challenging in Kosovo's recent history. One political challenge was the Hague's indictment of Prime Minister Haradinaj and his subsequent resignation. Another was the implementation of the Standards Implementation Plan and the October 2005 evaluation by Kai Eide, Special Envoy to UN Secretary General Kofi Annan, recommending that the UN initiate the final status process. Eide's report provided recommendations regarding the areas in which the international community should stay involved and maintain administrative responsibilities regardless of the outcome with respect to status. While initiating the final status process may end political stagnation and mark a period of dynamic developments, the uncertainty of the end result will also create great tension. The recent emergence of the "Vetevendosja" ("Self-determination") movement, which received significant popular support, calls for an end to the United Nations Interim Administration Mission in Kosovo (UNMIK) and for resolution of final status by self-determination. The economic challenges are generally the same as last year, with widespread poverty and unemployment still the highest in Europe.



More than 2500 NGOs exist in Kosovo, of which approximately 150 are well established and active. Cooperation between NGOs from different ethnic backgrounds and regions has increased, as has networking. Active NGOs have improved their organizational structures, advocacy skills and financial viability. The law on public procurement, enacted almost two years ago, has enabled NGOs to compete for government contracts to provide goods and services. The number of NGOs receiving grants and contracts from the government has increased.

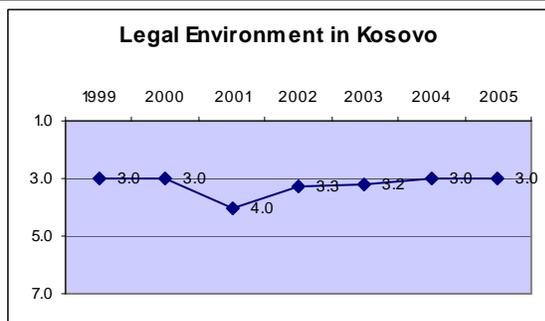
The overall sustainability did not improve over the past year. Slight improvements in the Organizational Capacity, Financial Viability and Advocacy dimensions were offset by a more

significant setback in the Infrastructure dimension.

Kosovo remains under United Nations administration and has two levels of government, UNMIK and PISG (Provisional

Institutions of Self Government). UNMIK continues to retain a portion of the governing responsibilities, though for this report, all references to local and federal government will be to be to PISG.

LEGAL ENVIRONMENT: 3.0



NGOs enjoy a favorable legal environment. The UNMIK regulations ensure that registration is quick and easy, taking most organizations a very short time. At the local level, KFOR and OSCE community officers encourage informal citizen's groups to register, and even offer them legal services in support. The law protects NGOs from the state and prevents arbitrary dissolution of NGOs for political reasons. Organizations are not harassed by the government or tax authorities. They continue to address issues important to their constituencies and criticize the government and UNMIK without retribution. For example, the Vetevendosja movement is critical of both UNMIK and the Kosovar government in calling for alternative processes that will lead Kosovo to the final status determination, and the

government has not interfered with its activities.

The Kosovar Institute for NGO Law (IKDO), which was the only organization that provided legal services to NGOs, closed its offices in June 2005. The demand for such legal services is low, and few organizations have legal problems. Organizations do not have to pay taxes on grants and are exempt from paying other taxes, though the refund process continues to be slow. Corporations are able to take a deduction of up to 5% of their revenue for charitable donations. The definition of charitable donation, however, is broad and most corporate donations support sports clubs, sports federations and scholarships, and individuals. The tax laws do not allow deductions for charity by individual donors and the laws were crafted this way to ensure simplicity and ease of administration.

Organizations are able to earn income from the provision of goods and services. They are also able to compete for government grants at both the local and national levels. The number of grants and contracts awarded increased over last year.

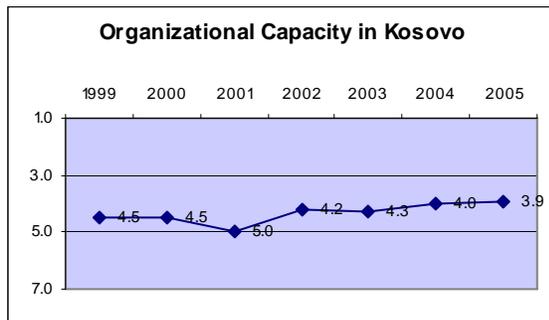
ORGANIZATIONAL CAPACITY: 3.9

A small number of NGOs have improved organizational capacity. NGO service providers and organizations with large memberships generally have the strongest constituencies. They are also the most successful in raising funds from local sources and the Diaspora. The Mother Theresa Society continues to be very effective in assisting the poor and reaching out to the Serbs in isolated villages. The Association of War Veterans and the Association of War Invalids depend entirely on funds they raise from local communities and the Diaspora.

Policy and research organizations that address issues such as democracy and economic development, by contrast, depend on funding from the international donor community. A number of think tanks and research organizations have started to raise funds by providing services to the Kosovo government.

A group of prominent and active organizations are aware of their organizational and management shortcomings and have sought training and advice on how to strengthen and

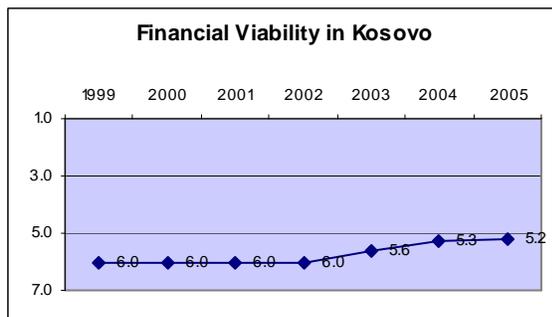
achieve sustainability of their organizations. Though limited, the number of organizations that have Boards of Directors, volunteers, paid staff, and other components of a strong institution has increased. The numbers are still relatively small and these organizations are based largely in Prishtina.



Those involved with NGO activities have high levels of professionalism and experience. Many

FINANCIAL VIABILITY: 5.2

Financial Viability is the most important dimension for the future of NGOs in Kosovo. Local support continues to be insignificant, with the majority of local philanthropy supporting charity and services. Organizations that work in other areas have greater difficulty raising funds at the local level, or developing a connection with the general population, calling into question their capacity for reaching out to the public or building a constituency.



A number of organizations, most often those with a variety of funding sources, are able to write good funding proposals. Organizations

ADVOCACY: 3.4

Government institutions and NGOs have partnered on numerous projects. Almost all

organizations have a permanent staff, but they are not always successful in recruiting and engaging volunteers. One reason may be that the concept of volunteerism needs to be redefined and adapted to post-1999 Kosovo. During the 1990's, rates of volunteerism were very high, fueled in large part by a desire to contribute to the resistance against the oppressive Serbian regime. Post-1999, many citizens want a break from volunteerism forcing civil society to provide new incentives to foster a culture of volunteerism, such as partnering with schools that offer community service credits to students that volunteer.

NGOs generally have basic office equipment, including computers, fax and printing machines, and internet, at their disposal. Many smaller organizations have yet to realize the importance of business-style management to their success.

that receive donor funding generally have sufficient financial systems, but often lack transparency in their financial transactions.

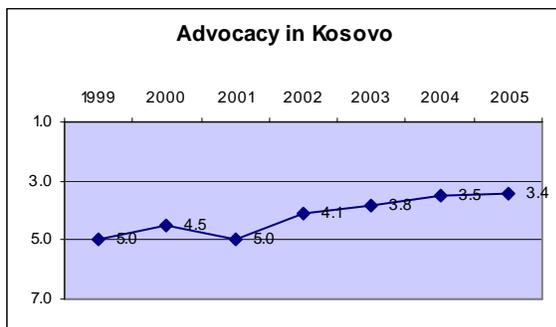
Few organizations realize that their survival depends on the ability to raise funds, and only a small number of NGOs have a staff with appropriate fundraising skills. Organizations are beginning to explore various fundraising techniques, but they often limit their searches to their membership or immediate constituencies, failing to consider demands for other products and services they could provide.

This year, the government signed more contracts with NGOs than in the past. The central and local governments contracted out a variety of services including home reconstruction and assessments. Most often, government officials contracted with NGOs to provide policy papers to support lawmaking efforts.

working groups drafting government policies have invited members of the NGO sector and

academia to participate. In addition, numerous ad-hoc coalitions were created to react to constituent concerns. The business community is the most active in advocating for the interests of their constituents. The Association of Kosovo Businesses (AKB) is very active in creating an environment that will support the growth of local business, and advocates for lowering taxes on raw materials, as well as better credit terms for local businesses. The AKB also recently completed a public awareness campaign to promote local products. The campaign was well organized and received extensive coverage from the local media. RIINVEST, a local economic think tank, was successful in advocating for amendments to the law creating the Chamber of Commerce, striking the provision that required businesses to be members.

At the local level, organizations cooperated with local governments on a variety of matters, including issues of return. Local organizations also promoted local products. In the region surrounding Gjilan, an agricultural area, organizations led a movement to promote consumption of local produce. The NGO community now considers lobbying as an effective tool. The Kosovar Women's Lobby was created to bring together women from the business, NGO and Government sectors. The NGO sector has lobbied both UNMIK and the PISG, but in the five years of UNMIK governance, organizations have had little success in influencing the UN mission.²⁶

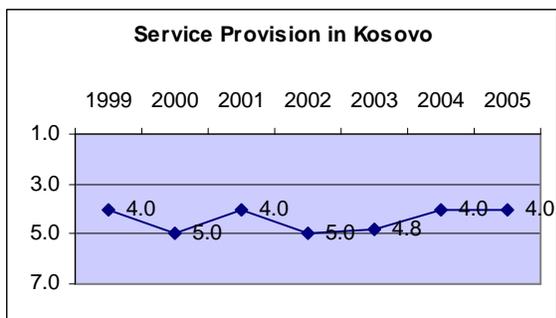


²⁶ Kosovo is an international protectorate. There are two layers of government: UNMIK and PISG. UNMIK still retains the bulk of competencies of governance, but the NGO sector, in its advocacy efforts deals with both. In the last five years of UNMIK administration, the NGO sector has major difficulties in influencing UNMIK decisions. For the purpose of this exercise this section of the report will define PISG as local and federal government.

SERVICE PROVISION: 4.0

The concept of NGOs as service providers is widely accepted throughout Kosovo. Organizations provide a variety of services, especially basic social services such as health care, education, relief, housing, water and energy. The number of organizations providing services in other areas such as economic development, environmental protection and governance is small.

The number of organizations receiving grants and contracts to provide community services did not change in the past year. Handikos, Community Development Fund, some women's organizations, and youth groups are the largest recipients of government grants and contracts. The government has contracted NGOs to assist them with drafting policy papers on topics such as decentralization and economic development. KIPRED now assists government working groups in drafting policy for the future Ministry of the Interior, while RIINVEST assists in refining fiscal policies and establishing a credible budget process.



Despite these examples, the government has yet to develop a tradition of outsourcing

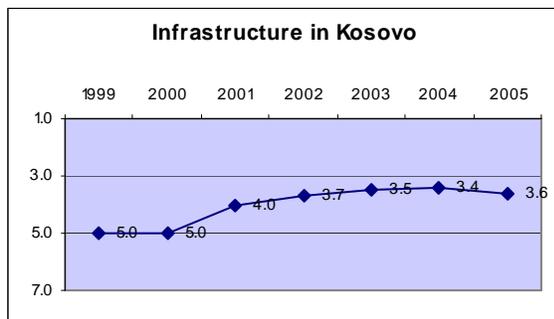
services to the NGO sector. Similarly, NGOs have not improved their abilities to recover costs. Some educational institutions with nonprofit status, the IPKO Institute and The New Millennium for example, charge tuition to

generate income. These are isolated examples from the capital. Outside Prishtina, the concept of recovering costs is still foreign to smaller organizations.

INFRASTRUCTURE: 3.6

The NGO infrastructure has been less supportive than in past years. OSCE-established resource centers have been less active in providing services to other NGOs, and some have changed their missions to include implementation of advocacy programs. The only functioning resource center is the Advocacy Training and Resource Center (ATRC) based in Prishtina. ATRC is undergoing organizational and staff changes and has recently hired a number of qualified trainers. During this consolidation period, the number of trainings offered has been very small.

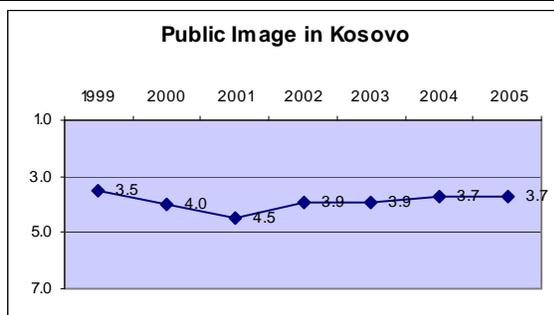
addresses locally identified projects. The Community Development Fund offers grants to NGO service providers to increase the availability of social services. KFOS supports a wide variety of NGOs, especially organizations that provide services to minorities. The Kosovo Civil Society Foundation re-grants funding provided by the European Agency for Reconstruction. The Kosovo Women's Initiative provides grants to smaller women's rights organizations in the rural areas, and the Foundation for Democratic Initiatives provides grants for advocacy organizations.



Five local grant making foundations, one based outside of Prishtina, re-distribute international donor funds. International funding generally

NGOs share information with each other, but formal channels of communication do not exist. Similarly, the NGO sector still does not have an organization or committee through which NGOs may promote their interests. Informal inter-sectoral partnerships exist and are very effective. Business associations are the most successful in building these partnerships. Environmental organizations are also successful in building partnerships, and have partnered with the Green Party of Kosovo, which is a small political party that has yet to win a seat in the Parliament.

PUBLIC IMAGE: 3.7



NGOs continue to attract attention from both the national and local media. The coverage

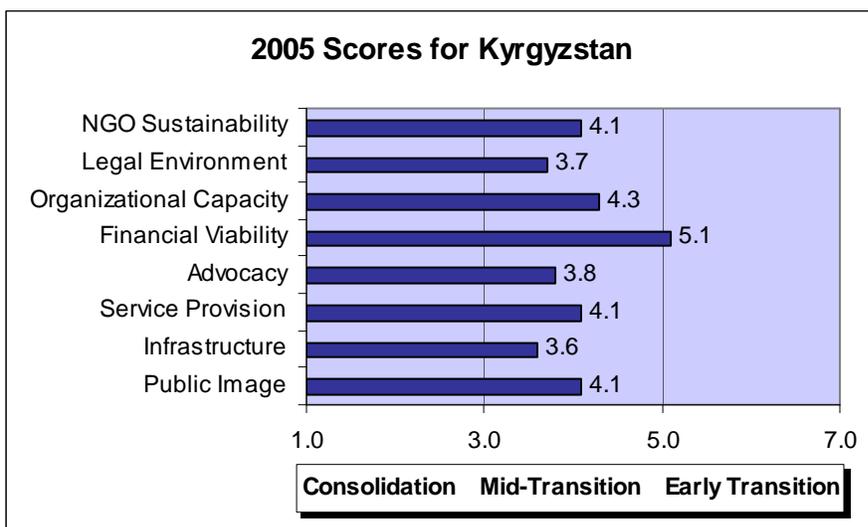
is generally positive and related to public events organized by NGOs. Both public and private national television stations broadcast public service announcements by key organizations in prime time free of charge. Less influential organizations are able to place public service announcements on public television, but not during prime time.

Overall, the public understands the concept of an NGO and has a positive perception of the sector. The most prominent incident involving the NGO sector's public image was when the speaker of Parliament, during an address to

parliamentarians, made several comments such as “Please do not act like NGOs. Be more serious. We are Parliamentarians and not NGOs.” A small group of organizations has

developed a very good relationship with journalists. Leading NGOs publish annual reports of their activities and their financial statements.

Kyrgyzstan



Capital: Bishkek

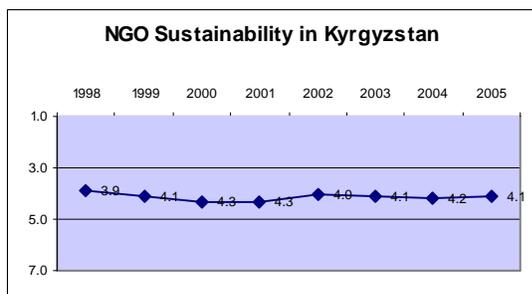
Polity: Republic

Population:
5,213,000

**GDP per capita
(PPP):** \$1,800

NGO SUSTAINABILITY: 4.1

The NGO sector continues to play an active role in Kyrgyzstani society, with about 2,200 of the 9,000 NGOs registered considered active. Organizations continue to depend primarily on foreign funding, though many are beginning to diversify by exploring other sources of funding, such as charging fees for services.



The regime change on March 24, 2005 presented civil society with new challenges. Organizations found themselves with an unprecedented opportunity to influence the new government's priorities and implement their own agendas in a newly open environment. Civil society presented a united front at the National Civil Society Forum in April, where it organized proposals for reforms to the Constitution, the judicial system, and state-run media. It also called upon the new

administration to implement measures to reduce corruption.

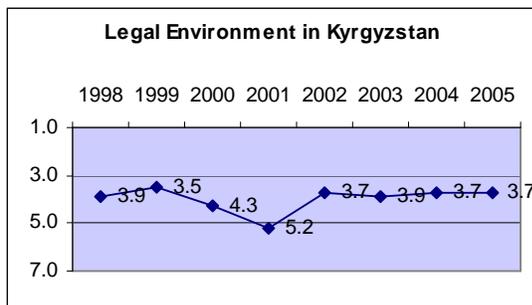
Organizations also played a vital role in conducting voter education campaigns leading up to the February parliamentary elections and the July presidential elections. This is in stark contrast to 2003, when government officials applied significant pressure and scrutiny to NGOs active in the flawed and politically charged constitutional referendum. Organizations continue to gain experience conducting advocacy campaigns on issues such as election reform, NGO taxation, CBO legislation, schoolchildren's nutrition, and alcohol and drug abuse.

Organizations generally maintain good relations and even collaborate on projects with local governments. Instability following the March 24th change in government also led to changes in local governments. NGOs have had to build relationships and trust with the new leadership, which has been a setback for the NGO-government partnerships. Foreign funding is decreasing, which has generated both competition and partnerships among NGOs. In one example of greater cooperation, NGOs worked together to educate voters and monitor the voting process for the

parliamentary and presidential elections. In fact, for the presidential elections, a steering

committee of leading organizations partnered to set priorities and allocate small grants.

LEGAL ENVIRONMENT: 3.7



The legal environment governing NGOs did not change over the past year, remaining permissive and supportive of NGO activities. The registration process is still without significant problems, and free of charge. Once registered, organizations are able to engage in economic activities, though most NGOs are unaware of the various ways to generate income or compete for government contracts.

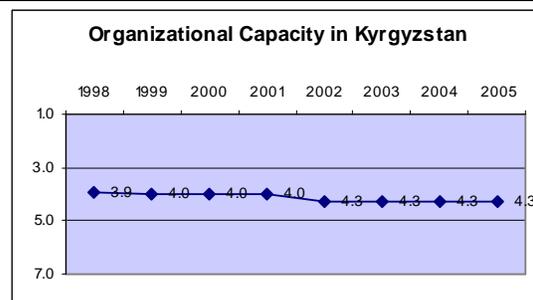
NGOs complain that local attorneys lack understanding of NGO laws and issues. In 2004, USAID began funding a network of NGO resource centers that provide legal services and

information to NGOs in the regions. Despite these efforts, organizations in the remote areas are unable to take advantage of these services. Harassment by government officials is not as bad as in previous years, though organizations are still subject to unannounced inspections by local law enforcement agents. Some NGOs report that tax inspectors make arbitrary demands for documents. Other organizations continue to report that while NGOs work in Kyrgyz, the local language, the government at times requires them to submit documents in Russian.

Government officials did not interfere with NGO activities in the parliamentary and presidential elections. Organizations around the country conducted educational programs, as well as trained and mobilized election observers, who were given good access to the election procedures.

ORGANIZATIONAL CAPACITY: 4.3

While a small number of larger organizations located in the urban areas have strong organizational structures and internal management, most NGOs are small and poorly staffed. NGOs often rely on one or two leaders that understand and are committed to their organizations' missions. In the small towns and rural areas, organizations operate out of their directors' homes and use the directors' addresses and phone numbers as the organizations' contact numbers.

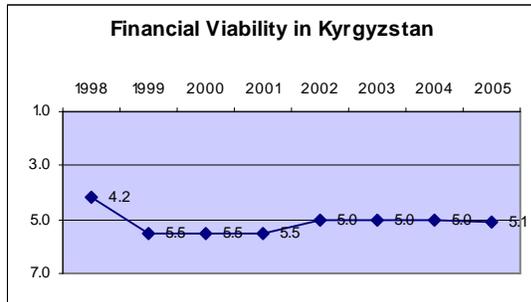


Many organizations fail to understand the importance of strategic planning and few outside the capital have a strategic plan. Similarly, while many organizations have boards of directors, they are rarely used effectively. Few organizations understand the distinct roles and responsibilities of, or distinguish between, their staff and boards of directors. Most NGOs have few financial resources beyond what they receive through grant programs, making it

difficult for organizations to pay their staff regular salaries and attract young professionals to the sector. Organizations are increasingly

recruiting volunteers from high schools and universities to work on projects.

FINANCIAL VIABILITY: 5.1



In general, the financial condition of most NGOs did not change over the past year, despite a slow Kyrgyz economy that limited local philanthropy and other economic opportunities. Relationships between NGOs and the business community continue to be underdeveloped, and donations are rare. Individual philanthropy is also underdeveloped. Numerous organizations received support from parliamentarians, who helped them to capitalize their microcredit portfolios, to rehabilitate social infrastructure, and requested them to distribute humanitarian aid under their names. This support, however, was likely related largely to the individual parliamentarians' re-election campaigns.

While the decrease in donor funding has limited the availability of grants, NGOs are forging new partnerships with other NGOs and local governments. Local governments at times provide assistance to NGOs for specific projects, though few take advantage of a law that allocates funds for local civic organizations. Under the law, the Ministry of Finance may

ADVOCACY: 3.8

The NGO sector conducted numerous advocacy campaigns over the past year with some having great success. Emboldened by the March 24th change in government, numerous NGOs increased their advocacy activities. A nationwide campaign for fair elections united many national organizations around voter education and monitoring drives. Local NGOs, organized in the U.S. State Department-funded

provide seed grants via the local governments to community-based organizations. The procedures are extremely bureaucratic and require funding requests to pass through every level of local and regional government; as a result, few organizations have succeeded in securing such funding. Other government support is limited to space for events, or other in-kind donations. One exception, however, is the town of Nookat, in the Osh Oblast, in which the local government allocates funding to support local organizations. In general, donors tend to support specific initiatives, rather than institutional development. USAID, which began offering an institutional grant program for local NGOs, is an exception.

The scarcity of economic opportunity, as well as the lack of capacity, limits the fundraising success of most NGOs. Some NGOs, however, have had success. 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. Leading up to the presidential elections in July, Kel Kel, a youth organization, coordinated a series of high-profile "Rock the Vote" concerts and organized funding from a variety of donors such as OSCE and the Democracy Commission under US Embassy.

Some organizations are increasing their transparency and publicizing their financial records and the results of their projects.

information centers located throughout the country, conducted campaigns to monitor government compliance with legislation. Civil society representatives had a strong presence on the Constitutional Council appointed by President Bakiyev in April to develop constitutional amendments. The presence of civil society representatives was diluted in October when the President expanded the

Council to nearly 300, adding representatives from local government and municipal institutions, media, school systems, and the farming community.

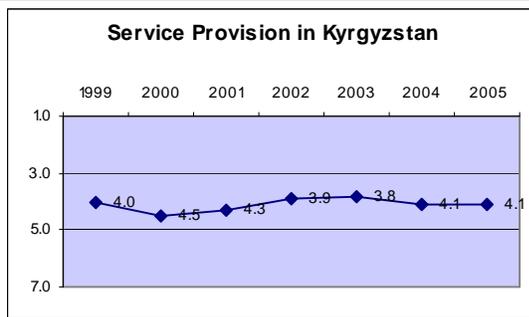
NGOs often have productive relationships with local authorities, though lobbying at the local level is often limited to participation in budget hearings. The frequent changes in local government staff following the March 24 changes has set back relations with local officials, as organizations have to build new relationships and trust.

Only a few larger organizations that have a national presence are able to organize independent nation-wide advocacy campaigns.



Throughout the year, organizations have launched advocacy campaigns on topics such as alcohol abuse, tenants' rights, migratory labor, and communications operators. Smaller organizations that are unable to initiate nationwide campaigns tend to join coalitions supported by international donors.

SERVICE PROVISION: 4.1



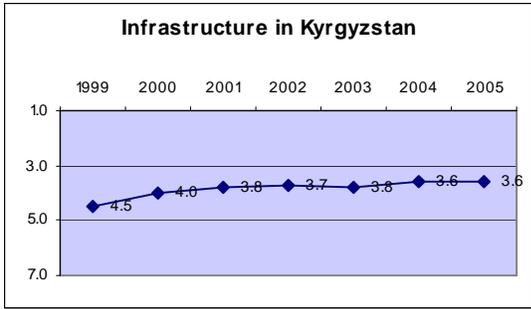
While some organizations are able to provide consulting and training services for a fee, the Kyrgyzstani economy is not yet strong enough

to offer many opportunities for NGOs. In addition, NGOs often lack the capacity and knowledge to tap into existing markets. A few well-established organizations provide training materials, reports, handbooks, and research for other organizations, political parties, and government ministries. Others provide training to law enforcement officials on domestic violence issues. Charging a fee for such services is an increasingly accepted practice.

INFRASTRUCTURE: 3.6

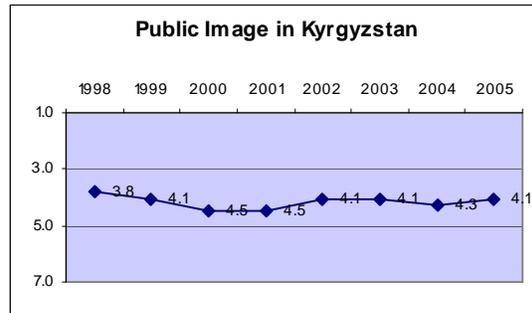
NGOs in Kyrgyzstan enjoy access to numerous resource centers that offer training and other services. Many of the services however, are not offered in small towns and rural areas. The Civil Society Support Centers funded by USAID provide technical assistance, access to computers, information, and legal services. The NDI Information Center for Democracy, funded in part by the U.S. State Department, offers infrastructure support for NGO activists by providing access to media resources, facilitating discussions, and providing meeting spaces. Other organizations provide a variety of training opportunities, including trainings of trainers that have led to a cadre of local

trainers. Donors also fund resource centers that provide NGOs with internet services and computer training. Media resource centers in Bishkek, Osh, and Karakol host frequent press conferences. Most resource centers are located in oblast or rayon centers, leaving NGOs in the regions to struggle with communications and access to information. Two youth groups, Kel Kel and Birge, created popular listserves that provided other organizations with information about civil society, government activities, and grant opportunities.



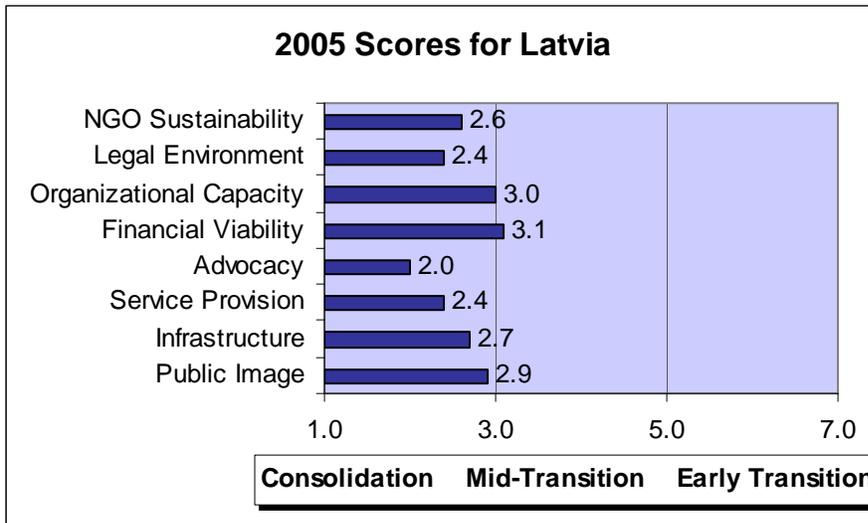
PUBLIC IMAGE: 4.1

Both the independent and state-controlled media continue to increase their coverage of NGO activities. Leading up to the February parliamentary elections, state-controlled media and government officials criticized organizations supported by the U.S. and accused them of violating local laws and promoting instability. Following the March 24th change of government, state media was far less critical of those organizations involved in human rights or pro-democracy activities. Independent media, while more balanced in its coverage, does not actively seek out information on NGO activities. Most organizations lack sophistication in public and media relations, though following the regime change, NGOs in Bishkek held more press conferences to announce new activities or campaigns.



A poll funded by USAID found that public awareness of NGOs is high, though this awareness does not necessarily translate into a positive public image. The beneficiaries of NGO services are more likely to have a positive image of NGOs; the majority of citizens however, are not interested in the NGO sector.

Latvia



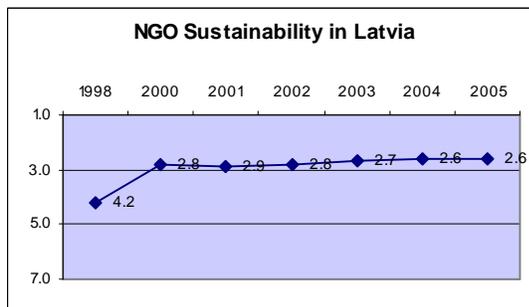
Capital: Riga

Polity: Parliamentary democracy

Population: 2,274,000

GDP per capita (PPP): \$13,000

NGO SUSTAINABILITY: 2.6



The year 2005 has been one of change for Latvian NGOs – both the economic and legal environments were transformed significantly. The changes are the result of short-term economic, administrative and social developments related to accession to the E.U. Inflation and the withdrawal of foreign donors, along with a tradition of weak philanthropy have had an adverse impact the ability of NGOs to operate efficiently. Though NGOs in theory have access to funding, the reality is that only a few already viable organizations with stable foreign and local partners are able to gain access. Government and E.U. grant-making organizations have created large administrative obstacles to funding. In addition, there are several new social issues that require NGO attention, such as the migration of Latvians to other E.U. member states.

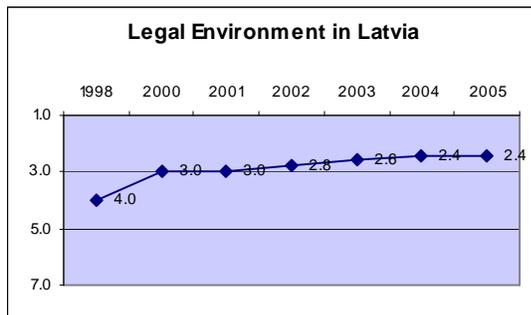
Legal reform has also had an impact on the NGO sector. All organizations were required by the new Law on Associations and Foundations that came into effect in 2004 to re-register by the end of 2005. In addition, there are new administrative rules governing NGOs' ability to receive tax exemptions. These major changes have resulted in many new opportunities. NGOs are now involved in new partnerships and E.U. cooperation networks, and many organizations have developed new lobbying skills that allow them to participate at the local, national and E.U. levels. Organizations are now better equipped to overcome social problems. Several organizations are consulting organizations from countries in transition such as Georgia, Ukraine, Kazakhstan and Moldova.

The government now recognizes the role of civil society in developing policy and new channels to promote cooperation have been introduced. These channels include the National Program for Strengthening Civil Society, which the government approved in February, and the Memorandum of Cooperation between the Government and Civil Society, signed by the Prime Minister and NGO representatives in July. The government and NGO sector have also negotiated a draft Declaration on Cooperation between the Parliament and

NGOs. In addition, NGOs participate in numerous government consultative bodies and

working groups.

LEGAL ENVIRONMENT: 2.4



The registration process is easy and relatively inexpensive, and re-registration of NGOs, as mandated by the Law on Association and Foundations, is free. Organizations do have some administrative costs such as for changing seals, organizing assemblies to adopt new bylaws, and the like. Many NGOs are using legal assistance. Eight-hundred NGOs registered in 2005, a slight increase over the number of new organizations last year.

Government institutions have made several attempts to limit the freedom of association in the name of national security and public order. A government working group contemplated amendments to the Law on Public Organization and Associations to increase government oversight of the NGO registration process and to make it easier to dissolve an organization for not following its bylaws. The Parliament did pass amendments to the law that regulates assembly, limiting the freedom to demonstrate and organize pickets. The amendments limit the location of demonstrations as well as expand the rights for local governments to prohibit demonstrations or pickets on national holidays. These restrictions were introduced to secure public order on dates that continue to be politically very sensitive. These days include the Day of Memory, which commemorates the soldiers that died during World War II. Latvian soldiers were recruited to both the German and Russian armies, depending on which one was occupying Latvia. In past years, demonstrators from different antagonistic

groups have been held in close proximity to each other. The government passed the amendments also to prevent politicians from using pickets in their pre-election activities. Presidential elections are scheduled for 2006, and Parliament passed the laws so that picketers have to be silent. The government has stated publicly that it wants NGOs to be involved in developing public policy.

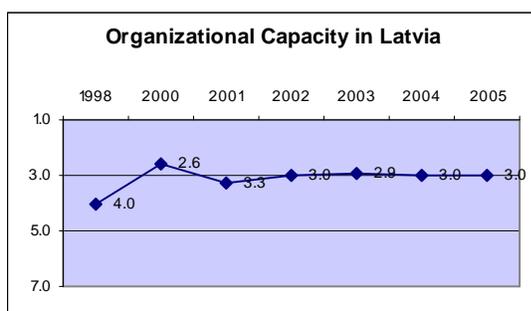
The Law on Public Benefit Status came into force in October 2004 and the Public Benefit Committee which grants public benefit status began to operate in April. It is comprised of ministry officials and NGO representatives from fields such as environmental protection, welfare, health, civil society, integration and sports. The Committee and its inclusive nature have increased the transparency of decisions on public benefit status. By December, the Committee had granted status to 534 NGOs. Under the new law, public benefit status is permanent and can be revoked only in cases of major misconduct.

Amendments to the Law on Corporate Income Tax came into effect in January 2005, and distinguish between sponsorship and Philanthropy. While this was an important step, the government has yet to create clear guidelines for separating commercial activities and philanthropy. This is of great concern to public benefit organizations which are subject to unclear auditing criteria. The VAT Law was also amended but the new provisions do not come into force until January of 2006. NGOs will receive the same tax exemptions as other legal entities that provide social services.

Though the registration process is relatively advanced, NGOs are not yet recognized as equal players in providing social services. Procurement opportunities, delegation of public tasks by both national and local governments, and conditions for receiving E.U. and other funding all favor government-run organizations.

ORGANIZATIONAL CAPACITY: 3.0

Official statistics contain data from both the old and new NGO registers. At the end of November 2005, the State Enterprise Register listed 3496 associations and 286 foundations that are registered under the new law. Data suggests that 5517 organizations have not re-registered and will be moved from the Register on January 1, 2006. Public Benefit status has been granted to 534 registered NGOs.



Though the re-registration process has increased NGO awareness of legal procedures, mission statements, and organizational structure, other aspects of organizational capacity have not improved. A typical NGO in Latvia is still a small organization of twenty members. The new law permits organizations to

operate without a two-tier organizational structure and many organizations have chosen to have Boards of Directors serve as their executive bodies, while their assemblies of members make all of the decisions.

The most advanced organizations conduct strategic planning. Long-term planning, however, is hampered by rapid change in the economic, legal and social environments. Most organizations rely on short-term planning for their financial survival and, at times, are involved in projects that are only remotely connected to their missions. Most organizations do not have a permanent staff and rely primarily on volunteers. The strongest organizations often have a few prominent employees. Paid positions are generally dependent on the project available. The Law on Foundations and Associations permits NGOs to reimburse their volunteers, though state officials often do not understand how to administer the rule. The fear that government officials will misinterpret the law, which would result in fines, makes organizations wary of rewarding volunteers or reimbursing their expenses. A draft law on volunteers, which will clarify these issues, was submitted to the government in December.

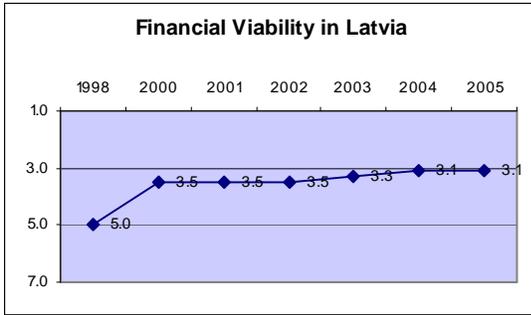
FINANCIAL VIABILITY: 3.1

There are few new initiatives to compensate for the gradual decrease of foreign funding. Four community foundations are active in Latvia, two of which were created in 2005. A charity internet website that solicits private donations for public benefit projects has made donating funds easier and more transparent. The Community Initiative Foundation was created to continue the Netherlands Queen Juliana Foundation's ten-years of support for social and health care infrastructure projects in the rural areas. As a local foundation, the Community Initiative Foundation now raises funds locally.

E.U. membership has paved the way for new sources of financing for NGO service organizations. Due to eligibility criteria and other conditions and procedures, only a small

percentage of organizations are able to access funding.

In February, the government approved the National Program for Strengthening Civil Society with the goal of promoting community initiatives and strengthening NGOs, as well as building cooperation between NGOs and the government. This program provides some limited grant assistance for NGO development, and gives the NGO sector some responsibility for the implementation of the national program. Though the program targets key issues in strengthening civil society, financial support is relatively limited.



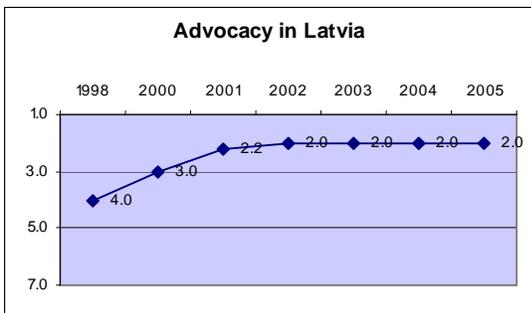
Surveys report that individuals are willing to donate small amounts of time and money to organizations involved in social issues,

environmental protection, and sports. Businesses are most willing to support sports, culture, and social organizations. Individuals and businesses provide little support for human rights or democratization issues such as transparency, anti-corruption, gender equality, and civil society development. Despite new funding opportunities, most NGOs rely on one or two sources and do not work to diversify further their sources of income. This is a result of inadequate administrative support for NGOs since administrative teams generally only focus on daily operations and not on developing long-term financial planning.

ADVOCACY: 2.0

The NGO sector has grown stronger over the past year and is able to cooperate better with the central government. Several large organizations established the Civic Alliance – Latvia, an umbrella organization that advocates on behalf of the NGO sector as a whole. In addition, NGOs and the Cabinet of Ministers signed a Memorandum of Cooperation in July 2005. The Memorandum envisages steps to improve the NGO environment and cooperation with government officials. It also creates monitoring and updating mechanisms for the document. As required by the National Program for Strengthening Civil Society, all ministries have appointed officials that are responsible for including NGOs in all decision-making. These officials have already begun to coordinate the implementation of best practices into their ministries.

In 2005, a joint working group drafted a Declaration on Cooperation to promote partnership between NGOs and Parliament. The Declaration will promote the use of public hearings by parliament committees and an annual joint NGO-Parliament meeting, and clarify procedures for involving NGOs in committee projects. The draft will be open for public hearings and discussed by Parliament committees before being enacted. Though laws, regulations, and agreements provide many opportunities for NGOs to cooperate with Ministries, Parliament and other government institutions, in practice they are often ignored by government officials, who often make quick decisions behind closed doors.



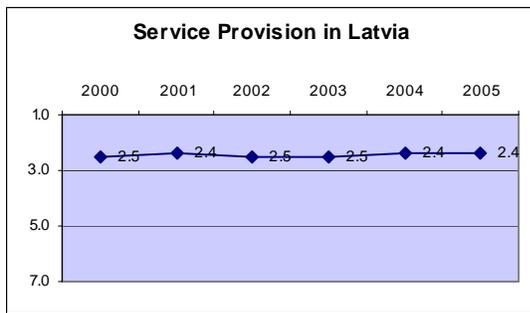
NGOs have developed a few strong, inter-sectoral coalitions concerning issues such as sound forestry. NGOs have won several recent cases in the Constitutional Court, a sign that the judiciary understands the role of NGOs in ensuring good governance.

SERVICE PROVISION: 2.4

NGOs provide a wide range of services in a variety of sectors. E.U. accession significantly changed the environment for NGO service

providers. Not only the needs of society, but also the regulatory framework and the availability of resources available to service

providers were altered. The E.U. has more stringent qualifications for service providers. The government has introduced a Register for Social Service Providers, and only five organizations have been able to meet the higher standards. NGOs are unable to compete for service contracts when local governments support their own service providers with administrative and operational costs. The State also guarantees student loans for social workers and teachers that work for local government institutions, but do not provide similar benefits for NGO employees.



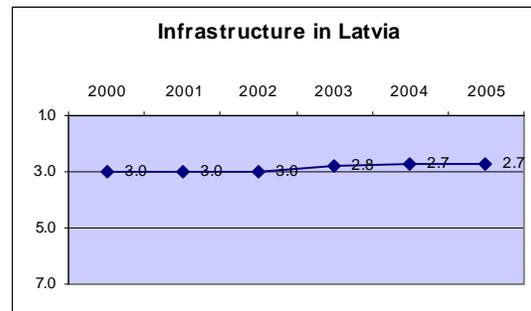
Several of the large, experienced organizations that provide social services have introduced a diversified approach with their clients. They collect fees for services from those that are able to pay, and cooperate with local social assistance departments that cover the costs of those clients who are under the poverty line. The smaller, self-help organizations, especially those outside the capital, on the other hand, volunteer their services. These organizations do not consider the income of their clients and are unable to meet the requirements established in the Social Service Provision. Though they are smaller, these organizations are the most responsive to people in need and the most flexible in their services. Even if the overall trend is positive, NGO service providers will need more time to adjust to operating under new administrative barriers before they will be able to sufficiently recover their costs.

INFRASTRUCTURE: 2.7

Civic Alliance-Latvia is an umbrella advocacy organization that promotes the NGO sector's interests. It has been successful in monitoring government policies and protecting the sector's interests with the government and Parliament. In Riga, NGOs do not have access to resource centers that offer technical assistance, computers, meeting rooms, or support with projects. Such centers are not financially viable and donors are no longer supporting them, which makes it difficult for new organizations. A new resource center is planning to open in 2006, which will be an improvement. NGOs in the regions do enjoy a network of NGO resource centers that provide technical support, information, and consultations, funded by both local governments and other sources. Next year, the National Program for Strengthening Civil Society will provide support for the resource centers in the capital and the regions.

NGOs have access to a few training opportunities on NGO management and

project development. Though a national program supports consultations and trainings for NGOs, there are few skilled trainers. Many trainers left for the private sector and there is not a system to train new ones.

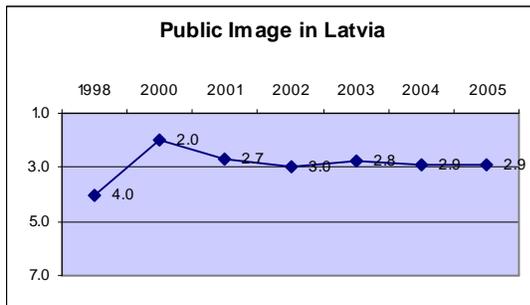


One positive development is the emergence of NGO networks in areas such as elderly services, environmental protection, social services, poverty reduction, gender equality, and persons with special needs. These networks operate in close communication with their European counterparts and are becoming more effective in influencing E.U. and Latvian policies.

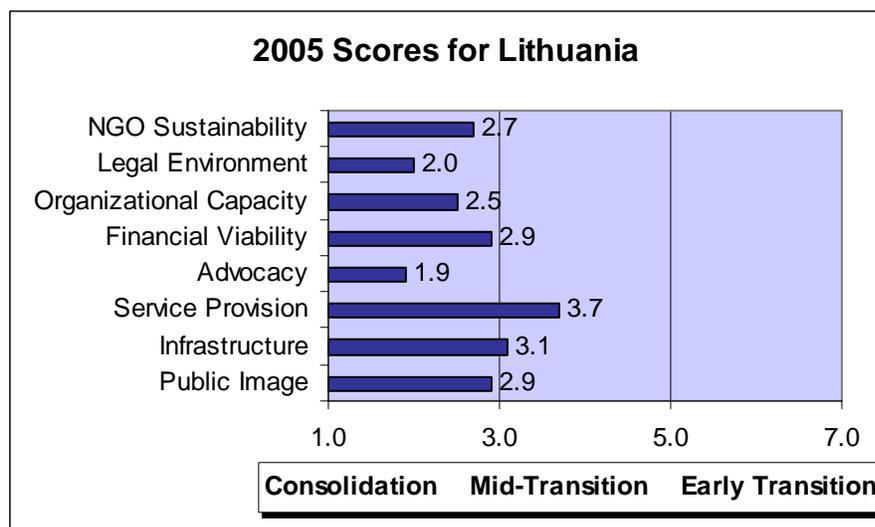
PUBLIC IMAGE: 2.9

Local media generally report on events organized by NGOs. Both national and local newspapers highlight NGO social service providers and people involved with philanthropy. Press releases by NGOs are treated the same as any others and are easily published. Experts from leading NGOs are often invited to appear on political talk shows and their opinions are often reflected by journalists.

Some influential newspapers have published articles against NGOs involved in democracy building, transparency and human rights. This began in 2004 when some organizations monitored pre-election expenses of political parties. Public image has also been affected by a media debate between NGO representatives and the President regarding the rights of NGOs to participate in the decisions concerning political appointments. The public does not yet have a clear perception of or a positive attitude towards NGOs, which are still viewed with some suspicion.



Lithuania



Capital: Vilnius

Polity: Parliamentary democracy

Population: 3,585,000

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

NGO SUSTAINABILITY: 2.7



Having reached the consolidation stage, the Lithuanian NGO sector is undergoing qualitative rather than quantitative developments. The number of NGOs did not change significantly and organizations are located throughout the country, in both rural and urban areas. Communities continue to mobilize, and use NGOs to meet their needs.

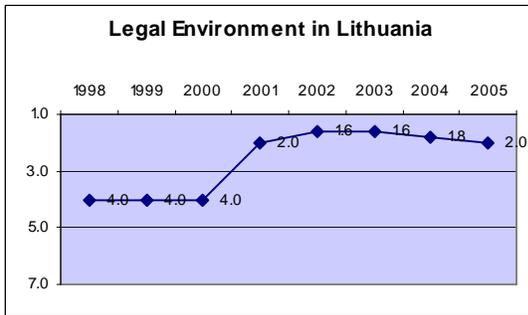
Not all types of NGOs have achieved the same level of development. Women's rights organizations and youth groups create the strongest networks in terms of sharing information and cooperation.

The inability of NGOs to sell their services and the absence of institutions to advocate for the sector's interests are the two weakest aspects of the sector's development. In order to access significant funding from the E.U., NGOs need to come to an agreement with the government over co-funding their activities. While it is fashionable for local and national governments to invite NGOs to participate in decision-making, NGO representation is not strong enough. NGOs continue to be unable to publicize their efforts so that the public better understands the sector's role.

LEGAL ENVIRONMENT: 2.0

In 2002, Parliament adopted a "2%" law," which permits an individual to designate 2% of his or her income tax liability to a designated non-profit entity. Since the passage of the law, the NGO sector has not had any support from lawmakers. Laws and regulations that were recently enacted indicate that legislatures do not understand the needs of the non-profit sector. For example, the law holds NGOs to

the same financial standards as for-profit corporations. Amendments to the Law on Profits, which took effect January 1, 2005 and applies to NGOs as well as businesses, place a 15% tax on revenues generated from providing services, selling products, and leasing assets, if the organization makes more than Lt 25,0000 (\$800 USD).



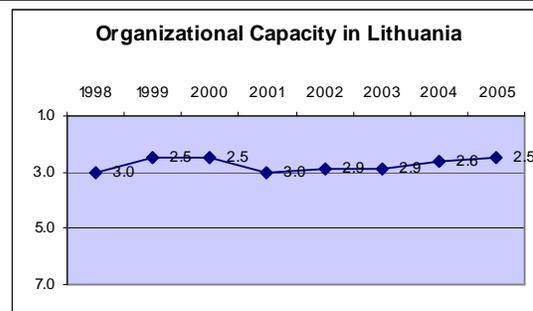
The Non-Profit Accounting Rules, enacted in the beginning of 2005, are a positive development, in that no other special accounting regulations existed before. The drafters of the law, however, did not give adequate consideration to the specifics of non-profit financing, essentially copying business accounting standards. The State Tax Inspectorate, which issues comments on new laws, has yet to issue any comments on the Non-Profit Accountancy Rules, which leaves significant leeway for interpretation. NGOs are unsure how individual inspectors will interpret a provision, raising fears that random tax inspections will lead to fines.

The NGO sector is worried about a new law that Parliament is considering. The law is intended to prevent money laundering, and, if passed, will require that any cash donations from a business over Lt 7,000 be taxed at a rate of 15%. The provision would not apply to bank transfers, but may have a negative impact on cooperation between the business and NGO sectors. Another mechanism to control the use of funds by non-profits has not been effective. Since June 2004, an NGO wanting to receive charitable contributions must acquire a certificate issued by the State Registry to show its charity recipient status. Though still in effect, this requirement is obsolete, as now any organization registered as a non-profit entity can receive the document after paying a small fee, even if it is an active NGO or an unknown organization “on-paper.”

Apart from a few financial impediments, NGOs are able to operate freely within the law. NGOs are free to criticize the local and national governments and have significant voice in public debate.

ORGANIZATIONAL CAPACITY: 2.5

The changes in funding sources and withdrawal of traditional donors have forced NGOs to reconsider their priorities and become more responsive to their local constituencies. This has led to contracts with local governments and community members, and increased the number of volunteers. In order to diversify funding, NGOs have become more business-like in their strategic planning. NGOs also continue to learn how to use their Board of Directors more effectively. The NGO sector continues to have staffing difficulties. NGOs have a high rate of employee turnover, and many people work at an organization as their second job. Employees gain valuable experience in the NGO sector, which makes them more competitive in the public labor market where they are able to receive higher salaries and greater benefits.



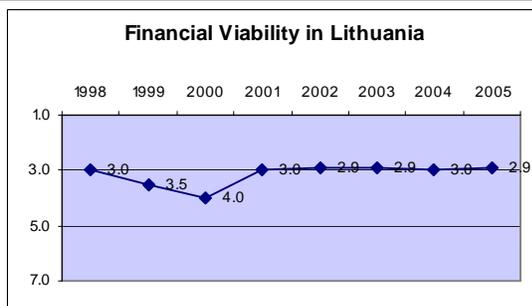
E.U. structural funds provide new possibilities for increasing employment opportunities in the people; rather, those who work under

“authorship” agreements can potentially be hired full-time. Employment grants provide employees with more benefits, which are an incentive that may keep more people from leaving the NGO sector. Over the past year, NGOs have continued to improve their working conditions. NGOs have greater access to the internet. Many organizations have renovated their offices or moved to new ones, and many obtained new office equipment. The State Council of Youth Affairs and the State Council of Handicapped Affairs purchased new

computers and multifunctional machines were

made available to NGOs.

FINANCIAL VIABILITY: 2.9



Local funding and in-kind donations have become increasingly important. NGOs have been able to decrease the time they spend recruiting volunteers because university students looking for internships and high school students fulfilling social-work credits are turning to the NGO sector. Many organizations lack the capacity to manage volunteers, some of which are turned away because there is no one to coordinate their assignments or provide training and supervision.

Income from the “2%” personal income tax designation has already begun to reach NGOs, and is especially important for those organizations working at local and regional levels, which continue to depend on municipal governments as a main source of funding. Since 2003, local governments are more transparent in their funding of NGOs. Each municipality has developed a fundraising strategy that is available to the public. For example, in Kaunas, the

ADVOCACY: 1.9

NGOs and government institutions at the national and local levels have increased cooperation in several areas. The National Strategy of Welfare of a Child, the Consolidated National Plan of Action to Reduce Poverty, and the National Plan of Action to Fight Trafficking in People were all adopted with significant roles for NGOs. Community organizations have demonstrated their ability by advocating for REIN, a regional program. Two hundred organizations signed a petition requesting that the government install

municipal government made 2 million Lt available to NGOs through eight programs, and another 7 million Lt in programs that are open to both the NGO and business sectors.

As the Lithuanian economy grows, businesses become wealthier and more willing to cooperate with NGOs. Businesses and several of the stronger NGOs are now creating long-term agreements of support. The majority of the NGO sector is still unable to provide the guarantees necessary to be reliable partners. NGOs have similar problems with E.U. support; organizations are unable to access E.U. funds unless they are able to pledge that they can maintain their offices, ensure sustainability, and other requirements. NGOs must have funding to be able to apply for and receive E.U. funding. NGOs, especially those in the rural areas, do not have adequate access to accountants familiar with NGO operations.

Trilateral projects have recently become a source of funding for NGOs. Foreign donors fund Lithuanian NGOs to work in Belarus, Ukraine, Moldova, and other transition countries in Europe and Asia. NGOs put significant effort into diversifying their support, and apply new fundraising strategies. Long-term projects are not readily available, however, and organizations do not have enough resources to remain viable for more than several months.

broadband Internet in the rural areas of Lithuania.

Government officials have learned the importance of including NGOs in the decision-making process, and are required to involve NGOs in deciding how E.U. structural funds ought to be allocated. Public participation is becoming a strong tradition, though NGO participation in policy-making is not yet strong enough. NGOs make recommendations on public policy, but they are not included or come too late to have an impact. At times the

government seeks to ensure quantitative representation and only invites NGO representatives who will not cause problems. NGOs do not have strong advocacy skills or an institution that advocates for the sector's interests. Transparency International recently initiated the Citizen's Alliance Against Corruption, to study how E.U. funds are distributed.

In 2006, the State Council of Youth Affairs and the State Council for Handicapped Affairs will become government institutions; their ability to advocate for their constituents is sure to be adversely affected. Lobbying for NGO interests has been chaotic and ineffective in bringing about systematic changes. Members of the Seimas that want to build visibility and popularity with the public occasionally summon NGOs to provide their views and opinions on certain issues. NGOs are often invited to make presentations at conferences held by the Seimas or the government.

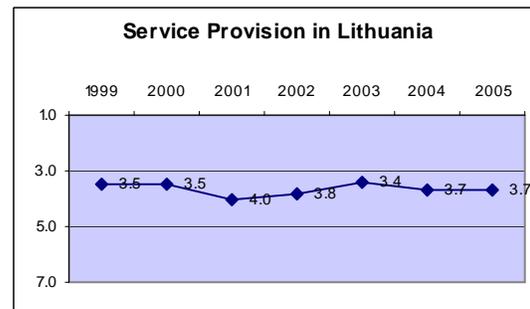
SERVICE PROVISION: 3.7

In an effort to sustain their activities, NGOs struggle to identify products they can sell. In the provinces, it is common for NGOs that work with handicapped, elderly, or women's crisis centers to offer English or computer classes to the community for a fee. The range of services and products is small and NGOs seldom build clientele beyond their own membership. Focused on their traditional products and services, NGOs fail to realize the needs of their communities. For example, NGOs in bigger cities could help meet the demand for child care and home nursing by offering such services. NGOs generally do not have experience in marketing and are hesitant to offer their products and services to the market. Though the laws were repealed two years ago, many people continue to believe that non-profits are not permitted to earn money. Until this idea changes, NGOs will continue to struggle to recover their costs and will face more challenges in generating additional funds by providing goods and services.



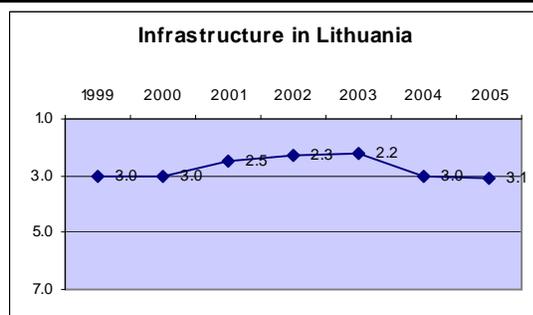
Local advocacy and lobbying mechanisms have allowed more qualitative participation of NGOs than those on the national level. Some mechanisms include thematic roundtables within the municipalities and Local Action Groups under the E.U. Leader + Program, which consists of thirty-three groups that formulate regional development strategies. They cover all regions of Lithuania and have clear rules of representation; twenty-five percent are from the local governments, twenty-five percent from the business community, and fifty percent are community representatives.

Local governments have increased the services they purchase from NGOs. Organizations



compete for funds to organize summer camps and provide care for both children and the elderly. Municipalities tend to shift from being service providers to coordinators of services, which offers NGOs more opportunity to sell their products to local governments. The absence of procurement regulations, however, allows municipalities to create standards that only government-created organizations can meet.

INFRASTRUCTURE: 3.1



NGO information and support centers continue to stagnate. The centers have not reviewed their missions, do not collect membership fees, and lack good leadership. The NGO sector is accustomed to receiving information and support free of charge and is unwilling to pay for products or services from the centers. The Labor Exchange pays for courses on employment opportunities in the NGO sector and models for creating an NGO, but these are fairly insignificant.

While NGO information and support centers struggle to survive, the NGO sector does not have an organization that represents the sector as a whole. Strong networks of community

PUBLIC IMAGE: 2.9

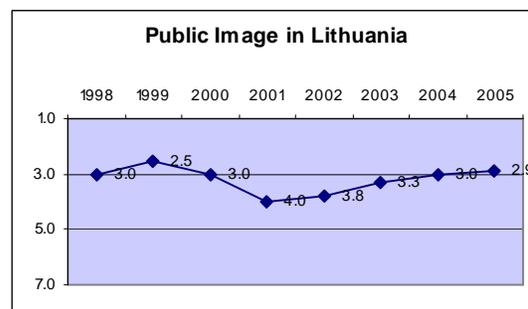
No study or analysis of the NGO sector's public image exists, though it could be easily done by the regional NGO information and support centers. The growing number of volunteers and increase of local funding both evidence that community members have increased their trust and knowledge of local organizations. The lack of conceptual clarity inhibits the public's understanding of what is an NGO. The "2%" law has exacerbated the situation by putting NGOs in the same category as churches, hospitals, schools, and kindergartens. With the exception of churches, these institutions are financed by the state, but they are able to compete on equal grounds with NGOs. The NGO sector has an ongoing discussion about how to distinguish NGOs from the other non-profit organizations. Until the public understands the difference between the NGOs and the others, organizations will have a

organizations and organizations dedicated to women's issues have taken on the role of dissemination of information.

Another community foundation was created this year. All six of the community foundations are young and have only recently begun to distribute small grants, which gives them greater visibility.

Local Action Groups created under the Europeans Union Leader + Program have reshaped former regional associations and disrupted local initiatives. Community leaders, who are the focus of this initiative, have abandoned their previous projects and become involved in Local Action Groups, which has weakened the former associations. The Leader + Program has strict requirements and heavy workloads, and the unavailability of small grants has led to pessimism among NGOs regarding inter-sectoral partnerships. NGOs now realize that local bureaucracy is an unnecessary burden on them, and is in part a result of public servants wanting to avoid responsibility and protect their image with the E.U. institutions.

difficulties competing for individual donations and adequate attention from legislators. Other than these discussions, NGOs have made no effort to educate the public about the differences between NGOs and other non-profit entities. The Lithuanian Women's Assembly is an exception. In August, the Assembly brought together women's organizations from all over the country and presented itself to the media and society as a whole.



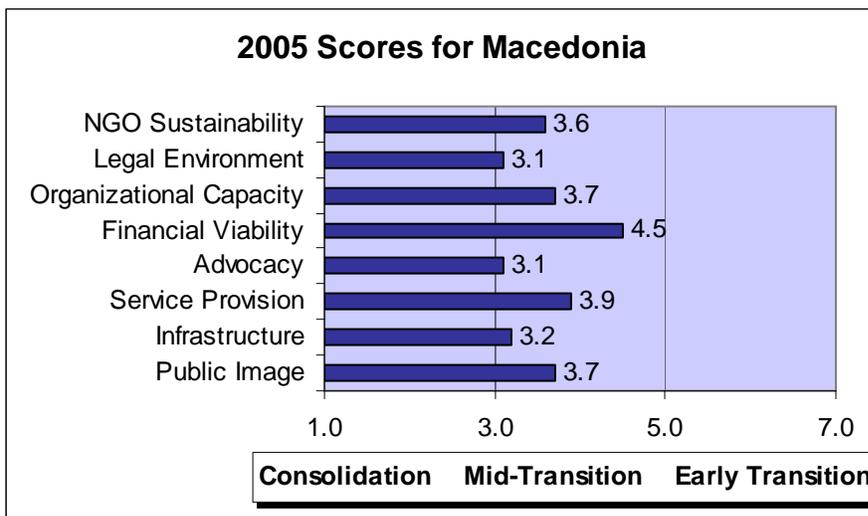
The regional media outlets are generally supportive of local NGOs, though the same is not true of the national press, which limits its coverage to money laundering or the misuse of funds. Such coverage has an impact on the views that the public and lawmakers have of NGOs. Several of the stronger NGOs manage to attract positive media coverage and have been able to build a good public image.

Government recognition of NGOs has grown. Officials have realized that NGOs have access to their constituencies, and invite NGO representatives to join working groups and commissions. International Volunteer's Day, an event sponsored by the President's office, was one indication that the government's perception

of the NGO sector is positive; several NGOs received Presidential awards. The government does not always have good intentions when partnering with NGOs. At times, government officials use organizations to evade responsibility or benefit from funds that can only be obtained by NGOs.

The business community increasingly recognizes that NGOs are a source of new ideas and enthusiasm. Public relations companies are increasingly calling upon NGOs for clients that are looking for public relations projects. In a way, cooperation with NGOs is in fashion among businesses, though it is unclear whether NGOs will truly benefit.

Macedonia



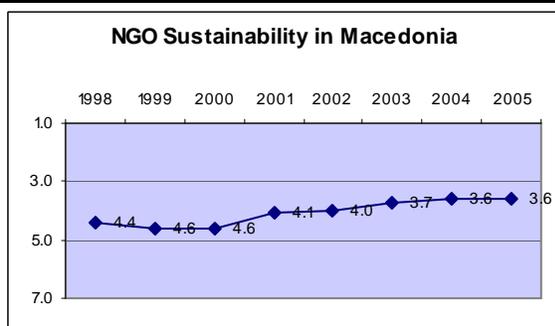
Capital: Skopje

Polity: Parliamentary democracy

Population: 2,050,000

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

NGO SUSTAINABILITY: 3.6



The sustainability of the NGO sector in Macedonia did not change significantly over the past year, with only a slight improvement in the Public Image dimension and a decline in the Legal Environment dimension. Many expect that in years to come, the contributions of various civil society support programs to the sector's development will be increasingly more visible. As local governments decentralize their authority, a process that began on July 1, 2005, NGOs expect to increase their involvement in local decision making which will foster even greater civil society development.

The advances made by civil society over the past year are most apparent in the advocacy,

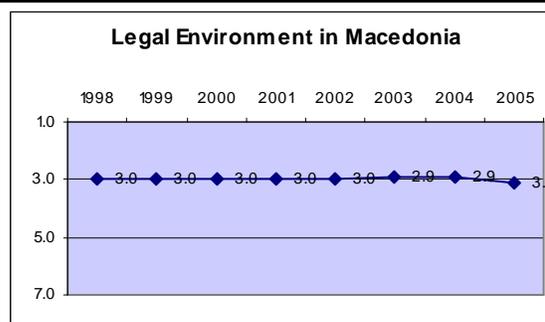
infrastructure, and public image dimensions, as well as the increase in financial support for the sector. Cooperation with central and especially local government officials has increased. Following the March and April municipal elections, newly elected mayors have created mechanisms for communicating with and supporting NGOs. Surveys and polls report that the public's trust of NGOs has increased, and almost half of the population believes that NGOs are effective in solving the country's problems.

While the sector has much to celebrate, improvements are needed in many areas. Though partnerships with for-profit corporations have improved in recent years, local philanthropy and the promotion of corporate responsibility remain underdeveloped. General economic conditions in Macedonia continue to be difficult, and as a result, the financial viability dimension is the weakest. The total number of registered organizations is still approximately 5,500, only 5% of which are thought to be active.

LEGAL ENVIRONMENT: 3.1

The drop in the legal environment dimension score is the result of the government's failure to address legal obstacles that NGOs still face. Despite a promise from government officials to amend the Law on Citizens' Associations, it remained unchanged. Domestic NGOs and the international community both lobbied for the amendments, but were unsuccessful. Government officials and NGO representatives held several roundtable discussions concerning the draft amendments, which are currently on the Ministry of Justice's legislative agenda and are expected to be forwarded to the government for approval by the end of the year. If enacted, the amendments will require further reforms to the tax code, which will in turn require approval by the Ministry of Finance. The current tax framework governing NGOs does not offer sufficient tax exemptions or incentives for charitable donations. Currently, NGOs are taxed the same as for-profit corporations. The law only provides a 3% deduction for organizations that receive state funding, and a VAT exemption for projects registered with the Government Sector for European Integration.

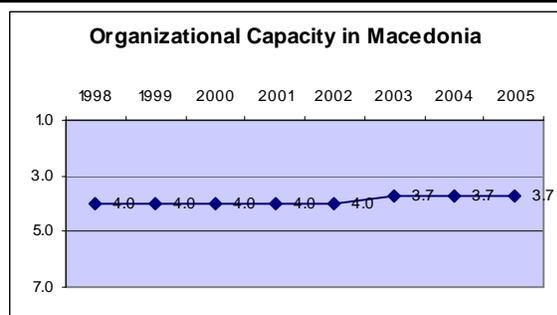
The registration of new organizations continues to be easy and routine, though the judges responsible for overseeing the process are occasionally rotated out, causing delays as new judges learn the process. While there were no known cases of the state government harassing NGOs over the past year, organizations have at times had a more difficult relationship with local authorities. The decentralization of the state government has resulted in an increase of authority at the local level. Local governments, however, often lack an understanding of NGOs, and have pressured organizations by refusing to support their activities, or placing conditions on their cooperation.



Despite numerous training programs, the pool of qualified attorneys that provide NGOs with legal services remains small. The primary reason is that lawyers do not consider NGO law to be lucrative and the legal community has yet to embrace the idea of pro bono services. Legal professionals generally have significant knowledge and understanding of the Law on Citizens Associations and Foundations, as it is included in the curriculum at the Faculty of Law in Skopje. NGO registration issues are often handled by legal apprentices. In addition, students in the clinical program at the law school assist NGOs with registration and other issues. The Open Society Institute Macedonia (FOSIM) also supports NGO resource centers that provide basic legal services.

The Law on Citizens Associations and Foundations permits NGOs to create separate business entities and engage in economic activities, but this entity has to be registered as a separate corporation and is taxed as a for-profit entity. A large number of organizations create such businesses to diversify their revenue, especially as they begin to charge fees for their services. NGOs are increasingly aware of and enthusiastic about their ability to compete for public procurement opportunities. Similarly, local authorities are becoming more aware that NGOs have knowledge in project implementation and seek out partnerships when they apply for government funding.

ORGANIZATIONAL CAPACITY: 3.7

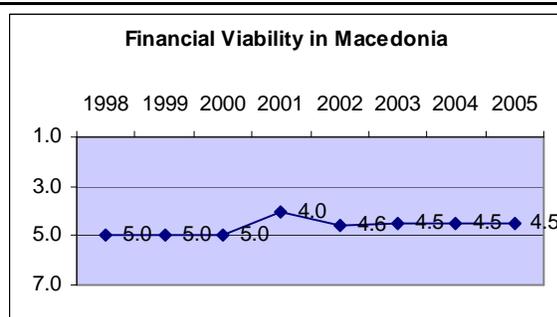


NGOs have made great efforts to build their constituencies. Through these efforts, organizations have made progress, but this growth is most evident outside the capital. Programs such as the USAID Democracy Network Program, the Community Self-Help Initiative, and the FOSIM NGO resource centers have all promoted constituency building. Though they remain primarily donor driven, organizations are increasingly aware that they must have public support for their activities in order to be successful. Volunteerism continues to be low, though efforts to recruit volunteers for the “Resist and Say No” campaign are an encouraging sign that it may be increasing. A Roma center in Skopje that provides youth

educational services has also increased the number of their volunteers.

NGOs are more aware of the importance of strategic planning and building organizational capacity, in part due to programs offered by local training organizations. The more experienced and mature organizations have strategic plans that guide their activities. Even newly established organizations often have strategic plans in place, though they may have unclear or vague missions and goals. At times, local governments collaborate with NGOs to prepare strategic plans. Internal management structures and the delineation between the responsibilities of the Board of Directors and staff continue to need improvement. The more experienced organizations understand the importance of delineating responsibilities and over the past year have restructured themselves. The Macedonian Center for International Cooperation (MCIC) reports that NGO staffing continues to be weak, as 75% of all organizations are without permanent staff. The majority of organizations have basic IT and the capacity to use it.

FINANCIAL VIABILITY: 4.5



Financial viability remains the biggest issue for the NGO sector. The country’s poor economy continues to impede NGO development. Most organizations remain dependent on international donors. Though exact data is not available, domestic funding comprises an insignificant portion of NGO revenues. However, corporate funding initiatives led by the Commercial Bank, Stopanska Banka, and Mobimak offer hope that domestic funding will

increase. SMS message philanthropy surged this year with campaigns organized by “Butterfly” to serve children with leukemia, and the campaign to provide assistance for tsunami victims. Other forms of domestic support such as in-kind donations have increased. Examples include local governments that offer office space for NGOs and local businesses that provide refreshments for NGO events. Intermediate Support Organizations (ISO) and service organizations are promoting creative philanthropy models; one example is a foundation created by the Renova Corporation and a regional NGO that provides scholarships for gifted students to continue their studies. Most organizations depend on only a few donors and have little diversity in their funding.

In recent years, some NGOs have started publishing their annual financial reports. This is

not a widespread practice, as the cost of hiring an auditor or accountant and preparing the publication is often prohibitively expensive. Many in the NGO sector are still reluctant to make their financial information public. Other than the eight largest organizations that publish their reports, there are a few local NGOs that publish financial reports. The more professional organizations have strong administrative and financial systems in place, with accountants on

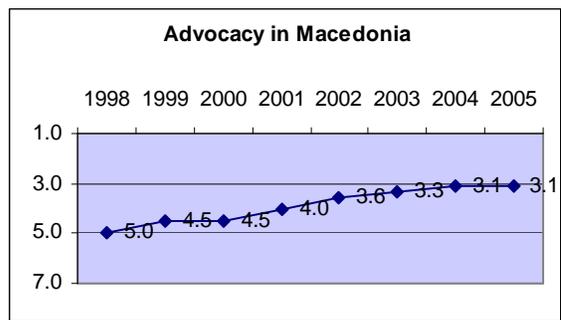
staff or retainer. While more accountants have experience working for NGOs, the majority work for for-profit corporations and are not familiar with NGO accounting needs. This situation inspired a group of NGOs to establish a set of best practices for NGO accounting. Though many NGOs are associations, they have trouble collecting membership fees, and few, if any, are able to operate from membership fees alone.

ADVOCACY: 3.1

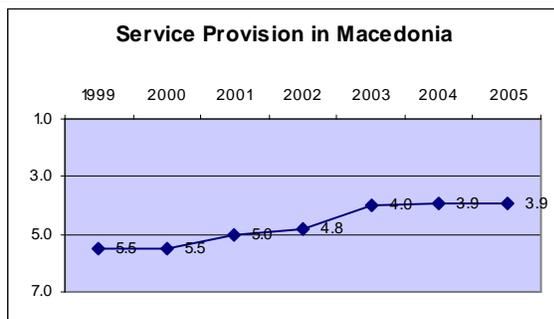
Cooperation and communication between NGOs and government officials vary. At the local level, numerous communities such as Veles, Resen, Stip, Delcevo, Negotino, Prilep, and Strumica have signed and implemented cooperative agreements with NGOs. They have been successful in strengthening cooperation and communication. Enthusiasm for partnerships is stronger and more natural at the local level, where NGOs work with municipal governments on common issues and receive funding from the municipal budgets. The newly elected mayors appear to be especially enthusiastic about collaborating with local NGOs, evidence of the NGO sector’s more favorable public image. In Resen, a local community building is going to be turned into an NGO support office, and in Prilep, the mayor has a volunteer-counselor for environmental issues from the NGO sector.

At the national level, officials have created the Government Unit for Cooperation with the NGO Sector, which has been slow to start up and has yet to yield any meaningful cooperation. Ministries do include NGOs in legislative and policy discussions. NGOs are also taking the

lead on proposing and organizing public discussions on draft legislation, and lobbying for the reform of certain laws. Examples of NGO involvement include participation in the working groups for the Law on Noise, the Codification of the Election Laws, and the Law on Access to Information. NGOs also participated in the Ministry of the Interior’s process for selecting a company to print new passports and identification cards, while others partnered with parliament to study the laws governing the disabled, and prepared a new National Strategy for the Roma. NGOs drafted and then lobbied for the adoption of a new Broadcast Law, and cooperated in the preparation of the Biodiversity Report.



SERVICE PROVISION: 3.9



In recent years, NGOs have expanded and diversified the services they provide, especially in the areas of health, education, humanitarian aid, and housing. NGOs offer services such as education to Roma students, health care and HIV/AIDS counseling, legal support for stateless

INFRASTRUCTURE: 3.2

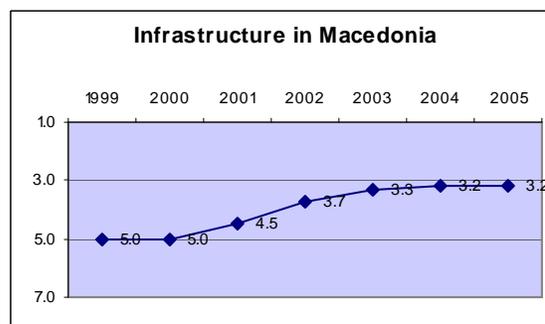
Considering that Macedonia is a small country, the existing network of ISOs and resource centers is successful in meeting the needs of the NGO sector. The European Agency for Reconstruction, the Swiss Development Agency, and FOSIM all continue their support for the twelve resource centers located around the country serving the rural and underdeveloped regions. NGO resource centers do not bring in the fees necessary to cover their costs, and it is not clear whether they could survive without the current level of donor support. Despite their financial issues, resource centers have had significant impact in the communities where they operate, as evidenced by increased NGO activity at the grassroots level. The Center for Institutional Development (CIRa) and MCIC offer regular training, networking, and technical support for NGOs. Most ISOs continue to rely on foreign financing. Resource centers and ISOs provide limited grants, and even these are re-granting of foreign funds. To date, NGOs have not raised any grant funding locally and community foundations do not exist.

The number of NGO coalitions is growing and includes the “All for Fair Trials” coalition of twelve organizations that monitor court proceedings. Other coalitions are working in

people, youth associations engaged in cultural tourism, and training for other NGOs. Organizations, however, continue to be donor-driven and have weak relations with their constituents. Too often, NGOs implement projects that are not a necessarily a priority of the target group or the public.

Some organizations are beginning to charge fees for their services and, at times, are close to recovering their costs. NGOs are inconsistent, as some offer services at no cost while others charge a fee. Many beneficiaries are unable to pay for services and are accustomed to receiving NGO services for a low price or free of charge, which makes it difficult for NGOs to operate strictly on a market basis.

areas such as NGO capacity building, human trafficking, and minority issues. The Roma NGO Coalition is working on the Decade of the Roma and the National Strategy of the Roma. The Citizen Platform of Macedonia, a coalition of the 35 most active organizations, is a good model for inter-sectoral partnerships, facilitating information exchanges among its members and promoting cooperation for a sector-wide program.



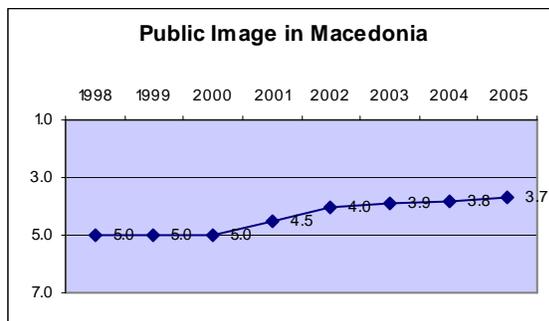
Training programs are available in the capital and other cities around the country. CIRa and MCIC provide training in advanced topics such as financial sustainability, lobbying and advocacy. The number of organizations requesting advanced training has increased. Training materials are available in local languages other than Macedonian. The sector is still in need of

training programs related to the European Union standards and integration. Partnerships between NGOs and the business community

have increased, but they are still not common and continue to be an area for future development.

PUBLIC IMAGE: 3.7

The Public Image dimension has improved, in part due to the increased media coverage of NGO activities. Organizations continue to criticize the quality of media coverage, which generally lacks in-depth analysis. The national broadcast media is more interested in politics and negative news, and in some cases tend to assign less-experienced journalists to cover NGO issues. NGO stories have to compete with politics and other hot topics for airtime. In the private commercial media, NGO coverage depends on the judgment of editors as to whether the stories will be interesting to consumers or the public.



NGO representatives increasingly participate in panel discussions and talk shows, which provides them with the opportunity to increase awareness about their work and the issues they address. The Utrinski Vesnik, the Macedonian National Television and Radio, and the private television station Channel 5 all have journalists assigned to cover NGO activities. The NGO Info Center contributes to increased media coverage by airing public service announcements and organizing press conferences for NGO activities. Local media is even more inclined to cover NGO activities.

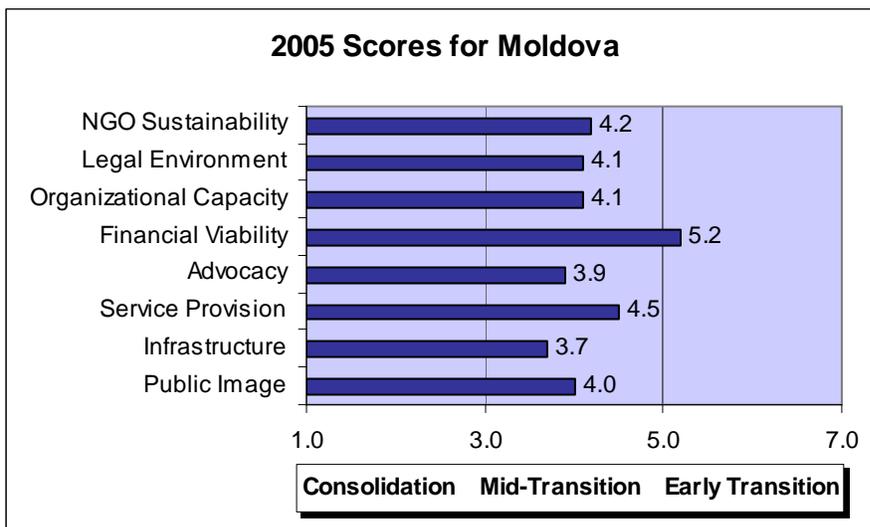
While the media at times seems indifferent, NGOs lack experience in communicating their

achievements to the public. Many organizations fail to understand the need to cultivate relationships with journalists. They are also inexperienced in initiating public awareness campaigns and outreach activities. Few organizations are able to afford space in the national media to promote their activities; and though less expensive, local media is still unaffordable to most. Media in Debar and Gevgelija and other communities provide NGOs with free air time. Some organizations however, have realized the importance of publicizing their activities and the issues they address. The Farmer's Association from Gevgelija and the Association of Wine and Fruit Producers, for example, increased their memberships by 260 people in the 2 -3 months following a series of television appearances.

Surveys report that public perception of NGOs is positive and even improving compared to other sectors. An annual survey commissioned by USAID reports that 50% of the population trusts NGOs, and 49.2% believe NGOs are effective in solving national issues. These numbers are up 2.3% and 1.2% respectively over last year, and are higher than the figures for the parliament, the executive branch, and other government institutions. MCIC's poll shows that citizens have more confidence in NGOs when it comes to managing specific problems. These polls also show a deficiency in the sector's ability to involve citizens and inform the public of its work.

Codes of ethics are not widespread, though some organizations have adopted codes of conduct, including the Association of Journalists of Macedonia, local organizations from Gostivar working on inter-ethnic relations, children's rights organizations, and the inter-parliamentary group for persons with special needs.

Moldova



Capital: Chisinau

Polity: Parliamentary democracy

Population: 4,466,000

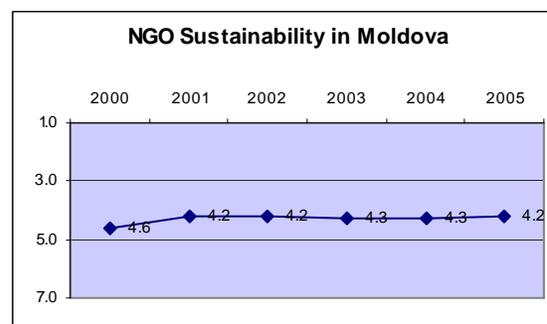
GDP per capita (PPP): \$2,100

NGO SUSTAINABILITY: 4.2

Over the past year, the Moldovan political environment and civil society experienced significant change. One major development was President Voronin's decision not to sign the Kozak Memorandum with Russia, which would have created an asymmetrical federal Moldovan state in which the disputed territory of Transnistria would have been vested with disproportionate representation. In the time leading up to the March 2005 Parliamentary elections, the President and the Communist Party took a dramatic turn to the West, and for the first time created consensus among the country's political parties that Moldova should develop closer ties to Europe. Since the elections, the government has taken decisive actions to implement reforms and fulfill its commitments under the EU Action Plan. As a result, Moldova qualified for Millennium Challenge Account Threshold Status.

Leading up to the elections, Moldovan civil society came together for the first time and formed the Civil Coalition for Free and Fair Elections (Coalition 2005). Coalition 2005 was composed of 200 organizations, and monitored local media coverage as well as the preparation and management of the electoral process. The coalition published reports on the deficiencies

in the process and successfully advocated for numerous changes. On Election Day, Coalition 2005 executed an effective independent election monitoring campaign throughout the country.



The success and visibility of Coalition 2005 and a more conducive political environment have allowed Moldovan NGOs to increase their recognition and credibility with the public, and more easily engage government officials. The challenge for the NGO sector is to consolidate and build upon this success. The sector's new relationship with the government is an unknown, and it is unclear whether it is a beginning of a lasting change in the political culture or merely the government's effort to appease the international community.

Moldovan civil society is evolving into three distinct categories of organizations. The first consists of a significant number of well-organized and advanced NGOs based in the capital and urban centers. Many of these organizations, such as the Association for Participatory Democracy (ADEPT), the Independent Journalism Center, LADOM, IDIS-VITORUL, Access-Info, the Institute for Public Policy, the Moldovan Network of Legal Clinics, the Regional and Republican Union of Agricultural Producers Associations, and others have advanced organizational capacities, sound financial management systems, multiple sources of funding and local fundraising abilities, strong memberships, positive public images, and working relations with national and local government institutions. The second category of organizations consists of lesser-developed NGOs that are often one-man shows with limited organizational and financial management capacity, and that depend on grants. The third category of organizations consists of those in the Transnistria region where civil society exists

in a hostile and authoritarian political environment. The Transnistrian government harasses and restricts the ability for independent organizations to operate, and NGO leaders are under constant pressure to cooperate with Pioriv, an organization supported by the Transnistrian security force.

The Ministry of Justice reported that in 2004, 3,156 domestic, foreign and international organizations were registered in Moldova. The Contact NGO Center reports that the number of active NGOs is much smaller. The number of registered organizations that operate on the national level is double the number of organizations that focus on local issues. A great majority of organizations are based in Chisinau, Balti, and other large cities where groups are able to access information, training, consulting, and donor resources. Few active organizations are based in small towns and rural areas. Most NGOs have community development components in their mission statements, and approximately one-fourth are involved in education and outreach.

LEGAL ENVIRONMENT: 4.1

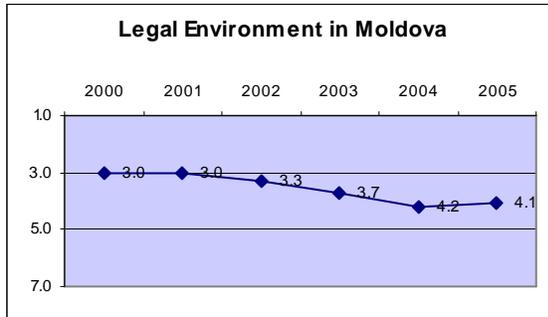
Among the NIS, Moldova was an early leader in democratization and economic reform. On paper, Moldova's NGO laws are among the best in the region. The legal framework, which consists of the Law on Public Associations (1996), the Law on Foundations (1999), the Law on Philanthropy and Sponsorship (2002), and the Civil Code (2003) did not change over the past year.

In 2001, the government began implementing the otherwise progressive laws inconsistently. The government increased its administrative interference in NGO affairs and began controlling financial and technical assistance provided by foreign donors. These actions led to a steady decline in the Legal Environment dimension scores. With the recent political changes, a cadre of young, western-thinking, non-communist technocrats is taking positions of great political power, including offices such as the Speaker of Parliament, the First Vice Prime Minister, and the Minister of Economics and

Trade. This new group of government officials has brought a new attitude concerning NGOs to the Parliament and other government institutions. Parliament has recently proposed the Concept of Cooperation to promote permanent, open and efficient cooperation with civil society. This cooperation will promote the evaluation of societal issues, encourage civic initiatives, facilitate more participatory democratic processes, and give citizens more of a voice in parliamentary procedures. Though bureaucracy and the inexperience of many government officials hampers the registration process, one NGO activist states that the "cultural change may not be happening yet, but the government is clearly not as unresponsive to NGOs as they used to be."

On paper, the process for registering an NGO, both domestic and foreign, is clear, though bureaucracy tends to make it slow and complicated. In one example, it took the Association for the Promotion of Moldovan

Legal Clinics over six months to register. Provisions in the Civil Code further complicate the process for registering public institutions by requiring that a notary public authenticate all registration documents.

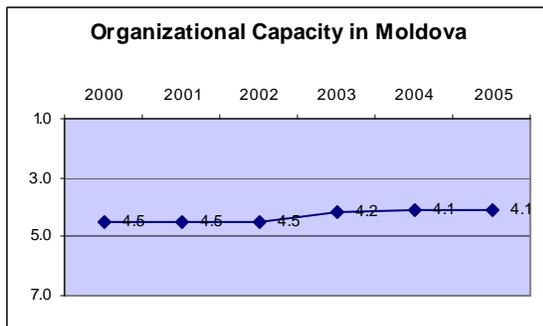


Although NGOs are exempt from paying income tax, they are otherwise taxed like for-profit corporations. An organization is recognized as a public benefit organization if it applies for and is granted a Public Benefit

Certificate (PBC). The PBC allows organizations to take exemptions from certain taxes and state fees. The PBC, however, is not effective and has become more difficult to receive due to vague regulations that allow for diverse interpretations. Organizations are exempt from paying income tax on grants, but re-granting foreign funding by a local foundation is subject to tax. A limited number of attorneys have knowledge of NGO law, and they generally work for legal organizations based in Chisinau. Most legal services are offered by the Center for Non-Commercial Law, an offshoot of Contact, a national NGO assistance and information center.

The Law on Public Associations permits NGOs to engage in economic activities, though mechanisms do not yet exist to encourage and facilitate NGOs' provision of goods or services to generate income.

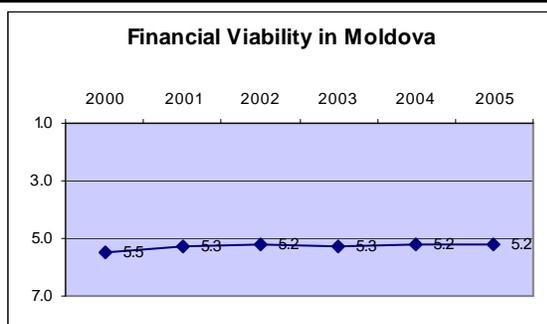
ORGANIZATIONAL CAPACITY: 4.1



The divide between the well-developed organizations and those that are lesser-developed is growing, particularly with regard to organizational capacity. Well-developed organizations have sophisticated management structures, professional personnel that are technologically proficient, a variety of funding sources, and the ability to engage their constituents. Many organizations, however, have

weak organizational capacity; they are one – man shows that organize their activities around receiving grants and satisfying donor interests. Most organizations have mission statements, but few of the lesser-developed organizations have the capacity to engage in long-term strategic planning. The Law on Public Associations leaves the choice of organizational structure to the discretion of the individual organization and as a result, most fail to delineate between the roles and responsibilities of their boards of directors and their management. Lesser-developed NGOs are typically staffed by unpaid volunteers, and any paid staff is generally subject to the organization's access to grant funding. All of the leading organizations have an office with basic equipment and a permanent staff, though their ability to modernize their equipment depends on the availability of grant money.

FINANCIAL VIABILITY: 5.2



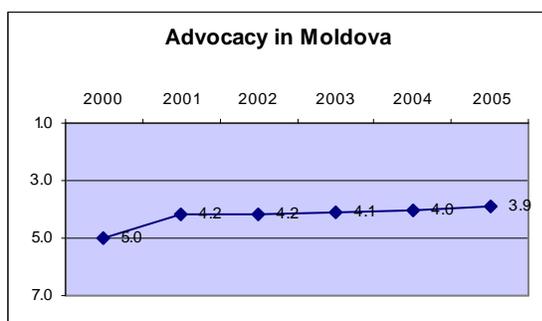
Moldova continues to be one of the poorest countries in Europe, placing constraints on NGOs, individuals and businesses. NGOs continue to depend on the international donor community for support. Fees for services, state support, and income from economic activities are limited but increasing. A significant number of the leading NGOs now receives a substantial portion of annual income from local sources, membership fees, and economic activities. For example, the Mental Health Center Somato in Balti receives a large amount of support from the local government. The Small Business School of Cahul operates a small-business incubator that funds many of its other activities. The Moldovan Network of Legal Clinics receives half of its support from local

universities and is planning to provide fee-based services. The Internet Access and Training Program Centers (IATP) receive support from local governments and are also providing fee-based services. The Association of Agricultural Producers covers almost half of its expenses with fees. The National Association of Farmers receives support from the EU and TACIS and has over 60,000 members.

Despite these positive examples, domestic philanthropy is hampered by slow economic growth and the absence of a culture of charitable giving and social responsibility. Local governments are weak and often lack the resources to provide support for local NGO initiatives, though the national government is increasingly providing grants. For example, the Ministry of Ecology, Construction and Territory Development allocates over \$15,000 in grants every year to NGOs engaged in environmental protection projects. The national government also created the National Ecological Fund that provides more than \$1 million in grants to NGOs. The National Extension Agency is an NGO that bids out approximately \$500,000 in contracts every year to NGOs to provide extension services for the government.

ADVOCACY: 3.9

Civil society must overcome significant obstacles in order to influence Moldovan policy. NGOs are challenged by a centralized political system, a historical absence of public participation, the public's lack of understanding of civil society, and the lack of philanthropy. In addition, NGOs have an uphill struggle to garner the credibility and political strength necessary to influence policy makers and national policy.

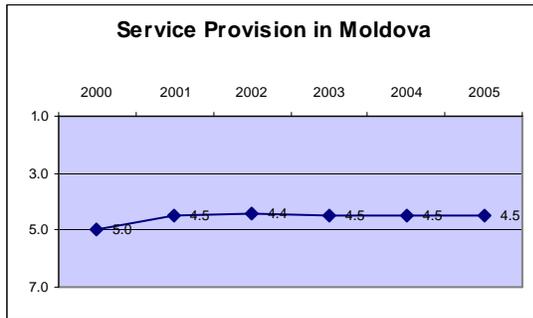


In the past, these challenges were compounded by the government's attitude that NGOs are a nuisance and a threat rather than a potential partner in economic and political development. Such attitudes may be changing however. Some new officials in the executive and legislative branches are more reform-minded and understand the role that civil society may take in providing technical support when government resources are limited. A number of Chisinau-based think-tanks already provide government officials with advice on policy. IDIS-Viitorul and the Institute for Public Policy have influenced the EU Action plan and are active in the NGO-governmental consultations mandated by the World Bank. LADOM and the Center for Human Rights have provided advice to the Constitutional Court and were active in developing the National Human Rights Action

Plan. ADPET and LADOM worked with the Central Election Commission (CEC) and had a significant role in improving many aspects of the election process. During the election, Coalition 2005 advised the government on its new Media Concept, a guide for how the media was to

cover the elections. The relationship between NGOs and the central government is slowly becoming less adversarial, even as some organizations press the government to accept political, economic, and human rights reforms.

SERVICE PROVISION: 4.5

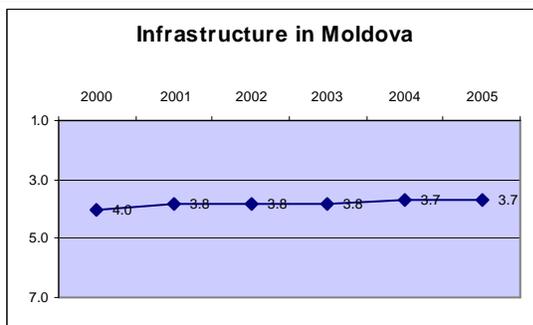


NGOs generally offer a wide variety of services in many different fields. The Contact Center reports that approximately 11% of service organizations work in the area of health; 10% focus on art, research and cultural issues; 10% promote sports; 6% provide social services; 5% are involved in environmental protection; and 3% are in media. While NGOs generally respond to the needs of their constituents, those needs are generally identified by foreign donors in an unsystematic manner. As NGOs

focus more on fee - based services, generating an income, and local financial support, they have become more aware of their markets.

Many organizations recognize the need to charge fees for their services and products such as publications and workshops, though few are ever 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, offer fee-based services that comprise a substantial portion of their annual budgets. Otherwise, the ability for most NGOs to charge a fee is limited by the number of potential clients that are able to pay. Though the government is increasingly recognizing NGO service-providers, support is still limited. NGO social programs and policy development activities, however, do receive government funding.

INFRASTRUCTURE: 3.7



Over the past year, NGOs have demonstrated the ability to collaborate in realizing important common goals. Coalition 2005 was successful in mobilizing and coordinating the activities of 200 NGOs across the country. As a result, the NGO sector as a whole earned significant credibility with the public and established a role for itself in society and in the decision making

process. The NGO sector now must demonstrate its ability to capitalize on these successes.

The NGO sector enjoys access to a large network of NGO resource centers that offer a broad range of training, information, consultations, and technical services. The Contact Center's network of resource centers assists NGOs from a variety of fields. In an effort to broaden the Center's local support, the Center's long-term strategy requires that its individual resource centers raise funds locally rather than rely on funds from the parent organization. In the short-term, this plan has created some stress and instability in the network, but it is considered necessary to build sustainability and responsiveness to local communities. CREDO, another network of

resource centers, provides training and 187 different services aimed at strengthening the institutional and organizational capacities of human rights organizations. The Independent Journalism Center (IJC) provides programs, training, information and technical resources, and other specialized services targeted to media organizations, journalists, and students. Other resource centers work with NGOs in environmental protection, youth services, and education.

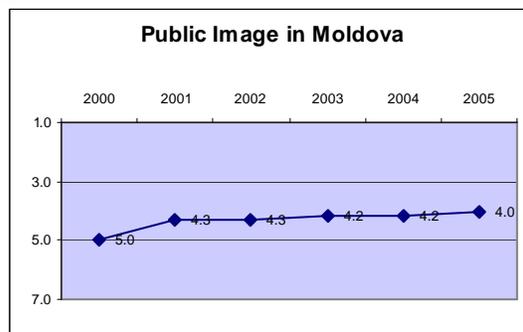
Moldova does not yet have any community foundations or local grant making institutions,

PUBLIC IMAGE: 4.0

With Coalition 2005's success, NGOs have enjoyed a higher profile, greater visibility and credibility, and positive media coverage at the local and national levels. Euro-TV, Vocea Besarabiei, and Tele-Radio Moldova have developed programming that focuses on NGOs and civil society. Numerous NGO representatives have become regular features of public affair talk shows and even appear on Moldova I television.

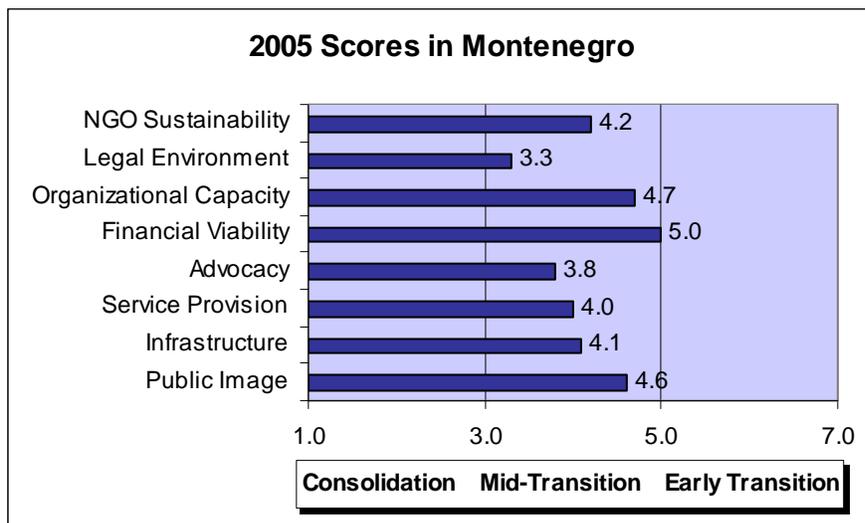
One issue that NGOs still have to address is their inability to protect their intellectual property. According to the Center for Non-Commercial Law, the legal system provides a copyright protection mechanism, but NGOs have been unable to protect their materials from being used for commercial ends without their permission. NGOs, especially the smaller less-developed organizations, continue to have difficulties drafting their annual reports, contributing to the lack of transparency.

though a group of organizations has started to re-grant funds from international donors. The Contact Center for example, has a re-granting program for community development. 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.



An NGO Code of Ethics has been a topic of the past two National NGO Forums. In 2002, NGOs at the Forum drafted a Code of Ethics that organizations could choose to adopt. In 2003, participants at the Forum urged the NGO sector to amend the Code of Ethics so that it would apply to the entire sector. To date, the NGO sector has not yet adopted a formal Code of Ethics.

Montenegro



Capital: Podgorica

Polity:
Parliamentary
democracy

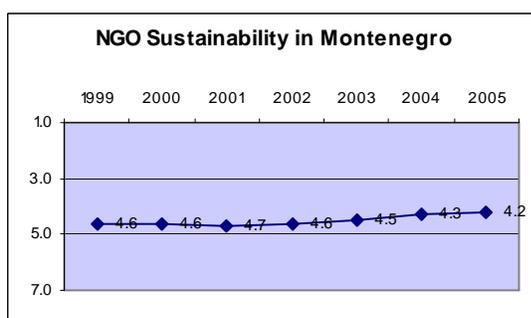
Population:
867,000

**GDP per capita
(PPP):** \$2,600

NGO SUSTAINABILITY: 4.2

Montenegro's overall sustainability score improved slightly this year, as the NGO sector marches towards the "Consolidation" phase. Improvements were made in the Financial Viability, Advocacy, and Infrastructure dimensions. However, assessment of the sector's development varied among organizations, exposing discrepancies and an unwillingness of individual organizations to see beyond their own experiences and consider the sector as a whole.

still lacks clear operating, financial or management guidelines. This makes it easy for businesses and cafes to register as NGOs and harms the sector's public image. The sector has initiated law reform efforts to address this issue and prevent future abuse. To address the lack of self-regulation, NGOs are forming a coalition to develop a national NGO strategy that will include an NGO Code of Conduct. The impact of the legislative reform and the self-regulation effort will likely be realized over the next year.



The NGO Law continues to ensure easy registration and permits organizations to operate free of state control. The law, however,

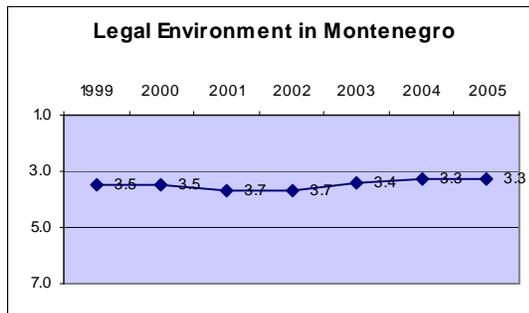
Organizations that have sustained donor funding or participate in large donor programs such as the USAID/ORT Montenegro Advocacy Program have generally embraced clear organizational, financial management, and governance structures. In 2005, the Government of Montenegro, operating through the Parliament Grants Commission, awarded €289,523 in grants to over 100 local organizations. For the second consecutive year, the responsible government authorities mismanaged the distribution of the grants, as politics influenced the selection of grantees.

LEGAL ENVIRONMENT: 3.3

The legal framework does not yet provide clear guidelines for regulating NGO activities or

ensuring transparency and good governance. While providing for a fairly informal and liberal

regulatory environment, it allows hundreds of businesses and cafes to register as NGOs. These businesses and cafes negate the positive public perceptions generated by the good work of real NGOs. Both NGOs and government officials identify the broad legal provisions that regulate NGO economic activities, and their application, as critical issues. This year, the USAID/ORT-funded NGO Legislative Framework Reform program began addressing these issues. NGOs with assistance from the European Center for Not-for-Profit Law (ECNL) drafted amendments to stop the abuse of the tax benefits allowed NGOs. The amendments were accepted and when enacted, should help root out NGO abuse of economic activities and improve the overall reputation and image of the NGO sector.



In the absence of sufficient NGO law expertise, three organizations have begun providing legal services to NGOs, though their quality varies. Services provided in Podgorica are the most in-depth, while the two organizations in the regions offer only the most basic assistance with the registration process.

Organizations are permitted to earn an income by providing goods and services, and receive tax exemptions on grants and profits under €4,000. The law provides NGOs with a variety of other tax exemptions. Membership dues, donations, and other contributions that are unrelated to an organization's economic activities are all exempt. NGOs are exempt from paying real estate tax as the property is used to further the

organization's statutory goals. Dividends on investments are exempt as are donations made by both individuals and corporations. The VAT law provides broad exemptions for all services offered by NGOs as long as the exemption is not used to distort market competition. Service organizations, including those that provide educational, cultural, sports, and religious programs, are also exempt from the VAT. All organizations are required to pay taxes on salaries, including all social insurance payments and deductions for benefits. Organizations must pay these taxes whether they receive their funding from foreign donors or not. The income taxes and payments for social insurance and benefits can add up to almost 100% of a salary. High taxes and the law's failure to provide for short-term contracts discourage most organizations from registering their employees.

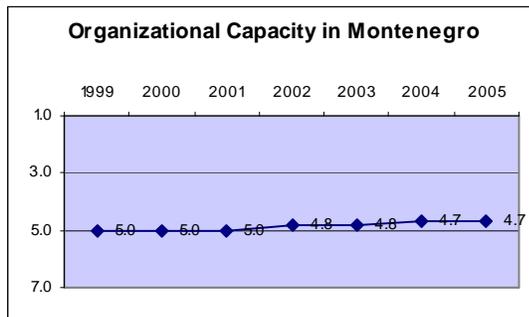
The Procurement Law permits any legal entity, including an NGO, to compete for government contracts at either the central or local level. In 2005, the Government awarded €289,523 in grants to NGOs through the Parliament Grants Commission. For two consecutive years, the Commission has mismanaged the distribution of the grants. Approximately 70% of grant recipients were inactive or considered unreliable by other donors or NGOs. The Commission prefers to limit its support to 10-30% of the cost of a project. This allows it to fund a larger number of NGOs but makes it difficult for organizations to complete their projects. Few organizations fulfill their financial reporting requirements. The Commission does not follow up with or monitor the grants it makes, nor does it report to the public on the use of grant funds. The Lottery Law, enacted last year, requires allocation of 60% of lottery proceeds to humanitarian and social causes. In this first year, the Grants Commission should have distributed over €750,000 in lottery proceeds to NGOs, but it has yet to do so. In 2005, NGOs began to protest the Commission's mismanagement of funds.

ORGANIZATIONAL CAPACITY: 4.7

Though it is rare for NGOs to build constituencies around their initiatives, a small

group of organizations is aware of the importance of constituency building to a

successful advocacy effort. NGOs do not often have defined missions, visions, goals, and objectives. Those that have strategic plans likely adopted them to meet a requirement for donor funding. Organizations that have engaged in strategic planning, however, come away with an understanding of its importance.



Only a small number of NGOs have a permanent paid staff. Recruitment of volunteers is based on the requirements for specific projects and is generally underdeveloped. Smaller NGOs have to rely on staff members who work full-time jobs in the government or private sectors, and contribute to the organization after hours. FONDAS continues to engage in efforts to amend the Labor Law to

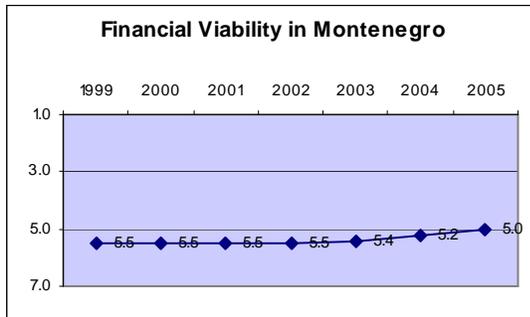
include short-term contracts and clear provisions covering volunteers. As it is, the Labor Law does not address contracting with volunteers other than “volunteer apprentices” which are defined as students working towards degrees in law or medicine who serve as unpaid trainees. As a result, organizations are unable to contract with other volunteers for fear that the state inspector will consider the volunteer as an employee and hold the organization in violation of the law. Promoting volunteerism is important to the financial viability of the NGO sector and the development of a culture of participating in civic activities.

Organizations generally have increased access to basic office equipment, including computers and fax machines. Those with modern office equipment such as computers and software, functional fax machines, and internet access generally have access to donor funding. Two resource centers created under the USAID-funded Montenegro Advocacy Program provide NGOs access to communication technology. NGO support systems are not sustainable since most donors are more interested in funding specific projects than supporting NGO development.

FINANCIAL VIABILITY: 5.0

NGOs continue to receive a majority of their financial support from international donors. More organizations, however, realize the importance of local support such as grants from the central or local governments. Despite the mishandling of government grants and the failure for the Grants Commission to distribute the lottery proceeds, the government provides a significant amount of support to NGOs. As it is, approximately 70% of the NGO recipients of the public grants money were inactive organizations or organizations that others consider to be unreliable partners. In addition, the Commissioner prefers to fund a large number of organizations, but only funds between 10 and 30 % of their projects, making it difficult for NGOs to complete their project. If the government were to overhaul the grant distribution system, government funding could play a key role in ensuring the NGO sector’s financial sustainability.

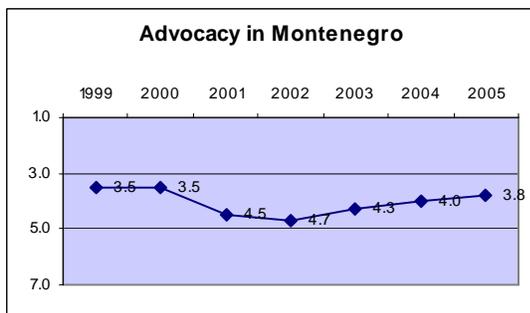
NGOs and for-profit corporations fail to take full advantage of the 3% tax deduction for corporate philanthropy; similarly, few individuals take advantage of the 10% deduction for individual giving. The most active and experienced organizations, which enjoy diverse, secure funding, have the most advanced financial reporting mechanisms. Only a small number of organizations publish annual reports with financial statements, and it is rare that an NGO undergo an independent financial audit. The majority of NGOs are small, have insufficient human resources, and lack the capacity to manage donor funding.



A small group of organizations engages in economic activities and charges fees for

providing goods and services such as translation, training, calendars, books, design and architectural services. These organizations are limited by the inability of the market to pay for their products. For-profit corporations do not contract with NGOs; the government does, but often only to train the administration's staff. Organizations do receive sub-contracts and grants from the Parliament and local governments. Numerous organizations have recently built memberships but do not yet charge fees as they have few services to offer in return.

ADVOCACY: 3.8



NGOs enjoy a direct line of communication with policy makers, and organizations frequently partner with the government. In 2005, a group of NGOs signed the Declaration on EU Integration with the Ministry for EU Integration, creating the conditions for NGO involvement in the process. NGOs were also active in securing a Declaration on Coexistence and Tolerance, which promotes ethnically mixed municipalities such as Pljevlja. Other organizations mounted a campaign against the government's current system of distributing grants. These successes are limited to a small group of powerful NGOs based in Podgorica. Cooperation and partnerships with the government are based on an organization's reputation and influence rather than a formal mechanism that permits open participation. Organizations are limited to partnerships with the Ministries, and do not have significant access to Parliament or other government institutions. A coalition of NGOs has identified NGO-Government cooperation as an issue in the 2006 national NGO strategy.

Numerous organizations have formed effective, broad-based coalitions to lead advocacy initiatives primarily at the national level. These efforts include donor-supported coalitions such as the Akcija Network, as well as organic, unfunded coalitions such as the Coalition for the Protection of the Tara Canyon.

NGOs may participate in the political process. They are able to propose legislation or discussion papers to Parliament by either gathering 6,000 signatures or by having a political party present on their behalf. NGOs can also influence the political process by monitoring government activities and through the media. NGOs are generally comfortable with lobbying and organizations have influenced, amended, and even proposed legislation at both the national and local levels.

While advocacy organizations have achieved a high level of influence, law reform is no longer enough. Laws are often strong on paper but are not enforced or are applied incorrectly. NGOs are realizing that they must go beyond law reform to ensure that the rule of law is strong and laws achieve their purposes. Government oversight groups are relatively new to Montenegro, but some initiatives are already showing positive results. Organizations such as MANS, CEMI and the Association of Young Journalists have strengthened the rule of law at the national level. Government oversight efforts have been effective at the regional and municipal levels as well. The USAID/ORT Local Watchdog Coalition program organized three regional

coalitions to carry out advocacy and oversight initiatives in Ulcinj, Niksic, and Herceg Novi. Rule of law, law enforcement and oversight activities must be encouraged and supported, especially to fill the void left by the lack of investigative journalism.

SERVICE PROVISION: 4.0

NGOs offer a variety of goods and services in areas such as health, education, environmental protection, and governance. Smaller organizations that operate at the local level are generally limited to providing basic, under-funded services such as care for the disabled, the elderly, and children. Stronger organizations with a higher level of institutional development that operate at the national level provide a wider variety of services, which include advocacy and government oversight. The smaller, community-based organizations have a well defined constituency due to the nature of their target group. The larger organizations represent wider constituencies that frequently are not as clearly defined.

NGOs have yet to take advantage of opportunities to recover their costs. Some organizations have begun to charge fees, and recover a small portion of their overhead, by offering services such as graphic design and training. The local market for such services continues to be small, though more NGOs provide services to local organizations and the government. Government institutions do not yet trust NGOs, but they are nonetheless

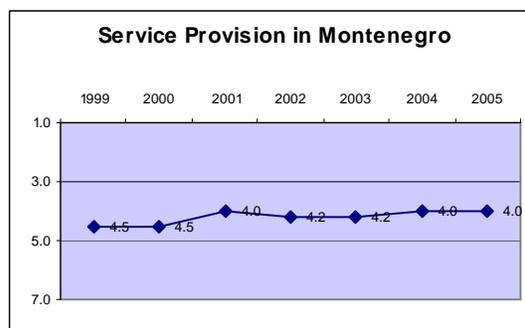
INFRASTRUCTURE: 4.1

Numerous ISOs and NGO resource centers provide support services to Montenegrin NGOs. They include CRNVO, MANS,

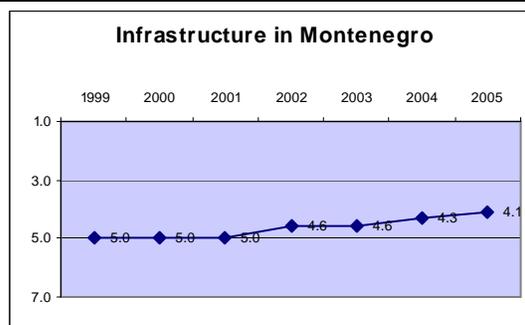
FONDAS, the CEMIPR Resource Center, and the two Regional Advocacy Centers created by ORT, Expeditio, and Natura. NGOs are able to access training, learning and networking resources, legal assistance, project writing support, and technical services such as the internet and fax machines. The CEMIPR Center charges corporations a fee, but NGOs have access at no cost.

By failing to self-regulate, the NGO sector has left itself open to poor public opinion and the perception of untrustworthiness. The 2006 National NGO Strategy has made drafting an NGO code of conduct a priority and discussions have already begun.

willing to pay them for certain services, such as training, graphic design, and media monitoring. The government is only willing to support other less technical services, such as river clean-ups, social care, and health services, with grants and other funding mechanisms.



Numerous advocacy organizations provide services such as trainings and publications to other NGOs and government institutions. These organizations do not generally have strong membership bases, as their activities are directed more towards the public. On the other hand, the small group of organizations that have strong memberships was created specifically to serve the interests of their members.



The country's rough terrain makes travel too difficult and expensive for NGOs located

outside of a resource center's immediate area to access its services. NGOs in only three municipalities are able to access support services. Similarly, NGOs in the regions do not have the same access to information, donor resources, and the government as those in Podgorica. Resource centers in the regions are not able to offer the same level of technical and knowledgeable support as those in the capital. In the urban centers, NGOs have achieved a high level of development, while NGOs in the regions continue to struggle and remain underdeveloped. In measuring the level of development of Montenegrin NGOs, most take their reading from those organizations in Podgorica and fail to consider the underdeveloped organizations in the North and other regions.

The NGO sector is very competitive and networking does not come naturally. Organizations will share information, but only

PUBLIC IMAGE: 4.6

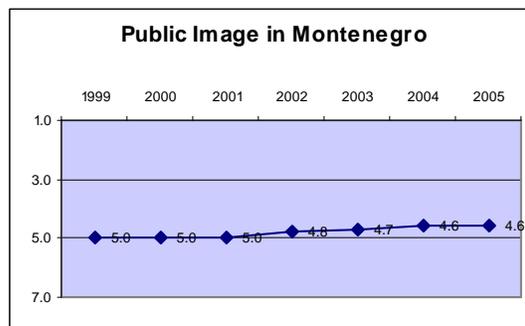
NGOs and their initiatives continue to enjoy considerable high quality media coverage. In situations where journalists have lacked professionalism, NGOs have nonetheless exercised skill in effectively communicating their goals to the public.

Public perception of NGOs and their activities continues to meet the sector's expectations. A recent poll conducted by CRNVO shows that 74.5% of all citizens agree that NGOs are not-for-profit and apolitical, up from 45% in 2001. The public is divided on its confidence and trust of the NGO sector; 36.4% of the public have a high level of trust for NGOs, while 34.2% have no confidence and 29.4% are of no opinion. The

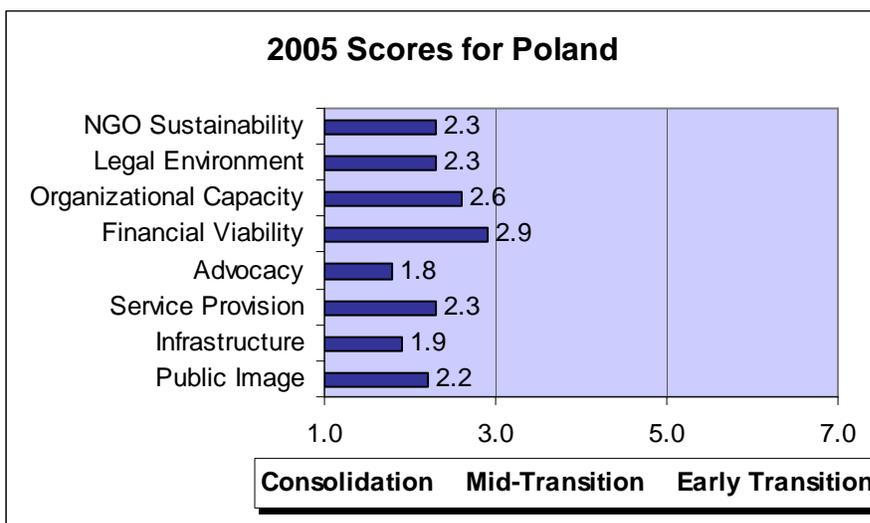
when doing so will benefit both parties. The NGO sector does not have a central committee by which it can promote sector-wide interests. NGOs often act alone and promote their own interests unless they have a clear need for the support of other organizations. There are, however, numerous examples of inter-sectoral partnerships. The Montenegrin Union of Employers, for example, partnered with the Chamber of Commerce and Confederation of Independent Trade Unions to draft legislation concerning labor disputes.

Though they have access to a wide variety of training programs, NGOs continue to have little interest; trainings offered often exceed the demand. Inter-sectoral relationships have improved, especially among the larger, more developed organizations that operate at the national level, who work directly with government institutions.

Government and business sectors, however, continue to have a poor perception of NGOs.



Poland



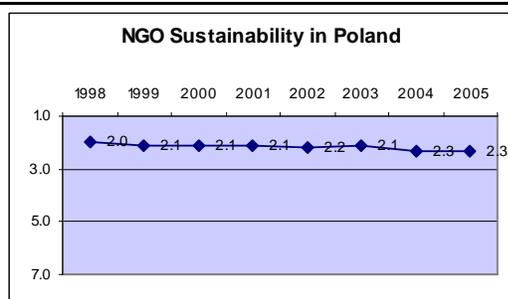
Capital: Warsaw

Polity: Republic

Population:
38,536,000

**GDP per capita
(PPP):** \$12,700

NGO SUSTAINABILITY: 2.3



The NGO environment in Poland experienced significant qualitative changes in 2005, though quantitative data has not been gathered since 2004. There are still approximately 52,000 registered organizations, of which 41,000 are associations and 11,000 are foundations. The most significant change is a result of the Act on Public Benefit Activity and Volunteer Work, which was enacted two years ago. This legislation recognizes public benefit organizations, and allows them to campaign to receive up to 1% of an individual's tax liabilities.

LEGAL ENVIRONMENT: 2.3

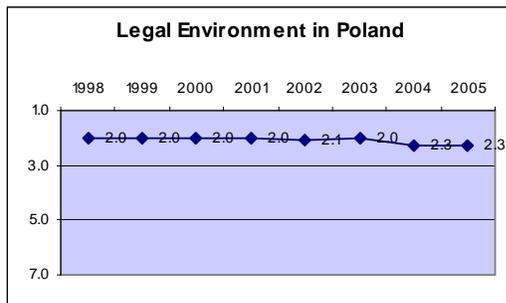
The legal environment governing the NGO sector has not changed significantly. The sector is burdened with too many laws and decrees that are vague and written from various perspectives and contexts. The laws are often

The law also made cooperation between local governments and NGOs mandatory. Campaigns for the 1% contributions increased social awareness of NGOs and the cooperation requirement led to the government's greater appreciation for the role and capacities of NGOs.

Many projects funded by the European Union were initiated this year. Though only the larger, more professional organizations were able to access E.U. funding, the requirements of extensive reporting and cross-sector partnerships changed. It is likely that this will change the long-term functions of many NGOs. The E.U. funding opportunities have had many negative consequences. NGOs are more detached from their constituents and local communities, and are forced to adhere more to E.U. priorities. More Polish organizations are engaging in economic activities and charge fees for their services.

incoherent and at times contradictory, leaving much discrepancy over the possible interpretation. NGOs, government institutions, and the public have become more familiar with

the laws and are more efficient in navigating and administering legal framework.



Many organizations continue to have problems with registration. The registration process is more complicated than other countries and requires many statutory documents and the completion of many complicated forms that require extensive legal knowledge. The need for legal assistance and the long process discourages many spontaneous and informal organizations from registering. Organizations trying to register as public benefit organizations experience similar difficulties. Those that are able to register as a public benefit organizations qualify to receive 1% of an individual's tax liability. The fact that the registration regulations have not changed for the worse leaves some optimism for both structural organizations and activists who want to register. That ought to be helpful to new organizations that are becoming more efficient in dealing with these complicated regulations and requirements. The registration process is hampered by inexperienced officials, not an aversion to NGOs, which has been the case in the past. With time, office clerks will become more familiar with the registration process, which will likely lead to more timely and consistent decisions. In theory, both associations and foundations are exempt from paying registration fees, though this is likely to change. If an organization wants to conduct commercial or economic activities, however, it has to pay the same registration fee as a corporation. The fee inadvertently leads to "beggar organizations" that survive on grants and public funding.

NGOs are subject to excessive reporting requirements. Public benefit organizations are

required to report their activities with six different agencies. Organizations using E.U. funding face even greater reporting requirements. While the government is trying to prevent the misuse of funding, the extensive reporting requirements mean that many resources that the government is trying to ensure will be used on programs are in fact used to fulfill reporting requirements.

The government has not openly attempted to dissolve any organization for political or arbitrary reasons. Government officials, however, use public funding or other in-kind support to promote or dissolve organizations. The Constitution guarantees the right of all persons to express their opinions freely, but in practice, financial dependence on public funding leads to few watchdog organizations funded primarily by foreign donors.

The few lawyers that specialize in NGO law are located in big cities, and small organizations from towns are unable to access sufficient legal services. They are generally unable to afford professional legal counsel, and the legal services provided by NGO resource centers are limited to the big cities.

As mentioned, the Public Benefit Activity and Volunteer Work Act was enacted two years ago. Over the past year, doubts concerning the interpretation of certain provisions have been clarified. Local governments now understand that they are permitted to support all organizations, not just those with public benefit status, which was a controversial issue in 2004. Many local governments are still unwilling to become familiar with and implement the new law, especially with respect to the requirements concerning cross-sectoral cooperation. Forty percent of the districts have not enacted cooperation programs.

The application of the 1% law has improved slightly in 2005. Though the law has not changed, the public and internal revenue service officials are more familiar with the procedures. In the past, taxpayers had to donate the money first and were reimbursed three months later, and as a result, only 3% of all taxpayers

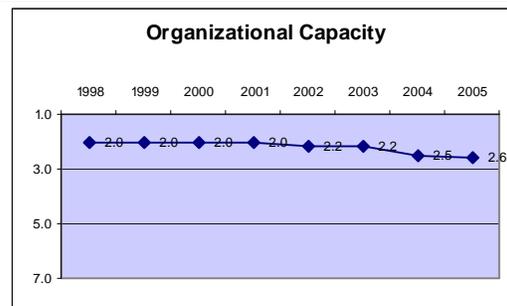
participated. Private corporations are still unable to use the law. Income from endowment investments is still tax-exempt but few organizations actually have an endowment. The VAT law continues to be an obstacle for NGOs. All donors have to pay VAT on donated products. The law discourages donations and creates a situation in which it is less expensive to discard items than give them away. The ceiling for tax incentives has increased to 6% of

a person's income. In the past, individuals were only permitted to deduct up to 350zł (\$100 USD).

The government awarded more contracts to NGO service providers through formal bidding procedures this year. The requirements are stricter than in the past, but more organizations have become professional.

ORGANIZATIONAL CAPACITY: 2.6

The only improvement in organizational capacity is increased technology through infrastructure grants from the E.U. that allowed many organizations to gain access to the internet. Most organizations, however, have old equipment and many NGOs use personal resources or equipment from other jobs. Other aspects of organizational capacity have not improved despite opportunities.



NGO made efforts to build local constituencies in two fields, developing institutional partnerships and organizing local 1% campaigns. Institutional cooperation and partnership could be an effective tool in seeking support at the local level. When several organizations unite around a specific cause, support from the government and the public is much higher. If public administration institutions join such partnerships, it truly becomes a broad constituency.

Though these two methods of constituency building were not very effective, and partnerships were formed only to access grants, they may be the beginning of a positive trend. Both the EQUAL project and the 1% law have only been around for two years, and they may prove to spark long-term changes.

Developing partnerships is a requirement for many funds such as EQUAL from the E.U. and FIO, the Polish Fund for Civic Initiatives, which has significant financial resources. The EQUAL project led to the creation of 107 partnerships, each consisting of several institutions from the private and public sectors. Many of these partnerships have dissolved, however, and others are about to do so, demonstrating how difficult the idea of partnerships is for NGOs. The 1% campaigns have been ineffective also. The complicated procedures for participating certainly contributed to the difficulties.

Constituency building in traditional sense of engaging citizens and volunteers from local communities has decreased. Volunteers have a high rate of turnover and are becoming more of a burden, especially the bigger, more professional NGOs. Many organizations have come to the realization that by developing partnerships and writing proposals, they might be better off than collecting membership fees.

NGOs remain weak with regards to strategic planning. Since most organizations do not have their own endowments, organizations must have strong support from membership bases or constituencies to provide constant flow of financial contributions to ensure relative independence. Most organizations develop activities according to what grants are available. Obtaining grants has become an end to itself, and many organizations prepare for flexibility from the beginning by writing broad mission

statements that include activities not necessarily within their field.

Bigger organizations may appear to follow a developed strategy, but this is often misleading as they often have more long-term grants and projects. These organizations also refocus their activities, though not as frequently or dramatically as smaller NGOs that always struggle to survive. Many of the more professional organizations that operated consulting centers before E.U. accession (E.U. ACCESS funds) are now experts in anti-discrimination in the workplace (E.U. EQUAL funds). The larger, professional organizations have a greater opportunity to engage in strategic planning because they are able to influence the various “operational programs” for which E.U. funds can be spent during 2007-2013. They are able to suggest amendments to meet the activities they planned. Negotiations for a more common strategy with the E.U. and more longer-term projects will hopefully assist some organizations develop a more stable identity. NGO activities, for now at least, continue to be driven by available funds more than the needs of constituents; “project thinking” has replaced “mission thinking.” Strategic planning is limited to developing strategies for applying for different grants and contracts, and make adjustments to meet their requirements.

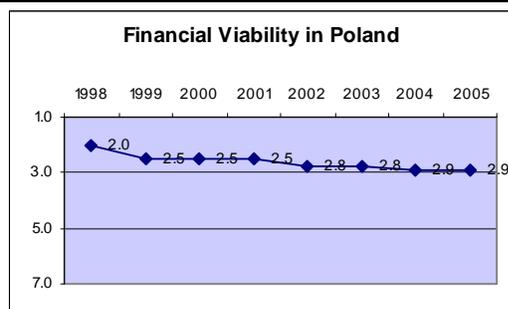
Most NGOs have the same management structures they did in the past. Almost half of the NGOs in Poland are smaller organizations in which the staff is often on the Board of Directors. Distinctions between staff and

Boards are irrelevant when the organization does not have any paid staff. One of the reasons that NGOs do not have a paid staff is that most donors, especially local governments, do not like to fund salaries. Unable to offer competitive wages, these organizations often have unskilled workers and high rates of employee turnover. Younger employees often leave an organization once they have the experience they need to get a higher paying job in the private sector. New organizations that depend on short-term contracts are unable to offer their employees contracts beyond the life of the project. Many NGO employees identify themselves with the projects they work on and not the organizations they work for. When programs and staff change constantly, there are few means for an organization to develop an identity.

Many organizations are unable to afford to hire professionals, especially lawyers and accountants, and even the most committed activists get burned out. For the future, NGOs are looking to the E.U. for funds to cover administrative and staffing costs, but such funding will only last a few years.

Though the NGO sector enjoyed some improvements, the overall organizational capacity has deteriorated. Even areas that did not deteriorate did not improve, despite the opportunity provided by the government, legislation and E.U. grants. If opportunities arise and organizations are unable to take advantage of them, it is an indication that capacity has indeed deteriorated.

FINANCIAL VIABILITY: 2.9



The financial viability of the NGO sector improved in 2005, primarily due to the increase of contracts awarded to NGOs by local governments and the increase of NGO economic activities. The Act on Public Benefit Activity and Volunteer Work requires that local governments cooperate with NGOs. Only 60% of local governments have developed cooperation programs, though this is improving. The funding from cooperation programs gives local organizations greater financial stability, and

in fact, local governments have become the primary supporter for local NGOs. Most organizations do not have a membership base or local support they can rely on; even the 1% law has failed to live up to expectations, as many taxpayers that supported one organization in 2003, supported another in 2004. Local funding continues to be sparse, despite programs designed to promote giving. The growing support from local governments perpetuates the problem of NGO financial dependence. Similarly, half of all nonprofits are based in bigger towns where the local governments have greater resources; many poor communities are unable to support organizations that provide important social services.

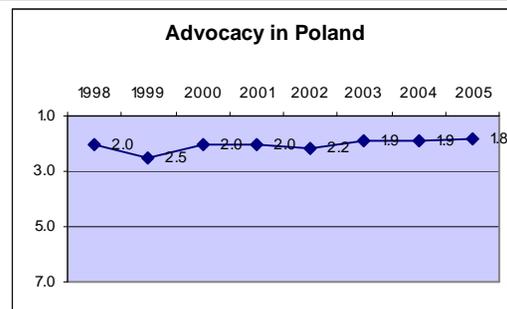
The diversification of NGO funding has not changed. Even organizations that have multiple sources of funding continue to depend on public resources. The 1% law could improve diversification for some NGOs, but those that

secure E.U. grants have decreased their diversification; with such large grants, organizations do not have to go through other bureaucracy to secure other, smaller sources of funding. While diversification can result in greater financial security, organizations can take a great deal of time and resources on reporting.

NGOs financial management systems have not changed, and nothing has happened to spark reforms to require more stringent measures. Many organizations are unable to pay for an accountant, and even fewer are able to afford a financial director, which is necessary for managing large projects. Only large professional organizations conduct annual audits and publish annual reports. Most organizations do not manage their funds effectively and instead of using interest-earning savings accounts; they keep all of their money in checking accounts. Most NGOs do not have stable funding due to weak membership.

ADVOCACY: 1.8

Advocacy continues to be the most advanced dimension for the NGO sector. The sector continues to improve due to the Act on Public Benefit Activity and Volunteer Work, which requires local governments to cooperate with NGOs. Thanks to the Act, NGOs are expected to have the opportunity to comment on legislation and participate in government commissions. Most importantly, NGOs are able to elect their representative to the Public Benefit Activity Council, which advises the cabinet of ministers. Almost half of the local governments, however, do not follow the requirements and most organizations are unable to influence legislation or engage in constructive dialogue with government officials. Local authorities are increasingly recognizing NGOs, though many organizations fear that they do so out of obligation and not to benefit from their expertise, which does not result in constructive cooperation. Officials do not treat NGOs as equals, but rather as performers of contracted public services.



More NGOs understand the importance of forming coalitions in engaging in successful advocacy. They are also realizing the importance of cooperating with the media, as politicians tend to be interested in what interests the media. The growth of collaborative partnerships is also the result of requirements by donors.

The term “lobbying” has a negative connotation in Poland; it is often associated with the informal or even illegal pressuring of politicians who are involved in some form of corruption. Unlike the United States of America, Poland does not have any formal lobbying institutions. Some organizations try to lobby, though success

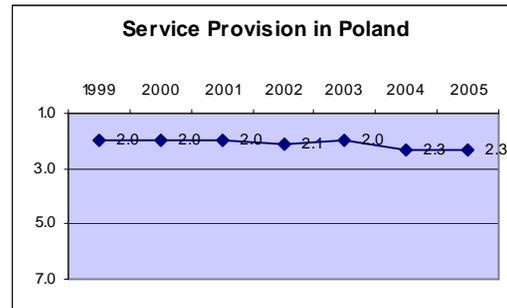
requires media support which is often difficult to obtain. At times, issues are too difficult for ordinary citizens and the media is therefore unwilling to report on them. Though lobbying is important to many organizations, and the entire sector is increasingly becoming involved, only the larger, professional organizations are involved. Local organizations are too far from the capital where most lobbying efforts take place, and most lack the intellectual resources

to influence legislation. Most organizations try to influence legislation through informal individual contacts with politicians and local officials. Individual contacts are often more effective than expressing opinions at large council meetings or public hearings. Most of the smaller organizations focus their energies on fundraising rather than trying to influence legislation.

SERVICE PROVISION: 2.3

The NGO sector does not provide the full range of services that the law allows them to offer. NGOs generally work in areas in which they are able to get funding and not necessarily those that are a priority for their constituents. Few organizations conduct needs assessments and they are often unable to deal with the needs that are clearly identifiable. NGOs are trending towards providing services identified by donors such as the E.U. and becoming more detached from their constituents. With stronger memberships and greater local support, NGOs could focus more on local priorities. Another issue is the abundance of organizations that work with culture, sports, social assistance and education, and the overrepresentation of those in the areas of culture and sports. One of the legacies of communism is the Cultural Centers and Sports Clubs that were financed by the state, which have been taken over by NGOs but still funded by the government. NGOs that provide educational and social services benefit from the fact that these are responsibilities of the local governments which are quite willing to contract out. The government does not provide funding or support watchdog groups, and as a result, few exist.

government officials. Increased recognition is in part a result of legal requirements for greater collaboration with NGOs. In addition, some E.U. projects such as EQUAL stress the importance of publicizing results and greater inclusion into mainstream public policies.



NGOs are permitted to charge fees for their services and more are doing so, despite the common belief that NGOs should provide marginalized segments of society services for free. NGOs are accused of commercializing their work.

Those groups affected by NGO activities are increasing. NGOs are gaining recognition as experts in a number of fields; they produce publications, and offer workshops and expert analysis to other NGOs, academics, and

Government support and recognition for NGOs is growing at both the national and local levels. Local governments increasingly contract out to NGOs for a variety of services. While this is a result of the Act on Public Benefit Activity, it will naturally lead to the recognition of NGO capabilities in these matters.

INFRASTRUCTURE: 1.9

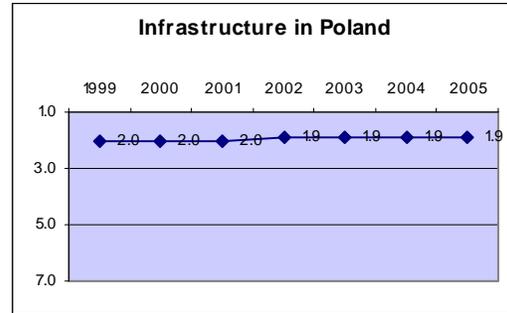
The infrastructure for NGOs improved in 2005, as more support organizations and resource centers offer services. These resources are

supported by domestic and foreign grants, rather than more sustainable funding such as fees, which few organizations could afford. The

Association KLON JAWOR oversees the NGO database and a website (www.ngo.pl), which are important resources for NGOs. The website provides a wide array of information, such as changes in the regulatory scheme, upcoming conferences, trainings, initiatives, and job offers. Some local grant making organizations are now functioning, but they rely on foreign funding. It is uncertain whether they will continue to function once these sources come to an end.

NGOs have formed more coalitions than in the past, though they are often the result of funding requirements. Organizations from different fields do meet to discuss issues and formulate common proposals on topics such as how to amend certain operational programs developed and offered for consultation by various ministries and local governments.

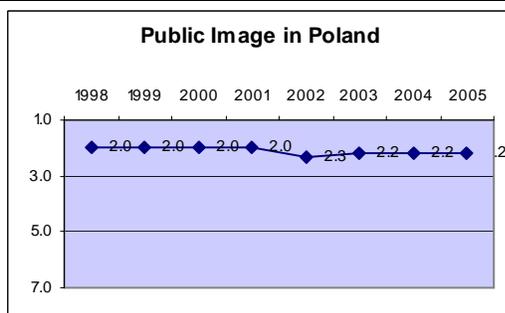
NGOs share information with one another through mechanisms such as the website mentioned above (www.ngo.pl). Every three years, the National Forum of Nongovernmental Organizations gives NGOs the opportunity to set up a booth to inform others about their work.



Support organizations offer an increasing number of training programs, funded in large part by the E.U. The number of trainings often exceeds the demand. Training programs are free, and often times are used as an excuse to take off from work and meet new people. Of all the trainings, few are of any real quality and effectiveness, though they generally cover important topics such as grant writing and strategic management.

Inter-sectoral partnerships between NGOs and government institutions are growing, though often due to legal or funding requirements. It is too early to know whether these required partnerships will develop into more productive and freely formed relationships. NGO-business relationships are in the early stage of development, and cooperation with the media is even less developed. Both the business community and media fail to see how relations with the NGO community promote their interests.

PUBLIC IMAGE: 2.2



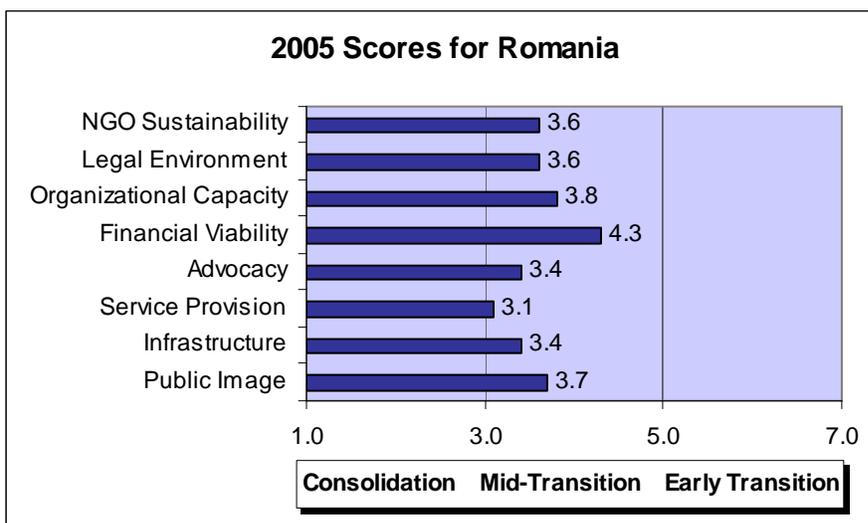
The media remains unsupportive of the NGO sector, and rarely publishes NGO successes, focusing instead on scandals and corruption. The lack of media support has a negative impact

on the NGO sector's public image, especially foundations. Most journalists, like the public, have little interest or understanding of NGO activities; reports on NGO activities are unlikely to reach a wide audience. NGOs do not help the matter by using technical language, which is often imported from the E.U. By campaigning for the 1% law, NGOs have increased the public's awareness and understanding of NGO issues and activities. Much of the public's knowledge of NGOs, however, comes in the form of negative media reports.

Government officials at both the national and local levels appreciate NGO capabilities. Regulations forcing governments to partner with NGOs have given organizations the opportunity to demonstrate their expertise. NGOs were persistent in getting these regulations enacted. Corporations are also developing a greater sense of corporate responsibility, resulting in more volunteer and donation programs.

NGOs are unable to improve their public relations due to underdeveloped relations with the journalists and the media. Self-regulation is also underdeveloped, though many organizations are discussing a code of ethics. NGOs have not improved their transparency, and only those organizations with grant requirements, i.e. public benefit organizations, publish annual reports.

Romania



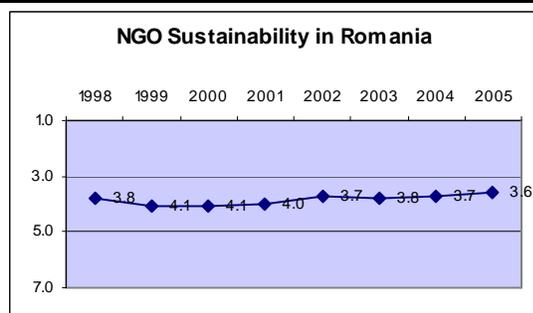
Capital: Bucharest

Polity: Republic

Population:
22,300,000

**GDP per capita
(PPP):** \$8,400

NGO SUSTAINABILITY: 3.6



The overall NGO sustainability score improved since last year, driven by improvements in the legal framework governing NGOs, as well as increased visibility of organizations that provide social services and engage in advocacy, which led to greater public trust. Developments in the

legal environment include a new Law on Associations and Foundations, the enactment of implementing regulations for the new “1%” law, and reforms to the laws on social services. Improved advocacy efforts include those of the Coalition for a Clean Parliament, which following the 2004 parliamentary and presidential elections became the Coalition for a Clean Government. During the elections, the coalition monitored the selection of candidates; now it monitors the new government and identifies potential conflicts of interest. Financial viability continues to be the weakest dimension for many organizations. Most depend on foreign donors, and approximately two-thirds of all organizations describe their funding as inadequate.

LEGAL ENVIRONMENT: 3.6

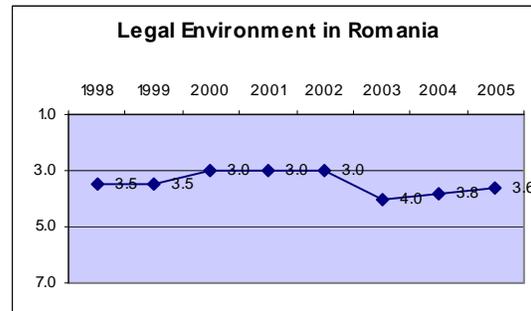
The NGO legal framework experienced important changes in 2005, as organizations took advantage of the favorable political environment to press reform initiatives. The most important development was the passage of Law 246/2005, in which Parliament, after five years, enacted Government Ordinance (OG) 26/2000 on Associations and Foundations as law. Organizations were involved in parliamentary debates on the law. They also

promoted a series of amendments to eliminate constraints imposed by another government ordinance and to address issues that arose in the implementation of OG 26/2000. The most important provisions of the new law improve the registration process, in part by eliminating the requirement that an appropriate Ministry sign off on an organization’s application before it is approved. The law also removes preferential status for public utility organizations, as well as

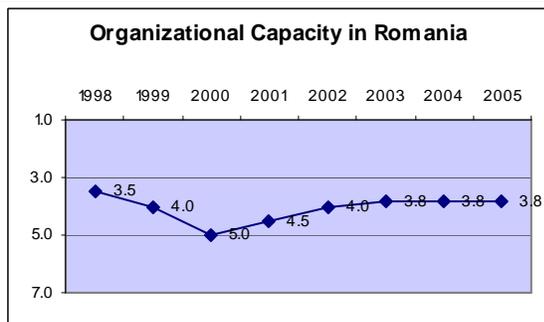
creates regulatory mechanisms for the legal status of local branches, procedures for splitting and merging organizations, and the appointment of internal financial auditors.

In another significant development, the Ministry of Finance adopted implementing regulations for the 1% law. The initial draft of the regulations would have subjected tax payers, who were seeking to use the law, to complex bureaucratic processes. NGOs successfully lobbied for the less complex process that was enacted. The Ministry of Culture and Religious Affairs adopted a new ordinance regulating non-reimbursable funding through the National Cultural Fund, providing an additional channel

for NGOs to access public funds. Another new law regulates the registration, organizational structure, and operation of social assistance institutions, and volunteerism in homecare services for the elderly.



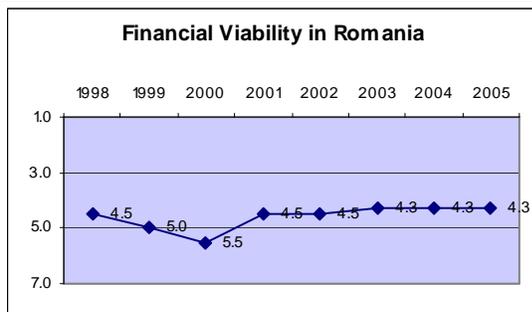
ORGANIZATIONAL CAPACITY: 3.8



Local funding continues to be scarce. Grassroots organizations and newly formed NGOs tend to develop their programs around existing funding opportunities, rather than adhering to clear missions. Social service organizations, however, tend to adhere to their mission statements in order to comply with the new legal requirements associated with the allocation of social assistance funding. The concern that foreign funding will decrease has motivated organizations to improve their constituency building. The new “1% law” has also begun to motivate organizations to reach out to their communities with hope that constituents will dedicate funds towards their projects.

Many organizations fail to clearly delineate their governance and management functions, diminishing the efficacy of both. Boards of Directors have yet to engage in significant strategic planning, focusing instead on organizational matters. New research by the Civil Society Development Foundation (FDSC) confirms that volunteers are a valuable resource for NGOs, especially those focused on culture, education, youth, and the environment. Many smaller local organizations do not have a permanent staff and rely primarily on volunteer labor. The FDSC’s research also found that Romanian organizations generally have the technology and infrastructure to carry out their daily activities. Most of their equipment, however, was bought with foreign funding; NGOs express concern that as foreign funding decreases, they will not be able to update and replace their equipment as needed. Grassroots organizations, which do not have the same access to foreign funding as other NGOs, often lack the equipment they need.

FINANCIAL VIABILITY: 4.3

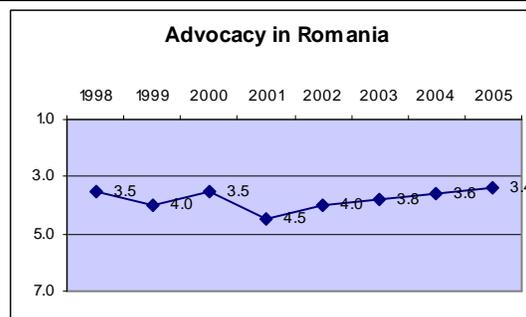


Financial viability continues to be an issue for the development of the NGO sector. Nearly two-thirds of the organizations surveyed by the FDSC reported their financial resources as being at best “inadequate.” Environmental, educational, cultural, and youth organizations appear to be the most affected by the lack of funding. Most organizations are unable to generate support at the local level, and instead depend on international donors. Many in the NGO community are concerned that the upcoming EU accession will cause a decrease in foreign funding, which has sparked discussions and debates on alternatives. Organizations have become more efficient in developing local volunteerism. FDSC’s research indicates that over the past year approximately 7% of the public engaged in volunteer activities on a regular basis, while 25% did so sporadically.

Organizations often lack the skill to seek out and engage existing sources of local funding. The response to the flooding this year demonstrates that the public is willing to make charitable donations. Several NGOs undertook fundraising campaigns to aid flood victims. A small number of organizations relies more on public funding and support from local businesses. The Ministry of Culture and Religious Affairs financed 34 NGO projects, providing 10 billion ROL (US \$334,000) in grants. The “1% law” has created an opportunity for NGOs to diversify their financial resources, though analysts will be unable to determine its impact until after the authorities process the 2004 income tax bills and transfer funds to the recipient NGOs. Preliminary data released by the Ministry of Finance in November 2005 indicates that 2% of the population participated, donating approximately \$1.4. Numerous organizations are aware of the need to diversify their sources of income, and have therefore developed commercial activities such as training and consulting services, or selling goods produced by their beneficiaries. Some complain that the market is unwilling to pay full value for their services and products.

ADVOCACY: 3.4

In response to requests made by NGOs, the ministries agreed to organize public debates that provide NGOs and the media an opportunity to present their views on government policy and decisions. In June 2005, the Prime Minister announced the creation of the College for Civil Society Consultations within the Department for Analysis and Political Planning. The goal of the College is to connect public administration with civil society by ensuring civic participation in drafting, amending, and implementing public policy.



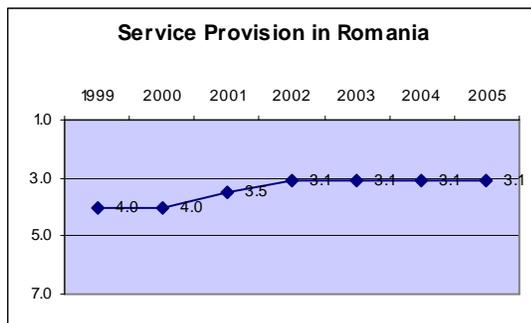
NGOs’ efforts to influence public decision-making are more visible at the national level, where organizations have created informal networks to monitor the implementation and transparency of government policy. These

networks have been created in areas such as social services, anti-corruption, child welfare, the environment and business. The Advocacy Academy monitored parliamentary debates on legislation concerning business-related issues, and distributed its findings to other

NGOs, the media, and political parties. Throughout the year, social service organizations, which united in support of OG 68/2003, the Social Assistance Law, participated in discussions concerning changes proposed by the Ministries of Labor, Social Solidarity, and Family. During the 2004 local and national elections, the Coalition for a Clean Parliament successfully advocated for increasing transparency in the selection of candidates. Following the elections, the coalition became the Coalition for a Clean Government, and now monitors the new government, calling attention to potential conflicts of interests at the local

SERVICE PROVISION: 3.1

Romanian NGOs provide services in a variety of areas, and social service organizations are the most developed sub-sector. According to the FDSC, 56% of citizens are of the opinion that domestic NGOs are the most effective in addressing the needs of marginalized citizens. Only international organizations scored higher, with 62%. The church, business sector and government were all ranked below domestic NGOs with scores of 54%, 48%, and 43.2% respectively.



NGOs are widely recognized for expertise in areas other than social services; though these services are generally provided pro-bono. NGOs played an important role in the negotiations of several acquis chapters within

and national levels. In response to reports of fraud during the 2005 elections, NGOs have spoken out about the need to reform the election laws. Specifically, organizations such as the Pro Democracy Association and the Institute for Public Policy are arguing for the introduction of a nominal voting procedure in Parliament and other reforms to the electoral system.

The most successful advocacy and lobbying effort resulted in the enactment of Law 246/2005 concerning association and foundations. NGOs are now able to bring their issues to the attention of public authorities, the ministries, MPs, the diplomatic missions, and media. Throughout the legislative process, NGOs actively participated in the debates hosted by the Justice Commissions of the Chamber of Deputies and of the Senate.

the EU accession process. NGO expertise in environmental protection has been vital in important issues such as the conservation of protected areas.

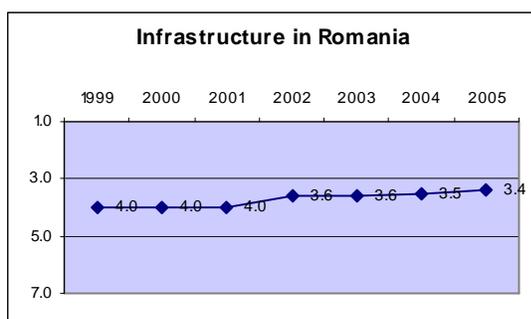
Organizations have also provided expertise in counseling and training unemployed workers. Professional associations, foundations, employer associations, trade unions, and student associations offer 689 of the 2,617 courses registered with the National Council for the Professional Training of the Adult Population. Several organizations provide training for employees of NGOs and businesses, and public servants. In March 2005, for example, thirteen organizations began offering training as a part of the 30.8 billion ROL (US \$1.03 million) child welfare program aimed at creating a network of 1,200 foster care professionals.

Despite these positive examples, NGO representatives believe that the market for such services continues to be underdeveloped. The demand for services is limited and NGOs rarely recover the cost of providing them. Consumers tend to underestimate the value of services and believe that NGOs should provide services free of charge.

INFRASTRUCTURE: 3.4

The number of resource centers has not changed significantly over the past year. Well developed centers such as CENTRAS, Bethany, Alpha Transilvana, and the Association for Community Relations continue to offer NGOs a broad range of services. These NGO resource centers provide grants, information, and trainings as well as consultancies and networking opportunities. They also organize fundraising, awareness, and information campaigns at the national and local levels. Despite their ability to provide important services, many resource centers operate more like project-oriented NGOs rather than specialized organizations. In addition, their ability to mobilize local resources is often limited, and they are generally unable to charge fees due to the financial limitations of their constituents.

In 2005, local grant-making organizations continued to support NGOs. Specific areas of interest include child welfare, funded by the Princess Margarita of Romania Foundation, and community development, funded by the Association for Community Development. The United Way Romania raised \$18,000 from businesses and their employees, and then awarded grants to 14 organizations. This was the only the second year for the program, and significant progress was made.



Over the past year, the NGO sector continued to develop networks and federations, and create umbrella organizations. A June 2005

PUBLIC IMAGE: 3.7

Relations between NGOs and the media continued to improve. The media's coverage of

study conducted by CENTRAS identified 121 such organizations with domestic and international affiliations. Past studies report that umbrella organizations form within one sector, and fail to include others. The Pro Child Federation, for example, is a network of forty-four child welfare organizations that continued to grow throughout 2005. Another example is UNOPA, a federation of twenty-three associations of persons affected by HIV/AIDS. Despite these examples, communication and information-sharing between civil society organizations remains limited and informal.

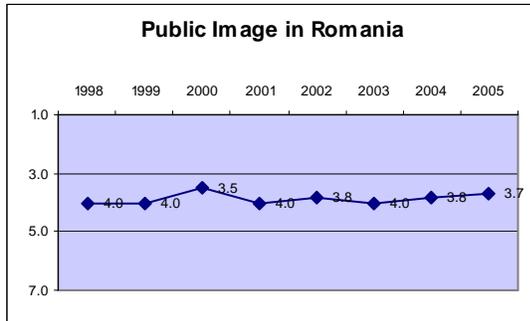
Training services available to NGOs continued to grow and diversify. According to the FDSC training database, in the first half of 2005, requests for training from organizations outside of Bucharest increased by 25% over last year.

Citizens Advice Bureaus (CABs) continue to function and promote partnership between NGOs and local authorities. Five new CABs were created with EU-Phare support with four of these CABs opening in rural or semi-urban communities. Thirty of the fifty-two operational CABs continue to receive EU-Phare grants, while others are supported by local governments and other donors such as the Balkan Trust for Democracy.

NGOs and the government cooperated on specific issues over the past year, including the dissemination of standards in child welfare and implementing regulations for the "1%" law. Cooperation with the media has also increased in specific areas such as environmental protection and the flood relief campaign. Despite these examples, cooperation between civil society and other sectors continues to be limited, and few organizations partner with government institutions, the business community, or media.

NGO activities was positive, especially for social services and environmental protection. This

year, the Civil Society Gala recognized the best NGO initiatives, attracting excellent publicity. Organizations are concerned that the negative stereotypes of NGOs might be reinforced by isolated cases that receive broad media coverage. In one example, the media has reported on soccer clubs that register as foundations so that owners avoid paying taxes on the players' salaries.



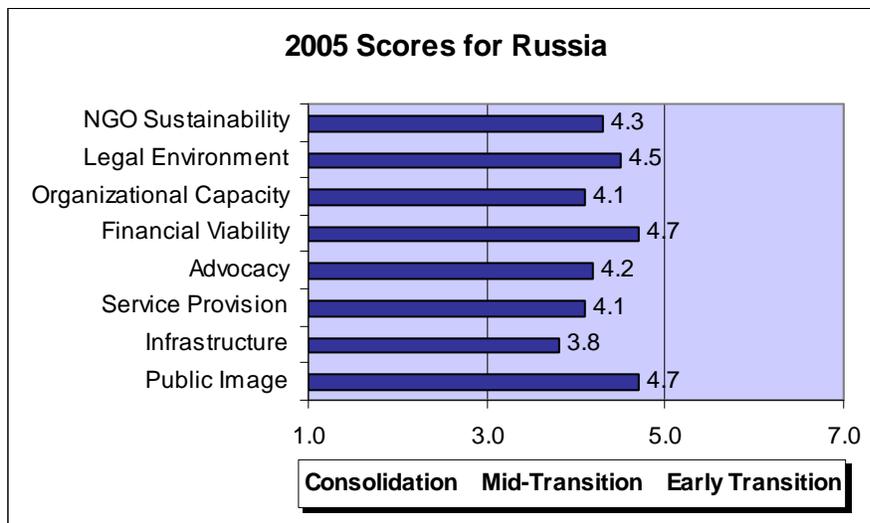
In May 2005, the Public Opinion Barometer produced by the Open Society Foundation reported that 28% of all citizens trust NGOs, which is a 4% increase from October 2004. The percentage is low, however, compared to the church, army, and media, who enjoyed 83%, 62% and 62% respectively. The government's

perception of NGOs has improved. Government institutions invited NGOs for consultations and public debates with greater frequency than in previous years.

The "1%" law has increased awareness among NGOs of the need to improve public image. Several organizations launched large advertising campaigns in an effort to attract individual donations. NGOs and social campaigns that made great efforts to mobilize aid for flood victims received extensive coverage from the media. The FDSC study, however, reported that only 22.8% of those surveyed could name an organization that had provided citizens with information on public interest issues over the past year.

Though increased advocacy efforts during the elections helped to slightly improve the overall public image of NGOs, most organizations struggle to promote their services and inform the public about their missions. In addition, NGOs have failed to make any noticeable efforts towards increasing their self regulation.

Russia



Capital: Moscow

Polity: Federation

Population:
142,893,000

**GDP per capita
(PPP):** \$10,700

NGO SUSTAINABILITY: 4.3

The overall sustainability score decreased slightly over the past year. The Putin administration continued to consolidate its political power by appointing regional governors and implementing new restrictions on the formation of independent political parties. In September of 2005, the administration created the Federal Public Chamber to act as a buffer or control mechanism to manage the relationship between NGOs and the government. Critics fear it will instead hinder policy discussions and be little more than a “rubber-stamp” for government decisions.

Among the positive developments, civil society organizations and the government are adjusting to the realities of an indigenous third sector. Although critical and suspicious about foreign funding of NGOs, the Russian government is emphasizing domestic philanthropy, declaring 2006 the “Year of Philanthropy.” Government institutions have introduced several pieces of legislation to promote the financial stability of the NGO sector. The Ministry of Economic Development and Trade developed a package of legislative measures to increase the economic impact that NGOs have on social and community development, and ensure

competition and openness in the social services market. A long-pending law on foundations, first passed in 1995, is being revised to provide more effective mechanisms for NGOs to access state funds. The Duma is also drafting another law on endowments, which will be important for the financial sustainability of the NGO sector.

As foreign funding continues to decrease, Russian NGOs have begun to rely more on local support, with varying degrees of success. Corporate philanthropy continues to grow as businesses invest in community and social development by supporting NGOs. Community foundations and local government funding also continue to support the NGO sector by providing more grant opportunities.

Though limited, government institutions have begun to engage NGOs on matters of government policy and social services. As authority and policy making becomes more centralized, local governments are often unprepared for constructive dialogue. Local governments take advantage of NGOs to promote policy, but do not include them in policy discussions on issues important to the

local communities. As a result, the NGO sector's image as social advocates remains largely unchanged.



NGO experts estimate that 20-25% of the approximately 450,000 registered organizations are regularly active. The vast majority of organizations are engaged in social or charitable activities, though many are working to influence policy and are critical of the government.

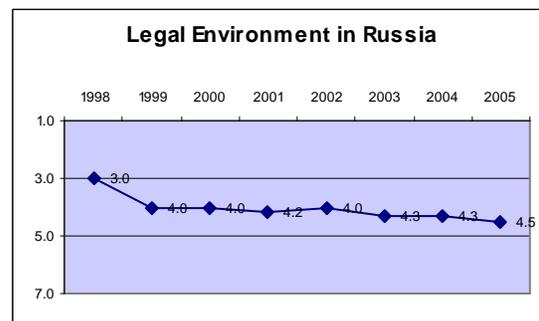
Meanwhile, it is increasingly difficult for NGOs to access media to broadcast their opinions or work with Parliament, which has become a rubber stamp for the presidential

LEGAL ENVIRONMENT: 4.5

The Legal Environment dimension score dropped as a result of the government's efforts to exert more control over the NGO sector. One factor that contributed to the decrease in score was the adoption of the law "On Introducing Amendments to Certain Legislative Acts of the Russian Federation," (the "NGO Law"). Early in 2005, President Putin and the Federal Security Agency warned that international donors were using domestic NGOs to interfere with Russian politics. In response, the State Duma adopted the NGO Law in December 2005, and President Putin signed it into law in January 2006. A wide variety of groups opposed the draft law, including representatives from foreign NGOs and governments. Before it became law, the Council of Europe warned that the NGO Law may violate the European Convention on Human Rights and other international agreements. The law imposes tighter registration requirements for NGOs, strict monitoring of organizations, extensive reporting

administration. Human Rights Watch reported that "[t]he demise in the media and parliament of recent years has had twin effects for NGOs; they are among the few independent voices in Russian society that are left, yet the ability of NGOs to work effectively has been considerably undermined" (Human Rights Watch, "Managing Civil Society Are NGOs Next"). In late 2005, the state Duma introduced and passed amendments to legislation concerning federal registration of NGOs and public reporting requirements; President Putin quickly signed the law in January 2006. The drafters of the law assert that their intent is to establish unified control over non-commercial organizations in order to provide stability to civil society and promote equality among those serving the public benefit. Critics, including foreign NGOs and governments, and the Council of Europe, argue that the law will make the registration process more complicated, arbitrary, and long, and allow the government to regulate the sector more intrusively, thereby undercutting the long-term development of a free and open civil society.

requirements, and limitations on the participation of foreign citizens in NGOs. The law also permits more intrusive means for government officials to scrutinize public associations, without any procedural protections. In addition, it grants the state registration entity with great discretion to deny registration or to shut down an organization based on vague and subjective criteria. As a result, the legal barriers that NGOs face are greater than those affecting the business community.



The tax law continues to impede the NGO sector's financial sustainability, as organizations attempt to develop economic activities and diversify their sources of income. The tax system does not provide incentives to promote corporate philanthropy and organizations pay high taxes on their earnings. The NGO sector continues to lobby for a more supportive tax system.

The government continues to be vigilant and aggressive with organizations it considers to be "subversive." Numerous human rights and opposition groups have reported politically motivated hostility from the government. The Open Russia Foundation, founded by Mikhail Khodorkovskiy, has been subjected to numerous tax inspections. Government officials disapprove of its financing civil society and

liberal political parties. The Commission of Technical Assistance and Humanitarian Aid continued to scrutinize internationally funded NGOs.

Despite these impediments, numerous government institutions have formally recognized the need to simplify and improve the legal framework. The Duma is now reviewing a draft law for improving the status of autonomous non-commercial organizations. Many deputies and ministerial officials have initiated review of the 1995 law on foundations, and the Ministry of Economic Development has begun to discuss the lack of endowments for NGOs and foundations. These are positive signs that some government officials now realize the economic and social impact of NGOs.

ORGANIZATIONAL CAPACITY: 4.1

It is difficult to measure the organizational capacity of the NGO sector, given its size and diversity. The divide between those organizations with resources and those without threatens the sector's unity. The few dozen organizations able to obtain both international and domestic funding are better organized and tend to resemble Western organizations in structure and capacity, with functioning boards and development strategies. Sustainable funding allows these NGOs to plan their activities for longer periods and to have offices, professional staff, current communications technology, and funds for public outreach and advocacy. These well-established organizations continue to expand their capacity and advocacy programs with fundraising and public relations efforts. Smaller grassroots organizations, however, are limited by the decrease of funding and the government's unwillingness to partner with them.

Many grassroots organizations, especially those that provide social services, operate from grant to grant. They are generally led by one strong leader and staffed by poorly trained volunteers. Local donations are often in-kind or only support specific activities, providing little or no support to develop organizational capacity. Small organizations are challenged by insufficient access to the internet, outdated technology and equipment, and poor salaries. The lack of human and financial resources not only prevents these organizations from achieving sustainability and becoming more professional, but also often forces them to close. This is common in the women's crisis center movement, which once thrived with international support but is now losing membership rapidly. If this trend continues, the number of effective social organizations and the availability of NGO social services will decrease.

Russian organizations are no longer able to attract capable and talented professionals. As the Russian economy expands, salaries in the private sector increase. NGOs are unable to compete, and the divide between salaries in the private and NGO sectors has grown. As a result, NGOs are losing many of their employees to the private sector. Grassroots organizations are generally immune from such



“brain drain” because their staff is not as competitive in the labor market. NGOs increasingly take advantage of volunteerism, which is on the rise, especially among the youth. Though not wide-spread or systematic,

institutions of higher education are offering more courses in non-profit management, which will hopefully produce a more qualified labor pool. Experts, however, are wary, considering the recent salary trends.

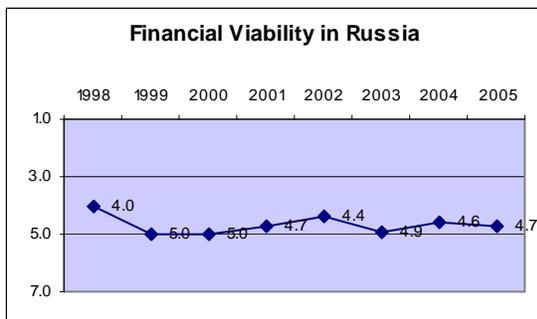
FINANCIAL VIABILITY: 4.7

Financial viability continues to be the greatest challenge for Russian NGOs. Foreign funding continues to decrease, and corporate philanthropy, while growing, is insufficient to support the entire sector. Despite economic growth and rising salaries, individual philanthropy is limited primarily to in-kind donations. Despite these challenges, the more sophisticated and mature organizations are generally capable of taking advantage of existing resources.

Government grants and procurement opportunities have increased, though the impact varies. In many regions, government grants for NGOs service providers are becoming more common. In Krasnoyarsky krai, the government has allocated 17 million rubles (US \$550,000) for grants to organizations that provide social and development services in rural areas. Like corporate funding, however, government support is not distributed evenly across the country. Though government funding is beneficial in some areas, in others, support is only provided to those organizations created by the government or the local political elite.

NGO experts applaud the increase of corporate philanthropy, and are hopeful that it will promote the development of NGOs across Russia. In the past, corporate philanthropy was limited to large international and domestic oil and banking entities. Recently, corporations such as Siberian Ural Aluminum and Wim Bill-Dunn are also supporting NGOs and investing in community and social development. Small and medium corporations have come to recognize corporate responsibility as a marketing tool and a means for community development. Local foundations benefit from the increased investment, as do smaller organizations such as sports clubs and social welfare groups, which are now able to cultivate long-term support. Despite these improvements, charitable contributions from the private sector are ad hoc, and include participating in charity marathons, or investing in communities via “forced philanthropy” or government-driven charity models.

Despite unfavorable conditions, larger, well-established organizations are more adept in exploiting the dwindling sources of funding. In addition, NGOs have become more sophisticated in navigating the tax system. For example, many NGOs create for-profit subsidiaries to generate income, which allows them to remain in a simplified tax bracket and enjoy VAT exemptions and lower taxes. The subsidiary for-profit organizations provide training and consultations for fees, and channel profits back to the parent organization. These opportunities are limited to the larger organizations, however, as smaller NGOs lack the financial management capacity and human resources to create a for-profit entity. At the local level, NGOs have to rely more on local resources. Human rights and advocacy organizations critical of government policy have little chance of receiving any domestic support and rely exclusively on the dwindling international support.



ADVOCACY: 4.2

Over the past year, efforts to influence policy were impeded by the government's continued centralization of the political process and social policy development. The elimination of gubernatorial elections and many of the mayoral elections has made local government more responsive to the federal government than to its citizens. While publicly applauding the role of civil society in community development and exploiting its popularity, local and regional governments rarely permit NGOs to participate in policy discussions.

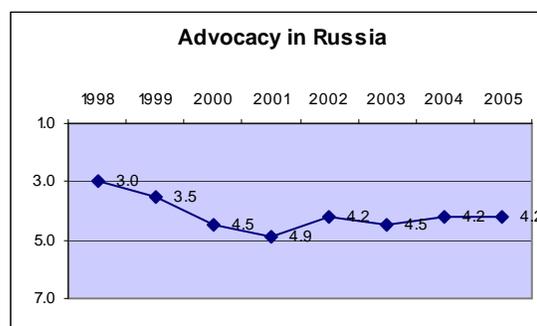
In September 2005, the Putin administration created the Federal Public Chamber to increase public participation in the federal government. The members of the Chamber, however, were chosen by the Putin Administration, calling into question their ability truly to represent their constituents. NGOs were to select one-third of the Chamber's members, but regional governments selected representatives instead with little or no input from the NGO community. The Chamber begins its work in early 2006, and its function and character will become clearer in the coming year.

An organization's ability to advocate for its constituents depends on its overall capacity and networking skills, as well as the government's position on the issue at hand. Despite the limited space for public debate on federal policy, NGOs have had numerous advocacy and public information successes, and produced significant results over the past year. In one example, a national campaign was able to have the Chamber of Commerce and Industry and the Union of Business Associations incorporated into several existing laws including the tax code and laws regulating business licensing. This will give small and medium enterprises a tax break and allow them to use a simplified tax system, as well as decrease the number of businesses that require licensing.

In Perm Oblast, the NGO community institutionalized the process by which all social policy and draft laws are reviewed by the public. The Siberian Civil Initiatives Support Center in

Omsk and Irkutsk are regularly asked by local and regional government officials to provide expertise on education, health care, and community reform policies. In Samara and Khabarovsk, service organizations worked with regional governments to amend the methods for implementing sensitive reforms that replace social benefits, especially for pensioners, with monetary subsidies.

The new Law on Self-Governance will provide more opportunities for NGOs to participate in policy making at the local level. The law creates participatory mechanisms such as referendums, municipal elections, public hearings, law-making initiatives, community forums, and citizen surveys. The law requires public participation in drafting the charters for municipal entities, planning local development and budgets, deciding land use issues, and other activities. In regions such as the Jewish Autonomous Republic, Amur Oblast, Primorsky krai, and others in Siberia and Southern Russia, NGOs already partner with local governments to encourage citizen participation. Very few organizations, however, possess the knowledge and skills needed to conduct a public information campaign and inform the population about the opportunities created by the new law.



In general, organizations and the public have been slow to accept advocacy as a function of the NGO sector. This is in part due to society's preference for a paternalistic state over one in which individuals promote their own interests and rights. Advocacy efforts are also hindered by a lack of unity and leadership within the sector, and the inability of organizations to

employ analytical data. NGOs' unwillingness to collaborate on common issues has led to unhealthy competition, ineffectiveness, and disjointed activities. Competition for government and corporate funding also interferes with cooperation among NGOs on advocacy efforts. Local and regional governments provide more support to the more compliant and malleable organizations in order to co-opt the NGO sector at the local level.

Still, NGO movements concerning controversial national issues were increasingly visible this year. The Union of Soldier's Mothers has been a vocal opponent of the war in Chechnya and received both positive and negative media attention. A wave of protests by pensioners across Russia in January 2005 concerning the monetization of social subsidies reform forced the government to soften the implementation of the reform.

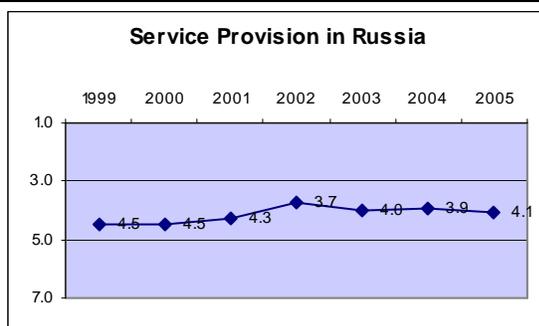
Organizations have provided information and consultations to citizens, and raised public awareness about new provisions of the Housing Code. A regional anti-corruption coalition in the Russian Far East is successfully pursuing issues of transparency in local decision-making and provides access to information for citizens.

Environmental groups in the Republic of Bashkortostan have led a campaign to promote reproductive health and lower the risks

associated with environmental degradation. Women of childbearing age receive training on the environment and healthy living. The Network of Siberian Rivers, an environmental coalition, developed a project to protect Russian rivers by promoting public debate on construction projects and developing ecological strategies for different rivers.

NGOs quickly organized themselves when the draft of the NGO Law was approved by the State Duma on November 23, 2005, just sixteen days after its introduction. Both domestic and international organizations, as well as foreign governments, were critical of the draft. The Russian Donor's Forum published an appeal protesting it, and members of the newly created Public Chamber requested that the Duma delay consideration of the draft law until they could hold public hearings on the matter. While the Putin administration and Parliament were reviewing the law, civil society organizations in Russia worked to improve the draft by conducting comparative law studies, preparing comments, organizing public discussions in the media and within the NGO community, and preparing alternatives. NGO representatives prepared a letter of protest and obtained more than 5300 signatures from all across Russia. Approximately 80% of the changes proposed by the NGO Consortium were accepted in the final draft of the NGO Law that Parliament adopted.

SERVICE PROVISION: 4.1



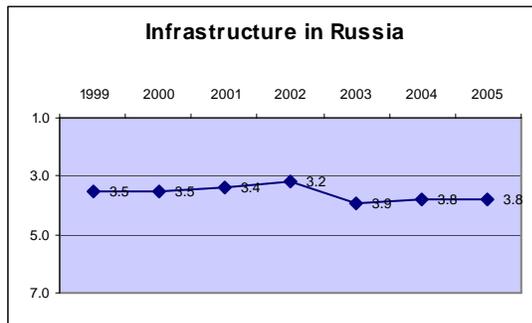
The government's vague policies concerning NGOs have placed legal limitations on the services that organizations are able to provide and prevented them from meeting expectations

of the role of NGO service providers. In 2004, the government decentralized its control of social services as a priority of its economic reform, turning instead to the business and NGO sectors. Decentralization, combined with the Minister of Economic Development's plan to improve the impact of civil society organizations, created expectations that the NGO sector would increase its role in providing services. The legal and financial barriers, as well as weak internal capacity, have prevented organizations from playing a larger role.

NGOs continue to provide services to marginalized women, children, veterans, and other at-risk populations, but are unable to make up for the lack of government services. New procurement opportunities are expected to increase NGO service provision, though former municipal social service organizations and NGOs generally lack the organizational capacity and skills to compete for government contracts.

NGOs have yet to develop a market for their services, or take advantage of existing markets. Local organizations most often target populations that are unable to pay for services. Government subsidies are slow, but the more progressive regional governments are now increasing their support for staffing and institutional expenses. The only well-developed market is served by quasi-NGO think-tanks that provide analytical services to government institutions.

INFRASTRUCTURE: 3.8



The shift from international funding to more domestic support is slowly improving the NGO infrastructure. Despite the political struggle concerning NGO activities, the increase of domestic grant-making and philanthropy is evidence of the growing independence of Russian civil society. In the absence of foreign funding, organizations have had to develop and implement mechanisms for attracting local support. The ten years of foreign support for NGO resource centers resulted in a more formal infrastructure. The challenge now is to secure domestic funding so that it does not deteriorate.

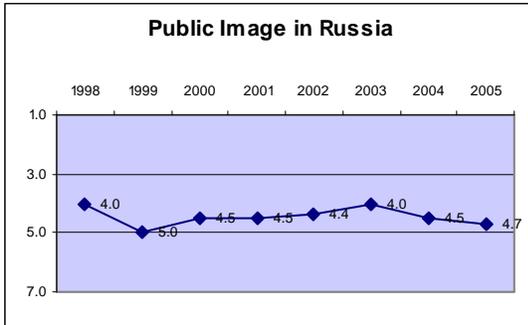
Though NGOs do not have access to policymakers at the federal level, they continue to enjoy formal relations with local and regional governments, a sign of their increased capacity. Local NGO advisory committees, public hearings, and increased investment in social policy expertise have become common across Russia. NGOs now face the challenge of adapting these mechanisms so that they are effective in the new political environment. With their increased presence over the past five years, the government had to create the Public Chamber to liaison with NGOs, legitimizing their presence as a well-established local force.

Despite the sense that the NGO sector is an integral part of Russian society, the dramatic decrease in funding for resource centers has significantly slowed the development of NGO infrastructure. Experts report that the number of resource centers has dropped from forty to thirty over the past two years. Many fear that if more local resource centers close, it could have an adverse affect on the ability of new organizations to form in the coming years.

PUBLIC IMAGE: 4.7

Over the past year, the sector's public image was damaged by statements from the federal government that NGOs are suspicious organizations funded by western governments. Early in 2005, President Putin said that foreign governments were funding NGOs to conduct activities that did not serve the needs of Russian communities; the underlying message was that NGOs serve foreign interests and cause instability in Russia. In response to the

revolutions in the NIS, President Putin charged that donors were using Russian organizations to influence the political process and stressed that the government would not tolerate such interference. At the same time, the government has praised civil society as a concept, sending a mixed message to NGOs.



The public continues to be unaware of NGO activities. The All-Russian Public Opinion Research Center survey conducted in November 2005 reported that only 3% of Russian citizens have had personal contact with an NGO, and 9% know about NGO activities in their region, while 51% were completely unaware of NGO activities. Of those surveyed, 40% stated that NGO activities are unimportant for the majority of citizens. Despite these numbers, 38% believe that NGOs protect citizens' rights and promote public initiatives to help solve specific issues. Of those that are familiar with NGO activities, 47% believe that they should work in the areas of child welfare and protection of parents' rights, while 30% believe they should engage in neighborhood improvement and educational activities.

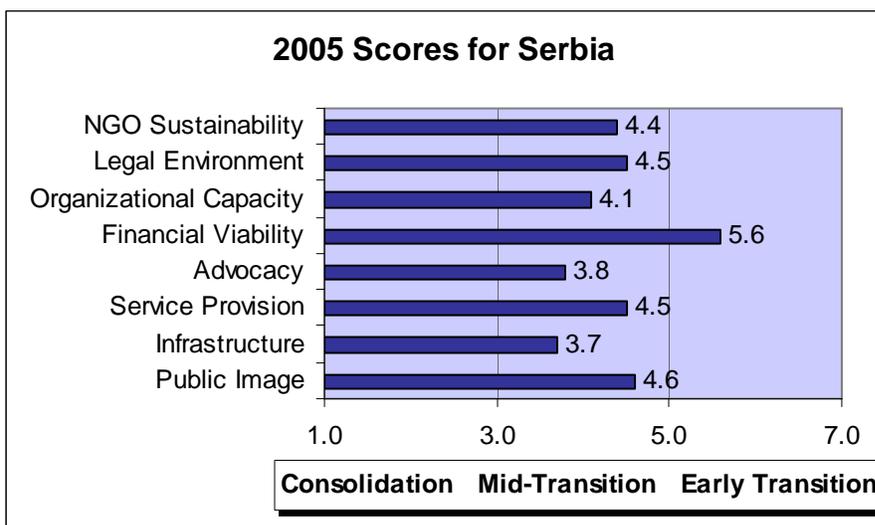
NGOs have yet to develop the capacity to publicize their services, gain the trust of their

constituents, or counter the attacks from the government. NGOs focus their attention more on customer service than public outreach. Their inability to communicate with the public creates confusion over what services are provided by the government and those by non-profit organizations. Citizens continue to look to the government to solve their social problems without recognizing the positive impact of NGOs. Publications by NGOs are limited and tend to focus on their achievements and activities rather than developing brand recognition or community trust and support.

While the press increased its coverage of social and community development, it continued to be largely unaware of the role that NGOs play. National newspapers provide NGOs with space to solicit donations for social service programs, but journalists and NGOs were unable to prepare solicitations in a manner that makes a case for supporting NGOs' positive contribution to society.

In a positive development, every year more citizens begin volunteering. In 2005, 580,000 people participated in volunteer activities. The economic value of this volunteer time is more than \$2 million.

Serbia



Capital: Belgrade

Polity: Republic

Population:
9,960,000

**GDP per capita
(PPP):** \$2,400

NGO SUSTAINABILITY: 4.4

This year marked the fifth anniversary of the defeat of former Serbian president Slobodan Milosevic, and the end of a period marred by regional conflicts, international isolation, and economic recession. Serbian NGOs stood at the center of this transition, banding together to increase voter turnout, highlight cases of human-rights abuse, and develop a civil society.

In the initial period following 2000, NGO optimism and sustainability seemed on the rise. Since then, progress has for the most part stagnated, and in some cases, NGO sustainability has suffered setbacks. Organizations have not only failed to build a partnership with the current government, they also have been met with open hostility from numerous officials. The media has displayed similar antagonism. Such negativity feeds poor public perceptions and deters domestic philanthropy, which is increasingly important as foreign funds are diverted elsewhere.

In some respects, NGOs in Belgrade fare better than their counterparts at the local level, particularly in terms of organizational capacity and advocacy. Larger, well-established organizations still tend to focus on transitional issues of reconciliation and human rights, rather than represent a wider range of other citizen

concerns. Organizations outside of Belgrade, however, enjoy more favorable relations with local media and businesses.



The overarching question for the sector is whether the failure to realize needed reforms, exemplified by delays in the passage of the new law on NGOs, represents business as usual or a deterioration of the current situation. Another year of disappointments only adds to the pessimism that has plagued much of the country, as many expectations from 2000 remain unfulfilled.

Without an effective law on NGOs, it is difficult to determine the size of the NGO sector. The register of legal entities, which counts “citizen associations,” lists 8,476 organizations, 1,681 of which submitted financial reports in 2003. A

recent study by the NGO Civic Initiatives, based in Belgrade, determined that 997 NGOs

are active.

LEGAL ENVIRONMENT: 4.5

As NGOs in Serbia continue to operate with an inadequate, outdated legal framework to regulate their operations. For the past five years, various drafts of a new NGO law have been circulated, some of which were unacceptable to NGOs; but still no legislation has been enacted. Discussions with representatives from the NGO community at the end of 2005 lead some to believe that an acceptable NGO law will be passed in the first half of 2006. Others remain skeptical given the delays in the past and the government's failure to solicit NGO input during earlier stages of the process.

In addition to its own laws, Serbia is subject to the federal laws enacted under the defunct Federal Republic of Yugoslavia, which is the predecessor to the current but tentative State Union of Serbia and Montenegro²⁷. Serbia's republic-level law for registration has never been implemented and few are familiar with its stringent provisions, one of which, for example, would require organizations to register with the Serbian police. Most NGOs choose instead to register under the federal law, even though the federal government no longer exists. The State Union NGO law is incomplete and only grants the authority to register organizations, but fails to grant State officials the authority to dissolve them. In such a legal vacuum, regulation and implementation remain arbitrary and left to the discretion of government officials. In the absence of a central government, NGOs are generally free from high-level harassment, though some organizations, particularly human rights groups, continue to report cases of wiretapping, e-mail tampering, and other forms of surveillance.

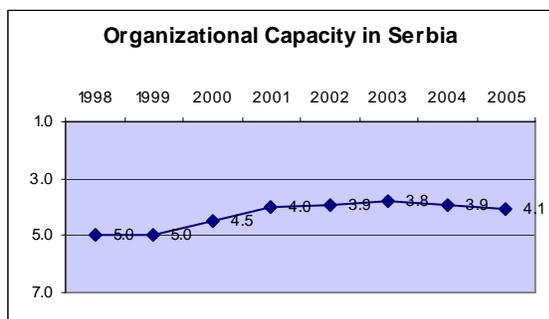


The new Serbian draft law on NGOs, if adopted, will address registration, but will not clarify the ambiguities associated with NGO taxation. Currently, NGOs are exempt from paying taxes on income up to 300,000 dinars (US \$4,200) and all income must be applied to further the organization's purpose. Amendments to the new VAT regime provide exemptions for bilateral donors and permit them to pass on these exemptions to their beneficiaries. NGOs are subject to all local taxes.

²⁷ A referendum on the future of the State Union – consisting of the Republic of Serbia and the Republic of Montenegro – and the possible independence of Montenegro is expected in May 2006.

ORGANIZATIONAL CAPACITY: 4.1

NGOs in Belgrade have much greater organizational capacity than those outside the capital. Those in Belgrade enjoy increasing access to necessary equipment, permanent staff, established boards, and clear management, while those at the local level often continue to be one-person shows.



The decrease in funding from foreign donors has had a greater impact on organizations outside of Belgrade, which generally have limited proposal writing skills. Grants, which have been reduced drastically, focus more on specific project activities rather than institutional or operational support, leaving many organizations unable to meet their basic needs. NGOs continue to request funding for

FINANCIAL VIABILITY: 5.6

The changes in donor funding cause many to question whether the financial viability of NGOs is likely to get worse. The current situation is forcing many organizations to seek support from a variety of donors, as few will fund entire projects. While having a variety of funding sources increases stability, Serbian NGOs have very few options. Because the state procurement process lacks transparency, and include unclear budget lines and vague criteria for allocation, few NGOs are aware of opportunities to bid on government contracts. The number of local governments controlled by anti-reformist political parties that commonly hold anti-NGO views has increased. Organizations in such communities are less likely to receive financial support from these governments and some organizations have been

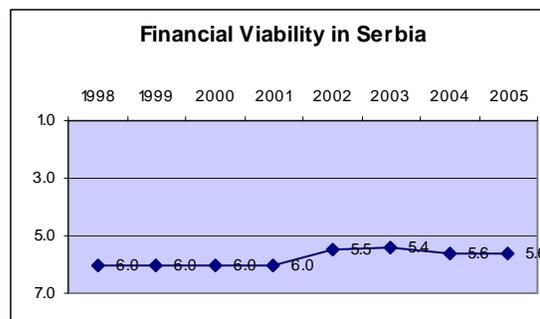
equipment and technology, including computers and software, though few donors still provide such assistance.

Local NGOs often enjoy greater success with fundraising at the community level than their Belgrade counterparts, because local organizations are members of their community and support local needs. Local funding, however, is limited and like international funds, is directed towards specific activities rather than organizational operational costs.

The Balkan Community Initiative Fund is one of the few domestic grant-making organizations that designs and implements its own initiatives rather than re-granting foreign funds. While numerous organizations have the capacity to conduct training programs, many no longer have the funds to do so due to the reprioritization of donor funding. The decrease in opportunities for organizations to attain more fundamental skills has a greater impact new NGOs, in contrast to more-established organizations that may have already received training.

in the position in which they have had to accept funding from political parties that are counter to their own goals. The “anti-NGO” climate that can deter private contributions is being fueled by persistently negative public statements against NGOs by the government and media.

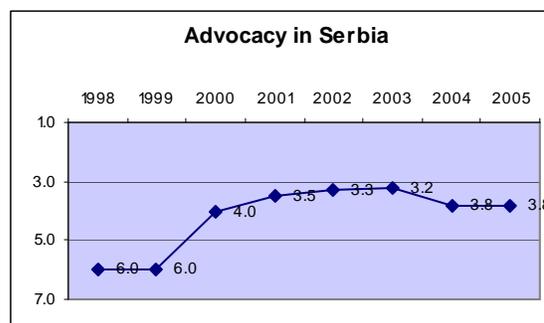
NGOs are increasingly turning attention to financial viability, with domestic philanthropy and corporate responsibility emerging as issues of concern.



ADVOCACY: 3.8

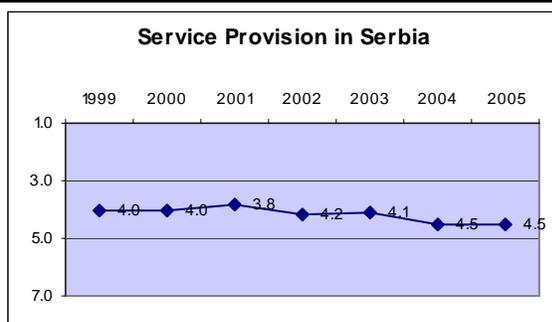
Building on their successes in advocating for a new law on Free Access of Information, NGOs have more optimism concerning advocacy than they did last year. This year, a coalition of fifteen organizations has worked to ensure the law's implementation. Their efforts have included monitoring implementation and informing the public about the law. The coalition has built a strong relationship with the Commissioner for Information of Public Importance and has published a guide to the law, which the Commissioner chose to adopt, rather than draft one as required by law. Other advocacy efforts include involvement with Serbia's laws on the family and the protection of women and children, as well as the recent changes to the criminal code that remove imprisonment as the penalty for libel and slander. NGOs also played an important role in the official acknowledgement of the 10th Anniversary of the 1995 Srebrenica massacre, including publicizing the taped execution of six Srebrenica Muslims. The tape is thought by many to have had a wide impact on how the

public views Serbia's involvement in the wars of the 1990s.



Despite these few examples, NGO advocacy appears to be limited to a small number of Serbia's leading national, rights-based organizations. Local organizations often lack advocacy skills and are not engaged in a wide variety of civil society issues. Many organizations continue to be unclear about the concept of advocacy; how it differs from other activities and how it can be best leveraged to achieve specific goals.

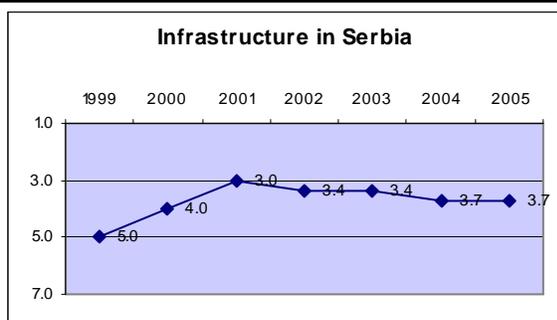
SERVICE PROVISION: 4.5



While NGOs offer a relatively wide range of services, they do not always respond to the needs of their constituents. Many organizations do not conduct needs assessments or long-term strategic planning, and services often change according to the financial situation of the implementing organizations.

Government officials often fail to recognize the value of NGO service providers. The Social Innovation Fund implemented by the Serbian Ministry of Labor, Employment, and Social Policy and funded by the European Agency for Reconstruction, the United Nations Development Program, and the Kingdom of Norway is working to overcome the gap in social services. The Social Innovation Fund is a competitive proposal process that distributes funds and provides management support to reform-oriented social service projects at the local level. NGOs are eligible for funding if they submit project proposals in partnership with Centers for Social Work or other local institutions.

INFRASTRUCTURE: 3.7



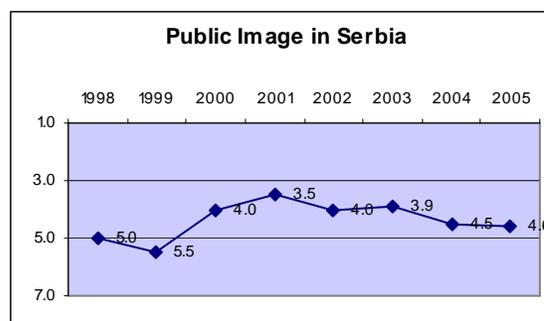
Approximately ten NGO networks and coalitions exist in Serbia, including a coalition

PUBLIC IMAGE: 4.6

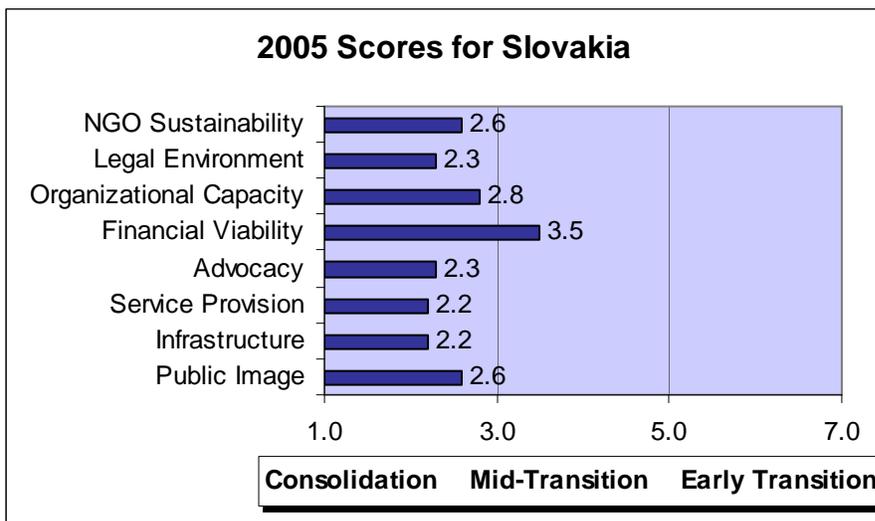
In one sense, the NGO sector's public image is so poor that NGOs do not even look favorably upon the overall NGO sector. Generally, individual organizations do themselves in a more positive light. A recent survey conducted by Center for Free Elections and Democracy (CeSID) suggests that as poor as their public image is, NGOs may garner more public trust than the political parties. The larger issue appears to be that neither the public nor the government understands the concept of an NGO. "Non-governmental" is often thought to signify "anti-governmental," a view promoted by some officials and the media. The leading human rights organizations in particular, all headed by women, are most often publicly under attack. NGO standing in society is both reflective of and influenced by the political situation. Citizens' opinions about NGOs are linked to party affiliation; supporters of anti-reformist parties mostly hold negative opinions about NGOs while supporters of democratic parties tend to view them more positively.

for reconciliation and a network of human rights organizations, as well as local-level coalitions in Southern Serbia. The four-hundred member federation of NGOs in Serbia (FENS) continues to be the largest coalition in the country. Otherwise, networking continues to be limited to informal, ad hoc initiatives that address immediate, pressing issues rather than issues requiring sustained attention. Networking does appear to be improving, though NGOs have been unable to build partnerships with the government and media.

Organizations consider themselves victims of the media, which fails to analyze the sector, its activities, or accomplishments. Journalists seem more interested in where money comes from rather than how it is used. Local organizations often receive more positive media coverage, as they are perceived as locals active in the community, rather than outsiders paid by foreign interests. Organizations are working to undertake activities promoting financial transparency, such as posting information on websites, which should hopefully aid in promoting accountability and ultimately encouraging local philanthropy.



Slovakia



Capital: Bratislava

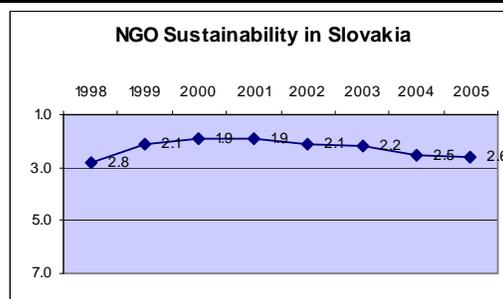
Polity:
Parliamentary
democracy

Population:
5,439,000

**GDP per capita
(PPP):** \$15,800

NGO SUSTAINABILITY: 2.6

The NGO sector did not experience significant changes over the past year, and reports only slight improvements in the Legal Environment, Financial Viability, and Organizational Capacity dimensions. NGOs continue their struggle to survive the decrease in foreign funding. More than in any other time, organizations are dependent on local resources and must turn to individual and corporate donors or other means to cover their costs. The dependence on local funding, however, has led to a decrease in staff and programs, as well as greater work loads for employees, especially the NGOs' directors. Advocacy organizations are the most affected. NGOs have increased their levels of professionalism in response to demands from the business sector and the struggle for financial viability. Organizations have realized the importance of cooperating with the business community, which requires greater professionalism. While some NGOs may be forced to cease their activities due to the lack of funding, it may be a natural and healthy process that will result in a stronger NGO sector.

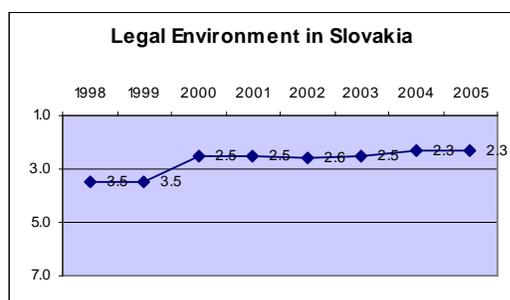


NGOs are in need of greater public support. The public, however, is generally apathetic; citizens are not even passionate about defending their rights. The State is also apathetic, and despite examples of cooperation between the state and NGOs, government officials are very passive and do not seek out cooperative relationships.

NGOs face new challenges in defining themselves as they move forward; they must decide the image they want to project to the public. Activities such as drafting the Code of Non-Profit Law and discussions on public benefit activities could have a significant impact on the sector's development and help it move forward.

LEGAL ENVIRONMENT: 2.3

The legal environment has not changed over the past year. NGOs were busy protecting their current status and were unable to focus on making changes to the law. For example, the state wanted to repeal the 2% law, which allows taxpayers to designate 2% of their tax liability to an NGO. Many organizations depend on the 2% law as an important source of income. Instead of dedicating energy to initiating important tax reforms, NGOs had to defend against regressive legislative acts. The NGO sector was able to keep the 2% law intact.



In 2004, a team of legal experts led by the Deputy Prime Minister for European Affairs, Human Rights, and Minorities, and the Ministry of Justice, was drafting the Code of Non-Profit Law. These efforts stalled in 2005 and NGOs have pressured the Ministry of Justice to follow through with the project. The Code would harmonize NGO legislation, clarify operations and simplify many procedures.

The current legal framework is vague and neither NGOs nor government institutions know how to respond. The registration process, for example, is relatively simple and county offices do not question an applicant's motives for registering. The result is a large number of registered organizations, 23,000 of which are civic associations. Many organizations register as civic associations because they are the simplest form in terms of operation and they are able to easily access funding from the 2% law. Though the registration process is simple, termination is difficult and government officials are uncertain how to dissolve an organization. The NGO sector also has problems with the finance regulations. Many

older organizations are uncertain whether their activities are classified as economic, and government officials are equally uncertain how to treat them. Most of the new organizations include economic activities in their list of activities, and the trade licensing offices do not object.

Four foundations, Ekopolis, Socia, the Children and Youth Foundation, and the Open Society Foundation, all made separate efforts focusing on lotteries, which are frequently associated with sports. These foundations tried to create socially oriented NGOs to use them as a means of fundraising; their results were only partially successful. They were successful in advocating for the right to hold lotteries, though they did not succeed in negotiating special conditions for charitable lotteries, and to operate a lottery, an organization has to purchase a lottery license for 300 million Slovak crowns (\$9.5 million USD). Other reforms concerning lotteries are slated for 2006.

Some organizations provide free legal services to other organizations. Though most services are based out of the capital, some services are provided in the regions as well. In addition, the Faculty of Law in Bratislava has started an NGO law clinic to provide students experience in NGO law by working for organizations. Few take advantage of the clinic.

NGOs are generally unaware of E.U. legislation relevant to their activities. The entire sector would benefit if more organizations were to take advantage of these laws. Though there have been discussions about harmonizing Slovakian NGO law with relevant E.U. law, the seven different models for NGO operations are incompatible, preventing uniform legislation.

In drafting the Code for Non-Profit Law, NGOs realized that several important legal definitions were missing. Terms such as "public-benefit activities," "sponsorship," "volunteerism," and others are undefined. The Open Society Foundation initiated a discussion and conference about the term "public benefit." The

government declared its support for projects of public benefit, but the concept needs to be defined first. This effort by the State and the

hope of future efforts by NGOs is viewed as positive and a step that can help the NGO sector move forward.

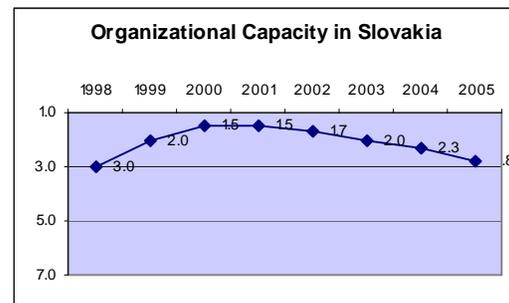
ORGANIZATIONAL CAPACITY: 2.8

Many organizations, especially foundations, have Boards of Directors with which they have cooperative relationships. Organizations also engage in strategic planning and prepare business plans; some even have codes of ethics. Because many NGOs provide services to those who are unable to pay, fundraising is an issue. If they chose to charge fees for their services, they encounter difficulties created by the absence of a clear definition for “entrepreneurial activities of NGOs.”

Smaller NGOs such as those that work with the Roma people have begun to nurture their own institutional development as well; whether this will lead to sustainability is still in question. Other points of discussion are whether the sector should downsize or remain the same, and whether the inability for some organizations to survive is simply a result of the demand and availability of resources. NGOs are being pressured by the private and public sectors to increase their level of professionalism, which means that they often have to minimize their staff and consolidate the roles of their employees. The cost is that many organizations, especially advocacy organizations, are forced to cut back on their activities.

Advocacy and watchdog organizations are particularly affected by the financial conditions, in that to accept government funding would present conflicts of interest and deter businesses from supporting their activities. Advocacy organizations depend on the public

for their support, and the question is whether the public has attained a level of maturity that will prompt them to do so.



Volunteerism is another human resource challenge. The only volunteer center no longer exists and the law does not define the term “volunteerism,” leaving open the question of whether volunteers are responsible for their actions as related to their volunteer activities. Though individuals and corporations are willing to assist, they are limited by time and volunteer activities are a low priority. Completing and enacting the Code of Non-Profit Law would promote volunteerism and offer people the option of becoming licensed volunteers, meaning they would be trained in a specific area relevant to NGO activities and then listed in a volunteer database. The majority of organizations has the technical equipment needed to accomplish its work. Though no donors finance new technical equipment, some corporations provide their old equipment to NGOs.

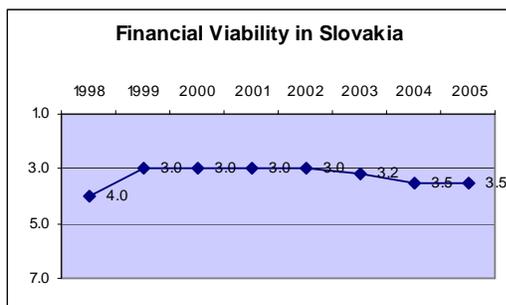
FINANCIAL VIABILITY: 3.5

The decrease in foreign funding has made it necessary for NGOs to seek out new sources of funding in order to survive. The need for new sources of funding is especially true for advocacy and watchdog organizations that are unable to accept government funding. Such organizations also have difficulty gaining support from the business sector, which often views them as risky investments. They have a hard

time establishing self-financing activities because of their scope of activity.

Other types of NGOs have fared a little better. NGO service providers have enjoyed an increase in financing and many businesses provide them with direct support for popular activities such as youth services and cancer support, as well as less popular activities such as

re-socialization centers for criminals, and hospice. NGOs also have access to E.U. funds, though some organizations attempted to take advantage of them and almost closed down as a result. One issue with E.U. funds is that grants are paid after the activity is complete and most organizations are unable to cover the costs of the project up front. The same is true with other grants. NGOs that had been awarded grants from the Fund of Social Development, which was created to provide NGOs with State funds, began their projects before receiving their grants, only to learn that the Fund has no legal authority to pay out the grants. Similarly, the State committed to supporting a few festivals organized by NGOs, but never distributed the funds. For reasons illustrated by these examples, NGOs now enforce the system of upfront installments paid from their own reserves and reimbursement is received late, which causes major difficulties for NGOs' financial management.



NGOs, regardless of their financial plans, generally have diverse sources of funding as is often required by donors. The majority of NGOs provides professional financial reports, and even conducts annual audits, which are required of organizations that earn more than 1

ADVOCACY: 2.3

NGOs have many avenues to advocate for their causes. For example, NGOs are permitted to submit comments and suggestions to Parliament concerning pieces of legislation. If they are able to collect five - hundred signatures, Parliament is required to address their comments. Ad hoc coalitions form to address specific topics and often have contact with Parliament. The greatest obstacle NGOs face in these efforts is

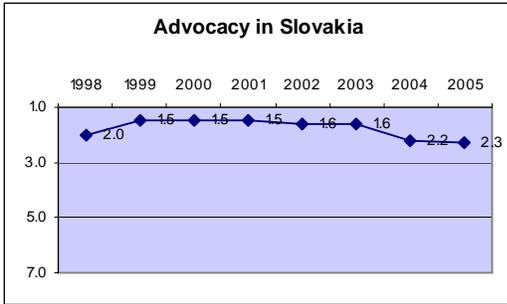
million SKK from the 2% law. The number of organizations with the ability to prepare grant proposals for the E.U. Structural Funds increased significantly over the past year. Fundraising is a necessary means for an organization's survival. The majority of NGOs recognize the need for fundraising; however, the role of fundraising in the organization is not defined and this work is therefore often done by the executive director.

Membership fees are a source of funding for only a few organizations, such as youth groups, since most NGOs do not have a strong enough membership bases to serve as funding sources. NGOs, especially those that offer social services, are able to receive public funding. The Open Society Foundation's efforts to define "public benefit" better should lead to a larger number of organizations that are able to access state funding.

Community foundations have been successful in generating support from private entities. Some corporations have even created cooperative initiatives that earmark funds for grant-making. As a result, corporate foundations have strong public images, even though their original goals were often to support their own goals and objectives. Foreign foundations often use their own endowments as a source of financing, though in Slovakia, endowments only account for 7% of the sector's income.

Many NGOs complain that most funds are distributed to NGOs based out of the capital. According to data from implementation of the 2% law, however, there is a high correlation between location of a corporation and the location of the NGO it supports.

public apathy. Despite the numerous inflammatory issues that arose over the past year, the public became involved in only one. The public rallied to organize the "People Against Violence" rally in response to a neo-Nazi's killing of a student. This may be the result of increased competition among NGOs or the lack of intra-sectoral communication.



NGOs engaged in numerous advocacy activities, including the Alliance for Fair Play, which successfully enforced more transparent rules within the Law on Political parties. The Civic

Association Navrat worked with the Ministry of Social Affairs, Labor and Family to reform the Law on Social-Legal Protection of Children. NGOs also advocated for KIA to build an automotive plant in Zilina. Racist attacks continue, though only a few organizations such as the People Against Racism and Charter 77 are willing to address such a sensitive subject in Slovakia.

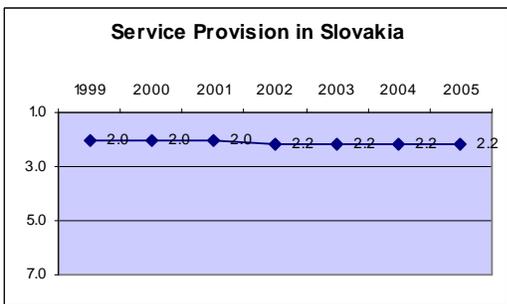
NGOs did make a few unsuccessful attempts to advocate at the state level. For example, NGOs tried to decrease the immunity of members of Parliament and clearly define “conflict of interest;” both initiatives were unenforceable.

SERVICE PROVISION: 2.2

The majority of NGO service providers offers social services. Many of the former state organizations working in this area were converted into non-profit organizations. NGOs provide services that the government does not and are supported by the state in which they operate. As a result, social service NGOs have an appreciation for the government and its support. The government is not always transparent in its support of NGOs with organizations that were once government agencies receiving more support than others due to their personal contacts. Despite this issue, the market for social services is more open and beneficial to the public. Services are provided by organizations such as PDCS and CVNO. Pro bono legal services are often of a higher quality than those provided by the state.

Several NGOs also provide grants on behalf of the state and private sector. The Open Society Foundation administers funds for the Plenipotentiary for Roma Issues, which offers scholarships for Roma Students. The Center for Philanthropy administers funds for the SPP Foundations (Slovak Gas Industry) and the funds for the telecom corporation Orange. The Pontis Foundation administers World Bank grants from various corporations. Though administering grants may seem lucrative, most foundations report that they only cover their costs.

Some organizations do engage in activities that could become lucrative. The Integra Foundation owns a popular store that sells its clients’ products. Majak, a civic association, is a re-socialization center that provides transportation services. NGOs also provide health services for free during the week, but charge a fee on the weekends to cover their costs.

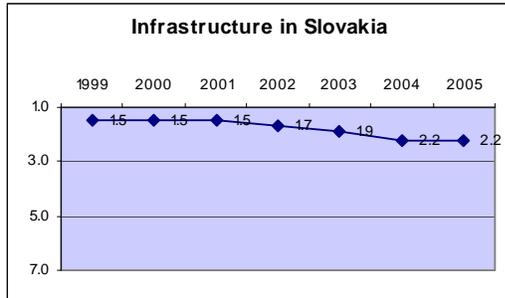


INFRASTRUCTURE: 2.2

In addition to the existing training organizations such as the First Slovak Non-Profit Service Center, the Forum Information Center, STUZ,

VOKA, the Association of Supervisors and Social workers, Fenestra and Profamilia, the sector is undertaking a new education program.

PDCS, along with OSF and CVNO, is preparing internet courses to provide training in all areas relevant to NGOs. The first set of courses will be offered to NGO leaders and open to a wider audience in the future.



NGOs have formed many informal coalitions and networks. Most of them meet only when they need to address an issue or need. Socio-forum is a more permanent network that addresses social services. It holds an annual conference, and has completed extensive analysis of foundations, which was followed by a conference for the foundations, and organized a network of consultants and trainers with internet conference capabilities. ChangeNet, an internet portal, offers information services to the entire sector, but offers several servers such as the socio-forum on social issues, mladež.sk on youth issues, a mail server for environmental organizations, and one page (www.partnerstva.sk) dedicated to partnerships with the NGO sector.

Efekt is a monthly magazine published by 1st SNSC that covers NGO events and provides “Flash News” and a “Monthly Information Summary” about the changes in laws and regulations, as well as the implementation of procedures governing taxes, accounting, and management. This will soon be united under the

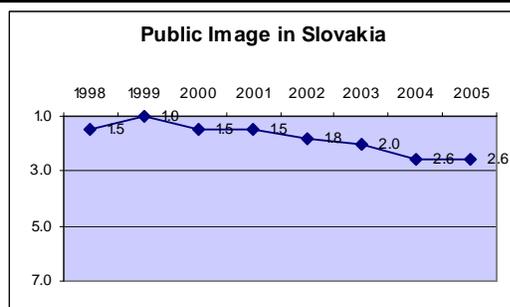
SEFIN project, an internet information database that will also provide statistics and analytical information about NGOs, projects, activities, donors, and finances. SEFIN will facilitate the exchange of information among donors and identify unsupported programs and geographic areas, as well as increase the transparency of NGOs. SEFIN is scheduled to be up and running in December of 2005. NGOs that pay for SEFIN will receive the flash news and the internet version of Efekt magazine. In addition to donor information, SEFIN will offer information from the Ministries that provide NGOs with grants and information on registered organizations.

NGOs, especially those that receive E.U. funding, are often required to cooperate with the state; at times cooperation is formal and driven by a specific purpose. In the area of social services, the Socia Foundation partners with local municipalities and organizations provide trainings for social workers and local governments.

NGOs prepared numerous publications. The Pontis Foundation produced a publication on Corporate and Social Responsibility and PDCS prepared a paper on self-financing. Ekopolis and IVO worked on a project that focused on public relations for NGOs and how to acquire more sustainable sources of funding. The Sasakawa Foundation prepared an e-manual for obtaining information on NGOs with the Visegrad (V4) countries.

Despite these positive elements, the NGO infrastructure has always been supported by foreign funding and many question whether it will be sustainable if it has to rely on local funding, especially considering the extremely competitive NGO environment.

PUBLIC IMAGE: 2.6



Cooperation with journalists continues to be difficult and many do not understand what the NGO sector is. Cooperation with the media often depends on personal contacts. Media coverage of specific activities is at times quite broad and events such as the One Hour for Children and Daffodil Day are usually well-covered. The media is generally willing to provide discounts for NGO advertisement, though organizations are often perceived as having significant funding or being political.

NGOs hold press conferences frequently, though when the topics are complex, journalists often do not show up and media is weak. In order to address this problem, NGOs are organizing breakfasts with journalists rather than press conferences, which allow them more time to explain issues. Journalists are at times eager to establish new contacts and NGOs are able to assist them. Cooperation with the media is also influenced by overloading, fluctuation and low level of education of journalists. No

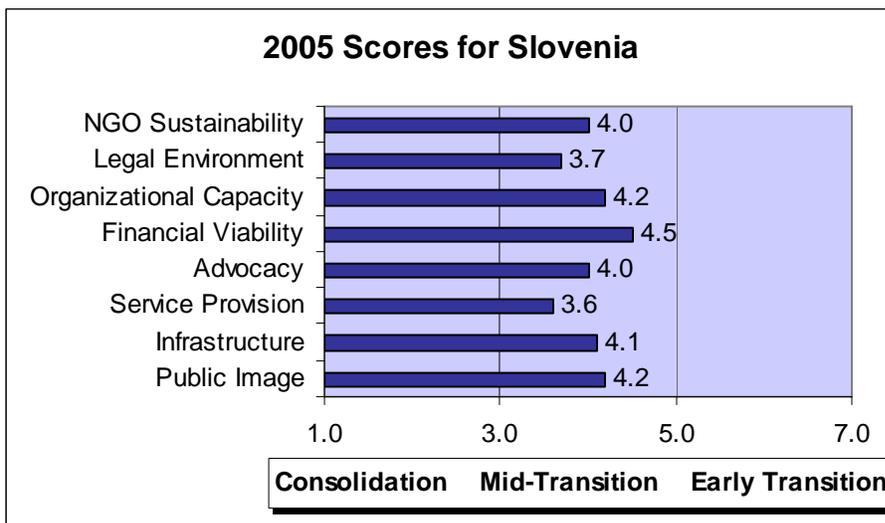
journalists specialize on NGO affairs. The media generally provide greater coverage to negative aspects of NGO activities rather than their positive developments.

Another way of increasing transparency and communicating with the public is through annual reports. The Children and Youth Foundation and PDCS not only prepared a publication on how to prepare a high-quality report, but also held a competition for the best annual report.

The government's view of the NGO sector is neutral; government officials do not create barriers for NGOs, but they also do not voice support for their activities. The government and media often take advantage of the expertise offered by organizations such as the Alliance for Fair Play, Transparency International, Institute for Public Affairs, MESA 10, F.A. Hayek Foundation, and others. Government officials also benefit from reports that NGOs produce, though they rarely ask organizations to prepare such reports.

The NGO sector has yet to adopt a common code of ethics or other mechanisms to increase transparency, though the Donor Forum has become active in this field. The NGO sector is also missing a moral authority and fails to communicate with the public about its roles and activities. For this reason, the NGO sector is sometimes perceived as non-innovative and conservative.

Slovenia



Capital: Ljubljana

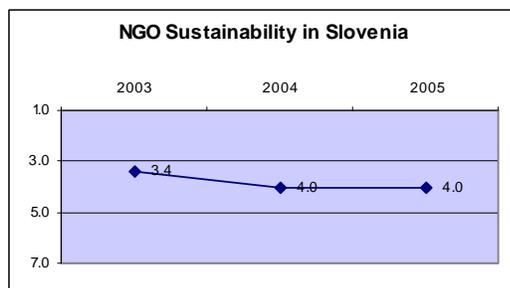
Polity:
Parliamentary
democratic republic

Population:
2,010,000

**GDP per capita
(PPP):** \$21,000

NGO SUSTAINABILITY: 4.0

The NGO sector continued to grow in 2005, with over 20,000 organizations, most of which are registered as associations. A smaller percentage of organizations are registered as foundations and institutions. Most associations are volunteer fire brigades and sports organizations. The employment rate in the NGO sector remains extremely low and most organizations depend primarily on volunteers.



The NGO sector was expecting to benefit from Slovenia's membership in the European Union, though the benefits have not materialized. At first glance, it appears as though NGOs have access to a variety of new opportunities and resources, but the reality is that few have the resources and capacity to compete for funding and support. This is due to inadequate preparation in the period leading up to

accession NGOs have begun to engage in self-evaluation, and are more aware of the importance of transparency and accountability in implementing their activities.

The previous government provided little assistance for the NGO sector over the past few years. Though NGOs and the government have been negotiating a cooperative agreement, the process has been stalled for several months. The new government, which came into power following the 2004 parliamentary elections, is focused on structural reforms and has not given NGO development a high priority. NGOs fear that once the structural reforms are complete, their position will deteriorate. In December of 2005, the new government dissolved a government committee that was created to communicate with NGOs and in its place created a new inter-ministerial group for NGOs.

The overall NGO sustainability score has stagnated and the Slovenian NGO sector remains the lowest rated sector within the Northern Tier countries.

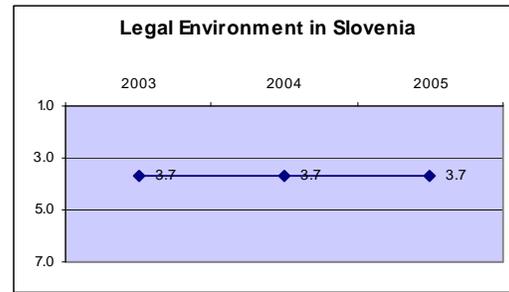
LEGAL ENVIRONMENT: 3.7

The legal environment governing NGO activities experienced some changes over the past year. The Foundation Act was amended, though private foundations are unable to register. Government officials prepared a draft Act on Associations, which Parliament is planning to enact in 2006. The draft proposes some important changes that will permit legal persons, including the Ministry or other public institutions, to create an association. The draft also creates a new process for obtaining public interest status that includes regulations on reporting and government funding. NGOs were involved as important partners in the preparation of the draft, which is encouraging for future efforts. The draft, however, does not yet provide a clear definition of “public benefit status.” The registration process has not been simplified, and “one-point registration” was only introduced for the commercial sector. NGOs are free to address public issues and express criticisms without fear of government harassment. Insufficient funds limit the ability for NGOs to conduct successful campaigns.

The most important development affecting the NGO community is the government’s introduction of public tenders that support NGO resource centers and their services. In 2005, the government invested approximately 35 million SIT (\$175,000 USD) for NGO resource center programs. This funding supported educational programs, networking, and services such as policy advice and freedom of information. The program covers almost all regions of Slovenia. CNVOS, for example, has over 200 members in the various regions where support centers are viewed as very useful in addressing NGO needs. Legal services for NGOs continue to be limited to the capital and second largest city.

ORGANIZATIONAL CAPACITY: 4.2

According to a study completed by the Faculty of Social Sciences, the NGO sector’s organizational capacity remains unchanged, and



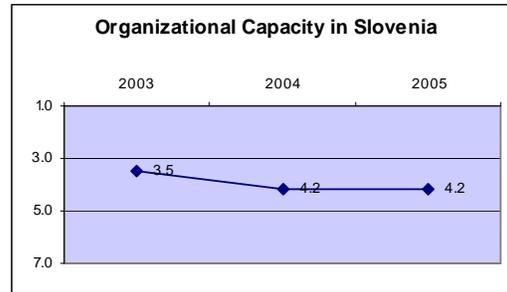
The government did an analysis of the legal and fiscal environment for NGOs in Slovenia. The report was published in December of 2005 by the faculty of law in Maridor and PIC, and will be made public in January 2006 along with a catalogue of recommendations, including changes to tax legislation.

Several organizations initiated efforts to change the tax laws related to NGO activities, though they did not have any success. The tax laws do not provide many incentives to encourage individual or corporate philanthropy, and NGOs have to pay taxes on all of their income from economic activities. The Ministry of Finance has yet to make a commitment to create a more supportive system for NGOs. Similarly, NGOs are held to the same accounting standards as for-profit corporations, which causes problems due to the lack of qualified staff within the NGO sector. The new government is preparing a complete tax reform but is not including the NGO sector in the discussions. Mechanisms such as the 1% law that have been adopted by governments in other CEE countries are not being considered.

With support from the UNDP, the NGO community prepared a draft Law on Volunteers. The draft was not handed over to the Ministry for Labor, Family and Social Affairs, though the government included, as one of the goals, the adoption of such a law into the national program in the social field for the period of 2006-2010.

regular improvement of capacity continues to be a challenge. The NGO sector remains divided. Most organizations are having financial

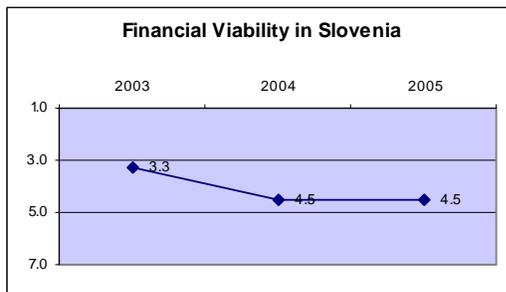
difficulties, which prevents them from reacting to local needs. NGOs generally adopt broad missions, allowing them to be flexible in their fundraising and project development. Similarly, NGOs often adopt unclear mission statements, and their strategic planning is ad hoc and a means of survival based on available funding. Management structures are often defined clearly in an organization's founding documents, but are not always applied. NGOs continue to have few employees, forcing the few employees to cover all aspects of operations and activities. NGOs do benefit from a small number of programs and professional training, but these trainings are often not useful or sustainable.



A significant number of organizations have basic equipment, including computers and fax machines. The main issue is that their equipment is not modern or up-to-date. NGOs lack appropriate office space for their activities, though at the local level, NGOs sometimes enjoy free office space.

FINANCIAL VIABILITY: 4.5

Recent studies show that NGOs that operate at the local level are in a better position financially. This is a result of a more supportive environment, better access to infrastructure such as office space, and greater financial support. NGOs generally have diverse sources of funding, though these are often insufficient and unsustainable. Financial resources available to Slovenian NGOs are significantly lower than in other countries. Though there are some examples of long-term contracts, funds from the ministries or local communities are generally limited to one year, posing serious obstacles for hiring and retaining employees.



Most organizations limit their reporting to how they used specific funds allocated by specific donors. Only a few NGOs publish annual reports. The lack of capacity and knowledge to

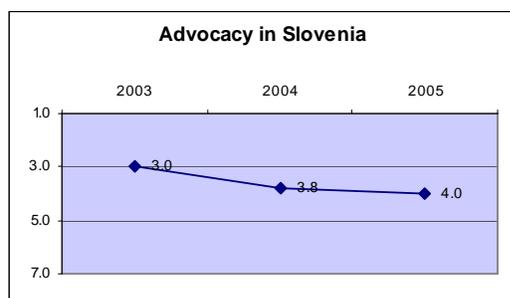
serve as a leading partner in large European-funded projects continues to be an issue for organizations, as they lack the ability to report on more complex programs and projects.

Slovenia has a long tradition of fundraising and philanthropy in some areas such as sports clubs and support for UNICEF, but in general NGOs lack the membership base to provide significant financial support. NGOs primarily offer services in the area of social work, and less in education and environmental protection. Revenues from services and products continue to be a main source of financing for many organizations.

The government reports that there have been cases in which non-profit status has been misused to conduct inappropriate for-profit activities. This is the result of the state administrator's insufficient oversight of NGO activities. The NGO community was disappointed by the government's unwillingness to contract out some services and provide additional funding to NGOs. The new government has yet to show any interest in doing so either.

ADVOCACY: 4.0

NGO inclusion in the discussion and formation of policy differs depending on the ministry involved. In general, the ministries are satisfied with the level of cooperation and participation, while NGOs are not. In some cases, ministries co-financed or initiated the creation of NGOs which has caused suspicion in the NGO community. The government recently adopted guidelines for cooperating with NGOs and the public on legislative initiatives that require comments at the earliest stage possible. The level of partnership, however, has not changed. NGOs have had the right to participate in environmental protection issues, but they have never truly been able to participate, in part because they lack the capacity to provide opinions and proposals.



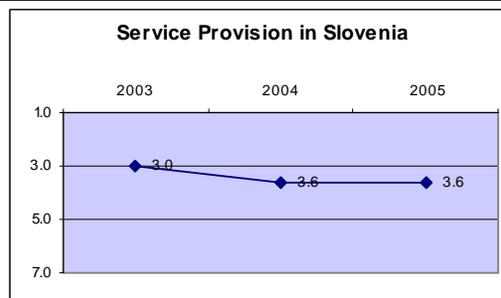
NGO coalitions are rare; the only new initiative is MAMA, the network of youth centers. Other coalitions that were enacted in the past are no longer active. The Center for Information Service, Cooperation and Development of NGOs organized some networks but their impact is limited.

In many cases, NGOs lobby for funds; organizations for the handicapped have been particularly successful. There is a report on successful lobbying for legislative changes (students association within the tax reform). The NGO sector has yet to successfully lobby for their common interests. NGOs are generally aware of the importance of an effective legal framework, though few advocate for changes. NGO opportunism continues to be a problem.

The decrease in the overall score is a result of the lack of government support that the NGO community expected. The previous government's recognition of the importance of the NGO sector did not lead to any concrete improvements in 2005. The new government did not even include NGO development on its list of priorities.

SERVICE PROVISION: 3.6

NGOs generally provide services in the area of social services, which include housing, family support and protection against family violence. NGOs provide goods and services that generally reflect the needs and priorities of their founders and communities, but are not developed in a satisfactory manner due to a strong public sector. Due to their financial conditions, NGOs at times make adjustments in their operations according to funding opportunities. Most NGOs are funded by local communities and the state, due to the lack of foreign funds. Regardless of how much an organization adjusts its mission to obtain local or state funding, it is still meeting community needs. Funding requirements force NGOs to provide services beyond their membership bases to the greater community.

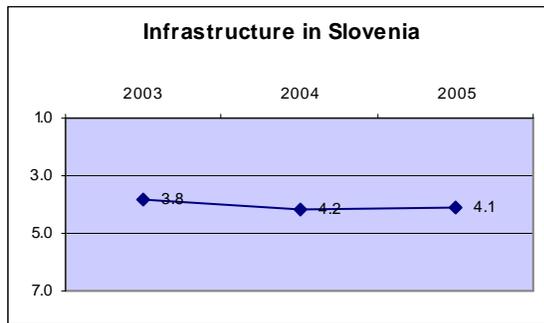


Most organizations make attempts to recover part of their costs by charging fees for their services. The VAT system in Slovenia does not distinguish non-profit organizations from for-profit entities, and therefore NGOs are subject to the VAT. As a result, their products are often as expensive as commercial goods.

The importance of NGOs is defined in some strategic documents at the national and local level. The transmission of services from the public sector to the NGOs, however, is not included in an organized and consistent manner in state strategic documents. The government supports some NGO services, but rarely will it

fund other activities such as monitoring and advocacy. Financial support is not necessarily a sign of government recognition of the NGO role in society, rather, NGOs service providers are often less expensive than the public sector institutions.

INFRASTRUCTURE: 4.1



The existing NGO resource centers have limited capacity, staff and resources. There are no local community foundations that provide grants; therefore a coalition of NGOs is attempting to develop community foundations. The Trust for Civil Society in Central and Eastern Europe, which was a pilot program in

2005, selected and supported eight organizations to develop the local community concept in different regions.

Though NGOs are aware of the importance of networking, they have only created a few; this in part due to competition among organizations. Competition is, in some instances, an advantage and grounds for common action. Collaboration is most commonly based on specific projects, especially when it makes a project proposal stronger. NGOs rarely form strategic partnerships with government and media. One successful example was the Europa Donna, a large philanthropic project that collects funds for medical equipment.

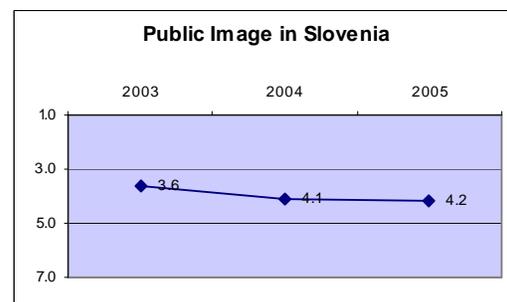
PUBLIC IMAGE: 4.2

The NGO sector could do more to improve its public image. The public is unaware of the importance of NGOs. NGOs have greater recognition at the local level, where people have greater contact with NGOs. The public and labor markets do not consider the NGO sector as an appropriate alternative to employment in the public and commercial sectors. Expertise in the NGO sector is limited; NGOs are therefore not recognized as a vital or reliable source of expertise by the commercial and public sectors.

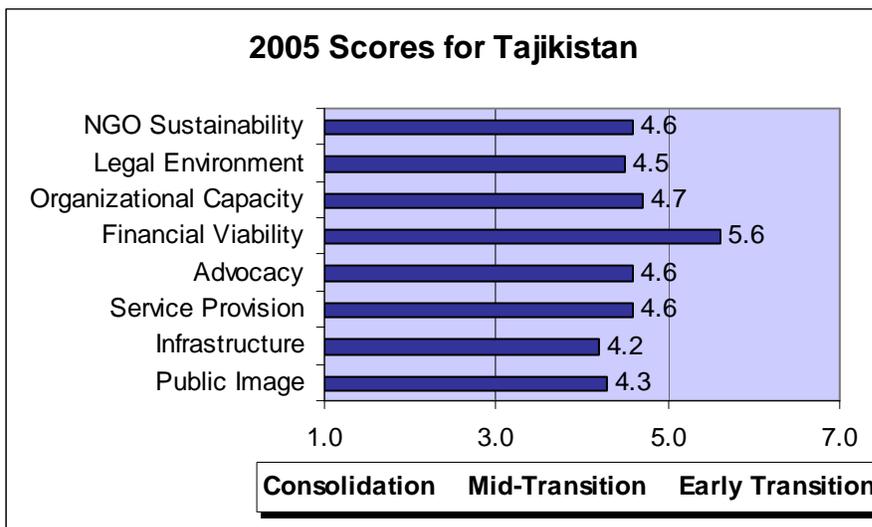
negative impact on public participation. In some instances, the media promotes NGO pro bono services as they do with commercial institutions that provide campaigns for free.

NGOs are aware of the need to develop self-regulatory mechanisms. NGOs generally agree on the need to publish reports and inform the public of their work, but few do so. The NGO sector did not show any interest in developing a code of ethics.

Media coverage is directed more towards potential strategic reforms proposed by the government. The “yellow press” reduces the chance that NGOs will gain media coverage unless there is a scandal or violation of the law. There were cases in which NGOs were reported to the district prosecutor for suspicion of abuse, which had an especially



Tajikistan



Capital:
Dushanbe

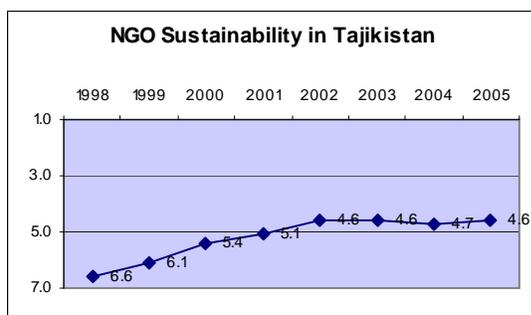
Polity: Republic

Population:
7,320,000

**GDP per capita
(PPP):** \$1,200

NGO SUSTAINABILITY: 4.6

The overall NGO sustainability score did not change over the past year. Deterioration in the Legal Environment score was offset by slight improvements in the Organizational Capacity, Infrastructure, and Public Image dimensions.



Though the legal framework governing NGOs did not change over the past year, government

officials at both the national and local levels took actions that limit NGO activities. Representatives from the NGO community believe that government officials are reacting to the May 2005 uprising in the Andijan region of Uzbekistan and the political events in Kyrgyzstan. Despite these restrictions, NGOs, especially those that are well-developed, are now modifying their mission statements as their capacity to engage in more complex activities grows. These and other improvements resulted in a slightly better score in the Organizational Capacity dimension. The demand for more advanced training programs is growing. Tajikistan's network of civil society support centers (CSSCs) and the newly formed Association of Trainers are working to increase the capacity of trainers and the number of training programs available.

LEGAL ENVIRONMENT: 4.5

The legal environment governing NGOs deteriorated over the past year. The laws permit new organizations to register and do not create significant barriers for NGO operations. Reforms are needed, however, as the laws are outdated and often irrelevant. Government institutions often enact resolutions and make decisions concerning NGOs. Similarly, local

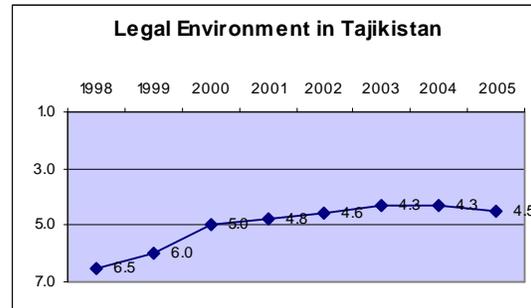
governments often create arbitrary restrictions on NGO activities. For example, local officials frequently require foreign organizations to receive permission from the Ministry of Foreign Affairs before they may engage in activities within their community. NGO representatives believe that the restrictions created by local officials are a reaction to the May 2005 events

in the Andijan region of Uzbekistan and the political events in Kyrgyzstan.

Though NGOs often require legal assistance as they register and carry out their activities, access to attorneys trained in NGO law is limited. Most legal services are offered by CSSCs. ICNL and the CSSC staff attorneys are partnering to provide more local attorneys with training in NGO law. Legal assistance and education are both important for facilitating relationships between government institutions and the NGO sector.

Administrative pressure and inspections from various government agencies have become a norm. In addition to inspections by the tax authorities, the Ministries of Justice, Internal Affairs, and other government institutions frequently visit NGOs and CSSCs, taking time and resources away from the organizations' regular activities. While the law limits the frequency with which tax authorities may inspect an organization, the various tax officials may all conduct investigations; there are no

limits on the ability for the Ministry of Justice to inspect NGOs. District and regional governments also require regular reports from NGOs outlining their activities and plans.



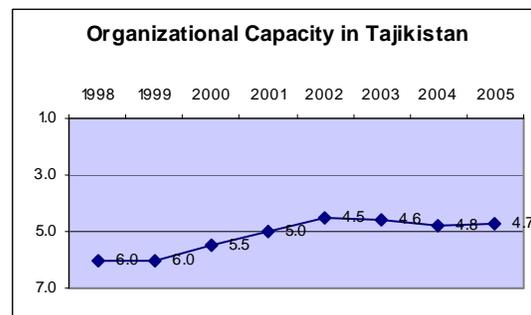
NGOs do not enjoy many tax benefits or incentives. Grants are often subject to numerous taxes. Tax officials often consider income from economic activities as taxable profit, even when it is applied to the organization's non-profit programs. The legal framework fails to clearly exempt income that is directly reinvested into an NGO's program activities.

ORGANIZATIONAL CAPACITY: 4.7

One barrier that the more developed and advanced organizations face is the loss of staff. The most qualified employees, once they have sufficient knowledge and experience, often leave to join international NGOs or create their own organizations. NGOs are often led by a single charismatic leader, and unable to maintain momentum upon his or her departure.

training in strategic planning and other matters. Many lesser-developed organizations, especially those in the rural communities, are more flexible with their already broad mission statements, allowing them to access support for a variety of activities. Many organizations lack sufficient capacity to align their missions with the donor resources available.

The most developed organizations understand the importance of constituency-building and try to work with clearly defined target groups, as well as adhere to well-defined missions. Most of these organizations enjoy strong support from both local governments and citizens. These well-developed organizations also engage in strategic planning, and as their capacity increases, they modify their mission statements in order to carry out more complex activities that were not contemplated in their original charters. For example, one organization has changed the focus of its mission statement from providing basic assistance to lesser-developed organizations to providing more sophisticated



The majority of organizations is transparent, has a clearly defined management structure and delineates the different responsibilities of the Boards of Directors and staff. Some NGOs,

however, choose to not fully disclose their staffing and budget information to local officials. Boards of Directors often exist in name only. The majority of organizations has a small permanent staff and hires professionals as funding becomes available. Over the past year, many of the leading NGOs continued to develop their volunteer staff and promote volunteerism, recognizing that the use of volunteers increases the competitiveness of their proposals, improves their public image, and builds their constituencies. Volunteers are motivated to support NGO activities in part by the opportunity to learn more about the NGO sector and to acquire knowledge and skills that will lead to additional opportunities.

Most organizations have basic office and communications equipment. Generally, donor support does not provide resources for replacing older technology. Access to the internet is better than last year, though it is sufficiently limited to remain an obstacle to

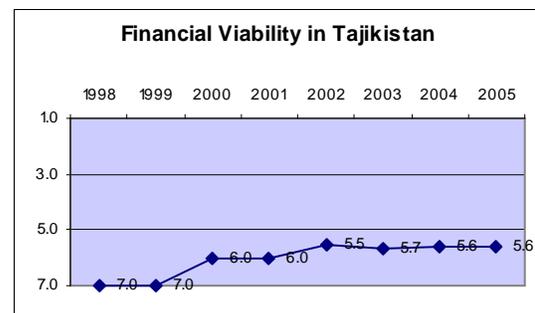
information sharing. In many regions, use of equipment and the internet is hampered by irregular energy supplies. Many organizations have to rely on the CSSCs for technology, though traveling to access such resources is costly. NGOs have little or no access to software and supplies. Many organizations do not yet have an appropriate record keeping system.

The most talented, educated and energetic members of the labor force believe that the NGO and business sectors provide the greatest opportunities to develop their skills. Government employees who are unsatisfied with their professional development often shift to the NGO sector, which allows them to combine their interests in research with carrying out projects at the community level. Publications, surveys and research produced by NGOs are often utilized by international organizations, and in a few cases, the government.

FINANCIAL VIABILITY: 5.6

NGOs generally depend on international support for their activities. Domestic philanthropy does not create grant opportunities for NGOs; instead, businesses and individuals provide charitable and humanitarian support directly to organizations. The current legal framework fails to promote philanthropy. Though the law permits individuals and corporations to take deductions for their donations and support, frequently they do not to avoid unwanted attention from corrupt tax authorities. The central government has a line item in the state budget for social partnership, though it is not significant. As a whole, the NGO sector has yet to be viewed as a viable partner in addressing community issues, and it has little interaction with religious institutions. Mobilization of local resources and the formation of partnerships generally require great explanation to those involved of the advantages of forming partnerships. Few organizations are financially sustainable, and their registered non-government and not-for-profit charters do not permit them to engage in economic activities.

Organizations do not publish annual reports in fear that it will lead to harassment by the tax authorities. Even opening a bank account attracts unwanted attention from corrupt tax collectors. Similarly, many organizations are vague when reporting their activities to local authorities. Government authorities pay special attention to those organizations conducting activities such as voter education, consumer rights, human rights, and others. The majority of organizations depends on donor funding and has adopted accounting, monitoring and reporting systems that meet donor requirements. Few however, conduct regular audits of their programs or finances. NGOs,



especially micro-finance organizations, have acquired sufficient experience in managing their finances.

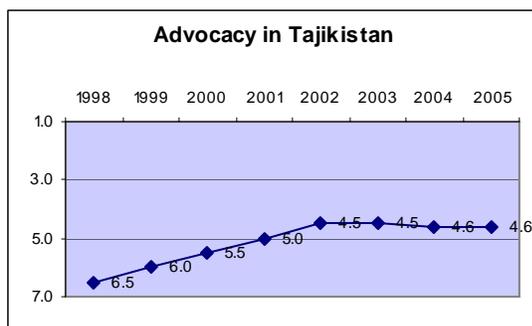
NGOs must improve their fundraising skills. The CSSCs offer training on grant-writing and proposal development, but organizations must

take advantage of these opportunities. Though the central government encourages cooperation on social issues, district authorities lack the experience and desire to partner with NGOs, viewing them as little more than a potential source of funding for infrastructure and social projects.

ADVOCACY: 4.6

The government recognizes the role that NGOs play in social development and demonstrates a willingness to develop partnerships, especially at the district level. Government institutions, however, are not ready to make a significant contribution beyond offering moral support and in-kind donations. District governments have begun to value NGO activities. In some districts, officials have asked NGOs to train their municipal staff; some district governments have even made financial contributions to support NGO projects that focus on infrastructure rehabilitation and construction

a new law on micro-credit organizations, a law on environmental expertise, and others. The May 2005 events in the Uzbek city of Andijan had a significant impact on local human rights and election monitoring organizations. Afterwards, the Tajik government began supervising NGO activities, and the Ministries of Justice and Internal Affairs and the tax authorities increased their inspections as well. Local authorities now demand that they be informed of any visits by representatives of the international organizations, especially in the area of human rights.



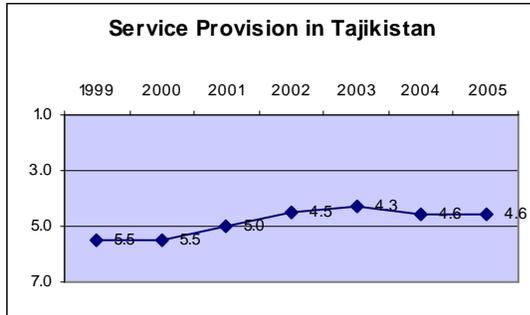
NGOs were successful with a few of their advocacy initiatives, including the campaigns for

Though NGOs understand the concept of lobbying and advocacy, the NGO sector is incapable of influencing policy decisions of the Parliament or other branches of government due to the authoritative character of government. NGOs have advocacy experts who are capable by international standards, but communication with the government is one-way, not an interactive dialogue. One successful advocacy campaign in which NGOs were involved was the national campaign for the elimination of the death penalty. Most NGOs are passive and have not achieved significant results in the area of NGO law reform.

SERVICE PROVISION: 4.6

NGOs provide a wide range of services in areas such as economic analysis, education, specialized training, legal consultation, construction, public opinion surveys, micro-credit, environmental protection and others. A number of organizations are involved in traditional handicrafts, agriculture and other economic activities. Most organizations are capable of designing projects, whether it be producing goods or providing services that respond to the specific needs of different

groups. Strategic planning is generally based on priorities identified by surveys, analytic exercise, and other assessment tools. Publications produced by NGOs are unable to reach all of their intended audience due to the limited editions and inadequate funding for distribution. Many publications are technical and serve a number of specialized organizations.



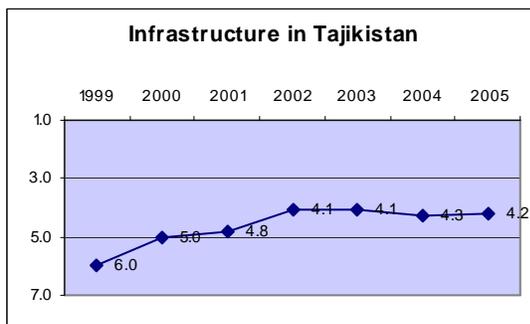
NGOs are still unable to operate without international support, and few are able to support themselves by providing services for a fee. The law limits the ability for NGOs to engage in economic activities, though specialized professional associations, such as the

Association of Auditors and Accountants, often generate significant revenues. Some organizations provide training for a fee.

The government has recognized that NGOs have distinct expertise and are potential partners in addressing issues such as health care, education, and local infrastructure. Local officials are particularly aware that NGOs are often able to mobilize funds that local governments do not have. At times, government officials expect that NGO resources will supplement the costs of addressing social issues when the government does not have sufficient funding. Collaboration with the government, however, is limited by the lack of funding.

INFRASTRUCTURE: 4.2

Tajikistan's CSSCs are the key to NGO development. Their office equipment, communications system, training, ICNL-trained attorneys, and other resources are in constant demand. In some regions, a CSSC has created networks of support organizations that function as mini-CSSCs and provide many services to organizations in the rural and remote regions.



Though some organizations administer and regrant foreign funding, none qualify as a local grant-maker. NGOs have formed coalitions that have produced numerous results. The coalition

of micro-credit organizations lobbied successfully for a number of small changes in laws regulating micro-credit activities. NGOs do exchange and share information, especially those that belong to an Association or confederation of organizations. The National Association of CSSCs is now registered and plans to become a mechanism to promote even more information sharing.

NGOs in Tajikistan do not have access to sufficient training. One goal driving the newly formed Association of Trainers is to improve the capacity of trainers and increase the number of programs available. The government and public are also in need of greater access to training programs to increase the level of professionalism. Training programs are not always available in the state language, and the demand for training programs in the Tajik language is increasing.

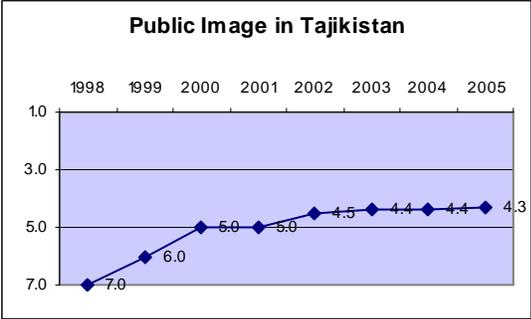
PUBLIC IMAGE: 4.3

Due to the commercial nature of the independent media and the unwillingness of the state-run media, the NGO sector is unable to enjoy a collaborative partnership with media outlets. In addition, the commercial and tax laws prevent stronger ties with the business

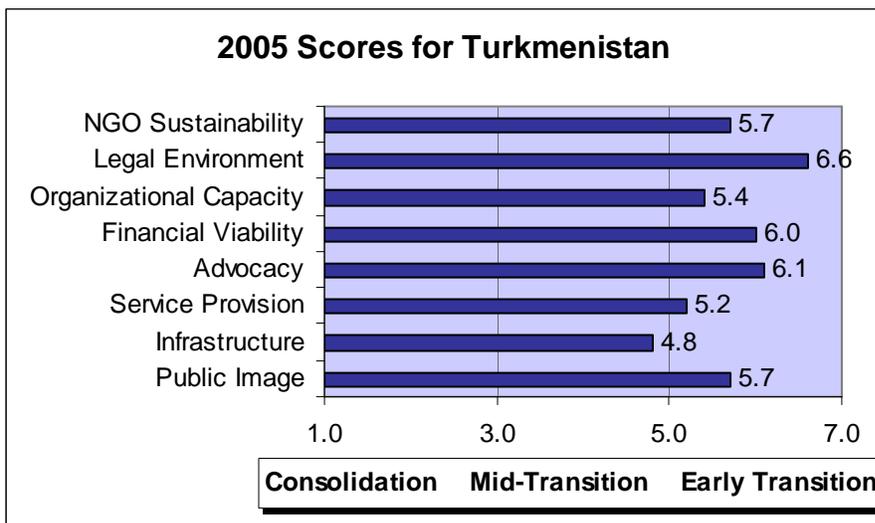
community. Many in the business community perceive NGOs as semi-governmental organizations. Local officials at times contribute to NGO development by providing in-kind donations such as the use of office space or facilities for events. Though government officials

understand that NGOs represent society, they do not always trust them. Health care organizations often have the strongest relations with government officials. NGOs often prefer not to advertise their activities and accomplishments because they fear criminal charges and increased scrutiny from the tax officials.

Overall, the public is aware of the NGO activities in their communities; in fact, the public's perception of the NGO sector is based on their interactions with the humanitarian organizations working in their community. As a result, numerous communities have mobilized support for the NGO activities in their regions, and the public has a greater understanding of the principles of "not-for-profit."



Turkmenistan



Capital: Ashgabat

Polity: Republic-authoritarian presidential

Population: 5,043,000

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

NGO SUSTAINABILITY: 5.7

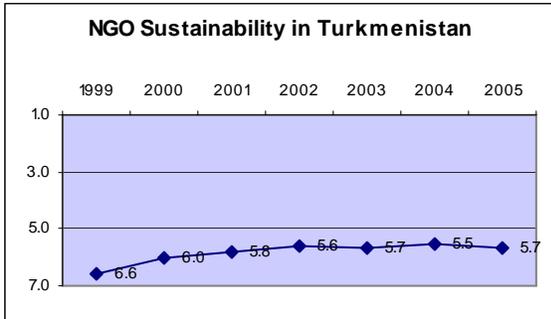
The Turkmen NGO sector continues to operate in a hostile environment. The registration process remains an obstacle, as only two organizations were able to register this year. NGOs often obtain patents or register as for-profit-entities to conduct their activities. While the process for registering grants with the Ministry of Justice continues to be an obstacle, NGOs are able to register community grants or grants to patent-based organizations with the State Agency for Foreign Investments.

The government is uninformed about the NGO sector, though in isolated instances government officials maintain a dialogue with and even supporting NGOs. The Ministry of Justice engaged NGOs at the Social Partnership Conference funded by the U.S. Embassy. In addition, government officials allowed community leaders from Kyrgyzstan to enter the country to visit with local NGO representatives after their change of government, despite fears that the “color” revolutions would spread.

Overall, the political situation has improved. The government did not make any mass arrests and has not required citizens to obtain exit visas, though it maintains a list of persons

deemed “not reliable” who are unable to leave the country. Officials control the NGO sector by requiring registered NGOs to submit financial reports to the Ministry of Justice and inform local authorities about their activities and requiring that government approval of training and workshops targeting NGOs. The government, however, has not harassed organizations or their members since the NGO law was enacted in 2003.²⁸ Internet access is difficult as the majority of internet cafes remain closed. The government only allowed two religious organizations to register, adding to the five registered last year. The government did grant citizenship to 16,000 Tajik refugees. The government fails to recognize the NGO sector, and government institutions are very critical of their employees’ NGO-related activities outside the workplace. In some instances, government agencies have threatened to fire those involved with NGOs. In one positive development, the Ministry of Health recently adopted a law allowing NGOs to provide health care services.

²⁸ In 2005, the Prosecutor’s office accused the leader of Bilim Nesil, a computer and language center, of fraud and detained him. Bilim Nesil receives grants from the U.S. Embassy, which helped secure its leader’s release and his flight to Israel.



As much of the Russian-speaking population has migrated, NGOs are now predominately Turkmen. The majority of organizations are led by women, though men are becoming more involved. The sector is expanding to include

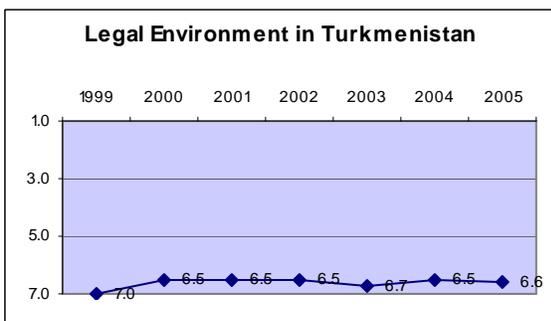
more business associations, sports clubs for youth, and human rights organizations. Social service organizations, which offer education, health care, water and utilities, and support for orphanages, generally have the most difficulties in registering. Local governments are often more willing to partner with NGOs and frequently collaborate with organizations to lead drug abuse prevention campaigns or offer legal services to victims of domestic violence. Counterpart International continues to offer NGO training programs and has opened four new resource centers across the country. These training centers, eight in all, are the only places in the country where people may gather to discuss issues.

LEGAL ENVIRONMENT: 6.6

The legal environment continues to be unfavorable for the NGO sector. The registration process is slow and the Ministry of Justice often denies registration without justification. Only two organizations were able to register this year with many applicants being denied as many as three times. Most in the sector grew very pessimistic about the registration process, though USAID encouraged and provided technical assistance to organizations as they applied. Even if an organization is able to register, it must contend with restrictive laws and invasive oversight by the Ministry of Justice. One provision, for example, requires that an NGO re-register if even one member leaves the organization. These difficulties have forced NGOs to search for alternatives, such as getting patents or registering as commercial entities.

more confidence to advocate for their rights and even attempt to reform the registration process. At the Social Partnership Conference in August 2005, NGOs proved most knowledgeable of the NGO law and openly expressed their criticisms of the registration process. The process for registering grants is even more complex than for registering an organization. Despite the difficulty, the Ministry of Justice did accept all applications to register institutional grants. In August, the State Agency for Foreign Investments repealed many of the complicated requirements for registering community development grants.

The Ministry of Justice drafted the NGO Law without having done any research on NGOs and their activities or needs. As a result, it is often restrictive and difficult. One provision requires NGOs to be approved by an appropriate ministry when applying for registration; most ministries are negative about the NGO sector. The NGOs have been able to change the government's view of the NGO sector somewhat by engaging in constructive dialogue and other positive interactions. In one example, the government required that in order for grants to be registered, NGOs and community members had to open bank accounts; but when ICNL explained to government officials that Counterpart/Turkmenistan will give grants in the form of



International organizations such as ICNL provide training and legal services, giving NGOs

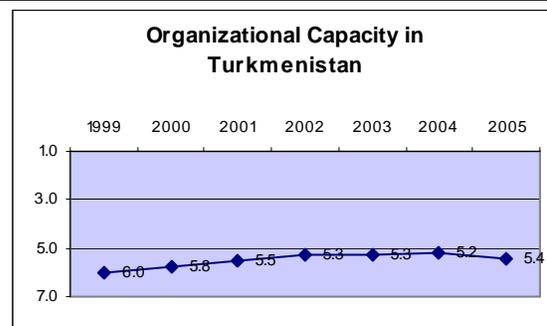
goods and not cash, the Ministry of Justice and SAFI repealed this requirement. This change of attitude is also evidenced by the Ministry of Health's permitting NGOs to provide health care services.

If an organization earns an income, it must pay a social tax, personal income tax, and VAT. According to the NGO Law, organizations are not subject to the property tax, as they were under the older provisions of the civil code. NGOs are also exempt from taxes on grants and rent, and unlike last year, the government did not force any organization to pay.

ORGANIZATIONAL CAPACITY: 5.4

The registration process has a direct impact on the organizational capacity of NGOs. If organizations are unregistered, they are unable to access institutional grants and other funding specifically designated for organizational development. The registration fees also detract from funds that would otherwise be used for capacity building and training. The registration process has forced many NGOs to be more aware of their organizational structures and program activities. Registered organizations have attempted to adhere to basic standards of transparency in their operations, but unregistered organizations have not. Organizational capacity has also been affected by economic and social conditions, as individuals with higher levels of education migrate to find work in other countries. Most NGOs rely on volunteers because they lack the funding necessary to hire a staff. After the NGO Law was enacted in 2003, the NGO sector began to address these obstacles. Organizations that survived have the benefit of experience, which has increased their professionalism, promoted strategic planning, and developed their human resources. In addition, they have placed special emphasis on their financial accountability and reporting systems, as well as their organizations' democratic principles.

Attorneys trained by ICNL are assigned to civil society support centers in four regions of Turkmenistan. They provide technical assistance for NGOs to help them understand the law and regulations, and advocate for their rights at the local level. In addition, NGOs such as Keik, Okara, Ilkinkiler and the Association of Accountants have qualified attorneys that provide services to NGO representatives. These activities have led to significantly greater access to legal services, which is important in a country without an independent judiciary and in which the government has stopped issuing attorney's licenses.



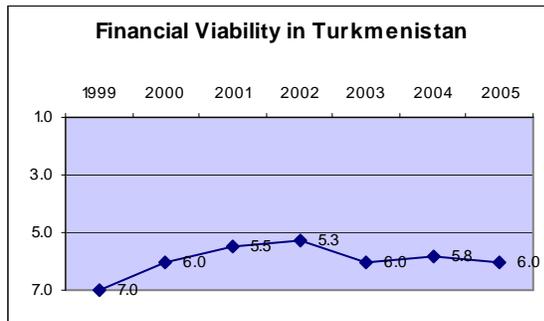
More organizations have adopted clearly defined missions and have strong understandings of the board of directors' role in strengthening organizational structure and transparency. The Law on NGOs, however, requires that the governing structure be composed of a General Assembly, which is responsible for both decision-making and managing the daily operations. Registered organizations produce annual reports, but generally these are only available to members and not the public. The Association of Accountants, Agama, and Keik Okara, however, are all planning to make their reports available to the public.

As a result of USAID-funded training, NGOs have significantly increased their social partnership, advocacy, and strategic planning skills. Other international training programs provide NGOs with leadership skills. Study tours funded by USAID and the Counterpart Travel program offer other opportunities for

Turkmen organizations to learn from other organizations throughout the region and other parts of the world. Grants from international donors have allowed almost all organizations to acquire up-to-date technology such as

computer, printers, televisions, and cameras. The USAID-funded resource centers located in five regions provide technological assistance and support, information, and internet access.

FINANCIAL VIABILITY: 6.0



The majority of organizations continue to depend on international donors, though limited domestic sources and registration requirements for foreign grants have forced them to seek alternative funding. While the concept of philanthropy is generally underdeveloped, a few corporations support NGO activities. Both international and domestic corporations, for example, support the Special Olympics for Disabled People NGO as well as other organizations that serve disabled citizens. Few others in the business community are even

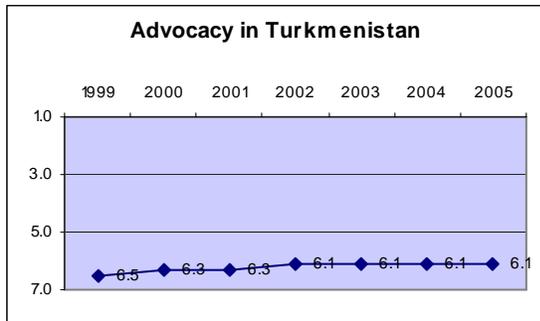
aware of the NGO sector, and those that are knowledgeable of the sector often fear being sanctioned if they provide support. The government does not offer any incentives to encourage philanthropy. Local governments do offer in-kind donations and some financial support. In Ovadan, the government provides financial and material support for the Mercy, Family and Health organization, which opened a summer camp for at risk children.

Some of the larger, registered organizations such as Keik Okara, UFO Funs, and the Association of Accountants charge membership fees, but these fees are not sufficient to fund all of their activities. A few organizations including Eco Center operate under individual patents and charge fees for services that they provide to various government institutions. Organizations are aware of the need for accounting and financial management services, but few can afford them. Agama also provides services for fees which supports their activities.

ADVOCACY: 6.1

Even in the current political climate, NGOs continue to engage in advocacy. Although NGOs did not engage in advocacy efforts at the national level, they had many successes with the local governments, which generally support community-based initiatives. USAID provides a variety of training programs aimed at increasing advocacy and leadership skills, which has been important for NGO members advocating for social and economic interests. Members of Ilkinjiler, a farmers association, received similar training from Counterpart International, which allowed them to advocate for their rights to sell wheat at the market price instead of the lower government-fixed price. Other farmer associations are following their example. In the Dashoguz region, the Watan community initiative built a desalinization plant. Upon completion, a conflict with the local

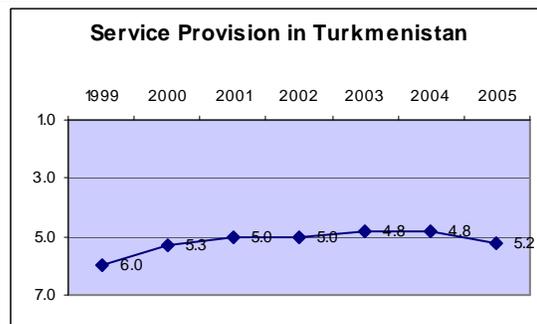
government arose concerning the group's tax liabilities, but advanced advocacy skills allowed the organization to explain the situation and negotiate a satisfactory solution with the local officials. Local governments in the region of Lebap Velayat have traditionally been unreceptive and even hostile to NGOs. Local organizations, employing the skills they gained from USAID and Counterpart training programs, have recently begun to engage these governments and partner on projects such as building a local sports complex.



Though the NGO sector did not engage in many national advocacy efforts, organizations did make significant efforts at the local level, especially in ensuring appropriate implementation of the local laws and regulations. A new organization, the Human Rights and Democracy group, recently applied for registration; it would be the first of its kind in Turkmenistan.

SERVICE PROVISION: 5.2

The new NGO law and registration provisions created obstacles for NGO service providers. Most service providers are unregistered, but continue to operate by obtaining individual patents or registering as commercial entities. For example, the ECO Center, which provides ecological education to government officials, was denied registration three times and is currently operating under a patent. A legal clinic formerly known as Bosphorus is now providing services to marginalized citizens but is registered as a commercial entity. Keik Okara provides language, computer, and social skills training to orphans and other at risk children.



Numerous organizations work closely with the government to solve social and economic problems. Mashgala Bahgala works with an HIV/AIDS center to organize drug prevention campaigns targeting youth and their parents. The Association of Accountants partners with the government economic agencies to provide accounting and management training, and to join the International Charter of Accountants.

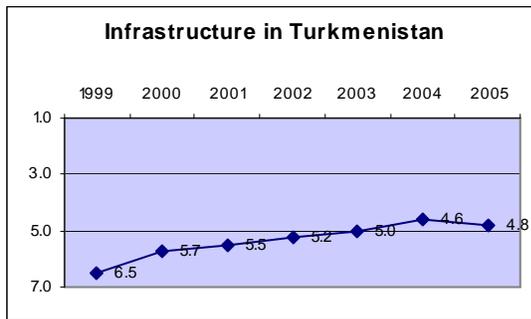
Counterpart International's new focus on training local facilitators has increased social activism, as well as strengthened leadership and the ability for citizens to identify community needs. More than seventy communities now provide services, up from fifteen last year. The Yangala community initiative group, for example, provides over 1,500 citizens in rural areas with a variety of services including training in critical thinking and agribusiness, legal consultations, and computer and informational support. It has also initiated similar social activism projects in ten other surrounding communities.

INFRASTRUCTURE: 4.8

Currently, USAID currently funds four civil society support centers and three resource centers across Turkmenistan. The support centers provide a range of services including access to information and the internet, consultations on projects, training programs, legal services and news bulletins. The discussion clubs give NGOs and their members the opportunity to discuss current issues, present their projects, and other activities. They also allow communities and organizations from

different regions to communicate and share information and experiences. Resource centers are the only facilities in the country that offer internet services. The new law on registration has increased the importance of the support centers' legal services with ICNL-trained attorneys playing a significant role in overcoming registration difficulties. The legal services also ensured that advocates were prepared when dealing with government officials. In one example, farmers were having

problems with their lease agreements after the new Land Law was passed. Resource center attorneys partnered with the Ilkinjiler Farmers Association to inform those involved so they could contact the Ministry of Justice, the Prosecutor General's office, and local governments. The problem was corrected and the farmers continued working.

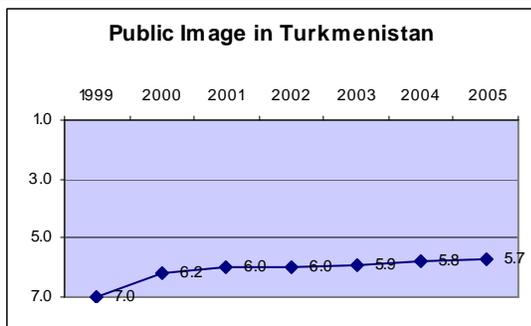


Numerous organizations provide training and other services to NGOs. The Eco Center provides information, internet access and consultations that support other organizations. The UFO Funs provides training, information,

computers, and consultations in Lebap, and is planning an NGO newspaper. The Union of Economists permits NGOs to use its library materials. The Women's Resource Center offers a wide range of materials on legal and gender related issues. Others provide organizations with training in advocacy, strategic planning, financial management, and fundraising. Counterpart International's new travel grant program allows NGO representatives to take advantage of international and regional training opportunities. Most of Counterpart International's training programs are in Turkmen, and they continue to train Turkmen-speaking trainers.

Obstacles such as registration have united the NGO sector to a certain degree, though competition for grants limits cooperation. Many organizations have come together around specific activities or issues. The Nature Protection and Eco Center work together on ecological protection campaigns. The sector, however, shows no signs of coalition building.

PUBLIC IMAGE: 5.7

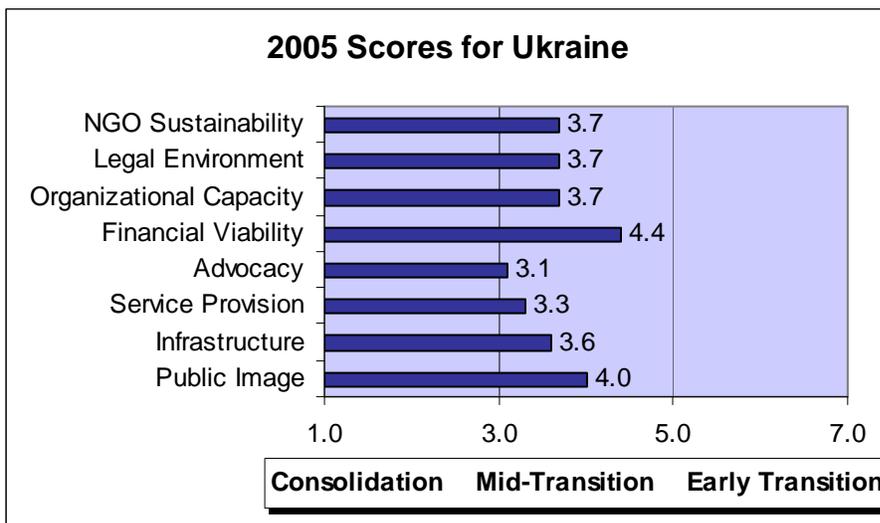


The national government does not recognize the NGO sector or support events such as the NGO Social Partnership Forum. Interactions between government officials and NGOs during the registration process have had a positive impact on the officials' view of NGOs, which led the Ministry of Adalt to publish the NGO registration procedures, and simplify the

registration rules. The new law adopted by the Ministry of Health allowing NGOs to provide health care services is another positive development. The Union of Economists is partnering with the Ministry of Education to produce economic textbooks and is part of the Ministry of the Economy's Economic Methodology committee. Government institutions, however, continue to monitor and control NGO activities.

Citizens from the different levels of society have a better understanding of the significant role that NGOs play in their country's development. This increased understanding is especially true in the rural areas, where citizens consider the NGO sector a mechanism by which to change their lives. This appreciation is leading to an increase of support from the public.

Ukraine



Capital: Kiev

Polity: Republic

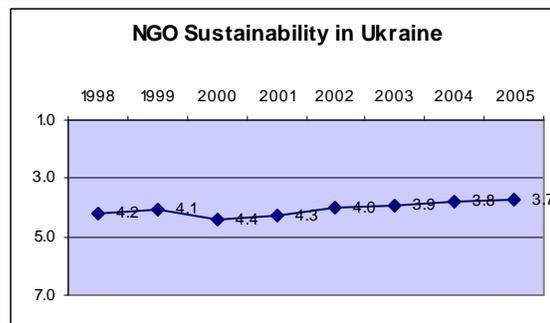
Population:
46,710,000

**GDP per capita
(PPP):** \$6,800

NGO SUSTAINABILITY: 3.7

The historic “Orange Revolution” of 2004 demonstrated an unprecedented level of civic activism in Ukraine, and NGOs played a vital role in promoting and organizing those who participated. Over the past year, the NGO sector has made tremendous progress in almost all dimensions. The Organizational Capacity, Financial Viability, Infrastructure and Public Image dimensions all made notable improvements. NGOs also demonstrated an increasingly sophisticated understanding of advocacy and engaged in numerous initiatives. The Legal Environment and Service Provision dimensions, however, have not improved due primarily to inconsistencies and poor application of the NGO laws.

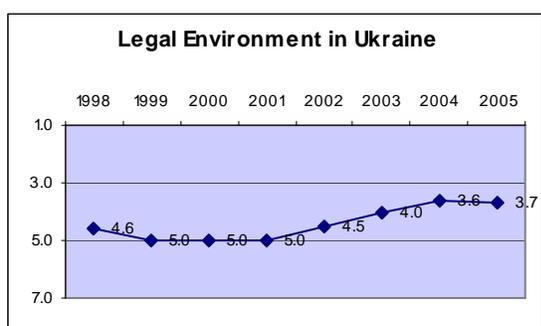
Overall, the Ukrainian third sector continued to develop rapidly. As of June 1, 2005, 2,950 organizations were registered with the Ministry of Justice, while another 31,000 were registered with the Regional authorities. Local NGOs are able to register with local authorities with relative ease, while national and international organizations are required to register with the Ministry of Justice.



The 2004 Presidential elections led to a significant consolidation of the third sector. During the pre-election period, NGOs were actively creating coalitions and successfully attracting volunteers. NGOs created coalitions and partnerships to monitor elections and promote transparency, as well as increase public awareness and develop links between citizens and government institutions. NGOs also cooperated with the political parties. The wide range of activities executed by grassroots organizations contributed significantly to the dramatic increase of citizen participation in political events in late 2004.

LEGAL ENVIRONMENT: 3.7

The NGO legal environment did not improve over the past year. In fact, inconsistencies and poor implementation of the laws caused a decrease in the Legal Environment dimension score. The government's willingness to cooperate with civil society as well as other positive political developments were offset by legislative reforms concerning taxation and social services, and the government's failure to understand the needs of NGOs. Several laws, such as the Law on Public Associations, are inconsistent with the new Civil Code, causing confusion and making it more difficult to implement the new rules.



Despite fewer administrative impediments, the process for registering NGOs continues to be complex, and many organizations remain unregistered. Though considered progressive, the 2004 Law on Registration of Legal Entities has created many issues for new NGOs. Specifically, the law requires that all NGOs register with the Ministry of Justice and the regional authorities. A system in which NGOs only register with one government institution is not yet in place. Despite these difficulties,

ORGANIZATIONAL CAPACITY: 3.7

In a sector-wide effort to increase professionalism and sustainability, numerous NGOs created governing bodies, developed strategic plans and successfully engaged volunteers. According to UCAN's NGO organizational systems study, organizational capacity generally improved, and many organizations transitioned from "beginner" to "competent" or "good."

registration for associations is now down to one month for national and international organizations, and four days for local organizations. These improvements are largely the result of NGO advocacy efforts.

The government has restored all tax benefits and incentives, and tax authorities have allowed corporations to deduct between 2-5% of their taxable income for donations to NGOs. Other incentives, such as the deduction of up to 10% of an individual's taxable income for donations to organizations that employ disabled persons, are no longer available. Similarly, NGOs are still required to pay taxes on their economic activities. Advocacy organizations are trying to influence the 2006 budget deliberations in order to have other tax incentives and benefits restored.

Though regulations for generating income remain unchanged, those that govern NGO service delivery have become more restrictive. Local tax and registration officials continue to limit the ability for NGOs to engage in economic activities. Vague laws allow officials to tax service fees and even terminate an organization's tax-exempt status. Regulations on social services remain unimproved. Government funding for procurement of social services and grant programs have yet to be implemented. Local funding for services however, has diversified and organizations have generated more income by improving their marketing strategies.



During the Orange Revolution, NGOs developed local constituencies and attracted volunteers to assist with their activities. The Committee of Voters of Ukraine for example, recruited thousands to volunteer as observers at polling stations during the Presidential elections. Following the elections, many of the most active NGO members and supporters took positions with political parties or in the government, and continue to support the third sector. While this has had a positive impact on NGO relationships with government officials, the loss of qualified professionals has had a negative impact on NGO human resources.

New employees lack experience and organizations are working to strengthen their capacity.

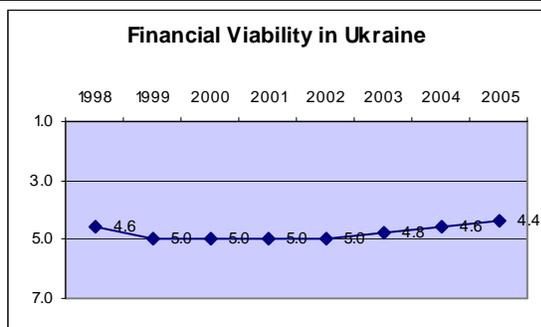
More organizations, especially those funded by international donors, engage in strategic planning, conduct audits, and are improving management capacity. The majority hold regular staff meetings, while some are promoting the leadership and independence of their staff. Numerous organizations, however, limit strategic planning to specific projects or activities; and while NGOs exercise participatory leadership, management remains concentrated in a few staff members. Many

organizations are very informal and fail to clearly define the roles and responsibilities of both their paid and volunteer staff. Few have formal administrative rules that govern their employees or organizational procedures. The UCAN project provides grants and training with the goal of promoting more productive strategic planning and outreach.

NGO governance has improved, indicating a change of attitude within the sector. Organizations are creating more boards, advisory councils, committees and directors to engage in strategic planning, financial oversight, and fundraising. In order for these developments to have a lasting impact, organizations must clearly distinguish between their governing and management bodies. Though the Civil Code and other laws define governing bodies and management structures, they are inconsistent and require additional clarification.

Organizations are generally more professional than they have been in the past. Technical resources are now more accessible, as organizations increasingly cooperate with businesses that provide them with modern equipment. Regional NGOs are now able to purchase office space using bank loans.

FINANCIAL VIABILITY: 4.4



Following the “Orange Revolution” citizens supported NGOs with money, goods, and time; local businesses’ and governments’ support of NGO activities increased as well. Local businesses sometimes seek out NGOs for their services and expertise, and domestic philanthropy has brought in several hundred million dollars of support. In UCAN’s most

recent report on the sector’s financial viability, some NGOs reported a two-fold increase in domestic funding. Organizations are more interested in creating their own social enterprises, and increasing their membership and membership fees. In 2004, the National Tax Administration reports that the total of local donations to charitable foundations and associations was approximately \$530 million. UCAN and the Civil Society Institute, however, report that this figure does not account for volunteer contributions, in-kind donations, or the income from subsidiary organizations. They estimate that local support for NGOs could possibly be as much as \$1 billion (0.3% of the Ukrainian

GNP). The overall result has been a decrease in the sector's dependency on the international donor community.

Funding for think tanks continues to be a problem. Some are unwilling to accept government funds in order to maintain their independence, while others limit their customer base by excluding political parties or other groups. The government often employs the services of the National Academy of Sciences, which is the most prominent research and analysis organization in Ukraine. Over 88% of think tanks report that their main source of funding is the international donor community.

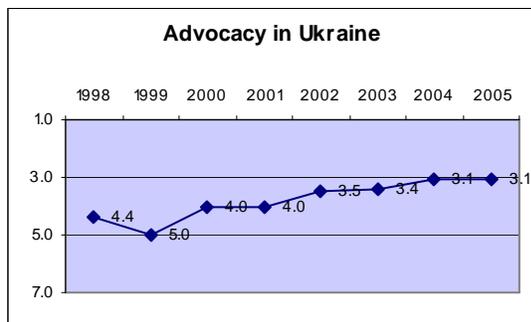
The sector's success in diversifying and increasing its funding has improved NGOs' strategic planning and fundraising efforts. More organizations have developed plans to allocate funds and resources for at least a year and budget separately for their upcoming fiscal year. Financial oversight is informal and conducted by NGO leaders. NGOs only conduct audits as required by donors or tax officials. NGOs seldom make their financial statements public, even to their members. Numerous organizations create subsidiary businesses that charge for their services and donate the profits to the organization. Such practices are legal and simplify the organization's reporting and financial management requirements.

ADVOCACY: 3.1

NGOs created numerous coalitions during the "Orange Revolution." The citizen's initiative Znyau! (I know!), Freedom of Choice, and New Choice coalitions educated and mobilized voters. Coalition building continued at the national and local levels after the revolution. One coalition lobbied changes to the 2006 Budget to ensure the exclusion of provisions that impede business activities. Clean Elections was created in 2005 with the goal of exercising public control over the 2006 Parliamentary elections.

and political parties to discuss draft laws and regulations, though in general, cooperation is generally unstructured and fragmented.

Organizations are increasingly able to collaborate with the national and local governments. In one example, NGOs partnered with the Ministry of Foreign Affairs to advocate for Ukraine's membership in NATO. Organizations are identifying government agencies relevant to their interests. The more developed organizations are capable of identifying key decision makers and have strong relations with deputies in Parliament. More organizations are making formal requests for information and appeals to government and lawmakers. Numerous organizations lobbied for legal reform at the local, regional, and national levels. The results include tax exemptions for donations to NGO activities, handicap access to national parks, efforts to end government corruption with regards to the development of public land, and NGO-led arbitration and justice programs in the courts. "Way Home" (Odessa) formed a coalition to advocate for a law to improve conditions for the homeless. "Boston" (Chernigiv) began as a condominium association but is now active in revising and developing local policies. "Priazovya" (Kherson Oblast) won eighty cases in court to ensure the law on land privatization is enforced properly.



Despite these activities, the Advocacy dimension scores did not improve. In 2005, the President initiated efforts to ensure systemic participation in policy-making. The mid-level government administrators lack both the capacity and will to implement the President's ideas, so no real changes have occurred. Central and local governments organized public hearings, roundtables and meetings with NGOs

Despite improvements, NGOs often do not solicit public input on issues they are addressing, taking for granted the necessity of their activities. NGOs need assistance in

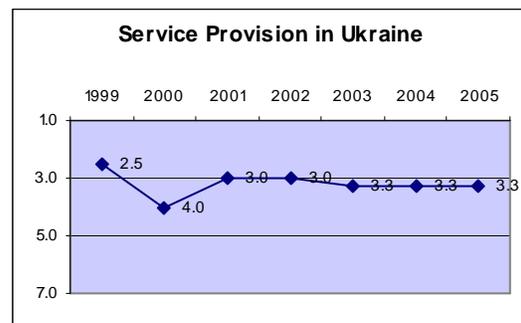
understanding the larger strategy of advocacy and the development of their activities. Many organizations continue to develop inadequate advocacy campaigns.

SERVICE PROVISION: 3.3

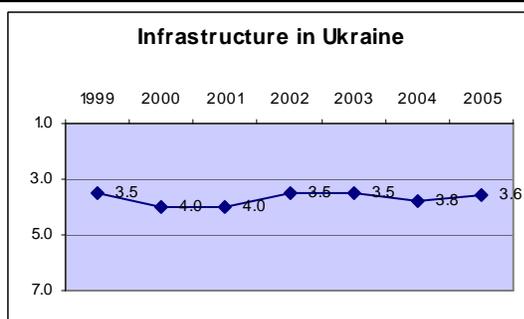
NGOs provide a wide range of services including training, a variety of consultations, legal support, advocacy, information and research, policy analysis, publications and public education. Some services are offered pro bono, while others are offered for a fee. The recipients of services are often NGO members, youth, children, pensioners, and the disabled.

Organizations advertise their services to the general public, media, and local governments about their services. Social fairs were held by NGOs in cooperation with the local governments in Chernigiv, Kherson, Sumy, and Rivne. At the fair in Rivne, thirty-five organizations demonstrated their achievements, provided services, and networked with other organizations and government officials to better address local issues. Participants in the fair received employment advice, ultrasounds, first-aid training, information on pre-natal care and early childhood development, as well as psychological and legal services. Kharkiv and other cities host internet sites with updates on civil society activities, including existing services and the organizations that offer them.

The lower score for the Service Provision dimension is a result of the legal obstacles that service providers face in registration and licensing procedures. The Law on Social Services went into effect in 2004 requiring that social services organizations be licensed, though the licensing procedures have not been created. Without guidelines, local governments are able to exclude any disfavored service provider from receiving contracts. In addition, NGO service providers may be subject to penalties for operating their businesses without the proper licensing. The procurement mechanism for accessing government funding has not achieved the level of transparency required by law.



INFRASTRUCTURE: 3.6



The need for traditional resource centers decreased with Ukraine's economic improvements, which have enabled organizations to grow and become more sustainable. Many resource centers have closed

or transformed into other organizations, though many organizations continue to provide necessary support to NGOs. Four or five formal resource centers are still in operation.

Only a few organizations offer NGO grants from domestic funding. The King George Community Foundation provides small grants with the goal of improving community life. NGO grants are more likely to come from the international donor community. The Center for Humanitarian Technologies and the Charity Foundation "Dobrota" both announced the opening of a mini-grants competition using funds from the Polish Stefan Batoria Foundation. The Charity Foundation "Dobrota" added

domestic funds to the grants as well. Local affiliations of international organizations such as the International Renaissance Foundation, Freedom House-Ukraine, and ISAR-Ednannya provide NGOs with grants regularly.

NGOs share information via the internet, mailing lists, media, and personal contacts. The Ukraine Reform Education Program (UREP), funded by USAID, serves as an informational hub for independent think tanks, allowing them to network and publish their materials. The

PUBLIC IMAGE: 4.0

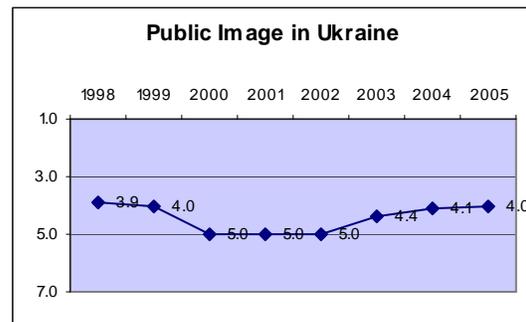
NGOs have become more media savvy with many able to write their own press releases and get media coverage for their activities. NGOs tend to be weak in establishing contacts with the media and creating new ways to reach their constituents. Mass media is not interested in detailed coverage of the NGO sector and rather focus on the sensational news. The press is more willing to cover NGOs providing results from exit polls than report on an organization's goals and activities. The UREP Program helps NGOs disseminate their messages and reach communities through its system of press clubs.

While the NGO sector's public image is improving, organizations still have work to do, especially in the eastern and southern parts of the country. The 2004 Presidential election transformed Ukrainian civil society. According to the "Public Opinion in Ukraine after the Orange Revolution" survey conducted by the International Foundation for Election Systems (IFES), 62% of voters from the north, west and central regions are of the opinion that NGOs are necessary, while only 35% of voters in the eastern and southern voters agree. Many organizations in the east and south are still unable to tailor their message to their communities or distribute materials to

website receives over 15,000 hits every month, and features the largest database of Ukrainian think tanks, with contact information, recent publications, and news.

Numerous organizations offer training programs in strategic planning, fundraising, volunteerism, governance and financial management. "NGOs in Ukraine: The State and Dynamics (2002-2004)," a survey publish by the Counterpart Creative Center, reports that 41% of Ukrainian NGOs provide training services.

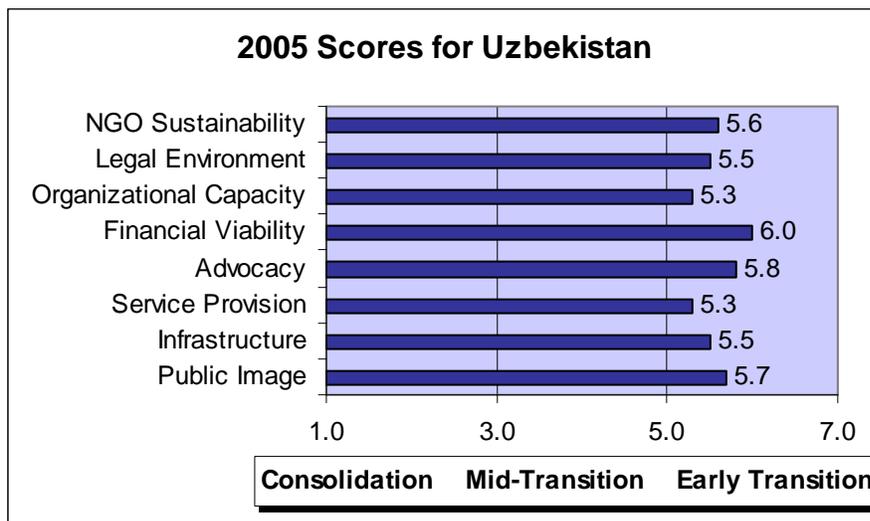
members and concerned citizens. In general, organizations lack the capacity for writing documents, papers and supporting materials.



Relations between NGOs and the business community have improved. Establishing communication and cooperation between government institutions and NGOs, however, is still largely left to NGOs. Though communication is better at the local level, it is difficult for NGOs to ensure collaboration with central government institutions. Generally, cooperation between NGOs and government agencies is a result of personal connections.

As of September 2005, thirty-eight organizations had signed the declaration for ethical standards for civil society organizations, and more than 400 organizations reviewed and approved the text.

Uzbekistan



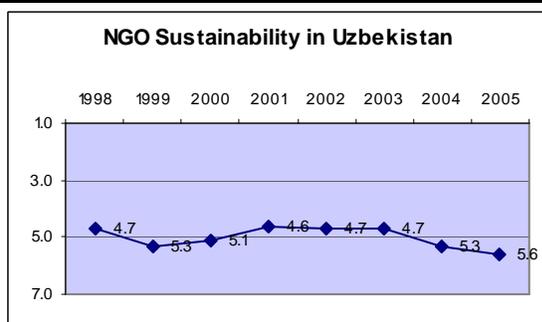
Capital: Tashkent

Polity: Republic-
authoritarian
presidential

Population:
27,307,000

**GDP per capita
(PPP):** \$2,000

NGO SUSTAINABILITY: 5.6



The overall NGO sustainability score deteriorated for the second year in a row, driven in large part by the government's suppression of the May 2005 civilian uprising in the Andijan region. In the months following the uprising, the government has created an even more hostile social and political environment for civil society. In addition to harassment and human rights abuse by the government, NGO development is stymied by the nation's economic conditions and the restrictive legal framework which limit the sector's access to foreign funding.

Before the May event in Andijan, the government generally limited its harassment to

human rights organizations. Following the uprising, all independent organizations have been subject to monitoring and many have been asked by the Ministry of Justice to close down voluntarily or else be closed by the courts. A small number of organizations have contested the request, but few have been successful in challenging the Ministry. Similarly, at the beginning of the year, NGOs were able to conduct advocacy campaigns at the national level. Since the uprising, however, such efforts have become impossible.

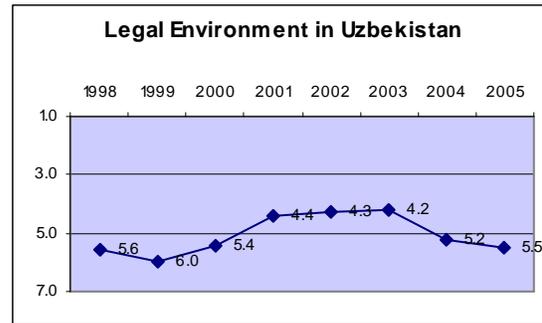
The banking restrictions enacted in 2004 have left 90% of all organizations without access to foreign funding. Without access to this funding source, NGOs have been forced to diversify their sources of domestic income and work closely with their members and constituents to diversify funding sources and offer fee-based services. In general, the challenges presented over the past year have led many organizations to consider their level of professionalism, as well as the way they are perceived by the public. This has forced them to develop networks to exchange information, partner on projects, and provide moral support.

LEGAL ENVIRONMENT: 5.5

The legal environment continued to deteriorate over the past year with unclear and restrictive laws, poor implementation, and increased harassment and hostility towards NGOs. The current laws are inconsistent and out of date, and the government uses illegal regulations that do not permit new NGOs to register or allow existing organizations to operate freely. Few independent NGOs have been able to register during the past year, which is due in part to the dramatic decrease in funding. The 2004 banking regulations have deprived NGOs of international funding for the past two years. Donors have begun using commercial contracts as a means of circumventing the law, but then they are forced to pay taxes.

The current legal framework does not provide the government with a clear mechanism for controlling or monitoring NGO activities. As a result, the government is able to harass NGOs and request that they “voluntarily” cease their operations. If an organization refuses, it is subject to court proceedings and criminal charges. Though the exact figure is difficult to calculate, numerous organizations closed due to their inability to access donor funding or

internal issues. Other organizations have chosen to fight the government’s harassment in the courts with some success. These trials, however, revealed both the judges’ and NGOs’ inadequate knowledge of NGO law and the concept of civil society.

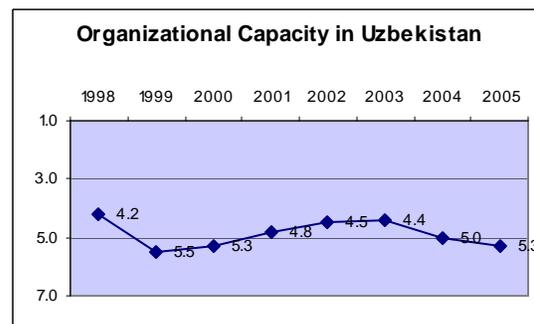


In 2003, Parliament passed a new Law on Public Foundations, though the implementing regulations have yet to be written. Not one foundation has been registered under the new law. Parliament is considering two draft laws, including a new Law on Public Associations and a Law on State Support of NGO Activity. Parliament is no longer considering the draft Law on Charitable Activities.

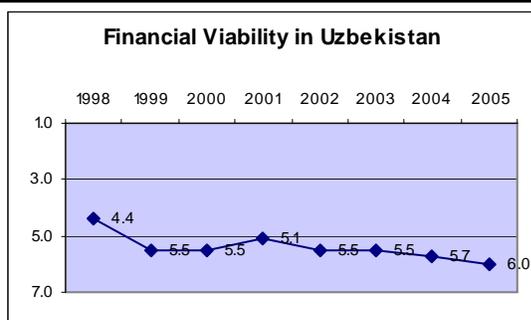
ORGANIZATIONAL CAPACITY: 5.3

The decrease of funding and government harassment has caused many grassroots organizations to lose their permanent staff and volunteers. Most organizations continue to operate as one-person shows, dependent on one or two leaders. In the current political environment, NGOs are even less concerned with building local constituencies than in previous years since many NGOs fear that they will be perceived as instigating another “color” revolution. Organizations generally do not have clearly defined missions to guide their activities, and fail to incorporate strategic planning into their decision-making processes. With little

understanding of strategic planning or even how to develop programs, most organizations build programs around available donor-funding.



FINANCIAL VIABILITY: 6.0



The continuing bank restrictions on grant disbursements have led many NGOs to lose their only sources of funding. The more mature organizations have initiated local fundraising efforts, collected membership fees, and even charged fees for their services. The majority of organizations still survives from grant to grant, and depends on one foreign sponsor. While

many NGOs are created with the hope of receiving grants, most remain inactive after their attempts to secure funding fail. Domestic philanthropy and local funding are virtually non-existent, in part due to the weak economy.

Most organizations do not have financial management systems or understand the need for financial transparency and accountability. Similarly, few organizations conduct independent financial audits or publish their annual reports and financial statements. The government will only support and contract with GONGOs. The law does permit NGOs to engage in economic activities, though the Ministry of Justice and banks continue to prohibit organizations from contracting with donors and businesses to provide goods or services.

ADVOCACY: 5.8

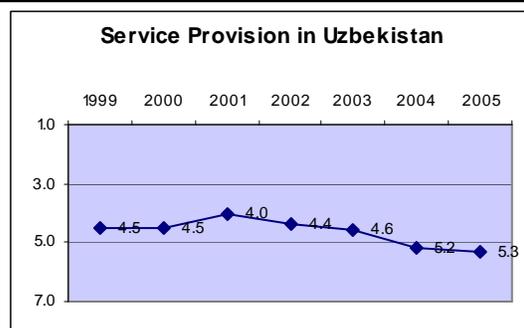
Early in 2005, NGOs conducted several successful advocacy campaigns at the national level. In one success, NGOs advocated for new housing association regulations that decentralize the authority for registering a housing association or condominium. Now citizens may apply to the mayor or the local registration office, and the list of documents required is short and simple. As long as they are not overtly advocating for political change, NGOs are able to advocate on the local and regional levels. Organizations have initiated campaigns concerning gas supply, health care, and small business development. Since the Adijan events, however, local governments are only authorized

to work with GONGOs, and most are now afraid to communicate even with independent NGOs.



SERVICE PROVISION: 5.3

NGOs were unable to provide many services in 2005 due to the monetary controls and banking regulations that prevented them from receiving their grants. In fact, many organizations chose to close “voluntarily” at the end of the year. Only a few organizations are able to provide basic social services such as health care, education, or housing. Those organizations that provide services often do so with low levels of sophistication and professionalism, and are dependent on foreign funding.



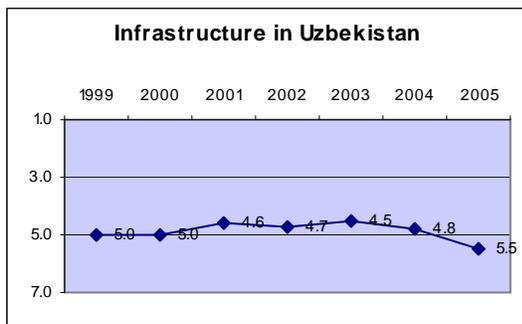
Early in 2005, local governments began realizing that grassroots organizations are working to improve standards of living. Consequently, they cautiously started to consider analysis and proposals concerning community problems. Following the Andijan events, however, local governments have only been permitted to support GONGOs. Organizations only publish materials or conduct research on behalf of their donors. Before the banking regulations, few organizations charged fees for their goods and services, but after almost two years of inability

to access foreign grants, NGOs have begun considering how to diversify their funding sources. Overall, NGOs are being forced out of business or are being harassed by state organizations such as the Women’s Committee, the Makhala Foundation, “Soglom Avold Ucham” (a health GONGO), Kamolot (a youth services GONGO), and others. NGOs are unable to access service markets due to the weak economy, restrictive banking regulations, limited clientele, and the common belief that NGO services should be offered free of charge.

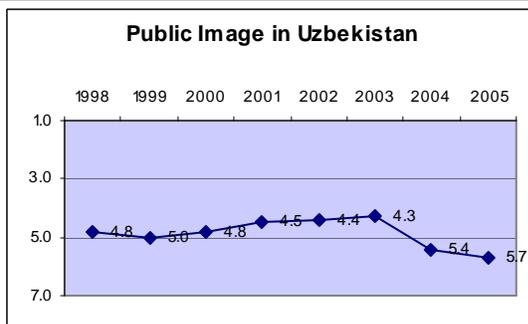
INFRASTRUCTURE: 5.5

At the end of 2005, government harassment forced a network of NGO support centers to close. Of six support centers that once operated in Uzbekistan, only one is still functioning and is currently fighting closure in the courts. At one time, support centers offered training seminars, technical support, information, networking opportunities, and other personal services to associations and other NGOs. The dramatic decrease in funding has forced many organizations to give up their not-for-profit status and convert to businesses.

In early 2005, NGOs had strong partnerships with local business communities, governments, and the media. Following the Andijan events, however, NGOs have not organized networks or coalitions, in fear of being accused of organizing a coup d’etat. The government created the National Association of NGOs of Uzbekistan and forced many organizations to become members. The Ministry of Justice is now denying registration to any associations, in violation of the right to association. The government’s recent harassment of NGOs demonstrated that organizations are not united to promote their common interests.



PUBLIC IMAGE: 5.7



Following the Andijan events, the public’s perception and understanding of NGOs changed dramatically, and the government became even more suspicious and controlling of the sector’s activities. The government maintains its tight control over the media, which is now only able to cover events of GONGOs and other pro-government organizations. Most of the public does not understand the concept of “not-for-profit” or “non-governmental” and government officials,

business leaders, and journalists often equate “non-governmental” with “anti-governmental.” The hostile atmosphere caused by the government gives the perception that NGOs are finally being noticed, though it is not the

pleasant outcome that many had hoped for. Instead, NGOs are perceived as the source of the country’s instability and a possible threat to the ruling regime.

Annex A: Statistical Data

COUNTRY SCORES 1998-2005

NORTHERN TIER									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Czech Republic	N/R	N/R	2.4	2.3	2.5	2.4	2.7	2.7	
Estonia	N/R	N/R	2.4	2.1	2.2	2.2	2.1	2.1	
Hungary	1.6	2.0	2.3	2.6	2.6	2.7	2.6	2.7	
Latvia	4.2	N/R	2.8	2.9	2.8	2.7	2.6	2.6	
Lithuania	3.1	3.0	3.2	3.0	2.8	2.6	2.7	2.7	
Poland	2.0	2.1	2.1	2.1	2.2	2.1	2.3	2.3	
Slovakia	2.8	2.1	1.9	1.9	2.1	2.2	2.5	2.6	
Slovenia	N/R	N/R	N/R	N/R	N/R	3.4	4.0	4.0	
<i>Average</i>	2.7	2.3	2.4	2.4	2.5	2.5	2.7	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>	<u>2005</u>	
Albania	4.2	4.8	4.6	4.6	4.3	4.1	3.9	3.9	
Bosnia	5.6	5.2	4.0	4.5	4.2	4.1	4.0	3.9	
Bulgaria	3.6	4.0	3.7	3.6	3.1	3.1	3.2	3.2	
Croatia	4.4	4.7	4.3	3.8	3.7	3.5	3.5	3.4	
Kosovo	N/R	4.4	4.6	4.6	4.3	4.2	3.8	3.8	
Macedonia	4.4	4.6	4.6	4.2	4.0	3.7	3.6	3.6	
Montenegro	N/R	4.6	4.6	4.7	4.6	4.5	4.3	4.2	
Romania	3.8	4.1	4.1	4.0	3.7	3.8	3.7	3.6	
Serbia	5.4	5.4	4.5	4.1	4.1	4.0	4.4	4.4	
<i>Average</i>	4.5	4.6	4.3	4.2	4.0	3.9	3.8	3.8	
EURASIA									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Armenia	N/R	5.1	2.0	4.4	4.2	4.1	4.1	4.1	
Azerbaijan	6.4	5.7	5.0	4.9	5.2	4.1	4.9	5.0	
Belarus	N/R	N/R	5.7	5.5	5.3	5.6	5.6	5.8	
Georgia	3.4	3.8	4.0	4.0	4.2	4.1	3.9	4.0	
Kazakhstan	4.4	4.8	4.7	4.3	4.1	3.9	4.1	4.1	
Kyrgyzstan	3.9	4.1	4.3	4.3	4.1	4.1	4.2	4.1	
Moldova	N/R	N/R	4.6	4.2	4.2	4.3	4.3	4.2	
Russia	3.4	4.1	4.3	4.3	4.0	4.4	4.2	4.3	
Tajikistan	6.6	6.1	5.4	5.1	4.6	4.6	4.6	4.6	
Turkmenistan	N/R	6.6	6.0	5.8	5.6	5.7	5.6	5.7	
Ukraine	4.2	4.1	4.4	4.3	4.0	3.9	3.8	3.7	
Uzbekistan	4.7	5.3	5.1	4.6	4.7	4.7	5.2	5.6	
<i>Average</i>	4.6	5.0	4.6	4.6	4.5	4.5	4.5	4.6	

N/R=Country was not studied in that year

COUNTRIES RANKED BY SCORES

LEGAL ENVIRONMENT

CONSOLIDATION	
Hungary	1.5
Estonia	1.8
Lithuania	2.0
Bulgaria	2.0
Poland	2.3
Slovakia	2.3
Latvia	2.4
Kosovo	3.0
MID-TRANSITION	
Czech Republic	3.1
Macedonia	3.1
Croatia	3.2
Montenegro	3.3
Georgia	3.3
Bosnia	3.5
Albania	3.6
Romania	3.6
Slovenia	3.7
Kyrgyzstan	3.7
Ukraine	3.7
Armenia	3.8
Moldova	4.1
Kazakhstan	4.2
Serbia	4.5
Russia	4.5
Tajikistan	4.5
Azerbaijan	5.0
EARLY TRANSITION	
Uzbekistan	5.5
Turkmenistan	6.6
Belarus	7.0

ORGANIZATIONAL CAPACITY

CONSOLIDATION	
Estonia	2.4
Lithuania	2.5
Poland	2.6
Slovakia	2.8
Hungary	3.0
Latvia	3.0
MID-TRANSITION	
Czech Republic	3.2
Croatia	3.3
Bosnia	3.6
Macedonia	3.7
Ukraine	3.7
Georgia	3.8
Romania	3.8
Kosovo	3.9
Albania	3.9
Armenia	4.0
Moldova	4.1
Kazakhstan	4.1
Serbia	4.1
Russia	4.1
Slovenia	4.2
Kyrgyzstan	4.3
Bulgaria	4.5
Montenegro	4.7
Tajikistan	4.7
Azerbaijan	4.7
Belarus	4.8
EARLY TRANSITION	
Uzbekistan	5.3
Turkmenistan	5.4

FINANCIAL VIABILITY

CONSOLIDATION	
Estonia	2.5
Lithuania	2.9
Czech Republic	2.8
Poland	2.9
MID-TRANSITION	
Latvia	3.1
Hungary	3.4
Slovakia	3.5
Bulgaria	4.2
Romania	4.3
Croatia	4.4
Ukraine	4.4
Macedonia	4.5
Albania	4.5
Slovenia	4.5
Russia	4.7
Bosnia	4.8
Kazakhstan	4.9
Georgia	5.0
Montenegro	5.0
EARLY TRANSITION	
Kyrgyzstan	5.1
Kosovo	5.2
Moldova	5.2
Armenia	5.5
Serbia	5.6
Tajikistan	5.6
Azerbaijan	5.9
Uzbekistan	6.0
Turkmenistan	6.0
Belarus	6.4

COUNTRIES RANKED BY SCORES

ADVOCACY

CONSOLIDATION	
Poland	1.8
Lithuania	1.9
Estonia	2.0
Latvia	2.0
Czech Republic	2.2
Slovakia	2.3
Bulgaria	2.5
MID-TRANSITION	
Ukraine	3.1
Macedonia	3.1
Hungary	3.2
Albania	3.3
Bosnia	3.3
Romania	3.4
Kosovo	3.4
Croatia	3.5
Kazakhstan	3.8
Montenegro	3.8
Kyrgyzstan	3.8
Armenia	3.8
Serbia	3.8
Moldova	3.9
Slovenia	4.0
Georgia	4.0
Russia	4.2
Tajikistan	4.6
EARLY TRANSITION	
Azerbaijan	5.1
Uzbekistan	5.8
Belarus	6.0
Turkmenistan	6.1

SERVICE PROVISION

CONSOLIDATION	
Czech Republic	2.2
Slovakia	2.2
Poland	2.3
Estonia	2.4
Latvia	2.4
Hungary	2.4
MID-TRANSITION	
Bulgaria	3.1
Romania	3.1
Ukraine	3.3
Croatia	3.4
Slovenia	3.6
Lithuania	3.7
Macedonia	3.9
Albania	3.9
Kosovo	4.0
Kazakhstan	4.0
Montenegro	4.0
Armenia	4.0
Kyrgyzstan	4.1
Georgia	4.1
Russia	4.1
Bosnia	4.2
Serbia	4.5
Moldova	4.5
Tajikistan	4.6
Azerbaijan	4.6
EARLY TRANSITION	
Belarus	5.1
Turkmenistan	5.2
Uzbekistan	5.3

INFRASTRUCTURE

CONSOLIDATION	
Estonia	1.7
Poland	1.9
Slovakia	2.2
Hungary	2.3
Latvia	2.7
Bulgaria	3.0
Czech Republic	3.0
MID-TRANSITION	
Croatia	3.1
Lithuania	3.1
Macedonia	3.2
Romania	3.4
Kazakhstan	3.5
Ukraine	3.6
Kosovo	3.6
Kyrgyzstan	3.6
Armenia	3.7
Serbia	3.7
Moldova	3.7
Russia	3.8
Georgia	4.0
Slovenia	4.1
Albania	4.1
Montenegro	4.1
Tajikistan	4.2
Bosnia	4.3
Azerbaijan	4.6
Turkmenistan	4.8
EARLY TRANSITION	
Belarus	5.3
Uzbekistan	5.5

COUNTRIES RANKED BY SCORE

PUBLIC IMAGE		NGO SUSTAINABILITY- COUNTRY RANKINGS			
		2005	2004	2003	
CONSOLIDATION		CONSOLIDATION			
Estonia	2.1	2.1	1	1	2
Poland	2.2	2.3	2	2	1
Czech Republic	2.5	2.6	3	4	6
Slovakia	2.6	2.6	3	3	2
Hungary	2.9	2.7	5	6	4
Latvia	2.9	2.7	5	4	6
Lithuania	2.9	2.7	5	6	5
MID-TRANSITION		MID-TRANSITION			
Bulgaria	3.2	3.2	8	8	8
Croatia	3.2	3.4	9	9	9
Bosnia	3.5	3.6	10	10	10
Macedonia	3.7	3.6	10	11	11
Romania	3.7	3.7	12	12	12
Kosovo	3.7	3.8	13	12	16
Georgia	3.7	3.9	14	14	21
Ukraine	4.0	3.9	14	16	12
Armenia	4.0	4.0	16	14	16
Moldova	4.0	4.0	16	16	16
Albania	4.0	4.1	18	18	12
Kyrgyzstan	4.1	4.1	18	18	16
Kazakhstan	4.2	4.1	18	18	23
Slovenia	4.2	4.2	21	22	22
Tajikistan	4.3	4.2	21	22	24
Serbia	4.6	4.3	23	21	16
Montenegro	4.6	4.4	24	24	15
Russia	4.7	4.6	25	25	27
EARLY TRANSITION		EARLY TRANSITION			
Azerbaijan	5.1	5.0	26	26	25
		EARLY TRANSITION			
Uzbekistan	5.7	5.6	27	27	26
Uzbekistan	5.7	5.7	28	28	28
Belarus	5.8	5.8	29	29	29

DIMENSION SCORES 1998-2005

LEGAL ENVIRONMENT

NORTHERN TIER								
	1998	1999	2000	2001	2002	2003	2004	2005
Czech Republic	N/R	N/R	2.0	2.0	3.0	3.0	3.0	3.1
Estonia	N/R	N/R	2.0	2.0	2.0	1.8	1.8	1.8
Hungary	1.0	1.0	1.0	1.7	1.4	1.3	1.3	1.5
Latvia	4.0	N/R	3.0	3.0	2.8	2.6	2.4	2.4
Lithuania	4.0	4.0	4.0	2.0	1.6	1.6	1.8	2.0
Poland	2.0	2.0	2.0	2.0	2.1	2.0	2.3	2.3
Slovakia	3.5	3.5	2.5	2.5	2.6	2.5	2.3	2.3
Slovenia	N/R	N/R	N/R	N/R	N/R	3.7	3.7	3.7
<i>Average</i>	2.9	2.6	2.4	2.2	2.2	2.3	2.3	2.4
SOUTHERN TIER								
	1998	1999	2000	2001	2002	2003	2004	2005
-								
Albania	4.0	4.0	4.0	4.0	3.6	3.5	3.4	3.6
Bosnia	5.0	5.0	4.5	4.0	3.5	3.5	3.5	3.5
Bulgaria	4.5	4.5	3.5	3.5	2.0	2.0	2.0	2.0
Croatia	6.0	6.0	4.0	3.0	2.8	2.8	3.2	3.2
Kosovo	N/R	3.0	3.0	4.0	3.3	3.2	3.0	3.0
Macedonia	3.0	3.0	3.0	3.0	3.0	2.9	2.9	3.1
Montenegro	N/R	3.5	3.5	3.7	3.7	3.4	3.3	3.3
Romania	3.5	3.5	3.0	3.0	3.0	4.0	3.8	3.6
Serbia	5.0	6.0	5.0	5.0	4.5	4.5	4.5	4.5
<i>Average</i>	4.4	5.5	3.7	3.7	3.3	3.3	3.3	3.3
EURASIA								
	1998	1999	2000	2001	2002	2003	2004	2005
Armenia	N/R	4.0	4.0	4.0	3.8	3.8	3.8	3.8
Azerbaijan	7.0	6.0	5.0	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	7.0
Georgia	3.0	3.5	3.0	4.0	3.9	3.7	3.5	3.3
Kazakhstan	4.9	5.0	4.5	4.5	4.2	4.0	4.2	4.2
Kyrgyzstan	3.9	3.5	4.3	5.2	3.7	3.9	3.7	3.7
Moldova	N/R	N/R	3.0	3.0	3.3	3.7	4.2	4.1
Russia	3.0	4.0	4.0	4.2	4.0	4.3	4.3	4.5
Tajikistan	6.5	6.0	5.0	4.8	4.6	4.3	4.3	4.5
Turkmenistan	N/R	7.0	6.5	6.5	6.5	6.7	6.5	6.6
Ukraine	4.6	5.0	5.0	5.0	4.5	4.0	3.6	3.7
Uzbekistan	5.6	6.0	5.4	4.4	4.3	4.2	5.2	5.5
<i>Average</i>	6.4	6.3	4.7	4.8	4.5	4.5	4.6	4.7

N/R=Country was not studied in that year

DIMENSION SCORES 1998-2005

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>	<u>2005</u>
Czech Republic	N/R	N/R	3.0	3.0	2.9	2.9	3.2	3.2
Estonia	N/R	N/R	2.5	2.3	2.2	2.6	2.5	2.4
Hungary	2.0	2.0	3.0	2.8	2.7	2.9	3.0	3.0
Latvia	4.0	N/R	2.6	3.3	3.0	2.9	3.0	3.0
Lithuania	3.0	2.5	2.5	3.0	2.9	2.9	2.6	2.5
Poland	2.0	2.0	2.0	2.0	2.2	2.2	2.5	2.6
Slovakia	3.0	2.0	1.5	1.5	1.7	2.0	2.3	2.8
Slovenia	N/R	N/R	N/R	N/R	N/R	3.5	4.2	4.2
Average	2.8	2.1	2.4	2.6	2.5	2.7	2.9	3.0
SOUTHERN TIER								
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
-								
Albania	4.2	4.5	5.0	5.0	4.5	4.2	4.0	3.9
Bosnia	5.0	4.5	4.5	4.0	3.9	3.8	3.8	3.6
Bulgaria	3.0	3.5	4.5	4.5	4.5	4.4	4.5	4.5
Croatia	3.0	4.0	4.8	4.0	4.0	3.8	3.4	3.3
Kosovo	N/R	4.5	4.5	5.0	4.2	4.3	4.0	3.9
Macedonia	4.0	4.0	4.0	4.0	4.0	3.7	3.7	3.7
Montenegro	N/R	5.0	5.0	5.0	4.8	4.8	4.7	4.7
Romania	3.5	4.0	5.0	4.5	4.0	3.8	3.8	3.8
Serbia	5.0	5.0	4.5	4.0	3.9	3.8	3.9	4.1
Average	4.0	5.6	4.6	4.4	4.2	4.1	4.0	3.9
EURASIA								
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Armenia	N/R	5.0	5.0	4.0	3.9	3.6	4.0	4.0
Azerbaijan	6.0	5.8	5.2	5.0	5.0	4.8	4.7	4.7
Belarus	N/R	N/R	5.0	4.8	4.7	4.8	4.6	4.8
Georgia	4.0	3.5	4.0	4.0	4.0	4.0	3.8	3.8
Kazakhstan	4.0	4.5	5.0	4.2	4.0	3.8	3.8	4.1
Kyrgyzstan	3.9	4.0	4.0	4.0	4.3	4.3	4.3	4.3
Moldova	N/R	N/R	4.5	4.5	4.5	4.2	4.1	4.1
Russia	3.0	3.5	4.0	4.4	3.9	4.3	4.0	4.1
Tajikistan	6.0	6.0	5.5	5.0	4.5	4.6	4.8	4.7
Turkmenistan	N/R	6.0	5.8	5.5	5.3	5.3	5.2	5.4
Ukraine	3.7	3.5	4.0	4.0	3.5	3.9	3.9	3.7
Uzbekistan	4.2	5.5	5.3	4.8	4.5	4.4	5.0	5.3
Average	5.8	5.9	4.8	4.5	4.3	4.3	4.4	4.4

N/R=Country was not studied in that year

DIMENSION SCORES 1998-2005

FINANCIAL VIABILITY

NORTHERN TIER								
	1998	1999	2000	2001	2002	2003	2004	2005
Czech Republic	N/R	N/R	2.0	2.0	2.0	1.9	2.7	2.8
Estonia	N/R	N/R	2.8	2.6	2.6	2.6	2.5	2.5
Hungary	2.0	2.5	3.0	2.8	3.0	3.3	3.3	3.4
Latvia	5.0	N/R	3.5	3.5	3.5	3.3	3.1	3.1
Lithuania	3.0	3.5	4.0	3.0	2.9	2.9	3.0	2.9
Poland	2.0	2.5	2.5	2.5	2.8	2.8	2.9	2.9
Slovakia	4.0	3.0	3.0	3.0	3.0	3.2	3.5	3.5
Slovenia	N/R	N/R	N/R	N/R	N/R	3.3	4.5	4.5
Average	3.2	2.9	3.0	2.8	2.8	2.9	3.2	3.2
SOUTHERN TIER								
	1998	1999	2000	2001	2002	2003	2004	2005
-								
Albania	5.0	5.0	5.0	5.0	4.8	4.6	4.5	4.5
Bosnia	6.0	6.5	6.0	5.7	5.5	5.4	5.0	4.8
Bulgaria	5.0	5.5	5.2	4.5	3.8	3.7	4.1	4.2
Croatia	5.0	6.0	6.6	5.0	5.1	4.4	4.4	4.4
Kosovo	N/R	6.0	6.0	6.0	6.0	5.6	5.3	5.2
Macedonia	5.0	5.0	5.0	4.0	4.6	4.5	4.5	4.5
Montenegro	N/R	5.5	5.5	5.5	5.5	5.4	5.2	5.0
Romania	4.5	5.0	5.5	4.5	4.5	4.3	4.3	4.3
Serbia	6.0	6.0	6.0	6.0	5.5	5.4	5.6	5.6
Average	5.2	7.2	5.6	5.1	5.0	4.8	4.8	4.7
EURASIA								
	1998	1999	2000	2001	2002	2003	2004	2005
Armenia	N/R	6.0	6.0	6.0	5.6	5.5	5.5	5.5
Azerbaijan	6.0	6.0	6.0	6.0	6.0	5.8	5.8	5.9
Belarus	N/R	N/R	6.0	6.0	5.7	6.2	6.2	6.4
Georgia	4.0	4.9	5.0	5.0	4.9	4.6	4.8	5.0
Kazakhstan	4.4	5.5	5.5	5.0	4.8	4.7	5.0	4.9
Kyrgyzstan	4.2	5.5	5.5	5.5	5.0	5.0	5.0	5.1
Moldova	N/R	N/R	5.5	5.3	5.2	5.3	5.2	5.2
Russia	4.0	5.0	5.0	4.7	4.4	4.9	4.6	4.7
Tajikistan	7.0	7.0	6.0	6.0	5.5	5.7	5.6	5.6
Turkmenistan	N/R	7.0	6.0	5.5	5.3	6.0	5.8	6.0
Ukraine	4.6	5.0	5.0	5.0	5.0	4.8	4.6	4.4
Uzbekistan	4.4	5.5	5.5	5.1	5.5	5.5	5.8	6.0
Average	6.4	7.2	5.6	5.4	5.2	5.3	5.3	5.4

N/R=Country was not studied in that year

DIMENSION SCORES 1998-2005

ADVOCACY

NORTHERN TIER								
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Czech Republic	N/R	N/R	2.0	1.8	1.8	2.0	2.2	2.2
Estonia	N/R	N/R	2.0	1.8	2.1	2.0	2.0	2.0
Hungary	1.0	1.5	3.0	3.5	3.5	3.3	3.3	3.2
Latvia	4.0	N/R	3.0	2.2	2.0	2.0	2.0	2.0
Lithuania	2.0	1.5	2.0	2.0	1.8	1.6	2.0	1.9
Poland	2.0	2.5	2.0	2.0	2.2	1.9	1.9	1.8
Slovakia	2.0	1.5	1.5	1.5	1.6	1.6	2.2	2.3
Slovenia						3.0	3.8	4.0
Average	2.2	1.8	2.2	2.1	2.1	2.2	2.4	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>	<u>2005</u>
-								
Albania	4.0	4.0	4.0	3.0	3.9	3.6	3.4	3.3
Bosnia	6.0	5.5	4.5	4.2	3.9	3.6	3.3	3.3
Bulgaria	2.8	3.0	3.0	3.0	2.5	2.5	2.5	2.5
Croatia	4.0	4.0	2.5	3.0	3.0	3.0	3.4	3.5
Kosovo	N/R	5.0	4.5	5.0	4.1	3.8	3.5	3.4
Macedonia	5.0	4.5	4.5	4.0	3.6	3.3	3.1	3.1
Montenegro	N/R	3.5	3.5	4.5	4.7	4.3	4.0	3.8
Romania	3.5	4.0	3.5	4.5	4.0	3.8	3.6	3.4
Serbia	6.0	6.0	4.0	3.5	3.3	3.2	3.8	3.8
Average	4.5	5.6	3.8	3.9	3.7	3.5	3.4	3.3
EURASIA								
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Armenia	N/R	5.0	5.0	4.0	4.2	3.8	3.7	3.8
Azerbaijan	6.5	6.0	5.5	5.0	5.0	4.8	4.8	5.1
Belarus	N/R	N/R	6.0	5.5	5.4	5.7	6.0	6.0
Georgia	4.0	3.5	2.0	4.0	4.3	4.0	3.7	4.0
Kazakhstan	N/R	4.5	4.5	4.3	4.0	3.6	3.6	3.8
Kyrgyzstan	3.5	3.5	3.5	3.0	3.3	3.8	4.0	3.8
Moldova	N/R	N/R	5.0	4.2	4.2	4.1	4.0	3.9
Russia	3.0	3.5	4.5	4.9	4.2	4.5	4.2	4.2
Tajikistan	6.5	6.0	5.5	5.0	4.5	4.5	4.6	4.6
Turkmenistan	N/R	6.5	6.3	6.3	6.1	6.1	6.1	6.1
Ukraine	4.4	5.0	4.0	4.0	3.5	3.4	3.1	3.1
Uzbekistan	4.6	5.5	5.2	5.1	4.9	5.1	5.6	5.8
Average	5.4	6.1	4.8	4.6	4.5	4.5	4.5	4.5

N/R=Country was not studied in that year

DIMENSION SCORES 1999*-2005

SERVICE PROVISION

NORTHERN TIER							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Czech Republic	N/R	2.0	2.0	2.2	2.2	2.2	2.2
Estonia	N/R	2.5	2.3	2.5	2.5	2.4	2.4
Hungary	2.5	2.0	2.3	2.3	2.3	2.3	2.4
Latvia	2.5	N/R	2.4	2.5	2.5	2.4	2.4
Lithuania	3.5	3.5	4.0	3.8	3.4	3.7	3.7
Poland	2.0	2.0	2.0	2.1	2.0	2.3	2.3
Slovakia	2.0	2.0	2.0	2.2	2.2	2.2	2.2
Slovenia	N/R	N/R	N/R	N/R	3.0	3.6	3.6
Average	3.1	2.0	2.4	2.5	2.5	2.6	2.7
SOUTHERN TIER							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
-							
Albania	5.0	5.0	5.0	3.9	4.0	3.9	3.9
Bosnia	5.0	4.5	4.2	4.5	4.4	4.3	4.2
Bulgaria	4.0	3.0	3.0	2.8	2.9	3.2	3.1
Croatia	5.0	4.4	4.0	3.7	3.4	3.3	3.4
Kosovo	4.0	5.0	4.0	5.0	4.8	4.0	4.0
Macedonia	5.5	5.5	5.0	4.8	4.0	3.9	3.9
Montenegro	4.5	4.5	4.0	4.2	4.2	4.0	4.0
Romania	4.0	4.0	3.5	3.1	3.1	3.1	3.1
Serbia	4.0	4.0	3.8	4.2	4.1	4.5	4.5
Average	5.9	4.4	4.1	4.0	3.9	3.8	3.8
EURASIA							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Armenia	5.0	4.0	4.0	4.0	4.0	4.0	4.0
Azerbaijan	4.5	4.5	5.0	5.0	4.8	4.6	4.6
Belarus	N/R	5.0	5.0	4.9	5.1	4.9	5.1
Georgia	4.0	5.0	4.0	4.2	4.4	4.1	4.1
Kazakhstan	4.5	4.7	4.0	4.0	3.9	4.1	4.0
Kyrgyzstan	4.0	4.5	4.3	3.9	3.8	4.1	4.1
Moldova	N/R	5.0	4.5	4.4	4.5	4.5	4.5
Russia	4.5	4.5	4.3	3.7	4.0	3.9	4.1
Tajikistan	5.5	5.5	5.0	4.5	4.3	4.6	4.6
Turkmenistan	6.0	5.3	5.0	5.0	4.8	4.8	5.2
Ukraine	2.5	4.0	3.0	3.0	3.3	3.3	3.3
Uzbekistan	4.5	4.5	4.0	4.4	4.6	5.2	5.3
Average	5.6	4.7	4.3	4.3	4.3	4.3	4.4

N/R=Country was not studied in that year

*Service Provision was not a dimension studied in 1998

DIMENSION SCORES 1999*-2005

INFRASTRUCTURE

NORTHERN TIER							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Czech Republic	N/R	3.0	3.0	3.0	3.0	3.0	3.0
Estonia	N/R	2.5	2.0	1.9	2.0	1.7	1.7
Hungary	2.5	2.0	2.5	2.5	2.4	2.3	2.3
Latvia	3.0	N/R	3.0	3.0	2.8	2.7	2.7
Lithuania	3.0	3.0	2.5	2.3	2.2	3.0	3.1
Poland	2.0	2.0	2.0	1.9	1.9	1.9	1.9
Slovakia	1.5	1.5	1.5	1.7	1.9	2.2	2.2
Slovenia	N/R	N/R	N/R	N/R	3.8	4.2	4.1
Average	3.0	2.0	2.4	2.3	2.5	2.6	2.6
SOUTHERN TIER							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
-							
Albania	5.5	5.0	5.0	4.6	4.4	4.2	4.1
Bosnia	5.0	5.0	4.8	4.5	4.5	4.4	4.3
Bulgaria	3.0	3.0	3.0	2.5	2.5	2.9	3.0
Croatia	4.0	4.0	4.0	3.9	3.6	3.2	3.1
Kosovo	5.0	5.0	4.0	3.7	3.5	3.4	3.6
Macedonia	5.0	5.0	4.5	3.7	3.3	3.2	3.2
Montenegro	5.0	5.0	5.0	4.6	4.6	4.3	4.1
Romania	4.0	4.0	4.0	3.6	3.6	3.5	3.4
Serbia	5.0	4.0	3.0	3.4	3.4	3.7	3.7
Average	5.9	4.4	4.1	3.8	3.7	3.6	3.6
EURASIA							
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Armenia	5.5	6.0	4.5	4.2	4.0	3.9	3.7
Azerbaijan	5.5	4.5	3.0	4.6	4.7	4.6	4.6
Belarus	N/R	5.0	4.5	4.5	4.8	5.0	5.3
Georgia	3.5	3.0	3.0	4.0	3.8	3.9	4.0
Kazakhstan	5.0	4.5	4.1	3.9	3.6	3.6	3.5
Kyrgyzstan	4.5	4.0	3.8	3.7	3.8	3.6	3.6
Moldova	N/R	4.0	3.8	3.8	3.8	3.7	3.7
Russia	3.5	3.5	3.4	3.2	3.9	3.8	3.8
Tajikistan	6.0	5.0	4.8	4.1	4.1	4.3	4.2
Turkmenistan	6.5	5.7	5.5	5.2	5.0	4.6	4.8
Ukraine	3.5	4.0	4.0	3.5	3.5	3.8	3.6
Uzbekistan	5.0	5.0	4.6	4.7	4.5	4.5	5.5
Average	6.1	4.5	4.1	4.1	4.1	4.1	4.2

N/R=Country was not studied in that year

*Infrastructure was not a dimension studied in 1998

DIMENSION SCORES 1998-2005

PUBLIC IMAGE

NORTHERN TIER								
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Czech Republic			3.0	2.5	2.3	2.1	2.5	2.5
Estonia			2.5	2.0	2.0	2.2	2.1	2.1
Hungary	2.0	2.0	2.0	2.8	3.0	3.2	3.0	2.9
Latvia	4.0		2.0	2.7	3.0	2.8	2.9	2.9
Lithuania	3.0	2.5	3.0	4.0	3.8	3.3	3.0	2.9
Poland	2.0	2.0	2.0	2.0	2.3	2.2	2.2	2.2
Slovakia	1.5	1.0	1.5	1.5	1.8	2.0	2.6	2.6
Slovenia						3.6	4.1	4.2
<i>Average</i>	3.1	1.5	2.3	2.5	2.6	2.7	2.8	2.8
SOUTHERN TIER								
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
-								
Albania	4.0	5.0	4.5	5.0	4.6	4.5	4.2	4.0
Bosnia	6.0	5.0	5.0	4.5	3.8	3.8	3.6	3.5
Bulgaria	2.8	4.5	4.0	4.0	3.5	3.4	3.3	3.2
Croatia	4.0	4.0	4.0	3.8	3.5	3.4	3.3	3.2
Kosovo		3.5	4.0	4.5	3.9	3.9	3.7	3.7
Macedonia	5.0	5.0	5.0	4.5	4.0	3.9	3.8	3.7
Montenegro		5.0	5.0	5.0	4.8	4.7	4.6	4.6
Romania	4.0	4.0	3.5	4.0	3.8	4.0	3.8	3.7
Serbia	5.0	5.5	4.0	3.5	4.0	3.9	4.5	4.6
<i>Average</i>	4.4	5.9	4.3	4.3	4.0	3.9	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>	<u>2005</u>
Armenia		5.0	5.0	4.0	4.0	3.9	3.9	4.0
Azerbaijan	6.5	6.0	4.5	5.0	5.5	5.3	5.1	5.1
Belarus			6.0	5.5	5.2	5.6	5.6	5.8
Georgia	2.0	4.0	5.0	4.0	4.4	4.4	3.7	3.7
Kazakhstan	4.0	4.5	4.5	4.1	3.9	3.9	4.2	4.2
Kyrgyzstan	3.8	4.1	4.5	4.5	4.1	4.1	4.3	4.1
Moldova			5.0	4.3	4.3	4.2	4.2	4.0
Russia	4.0	5.0	4.5	4.5	4.4	4.0	4.5	4.7
Tajikistan	7.0	6.0	5.0	5.0	4.5	4.4	4.4	4.3
Turkmenistan		7.0	6.2	6.0	6.0	5.9	5.8	5.7
Ukraine	3.9	4.0	5.0	5.0	5.0	4.4	4.1	4.0
Uzbekistan	4.8	5.0	4.8	4.5	4.4	4.3	5.4	5.7
<i>Average</i>	6.0	6.3	5.0	4.7	4.6	4.5	4.6	4.6

N/R=Country was not studied in that year

U.S. Agency for International Development
Bureau for Europe and Eurasia
Office of Democracy, Governance and Social Transition
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: (202) 712-0000
Fax: (202) 216-3007
NGOSI@USAID.GOV
www.usaid.gov