

Cover photo: Women discuss community priorities in the Kyrgyz Republic.
Photo taken by Shabdan Mamajunsov/Winrock International.

The 2006 NGO Sustainability Index for Central and Eastern Europe and Eurasia

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

TABLE OF CONTENTS

Introduction	iii
Acknowledgements	iv
Executive Summary	I
Section 1: Dimensions of NGO Sustainability	10
Legal Environment.....	10
Organizational Capacity.....	10
Financial Viability.....	11
Advocacy.....	11
Service Provision.....	11
Infrastructure.....	12
Public Image.....	12
Section 2: Ratings – General Definitions	13
Section 3: Ratings – A Closer Look	14
Section 4: Articles	19
USAID NGO Sustainability Index: Ten-Year Retrospective.....	19
Civil Society in Central Europe: An Ever-Changing Landscape: How NGOs Have Adapted to Shifting Donor Strategies: David Stulik.....	34
Section 5: Country Reports	44
Albania.....	44
Armenia.....	49
Azerbaijan.....	54
Belarus.....	60
Bosnia And Herzegovina.....	67
Bulgaria.....	74
Croatia.....	80
Czech Republic.....	89
Estonia.....	97
Georgia.....	103
Hungary.....	110
Kazakhstan.....	118
Kosovo.....	124
Kyrgyzstan.....	130
Latvia.....	135
Lithuania.....	143
Macedonia.....	149
Moldova.....	156
Montenegro.....	163
Poland.....	170
Romania.....	180

Russia	186
Serbia	194
Slovakia.....	199
Slovenia	210
Tajikistan	216
Turkmenistan.....	222
Ukraine.....	228
Uzbekistan	236
Annex A: Statistical Data	242

Introduction

USAID is proud to present the 2006 NGO Sustainability Index for Central and Eastern Europe and Eurasia. This year the Index reports on 28 countries, plus Kosovo (which is reported on separately.)

This is the 10th edition of the Index. To mark this milestone, this year's Index includes a special feature, "*USAID NGO Sustainability Index: A Ten-Year Retrospective*" highlighting trends in each dimension of the index over its history. The Index also features a second article, by David Stulik, entitled "*Civil Society in Central Europe: An Ever-Changing Landscape: How NGOs Have Adapted to Shifting Donor Strategies.*" The article examines the most visible trends, factors and externalities that have affected the remarkable transformation of civil society in Central Europe, and attempts to summarize lessons learned for countries moving from transition to consolidated democracies.

The 2006 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 dimension scores as well as scores for 1997-2006.

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.

Acknowledgements

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	Selma Sijercic and Kristine Herrmann-DeLuca, USAID/Bosnia
Belarus	ACT
Bulgaria	Kiril Kiryakov and Gene Gibson, USAID/Bulgaria
Central Asia	Abdurahim Muhidov, Hayrulla Mashrabov, Gulnar Khadyrova, Dinara Mirzakarimova, Igor Tupitsyn, and Andrew Segars, USAID/Central Asia Republics
Croatia	Slavica Radosevic and Rebecca Latorraca, USAID/Croatia
Georgia	Keti Bakradze and Nick Higgins, USAID/Georgia
Kosovo	Luljete Gjonbala, Miles Toder, and Argentina Grazhdani, USAID/Kosovo
Macedonia	Melita Cokrevska and Kathy Stermer, USAID/Macedonia
Moldova	Andrei Cantemir, Michael Burkly, Blake Chrystal, and Mark Levinson, USAID/Moldova
Montenegro	Ana Drakic, USAID/Montenegro and Claire O’Riordan
Romania	Ruxandra Datcu, Gabriela Manta and Cate Johnson, USAID/Romania
Russia	Erin Krasik and Inna Loukovenko, USAID/Russia
Serbia	Jan Emmert, Cara Stern, and Milan Popovic, USAID/Serbia
Ukraine	Assia Ivantcheva and Victoria Marchenko, USAID/Ukraine; and Barbara Felitti, Alexander Vinnikov, Larissa Tatarinova and Mark Rachkevych, ISC/UCAN

Implementing Partners

Czech Republic	Marek Šedivý and Marta Adamova
Estonia	Urmo Kübar, Alari Rammo, and Liisa Past
Hungary	Balazs Sator and Lilla Jakub
Latvia	Rasma Pipike and Agnese Knabe
Lithuania	Jolanta Blažaitė and Birute Jatautaite
Poland	Agnieszka Rymsza and Kamila Hernik
Slovakia	Lenka Surotchak
Slovenia	Tina Divjak and Matej Verbajs

Project Managers

Management Systems International, Inc.

Lynn Carter
Tara Thwing
Samuel Hedlund

The International Center for Not-for-Profit Law

Douglas Rutzen
Catherine Shea
Thomas Roddy Hughes
Rebecca See

Editorial Committee

Claire Ehmann, David Black, Caryn Wilde, Douglas Rutzen, Lynn Carter, Jill Irvine, David Stulik

Executive Summary

In 2006, the divide among the EU members of the Northern Tier of Central and East Europe, the Southern Tier, and Eurasia continued to widen. The Northern Tier countries experienced significant improvements in a number of dimensions this year, as EU structural funds became more available, organizations diversified and strengthened their sources of funding, and sectoral infrastructure improved. In the Southern Tier, 2006 was a year of little change. In Eurasia, only one country, Ukraine, improved its overall score, while a number of countries reported either overall or dimension score decreases as governments continued to restrict the space in which civil society operates.

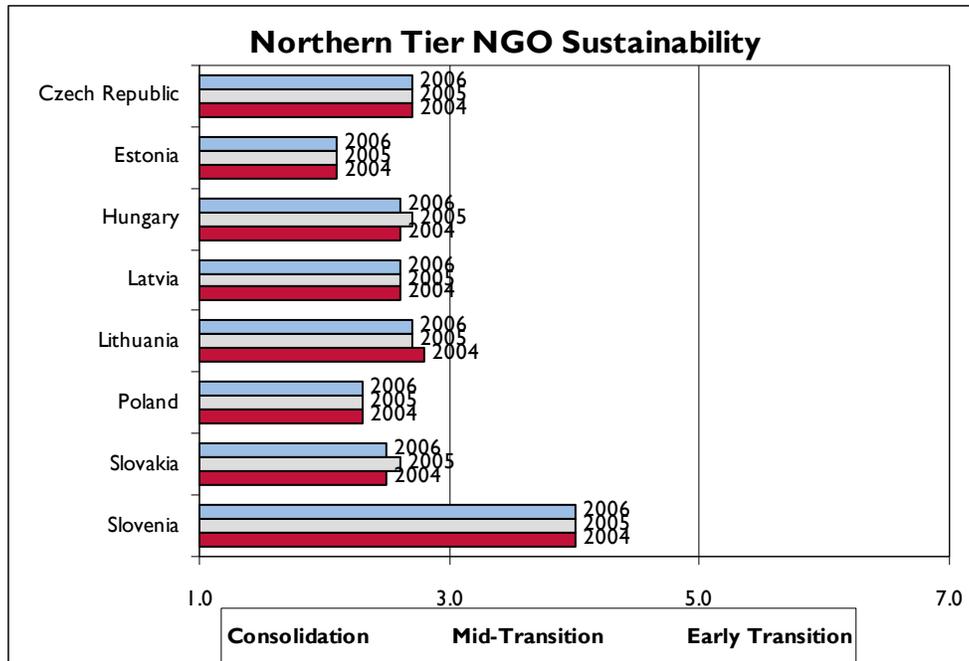
This year marks the 10th anniversary of the NGO Sustainability Index, an event which poses the question of what has been learned during the course of USAID's support for civil society in the region, and how will those lessons assist the development community and its stakeholders in the coming years. The two essays included in this year's Index shed light on this question. Both "*USAID NGO Sustainability Index: A Ten-Year Retrospective*" by David Moore and "*Civil Society in Central Europe: An Ever-Changing Landscape: How NGOs Have Adapted to Shifting Donor Strategies*" by David Stulik remark upon the noteworthy progress made in Central and Eastern Europe since the early 1990s in strengthening civil society. This year's Northern Tier reports in particular demonstrate the depth of this transformation. Perhaps most significantly, they detail improvements in financial viability – traditionally the most difficult dimension in which to affect change – stemming from increases in the strength and diversity of domestic funding available to the sector. Among other things, the NGOs in these countries have improved their abilities to develop economic activities to support their missions, strengthened their relations and access to national and local government funding sources, taken advantage of innovative funding mechanisms such as 1% tax designation laws, and promoted greater corporate and individual philanthropy. The lessons drawn from the success in these countries will be important in the coming years, as the Southern Tier and Eurasian countries face the withdrawal of international funding and the need for their NGO sectors to develop stronger and more diverse local sources of support.

The *Retrospective* and "*Civil Society in Central Europe*" also confirm that progress with respect to NGO sustainability cannot be divorced from macro-political events, sometimes for better and sometimes for worse. In the Northern Tier, a number of reports make clear that as the line between NGOs and political parties becomes blurred, particularly in the lead up to elections, the sector's credibility can and often does suffer. In the Southern Tier, the dissolution of Serbia and Montenegro, and the continued final status talks concerning Kosovo, strongly affected civil society developments this year. In Serbia and Kosovo, scores declined in response to events surrounding the adoption of the new Serbian Constitution, and the stagnation of advocacy efforts in Kosovo pending the determination on final status, respectively. In Eurasia, as several governments consolidated their holds on many aspects of their countries' lives, civil society found the space in which it operates more restricted.

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

Northern Tier

The Northern Tier countries for the most part continued their trend towards improvement in the sustainability of their NGO sectors. Both Hungary and Slovakia improved their overall scores, and many countries saw improvements in individual dimension scores as well.



EU structural funds became more widely available to the NGO sectors of the new EU member states in 2006, and this development had different effects in the various Northern Tier countries. Both Hungary and the Czech Republic experienced improvements in their organizational capacity scores partly as a result of EU funds. In Hungary, for example, 2006 was the first year in which NGOs gained access to a significant amount of EU funds, and as these funds became available for service and infrastructure development, the organizational capacities of the funded organizations improved. In the Czech Republic, organizations are planning their activities more strategically as a result of Czech government and EU requirements for funding, but NGOs that have received EU funding have experienced a serious increase in the demands on their administrative capacities as a result. In other countries, EU funding exposed some difficulties. In Slovenia, the sector did not significantly benefit from the release of EU funds, causing frustration. In Slovakia, the fact that EU funds are paid in reimbursement has strained the ability of NGOs to finance project expenses. In Poland and Lithuania, only the largest and most professional organizations were able to access funds.

Political events influenced sectoral developments in a number of countries this year; in each instance, these events were viewed with concern. In Hungary, questions arose regarding the role of civil society in political life, as the media and public have come to see NGOs as political actors and civil society as a means to attain political power; the fact that 2006 was an election year exacerbated this view. This development contributed to a decrease in Hungary's public image dimension score. Moreover, the riots that took place in Hungary in the fall of 2006 revealed civil society's weakness in organizing peaceful demonstrations in support of democratic principles as well as problems with legislation affecting the rights of assembly and expression. In Latvia, the 2006 parliamentary elections also raised questions about the role of NGOs in society, as some NGOs promoted and organized political party campaigns to avoid the spending limits and allowances for pre-election campaigns by political parties. In Slovakia, the change in government that resulted from the 2006 parliamentary elections may bring changes for the sector, including obstacles to its activities by a government that does not view NGOs as worthy of its support; the new government's proposal to restrict public funding sources for the sector only added to NGOs' concerns. In Poland the political climate since last year's presidential and parliamentary elections does not favor the development of the sector, as strengthening the state is a priority for the administration.

A number of countries reported improvements in their financial viability scores. These increases were attributed to strengthening of a number of different funding sources, reflecting impressive diversity in the funding resources available to NGOs in the Northern Tier. In the Czech Republic, most NGO funding now comes from domestic sources, including the Foundation Investment Fund, corporate donations, and volunteer support. In Hungary, the financial viability score improved as EU structural funds were released, the National Civil Fund improved its grant-making procedures, “1%” charitable designations from taxes increased, and NGOs undertook more economic activities and fundraising. In Latvia, NGOs cooperated with the Ministry of Finance to ensure NGO funding from the European Economic Area and Norwegian financial instruments, and NGO advocacy resulted in both a special working group to resolve issues relating to co-financing of international projects and a special budget line item for co-financing. In addition, five local community foundations were established last year. In Poland, the score rose as a result of the increase in earned income by NGOs, as well as some improvements in local government funding; in addition, 50% of NGOs reported some financial support from business in 2005. In Slovakia, NGOs have demonstrated the ability to gain financial support from domestic sources as international donors withdraw, including funds from the 2% tax designation system, support from the EU, and corporate and individual philanthropy.

Five of the eight countries also reported improvements in the infrastructure dimension. In Latvia and Slovenia, new community foundations represented an addition to the sector’s infrastructure. In Poland, new EU funding contributed to the growth of NGO support centers, and the KLON JAWOR Association web portal continued to provide valuable information to the sector. In both Poland and Lithuania, NGO partnerships increased. In Hungary, EU Structural funds and National Civil Fund money helped to expand the NGO training market, various ministries developed infrastructure networks to provide services to NGOs, and the Hungarian Donors Forum became incorporated, representing a new source of infrastructure support for the grant-making community.

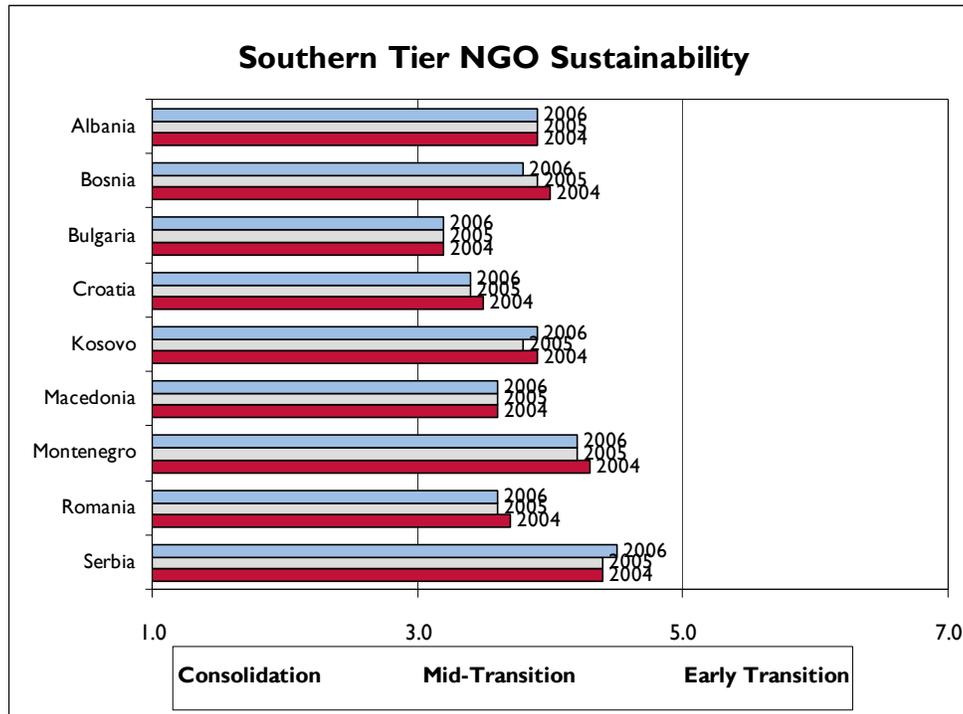
A number of countries, including Hungary, Slovakia, Estonia, and Poland, reported on a development that also affected the Southern Tier countries – the stratification of the NGO sector. Larger and more professional organizations have continued to grow stronger, while smaller organizations have foundered. For example, in Poland, the few large organizations able to win EU funding improved their organizational capacities, but this development came at the expense of small community based organizations, which lost their workers as the larger organizations took on more staff.

Southern Tier

The NGO sectors of the Southern Tier in 2006 for the most part did not experience significant change in either overall sustainability or in the individual dimensions. Only Bosnia improved its overall sustainability score, primarily due to improvements in NGOs’ public image and recognition, publicizing their activities, and legitimacy and cooperation with the government, leading to increases in the Public Image and Advocacy dimensions. Advances in building local constituencies and networking also led to improvements in the Organizational Capacity and Infrastructure dimensions.

One development noted in almost all of the reports from the Southern Tier, and which cut across dimensions, was the continued consolidation and stratification of the NGO sector. Over time, larger and stronger NGOs have improved in organizational capacity and financial viability, while smaller NGOs have remained weak and sometimes even ceased operations. In Bosnia, for example, as international funding to the sector has decreased, the strongest organizations have become leaders in organizing the sector’s affairs, while many small organizations are in crisis due to the lack of funding. In Kosovo, as international donors have decreased their presence, the stronger, active organizations have become

more efficient, while weaker organizations have ceased to exist. The growing divide between larger more capable NGOs and their smaller less developed counterparts was also reported in Albania, Bulgaria, Croatia, and Montenegro.



The implications of this trend are as of yet unclear. On the one hand, as the sector consolidates in the face of diminishing funds, it has become smaller. In some countries, such as Albania, this is perceived as a negative development; many small organizations have disappeared as they can no longer obtain donor support. But the fact that the number of organizations has declined is not necessarily indicative of a weaker or less sustainable NGO sector, according to others. In at least some countries, it appears that the organizations that remain are stronger, better organized, and more financially sustainable. The consolidation of the sector may, from this point of view, be considered a necessary step towards a more sustainable NGO sector.

Political developments in Serbia, Montenegro, and Kosovo had a significant impact on NGO sustainability in those jurisdictions. Indeed, Serbia and Kosovo both saw declines in their overall sustainability scores this year. In Kosovo, negotiations over final status dominated the political agenda, leaving little room for consideration of other issues. The political environment had a significant impact on NGO advocacy, as civil society failed to initiate advocacy efforts while final status is at issue. In Serbia, the government finally produced a new constitution, which had been promised since 2000. The drafting process, however, was marred by a lack of transparency and public consultation, and dominated the political scene, such that other important issues, such as adoption of a new associations' law, were derailed. NGOs formed a coalition in opposition to the draft constitution and spoke out against the process and against specific provisions, but nonetheless, it was enacted, reflecting the inability of NGOs to affect public policy. Serbian NGOs were further excluded from discussions on other key issues, including the independence of Montenegro and the final status of Kosovo. Indeed, the new Constitution is likely to further impede NGOs' ability to access the government since it eliminates several mechanisms that NGOs formerly used to influence government actions. Montenegro had one of the "most politically significant years" in its history, as it became independent of Serbia in May 2006. In the face of this important event, Montenegrin civil society advanced in some respects and experienced setbacks in others. For example, the sector demonstrated maturity through a constructive role of

monitoring the transparency of the referendum and elections. But one NGO created a political party, blurring the lines between the NGO and political sectors.

Several countries had improvements in their advocacy dimension scores. In Bulgaria, NGOs strengthened their partnerships with central and local government agencies in developing and implementing public policy, and executed a number of national and local advocacy campaigns, leading to a score increase. In Croatia, the NGO sector was successful in carrying out a number of advocacy initiatives on important issues, and NGO leaders participated in parliamentary and other drafting committees; at the local level, NGOs have formed joint committees with local governments to address specific issues. In Macedonia, NGOs participated in public discussions to identify the priorities for the Strategy for Cooperation with the Sector (2007-2011) drafted by the Government Unit for Cooperation with the NGO Sector, provided expertise to parliamentary committees with greater frequency, and carried out a number of successful advocacy campaigns. In Montenegro, government reached out to the NGO sector by assigning an official to work with NGOs on a national cooperation strategy, demonstrating the willingness of government to cooperate with the sector. In addition, NGOs carried out successful advocacy initiatives, formed effective coalitions, and developed monitoring activities to ensure that government implemented laws effectively. In the two countries in which advocacy scores declined, Serbia and Kosovo, the political events described above were obstacles to more effective advocacy by the NGO sector.

The only country in the Southern Tier in which the legal environment score improved over the past year was Romania. There, approval of a new 2% funding mechanism, which increased the amount of taxes that taxpayers can direct to NGOs, contributed to an improved legal enabling environment. In addition, Romania adopted two new laws: one on public grant allocations for NGO activities will improve transparency of the process for allocating public funds to NGOs; a second creates a social inspection system to evaluate and monitor social service providers.

In all of the Southern Tier countries, financial viability remains the most difficult dimension. The only country in which the financial viability dimension improved was Romania, which increased its score in large part due to the implementation of the new “2% law.” In Albania, the financial viability score declined, in part because the donor community’s continued predilection for supporting only the most elite NGOs is leading to a situation where a small group of organizations is maturing while the rest of the sector disappears due to lack of funding. In the other countries, scores remained the same, but the reports highlight the continued difficulties experienced by the sector in improving financial sustainability. In most of the Southern Tier countries, foreign donor financing remains the predominant source of support, and the development of more diverse and local sources of funding remains a challenge. In Croatia, there have been improvements to the National Foundation for Civil Society Development and expansion of its calls for proposals, allowing more democracy and governance promotion organizations to access funding, including long-term institutional grants. In addition some NGOs have developed partnerships with corporations, although this strategy remains uncommon. However, NGOs have been unable to access EU funding, and face funding gaps as foreign donors withdraw. In Bosnia, new laws promise to increase the budgets of municipalities, which in turn may provide improved opportunities for NGOs to access more local funding. Local funding is increasingly available as NGOs have improved their relations with government funders, and NGOs have also improved their fundraising skills and their abilities to raise cost-share for their projects.

Eurasia

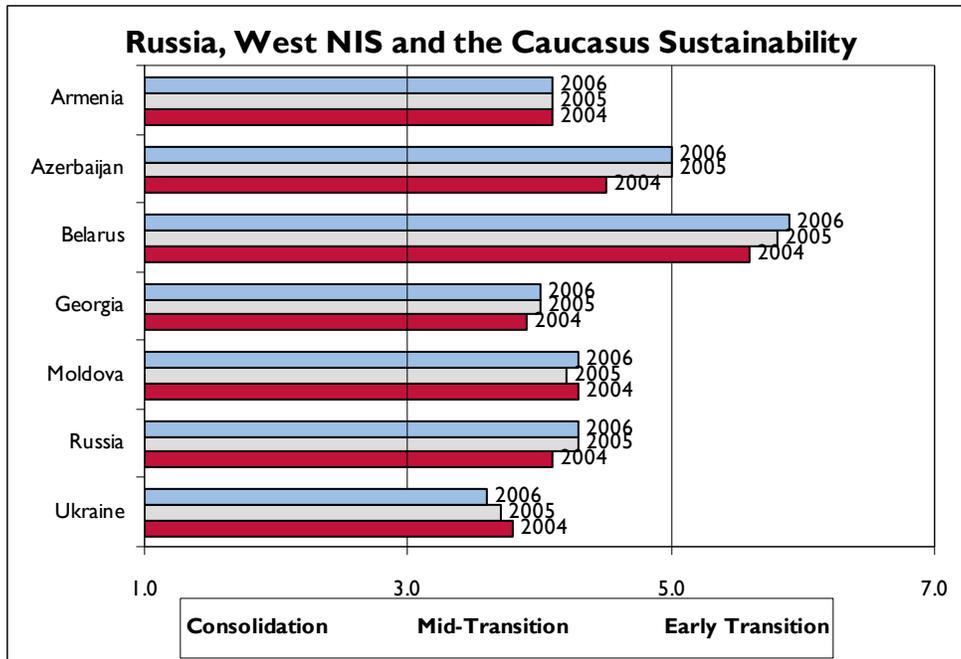
As discussed above, in Eurasia, only Ukraine had an overall score increase, reflecting continued progress since the “Orange Revolution” in improving laws governing NGOs, strengthening NGO advocacy efforts, and diversifying and increasing sources of funding for the sector. By contrast, continued restrictions on the NGO sector in Belarus led to a decrease in the overall sustainability score. In Russia, other parts of the West NIS, and the Caucasus, NGO sustainability scores remained the same, as improvements in some dimensions were offset by negative developments in others. In the Central Asian Republics, Tajikistan and Uzbekistan experienced score decreases, reflecting continued restrictions on NGO activity.

Russia, West NIS, and Caucasus

This subregion in 2006 experienced a widening divergence among countries with respect to the legal enabling environment. In Russia, Belarus, and Azerbaijan, governments continued their practices of using laws to restrict civil society. In Ukraine, the legal environment became more supportive, as NGOs were successful in working with government to address legal issues affecting the sector.

Perhaps the year’s most newsworthy development with respect to the legal environment was Russia’s enactment and implementation of amendments to its laws governing NGOs. These amendments raised both local and international concern, with provisions that among other things imposed new reporting requirements; a new registration process; authority for registration bodies to determine whether NGOs’ activities serve their stated goals and to dissolve them when they are not. This year, foreign organizations had to re-register. The law’s provision requiring NGOs to register funding from foreign organizations has proven especially burdensome; organizations with large projects have faced a lengthy registration process and many barriers to registration. Other provisions of the law have not been fully implemented, so the full impact of the law on NGO sustainability will likely not be felt until next year. In Belarus, where the Legal Environment score was already the lowest possible – a 7 – the framework was stifling. The government’s implementation of laws enacted last year, and its crackdown on NGOs in the period leading up to the March 2006 election, once again constricted the space in which NGOs operated. NGO leaders were imprisoned, organizations were shut down, and many others operated in the shadows hoping to avoid a similar fate. In Azerbaijan, NGOs continued to have problems registering, and NGOs in the regions experienced particular government hostility, in some cases even having to seek local government permission to hold meetings.

Ukraine continued to improve its legal environment, among other things, amending the NGO Registration Law so that NGOs need register with only one ministry, amending procurement regulations to allow NGOs greater access to government funds, and removing the 2% cap on the amount of taxable income that corporations may deduct for their charitable donations, resulting in a 20% rise in private donations. Georgia saw no new legal developments, as its legal environment continued to be supportive of NGO activities.



The financial viability scores rose for half of the countries in this subregion, reflecting improvements in the ability of NGOs to increase their resources and to garner them from diverse sources. In Armenia, despite a legal and economic environment that does not support NGO's ability to sustain themselves, NGOs have begun actively seeking alternatives to foreign donor funding, and both the Armenian government and local business increased their support to NGOs over the past year. In Russia, NGOs have been able to diversify their funding sources, helping them to carry on in the face of decreased foreign funding. NGOs have greater access to state funding as a result of reforms to the federal budget law, and received financial support from the government in 2006. President Putin declared 2006 the "Year of Philanthropy," and numerous charitable events were held throughout Russia. Corporate philanthropy programs grew both in number and in the amount of funding distributed as well. NGOs also increasingly engage in economic activities. In Ukraine, according to a survey, 38% of NGOs increased their funding in 2006, an improvement over prior years. NGOs in Ukraine have diversified their funding sources, and receive funds from a variety of sources. NGOs have greater ability to secure funding from growing corporate philanthropy programs and from government contracts for social services. These among other factors contributed to a financial viability score increase in Ukraine.

While there were not many significant changes to the scores for the public image dimension, more countries have undertaken surveys bearing on the public's understanding of NGO activities, producing data that sheds light on this aspect of NGO sustainability. For the most part, these surveys have demonstrated that the public has a poor understanding of what NGOs do, and in some cases, has a negative opinion of the sector as a result of highly publicized scandals. For example, in Armenia, a survey showed that only 7.2% of those questioned were aware that NGOs were active in their communities -- a very low level, and 2.8% fewer than in the prior year. In Ukraine, survey results showed a disparity between NGOs' perceptions and actual public awareness of their activities. The media, while recognizing that it should print more articles about NGO activities, typically focuses on the more sensational stories, and does not recognize NGOs as a source of expertise on substantive issues.

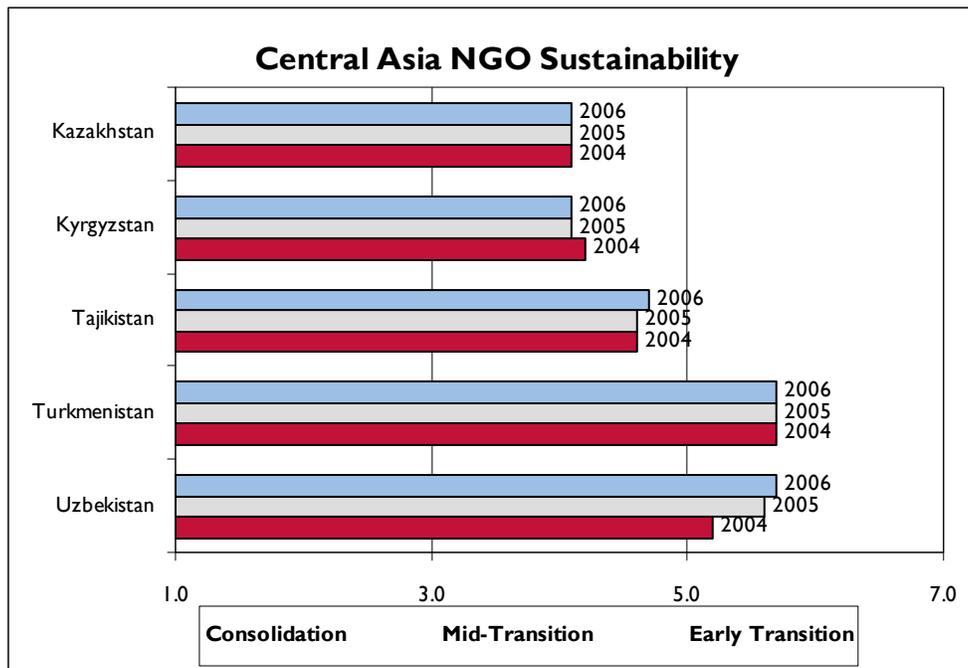
In Georgia, the NGO sector experienced setbacks in the public image dimension as a result of the sector's diminished visibility and difficulty in reaching out to the public. In addition, poor perception of the sector was fueled by media coverage that focused on scandals, and the belief that NGOs are largely

funded and influenced by the West and serve foreign interests. In Russia, media coverage of the sector increased significantly as a result of the national debates over the amendments to the NGO laws, and while the coverage increased the public's awareness of the sector, it did not necessarily increase public confidence in the sector.

In Belarus, the government and the media provide a near constant stream of negative statements about the NGO sector, fueling a hostile climate. The media throughout the year published reports on the arrests of civil society leaders as well as the criminal charges, accusations, and comments made by the KGB and the President.

Central Asian Republics

The difficult climate for NGOs in Central Asia is reflected in this year's overall sustainability scores. Scores regressed in Tajikistan and Uzbekistan. In Kazakhstan, Kyrgyzstan, and Turkmenistan, overall sustainability scores, as well as most dimensions scores, remained the same, reflecting limited progress in the region this year.



Legal environment scores in Tajikistan and Uzbekistan declined sharply. In Uzbekistan, the decline came as a result of the continuing restrictions imposed by the government, as well as the government's continued harassment and closures of NGOs. Thirteen international organizations were forced to close in 2006, depriving local organizations of a much needed source of funding. The government used unpublished regulations to threaten and prosecute NGOs, and recently passed amendments increased fines for NGO administrative violations to the point where they are often more severe than those for criminal offenses. In Tajikistan, NGOs were subject to pressure and inspections by, among others, the tax authorities in advance of last year's presidential election. Law enforcement authorities monitored NGOs, visiting them and making inquiries about their work.

In Turkmenistan, the legal environment, while remaining restrictive and in the early transition stage, improved slightly, in part due to the willingness of one government agency to register NGOs' project

grants in a timely manner, as well as the increase in the availability of attorneys trained to assist NGOs in asserting their legal rights. Nonetheless, there were no new NGOs registered this year or any new applications, leaving the country with very few registered NGOs.

In Kazakhstan and Kyrgyzstan, the legal environment scores did not change; the legal environments in these countries remained the most supportive in Central Asia. In Kazakhstan, reductions in registration fees made registration more affordable. The tax agency now implements the National Security law, leading to less political application of the law, and the number of attorneys who specialize in NGO law continues to grow. In Kyrgyzstan, the legal environment remained generally supportive, although politically oriented organizations were sometimes harassed by the government.

In Turkmenistan and Uzbekistan, there were troubling developments with respect to the infrastructure dimension, leading to decreased scores. In Uzbekistan, for example, all six members of the Association of Civil Society Resource centers closed or re-registered as commercial organizations, and can no longer provide free services to NGOs.

Financial viability remains the weakest dimension, as in other regions. All of the countries other than Kazakhstan remain in the early transition phase. Uzbekistan's score in this dimension decreased once again, as the closure of international organizations that once provided funding, combined with the stagnant economy and restrictive environment, had ramifications for the sector's sustainability. In Turkmenistan, Kyrgyzstan, and Tajikistan, the sector remains highly dependent on foreign donors. This is also true in Kazakhstan, which nonetheless had an increase in its dimension score as a result of NGOs' ability to participate in state funding mechanisms, as well as their efforts to diversify funding.

Conclusion

In 2006, the divide between the Europe & Eurasia region continued to grow. The promising developments in the Northern Tier of CEE are countered by growing restrictions on NGOs in a number of Eurasian countries. Continued attention to the legal environment, financial viability, and public image dimensions in particular appears to be necessary if these restrictions are to be overcome.

Section I: 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

USAID NGO Sustainability Index: Ten-Year Retrospective

INTRODUCTION

The first edition of USAID's NGO Sustainability Index (Index) was published in 1997, making this year's edition the 10th annual publication.

In the wake of the political transformations that swept across Central and Eastern Europe (CEE) and the New Independent States (NIS) in 1989 and the early 1990s, civil society began to take root. Its flourishing was sufficient in some countries to be called a "renaissance," but it developed to varying extents in every country of the region. During the early years of this historic transition, USAID's Europe and Eurasia Bureau recognized the need for an instrument which would track the strength and viability of non-governmental organizations (NGOs) developing within the newly transitioning countries of the CEE and NIS regions. In 1997, USAID developed the NGO Sustainability Index (Index) as the tracking instrument. Since that time, the Index has served as a measure of progress and regress, as well as a diagnostic for the existing needs of the NGO sector. The Index now serves a much broader audience, and is used by local NGOs, governments, other donors, academics, and others. This year's Index is the tenth edition.

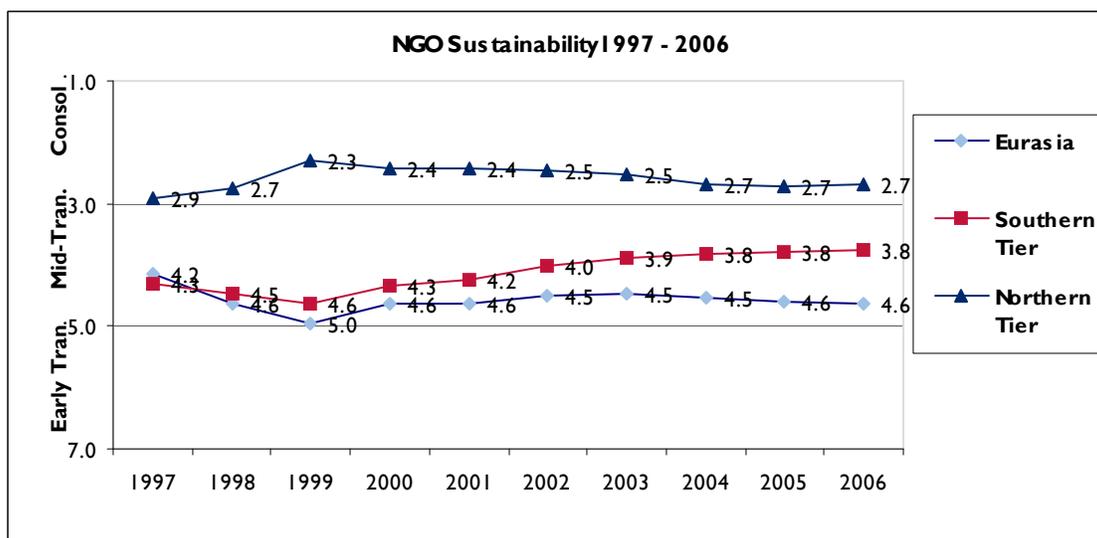
The Index examines the overall enabling environment. It is not designed to measure the sustainability of individual NGOs, but rather the sustainability of the sector as a whole. Recognizing that sectoral sustainability depends on a variety of factors, the Index focuses on seven separate but related dimensions: the legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image.

The Index was created in close cooperation with NGOs and the process of gathering data has always been a shared responsibility among USAID staff; NGOs; academic experts; partners from the government, business, and media sectors; and other donors. In each country, USAID convenes a panel of experts, composed of these stakeholders. Country-specific reports are reviewed by an editorial committee in Washington to help ensure meaningful comparisons across countries. Indeed, the Index derives its legitimacy as a measuring tool through its broadly inclusive methodology.

From the beginning, USAID has conceived of the Index as a living document, and it has changed shape and scope over the years. In 1997, 17 countries were included in the Index; as of 2006, 28 countries plus Kosovo. In 1997, five different aspects of the NGO sector were analyzed; currently, seven dimensions of the NGO sector are examined. The process of compiling each Index has been a learning experience, and USAID continues to refine the Index to improve its utility as a measurement tool.

With ten editions, the Index provides a wealth of data, including both longitudinal, in-country data, as well as comparative data. The past ten years have clearly shown that NGO sector sustainability presents an ongoing challenge and must remain a long-term development goal. Sectoral sustainability has been largely consolidated in most countries of the Northern Tier. In most countries of the Southern Tier, there has

been slow but steady progress. Developments in Eurasia have been more mixed, with good progress being made in some countries, alongside slower progress or even regression in other countries.¹



With a bird's-eye view cast over the past ten years, this paper highlights themes, issues and trends relating to NGO sustainability. Section II briefly takes note of three fundamentally important influences on the sustainability of the overall NGO sector. Section III focuses on the trends that have emerged with respect to each of the Index's seven dimensions of sustainability. Finally, Section IV concludes with a summary of comparative regional data.

THE CONTEXT OF SUSTAINABILITY

At issue in the Index are seven *internal* dimensions of NGO sector sustainability: legal environment, organizational capacity, financial viability, advocacy, service provision, NGO infrastructure, and public image. Taken together, these dimensions provide a basic description of what a sustainable NGO sector should look like. Of course, NGO sector sustainability is subject to the broader political, social and economic climate, both nationally and internationally. For example, financial viability is difficult to achieve where national and local governments suffer from shrinking resources, there are low levels of socio-economic development, the business sector is weak, there is no tradition of philanthropy, and the regulatory environment is inhospitable. In this section, we turn briefly to examine three contextual issues to illustrate the impact of the broader climate on NGO sustainability.²

¹ The Index generally divides the countries studied into three (3) regions: the Northern Tier, Southern Tier and Eurasia. The Index also envisions three (3) phases of transition to include the Early Transition, Mid-Transition, and Consolidation phases. We will make references to the regional and transition categories throughout this paper.

² The three contextual issues selected are intended to illustrate the impact of the broader political climate on NGO sustainability. By no means, however, do we intend to claim that these are the only three relevant contextual factors; on the contrary, these are three issues among many – three which are highlighted in the successive publications of the Index. Another key contextual factor not included is EU accession. For the 10 countries affected, it is too early to judge the full impact, as 8 of the countries acceded to the EU in 2004, and Bulgaria and Romania only on January 1, 2007. That said, the 2006 Index contains initial indications of the impact of access to EU structural funds.

Impact of International Donor Assistance

An assumption underlying the Index is that international donor assistance – including, of course, USAID assistance – promotes NGO sustainability. Indeed, the Index expressly states that “continued international donor support and capacity building programs are necessary for indigenous NGO sectors to achieve sustainability.”³ At the same time, however, the Index recognizes that the infusion of international donor support is not wholly positive. Donor support may be effective in launching NGOs, but may also foster financial dependency. More disturbingly, donor support may lead to donor-driven organizations, which are not committed to well-defined missions and which become increasingly divorced from the needs of local constituencies and communities.⁴

International donor assistance can thus be a double-edged sword and deserves to be wielded carefully. Large amounts of donor funds do not necessarily contribute to sustained progress. Donors must recognize this challenge; the Index has consistently recommended forward-thinking strategies to meet that challenge and to provide effective donor assistance.⁵

In short, donor assistance must be targeted wisely so as to develop the capacity of local NGOs and to further their independence through civic engagement and integration into local communities. Donors should design and implement assistance to NGOs with an eye toward the long-term sustainability of the sector. Donors would be well advised to keep the following recommendations in mind when providing support⁶:

- Maintain realistic expectations about the sustainability of individual grantees and the sector as a whole;
- Consider covering overhead costs of NGOs, as donor limitations on the amount of overhead that can be charged can seriously weaken NGOs;
- Support NGOs that have well-developed constituencies and avoid those that lack a local base of support;
- Work with existing local NGOs rather than create new ones, as existing NGOs will be more likely to reflect local needs, conditions and priorities rather than the donor’s agenda;

³ 1999 Index, Executive Summary, p. 8. Nearly identical statements can be found in the 2000 and 2001 Indices.

⁴ “[D]espite large amounts of international donor money being spent in the Stability Pact countries, much of that investment is not being used in ways that sufficiently empower indigenous NGOs to build their constituencies and respond to the needs and priorities of their communities. In Bosnia, the lack of donor funds to address local priorities has contributed significantly to what many observers describe as an “ownership gap” where NGOs receiving donor grants often suffer from a weaker sense of mission and commitment than those who formed independently in response to community needs.” 2000 Index, Executive Summary, p. 4.

⁵ For example:

- “Donor assistance needs to go beyond technical skills and financial assistance, and encourage NGOs to focus on their missions and their customers, public accountability and transparency.” (2000 Index, Executive Summary, p. 9);
- “Donor programs need to generate community vitality and train NGOs in civic engagement.” (2001 Index, Executive Summary, p. 11);
- “The challenge for donors is to continue providing financial support and technical assistance to the sector while simultaneously encouraging local NGOs to be more independent of them, and more integrated and responsive to their communities.” (2002 Index, Executive Summary, p. 10).

⁶ The following donor recommendations are drawn from a study conducted by Management Systems International, Inc.: Management Systems International (Blair, Harry, Burgerman, Susan, Elzeney, Duaa, and Herman, Robert), *Civil Society Financial Viability: Key Factors, Challenges and Prospects in a Changing Strategic Environment* (Washington, D.C. United States Agency for International Development 2006).

- Provide funding only in the amount that can conceivably be sustained through local source contributions once the program ends; and
- Refrain from imposing the donor's own agenda on local NGOs, and ensure that project goals and objectives reflect the priorities of the recipients.

Impact of Government

Indisputably, government plays a fundamentally influential role in the health and viability of NGO sectors, through, among others, the following interventions:

- The implementation of laws affecting the NGO sector;
- Official (or unofficial) policy toward the sector;
- Communication with the sector;
- Financing (or the lack of financing) of the sector;
- Coverage of the NGO sector through state-controlled media; and
- Shaping the overall political, economic and social climate in the country.

On the one hand, government support and encouragement of NGOs can play a critical role in strengthening the sector. To prove this point, we need only refer to the Northern Tier countries, where supportive legal frameworks, government financing and institutionalized mechanisms for cooperation have been put in place in most countries and the sector has reached consolidation in many dimensions of sustainability. On the other hand, passive or hostile government policy of course can undermine the sector's viability. Indeed, we have seen how "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."⁷ The regulatory crackdown on NGOs has proved particularly harsh in Azerbaijan, Belarus, Turkmenistan, and Uzbekistan, and has also been felt in several other countries in Eurasia.

Impact of Revolution

Political revolutions were not uncommon in the CEE/NIS regions during the past 10 years: Slovakia in 1998, Serbia in 2000, Georgia in 2003, Ukraine in 2004, and arguably, Kyrgyzstan in 2005. First and foremost, these events highlight the transformational impact of civil society. Second, they illustrate that authoritarian regimes may serve to motivate the sector to concentrate its energies and resources into a get out the vote campaign or an opposition movement. But perhaps most interesting from the perspective of long-term sustainability are the opportunities and challenges that the NGO sector faces in post-revolution settings. Naturally one would expect that political change from authoritarian regimes would lead to significant advances for sustainability in those countries. The Index, however, presents a mixed picture:

- Slovakia's score improved from 2.8 to 2.1 in the year following the ousting of Meciar and to 1.9 the next year; this shows an immediate positive impact. Unfortunately, however, Slovakia's score crept back to 2.6 by 2005, nearly matching its 1998 level.
- Serbia's score also showed significant improvements in the lead-up to and immediate aftermath of Milosevic's fall, moving from 5.4 in 1999 to 4.5 in 2000, and 4.1 in 2001. Since that time, the sector in Serbia has become increasingly frustrated with the lack of progress. Moreover, recent developments, including the fact that NGOs were shut out of the constitutional reform process, are a step backward. Its sustainability score now rests at 4.5, matching its 2000 level.

⁷ 2005 Index, Executive Summary, p. 1.

- In Georgia, the score changes have been less marked, and did not demonstrate significant advances. Instead, the sustainability score was 4.1 in 2003, improved to 3.9 in 2004, and dropped to 4.0 in 2005, where it remains. Apparently, improved relations between the sector and the government have quickly given way to disillusionment.
- It is almost certainly too early to judge the full impact of revolution on NGO sustainability in Ukraine and, to the extent that it was a revolution, in Kyrgyzstan. Encouragingly, Ukraine has shown slow but steady progress since 2002, improving each year by one percentage point (from 4.0 in 2002 to 3.6 in 2006). In Kyrgyzstan, NGOs had an unprecedented opportunity to raise their agenda with the government that formed following the March 2005 events, but its overall sustainability score has remained at 4.1 for the past two years.

NGO involvement in revolutionary events typically leads to an immediate boost to ratings in the areas of advocacy and public image, in particular, reflecting among other things the improvements in constituency outreach and coalition building necessary to mount an effective challenge to the government. Not surprisingly, the sudden improvement to the scores of these dimensions usually does not hold. Almost inevitably, NGOs do not maintain the same degree of advocacy engagement and high-profile public image as in the year of revolution. Thus, the improvements to sustainability ratings may prove to be a one-year spike in these dimensions, followed by a gradual return of the ratings to pre-revolution levels.

Moreover, the change in governmental leadership following the revolution may even act to undermine the sustainability of civil society. In Georgia, for example, initial optimism has faded into a sense of exclusion and increasing frustration; the NGO sector has experienced setbacks in the public image dimension due to difficulty in reaching out to the public and negative media coverage. Moreover, the NGO sector in Georgia has experienced a 'brain drain' with many leaving the sector to serve in government.

Ukraine has thus far proved a notable exception to the fluctuating scores in post-revolution settings. Sustainability scores for the NGO sector in Ukraine have held steady and even shown ongoing improvement since the 2004 "Orange" Revolution. The spikes in the ratings of the advocacy and public image dimensions, so volatile in other countries, have continued to improve or remained steady. Indeed, since 2004, ratings have improved in the 5 of 7 dimensions: organizational capacity, financial viability, advocacy, infrastructure, and public image.

THE DIMENSIONS OF SUSTAINABILITY

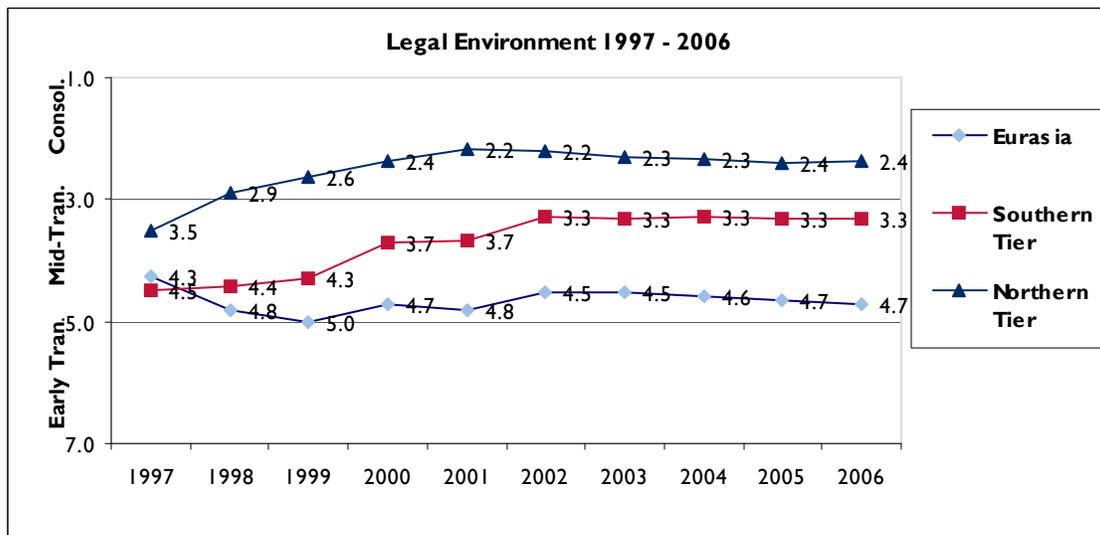
Legal Environment

The Index recognizes that an enabling legal environment is a necessary, but not sufficient, condition for the development of a strong and sustainable NGO sector. As the first of seven dimensions, the legal environment is highlighted as a fundamental starting point for the viability of the NGO sector; its significance is cross-cutting, as it impacts, either directly or indirectly, on all the other indicators. Indeed, the legal environment includes not simply registration, but also internal governance, government supervision, taxation of income, economic activities, advocacy activities, partnership with government, public funding, volunteerism, etc. At the same time, the legal environment is only one indicator among several; as experience has shown, an enabling legal framework is no guarantee of a strong sector any more than a disabling legal framework is an insurmountable barrier.

In the Index's early years (1997-2000), countries throughout each region made real progress in creating a sound legal and regulatory framework. By 2000, most of the Northern Tier countries had already entered the consolidation phase of development, meaning that the legal framework in those countries was generally enabling, with steps being taken toward improved fiscal treatment of NGOs. The Southern Tier

countries made measurable progress in the mid-transition phase during this time frame, with improved framework legislation enacted in Bulgaria, Kosovo, Macedonia, Montenegro and Romania, as well as the preparation of draft laws in Albania, Bosnia and Croatia. By contrast, the legal frameworks in Eurasia were only just moving from the early transition phase to the mid-transition phase. Nonetheless, several countries in Eurasia – notably, Azerbaijan, Kyrgyzstan and Tajikistan – made noticeable strides at this time toward an improved legal environment.

During the Index’s middle years (2001-2003), the legal environment continued to improve in the Northern Tier countries. Local reform efforts bore fruit in the form of laws and regulations promoting financial sustainability; Slovakia, Lithuania and Poland, for example, enacted a 1% tax designation law, a 2% tax designation law and a law on public benefit activities, respectively. During the same time period, there was a surge of progress in many Southern Tier countries, with reasonably enabling framework legislation enacted or coming into force in Albania, Bosnia, Bulgaria and Croatia. Reform efforts were also made in Serbia but the draft Law on Associations was not enacted. By contrast, the legal environments in the countries of Eurasia faced more resistance to reform and more visibly problematic implementation; NGO registration, for example, was reported to be very time-consuming in Azerbaijan, difficult and expensive in Belarus, and virtually impossible in Turkmenistan. Against this backdrop, there were modest improvements, including the passage of new laws in Armenia and Kazakhstan, which, because they left of a number of problems unresolved, were perceived as a mixed blessing, but did result from more transparent law-drafting processes.



In more recent years (2004-2006), the Index reveals a growing gap between Europe (including both Northern and Southern Tiers) and Eurasia regarding the use of law in relation to the NGO sector. Positive reform efforts are ongoing in the Northern and Southern Tiers. Increasingly, countries in both regions are revisiting NGO framework legislation and seeking to improve it still further. Such efforts led to new framework legislation in Latvia (Law on Associations and Foundations) and in Romania (Law on Associations and Foundations). Furthermore, broadly participatory reform processes are underway in Bulgaria, Macedonia and Hungary. By contrast, the trend in Eurasia during the same time period has been to use law to threaten and undermine the sector. This is particularly true in Russia, Belarus and Uzbekistan, where legislation was introduced and/or enacted that created registration burdens and barriers to informal activity, increased supervisory powers of government organs, and created barriers to the receipt of funding. Serious legal barriers remain in the Caucasus countries as well.

Of course, exceptions are found in all regions. The legal environment in Slovenia, alone among the Northern Tier grouping, remains stuck in the mid-transition phase, although a new law on associations was enacted in 2006, which will hopefully contribute to improved sustainability in the future. Serbia is the sole country in the Southern Tier that has yet to enact new framework legislation in the past 10 years. And in the Eurasia region, Georgia, in recently liberalizing tax benefits for NGOs, and Ukraine, in amending its NGO Registration Law, proved exceptions to the trend of deteriorating legal environments. Of course, additional legal challenges remain in all countries.

Organizational Capacity

Organizational capacity relates directly to the ability of the NGOs to carry out their missions effectively. The organizational capacity of NGOs is measured through the use of strategic planning and program formulation, financial budgeting and tracking procedures, reporting and evaluation skills, reliance on boards, by-laws and staffing, as well as professional training opportunities. By examining individual organizational capacity, the Index helps to measure the capacity of the sector as a whole. Here again, it should be noted that an NGO's internal capacity has a direct impact on the other indicators, namely on its ability to be financially viable, to engage effectively in advocacy and service provision, as well as on its public image.

The Index reveals, early on, a gap between the Northern Tier countries and the countries of the Southern Tier and Eurasia. Since 1998, the organizational capacity of the NGO sectors in most Northern Tier countries has fallen within the consolidation phase. The 1999 Index notes that the organizational capacity of NGOs “remain[s] strong and stable in the Northern Tier, generally showing steady progress.”⁸ There are, of course, challenges; as but one example, NGOs often have weak links to their constituents even in the more advanced Northern Tier. Moreover, as a general trend, organizational capacity scores in the Northern Tier have been weakening, climbing from an average of 2.1 (1999) to 3.0 (2005). This trend, however, does not necessarily reflect deteriorating organizational capacity in the region, but rather (1) the inclusion of countries such as the Czech Republic and Slovenia, which were not included in the early years of the Index, whose relatively weaker ratings negatively affected the regional average, and (2) the likelihood that scores have been re-calibrated over time, as sectors have moved from optimistic to more realistic perceptions of their capacity. Significantly, the 2006 Index scores for organizational capacity in most Northern Tier countries (but for the Czech Republic and Slovenia) remain in the consolidation phase.

By contrast, the organizational capacity of NGOs in the Southern Tier and Eurasia faced consistent problems throughout the past ten years. The 2000 Index noted that organizational capacity was “still limited,” labeling this a “serious threat” to NGO sustainability: “NGOs across the region lack crucial elements of organizational capacity such as strategic planning skills and an understanding of the appropriate role of boards of directors.”⁹ A similar concern was refrained in subsequent years:

The 2001 Index: “Throughout the Southern Tier and Eurasia, most NGOs still have a long way to go to build strong constituencies, plan strategically and govern themselves effectively.”¹⁰

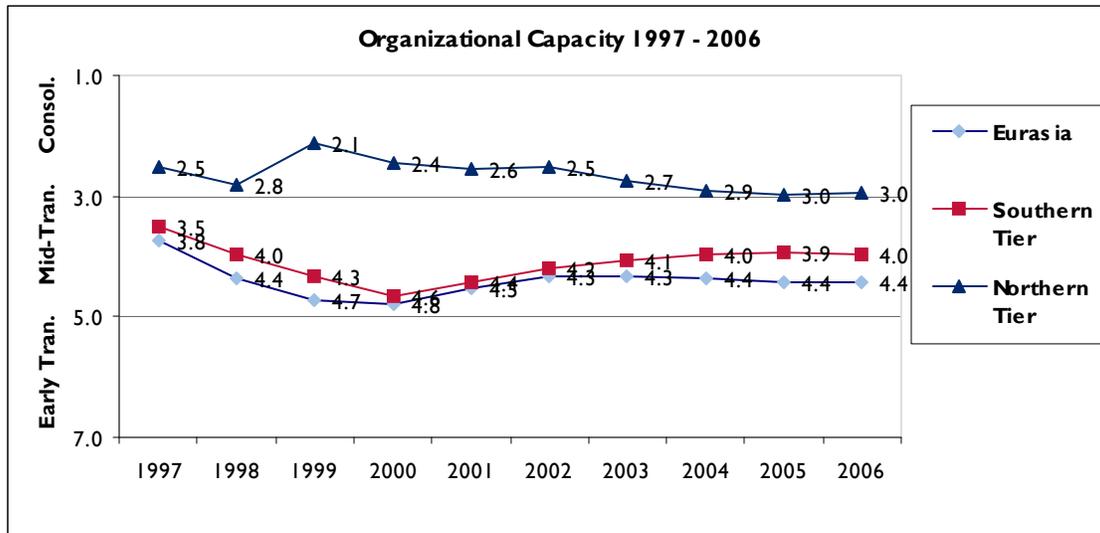
The 2002 Index: “While the organizational capacity of NGOs in Central and Eastern Europe and Eurasia continues to develop, several deficiencies are still commonplace.”¹¹

⁸ 1999 Index, Executive Summary, p. 3.

⁹ 2000 Index, Executive Summary, p. 4.

¹⁰ 2001 Index, Executive Summary, p. 4.

¹¹ 2002 Index, Executive Summary, p. 4.



Deficiencies in organizational capacity spring in part from donor strategies. Donors tend to fund project-based activities rather than the internal capacity development. In addition, smaller, less experienced NGOs are more likely to accept donor-driven agendas that may not be tied to local constituencies, thereby undermining their link to the community. At the same time, many NGOs view the use of certain donor-recommended good governance practices skeptically: “boards are ... seen as a donor-driven development and their value to NGO operations is questioned.”¹² Ongoing challenges for NGOs therefore include developing a genuine sense of mission rather than being defined by donor strategies, establishing and using governing bodies rather than remaining dependent on one or two founders, maintaining financial accountability, and improving links to constituents and volunteers.

Despite the ongoing challenges facing NGO capacity, progress has been made. Notably, NGOs became increasingly Internet adept; in 2002, Bulgaria reported that 60% of NGOs were connected to the Internet.¹³ Kyrgyzstan reported the emergence of true organizations rather than non-governmental *individuals*.¹⁴ Perhaps most encouragingly, a broader trend has emerged in the ability of NGOs to identify and develop local constituencies. Albania, Bosnia, Croatia, Macedonia and Romania all reported in 2005 that organizations are reaching out to constituents more than in past years.¹⁵

Most recently, as noted in the 2006 Index, the NGO sectors in the Northern and Southern Tiers have both experienced increasing stratification – a development cutting across dimensions but closely related to organizational capacity. The trend has been observed in several countries, including Estonia, Hungary, Poland and Slovakia, and in Albania, Bosnia, Bulgaria, Croatia, Kosovo and Montenegro.¹⁶ Larger, more professional NGOs have improved their capacities, by securing EU funding, for example, or by taking on more staff, while smaller NGOs have remained weak and sometimes even ceased operations. Thus, the importance of organizational capacity to sustainability and even survivability is becoming clear. What remains unclear is whether this trend toward stratification is a positive or negative development for the sector as a whole.

¹² Id.

¹³ Id.

¹⁴ Id.

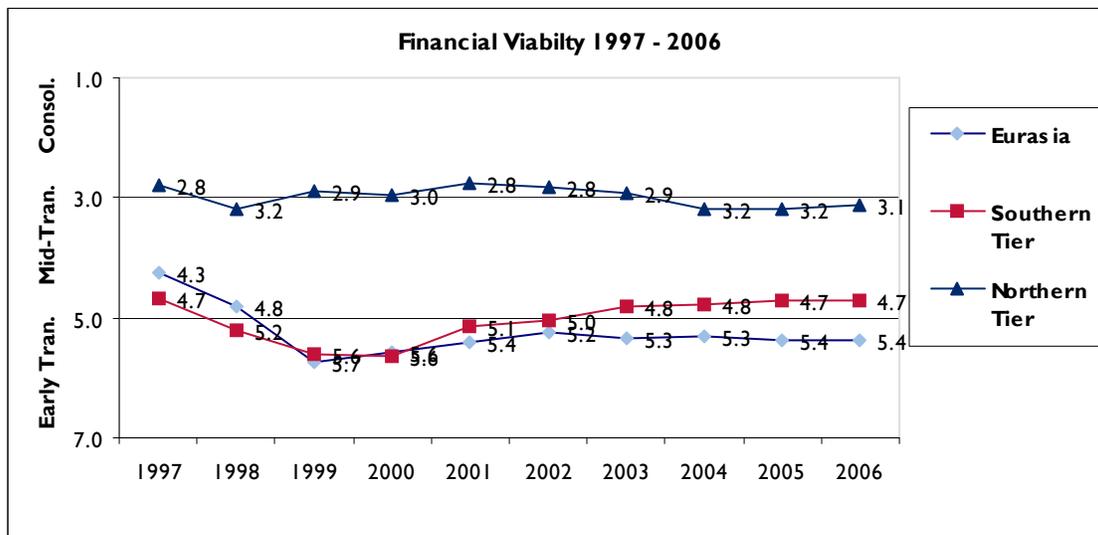
¹⁵ 2005 Index, Executive Summary, p. 5.

¹⁶ 2006 Index, Executive Summary, p. 7.

Financial Viability

Of all the Index indicators, it is financial viability that consistently poses the greatest challenge to the NGO sectors throughout each region. Perhaps more clearly than in other areas, problems of financial viability have roots not only at the micro level (e.g., limited financial transparency of individual organizations) and at the meso-sectoral level (e.g., the legal framework impacting the NGO sector as whole), but, significantly, in the macro-societal level (e.g. weaknesses in the overall economy). The overriding concern in the area of financial viability is the challenge to move from dependence on international donor support to a diversified funding base.

Countries of the Northern Tier confronted this issue as early as the late 1990s, when USAID discontinued its bilateral aid in several countries, and ended it altogether in 2004 with EU accession. In response, NGO sectors have taken advantage of innovative mechanisms for accessing resources.¹⁷ For example, in the Czech Republic, \$81 million in proceeds from the privatization process were channeled to NGOs in 2000. Hungary's 1% tax designation scheme generated more than \$27 million in contributions for NGOs in 2003 (an amount which continues to grow), and triggered the adoption of similar mechanisms in Slovakia, Lithuania, Poland and Romania. In short, NGOs in the Northern Tier have made strides toward diversified funding and laws intended to improve financial viability are in place in most Northern Tier countries – which, taken together, has placed the Northern Tier on the edge of the consolidation phase in this area (3.1 in 2006).



NGOs in the Southern Tier and Eurasia still face immense challenges and generally remain struggling in the early or mid transition phases. Many NGOs remain heavily dependent on international donor funding; the 2006 Index notes that foreign donor financing remains the predominant source of support, and the development of more diverse and local sources of funding remains a challenge.¹⁸ With the growing regulatory backlash against NGOs in many Eurasian countries, coupled with a decrease in foreign funding, the struggle for financial viability has only intensified. That said, there are several initiatives seeking to meet that challenge; notable examples include the National Foundation for Civil Society Development in Croatia, improved cooperation between NGOs and local governments in Bulgaria, increased domestic funding of

¹⁷ See Moore, David, *Law and Other Mechanisms for Promoting NGO Financial Sustainability*, 2004 Index.

¹⁸ 2006 Index, Executive Summary, p. 9.

NGOs in Ukraine, increased government and business support for NGOs in Armenia, and greater access to state funding in Russia.

As a general trend across regions – as illustrated by the examples above – NGOs have been more successful in accessing state support (e.g., budgetary subsidies, central government grants, and in-kind support from local governments) than in attracting other categories of income. Corporate and individual philanthropy have been slower to develop, although both Poland and Slovakia noted improvements in 2006. It should be noted that the tendency toward greater government support versus philanthropic support is common in many developed democracies, including the U.S.

Advocacy

Advocacy may be defined as 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 of local level officials.¹⁹ Advocates plead in favor of something, on behalf of a constituency. Advocacy is limited to no single sphere of human interest; rather, advocacy can be employed to support a wide and diverse range of causes. Effective advocacy skills are directly linked to the sustainability of the sector, since it is through advocacy that NGOs can influence public policy, whether relating to the regulatory framework for the sector, funding resources for the sector, cooperation with government, or the interests of specific sub-sectors.

The dominant trend over the past ten years has been one of citizens organizing themselves more effectively to advance shared interests. This progress is attributable primarily to the efforts of committed and often brave men and women, to advocacy networks and cross-border information sharing, and to donor support (both financial and technical). That said, financial support for advocacy activity remains a key challenge, and authoritarian regimes threaten to undermine advocacy efforts with constraining regulation and targeted harassment. Thus, progress has been uneven across regions.²⁰

Most countries in the Northern Tier rank advocacy in the consolidation phase and indeed, have done so throughout the life of the Index. Only Hungary (3.2) and Slovenia (4.0) currently have scores falling in the mid-transition phase. The most significant development relating to NGO advocacy in the Northern Tier is arguably the creation of more institutionalized channels for NGO input into policy making. Examples include NGO involvement in ministry decision-making in Latvia, greater public access to government information online in Hungary, NGOs invited to consult on legislation and to participate in a council advising government in Poland, and new lobbying mechanisms in Lithuania. Three of these four countries (Latvia, Lithuania and Poland) have improved their advocacy scores in recent years. The line between political parties and civil society groups in Hungary became blurred because of the riots which took place in the fall of 2006 as well as parliamentary elections in which some civil society groups were seen as political actors, leading to the perception that civil society groups were being used as political tools. As a result, the advocacy score in Hungary remains set at 3.2.

NGO advocacy has shown slow but steady improvement over the past ten years in most countries of the Southern Tier. As early as 1999, NGOs in Albania and Bulgaria were forming partnerships with local authorities, and NGOs in Croatia demonstrated success in building coalitions to promote civic education and to mobilize voters.²¹ In more recent years, there have been increasing examples of advocacy initiatives led by local NGO coalitions, addressing issues as diverse as the Serbian elections in 2000, freedom of

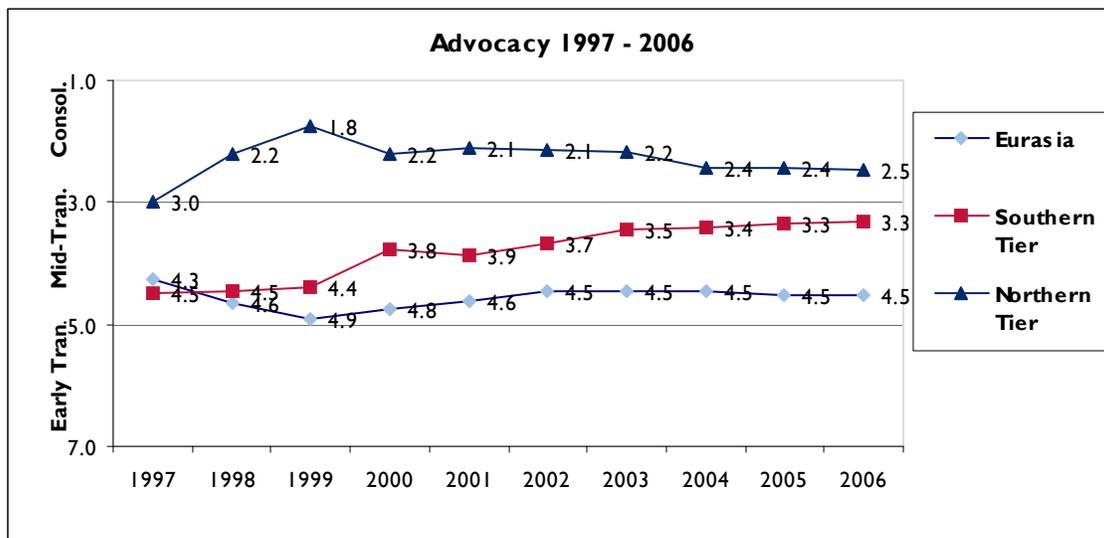
¹⁹ See Herman, Robert, Ph.D, *Advocacy in the Europe and Eurasia Region: Progress, Promise and Peril*, 2005 Index, for an in-depth look at what constitutes advocacy.

²⁰ *Id.*, pp. 26-29.

²¹ 1999 Index, Executive Summary, p. 5.

information and fiscal reform in Romania, government corruption in Albania, electoral reform in Kosovo, and minority rights in Montenegro, just to name a few.²² Most recently, advocacy ratings improved in Bulgaria, Croatia, Macedonia, and Montenegro, where NGOs carried out successful advocacy initiatives.²³ At the same time, scores in Serbia and Kosovo declined due to political obstacles, with the attention of the political elite in both countries focused almost exclusively on the Kosovo final status question.

Moreover, as in the Northern Tier, there are efforts to institutionalize NGO input in the Southern Tier. For example, some NGOs are developing more cooperative and participatory relationships with different levels of government. NGOs are represented on nearly all government policy groups in Kosovo, and in Romania the College for Civil Society Consultations gives NGOs greater access to the political process.



Advocacy in Eurasia presents a mixed picture. About half the countries show improved ratings over the ten years, while half display deteriorating scores. Notable improvements were recorded in Armenia, Azerbaijan, Kazakhstan, Moldova, Tajikistan and Ukraine. An increasing number of advocacy initiatives are being led by local NGO coalitions, to address issues such as nuclear waste in Russia, the proposed NGO law or media law in Kazakhstan,²⁴ and of course elections in Georgia, Ukraine and Kyrgyzstan. In recent years, however, NGOs in the more authoritarian regimes of Eurasia have struggled to influence public policy in the wake of events in Georgia and Ukraine. Azerbaijani NGOs were restricted from playing a significant role in advance of the 2005 elections, and the Belarusian government has effectively excluded NGOs from participation in policy making. The advocacy climate is equally restrictive in Turkmenistan and Uzbekistan, where there are few channels for NGO cooperation with government and few mechanisms for policy input.

Service Provision

In the third publication of the Index (1999), two new dimensions of NGO sustainability were introduced: service provision and sectoral infrastructure. USAID recognized that sectoral sustainability requires a critical mass of NGOs that can efficiently provide services that consistently meet the needs, priorities and expectations of their constituents, whether related to, for example, social welfare, health, education, job

²² 2001 Index, Executive Summary, p. 7; 2004 Index, Executive Summary, pp. 10-11.

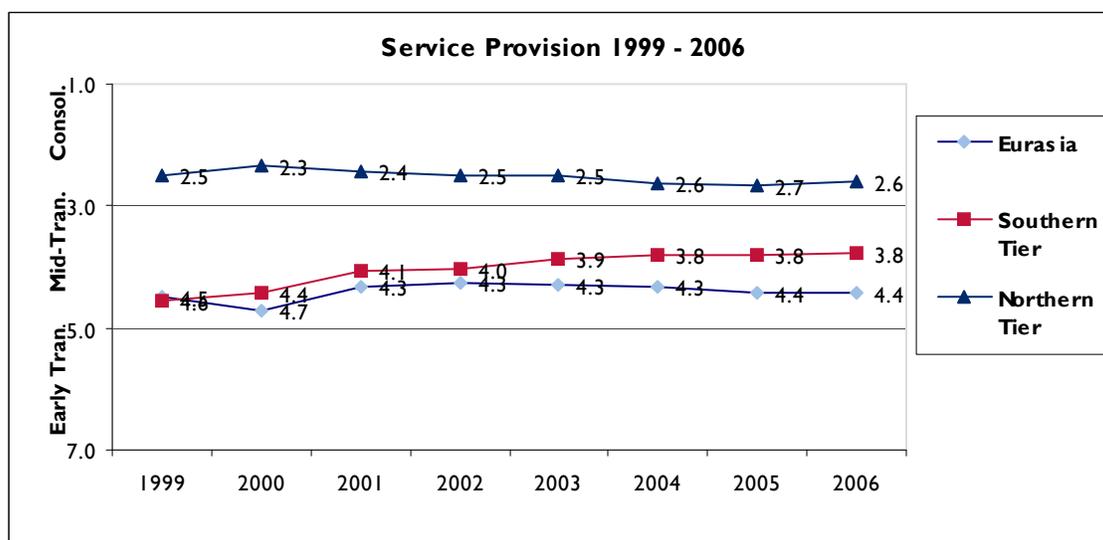
²³ 2006 Index, Executive Summary, p. 9.

²⁴ 2001 Index, Executive Summary, p. 7; 2004 Index, Executive Summary, p. 15.

training, legal assistance, agricultural and small business development, humanitarian relief, or citizen education and empowerment. In measuring service provision, the Index examines, among other issues, whether goods and services provided by NGOs reflect community needs, whether NGOs have market knowledge, and whether the government recognizes the value NGOs can bring to service provision.

In the past ten years, NGOs have increased the number of and improved the quality of available services in many countries. Nearly every country in the Southern Tier scored dramatic improvements in the area of service provision, with the exception of Serbia and Kosovo; the average of scores in the region jumped from 5.9 to 3.8. Half of the Eurasian countries also substantially improved scores, with the average moving from 5.6 to 4.4. More modest advances were recorded in the Northern Tier, with the regional average improving from 3.1 to 2.6; since the countries of the Northern Tier are approaching consolidation, improvements in dimension scores inevitably become more gradual.

Increased NGO service delivery developed partially in response to the contraction of government services, with NGOs working to fill the gaps in service delivery. NGOs also benefited from newly enacted legislation that expressly authorized governments to contract with NGOs for the delivery of services, as with the Law on Social Assistance (effective in 2003) in Bulgaria. Moreover, improved NGO/government cooperation, especially at the local level, both fueled and resulted from increased NGO service delivery.



Throughout the 1990s, the vast majority of NGO service programs were largely dependent on international donor support.²⁵ Both financial support and technical expertise were critical.²⁶ Indeed, the 2002 Index suggested that the lack of alternative financing was the greatest barrier to NGO service provision.²⁷ At that time, local governments were not always willing and able to provide the necessary financial resources, and the public was often reluctant to pay for services due to a lack of resources or the perception that NGO services should be free.²⁸ In more recent years, however, national and local governments have provided increasing funding to NGO service providers; the Bulgarian Law on Social Assistance referred to above, for example, has led to more active contracting between municipalities and

²⁵ 2001 Index, Executive Summary, p. 8.

²⁶ Technical assistance included the sharing of models, transference of knowledge, and the mentoring of skills development, all of which was vital to capitalizing on financial investments.

²⁷ 2002 Index, Executive Summary, p. 7.

²⁸ Id.

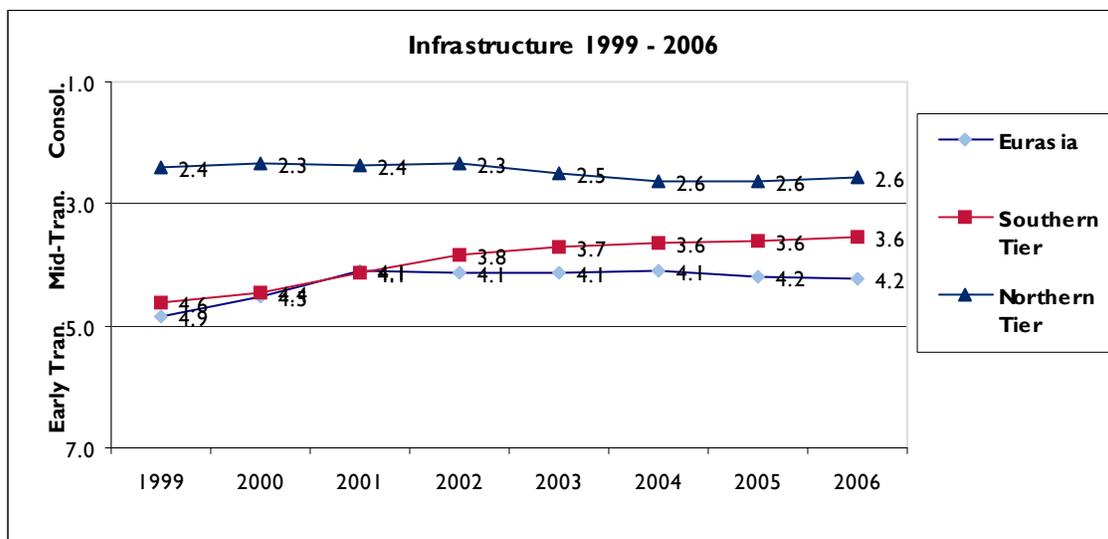
social service providing NGOs. The transparency of public funding generally, and service contracting in particular, however, remains an issue of concern across regions.

Infrastructure

Sectoral infrastructure, also introduced as a separate component of the Index in 1999, is a critical dimension of overall sustainability. Through access to Intermediary Support Organizations (ISOs) NGOs can receive support services, which may include information, advice or training. Through a supportive infrastructure, NGOs have greater access to NGO networks and coalitions that pursue issues of common interest. The presence of an *infrastructure* capable of supporting, protecting, and nurturing the sector is measured by the quantity, diversity, and quality of institutions in place to ensure that the space for NGO and citizen input is an enduring element of society.

Already by 1999, most Northern Tier countries ranked NGO infrastructure in the consolidation phase. Poland boasted a network of seven NGO support centers, Slovakia reported the existence of regional associations, national umbrella organizations and a network of service centers, and Hungary pointed to a strong cadre of well-trained NGO professionals serving the sector.²⁹ At the same time in the Southern Tier and Eurasia, most countries, lacking any developed infrastructure of intermediary support organizations (ISOs), were ranked in the early transition phase.

In the following years, NGO sector infrastructures in the countries of all three regions matured noticeably, with the most significant progress in the Southern Tier and Eurasia. NGO resource centers were well established throughout the Northern Tier but also became active in Albania, Azerbaijan, Croatia, Kazakhstan, Kyrgyzstan, Macedonia, Moldova, Turkmenistan and Ukraine. Well-trained cadres of indigenous trainers were rooted in the Northern Tier but also developed in Azerbaijan, Bosnia, Russia, Tajikistan and Ukraine. Strong NGO coalitions emerged in advance of critical elections in Slovakia (1998), Croatia (1999), Serbia (2000), Georgia (2003) and Ukraine (2004). Cross-border partnerships developed, facilitating the sharing of experience between the Northern Tier and other regions. Coordination events aimed at facilitating information exchange have become increasingly common, such as the convening of a National Forum in Moldova or NGO Fairs that are held in Croatia and Macedonia.



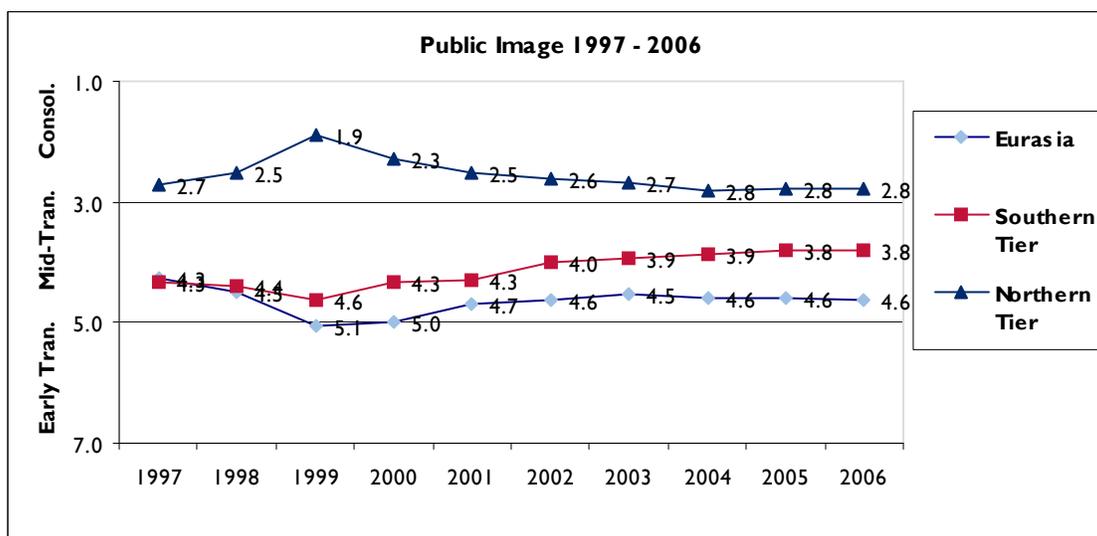
²⁹ 1999 Index, Executive Summary, p. 2-3.

Public Image

For the sector to be sustainable, government 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 the ability of NGOs to recruit members and volunteers, attract financing support, engage effectively in advocacy and provide services effectively. Public image of the NGO sector is measured by the nature and extent of media coverage, the government willingness to engage with NGOs, and the general public's awareness and perception of the sector.

While advances were recorded in each region during the past ten years, it was more modest progress than in most other dimensions. Indeed, the ratings in 13 of 29 jurisdictions either remained stagnant or deteriorated. After financial viability, poor public image represents perhaps the most formidable obstacle to NGO sustainability – especially in the Southern Tier and Eurasia.

In these regions, the image of the sector was regularly reported as poor, marked either by an ongoing lack of public knowledge or understanding about NGOs, or by high levels of distrust. Public surveys revealed that in Montenegro NGOs were perceived as partisan and mercenary, and used primarily to get money.³⁰ Surveys in Armenia showed a very low level of awareness of NGO activities.³¹ In several Eurasian countries, NGOs are perceived as being anti-governmental and/or tools of foreign governments, and thus not representative of local needs.³² The image of the sector in Georgia suffered from media coverage of scandals and the belief that NGOs serve foreign interests. Most NGOs have been slow to develop effective media strategies to combat the indifference and suspicion, and NGOs in certain Eurasian countries (Belarus, Central Asia) may avoid the media altogether as a matter of self-preservation.³³



Recognizing these challenges, NGOs have responded in a variety of ways. These include the regular use of media, through, for example, monthly inserts to the newspaper in Estonia, a weekly radio show in Lithuania, and the use of free or reduced airtime charges for public service announcements in Armenia.³⁴

³⁰ 2001 Index, Executive Summary, p. 10.

³¹ 2006 Index, Executive Summary, p. 12.

³² 2001 Index, Executive Summary, p. 10.

³³ 2005 Index, Executive Summary, p. 8.

³⁴ 2002 Index, Executive Summary, p. 8.

In addition, the sector's public image may benefit from NGO Fairs, corporate awards, and other methods of recognition. Compliance with legal requirements designed to ensure NGO transparency is also critical to public image. NGOs in countries throughout the Southern Tier are finally improving their relations with media, which helps ensure more frequent and more positive news coverage.³⁵

CONCLUSION

Overall sustainability scores reveal, interestingly, that at the regional level:³⁶

- Only the countries of the Southern Tier made steady and lasting progress – based on improvements in the average country score from 4.5 (1998) to 3.8 (2006). At least two countries are now on the verge of the consolidation phase.
- In contrast, countries in the Northern Tier made initial improvements, before giving way to deteriorating scores – moving from 2.7 (1998) to 2.3 (1999) and back to 2.7 (2006). This scoring fluctuation, however, masks real progress in the Northern Tier toward sustainability, and is attributable to a variety of factors, including (a) over-optimism in the 1990s that created unrealistically high expectations, which, when not met, turned to disappointment that was reflected in the scoring; and (b) the reality that countries in the consolidation phase do not have the same opportunities for dramatic scoring improvements as those in the early or mid-transition phases.
- The average country score in Eurasia reveals stagnancy: 4.6 in 1998 and 4.6 in 2006. This, however, is somewhat misleading in that about half the countries boast improved scores during the ten years (Armenia, Azerbaijan, Kazakhstan, Moldova, Tajikistan, Turkmenistan and Ukraine), while the other half show deteriorating scores (Belarus, Georgia, Kyrgyzstan, Russia and Uzbekistan).

Throughout the life of the Index, a noticeable gap has existed between the Northern Tier and the other two regions. The gap between the Northern and Southern Tiers has narrowed, due to the advances in the latter region, while the gap between the Northern Tier and Eurasia is the same in 2006 as in 1998. As of 2006, every Northern Tier country (but for Slovenia) is ranked in the Consolidation Phase. Every Southern Tier country falls into the Mid-Transition Phase, though Bulgaria (3.2) and Croatia (3.3) are moving closer to Consolidation. Of all Southern Tier countries, Serbia ranks the lowest. Nearly every country of the Eurasia region is also ranked in the Mid-Transition Phase. Only Uzbekistan, Turkmenistan and Belarus remain in the Early Transition Phase. In addition, it is noteworthy that of eight countries in the Early Transition Phase during the early years (1998-2000) of the Index, only those three countries just listed remain, while five countries (Armenia, Azerbaijan, Bosnia, Serbia and Tajikistan) have successfully transitioned to the Mid-Transition Phase.

The past ten years have shown that NGO sustainability cannot be taken for granted; progress is by no means inevitable or irreversible. On the contrary, it would be more accurate to say reverses are to be expected, whether due to economic slowdowns or regulatory crackdowns. All of this underscores the importance of the continued commitment of governments, donors and NGO practitioners in each country toward improving the environment for NGO sustainability. NGO sustainability is not a final destination or a once-and-for-all achievement; it is an ongoing journey and challenge.

³⁵ 2005 Index, Executive Summary, p. 6.

³⁶ For the regional averages, we look to the 1998 Index rather than the 1997 Index, simply because the regional average was not calculated in 1997.

Civil Society in Central Europe: An Ever-Changing Landscape

How NGOs have adapted to shifting donor strategies

David Stulík

The progress achieved by civil society in Central and Eastern Europe (CEE)¹ since the early 1990s is a remarkable story of societal transformation. Today, the state of civil society reveals the enormous progress that citizens have made towards influencing their governance and improving the quality of life. This essay endeavors to describe the actors, funding, and events that stimulated civic development in Central Europe since the onset of the democratic transition. It also discusses the significant shifts within civil society that have occurred over the past 18 years as the sector has matured and funding sources have changed. Finally, it offers several lessons learned for donors, practitioners, and civil society organizations in countries that are moving from authoritarian systems (be they communist or other forms of totalitarian rule) to modern and democratic societies. These lessons are applicable to Southeastern Europe² and the most advanced countries of the former Soviet Union.³

1990'S: THE BEGINNING OF A NEW CIVIC ERA

In 1989, revolutionary change in Central Europe opened a window of opportunity for the emergence of civic activism. The number of newly created civic associations and non-governmental organizations (NGOs) has mushroomed in the former authoritarian countries, where previously all independent civic initiative had been suppressed. The atmosphere in the early 1990s was influenced by the *liberal wave* that swept across the region and dislodged the state's control over society. NGOs, led by citizens eager to make full use of their newly-acquired civic rights, flourished in the new space created by the liberal legal environment and non-interventionist state. Unfortunately, as will be discussed later in this essay, the liberal approach eventually foundered in some countries as governments pushed for a return to a greater degree of state supervision and regulation of civil society.

At the beginning of the decade civil society was characterized by the following features:

- A low level of understanding by those working in NGOs of the NGO sector and its role in society. NGO leaders did not possess the training and basic management skills needed to run an organization. Most of them lacked even rudimentary knowledge about registering an organization, developing a strategic plan, fundraising, and managing large sums of money. Their staff, if they had any, were even less knowledgeable. What these budding activists lacked in professional skills, however, they made up for with an abundance of enthusiasm, goodwill, and personal sacrifice. For the most part, NGOs were manned by middle-aged citizens who were eager to practice their new-found freedom of association. The younger generation was focused instead on developing professional careers, and therefore, was not particularly attracted to the unpaid or poorly paid work of NGOs.
- Socio-economic problems, such as unemployment, the social exclusion of the poor and marginalized, and the unmet needs of the disabled, young mothers, and drug addicts were not yet as visible as they became in the mid-1990s as a result of economic reforms. Fortunately,

¹ The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia

² Countries of the former Yugoslavia (Serbia, Montenegro, Croatia, Macedonia, and Bosnia and Herzegovina), Albania, and two new EU Member States – Bulgaria and Romania.

³ Especially Ukraine, Moldova, and Georgia.

given the nascent state of civil society, there was only a limited need to mobilize civil society resources to provide assistance to these groups. However, as the quality of life deteriorated and social problems increased in number and worsened in nature, there was a strong impetus for citizens to organize efforts to provide services. It is at this point that parents' associations, women's health centers, and community centers for the Roma minority began to appear.

- Formal, institutionalized relations between the state and civil society were almost nonexistent. The state did not perceive a need to develop a venue through which it could interact with NGOs, whose potential to contribute to solving social issues was unacknowledged and untapped. Government authorities were not predisposed to view NGOs as partners; on the contrary, these new elites considered civic activists as potential political rivals and watched their activities with suspicion.
- Locally, there was little funding available for NGO activity. Government grants and contracts, individual and corporate philanthropy, community foundations, and private donations hardly existed and remained to be developed as funding sources.

Initial Sources of Funding

In 1992, donors initiated a dialogue with local civic activists throughout the region. Those conversations, and the prevailing conditions described above, played a pivotal role in shaping the funding priorities of donors interested in strengthening civil society. The major donor interests are described below:

- Private foundations from the United States, the United Kingdom, the Netherlands, and a few other European countries promoted civic virtues, civil society development, and citizen engagement. The vanguard of these civic-minded foundations included the Soros Foundation, the Ford Foundation, the Charles Stewart Mott Foundation, and the German Marshall Fund.
- Political foundations, such as the German Stiftungen, supported NGOs that promoted their respective political and ideological values.
- Some foreign governments showed a particular interest in civil society. These included the Dutch Embassy's MATRA KAP programs, the British Know-How Fund, the United States Agency for International Development (USAID), and the Canadian International Development Agency (CIDA). In general, these donor programs were focused on broad civil society development.
- Global international organizations, such as the European Union and the United Nations Development Program (UNDP), also supported broad civil society development.
- Corporate donors, both domestic and international, played a minimal role in the early 1990s. Domestic businesses were not yet financially stable or aware of their social responsibility. Foreign multinationals were just beginning to invest in the region, and only later established models of corporate philanthropy. Civil society groups were, however, at times able to obtain in-kind support from the business community.
- During this period, individual philanthropy was not part of the culture, and almost no public funding was available from any level of government (central, regional, or municipal).

Donor Strategy and Funding Priorities

For most American and European donors, strategies and funding priorities converged on one general theme – the development of civil society in the broadest sense. Donor emphases, however, differed. American and European donors, for example, followed a different approach to stimulating civic participation.

American donors were eager to strengthen the core institutional and organizational development of advocacy groups and watchdogs, which would have the capacity to monitor state behavior and ensure a higher degree of responsiveness to the citizenry. For this reason, funding was directed toward workshops, seminars, internships, and consultancies to introduce new, or enhance existing, skills and knowledge. US-based donors also placed a high priority on NGO sector infrastructure, through the financing of resource centers and grants to umbrella organizations, networks, and issue-based coalitions. USAID also took a proactive position on improving the legal framework under which civil society organizations operated. US private foundations focused on establishing independent think tanks meant to facilitate public debate, generate new ideas and solutions to pressing social problems, and support legislators by developing alternative policy blueprints.

By contrast, many of the European donors had an agenda tied to anchoring the new CEE states firmly to Europe. The European Union (EU), for example, also wanted to strengthen NGO organizational and institutional capacity, but its ultimate objective was the expansion of EU membership. This helps explain why the largest share of its assistance went to the Central and Eastern European NGOs. The EU criteria for candidate countries specified a strong civil society as a condition of EU accession. In addition, it was anticipated that the Central European NGOs would contribute their expertise, grassroots knowledge, and policy recommendations to help their governments bring their political, economic, and social legislation in line with EU standards. For example, environmental NGOs possessed a significant body of knowledge about cutting-edge technologies and approaches for solving environmental problems. NGOs working with disadvantaged populations – such as ethnic minorities, refugees, immigrants, and the disabled – also served as a vital resource. In this sense, NGOs were used as vehicles to help prepare these countries for EU membership. NGOs and their EU counterparts were the conduit through which contemporary European standards were introduced into Central European governance structures. They were important agents of change in the EU accession process, although this was never the explicit objective of EU funding programs.

FIRST “FRUITS” PRODUCED BY CIVIL SOCIETY ORGANIZATIONS

By the late 1990s, civil society organizations in the Central European countries were becoming relatively strong and well-developed. Even in countries such as Slovakia, which had been ruled by an authoritarian prime minister for nearly a decade, democratic change was largely achieved through the mobilization of civil society. As the NGOs’ professional reputations and self-confidence grew, their representatives were in a better position to influence policy-making. Authorities had taken notice of the NGOs’ expertise, and slowly factored their input into the decision-making process.

The public began to recognize the value of NGOs as well. Increasingly, citizens relied on NGOs for protection or to meet their immediate social needs. This was dramatically underscored during the floods of 1997 in the Czech Republic and Poland, when NGOs provided direct and flexible assistance to victims. The state had also arrived at the point where it understood that it could no longer deliver all of the services that it had previously provided to the socially vulnerable. Liberal economic reforms highlighted the growing social issues, and NGOs stepped in to fill the gap. The state found it necessary and expedient to share its responsibilities and devoted some public funds to contracting with NGO

service providers. In several countries, new platforms for cooperation between the state and civil society were established, and consultative bodies were created.

With time, the NGOs' organizational structure began to mature, and the composition of the sector started to change. A new generation of civic activists emerged. The younger generation, previously pressured to follow other career tracks, saw increasingly that the NGO sector offered challenging work as well as the reward of helping others. Younger activists noted the growing public recognition of the sector, and appreciated the professional opportunities that the international donor community could provide. The demand for NGO services was increasing, and internationally-funded projects required specialized skills. Younger professionals who were well educated, spoke multiple languages, and could grasp western-style organization, management, and leadership models became highly sought after. Simultaneously, the labor market had become saturated, making employment in the private sector highly competitive.

Foreign donors continued to expand their activity in the region. The level of EU funding rose steadily, as the prospect of EU membership became a real possibility. Foreign corporations with investments in the CEE gradually launched social assistance programs that enhanced their business ventures. NGOs operating in the vicinity of these corporations' offices and/or production facilities found a new source of revenue. State funding also gradually took shape. Not surprisingly, the number of NGOs as well as the variety of organizational types continued to grow during this period.

EUROPEAN UNION ACCESSION

At the beginning of the new millennium, civil society in the region looked promising in many respects:

- **Public Image:** Civil society had gained the respect of the state and public. The state invested increasing amounts of public funds in civil society institutions. NGOs increased the scope and diversity of services provided to communities. Public trust reached its highest levels and was reflected in the numerous successful fund-raising campaigns organized by NGOs; revenues from these campaigns grew annually.
- **Institutionalization:** Local institutions, such as universities, began to sponsor NGO workshops, management courses, and other capacity-building events and activities – activities formerly funded by foreign donors. Increasing numbers of youth gained exposure to civic education; youth began to volunteer and many became professionally active in the sector.
- **International Networks:** International linkages between Central European NGOs and their international colleagues, especially within the EU, strengthened. Person-to-person contacts between NGO representatives increased along with the exchange of expertise and know-how.
- **Enabling Environment:** The legal operating environment for civil society institutions continued to improve, especially in the area of fiscal and tax legislation.
- **Diversification of Funding:** New sources of NGO funding also appeared during this period. These included new forms of financing such as the one percent income tax designation law in some countries (Hungary, Slovakia, Poland, and Romania)⁴ and the convenient new channel of

⁴These laws provide that individuals have the right to direct 1% of their income taxes to NGOs of their choosing. In some countries these laws are also applied to legal entities and not just to individuals. The most popular sectors for donations are sports, children and youth, and persons with disabilities. One disadvantage of this support is that

making contributions via cellular phone text message.⁵ These new forms of funding were developed in reaction to the expected decrease in funding coming from some bilateral sources.

Strategies for Encouraging Individual Charitable Contributions

Each year temporary brick towers are erected in the central squares and streets of Czech cities. Each brick is signed or painted by an individual donor, who can buy a brick for minimum of \$4 USD. In Prague alone, more than 13,000 bricks were sold last year. These bricks are an excellent awareness-raising and public relations strategy. Contributions go to the construction or remodeling of housing for the mentally disabled. Over the last eight years, the Brick campaign (as it is known) has grown into a large, well-respected nationwide fundraising activity. It has gained partner NGOs in different regions, is supported by Czech celebrities, and has also become popular with foreign tourists.

The Realities of EU Structural Funds and NGOs

CEE NGOs anticipated the decrease in bilateral funding as well an increase in EU funding following accession, but they did not fully understand how EU Structural Funds would be directed. Although state authorities and NGOs began to discuss the impending increase in EU funding after accession, no one focused on the different philosophy and priorities behind these new EU funds, which first became available in 2004. The main reason for this misunderstanding was the broad public relations effort conducted to convince citizens that accession to the EU was an attractive option. These campaigns left the impression that the financial benefits of EU membership would accrue to virtually all interest groups, including NGOs. Unfortunately, few understood the specific objectives of post-accession funding or the detailed administrative requirements that had to be filled to obtain it.

The general euphoria led NGOs to believe that the EU would continue to support them in the same ways that it had in the pre-accession period. They did not realize that there was a large philosophical gap between pre-accession financial aid and the structural support that the EU provides to EU Member States to meet EU political objectives and priorities. Concerns suggesting that EU funding for NGOs might be limited after accession were treated as a voice against EU membership, so the frequency of such criticism was limited.

Many of the formal conditions and restrictions on the use of EU funds have been put in place by the new member governments. Authorities administering respective EU programs, especially ministries of finance, often added their own bureaucratic requirements to the ones set by the European Commission, but allowed civil society organizations to believe that all procedures stemmed from EU regulations. This led to increased criticism of the EU by NGOs, although their frustration would have been more properly placed on the national authorities which were directly administering the funds.

The European Commission has now warned new member states about the bureaucratic and administrative burden placed on applicants and has requested Member States to simplify their procedures. The EU has also taken some direct action to respond to complaints. For example, a core piece of legislation regulating financial flows within EU funding programs is slated to be significantly

it tends to be channeled to the most visible sectors, areas, and target groups, leading to the neglect of less well known causes.

⁵ There are special telephone numbers to which people willing to contribute a certain amount of money to NGOs can send a text message or an SMS. The mobile phone operator then adds this amount to the cell phone bill of the respective individual donor. This form of philanthropy is very convenient for citizens and has increased in popularity.

altered as of May 1, 2007. The Commission is also planning to simplify its stringent and difficult conditions related to the eligibility of particular expenditures for reimbursement.

The Decline of Bilateral Donors

In addition to the challenge EU Structural Funds have presented, other external funding decreased as foreign donors began implementing exit strategies due to both EU accession and the substantial amount of progress made by civil society. Only a few donors tried to bridge the gap between the pre-accession phase and the moment of full EU membership. Several US-based foundations joined together and established the Central and Eastern European Trust for Civil Society; the Trust provided some transitional funding to NGOs in new EU member states. Although its funding was limited, it focused on those strategic elements in civil society development that could strengthen the sustainability of key NGOs, such as think tanks. In Estonia, Latvia, and Lithuania, USAID and the Open Society Institute jointly funded a ten-year endowment, the Baltic American Partnership Fund, which provides grants to NGOs to strengthen the capacity and sustainability of the sector and to improve the environment in which NGOs operate.

The reality that emerged after EU accession was a rude awakening for many NGOs. They discovered that the new EU funds were not as “user-friendly” as the pre-accession EU PHARE, bilateral donor, and private foundation funding had been. EU funding (mainly Structural Funds) does not aim to finance NGOs, or their capacity and institutional development. Instead, the EU’s priority is to contribute to the implementation and realization of EU policies. As such, EU post-accession funds primarily support the provision of certain social services, such as social welfare services. Under the regulations governing these funds, NGOs can take part in the bidding process, but they compete with other service providers, including private sector and public sector organizations.

The conditions for awarding contracts have turned out to be another obstacle for NGOs. In most cases, NGOs are required to advance their own funds for implementation and are reimbursed for expenses once tasks are completed. The vast majority of Central European NGOs do not possess the necessary capital or cash flow needed to finance the initial launch of such contracts. NGOs cannot access financial instruments such as loans or bank guarantees, limiting their ability to borrow against accounts receivable. All these factors led to significant civil society frustration with EU funding following the accession of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia in 2004. By then most foreign donors had departed and domestic funding sources were still insufficient to sustain civil society institutions.

The Shift in NGO Mission

The types of NGOs that emerged from the pre-accession period are not well suited to provide the skills and services necessary to compete against private and public sector institutions for post-accession EU funds. Organizations that are large, professionally-managed, and provide services mainly in the social arena are better positioned to benefit from EU Structural Funds. These organizations have the resources to write elaborate grant applications and manage their funds in a professional manner. However, many social welfare NGOs emerging from the pre-accession period are not able to perform at this level. This is true especially for small, locally based, voluntary organizations.

EU Structural Funds are also not intended to support the work of advocacy, watchdog, and policy NGOs or NGO resource centers. Within this group of NGOs, several have adjusted their activities so that they can tap some EU funding; they have begun providing niche services, such as legal advice and training seminars related to social or environmental policy and education. Advocacy organizations, such

as environmental groups litigating against multinational companies for environmental violations, may relinquish some of their traditional activities in order to deliver services that qualify for EU Structural Funds. For example, some environmental advocacy groups are now active in the fields of environmental education and technical assistance for environmental services since they possess significant technical competence and legal knowledge due to their previous advocacy work. Fortunately, few advocacy organizations have completely abandoned their original missions; today, many of these organizations successfully balance interests and needs by managing projects financed by EU Structural Funds while at the same time undertaking advocacy. While the latter activity is not eligible for EU funding, the EU funding that organizations receive for service provision allows them to pay their staff, experts, and operating costs, while making it possible for them to continue their advocacy efforts.

NEW NGO STRATEGIES FOR OPERATING IN THE POST - ACCESSION ENVIRONMENT

Given the decline in foreign resources and the limited applicability of EU Structural Funds, domestic sources of funding now play an indispensable role in fulfilling many NGO institutional objectives. The level of individual philanthropy is increasing steadily, but has not reached the level needed to meet the funding requirements of NGOs. The private sector in the region has also not taken on a large role in supporting many areas of NGO activity. Corporate donors are active predominantly in visible and low-risk sectors such as sports and youth activities. Corporate donors generally do not support advocacy and watchdog groups. Some corporate donors are averse to funding NGOs that monitor the behavior of the private sector, such as groups working on environmental protection, government transparency, and the fight against corruption.

NGOs Encourage Corporate Philanthropy

One of the most active Czech NGOs in the promotion of corporate philanthropy is the VIA Foundation (www.nadacevia.cz), which sponsors corporate seminars, trains non-profit organizations in fund-raising, and presents prestigious annual awards for philanthropy. Last year, one of its awards was given to the multinational construction company Skanska Inc. for its work with the Partnership Foundation. Skanska helped the foundation implement innovative approaches to corporate philanthropy for its Tree of Life project. Skanska helped the Partnership Foundation undertake environmental and philanthropic activities, provided assistance in approaching other donors, and offered advice in areas such as ecological construction techniques and environmentally friendly technology.

An invaluable role is played by donors' forums to support corporate giving in Central European countries. These forums promote philanthropy, set standards for it, and spread examples of best practices. For example, the Czech Donors' Forum created a corporate club called "Donator," which brings together large corporations willing to invest in civil society. Similarly, domestic individual philanthropists are gradually emerging. There is a strong need to educate corporate and individual philanthropists to make them aware of societal issues that can be effectively addressed by NGOs. These local philanthropists could eventually become important sources of support for advocacy NGOs and resource centers through the donation of unrestricted funding.

Providing Public Services to Local Governments

One new source of NGO funding is represented by government institutions. Most Central European countries decentralized government functions, leading to the emergence of lower levels of public administration and self-governing structures. These new decentralized units of government have enhanced mandates and resources, and they can often provide grants to NGOs active in their respective

territories to carry out government programs. Local government authorities realized over time that the state is not capable of delivering all the services expected by citizens, and that such services could be – and in some cases already were being – provided by NGOs. While it took state institutions some time to align their operations to cooperate with the NGO sector, the government eventually started to fund NGOs to provide services that it could not deliver itself.

Close collaboration with civil society became one way for government authorities and elected officials to gain legitimacy. With an increased knowledge of the NGOs working locally, regional and local government institutions gradually became interested in using these groups to help deliver services. Realizing the potential of partnering with NGOs, local authorities made a special push to streamline the application and awards process. As a result, regional and municipal funding has become accessible even to small organizations. The limited success of decentralizing tax revenue and expenditures has further reduced the use of NGOs to provide basic services. However, the increase in domestic government funding of NGOs has been significant; some estimate that the level of public funding as a source of income for NGOs now averages between 50-60%.

These developments are promising. As GDP continues to rise throughout the region, local, regional, and state budgets should allocate an increasing share of their budgetary resources to NGOs over time. This approach, however, is not without shortcomings. Some civil society organizations which are not as dependent on public funding (e.g., trade unions) are beginning to label NGOs that rely on public financial sources as “public organizations.” This means that trade unions do not recognize some NGOs as civil society groups, but rather as public institutions subservient to the interests of the state. There is a risk that dependence on government funding will lead to a decreased willingness to criticize government activities. This could lead to the creation of a corporatist model of civil society as in Germany, where relations between public and civil sectors are focused on cooperation, partnership and deal-making rather than on an adversarial model of accountability.

New Foreign Sources of Support

In 2006, two new and potentially significant sources of funding began operating in the new EU Member States, the EEA (European Economic Area)⁶ and the Norwegian financial mechanisms. Both plan to invest significant funds into NGO capacity building, as was done by US-based foundations and bilateral missions in the 1990s. Though these funds may support NGOs in only a few selected policy areas – such as the environment and advocacy on behalf of children, immigrants, and asylum-seekers – they could be the salvation of many NGOs that work in areas such as policy advocacy and watchdog activities. The government of Switzerland is also developing similar financial mechanism for the region. The main priority of these new foreign donors is to support elements of civil society in the new EU member states that are not addressed by EU funding but are crucial for the proper functioning of democratic and open societies.

Revenue Generating Activities

Other strategies have also emerged as NGOs coped with the decrease in financial assistance from foreign donors. Some organizations started to develop business models and income-generating strategies based on the sale of their products and services. Some introduced small fees for their products (e.g. subscription fees for their newsletters); others started related business activities (e.g.,

⁶ The governments of the three EEA countries (Norway, Lichtenstein, and Iceland) are doing this to repay something for the economic and trade benefits they receive through their membership in the EEA.

small restaurants or workshops where, for example, disabled people are employed). In addition, NGOs now sometimes offer their services to commercial businesses at market prices where these commercial activities are supplementary to those provided on a not-for-profit basis and do not disrupt the NGOs' primary objectives. The ethical taboo and the regulatory environment that prevented the non-profit sector from considering activities that could generate a profit are now being broken. NGOs are gradually realizing that there is nothing wrong with raising some revenue from their products and services. The public is gradually learning to accept this new mode of operation as well.

Volunteerism

The maturation of the NGO sector in the Central European countries has also led to a rise in volunteerism. It is especially strong among high school students as a result of systematic NGO efforts targeting youth. Volunteer work is also being acknowledged as useful in building workforce skills, and employers now give priority to job seekers with volunteer experience. Some companies have also started to give employees days off for voluntary activities while some arrange to send their employees to do volunteer work in homes for the elderly or disabled. This is a useful mechanism for NGOs to meet cost-sharing requirements as private and public donors will often count volunteer labor as an in-kind contribution.

The Outlook for NGOs

Civil society in Central Europe has been forced to think creatively about new and diverse sources of funding. Advocacy efforts led to the 1% tax designation laws and improvements in the ease of donations through cell phone technology. The creative potential of NGOs still has not been fully developed, so new funding approaches will likely emerge over time.

While small NGOs in the region are going through a challenging transition, the growing gap between small and large NGOs should not be perceived as something entirely negative. To the contrary, small regional and local NGOs, which often rely on volunteers, should not try to become large professional organizations capable of applying for EU and other funds. Increased opportunities for support at local and regional levels have enhanced the ability of these NGOs to continue their work and remain solvent. As the domestic sources of support discussed above continue to grow, they will be able to provide substantial funding to small regional and local organizations. These sources tend to have fewer administrative requirements and restrictions and are more suitable to smaller organizations. The decision whether an NGO should grow and expand its capacities or maintain its initial size and activities is one of the most fundamental questions that a small NGO must confront.

LESSONS TO BE CARRIED FORWARD

Central and Eastern Europe provides both useful lessons and inspiration for other post-communist countries, which are lagging behind in civil society development.

Lesson 1: The experience of Central European NGOs suggests that the tendency to rely on a single source of funding is dangerous and limiting. This is particularly true when it comes to EU funding. NGOs in other post-communist countries, where there is still access to significant, if declining, foreign funding, should work on plans for diversification of sources of funding. A diversification strategy might include:

- Establishing productive working contacts with state and local government authorities, including discussions with them about divisions of labor and funding for NGO services and activities;

- Promoting new forms of corporate philanthropy. There are many examples of best practices as well as failures that can be gleaned from the experience of the new EU Member States; and
- Paying more attention to promoting private philanthropy and individual donations. Civic education activities should engage students so that increased sensitivity to the needs of others is nurtured and the value of voluntary work becomes understood and appreciated.

Lesson 2: In the later stages of the transformation, developing good relations with state structures and particularly with newly decentralized government bodies turned out to be critical to NGO sustainability, as well as to expanding NGO contributions to social welfare, citizen participation, and good governance. The northern tier countries developed different institutional structures for these relationships, providing some flexibility. They also established legal agreements or compacts which were signed by civil society and state actors. Relations with lower administrative units of the public administration, such as at the regional and municipal level, proved to be crucial for the sustainable development of NGOs. Opportunities for local level organizations will, however, be constrained in the absence of decentralization.

Lesson 3: Now that the NGO sector is beginning to be seen as a strong, trustworthy, and legitimate social actor, academics have become more interested in studying civil society. Many universities now provide skills training and capacity building workshops to NGO staff, as well as NGO management courses to students interested in the non-profit sector. University initiatives have helped to fill the gap created by the departure of those foreign donors that had invested in institutional strengthening.

Lesson 4: Working with volunteers, and especially with young people for whom volunteerism becomes a part of their informal education, is an important investment in the future. Developing human capacity, skills valuable in the marketplace, and a culture of participation can prove vital to maintaining an activist civil society and ensuring good governance.

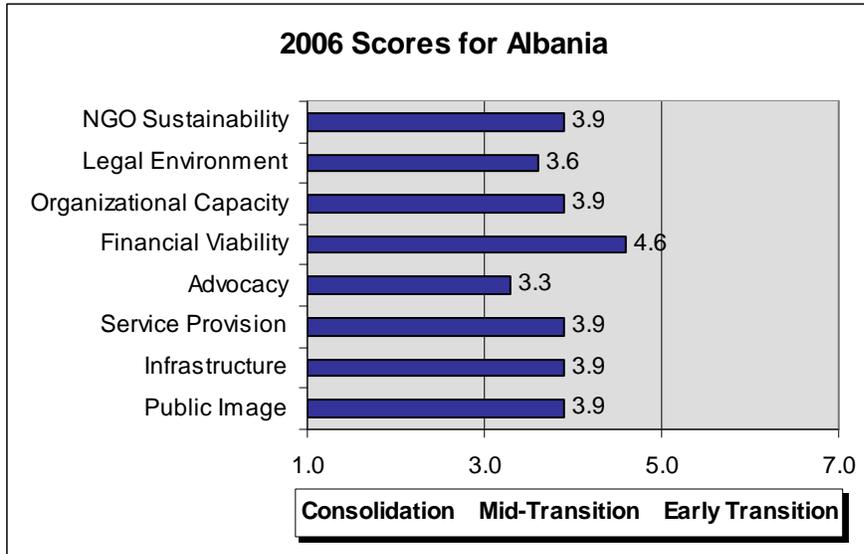
Lesson 5: Currently, income tax incentives for corporate and individual donations are too limited and do not do enough to stimulate domestic philanthropy. Civil society should continue to lobby for increases in the maximum amount of income tax deduction or increases in the percentage of taxes paid that can be signed over to NGOs.

Lesson 6: Intermediary Support NGOs (or ISOs) such as NGO Resource Centers and other similar institutions play an important role in training NGOs on new trends, requirements, and standards necessary to compete for public funding. While such training was initially provided for free because foreign donors were supporting the providers, ISOs have increasingly been obliged to levy charges for their training and support. Some NGOs have been hesitant to pay these fees, but more and more they are regarding such assistance as an investment in their future ability to receive public funding.

The changes in the state of civil society in CEE have been truly transformational. These countries offer donors, practitioners, and civil society organizations an unparalleled laboratory in which to learn from the previous 18 years, to formulate a strategy for the future, and to carry forward the lessons learned to Southeastern Europe, Eurasia ...and beyond.

Section 5: Country Reports

Albania



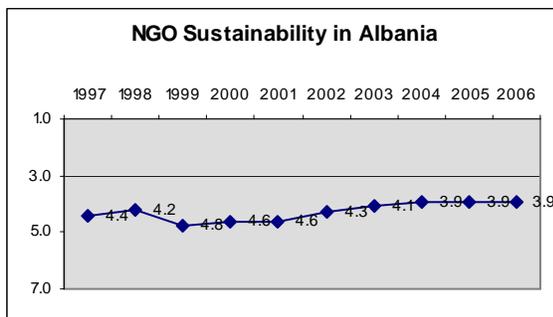
Capital: Tirana

Polity:
 Presidential –
 Parliamentary
 Democracy

Population:
 3,581,655

GDP per capita (PPP):
 \$5,600

NGO SUSTAINABILITY: 3.9



While the Albanian NGO sector experienced few positive changes over the past year, conditions did not deteriorate. The process for registering new organizations continues to be arbitrary and subject to the same corruption that affects other administrative functions that rely on court decisions. For those organizations that are registered, however, the

legal environment is supportive and unrestrictive.

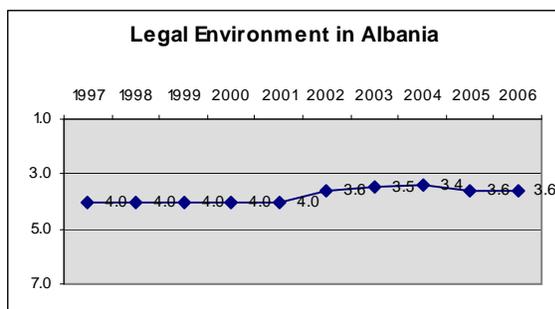
Most civic organizations continue to depend on donor funds; the larger, more sophisticated Tirana-based organizations receive the majority of support. A few NGOs, however, have been successful in breaking their dependence on foreign donors by diversifying their support; some have even been successful securing local funds. NGOs have engaged in high-profile advocacy initiatives concerning issues such as consumer protection and anti-corruption. This includes promoting policies to prevent monopolies by regulating the rates charged for services such as mobile phones. These initiatives, however, have not affected public policy.

LEGAL ENVIRONMENT: 3.6

Registering new NGOs and for-profit businesses remains a legal matter handled by the courts instead of an administrative process.

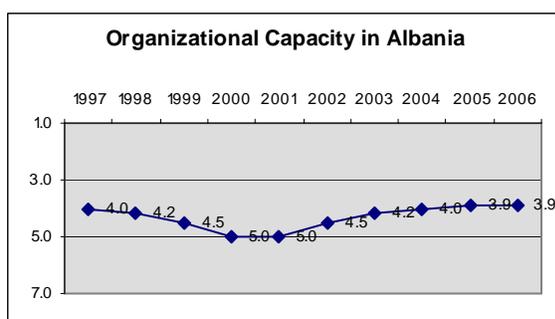
The notaries and judges that make decisions concerning registration continue to apply the regulations in an arbitrary manner and routinely demand bribes. NGOs must still submit their

registration applications in Tirana, which reinforces a Tirana-centric form of development and creates difficulties for organizations that have to travel long distances to attain legal personality. More grass-roots organizations outside Tirana tried to register as legal entities over the past year, which has highlighted the barriers to registration and reinforced the perception of a deteriorating legal environment.



ORGANIZATIONAL CAPACITY: 3.9

Albanian NGOs showed little improvement in organizational capacity over the past year. Many member-based organizations consult with their constituents when identifying their priorities. NGOs, however, also adjust their priorities in order to secure funds from international donors. Several NGOs have well-defined mission statements and organizational structures, as well as well-trained staff. Many NGOs, especially those in the remote areas, continue to operate with low levels of organizational capacity and depend on one person to organize their activities.



Donors have shifted their priorities and now provide more funding to advocacy

The legal community does not yet have sufficient knowledge of NGO issues, and the inadequate legal services make it even more difficult for NGOs to register or defend their interests. Judges are similarly unfamiliar with issues that affect civil society.

In the coming year, Partners-Albania will propose amendments to the Law on Non-Profit Organizations, the NGO Regulation law, administrative procedures, and the tax laws affecting the NGO sector. The assessment of the current legal framework that identifies the areas in need of reform was completed and distributed to stakeholders in 2006. In 2007, it is expected that amendments will be drafted and presented to the Albanian Government and the legislature.

organizations. This has left NGO service providers largely under-funded. NGOs are required to have well-defined mission statements, which prevents them from applying for the different kinds of funding available.

Large and more active NGOs such as Mjaft, the Citizens Advocacy Office (CAO), Co-Plan, and others that operate in the urban areas of Tirane, Durrës, Vlore, and Shkodre, have clearly defined rules and regulations. These NGOs are expanding, have developed long-term strategic plans, and are well equipped with offices, computers and fax machines.

Many Albanian organizations are establishing a presence on the internet and using it to disseminate information and publish the findings of their monitoring activities. In 2006, MJAFT, for example, launched "I Vote" (www.Unvotoj.com), a website that among other things monitors the wealth and financial disclosure statements of Albanian politicians.

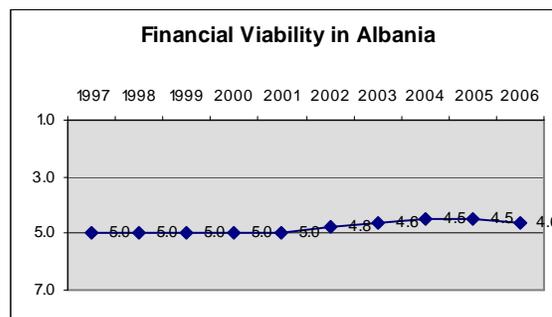
A small number of organizations, such as the CAO, opened branches in the cities of Vlore and Shkodra and offer pro bono legal services to those swindled by corrupt officials.

FINANCIAL VIABILITY: 4.6

NGOs remain dependent on foreign funding, and the resources available are insufficient to meet the financial needs of the NGO sector. NGOs that lack foreign support to cover their administrative costs have difficulties continuing their activities. Overall, the ability of NGOs to absorb donor funds is weak, and organizations often lack the institutional capacity to satisfy donor reporting or cost-sharing requirements. Only a small number of organizations qualify for EU funds and the application process gives priority to international NGOs.

Despite these difficulties, more organizations have diversified their funding and receive support from a variety of sources. A limited number of NGOs are becoming more influential. The sector is shrinking and only the more qualified and established organizations with the ability to diversify their funding are able to survive. Community-based organizations have limited support due to their low capacity levels and the focus of donor interests on advocacy issues. NGOs rarely charge fees for their services or engage in economic activities to support their non-profit activities. The Albanian Disability Rights

Foundation provides wheelchairs for a nominal fee, though the income only offsets a portion of the production costs. The Albanian government provides minimal funding for NGOs.



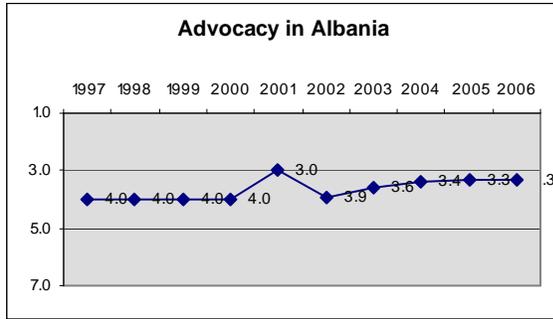
The donor community's tendency to support the elite NGOs will in the long-term damage the greater NGO sector. While one group of organizations is maturing, the rest of the sector is disappearing due to the lack of support from foreign donors. Financial management continues to be a challenge; only a small number of well-established organizations have adopted sound financial accounting systems and publish annual activity and financial reports.

ADVOCACY: 3.3

In 2006, the NGO sector focused on advocacy activities rather than service delivery, driven in large part by the availability of funds for advocacy organizations. While NGO advocacy efforts benefited from some positive developments, they also experienced some setbacks. One positive development is the NGO sector's increased level of cooperation with local governments. NGOs and local government bodies, for example, at times cooperate in local planning and budgeting.

In addition, well-known representatives from a few established NGOs were appointed to positions in the Democratic Party-led government. As a result, some organizations enjoy better relationships with government

authorities, and have more influence when engaging in lobbying activities. Among government officials, the improved relationship has fostered greater interest in engaging NGOs to monitor reforms, such as judicial inspections and rights for the disabled. The Albanian Disability Rights Foundation (ADRF), for example, has been instrumental in helping the government draft a strategy for addressing disability issues and monitoring its progress.



Despite improved relations, NGOs initiated only a small number of advocacy efforts to influence government policies. Environmental organizations in the southern Adriatic gained notoriety when they initiated campaigns against the government's proposed power plant and oil

SERVICE PROVISION: 3.9

As government power is decentralized, local officials recognize the value of NGO service providers, though some continue to misunderstand the role that the sector can play. The Albanian government has yet to develop a strategy for providing services that are currently offered by NGOs. The Labor Ministry and the World Bank, however, initiated a project that will increase NGO funding to provide services at the local level. This is a pilot project, however, and has yet to cover all regions of Albania. Though NGOs have been filling the gaps in services, the government has yet to provide consistent grants or contracts.

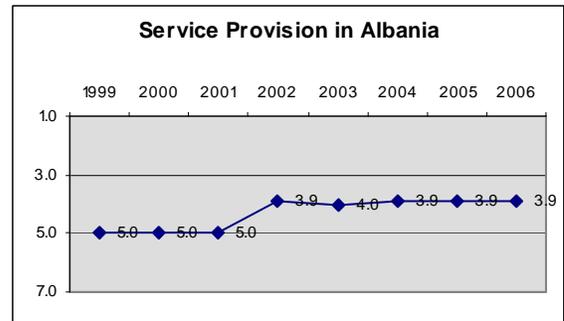
A number of NGO services are unsustainable because they are funded strictly by foreign donors; once the funding ends, so will the services. The Albanian government is considering legal reforms that will permit

INFRASTRUCTURE: 3.9

The NGO community has yet to organize a single coalition to represent its interests. NGOs form ad hoc coalitions around common interests only when they see a benefit in doing so. Recent examples include coalitions organized to address election issues, environmental protection, disability rights, and

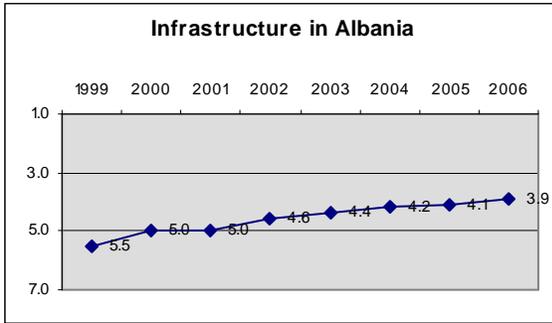
pipeline. Their efforts forced the government to consult the NGO community about these issues and stalled what would have been environmentally harmful projects. The Albanian Consumer Alliance and Coalition Against Corruption (ACAC) organized campaigns against high telephone rates, forcing the government and a private telecom company to lower prices. Recently, more organizations have taken a stand against trusts, a term which in Albania refers to businesses such as telecom and energy companies that operate in markets with minimal competition, allowing them to set high rates for their services.

NGOs to charge fees for the services they provide.



Though government agencies have established quality and safety standards for NGOs that provide services for children and the disabled, few other standards exist. The government has taken steps to create a legal framework to regulate such services, but it has yet to be implemented.

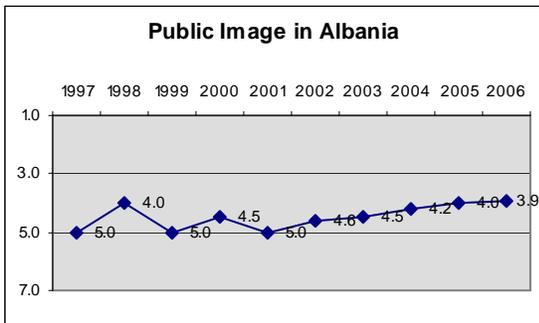
others. NGO coalitions such as ACAC and Youth Parliament are stronger and exercise greater pressure for changes in public policy.



Civil Society Development Centers (CSDC) continue to provide services in the districts of Durres, Elbasan, Vlore, Korce, Kukes, and Shkodra. Partners-Albania, REC, and OSFA now provide grants, while Partners-Albania, Co-Plan Network, the Center for Development of Gender Alliance, and CAO offer consulting services, provide trainings, and publish

PUBLIC IMAGE: 3.9

According to a number of surveys, including one by the Institute for Development Research Alternatives (IDRA); (June 2006, found at www.idra-al.com), the public’s trust in NGOs is slightly higher than in past years. The surveys also found that the public’s trust of NGOs is higher than their trust of the government and private sectors.



A few organizations have greater name recognition in urban areas outside the capital.

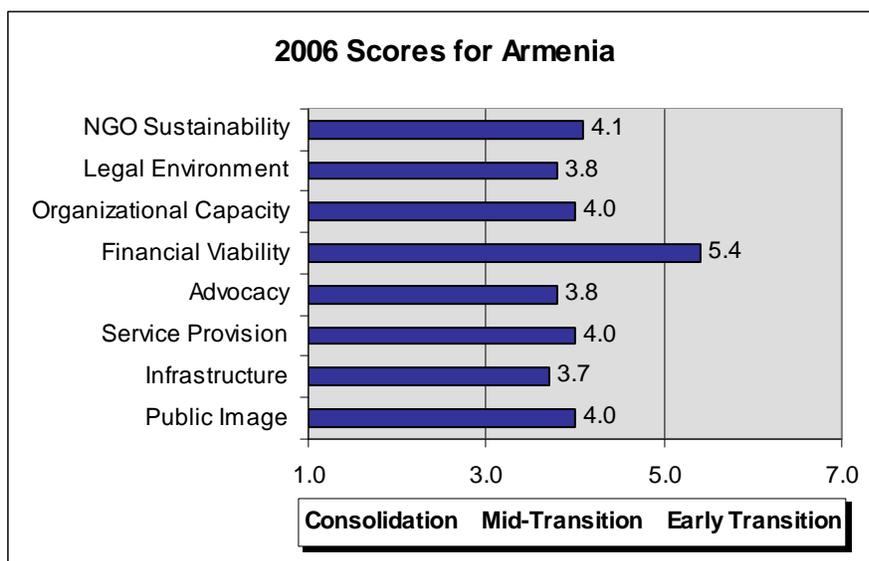
newsletters. Resource Centers also provide training programs on topics such as institutional development, lobbying and advocacy, anti-corruption, networking and coalition building. The twelve CSDCs are registered as NGOs; they have their own websites and offer services to their constituents.

The well-established organizations have adequate infrastructure and equipment, such as telephones, office space, and internet access, necessary to develop their activities. They have also started to build stronger relationships with businesses and the media. The lack of financial resources, however, continues to limit their activities.

This is especially true for the media-savvy Mjaft, which celebrated its third anniversary with a televised event that included a message from the Albanian President and an appearance by Ismail Kadare, the country’s most famous novelist and citizen.

The media routinely covers and political pundits regularly debate the activities of the well-established NGOs and their representatives. As a result, the public relation skills of such NGOs have improved. The cadre of elite NGOs whose spokespeople often appear on television talk shows clearly enjoy greater access to the media. These organizations have earned the grudging respect, if not admiration, of the media, since the most-covered NGOs are often criticized rather than lauded. NGOs are participating in the drafting of a new code of ethics. Their efforts to enact a code of ethics have resulted in an awareness campaign.

Armenia



Capital: Yerevan

Polity: Presidential –
Parliamentary
Democracy

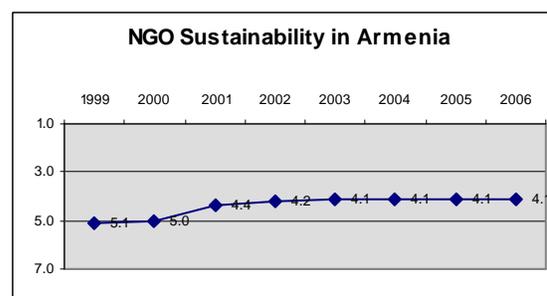
Population:
2,976,372

**GDP per capita
(PPP):** \$5,400

NGO SUSTAINABILITY: 4.1

The overall NGO sustainability index score for Armenia remained unchanged in 2006. The year was one of mostly positive developments; if the sector is able to see these developments to fruition, it will enjoy significant benefits over the next few years.

One of the factors affecting NGO sustainability is the increase of donor fatigue and the decrease of funding from the Diaspora and international community. Armenian organizations have always benefited from a funding-rich environment. The growing demands for foreign assistance and the emphasis by donors on producing measurable results, however, have made it more difficult for organizations to access outside funding. The decrease in funding has resulted in a gradual weeding out of organizations that are weak or change their missions according to shifts in donor agendas. As the weaker organizations close due to the lack of funding, the NGO sector is left with stronger, more active organizations that are focused on their missions.



Another factor affecting NGO sustainability is the legal framework, which fails to consider the growing diversity and complexity of the non-state sector. The inadequate legal environment, which has yet to adhere to best practices adopted throughout the region, has resulted in pathologies in every dimension of this Index.

NGOs are mounting greater advocacy efforts than ever before, engaging both receptive and unreceptive government agencies. In some cases, NGOs have been able to develop cooperative relationships with government officials, while in other cases government has resisted their efforts.

LEGAL ENVIRONMENT: 3.8

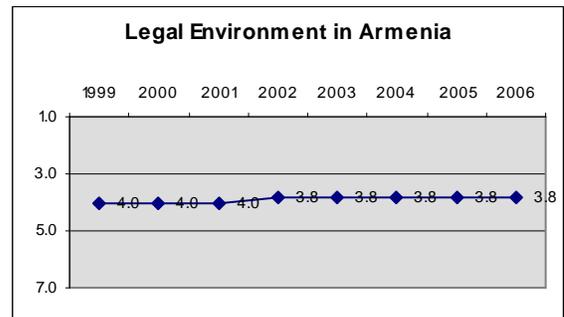
The NGO sector is regulated by three laws, the Law on Public Organizations, the Charity Law, and the Law on Foundations. The majority of NGOs are registered under the Law on Public Organizations, which requires that new organizations register with the Yerevani-based Ministry of Justice. The process is expensive and burdensome, especially for civic groups that have to travel from the provinces. The government does not have any plans to change the process and there is no consensus over a better system for registration.

NGOs registered under the Law on Public Organizations are prohibited from engaging in economic activities, although foundations may. As a result, NGOs depend fully on the international donor community for support. In addition, the Law on Public Organizations only permits NGOs to register as “general membership” organizations, which is unwieldy and prevents the adoption of normal organizational structures, such as boards of directors or advisory councils.

The government recently submitted a new draft Law on the Status of Volunteers to the National Assembly. If approved, the law will legalize and regulate NGO use of volunteers and promote civic participation among Armenian youth. The tax authorities have yet to recognize volunteerism as a service that should be free from tax and force NGOs to pay social taxes on volunteer labor.

ORGANIZATIONAL CAPACITY: 4.0

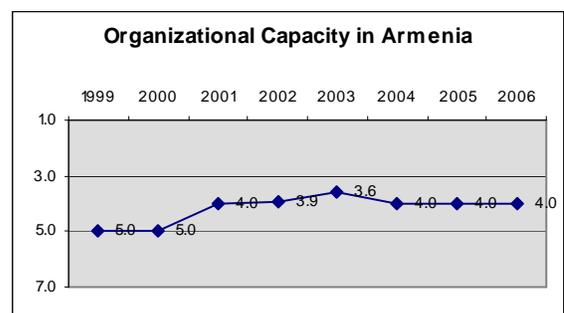
The overall decline in available grant opportunities has left many organizations surviving from grant to grant, and seeking alternative funding sources. The lack of funding has weeded out some organizations, which have either gone dormant or are experiencing periods of organizational chaos. Others are engaging in strategic planning and focused on their missions, as well as attempts to identify



Though NGOs prevented the passage of the draft Law on Lobbying in the past year, it remains a threat. If approved, the bill would permit the government to exert unprecedented control over NGOs. The bill would require NGOs and individuals to be “certified” by government officials before engaging in lobbying or advocacy activities. In contravention of international norms, the list of activities defined as lobbying includes any interaction with the legislators. NGOs are very concerned about the implications of this bill and are currently pressing for a substantial revision or complete withdrawal of the bill from the National Assembly.

NGOs are still unable to develop any systematic social partnership with local governments. This is in large part due to the heavily centralized national government, which limits the authority and budgetary power necessary for local governments to form such partnerships.

their constituents and advocate for them.

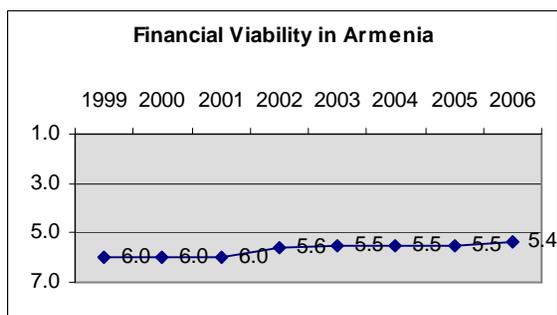


Though many continue to be driven by and dependent on a single charismatic leader, more NGOs, especially youth-led groups, are adopting a more inclusive approach towards management. The draft law on volunteers, if approved, may create greater opportunities for organizations to mobilize young activists. The over-simplistic Law on Public Organizations,

however, prevents organizations from adopting a more traditional model of NGO management involving boards of directors.

Due to high levels of funding in the past, most organizations have the equipment they need to operate. Access to the internet, however, is spotty throughout the country.

FINANCIAL VIABILITY: 5.4



While NGOs remain largely dependent on donors, many are actively seeking alternative sources of funding. A recent survey found that some 42% of NGO funding comes from international donors, 22% from membership fees, 16.7% from private donations, 7.7% from corporate donations, and 7% from the State. The legal framework restricts the ability for organizations to generate income and fails to provide beneficial tax exemptions. Many organizations fear that they will be targeted by the tax authorities if they engage in economic activities. Armenia's private sector is underdeveloped and rates of unemployment are high; some view creating an NGO as little more than a means for securing an income. While this is not the case with all NGOs, it is a widespread perception. The government

justifies its restrictions on economic activity by claiming that nonprofit organizations will evolve into for-profit organizations that will hide behind nonprofit status.

The Armenian government began providing small-scale funding to NGOs, primarily in the areas of public awareness and health campaigns. Local businesses have similarly increased their support of NGOs over the past year. The Government of Armenia and the NGO community have been discussing a "one-percent" law that would earmark non-partisan public funding for the NGO sector. Organizations have diversified their funding sources significantly as traditional sources of support are dwindling. They are now seeking more private funding as well as support from international development donors that have not had a strong presence in Armenia in the past.

Due to the unclear legal environment, NGOs often lack transparency and accountability. NGOs often fear that by providing accurate records they will attract excessive attention from the tax authorities. As a result, their financial statements and disclosures may not always reflect reality.

ADVOCACY: 3.8

Over the past year, the NGO sector was more articulate in engaging government officials at all levels, as well as more savvy in targeting their advocacy efforts. Organizations regularly make substantive contributions to legislation, including environmental and lobbying laws, the

Electoral Code, as well as amendments to the Constitution. The executive branch now considers the NGO sector a more serious partner in the implementation of public policy.



Though NGOs are more able to advocate for the needs of their constituents, government officials resist their efforts. The NGO sector tried to stop the proposed law on lobbying that was introduced in late 2005, but the National Assembly is still considering the draft. The proposed law threatens the ability of NGOs to contribute to the legislative process. Most lobbying efforts are still informal and based on

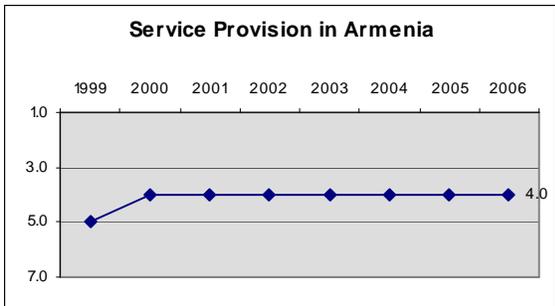
personal relationships. The government is actively creating GONGOs (Government-Organized NGOs) and making efforts to exclude the most progressive organizations from the policy-making process. Several high ranking government officials created advisory councils that consist of representatives from the government and NGO sectors, though the process is designed more to control and preempt NGO efforts to be involved than incorporate diverse opinions.

Ad-hoc, inter-sectoral partnership mechanisms have improved over the past year, both legally and practically. They often form around a specific set of issues, such as the Law on Lobbying or the Law on Volunteerism, and disband once the issue has been addressed.

SERVICE PROVISION: 4.0

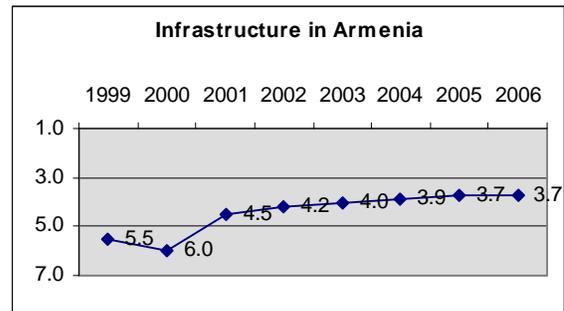
NGOs continue to provide a variety of services ranging from soup kitchens to legal and medical aid to the elderly and vulnerable. Of the various types of civil society organizations, citizens are generally most familiar with those that provide services. In some instances, local governments and NGOs have begun developing social partnerships, though NGO resources are limited. Regional and national governments have yet to procure services from NGOs when implementing social policy. The international donor community provides the majority of funding for the provision of social services.

The priorities for social services are generally determined by the funding provided by international donor community. Mission Armenia, a major community-based service organization that in the past received significant funding from the international donors, is slated for a line item in the Armenian State budget in 2007, which is viewed as a major step towards greater sustainability. It is also a step towards the need for social services and other priorities being identified domestically, and not by international organizations. Discussions between the government and NGOs on issues related to the legal framework, including topics such as fees for services, licensing, and procurement, did not result in any positive changes.



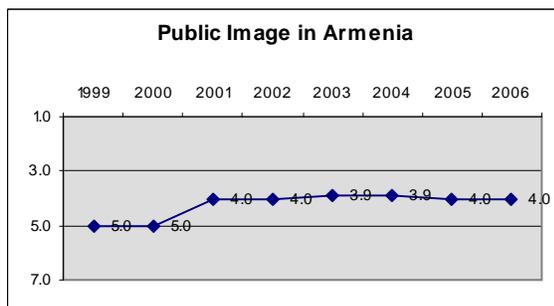
INFRASTRUCTURE: 3.7

International donors have funded the creation of Intermediary Service Organizations (ISOs) throughout Armenia. Foreign and international agencies such as USAID, UNDP, OSI, and the EU have used these ISOs to provide extensive training and consultations to domestic organizations. The legal restrictions on generating income prevent ISOs from achieving long-term sustainability. Some NGOs have created for-profit subsidiaries to generate income, but the few financial successes have resulted in some mission-drift. With substantial support and technical assistance, ISOs have begun to make large-scale grants for the donor community. In addition, ISOs are increasingly providing NGOs with technical assistance through training and organizational development workshops.



At the local level, NGOs work very closely with local governments and the community to provide services for the population, although Armenia's hyper-centralized system prevents these successes from scaling up.

PUBLIC IMAGE: 4.0

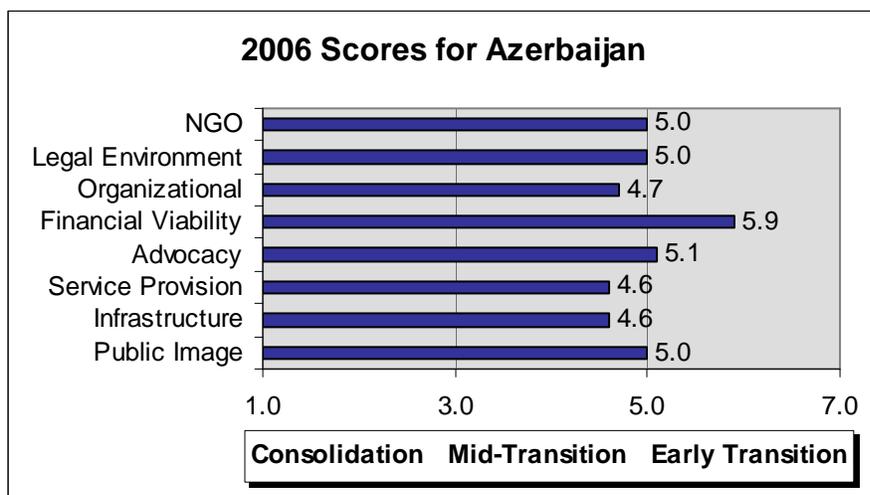


NGOs are increasingly more sophisticated in their efforts to reach out to the media, though their efforts to reach the broader public leave much to be desired. Media coverage is often neutral or negative, and often focuses on cases in which individuals use an NGO to serve their personal interests. NGOs also complain that coverage of their public events is not treated as

news by the media, which requires payment for coverage. At the end of 2004, 6.8% of those surveyed had been active in an NGO, and only 10.3% was aware that NGOs were active in their communities. At the end of 2005, only 4% were active in an NGO, down 2.8%, and only 7.2% said that NGOs were active in their communities, down 3.1%.

Armenian organizations rarely publish their annual reports. This may be explained by the fact that NGOs operate in a regulatory vacuum, with an unclear environment concerning accountability. The NGO sector has developed a unified code of ethics, though the final draft has yet to be approved and implementation remains weak.

Azerbaijan



Capital: Baku

Polity: Republic

Population:
7,961,619

**GDP per capita
(PPP):** \$7,300

NGO SUSTAINABILITY: 5.0

Over the past year, the sustainability and capacity of the NGO sector remained generally unchanged. The number of NGOs in Azerbaijan is still approximately 3000, of which 60% are registered and roughly 600 are active and visible.



The government continues to mistrust NGOs and would like to exert greater control over the sector. Though minor amendments to the legal framework were meant to simplify NGO registration, government officials are inconsistent in the time they take to process applications. Many organizations continue to experience difficulties when registering and require intervention by “influential forces” to be registered. Many of the NGOs created under the umbrella of government ministries are used to misappropriate public funds and grants. During the recent elections, several NGO

leaders were elected to Parliament, while many other MPs created their own NGOs.

Legal reforms adopted in late 2005 repealed a restriction barring NGOs that receive more than 30% of their funding from foreign donors from monitoring elections. The lack of an independent electronic media or a fair judicial system limits the ability for NGOs to exercise their rights. As political opposition from the NGO sector has weakened significantly over the past year, authorities have reduced their pressure and control over NGOs.

The majority of NGOs struggle to secure local financing and rely solely on foreign donors. The tax laws remain largely unchanged. Organizations are required to pay 22% of their consolidated payroll towards the Social Insurance Fund, though NGOs engaged in social projects are exempt and only required to pay income tax. Funds from the United States government are also exempt under a bilateral agreement with the government of Azerbaijan.

Over the past year, NGOs slightly increased the number of services they provide in areas such as humanitarian relief, environmental protection, gender and youth support, human rights, civic and legal education, health care, and economic development. The poor infrastructure, lack of government support, high competition, weak relationships with their

constituents, low public awareness of civil society, and the strengthening of the state, however, restrict the role that NGOs play in developing civil society.

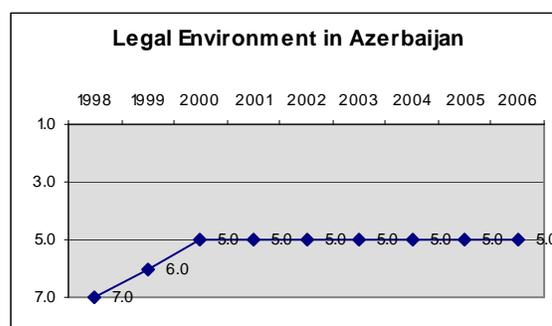
LEGAL ENVIRONMENT: 5.0

The legal framework governing NGO activities includes 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. Amendments to the Grants Law require that NGOs register all grants with the Ministry of Justice (MoJ). At the time the amendments were adopted, many in the NGO community were concerned that the government was exerting greater control over the sector and that the requirements would be yet another burden on NGOs. So far this has not been the case. The Ministry of Justice only requires that NGOs inform it of their grants, and if an organization fails to do so, it can be fined \$30. Recent amendments to the NGO Registration Law have reduced the number of documents required by the MoJ for registration, and applicants are no longer required to submit the signatures of all of their founders.

In the past, an amendment to the NGO Law prohibited NGOs receiving more than 30% of their funding from foreign donors from engaging in election monitoring activities. An overwhelming number of organizations, however, exist solely on grants from foreign and international donors. Under a great deal of pressure from the international community, the government adopted amendments that remove the restriction and permit NGOs to engage in election monitoring.

Laws governing NGOs are often adopted under pressure from the Council of Europe, the European Commission on Human Rights, and other international organizations. NGOs report that these laws are seldom enforced or honored. The MoJ, for example, is required by law to respond to an application for registration within 30 days of receiving it. The MoJ has yet to create the appropriate mechanisms,

however, and regularly exceeds the 30 day limit. The inability to register prevents NGOs from opening bank accounts and registering with the Bureau of Internal Revenue Statistics Committee and Social Security Fund, which they are required to do within 10 days of registering with the MoJ. NGOs in the regions have even greater difficulty registering. The ten regional departments of the MoJ have the authority to process registration applications but do not do so. The most that an NGO can do is register as a limited liability company. Many NGOs require intervention from “influential forces” or have to pay bribes to register, though once they register they face other legal obstacles to their operations. Government officials are currently reforming the process for registering NGOs and LLCs. Under the new plan, the registration office will merge with the Notaries Department and more employees will be hired to better process applications. In the meantime, USAID is planning to assist the MoJ to train its current staff.



The legal framework provides more detail in addressing reporting and dissolution requirements than it does internal management, scope of permissible activities, or voluntary dissolution. By law, only the courts have the right to dissolve NGOs. The lack of independence from the executive branch, however, leaves NGOs with little defense

against the arbitrary actions of government officials. The legal framework contains many contradictions. The new labor laws, for example, demand that labor unions give annual vacation to their staff; the majority of NGOs do not have vacation policies, which places them in violation of the labor law.

The State has yet to demonstrate an interest in developing the NGO sector and does not have a program to support its activities. While a presidential decree shields businesses and for-profit companies from excessive State intervention, the nonprofit sector enjoys no such legal protections. Similarly, the legal framework has yet to recognize philanthropic activity, which the government may treat as illegal.

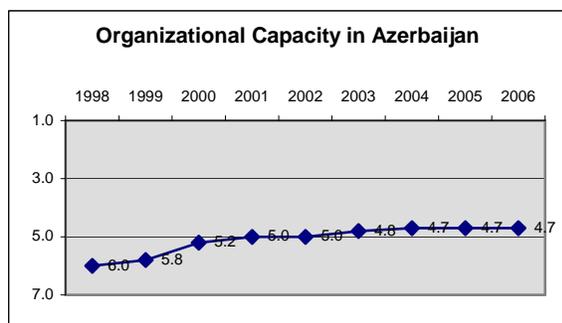
NGOs in the regions operate in a particularly hostile environment. Though the law makes a clear distinction between the roles of NGOs and those of the State, NGOs are required to obtain permission from local executive authorities in order to hold meetings. Government officials have recently taken a softer approach towards NGO activities. In the recent elections, some NGO leaders were elected to Parliament; similarly, some MPs created their own NGOs. Many are now of the opinion that the NGO sector is less of a political opposition force and that government officials, sensing less of a threat, have softened their attitudes towards NGOs. Only a small

number of local attorneys are trained in NGO legislation and they generally work in nonprofit legal organizations in Baku. Access to reliable attorneys in the regions is minimal.

The tax laws remain largely unchanged; they still require organizations to pay 22% of their consolidated payroll into the Social Insurance Fund. NGOs that receive grants for social service projects enjoy a moratorium on the tax until 2007, though they must still pay 14% income tax and 3% from individual salaries into the Social Insurance Fund. Some international donors such as USAID enjoy tax exemptions as the result of bilateral agreements between governments.

NGOs and charitable organizations have the right to conduct economic activities, but their income is taxed as though they were for-profit corporations. Such taxation practices and the absence of a law on philanthropy present major obstacles in developing local philanthropy and are a reflection of the State's disinterest in strengthening the NGO sector. NGOs are permitted by law to apply and compete for government contracts. NGOs rarely apply, however, due to the absence of appropriate regulations and transparency, the lack of financing, and a general distrust of government structures. NGOs created by government entities operate with state funding, but they generally do not have contracts.

ORGANIZATIONAL CAPACITY: 4.7



Over the past year, NGOs made some progress building local constituencies for their initiatives. This is especially true for organizations that

provide youth services and heighten the awareness of the NGO sector.

Though many NGOs are increasingly more professional and focused on well-defined missions, many continue to engage in activities outside of their missions to secure grants. NGOs continue to be weak in terms of their strategic planning and decision making. The majority of NGO leaders lack adequate training in strategic management and are only able to plan for short-term actions. Some NGOs make their financial information available to the public and most organizations are more transparent than government entities. NGOs, however, still

lack the public's trust. Donors are able to verify that NGOs use their funds appropriately by requesting information from the organizations or monitoring of their activities in the field.

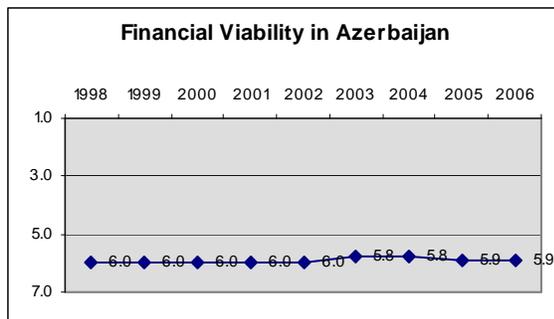
Azerbaijani law is silent on volunteerism and fails to recognize that NGOs have the right to recruit volunteers. A growing number of young people are seeking out opportunities to become involved in NGO activities. Many organizations are made up of three or four people, often from the same family, and inadequate funding allows only a few NGOs to maintain a qualified, permanent, salaried staff. More often,

employees are hired according to the demands of ongoing projects and grants. The USAID Civil Society Project now engages its local partners to include experts and MPs involved in drafting laws on volunteerism, community based organizations, charities and private foundations, and to create tax exemptions for local donors that support NGO activities.

Over the past year, the improved infrastructure has led to larger-scaled projects. NGOs in Baku have access to better technology and equipment than those in the regions, though internet access and other forms of communication are improving.

FINANCIAL VIABILITY: 5.9

The majority of NGOs depends solely on grants from international donors. Some NGOs have access to local funding, but most of these exist under the umbrella of various ministries and allow government officials to access public funding. NGOs receive limited non-financial support from different groups and volunteers. This is due to society's lack of altruism and culture of charitable giving, as well as the weak, transitioning economy, which has left the majority of the population to struggle for its own livelihood.



Foreign states and international organizations increased their support for NGOs over the past year. NGOs enjoyed a greater diversity of funding sources, which may be explained by the growing interest in the region by international organizations and increased State income from the oil industry. The issue of whether NGOs may receive grants from the State budget is under debate.

Most NGOs are active only when they have received a grant; otherwise they switch to "standby" and operate with a minimal staff, such as one bookkeeper. The ability to conduct an independent audit is a luxury that most NGOs are unable to afford. Without an adequate law on philanthropy, NGOs are less able to provide relief and community outreach. Some NGOs, however, have been able to work with invalids, refugees and on housing issues. NGOs lack sufficient capacity and experience to engage successfully in economic activities. Some organizations collect membership fees, but it is still an uncommon practice.

ADVOCACY: 5.1

NGOs are increasingly apathetic and less involved in political activities. As a result, government authorities are taking a more neutral position towards NGOs, which is better than the negative treatment in the past. Some ministries such as the Ministry of Youth and Sports and the Ministry of Ecology have created

NGOs with which they have cooperative relationships. This has led to more opportunities for joint projects concerning a variety of issues. In order to monitor and evaluate the bird-flu, several state organizations partnered with NGOs that were registered specifically for that purpose. Despite these

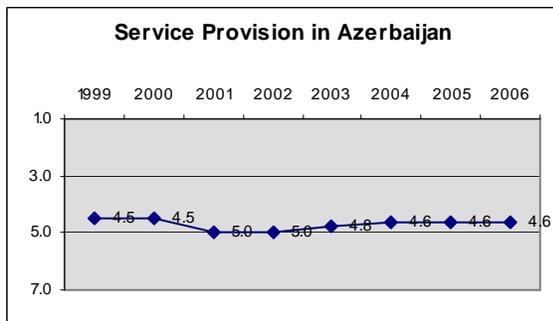
advances, government restrictions on NGO activities in areas such as charity or rehabilitation have prevented more significant civil society development. The executive authorities in some regions, for example, have made efforts to prevent or interfere with NGO initiatives to educate the public about the role, duties, and functions of a municipality.

Many NGOs place great value in forming coalitions and the sector launched several successful campaigns over the past year. NGOs initiated campaigns to lobby Parliament to approve laws against the trafficking of women as well as amendments to the family code. The number of coalitions of like-minded NGOs, however, remains limited. Personal ambitions of NGO leaders and activists, together with

narrow views on social issues and the lack of collective thinking and decision making skills all stand in the way of building strong coalitions. The slight improvement in the advocacy dimension is the result of the Moj's creation of a public council that supports local NGOs.



SERVICE PROVISION: 4.6



Many NGOs develop projects according to needs and problems of their constituencies. The NGO sector provides a variety of services including humanitarian relief, public and economic development, defense of human rights, election monitoring, health care, and other basic public services. Some NGOs provide quality services and products. The demand for social services is growing, however, and the NGO sector is still unable to satisfy the need completely.

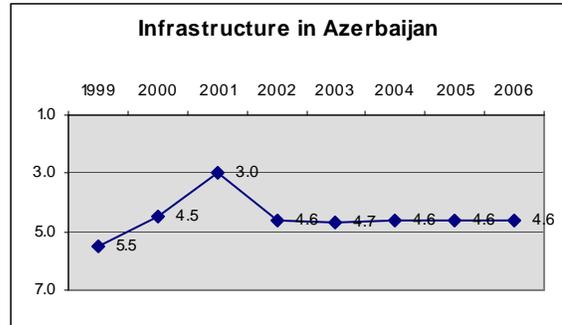
NGOs organize seminars and presentations, and publish materials for use by various government bodies and ministries. The American Alumni Association, whose members graduated from Universities in the United States, developed numerous events covering issues such as the economy, ecology, education and youth policies for government officials. Some NGOs charge fees for their services, though many provide services free of charge. Though the State has created barriers to NGO development, a few local organizations have received State grants or contracts to provide social services. International donors such as the World Bank have begun granting the State funding on the condition that it provides contracts to NGOs. As a result, the Ministry of Culture, Youth and Sports, the Ministry of Economic Development, and others have begun turning to NGOs.

INFRASTRUCTURE: 4.6

NGOs have access to only a limited number of resource centers throughout the country. The resource centers provide information, training, and literature; only a few centers in Baku are able to provide advanced legal assistance, donor information, and consultations on NGO tax

issues. Few of the resource centers generate an income by providing services. Generally, only international organizations provide funding to NGOs; local foundations are limited to re-granting international donor funding.

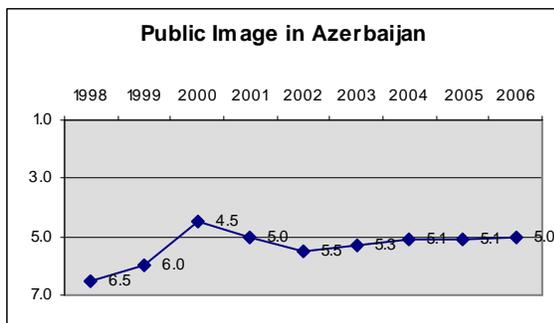
Azerbaijan benefits from a fairly advanced information network that covers the majority of the country and allows NGOs to exchange information. In addition to existing online resources such as the Open Society Institute's "Azerweb" (www.azerweb.com) and the Society of Human Research (www.ngo-az.org), new on-line resources (www.ngoforum.az, www.ngo-az.org, www.alumni.az, and www.3-cusektor.org) now offer information on job openings and trainings, as well as virtual space for debates and an exchange of views. Despite the benefit they provide, these resources have shortcomings in terms of their content and how the information is distributed. The websites often conceal or delay publication of information due to competition for limited grant opportunities.



Skilled trainers and training opportunities are more readily available in Baku than the regions, where specialized training in strategic management and fundraising is generally unavailable. Materials in the Azeri language are generally limited to topics such as human rights and are of high quality. NGOs rarely cooperate with government officials or local businesses to create inter-sectoral partnerships. Relations with mass media outlets have improved.

PUBLIC IMAGE: 5.0

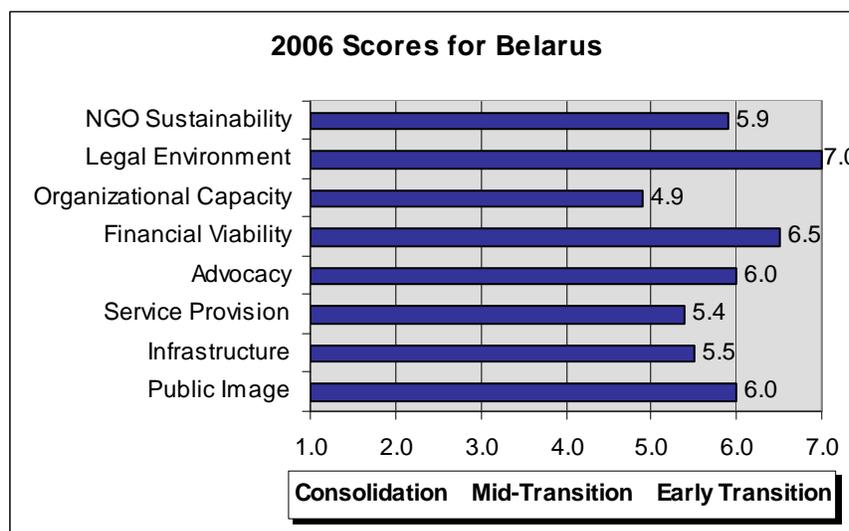
Over the past year, media coverage has become slightly more positive. Though the law does not require it, local radio and television companies provide air-time for NGOs at a discounted rate. Some newspapers now provide regular coverage of NGO activities. This year's debate over the ban on NGO election monitoring increased the public's awareness and interest of the NGO sector. Citizens remain poorly informed about NGO activities and do not offer widespread support.



Government officials at the State and local levels have expressed dissatisfaction with the sector, seeing NGOs as a threat to their political and economic power. Some officials rely on NGOs as a community resource and depend on their expertise and credibility, though their voices are often quashed when they speak out on human rights issues. The business community is ambivalent towards NGOs.

Some NGOs have developed strong relations with the press in order to improve their public images, though the majority continues to lack the necessary skill, financial resources, and experience in public communications. Most NGOs reach the public through print media, including brochures and press releases, though their effect is marginal. The NGO sector has yet to adopt a code of ethics and most organizations lack transparency; even the top NGOs do not publish annual reports.

Belarus



Capital: Minsk

Polity: Presidential

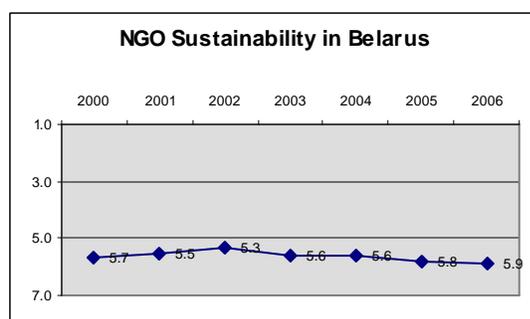
Population:
10,293,011

**GDP per capita
(PPP):** \$7,800

NGO SUSTAINABILITY: 5.9

Over the past year, civil society was most affected by a wave of political tension brought on by the presidential elections. Government officials implementing the restrictive laws and regulations adopted in 2005; they illegally harassed, detained, and imprisoned NGO representatives, and closed down their organizations. Amendments to the Criminal Code permit government agencies to infiltrate and control unregistered organizations, and imprison their leaders. Government officials led campaigns to intimidate journalists, scholars, political activists, trade unionists, students and other citizens they perceived as a potential threat and prevented them from causing unrest. The government closed almost all human rights organizations, as well as many of the larger regional resource centers and foundations.

Corporate funding of NGO activities remains low, and even illegal due to restrictions imposed by Presidential Edict 300. NGOs generally face a large and unmanageable government bureaucracy, restrictive registration procedures, murky tax regulations, and haphazard supervision. These obstacles influence and motivate NGOs and determine how they relate to government officials, as well as identify and respond to community issues. Over the past year, some organizations have closed voluntarily, while others continue to operate unregistered and in secret, risking arrest and imprisonment of their leaders. Other organizations find ways to survive in spite of the restrictions and hurdles. The nonprofit sector provides citizens with the opportunity to express a certain degree of independence in an environment in which the government challenges any independent social space.



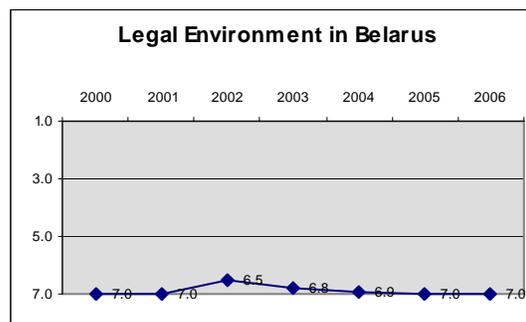
According to the Ministry of Justice, there were 17 political parties, 37 trade unions, 2,248 non-governmental organizations, 17 unions of non-governmental organizations, and 56 foundations registered in Belarus.

LEGAL ENVIRONMENT: 7.0

Over the past year, government officials began implementing 2005 amendments to the Criminal Code and Criminal Procedure Code. The amendments make it a criminal offense to be involved in the activities of unregistered organizations; this year the leaders of *Partnerstvo* and *Malady Front*, two unregistered organizations were imprisoned under the law.

Other amendments adopted in 2005 affecting NGO registration and operations also had a negative impact on the NGO sector. Almost all organizations were forced to register amendments to their organizational documents, including changes to their organizational structures and the elimination of their economic activities, which are now prohibited. In addition, foundations are now required to pay higher registration fees and maintain larger endowments. The registration process was completed at the end of 2006; though the official data on the impacts of the new law are not yet published, it is clear that many civil society organizations are unable to comply with the law. In the Mogilev region, for example, 16 foundations have decided not to re-register and ceased their operations. The registration procedures are clearly described in the laws and regulations, but applicants wait for three years or more without being registered, even though many of these organizations are not involved in politics. A former Minister of Information, for example, formed an organization to address issues of local lore, history, and the economy, but it has yet to be approved for registration.

The judiciary continues to close NGOs for being “disloyal” to the government. In 2004, the judiciary closed 38 organizations and in 2005 it closed 68. This year the court closed the RADA, a youth organization, for stating in its strategic plan that it will “work on developing an alternative youth policy,” which the government found threatening. As a result, NGOs censor all of their contact with the public, government officials, and even their own membership.



The government utilizes a system of administrative warnings against NGOs; if an organization receives two or more warnings for minor infractions of the law, government officials may automatically liquidate that organization and shut it down. Many NGOs operate under a constant threat of suspension. The Ministry of Justice issued 425 written warnings in 2005, up from 264 in 2004. Those initiating new civic activities report difficulties getting their applications for legal status approved by local and regional authorities. Those known for opposing the government or being active in civil society experience even greater difficulty registering new organizations.

Since 2005, NGOs have been required to create for-profit entities in order to engage in economic activities, though few organizations are willing to risk doing so. Even those that operated social enterprises in the past have liquidated them because local administrators prohibit state institutions from contracting with non-state entities. The tax laws regarding NGOs did not change, except that organizations have to withhold 12% of their employees’ income, up from 1%, making it difficult for organizations to retain their staff.

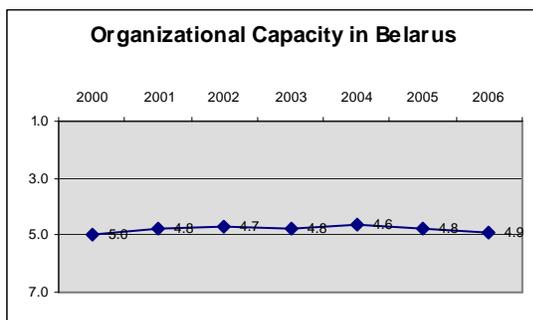
The number of qualified lawyers that provide NGOs with legal services is small, especially in the regions where legal assistance is practically non-existent. Contact information for such lawyers does not exist. As the legal and political environment deteriorates, NGOs are increasingly in need of consultations and assistance on how to protect their interests.

The NGO community considers liquidation, warnings, the inability to register, and other administrative pressures that interfere with

their activities as a declaration of war against civil society.

ORGANIZATIONAL CAPACITY: 4.9

Government restrictions and harassment, and the prohibition against conducting public opinion surveys without a permit, inhibit NGOs' ability to build local constituencies. Instead, organizations serve their members, volunteers, and other NGOs. Organizations are aware of the importance of building constituencies; they are simply unable to do so in a sustainable manner. Some large, national organizations, as well as those that are unregistered, attempt to expand their constituencies using the internet, distance learning, and other forms of technology. NGO service providers that offer special services included in State programs are more able to reach out to communities and involve more citizens in their activities.



Some organizations continue to engage in regular strategic planning, while others, limited by internal politics and external pressures, take an ad-hoc approach and respond only to emergency situations. Most organizations use both approaches, but due to the political climate, adjust their strategies and tactics several times a year. Many organizations have clear mission statements, but strategic planning is a priority for only a few leading organizations. The most advanced organizations have strategic plans to guide their activities, and even those without formal strategic plans use planning techniques such as SWOT-analysis, prioritization, historical analysis, and others.

Many organizations have yet to see the value of strategic planning in such a hostile and unstable environment.

As required by the Law on Public Associations, all NGOs generally define their internal governance structures in their by-laws, which most fail to implement. Organizations tend to choose authoritarian leaders who fail to observe principles of good governance, leading to a lack of transparency and openness. Many NGO leaders believe that if their organizations are to survive the authoritarian government, they must also be authoritarian. Unregistered organizations believe that democratic governing structures and transparency would be counter productive.

The top NGOs have a paid staff, though it is insufficient to implement their planned activities. Limited sources of legal funding hinder the ability of NGOs to hire staff and pay salaries, or honor the right for social protection. Professionals in the work force tend not to view NGOs as potential employers. NGO staff is not always highly professional, and though organizations recognize the importance of investing in their staff, professional development within the NGO sector is limited.

Most developed NGOs have modern office equipment or use equipment belonging to other organizations. NGOs in small towns, however, lack access to office equipment and the internet, or people that know how to use such technologies. New organizations without established contacts with donors or experience managing unregistered funds generally do not have office equipment or contacts with organizations that do. Similarly, unregistered organizations and initiatives are unable to rent office space or acquire necessary equipment. Meetings are generally held in the members' residences and organizations are cautious about inviting new members.

FINANCIAL VIABILITY: 6.5

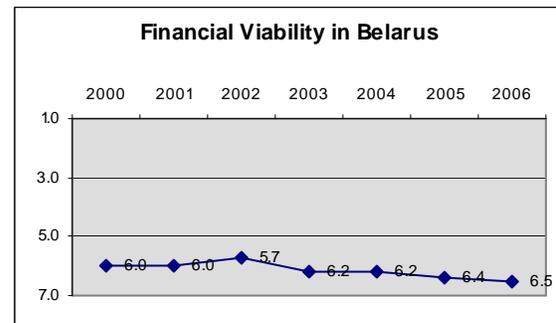
Domestic philanthropy and local funding for NGO activities is generally nonexistent. Local businesses fear scrutiny and sanctions for donating to NGOs, and limit their support to in-kind donations. NGOs that criticize the government have no chance of receiving domestic support, while pro-government NGOs enjoy full support and funding. In one example, President Lukashenko signed a presidential decree requiring public financing for the Union of Writers of Belarus, which was created as an alternative to the union of Belarusian Writers founded by Yanka Kupala, Yakub Kolas and other national writers. The presidential decree creating the UWB requires that the state fund salaries for the board members and heads of regional offices, as well as office rent, utilities, transportation and funding for other activities.

Legal limitations, including a lengthy and complicated process for registering foreign grants, restrictions on corporate sponsorship and economic activities, and the lack of government grants and contracts, prevent NGOs from diversifying their funding sources. NGOs are unable to collect significant membership fees due to the small number of members and the inability of members to pay high fees. Though the government provides quasi-NGOs and GONGOs with funding and material support, it does not promote transparency or strong financial management. The Law on Public Associations requires that NGOs present their financial statements and

ADVOCACY: 6.0

Relations between the NGO and government sectors are generally hampered by political, ideological, legal, and administrative constraints. NGOs in some fields of work, however, are able to develop cooperative relationships with government officials. The Ministry of Natural Resources and the Environmental Protection created a public council in order to incorporate NGO expertise in government policy making.

narrative reports, but such reports usually lack a full accounting of the organizations' activities and use of funding.



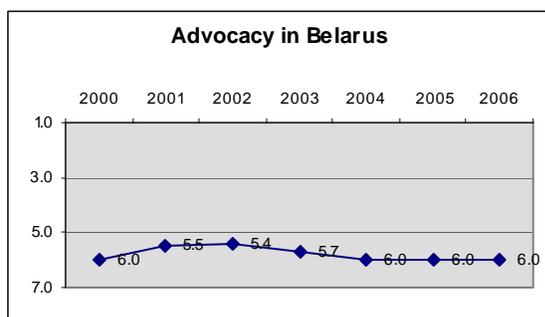
Despite the legal and political environment, experienced organizations with strong ties to foreign donors are able to receive grants for their activities, though such funding is generally unregistered. Newly established organizations lack resources, access to information about potential donors, and training in project development. Most NGOs, especially those outside the capital, are unable to afford an accountant. The decreased number of active organizations has diminished the competition for donor funds.

The State does not create any incentives to promote financial viability. Government policy instead, forces NGOs to operate in secret, marginalizing them and fomenting conditions for persecution. The overall impact is that the sector degrades and distorts its values and principles of transparency and accountability to the public.

The Ministry of Labor and Social Protection and its local offices frequently engage organizations that promote the interests of disabled persons. State institutions and local administrators only deal with established NGOs that are loyal to the government, and disregard all others.

Most advocacy organizations with important technical and organizational capabilities that once spoke out on social, economic, and

political issues were closed by the State. NGOs have attempted to fill these roles but lack the resources and skills capacities. At times, new organizations are limited by narrow strategic perspectives and weak ties with other stakeholders. Over the past year, amendments to lobbying and advocacy regulations have discouraged NGOs from participating in the political process. In 2005, the Assembly of Democratic NGOs made efforts to reform the Law on Public Associations to ease restrictions on advocacy. The legislature, however, ignored their efforts.



Despite these difficulties, experienced organizations unified efforts to promote important issues. Environmental organizations for example, campaigned against the State's construction of a nuclear power plant. Pro-democracy groups organized *campaign 16*, in which they conduct public events on the 16th day of every month to raise awareness of the disappearance of public figures. The Belarus Organization of Working Women (BOWW) led housing associations to lobby the Ministry of Housing and Communal Services to develop educational programs for residential building

SERVICE PROVISION: 5.4

The restrictive legal framework and financial instability have weakened the ability of NGOs to provide ongoing, quality services. The variety of goods and services provided has narrowed due to prohibitions against trainings, seminars, mass actions, and campaigns, as well as funding shortages, and the inability for services organizations to register. The State often co-opts civil society innovations and successes as its own, and downplays the role of

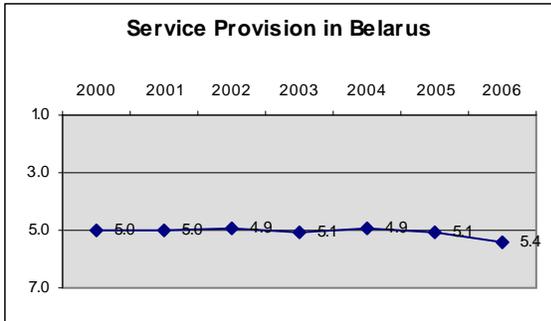
managers. NGOs that assist farmers to develop tourism in rural areas drafted and lobbied for the adoption of the Edict on Agro/Eco Tourism. Think tanks joined efforts to develop the National Business Agenda for Belarus for 2006-2007, which is a strategy for creating the mechanisms necessary for a favorable business environment.

Though non-registered networks and coalitions are prohibited by law, NGOs were more active in networking this year. Organizations engaged in civic education, redefined their missions, goals, and membership, and began drafting civic education standards. RADA, an unregistered association of youth organizations, decided to draft legislation regulating youth issues. RADA will present the draft to new politicians who may be more open to improving youth policies.

Recognizing that individuals must know their rights in order to defend them, NGOs have initiated public campaigns to inform people of their individual and family rights, as well as their rights to gender equality and to live free from spousal and child abuse.

The ability of NGOs to lobby or advocate on behalf of their constituents is more limited than in the past. Advocacy groups are in need of financial support, which is less available, and even those with funding must obtain special approval from the government. NGOs are generally unable to produce newsletters or videos, or benefit from workshops, public hearings, or posters. Non-registered networks and coalitions are prohibited and their members risk criminal prosecution.

NGOs. State support is limited to pro-government organizations such as the Belarus Republican Union of Youth, Union of Women, sports clubs, veterans' organizations, and others. At times, local administrators support NGO activities as a means of accessing donor resources to solve local problems.



Experienced, well-developed organizations with stable sources of foreign funding continue to provide quality services and promote innovations. POST, an educational NGO, partners with a business development organization to offer a training course that promotes entrepreneurship among teenagers. It also organized successful computer literacy training for the elderly. ACT partnered with a team of Lithuanians to promote mechanisms for contracting for social services. BelAPDI created workshops for disabled youth to prepare them for the job market. Despite these inspiring examples, most organizations, especially those in rural areas or who are unregistered, encounter significant obstacles to serving their

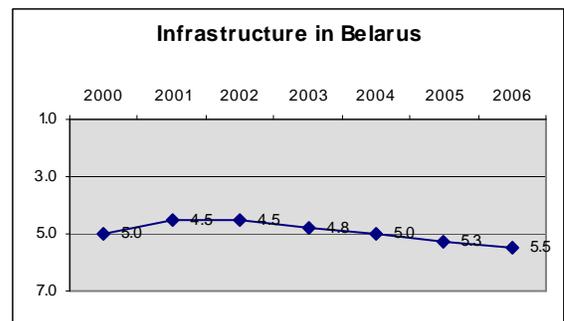
clients. NGOs are generally unable to conduct needs assessments and instead rely on their own experiences and understanding.

NGOs are generally unable to recover the costs associated with providing services because they are prohibited from charging fees. It is common for NGOs to exchange services for donations, which allows them to recover some of their costs and maintain their social programs. Business and professional associations recover some of their costs by collecting membership fees and providing some services for fees, though most continue to rely on external donor funding.

The leaders of most social service organizations recognize the importance of partnering with local businesses. Many NGOs believe that for-profit entities have a social responsibility to support public groups, especially charitable organizations. NGO leaders, however, report that the business sector's interest in cooperating with NGOs is waning or at least stagnating.

INFRASTRUCTURE: 5.5

Almost all resource centers either closed down or have redirected their resources to support their leaders' political ambitions. Other NGOs have taken over the functions of the resource centers, serving smaller, inexperienced organizations that have even less access to office equipment. Many organizations, such as the Assembly of Democratic NGOs, Third Sector, ACT, AGA, and Center Soupolnast, collect and disseminate information electronically, provide training and consultations, and distribute publications, though the lack of funding prevents them from serving all organizations in need. Many NGOs use the internet for such purposes, and have created websites such as www.ngo.by. Local grant-making organizations do not exist, and only two resource centers re-grant small funds from international donors. Some national NGOs redistribute funds throughout their own organizational structures



As noted in other sections of this report, NGOs are aware of the usefulness of coalitions and networks, and try to cooperate with one another despite the legal restrictions and lack of resources. One of the largest, most experienced coalitions, the Assembly of Democratic NGOs, updated its memberships list, and only 200 of 700 organizations remain active. As an unregistered umbrella organization, the Assembly risks legal sanctions

under provisions of the new Criminal Code. Over time, issue-based coalitions have increased in popularity, taking on such issues as civic education and environmental protection.

Over the past year, training opportunities for NGOs have decreased due to the lack of funding and legal restrictions. Belarus is home to some very professional NGO trainers that

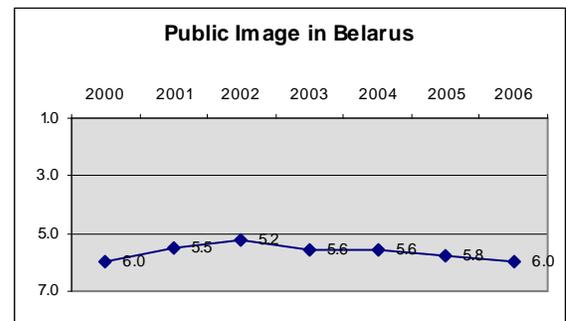
are even sought out by organizations in neighboring countries. Most local NGOs, however, lack the resources necessary to pay for their services. Training programs are sporadic and lack continuity, logic or a systematic approach. Training materials on a variety of topics are available in Russian and Belarusian. Partnership between NGOs and the business sector is rare.

PUBLIC IMAGE: 6.0

The hostile climate for NGOs is fueled by a constant flow of negative statements against the NGO sector from the government and media. Such statements present NGOs as political opponents working for regime change under the instructions from their international donors. Throughout the year, the media has published reports on the arrests of civil society leaders, as well as the criminal charges, accusations and comments made by the KGB and the President. Positive reporting by the media is reserved for organizations that are loyal to the government, or covers NGO activities without discussing the organizations themselves. The few remaining independent media outlets provide a more positive image of NGOs. Many organizations refuse coverage from the independent media, however, because their reporters often politicize activities and events, which threatens the organizations' existence.

Though many organizations produce brochures and short press releases, more are turning to the internet to post information; many of their websites have become popular. Few organizations, however, have a public relations strategy and many consider public relations campaigns as a risk in such a hostile political environment. Only the well-established organizations continue cultivating relationships with journalists and the public. Soupólnast, for example, regularly distributes news releases to its program participants. In addition, POST frequently invites journalists and stakeholders to its events, and had 80 participants attend a

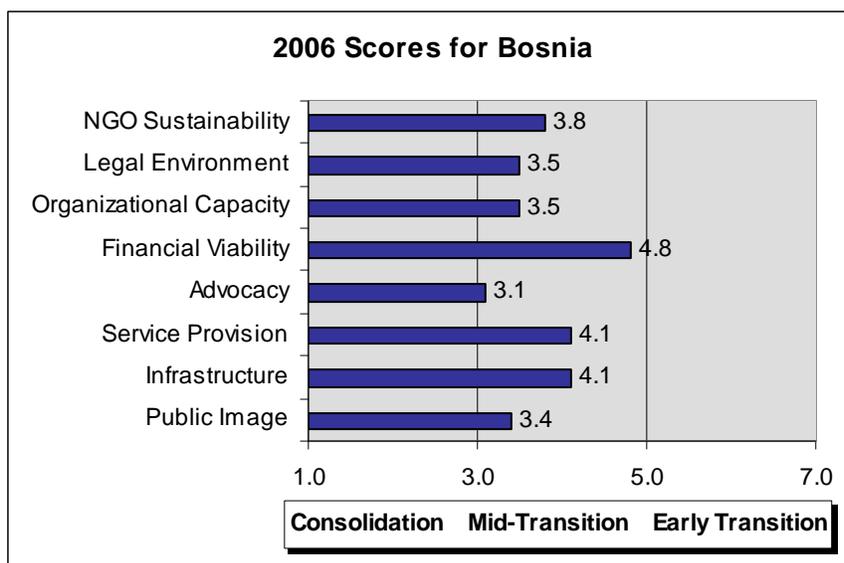
recent gathering to present a publication. Almost all organizations focus on reaching out to foreign donors rather than their local constituents.



The public generally lacks an understanding of the NGO sector's role in society and is wary in its contacts with NGOs. Younger generations respond adversely to State propaganda and often sympathize with NGOs that are besmirched by government controlled media. Among the younger generations, the majority prefer informal groups and initiatives. NGOs are often unable to demonstrate their capacities to the business community and generally appeal for aid rather than offer services. NGOs do not publish their annual reports and are not fully transparent to protect their security.

The NGO sector has yet to create a code of ethics, though a process to do so was initiated three years ago. With the State's control over the sector, organizations choose partners based on shared values and previous experience working together.

Bosnia and Herzegovina



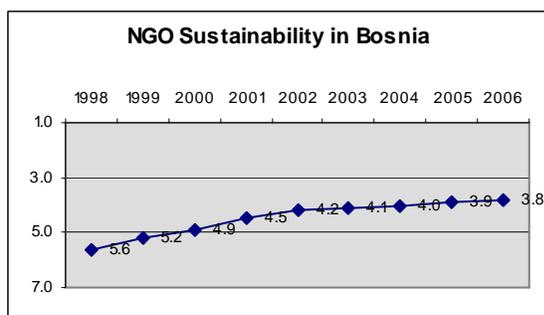
Capital: Sarajevo

Polity: Federal Democratic Republic

Population: 4,498,976

GDP per capita (PPP): \$5,500 (2006 est.)

NGO SUSTAINABILITY: 3.8



The NGO sector in Bosnia and Herzegovina continued to improve its overall sustainability with gains in all dimensions but the Legal Environment. The greatest improvements were made in the Advocacy and Public Image dimensions as NGOs are more effective with regards to their public image and recognition, publicizing their activities, and legitimacy and cooperation with the government. Advances in building local constituencies and networking also led to improvements in the Organizational Capacity and Infrastructure dimensions. Though the legal environment did change somewhat over the past year, the effects of this

change and the direction in which it will lead the NGO sector are not yet apparent.

Despite improvements, the NGO sector continues to face many challenges. The Financial Viability dimension remains the most tenuous. Though continued consolidation of NGO activities may lead to future improvements, NGOs continue to depend heavily on the international donor community. Some organizations are beginning to diversify their funding in reaction to the decrease of foreign funding and in preparation to access EU pre-accession sources of funding. Not all organizations, however, have begun to do so. The NGO sector is decreasing in both size and level of activity, a trend that is likely to continue in the future. Cooperation between NGOs and the business community continues to be minimal.

Approximately 7,000 domestic associations, foundations and other organizations are registered in BiH; of these, one-half are active. Only 229 organizations and associations are registered at the state level, while others are registered at the entity or local level.

LEGAL ENVIRONMENT: 3.5

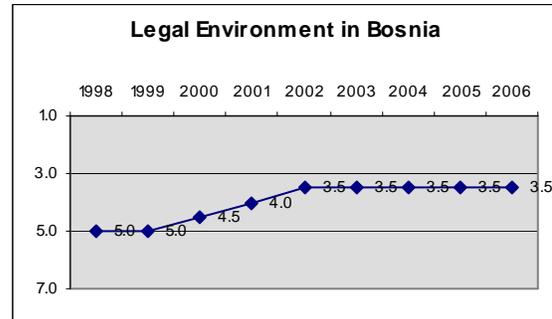
The government failed to adopt any reforms to the legal framework governing NGOs; as a result, the score for the Legal Environment dimension remains unchanged. In light of the current need for reforms, the NGO sector considers the government's inaction a negative development. Bosnia has three governing 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 Law on Associations and Foundations of Bosnia and Herzegovina (the Law) contributes to a favorable legal environment for NGOs operating in the BiH. NGO registration, however, has been inconsistent since the inception of the law, a trend that continued through 2006. The registration authority denied registration to numerous umbrella organizations and trade unions, claiming that they do not qualify as associations. The law and implementing regulations are vague on a number of issues, contributing to inconsistent regulation of the sector. In the absence of written instructions and set procedures, the registration authorities deny applications for registration for a variety of reasons, such as submitting the application at an inconvenient time. Government officials have yet to take any steps to clarify the law or provide for clear guidelines for its implementation.

The VAT Law came into force on January 1, 2006 and its impact on the NGO sector is still unknown. Representatives from the Directorate for Indirect Taxation informed NGO representatives that NGOs are eligible to register with the VAT system. NGOs may generate income by providing goods and services, though the tax implications remain unclear. An NGO may engage in economic activities, but the income it generates by forming a separate corporation is limited to 10,000 KM or one-third of the organization's budget, whichever is higher. NGOs are

permitted to compete for government contracts.



According to a law adopted in 2003, public utility companies may only make donations that support athletics, culture, social welfare, and humanitarian purposes. Such donations are subject to a number of procedural restrictions to safeguard public funds. NGOs, especially those in rural areas, face another barrier in that they do not have access to lawyers that are trained in NGO issues and affordable.

FEDERATION OF BOSNIA AND HERZEGOVINA

In the past year, neither organizations nor individuals reported any instances of abuse by the registration authorities, though it is unclear whether this is a result of more consistent and impartial implementation of the law. The tax laws that affect NGOs remain unchanged. Corporate donations for amateur sports or to support humanitarian, cultural, educational, scientific issues are deductible, though only up to 0.5% of a business' gross income. Donations to organizations that engage in other public benefit activities, such as advocating for human rights, do not appear to be deductible. Businesses are permitted to deduct up to 0.5% of their gross incomes for representation costs; this provision is thought to be broad enough to cover sponsorship payments. Businesses may also deduct membership fees and contributions to professional associations up to 0.1% of their gross incomes. NGOs are exempt from paying taxes on both foreign and domestic grants. The government is considering a Personal Income Tax Law that allows a taxpayer 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 his or her donation is approved by a competent ministry and supports specific public benefit programs.

NGOs may generate income by providing goods and services, though they must create separate corporations to engage in economic activities. Such corporations have to pay a 30% tax on all of their income. Only services provided by religious and humanitarian organizations that are serving their statutory goals are exempt.

REPUBLIC OF SRPSKA

The 2005 amendments to the Law on Associations and Foundations failed to offer any tangible benefits for NGOs applying for status as public benefit organizations. In addition, it is unclear whether the Law on Donations to Public Enterprises and Institutions, enacted in October 2005 to tighten government supervision on donations, applies only to organizations entrusted with public duties or all organizations with public benefit status.

ORGANIZATIONAL CAPACITY: 3.5

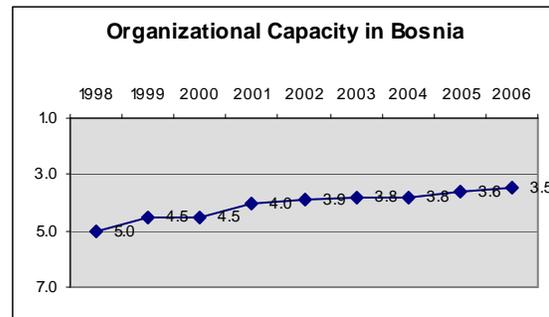
Over the past year, NGOs increased their efforts and ability to build constituencies and engage the communities and groups that they serve, including those focused on pensioners, youth, war invalids, citizen victims of war, the Roma, and trade unions.

More NGOs, including all of the large organizations and many smaller ones, recognize the benefits of delineating responsibilities between their staff and board members. Many small organizations, however, are in crisis mode due to their lack of funding. Evidence shows that some NGOs, especially those in urban areas, are struggling to stay open; they have scaled back their operations and up their office space and now operate out of the homes of their leaders. This is an inevitable consequence of the decrease in international funding. While smaller organizations struggle, the strongest 100

Corporations may deduct up to 1% of their incomes for donations that support humanitarian, cultural, educational, and sports activities; they may also deduct up to 1% for membership fees and contributions to professional associations. Donations that support other activities are not deductible, even if made to public benefit organizations. Costs to cover NGO sponsorship payments are deductible up to 3% of a corporation's gross income. Individuals are not permitted a deduction for donations.

NGOs may engage 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 their profits. Only legal entities engaged in labor and professional rehabilitation and the employment of disabled persons are exempt. Services provided by religious and humanitarian organizations that support their statutory goals are tax exempt. Both foreign and domestic grants are exempt from taxes. NGOs may compete for government contracts. Tax authorities apply tax laws inconsistently.

organizations have taken a lead role in organizing and developing the NGO sector, encouraging many organizations to improve their relationships with their constituents. Many of the stronger organizations serve as models for the smaller organizations throughout BiH.



As a result of the greater focus on the goals and needs of their constituencies, NGOs are developing and implementing projects that

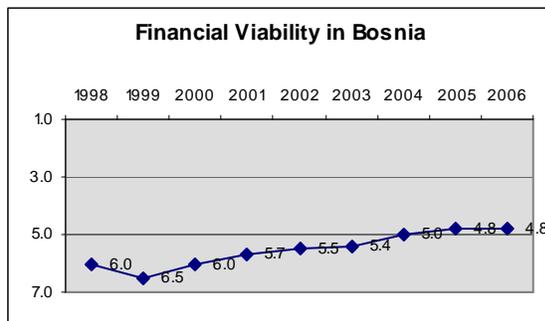
incorporate input from the public, and promoting community awareness. NGO staff members have demonstrated greater skills in drafting effective project proposals, addressing donors, and communicating with government officials at the local, entity, and state levels.

Financial constraints continue to impede the efforts of most NGOs to further their organizational capacity. Most organizations are run by a small number of members and are underdeveloped in areas such as strategic planning, public relations, and effective, transparent management. Though the

government has yet to approve a law on volunteerism, organizations are increasingly incorporating volunteers into their activities. All of the larger organizations are developed and may be considered professional organizations. They have fully equipped offices, internet access, websites, organizational charts, delineation of responsibilities, more diversified funding, and greater transparency. Some organizations have begun using more modern equipment and updating their webpages more frequently. Many smaller organizations have made progress in these areas as well.

FINANCIAL VIABILITY: 4.8

Despite some evidence of progress, the Financial Viability dimension remains the weakest. Cooperation between NGOs and municipal governments has continued to improve, though local funding remains inadequate considering the role the NGOs play in providing basic services for citizens. At the Federation level, the government adopted the Law on Distribution of Public Revenue (Official Gazette 22/06). At the Republika Srpska level the government adopted amendments to the Law on the Budgetary System (Official Gazette 34/06). These laws state that 8.42% of the VAT collected will be distributed directly to the municipal governments, bypassing the cantonal level in BiH. As a result, municipalities will have larger budgets that will be a potential funding source for NGOs.



Local funding is increasingly available for NGOs, and with better relations with government bodies, NGOs are in a better position to take

advantage of these opportunities. In the Republika Srpska, the funds available for the youth sector doubled to KM500,000 (US \$340,207) over the past year. Some municipalities have also made funds available and the Ministry for Civil Affairs published a call for proposals from NGOs in the areas of health; science and education; scientific research; humanitarian projects; social services; human rights and minority justice; services for the invalid, elderly, and youth; inter-religious dialogue; culture; and sports. In most cases the grant process lacks transparency, as the regulations are unclear and the committee decisions are made without clear guidelines.

Organizations have improved their fundraising skills and diversified their funding sources, though they continue to rely on foreign donors. Many organizations are sufficiently developed and could survive a decrease in donor funding. NGOs generally recognize how transparency and accountability affect their funding, though few have adopted appropriate measures, highlighting the need for training in effective management.

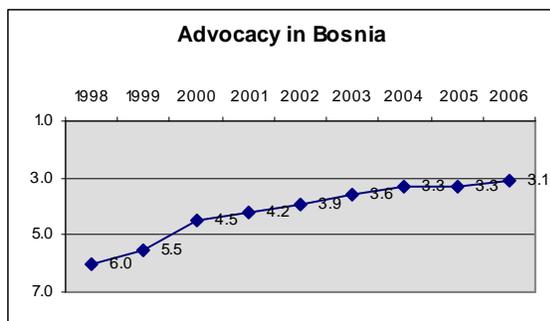
Cost-sharing is more common in the BiH. The Mozaik organization, for example, had partial funding for a project and asked the beneficiary community to contribute the difference. The community responded by contributing the resources, financial and in-kind, necessary to complete the project. Such collaborative

partnerships are effective in producing outcomes and promoting government and community participation. Many corporations are developing social responsibility strategies. In November 2005, Mozaik's launched an initiative to recognize socially responsible

corporations, and the first awards were granted this year. NGOs are increasingly aware of the basic principles of corporate philanthropy, but do not apply the pressure necessary to increase philanthropic giving.

ADVOCACY: 3.1

NGO advocacy efforts improved dramatically in 2006 in terms of visibility and the number of stakeholders involved. NGOs have had more frequent and sustained contacts with different levels of government. They have also taken the lead in parliamentary hearings on issues such as higher education reform, youth policy, environmental protection, amendments to the Law on Health and Social Protection, and victims of civil war. The GROZD initiative organized 200 organizations and 2,000 volunteers to pressure political parties in the pre-election campaign to adopt the GROZD platform. It also lobbied political parties and monitored political activities before the election.



Policy analysis organizations and think tanks have increased their visibility and developed cooperative relationships with government entities. Government officials increasingly

recognize that when they lack the capacity, resources or expertise, think tanks are a valuable resource for policy analysis. This year think tanks presented policy papers to parliament through the Parliamentary Research Center. These efforts led to greater media coverage for NGO activities; the media now actively seeks out prominent NGO leaders for comments and analysis of important social issues.

Expertise in advocacy remains concentrated in a few leading national organizations; smaller organizations generally lack the staff and expertise to advocate effectively on behalf of their constituents. As local NGOs become more involved in coalitions, they provide a channel for advocating at the national level. Similarly, local NGOs more often engage larger, national organizations or seek out coalitions for assistance with their advocacy efforts.

Though the sector improved, NGOs missed several opportunities to collaborate on certain issues. Few grassroots organizations working on similar issues, for example, developed collaborative partnerships. Similarly, despite improvements, the NGO sector has few examples of clear, concrete results, or legislative changes that may be directly attributed to their efforts.

SERVICE PROVISION: 4.1

The NGO sector made slight improvements in the Service Provision dimension over the past year. Organizations provide a growing range of goods and services in areas such as health, relief, human rights, economic development, training and others. Local governments and

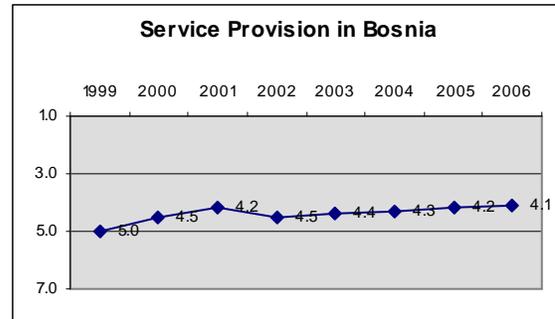
institutions increasingly recognize NGO services providers. Though government officials appear to be more receptive to partnering with NGOs, they remain unwilling to provide funding for services at the national level. NGOs, however, are making great efforts to collaborate with higher levels of government to

harmonize services for those in need. A network of NGOs that provide services to breast cancer survivors, for example, cooperated with medical and health care professionals to ensure that their services are available throughout the country. A number of women's rights organizations that provide services to victims of domestic violence and human trafficking have incorporated these topics in to school curriculum. Local governments recognize these efforts and some provide limited funding.

Following several years of extensive advocacy efforts, a nation-wide NGO network for disabled persons finally enjoyed its first concrete results. The entity level government began implementing two major laws that assist registered people with disabilities. Since being implemented in January 2006, the RS Law on the Employment of Disabled Persons resulted in local businesses hiring 89 disabled persons; the government subsidized their salaries. Following great lobbying efforts, the Federation of BiH Entity government this year began distributing social benefits to people with disabilities.

Local NGOs provide employment services while engaging in economic activities, though the fiscal environment is unfavorable and fails to distinguish between NGOs and for-profit entities. A few NGOs such as the Bosnian Handicraft, which employs 300 women refugees from different ethnic groups, successfully recovered their costs by implementing well-developed business plans, accessing global

markets, and maintaining ties with international and local businesses. Their success permits them to maintain a high level of financial sustainability for years to come.



NGOs now recognize that providing workshops and training activities free of charge is unsustainable, though they continue to charge minimal fees or fully recover their costs. NGOs also understand that the sector ought to adopt a standardized fee schedule for trainings and other services, in order to provide quality services in a sustainable manner.

As a result of the implementation of the Mid Term Development Strategy (MTDS), a Poverty Reduction Strategy Paper, the government recognizes NGOs as partners in addressing social welfare needs. Only when the government recognizes the need to implement the MTDS at the municipal level will NGOs have an increased role in the process. Due to the elections, implementation was not a priority for the government this year.

INFRASTRUCTURE: 4.1

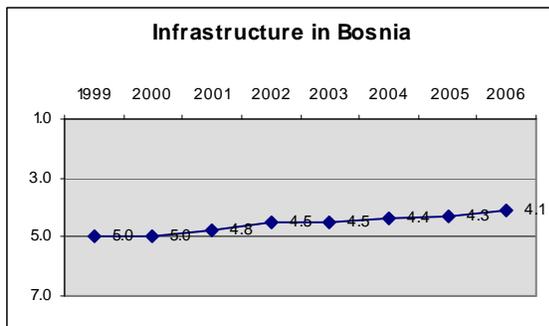
Developments in the Infrastructure dimension revolve around the growth in coalitions and inter-sectoral partnerships. Intermediate support organizations and the well-developed NGOs both included smaller organizations in their initiatives. The sector is increasingly aware of the benefits associated with NGOs being better organized and having stronger communication with one another. Organizations formed ad hoc networks around common interests and strengths; these

networks were at times sparked by international donors, while at other times they were purely the initiative of local organizations.

The new center for Civil Society Promotion became fully operational in December of 2005 and was increasingly active over the past year. The Center maintains an electronic database of NGOs in BiH, provides legal and financial management services, and trainings; facilitates information sharing; and offers a library of materials of NGOs. Located in Sarajevo, the

Center is the only resource center; it is still in the earliest stages of building a membership base and raising funds. The absence of resource centers in other cities hinders the exchange of information and opportunities for cooperation.

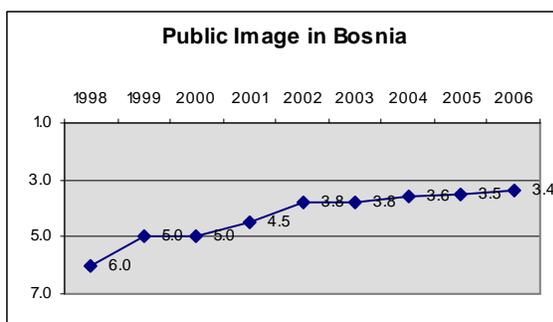
Partnerships with the government sector and the media improved significantly, though relations with the business community remain weak. Local grant-making organizations continue to re-distribute grants from international donors while making efforts to diversify their funding sources.



PUBLIC IMAGE: 3.4

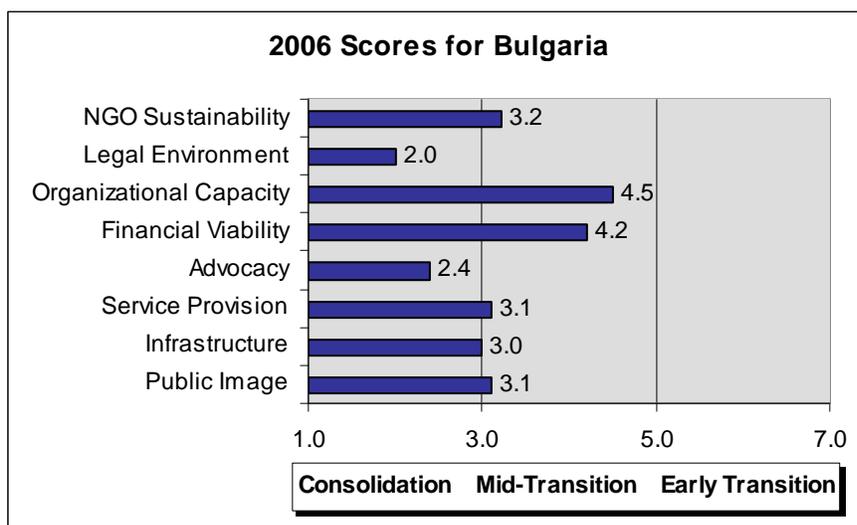
NGOs increased their visibility and publicized their activities over the past year. The media assisted by providing greater coverage. Some organizations are more effective than others in taking advantage of the increased coverage by the media, which has invited NGO leaders to comment on NGO activities as well as broader social and policy issues. All levels of government are increasingly willing to consult a variety of NGOs, including basic service providers, grassroots activists, larger advocacy organizations, and policy think tanks.

The GROZD initiative attracted a great deal of media coverage before the election. NGOs held more than 30 press conferences and made more than 380 media appearances in which they directly challenged political candidates. NGO representatives also attended over 250 public hearings and two large conferences, and distributed 100,000 brochures, 10,000 flyers, and other promotional materials. NGOs also gathered 500,000 signatures in support of the Civic Platform, which was adopted by many of the political parties. These efforts demonstrated the growing influence of NGOs throughout Bosnia. Before the GROZD initiative, the public generally viewed NGOs as money launderers or donation hunters. Since the elections, citizens have begun to recognize civil society organizations as advocates that are able to promote change.



NGOs need to continue developing their public relations skills and the ability to communicate their missions and clearly express their ideas. Without improvements, the increased publicity may not lead to an improved public image.

Bulgaria



Capital: Sofia

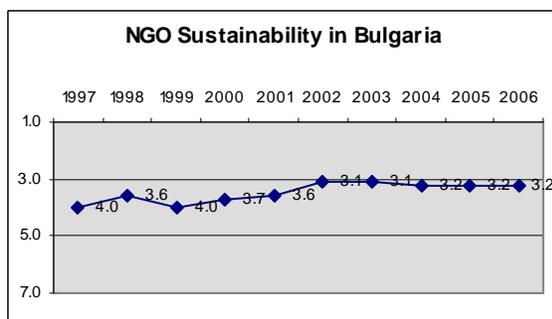
Polity: Parliamentary democracy

Population:
7,385,367

GDP per capita (PPP): \$10,400

NGO SUSTAINABILITY: 3.2

In 2006, 27,000 non-profit organizations were registered in Bulgaria; 2,500 of these NGOs are active and 1,000 were also registered as Public Benefit Organizations. This year NGOs surfaced as strong, reputable providers of specialized technical assistance for the central, regional, and local governments. They also provided technical assistance for social service providers and the public. The increased capacity of NGOs made them welcomed partners in developing and implementing legislative reforms, as well as national and local policies. In 2006, NGOs played an important role in a few wide-scale advocacy campaigns.



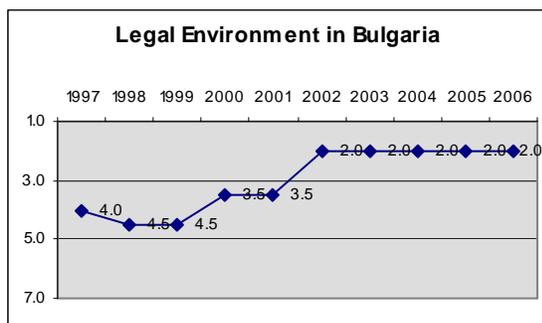
The improved legal environment is largely due to NGO participation and lobbying efforts and

the increase in inter-sectoral partnerships, which are both making the restructuring of civil society in preparation of the decrease in donor funding smoother. NGOs must now depend on local financing and more importantly on their own income or European revenue that is distributed by the Bulgarian government. The change in funding sources has caused instability in many NGOs, especially those that focus on advocacy. Some organizations are reducing their level of activities, while others are making efforts to adopt new profiles or the necessary changes to begin providing technical assistance or social services. The transformation has been difficult for many NGOs and they perceive it as an identity crisis. Some NGOs that have worked with American and European donors in past years are exasperated with having to deal with the bureaucratic procedures of the State, which is now distributing funds and providing contracts.

Despite the positive changes in the Legal Environment, Service Provision, and Advocacy dimensions, Bulgarian NGOs remain weak in the Organizational Capacity and Financial Viability dimensions, which are both key to overall sustainability.

LEGAL ENVIRONMENT: 2.0

The legal environment for NGOs evolved over the past year due primarily to legal amendments that lay the groundwork for further improvements. The process for registering a new organization does not pose any barriers. Administrative reforms that merged the Bulstat with the Central Tax administration provide “one-stop shopping” registration of new NGOs, which further alleviates registration delays. As the court employees responsible for processing registration applications become more competent, they are able to review applications more efficiently and complaints of delays have become rare.



Over-regulation of governance, scope of activities, and financial accountability by the State are no longer barriers for NGOs. In 2006, the central government eliminated some of the bureaucracy concerning NGO operations including inscription in the Public Registry and the rule for organizing a general meeting of NGOs. The NGO sector considers the increased regulation for those offering social services such as education, health care, child services and others as positive steps that will benefit the sector.

NGOs also consider as a positive measure the new corporate governance regulations that

ORGANIZATIONAL CAPACITY: 4.5

The organizational capacity of most NGOs remained low in 2006, and the number of organizations that operate without a clear

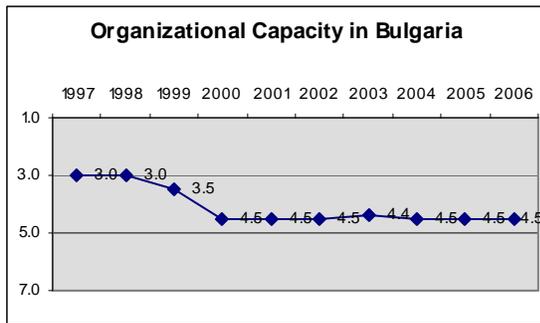
apply to NGOs receiving more than BGN 50,000 (US \$ 33,999) in support from the EU or government. Bulgarian legislation also guarantees NGOs an equal opportunity to participate in procurement of public contracts. The legal framework, however, continues to prohibit NGOs from providing healthcare services, permitting only for-profit or government entities to do so. NGOs grew increasingly concerned over the past year about government regulations that require a minimum for financial turnover in order for NGOs to qualify for larger government contracts. Some of these minimum requirements are so high that they preclude Bulgarian NGOs and limit competition to domestic corporations or international NGOs.

The legal framework contains safeguards that protect NGOs against political or administrative pressures. NGOs frequently exercise their rights to criticize or file law suits against government institutions without direct repercussion. The laws do not, however, protect NGOs against indirect government pressures; an organization that criticizes the government may, for example, be passed over for a contract in favor of others.

The tax exemptions and benefits allowed NGOs and their donors remain unchanged. The Bulgarian Center for Not-for-Profit Law (BCNL) and its network of advisory centers has increased the legal community’s level of knowledge of NGO issues and improved the level of services available. The number of attorneys trained in NGO law has also increased and one of Bulgaria’s leading universities created a Master’s Degree course in not-for-profit law.

mission or strategic plan increased. Other NGOs readily gave up on their stated missions and failed to identify new ones. Donors that provided significant support to NGOs in the

1990s and promoted organizational capacity are withdrawing their support. The funding vacuum they are leaving is being filled by state entities, which are generally unwilling to provide funding to support organizational capacity building. Government entities, rather, view NGOs as project implementers for EU-funded projects. Most new NGOs are created ad hoc to compete for government contracts and lack mission statements and strategic goals. Their only purpose is to access government funding and execute the related activities.



The majority of NGOs lacks a clear management structure that delineates responsibilities and provides job descriptions, which hinders their development. Other than the approximately one-hundred leading organizations that cooperate with foreign donors, the average Bulgarian NGO is unable to guarantee high standards of transparency and accountability. For-profit entities are far more advanced with regards to financial management, giving them a competitive edge over not-for-profit organizations.

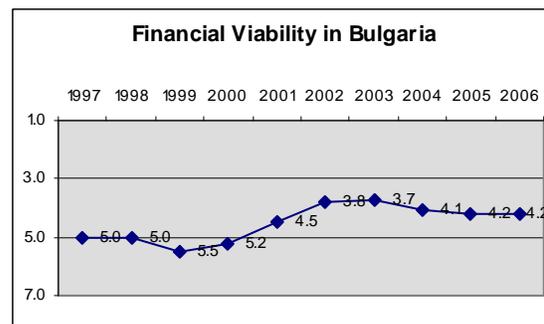
FINANCIAL VIABILITY: 4.2

The level of financial resources available to NGOs increased over the past year, though the sector's overall viability remains relatively low. The Financial Viability dimension experienced numerous developments in 2006. The government increased its support of NGOs and even provided small line-items in the state budget. In addition, the government increased its demand for technical assistance and delegated a broader variety of services to NGOs.

The number of full-time staff employed by NGOs remains unchanged; the number of temporary staff, however, rose in 2006 due to greater involvement in technical assistance projects. NGOs have a greater capacity for engaging academic professionals in their implementation of specific projects. They are concerned, however, about the large number of experienced professionals that are leaving domestic NGOs for jobs in the government or for-profit sectors or with international NGOs. With few exceptions, NGOs are unable to secure support and assistance from those that benefit from their projects and activities. Those rare exceptions are limited to short-term projects or the result of government pressure. Similarly, volunteerism remains underutilized, even by the leading NGOs.

NGOs generally have the same technical resources that they had last year. As the technical resources that for-profit and government entities have increased, NGOs are even farther behind than they were in the past. To compensate, NGOs are making efforts to partner with their peers and for-profit entities rather than investing their limited resources in buying new equipment.

In summary, NGOs are slowly adjusting to the new donor environment. In the process, they have lost some of their strategic capacity, but acquired other tactical skills.



Finally, a growing number of municipal governments allocated resources to support NGO activities. These positive trends, however, only partially negate the effects of the decrease of foreign funding, and overall NGOs remain unable to improve their financial viability.

Only a few organizations have funding from a broad variety of sources. The business sector is increasingly open to providing charitable support; it prefers to donate directly to the beneficiaries, however, and not to NGOs or private foundations, which have grown in number. This year, a coalition of NGOs and members of the media raised funds for specific charities, though the funding did not affect the organizations' short-term viability. NGOs had the greatest success generating income through economic activities. Organizations that

specialize in providing technical assistance increased their customer bases within the government, local authorities, and business community.

Like last year, less than 100 NGOs have stable financial management systems. The majority of NGOs has difficulty accessing expert financial and accounting services or independent auditors. NGOs also face higher rent and maintenance fees for their offices, as well as other commissioned services. These expenses, combined with their unstable incomes, contribute to the weak financial conditions of most NGOs. The level of financial viability remains steady due to volunteerism and the ability of NGOs to engage in economic activities.

ADVOCACY: 2.4

Despite the unstable Organizational Capacity and Financial Viability dimensions, advocacy organizations experienced numerous positive developments in 2006. NGOs are strengthening their partnerships with central and local government agencies to develop and implement public policy. The public advisory councils within most ministries include NGO representatives in their decision-making processes, and the Parliament seeks out NGO expertise when drafting legislation or amendments.



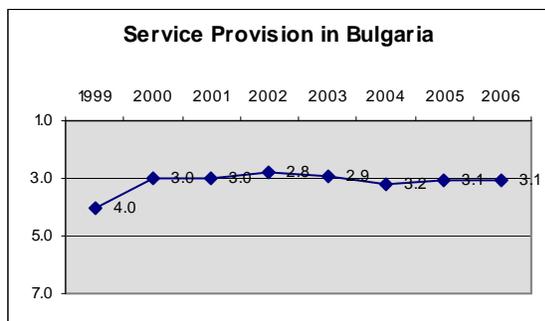
Over the past year, NGO coalitions have executed numerous national and local advocacy campaigns; they include several anti-corruption

campaigns; Greenwatch and other environmental awareness campaigns concerning Sofia, Stara Zagora and Irakli Beach; child-protection campaigns; and projects to prepare Bulgarians for EU accession. In most of these efforts, NGOs demonstrated their improved communication skills by collaborating with the media and informal civil associations. Consumer groups, employers, and professional unions also engaged in more advocacy efforts throughout the year. While the majority of NGOs continues to view political lobbying with some caution and disbelief, this was a breakthrough year with substantial lobbying successes. The improved legal environment is a direct result of these lobbying efforts. The combination of lobbying, civil pressure, and expert assistance by NGOs, for example, was instrumental in the Parliament's adopting of anti-corruption legal reforms.

Despite these examples, NGOs are insufficiently proactive in advocating for broader public interests. More media and civic initiatives were launched as quasi-political parties. GERB, for example, was created as a political party but functions throughout the year as an advocacy organization promoting specific policies. Such

organizations will likely lead to even greater NGO activity.

SERVICE PROVISION: 3.1



NGOs are expanding the variety of goods and services that they provide, which stimulates their capacity as service providers. In 2006, NGO reinforced their market position as providers of advocacy, information, public relations, social, and education services. NGO clientele grew to include important government institutions, local governments, international agencies, and the media. For-profit businesses increasingly chose NGOs to provide services, which helped to improve the Service Provision dimension. In response to market demands,

NGOs are increasingly specialized; they are augmenting their portfolios of goods and services, as well as acquiring new marketing skills. In most cases, NGOs compete with for-profit entities and remain competitive. NGOs are unable to gain an edge in public services markets such as health, housing, water, and electricity supply.

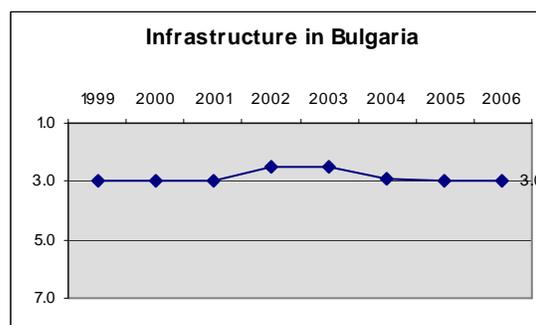
NGOs place the greatest priority on the services and products that they offer for a fee, because these are often their main sources of income. NGOs, however, offer many social services, publications, and trainings to their members, supporters, beneficiaries, and vulnerable population for fees that are often far below market prices. Officials from the central and local government are increasingly aware of the value that NGOs add to the provision of public services. As a result, they often seek out NGO participation and subsidize their activities. This mutually beneficial relationship is limited solely by the inadequate legal framework.

INFRASTRUCTURE: 3.0

Though the Infrastructure dimension was marked by both positive and negative trends, the positive outweigh the negative. The role that ISOs and local NGO resource centers play continues to decrease as foreign donors withdraw their funding. Support from local foundations is practically nonexistent and remains insufficient to replace the funding that international donors once provided.

The NGO sector is in a state of crisis concerning the formation of long-term, sustainable networks and coalitions. NGOs lack an organization or committee to represent and advocate for the sector's interests. The sector did not make another attempt to form a Public Council of NGO Representatives to address the Parliament as they have in the past,

in part because past attempts were not completely successful.



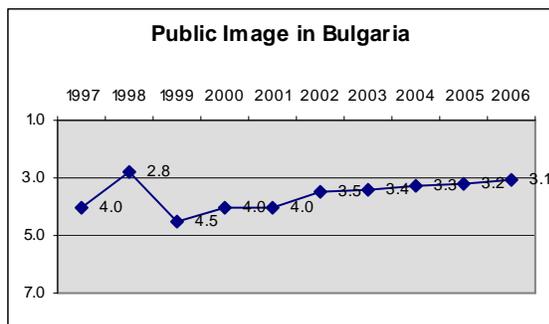
Use of the internet is expanding for many NGOs and serves as an important medium for exchanging information and experiences, providing consultations, and conducting research. This year, general and specialized training opportunities increased as a larger

number of high-schools, NGOs, and consultants offer more services. There is no indication that the sector's needs have increased, indicating that supply exceeds demand. The provision of specialized legal, accounting, financial, and other services improved over the past year, though

the majority of NGOs is unable to afford them. The most positive trends concerning NGO infrastructure are related to inter-sector partnerships with the media, public authorities, and the business community.

PUBLIC IMAGE: 3.1

The media coverage of NGOs and their activities provided a rather positive image of the sector this year. This is the result of an increasingly strong NGO-media partnership and the higher level of professionalism with regards to public relations. NGOs were also able to attract media attention and earn the public's trust by engaging in several good causes of high priority.

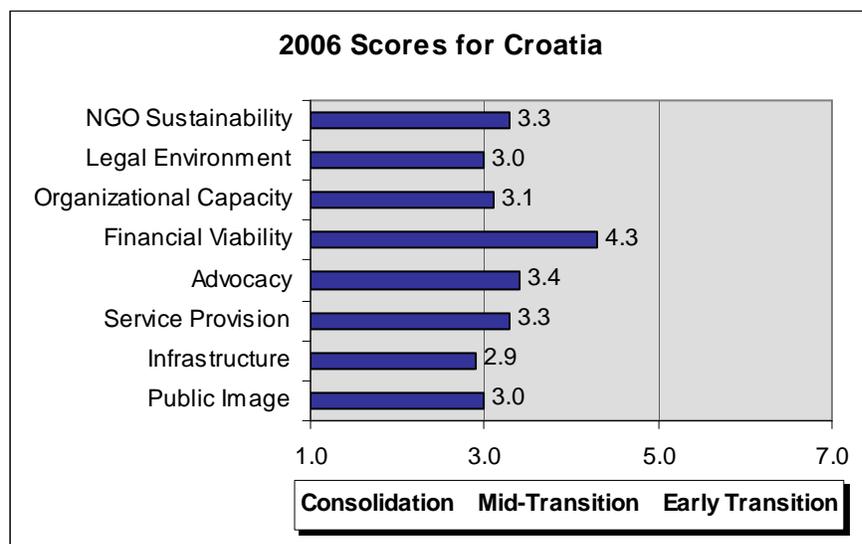


Scandals concerning the Bulgarian Red Cross and NGO financing within the EU Accession Communication Strategy by the Foreign Office

in 2005 undermined the public's trust of the sector. The government and business community, however, have more positive perceptions of NGOs, as demonstrated by improved inter-sectoral partnerships. The stronger inter-sectoral partnerships are largely the result of EU-accession funds available to NGOs that partner with business and government partners. All of the large projects implemented by NGOs over the past year included partnerships with government or private sector stakeholders. In addition, local government began providing NGOs with contracts for social services, which allowed NGOs to improve their public image with government officials and local communities.

The NGO sector failed to adopt a common code of ethics, despite an initiative launched this year. Similarly, the call for increased transparency and self-regulation went unrecognized by NGOs, which seemed unwilling and unprepared to initiate any effort in this direction.

Croatia



Capital: Zagreb

Polity: Parliamentary Democracy

Population: 4,494,749

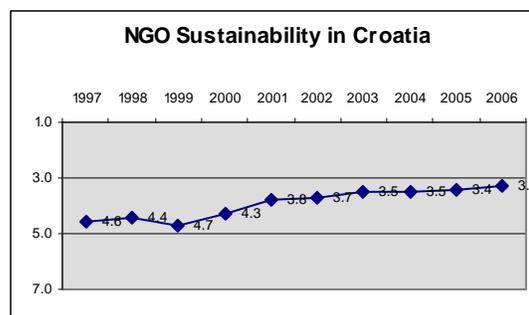
GDP per capita (PPP): \$13,200

NGO SUSTAINABILITY: 3.3

In 2006, the number of registered civil society organizations grew to 30,000 associations, 97 foundations, and one fund. While there are a significant number of associations, there are few foundations, which is attributable to legal obstacles and a limited tradition of philanthropy. The adoption of the National Strategy to Create an Enabling Environment for Civil Society Development 2006-2011, which the government prepared in collaboration with NGO representatives and adopted in July 2006, was the most significant event this year.

NGOs continued to advocate for reforms and were successful in promoting changes involving the political process, prevention of corruption, youth development and maternal rights. Many NGOs continue to take steps to improve organizational capacity and financial sustainability by improving their standards. As foreign funding wanes, domestic support becomes more important. Government entities, the National Foundation for Civil Society Development, and the business community all support a large number of NGOs. The National Foundation for Civil Society Development (NFCSD) is now the leading domestic donor and even provides institutional grants for up to three years.

NGOs have a better relationship with the current government and some ministries are more open to cooperating with NGOs.



The Council for Civil Society Development, an advisory body to government, and the Government Office of Cooperation with NGOs have a greater commitment to promoting cooperation with NGOs. Similarly, local governments are forming more cooperative relationships with NGOs and signing more partnership agreements. NGOs have a higher level of visibility and enjoy greater recognition by the public, which are the result of increased public relations efforts and the media's greater receptiveness to NGOs. The infrastructure supporting NGOs continued to improve, as did the partnerships between NGOs, which now

include 52 NGO networks, forums and coalitions. While in the past, NGO networks were sector specific, new cross-sectoral networks in less-developed regions are focused on broader NGO interests. Intermediary support organizations (ISOs) continue to

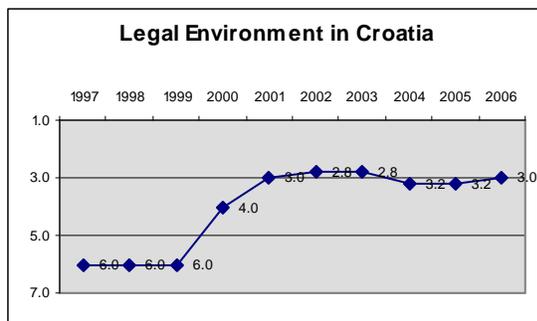
improve and have expanded their activities to include new topics and regions. As a result of greater NGO public relations efforts and increased media coverage, the sector has become more visible and better recognized by the public.

LEGAL ENVIRONMENT: 3.0

The most significant improvement in 2006 was the adoption of the National Strategy to Create an Enabling Environment for Civil Society Development 2006-2011. The Strategy is a plan for a comprehensive legal, institutional, and financial framework that will further strengthen Croatian civil society. The legal aspect of the strategy covers key laws and regulations. Another positive development is the draft Law on Volunteerism and draft Code of Good Practices in Public Financing of NGOs, which Government approved and submitted to the Parliament. All these documents were developed in a collaborative effort between NGO representatives and government officials. Despite these activities, the NGO sector still does not have a strong lobbying group that advocates for additional improvements to the legal framework, although during drafting of civil society strategy NGOs demonstrated greater interest in this issue.

pay overtime, which many of them can not afford to pay.

The registration process, which is governed by the Law on Associations, continues to be relatively easy for new organizations. The Law on Associations also creates clear regulations for internal management, scope of permissible activities, and financial reporting. A few organizations experienced difficulties with registration, but it was due to local officials' limited understanding of the regulations. The registry of associations and registration information is all available online. While the Law on Associations is progressive, the 1995 Law on Foundations and Funds presents significant barriers to registering foundations. Despite the barriers, the registration office is generally very cooperative and flexible in applying that process. NGOs, government officials, legal experts and representatives from the donor community continue to discuss the need for additional legal improvements.



Though the laws governing NGOs are generally supportive, at times, local public servants interpret and implement them in a manner that creates difficulties. In addition, NGOs are subject to many laws written for for-profit entities, which indirectly may create some barriers. In one example, NGOs are subject to provisions in the Labor Code requiring them to

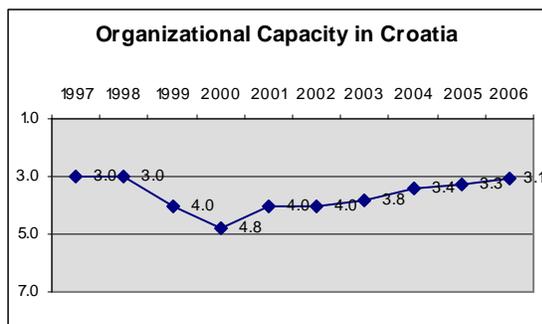
NGOs outside of the urban areas have more limited access to legal assistance with respect to NGO laws. This may improve if the draft law on free legal assistance, submitted to Parliament, is approved. Online resources that assist Croatian NGOs with the legal and fiscal regulations are also available.

Humanitarian organizations, political parties, trade unions and chambers, religious communities, and medical and cultural institutions created under separate laws are exempt from the VAT, which would normally be charged at a rate of 22% of an organization's deliverables. Organizations are generally included in the VAT system if they apply for such status or if the value of their taxable goods exceeds 85,000 Kuna per year. Domestic

organizations that use foreign funding to purchase goods for accomplishing their goals are also exempt. Watch-dog groups and human rights and peace organizations, however, are not exempt. The disparate treatment of organizations highlights the need to better define and regulate public benefit status. An NGO is exempt from paying taxes on grants and donations as long as the funds are used to further the organization's non-profit activities. The Red Cross and other humanitarian organizations, associations, funds and foundations are exempt from the gift and real estate taxes. Corporations and individuals are able to deduct up to 2% of their incomes for donations to organizations with cultural, scientific, educational, health, humanitarian, sport, religious, and other activities.

Croatian organizations are free to take a stand on public issues and criticize the government, which stronger watch-dog groups do frequently. Under the current Law on Associations NGOs are permitted to engage in economic activities, although this is not precisely defined. In addition, under the current Tax Code NGOs are exempt from paying taxes on income from economic activities. If an organization's economic activity gives it an unfair market advantage, however, it may be required to pay a 20% income tax like a for-profit business. The tax authorities may, upon their own initiative or the request of a taxpayer, determine whether an organization has an unfair advantage and ought to pay income tax. NGOs are permitted by law to compete for government contracts and procurement opportunities at the central and local levels.

ORGANIZATIONAL CAPACITY: 3.1



Overall, the NGO sector continued to improve its organizational capacity. NGOs, larger ones in particular, are increasingly committed to improving their financial management, internal regulation, and governance. In addition, they are improving their relationships with beneficiaries and constituents, which include women, youth, the elderly, minorities, the unemployed, consumers, and the greater public. Many organizations have long-term strategic plans, to which they make efforts to adhere. At times, NGOs engage in strategic planning in response to pressure from foreign and domestic donors. Larger and well developed NGOs have well trained and professional staffs that are respected for their expertise.

Recently, NGOs are more interested in increasing their quality standards, which exemplifies their efforts to improve their organizational capacity. NGOs are also seeking technical assistance to better implement the NGO Quality Assurance System which NGO leaders modeled after a system in the United Kingdom. Eighteen trainers were certified on the NGO Quality Assurance System and now provide assistance to NGOs throughout Croatia. A known group of NGO leaders formed the Governance Working Group to further develop and promote a model for NGO governance. The Working Group published a translation of the NGO Governance Manual, which provides recommendations for improved NGO governance; it is a valuable tool that will assist organizations to improve their governance systems. The Trainer's Forum promoted the Handbook in an effort to improve the capacity of NGOs around the country.

A few well developed organizations have five or more employees and sufficient levels of funding, while the majority have between one and three employees and operate from project to project. Those organizations that receive National

Foundation institutional grants or other larger foreign grants enjoy a relatively high level of financial security. While many smaller organizations incorporate volunteers into their projects, larger organizations often rely solely on their employees and rarely take advantage of volunteers. The government is considering a new Law on Volunteerism, which in addition to new and on-going campaigns to promote

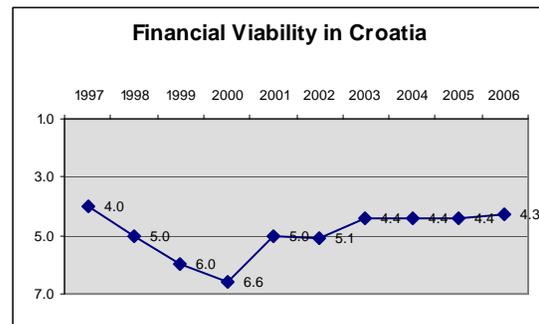
volunteerism, is expected to encourage more citizens to volunteer and NGOs and public institutions to use volunteers regularly and more effectively. Most organizations are relatively well equipped with information technology and regularly use computers, faxes, e-mail and the internet, though their equipment is not always the most up-to-date.

FINANCIAL VIABILITY: 4.3

The Financial Viability dimension remains the weakest, and despite progress over the past year, NGOs continue to face significant challenges in achieving financial sustainability. NGOs make efforts to diversify their sources of funding to include foreign donors, local or national governments, the public foundation, and even the business sector. Some NGOs are more open to engaging in revenue-generating activities. Well-developed organizations rely primarily on foreign donors, while others depend on local or national governments, which generally provide smaller grants. Studies on democratization and human rights NGOs conducted by B.a.B.e. found that foreign support accounts for 73% of all funding, while support from national or local governments, the business sector, or individuals accounts for another 20%. On the other hand, domestic support is significantly larger for social services and community groups. Despite the value of domestic support, many NGOs argue that funding continues to be project-driven, which often ensures the short-term sustainability of most NGOs.

Many organizations, especially those funded by foreign donors, have appropriate financial management systems; they often use qualified accountants and try to ensure transparency in their operations. Some NGOs struggle to meet all of their legal obligations on financial reporting; to do so requires appropriate infrastructure which these organizations may not have. In one example, a well-known organization may have to pay a penalty for irregularities involving the management of foreign currency due to its lack of expertise in

this area. Larger organizations are more likely than smaller ones to publish their annual reports or post them online. Some NGOs believe that donors require them to adopt financial management systems that are inappropriate for their needs. Smaller organizations struggle to afford qualified accountants; as a result some face difficulties in managing their finances and meeting all of the legal requirements.



Improvements to the NFCSD and expansion of its call for proposals allowed a larger number of democracy organizations and many other NGOs to access funding, particularly long-term institutional grants. In 2006, NFCSD granted over US \$5.5 million for 163 grants, including 89 longer term institutional grants. In addition, many ministries, government offices, and local governments have continued to provide funding to NGOs. Most NGOs have been unable to access EU funding; as foreign donors such as the Open Society Institute withdraw from Croatia, NGOs, especially advocacy and watch-dog groups, face funding gaps. Several corporations that provide grants consider funding social services, health, environmental protection,

culture, and sports activities. A few NGOs have developed productive relationships with corporations, which is an innovative fund raising strategy that still remains uncommon among NGOs. In one example, a human rights organization received a grant from a corporation. This is still considered exceptional, however. The UNICEF survey found that donations are the most common form of corporate support from large and medium size corporations, 97% and 93% respectively. It also found that only 1.5% of the annual income of surveyed NGOs came from corporations. In order to promote corporate philanthropy, Selectio Group/Moj Posao established a new website (www.donacije.info), which has the potential to become a valuable resource for NGOs. Many Croatian NGOs are experienced in organizing fundraising activities, including one-time events.

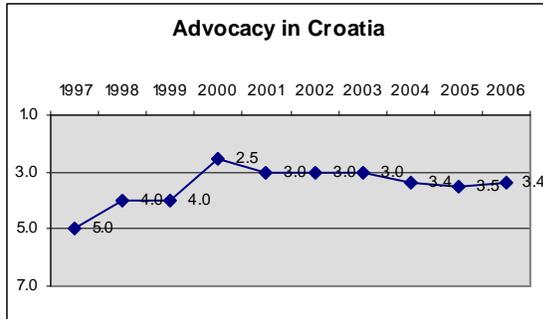
ADVOCACY: 3.4

Despite criticisms that they have not been sufficiently active, NGOs were successful in some of their advocacy efforts and increased the public's awareness of the need for change in a variety of areas. This year, many organizations promoted policy changes, though their efforts were less advocacy campaigns than they were lobbying. NGOs made the most progress in areas in which the government agreed with their positions. The most successful advocacy initiatives of 2006 were GONG's lobbying efforts to reform the election process, which led to submission to Parliament of the draft Law on Direct Election of Mayors, initiatives to create the Permanent State Electoral Commission, and efforts to improve voters' lists. In addition, GONG and Transparency International together advocated for the prevention of corruption in political parties and drafted a law on financing political parties and campaigns. Transparency International Croatia (TIH) continued with its efforts to combat corruption by publicizing its annual index on corrupt practices. Though some of these initiatives are incomplete, GONG and TIH emerged as key public advocates, and successfully raised public awareness about corruption and politics and pressured the

In the past, NGOs demonstrated little interest in conducting economic activities to support their nonprofit goals. As foreign funding decreases, however, some organizations are more open to social entrepreneurship. The Association of Unemployed in Osijek, for example, now operates two companies. Some NGOs supplement their income by charging fees for services or products; organizations that provide training services are the most successful. Social service and education organizations have the most contracts with national or local governments. With EU funding, NGOs have greater opportunities to partner with government institutions and secure government contracts especially in the area of social services.

government and political parties to improve the electoral process.

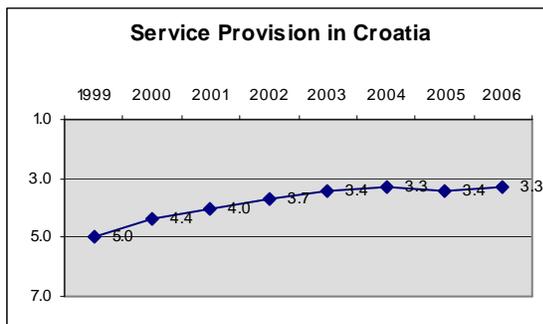
Other advocacy efforts include human rights and peace organizations that advocated for changes in the draft Law on the Secret Service. Their efforts led to a complete revision of the draft, which was recently submitted to the Parliament for consideration. Veterans' associations were successful in advocating for veterans' rights concerning issues such as housing and shares. Parents and children's associations advocated for improvements in the payment of maternity stipends. During the public debate on criminal law NGOs such as Women's Room and Iskorak proposed amendments that recognize aggression towards minorities as hate crimes. The Youth Network in the City of Zagreb organized an advocacy campaign criticizing the city for inadequate youth development policies and failing to implement those that exist.



A number of NGO leaders participated in parliamentary and other government drafting committees. They also have the opportunities to participate in the implementation of the national program for prevention of corruption, protection of consumer rights and monitoring environmental protection. At the local level, civil society and government are forming joint committees to address specific issues. In

Karlovac, for example, NGOs and civic groups participated in urban development and spatial planning. NGO and government representatives participated in the National Council for Civil Society Development, which promotes civil society issues. Additional progress in NGO-Government cooperation has been made over the past year, and the quality of cooperation has been improved in some sectors. Organizations that focus on issues such as disabled persons, gender and human rights, youth development, and environmental protection are often aware of their abilities and effectively advocate for legal reforms. Some NGO service providers, however, lack the courage to publicly advocate for legal reforms. Successful advocacy initiatives are often led by strong leaders. NGOs consider the EU accession process as an opportunity to improve further consultations with government.

SERVICE PROVISION: 3.3



NGOs are allowed to compete for government contracts at the central and national level. Some ministries and local governments have continued to sign social services contracts with NGOs, including the Ministry of Health and Social Welfare, City of Split and the City of Zagreb. In some smaller cities such as Sisak, local governments have started to support an NGO active in counseling victims of domestic violence. With the EU accession process new opportunities for provision of services emerged for environmental NGOs and consumer associations. NGOs continue to provide a variety of services in areas such as informal education, social services, legal assistance, environmental protection, employment rights, volunteerism, policy research, and NGO

management. Most NGOs provide services in response to social demands and as a result have a large number of beneficiaries.

In addition to conducting various training programs and providing direct services, larger NGOs have also become more engaged in different types of research projects and studies. This year several NGOs successfully conducted valuable studies, including B.a.B.e., SDF, Documenta, IDEMO, three NGO support centers, and CEPOR. All these research activities demonstrate greater interest and capacity of Croatian NGOs to explore and analyze important social, political and economic issues. Most of these studies were collaborative efforts between NGOs, scholars and other experts. Due to the importance of the subject matter and potential impact on public policy, NGOs publicized their reports and distributed them to the government and other public institutions, as well as other NGOs and the business community. Government officials expressed great interest in the CEPOR recommendations, which were critical for promoting entrepreneurship in Croatia. Most studies were funded by donors, and many

NGOs remain uncomfortable selling their products.

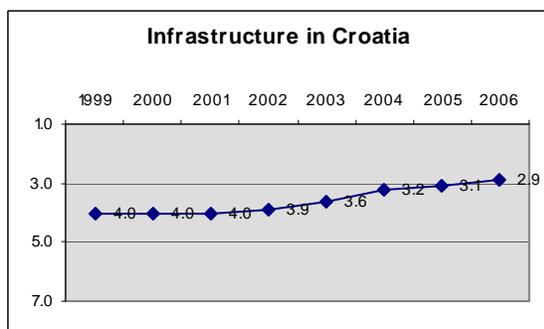
Cost recovery is an area that Croatian NGOs need to explore further and analyze to determine which areas have greater potential for cost recovery and increased revenue. Social service providers and NGO trainers are more successful charging fees and recovering their costs. In addition, NGOs are beginning to sell their manuals and handbooks on fundraising, NGO management, community building, and other topics. NGO trainers have also improved the quality of their services by increasing peer support and training, implementing a code of ethics for trainers, and initiating an accreditation

system. These initiatives may increase the level of professionalism and competitiveness, as well as increase the demand for NGO services. Some fear that such improvements will also result in experienced trainers leaving the nonprofit sector to become independent contractors.

Overall, NGOs are more recognized as service providers, especially in social services, education, environmental protection and legal assistance. Due to EU accession requirements environmental organizations will soon enjoy greater opportunities to engage in monitoring the implementation of environmental laws.

INFRASTRUCTURE: 2.9

Existing intermediary support organizations and resource centers continued to improve and expand their services over the past year. NFSCD improved its levels of transparency and procedures for soliciting proposals and approving grants. It also continues to provide valuable support, including long-term institutional grants, but also training and various types of assistance and resources. The Government Office for Cooperation with NGOs continued to provide some assistance to NGOs regarding important events and training opportunities, new tenders publications, draft legislation, and other resources. However, the office also needs to improve its capacity to play a stronger intermediary role between NGOs and government.



Several larger organizations operating in regional centers also provide NGO support

services. Among the most well-known, Association SMART, Association MI, and the Center for Peace and Non-Violence promote volunteerism, and organize trainings for volunteers and organizations. One of these initiatives led to establishment of the new Volunteer Center in Osijek. These organizations continued to provide technical assistance and training to promote philanthropy, NGO networking, reforms to the NGO legal framework, and cooperation with the business sector and local governments. In addition to the three mentioned NGOs, a larger number of organizations provide various types of specialized training and technical assistance to smaller NGOs. Generally Croatian NGOs have access to a large number of NGO trainers with high levels of skill in a variety of areas, including NGO management, fund-raising, project management, accounting, voluntarism, advocacy, and quality assurance. Many trainers are members of the Trainers Forum, a new association that supports their efforts by improving their expertise and providing specialized training.

Provision of support services outside of larger urban centers is weaker. The Slavonia, Knin-Sibenik, and Lika regions, where new NGO networks have been established and have begun to provide support, have made some recent developments. The New Istrian Foundation for

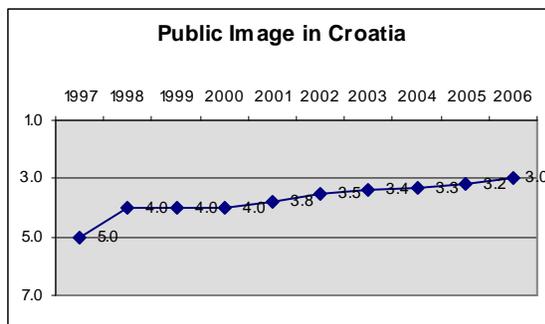
Civil Society Development was also established as the first regional foundation of its kind. In addition, several larger organizations experienced in grant-making, training, and other kinds of assistance to NGOs within their specific sector often operate as clearinghouses and post valuable resources on their websites, or produce publications and newsletters to support others. Overall, NGOs have greater access to publications and materials in Croatian, including the NGO Quality Assurance System for NGOs.

Infrastructure of the sector continues to improve with establishment of new regional NGO forums, networks and other coalitions. The recent B.a.B.e. survey reports that there are 52 networks, forums, and coalitions promoting positive social change in Croatia. The number of cross-sectoral networks continues to increase, focusing more on promoting broader NGO interests. This is the result of the greater awareness among NGOs of a common agenda and potential to establish a greater trust within the sector. Networking and support services are particularly well-developed in Slavonia. A Regional NGO Forum registered this year and offers a manual with models of NGO-government partnership and communication. A number of counties, such as Sibenik-Knin, Lika-Senj, and Sisak-Moslavina are coordinating with local organizations. Their efforts enabled NGOs to form coalitions and

improve cooperation with local governments and create or implement Charters on Cooperation.

NGOs, MPs and government representatives continue to work on several different committees and working groups, including the Council for Civil Society Development, which has become more active during the past year. Improvements are even greater at the local level, allowing different models of NGO-government partnerships to gain recognition. NGOs made greater progress at the local level, using different models for partnering with the government. These improvements may be attributed to Croatia's EU accession status. The most common models for NGO-government cooperation are established with formal "Charters of Cooperation" (Osijek, Rijeka, Sibenik, Slatina, Slavonia); Council for Civil Society Development (Osijek); and initiatives for transparent funding for civic organizations (Baranja, Osijek). This trend is continuing as both government officials and NGOs recognize the need for partnership, and such efforts continue regardless of the level of international funding. Partnerships between the NGO and business sectors are in the early stage, though there are examples such as the Croatian Guide Dog and Mobility Association which have established close longer-term partnerships with Zagrebacka Bank, Peugeot, and Coca Cola to assist the blind.

PUBLIC IMAGE: 3.0



Both electronic and print media provide regular coverage of NGO activities at both the local and national levels. Coverage, however, is often limited to several well-known NGO leaders

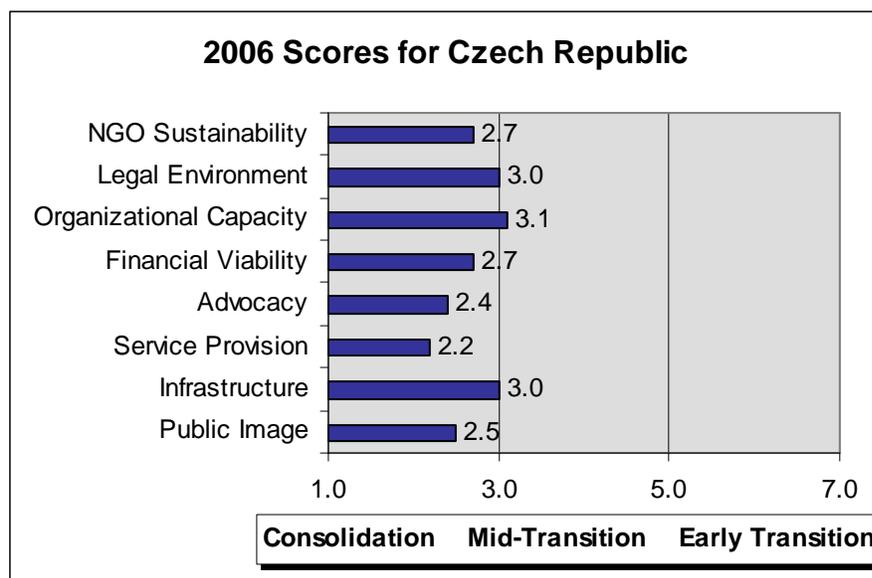
that cooperate closely with members of the media. Over the past year, NGOs, especially larger ones, improved their public image and informed the public about their activities by airing documentaries such as "See Me," documentary produced by CESI; the "Civildreta" a radio program produced by Radio 101, the Center for Peace Studies, and H-Alter. Another television production studio and DOMINE NGO produced a similar program, "Cenzura," which was aired on a regional television station. ZamirZine and H-Alter have valuable web portals that promote NGO and other civil society issues. Larger organizations update their web pages, regularly publish

newsletters and annual reports, and organize public events to improve their transparency and visibility. Smaller organizations have also made some progress in improving the sector's public image.

Occasionally media coverage of NGOs tends to be sensational, though NGO leaders are more frequently recognized for their professionalism and independence. This is reflected in a recent survey on public perception of NGOs conducted by the Ivo Pilar Institute, which reports that 71% of citizens have positive opinion of NGOs. Their survey also reports that Croatians are more satisfied with NGO activities that raise awareness of human rights,

development of civil society, and democratization than other activities that contribute to resolving concrete social and quality of life issues. This is due to the public nature of advocacy and monitoring activities. According to the survey, well-known NGOs are involved with veterans' issues, youth services, environmental protection, elections, and gender equality, followed by those that work with the poor, consumer protection, human rights and health. A survey by PRONI in Slavonia demonstrates greater NGO visibility at both the rural and local levels, demonstrating that less educated and senior citizens are also well informed about NGO activities, possibly because many of them are NGO beneficiaries.

Czech Republic



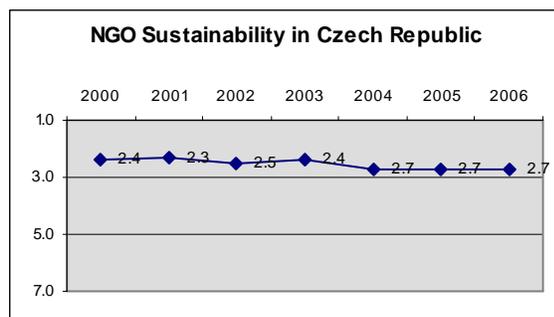
Capital: Prague

Polity: Parliamentary democracy

Population: 10,235,455

GDP per capita (PPP): \$21,600

NGO SUSTAINABILITY: 2.7



This survey of the Czech non-profit sector considers the following types of organizations: civic associations, foundations, foundation funds, public benefit organizations, church-related legal

entities, and associations of legal entities. Some organizations established by public administration entities are also included as part of the non-profit sector. There are 94,368 NGOs operating in the country. The most common form of NGO in the Czech Republic is the civic association (58,347). During the year 2006, NGOs, supported by EU funds experienced a serious increase of demands in administration. Managers such NGOs are now obliged to spend more time on administration instead of on managing people and programs.

LEGAL ENVIRONMENT: 3.0

Czech legislation has not yet clearly defined the term non-profit organization. This leads to problems in interpreting general legislation, which regulates the activities of non-profit organizations, and in attempts to interpret specific legislation (such as the VAT law). In spite of this, it is possible to say that the legislative framework for non-profit organizations in the Czech Republic is more or

less in place. The establishment, operation and liquidation of all legal non-profit organizations (NGOs) operating within the area of the Czech Republic are regulated by the Law on Foundations and Foundation Funds, the Law on Public Benefit Organizations, the Law on Association of Citizens, and the Law on Churches and Religious Organizations. All of these legal forms of organizations take

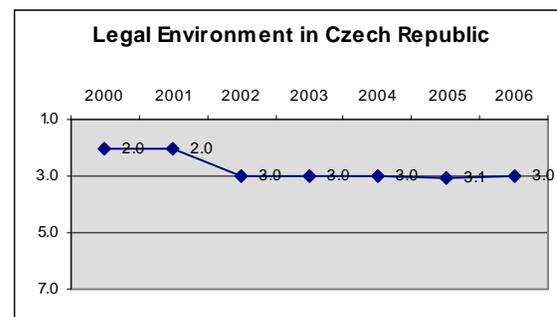
advantage of the Law on Volunteerism. All of these laws regulate the rights and duties of the individual forms of legal organization in various details and specifics.

Specific legislation regulating the activities of civic associations, which form the significant majority of groups in the non-profit sector, facilitates the activities of civic associations. There are, for example, simple and straightforward requirements for registration and administration. Civic associations can generally be registered in ten days. On the other hand, the legislation makes exercising public control over such associations more difficult. The Ministry of Interior, based on its interpretation of the Law on Association of Citizens, continued with its 2005 approach of either refusing to register or suspending the activities of those civic associations that according to association Statutes provide public benefit services for a charge to those outside of their membership base. Problems also stem from incomplete regulation dealing with the closure of civic associations. A number of groups cease operations without going through the legal procedure and without requesting removal from the register of non-profit entities. As a result, statistics on Czech NGOs are not completely accurate.

Registration of other legal types of NGO is more difficult (this concerns in particular foundations, foundation funds and public benefit organizations). That said, the disproportionately long registration period for these NGO types in the courts (sometimes lasting up to two years), has recently been getting shorter. This year the Association of the Regions of the Czech Republic proposed a draft law on NGOs to the Parliament but the draft was not adopted due to poor drafting. The proposal was created quickly and paid little attention to existing NGO legislation.

A Register of NGOs was created by the public authorities to provide information on all legal NGO types. An amendment to the Law on Public Collections is also being prepared.

NGOs can operate freely within the boundaries of the relevant legislation. Whatever difficulties do exist in NGO operations are the result of the legislatively unclear term “non-profit organization.” In 2006, the amendment to the Law on Civic Associations came into force. This requires that the name of each civic association must within three years include the words občanské sdružení (civic association) or the abbreviation “o.s.” This change, in combination with the Ministry of the Interior’s restrictive interpretation of the law, could present complications in the future. In addition, foundations, foundation funds, and public benefit organizations are now obliged to publish their annual reports in business information bulletins if their annual closing balance is verified by an auditor.



There are only a few specialists in NGO legislation in the Czech Republic. Legal consultancy services are available in the capital and in some regional towns. At the local level, such services can be hard to find. Some colleges and universities teach courses on the legal aspects of NGO management. Nevertheless, there is no specialized training for lawyers in this field. There are a small number of think tanks in the Czech republic that can draft and comment on proposed legislation.

According to income tax laws, subsidies, grants and donations to NGOs are tax deductible. Individuals and companies may deduct donations from their taxable income. The ceiling for deductible contributions is not high enough to contribute to the development of charitable giving. The tax situation in the Czech Republic is complicated by the new VAT law

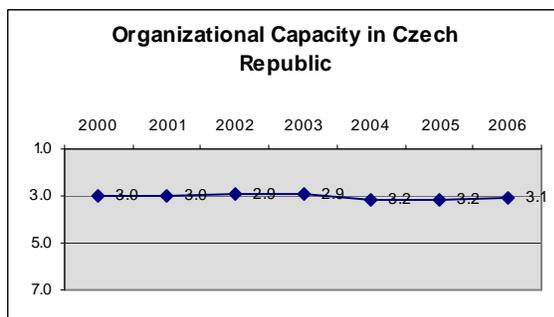
which is unclear in terms of terminology as well as interpretation and therefore limits and complicates the operations and financial management of those NGOs that pay VAT. The fact that donations from individuals via mobile phones have been freed from VAT is helpful. The attempt to introduce new tax assignation legislation to allow individuals to designate up to 1% of their taxes for an NGO has not been adopted by the Parliament.

Legislation does not prohibit NGOs from earning income through the provision of goods and services. Such activities are not explicitly supported, however, and in some cases are indirectly limited (see above on the change in the interpretation of the law concerning registration of civic associations).

ORGANIZATIONAL CAPACITY: 3.1

The public still regards the role of the state as a paternalistic one and expects its needs to be served by the government and various public administration entities. In spite of this, people in general feel that NGOs do represent their needs. NGOs are trying to understand the needs of society, but mostly they do not have the capacity to perform survey or market research into specific needs or into their own target groups; they often define these needs based on limited qualitative assessments.

By law, NGOs must define their management structure and the responsibilities and duties of management bodies in their foundation documents. In practice these principles are not always followed. Boards of Directors delegate their duties and responsibilities to the management of their organizations. Members of statutory organs do not have prestige in society. Most of the NGOs lack managers with good management skills. Certain forms of legally registered NGOs are obliged by law to act transparently and present annual reports including annual financial statements to the public, but not all organizations fulfill this requirement. On the other hand, a number of civic associations regularly publicize their reports although they are not obliged to do so. In this way the public (contributors, donors, supporters) gauge how effectively NGOs utilize donations and contributions.



NGOs are gradually being obliged to plan more strategically, mostly due to the requirements set by the Czech government and the EU for obtaining funding, but also due to the shortage of funding. Therefore, in general NGOs are aware of the necessity of strategic planning but a large majority of them have no formal written strategic plans. Defining an NGO's mission is a condition for the registration of all legal non-profit entities. Nevertheless, not every organization defines its mission clearly and in intelligible language.

The major NGOs have permanent staff. These employees do not always have clearly defined job descriptions, hampering effective management. Many NGOs can only hire staff for the life of a particular project. Human resources development among NGOs is beginning to be taken seriously due to the outside pressure of public administration and the EU (structural funds). In general, the non-profit sector is lacking qualified NGO managers. NGOs work with volunteers and occasionally possess systematically organized databases of volunteers. Accredited volunteer centers provide training and education to volunteers based on the Law on Volunteerism. Nevertheless, according to the law, association

members cannot serve as volunteers; this limits the ability of NGOs to develop a committed cadre of volunteers.

Financial resources for office equipment exist in the Czech Republic (in the form of grants and gifts from for-profit entities), although the equipment in place is for the most part not the

FINANCIAL VIABILITY: 2.7

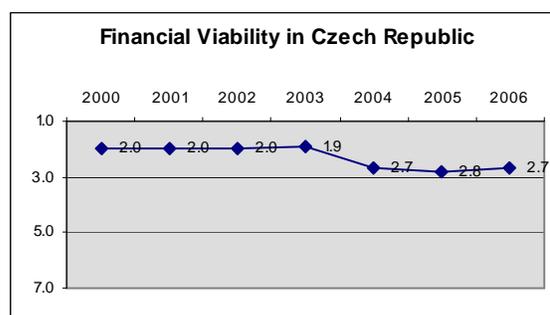
NGOs obtain the bulk of their financing from domestic sources of support. Most funding comes from public budgets, after that from companies, foundations and from individual donors. Support from donors is not only financial; in particular, corporate donors provide products and services to NGOs at a discount or free of charge. Structural funds have become a significant source of financing for many NGOs. For smaller social NGOs, a “Global Grant” was set aside and is administered by NROS (Civil Society Development Foundation). Foundations represent a stable financial source for other NGOs. Nevertheless, foundation assets are generally small. The largest amounts of distributed finances come from resources obtained by foundations from the government’s Foundation Investment Fund (NIF). The foundations obtain their resources from the same donors as the rest of the NGOs.

Corporate social responsibility is developing, especially in the large companies. Companies prefer to support NGOs through sponsorship (i.e., through advertising contracts on which NGOs are taxed). Direct financial donations to NGOs (and which are tax-free for NGOs) are provided on a much smaller scale. Volunteerism is gradually developing as well. The biggest problem in this area remains the prevailing lack of skills among NGOs in working with and managing volunteers.

Individual donors represent the least significant source of income for NGOs in the Czech Republic. NGOs do not expect much in the way of individual contributions but instead rely almost exclusively on public budgets and firms. Fundraising that targets individuals is expensive

most modern. This year, several grant programs directly supporting NGOs’ technical equipment needs (PCs, internet, etc.) were announced. Nearly 90% of NGOs are able to use computers and can communicate over the internet. NGOs that do not own their own equipment can make use of the library network which provides internet access.

and beyond the abilities of most NGOs. The one exception to this would be in times in natural disaster, when individuals will contribute to public collections. A new tool is the mobile phone SMS (DMS) through which donors can contribute to an NGO by sending a text message.



Diversification of financial resources in NGO budgets exists in terms of the number of sources. NGOs normally have three to four separate sources of funding. The problem lies in the disproportionate amounts provided by these separate sources. In general, one or at most two sources provide over 80% of all income for an NGO. NGOs are usually financially secure for several months, or at most, up to one year into the future. The majority of NGOs do not maintain financial reserves. NGOs financed largely from subsidies and grants are financially secure for a limited time only. NGOs that do good strategic planning are showing more financial stability.

Sound financial management is usually not systematically practiced by NGOs. This is connected to the lack of professionally educated economists and financial managers.

Growing requirements for financial management on the part of public administration grants, EU structural funds and the VAT law therefore present a problem for NGOs. The Czech legislature requires financial audits of some NGOs (foundations, foundation funds, and public benefit organizations). Those NGOs not required to undertake audits by law tend to consider them as unnecessary. Some NGOs are obliged to publish their annual reports but they do not adequately publicize them, and there are often no penalties for a lack of distribution. Low availability of annual reports hurts transparency and damages trust in NGOs.

Increasingly, fundraising is considered to be a necessity. NGOs mainly target certain categories of donors. Fundraising that targets individuals is not sufficiently developed. Rather, NGOs tend to rely more on membership fees and proceeds from public collections. Most organizations consider their fundraising to be unsatisfactory. The reason for this is usually the low quality of management, which result in unclear fundraising strategies and processes. Many NGOs do not have a special position for fundraiser, so fundraising activities are divided among several employees. One of the key reasons for the unsatisfactory state of fundraising is the lack of responsibility assumed by boards of directors. Boards are not fulfilling their basic duty – to seek out and secure financial support for their organizations.

ADVOCACY: 2.4

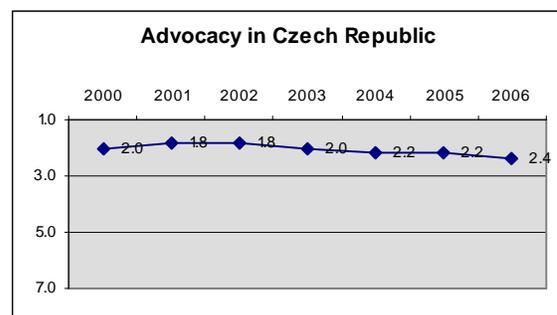
Communication at the central government level between authorities and NGOs is adequate. NGOs are represented on the advisory bodies of various central authorities (ministries) and also on the Czech government advisory body (the Government Council for Non-governmental Non-profit Organizations). Cooperation between NGOs and public authorities was influenced negatively during the pre- and post-election period, when the Government was not established for a half a year. Government officers could not make fundamental decisions and preferred to postpone solving problems. This makes the

Instead, Directors pass these duties off to the executive staff of the NGO.

Most NGOs are trying to complement their financial resources by earning their own income. Usually this takes the form of providing various services and products, although some organizations (mostly in the social and health care areas) charge only minimal fees. A lack of financial and marketing management skills hurt those organizations trying to earn an income. For civic associations, the new interpretation of the Law on Association of Citizens is limiting because the Ministry of the Interior does not allow newly established civic associations to provide public benefit services for a fee. A new trend observable now in the Czech Republic is the concept of social economy. Many NGOs are aware of the importance of a diversified financial portfolio and look for possibilities of earned income.

Public administration entities purchase services from NGOs in the form of subsidies and grants, but they tend to favor government owned non-profit organizations in making such awards. These organizations are managed by public administration bodies and thus have some certainty of obtaining necessary financial resources directly from public budgets year after year.

present position of the Government Council for NGOs unclear and weak because it did not have full powers.



At the regional level, NGOs are relied upon for community planning and for creating regional development strategies. This does not apply in all regions. Nevertheless, it is possible to say that the regional authorities have produced grant strategies and rules for NGO support while local level authorities provide only random and improvised support to NGOs.

Public administration bodies implement projects together with NGOs only in certain areas (primarily projects concerning Roma, drug-abuse prevention, community and minority issues and human rights). In other areas (mainly social and health care), public administrators act as clients for NGO services. NGOs had a negative experience while advocating their interests within the Structural Funds programming period 2007-2013, which was prepared during 2006. The administrating organs (most often ministries) recognize comments included in Operational Programs or NGO proposals in only a minority of cases. They do not perceive NGOs as partners.

In the past, NGOs led campaigns to encourage solutions to socio-political issues in various areas such as childrens' rights, domestic violence, cancer prevention and transportation

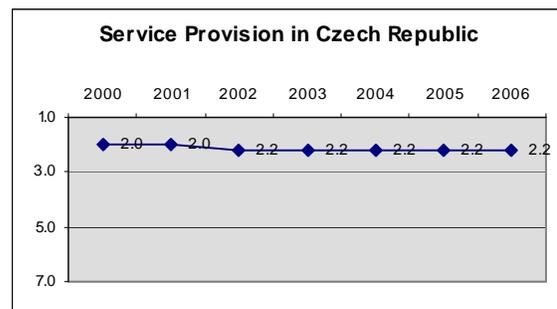
SERVICE PROVISION: 2.2

The diversification of services provided is sufficient. NGOs provide services in various areas – health care, social care, education, assistance after natural disasters, environment, culture, historical site restoration, working with youths in their free time, human rights etc. Most of these services are of a high professional standard. The quantity and quality of such services differs in the various Czech regions.

bypasses in cities. Campaign results have varied but there is always at least the certainty that steps have been taken towards achieving a solution to the problem.

Lobbying is generally viewed negatively by the public. NGOs do not perceive lobbying as a priority and they have not produced clear lobbying strategies. Nevertheless they realize that in certain situations lobbying is necessary. There are strong interest groups in the Czech Republic which do undertake effective lobbying. Traditionally, these are environmental organizations and now also include social and health organizations. So far, individual NGO lobbying has been more effective than joint or coalition lobbying.

NGOs are not successful in advocating interests that concern the non-profit sector as such. The reason is the weak capacity of organizations (associations, umbrella organizations, and think tanks) that approach these issues, caused by a lack of financial sources and experts in this field. NGOs are able to cooperate quite effectively in promoting a piece of legislation within a field or region. They did not, however, comment on the new tax law which concerns most of them fundamentally.



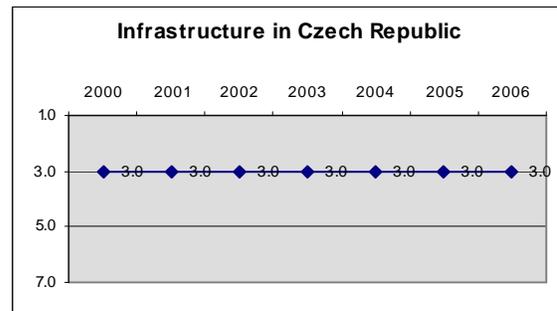
NGOs for the most part respond to the obvious needs and wants of society. But their reactions are often connected to the stated priorities of the public authorities and the EU structural funds. NGOs themselves investigate the situation in the market on the basis of their experiences and then watch intensively and

evaluate the feedback. Services that are clearly beneficial are marketed to the general public (primarily social and health care, leisure time activities). In general NGOs lack marketing skills. Its importance has been growing only in recent years and NGOs realize its importance. The quality of marketing skills (market research, pricing, budgeting and cost recovery calculations) is very uneven.

Authorities are not much concerned with the development of the non-profit sector. Rather, they care only about the purchase of its services through the allocation of subsidies and grants which impose unnecessarily high administration costs (paperwork requirements, presenting financial data etc.). Appreciation of NGOs differs from region to region.

INFRASTRUCTURE: 3.0

NGO information and support organizations exist in the Czech Republic but there is no network covering the entire country. Regional administration offices of late often play the partial role of a service organization (in providing training, creating databases etc). Service organizations usually provide paid services.



Czech foundations provide grants for implementation of local projects in accordance with their own self-defined priorities. The definition of these priorities with reference to the needs of civil society is often a topic of discussion. Domestic foundations are young and have not yet managed to create significant funds grant-making. Foundations that obtained resources from the government Foundation Investment Fund regularly distribute the proceeds into already designated areas. There are a limited number of philanthropic and corporate foundations in the Czech Republic.

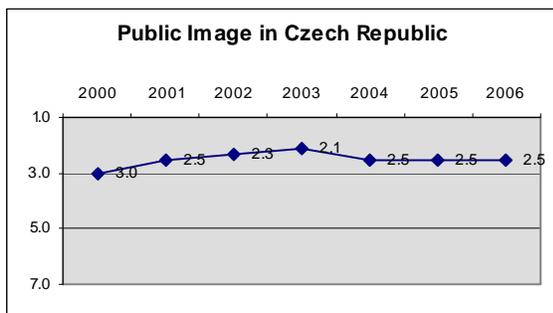
The selection of training courses and consulting services available to NGOs are adequate to serve the needs that exist. Unfortunately their quality is not always high and they are too expensive for many NGOs. Training is most often held in Prague and in large cities, but since the Czech Republic is a relatively small country, NGO staff from every region can participate. NGOs do realize the necessity of training but often they lack the funds to buy it for staff. This situation is improving recently thanks to European grant programs aimed at capacity building.

There are NGO coalitions operating in virtually all sectors but these tend to include small numbers of members and thus do not represent all groups operating in that sector. NGO do not feel the need to join such coalitions because they do not see any benefit to membership. Coalitions in some sectors and most regional coalitions operate well (environmental, humanitarian). The government advisory body – the Government Council for Non-Governmental Non-Profit Organizations – through which NGOs may promote their interests does not have a sufficient influence on fundamental and needed changes in legislation for the benefit of NGOs.

Intersectoral partnerships are being established and are developing especially due to European funds and programs (partnership is an important priority). Although the trend supporting such partnerships is now significant, partnerships are often understood as a formal duty and do not automatically arise from a specific need or situation. Individual representatives from different sectors have not yet completely realized their advantages in collaborating. The PPP principle (Public Private Partnership) has not developed much in the Czech environment.

PUBLIC IMAGE: 2.5

The media provides good coverage of NGO activities. Their reports are often neutral; if there is any evaluation, it tends to be positive. Only rarely do the media focus on negative cases. Reports usually appear in regional media outlets and focus on local events. Czech Radio, a public broadcaster, gives an extraordinary amount of time to NGO coverage. Czech Television reports on the non-profit sector more and more. Media time is provided to NGO staff who have expertise on specific issues. The media does not widely cover corporate donors' support since they consider that to be an advertisement that should be paid.



The public not only recognizes the legitimacy of NGOs but also values their contribution to society. People positively perceive especially those organizations promoted by the media and those with whom they are familiar in their local

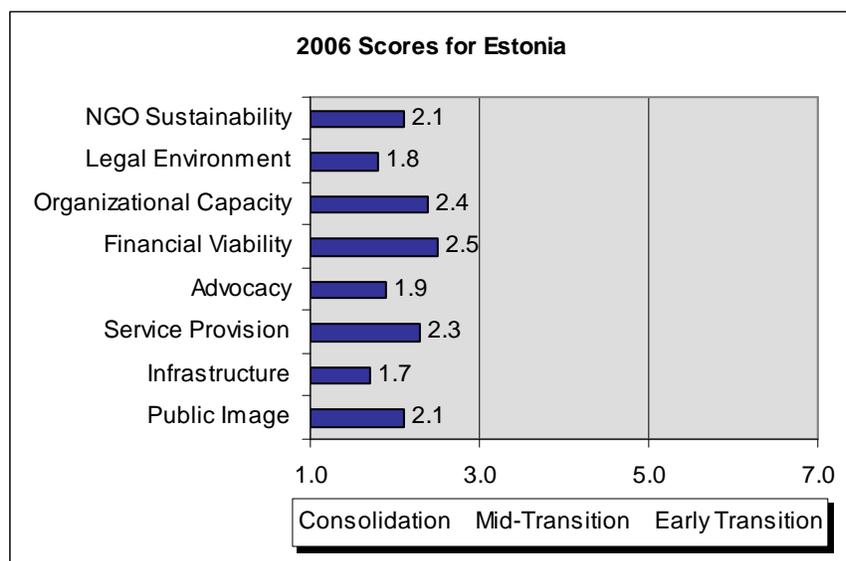
regions. The most well known NGOs are those that organize public collections.

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

NGOs more and more strongly perceive public relations to be necessary to their sustainability. They are approaching the public and promoting their activities. However, NGOs are not capable of intensive and systematic public relations campaigns because they lack human and financial resources. Also, they are not always able to communicate their organizations' intentions effectively enough for the public to understand the message and support them.

Key NGOs have created their own ethical principles and standards for service provision and publicize them in their informational and promotional materials and annual reports.

Estonia



Capital: Tallinn

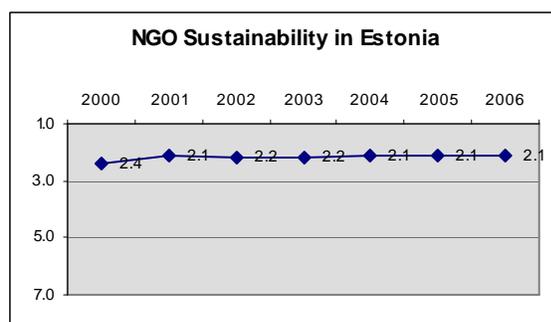
Polity: Parliamentary republic

Population: 1,324,333

GDP per capita (PPP): \$19,600

NGO SUSTAINABILITY: 2.1

In 2006 the Estonian NGO sector continued stable growth with no major upheavals. The continuing economic growth has had a positive impact on NGOs as more resources are available to participate in public life. Also, governmental bodies are progressively more aware of the third sector, although the situation can vary notably. The NGO community's capacity is rising and organizations demonstrate a dedication to develop professionalism.



On the other hand, as professionalism is growing, so is a more critical approach to NGOs from within the sector. Therefore,

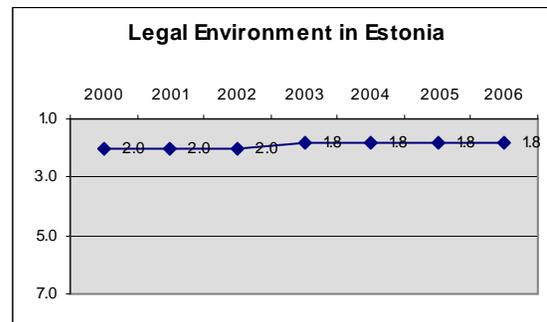
participants of the 2006 USAID NGO Sustainability Index focus groups in Estonia tended to identify needs and shortcomings in greater detail than in past years, although there is a consensus that the situation of civil society has been steadily improving over the past decade and especially in recent years.

Additionally, signs of growing stratification within the NGO community make evaluation of the third sector in Estonia more difficult. In the 1990s and early 2000s, the sector was more homogeneous and the majority of NGOs faced very similar problems; today there are large variations in level of development, professionalism and know-how. There are a relatively small number of visible and highly successful organizations that are widely known and shape the public image of third sector in Estonia. These organizations also serve to set an example and as agenda setters in the society. At the same time, a large number of NGOs lack the basic resources and skills to fulfill their potential.

LEGAL ENVIRONMENT: 1.8

The year 2006 brought no significant changes in the legal environment in Estonia, and NGOs function well within the established legal framework. Estonian NGOs are free in their actions and the government provides for the freedom of assembly and civil activism; no undemocratic restrictions are in place. As civil servants are being educated, the government institutions and lawmakers are more responsive to NGOs needs and roles. A change in the tax legislation also redefined those NGOs qualifying for tax exemption, thus clarifying which organizations are acting in the public interest. The legal environment is still not conducive to volunteerism and philanthropy, but solutions are being sought actively.

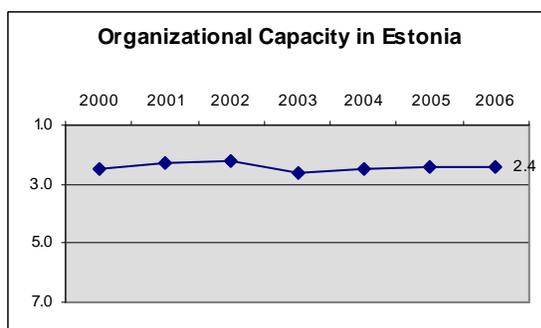
NGOs are pressing for better registries and statistics on the third sector, as the lack of reliable data hampers development. Potential ways of mapping of informal Civil Law Partnership Associations are also being discussed.



Generally, legal services are easily available in Estonia, but costs can be a problem. Legal advice is available from the regional development centers of Enterprise Estonia, and lawyers of umbrella organizations also provide counseling to members. Some larger organizations employ staff with legal training. In some cases civil servants and tax officials are providing legal counseling for NGOs, but that is mostly sporadic and informal.

ORGANIZATIONAL CAPACITY: 2.4

Organizational capacity is one of the differentiating features within the Estonian NGO sector. Some organizations are very competent and professionally managed; others still leave much to be desired. However, the developments in 2005-06 have been clearly positive, particularly in terms of awareness, know-how, and technical equipment. As donors have become more demanding, NGOs are generally open and transparent.



Since most NGOs work with a small core team, some suffer from a lack of clearly defined job responsibilities within an organization. Additionally, the same staffers often work both as board members and program officers, and very capable specialists have to perform managerial duties without prior training or experience. As a remarkable proportion of funding is project-based, project managers cannot be employed on a stable basis and staff turnover is high.

Strategic planning is increasingly common, but due to limited management skills, strategy is not always viewed as a base document to plan day-to-day activities. Instead, strategy is often seen as a formality produced for the benefit of the donors. While organizations are quite mindful of their own needs, some lack resources to use all opportunities (particularly in terms of funding, volunteers, etc).

As a rule, NGOs evolved from groups they represent, so target groups are generally well acknowledged and mapped, but the mechanisms of engagement and participatory decision making are not always thought through and systematic. Therefore, communication can be disordered and NGO members as well as the community are not always aware of the

advocacy being conducted on their behalf.

Several bodies, including regional development centers, provide affordable and frequent basic management training. More advanced trainings are not as common, as the market for specialized NGO trainings is limited and commercial trainings can be costly.

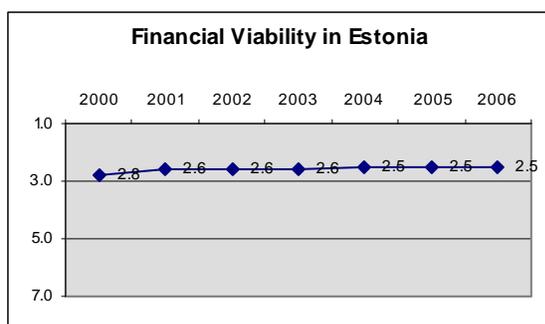
FINANCIAL VIABILITY: 2.5

Estonia's remarkable economic growth has spilled over to the third sector. Nevertheless, economic sustainability continues to be one of the main problems among Estonian NGOs. Most organizations cite a shortage of administrative resources as the main problem. NGOs often lack know-how and experience to involve donors in their activities and to generate revenue that can produce alternatives to project hunting and reliance on the local government.

Many NGOs lack capacity to engage in larger European or international projects, as the workload and administration required for smaller projects is already overwhelming. Nevertheless, the new government budget period starting in 2007 will bring much improved access to European Union structural funds for NGOs.

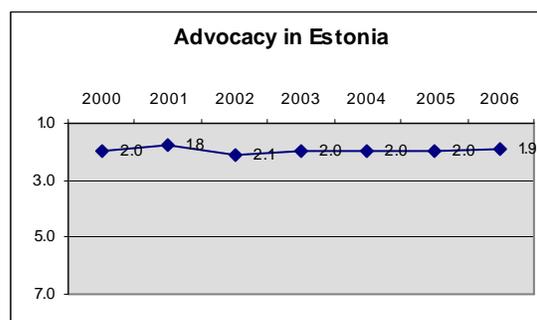
Financial management and development of assets could be improved considerably. Even though they are still lacking in financial expertise, many organizations have improved the diversity of funding sources by also including the corporate sector and private donors. Membership fees contribute little income.

Social entrepreneurship has become an important topic for discussion in the media and among businessmen. In the past year, The Charities Foundation has been very active in supporting and counseling social entrepreneurs.



ADVOCACY: 1.9

Both the government and NGOs are becoming more conscious of the need for advocacy and civil society involvement in policy making. Recent studies have shown that 92% of all civil servants found NGO involvement to be necessary for better results in lawmaking. Young civil servants in particular consider NGO consultations and involvement very important, as their training programs have covered advocacy.



While the public sector is now more welcoming to NGO participation, NGOs do not always have the resources to engage and to make a meaningful contribution to policymaking. NGO staffers are juggling large workloads and are not always competent to participate in lawmaking, and there are few resources available for hiring specialists. Also, the quality of legislative drafting done by the government is weak and the questions it asks of NGOs are sometimes unclear, making it more difficult for NGOs to provide input and engage in a meaningful dialogue.

The implementation of the Estonian Civil Society Development Concept (EKAK) will be supported by the government's Civic Initiative Support Strategy (KATA), which was produced in 2006 and will take effect in 2007. The strategy serves to standardize the government's approach to nurturing civil society, but civil society organizations are somewhat dissatisfied with it, as the strategy does not bring a new approach and the innovative ideas proposed by the NGO community were not accepted.

EKAK defines the complementary roles of public authority and civic initiative, the principles of cooperation, the mechanisms and priorities for participation and for shaping and implementing policy, as well as the plan for developing civil society. The joint committee for EKAK implementation includes representatives from civil society and the public sector.

The Good Involvement Practices document, which gives recommendations for participation, was introduced in 2006 and presented to both civil servants and NGOs. Also, the Good Practices of the Delivery of Public Services was finalized and introduced to stakeholders. Both documents were compiled in cooperation between the public sector and NGOs.

SERVICE PROVISION: 2.3

As NGOs have to find new ways to fund an increasing fraction of their operating expenses,

NGOs also participated successfully in the compilation of the state budget strategy even though the participation process could be improved to remedy problems of overly short deadlines and insufficient feedback. A network was created to allow more NGO involvement in the budget strategy compilation process and combine and systemize the feedback from different civil society players. It continues to be a partner for the appropriate state bodies today.

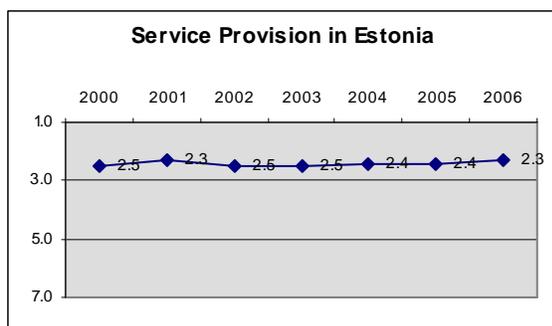
Advocacy on the European level is weak, somewhat mirroring the Estonian government's activities in Europe. NGO advocacy efforts on the EU level have been sporadic and suffer from lack of state support. There are a few success stories, while a majority of civil society organizations are yet to consider their need for lobby on the European level.

While there are numerous awareness-raising campaigns, they tend to be short-term, and there are very few wider advocacy efforts or NGO coalitions. Thus, in their communication with the public sector, some NGOs tend to compete rather than cooperate. A notable achievement was the Belarus Support Group consisting of NGOs and activists that managed to lobby the government to give scholarships to Belarus students who had been expelled for political reasons.

A number of specific umbrella organizations are active and offer advocacy in their particular fields. The Network of Estonian Nonprofit Organizations (NENO) serves to bring together, coordinate and communicate NGO input into the political process and governance. As the national NGO umbrella, NENO is the main speaker on questions dealing with third sector development. NENO is currently working on a political platform to propose the NGO agenda to political parties before the March 2007 parliamentary elections.

more are turning to service provision to create revenue. The public sector is delegating a

growing number of services to NGOs, particularly in the areas of social welfare, the environment, local tourism, etc.



NGOs are learning modern methods of public administration, often together with government bodies. The focus in service provision has shifted to quality – NGOs are recognizing the responsibility involved in providing fee-based services. The selection of services has not broadened remarkably, and the main emphasis is on social services. According to recent study, service providers are expected to be cost-

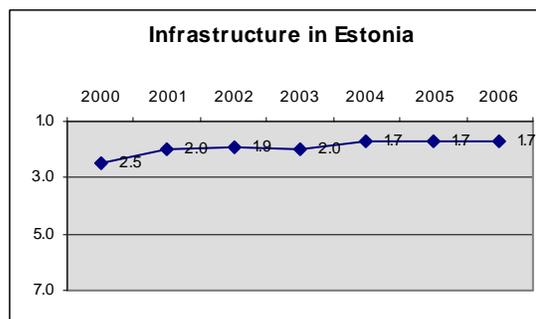
efficient and professional, and the main problems lay in finding service providers and in the monitoring of contracts. Additionally, services often suffer from a lack of marketing and product development that is inherent to organizations suffering from the management deficiencies common in NGOs.

Good Practices in Delivery of Public Services was finalized and introduced in 2006. Both the public sector at the national and local level and NGOs were involved in the development of this document and educated about delegating services to NGOs. This is particularly important, as currently the practice of contractual delegation varies remarkably across municipalities. NENO's national summer school also concentrated on delivery of public services and earning income. Additionally, village movement Kodukant organized training for small Civil Law Partnership Associations, during which over 40 new local services were developed.

INFRASTRUCTURE: 1.7

An adviser to NGOs is available at the Enterprise Estonia regional development centers in every Estonian county. There are a number of mission-driven umbrella organizations and networks in addition to NENO that are dedicated to the development of civic initiatives and Estonian civil society. NGOs are satisfied with the regional development centers and free-of-charge support services provided, but awareness of them is mediocre.

available to the Russian-speaking population.



Several bodies provide basic training for a range of issues, but the quality can vary. More advanced trainings are not as easily available since the market for specialized NGO trainings is limited and commercial trainings are not affordable. Very little training and materials are

Local governments often support NGOs by providing use of equipment or space free of charge. Local funding is available, including funding from different government bodies.

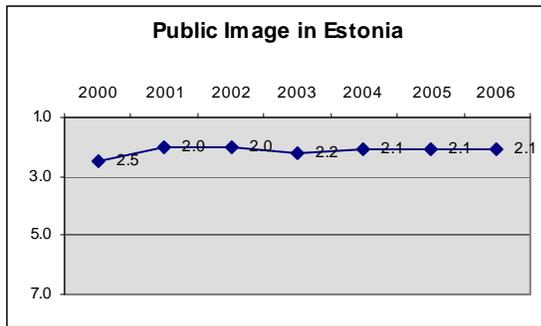
PUBLIC IMAGE: 2.1

National and regional media provide stable coverage of NGO activities, especially those

directly impacting everyday life. Volunteerism has been very positively reported on in the

media through 2006.

Debates before the presidential elections in fall 2006 activated many citizens and discussions related to citizens' participation. Debates on civic activism echoed in the media, public exchange, and politics, prompting analysis of citizens' role in democratic societies.



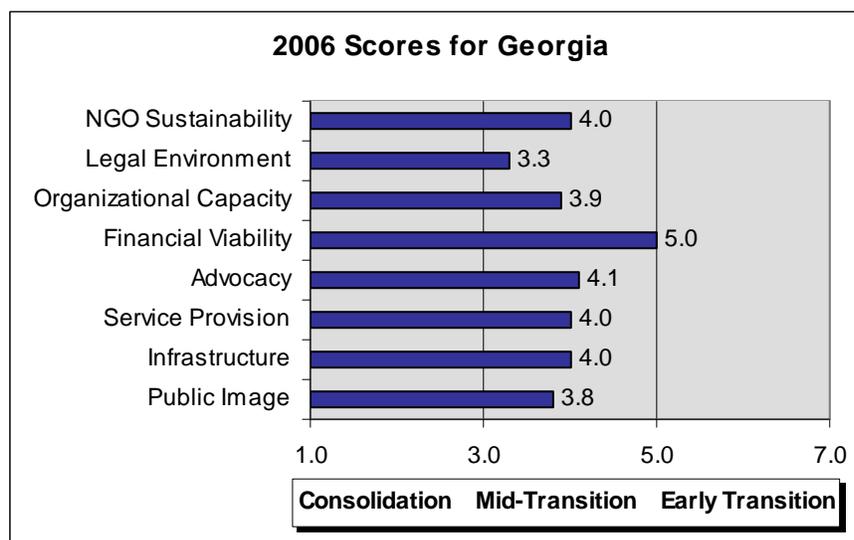
Additionally, party platforms for the 2007 parliamentary elections make references to civil society, but mostly fail to comprehend its role. Almost no analysis of the third sector is present in the media or political discourse. This is also mirrored in public opinion – according to a

study sponsored by the Open Estonia Foundation, 56% of the 2/3 of Estonians who say they have heard the term “civil society” were unable to provide at least one keyword associated with it.

NGOs are appreciative of the need for communication with the media and other target groups, but mostly do not have the resources or professional staff for public relations and communication management. Communications training is available, and larger NGOs have started to employ communication professionals who also provide advising to other organizations in some cases. Several media companies offer reduced rates for advertising to NGOs, and public broadcasters make announcements in the public interest free of charge.

The NGO Code of Ethics was adopted in 2002 and more capable organizations are driving awareness-raising efforts on legitimacy and accountability issues and transparency in reporting to stakeholders.

Georgia



Capital: Tbilisi

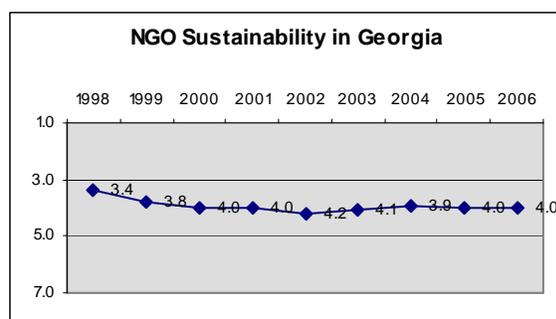
Polity: Presidential-parliamentary democracy

Population: 4,661,473

GDP per capita (PPP): \$3,800

NGO SUSTAINABILITY: 4.0

Three years after the Rose Revolution, the government of Georgia has implemented an impressive program of governance reform in the area of anti-corruption and development of democratic institutions. The concentration of power in hands of the executive branch, however, continues to place pressure on civil society, particularly NGO watchdogs that serve as a check on state's power.



The overall NGO sustainability score did not change over the past year, as improvements in some dimensions were offset by setbacks in others. The legal framework governing civil society organizations is clear and supportive, and provides numerous tax benefits. The Service Provision dimension score improved as a result of increased demand from the public and private sectors for quality NGO services, as well as the expansion of NGO service delivery at the local level.

The setback in the Advocacy dimension reflects a growing distance between the State and the NGO sector, as well as a growing inability for NGOs to influence public policy and advocate for change. The lower score in the Public Image dimension reflects NGOs' diminishing public visibility and confidence in the NGO sector.

LEGAL ENVIRONMENT: 3.3

Though the legal framework governing NGO activities in Georgia did not change over the past year, the Legal Environment dimension remains the most advanced of the seven dimensions. Overall, the laws are liberal and fairly supportive; they limit the State's control

over the sector, allow NGOs to operate freely, and provide NGOs with numerous tax benefits.

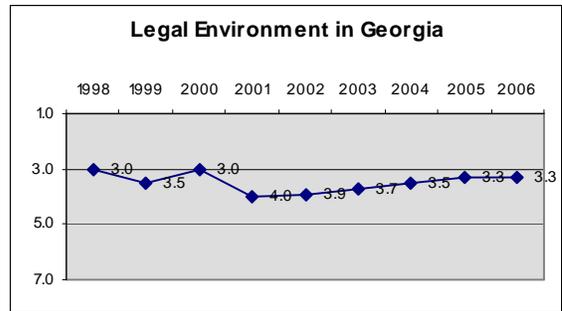
The Ministry of Justice made progress in preparing draft amendments to the Georgian Civil Code and will soon send them to the Parliament for review. If adopted, the

amendments will simplify the procedures for registering and operating nonprofit organizations, as well as eliminate existing inconsistencies in the current framework. The amendments are modeled after the system in the United States and will take a uniform approach to NGOs. As it is now, the Civil Code permits an organization register as a union or foundation, each with a unique set of requirements. The amendments will replace this system with a single type of nonprofit organization, which will include universities. The amendments offer hope of minimal administrative impediments and fewer legal actions against NGOs.

On September 1, 2006, the Tax Department within the newly established Revenue Service took over responsibility for registering NGOs from the Ministry of Justice. The NGO sector is expecting a transition period in which Tax Department officials will become familiar with their new roles, responsibilities, and the registration process. Based on past experience, the new legislation and regulations will likely cause an increase in demand for legal services by NGOs. In Tbilisi, the Georgian Young Lawyers Association and the Civil Society Institute continue to provide legal services at no cost. Legal advice is available in several secondary cities, including Ozurgeti and especially Batumi where legal services have become a major area of work for active NGOs. In other regions, however, NGOs have difficulties accessing legal services.

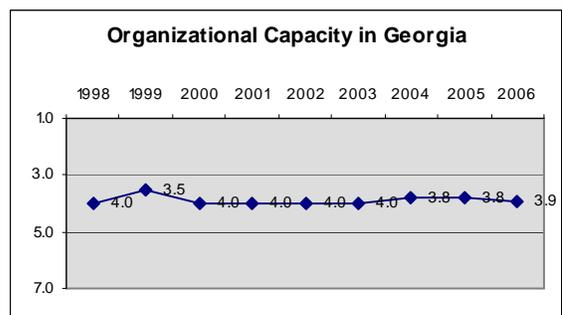
ORGANIZATIONAL CAPACITY: 3.9

In both the rural and urban areas of Georgia, the gap between the well developed NGOs and the rest of the sector has grown over the past year. In Tbilisi and the secondary cities, NGOs may be divided into two categories: 1) elite organizations that develop and strengthen their own organizational capacities; and 2) the majority of organizations that operate from project to project.



The Tax Code provides a number of benefits for NGOs, including VAT exemptions and deductions for donations that support charitable activities. The law does not exempt NGOs from paying taxes on income from economic activities. This is an area of special concern to NGOs exploring additional sources of income to support their activities. While the Tax Code provides mechanisms to exempt NGOs from the VAT, the reimbursement process is flawed and lengthy, especially for NGOs in the regions. The numerous administrative barriers can draw out the reimbursement process for years.

The legal framework recognizes the right for NGOs to compete for government procurement and contract opportunities at both the national and local levels. The law, however, does not contain mechanisms for the State to provide grants to NGOs.



The number of active NGOs decreased in 2006, especially in the regions. In 2005, for example,

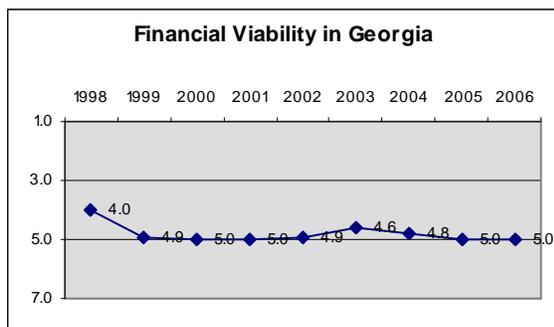
there were at least 70 organizations active in the Ozurgeti; currently only 20-25 organizations are active. Despite donor support for NGOs in the Adjara region, only 10 of the 60 organizations that emerged after the Rose Revolution are still active. Newly formed NGOs find it increasingly difficult to survive in the highly competitive environment. One approach to developing organizational capacity is the formation of coalitions between new organizations, those with a little more experience, and the more developed NGOs. Donors have promoted this approach in Adjara by designating funding specifically for coalition building.

Most NGOs in Georgia are more accurately categorized as professional groups than membership-based organizations. The top-tier, Tbilisi-based organizations find it increasingly difficult to retain qualified employees. Professionals often use NGOs for their own career advancement, working at reputable organizations until they are able to move on to more prestigious and well-paying jobs. NGOs in the regions lack the funding to maintain a professional staff. Volunteers often work as interns to gain the experience they need to secure jobs in the public and private sectors, or with other NGOs.

A few of the advanced organizations engage in strategic planning and attempt to adhere to their mission statements. The rapidly changing environment in Georgia, however, makes it difficult for NGOs to identify long-term priorities. Similarly, the lack of stable support and dependence on short-term, project-based funding from the donor community make it difficult for NGOs to conduct strategic planning. In practice, NGO activities are driven more by donor priorities than their mission statements.

Donors rarely provide Georgian NGOs with multi-year funding that would permit them to build organizational capacity, forge ties with communities, and develop action and strategic plans that serve the interests of their constituents and clearly articulated goals. Similarly, in supporting NGO activities, donors rarely allocate funding for institutional capacity building and other administrative costs. As a result, the internal structure of many NGOs, though strong on paper, is generally weak. Most NGOs are governed by strong executive directors and the use of boards of directors continues to be inadequate, even among the advanced organizations.

FINANCIAL VIABILITY: 5.0



The Financial Viability dimension remains the weakest of the seven dimensions. Local philanthropy is almost non-existent, and NGOs continue to rely heavily on foreign donors. Tax deductions for corporations in the new Tax Code were supposed to create incentives for

supporting charitable activities, though the benefits have yet to materialize. Creating a culture of philanthropy requires a change of values which comes incrementally.

Though the score for the Financial Viability dimension did not change, conditions vary across the regions. NGOs in Tbilisi and Ozurgeti report a significant drop in donor support, which makes up 95% of their funding, while NGO representatives in Batumi and Adjara report an increase in donor funding. A limited number of NGOs in Tbilisi and the regions enjoys funding from multiple donors, which ensures their financial viability for at least the short to mid-term. These NGOs have adopted the accounting systems necessary to comply with the reporting requirements of

large donors such as USAID, as well as conduct audits and publish annual reports.

Financial accountability is unchanged and even the most advanced organizations continue to struggle with financial planning. NGOs are unable to make financial projections due to the scarcity of resources and instable funding. The

shortage of qualified financial managers creates additional challenges for NGOs.

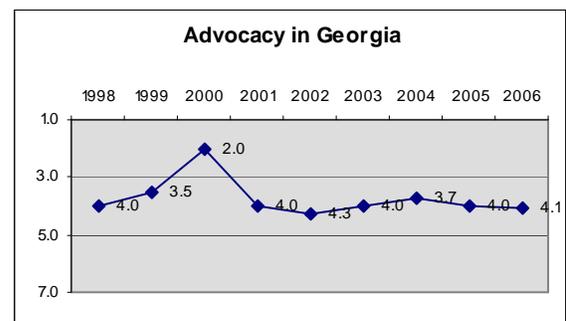
A small group of NGOs that provide training to the private sector was able to generate substantial income. Though it is not a significant amount, several NGOs in Adjara are able to generate income by providing fee-based legal services.

ADVOCACY: 4.1

The decreased score in the Advocacy dimension reflects an increasing divide between the State and third sectors, as well as the increased inability for NGOs to influence public policy and advocate for change. While NGOs interact with government officials at both the national and local levels, these relationships are not institutional or systematic and largely depend on personal relationships and access to the ruling elite. President Saakashvili continues to occasionally meet with civil society representatives, though the circle of NGOs the government is willing to work with remains small. Cooperation is based on the personal preference of government officials and the reputation, professionalism, and the political independence of individual NGOs. Another factor is the personality-driven identity and agenda of NGOs and their failure to serve any specific constituency. As a result, NGOs are increasingly polarized according to the degree of access they have to public officials. In addition, NGOs are increasingly identified as 'pro' or 'anti' government, which threatens to tarnish the political neutrality of some within the sector.

With the exception of a small group of elite, politically connected organizations, most NGOs are ineffective in lobbying the government and advocating on behalf of their constituents. Those in the NGO sector have found it impossible to influence the policy-making process by lobbying or pressuring government officials. Formal mechanisms to integrate civil society in policy debates are limited. While the political interests of government officials dominate policy-making, once policy is in place,

government officials call upon the NGO sector to assist with implementation. The joint implementation of anti-trafficking legislation and the State action plan to combat human trafficking is one of many examples.



NGOs have a limited ability to provide empirically-grounded political advice, and there were few initiatives in any field to draft alternative concepts, strategies and policy papers. NGOs have a tendency to produce reports and advocacy materials that are one-sided and lack balanced analysis. There is a tendency among the NGO community to produce reports or advocacy materials that show only one side of developments, and lack a sense of balance in their analysis. Positive developments are rarely reported along with the areas of improvement. This may slow the development of a productive dialogue between government officials and representatives of the NGO sector, as officials are more willing to engage those that are able to provide balanced assessments.

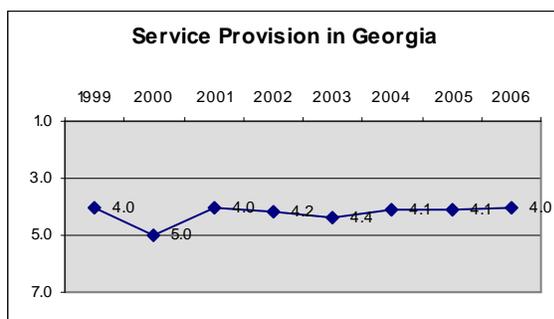
Though NGOs generally have difficulties forming relationships with government officials, once they do their relationships lead to tangible

and productive outcomes. School boards, state agencies, and official working groups that set reform agendas often include NGOs. The Ministry of Education and Science and the Ministry of Health and Social Welfare are leaders in this process and involve NGOs in their reform efforts. Similarly, the Ministry of the Interior largely depended on APLE, a local NGO, while developing its Code of Ethics. The

State and NGO sector have also worked together in Adjara, where the Civil Society Institute provided expert opinion on draft legislation on the Supreme Council of Adjara. In addition, a coalition of local organizations, with funding from the Eurasia Foundation, works closely with the Mayor's office to monitor the city budget and improve transparency of public expenditures.

SERVICE PROVISION: 4.0

The Service Provision dimension experienced two significant developments, one positive and one negative. The government has taken greater ownership of certain public services, leaving less space for NGO participation. The government, however, has also recognized the experience and expertise of NGOs and delegated to them the provision of many basic social services.



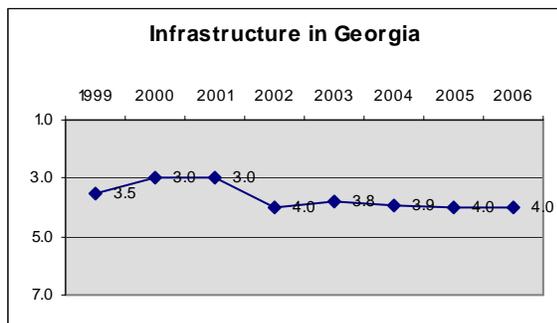
As part of the decentralization process, the Ministry of Health and Social Welfare began outsourcing certain services to NGOs, including a contract to *Partners-Georgia* to develop and train a team of welfare workers. When government officials lack the funds to contract with NGOs for services, they apply for donor support. The program to reintegrate disabled children in Ozugeti, for example, was funded by the United States Embassy with support from the Ministry of Education. At the local level, government officials at times recognize NGOs

for their expertise but lack the funding to offer contracts for services.

The government and donor community have both increased their demand for quality services which has led to an increase in services to offer. The local NGO UN Association of Georgia, for example, will assist the government to develop a national strategy and action plan to promote civic integration and tolerance among the multi-ethnic population of Georgia. Similarly, the Georgian Young Lawyers Association is partnering with the government to develop anti-trafficking legislation and raise public awareness of anti-trafficking of persons (A-TIP). The Georgian Foundation for Strategic and International Studies and the Civil Society Institute provide training for public officials in a variety of fields.

Georgian NGOs continue to offer a variety of services in the areas of education, environmental protection, healthcare, and social services for those with disabilities, children, or infectious diseases. The primary consumers of these services are low-income citizens, and NGOs generally do not charge fees and rely heavily on donor funding. Donor dependency continues to be an issue for NGOs. While NGO services generally respond to the needs of their constituents, local organizations have little input in identifying priorities and have to plan their activities according to the circumstances.

INFRASTRUCTURE: 4.0

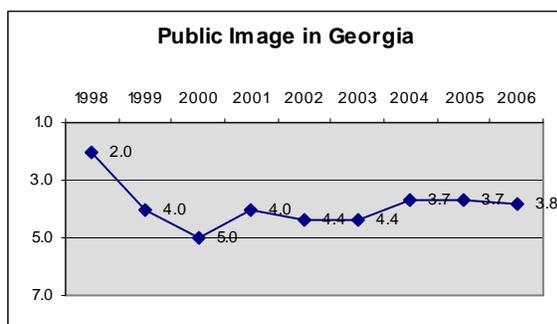


Though there are no traditional NGO resource centers in Georgia, top NGOs such as the Caucasus Environmental NGO Network (CENN) and CTC fill the voids in specific sectors such as the environment and education. In the regions, many advanced NGOs provide a number of technical services and training programs for their lesser-developed counterparts. In both Adjara and Ozurgeti, the

capacity of local organizations to offer such services is increasing. Networking, participation in joint-programs, and information-sharing is traditionally more common in small NGO communities in the regions. Such organizations often have a more collaborative relationship with the local media and are seen by local businesses as advocates for their interests.

Coalition-building and inter-sectoral partnerships remain largely donor-driven and linked to specific projects. As donor funding decreases, levels of collaboration also decrease and networking is limited to ad hoc initiatives rather than long-term partnerships. No community foundations exist in Georgia and two of the large, international grant-making organizations, the Eurasia Foundation and Open Society-Georgia Foundation, are gradually decreasing their presence and making fewer grants.

PUBLIC IMAGE: 3.8



The NGO sector experienced significant setbacks in the Public Image dimension over the past year. Visibility of the sector decreased and NGOs have greater difficulty reaching out to the public. The public's perception of civil society organizations is mixed, due in part to media coverage which tends to focus on scandals, especially in Tbilisi.

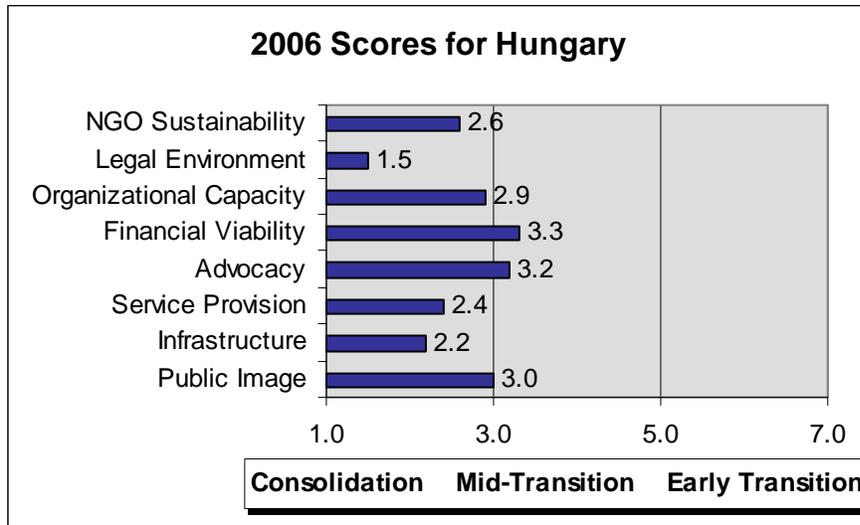
Some in Georgia believe that NGOs are affiliated with the government. Poor and marginalized citizens, who suffer the most from

recent reforms, perceive NGOs and the government to be largely funded and influenced by the west and serving foreign interests. Other segments of the population perceive NGO watch-dog groups as anti-government. This view is reinforced by local television channels that are considered to be opposed to the government and pay more attention to NGO activities. Some organizations are engaged in what are perceived as political activities, which gives the impression that the NGO sector as a whole lacks independence from political parties.

The media continues to turn to civil society experts for analysis and commentary, but remains largely unaware of NGO activities. Many in the media refer to the "NGO community" without acknowledging the variety of opinions and beliefs within the sector. On the whole, public perception of NGOs is neither positive nor negative, and citizens remain unclear about the role of NGOs and their activities. The vigorous civic activism that

led the regime change in Georgia has gradually diminished; NGOs failed to harness momentum to build relationships with their potential constituencies. NGOs continue to be professional groups that are part of the elite rather than a part of the larger society.

Hungary



Capital: Budapest

Polity: Parliamentary democracy

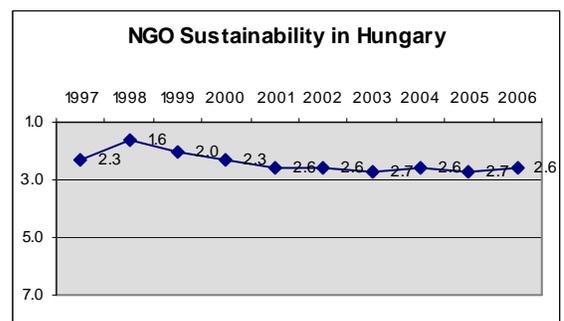
Population:
9,981,334

GDP per capita (PPP): \$17,300

NGO SUSTAINABILITY: 2.6

The year 2006 witnessed a continuing trend of confusion over the role of civil society in political life, a trend that was compounded by the fact that elections were held in 2006. NGOs and civil society groups are increasingly seen as vehicles for fulfilling political ambitions. The riots in the fall – following the release of a recording in which the Prime Minister acknowledged that the government had lied to the people – shed light on significant deficiencies present in the fledgling Hungarian democracy. Above all, they showed that civil society is still weak when it comes to organizing peaceful demonstrations in defense of democratic principles. The rioters turned violent, and those who disagreed with the violence did not take a stand. The events of the autumn also revealed flaws with the constitutional rights legislation put in place 15 years ago. These flaws were apparent in the problems in the interpretation of the right to assembly and freedom of expression and the limitations of use of force by the police. For example, it is possible to occupy public space for weeks and months under the freedom of assembly legislation, but there is disagreement

over when and how authorities may limit freedom of assembly. Despite the freedom of assembly law, police have now banned demonstrations in front of the Parliament. Because the specific exception permitted in the law for limiting freedom of assembly (that traffic cannot be ensured on an alternate route) was not applicable, the police declared that the space in question is an area of police operations, and it has remained as such for six months, until March 2007. The protests and riots have also raised questions about which measures can be used by the authorities to disperse crowds.



The government is proposing a new approach towards civil society by prescribing broad principles for the engagement of NGOs in the work of government ministries, rather than a set of specific actions. That is, the government has now elaborated only a framework for action for the ministries, and it is up to each ministry to determine the specific actions. In the previous strategy, the government had included concrete actions in its plans and had assigned responsibility for those actions to various ministries. For example, the previous government strategy for cooperation with NGOs included plans for courses on the nonprofit sector to be introduced into higher education curricula. In the new “principles” for cooperation, the government instead makes a more general statement that “more human resources need to be available for the field.” The Ministry of Education will then determine how best to do that and will include these activities in their (mandatory) action plan. In addition, the Ministry of Labor may also include something about this objective in its own (mandatory) action plan.

While this new approach was welcome, central government faced criticism due to the lack of sufficient civil society involvement in the elaboration of the National Development Plan for 2007-2013. This plan is very important for Hungary because EU funding decisions will be based on it. Unfortunately, as noted, this approach has not yet been formally approved.

Apart from the disruptive political developments, civil society organizations have generally made strides in the past year, particularly in terms of the availability of funding for their programs. In 2006, EU Structural Funds were finally released, the National Civil Fund improved its procedures, and NGOs benefited from a slight increase in the amount of percentage charitable designations from income taxes. At the same time, more and more NGOs are realizing that government funding should not be their major source of income and are becoming interested in undertaking income-generating and fundraising activities. In fact, the income generating activities of NGOs have grown significantly over the past few years.

LEGAL ENVIRONMENT: 1.5

In 2006, the newly elected government reviewed its civil society strategy. The major conceptual change in the new draft document is that at the governmental level there are “guiding principles” (rather than an actual strategy laid out) and these principles, among other things, require the individual ministries to develop their own strategies towards civil society and NGOs. The principles were adopted in February 2007.

During the year Hungarian NGOs focused their efforts on promoting the proper implementation of recently adopted laws. For example, the Law on Freedom of Electronic Information required that as of January 2006 all ministries publish on their webpage documents that were considered to be “public interest data,” including drafts of program concepts, strategies, policies and laws. The Environmental Management and Law Association (EMLA)

created and is maintaining a website that monitors the extent to which the ministries comply with that requirement. As of their November 2006 report, only five ministries had fully complied with the law but progress could be seen in other ministries as well over the year.

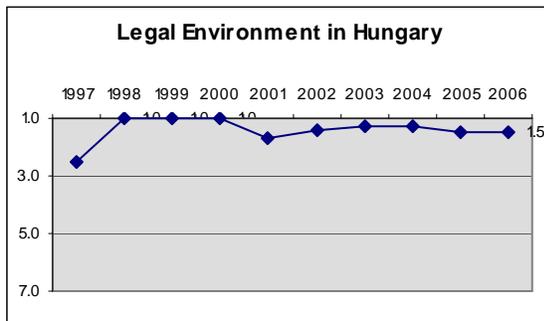
By October 2006, about 500 public benefit organizations registered under the Law on Public Interest Volunteering, adopted in June 2005. These organizations are now eligible to obtain tax benefits on any expenses connected with organizing volunteer activities. The Volunteer Center compiled two publications on the implementation of the law (one for the volunteers and one for the NGOs).

The State Audit Office prepared a Report on the National Civil Fund (NCF) and pointed out several deficiencies in the implementation of the

law. These included inappropriate determination of distribution principles, lack of performance criteria relating to grants, lengthy procedures, and grantee problems with the financial reporting and accounting requirements. Grantees were not fulfilling reporting requirements but the NCF accepted their reports nevertheless, which resulted in non-compliance of the NCF with State Budget laws. As a result, the State Audit Office questioned whether the NCF has been achieving its objectives in the past two years and made several recommendations, including amendments to the Law on the National Civil Fund.

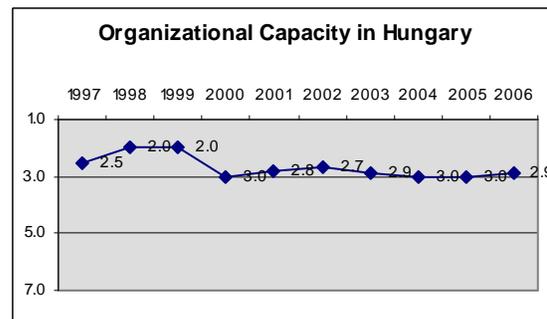
According to the new Company Code, adopted in early 2006, the legal form of a public benefit company will be discontinued and will be replaced with the “nonprofit company.” A nonprofit company can take any legal form prescribed in the company law (e.g., a limited partnership, a limited liability company or even a joint stock company). It will be eligible to apply for public benefit status as well. These changes will take effect in 2007.

A minor but important legal change that concerns NGOs establishes an income ceiling, beyond which taxpayers cannot claim deductions, including for charitable donations. The ceiling for 2006 was 6 million HUF (\$30,000). In addition, following amendment of the 1% Law, universities and other higher education institutions will become eligible recipients for charitable contributions.



ORGANIZATIONAL CAPACITY: 2.9

In the past year the organizational capacities of NGOs improved slightly, especially in those which received funding from the EU Structural Funds. After more than a year of delay, these funds were finally available for investing in service and infrastructure development. Over the past year several leading NGOs, both national and local, completed a strategic planning process (as a result of the Trust for Civil Society program) that led to serious changes in their organizations. Another encouraging sign of growing maturation is that several organizations reported increased interest on part of university students and young professionals in working in the sector. The big question now is not whether qualified young people can be attracted to the sector but whether they can be retained and provided with good career opportunities.



The biggest setback in this area is that it is increasingly difficult for NGOs to pay the salaries of full-time staff, given that personnel costs have continued to rise. Employer costs increased unexpectedly in the middle of the year when the government introduced its new restrictive package, which includes increases in payroll taxes, cuts in government spending, and related restrictive economic measures. Less than one third of those employed full time in

the nonprofit sector are employed by private non-governmental foundations and associations; the balance are for government or local government sponsored quasi-NGOs.

Another anomalous aspect of this situation is the growing gap between relatively stable organizations with sizeable budgets and smaller, more precarious groups. Over 60% of all nonprofit sector revenue flows to Budapest-based NGOs, which do of course redistribute

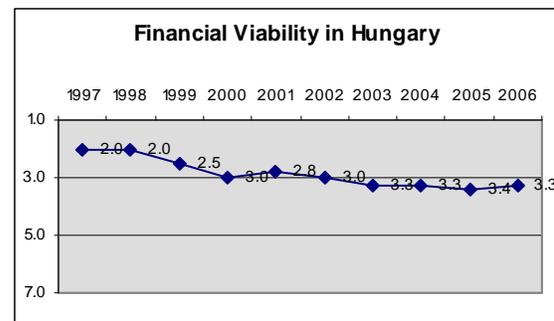
much of that funding to the countryside. Sixty-six percent of NGOs have annual budgets of less than \$20,000 and have no paid employees. Within this group, many function on even less money; over 44% of NGOs have annual budgets under \$5,000. The State Audit Report on the national Civil Fund (NCF) states that NCF funding has not enabled NGOs to grow because its funding level for any given NGO is based on previous funding levels.

FINANCIAL VIABILITY: 3.3

In 2006, EU Structural Funds project funds were finally released, making it the first year in which NGOs could gain access to a significant amount of EU funding in Hungary. Funding from the National Civil Fund (NCF) for operational costs has also become more predictable and less bureaucratic, thereby easing access to these grants for NGOs. In 2006, the revenue from 1% tax designations (in which taxpayers can choose to designate 1% of their personal income tax payment to go to a qualifying NGO rather than the government) slightly increased. The designations provided about \$37 million to more than 25,000 NGOs. In addition, the NCF concluded an agreement with the other major source of support, the National Employment Fund (NEF), to coordinate their support to NGOs. This means that if an NGO wins a project with the NEF, it is entitled to receive operational support from the NCF.

Overall, however, the tendency of a decreasing level of state funding continued, as there were cuts in the level of service delivery support (or per capita fees paid to NGOs to deliver services for the government) as well as in the ministry budgets for specific NGOs. The recently introduced government restriction package will also negatively affect state financing. The new Norwegian Fund Mechanism, another major NGO support fund, has suffered delays

and therefore is not yet operational, although the first round of calls for proposals has been completed. The Norwegian grants procedure received much criticism from NGOs for being more bureaucratic and complex than the EU funding mechanisms.



NGOs are becoming more and more aware of the need to diversify their funding and to rely more on local and sustainable sources. For example, associations increased their funding from economic activities by almost 15% since 2000. In addition, there is clear demand towards professionalizing fundraising activities. The First Hungarian Fundraising Conference organized by the Civil Society Development Foundation Hungary attracted over 200 paying participants in the fall of 2006.

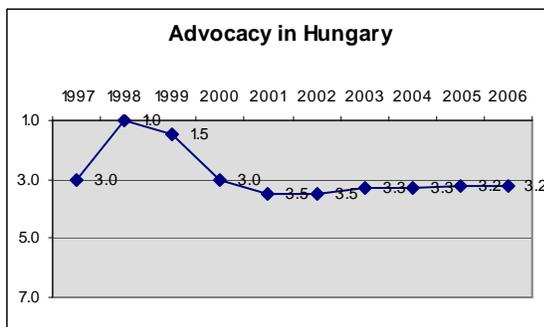
ADVOCACY: 3.2

The elections and the riots in the autumn of 2006 shed light on an important deficiency of

Hungarian democracy, namely the confusion between the role of civil society and that of

political parties. Hungarian law does allow civic associations to provide candidates for political office. It only bars public benefit organizations from putting forward candidates.

During the elections, one MP was elected to Parliament as the candidate of a county association (that is, an association whose mission is to promote the development of one of the 19 counties in Hungary, similar to a community development NGO). As the only non-party MP, he received substantial publicity and claimed that he was “representing civil society.”



In addition, a number of new civil society groups have been formed by the right-wing radical demonstrators who were at the heart of the Budapest riots in the autumn. These were formed to support the demonstrators in their effort to throw out the government; officially their aims included nationalistic slogans, like re-uniting the culture of the Hungarian nation. Though FIDESZ (the biggest opposition political party) denies having connections with these radical groups, the public sees them as part of the right-wing opposition led by FIDESZ.

In addition, some high-profile NGOs are essentially seen as political actors. For example, the NGO which nominated the new President of Hungary in the previous year has remained very visible. It actively engages in advocacy and lobbying; however, its mission is quite broad and vague (“sustainable development”), and it speaks up on every aspect of governance, almost acting as a political party, in that it takes an ideological stance on many issues, rather than having a clear issue focus. For example, it

speaks on issues concerning the environment, energy, public transport, city planning, construction, human rights, the use of the EU funds, and so on. In fact, some of the founders formed a party for the 2006 elections but did not reach the needed number of supporters or candidates. When the party was formed the members clearly stated that the NGO would remain a civic organization. Nevertheless, since the elections there is little heard about the party, while the same people remain active in the NGO.

These and similar events led to a blurring of the role of civil society in Hungary. Groups are perceived as being used as political tools (see also the section on NGO image), and public advocacy is being confused with the expression of political ambitions.

The over-politicized atmosphere also revealed the problems of some major NGOs in establishing internal democracy. For example, one of the largest membership organizations in the country organized a demonstration against government reform in taxes and budget spending based on a decision by its governing board without any consultation with members, many of whom were uncomfortable taking a political stance regarding the new restrictions.

There were a few important attempts at real advocacy, though typically these did not reach the public. For example, the Hungarian Civil Liberties Union sued the Ministry of Justice when the latter failed to provide access to the draft of the new constitution, in violation of the Law on Freedom of Electronic Information. HCLU won the case at first instance. HCLU is in this case engaging in strategic litigation as an important tool in advocacy. This case was but one of several the organization undertook in the recent years to ensure application of civil liberties in Hungary. The court case was accompanied by a media campaign, petition writing campaign, etc. The coalition of the Civil Organizations for the Openness of the National Development Plan Process (CNNy) continued its work to ensure proper participation in the elaboration of the Operational Plans for the

2007-2013 period, with some success. The Helping Hand Foundation organized an impressive project called “I am going to the Minister”, in which people with learning

disabilities met ministers, MPs and other decision-makers and personally explained to them their problems.

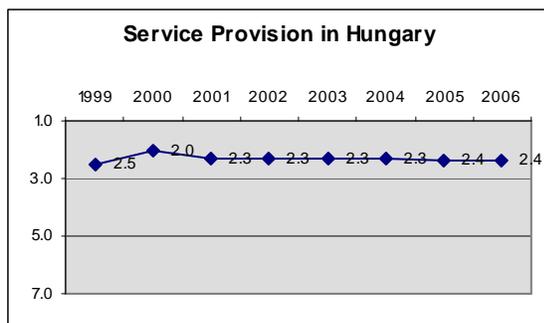
SERVICE PROVISION: 2.4

Given that the EU funds have finally started to flow, there has been an increased interest and activity by NGOs in providing services. However, government budget cuts for the provision of NGO services made it a difficult year for many organizations. Due to these cuts, all ministries were ordered to decrease their spending, and one of the areas most affected was NGO support. In addition, the government also decreased the amount of the per capita support NGOs receive per service user when an NGO provides a government service. One general phenomenon that could be observed in past years is that NGO service provision tends to concentrate on the areas where government funding is available. For example, there seems to be a disproportionately high number of services provided in employment (job search training, job placement exchange, rehabilitation, vocational training, reintegration into labor force, etc.). Undoubtedly this is driven by government programs and raises concern over whether NGO services meet real social needs or are just passively following government priorities.

NGOs also report that the monitoring activities of government programs (including those on employment but also others primarily funded through the EU Structural Funds) are usually confined to financial and procedural aspects rather than outcome and impact measurements. At the same time NGOs increasingly apply or strive to introduce quality assurance systems; this change signals an improvement in accountability in the sector.

The fact that associations increased their revenue from economic activities also reflects an outreach in service provision – they have finally started to charge a fee to their members and clients for services they used to provide for free.

The government proposed a draft law on public services contracts. The draft law does not consider NGOs specifically, thereby putting them on equal playing field with for-profit companies in bidding on and obtaining contracts for service provision. There are also interpretation issues with the text, for example it seems to provide only for contracting out a whole service as defined in the laws concerning government tasks (e.g., the maintenance of a public park or the maintenance of a homeless shelter). It remains to be seen what this means if and when a local government wants to contract out only a part of the service (e.g., cleaning the parks or psychosocial care in the shelter). The discussion of the draft is continuing.

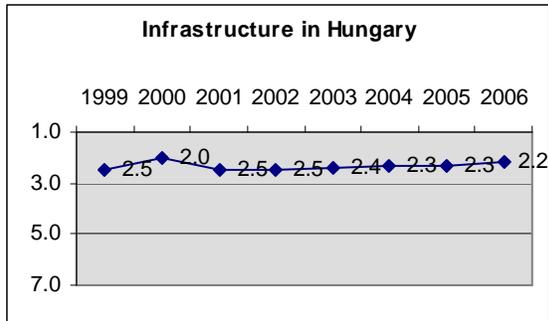


INFRASTRUCTURE: 2.2

The NGO training market received a boost from EU Structural Funds (SF) and the NCF money. There are adequate funds available for training. For-profit training companies also

entered the market, given that NGOs which received SF projects are able to pay for training. Therefore, interested NGOs can now register for government- funded support center training

for no charge, or workshops provided by private companies at a cost of \$1000–1500 per day. In part due to this market boom, demand for qualified trainers is increasing.



By 2006, at least six to eight parallel infrastructure networks were developed by various ministries; all of these are supposed to provide the same kinds of services to an overlapping circle of NGOs and other local actors (e.g., small entrepreneurs, schools, social service institutions etc.). These networks include Mobilitas centers (youth support network), Equal Opportunities Centers, NGO support centers, Labor Support Centers, etc., with most operating on the same regional level. The new government strategy suggests merging these networks. The strategy envisions tendering of this training function in the regions and providing delivery-based financing to the providers. While the streamlining is a welcome idea, the new arrangement may affect local

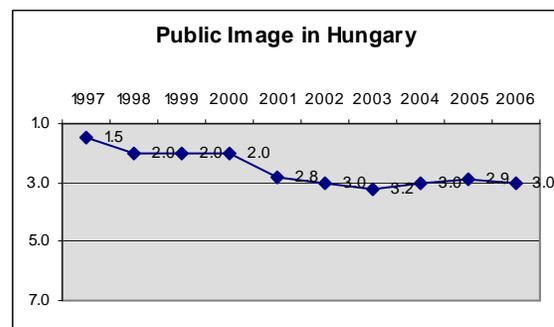
PUBLIC IMAGE: 3.0

This trend in politicizing the NGO sector continued in 2006. As described in the section on Advocacy, Hungarian media and the public have come to see NGOs as political actors; civil society is seen as a potential tool for gaining power. The other main image that is communicated about NGOs is a non-political “charitable” image (helping the poor, giving food and shelter, etc.). This image is a positive one, but it is also very traditional and paternalistic; it makes an underlying assumption that these kinds of charitable activities are needed only because the state cannot take care of its citizens.

support centers in such a way that they become government policy implementers and are less responsive to local NGO needs.

In fact, most of the county level NGO support centers (part of the government established CISZOK network) diverged from their original missions when they undertook EU regional development or employment programs. Individual centers vary widely in the level and quality of their services. There are refreshing exceptions as well, including a couple of local support centers that emerged in response to local needs that were not being met by the national networks.

The Hungarian Donors Forum (HDF) was incorporated in 2006 after several years of planning. This is a big step forward in developing a support infrastructure and interest representation for Hungarian grant-making foundations. HDF engaged in a joint project of the CEENERGI – network (Central and Eastern European Network for Responsible Giving), establishing a corporate social responsibility (CSR) award based on international standards in Hungary. On that note, there is an increasing number of conferences, events, trainings and even awards related to CSR in Hungary. For-profit CSR consultant companies are eager to create demand for this emerging trend.



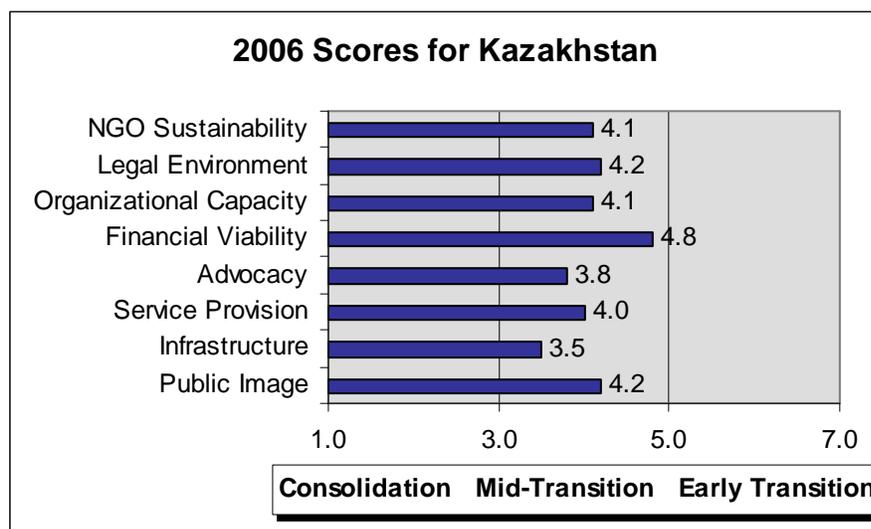
Undoubtedly the fact that it was election year contributed to this distorted view of civil

society. Due to the election campaign, campaigns promoting donations to NGOs through the 1% income tax designation were less visible this year to the average citizen (the timing of these two coincided in the spring). Although the amount of the percentage designations grew, this did not mean that many more citizens designated but rather that the taxes have increased since last year.

There were also some very visible campaigns in which NGOs participated, such as the “Cow Parade,” an open-air show that aims to promote arts education around the world. Another high-profile citizen initiative launched in 2006 is the Budapest Olympics Movement; this aims to gain public support for bringing the Olympic Games to Budapest in the next decade.

According to the Media Monitor of Okotars Foundation, over the period April– September 2006, NGOs were covered in the media less frequently; the number of media appearances decreased by 14% compared to the previous period (October 2006 – March 2007). While public media reported on civil society issues more often, some civic issues generated significant media response in the commercial media, which reach a wider audience and cover issues over a longer period of time. For example, the controversies surrounding two development projects challenged by civil society groups for environmental reasons—the “Hajógyári-sziget” (“Dream-Island Investment”) building project and the M0 ring road project—were massively represented by the commercial media. Therefore NGOs have learned that it is possible to mobilize the commercial media and that it is worthwhile if they want to reach a larger audience.

Kazakhstan



Capital: Astana

Polity: Republic-
authoritarian
presidential rule

Population:
15,233,244

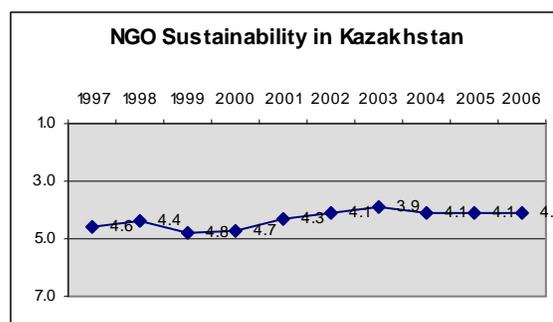
**GDP per capita
(PPP):** \$9,100

NGO SUSTAINABILITY: 4.1

The Ministry of Justice reports that as of April 2006, 25,868 private, not-for-profit organizations were registered in Kazakhstan. The NGO sector includes a wide variety of organizations including agricultural partnerships, notary chambers, consumer's cooperatives, religious associations, and rural consumer's cooperatives such as water cooperatives, housing and building cooperatives, and others. The most popular legal form of NGO is the public citizen's association, which continues to increase in number and accounts for the overall increase of the total number of NGOs. The second most popular legal form of NGO is the foundation. Overall, the number of active NGOs is approximately 1000, the same as last year.

Over the past several years, the Government hosted two Civic Forums, in which President Nazarbaev outlined the importance of partnerships with NGOs and encouraged State entities to cooperate with the NGO sector. In July 2006, the State adopted the Concept of Civil Society Development to guide future relationships between NGOs and the government. Some believe this to be an attempt by the government to limit the role of

civil society organizations as service providers and advocates.



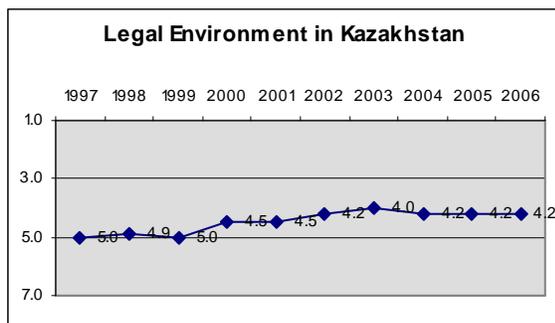
Over the past year, the government promoted state orders, which are state contracts with NGOs for social services. In addition, government officials sought assistance from international organizations to improve the legal framework governing civil society organizations and state funding. The government is now considering a series of reforms to improve the legal framework, including amendments to the Constitution, the law on self-government, law on sponsorship and patronage, and the tax laws. NGOs rely less on international donors, who have gradually reduced their support; instead, they more actively compete for state contracts. While this may be a positive step, it may adversely affect new NGOs, since the

government does not fund institutional

development.

LEGAL ENVIRONMENT: 4.2

The legal framework regulating NGOs has improved over the past year. Since January 2006, the registration fee for NGOs was reduced from 20,000 tenge (US \$160) to 7,600 tenge (US \$60). This change, along with the country's economic growth, made the registration process more affordable. NGOs in the regions may still have difficulties registering due to logistics such as the lack of a notary's office in the village or rayon, and other non-political or economic issues. Amendments to the National Security legislation require NGOs to report all expenses using a form that has 27 appendices. The Tax Agency is now responsible for monitoring the implementation of the law, taking over the task from the Ministry of Justice, which was more prone to apply the provision in a more political manner.



Over the past year, government officials generally did not abuse their authority to further their own political interests. In one exception, officials subjected political parties and independent media outlets to some abuse, and a few religious organizations were denied official registration for causing problems for the government.

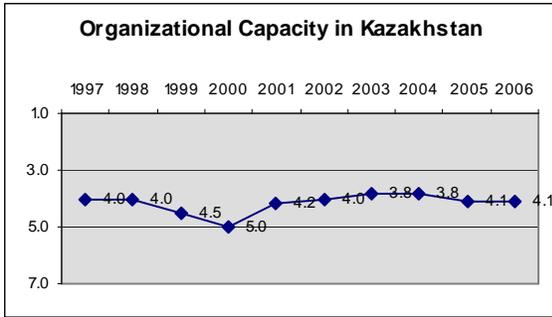
The number of attorneys that specialize in NGO law continues to grow. Access to free legal services, however, is only available with support of international donors. NGOs are still unable to pay for such services and as funding decreases, NGOs use legal services less frequently.

NGOs are exempt from paying taxes and the regulation of tax privileges has improved gradually. Organizations are required by law to pay income tax on income earned from their economic activities. Beginning in January 2007, however, funds received under state contracts will be exempt from corporate income tax and VAT. NGOs that provide services to specific social groups, such as groups of invalids, are also exempt from paying income tax on their economic activities, though it is difficult to obtain the status necessary to be exempt.

ORGANIZATIONAL CAPACITY: 4.1

In the past, the international donor community invested a significant amount of resources in developing the organizational capacity of the NGO sector. Many active organizations still conduct strategic planning, and have strong constituencies and well-defined missions that guide their activities. Some NGOs that were created recently to receive state contracts, however, make no effort to build constituencies or develop their capacity for strategic planning. International donors are gradually reducing their support for organizational capacity development, and the State will only fund specific project activities.

Only a few organizations have boards of directors, and those that do created them to meet the requirements of international donors. At times, NGOs adopt standard charters that include boards of directors, but they fail to understand the importance of their boards and frequently let them dissolve. Boards of organizations are unpopular with local organizations in part because businessmen, politicians and celebrities that often sit on Boards fail to understand the role of NGOs and do not consider it an honor to be on a board.



NGOs generally have both volunteers and paid staff. The NGO community is experiencing significant “brain drain,” as specialists, accountants in particular, leave for jobs in other sectors. Though volunteers are available and support NGOs, Kazakhstan lacks a culture of volunteerism. NGOs continue to view volunteers as free labor rather than an opportunity to access professional services.

FINANCIAL VIABILITY: 4.8

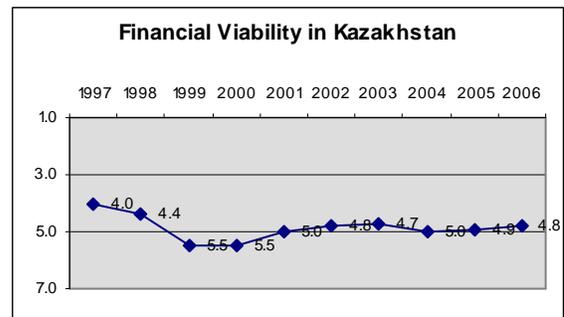
The government recently issued State orders to minimize the influence of international donors. International donors continue to be the largest grant providers in Kazakhstan, though their role has gradually decreased. NGOs are able to participate in state tenders and receive support from the government. The legal framework does not create any clear mechanisms for allocating state funds to NGOs or providing state contracts, and state support depends on the political will of the President. Without the President’s approval, NGOs may lose state funding. The process for issuing contracts is less than transparent and some organizations report that government officials often demand “kickbacks.” NGOs are able to receive other types of contracts for social services, though they have to make a deposit of 3% of the amount of the contract or a guarantee from the bank. NGOs at times lack the resources to pay the deposit and therefore prefer to participate only in State contracts for social services.

Currently, NGOs tend to rely on government funding rather than develop entrepreneurial skills, and local philanthropy continues to be relatively weak. The survey conducted by the

The AGRO Association surveyed the 77 leading civil society organizations in Kazakhstan and found that 85% use volunteers. Of those organizations surveyed, 44% experienced an increase in volunteer staff and 13% experienced a decrease. Among the volunteers, 37% are students and 27% are beneficiaries of the organization’s activities.

NGOs generally have the equipment necessary to complete their work. Most organizations received their equipment under grants from international donors. As the international community makes fewer funds available for equipment and other costs, office equipment is becoming outdated. The State usually does not provide funding to upgrade office equipment.

ARGO Association found that 64.3% of the resources of the leading 77 organizations are from international donors; the same is true for many other NGOs. Despite their dependence on international donors, NGOs are making an effort to diversify their funding by providing services for fees and securing state funding, which account for 10.1% and 9.7% of NGO income respectively. The Water User’s Associations, professional associations, and other organizations, collect membership fees but they do not contribute a significant amount to the financial sustainability of these organizations.



In 2004, the government repealed the requirement that NGOs account for their non-profit and for-profit activities separately. This

year the government reinstated the requirement, and in January 2007, NGOs will have to begin keeping separate books for their different activities. As a result, NGOs will again be able to avoid paying tax on income from

their grants. NGOs generally do not publish financial reports and transparency is uncommon. Audits are expensive and it is infrequent that NGOs use them.

ADVOCACY: 3.8

Cooperation between the government and NGO sectors improved over the past year. Government ministries and departments of internal policies, which are responsible for collaborating with the third sector, are more open to consulting NGOs and frequently involve them in working groups.



NGO advocacy is generally reactive rather than pro-active in nature. The Fund of Tax Culture successfully lobbied the government to exempt state contracts for social services from the Corporate Income Tax. During the 2005

presidential elections, the Civil Society for Free and Fair Elections Program Coalition promoted a more informed process by: 1) increasing public knowledge; 2) publishing the position that each of the candidates took on specific policies and actions; 3) facilitating dialogue between candidates and citizens; 4) promoting civic responsibility; and 5) strengthening the role of civil society in the election process. The National Association of TV and Radio Broadcasters was unsuccessful in its effort to stop amendments to the Media Law that further restrict freedom of speech.

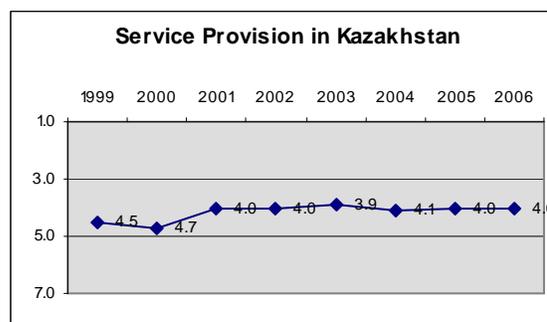
Some NGOs have training in advocacy, though many of them are passive and prefer not to be involved in political issues. NGOs continue to have difficulties lobbying government officials and have limited access to political decision makers. When necessary, NGOs use the internet, list serves, and other means of communication, as well as personal relationships with government officials, to further their advocacy efforts.

SERVICE PROVISION: 4.0

NGOs provide a wider variety of services than they have in past years, but are still unable to satisfy demand. They provide services in areas such as health care, environmental protection, support for the disabled, education, and others. Some organizations provide specific services such as teaching the Kazakh language.

Generally, only the few NGOs that provide services for a fee are able to recover their costs. This is uncommon, however, and limited to well established organizations that are paid to provide training or workshops for businesses or government officials. The government often

recognizes the value that NGOs add when they provide basic social services.

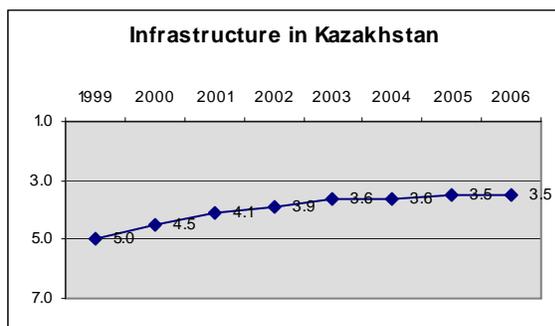


Several groups provide political analysis and research on civil society related issues. Though

organizations and community groups often lack the resources to conduct large-scale market research, they use other means to identify the needs of their constituencies and receive

feedback from their clients. Many use, for example, the Participatory Community Appraisal Technique, Appreciative Inquire Technique, and others.

INFRASTRUCTURE: 3.5



The Association of Civil Society Support Centers funded by USAID continues to provide technical assistance to NGOs. Domestic corporations have created a few local funds for civil society organizations, such as the Kazakommertzbank Fund. In addition, a number of local politicians and civic activists created the Civil Society Fund, which provides grants to civil society projects that are co-sponsored with other donors.

NGOs have the resources necessary to exchange information. Many have access to the

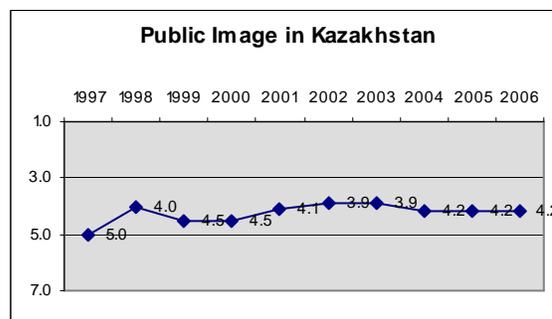
internet as well as email and list serves. The National Government of Kazakhstan announced interest in creating an “e-government,” and a large number of agencies, ministries, and akimats now have their own websites.

Every region in Kazakhstan has a cadre of professional trainers, though a decrease in international support for training has resulted in a decreased demand for trainers. A few organizations are willing to pay for seminars, but it is uncommon, and at times, the business community and government agencies use trainers from the NGO community. More organizations are aware of the advantages of forming social partnerships, and such networks are becoming more successful. The Civic Alliance, for example, is a coalition of unions that has been established in almost every region. The Association of NGOs in Kustanai continues to operate as an intermediary and distributes funds received from the business community to civil society organizations.

PUBLIC IMAGE: 4.2

Numerous NGOs took an active role in the December 2005 presidential elections, which led some in the mass media to publish negative stories about NGOs. The bad press endured for only a short period following the elections. Some NGOs, such as the League of Consumers’ Rights Protection, frequently appear on television. One estimate states that NGOs organize up to 50% of all press conferences in Kazakhstan, though the major media outlets generally boycott press conferences that have negative political ramifications. Research conducted by the ARGO Association found that 63% of the leading 77 organizations state that the press regularly reports on their activities,

while 31% state that the press covers only their key activities.



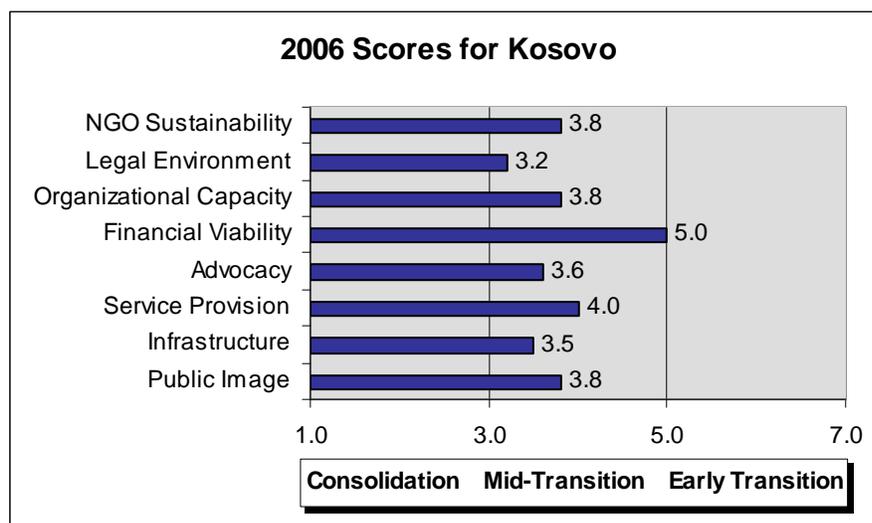
Only a few NGOs have Codes of Ethics. Of those that have a Code of Ethics, most were required to adopt one by their donors. NGOs

lack transparency, especially in their financial reporting, and most do not publish their financial reports, though they are required to do so by law. Similarly, NGOs still lack strong financial management skills.

According to a USAID-funded poll taken in October 2006, approximately 31% of the

population is aware of the NGO community, and 3% reported being a member of an NGO. This was a decrease over last year, in which 38% were aware of NGOs and 4.2% were members. The image of NGOs as “money-takers” did not change over the past year, though they are now seen as taking money from the government instead of international donors.

Kosovo



Capital: Pristina

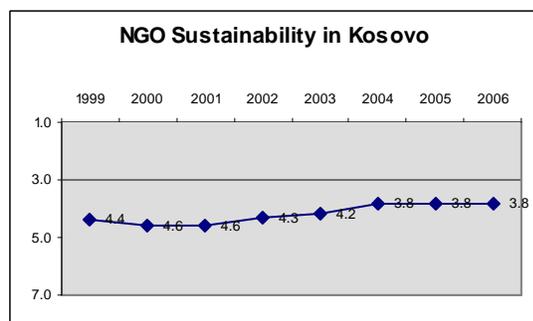
Polity: International protectorate

Population:
2,000,000

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

NGO SUSTAINABILITY: 3.8

The past year may easily be characterized as the most politically intense year in post-war Kosovo, as the process for defining the final status of Kosovo has officially begun. The negotiations taking place in Vienna, Austria are being facilitated by and are under strict supervision of the Special UN Envoy, the former Finnish President Mr. Martii Ahtisarri. This process succeeded the positive evaluation of Standards Implementation by the Special Envoy of the UN Secretary General, Mr. Kai Eide. During the ongoing negotiation process, practically all other aspects of life in Kosovo have been paralyzed.



The negotiation process is tense due to the uncertain end-results. In addition to the “Vetevendoja,” or “Self Determination”

movement in Albanian, which was very active in Kosovo during 2006, other indicators of the public’s unease with the uncertainty have surfaced. The death of President Rugova, the removal of the Speaker of Parliament, Mr. Nexhat Daci, from office, and the appointment of Mr. Agim Ceku, the former Kosovo Protection Corps Commanding General, as Prime Minister of Kosovo, and other events influenced and shaped the political environment in Kosovo. Another change in the political environment was the replacement of the head of UNMIK, Mr. Søren Jessen-Petersen, with the former head of Pillar IV, Mr. Joachim Rucker.

The economic challenges have not changed much over the past year. Unemployment remains the highest in Europe and poverty is wide-spread. The only economic progress has resulted from the privatization process; over 90% of the publicly owned enterprises have already been sold. It is still too early to assess the success of the process.

The number of NGOs registered in Kosovo remains approximately 3,800. Of these, only 150 are well-established and active. Cooperation and networking between NGOs from different ethnic backgrounds and regions did not change significantly over the past year.

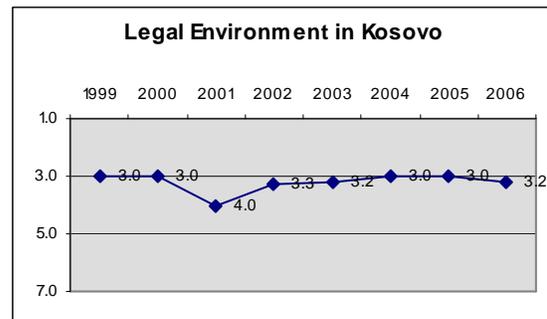
The more active NGOs have improved their organizational structures, infrastructures, and financial viability. The law on public procurements enacted more than two years ago has enabled NGOs to compete for government contracts to provide goods and services.

The new NGO law, which has not yet been signed by the head of UNMIK, presents serious threats to the entire sector. In addition to the direct impact it could have on NGO operations, the new law has increased uncertainty within the entire sector, hindering long-term strategic planning. This indicates that the overall sustainability of the sector is unimproved over last year.

LEGAL ENVIRONMENT: 3.2

The legal environment governing nonprofit organizations in Kosovo has deteriorated significantly over the past year. The UNMIK regulations for the registration of new organizations ensure a quick and easy process, though the new NGO law if signed will make the regulation of NGO activities more complicated. The inadequate laws and lack of administrative regulations have confused NGOs about their reporting requirements. In addition, the government is requiring that micro finance institutions register as for-profit businesses, which is an uncommon practice. Amendments to the VAT regulation require that all NGOs, even those with public benefit status, pay VAT on imports, including donated goods. These amendments have had a negative affect on humanitarian assistance organizations.

Despite these restrictions, the law continues to prevent the state and government officials from dissolving NGOs for political reasons. Government officials and tax authorities do not harass NGOs. In 2006, however, tax inspectors visited NGOs more often than in the past. This was not an effort to impede NGO activities, rather an effort to consolidate the presence of the Kosovo tax authority. The Kosovo Police Service interrupted NGO activities in a few instances in which they considered the activities to be a threat to national security. Activists in the “Vetevendoja” movement, for example, were detained under house arrest for activities that appeared to threaten authorities.

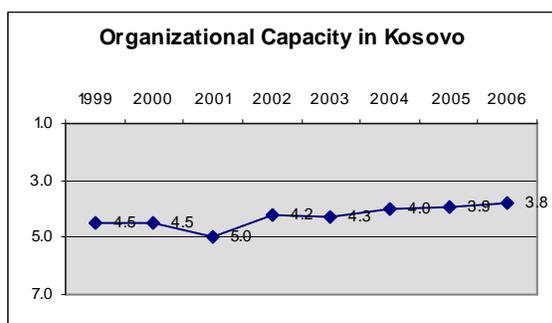


The number of experts in NGO law did not change over the past year. The Kosovar Institute for Not-for-Profit Law (IKDO), once the only organization that provided legal advice to NGOs, no longer offers services. Since NGOs encounter few legal problems, the demand for expert services remains low. NGOs are exempt from paying taxes on their grants. The law permits businesses and individuals to donate up to 5% of income to charitable organizations. Currently, the law does not distinguish between sponsorship and advertising, which is one obstacle to increasing local philanthropy.

The law permits NGOs to earn income by providing goods and services, as well as compete for government grants at the local and central levels, and the government awarded more grants and contracts to NGOs than in past years.

ORGANIZATIONAL CAPACITY: 3.8

NGOs with strong constituencies are generally those that provide services or are membership organizations. Such organizations focus most of their fundraising efforts on domestic sources or from the Diaspora. Examples include Mother Theresa, the Association of War Veterans, Association of War Invalids, and Vetevendosja. Organizations focused on democracy, economic development, and other areas of research and policy depend primarily on funding from international sources. Few think-tanks and research organizations generate income by providing services to the Government.



Kosovo is undergoing a very rapid transition process, and as a result, the NGO sector and the rest of society are experiencing abrupt changes as well. As international donors have decreased their presence in Kosovo, the inefficient organizations have ceased to exist,

FINANCIAL VIABILITY: 5.0

Though international donors have decreased their presence, the financial viability of NGOs has improved. One explanation is the large number of inactive organizations that have been dissolved; the organizations that remain are those that have achieved a higher level of financial sustainability. Local philanthropy continues to be underdeveloped, however, which limits the sector's long-term financial viability. Think-tanks, for example, continue to depend on international donors. NGOs have failed to reach out to and develop their constituencies, and as a result NGOs remain

while active organizations have increased their efficiency by re-organizing and reducing the number of full-time staff. A large percentage of active NGOs are consolidated and have well-established structures, procedures and policies. In addition, NGOs are increasingly developing cooperative relationships with each other around common issues. The number of successful relationships is small, however, and the sector is in need of improvement.

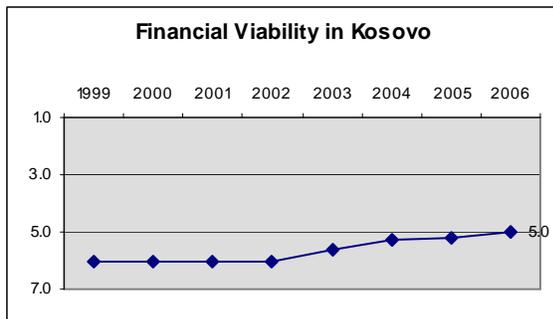
Those involved with NGOs have satisfactory levels of professionalism and experience. NGOs generally have permanent staff and maintain lists of part-time staff that they hire according to their current projects. Though Kosovo has a long tradition of volunteerism that peaked in the 1990's, NGOs are now experiencing difficulties recruiting volunteers. One reason may be that the volunteerism of the 1990's was largely issue-based and fit within the concept of patriotic duty. Kosovar society and the NGO community should provide greater incentives to promote volunteerism, and should inform citizens that there are many reasons to volunteer.

Most NGOs have access to basic office equipment, including computers, fax and printing machines, and access to the internet.

somewhat distant from the rest of society. Membership-based organizations and those that provide services for at-risk groups are the only organizations that have had success in raising funds locally.

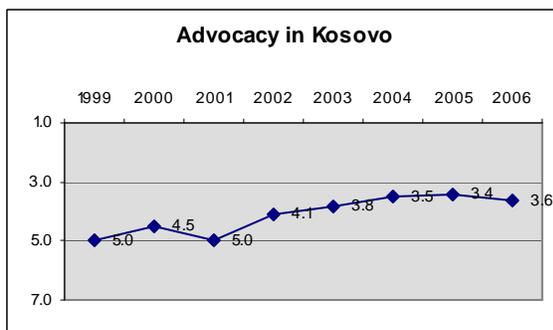
More organizations write strong proposals, which is largely due to greater competition for the fewer funds that are now available. Those NGOs that receive donor funds have appropriate financial accounting systems and are able to perform independent financial audits. NGOs are increasingly aware that their survival depends on their fundraising skills. Local

donors report that one issue is the lack of demographic information about Kosovo, which is required for successful fundraising.



The government increased the number of contracts awarded to NGOs and both central and local governments have awarded contracts to NGOs for services ranging from reconstructing houses, conducting assessments, and most frequently, producing policy papers that support efforts to draft new laws.

ADVOCACY: 3.6



failure over the past year has been the failure to influence the new NGO law.

NGO advocacy has deteriorated significantly in 2006. Despite concrete examples of issue-based coalitions, civil society has failed to initiate many advocacy efforts. The process of final status negotiations has overshadowed most other issues, no matter their importance; it is almost as though the social and political actors agreed to suspend all other initiatives until final status is resolved. The NGO sector’s greatest

NGOs face greater difficulties lobbying for policies or legal reforms in the national government than in the past. This is due in part to the fact that people working in public institutions are more experienced and confident in their work, and are less open to outside ideas or influence. The situation at the local level is different and community organizations have had greater success in presenting issues that are important to the community to the municipal assemblies.

Some NGOs have had moderate success in building issue-based coalitions. Two examples are the NGO Code of Conduct Coalition, which is developing a code of conduct, and the Forum for Pension Rights, which was successful in ensuring public hearings for new draft legislation on pensions.

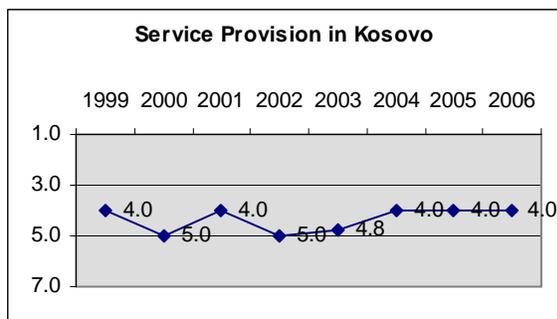
SERVICE PROVISION: 4.0

The Service Provision dimension has deteriorated slightly over the past year. Though the number of NGOs that receive government contracts increased, service providing organizations like Mother Theresa now have to pay VAT on imports, a change which has had significant impact on their activities.

Generally, NGOs provide a wide range of services, and more NGOs are involved in areas such as economic development, environmental protection, and governance. The number of organizations that receive grants and contracts to provide services to communities is unchanged. The Community Development Fund and some women’s and youth rights organizations are the major recipients of these

grants and contracts. The government has commissioned NGOs such as Riinvest to provide expertise to the Kosovar negotiation team that works with Mr. Ahtisarri on the Kosovo settlement document.

NGOs are able to recover the costs associated with providing their services. A number of nonprofit educational institutions generate income by charging their students tuition. The American University of Kosovo is the best example.



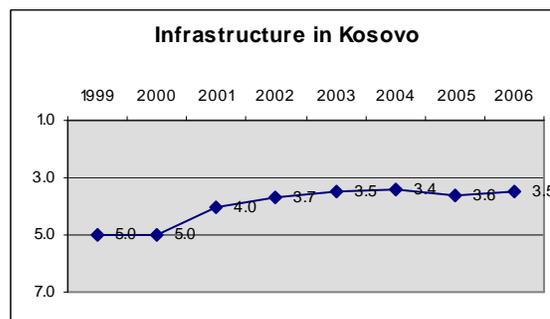
INFRASTRUCTURE: 3.5

The Infrastructure dimension improved slightly in 2006. The Advocacy Training and Resource Center (ATRC), which is located in Prishtina, continues to be the only resource center that operates in Kosovo. ATRC underwent structural reorganization and staff changes in 2005 and since then has been increasingly active in providing training and capacity building for NGOs. Several private companies also offer management trainings that NGO staff and leadership increasingly attend.

smaller women's rights organizations in the rural areas. The Foundation for Democratic Initiatives provides grants to NGOs that engage in advocacy activities.

As in 2005, five local grant making foundations distribute foreign funding to local organizations, though only one is based outside of Prishtina. These grant making foundations make all decisions concerning funding priorities and objectives, and are therefore able to address both the needs of society as well as those of local NGOs. The Community Development Fund continues to provide grants to NGO service providers, which increases the availability of social services. The active foundations are able to meet community needs, such as shelter and infrastructure. KFOS provides assistance to a wide range of NGOs, especially those that provide services to minorities. The Kosovo Civil Society Foundation re-grants funding provide by the European Agency for Reconstruction, and the Kosovo Women Initiative grants funding to

Despite several attempts, civil society organizations have been unable to create one body that represents the sector's interests. The small number of issue-based coalitions is a good start, but they are insufficient to represent the entire sector. The objective for forming a representative organization is to create permanent channels of communication that NGOs may utilize for constituency building and facilitating cooperation.



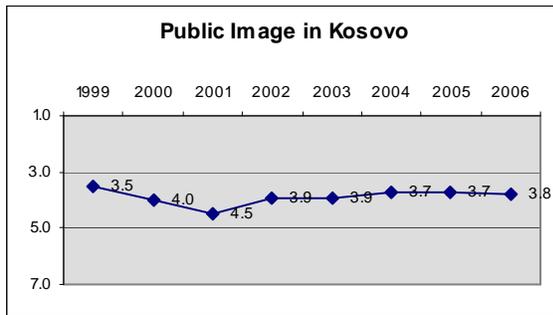
Business associations in various sub-sectors of the economy continue to be the most efficient coalitions of special interest groups. The Association of Milk Producers and its successful efforts to reform laws governing the

importation of dairy products is one example of effective lobbying.

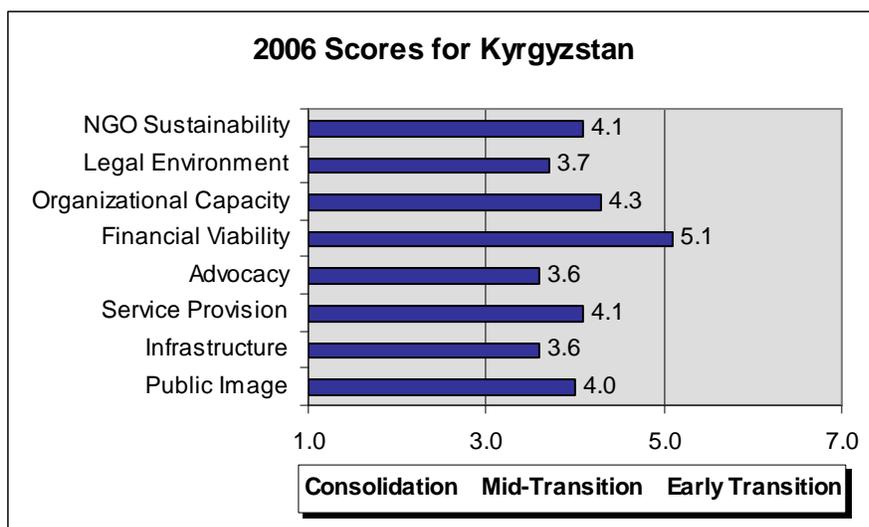
PUBLIC IMAGE: 3.8

The Public Image dimension deteriorated slightly over the past year, despite the ability of NGOs to attract the attention of both national and local media. Media coverage is generally positive and relates to the public events that NGOs organize. The rules and regulations governing the public television station (RTK) changed this year; it is no longer able to broadcast NGO public service announcements free of charge because PSAs are considered advertising.

Overall the public has a positive perception of NGOs and greater understanding of their activities. The most significant public relations issue over the past year was a corruption scandal in one of the local women's rights organizations, in which the head of the organization was arrested and is awaiting trial for the misappropriation of funds. Though it may take the NGO sector more time to overcome these scandals, more NGOs file annual financial reports and conduct audits, which will increase their transparency and improve their image in the future.



Kyrgyzstan



Capital: Bishkek

Polity: Republic

Population:
5,213,898

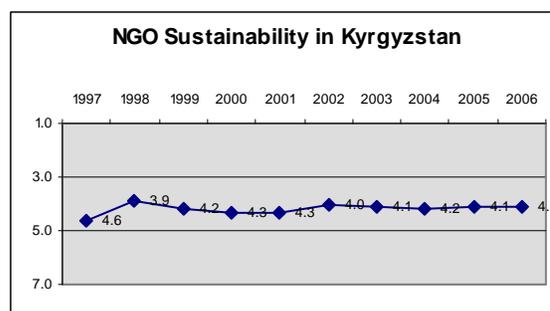
**GDP per capita
(PPP):** \$2,000

NGO SUSTAINABILITY: 4.1

Over the past year, the NGO sector continued to expand its role in Kyrgyzstani society. As they become more active in the country's development, NGOs are increasingly scrutinized and even harassed by government officials. The Ministry of Justice reported on April 1, 2006 that there are 12,173 entities registered as not-for-profit organizations; experts estimate that approximately 2,000 to 2,500 of these registered organizations are active. As in previous years, the NGO sector remains largely dependent on foreign funding. Domestic organizations, however, continue to improve their ability to diversify their funding, and rely more on charging fees for the services they provide.

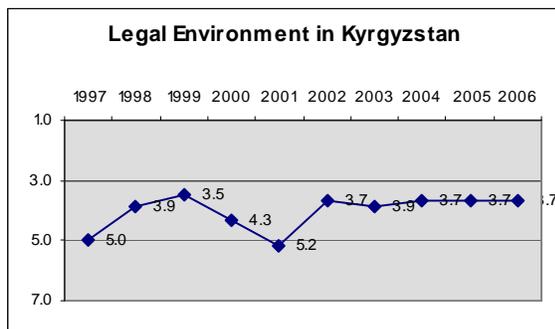
This year, NGOs again found themselves with significant opportunities to influence the government. This was especially true with regard to the process of reforming the Constitution. The process for drafting the Constitution was difficult, however, and after months of debate government officials passed their own draft Constitution with little input from NGOs. The NGO sector, however, was instrumental in bringing the constitutional issue to the fore of national politics, and NGOs

gained significant experience advocating for reform, influencing government officials, and presenting a united front.



NGOs generally maintain strong relationships with local governments and regularly collaborate with local officials on projects (e.g. training, budget hearings, and research.) Following the 2005 regime change and the subsequent change in local governments, NGOs had to develop relationships with the new local officials, a development that was initially reported as a setback by many NGO experts. Over the past year, however, NGOs have solidified these new relationships and developed new partnerships.

LEGAL ENVIRONMENT: 3.7



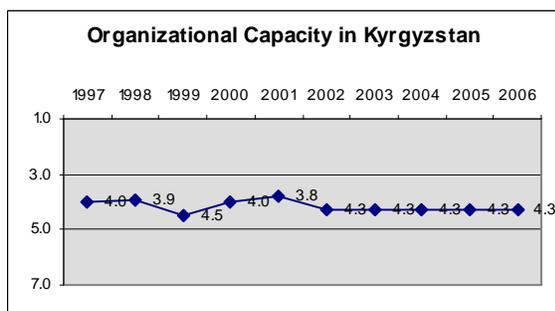
Over the past year, the legal environment experienced little change, and remains generally supportive of NGO activities. Politically-charged organizations, however, experienced some harassment and intimidation from the government. The process for registering new

organizations is free and presents few barriers. Once registered, new organizations are able to engage in economic activities, though as in previous years, NGOs are largely unaware of the different ways to generate income or compete for government contracts.

As in the past, many organizations complain that local attorneys lack an understanding of NGO laws and legal issues. As a consequence, when organizations are harassed by local law enforcement agents, tax inspectors, and others, they do not have adequate legal representation. To address the issue, USAID initiated a project in the Central Asia region to provide NGOs and the media with legal assistance.

ORGANIZATIONAL CAPACITY: 4.3

While some organizations in urban areas have strong organizational structures, internal management, and a well-trained staff, most NGOs in Kyrgyzstan are small, unorganized, under financed, and staffed by individuals with little or no management training. Many organizations depend on one or two leaders who understand and are committed to their organizations' missions.



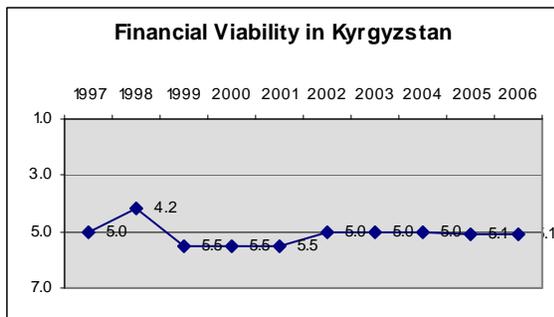
While some organizations continually improve their organizational capacities, most NGOs lack a basic understanding of NGO management, the need for strategic plans, financial management, or the legal framework in which they operate. Some organizations have boards of directors, but they are rarely used effectively. Similarly, few organizations clearly define the different roles of their boards of directors and staff. Though the sector has improved, most organizations depend solely on the funds they receive through grant programs, which makes it difficult to pay their staff regular salaries and attract young professionals. Most organizations continue to recruit volunteers from high schools and universities to support their activities.

FINANCIAL VIABILITY: 5.1

Despite the relatively stable economy, the financial condition of most NGOs remains unchanged. Local philanthropy remains weak and other economic opportunities for NGOs

are limited. The relationship between the NGO and business sectors remains underdeveloped, and business support for NGOs is rare. Individual philanthropy also remains weak. The financial support from

individual parliamentarians during the 2005 elections ended in 2006, though opposition leaders in the “For Reform” demonstrations were able to provide NGOs with some support.



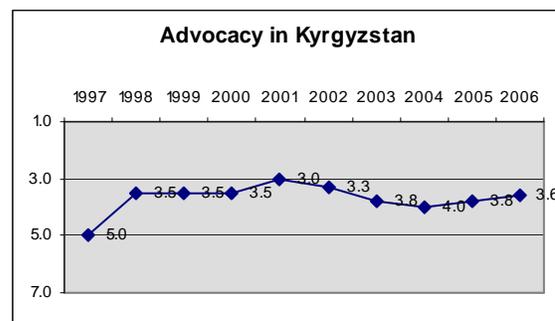
While the decrease of foreign funding continued to limit the availability of grants, NGOs were able to forge new partnerships with other organizations and local governments. In 2006, some local governments continued to support NGO activities, and more organizations took advantage of a law that allocates funds for local

ADVOCACY: 3.6

Building on the advocacy successes of 2005, the NGO sector took a more active role in advocating for a variety of causes in 2006. Many advocacy campaigns, such as monitoring of human rights, reporting on conflicts, and ensuring government compliance with the law, continue from year to year. Over the past year, three issues on which NGOs advocated are particularly significant: the constitutional reform process, the Millennium Challenge Account (MCA) working groups, and the debate over entry into the HIPC program. Though the government included civil society in the constitutional reform process and MCA, NGO advocates had limited success. The draft Constitution that was finally approved was drafted unilaterally by government officials and criticized by civil society.

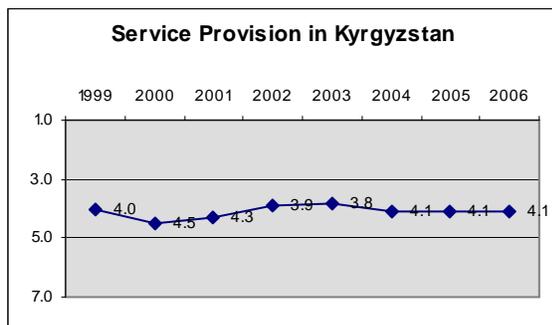
civic organizations. Under the law, the Ministry of Finance may provide grassroots organizations with seed grants through local governments. Despite significant bureaucratic obstacles, including a requirement that an application be reviewed by local and national government, more organizations were successful in securing funding. Other support from the government is limited to providing space for events and other in-kind donations.

The ability for NGOs to engage in fundraising is limited by scarce economic opportunities and the lack of capacity. Some organizations are increasingly charging fees for their services, which has improved their abilities to engage in various activities. Some organizations earn income by providing local officials with training, advising businesses, and publishing training materials. In keeping with a recent trend, some NGOs are striving to increase their levels of transparency by publicizing their financial and project reports.



NGOs at the local level often have productive relationships with government officials, though their advocacy efforts are generally limited to participating in budget hearings. Only a few of the larger organizations are able to have a national presence and organize nationwide advocacy campaigns.

SERVICE PROVISION: 4.1



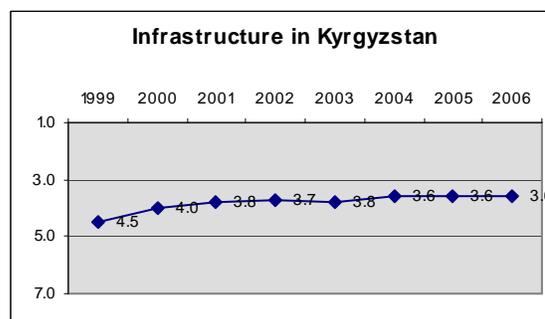
While some organizations provide consulting and training services for a fee, and are even

eligible to compete for government contracts, the economy is not yet strong enough to offer significant fundraising opportunities for NGOs. There are a few well-established organizations that are able to provide services such as training, materials development, reporting and analysis, but most NGOs still lack the capacity and knowledge to access existing markets. While still limited, opportunities for charging fees for services to other NGOs, political parties, and government ministries, is an increasingly accepted practice.

INFRASTRUCTURE: 3.6

NGOs in Kyrgyzstan enjoy access to a number of resource centers that offer training and other services, though they are unavailable in small towns and rural areas. The Civil Society Support Centers that were funded by USAID through 2006 provided technical assistance, access to computers, information, and legal services. The NDI Information Centers for Democracy, funded in part by the U.S. State Department, offer NGO activists infrastructural support by providing access to media resources, facilitating discussions, and providing meeting spaces. Other organizations provide a variety of training opportunities, including a training of trainers program, which has led to a cadre of local trainers. Donors also fund resource centers that provide internet services and computer training to NGOs. Media resource centers in Bishkek, Osh, and Karakol host frequent press conferences. Most resource centers are located in oblast or rayon centers,

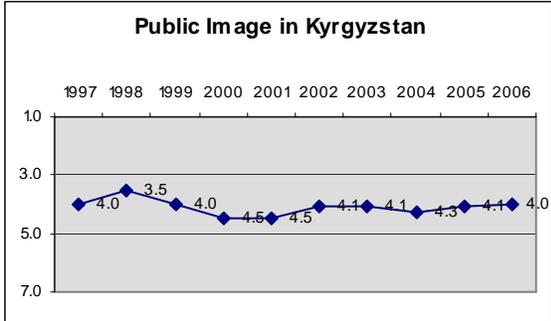
leaving organizations in the regions with inadequate access to communications and information. Two youth groups, Kel Kel and Birge, created popular listserves that provide organizations with information about civil society, government activities, and grant opportunities. The Foundation for Tolerance International publishes the Early Warning for Violence Prevention newsletters, which monitors areas of potential conflict in Kyrgyzstan.



PUBLIC IMAGE: 4.0

The general population, especially outside the urban centers, remains relatively uninformed about the NGO sector. As in previous years, however, both the independent and state-controlled media have increased their coverage of NGO activities. The series of demonstrations in 2006 focused media

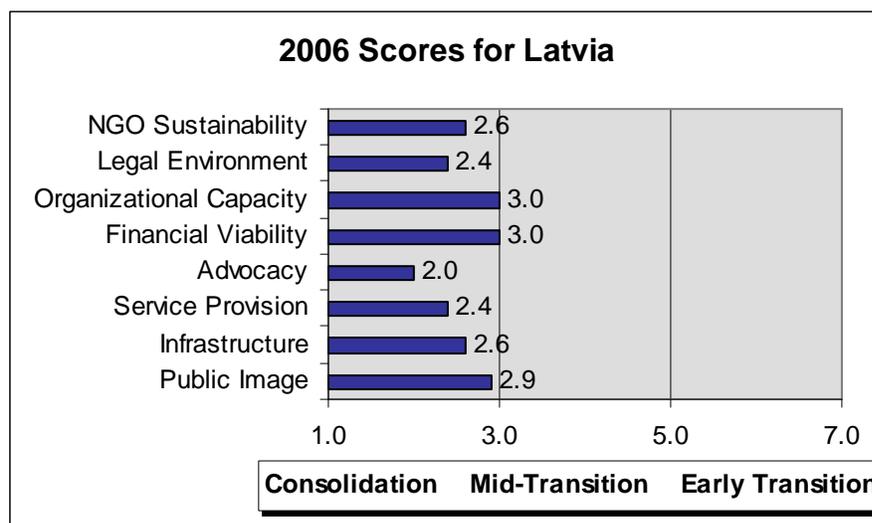
attention on some organizations and civil society leaders. The national media's coverage was largely negative, while the independent media was more critical of government officials and supportive of civil society actors.



Overall, the independent media does not actively seek out information on NGO activities. Most organizations continue to lack skills in media and public relations, though in 2006, more NGOs held press conferences to announce new activities and campaigns.

A recent poll funded by USAID found that over 50% of the population has never heard of an NGO. Those with some knowledge of NGOs, however, have generally favorable or neutral opinions. Few citizens report that they have been positively affected by NGO activities.

Latvia



Capital: Riga

Polity: Parliamentary democracy

Population: 2,274,735

GDP per capita (PPP): \$15,400

NGO SUSTAINABILITY: 2.6

In 2006, parliamentary elections (which take place every four years in Latvia) were held. The elections, which this year took place on the 7th of October, also influenced the discussions on the role of NGOs in society. A few NGOs have been established in order to promote predominantly political interests, and some in the NGO community now fear that their political neutrality and reputation are threatened. For example, some NGOs are essentially promoting and organizing political party campaigns because as NGOs they can avoid the spending limits or allowances set for political parties to run pre-election campaigns.

Before the elections, the group Civic Alliance – Latvia evaluated the pre-election programs of the main political parties in order to analyze how they addressed the issue of civil society and NGOs. Almost all parties mentioned NGOs in their pre-election programs and promised greater engagement with NGOs in the policy-formation process. Experts confirm that this political attention toward NGOs appeared as a result of NGO advocacy activities. Specifically, NGOs have successfully promoted the concept of their participation among politicians and civil servants, and have gained attention by participating in the policy-

making process and proposing constructive solutions to problems.



During the last 13 years, the main focus of NGOs was related to service provision for vulnerable citizens. Nevertheless, in recent years, the concept and understanding of the NGO role are changing. The issues of advocacy and lobbying have become part of the NGO agenda not only at the national level, but also at the regional level.

Much has happened that has supported the growth of the NGO sector in recent years. Roughly two years ago, discussions regarding the role of NGOs in building democratic society began and these have continued to the present. Also, almost two years ago (February

2005), the government-sponsored National Program for Strengthening Civil Society was approved. This program focuses on supportive research concerning issues relevant to NGOs. The program provides grants to NGO projects and has helped establish five NGO support centers and three smaller support units throughout Latvia. The program tries to differentiate among projects, donations and other initiatives to engage NGOs with different interests and needs.

The challenge to the effectiveness of this program is that the State's budget is planned annually. Therefore, to support civil society initiatives, the Secretariat of Special Assignments, Minister for Social Integration must ensure each year that funding for the program is earmarked in the State's budget, even if there are multi-year plans. The State budget does not allow multi-year financial commitments. For example, a project can be proposed for three years, but it might appear that there is no funding in the second year,

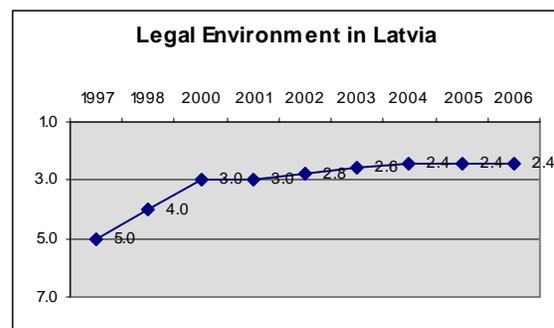
because it is not planned in the State budget. Furthermore, ministers change and their interests change so multi-year funding cannot always be protected. In addition, short-term financial support can lead to short-term planning, making it more difficult to ensure the sustainable development of civil society in Latvia.

It is recognized that role of the NGO sector in Latvia is becoming clearer and more accepted. For example, some fundamental issues of cooperation with Governments and Parliament are set. Ministries provide information for citizens about possibilities for participation in the policy process. Also, there is recognition from the politicians that they have to take into consideration NGOs and their expertise and work. When Latvia joined the European Union (EU) and foreign support funds were discontinued, many Latvian NGOs faced financial difficulties. These major changes have motivated NGOs to find new and innovative ways to ensure the sustainability of their work.

LEGAL ENVIRONMENT: 2.4

The legislative framework for NGOs in Latvia is considered to be in place and fairly advanced. Henceforth, advocacy NGOs in Latvia should concentrate on monitoring how this relatively new legislation is applied in practice and not on obtaining new legislation. Latvian NGOs face no legal obstacles in the registration process or in participating in the policymaking process. The State does not restrict freedom of association in the law.

Despite the generally positive news, there are some weaknesses. There was no major progress on the effort to define the conditions under which the State can dissolve associations. The working group charged with defining this matter provided the Government with a short report about possible cases when State action might be required, but further steps were not taken.



In October 2004, a new Law on Public Benefit Status came into force. According to the latest information in October 2006, 799 organizations have gained public benefit status.

The Ministry of Finances has estimated that about 13 million Latvian Lats did not reach the State's budget because of tax exemptions (for 85% of the donated amount) for enterprises which have donated to public benefit organizations. This funding can be considered as indirect capital for NGOs. Of course, the

support provided by the enterprises should also be mentioned, because their investment is 15% of the donated amount.

Even though this system is considered to be good, a case of funding misuse in one public benefit organization – the Latvian Cultural Foundation – was observed. A donor submitted a request to the State Audit Office of the Republic of Latvia asking for an examination of the use of funding by this organization. It appeared that the recipients of the donated funding had frequently been the donors themselves. In other words, this foundation had been functioning as a mechanism for some

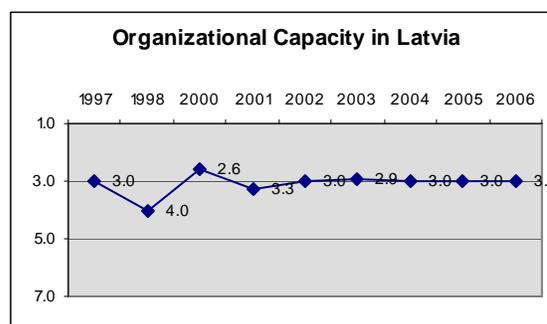
enterprises to avoid paying taxes. This case has caused debates about the need to pass stricter rules and regulations for public benefit organizations. At present the Ministry of Finances has asked experts to provide input for making amendments in the current law. Some of the experts admit that professional and amateur sports should be treated differently, but the current law recognizes sports as being in the field of public benefit. The same problem exists in the cultural domain – for example, large commercial projects such as concerts and film festivals cannot be regarded as the activities for the public benefit.

ORGANIZATIONAL CAPACITY: 3.0

After Latvia joined the European Union, it was observed that co-operation among NGOs improved. NGO staff have understood that co-operation, information exchange and the sharing of resources are necessary to ensure the sustainable development of the organizations. In two years, new networks have been established, becoming more focused on specific topics such as the elderly, the environment, social services, poverty reduction, gender equality, persons with special needs, etc. These networks function in cooperation with NGO platforms that are active in the European Union. This new dimension is very significant because NGOs are becoming more effective in influencing both EU and Latvian policies. These networks aim to strengthen their member organizations in their particular field. One result is that there are now more joint proposals for projects that smaller NGOs would not be able to apply for alone.

Organizational capacity is strong in some organizations and weak in others. The stronger NGOs (established at the beginning of the 1990s) have entered a new development stage; they are practicing systems of effective governance. Due to their projects, these NGOs are able to attract professional staff. More established organizations develop strategies and try to function and fundraise in accordance with their strategy. These organizations attempt to separate the decision- and policy-making body

from the executive body. Some larger NGOs apply for structural and cohesion funds through European Commission projects; therefore, they do not rely only on national funding sources and opportunities. The best established NGOs also participate in European and transnational networks. NGO personnel consist of more professionals than volunteers. With regard to geography, the stronger NGOs are located not only in the capital city, but also in regions and small villages. Well-established international co-operation, improved management systems, and increased professionalization all enhance NGO sustainability. They open up new possibilities including the chance to apply for international projects.



Small, newly established NGOs, on the other hand, are struggling to survive and overcome their lack of financial and human resources. It has been observed that some groups of activists

in the municipalities do not register themselves as legal entities, trying to avoid – from their perspective – all the complicated administrative paperwork required for registration. NGOs with poor capacity cannot ensure the continuity of the organization, especially if there is frequent turnover in leadership positions. The main problems are the organizations' lack of stable management systems and of human and financial resources. Many smaller NGOs lack professional employees and long-term financial capacity.

FINANCIAL VIABILITY: 3.0

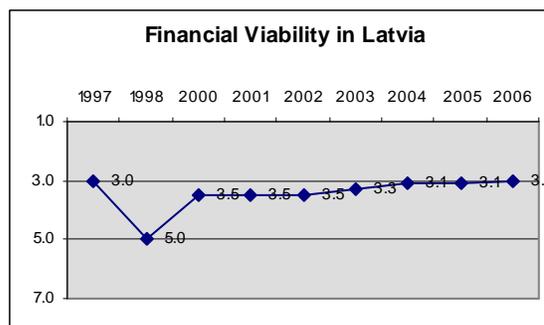
Latvia has one of the highest inflation rates in the European Union. In 2006 average inflation was 6.5%.

The NGOs have successfully cooperated with the Ministry of Finance to ensure that the framework for funding provided by the European Economic area and the Norwegian financial instruments will include a special NGO fund in the amount of 5 million Euros for the next four years. Additionally, due to the advocacy work of some NGOs, a special working group consisting of NGOs and civil servants was established in the Secretariat of Special Assignments for Social Integration to solve the issue of co-financing problems for international (and specifically EU) projects. A special line item for the co-financing of international projects for NGOs was established in June 2006 in the amount of 200,000 Latvian Lats per year, and is expected to become an extremely valuable source of funding in the future. Additionally the Prime Minister has requested that the Ministry of Finance establish a special working group to discuss the possibility of creating national mechanisms to support NGOs in Latvia.

It is observed that funds are mainly available for NGOs which are financially viable and have established partnerships. Few grants are available for smaller NGOs. However, the Secretariat of Special Assignments, Minister for Social Integration has developed a special program to support local NGOs. This program

Regarding employment, the overall economic situation in Latvia should be kept in mind. It is estimated that since May 2004, around 100,000 inhabitants of Latvia have moved to foreign countries. According to official data, around 30,000 inhabitants alone have moved to Ireland. This fact has also influenced the quality of the personnel working in NGOs, because the pool of talented professionals has shrunk.

provides small scale grants to NGOs that are situated outside of the capital city.



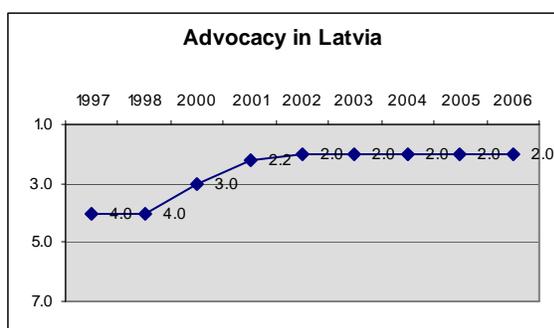
In recent years, five local community foundations have been established to support projects important for local communities. It is estimated that these foundations have provided a total of \$100,000 in grants to local projects.

Small but crucial initiatives have developed in many places in Latvia, due to leadership by young and active citizens. Most of these initiatives have come about only because the people wanted to improve the local situation. The funding for some initiatives has been provided by activists themselves: for example, play grounds for children; protests against the cutting of trees in public parks; and protests against non-consultative and opaque Municipality decision-making. In the long term, these activities and initiatives are viewed by experts as sustainable initiatives with a great impact on community development.

ADVOCACY: 2.0

During the year 2006, Latvian NGOs continued to work with the government and parliament to create new and effective means of cooperation with the state authorities. The Government has clearly acknowledged the significant role of civil society in policy development. This was confirmed by the document Memorandum of Cooperation between the Government and Civil Society, which was signed by the Prime Minister and 57 NGOs on June 15th, 2005.

It took nine months after the signing of the memorandum to establish a committee to monitor the implementation of the clauses in the document. The committee consists of NGOs and State representatives. The committee meets once a month and serves as a mechanism to address three types of issues related to NGOs: 1) NGO issues according to the aims of the memorandum; 2) issues which appear in the work of the Ministries and are related to NGOs; and 3) thematic NGO issues (culture, social issues, education, etc.). The committee has been successful in highlighting problems of the NGO sector and taking initiatives to solve problems.



The NGOs and the Prime Minister meet twice a year to evaluate progress on cooperation and the implementation of the Memorandum of

SERVICE PROVISION: 2.4

NGOs continue to provide of a wide range of services in a variety of sectors. Over the years, the needs of society have shifted to issues that

Understanding. Those NGOs that support the aims of the memorandum can still sign it and participate in the cooperation mentioned. As of this writing, 89 organizations have signed the memorandum.

In the same year (2005), the Chairman of Parliament expressed his desire to strengthen communication with civil society. A working group was established to work on a special Declaration, which would create institutionalized links between parliament and NGOs and support civil society in Latvia. Consisting of three NGOs and Parliament representatives, the working group met 17 times and collected information from parliamentary commissions about co-operation with the NGOs as well as NGO views on the draft declaration. The NGOs represented were: Civic alliance – Latvia, European movement Latvia, and Coalition for Gender Equality in Latvia. The Declaration was developed and adopted by the parliament of Latvia on March 30, 2006 by 83 out of 100 members of Parliament.

The Declaration states that information flow from the Parliament to the citizens of Latvia and NGOs must be improved. Each commission in the Parliament must appoint a contact person for NGOs. The Declaration suggests that each year Parliament, in cooperation with NGOs, should organize a forum to sustain mutual communication and develop common work plans and projects. The forum did not take place in 2006 because both sides feared that it would be used as a platform for promoting political parties in the pre-election period. It will be organized in 2007.

are more related to the quality of life – patients' rights, the promotion of the public health, food safety promotion, and so on. The services

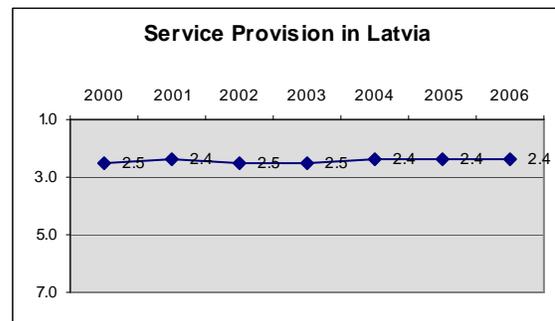
provided by NGOs are related to the needs of society and are appropriate. If we take into account, however, the changing values of the community, NGOs need to develop new services, expanding into more prevention and not just working on the mitigation of social problems. Also, experts express doubts about whether NGOs do professional evaluations of the impact of services and of customer satisfaction. Some topics, such as human trafficking, drug prevention, and the fight against domestic violence, are still of great importance, and in these areas, the role of NGOs is irreplaceable.

Some local authorities, initially concerned about possible accusations of misuse of funds, have now started cooperating with service-provision NGOs due to the steady promotion of the idea that cooperation between the municipality and NGOs is good practice and a way to secure quality cost-effective services for citizens. In some cases, the funding earmarked for the services provided by the NGOs has not changed at all in the last six years. The Municipalities treat differently the services provided by NGOs and the services provided by the Municipalities themselves. Some experts believe that that the State is reluctant to reimburse NGOs for service provision at the same level as state agencies or private businesses, because NGOs are assumed by the State to have lower costs due to volunteer involvement. No empirical data is available at this point, however, on how actual reimbursement compares between NGOs and other service providers. The Law on Public Administration foresees the delegation of tasks to NGOs, but mutual trust between the public administration and NGOs in service provision is still low.

INFRASTRUCTURE: 2.6

So far, no visible impact on the improvement of NGO infrastructure as a result of EU Structural funds can be noted.

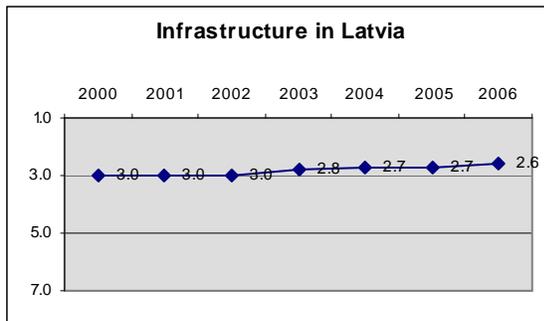
On the national level, Ministries do organize calls for proposals to provide different services, but the implementation of the provided services usually only lasts for a year or less. On the one hand, the initiative is valuable, but on the other hand, the services (including infrastructure for provision of the services) cannot be planned as a long term solution for ensuring provision of the particular service. In some cases, services initially provided by NGOs out of other funding sources later became State-funded services, meaning that the State or Municipality at some point has recognized that this service is of value and should be funded by government. For example, in the area of home care (or in some Municipalities, the social homes), the Municipality recognizes that NGOs can be a better service provider and it then delegates this function to an NGO.



NGOs also tend to develop services as a part of the income which they generate from their projects, but this approach requires different skills and knowledge – specifically in the areas of management and marketing. Because in the past funding from international donors once made free services possible, State institutions sometimes suggest that services provided by NGOs should be provided at a very low cost or even free of charge by means of volunteer labor; then of course the quality of the service may be questionable.

The need for foreign technical assistance today for NGOs in Latvia is less relevant than in the past. NGOs tend to promote technical capacity within their organization or pay for services

from specialized companies. NGOs are able to upgrade or replace their technical equipment from time to time by including these costs in a project proposal. Otherwise, there are no funds that specialize in providing funding for technical equipment for NGOs. Some organizations have very advanced technology, but others have problems in obtaining adequate equipment. It is recognized that there is a quite extensive digital gap between the large cities and the rural areas of the country.



According to the government, Internet access is provided at all local post offices and libraries. However, this network does not guarantee NGOs access to the Internet, because the free Internet access points are in the center of municipalities and have restricted working hours, very often not appropriate for people who would like to access the Internet after working hours.

There is only one foundation, the Community Initiative Foundation (CIF), providing grants for infrastructure for NGOs. This foundation requires close co-operation between NGO and the municipality as well as confirmation that their co-operation agreement will be long lasting.

PUBLIC IMAGE: 2.9

During 2006 many NGO representatives have provided their expertise in mass media on different issues: for example, fighting corruption; promoting human rights; and monitoring policy processes. Consequently, the facts show that NGOs are recognized as a professional and a reliable source of information

It is observed that some Municipalities have developed strong support programs for their local NGOs. Some of them have renovated NGOs premises and have decreased rental fees to a minimum. These good practices should be promoted because each Municipality can make its own decisions about how to support local NGOs.

According to the National Program for Strengthening Civil Society, as of 2006, a total of five regional NGO resource centers and three support units have been developed. The State provided funding (through an application process) to establish a network of five regional NGO resource centers (some of which had been previously established). Some of these centers have small regional support units, to ensure that the State program can organize regional activities and provide support to the NGOs in the regions. The role of these centers is to act as focal points for information and data collection about NGOs in that respective region. Resource centers provide consultations, information and technical support for local NGOs. Organizations who applied and succeeded in the tender according to criteria set by the State signed special agreement with the Ministry of integration for special status as an NGO resource center. Each year this status is reviewed if organization is still providing adequate service to the regional NGOs. Organizations which have received Resource Center status have to provide co-financing for these operations. Donations from the State program are reduced each year, with the aim of establishing a self-sustaining network of regional resource centers.

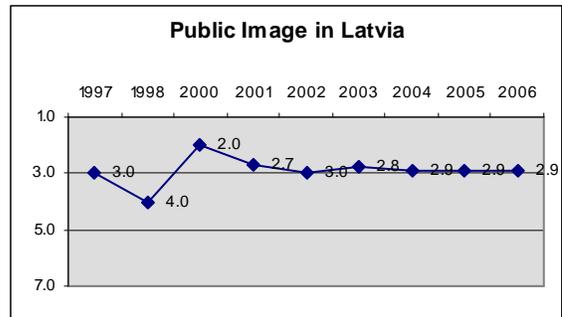
and have demonstrated expertise in providing independent and objective views.

Media attention toward NGOs was intense during July 2006. This attention was drawn due to a rather sensitive topic – the restricted rights of gay and lesbian associations. These

organizations wanted to organize a Gay Pride parade in the city of Riga. For several weeks, this topic was first on the agenda of the mass media. The clash between two groups – gay and lesbian organizations and extreme religious groups – escalated the conflict.

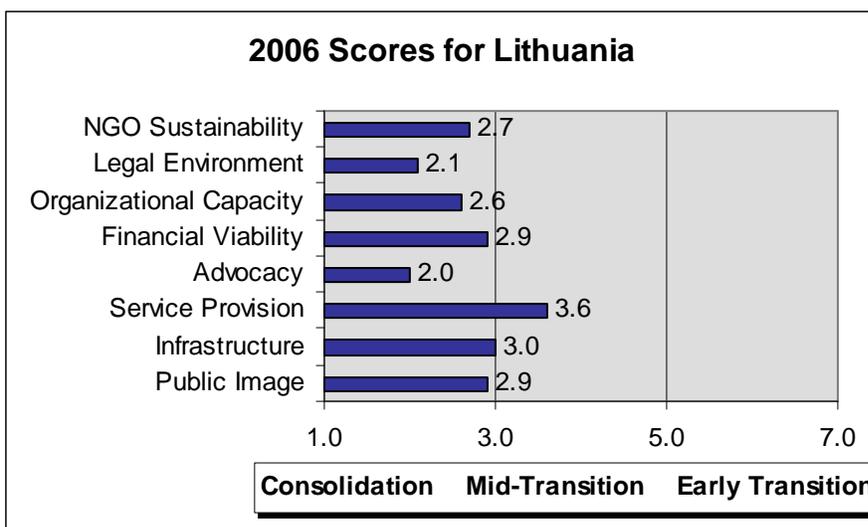
This year might be marked also as a year of the “telephone conversations.” Telephone conversations recorded by the State security services were published. One case was related to the municipal elections and the other case to a journalist’s telephone conversations. Experts note that these cases have made NGOs anxious that the interactions of NGO representatives who are criticizing state power might be recorded as well.

NGOs played an important role in discussions related to the 2006 elections, especially cases concerning the Municipal elections, when some politicians trying to “buy” votes engaged NGOs fighting against corruption in rather heated discussions about quality of the political culture in Latvia. Some NGOs also organized public debates regarding quality of political life in the state.



The media do cover important citizen activities, such as community protests against the development plans of municipalities, about some charitable initiative, etc., but they seldom report on non-governmental organizations as such. Some NGOs have established continuous cooperation with the media and inform the public about their activities via press releases and conferences. One of most successful public relations events on NGO-conducted activities is the Day of Europe on May 9th, organized by the European Movement in Latvia. On this day, a debate regarding the future of Europe and the Constitutional treaty was broadcast on national radio. It was attended by the Minister of Foreign Affairs and various politicians and experts. If it had not been broadcast on national radio to about 50,000 listeners, it would have remained a purely expert discussion with no public resonance. This initiative raises public awareness about NGOs and promotes discussions regarding Latvia’s participation in the European Union.

Lithuania



Capital: Vilnius

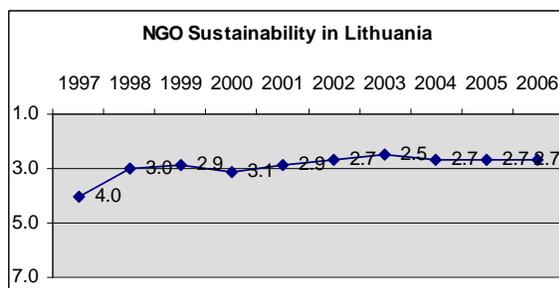
Polity: Parliamentary democracy

Population:
3,585,906

GDP per capita (PPP): \$15,100

NGO SUSTAINABILITY: 2.7

Despite the more complex legal environment, the NGO sector in Lithuania continues to consolidate and advance. The approximately 15,000 NGOs have become more visible and are increasingly supported by the public. NGOs are providing services to broader constituencies, becoming more professional, and competing successfully with other service providers.



NGOs have greater access to financial resources, mainly through government funding and European Union programs. Though the effect of the increased funding is noticeable, it is

LEGAL ENVIRONMENT: 2.1

The legal framework fails to define the term “non-governmental organization.” Presumably,

not distributed evenly throughout the sector; youth and community organizations receiving the bulk of the support.

NGOs have strengthened their capacity; some organizations have increased their staff and are now able to manage dozens of large-budget projects. Many organizations, however, continue to struggle with two key issues: the inability to afford to hire enough staff and the lack of sufficient and stable funding that ensures their long-term viability.

The NGO sector has been strengthening their intersectoral partnerships, resulting in interesting initiatives implemented by NGOs and government agencies. Co-funding enables access to European Union funds. Association and coalition building among NGOs has increased, though the sector lacks a single institution that represents the whole sector, promote its needs, and advocate for a more favorable legal framework.

an NGO is an organization established under one of three laws: the Law on Associations, the Law on Charitable Foundations, or the Law on

Public Institutions. Organizations such as homeowners' associations and condominium boards do not have NGO status in Lithuania, which skews the information available on the NGO sector. In addition, hospitals, schools and kindergartens, as well as training and consultancy companies, sports facilities and other service providers established under the Law on Public Institutions, are technically NGOs as well.

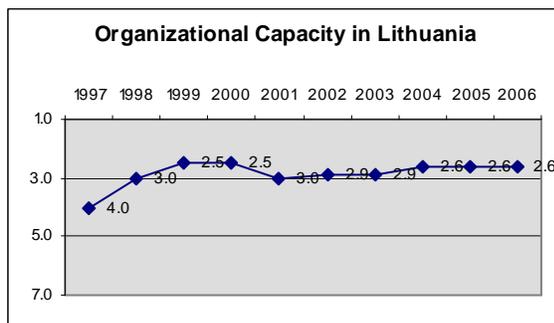


The lack of clarity does not benefit NGOs. Legislators increasingly apply the same standards to NGOs that they apply to business entities. Amendments to the Law on Profits have led to stricter accounting standards and government officials apply them equally to NGOs and businesses, making accounting for project activities more complex. NGOs are now required to maintain separate accounting for project activities and for-fee services. In 2006, the government increased the taxes levied on NGOs. In addition, NGOs began contributing to the Guaranty Fund, which provides some security for employees of businesses that go bankrupt. NGO employees, however, are unable to access the fund if the organization that they work for has to close.

The relationship between the State Tax Inspectorate remains complex, as the Nonprofit Accountancy Regulations provide insufficient guidance and explanations. The regulations, for example, require NGOs to pay VAT if the revenue they generate providing services constitutes a significant part of their overall income. NGOs are never certain how a tax inspector might interpret the requirement; similarly, interpretations by the different tax inspectors may vary.

As the legal environment becomes more complex, regional NGO resource centers employ lawyers to provide legal advice and services. The Institute of NGO Law was created this year with funding from the State Youth Department to analyze legislation and provide consultancy services to NGO, as well as for their donors and partners.

ORGANIZATIONAL CAPACITY: 2.6



Institutional support for youth and community has increased significantly, allowing such organizations to strengthen their organizational capacity. State Youth Department grants allow youth organizations to purchase modern office

equipment, such as multifunctional machines, multimedia projectors, and others. Similarly, the government-funded Regional Development Programs have provided considerable institutional support to community organizations, which are now able to pay a staff, renovate and acquire a new office, and purchase accounting software. The European Union Leader Program, which makes funds available through community initiatives, has been a strong incentive for community organizations to become service centers.

NGOs that operate on the national level, as well as those active in *seniunijos*, the lowest level of local government, have been unable to improve their working conditions, and they

maintain only minimal staff members. Due to their heavy workload, NGO staff lack time to participate in and analyze initiatives that affect the whole sector, such as the Transparency of Distributing EU Funds Initiative. Organizations with small staff are more vulnerable than in the past. The kinds of projects available are changing; donors are increasing their bureaucratic requirements, which in turn require that NGOs employ greater human resources in order to comply.

Although donors increasingly require strategic plans, many organizations continue to feel as

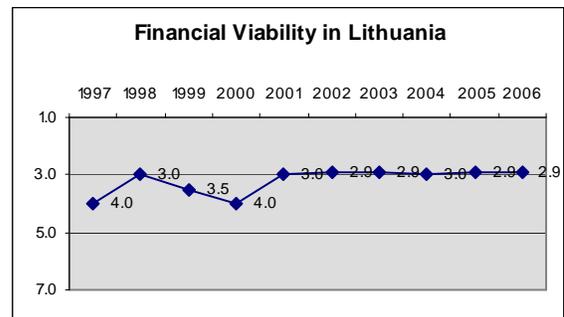
FINANCIAL VIABILITY: 2.9

The improving macroeconomic situation in Lithuania has increased the state budget and made funding available for needs that have not received government funding in the past. Increased budgets, as well as the partnerships and networks of community organizations and the advocacy efforts of former NGO staff that now work for the government, have resulted in new funding sources for NGOs. Community organizations now have a line item in the national budget for 3 million litas; one-half million litas have been channeled through the Ministry of Environment, while other ministries and local governments have also allocated significant funding for NGOs as well. NGOs are awarded funding through competition. Compared to the previous years, government funding has not only increased significantly, but it has become more stable and officials have better targeted the funding to specific issues.

Income from the “2%” personal income tax earmark has grown and the government has distributed it to the NGOs faster than in previous years. In 2006, 50% Lithuanians with jobs earmarked 2% of their personal income tax for NGOs, up from 35% in 2005. NGOs are more aggressive in their soliciting funds from individuals, by using collection boxes, organizing fundraising drives in public places, and requesting donations via the internet. Individual donations are still difficult to obtain, but efforts by NGOs are contributing to the development

though they are unable to plan for more than six months into the future. Strategic plans are often developed carelessly for the sole purpose of complying with donor demands. Nonetheless, organizations are learning to distinguish between plans of action, business plans and strategic plans, and are making commitments to adhere to their plans. Increased efforts to build local constituencies have helped define “who is who” within an NGO and clearly define their management structure.

of a culture of philanthropy. As public opinion of philanthropy improves, the levels of support from the private sector have increased. Businesses increasingly have a greater sense of social responsibility and develop better strategies for giving, and are more willing to participate in conversations regarding philanthropy.



The EU structural funds offer NGOs the opportunity to work on the national and regional levels, though only a small number of the strongest organizations have been able to access these funds. Most NGOs lack the strength to manage EU projects and are unable to secure the required co-funding. Intermediary business organizations are being created and help NGOs access EU funds and manage projects. Frequently, these services are of poor quality and create problems for NGOs. Organizations now appreciate the usefulness of fundraising professionals and seek out their services.

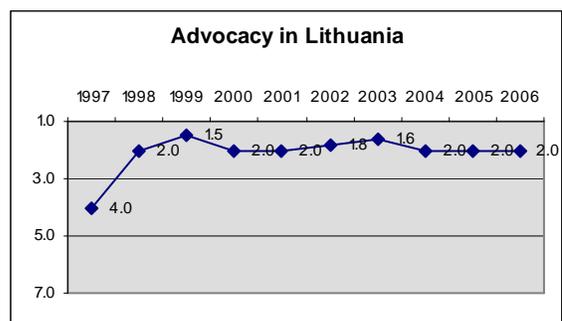
ADVOCACY: 2.0

The mechanisms for NGO participation in the national and local political process are well established and have become routine. Though they are somewhat unwelcome, NGO representatives have the right to participate in parliamentary committee meetings. National government officials also invite NGOs to be members of commissions. Due to the lack of human resources, however, NGOs are not always aware of such opportunities and do not take advantage of them.

At the national level, NGOs have become more professional in their advocacy activities, and advocacy has become the province of several of the more active organizations. Similarly, NGO participation at the municipal level has increased and community organization representatives are members of municipal commissions. Where they are present, regional NGO centers, NGO umbrella organizations, associations, and coalitions actively participate in decision-making and advocacy on behalf of the entire sector. Kaunas, for example, is the second largest city of Lithuania and has an NGO and Municipality Coordination Council, which presents NGO issues to local policymakers.

NGOs are increasingly partnering with local governments to implement different programs. In Kaunas, NGOs support the implementation of eight such programs in fields such as social services, public order, forming the region's image, and others. In Alytus, NGOs and local officials prepared for ten European Union INTEREG projects, which are special projects

for the EU border regions. In addition, NGOs increasingly undertake joint initiatives with the national government. For example, three national organizations have partnered with three ministries and all 60 municipal governments in Lithuania implement the Food for the Most Impoverished Population from EU Intervention Stocks Program; several NGOs joined the Tax Inspectorate in a country-wide anti-corruption campaign.



Successful NGO advocacy campaigns include a transparency initiative urging national administrators of EU funds to publicize the beneficiaries of EU support, an initiative to improve the system of graduation exams for youth, and an initiative to require perpetrators of domestic violence to keep away from their victims. Many NGO advocacy campaigns and political lobbying efforts would be more effective if they were more professional. Government officials often complain about the quality of submissions and communications from NGOs.

SERVICE PROVISION: 3.6

The growing number of NGOs paying VAT indicates that service provision has become an important source of revenue for NGOs; by law NGOs pay VAT on their profit from income over LT 100,000 (US \$ --). Though precise data is unavailable, more than half of Lithuania's NGOs provide paid services, and more than 30% of the sector's budget is income from

service provision. NGOs are becoming recognized for providing professional services in areas such as environmental protection and regional development, as well as management of large-scale projects funded by the European Union. Some basic social services, such as children's day care centers, training for marginalized social groups, and organizing

cultural events, are now provided exclusively by NGOs.

The practice of purchasing services by local and national governments is stable. Similarly, municipalities have clearly defined procedures and standards for procuring services. At the national level, government contracting is regulated by law and criteria include the quality of the proposal as well as the cost of the project. By procuring services, the government has established uniform criteria and does not offer any special consideration for NGOs. Non-profits successfully compete for contracts on equal grounds with businesses.

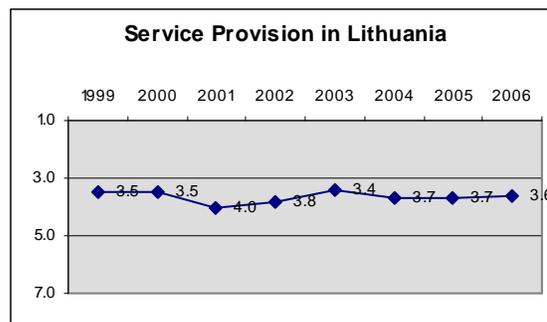
Well-known local organizations have long-term social partnership agreements with municipalities. Caritas, for example, provides social care for the elderly in several municipalities around the country, and the Children's Crisis Center in Klaipeda has a long-

INFRASTRUCTURE: 3.0

Lithuanian NGOs are becoming stronger and there is less need for services previously provided by NGO resource centers and other intermediary support organizations. NGOs no longer require incubators, as the lack of office space and computer access are no longer issues. The demand for basic NGO management training has decreased and NGO resource centers are shifting their focus to consulting on specific issues such as commenting on draft laws and organizing events. As more information is available on the internet, the demand for NGO training has decreased. Organizations, however, continue to request training in a number of areas, such as nonprofit law and accounting. There is also a need for specialized NGO literature in the Lithuanian language.

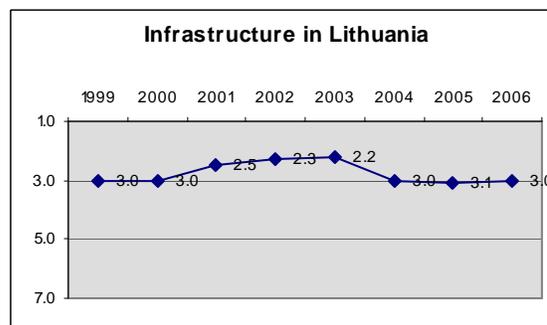
While regional NGO resource centers increasingly represent NGOs at the municipal level, no single institution or organizations is able to represent the entire sector or promote its needs. The absence of such an entity impedes the coordination and dissemination of information across the sector. NGOs are

term contract for social work with families at risk.



Individuals are also willing to buy services from NGOs, especially in the areas of culture, sports, and healthy lifestyles. Service providers have reached out to potential constituencies beyond their own membership base. The value that NGOs add to social services has earned them the respect of their communities.

therefore their own devices and do not get efficient support. NGOs increasingly understand the need to share information, consolidate actions and promote common interests, which has led to the development of more NGO associations, coalitions, and networks. Youth organizations have the strongest associations and the Network of Anti-Poverty NGOs, which now operates nationwide. Local communities are now creating regional coalitions.



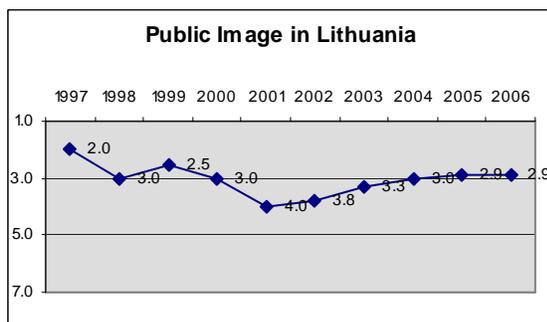
Intersectoral partnerships are stronger and more diverse, especially between NGOs and government institutions. Transparency

International and the Special Investigations Service, as well as NGOs and the Tax Inspectorate, are also networks worth recognizing. Local community foundations are

working closely with businesses, enabling them to raise more money and distribute more grants.

PUBLIC IMAGE: 2.9

Several highly visible human rights and transparency initiatives carried out by NGOs have exposed corruption within the Lithuanian media. Instead of supporting NGOs in their fight for justice, some major daily newspapers supported the business interests and attacked NGOs and their donors. The NGO sector's campaign to defend itself, however, was successful and the public became involved and support for NGO activities grew. The media played a role in supporting NGO activities. Popular television shows air public fundraising campaigns soliciting donations for charitable purposes, and contribute to building a culture of philanthropy and a positive perception of NGOs.



There are indications that public awareness of NGOs is changing. The new generation has a stronger sense of community and a greater willingness to support NGOs. A recent survey that assesses the public's attitude towards the 2% personal income tax earmark found that overall support for NGOs increased. The survey was designed to determine the percentage of citizens that allocate 2% of their tax to NGOs, and solicit suggestions on how to improve the law. The survey found that the

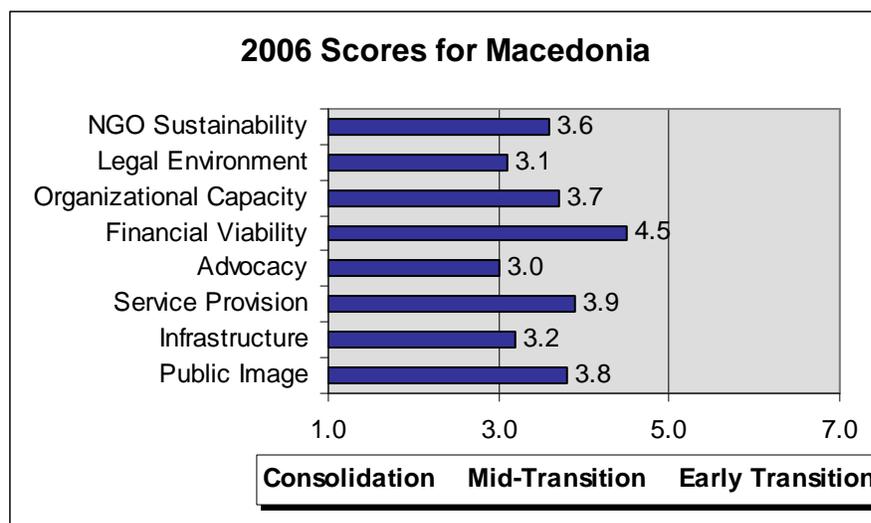
level of 2% earmarks rose, suggesting that the public has more trust in and awareness of local organizations. Twenty-three percent of respondents to the surveyed that were employed allocated 2% of their income all three years that the program has been in place. Over 40% of those surveyed claimed that the support NGOs: public organizations received 25% of the support, religious organizations 9%, charity and support organizations 6%, and associations 2%. One-third of employed respondents provided suggestions on how to improve the law created the 2% mechanism; many suggested limiting access to the fund to NGOs community-based organizations, and religious organizations.

NGOs encourage positive attitudes by operating in a transparent manner. Organizations are discussing the development of a Youth NGO Code of Ethics, Quality Standard for Youth NGOs, and an NGO transparency Charter. NGOs that sign the charter commit themselves to making their funding sources public and undergo regular audits.

Despite the nascent movement toward NGO self-regulation and attention to public image, the sector has yet to invest sufficient resources into public relations. The majority of organizations has poorly designed websites and fails to publish even the most membership data, revenue sources, and other kinds of information.

Finally, the unclear definition of "non-governmental organization" in the laws governing NGOs continues to inhibit the public's understanding of what an NGO is.

Macedonia



Capital: Skopje

Polity: Parliamentary democracy

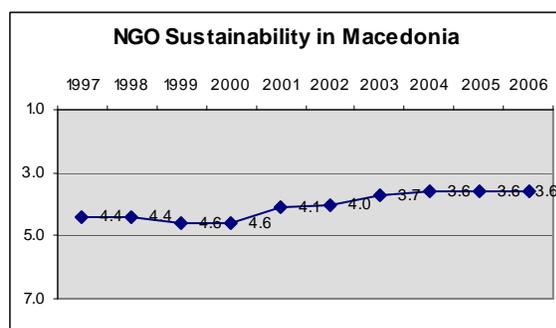
Population: 2,050,554

GDP per capita (PPP): \$8,200

NGO SUSTAINABILITY: 3.6

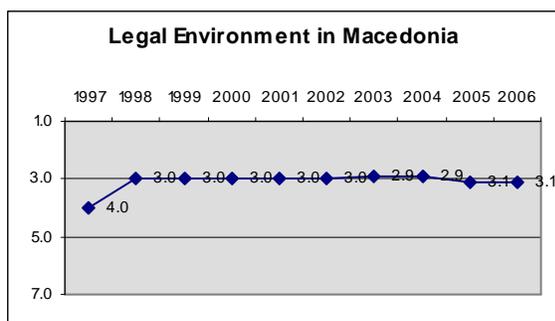
Two of the key developments in 2006 include Macedonia's attaining European Union candidate status, and the change of government following the July parliamentary elections. Receiving EU candidate status is the first step towards EU integration. In the coming years, civil society will have an active role to play in assisting Macedonia to meet many of the preconditions for accession talks, including strengthened rule of law, police and judiciary, as well as anti-corruption measures. One of the first conditions for EU accession was met when Macedonia held free and fair parliamentary elections in July 2006. The NGO sector played an important role in ensuring the success of these elections through election monitoring and voter education activities.

Despite these events, Macedonian civil society did not experience any profound changes in 2006. The number of registered NGOs increased to approximately 6,000, 5% of which are considered active. The Legal Environment dimension had both positive and negative developments. While the government has yet to approve amendments to the Law on Citizens Associations and Foundations, a group of parliamentarians and NGOs introduced a new Law on Donations and Sponsorships, which would for the first time permit a tax deduction for charitable contributions. The Public Image dimension experienced a setback as public opinion of NGOs dropped. An annual survey commissioned by USAID found that 45.3% of the population trusts NGOs, down 4.7% since 2005; similarly, 41.9% are of the opinion that NGOs are effective in solving the country's problems, down 7.3% since 2005. Other dimensions, including Organizational Capacity, Advocacy and Service Provision, experienced modest improvements. The Financial Viability dimension remains the weakest due to the weak economy, among other factors.



LEGAL ENVIRONMENT: 3.1

Over the past year, the government approved numerous changes to the legal framework governing NGOs. The impact will not be fully understood until these changes are implemented in the coming year, so the Legal Environment score remains unchanged. Following an initiative led by members of Parliament, NGOs, and the business community, the government approved a new Law on Donations and Sponsorship in April 2006. The law, which went into effect January 1, 2007, permits individuals and legal entities to take tax deductions for charitable donations, and allows public interest associations and foundations to receive tax deductible donations. The legal framework, however, lacks a mechanism for granting public benefit status and it is unclear whether any organizations will be able to receive tax deductible donations. Further clarification on this and other provisions of the new Law are needed in order for it to have a positive impact on the sector. The Ministry of Finance and Justice are responsible for enacting implementing regulations in the coming year. Overall, NGO representatives consider the new Law a positive step towards a legal environment that is more conducive to individual and corporate philanthropy.



A working group led by the Ministry of Justice drafted amendments to the Law on Citizens Associations and Foundations that define public benefit status and address other legal obstacles to NGO sustainability. The government considered the amendments, but failed to

approve them before the 2006 elections. If approved, the amendments would have created the mechanisms necessary to grant public benefit status to qualifying organizations and allow them to engage in economic activities related to their missions. They would have also permitted legal entities and foreigners to form associations, as well as enable associations and foundations to operate internationally. It is uncertain, however, whether the government has the political will to adopt these amendments. In October 2006, government officials submitted another set of amendments to the Law on Citizens Associations and Foundations to Parliament though they did not include the key provisions from the amendments drafted earlier in the year. Instead, the new amendments focus on moving NGO registration from the courts to the Central Register, as well as on NGO governance and dissolution and distribution of property. The amendments will also give the public prosecutor and others the ability to initiate the dissolution process against an NGO if it engages in activities contrary to its statutes, which has caused great concern among NGOs. These new provisions and the fact that they were introduced without consulting NGO representatives led NGOs to mistrust the new government. In response to the new amendments, a coalition of more than 50 NGOs lobbied the government to prevent their passage and encouraged it to reconsider the amendments proposed before the July elections.

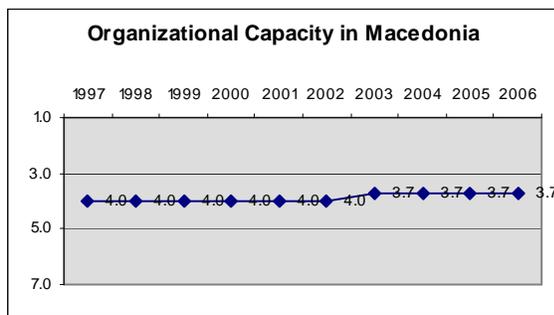
The Ministry of Labor and Social Policy recently began preparing a new Law on Volunteerism. NGOs are lobbying the Ministry to allow them a greater role in the drafting process, though it is unclear whether they will be successful. The registration process and legal services available to the NGO sector remain unchanged, and there is no evidence that the State harassed or attempted to control NGOs. Organizations are free to criticize the government and debate policy matters, and often do so in the media and other public forums.

Macedonian NGOs do not yet receive tax benefits, though the legal framework for private giving and tax benefits for donors will be in place once the Law on Donations and Sponsorship is put into affect in January 2007. The law requires that an organization register separately as a limited liability corporation to

engage in economic activities, and its income is taxed the same as the income of for-profit entities. Despite this requirement, the number of NGOs earning income by providing goods and services has increased over the past year.

ORGANIZATIONAL CAPACITY: 3.7

Between 30 and 50 organizations, a small but growing number, are considered professional with paid staff, clear divisions between their boards and management, sound financial and management practices, and strategic plans that they implement. These NGOs understand the consequences of the withdrawal of foreign donors and are making necessary adjustments. Most of them also publish their financial and annual reports, and make serious efforts to develop constituencies.



The vast majority of organizations, however, are less developed with regard to organizational capacity. Many NGOs have strong financial management practices and strategic plans, but

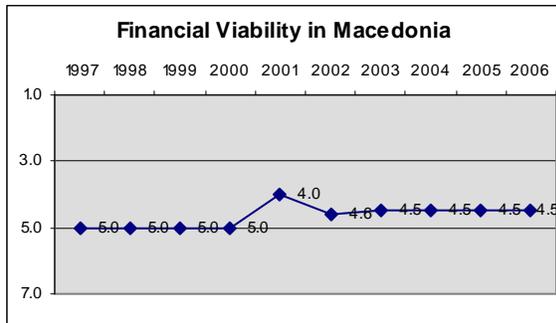
struggle to implement their strategic plans. Most do not have a permanent, paid staff; rather, they hire on a case by case basis. NGOs are generally unable to recruit or make full use of volunteers, and lack the capacity to engage their constituencies, which they could recruit as volunteers.

NGOs increasingly understand the need to define clearly the different responsibilities of their management and governing bodies. Their ability to do so, however, generally depends on whether they have permanent staff. The European Agency for Reconstruction provides training to improve governance and the use of boards of directors, though NGOs continue to lack the capacities and skills necessary for defining and carrying out the responsibilities of their governing boards. The majority of NGOs has basic information technology and the ability to use it, and donors have initiated efforts to support technological advancement. In 2006, the Danish Refugee Council and the European Agency for Reconstruction provided a large number of computers to support NGO network programs.

FINANCIAL VIABILITY: 4.5

As in previous years, the Financial Viability dimension is the weakest and presents the most significant obstacle to NGO sustainability. The official unemployment rate remains high at 37% and economic growth is low, making it more difficult for NGOs to raise funds at the local level. NGOs continue to depend primarily upon grants from the international donor community. An encouraging study on philanthropy commissioned by USAID's Civil Society Strengthening Project (CSSP) found that

some NGOs are increasingly skilled at identifying and soliciting domestic support. Of those surveyed, 70% made donations to support their community needs. NGOs, however, are rarely the beneficiaries of these donations because they lack fundraising skills. In addition, 76% reported that they have never been asked for a donation by an NGO, though 49% expressed a willingness to make a donation if asked.



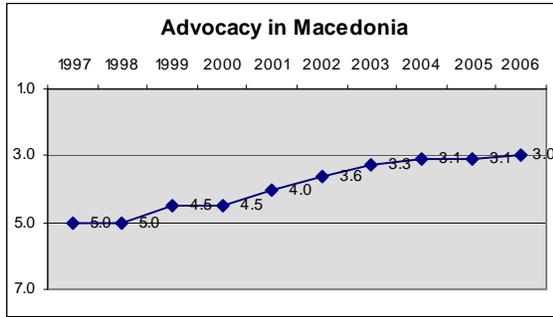
As the international community decreases its support, NGOs are seeking more domestic funds, and those that used to rely on foreign funding are taking steps to build their fundraising skills and strategies. Antiko, a coalition of women’s organizations, for example, raised money for a women’s shelter by hosting a silent auction, while the Students Union of Skopje organized a concert to collect money for new student dormitories. NGOs generally consider fundraising as a way to raise money for a specific cause but fail to consider it a mechanism for funding their operational costs and sustaining their activities, though this is changing slowly. Though NGOs receive in-kind contributions from various sources, including local governments, public enterprises, and businesses, they often overlook them as potential supporters.

ADVOCACY: 3.0

Over the past year, the NGO sector increased its ability to carry out advocacy and lobbying activities, as well as cooperate with local and central governments. The Government Unit for Cooperation with the NGO sector is now operational and drafting the Strategy for Cooperation with the Sector (2007-2011), as well as an accompanying Action Plan for Implementation of the Strategy. NGOs participated in public discussions to identify the priorities for the Strategy and other elements of its preparation. Similarly, parliamentary committees include NGOs in their legislative deliberations with greater frequency and call upon NGO representatives to provide their expertise. Since the July 2006 elections, NGOs have been cultivating relationships with the new

The most active and developed organizations have sound administrations and financial management systems. Few NGOs, however, commission independent financial audits or publish annual reports due to the cost. Organizations collected more membership fees over the past year, though they account for only a small proportion of overall revenue. NGO consultancy services also increased, though they are uncommon due to the lack of skills and the legal framework that prohibits NGOs from engaging in economic activities. Despite these prohibitions, both local and central governments, including the Ministries of Education, Environment, Labor and Social Policy, and Interior, contract with NGOs for services, primarily for trainings and or other community services. The Center for Institutional Development (CIRa), for example, earned almost 9% of its revenue last year by contracting with government entities. A few of the 12 NGO Resource Centers supported by European Agency for Reconstruction, the Swiss Development Agency, and the Foundation Open Society Institute-Macedonia provide services for fees as part of their strategy towards becoming self-sustaining.

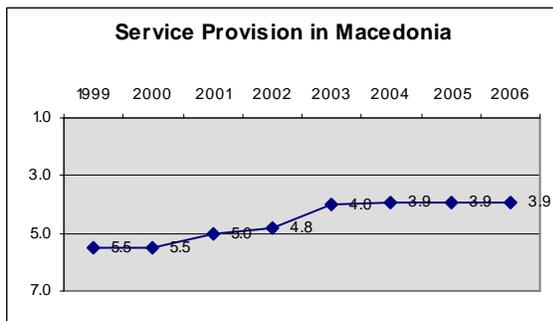
government officials and parliamentarians. In addition, NGOs are building more cooperative relationships with local governments, and the majority of mayors understand the need to partner with the NGO sector. The mayors of Bitola and Prilep have even created NGO liaison positions to coordinate with activities between NGOs and the municipal government.



NGOs engaged in numerous advocacy efforts, and had positive, collaborative partnerships with government officials over the past year. The Consumer's Union is working with municipalities to implement the new Law on Consumer Protection, which requires them to establish local consumer protection councils. The Consumer's Union assisted six municipalities to comply with the new law and establish their consumer protection councils. In another example, NGOs lobbied government officials as they prepared the Law on Donations and Sponsorships, which was approved in April

2006. NGOs also demonstrated greater initiative by coordinating a response to the government's proposed amendments to the Law on Citizen's Associations and Foundations to the Parliament in October. Polio Plus – Movement Against Disability organized an advocacy and lobbying campaign to gather the 18,000 signatures necessary to introduce a new Law for the Protection of the Rights and Dignity of People with Disabilities; the Law is making its way through the legislative process. The Federation of Farmers successfully lobbied the newly elected government to reduce the VAT requirement for agricultural materials related to crop production. The VAT reforms went into effect at the beginning at October 2006. The Federation plans to continue to advocate for VAT relief for products related to animal breeding. The Youth Coalition Sega partnered with the Agency for Youth and Sport to prepare a National Strategy on Youth; they are now working together to ensure that the Strategy is implemented.

SERVICE PROVISION: 3.9



NGOs seem to be providing more services. As donor funding decreases, more NGOs are considering what kind of services they can provide to support their operations, which has led to a greater variety and increased quality of services offered. Macedonia's 12 NGO resource centers are expected to increase the services they provide to achieve greater sustainability and transition away from their reliance on international donors. Currently, NGOs provide services in the areas of health and education, legal assistance for the socially

disadvantaged, support for victims of violence and trafficking, and other social services. ESE, for example, is providing extensive research on the status of services for victims of violence, including the victims' survey of their satisfaction with the services offered. ESE is also partnering with the Ministry of Labor and Social Policy to create standards for services offered to victims that would apply to both NGOs and government institutions.

Macedonian NGOs, including HOPS, HERA, MIA, and Doverba, received grants from the UN Global Fund for HIV/AIDS to offer services related to the prevention of HIV/AIDS and drug abuse, as well as education about sexually transmitted diseases. NGOs are also providing HIV/AIDS testing as well as related physical therapy and psychological counseling for AIDS patients.

The government is the largest potential market for NGO services providers, and officials increasingly understand NGOs and the value of

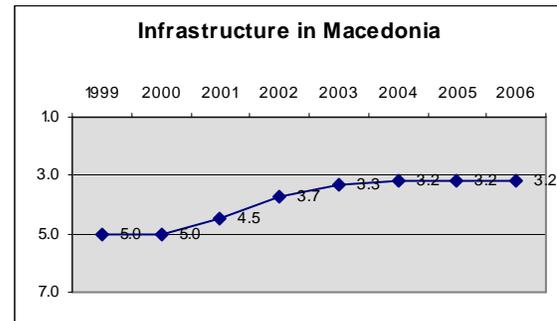
their services. As in previous years, NGOs still have difficulties recovering the cost of providing services. Beneficiaries of NGO services are

either unable to pay for the services they receive, or believe that they ought to be provided for free or a reduced price.

INFRASTRUCTURE: 3.2

The number of resource centers and ISOs in Macedonia is appropriate for the number of NGOs. The twelve NGO resource centers, which were opened to provide services in both the rural and underdeveloped regions, are overcoming their dependency on foreign donors and improve their financial sustainability. Some resource centers are considering becoming foundations, while others are looking to become service providers. These resource centers have had a significant impact on the communities where they operate and motivated grassroots NGO activities; their survival is vital for Macedonian civil society. Other NGOs are serving as ISOs; the Macedonian Center for International Cooperation and the Foundation Open Society Institute Macedonia provide NGOs with training and technical assistance, and re-grant foreign funds. The Youth Cultural Center from Bitola provides technical assistance and training on volunteer management and leadership for NGOs in five towns. CIRa offers NGOs technical assistance and training on a variety of topics, and opened a resource center in Skopje. The infrastructure for re-granting foreign funds is weak. Under USAID's CSSP, four grantees are offering grants to local

organizations to support partnership initiatives.



NGOs formed numerous coalitions around a variety of issues. The Macedonian Network for Harm Reduction is combating drug abuse and HIV/AIDS and All For Fair Trials monitors court proceedings. MOST is the prominent election monitoring organization and the Roma NGO Coalition is dedicated to the Decade of the Roma. SEGA and other coalitions focus on women's rights issues.

NGOs have access to trainings and materials in the local language. Local trainers offer training in advanced topics, though there remains a need for expansion of specialized courses on topics such as monitoring and evaluation.

PUBLIC IMAGE: 3.8

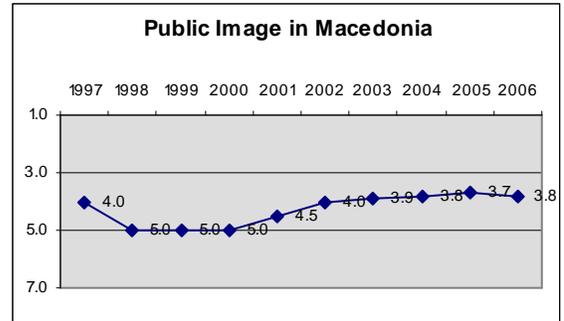
The Public Image dimension is the most controversial dimension of 2006. Despite numerous positive developments, one isolated but well-publicized incident negatively affected the public's opinion of the NGO sector. In October 2006, the Macedonian chapter of Transparency International was closed following a public dispute over who would be its next president. The argument dominated the news for weeks, fueling a series of negative reports that adversely affected the entire sector's public image. Many believe the incident was used to launch an organized attack against the NGO

sector. The negative publicity was evident in the annual survey conducted in September 2006 and commissioned by USAID.

Other than this one event, most media coverage involving NGOs was positive. The media, for example, covered the Polio Plus – Movement against Disability campaign to gather enough signatures to allow introduction of a draft Law on the Protection of the Rights and Dignity of People with Disabilities to the Parliament. The media also provided positive coverage of MOST's efforts to monitor the parliamentary elections, and the Women's

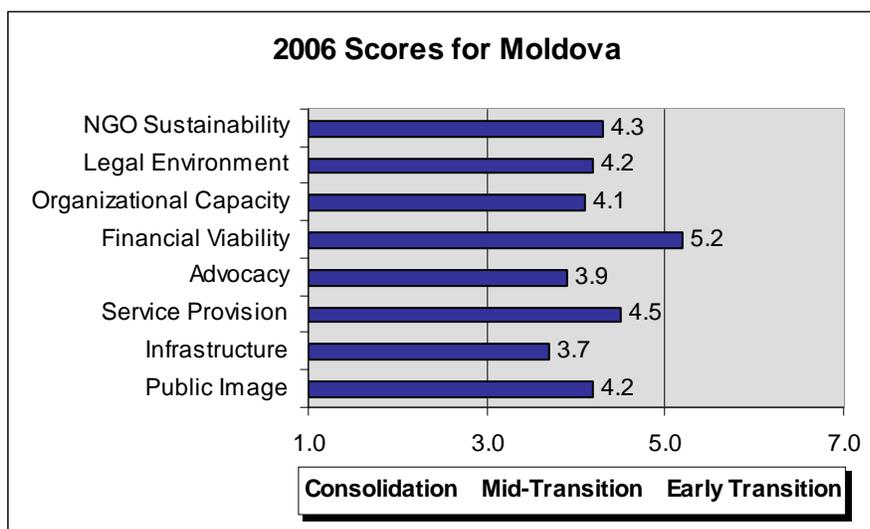
Lobby Group's efforts to amend the election law to increase the number of women on the list of candidates for Parliament. Most recently, the media provided comprehensive coverage of the efforts to amend the Law on Citizens' Associations and Foundations, which included a discussion of the content of the proposed amendments and an overview of the past efforts and recent developments.

As in the past, national media focused on political issues and events in the capital, while local media provided coverage of local issues associated with the NGO sector. The cost of media coverage is an obstacle for NGOs. In most cases, NGOs are treated like any other client and have to pay market prices for advertising or public service announcements. Overall, the cooperation between NGOs and the media is satisfactory. Increasingly, NGOs have better relationships with government officials than for-profit companies. As a result, local and national governments increasingly rely on NGOs for credible information and expertise rather than for-profit entities.



Though codes of conduct are not prevalent, some NGOs are beginning to use them. The Civic Platform, a network of 30 organizations, is developing a code of conduct for its members, which it will make available to the entire sector once it is complete. The Platform is currently conducting a comparative analysis of the experiences that NGOs in other countries have had with codes of conducts. The next stage in developing the code of conduct will involve creating mechanisms for implementation and monitoring its use.

Moldova



Capital: Chisinau

Polity: Parliamentary democracy

Population: 4,466,706

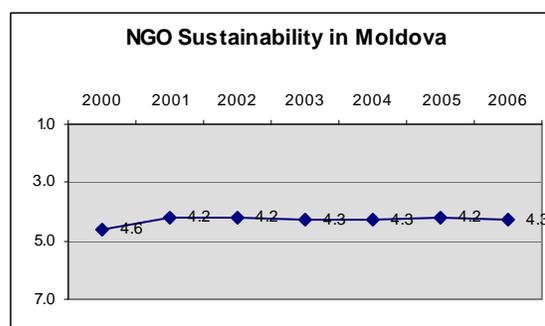
GDP per capita (PPP): \$2,000

NGO SUSTAINABILITY: 4.3*

In 2006, civil society was affected by numerous controversial events. Moldova continued to implement the EU-Moldova Action Plan and strengthened its partnership with the European Union and the United States. As a result, Moldova qualified for Millennium Challenge Corporation (MCC) Compact Program status as well as for various EU sectoral technical assistance programs.

As the government makes an effort to strengthen its ties to EU institutions and international donors, relations between the government and the NGO sector have become less adversarial. Civil society, for example, has a more equal voice in its dialogue with officials, and government officials understand that civil society may have a constructive and valuable role in promoting political and economic development. In 2006, Parliament passed the Concept of Cooperation to formalize its relations with NGOs and promote open and ongoing consultations with NGO representatives, primarily concerning lawmaking activities. These positive developments in the political culture have resulted in a new attitude towards

NGOs, which in turn promoted a new process for civic participation. For example, 26 organizations formed the Anti-Corruption Alliance of NGOs, reflecting the public's concern for monitoring government activities and curbing corruption. In addition, an ad hoc working group made up of seven leading public policy organizations provided comments on the draft legislation concerning public finance and decentralization of local governance. At the local level, community organizations increased their activities in building local constituencies and partnering with public authorities on common projects.



These encouraging developments in the political environment, however, did not lead to

*In recommending the scores for this report, the Panel did not consider the conditions in the semi-autonomous state of Transnistria.

appropriate institutional and regulatory reforms, and the government has yet to relinquish its arbitrary control over NGOs. Attempts to amend the current law on public associations, as well as the open confrontations with civil society representatives are two examples of the government's continued interference in NGO activities. In addition, NGOs have weak financial management systems. These are a few examples of the obstacles that NGOs face in their daily activities. These setbacks outweighed the positive developments, and caused the overall sustainability score to drop slightly.

According to the Ministry of Justice, 3,649 domestic, foreign and international organizations are registered in Moldova; approximately 3,000 of these registered organizations are considered active. The majority of organizations are based in Chisinau, Balti, and the rayon centers where NGOs are able to access information, training, consultations, and other resources. Few of the active organizations are based in small towns and rural areas. A recent study supported by the Organization for Security and Co-operation in Europe (OSCE) found that 723 organizations are registered in the Transnistrian region. Transnistrian authorities, however, harass and restrict the ability for NGOs to operate independently, making it difficult to know the actual number of organizations that are active in the region.

LEGAL ENVIRONMENT: 4.2

As it appears on paper, the legal framework is generally progressive and consistent with European and international best practices. Many provisions, however, contain unclear provisions that the government has failed to implement effectively. Vague terminology and inconsistency in the laws and regulations permit government officials to apply the legal framework, including provisions governing registration, taxation, the provision of goods

and services for fees, and others, in an arbitrary manner.

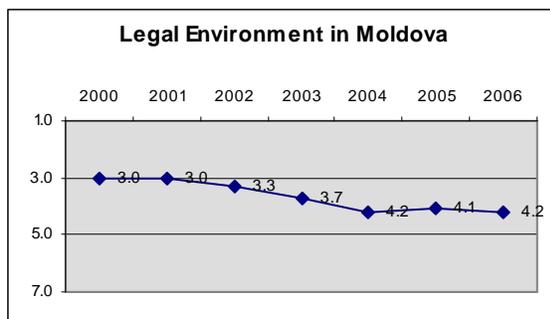
Most organizations have a community development component in their mission statements. NGOs remain weak, however, in building local constituencies for their initiatives due to poor organizational capacity and weak internal management structures. Twenty-five percent of all NGOs are involved in education, research and outreach. Ten percent of NGOs operate in the areas of health, culture, sports or recreation. Community development organizations account for another 8% of all NGOs, while social service organizations account for 6%, environmental organizations, 5%, and media organizations, 3%.

Civil society in Moldova is evolving into three distinct categories of organizations. The first consists of a few well known and advanced NGOs primarily based in the capital city. These organizations have strong organizational capacities, sound financial management systems, diverse sources of funding, strong memberships, positive public images, and abilities to interact with international donors. The second and largest category of NGOs consists of those with limited organizational capacities and that depend on donor support. The third category of NGOs consists of those in the Transnistria region where civil society operates in a hostile and authoritarian environment. The Contact Center's recent study on NGOs, which did not include the region of Transnistria, found that roughly half of NGOs had almost no activity and exist on paper only. One of the reasons is the lack of support for institutional development.

and services for fees, and others, in an arbitrary manner.

In general, the process of registering an NGO is clear. The government, however, deliberately delays registration indicating a growing tendency of complicating and formalizing the registration process, especially at the national level. In past years, the registration process involved greater communication between government officials and the applicant organizations. Now, once an organization

submits its application, it may wait a long time only to have its application rejected without a stated reason. NGO registration is much easier at the local level, as community organizations are often formed by local public officials.



Though the government pledges fair and equal treatment for civil society organizations, administrative impediments and harassment by government employees are common. A letter from the General Prosecutor's Office (# 25/4-1623 as of November 17, 2006) tried to legitimize this approach by requiring that prosecutors closely examine an organization's registration documents, its by-laws, its planned activities, and its funding sources. The NGO sector, however, united around the issue and pressured the government to withdraw the letter and other restrictive policies. Government officials are instead using a disguised approach. Under the pretext of financial regulation, tax police and law enforcement officials interfere with NGO activities. Generally, the more active an organization is, the more likely it is to be harassed by the government.

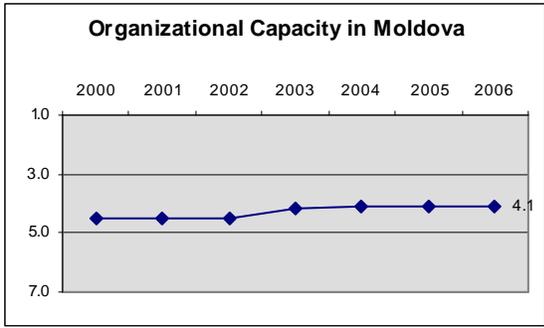
ORGANIZATIONAL CAPACITY: 4.1

The organizational capacity of most NGOs remains largely the same. The lack of resources and poor internal management indicates that organizational capacity has become the greatest weakness for the NGO sector. The divide between well organized and advanced organizations, which are small in number and largely based in the capital, and the rest of the NGO community is growing. The elite group of NGOs has sound management structures,

NGOs often have an insufficient understanding of the legal framework and as a result are often exposed to harassment by the government. The limited number of attorneys familiar with NGO law generally works for legal organizations based in Chisinau. The Center for Non-Commercial Law, an offshoot of Contact, a national NGO assistance and information organization, offers the most NGO legal services. Its limited number of trained attorneys does not allow it to meet the growing demand for legal services. When legal services are available from other sources, NGOs are often unable to afford them.

The legal framework permits NGOs to engage in economic activities, but fails to create clear rules for them to do so. As a result, conducting economic activities at times causes problems for NGOs. Organizations, for example, must create a separate system of internal accounting, and are subject to inspection at the discretion of the tax officials. The law provides NGOs with tax benefits for their economic activities, but NGOs generally do not know how to take advantage of them. An NGO may be recognized as a public benefit organization and exempt from certain taxes and State fees if it applies for and receives a Public Benefit Certificate (PBC). Vague regulations that allow for discretionary interpretation make it difficult for an NGO to receive a PBC. These developments have led to a slight decrease in the legal environment dimension score.

clearly defined missions, a variety of funding sources, a staff of professionals, and is able to engage its constituents. Most organizations, however, have weak organizational capacity and are often "one-man shows" that organize their activities around the availability of grants and satisfying donor interests.

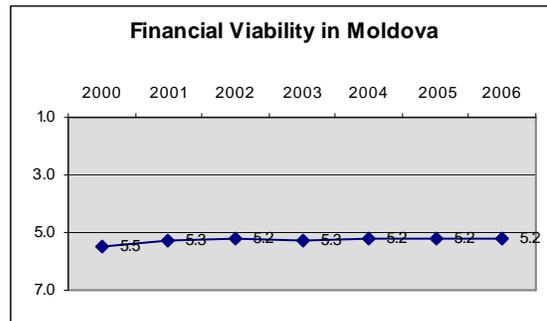


Though most organizations have mission statements, few have the capacity to engage in long-term strategic planning or incorporate strategic planning into their operations. The law

on public associations gives NGOs the discretion to develop their own organizational structures. Most organizations delineate between the different roles and responsibilities of their boards of directors and staff. The most developed organizations have satisfactory office space, basic office equipment, and paid staff, while all other organizations have to operate from temporary offices. Technical experience and updated equipment may become an issue for most organizations; they are required to install licensed software and most are unable to do so.

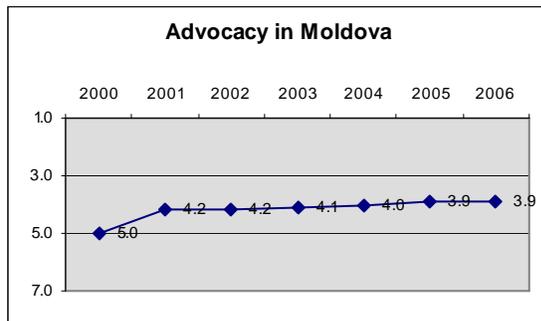
FINANCIAL VIABILITY: 5.2

The financial viability of NGOs is limited in large part by Moldova's weak economy. NGOs generally lack funding for their activities and rely primarily on international donors for financial support. Other sources of funding, including fees for services, state support, and income from economic activities, remain low, but are increasing. The leading NGOs are more active in diversifying their funding sources. Over 37 NGO social service organizations provide fee-based services. One-third of the Contact Center's budget, for example, is covered by income generated from economic activities. The Association of Agricultural Producers generates more than 50% of income by providing fee-based services and collecting membership fees. The network of Social Integration Centers for young women and youth, which is run by local NGOs, receives a substantial amount of its support from the local government. Agroinform, a network of 27 local centers, however, supports its activities by charging fees for their services. The Moldovan Network of Legal Clinics receives half of its support from local universities. The National Association of Farmers collects two-thirds of its overall budget from a European foundation grant.



Despite these examples, fundraising and domestic philanthropy are poorly developed due in part to the absence of a culture of philanthropy and a shortage of social responsibility. Though the local governments are in a difficult financial situation, they provide modest support for local NGO activities. The national government is able to provide more substantial funding, but does not do so. The Ministry of Ecology, Construction and Territory Development provides small grants to environmental organizations every year, and the national government also created the National Ecological Fund, which continues to allocate one-half million MDL (US \$39,901) in grants to NGOs.

ADVOCACY: 3.9



Overall, cooperation between the government and policy makers has increased slightly over the past year. Government officials more frequently invite input from NGOs when drafting legislation. NGOs are also conducting national events and campaigns, and advocate for policy initiatives more than ever before. The IDIS-Viitorul and the Institute for Public Policy, for example, are active in the NGO-government consultations for the EU Action Plan and furthering public administration reforms. The NGO Anticorruption Alliance monitors the government's efforts to implement anti-corruption initiatives. Environmental organizations developed the

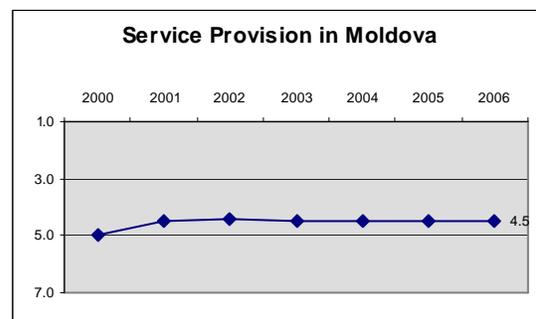
SERVICE PROVISION: 4.5

The NGO sector provides a broad range of services. The Contact Center reports that 25% of all NGOs conduct activities in education and research, 11% engage in public health, 10% promote culture and arts; 6% provide social services, 5% are involved in environmental protection efforts, and 3% are media organizations. Overall, NGO activities reflect the needs and priorities of their constituencies and communities. While the range of services is significant, NGO efficiency in providing such services is weak and few are able to recover their costs. UniAgroProtect, the Association of Agricultural Producers, the Center for Non-Commercial Law, and the Association of Independent Press are the exceptional organizations that have successfully recovered some of their costs by charging fees. The ability

National Concept of Environmental Policy and the National Program of Water Supply and Sanitation. ADEPT and the Center of Independent Journalism had a significant role in monitoring the election of the governor in Gagauz Yery and in improving numerous aspects of the election process. The Center for Child Abuse and Prevention successfully lobbied for amendments that created a new Ministry of Social Protection, Family and Child. At the local level, NGO advocacy involves more substantive work on community projects with the support of local government, local businesses, and other community actors.

Communication between NGOs and the government, however, are generally one-way and the government often selects those organizations with whom it will partner. Government officials engage NGOs only when a topic is not controversial or they want to appease the international community. There is no feedback mechanism with regards to government participation, so it is difficult to assess the effectiveness of the cooperation with NGOs.

of other organizations to recover their costs is limited by weak financial management and the limited number of clients that are able to pay for services.



In general, the government recognizes the contribution that NGOs make in providing much-needed services. This is especially true for

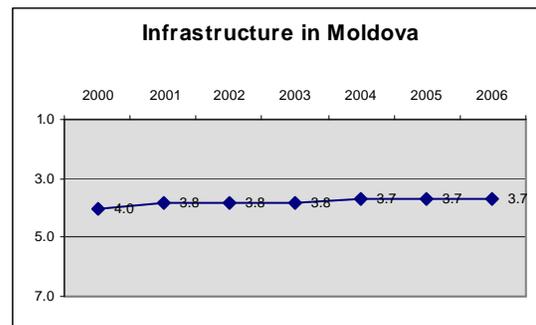
basic social services that are expensive to provide and offer little opportunity for cost recovery. The 15 residential children's centers created with donor support are an important example. Such organizations often struggle just to stay open. In areas in which NGOs are able to provide fee-based services, government officials often treat them as competitors. The Law on Public Associations (1996) regulates the ability of NGOs to charge fees for their services. The law is confusing and allows

government officials significant discretion, which allows them to abuse and harass NGOs. In general, the legal framework classifies any organization that charges a fee for its services as a for-profit entity, subjecting it to tax, accounting and other requirements. As a result, NGOs are reluctant to engage in economic activities, and prefer to establish separate businesses that are not involved with their nonprofit missions.

INFRASTRUCTURE: 3.7

Various national coalitions, associations and alliances have been effective in supporting NGO activities. As a result, the NGO sector as a whole increased its visibility with domestic political actors and the international community, as well as its credibility and role in society. The NGO sector has set up a nationwide network of NGO resource centers that offer access to information, various trainings, consultations, and technical services. The Contact network of resource centers provides assistance to NGOs in a variety of fields. Contact's long-term strategy is to broaden local support by encouraging local resource centers to raise funds domestically rather than rely on funding from the parent organization. This strategy, however, relies on a strong local economy, as well a responsive community, both of which are lacking. CREDO, another network of resource centers, provides training and a variety of services aimed at strengthening institutional and organizational capacities of human rights organizations. The Social Alliance, which includes almost 100 organizations, is active in building partnerships among the various social actors. The Center for Child Abuse, an umbrella organization, facilitates information sharing and coordinates inter-sectoral partnerships. The coalition of NGOs is successful in developing local philanthropy, fundraising, and partnering with

local governments and the business sector. Other resource centers work with NGOs on issues such as environmental protection, education, and youth services.



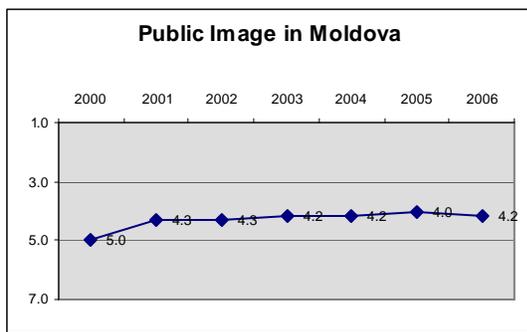
The NGO sector, however, has yet to create any community foundations or local grant making institutions. This is due to the lack of philanthropy programs and poor partnerships with local businesses. NGOs and the donor community, however, are making sporadic attempts to initiate re-granting programs administered by the Contact Center to promote community development. The National Center for Child Abuse Prevention uses its grants to encourage partnership between its 15 local residential childrens' centers and local governments. The UNDP is promoting a pilot program to promote the creation of community foundations.

PUBLIC IMAGE: 4.2

Civil society in Moldova remains in a mid-transition stage of development. The public

does not have a clear understanding of what an NGO is, which undermines the overall perception of NGOs. In addition, many local

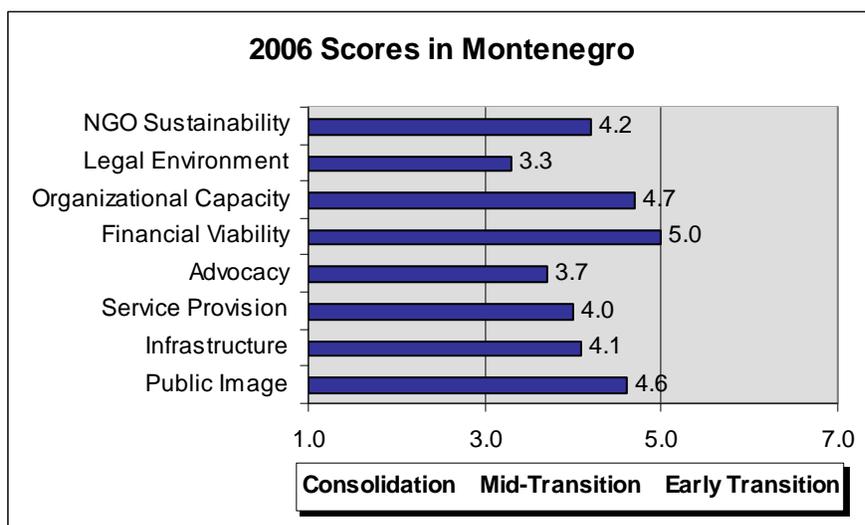
organizations are created at the request of donors interested in funding specific projects. The public considers such organizations “artificial.” Such organizations are not sustainable; once the funding ends, so to the organization. The government is formally supportive of NGO initiatives, but does not hesitate to take advantage of and credit for projects successfully completed by NGOs. In order to avoid arbitrary tax inspections, for-profit businesses prefer to maintain a low profile and avoid formal relationships with NGOs.



Generally, NGOs do not publicize their activities or promote their public image. Few organizations have developed strong relationships with the media which would ensure they receive more positive coverage. This includes NGO coalitions with high-profiles, such as those that engage in anti-corruption, environmental protection, and associations of farmers, as well as some of the leading NGOs such as IDIS-Viitorul, Contact Center, Credo, and others. Overall, the national media lacks enthusiasm for NGO activities. When they do provide coverage, media outlets prefer to cover “hot-topics” which tend to have a negative impact on the public images of individual NGOs and the NGO sector in general. Local media, however, is somewhat more objective and not as biased.

NGOs have yet to develop a formal Code of Ethics, despite numerous debates. The leading NGOs, including Contact Center, CREDO, Transparency International, and others, however, are transparent in their operations, and publish their financial information and activity reports.

Montenegro



Capital: Podgorica

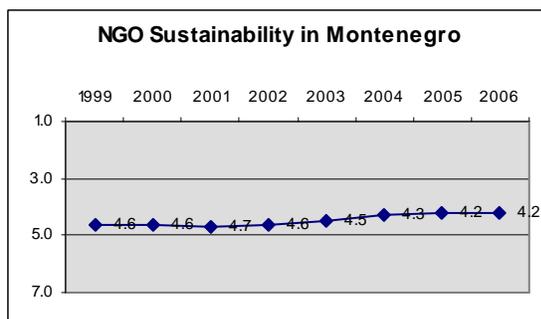
Polity:
Parliamentary
democracy

Population:
630,548 (2004)

**GDP per capita
(PPP):** \$3,800 (2005)

NGO SUSTAINABILITY: 4.2

The overall NGO Sustainability score did not change over the past year. In one of the most politically significant years in Montenegrin history, civil society has advanced in some areas and experienced setbacks in others. The NGO community was able to remain politically impartial during the May referendum and September parliamentary and local elections, which demonstrated an extraordinary maturity. During the elections, NGOs limited their involvement to monitoring the transparency of the referendum and elections.



The NGO Group for Change, however, created the political party Movement for Change, which blurred the lines between the NGO and political sectors and called into question the

credibility and objectivity of the entire NGO community. In addition, the Independence and Union Movements, both political initiatives, registered as NGOs before the referendum in order to facilitate funding and private donations. This did little to assuage the public's view that NGOs are political opportunists. NGO advocacy efforts were similarly upset this year by the actions of a few political interests groups masked as NGOs.

The legal framework regulating NGOs continues to provide simple registration procedures and allows NGOs to operate free of state control. It lacks, however, clear operating or financial management guidelines, allowing a large number of businesses and cafes to register as NGOs, harming the sector's public image. If adopted, pending reforms will prevent businesses from abusing the tax-exempt status of NGOs.

NGOs interested in self-regulation, long-term sustainability, and stronger relationships with the government formed a 21-member coalition called Together Towards the Goal. The coalition already has first drafts of a National NGO Code of Conduct, new regulations that reform the system of public financing of NGOs,

and a memorandum of understanding between the government and NGO sector. Final drafts of all these documents were presented at the National NGO Conference along with public education campaigns to explain their objectives. These documents form the National NGO Strategy for Civil Sector Development.

A number of active and professional organizations have adopted clear organizational structures, financial accounting systems, and governing bodies, though this is not a widespread trend. The division between the small number of large, professional NGOs with adequate funding and the large number of small,

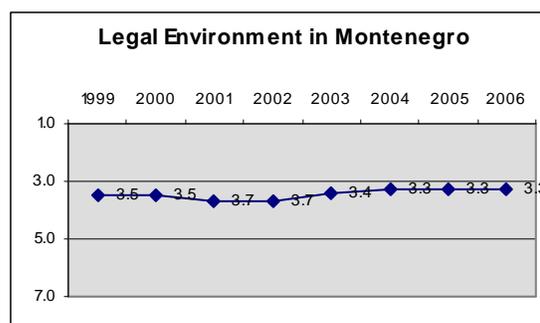
under-funded NGOs with poor organizational and financial management skills is growing. In 2006, the government did not release any grants to NGOs through the Parliament Grants Commission. This is primarily the result of the political tensions surrounding the referendum and elections, as well as the poor management by the Parliament. Similarly, the government has collected millions of Euros in lottery proceeds since the Lottery Law was first adopted two years ago, but no funds have been allocated to humanitarian and social programs as required by law.

LEGAL ENVIRONMENT: 3.3

The 1999 NGO Law continues to ensure simple registration procedures and permits NGOs to operate free of State control or threat of political or arbitrary dissolution. The law fails, however, to provide clear guidelines for NGO operations, financial transparency, and governance. While the regulations provide an informal and unrestrictive atmosphere for NGOs, it permits hundreds of businesses and cafes to register as NGOs, detracting from the good works of the smaller, genuine NGOs. The USAID/ORT funded efforts to reform the NGO law resulted in an amendment to the NGO law that will end the abuse of the tax-exemptions for economic activities. The Ministry of Justice recommended that the Parliament approve the amendment, which is still pending.

The Ministry of Justice does not adequately regulate the registration process and fails to differentiate between legitimate and illegitimate organizations. In one example, the state failed to recognize the registration of 20 different organizations in one day by one group of people as an attempt to support their nomination of an NGO representative to the Council of Public Broadcasting. Government officials also fail to provide organizations that wish to comply with organizational, financial and tax regulations with support and guidance, which discourages genuine NGOs from complying.

Only a small number of attorneys are specialized in NGO law and able to offer relevant legal services. Three NGOs try to satisfy the need for legal services by providing consultations, though the quality of such services varies greatly. Podgorica offers the most in depth legal services and the other two organizations offer only the most basic assistance with registration.



An NGO is able to earn an income by providing goods and services for a fee, and is exempt from paying taxes on grants and profits under €4,000. The laws regulating NGO economic activities are vague and broad, and government officials and NGOs alike have identified the application of the provisions by the registration and oversight agencies as an area of needed reform. The Parliament is considering reforms that will address the issue.

Under the current legal framework, NGOs enjoy a variety of tax exemptions. Membership dues, donations, and contributions are exempt as long as they are unrelated to the organization's economic activities. NGOs are exempt from paying real estate tax if their property serves their statutory goals; they are also exempt from taxes on dividends. NGOs are also exempt from paying taxes on individual and corporate donations, as well as from the VAT on the services they provide as long as the exemption is not used in a manner to distort market prices. Services of "public interest," including educational, cultural, sports, and religious activities, are all exempt from the VAT. NGOs are required to pay income taxes and social security and pension contributions on the salaries of their staff, which can total almost 100% of the salaries paid. To avoid paying such high tax rates, most NGOs take advantage of the fact that there are no regulations governing

short-term contracts and never register all of their employees.

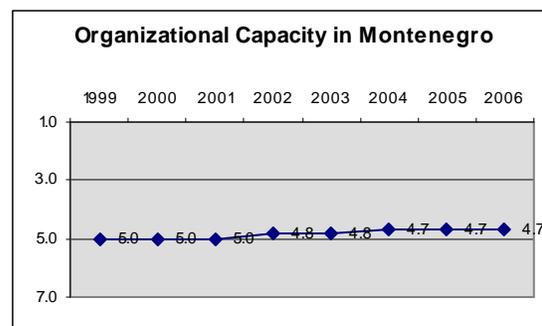
The Procurement Law permits any form of legal entity, including NGOs, to compete for government contracts at both the local and national levels. In 2006, the government did not release any grant funding to local NGOs through the Parliament Grants Commission. This is largely the result of the 2006 referendum and elections, as well as the poor management by the Parliament. Similarly, though the government collected millions of Euros from the lottery since the Lottery Law was passed two years ago, it has yet to distribute any funding to support humanitarian or social service activities. NGOs have made reform of the government's system for distributing grants one of three key points in their ongoing efforts to draft a national NGO strategy.

ORGANIZATIONAL CAPACITY: 4.7

The divide between the small number of large, well organized, professional organizations and the large number of small, institutionally weak organizations is growing. The larger NGOs have greater organizational capacity and are more capable of edging out small NGOs when competing for the dwindling amounts of donor financing. Such competition ensures that the most capable organizations receive grants. Over the past two years, the European Agency for Reconstruction awarded large grants (€100,000 - 200,000 or US \$133,396 – 266,792) that only the NGOs with the highest levels of organizational development were qualified to manage. In addition, donors that are decreasing their funding are most interested in ensuring positive results in their democracy programs and therefore only investing in NGOs that are able to demonstrate their abilities. Smaller, underdeveloped organizations are viewed more as unnecessary risks than development targets.

Only a small number of NGOs makes an effort to build constituencies; they include those with advanced organizational systems, long histories, and those that understand the importance of

strong constituencies in advocacy. Even among the more developed NGOs, however, it is common to develop activities according to the priorities identified by the donor community and not the needs of their defined constituencies. Montenegrin NGOs are in large part still donor-driven. It remains uncommon for NGOs to have well-defined missions, visions, goals, and objectives. Those that have a strategic plan were most often required to develop one by a donor. Once an organization has gone through the strategic planning process, they generally understand its value.

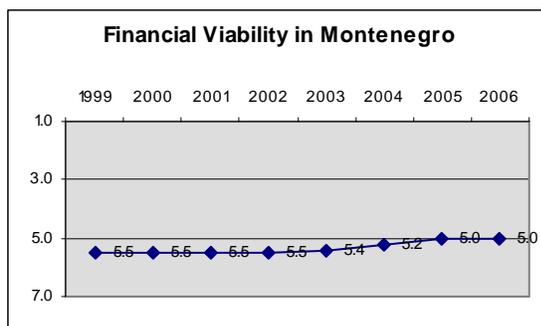


Only a few NGOs have a cadre of permanent, paid staff. Volunteer recruitment is generally

underdeveloped and depends largely on the needs of a specific project. The smaller NGOs depend on professionals that work for the state or private sectors and contribute their time after hours. The Labor Law creates a barrier to volunteerism by only considering “volunteer apprentices,” which are unpaid trainees working to complete a degree in law or medicine.

FINANCIAL VIABILITY: 5.0

NGOs continue to receive the majority of their financial support from international donors. A small number of large, professional organizations have diversified their income sources to include trainings for fees, the sale of publications and posters, and grants from domestic donors such as the State and local governments. Though the State mishandles the allocation of its funds by approving grants for unworthy NGO activities or only funding part of a proposal, the government has a significant amount of funding to make available to NGOs. One of the goals for the Together Towards the Goal project is to reform the government’s grant distribution system to ensure that a larger amount of funding is made available to NGOs. If the reforms are approved, the funds made available will promote the long-term sustainability of the sector. Another effort to improve the conditions for NGOs is the National NGO Strategy, which will serve the long-term sustainability of the sector.



Both the NGO and the business sectors fail to take full advantage the tax incentives that allow businesses to deduct up to 3% of their income for donations to NGOs. Though individuals are permitted to deduct up to 10% of their income

Generally, only those organizations with access to donor funding have modern office equipment such as computers and software, and internet access. Even the smaller organizations, however, generally have a telephone and fax machine, and at times a computer. Not all areas in northern Montenegro have access to the internet.

for donations to NGOs, they seldom do so. This year, the government proposed that these tax breaks be transformed into a 1% law similar to those in Slovakia and Hungary, in which individuals are able to direct 1% of their taxes paid to NGOs of their choice. A small group of well-organized NGOs dismissed the idea, arguing that while it would likely result in a steady income, there is no guarantee that the government would be any more effective in distributing these funds than it is in managing the current grant programs. In addition, NGOs worry that as in other countries with a 1% law, the government will do away with all other funding programs.

Active and experienced organizations with steady streams of funding from a variety of sources tend to have the most developed financial reporting systems. The majority of NGOs, however, is small and lacks the human resources and capacity to properly manage funding. Only a small number of organizations publish annual reports with financial statements and it is rare for NGOs to undergo independent financial audits.

A small but growing group of NGOs charges fees for goods and services that include translation services, training seminars, calendars, books, design and architecture services, and others. The ability of NGOs to provide such services is limited by the inability of the market to pay. Businesses generally do not contract with NGOs, though government entities at times hire them to provide training for ministry staff and others. The government also provides NGOs with sub-grants available through the Parliament or local governments. Some NGOs have developed membership bases

but they do not yet charge membership fees or offer specific lines of services.

ADVOCACY: 3.7

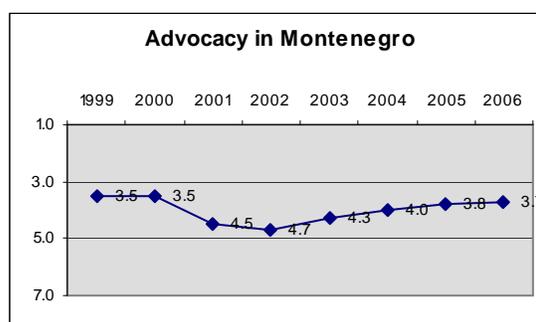
The NGO and government sectors often collaborate on common initiatives and NGOs generally enjoy a direct line of communication with policy-makers. In

2006, government officials called a meeting with the NGO community to present an NGO-Government Cooperation and Strategy paper. NGOs welcomed the initiative, but they did not have input in the draft and proposed that it be a starting point for more detailed discussions. In response, the government assigned an official to work with a coalition of NGOs on a National Strategy. The government's reaching out to the NGO sector demonstrates that officials are willing to cooperate, which could mean productive strategy meetings in the future.

Despite the broader cooperation between top levels of government and NGOs, the daily interactions between NGOs and government officials depend on the reputation and influence of the NGO involved rather than a formal system open to all NGOs. Similarly, cooperation tends to be with individual ministries and not the entire government. The memorandum of understanding between the government and NGO community drafted by Together Towards the Goal proposes formalizing the channels of communication so that they are open to all NGOs regardless of size, location, or level of influence.

Many NGOs have been able to form effective, broad-based coalitions to initiate high level advocacy campaigns. While advocacy efforts were previously limited to the national level, in 2006, NGOs began to conduct effective advocacy campaigns at the local and regional levels. Two separate NGO networks in the South, for example, have led efforts to increase the transparency of Morsko Dobro, a maritime tax collection agency, in its collection and use of public funds. At the national level, the Network of Affirmation of the NGO Sector (MANS), the

Center for Development of NGOs (CRNVO), the Association of Paraplegics, and others, have loose NGO networks to monitor government activities and engage in advocacy efforts. The Association for Paraplegics and other NGOs, for example, formed groups to pressure the Ministry of Education to build wheelchair access ramps for nearly all primary schools in the Capital.



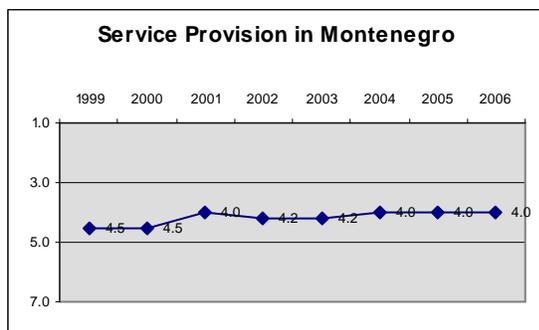
NGOs are able to participate in the political process by proposing legislation or submitting discussion papers directly to Parliament if they have either 6,000 signatures or a sponsoring parliamentary party willing to act on their behalf. In addition, NGOs may also indirectly influence the political process by monitoring government activities and through the media, which often gets politicians to respond. Most NGOs are comfortable with lobbying and in many cases, they are able to influence, amend or even propose legislation at the national or local level.

In addition to their high level of success as advocates, NGOs have developed monitoring activities to ensure that the government implements laws correctly. This year, the Association of Young Journalists tested government officials on their compliance with the new Law on Free Access to Information by sending 1,000 requests for information to government institutions and monitoring their responses. It also publishes a list of those government institutions that are the best and

worse in terms of providing the information requested. MANS monitors government officials and reports on their conflicts of interests by filing complaints and even law suits.

NGOs rarely self-regulate, which leaves the sector vulnerable to a poor public image and a

SERVICE PROVISION: 4.0



The NGO sector experienced little change in the Service Provision dimension over the past year. NGOs offer a wide range of services in areas such as education, health, environmental protection, governance, and others. The type of service available depends on the orientation of the service provider. Small NGOs in the municipalities provide basic, under-funded social services such as care for the disabled, the elderly, or children. NGOs that are stronger and institutionally developed provide advocacy and monitoring services on behalf of wider constituencies. The smaller, community-based

INFRASTRUCTURE: 4.1

Several ISOs and NGO resource centers operate in Montenegro, including CRNVO, MANS, FONDAS, the CEMI PR Resource Center, Expeditio, and Natura.

These centers provide access to training and network resources, legal assistance, project strategies, grant writing, as well as technology such as the internet and fax machines. The CEMI PR Center charges businesses a fee, though NGOs are able to use these services free of charge. Montenegro's rugged terrain makes it difficult for NGOs outside of an ISO's geographic area to access services. Otherwise,

reputation as untrustworthy. The National NGO Strategy of 2006, however, includes an NGO code of conduct. A Bosnian NGO that led a similar process in Bosnia helped motivate NGOs finally to address the issue.

organizations have well-defined constituencies due to the nature of their activities, while constituencies for the larger organizations are broader and less defined.

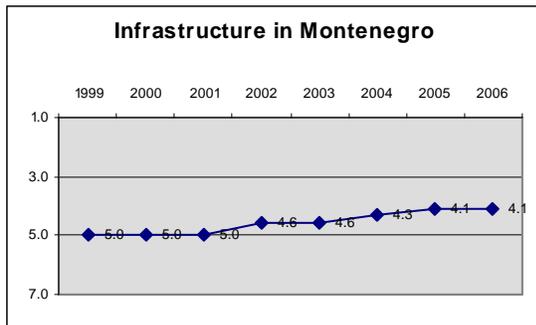
NGOs are generally unable to recover their costs, though there are increasing examples of NGOs charging fees for their services. NGOs recover some of their overhead by providing fee-based services such as graphic design and training. The market for these services is limited, though NGOs do provide some services to other NGOs and government bodies.

Most NGOs that engage in advocacy or similar activities do not have membership bases. The small number of associations with memberships generally works to address the issues of their members; whether disabled persons, refugees, minorities, market vendors, and alcoholics. Many advocacy-based NGOs and associations produce expert publications and workshops for other NGOs and the government.

NGOs in only three municipalities, including Podgorica, have access to support services on a regular basis. Similarly, the NGOs in the outlying regions and remote communities do not have the same access to information, donor resources, and the central government as those in the municipality of Podgorica.

Resource centers are inconsistent in the quality of services they provide. Those in Podgorica provide higher quality services than those in the regions. As a result, NGOs vary in their levels of development. Those in Podgorica and other urban areas are very well developed, while

those in the regions are often underdeveloped and struggling.



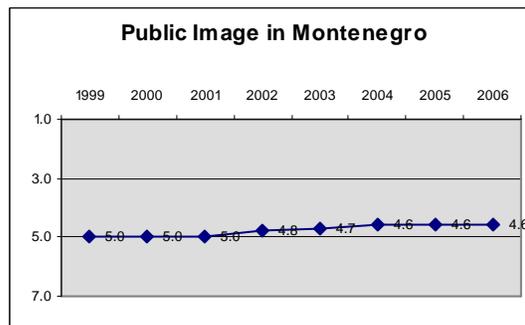
The NGO sector is very competitive, and networking does not come naturally. NGOs share information with one another, but only when it benefits both parties. The NGO sector has yet to develop a means to promote their greater interests; NGOs generally act on their own unless they need the support of others to address more difficult issues.

Though trainers and training opportunities for NGOs are available and even exceed demand, NGO interest is considered low. Inter sectoral relationships have improved, and many of the well-developed NGOs work directly with government officials on common initiatives.

PUBLIC IMAGE: 4.6

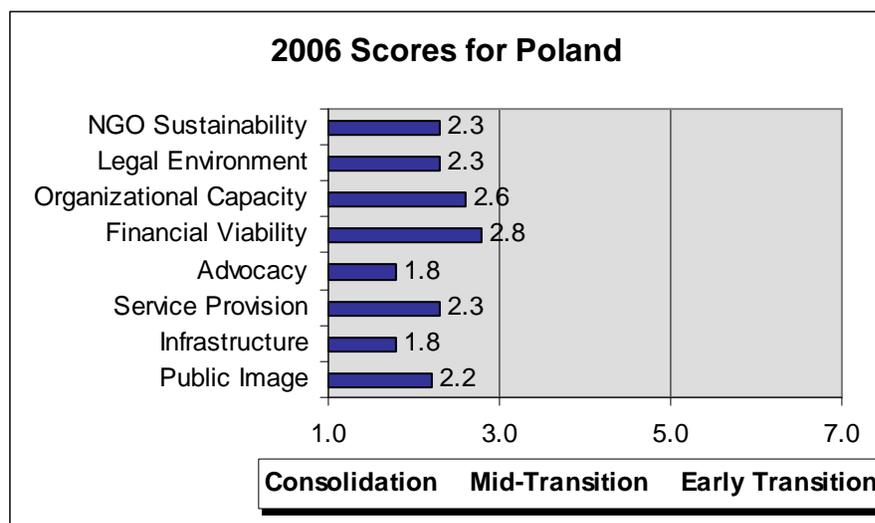
In 2006, the NGO Group for Change formed a political party called the Movement for Change, which crossed the line separating the NGO sector and political parties. In addition, the two main political groups involved with the referendum created NGOs to facilitate fundraising. These acts created greater doubt in the public about the credibility and objectivity of the NGO sector, and fortified the public's view of NGOs as political opportunists.

Similarly, a few illegitimate NGOs undermined the efforts of the legitimate NGOs working on law reform and monitoring government officials.



The media continues to provide high quality coverage of NGOs and their initiatives. NGOs have become quite skilled in effectively communicating their goals to the public, and are able to fill any gap in media coverage.

Poland



Capital: Warsaw

Polity: Republic

Population:
38,536,869

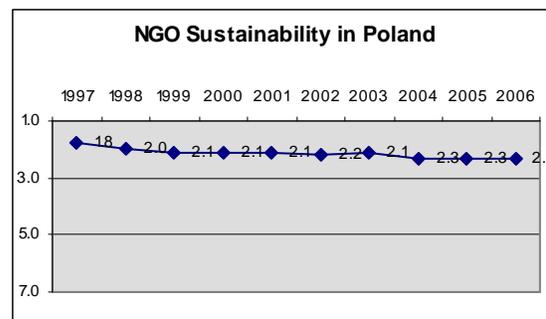
**GDP per capita
(PPP):** \$14,100

NGO SUSTAINABILITY: 2.3

The overall condition of Polish NGOs did not change in 2006. The slight negative and positive changes that did occur tended to cancel each other out.

There are currently about 63,000 registered organizations, of which 55,000 are associations and 8,200 are foundations. There is then a significant growth in the number of organizations in comparison with 2004, when there were 52,000 registered organizations, with 45,000 associations and 7,000 foundations. These data are not very precise, however, since the national registry does not track organizations that have ceased to exist. Research also suggests that a large percentage of organizations in the Polish NGO sector are young. The average age of NGOs is 11 years, and half of organizations are not more than six-seven years old. This shows the significance of difficulties faced by newly-established social initiatives.

There is a large concentration of NGOs in urban areas with 70% of NGOs located in towns, and only 20% in rural areas. Furthermore, 40% of organizations are located in the 16 main cities in Poland.



The Polish NGO sector is dominated by organizations acting in the fields of sport, tourism, recreation and hobbies (39% of organizations point to these as their purpose). Other fields cited as the main focus of activities include culture and art (13% of organizations), education (10%), social services and social assistance (10%) and health care (8%). This distribution of areas of involvement has remained unchanged for years.

The year 2006 was the third year since the entry into force of the Act on Public Benefit Activity and Volunteer Work. Since the law made cooperation between local governments and NGOs mandatory, cooperation has continued to grow and some of the previous prejudices held by government workers

towards NGOs seem to be decreasing. At the same time, however, the political climate that has been developing in Poland since the presidential and parliamentary elections a year ago appears detrimental to the development of the NGO sector in Poland. Making the state and government stronger are priorities for the current Polish administration. Any decentralization, particularly delegation of power to NGOs, appears to be an obstacle to the realization of those priorities. This attitude has been demonstrated not only through everyday relations between NGOs and government agencies, but also in attempts by the central government to introduce legislation that would make the work of many Polish NGOs more difficult. For example, one bill sought to increase government control of the work of foundations while another focused on retracting the right of businesses to deduct up to 10% of taxes on their profit if that amount was given to nonprofits in the form of donations.

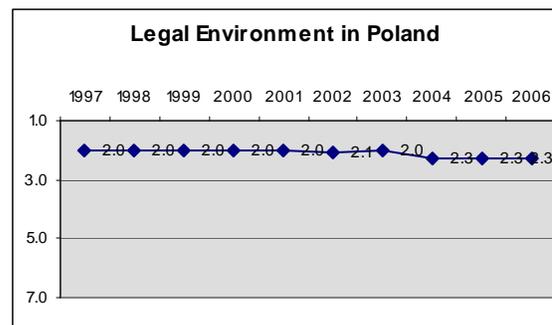
The availability of the EU funding increased significantly the number of support centers and

training available (often for free), which could lead to the professionalization of many Polish NGOs. At the same time, however, EU funding and benefits were directly accessible only for the most professionalized NGOs, and this contributed to increased stratification in the sector. The sector is now dividing into two extremes. On one end of the spectrum are those comparatively few professional organizations carrying out large and profitable projects funded by the EU and which are increasingly engaged in for-profit service activities, while on the other end lies the vast majority of organizations, scarcely able to sustain their existence. The level of solidarity within the NGO sector is relatively low, and the gap between large, professional, often Warsaw-based organizations and small, community-based organizations in small towns is growing. Since the representatives of the NGO sector come only from the former group, advocacy efforts benefit mostly to organizations of their kind. Small organizations continue to be marginalized and the stratification of the sector exacerbates this.

LEGAL ENVIRONMENT: 2.3

The legal environment governing the NGO sector has not changed significantly. There are still too many laws and decrees affecting NGOs that are unclear, complicated, and even seemingly contradictory. Unclear laws are often interpreted differently by NGOs and government institutions, and various government institutions seem unable to agree among themselves on the interpretation of many of these regulations. With the passage of time, however, there is a growing consensus among various government institutions as well as between government institutions and NGOs on the interpretation of certain regulations. NGOs and government institutions are also becoming more familiar with the laws regulating the nonprofit sector, in particular with the Act on Public Benefit and Volunteer Work. There are also a growing number of lawyers that specialize in nonprofit law and even advertise their often inexpensive services. The remaining

problem is that most nonprofits either have no funds to pay for such services or are convinced that such services should be provided for free by the support organizations.



The Act on Public Benefit Activity and Volunteer Work enables some organizations to be designated public benefit organizations, a status which allows such organizations to campaign to receive up to 1% of an individual's

tax liabilities. Over the last two years many organizations received such status, and others intensified their campaigns to encourage individual taxpayers to make contributions from their tax liabilities. As a result, the number of citizens that paid 1% of their tax liabilities to chosen nonprofits increased from less than 3% in 2004 to nearly 5% in 2005. In 2005 therefore, one in twenty individuals used the 1% law. The procedures required to donate 1% still discourage many individuals from doing so, as they have to pay the money first, and then wait for months for the reimbursement. There is a good chance, however, that the procedures might change in the near future. There is also some concern, although there are no data available that would confirm it, that the nonprofit sector might be actually worse off due to this 1% regulation. It is feared that people might treat the part of their taxes, which they would have to pay anyway, as their donation, and thus stop giving proper donations to nonprofits, i.e., money out of their own pockets.

NGOs are allowed legally to compete for government contracts and procurements at the local level, as well as earn income from the provision of goods and services. Within the last year, however, it certainly hurt some parts of the nonprofit sector. One bill sought to increase government control of the work of foundations and the other focused on retracting the right of businesses to deduct up to 10% of taxes on their profits if that amount was given to nonprofits in the form of donations. Moreover, the authors of the legislation did not officially consult with the main advocacy NGOs,

ORGANIZATIONAL CAPACITY: 2.6

The overall organizational capacity of the NGO sector has stayed the same. The few professional organizations able to win EU funding did see some improvement, but it was to some extent at the expense of the organizational capacity of small, community-based organizations. This effect is especially visible in the staffing patterns of NGOs. Taken together, the number of people working for

which had become a common practice during the previous administration. The proposed bills were withdrawn in the face of widespread protests from the NGO sector expressed through petitions.

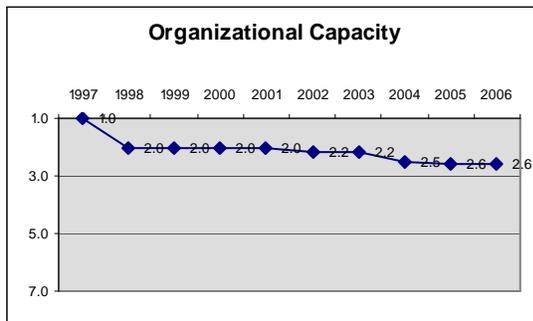
A recent, very famous story of a baker revealed and popularized the existing problem of VAT on in-kind donations; i.e., that all corporations have to pay VAT on donated products. The baker had to close his bakery when he was asked by government tax agencies to return 150,000 Zł. (\$50,000) of overdue VAT for the years he was distributing bread for free to the poor and hungry. The story demonstrates that the existing law impedes the work of many Polish NGOs (particularly food banks) and discourages many companies and individuals from acts of charity. It creates a situation in which it is less expensive to discard items than to donate them. There is some hope that this case will show Polish lawmakers the ineffectiveness of such regulations and encourage them to modify them. On the other hand, however, it is believed that this wide coverage of the baker's story may have discouraged many citizens who cannot distinguish between individual and corporate tax laws from in-kind donations.

NGOs are furthermore subject to excessive reporting requirements. This is particularly a problem of organizations that carry out projects financed by the EU. While the government is quite rightly trying to prevent the misuse of funding, the extensive reporting requirements force many nonprofit workers to spend up to one fourth of their time on reporting.

wages in the nonprofit sector has not changed, but large organizations implementing complicated and multidimensional EU projects have doubled or even tripled their paid staff. Given the fact that leaders of those large organizations typically did not hire people from outside the NGO sector, but preferred people with a high level familiarity with NGO functions, one can infer that the best staff of local,

grassroots organizations moved to larger organizations that could pay much higher wages. As a consequence, many of these small organizations were deprived of their best workers.

Internal management structures also did not change a great deal. Many individuals remained at the same time both staff members and members of the Board of Directors of the same organizations. This fact, however, is largely irrelevant in the case of 74% of NGOs that do not have any paid staff. In those instances, one cannot talk about conflicts between objective and private financial interests.



It might seem that the aforementioned campaigns for 1% of individuals' tax liabilities could be a part of efforts to build local constituencies for NGOs. This might be true in some regions, but some developments suggest that this is not necessarily the case. First, there is a difference between long-term, consistent local constituency building and support for an organization's initiatives overall and the once a year effort to get the 1% contribution from individuals in the local area. It seems that, given the low culture of philanthropy in Poland and the general poverty of many people, organizations prefer to seek grants and business support rather than to rely on membership fees and small individual donations. Furthermore, many citizens give the 1% contribution to a different organization every year or to a national, rather than local organization. The field of work of an organization seems to be more important for many individuals than the area of operation when they are selecting organizations they want to support.

A great number of organizations do not engage in organized and effective activities to encourage new individuals to become members of their organization. For most associations, membership is more of a formality, or a necessary condition of registering an association, than an important basis and reference point of their functioning. At the same time, an organizational lack of support for people who would be eager to volunteer for organizations is identified as the second, most important problem for NGOs after funding.

Most organizations do not engage in strategic planning. Since most organizations do not have their own endowments, they rely on grants and other funding they receive. Such funding is, however, very short term, often yearly. If NGOs develop strategies in which they select some actions over others, it is typically only to show such documents to potential donors, or to select sources where they want to apply for grants and funding. They might analyze various sources but only to decide which funds are most likely to be awarded, which give most discretion in the use of funds, and which have least reporting requirements. But it does not change the situation that most organizations operate 'from one project to another' and hardly ever look beyond the next grant. If some larger organizations seem to be more strategic than smaller ones, it is only a result of the fact that they have obtained longer-term grants, which are becoming available, fortunately more often, both from central government and the EU. If we look at the work of those larger organizations over last ten years or so, however, we will still see that their priorities also changed according to the priorities of the principal funders.

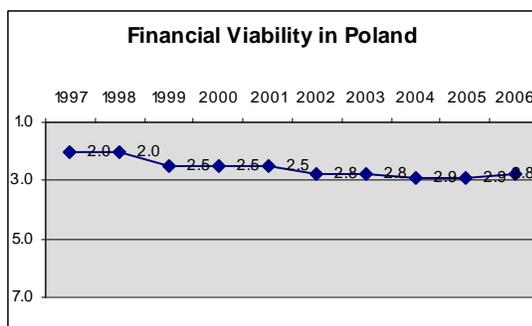
A slight improvement in organizational capacity can be noticed in the area of technical advancement. Organizations that received EU funding were able to use funds to purchase equipment and software. Only 4% of Polish NGOs, however, receive EU funding. The staff of small organizations also claimed more often than in the previous year that they had access to the Internet. It is common that the staff and

volunteers of small NGO's often use their private computers and the Internet they have available at home or through another job. Therefore, the fact that more NGO workers have access to the Internet might have more to

do with the general growth of accessibility of computers and Internet in society due to the decreasing cost of such equipment and service than the improved position of NGOs in this dimension.

FINANCIAL VIABILITY: 2.8

The financial viability of the sector has improved slightly in the area of earned income. More organizations charge various types of fees for their services. Thanks to the growing interest social enterprise, triggered to a great extent by the EU's EQUAL funds, a number of NGOs are engaged in the formation of social enterprises and other social ventures. One can also observe growth in organizations that receive funding from local governments through mandatory cooperation programs and awarded contracts. But the growth in funding from local governments also made organizations more and more dependent on them to support their programs. This occurs even more since few organizations have sufficient financial reserves to remain viable even for short-term or diversified sources of funding that could give them more autonomy. Fifty percent of organizations have no more than two sources of funding.



At the same time, most organizations do not have a membership base or consistent local support upon which they can rely. There are organizations that seek funding from many

sources. This unfortunately carries the risk that seeking funding and reporting on funds received will almost become the main mission of organizations as fund raising demands a great deal of time, strategic thinking and other resources.

Organizations that profit from EU funding and organizations with public benefit status have had to improve their financial management practices. Public benefit organizations have to publish annual audits and organizations receiving EU funding are obliged to report even more frequently and undergo external audits. There is some hope that the practices of the most professional organizations can encourage a general culture of greater accountability among all nonprofit organizations. At the same time, however, the aforementioned stratification in the NGO sector might discourage smaller organizations from emulating the practices of those larger organizations due to a conviction that their needs and possibilities are very different. Most of the smaller organizations struggle to survive and to find resources for even the most basic expenses, so they do not even think about hiring professional accountants. Seventy-four percent of organizations do not have any paid staff (an increase from 66% in the previous year), making it, in fact, impossible to hire professional accountants. Almost 20% of organizations do not do any accounting at all, and in the next 24% of organizations, accounting is done by people who do not have appropriate accounting training or skills.

ADVOCACY: 1.8

Advocacy remains the strongest dimension of the NGO sector in Poland. Many professional

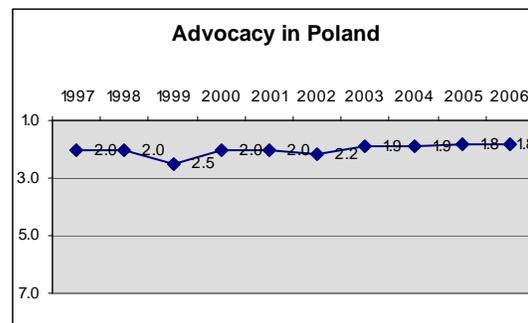
organizations actively participated in consultations on the so-called "operational

programs” that are to structure and channel EU funding from 2007 to 2013. There is a group of organizations that are becoming quite professional in dissecting the assumptions and strategies of such programs, in spite of the level of complexity. Also, more organizations are coming to understand that they can influence various government-developed programs, strategies, and pieces of legislation even if a large portion do not yet understand how to do so.

Polish NGOs demonstrated last year, through their common protest against the above-mentioned government legislative proposals, that they can unite and act in concert. Many organizations have also formed partnerships, which is a requirement to apply for EU funding. But whether such project-focused partnerships can be considered as a manifestation of strategic thinking and attempts to build advocacy coalitions is debatable. Such partnerships could, with time, transform into longer-term cooperation, but whether or not this will occur is as yet unknown. It is easy to form partnerships when it is a condition to apply for grants and when all related costs (meetings, etc.) are covered by the grant. It is also relatively easy to form short-term coalitions to defend privileges or rights that are threatened. In situations where organizations do not see direct advantages in cooperation, they are not so eager to cooperate with one another. The concept and practice of multi-NGO cooperation to affect long-term change in government strategies and thinking are not yet well developed in Poland.

As NGOs become more professional in their advocacy efforts, they naturally seek to become more equal partners to government at both the central and local level. NGOs desire for real cooperation is, however, frustrated because, apart from situations encouraged by profitable EU contracts or forced by government regulations, government institutions are largely uninterested in cooperating with them. Very rarely do local governments go beyond what is required in their cooperation with NGOs. In fact, there are many cases of local governments

developing yearly cooperation programs with local NGOs, which were made mandatory by the Act on Public Benefit and Volunteer Work, without even consulting the NGOs in question. Such programs are sometimes even copied through friends working in local government in other towns. In general, as emphasized previously, the current administration has created a political climate that is not conducive to the development of NGOs. Some contacts that do exist between NGOs and local governments are based on individual connections rather than institutionalized mutual appreciation and willingness to cooperate.



The situation in which local governments are the main source of revenues for many NGOs discourages advocacy or watchdog efforts of NGOs against these local governments.

It may be worth mentioning that on March 7, 2006 the Act of Law on Lobbying Activity in the legislative process entered into force. The Law triggered a lot of controversy in the NGO environment because it is unclear. Although it does not explicitly refer to NGOs, certain interpretations of the law could make advocacy efforts by NGOs very difficult or even impossible. Briefly, the law makes it compulsory for all entities engaged professionally in lobbying activities to register their activities biannually and pay fees. For the time being, however, since no decrees have been passed that would make the provisions of the law more specific, NGOs act as though the Act does not apply to them, and, as a precaution, try to avoid the word “lobbying.” Therefore while talking about their activities, they mention only “advocacy.” NGOs also focus on the term advocacy due to the fact

that lobbying carries a negative connotation in Poland since it is often associated with the informal or even illegal pressuring of politicians.

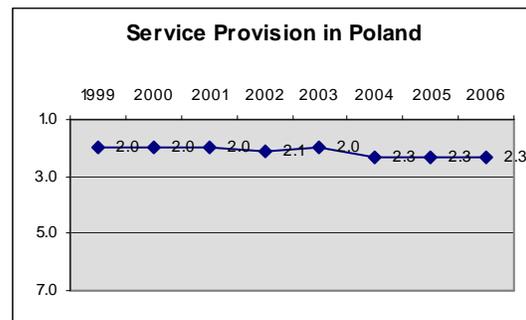
Despite its strength vis-à-vis other sustainability index elements, the advocacy dimension of the NGO sector in Poland has not changed much in comparison with the year 2005.

SERVICE PROVISION: 2.3

Over the last year, there was a slight improvement in the dimension of service provision, i.e., growth of the range of goods and services provided by NGOs. Although most service providing NGOs still focus on basic social services, the range of goods and services available from them is growing. Organizations are trying to broaden the array of services and products they can deliver in order to increase their chance of being recognized both by governments as partners for the realization of public tasks, and by the market. They are increasingly aware that finding market niches for themselves is the only way they can compete with more effective and experienced businesses for clients. The growing popularity of the social economy in which nonprofits try to combine their charity mission with commercial activities reinforces the idea of looking for social ventures.

rather than the needs of their constituents. Over time, therefore, it seems that NGOs are becoming more and more detached from groups that might otherwise be their constituents. If they take into consideration the needs of people living in the area of their activity, it is mostly with respect to looking for customers for the products and services they wish to sell for profit.

The range of recipients of various products of NGOs also showed slight improvement. NGOs are gaining recognition as experts in a number of fields. This is a result of Polish legal requirements for greater government collaboration with NGOs, the requirements of some EU projects, such as EQUAL, that stress and provide significant funding for the publication of the results of NGO work, and attempts to include these results into mainstream public policies.



On a less positive note, responsiveness to the community continues to be a rather weak aspect of the functioning of NGOs. As previously stated, Polish NGOs do not rely much on the support of local constituencies, but rather more on the support of grant-makers from business and government sectors (including the EU level). As a result, the goods and services that NGOs provide tend to reflect the priorities of their funders and grant-makers

Cost recovery has improved slightly. More organizations charge fees for their services to recover incurred costs. This is a result of some provisions of the Act on Public Benefit and Volunteer Work that introduced the means to recover costs for delivered services without designating it commercial activity. As a result, NGOs are allowed to charge certain levels of fees for their services without having to register as business entities. In order to discourage NGOs from charging unreasonably high fees, the law introduced caps on the level of salaries of their workers. The Act certainly encouraged some organizations to start charging fees for services, even those that did not want to register the commercial part of their activities in order to not be accused of commercializing their mission.

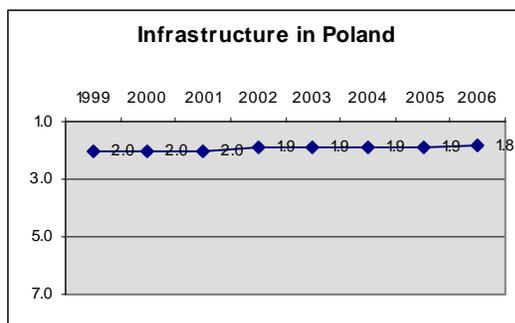
As stated before, government recognition and support for NGOs has deteriorated over the last year. The value that NGOs can add in the

provision of basic social services is less appreciated than before and the strength of the NGO sector is considered as a barrier to, rather than support for, a strong state. Although it is too late and politically impossible to reverse the rights and level of support granted to NGOs through the Act on Public Benefit and Volunteer Work, the current

political climate hinders the development of the NGO sector. Many local governments are more reluctant to mandate cooperation with NGOs that was the case a year ago. As was mentioned, the central government tried to enact legislation that would weaken a number of Polish NGOs – in particular private foundations and organizations that rely on business support.

INFRASTRUCTURE: 1.8

In fact, the only dimension that unequivocally improved on most of its sub-dimensions over last year is the infrastructure of NGOs. The most noticeable improvement is in the growth of support centers. They function and provide significant training, thanks to the availability of EU funding for such purposes. Most NGOs cannot afford or are unwilling to pay for such services, and they are convinced that the support should be offered to them for free. But the issue of training is a perfect example of how activities are often developed more in accordance with available funds than with real needs, which NGOs hardly ever assess. The number of training workshops offered often exceeds the demand, and their quality is not always high.



The portal ngo.pl run by the KLON JAWOR Association collects information of interest to NGOs on a daily basis, including analysis of legal

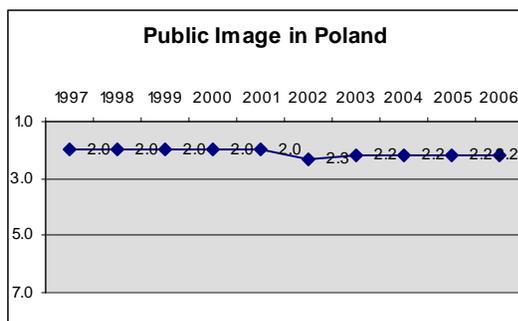
changes, or advertisement of upcoming conferences, trainings, and job offers. Half of all Polish NGOs recognize this service and have visited the portal. The portal serves as an interactive tool as a large portion of the available information is posted by its readers. The number of local grant-making foundations is increasing slightly, yet their impact is still marginal.

There are certainly more partnerships and collaboration among NGOs, yet they are often only the result of funding requirements and may not develop into long-term coalitions after the funding is exhausted. Such coalitions or partnerships are grant-based rather than mission - oriented. Among the more stable ones are national partnerships of organizations that look holistically at the NGO sector and the Public Benefit Activity Council (which came into being through the Act on Public Benefit and Volunteer Work and which advises the cabinet of ministers). As a result, their advocacy efforts represent primarily the interests of organizations similar to themselves. Such partnerships are very rare at local levels, between less professional organizations and outside Warsaw.

The support of businesses for NGOs is growing slightly.

PUBLIC IMAGE: 2.2

The public image of NGOs has not improved in 2006. Although there were a number of interesting social campaigns and a growing number of, mostly large and professional, organizations are engaged in PR activities, the overall message about the NGO sector coming from the media is still quite negative. The media still concentrate on scandals occurring in the nonprofit sector. They are not interested in understanding the role that NGOs can play in society or in examples of good NGO work. The exceptions are the local media which are more willing to provide some coverage of local NGO initiatives. Overall, however, media coverage has a negative impact on the NGO sector's public image, which has, in fact, deteriorated over last year. Scandals in large foundations periodically sensationalized by the media influence the perception of the whole NGO sector. The 1% campaigns have not yet proven to be an important tool in raising public awareness. The strong impact of media coverage can be linked to the fact that society still has a low level of knowledge on the NGO sector as a whole, on the roles it plays or is able to play.



It is also worth noting that NGOs tend to focus on complaining about the negative attitude of the media rather than concentrating their efforts on changing such attitudes and actively building the image of the NGO sector. They also use language, now increasingly borrowed from the terminology of EU projects, that few journalists are able to understand, to say nothing of potential readers and audiences.

As mentioned throughout this report, the current administration created a political climate that is not very supportive for NGO work, even though concrete cases of mandatory cross-sector cooperation between NGOs and local governments have given NGOs the opportunity to demonstrate their skills and expertise. The current administration's political priorities of fighting corruption and looking actively for manifestations of corruption make every public activity open to suspicion. This has also affected the image of NGOs acting in public arenas.

There has been an increase in corporate donations to NGOs. In 2005 almost 50% of NGOs received some financial support from businesses. However, it is hard to determine whether this is a result of the growth of the sense of social responsibility among businesses, appreciation of NGO work, or simply the conviction that partnering with and supporting NGOs might be a good tool of internal and external public relations.

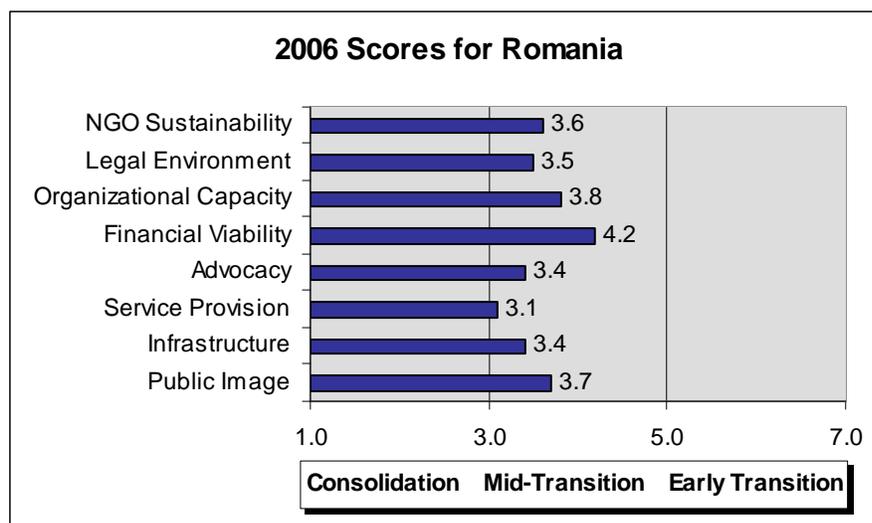
Even if the image of the whole NGO sector does not improve among businesses, government or the general public, the skills of nonprofit workers are much appreciated and over time more and more private firms and government agencies have begun to seek staff with an NGO background. Since the work in most NGOs is typically not divided into separate departments, which in this context appears rather as a strength than a weakness of NGOs, many NGO workers have skills useful for the functioning of any institution, and, which might be even more important, they have the ability to work across functions. Furthermore, the skills they have acquired working on projects and under various grants are also becoming important in an era when project thinking is becoming essential in all institutions, regardless of their nature or sectoral affiliation.

The self-regulation of NGOs remains underdeveloped. A growing number of organizations now publish annual reports,

although this is a function only of the growing number of organizations with a status of public benefit organization (currently 7000), for which it is a requirement. Other NGOs have not improved their transparency. The internal procedures of NGOs functioning are yet to be developed to make them more transparent.

There is asymmetry between declared values and practice. Also of particular ethical concern is the practice of grant money distribution towards salaries, as the amount that some workers receive does not always reflect their level of engagement.

Romania



Capital: Bucharest

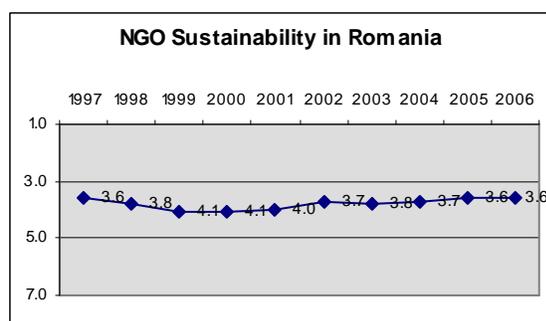
Polity: Republic

Population:
22,303,552

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

NGO SUSTAINABILITY: 3.6

The overall NGO Sustainability score improved slightly over last year due in part to progress in the Financial Viability dimension, which was driven by the new 1-2% funding mechanism. The Government took steps to increase transparency and accountability in the allocation of funds for nonprofit activities which also led to an improved score in the Legal Environment dimension. Local level organizations are the primary beneficiaries of the 1-2% law; they have begun strengthening relationships with their constituents in order to have more funds allocated to them.



In 2006, the Ministry of Justice published the National Registry of Associations and Foundations online, providing information on approximately 45,000 associations and foundations, and more than 1,000 federations and unions. The information provided includes legal status, as well as the organization's mission, founders, board members, and public utility status. Recent data is unavailable, but NGO sector experts estimate that approximately 20,000 NGOs are active.

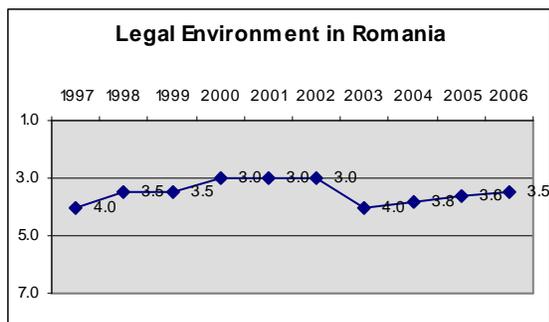
Social service providers, which make up 25% of registered NGOs, remain the most visible organizations. They were recognized by the public and government, and received the most media coverage from both the local and national media. Financial sustainability continues to be the greatest issue for most NGOs, which remain largely dependent on foreign donors and are unable to attract significant local support for their activities.

LEGAL ENVIRONMENT: 3.5

The main development over the past year is the change in the 1-2% funding mechanism.

Taxpayers may now direct up to 2% of their tax liabilities to NGOs, up from 1%. While this is a positive development, the procedure changed

and now requires taxpayers to file an additional form, which is more cumbersome.



Another development is Law 350/2005 regarding public grant allocation for nonprofit activities. The government approved the law in December 2005 following a long debate between NGOs and the Ministry of Justice. The law ensures that the process for allocating public funds to nonprofit organizations is more transparent, and holds both public

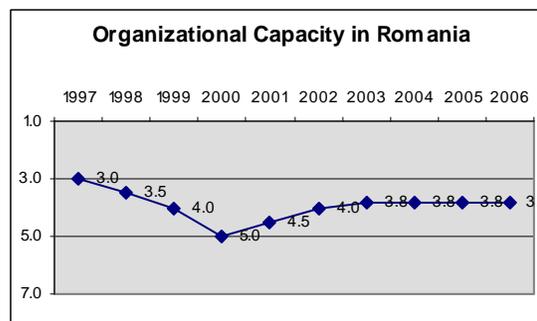
authorities and NGOs more accountable for how they use public funds. The law also requires that public authorities announce the grants they are planning for that year and file a report concerning the recipients and the projects they financed. The law, however, is inconsistent with other laws regulating grant allocation from ministries such as the National Culture Fund, the Environmental Fund, social subsidiaries, and different National Interest Programs funded by the Ministry of Labor, Social Solidarity and Family. The inconsistency creates confusion in the implementation of the laws and regulations.

In March 2006, the Government adopted Law 75/2006 concerning the national system of social assistance to regulate both social services and benefits. It requires that a social inspection system be created to evaluate and monitor all social service providers. The effect on social sector NGOs is unknown as the government has yet to create a social inspection system.

ORGANIZATIONAL CAPACITY: 3.8

Romanian organizations remain unable to mobilize a significant amount of local support for their activities. Both smaller and larger organizations tend to develop their programs according to the funding opportunities available and few NGOs adhere to their missions. Social service organizations are more successful in following their missions, in part because they have to adhere to legal requirements that regulate the allocation of social assistance funds.

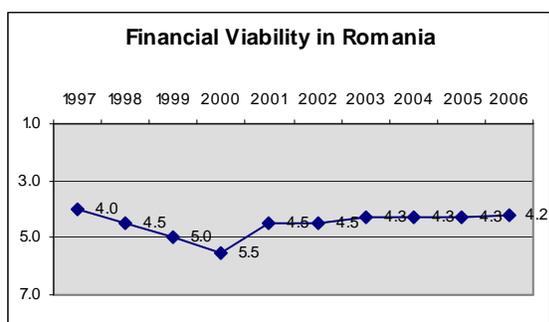
Concerned over the withdrawal of foreign donors, more organizations are making efforts to improve their constituency building. Many NGOs are learning new methods of engaging constituents, which reflects their efforts to develop more local funding sources. NGOs consider the 1-2% law as the main mechanism for generating support within local communities.



The governance and management functions continue to overlap, compromising the efficiency of both. Boards of directors remain unable to carry out significant strategic planning, though social service organizations engage in strategic thinking with greater frequency. NGOs continue to rely on volunteers for carrying out their activities, and often outsource functions such as accounting or public relations. Smaller, local organizations often lack a permanent staff and rely primarily on volunteers.

FINANCIAL VIABILITY: 4.2

This year, the implementation of the 1-2% law had the most positive impact on financial viability, providing NGOs more opportunities to raise local funds to support their activities. Preliminary data for 2006 indicate that individual taxpayers donated more than 3 million Euros (US \$3,979,501), which is twice the amount donated in 2005. While the number of citizens who used this mechanism also doubled, the level of participation is still very low, representing only about 4% of the potential contributors.



Romanian organizations appear more active in building constituencies at the local level. In addition to promoting the 1-2% law, NGOs have initiated successful fundraising campaigns focused on issues of general or local interests such as the Roma children, flood relief, and others. NGOs also organize major fundraising events every year, including the Save the Children's Christmas Tree Gala, Ovidiu Rom's Halloween Ball, and the Hospice House of Hope Charity Ball.

ADVOCACY: 3.4

A recent study by the Resource Center for Citizen Participation (CeRe) indicates that citizen involvement in the formulation of public policy at the national or local levels is rare. The study found that citizens are unaware of their rights to engage public officials. Civil servants are similarly unaware of their obligations to

Corporate social responsibility is growing in Romania, spreading from the larger corporations in Bucharest to the smaller corporations located in the regions. The United Way almost doubled the number of companies involved in its charity programs, increasing from 14 in 2005 to 26 in 2006. It also raised 300,000 Euros from employees and corporations, up from 190,000 Euros (US \$252,035) in 2005.

Central and local governments are also becoming important sources of funding, especially for social service organizations. The number of government institutions that provide funding to NGOs increased in 2006. The Ministry of Labor, Social Solidarity and Family (MMSSF), the National Authority for the Disabled, and the National Authority for the Protection of Children's Rights funded NGO projects through programs of national interest.

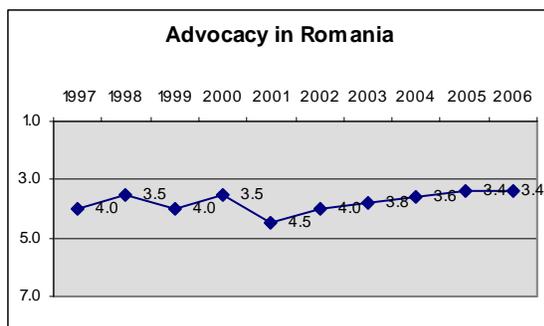
Though local resources available to NGOs continue to increase, foreign donors, particularly the EU, remain the main source of funding for NGO activities. Financial viability remains the greatest concern for most NGOs, which are generally unprepared for the withdrawal of international support. NGOs continue to identify projects according to the availability of funding rather than the needs of their constituencies. Similarly, few organizations fund their projects by engaging in economic activities. In 2006, USAID and the CEE Trust fund launched new programs to increase NGO sustainability, though results of the efforts are not yet available.

ensure that citizens are involved in the decision-making process.

The Consultative College of Associations and Foundations, which was created by the Prime Minister's Office, became operational in 2006. The College facilitates communications between the Government of Romania and NGOs, and

ensures civil society involvement in the formulation and implementation of public policies. Only two meetings were organized, however, one to discuss the EU Structural Funds and the other to designate NGO representatives for the Economic and Social Council. It is still unclear how efficient the consultative body will be.

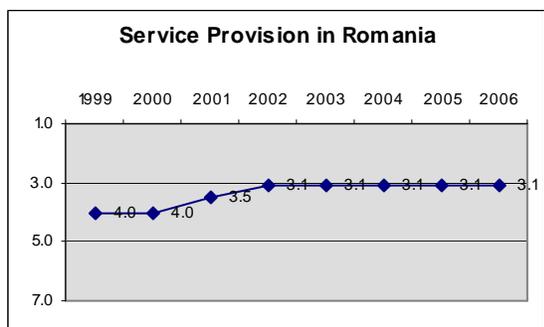
In early 2006, eight NGOs formed an informal coalition to facilitate dialogue between NGOs and government bodies involved in the planning, implementing, and monitoring of the EU structural funds granted to Romania for 2007-2013. The coalition drafted many proposals that the government adopted and submitted as supporting documents for their approval to the European Commission in 2006. Another informal coalition of NGOs supported the creation of the National Authority for Integrity, which will monitor and supervise asset disclosure by members of Parliament and other public officials. The Coalition for a Clean Parliament launched a new initiative that advocates for increased transparency in selecting Romanian candidates for the European Parliament.



SERVICE PROVISION: 3.1

NGOs provide a variety of services, though social service organizations remain the most visible. Approximately 600 NGOs are accredited to provide social services, and therefore eligible to receive government funding. This is an indication of the increase in quality standards for the sector, a fact that is recognized also by authorities.

Council contracted out the administration of a public service, a center for children in Targu-Mures, to the Alpha Transilvana Foundation, offering a positive example for other local governments.



Both civil society organizations and government officials value not only NGOs' abilities to provide social services, but also their expertise. Government officials especially value NGO training services for civil servants. In recognition of their expertise, the government and other social partners have invited NGOs to become full members of the Social and Economic Council.

During 2006, MMSSF provided around 1.3 million Euros (UD \$1,724,450) in subventions to social service NGOs, based on Law 34/1998. At the local level, however, NGOs are generally only able to secure public contracts on an ad-hoc basis when additional resources are available in local budgets. The Mures County

Despite these positive examples, the market for NGO services remains underdeveloped and demand for services limited. Organizations that provide training for other NGOs often have to compete with for-profit entities that provide similar trainings. NGOs rarely recover the costs of providing their services. Consumers continue to hold the opinion that NGO services ought to be provided free of charge, which is yet another obstacle for NGOs in achieving sustainability.

INFRASTRUCTURE: 3.4

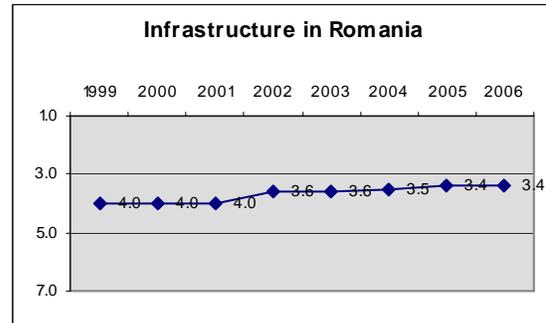
Fewer NGO resource centers provide services nationally than in the past, though they are increasingly more specialized and focus on specific NGO themes. Some local resource centers are successful and continue to grow and expand their activities. They are also making efforts to attract and train volunteers, and increase their professionalism. The EU-Phare 2003 Civil Society Program continued to support the development of more resource centers in response to the needs of NGOs. Seven resource centers received such support, though their sustainability is a matter of concern.

Traditional grant-making organizations include the Association for Community Relations (ARC), the Resource Center in Satu-Mare (CREST), the Center Education 2000 (CEDU), and United Way. Though the amount did not change significantly over the past year, the amount allocated for local grants increased.

Approximately 1,000 federations and unions are registered with the National Registry of Associations and Foundations, most of which are mutual pension funds for the elderly or sports federations. NGO coalitions are rather informal. The NGO Coalition for Structural Funds, which is composed of eight Romanian NGOs, influenced framework legislation for accessing EU structural funds and was one of the year's most successful coalitions.

PUBLIC IMAGE: 3.7

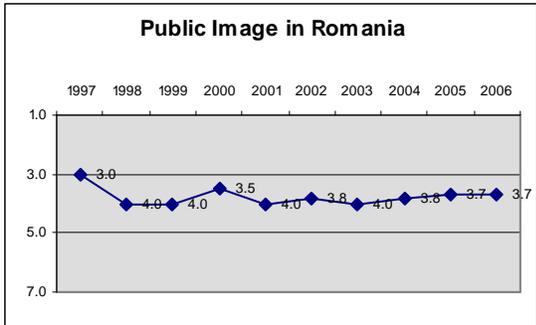
Media coverage of NGO activities did not change over the past year; NGOs have a much stronger relationship with media at the local level. Private television stations showed slightly less interest in NGO activities, though their interests in sensational reporting grew. NGO representatives are asked to comment on issues such as HIV-positive children being barred from attending school.



Requests for training by NGOs in 2006 were primarily related to financial sustainability rather than organizational development, and some trainers were recognized as specialists on the topic. The ARC, for example, specializes in increasing the ability for NGOs take advantage of the “2%” mechanism.

NGO cooperation and partnerships with the media and business community occurred primarily at the local level and revolved around the “2%” campaigns. The partnership between the Romanian Society for Emergency Medicine and Disasters (SMURD) and the mass-media outlets was the most successful of these collaborative efforts. NGO social service providers had the greatest success collaborating with local governments due to the outsourcing of services by state institutions.

The media rarely provides analysis on the role that NGOs play within civil society, though the print media often runs articles related to community affairs. NGOs lack funding for advertising; media outlets therefore prefer to partner with for-profit companies on campaigns that address local needs. Important media outlets such as the state-run national television station initiated projects that include civil society in developing national fund-raising campaigns.



A recent survey found that 27.9% of the public trusts NGOs, which is unchanged from last year's 28%. NGO campaigns for the "1-2%" funds were intense and motivated the public to become more informed about NGOs, and adopt an issue to support. NGOs allocated resources for public outreach and have developed partnerships with the media to advertise their fundraising campaigns and reach out to their target audiences.

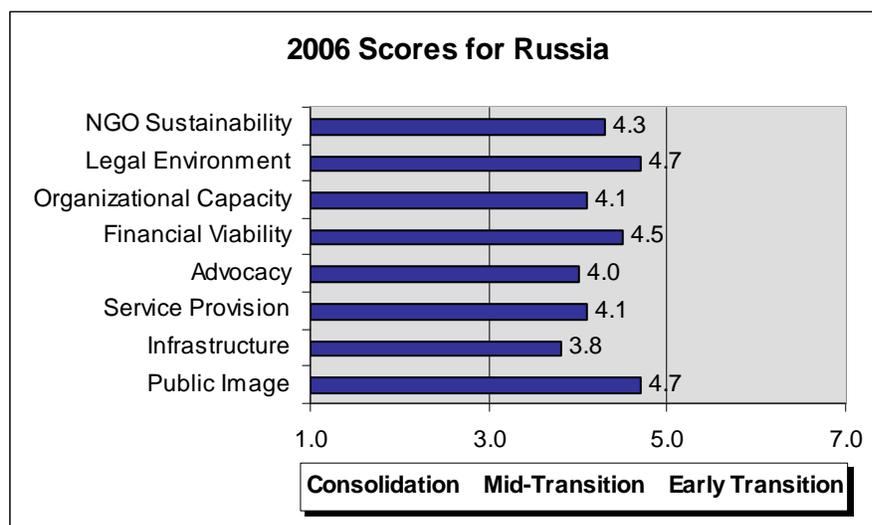
Government officials acknowledge the importance of NGO activities and expertise. Local authorities and NGOs continued to

develop partnerships in 2006, especially as the government increasingly outsourced social services. At the national level, ministries collaborated more with NGOs on important issues concerning EU accession.

Most NGOs lack the funding to promote their activities or fundraise at the national level. Some NGOs, however, secured strong national support due to their relations with celebrity politicians and entertainers. Other NGOs received support from journalists with whom they have close relationships.

During the 2006 Johns Hopkins Fellows Conference in Bucharest, NGOs discussed an NGO Code of Ethics. The larger NGOs intend to sign a joint statement regarding a common code of ethics in the near future. Most donors' application procedures require that NGOs submit their most recent annual reports, which will now include their income from the "2%" campaign. Many NGOs now publish annual reports and leaflets with current information.

Russia



Capital: Moscow

Polity: Federation

Population:
142,893,540

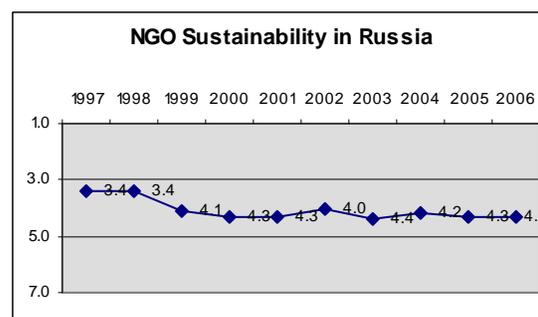
**GDP per capita
(PPP):** \$12,100

NGO SUSTAINABILITY: 4.3

NGOs Sustainability improved slightly over the past year, and the nonprofit sector's development was influenced by recent trends in Russia. The government's policy towards NGOs is based on its desire to control NGO activities to the greatest extent possible. In January 2006, the government approved amendments to the laws governing NGOs, though the most restrictive provisions of the original draft were withdrawn following protests by NGOs. The Russian Federation Public Chamber began operating this year with mixed reviews from NGOs. Some organizations see the Public Chamber as a way to communicate with government officials. Others fear it as yet another way for the government to control the nonprofit sector. Regional Public Chambers, by contrast, have been effective mechanisms for NGO-government cooperation.

Greater access to local resources allowed NGOs to improve their financial viability this year. Amendments to the federal law governing procurement recognize the right for NGOs to compete for State contracts, giving service providers greater access to public funding. Similarly, for the first time the State provided funding to NGOs; the Public Chamber

distributed over 600 grants worth US \$20 million to develop civil society.



Municipal governments increasingly include the public and NGOs in addressing community needs, providing NGOs with more opportunities to advocate for their constituents. In some regions, however, the government permits NGOs to engage in advocacy activities only when it furthers their policy interests. Overall, NGOs have limited influence over policy making, especially at the federal level.

Despite some positive attention in the regions, NGOs continue to struggle for media coverage. The federal media continued their campaign to discredit NGOs that receive foreign funding. They categorize NGOs that are supported by

the State and address social issues as “good organizations,” and those that receive support and purportedly follow instructions from

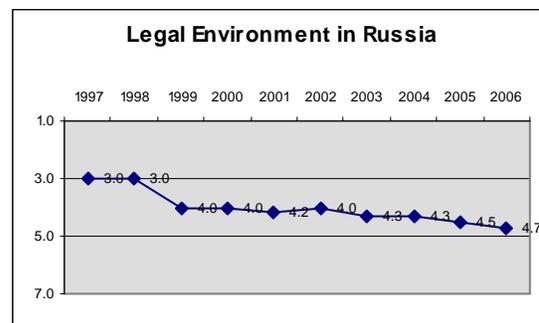
Western governments as “bad organizations.” NGO development is hindered by low levels of public confidence and support.

LEGAL ENVIRONMENT: 4.7

The new NGO law (The Federal Law of the Russian Federation #18-FZ) came into effect April 17, 2006, and introduced significant changes to the regulation of domestic and foreign NGOs. The changes include: new reporting requirements; a new registration process; a new notification procedure for inclusion in the registry of representative offices and foreign NGOs; restrictions on the rights of foreign nationals; stateless persons; prisoners and extremists to be founders; participants or members of NGOs; and authority for registration bodies to determine whether NGOs’ activities serve their stated goals and to dissolve them when they are not. The nonprofit sector protested early drafts of the amendments and the government removed the most egregious provisions. The new provisions are vague, allowing officials to interpret them in a broad and restrictive manner. Some reporting requirements are burdensome and permit officials to enforce them disparately. The law, for example, requires that NGOs submit reports detailing funding sources, expenses, the number of participants, and their background. NGOs fear that officials will enforce these provisions only against those who criticize the government. The law also complicates the registration process and provides officials with more justifications for denying registration to foreign organizations and their affiliates. Thus far, the new law has affected only new organizations that applied for registration, offices of foreign NGOs that had to re-register by October 16, 2006, and domestic NGOs with founders who are foreign nationals. The full impact of the amendments will remain largely unknown until next year when NGOs submit their annual reports to the new supervisory authority.

The amendment requiring NGOs to register funding received from foreign organizations as part of technical assistance and support

programs is especially burdensome; and as a result of the unclear legislation, organizations with large projects have to endure a lengthy registration process and insurmountable barriers in connection with their funding. Some NGOs defer registration, which may result in a higher tax liability. Each official that oversees the registration process creates a different set of rules.



The government also approved amendments to the law regulating procurement, permitting NGOs to bid on state or municipal contracts and giving NGO service providers access to funds from the government budget. The NGO law, however, created new rules for government contracting; they are vague and officials have applied them in a haphazard manner, negatively affecting the legal environment. In December 2006, the government approved the Federal Law on Endowments, which creates opportunities for NGOs working in social services, education, science, health care, and culture to increase their economic stability.

The government files criminal lawsuits, assesses large tax penalties, and liquidates assets to restrict the activities of advocacy organizations, watchdog groups, and others that promote government accountability.

The laws provide NGOs with numerous tax benefits, though they only apply to grants,

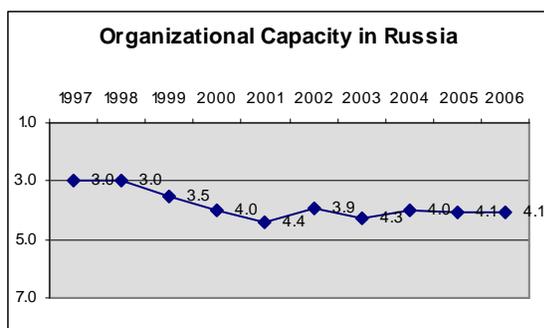
donations, and similar sources of funding. The government taxes income from NGO economic activities on the same basis as that of for-profit entities. Overall, the tax laws are vague and permit tax officials to apply them in an unfavorable manner. The law, for example, requires NGOs to use their property for its stated purpose, though it fails to enumerate prohibited expenditures, leaving officials the discretion to determine whether an NGO has used its funds appropriately. Individuals may take a deduction for donations they make to state noncommercial organizations, though only 5,000 taxpayers per year do so.

NGO representatives consider the government's streamlining of the legal framework a positive step. They have concerns, however, that the laws remain incomplete, vague, and inconsistent. Supervisory authorities are given broad discretion to interpret the laws, leaving NGOs dependent on the Federal Registration Services' regional divisions, individual officials, and differing legal practices. Overall, the legal environment fails to provide NGOs with a sense of stability or confidence.

ORGANIZATIONAL CAPACITY: 4.1

Some NGOs have a fairly high level of institutional development, including large staffs, effective boards, and strong internal management. Most organizations, however, need to improve even more. As in past years, building broad public support remains a weakness for Russian NGOs. Even larger organizations with many constituents incorporate few citizens in their activities. NGOs are most able to mobilize citizens in those rare instances when they have wide media coverage, as they did during the demonstrations organized against the law that eliminated in-kind social benefits.

withdrawal of foreign donors and the government's unclear NGO policy, as well as the lack of strategic planning skills. Most NGOs have one leader (who is often the founder), an accountant, and two or three staff members. Leaders rarely delegate authority to their staff, and often have difficulties hiring qualified employees. NGO experts have noted that the sector is aging and that young people are looking more to the business and government sectors for careers. Less than 2% of all registered organizations have an effective board of directors, and those that do are large organizations, foreign grant-making foundations, or corporate foundations. Of existing boards, the majority only provides moral support or guidance on short-term plans. The boards of directors of community foundations typically limit their roles to fundraising.



Most NGOs have mission statements or at least slogans, though these often serve more as declarations of intent and seldom a description of the organization's function. NGOs are familiar with strategic planning, but few incorporate it into their organizational management due to issues such as the

Participants of the 2006 national conference of NGO leaders entitled Russia's Nonprofit Sector: Today and Tomorrow reported that no more than 5% of the population is inclined to take part in NGO activities. Though many organizations have volunteers, few regularly incorporate them into their activities. Due to their inability to offer competitive salaries and the sector's low public image, NGOs struggle to retain their key personnel, especially those that are well-trained.

NGOs generally have the resources necessary to survive, though they are often insufficient to

ensure effective performance. Those in large urban areas have greater access to second hand office equipment and internet cafes, while communication technologies in smaller cities

are limited and unaffordable. NGOs must replace their equipment as it becomes obsolete, which is more difficult for those in smaller communities.

FINANCIAL VIABILITY: 4.5

Though their net income remains unchanged, Russian NGOs are increasingly able to diversify their funding sources, allowing them to endure the waning of foreign funding. Many NGOs diversify their funding by seeking out local contracts, fundraising, soliciting support from the business sector, and competing for federal, regional and local grants. Reforms to the laws governing the federal budget have given NGOs greater access to state funding. In 2006, NGOs received financial support from the government for the first time; the Public Chamber distributed grants to over 600 organizations from the fund for civil society development.

At numerous events, President Putin declared 2006 the Year of Philanthropy. Numerous charitable events were organized throughout Russia by the Russian Donor's Forum, Potanin's Foundation, the Dynasty Foundation, the Charities AID Foundation, the WWF, and well-known print and broadcast media outlets. Corporations continued developing private foundations and social programs; there are now 20 active private foundations and 25 community foundations. Experts estimate that in 2006 philanthropic giving reached US \$1.5 billion. Individual giving, however, is developing at a slower pace. Public opinion surveys report that only 55% of Russians are aware of the activities of charitable organizations. In the past, few NGOs engaged in economic activities; this year, however, most organizations provide goods and services, and compete for state and local contracts to increase their budgets. NGOs now prefer engaging in economic activities, though focusing on financial viability has

distracted many from furthering their nonprofit objectives.



Financial management remains a weakness for NGOs, which failed to make any improvements in 2006. NGOs have sufficient resources, but lack the ability to manage them. Some only have experience with grants, and diversification of funding has adversely affected those organizations that are unable to manage different sources of funding. Many NGOs continue using accounting systems designed for grants or foreign assistance, and lack mechanisms to account for other types of income. As a result, NGOs often categorize all of their income as tax exempt, when much of it is subject to tax. For example, many consider local or state contracts as government grants, resulting in misreporting, taxation, arbitration, and fines. Absent appropriate accounting systems, NGOs are unable to earn interest on their cash assets or take advantage of tax credits. Transparency remains low and most NGOs do not conduct audits as required by law. NGOs audit projects only when required by a donor. When independent audits are conducted, they often find that the organization failed to publish their financial reports.

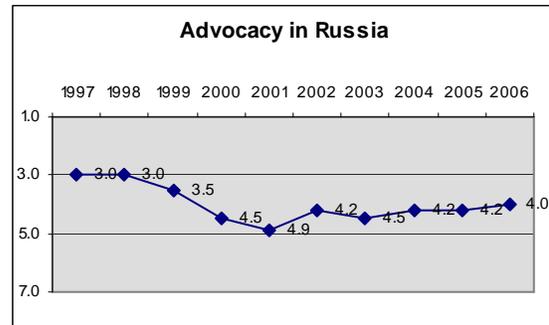
ADVOCACY: 4.0

Despite progress, the nonprofit sector remains in the mid-transition stage with regards to its

advocacy efforts. NGOs participated in deliberations for the General Principles of Organization of Legislative and Executive

Authorities in the Member Regions of the Russian Federation, as well as the General Principles of Local Self-Governance in the Russian Federation. NGOs also contributed to the Concept of Administrative Reform in the Russian Federation in 2006-2008. A government entity is required by law to hold public hearings on issues such as the adoption of a city charter or local socio-economic development programs, as well as the proposed budget for the next fiscal year. In several regions NGOs have representatives on public commissions for administrative reform. Advocacy efforts of NGOs based in Vladivostok resulted in the adoption of the new city charter. In Krasnodar, NGOs were successful in promoting public discussion of the city budget, both its planning and execution, and facilitating public debate on the issues related to the reconstruction of the historical city center. Overall, NGO cooperation with politicians remains low; NGOs are often unprepared and unable to hold a productive dialogue with government officials. They have the greatest success at the municipal level where NGO representatives have been elected to local legislative bodies and now cooperate with NGOs.

Overall, the nonprofit sector's advocacy efforts, which include a rapid response to new developments and greater cooperation between coalitions, were robust. NGOs lobbied against draft amendments to the NGO Law and as a result the most severe provisions withdrawn. For many NGOs, advocacy became an ongoing activity rather than a one-time event, and now includes promotion of public interest, surveys, and citizen involvement in NGO programs.



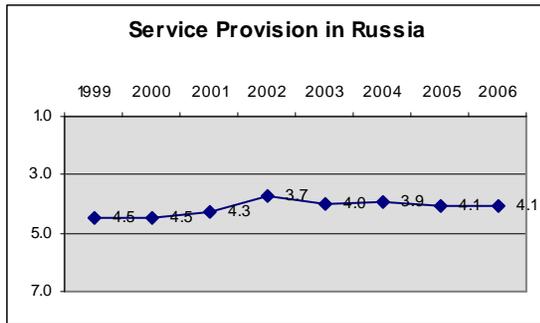
In 2006, NGOs began forming coalitions to address local and regional issues such as health care, education, women's rights, youth, ecology, and public housing and utilities. NGOs demonstrated a greater sophistication by using mass media, petitions, and public awareness campaigns to pressure government officials to discuss specific issues. A coalition of 22 environmental organizations, for example, mobilized over 7,000 indigenous citizens in Siberia to prevent passage of a new Forest Code, which was postponed until the next legislative session. In another example, 11 NGOs representing citizens with multiple sclerosis lobbied for more screening and the inclusion of modern medications in the government treatment protocol, which provided 400,000 citizens with multiple sclerosis greater treatment options. Another coalition of 40 environmental NGOs mobilized 5,000 citizens to protest the Transneft pipeline near Lake Baikal, the largest freshwater lake in the world. To maximize public pressure, they collected 50,000 signatures on a petition against the pipeline's planned course, as well as reached out to the media and lawmakers. A women's rights alliance, a coalition of trade unions, cultural institutions, and NGOs in the Tula Oblast, joined forces to create a Gender Action Plan to improve the position of women. The Tula Oblast government adopted the plan and has agreed to provide appropriate funding from the 2007 budget.

SERVICE PROVISION: 4.1

Over the past year, NGOs did not improve the quality of or expand the services they provide. They did, however, change the nature of their

services, serving some groups of citizens, more than others. NGOs increasingly provide services in the areas of HIV/AIDS prevention, drug treatment, support vulnerable children,

such as orphans and teenagers released from penal institutions. NGOs, however, continue to lack the capacity and technical expertise to serve larger groups of clients. In addition, strict regulatory and licensing requirements limit the effectiveness of NGOs in providing social services.



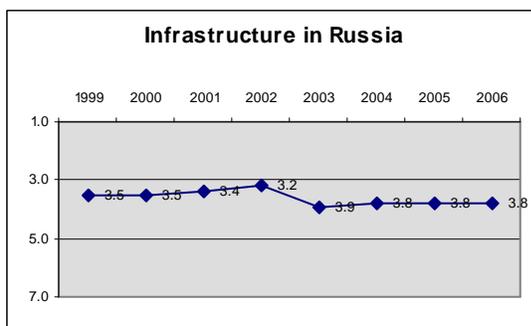
Generally, NGOs with five to ten years experience offer more specialized and higher quality services. The public holds the largest and oldest NGOs, including the Russian Society for the Disabled, the Russian Society for the Blind, and the Russian Society for the Deaf, in poor regard because their activities are no longer in line with the needs of their constituents. New organizations often ignore the experience of others and instead struggle to recreate methods and models that are already in use, giving the impression that service providers in general are not improving. These NGOs are created by people with insufficient institutional and professional development or

management skills. In addition, NGO activities are rarely documented, making it difficult for organizations to benefit from the experiences of others.

NGOs generally lack the ability to market their services. Those that provide services to constituents are often unable to market these same services to other organizations or the government. NGOs are similarly unable to market services for fees. Competition among NGOs that provide similar services is increasing. NGOs are studying market demands, though they do so infrequently. Low-income citizens are the primary consumers of NGO services, though they are unable to pay. NGOs often do not even calculate the cost of their services, which means they are unable to compare their costs to those of municipalities and other NGOs. This practice is a barrier to marketing their goods and services to potential customers.

Government officials continue to view NGOs as unable to provide a variety of quality goods and services. The State, however, approved amendments to facilitate contracting with NGOs. Regional and municipal governments now have contracts for services, which would not have occurred five years ago. Government entities grant the largest share of these contracts to municipal institutions and NGOs controlled by government officials.

INFRASTRUCTURE: 3.8



Most of the NGO resource centers operating in Russia were created with support from

Western donors. The most active resource center networks are in Southern Russia, the Volga district, and Siberia. The services provided by resource centers have transformed over the past ten years. Centers now advocate for better regulations and greater access to funding for NGOs, and promote philanthropy and volunteerism. Several NGO resource centers became community development centers that promote interaction between the NGO community and government officials, community governing bodies, large and medium-sized businesses, and the media.

The need for additional resources has led many resource organizations to specialize and develop services such as education that are marketable to the government and business sectors. The main priority of the Federal Public Chamber's grant program, which manages 500 million rubles (US \$1,919,995), was to support NGO infrastructure by providing trainings and technical assistance. More than 12 resource centers were awarded grants. Funding, however, remains an acute problem, and only the strongest resource centers were able to diversify their funding sources by developing partnerships with the government and business sectors and charging fees for their services.

Russian NGOs have a wealth of experience and information to share with one another, though they only do so when funding is available. Equipment and computers were purchased years ago when foreign funding was more available. It is now outdated and NGOs are often unable to even update their webpage.

PUBLIC IMAGE: 4.7

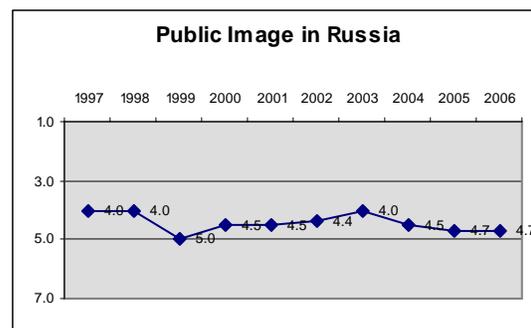
Media coverage, particularly by the federal media, increased significantly over the past year. This is the result of national debates over amendments to the NGO law, which received a great deal of attention. While most media coverage was positive, some was negative, reflecting a wave of anti-western sentiments related to accusations by high-ranking officials that western governments and foundations were engaged in subversive activities. The additional media coverage influenced the public's awareness of NGOs, though the media coverage did not influence the public's confidence in the sector. The lack of public support remains an issue for Russian NGOs, particularly for human rights organizations that have come together to discuss ways in which they can develop a more positive image.

Government officials have mixed attitudes towards NGOs, and there are numerous examples of both cooperation and confrontation. Officials in every region look to a few strong NGOs that are able to offer viable

The nonprofit sector's capacity for training remains high, and government officials and businesses often seek out NGO trainers as advisors. This is the result of foreign grants that promote the professional development of NGO employees, offering training programs covering different aspects of NGO management.

The success of cross-sectoral relationships varies. Though limited, NGOs partnered with government entities on issues of local and regional social and economic development. The government also appointed representatives of several strong NGOs and resource centers to the Public Chamber, which ought to provide an opportunity to promote the sector's interests at the Federal level. NGOs increasingly cooperate with businesses; there are examples of corporations holding grant competitions for social projects, and of NGOs advising corporations on their philanthropic policies.

solutions to local issues instead of just collecting information. Some officials, on the other hand, view such NGOs as competition rather than as allies. Other officials take issue with organizations that receive foreign funding, which allows for greater independence and less susceptibility to government influence and control.



The development of private foundations and corporate programs is increasing steadily. Yukos and the Open Russia Foundation, however, are an unfortunate precedent for the rest of the business sector in that they are

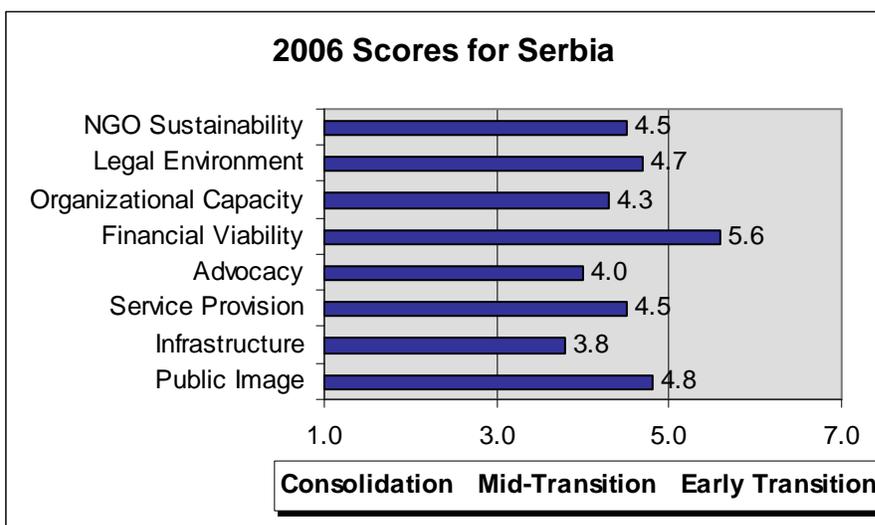
disinclined to provide support for human rights organizations.

While NGOs are aware of the importance of public relations, they often lack the resources to maintain ongoing public outreach campaigns. NGOs with years of experience and many successes have significant media coverage. Journalists in the regions generally view NGOs as sources of interesting stories and often contact NGO representatives for information. The media frequently invites NGO leaders, as

experts, to provide their views on social and political events.

Despite numerous external factors, Russian NGOs have improved their public image over the past year. NGOs increasingly play a more important role in the formation of public policy. Experts in other fields recognize the authority of NGOs and heed their opinions, listen to what they have to say, and even fear them. The public's low levels of confidence and support, however, remain a major issue for the sector's public image.

Serbia



Capital: Belgrade

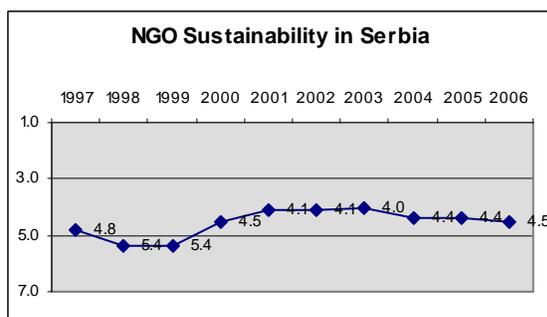
Polity: Republic

Population:
9,396,411

**GDP per capita
(PPP):** \$4,400

NGO SUSTAINABILITY: 4.5

The 2006 NGO Sustainability Index panel was convened during a particularly challenging period for civil society. Since the ousting of Slobodan Milosevic in 2000, the government had promised a new constitution, and until recently had made little progress.



This past summer, two representatives, one from each of the two leading democratically oriented political parties, drafted a new constitution behind closed doors, with input from a third, anti-reformist party. The draft was quickly passed by Parliament during a late-

night, special weekend session in October; most members did not have the chance to see the draft, much less the opportunity to debate its contents. The new constitution was adopted at the end of October during a rare two-day public referendum, with the political parties leading a strong campaign to ensure its ratification.

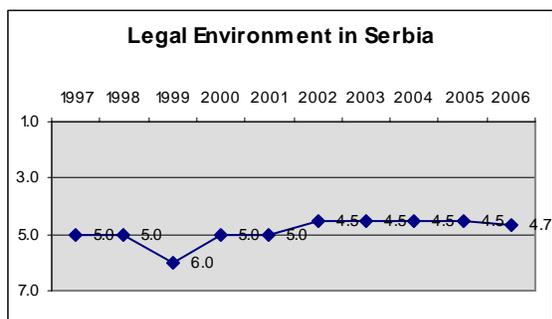
Members of Serbia's NGO community were among the few to speak out against the process and the lack of consultation or public debate. Some also questioned specific provisions, such as a preamble reaffirming the UN-administered province of Kosovo as Serbian territory. The media generally dismissed opponents of the new constitution, while the government branded them as traitors. With parliamentary elections scheduled for January 2007, and a proposal on the final status of Kosovo expected soon after, at the end of 2006, Serbian civil society found little reason to be optimistic about its role in shaping the country's future.

LEGAL ENVIRONMENT: 4.7

The legal environment did not improve in 2006, despite expectations that the long over-due Law

on Associations would be passed early in the year. Though the law finally reached the parliament for committee discussion over the

summer, it was sidelined by the drafting and adopting of the new constitution. Stakeholders, anticipating passage of the law after many delays, expressed great disappointment at having to wait another year, and fear that electing a new government may result in their having to start the drafting process over again. As Serbia is expected to hold elections for all levels of government in 2007, it is unlikely that any new law would be passed until well into the year, following formation of the new government and the handling of other priorities, such as negotiations on the status of Kosovo and the desire to re-start stabilization and association talks with the European Union. Stakeholders, anticipating passage of the law after many delays, expressed great disappointment at having to wait another year.



Currently, NGOs are governed by the 1990 Federal Law on Associations, the 1982 Serbian Law on Associations, and the 1989 Serbian Law on Foundations. Though the independence of Montenegro in May 2006 and the dissolution of the State Union of Serbia and Montenegro should have rendered the Federal Law obsolete, it remains in effect; NGOs prefer its more liberal registration process to the more restrictive procedures in the Serbian laws. NGOs in the northern province of Vojvodina may choose to register under that province's

ORGANIZATIONAL CAPACITY: 4.3

Some NGOs are taking steps to build constituencies, though their success has been limited. Most organizations remain donor-driven; even the more well-established organizations compete for funding in areas in

registration laws, which are also more favorable. The status of foreign NGOs remains insecure unless they are covered by a bilateral assistance agreement.

The legal framework generally exempts NGOs from taxation on income up to approximately US \$5000. NGOs may register as corporations if they wish to earn additional income, and anecdotal evidence suggests that some of the large organizations are in fact doing so. The law provides some discretion for distinguishing between gifts, which are subject to taxation, and donations, which ought to be exempt. Amendments to the Law on Property Taxes, enacted in 2004, imposed a 5% tax on gifts to all NGOs, except for foundations. The tax authority appears to have only begun enforcing the tax this year, and has requested that a number of organizations pay taxes on all of the gifts they have received since 2004. Some organizations report that the tax authorities are also requesting that they pay taxes on their donations. The legal framework provides few incentives to promote local philanthropy, though the issue is gaining attention.

The process by which the new constitution was drafted and adopted is a reflection of the difficulties NGOs face in their efforts to address matters of public concern. The government generally discourages NGOs from expressing criticism, and ministries that cooperate with NGOs are often reprimanded. NGOs report isolated instances of wiretapping and monitoring their email and internet use, though it does not appear to be widespread. There are a handful of lawyers with expertise in NGO legal issues; Serbia, however, lacks a systematic infrastructure to provide NGOs with legal assistance.

which they have no experience. The undefined legal status of volunteers continues to discourage NGOs from using them. The current framework implies that volunteers must receive the same social benefits as paid employees. Efforts to promote a new law on

volunteerism seek to encourage greater participation. The legal framework does not require organizations to have boards of directors, which are uncommon. A recent study suggests that most boards of directors only execute pro-forma decisions.



Funding trends are impacting the ability of NGO to maintain a permanent staff. Many trained personnel are moving to the public sector, where jobs are more stable, or the private sector, which provides better salaries. Some NGO experts note that organizations in Belgrade are shrinking, as members of their staffs take positions in government institutions

FINANCIAL VIABILITY: 5.6

NGO experts consider the Financial Viability dimension to be the weakest for civil society's transition. NGOs are unable to secure sufficient local funding, though some experts hope this will improve with privatization, an increase in foreign investment, and a greater sense of corporate social responsibility. As it is, support from the business sector remains small and government contracts few.

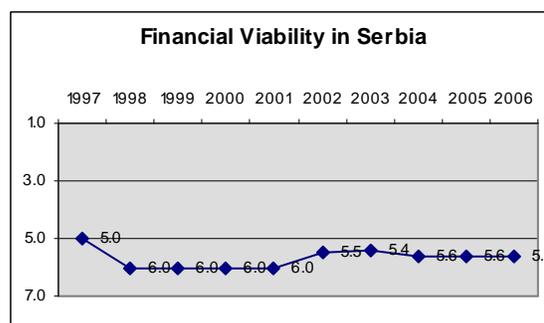
The lack of domestic support has left NGOs dependent on foreign funding, though access is increasingly more difficult. While the limited core of remaining donors is considered loyal, their budgets are shrinking every year. A recent study found that more than 60% of all organizations lack funding for the current year.

NGO experts doubt that the financial situation will improve in the near future, citing experiences in Poland, the Czech Republic, and

or international organizations. This raises questions about how NGOs may be able to reverse the trend and attract qualified workers from other sectors. Other NGO experts argue that former NGO employees that now work in the government or business sectors may bring an understanding of the importance of civil society to their new positions. Even as NGOs lose employees, they lack the policies and capacity to transition in or provide even basic training for replacements, resulting in a sector-wide inability to transfer knowledge and develop needed skills for new employees.

Though donors no longer provide funding for basic commodities, NGOs are still in need of office equipment, particularly as their old, donated computers become outdated. Legal software is expensive for NGOs, more so for large organizations that must buy software packages for each computer. Small organizations outside of the capital lack consistent, reliable access to technologies such as the internet and email.

Hungary, where NGOs have had little success in accessing European funding. These experts believe that the support from the European Union focuses on state institutions and only includes civil society when it cooperates with the public sector.



The government does not have a strategy for supporting civil society; nor is the government able to reach a consensus over the need to support NGOs or the benefits in doing so.

NGO representatives perceive the process for accessing government tenders as too complicated for all but a few organizations. The recent national investment plan did not include NGOs among the beneficiaries of income from

the privatization of state property, and the government did not respond to calls for creating an NGO endowment fund from the proceeds.

ADVOCACY: 4.0

NGOs do not have a formal or institutional mechanism to facilitate communication with the government. Some government officials have contact with NGOs, but these contacts are generally personal connections and limited to individual organizations. Funding requirements from European donors creates some pressure for the government to develop joint projects with NGOs. The creation and implementation of the Poverty Reduction Strategy, housed under the Deputy Prime Minister's office, is a prominent example of cooperation between the government and civil society.



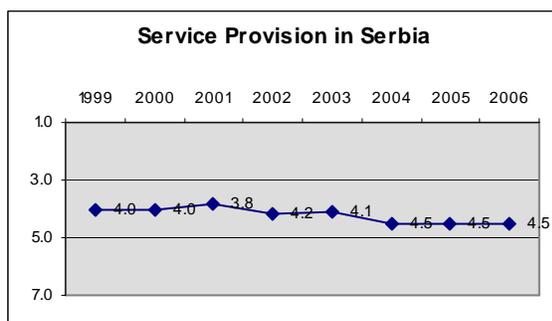
NGOs have formed a number of small coalitions around specific issues such as the Law

on Associations and opposition to the constitutional process. Representatives from civil society have felt excluded from discussions on other key issues, such as the independence of Montenegro or the future status of Kosovo.

These examples suggest that the exclusion may be the result of a closed government more than the consequence of an underdeveloped sector. Others, however, question the effectiveness of NGO efforts, which are often limited to press releases and roundtable discussions.

NGOs have had some successful advocacy efforts in areas such as disability, Roma issues, conscientious objection, and access to information. NGOs have also had success in developing cooperative relationships with a small number of government officials such as the Vojvodina Ombudsman and the Commissioner for Information of Public Importance. NGO experts state that the last minute inclusion of data protection in the new constitution is the result of a joint effort between the Commissioner and a coalition of NGOs led by the Fund for Open Society.

SERVICE PROVISION: 4.5



There are relatively few prominent NGOs that provide services. Most remain unable to charge beneficiaries for the services they provide. The Social Innovation Fund is the only major source of support for NGO service providers in Serbia. The program is implemented by the Serbian Ministry of Labor, Employment and Social Policy in cooperation with the UNDP, with support from the European Agency for Reconstruction and the governments of Norway and Great Britain. While government ministries, such as the Ministry of Education, may offer other

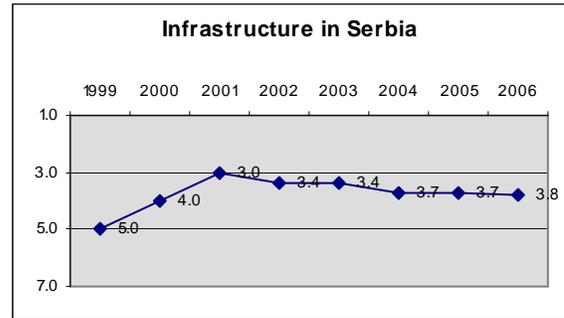
opportunities for supporting NGO service providers, the government does not have a systematic approach for such support. Government officials often perceive NGOs as uncooperative and unproductive, which may

contribute to their reluctance to pursue this option. Officials at the local level are more likely to understand the value of NGO service providers.

INFRASTRUCTURE: 3.8

There are no standard training programs, certification classes, or other advanced continuing educational opportunities currently available to NGOs staff and activists. Serbia has knowledgeable and capable trainers but they lack the funding to provide services.

Networking generally remains limited to informal, ad hoc initiatives to address pressing or immediate problems, rather than sustained, coalition-building efforts on long-term issues. While partnerships within the sector appear to be improving, NGOs have been less successful with other sectors, such as the government or media, in achieving common goals.

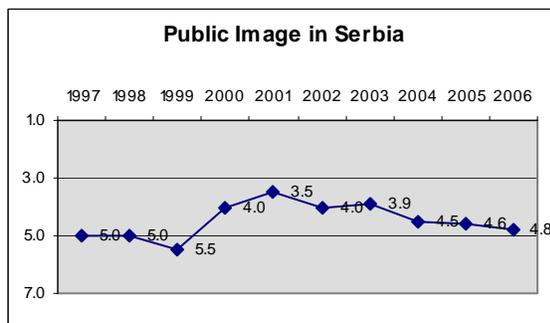


A Responsible Business Initiative, led by the organization Smart Kolektiv, is promoting corporate social responsibility in Serbia. The Balkan Community Initiatives Fund is similarly encouraging local philanthropy. The Federation of NGOs in Serbia (FENS) continues to be the largest coalition in the country.

PUBLIC IMAGE: 4.8

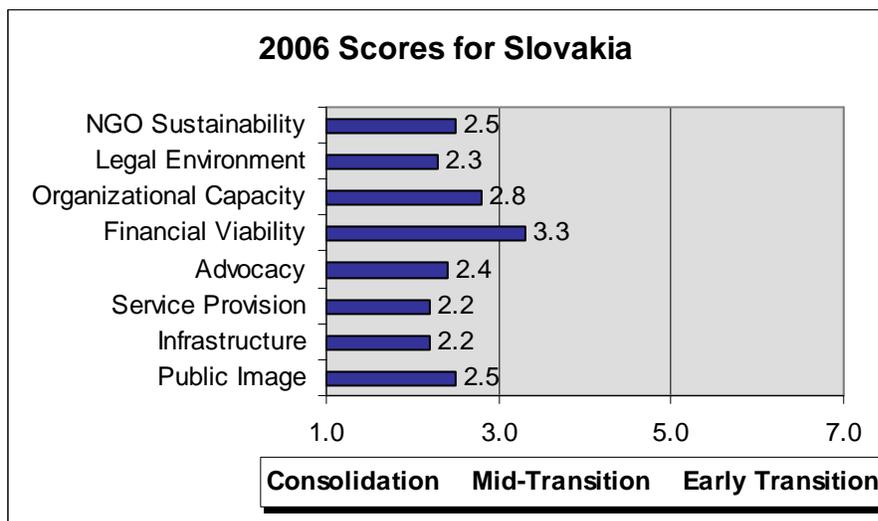
The NGO sector's public image is shaped primarily by a small number of NGOs known for their outspoken positions on human rights, war crimes, and other related issues. Denunciation of these organizations and their female leaders by government officials and the media makes it easy to portray all NGOs as anti-government and serving foreign interests.

NGO experts assert that the government-aligned media fail to cover NGO criticism of the government, and that many private media report on NGOs only if they can portray them in a negative light. Often times, the media ignores NGO activities because they do not perceive them to be newsworthy. Local media, however, appear to be more open to covering local organizations and their activities. Some members of the local media have partnered with NGOs to submit requests for information to government entities under the country's free access to information laws.



Though the NGO sector has yet to adopt a code of ethics, organizations are moving towards greater transparency, and more are publishing their annual reports.

Slovakia



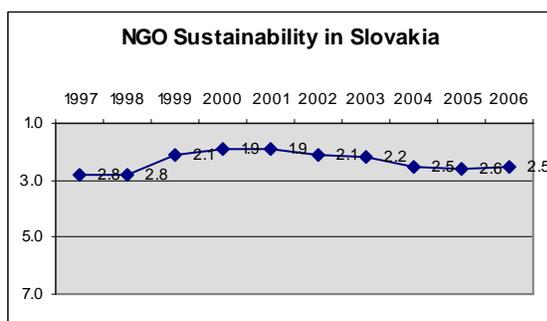
Capital: Bratislava

Polity:
Parliamentary
democracy

Population:
5,439,448

**GDP per capita
(PPP):** \$17,700

NGO SUSTAINABILITY: 2.5



Parliamentary elections took place in 2006. After eight years of center-right government, a government led by the left took power – a change that may bring significant changes for the NGO sector. It is difficult to predict all the changes this political shift will bring, but there are initial indications that the sector may expect

some obstacles to its activities, as at the outset, it seems that the new government may view the sector as unnecessary and not worthy of support. This is visible especially in the effort to restrict public sources of funding for NGOs; if this effort is successful, it could lead to an enormous decrease in the budget of many NGOs in Slovakia – especially in the current climate, after the withdrawal of large international donors, when Slovak NGOs are more dependent on local revenue sources. On the other hand, these steps by the new Slovak government may lead to a higher degree of cooperation in the sector, helping civil society to mobilize opposition to these moves by the government.

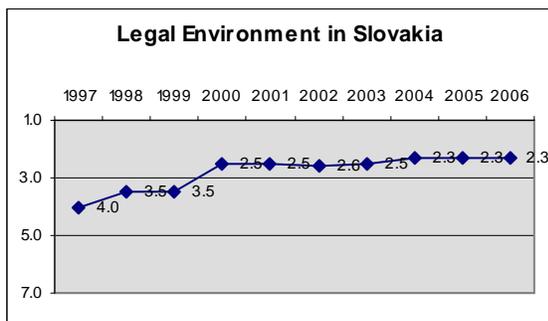
LEGAL ENVIRONMENT: 2.3

As indicated above, major changes in this area were influenced by the formation of the new Slovak government, which seems to perceive NGOs as unnecessary and unworthy of support. In 2006 the new government proposed three changes to existing legislation: 1) discontinue the 2% of tax that legal entities

(corporations) have been allowed to assign to NGOs; 2) eliminate the tax exemption for NGO income gained from NGO commercial activities (the first SK 300,000 in income is currently untaxed); and 3) under the 2% tax designation law, increase from SK 20 to SK 250 the minimum amount that private individuals

can assign to NGOs from their paid tax. According to an analysis conducted by the 1st Slovak Non-Profit Service Center, this third change could adversely affect many of the 81% of individuals who previously used this mechanism to donate to NGOs. An increase in the 2% threshold may eliminate the eligibility of citizens whose incomes, and therefore tax payments, are small.

Due to the pro-active approach of the NGOs and a nation-wide campaign to preserve the 2% tax designation option for legal entities, the proposal by the government to eliminate the tax designation was not approved by the Slovak Parliament. But despite the efforts of NGOs, the other two proposals were adopted by Slovak Parliament and became part of the new Income Tax Law. Estimates suggest that the approved change of the exemption of NGO income up to SK 300,000 will bring SK 222 million (\$7,655,000) into the state budget, reflecting a significantly increased tax burden on those NGOs which have revenue-generating activities. The increase in minimum individual tax assignments is also a significant challenge, because in the current legislation, tax revenues are the only source of government funds for NGOs that are clearly spelled out – all other means that exist for the State to support NGOs (such as grants, contracts, and payment for service delivery), are not codified in legislation.



No changes were made to the registration process for NGOs in Slovakia in 2006. Registration is quite simple, and the number of NGOs is still increasing – there are now more than 28,000, the majority of which are civic associations. From an operational point of view,

the legal form of a civic association is the simplest and therefore most often used. Unfortunately, legislation governing the disbanding and closeout of civic associations is still lacking, therefore resulting in a significant number of defunct organizations still being listed in the official registers. There is no state harassment of NGOs – even though some environmental organizations have experienced two tax audits within the last two years related to the financial support gained from the 2% donation. Some perceived this as harassment, even though it was within the terms of the existing law.

In the area of legal expertise, organizations such as the 1st SNSC, (with two branch offices in Bratislava and Košice) and Charta 77 Foundation provide free legal services to NGOs. Some NGOs that provided these services in the past – such as Via Iuris or Citizen and Democracy –do not provide direct consulting anymore; instead, they are focusing more on the monitoring of legal issues. However, the need for legal consulting is large and the capacities available are limited. It would be helpful if there were more attorneys focusing on these issues. Resolution of problems opened by gaps in existing legislation could be provided by passage of a Code of Non-Profit Law that would cover all legislation relevant for NGOs. This might influence law students who could specialize in this area more easily. There is a large discrepancy within the sector with regard to the need for legal services, as more advanced NGOs are often able to resolve their legal issues themselves without external help, while others are dependent on external assistance. It is also necessary to increase legal awareness within the sector itself. Legal services are provided also through the Efekt magazine and Flash News prepared by the 1st SNSC.

With regard to NGO capacity for legal action, an analysis conducted by legal experts found that since 1993, 2,000 cases have been brought to the courts by NGOs, primarily in the areas of human rights and environmental protection. The majority of them were well-founded, but only ten of these cases were accepted by the

courts, while 190 were rejected due to inadequate preparation. The ten successful cases had a direct impact on positive changes in law.

There have been some cases among social-service-oriented NGOs in which the government mistakenly paid state support in larger amounts than it should have. The NGOs in question are facing closure, as the state requires the return of these funds, and the NGOs have no tools to fight against such steps. Sometimes NGOs in this situation also have difficulty finding a lawyer who would be enthusiastic enough, and would understand both NGO and social issues well enough, to defend the case effectively.

In 2006, NGO activities related to the Code of Non-Profit Law that would unify NGO legislation, clarify operations, and simplify many procedures continued. The Code would also protect legislation related to NGOs, as it is simpler for the state to change or amend a single piece of legislation than a complex compilation of legislation such a Code. The Ministry of Justice has included the proposed Code in the legislative plan for the future – the Code or changes in existing legislation should be prepared in 2007 and approved in 2008. It is important to note also that there is still discussion within the sector about this issue, as

ORGANIZATIONAL CAPACITY: 2.8

During 2006, the gap between the most advanced NGOs in Slovakia and those newly established or operating only within certain limited area and on a voluntary basis deepened even more rapidly than before. This observation was confirmed also by the outcome of some research as seen below. It is perceived by NGO leaders and also within the wider public, that there is a large discrepancy among advanced NGOs, such as foundations and civic associations working on a professional level, and the broad majority of organizations. There exists a group of very advanced NGOs which understand the differences between the board of directors and the employees, understand

some organizations perceive establishment of the Code as unnecessary and not contributing positively to changes within the sector. They would prefer improvements of already existing legislation.

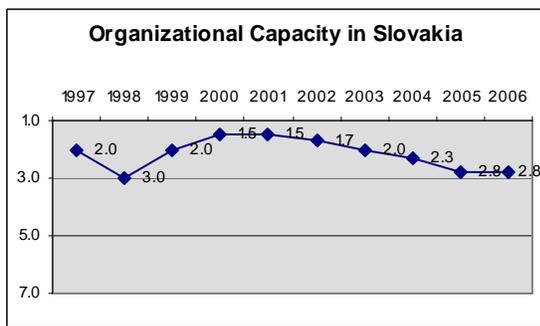
NGOs in Slovakia are able to undertake for-profit activities. If such activities are included in their by-laws and they have a business license, there are no obstacles from the side of the state. NGOs are also contracted by the state, especially using funds of the European Union (EU) or state development aid. There is a broad system of contracts specifying who can be contracted using such funds, and NGOs are included in it.

The debate on defining the term “public-benefit” continued in 2006, as well. There was a broad discussion within all three sectors of society that resulted in the definition of nine key problematic areas that need to be addressed in order to define this term precisely. If the term were clearly specified, it would not only bring more resources from the state into the sector, but would support volunteerism and improve the image of NGOs among the wider public. The outcomes of these discussions will be used in subsequent activities in this area with the aim of incorporating them into the Code of Non-Profit Law.

their competencies, and use techniques of strategic planning and results management in their operations. On the other hand, there are many that do not even understand these terms. Research on think tanks and advocacy grassroots organizations by the Pontis Foundation this year showed that there are significant problems in understanding these issues. There are also problems within some civic associations resulting from personal conflicts among executive staff, general assemblies, and the membership base. The situation in some organizations in this field can be regarded as alarming. Furthermore, some

NGOs do not even know how to communicate with their target group effectively.

In 2006, there was a decrease in activities of NGOs focused on institutional development. After the withdrawal of large international donors focused on supporting institutional development and increasing the level of professionalism among their grantees, current donors – mostly companies giving through the 2% mechanism – tend not to focus on capacity building but rather on implementation of specific projects.



The Pontis Foundation research noted above addressed 220 NGOs – mostly advocacy organizations – through an e-mail questionnaire. A total of 22% responded. Results showed that a large majority have a defined mission and vision. However, the analysis also showed there are some persistent needs, including assessing the impact of NGO activity on the target group, incorporating strategic planning into the activities of NGOs, and managing by results. The analysis also showed that around half of the responding NGOs prepare fundraising and communication plans for their organizations. NGOs also use a wide spectrum of communication tools to present their mission and activities (80% of questioned NGOs

FINANCIAL VIABILITY: 3.3

After the withdrawal of international donors, NGOs need to find new sources of financing for their survival. The current situation of Slovak NGOs shows that they are capable of gaining support from local sources, among the main sources being the 2% tax transfer, support from

publish annual reports, while 50% of questioned NGOs publish leaflets and brochures in addition to possessing and using their own database of journalists). As potential recipients of the 2% tax assignment, NGOs often use cheaper communication channels, such as the Internet. NGOs could benefit in this area from more regular evaluation of the impact of these activities and their success. In the area of financial controls, more than 67% of respondents prepare financial plans on an annual basis, but more than 20% of NGOs do not revise these plans. In the area of financial control mechanisms, only 25% of respondent NGOs prepare a monthly cash flow analysis. As a positive trend, there is a move toward creation of endowments or reserve funds (40% of responding NGOs had made progress in this area); however, the question remains as to whether the difference between these two mechanisms is clearly understood.

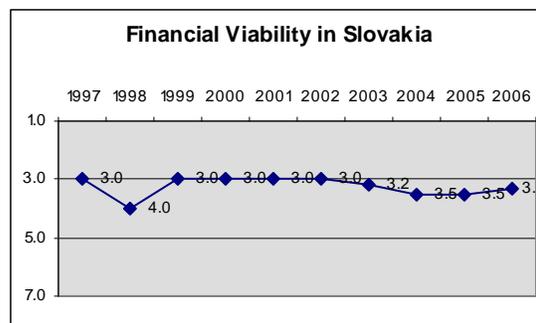
In 2005, there were some efforts to develop and implement legislation relating to volunteerism; however, these efforts did not continue in 2006. While the volunteer potential in Slovakia is generally seen as quite large, it now seems that the number of university student volunteers in NGOs is starting to drop, as 80% of university students are employed and therefore do not have any leisure time to spend on volunteer activities.

The majority of NGOs have the technical equipment they need for their work. EU funds enable NGOs to buy technical equipment, even though with some limitations on how the funding can be used. There are also some initiatives by corporations which provide their older equipment to NGOs.

EU funds, and sometimes also support from corporations apart from the 2% tax transfer. Individual philanthropy also forms part of the budget – especially in community foundations, local NGOs, and NGOs organizing public collections. However, collections are usually

used for specific goals such as purchase of health-care equipment (for example, “Daffodil Day” organized by the League against Cancer), for grant making focused on children (“One Hour for Children” organized by the Children of Slovakia Foundation), for support of Cuban dissidents (the public collection of the Pontis Foundation), etc. The number of public appeals for donations by individuals rose quite significantly in 2006, with many of them focused on development aid for countries such as Lebanon, Cuba, Sri Lanka, Indonesia, and Mozambique.

Even though the 2% tax transfer has significantly contributed to the budgets of Slovak NGOs, a number of representatives of the sector also see a negative impact of this mechanism. This option was made possible in 2003 under the second government of Mikulas Dzurinda. When first proposed, legislation regarding support for NGOs included an option for individuals to assign 1% of paid tax and included the use of tax deductions. However, in his effort to keep the new flat tax code as simple and free of exceptions as possible, then Minister of Finance, Ivan Mikloš, rejected the option of using tax deductions and as compensation offered the use of a 2% assignment of tax for individuals and legal entities. Some NGO representatives argue that this change, which was then passed in legislation, happened quite quickly and did not allow time for discussions within the sector. They also argue that at that point there were some community foundations working on building long-term partnerships with the business sector and developing indigenous philanthropy in Slovakia. They contend that by replacing possible tax deductions for charitable giving with the 2% tax assignment, promotion of philanthropy in its basic sense was compromised.



Now, however, when the option of the 2% tax transfer by legal entities and other benefits in the current tax law (including the tax exemption for incomes up to SK 300,000) are under threat by the new government, NGOs across the board fear a massive decrease in their support and also a massive decrease of funds available for grant making, as a major part of budgets raised through the 2% assignment is used for re-granting. At risk is also the enormous contribution of resources raised by this mechanism to NGO capacity building and institutional development, since 2% funds are not purpose-limited and thus NGOs can use them freely to achieve their public benefit mission.

NGOs also face issues regarding the other significant source of funding for NGO activities, EU funds. Grants from these funds are given in the form of reimbursements, which means that NGOs have to cover all project costs with their own resources and then wait for receipt of funding. A further complication is that reimbursements are often more than six months late, and this situation sometimes proves unbearable for Slovak NGOs. In addition, administration of these funds is also very complicated. It is not rare, for example, that three employees are working on implementation of an EU-funded project and four are necessary to administer it. These conditions are not set by the EU itself, but rather by the Slovak government, and they differ from those in neighboring countries. Slovak NGOs have been told that the mechanism was set up in this way because Slovak NGOs were at the outset viewed as untrustworthy in the eyes of the government.

There are also some initiatives contributing to corporate giving in Slovakia – Pontis Foundation is continuing in its work with the Business Leaders Forum and the Slovak Donors' Forum (SDF) established the Club of Corporate Donors within the international program CEENERGI (Central and Eastern European Network for Responsible Giving) with the goal of supporting and promoting successful and effective forms of active involvement of corporations in community life. SDF also undertook a public opinion poll on the state of corporate philanthropy in Slovakia. These are some of the results: only 24% of respondents know the correct meaning of the word philanthropy, but 88% of respondents are familiar with specific examples of corporate philanthropy – they know cases in which a corporation supported people in need or supported a public benefit activity. Respondents stated that the main reason why companies are active in the field of corporate philanthropy is because they want to gain a good reputation (70%); help those in need (37%); it is a matter of course (28%); they buy off their own “business sins” (27%); or they do not know what to do with money (26%). Note that respondents could choose any two answers.

The Slovak Donors' Forum also undertook an analysis among the 200 top non-financial companies (according to overall profit in 2005). The analysis was done through questionnaires, and 20% of companies approached responded. In the survey, 97% of companies supported public benefit activities; 95% of them think positively about corporate philanthropy and think it is important that corporations get involved in it; eight companies out of 39 respondents have a strategy for corporate philanthropy; 54% of respondent companies use the 2% tax transfer mechanism, and only 4% of them use this mechanism as the exclusive source of support. Respondent companies showed a preference for philanthropy to sponsorship, while the preferred targets of support were children, youth, education, research, and culture. A total of 33% of respondents were convinced that in the last

year conditions for the development of corporate philanthropy improved, and 67% thought conditions did not change. When it comes to the regional distribution of corporate philanthropy funds, activities are more often concentrated on Slovakia nationally than on a particular community or a region. Compared to 2004 data, the number of companies that decided about support on an ad hoc basis, without any strategy or plan, declined.

In February 2006, the Sasakawa Peace Foundation, in cooperation with the Focus Agency, prepared a public opinion poll focused on giving. Results showed that of 1,037 respondents, 47% had bought postcards in support of charity, 31% had purchased a lottery ticket for charity, 29% purchased *Nota Bene* Magazine (to support homeless people), 11% had purchased tickets for charitable events, and another 11% had purchased other kinds of products for charity, such as daffodils (related to the League Against Cancer's Daffodil Day), or an Avon ribbon (to support breast cancer research), etc. With regard to the means of giving, people in Slovakia prefer contribution boxes – 55% supported those in churches and 53% supported those of NGOs. Another part of respondents prefer giving through SMS (32%) or giving through phone calls (20%), where part of the call price goes to a certain charity. Only a small part of respondents (4%) used an amount transferred from their bank account or used an automatic teller machine (3%). Not surprisingly, the Roman Catholic Church is the number-one recipient of charitable gifts (40%); NGOs place second (30%); and other institutions such as schools or hospitals follow (25%).

In the area of individual philanthropy, the Slovak Donors Forum is working on implementation of the DMS-Donors Messages Service project in Slovakia. This mechanism should be established soon, but it is still not clear exactly when. Community foundations are also quite successful in encouraging individual philanthropy – several of them have established donor clubs working to support their activities. Environmental organizations such as *Sosna*, *Vlk*, and *Greenpeace* are also very successful in

raising funds from individual donors. The civic association Vlk, for example, has special projects called “Buy Your Own Tree” or “Adopt Your Own Wolf” focusing on individual philanthropy. There are also some means of individual philanthropy that are not used within the sector very much at this time, including payroll giving to a chosen NGO. Overall, it can be said that philanthropy still needs to develop as a culture in Slovakia – it is necessary to educate the public at large in this area to help develop patterns of responsible giving.

In the area of financial reporting, again there is a large discrepancy between those advanced NGOs working on very professional level and small grassroots organizations. Advanced organizations prepare financial plans, do business plans, and are able to do financial reporting on a professional level. Some of them perform an annual financial audit (those which collect more than SK 1 million from the 2% tax assignment are required to do this by law). On the other hand, there are many organizations that do not understand basic financial mechanisms and their role within the organization. With regard to fundraising, this area was in 2006 mostly focused on 2% campaigns and approaching corporate donors. Most NGOs cannot afford to fund a staff development director position, so this work is often done by executive director.

ADVOCACY: 2.4

In this area, the situation deteriorated slightly. However, this deterioration is not a result of a lack of legal mechanisms for advocacy, but is more a result of acceptance of the use of these mechanisms by state institutions and also the result of citizen indifference. Although NGOs and citizens have come to understand more clearly that even though they have legitimate tools for advocacy, they find it very difficult to compete with certain groups such as investors or developers. Citizens can mobilize very quickly and massively when necessary, but are moved to do so only if the proposed activity intersects with their personal interests or views

Membership fees are a major source of revenue only for a narrow range of NGOs (especially those working with youth). The majority of NGOs have only a small member base and therefore membership fees cannot be considered a substantial source of finances.

Many NGOs are charging services for fees, although this is a problem for social-sector NGOs, which are often working for poor clients who cannot afford to pay for these services. NGOs also provide training and education courses, prepare analyses, and administer funds for corporations. It is, however, unlikely that income-generating activities will represent a significant part of NGO budgets in the near term. However, the number of NGOs purchasing their own offices is increasing. For example in the social sector, the Socia Foundation is implementing investment programs helping social NGOs to purchase their own office space.

Another facet of the funding issue relates to distribution of domestic funding within the sector. After the withdrawal of large international donors, there is a lack of funds that can be used for advocacy activities. There are some programs providing funds for advocacy in the social area, but support from the population or from the corporate community for civic advocacy and watchdog organizations is still lacking.

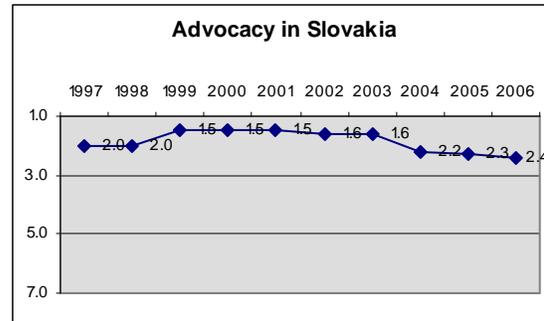
– much as in the West. They are very often not interested in public policy and only react when a proposed policy or proposed legislation has a direct impact on their personal life. People are willing to sign petitions, but these petitions usually do not change the situation. In the long term, this can have a negative impact on civic engagement as such. If people see that nothing happens even though they have raised their voices, it can lead to apathy within the wider public. There are also some problems with utilization of the Law on Access to Information – it exists, but it is used only by NGOs, and their requests for access to certain

information are still denied. It would help if citizens and media would make more use of this law and put some pressure on institutions to comply.

In 2006, there were several campaigns organized within the sector – many published on the internet page www.changenet.sk, which serves as an informational tool for the sector. The latest is the campaign to stop the cancellation of the 2% tax transfer and other changes in the tax law noted above. This petition attracted 6,500 signatures within only a few days, which is considered to be a great success and, also serves as a common issue that could finally rally the whole sector.

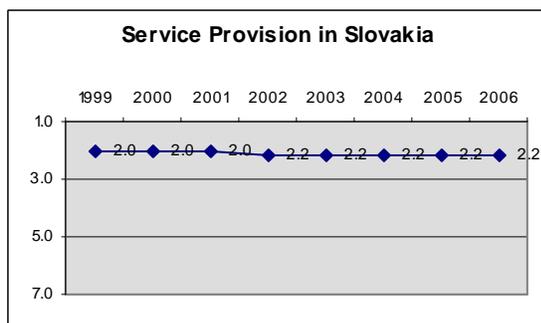
In addition to this general initiative, there are also some thematically focused platforms in the area of advocacy. Every group within the sector is able to track prepared changes in legislation and also has tools to enforce positive steps or stop negative steps in this area. However, there are some differences in advocacy on the national and local levels. Lobbying at the level of the VUC (regional districts) is much more

complicated, as processes on this level are highly non-transparent. On the local level, NGOs have much better relationships with mayors and local municipal governments.



With the advent of the new government, it appears there is a chance for good cooperation between the ministry of interior and NGOs working in the field of human rights protection and extremism. These NGOs have already met with new Minister of Interior Robert Kaliňák to talk about cooperation in this field.

SERVICE PROVISION: 2.2



The majority of services are provided within the social sphere, where there are many former state organizations that were transformed into non-profit organizations. NGOs in this area cover services where state services are insufficient and are supported by the state for these services. Social NGOs feel appreciation and support from the side of the state in this area. However, a plan to transform some institutions such as Homes of Social Services

(usually established for handicapped children and adults) into NGOs existed but was not implemented.

Services in the area of training are provided, for example, by Partners for Democratic Change, Slovakia (PDCS) and in Central Slovakia also by the Education Center for Non-Profit Organizations (CVNO). Legal services are provided pro bono and often are of a higher quality than those provided by the state.

Another area in which NGOs are active is in grant-making services that NGOs provide to both the state and the private sector. For example, the Open Society Foundation administers funds of the Plenipotentiary for Roma Issues, which provides scholarships for Roma students. The Center for Philanthropy administers funds for the SPP Foundation (Slovak Gas Industry) and funds of Orange, and

the Pontis Foundation administers funds from various corporations. There are also NGOs providing services in the area of health-care, education (CVNO, PDCS); some prepare analyses (the Institute for Public Affairs, Transparency International); others organize

summer camps or other activities for children as a service (e.g. Slovak Scouting) or services in the area of reconstruction of historical landmarks (National Trust). However, there are also some NGOs (advocacy, grassroots, and cultural NGOs) that do not provide services.

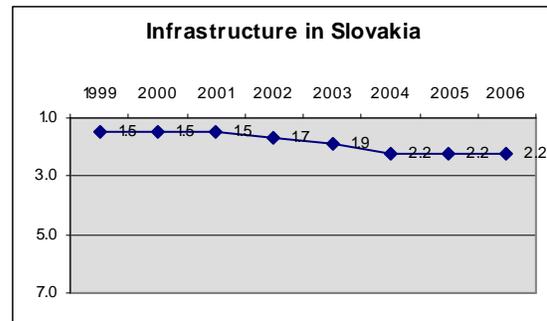
INFRASTRUCTURE: 2.2

Local donors currently supporting NGO activities are only partly focused on institutional development and on increasing professionalism within the sector. As there are fewer sources to support these kinds of activities, training organizations have started to focus more on export of their know-how to foreign countries. On the other hand, the Open Society Foundation Bratislava implements a grant and operational program aimed at engaging civil society actors to provide access to, and enforcement of, human rights for disadvantaged groups, focused primarily on Roma. This program contains both capacity building and institutional support to NGOs. In addition to this, there is a broad range of international exchange programs and internships that are used quite broadly.

However, as the analysis of Pontis Foundation showed, there is an urgent need for education among NGOs in the area of strategic planning, financial management, etc. There are still some training organizations in Slovakia providing training to NGOs, such as PDCS and CVNO, but these also provide services to the business sector and their capacities are only limited. There is also a need for more advanced and more specialized training within the sector (for example supervising in the area of social services), but NGOs with these needs are not able to find training organizations that offer these kinds of services.

There are some new initiatives in the area of education within the sector. The Slovak Donors Forum is preparing training for foundations in the area of brand building and marketing, and OSF, in cooperation with CVNO, is starting a distance internet learning course called "EU Project School" for leaders of

Slovak NGOs. The first semester will begin in January 2007. Training organizations are aware of the greater demand for their services than they can cover, so they have started to build professional associations such as the Club of Trainers or the Community of Consultants. These efforts should lead to an increased level of professionalism and should prevent situations in which people without the appropriate special training provide facilitation or consulting services.



In addition to educational activities within the sector, thanks to better cooperation with the business sector, there is a large transfer of know-how and skills from the business sector to NGOs. There are some corporations providing consulting and advisory services to NGOs on a pro-bono basis as a form of corporate philanthropy.

There are many informal platforms and networks in Slovakia usually formed because of need or based on a common issue. There is a network of NGOs working in the social area called the Socio-Forum; environmental organizations are working within Ekoforum; and SDF works with Slovak foundations, etc. Information services are provided by an Internet portal (ChangeNet) and are focused on

activities in the whole sector, with several active servers focused topically, such as socio-forum (social issues), mladež.sk (youth issues), a mail server for environmental NGOs, along with a web page focused on partnerships within the NGO sector (www.partnerstva.sk). The monthly Efekt, published by the 1st SNSC, offers the latest news about changes in laws and regulations and implementing procedures governing taxes, accounting, and management. It also covers events in the sector and includes supplemental products like Flash News and a Monthly Information Summary.

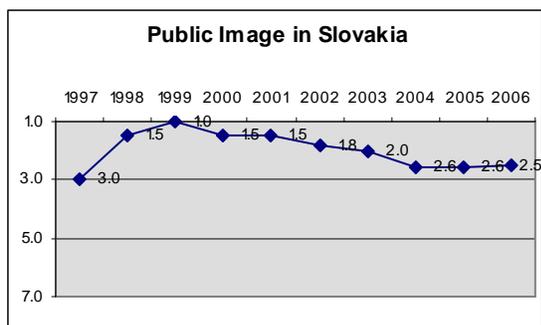
Cooperation with the state sector has increased in general because of the distribution and acquisition of EU funding, which requires such cooperation. However, this cooperation is

often purpose-made and on a formal level, which means that it takes place only on a case-by-case basis around specific issues and does not involve deep cooperation.

In Slovakia, re-granting is done from local sources, but in comparison with that done in the past from foreign sources, there are some differences. In addition to the previously mentioned gap in support for institutional development, there are also some slight changes in the focus of re-granting – for example, the topic of advocacy is missing. Foundations working in the area of corporate philanthropy, however, are slowly becoming able to persuade local donors to also contribute to systematic changes within the sector and to more in-depth projects.

PUBLIC IMAGE: 2.5

Significant improvements were made in this area thanks to the campaigns focused on the 2% tax transfer. Many NGOs working on both the national and local levels organized campaigns to approach individual and corporate donors and, thanks to that, raised public awareness related to NGOs and their role in society.



With regard to media, it seems media have a slightly more positive approach toward NGOs since the new government took over. The question is whether this is thanks to an improved image of NGOs within society, or whether they consider NGOs to be their allies in their criticism of the new political elite. Since it can be a problem for an NGO to get information about its activities into the media, a considerable number of NGOs focused on preparing web pages in 2006. There are a large

number of NGOs with their own web pages which no longer consist only of basic information and contact information, but instead are very detailed and regularly updated.

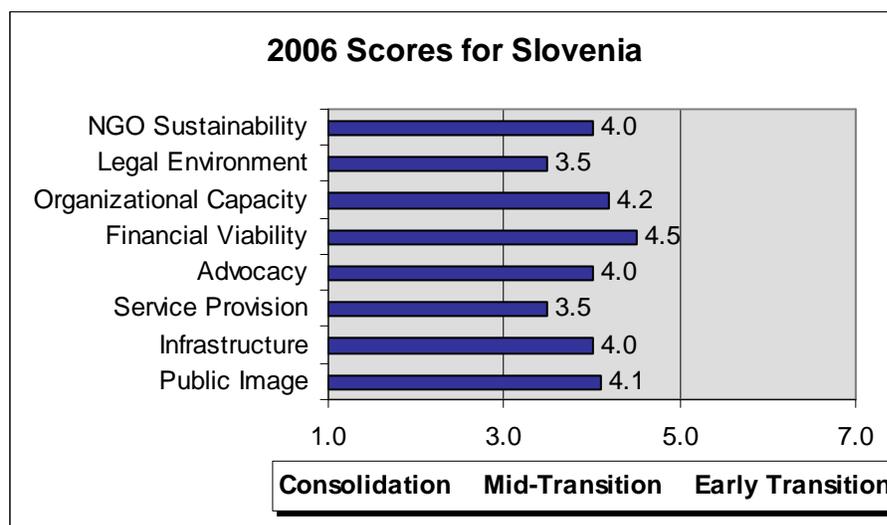
This year the Slovak Donors' Forum opened a second year of competition for the best annual report within the sector. Comparing the first year and this year of the competition, interest within the sector increased: last year there were 12 annual reports competing, while for the second year of competition there are already 36 involved.

Regarding cooperation with the government, the first half of the year stayed the same as last year – government officials did not create barriers, but they also did not support NGOs. However, this changed dramatically after the elections and, as already mentioned several times in this report, the new government seems to have negative views toward the non-profit sector. There have already been some statements by representatives of the new government that show a lack of support for the non-profit sector. Time will tell how this relationship will develop.

In the area of ethics codes, there are some NGOs that have a code of ethics, but many more are operating without one. The Slovak Donors Forum is working on preparation of its internal Quality Marks, which should help to promote transparency and credibility of SDF members.

Thanks to the developing cooperation with the business sector, the level of volunteerism increased as well. This relates especially to corporate-sponsored volunteerism.

Slovenia



Capital: Ljubljana

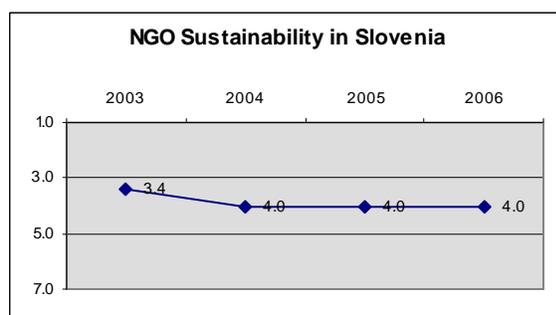
Polity:
Parliamentary
democracy republic

Population:
2,010,347

**GDP per capita
(PPP):** \$23,400

NGO SUSTAINABILITY: 4.0

There are almost 21,000 NGOs in Slovenia, mostly organized as associations on the local and regional level in the fields of sports, culture and art, fire brigades, tourism, etc.



The new Act on Associations and modifications to the Government's Rules of Procedure brought the most significant changes in the year. These changes resulted in as many pluses as minuses. The new Act on Associations brings some improvements, as well as some regulations that will affect the sector in a negative way. The previous act was more flexible and left more space for associations to set their own management structure, while the new one specifically defines certain bodies and competencies. The changes to the Rules of Procedure require obligatory consultations with

NGOs as part of government decision-making, but in practice this article has already been breached several times.

The year 2006 was the last year for European structural funds 2004-2006; the last calls for proposal were issued and at the same time the drafting of the National Development Plan (NDP) 2007-2013 was begun. NGOs had found the process of accessing EU structural funds frustrating and disappointing. Although formally they could apply for several projects, a study conducted by PIC and REC at the end of 2005 showed that NGOs were rarely the beneficiaries of these projects, with the funds often going instead to municipalities, public institutes, etc. The drafting process of the NDP is improving and there were some possibilities for NGOs to participate, but for the most part their comments were not integrated into the text. There is a special chapter dedicated to the development of NGOs and civil and social dialogue in the operational program. However, based on discussions with other NGOs, it does seem that government funds available to support of NGOs are considerably higher in other CEE countries.

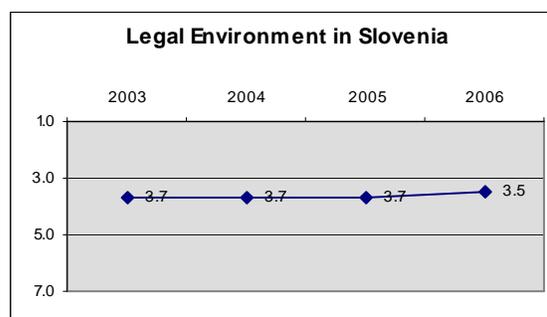
LEGAL ENVIROMENT: 3.5

The largest change concerning NGO legislation was the newly adopted Act on Associations. It enforces more self-control and more stringent bookkeeping requirements. It also introduces more detailed requirements for performing commercial or profit-making activities. In comparison to previous regulation, it determines some obligatory bodies and their defined competences, which could be seen as state interference with associations' autonomy. For example, an association is obliged to have a supervisory board with certain competencies, which cannot be assigned to another body. There are also certain decisions, such as a change of statutes, which can only be made by a council of all members. The process and requirements to be granted status as a public benefit association were unified. A new tax reform for next year was also adopted by parliament and will be implemented in 2007. The new law will abolish tax deductions for the donations of citizens, but will give citizens the option to donate 0.5% of their taxes to certain non-profit organizations. Some criticism was made of this mechanism as it puts NGOs in the same tax situation as church organizations, political parties, and trade unions, meaning that NGOs must compete with a broad range of other organizations for the tax assignation funds. Furthermore, political parties already had two other mechanisms for financing, and therefore in the opinion of NGOs opinion, there was no compelling need to include political parties as possible recipients for these funds as well.

There were no major changes concerning the registration process of NGOs, except that legal persons (such as companies, public bodies, or public institutions) can now also establish an association. According to the law, the

association is a private legal person whether or not the founders are public institutions.

The new Act on Associations establishes more requirements for control and financial reporting to the state, causing compliance problems for smaller associations.



NGOs are allowed to engage in advocacy and there are no formal barriers which hinder them in monitoring and criticizing the government. However, in some cases smaller organizations fear informal pressure or negative consequences from local authorities if their criticism is too strong.

There were no developments in the field of local legal capacity, as legal advice is not available to NGOs except in the two largest cities.

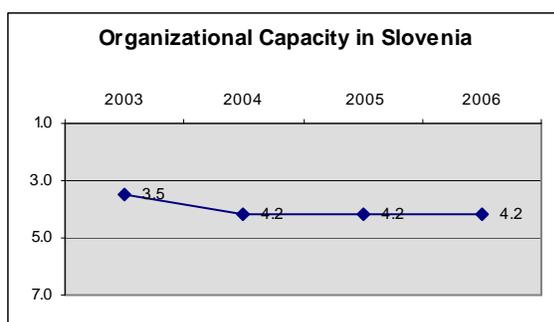
Other than the changes proposed in draft legislation likely to be enacted next year, NGO tax legislation was not changed in any way. Tax initiatives for individuals and the commercial sector to donate to NGOs remain low and all NGOs are fully taxed for all their commercial activities. NGOs are allowed to earn income from provision of goods and services if such activities are related with their goal or intention of establishment.

ORGANIZATIONAL CAPACITY: 4.2

At the local level in 2006, four community foundations were registered, but it is too soon to evaluate the results of their work.

Awareness of the importance of strategic planning is increasing, but in practice strategic plans are not implemented or are frequently changed during implementation due to project-oriented activities.

Management structure in NGOs is usually clearly defined in their founding documents and bylaws. Nonetheless, in practice the structure is simplified with indistinct division of roles between founders, board members, beneficiaries, etc.



FINANCIAL VIABILITY: 4.5

The recent analysis also showed that the share of GDP produced by NGOs is the same as it was eight years ago, when a similar analysis was conducted, showing no progress whatsoever. It also showed that the majority of income going to NGOs is for disabled and humanitarian NGOs because these groups are financed by a public foundation, established by the government. When looking at the average income structure for NGOs, most are financed through local governments and membership fees. Nonetheless, the overall share of income from public sources has increased. Ljubljana, the capital city of Slovenia, provides subventions for the rental of public office space for associations and foundations, but not for public institutes. Efforts of some organizations to include all types of NGOs in subvention

The employment rate in the NGO sector remains very low. However, with the measures for higher employment in the NGO sector (Operational Program for Development of Human Resources 2007 – 2013) included in the National Development Plan, the prospects for the future are more positive. Recognition of the importance of volunteers and volunteering is increasing, the Code of Ethics of Voluntarism was passed by the NGOs, and the award Best Volunteer of the Year has become institutionalized and is being made annually.

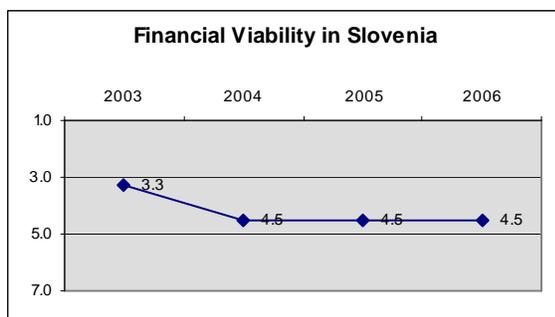
An informal working group with members from NGOs and the government was formed, working on transparency and quality standards for the NGO sector.

Although it is often assumed that NGOs are technologically well-equipped, and though some ministries have special tenders for technical equipment (e.g., the Ministry of Environment and Spatial Planning), the latest research results suggest otherwise. Only 30 % of NGOs own a computer, 13 % own a fax machine, and only about 50 % use the Internet and e-mail.

schemes remain unsuccessful. A great deal of media attention was given to a questionable denial of application to a public call for proposals, filed by Association Legebitra, active in the field of homosexual rights. The denial was based on the Government's argument that another group was already receiving funding for the same type of program as Legebitra had proposed, when in fact Legebitra's proposal was significantly different. Legebitra took the case to court and won.

Usually, NGOs have diverse sources of funding, but inadequate and unpredictable funding remains a problem. Quite a few NGOs are experiencing problems with funding stability, since government funding or payment for services is not regular or is often delayed. A

positive step was noticed in some ministries, which are recognizing the value of longer-term programs by supporting more than just annual NGO projects.



Only a few NGOs publish annual reports with financial statements. In many cases financial reports are available to the public, but that does not mean financial transparency of the organization can be taken for granted, as reports often only give a few items, which do not give the full picture of a financial condition of a given organization.

Revenues from services and products are an important part of NGOs' income. However, deeper analysis also showed that this share of such income is in fact lower than years ago and is rather low in comparison to other countries.

ADVOCACY: 4.0

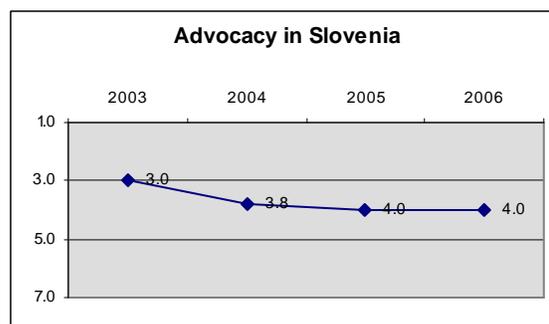
In April 2006 changes to the Government's Rules of Procedure entered into force. In theory, under the new rules public consultations with civil society are required for all draft documents that are subject to government's decisions. Unfortunately, while the Government recognized the importance of public participation in the decision-making process in theory, in practice this is often not the case, and the requirement was already breached several times.

Specifically, in 2006 the Government passed some very important strategic plans and laws, but NGOs were not included, or were included only superficially, in their drafting (e.g., drafting of the National Development plan and most importantly, the new tax reform, which was published only seven days before acceptance by the government).

Civil dialogue and participation of NGOs in the policymaking process still differ from ministry to ministry; there are still no unified participation mechanisms at the Government level.

On the local level, participation is easier due to the reduced challenges of working in smaller

communities. In the process of site selection for low and medium radioactive waste disposal, two local partnerships between local government, the Agency for RadWaste Management and citizens were established.

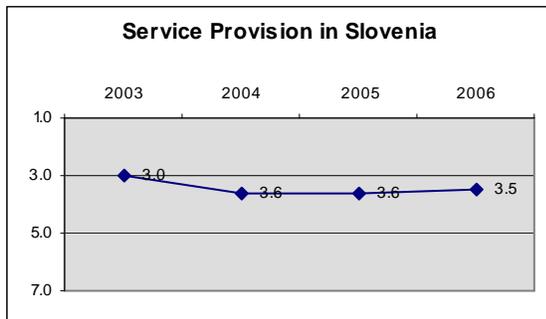


Some ad hoc or issue-based coalitions were established in the process of drafting important strategic documents, but they were rather unsuccessful.

There is still no lobbying for common interests within the NGO sector as a whole. There are some strong NGO lobbies, but their focus is narrow and related to only their primary objectives.

SERVICE PROVISION: 3.5

NGOs provide services mostly in the social field (they run safety houses, take care of victims of crime, offer psychological and social support, or provide health treatment for drug abusers). In general NGOs are successful at providing services and are also sometimes engaged at solving a specific problem in their community.



Goods and services provided by NGOs in general reflect the needs and priorities of their founders and communities, since they successfully track societal needs, though mainly on an ad hoc basis rather than strategically tracking needs. Sometimes their success in responding to those needs is limited due to lack of finances, which are usually tied to a strictly defined purpose.

INFRASTRUCTURE: 4.0

There are some NGO resource centers, but their scope of activity is limited due to the lack of financial and human resources. The Government (Ministry of Public Administration) recognized the need to strengthen the sector as a whole and as such launched two-year tenders for services in support of support NGOs (i.e., technical assistance with project writing, legal aid, information services, etc.). Resource centers charge fees for administrating some projects, but the amount they can charge is negligible.

Four community foundations that were established in 2006 made a priority of fundraising. By the end of the year, they had raised considerable amounts of money and

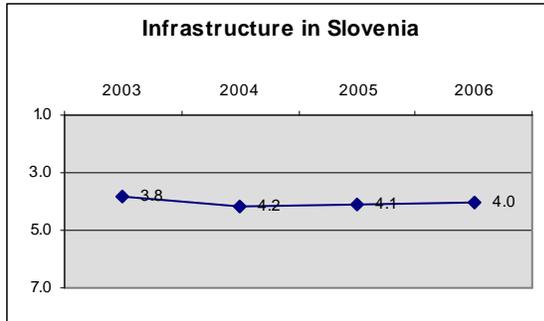
NGOs provide goods and services not only for their members but also to others, as this is required in order to receive public funding. Some NGOs offer workshops, provide information and publish handbooks for other NGOs. There were also some cases of NGOs conducting expert analysis for the government, but there is no data for services provided for church or religious organizations or academia.

NGOs recover part of their costs by charging fees for their services (around 30% of their income comes from fees for their goods and services), but they are often unable to compete with the commercial sector, given that they are not as familiar with market demands and market rules.

Sometimes NGOs themselves also lobby the government to provide public services to the population. In the field of social care, the government recognized the value of NGOs and is providing contracts for their services. Such transfers of services from public to private sector also continue in the field of health care, but NGOs fear these transfers may go directly to the commercial sector instead.

received matching grants from the Trust for Civil Society in Central & Eastern Europe (CEE Trust). It is expected that they will open tenders for local NGOs in March 2007.

Information-sharing is increasing, mostly through web pages (such as web pages with all relevant information related to calls for proposal, e-participation, etc.) and different thematic mailing lists. Competition among NGOs still exists; however, NGOs recognize the need for coalition building and partnership between them in order gain a stronger voice in public decision-making and fundraising.



Although training for NGOs is frequently organized and offer a broad scope of knowledge and skill development (for example, fundraising, governance, management of finances, legal issues, etc.), NGOs do not tend to participate in such trainings due to their lack of time and human resources.

There are some cases of strategic partnerships between the Government, NGOs and the media, but this is still not a common practice.

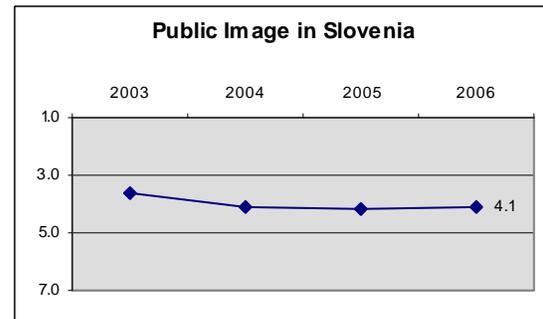
PUBLIC IMAGE: 4.1

NGOs are slowly moving into media space, despite the lack of adequate knowledge on how to confront and deal with media in general (with exception of some organizations, which are quite successful at their communication with the media). A study on civil society in the media revealed that the media show NGOs in a positive light, and that the most positive coverage is given to advocacy NGOs and NGOs working in the field of social and health care. News showing civil society in a negative way reported mostly on corruption in society as a whole. The distinction between public service announcements and corporate advertising is not always very clear.

In comparison to other institutions, such as the press, police or central government, trust in the NGO sector is rather high. In addition the public believes that voluntary organizations are a better service provider to marginalized people than state agencies. The term “non-governmental organization” is usually understood in connection with local organizations close to the population and is rarely used to describe organizations working on the national level.

The attitude of the commercial sector towards NGOs is, in general, indifferent, and companies rarely participate in broader NGOs’ activities. However, social responsibility appears to be more and more important for companies, also thanks to media promotion. The largest financial newspaper had a feature highlighting the company with the best record in corporate

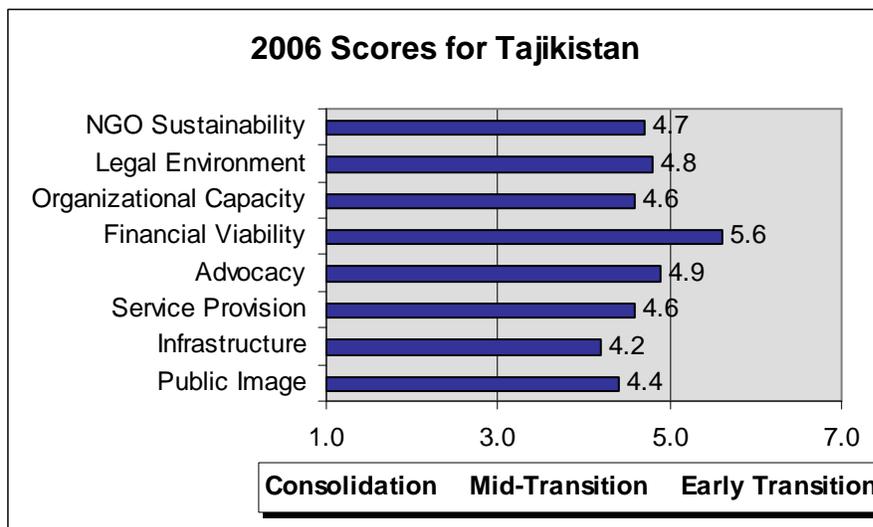
social responsibility and dedicated a monthly enclosure on philanthropy, showing a positive perception of NGOs.



Expertise in the sector is limited, causing NGOs not to be recognized as a vital and reliable source of expertise by the commercial and public sectors. The lack of a uniform definition of what NGOs are is causing additional confusion in both the private and public sectors.

No code of ethics was prepared and adopted for the whole NGO sector, but a code of ethics of voluntarism was prepared, and NGOs can subscribe to it.

Tajikistan



Capital: Dushanbe

Polity: Republic

Population:
7,32,815

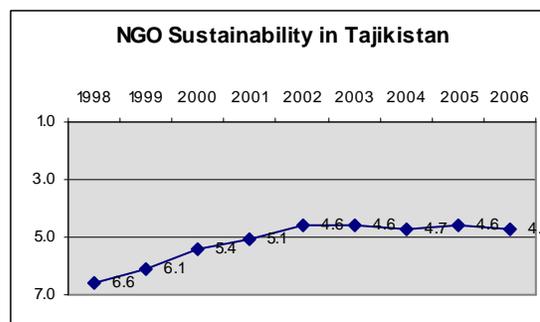
**GDP per capita
(PPP):** \$1,300

NGO SUSTAINABILITY: 4.7

In the period leading up to the November 2007 presidential elections, Tajik organizations experienced a rise in political pressure from the government and law enforcement agencies. The State Prosecutor's Office and local authorities made inquiries into the activities of numerous organizations. In addition, the government drafted the Law on Public Associations; many experts fear that if it is enacted, government officials will be able to exert even greater control over NGOs. Organizations remain heavily dependent on international donors, though the government made a declaration that it intended to begin providing NGOs with funding from the national budget. Though the funding has yet to materialize, local governments already support NGO activities with in-kind donations.

Numerous NGOs attempted to lobby Parliament to promote improvements to the draft Law on Public Associations. These efforts, along with the few other advocacy campaigns, have remained apolitical. The government, however, remains skeptical about NGOs and is not open to any input from civil society. Overall, the political environment continues to be hostile for NGOs. Local authorities require

that NGOs inform them of any visits by representatives of international organizations, especially those that work in the fields of democracy or human rights.



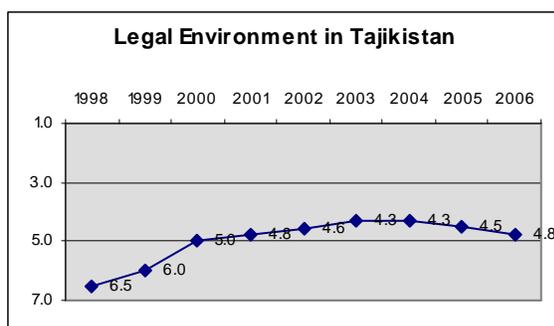
NGOs endeavor to provide social services to the public, though with few exceptions, poverty precludes them from charging fees that cover their costs. Over the past year, some newspapers published several articles that were written by NGOs and contained social and political analysis. The public is generally aware of NGOs and their activities, though people's perception of NGOs is often limited to that of humanitarian assistance and community mobilization organizations. The State seems to recognize NGOs' ability to address the issues

that government entities lack the qualified

personnel, information, or financing to address.

LEGAL ENVIRONMENT: 4.8

The legal environment governing NGOs remains largely unchanged. The laws are favorable and allow NGOs to register and conduct their activities. The government, however, is slow in processing application materials for new organizations applying for registration. This is especially so for organizations trying to register with missions that address issues such as education, information, and human rights. NGOs have little knowledge of the legal framework. Parliament is expected to adopt the new draft Law on Public Association and NGOs have been unable to promote their interests in the drafting and deliberation processes. The government is also considering a draft law on Social Partnership; active organizations in the regions and international experts were able to discuss and provide comments on the draft law.



NGOs operate freely under the current legal framework, though other than a few human rights organizations, they rarely criticize government officials or provide opinions that are in conflict with popular opinion. Government officials, including those from the tax agencies, began inspecting and pressuring NGOs, especially those in the Sughd region, before the presidential elections. Law enforcement agencies monitored NGOs closely, and the Ministries of Justice, Security and Internal Affairs, and the state prosecutor's office continued to visit NGOs and conduct inquiries about their work. District and regional authorities required that NGOs regularly brief them on their activities in the territories where they operate.

There is a shortage of attorneys that specialize in civil society issues, especially in the regions. Local attorneys are typically general practitioners and lack specific knowledge of NGO law. The law exempts NGO from paying the VAT as well as taxes on their grants. NGOs are required, however, to pay social security tax, income tax, and other taxes. The law allows NGOs to engage in economic activities, but fails to create mechanisms that facilitate contracting between the government and NGOs for social services. With few exceptions, the government does not provide funding to NGOs.

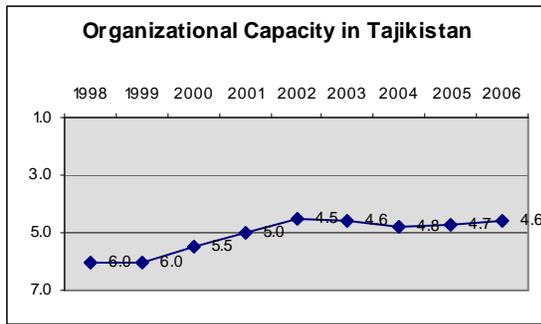
ORGANIZATIONAL CAPACITY: 4.6

NGOs, especially the more advanced organizations, are suffering the effects of brain drain. As employees of domestic NGOs gain more experience, knowledge, and skills, they seek positions with international organizations. This problem is exacerbated by the waning of international funding that supported the activities of domestic NGOs. Despite brain drain, the more advanced organizations have re-registered and more clearly defined their missions, goals, and strategic plans. These

organizations adhered to their missions more closely, were better organized, and had greater management capacity than in the past. In addition to implementing grant projects, the advanced organizations are providing training to other organizations, which demonstrates their high skill levels.

Despite advances made by some organizations, others continue to operate with broad mission statements that allow them to solicit funds for a variety of activities. NGOs are generally

dominated by charismatic leaders. Due to the lack of funding, many organizations have minimal staff. The majority of NGOs has clearly defined management structures, delineates the responsibilities of the board of directors and staff, and is transparent in its decision-making process. Such organizations, however, often minimize the role of their boards of directors.



The majority of organizations has a small permanent staff and hires employees only when funding is available for specific tasks. Over the past year, many leading NGOs continued to attract volunteers and promoted volunteerism in the communities where they operate. Their use of volunteers allowed them to increase the

FINANCIAL VIABILITY: 5.6

International organizations are the only sustained source of funding for NGOs. Philanthropic support for NGOs does not yet exist, through corporations and citizens provide charitable and humanitarian support directly to beneficiaries. NGOs often do not declare the donations they receive due to the current laws and corrupt tax officials. The central government stated this year that it would begin contracting with NGOs for social services, though the value of the contracts is expected to be minimal. At the district and regional levels, local authorities provide financial and in-kind assistance to support social service projects.

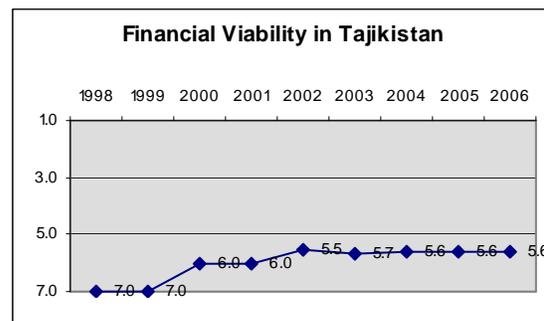
The majority of organizations, even those that have received training, have yet to adopt sufficient financial management and accounting mechanisms. Most organizations submit financial reports to regional tax authorities,

competitiveness of their proposals, improve the sector’s public image, and strengthen their constituencies. Volunteers often appreciate an opportunity to learn about the NGO sector, develop skills and knowledge, and develop job prospects.

Most organizations have very basic office equipment and communications technology. Access to the internet remains an obstacle to information sharing, though it has improved over the past year. NGOs have little or no access to software or funding to maintain their equipment and supplies, and many do not keep records on their personnel.

The most talented, educated, and energetic professionals in the labor market consider the NGO and business sectors as providing the greatest opportunities, allowing them to combine interests in research with practical field experience. International organizations, and at times the State, reference and incorporate NGO publications, surveys, and research into their work.

though some NGOs prefer to withhold information about their activities and funding so to avoid pressures from the tax authorities.



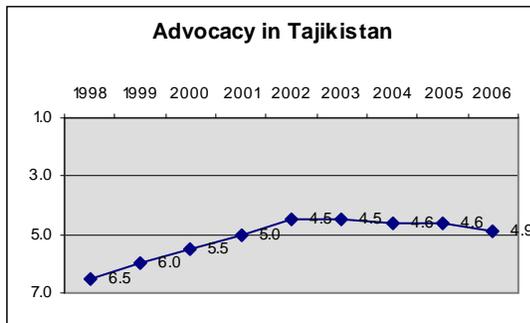
There are very few sustainable NGOs. Despite abundant training, NGOs are not able to sustain themselves without external financing. Most NGOs are unable to generate enough income in membership fees to support their core staff, and qualified employees often search for other

job opportunities. NGOs do not publish annual reports due to fear of harassment by tax authorities, and when submitting reports to local authorities, provide only vague and general information. Even by opening bank accounts, NGOs risk attracting unwanted attention from tax authorities. Organizations involved in voter education, consumer and human rights, and other such activities are especially vulnerable.

NGOs have yet to fully develop their fundraising skills. Though the central government encourages special partnerships with NGOs, authorities at the regional level do not possess the experience necessary to develop such cooperative relationships. During this year's budget negotiations, members of parliament and other government officials made

statements concerning the need for allocating funding for civil society initiatives. The final budget, however, provided no such funding. The Association of Civil Society Support Centers (CSSC), which secured an agreement for funding from the Committee for Youth Affairs, was the only organization that was able to secure funding from the government budget. Government officials often view NGOs as a potential source of funding to address social and development issues. Consequently, "social partnership" generally means that NGOs must secure the partnership financing. The majority of NGOs continue to rely on support from international donors, and have adopted accounting, monitoring, and reporting systems that conform to their donor's requirements.

ADVOCACY: 4.9



Over the past year, NGOs limited their advocacy efforts to promoting public interest issues such as the rights of consumer and at-risk citizens. Some organizations proposed amendments to the law on public associations, while other NGOs promoted reforms to the Law on Micro-Credit Organizations, the Law on Environmental Expertise, and others. The NGO sector, however, remains incapable of influencing parliament and other government

bodies as they make decisions and form policy. NGOs, however, understand the concept of lobbying and promoting the interests of their constituents.

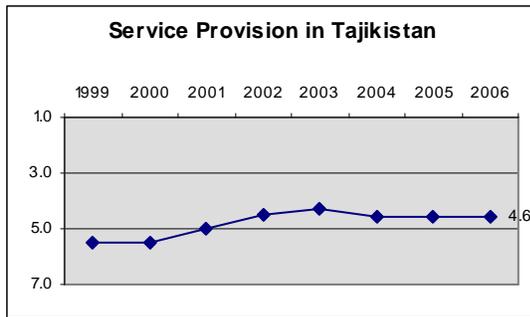
The political environment in Central Asia, however, fueled the public's skepticism about NGO activities, and limited the ability for organizations to engage in human rights and election monitoring activities. Government officials closely monitored such activities and the organizations involved, and the Ministries of Justice and Internal Affairs, as well as the tax authorities conducted frequent inspections. Local authorities require that NGOs inform them of any visits by representatives of international organizations, especially those that work in the fields of democracy and human rights.

SERVICE PROVISION: 4.6

NGOs provide a wide range of services, including economic analysis, education, specialized training, legal consultations, public opinion surveys, micro-credit lending, environmental protection, and others.

Numerous organizations promote traditional handicrafts, agriculture, and economic activities. Most NGOs realize the need to charge fees for their services but fail to market their products sufficiently, which include publications, studies and research, training, expertise, and consulting.

Many NGOs conduct research and analyses, though the public takes little interest in their work and their readership is limited to other specialized organizations. The demand for consultations is growing in a variety of fields and generally provided on a contractual basis. Most organizations view international donors as their sponsors.

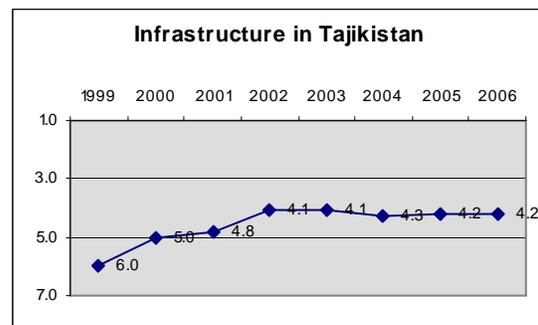


Only a few NGOs are able to financially sustain their activities by providing goods and services for fees. Though the legal framework limits the opportunities for providing services commercially, the Association of Auditors and Accountants, NGO Tajik Training, and other specialized associations are able to generate significant amounts of income by charging fees to provide vocational, language, or internet training.

The government generally recognizes NGOs as experts and potential partners. Government officials at times expect the funding NGOs receive to supplement the weak state budget for addressing social issues.

INFRASTRUCTURE: 4.2

The seven Civil Society Support Centers, the NGO Support and Training Center Manizha, NGO Tajik Training, and others all provided NGOs with consultations and training. Their office equipment, communications systems, training capacity, and other resources are in constant demand by domestic organizations. Local grantmaking organizations or foundations do not yet exist, and charitable support from the local business community is underdeveloped. With few exceptions, the State does not provide support for social partnership initiatives, though government officials recognize the importance of forming associations and coalitions to address social issues and exchange information. Most organizations, however, are reluctant to commit resources to or formalize their participation in such associations.



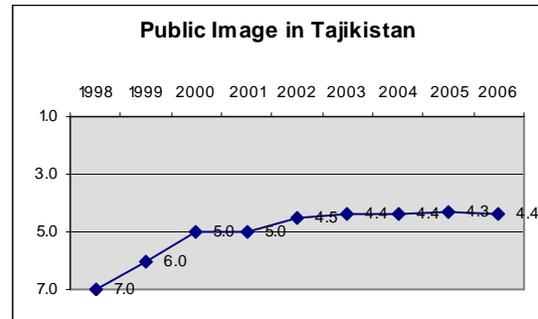
NGOs understand the importance of training, though access to in-country training resources is limited by the lack of resources. The decrease in international support for civil society organizations in Tajikistan has forced NGOs to further develop mechanisms to improve their financial viability, which requires more training programs. NGOs most frequently request training programs on topics such as legislation, taxation, accounting, general management, communications, volunteerism, media relations, sponsorship, fundraising, and social partnership.

Inadequate commercial and tax laws hinder the ability of NGOs to develop domestic philanthropy. On occasion, local authorities provide NGOs with in-kind support such as

facilities in which to hold training seminars. International organizations at times hire local NGOs to provide training programs.

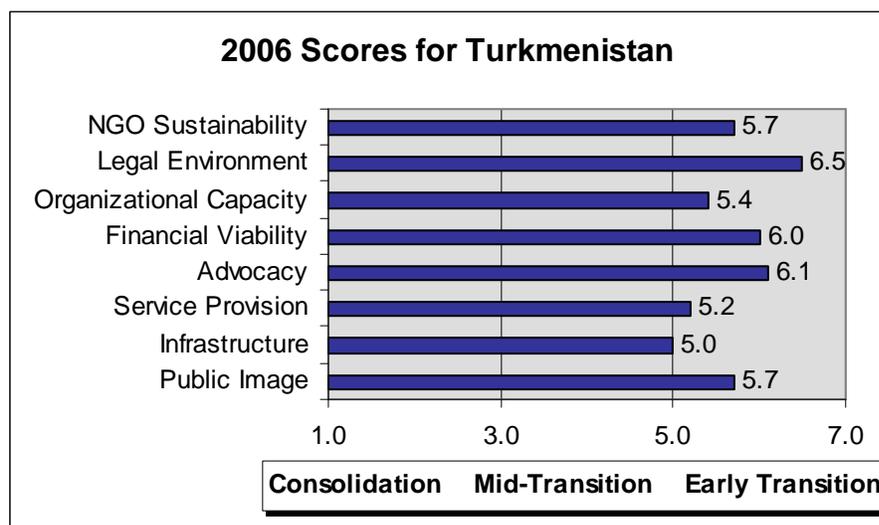
PUBLIC IMAGE: 4.4

The public is generally aware of NGOs and their activities, and often perceives NGOs as providers of humanitarian services, as well as community organizing. NGOs have yet to develop strong relations with the media and coverage of NGOs is scarce, limited in large part by the inability of NGOs to pay for coverage of their activities. Some organizations understand the importance of highlighting social problems in the media, but media outlets, which are for-profit entities, are generally uninterested in social issues or NGO analysis. Over the past year, however, newspapers have published several articles by NGOs that analyze social or political issues.



Government institutions rarely trust NGOs, unless they are engaged in small infrastructural or health care projects. The State, however, does recognize the ability of NGOs to address issues that the government can not address due to the lack of qualified personnel, information, or financing.

Turkmenistan



Capital: Ashgabat

Polity: Republic-authoritarian presidential

Population: 5,042,920

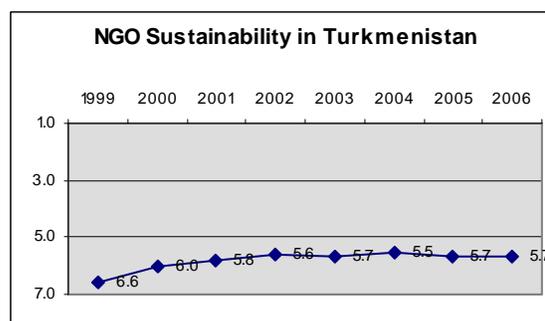
GDP per capita (PPP): \$8,900

NGO SUSTAINABILITY: 5.7

The NGO sector in Turkmenistan continues to operate under difficult conditions. Registration of new organizations remains a significant barrier. The Ministry of Justice did not register any new organizations in 2006, and the six organizations that submitted registration applications in August 2005 have yet to be approved or denied. These difficulties discouraged other new organizations, and not one applied for registration in 2006. Most NGOs continue to operate by obtaining patents or registering as for-profit entities. The process for registering grants with the Ministry of Justice also remained an obstacle. The President's Decree on Technical Assistance issued in 2003 requires that NGOs and religious organizations register their grants with the Ministry of Justice, while other types of entities register their grants with the State Agency for Foreign Investments (SAFI). While the process for registering grants with the Ministry of Justice remains difficult, the registration process with the SAFI is relatively free of obstacles.

While the government remains largely unaware of the NGO sector, officials began recognizing registered organizations that engage in politically-neutral activities such as sports or providing training in accounting. In addition,

government officials permitted international experts to organize and hold workshops on NGO law and taxation.



Overall, the government did not harass NGOs as they engaged in their activities, though there were cases in which government employees were warned not to collaborate with NGOs. The most serious incident involved Ogulsapar Muradova, a journalist for Liberty Radio, who was arrested in June 2006 for smearing Turkmenistan's international reputation. In September 2006, Ms. Muradova died in prison after receiving a six year sentence the month before. The government no longer requires citizens to obtain an exit visa for international travel, though government agencies maintain a list of persons who they deem "unreliable" are therefore unable to leave the country.

Government officials control NGOs in part by requiring that they file financial reports with the Ministry of Justice and local officials. In addition to providing details about their activities, NGOs are required to obtain permission before providing trainings and workshops to NGOs.

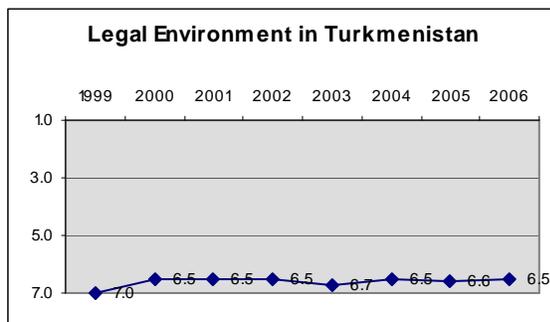
NGOs have only limited access to the internet; individuals are not permitted to have internet access. Bosphorus was the only organization

that was able to set up an internet café. The government closed down three of IREX's five internet resource centers and Counterpart's CSSCs remain the only internet providers in the regions.

In one positive development, twenty activists engaged in USAID funded activities were elected to local and city national councils.

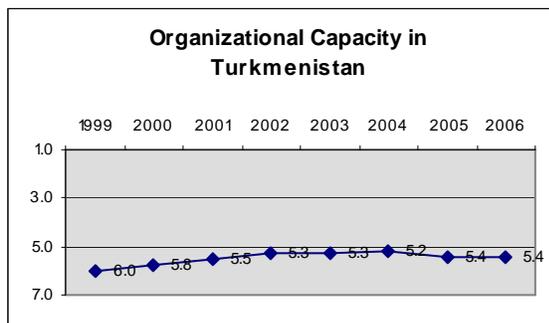
LEGAL ENVIRONMENT: 6.5

The government did not register any new organizations in 2006. In August 2005, six organizations submitted applications and paid fees to register, but the Ministry of Justice has yet to respond. The NGOs demanded that the government clarify the outstanding registration issues, but the Ministry did not respond. The Minister of Justice ignored numerous requests by NGOs for meetings and explanations regarding the pending registration applications. The International Center for Not-for-Profit Law (ICNL) was the only organization to offer analysis of the NGO Law and registration procedures. Officials in the Ministry of Justice declined invitations to attend the NGO Law workshop held in January 2006. NGOs that operate under patents or are registered as commercial entities are required to engage in economic activities and pay corporate and other taxes, which detract from their public-benefit activities. Registered NGOs are exempt from paying taxes on commercial property and rent.



Grants continue to take the form of goods instead of money, which reduces government suspicion and complications with the currency exchange rates (the official exchange rate is approximately four times lower than the black market rate.) The State Agency for Foreign Investments, in contrast to the Ministry of Justice, is willing to cooperate with NGOs and registers NGOs' project grants in a timely manner. International experts trained a cadre of attorneys in NGO law and advocacy for NGO rights. These attorneys now provide legal services to a number of organizations. The government, for example, required a community group in Mary to pay a VAT of 15% when purchasing equipment for a project. Following consultations with NGO legal experts, the community organization referred the government officials to the NGO law and was subsequently exempted from the VAT. In another example, activists in the community of Seidy in Lebap were fired from their jobs for criticizing their employers' management rules. An attorney in Lebap with training in NGO law reviewed the case and appealed to the local trade union. Training from international NGO experts ultimately led to the employees returning to their jobs. In addition, Bosphorus, Ynam, and the Women's Resource Centers also provide legal services in five other regions of the country. As community activism increases, the existing legal services are proving inadequate. The Turkmen Community Empowerment Program is addressing the shortage of legal services by training more attorneys in the CSSCs.

ORGANIZATIONAL CAPACITY: 5.4



Unregistered organizations are unable to receive grants and therefore lack the funding necessary to develop their organizational capacity. Organizations that operate under a patent are required to engage in economic activities and pay taxes, which prevents them from focusing their resources on their public service activities. The few registered organizations were able to improve considerably their structural development, level of professionalism, strategic planning, and management structures. Some registered organizations also developed good reporting and transparency mechanisms. Organizations such as the Association of Accountants publish

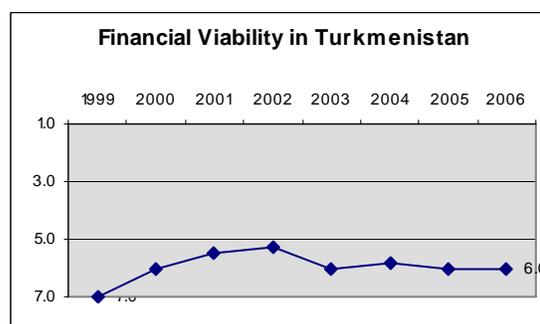
FINANCIAL VIABILITY: 6.0

The NGO sector remains highly dependent on international donors. Some organizations, especially those that are formally registered, are making attempts to diversify their sources of funding. There are some recent cases in which the government and private businesses have entered into contracts with NGO service providers. Agama, for example, received a government contract to maintain high-rise buildings. The Eco Center received a contract to train and assist government officials and private businesses. The government began providing more support for NGO social initiatives, including in-kind support such as construction materials and labor for infrastructural development projects. The Mercy, Family and Health organization receives regular support from the Ovadan city

annual reports and hold annual meetings that are open to the public. Keik-Okara and the Association of Accountants also produce annual reports that provide information on their activities and finances, though these are for internal use only.

Many NGOs make efforts to involve their staff in professional development opportunities. In 2006, USAID made it possible for NGO staff to participate in training courses held in Kazakhstan, Bulgaria, and Slovakia. The Community Connection, which is funded by USAID, provides additional opportunities for NGOs and community members to increase their professionalism by training in the United States. Support from the United States government allows many organizations to purchase office equipment and rent office space. While some organizations have an internet connection in their offices, many NGOs do not and access the internet at CSSCs managed by Counterpart. NGOs and communities that have access to the CSSCs generally do not want for office facilities.

government to provide services to the local orphanages and organize summer camps for at risk children.



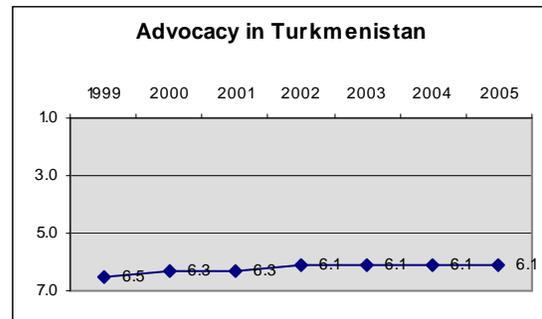
Most organizations that are either registered or have a patent engage in economic activities, which help supplement their limited donations. The Eco Center, which operates under a

patent, provides consultations for fees, and the Association of Accountants provides trainings on international accounting standards. The level of private philanthropy increased over last year, though the government does not provide any incentives. Corporations and individuals often make donations to organizations that run

orphanages and assist disabled persons. Registered organizations such as Keik Okara, Agama, the Association of Ufologists and the Association of Accountants all charge membership fees, but they are insufficient to support the NGOs' activities.

ADVOCACY: 6.1

Despite challenges, NGOs continue to engage in and considerably increase their local advocacy efforts. Some community activists managed to establish partnerships with local government officials and made efforts to improve social and economic conditions in their regions. The Gudadag community in Dashoguz, for example, was limited by poor roads and the lack of adequate transportation. Activists were able to convince a local organization to support their efforts to pave a three-kilometer section of road that leads into the village. In another example, workers in the Ashgabat City Silk factory rented living space in the factory's dormitory, but management would not provide leases to protect their rights. Workers attended one of Counterpart's advocacy training sessions, after which they were able to address the issue with the housing authority and top management. Shortly thereafter, the workers received leases, and their living and health conditions improved. In Dashoguz, local activists and parent groups complained to local education authorities that the schools in the regions did not have computers. As a result, the educational authorities provided 85 computers to five regional schools.



The level of partnership between advocacy groups and local officials increased considerably over the past year, and government agencies are actively supporting social service projects. In the Bairamaly region of Mary Valeyat, for example, the government partnered to make improvements to the drainage systems. NGOs also increased their levels of cooperation and partnership. Keik Okara and Eco Center, for example, work together and exchange assistance and institutional support. Agama closely cooperates with the Youth Center to organize youth training and other events. The cooperation among NGOs, however, does not include building effective issue-based coalitions that engage in substantial advocacy efforts. NGOs remain unable to conduct nation-wide advocacy campaigns or have a serious impact on legislative reforms. Ilkinjiler, however, is continuously working on strengthening agricultural laws.

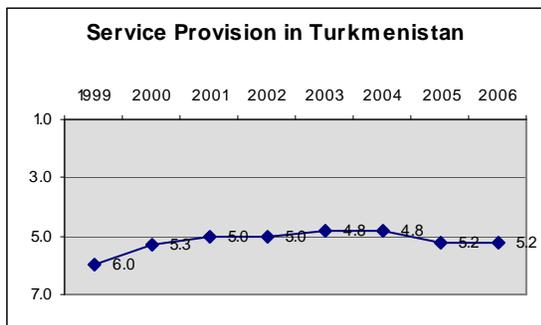
SERVICE PROVISION: 5.2

The inability to register was a significant obstacle for NGO service providers. Some NGOs obtained patents and licenses, received donor funding, and provided services to the public. In areas in which the government lacks

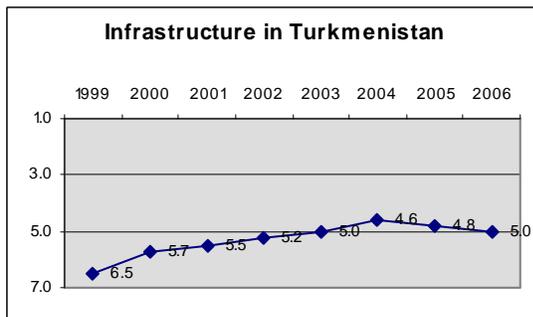
expertise, officials allow NGOs to be more competitive when bidding for social service contracts. Agama, for example is the only organization that provides alpine tours and mountaineering training, while the Eco Center is the only organization that provides journalism

training for youth and ecological consultations. The Bosphorus organization provides legal assistance for marginalized citizens, while the Association of Ufologists provides youth leadership training and civic education. Family, Mercy and Health provides training for at-risk children and their parents in the city of Ovadan. This year, the government began to recognize the unique services that NGOs are able to provide and even offered Agama a contract to maintain high buildings. Similarly, government officials invited the Association of Accountants to join a committee to develop national accounting standards. Eco Center provides consultations to government employees and takes part in national ecological initiatives. Mashgala Bashgala serves government orphanages and shelters by providing psychological and HIV/AIDS training.

Most organizations would be able to expand the scope of their services if they received more support from the government. Agama, for example, provides a limited level of emergency search and rescue services which no government agency is able to provide. Agama could increase its level of services if it was able to secure the proper permits from the government. Similarly, Keik Okara could diversify its training topics if it had a more cooperative relationship with the Ministry of Education. A USAID-funded community development program encouraged community groups to be more proactive in solving local social and economic issues, which led to an increased demand for community services such as legal consultations, agribusiness, civic awareness, critical thinking training courses, and computer and informational support. In addition to traditional services, some communities began to provide vocational training for youth groups. Approximately 200 communities provided various services all over the country; the Mahtumkuly community in Ahal, for example, provides services to over 6,000 people.



INFRASTRUCTURE: 5.0



The CSSI program, which is funded by USAID, developed a network of three civil society support centers and 24 resource centers and points, which are similar to resource centers but offer a limited range of services. These centers provide a number of services including

legal consultations, advice on projects and activities, trainings, and access to information and the internet. These resource centers are among the only public places in which people are able to meet and discuss current events and exchange information. All three CSSCs hold regular discussion groups during which NGOs and community members are able to share their ideas and opinions. The centers are also utilized for youth activities. The Yangala Center, for example, provides computer training for youth and hosts social events, and a resource point in Kaahka provides traffic law classes for teenagers. To serve remote areas where internet access is limited, resource centers are providing libraries of CD-ROMs to share information.

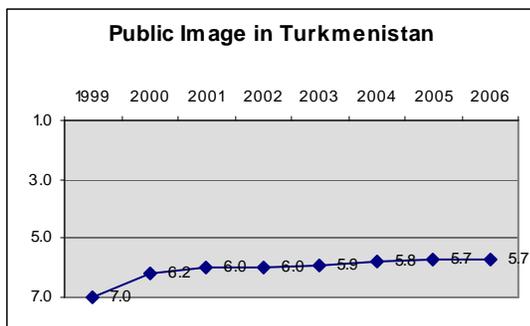
A number of organizations assist other NGOs to develop their organizational capacity. Keik Okara, for example, provides project consultations to other NGOs, while the Association of Ufologists provides legal and economic trainings, and access to computer facilities, to NGOs and community groups. Eco Center is partnering with Nature Protection to provide training in ecology and journalism to other organizations and community groups. Bosphorus and Women's Resource Centers provide legal consultations to community

groups. Ynam has a hot-line that provides citizens with psychological and legal support, while Alma Mater and Medet Education centers share their critical thinking methodology with other organizations. Ilkinjiler provides legal training and assistance to NGOs and community groups in Bairamali. Other organizations such as Merv provide volunteer and leadership training for youth. Training programs are available in Turkmen and adapted to the local context.

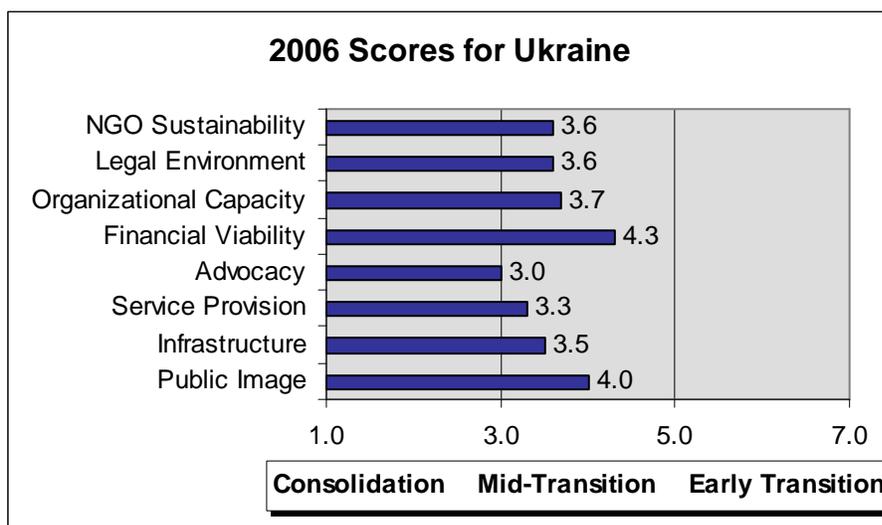
PUBLIC IMAGE: 5.7

Though the Turkmen government is generally unaware of the NGO sector, officials appear to recognize registered NGOs. These organizations impressed government officials with their high levels of professionalism and competitive services; as a result, government officials increasingly cooperate with some organizations. In one example, local governments have requested that Mercy, Family, and Health organize summer camps. Similarly, the government allows Agama regular air time to discuss its activities, which may develop into an opportunity to advocate for the entire sector.

Over the past year, Neutralniy Turkmenistan and other regional newspapers published numerous articles about the NGO sector and its activities. Such coverage by the mass media is new and may help to improve the NGO sector's public image, and provide citizens the opportunity to better understand the important role the sector may play in society. The government, however, does not want to recognize non-registered organizations and there is no indication that the government intends ease the strict registration procedures. Generally, the government is suspicious of NGOs and continues to monitor and control their activities. At the same time that government provision of education, youth, and legal services, and support for at-risk and vulnerable populations, has deteriorated, NGOS have demonstrated their competitiveness by providing quality services. This is believed to have considerably improved the NGO sector's public image.



Ukraine



Capital: Kiev

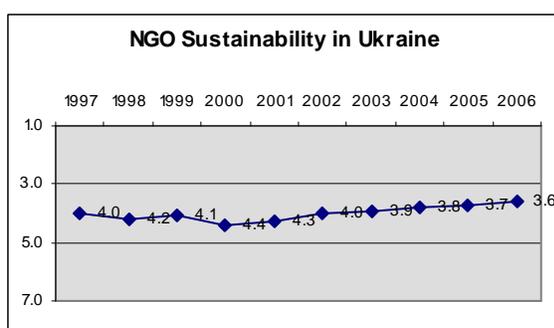
Polity: Republic

Population:
46,710,816

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

NGO SUSTAINABILITY: 3.6

In 2006, the Ministry of Justice of Ukraine registered 1791 domestic public organizations. The creation of more than 80 charitable organizations indicates a significant growth of philanthropy in Ukraine. According to some estimates, the total number of both registered and unregistered NGOs exceeds 47,000. Only 4,000 to 5,000, however, are considered active and have been well known for more than 2 years.



During the 2006 election cycle, Ukrainian NGOs consolidated their ability to monitor media coverage and access objective information, public surveys, and expert opinions. NGOs also conducted exit polls, analyzed party platforms, and monitored the election process, contributing to what the

OSCE declared a “free and fair” election process. The sector, however, had less influence with the political parties during the formation of a new government following the elections.

The NGO sector continues to improve its overall sustainability and made gains in the Legal Environment and Financial Viability dimensions. NGOs are increasingly able to advocate for better laws, such as those regulating registration and charitable contributions. NGOs also prevented the government from implementing laws that would have restricted NGO activities and citizen’s rights. NGOs, for example, blocked the implementation of a decree that called for officials to monitor the internet. More organizations reported an increase of funding from a wider variety of sources, including a larger number of domestic donors. A few NGOs are engaging in economic opportunities to fund their activities. Overall, organizations have fostered stronger relations with the private and government sectors, a reflection of the growing levels of trust and mutual interest, which in turn have led to more social contracting with the government and greater support from businesses. While these steps towards financial viability are significant, the majority of organizations continue to rely

on foreign funding, and as a result the sector remains in the mid-transition category in the Financial Viability dimension.

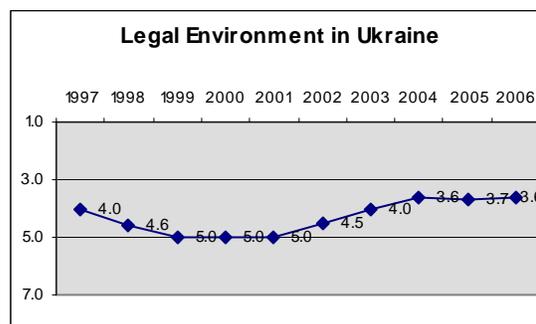
NGO advocacy activities led to a higher score in the Advocacy dimension, moving the sector

closer to the consolidation category. National surveys show that the majority of citizens are still unaware of NGO activities, suggesting that in addition to reaching out to the media, NGOs should increase their outreach to the public.

LEGAL ENVIRONMENT: 3.6

The government made many improvements to the legal environment in 2006. Counterpart Creative Center's 2006 annual survey of NGOs indicates significant progress against the indicators it uses to monitor the legal environment. Of the NGOs surveyed, 40% identified the "imperfect tax law" as a barrier to NGO development, a decrease of 9% from 2004. Similarly, 39% of those surveyed identified "imperfect NGO legislation" as a barrier to NGO development, a decrease of 7% from 2004.

The government amended the NGO Registration Law, and as of October 19, 2006, new organizations only have to register with the Ministry of Justice, rather than with two different ministries as was the case in the past. The government also amended the regulations governing procurement to permit NGOs greater access to government funds. Tax authorities filed seemingly unfounded charges against NGOs, though now that they realize that they are likely to lose the pending trials, the tax authorities have made efforts to improve relations with NGOs. Organizations generally perceive access to qualified lawyers and legal information to be sufficient, though there were exceptions in the regions. Access to qualified attorneys is evidenced by legal services hotlines now available to NGOs. In addition, UCAN has conducted research on the ability of NGOs to access legal remedies.



In recent reforms, government officials eliminated a 2% cap on the amount of the taxable income that corporations may deduct for their donations. Since the limitation was removed, the National Tax Administration reports a 20% rise in private donations. Reforms at the local level have resulted in an increase in government contracts for NGOs, which average between \$5,000 and \$6,000 per contract. The Defense Ministry, for example, funded focus groups to study the impact of its "NATO in the Ukraine" billboards. Other examples include tenders offered by the State Commission on Migration and National Policies, and grants administered by the Ministry of Family, Youth, and Sports Issues. In addition, city councils in large cities such as Mykolayiv, Odessa, and Rivne, and small cities such as Dubno in Rive Oblast, have created social contracting mechanisms for NGOs. Government agencies do not disburse funds in a timely manner, however, forcing recipients to return the funds that they were unable to use by the end of the contract period. Government officials report that agencies do not always disburse all of the funds allocated for social contracting because they have been unable to identify appropriate NGOs with which to partner.

Despite improvements to the legal environment, human rights organizations continue to report legal barriers, particularly in southern and eastern Ukraine. The government has been slow in creating the Administrative Courts, which human rights organizations see as important mechanisms for advocating for the

rights of their constituents. Human rights organizations also face a burdensome registration process and insufficient access to legal resources. Ukraine lost twelve cases at the European Court of Human Rights concerning long domestic court proceedings.

ORGANIZATIONAL CAPACITY: 3.7

An annual survey conducted by Counterpart Creative Center since 2002 found that in 2006 NGOs continued to improve their organizational development and are capable of governing, themselves and organizing their own activities. During the 2006 parliamentary elections, NGOs demonstrated their improved organizational capacity in conducting election-related activities such as mobilizing voters, analyzing political platforms, and stimulating debates over issues. Of those organizations surveyed, 80% reported that they have governing bodies. The majority of those organizations have boards of directors and 86% have written guidelines that identify the responsibilities and duties of their boards. The boards of directors also support the executive directors' efforts in fundraising for their organizations.

The survey also found that 94% of NGOs collaborate with other NGOs in realizing their activities. Such collaboration consists of information exchanges, as well as partnerships on projects and consultations, which have increased by 8%. NGOs state that cooperating with other organizations helps to expand their activities, and increases the effectiveness of their programs and quality of their services. Despite high levels of cooperation, the majority of NGOs believes that the sector is capable of even greater collaboration.

Think tanks have greater capacity to analyze policy for the public, government officials, and political parties. NGOs could, however, improve their ability to disseminate the results of their analyses. Over the past year, many professionals left the NGO sector for jobs in the government or private sectors. The

migration presents many challenges as management and leadership is more concentrated in the few remaining staff members. It has also presented opportunities for new and young leadership to emerge.



Only 4% of NGOs reported a need for more technical equipment, which is an improvement over the past. NGOs report that local businesses often permit NGOs the use of their fax machines or internet in exchange for services. Around 25% of the NGOs surveyed reported that they have their own Internet sites.

Some 61% of the NGOs surveyed have permanent staff, the average size of which is six persons. Only 42% of NGOs provide written job descriptions, while 50% of organizations surveyed have administrative rules and procedures. Approximately 63% of organizations encourage professional development of their staff by allocating funds for training, conferences, roundtables, educational courses. Over 76% of organizations surveyed used volunteer labor in 2006.

The greatest weakness for NGOs continues to be planning; only 37% have written financial plans separate from the financial plans for

individual projects, and strategic planning is more of a formality than a management tool. HIV/AIDS organizations that have steady

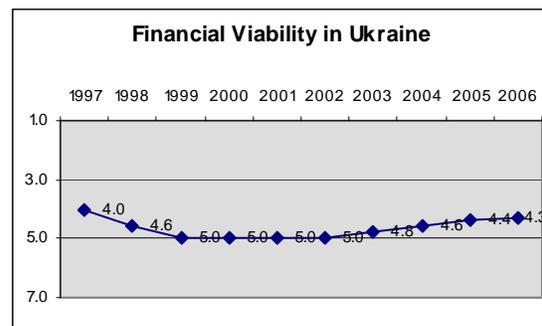
sources of income, however, continuously revise their strategic plans in order to adapt to dynamically shifting funding conditions.

FINANCIAL VIABILITY: 4.3

NGOs have a greater level of financial viability than in the past. Thirty-eight percent of NGOs reported a funding increase in 2006, a 6% increase over previous years. NGOs receive funding from a variety of sources, including grants, corporate and individual donations, and government support. The majority of such funding is from local sources as organizations in Lutsk, Odesa, Rivne, and other cities are more able to mobilize resources within their communities. The continued growth of corporate philanthropy and the ability to secure government contracts for social services and other mechanisms have also contributed to the diversification of NGO funding. In fact, the Counterpart Creative Center's 2006 annual survey of NGOs found a considerable decrease in the "internal barriers of NGOs." Most significantly, only 64% of those surveyed indicated that the "Lack of Financing" was a barrier to NGOs completing their mission, down 5% from last year.

As noted in the Legal Environment dimension, NGO-government cooperation has increased social contracting from the State, Oblast, and local levels of government. Twenty-two percent of NGOs report having more than three projects per year with government agencies. NGOs are also increasingly cooperating with businesses and the number of NGOs that cooperate with between three and five businesses is on the rise. The creation of the Corporate Social Responsibility (CSR) initiatives such as the UN's Global Compact, PR League Forum, and individual corporate efforts by Avon Cosmetics, and the Ukrainian and American Chambers of Commerce, have all contributed to promoting greater NGO-business cooperation. These efforts have sparked an interest in corporate philanthropy and increased the capacity of NGOs to identify non-traditional sources of funding. Financial support from the business sector has increased

4%, and many businesses partner with NGOs to mobilize resources within local communities. In Ivano-Frankivsk, for example, local bread and meat producers helped purchase equipment for an orphanage and a supermarket chain engaged in similar projects.



Projects with both social and economic benefits have attracted domestic support; one NGO, for example, promotes wind energy to further energy conservation. The Ukrainian Grant Makers Forum increased its membership over the past year, especially among corporate donors, another sign of the increase in philanthropy. Membership fees still account for some income for NGOs, though they have decreased 3% over last year. Innovative fundraising mechanisms, such as Social Enterprises (SE) in which NGOs raise money for their activities by engaging in economic activities, are providing NGOs with more funding opportunities. Many NGOs, however, lack the business skills and willingness to take the entrepreneurial risks required.

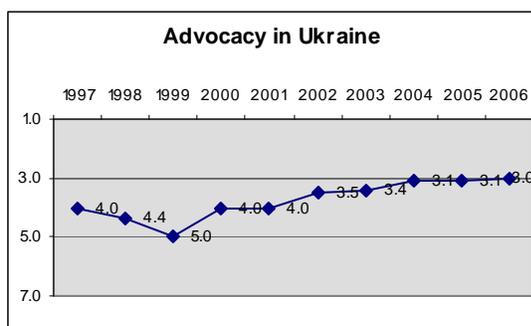
Many NGOs do not publish annual reports and as a result their financial management systems lack transparency. NGOs cite government corruption and the lack of transparency in NGO-business partnerships as reasons for not publishing their reports. The lack of transparency makes it difficult to gauge accurately the financial health of many NGOs, based on membership fees and other

fundraising mechanisms. Many NGOs report that they still lack qualified accountants, special accounting software, and cooperation from auditing firms, to adequately manage their accounting systems.

Government officials and political parties have begun paying think tanks to analyze policies and political positions; the income allows the organizations greater independence from foreign donors. Think tanks are unconcerned

ADVOCACY: 3.0

NGOs are increasingly able to influence public policy and advocate for their constituents at all levels of government. At the national level, NGOs advocated for amendments to the regulations concerning the registration of new NGOs, draft laws on access to information that were approved by parliament, and amendments to the election law that improved voter rights and mandated political debates. The Institute of Media Rights and Telecritika were successful in pressuring the government to repeal a law that restricted dissemination of information. NGOs also blocked passage of restrictive laws such as a decree permitting officials to monitor the internet and a law on volunteer movements. These successes are as important as passing a new NGO law.



NGOs formed a number of coalitions over the past year, focusing on short-term issues and even creating some long-term initiatives. Coalitions such as the Association of Rights Protection Organizations had a major role in reforming the administrative offices, law enforcement agencies, and judiciaries. The

that receiving payment for services will compromise their objectivity and ability to produce unbiased research. The Razumkov Center and the Democratic Initiatives Foundation are both funded by the Kyiv City Administration to conduct focus groups to understand the pro-NATO billboard. Overall, think tanks lack diversified sources of funding, but have the resources necessary to continue operating in the short-term.

Coalition of HIV/AIDS Service Organizations is leading a broad, powerful network of equal rights organizations that represent ethnic and sexual minorities, gender-based groups, and others to promote a comprehensive anti-discrimination law. Coalitions were also active during the elections. Clean Elections, for example, brought together between 15 and 20 NGOs, while Conscious Choice led by the Committee of Voters of Ukraine brought together 180 other organizations primarily from the communities. NGO coalitions stationed election observers throughout the country; think tanks reported on political parties and bloc platforms; and Razumkov Center, Helsinki Human Rights Group, and Democratic Initiatives conducted expert surveys and exit polls. These efforts contributed to what the OSCE determined were the “freest and fairest” elections in Ukraine to date. The Anti-Cancer Corps coalition, which raises awareness and combats breast cancer, continues to hold annual, nation-wide activities. The Ukraine-NATO League, which consists of NGOs that promote Euro-Atlantic integration and awareness of NATO, along with the Media Coalition, which is made up of more than 1,000 members, continue to petition government officials concerning limitations or denials of free speech.

At the local level, NGOs from Rivne, Mykolayiv, and other cities successfully lobbied their city councils to create a system that permits NGOs to compete for social contracts with local governments and secure municipal funding. A Kyiv organization successfully changed the land

development regulations giving city residents a greater voice in the decision making process. Green Cross in Lviv, an advocacy group for the disabled, successfully advocated for reforms that require construction companies to consult with advocates for the disabled when designing and constructing entrances to buildings.

The government adopted a proportional electoral system, which may impact government monitoring and accountability. In addition, officials eliminated “public meeting rooms” for meetings with lawmakers and their aides, which further limits citizen access to elected officials. Parliament deputies are not elected by districts,

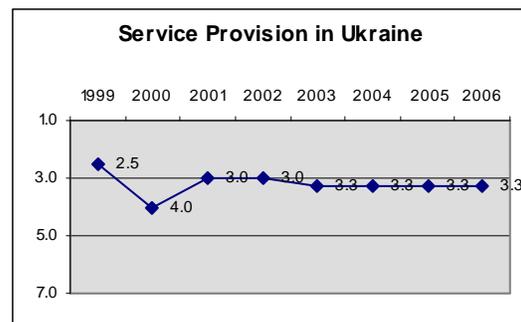
which limits their accountability to specific constituencies. Ukraine is still in need of government advisory bodies that create effective spaces for NGO representatives to advise government officials. Though presidential decree ordered all government bodies to create advisory councils, the councils are generally ineffective. Local governments failed to adopt implementing regulations that create space for citizen participation, and only 12 oblast centers have charters with regulations that govern public hearings and create other mechanisms that permit democratic participation.

SERVICE PROVISION: 3.3

NGOs continue to provide a wide range of services; 80% of organizations report that they meet with their constituents daily or weekly. In addition to providing “traditional” social services such as support for disadvantaged populations (the elderly, the disabled, and PLWHA, the unemployed, and youth), NGOs are developing innovative service delivery mechanisms and strategies. Galetsky Aptekar, an Lviv-based NGO, partnered with pharmaceutical companies to distribute medicines to the poor and indigent. The Ivano-Frankivsk organization near the Carpathian Mountains assisted local craftsmen to organize cooperatives that increase their market access. The Bukovyna Partnership Agency created a credit union that assists poor migrant workers with home-financing. Other NGOs are creating alternative dispute resolution mechanisms to increase access to justice and ease the burden on the court system.

NGOs throughout Ukraine, including areas such as Chernivtsi, Kharkiv, Lugansk, Mykolayiv, Odessa, Poltava, Sumy, and Vinnitsa oblasts, succeeded in securing an open and formal process for social contracting and accessing state funds. The governments involved are more adept in soliciting proposals and selecting NGOs to provide services. Realizing that NGOs can be reliable partners, government officials are more willing to allocate resources

for social contracting. Think tanks have expanded their cliental and now work with political parties and blocs as well as national and local governments. They also conduct focus groups, draft policy papers, and conduct public opinion polls. In addition, NGOs engage in economic activities to fund their non-profit missions, which increase their range of market-based services, such as the production of goods. These activities in turn support social and other services to their beneficiaries.



NGOs do not conduct formal needs assessments to identify the needs of their constituents. An annual survey, however, found that 80% of NGOs are in contact with their constituents on a weekly or even daily basis, providing them sufficient opportunity to identify and understand their needs. The business and government sectors continue to perceive NGO services as “charitable” activities that ought to be provided pro bono. In addition, some

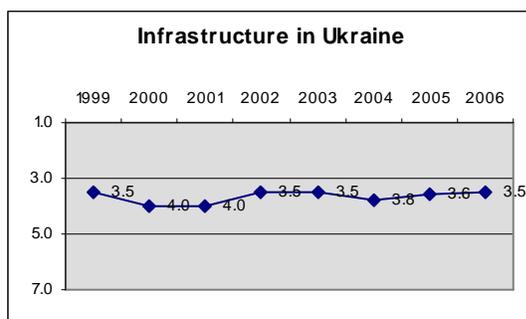
government procurement and reimbursement policies are still hindered by bureaucracy and unresponsiveness, making it difficult for NGOs

to access allocated funds and meet their cash flow needs. This is especially true for the programs funded by the various ministries.

INFRASTRUCTURE: 3.5

While the demand for general NGO resource center services has decreased, the demand for specialized services has increased considerably. This is especially true in areas of health care, human rights, and media services. The more specialized service providers offer a range of trainings, academic courses, and publications. An NGO management school exists in Lviv, and the Education Ministry recently approved an NGO accounting course at a government academy. Fee-based trainings and publications are more common and are replacing some of the general NGO resource centers; their fees range between 300 and 400 UAH (US \$59.57 and \$79.42).

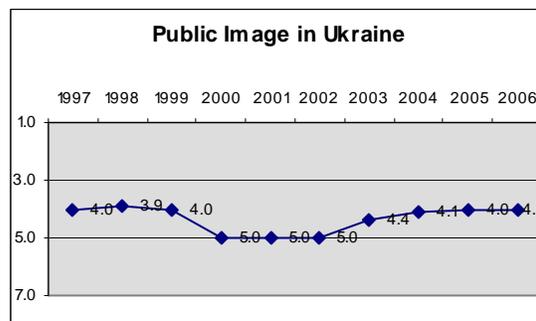
The number of issue-based umbrella organizations with regional partners continued to grow over the past year. While Ukrainian NGOs lack a single body that represents the sector's interests, umbrella organizations such as the Civic Forum, the Doctrine for Civil Society in Ukraine, and the Network of People Living with HIV/AIDS are increasingly effective. In addition, as noted in the Financial Viability section, domestic grant-making foundations are expanding rapidly. They primarily address issues such as health care, cultural heritage, and education, and include the Pinchuk Foundation and the Ukraine 3000 Foundation. More often, Ukrainian NGOs with international and domestic funding are providing grants. NGOs continue to form inter-sectoral partnerships. Business associations serve the private sector by combating corruption and restrictive regulatory policies, and advocating for their interests. Examples of successful partnerships include the trade association in Khmelnytsky, the Mykolayiv city fund for development projects, and the association of internet providers.



PUBLIC IMAGE: 4.0

According to a Democratic Initiative poll, 95% of journalists recognize a need to print more stories about NGO activities. NGO activities, however, do not sell newspapers and are therefore seen by media outlets as un-newsworthy. More often, the media focuses on sensational stories without covering the main issues. The majority of NGOs lacks public relations expertise and is unable to provide journalists with information in a usable format. Other than think tanks, whose survey results are frequently covered in the news, most NGOs lack strong relationships with members of the media. Most media outlets have yet to recognize NGOs as a source of expertise on

substantive issues, and reporters state that they are unaware of how to contact NGO experts.



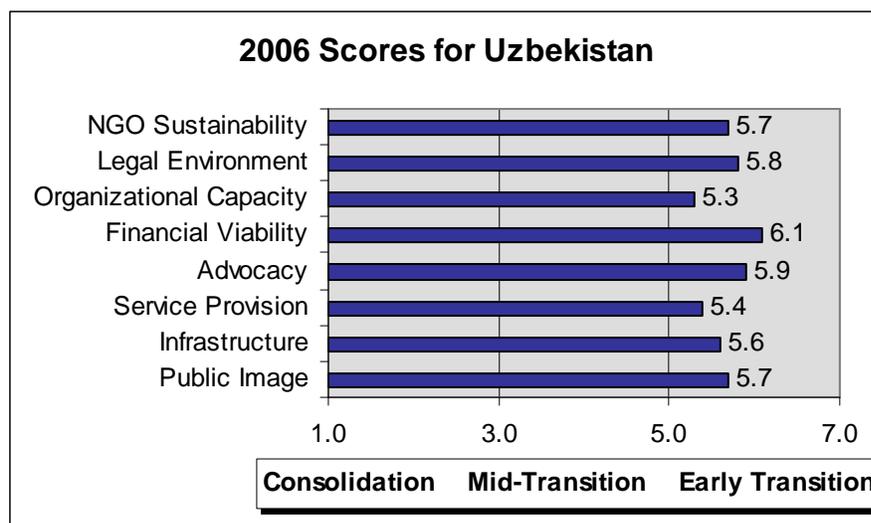
Generally, citizens do not understand the role that NGOs play in society or how they may

participate in NGO activities. In a recent survey, only 0.7% of respondents reported that they were members of an NGO. This number ought to be higher considering the large number of people affiliated with religious organizations or trade and professional unions; the public has yet to see these as third sector activities. NGOs disseminate information primarily through press releases and brochures; the use of brochures has risen 7%. A survey reports that over 76% of NGOs believe that community members know about their organizations or activities. The survey also found that 85% of CSOs report using print media to present information about their activities, while 54% of CSOs report using radio and 53% television. The public's actual awareness of NGOs and their activities is not as great as NGOs believe. The discrepancy may indicate that the methods NGOs use to communicate with the public are not the most

effective means for disseminating information. Despite the public's lack of knowledge of NGOs and their role in society, the NGOs are more effective in communicating with the government and business sectors. This accounts for increased social contracting between the government and NGOs, as well as increased corporate social responsibility activities with businesses.

The NGO sector continues to promote its interests. The Ukrainian Grantmakers Forum promotes good practices and transparency among grantmakers. Similarly, 48 NGOs have now signed the NGO Code of Ethics, up from 37 in 2005, indicating a gradual interest in self-regulation. The majority of organizations still do not publish annual reports, due in part to a lack of accountants, and the failure to understand the positive affect that transparency has in terms of building trust with constituents.

Uzbekistan



Capital: Tashkent

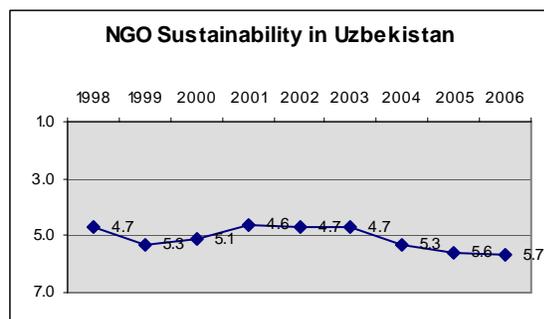
Polity: Republic-
authoritarian
presidential

Population:
27,307,134

**GDP per capita
(PPP):** \$2,000

NGO SUSTAINABILITY: 5.7

NGOs continue to operate under difficult conditions and their overall sustainability has deteriorated over the past year. Local experts estimate that between two-thirds and three-fourths of all organizations have closed or ceased their activities. The government pressured most of the remaining NGOs to join the National Association of Non-governmental, Non-commercial Organizations (the National Association), which is a government-affiliated association created to consolidate all NGOs under one umbrella group.



This year the government also forced thirteen international organizations to close. Most of these organizations provided significant financial

and technical support and their absence deprives local organizations of much-needed funding. In response, the National Association created the National Fund for NGO support, but it lacks both transparency and impartiality.

Despite these challenges, organizations and individuals that have long been part of the NGO community continue to survive and maintain the institutional experience and skills they have built over the past ten years. The NGO community, however, is still divided; its members fail to communicate or support one another.

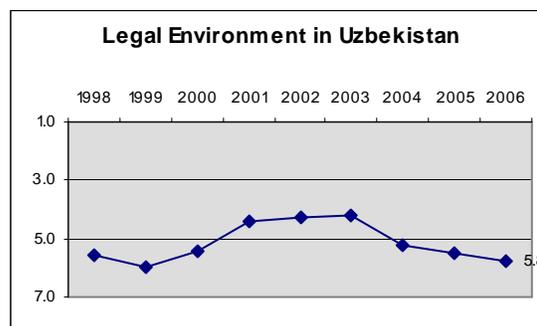
Government officials declare publicly that they want to support NGO activities. Numerous officials within the ministries and local governments understand the importance of NGOs and collaborate with them on specific projects. The government, however, limits its cooperation to those organizations that are registered with the National Association or other GONGOs. Public perception of NGOs varies between negative and indifferent. Sporadic attempts by NGOs to publicize their activities in the local media have had little influence on public opinion.

LEGAL ENVIRONMENT: 5.8

The legal environment governing NGOs remains restrictive. Despite the Law on Public Organizations and the Law on Non-State, Non-Governmental Organizations, new NGOs are unable to register. The legal framework does not prevent the central or local government, or the tax police, from harassing independent organizations. This is in part due to the government's use of unpublished regulations to threaten and prosecute NGOs. Amendments to the Code of Administrative Penalties passed in 2005 increased the fine for organizations that fail to provide timely reports to a maximum of 1 million sums (approximately US \$815.) Such administrative penalties are often more severe than those for criminal offenses. NGOs must submit quarterly reports to the Ministry of Justice that describe their activities. Omission of any activity is grounds for closure. The legal framework makes it illegal for NGOs to receive grants from international organizations, which has made it even more difficult for NGOs to survive.

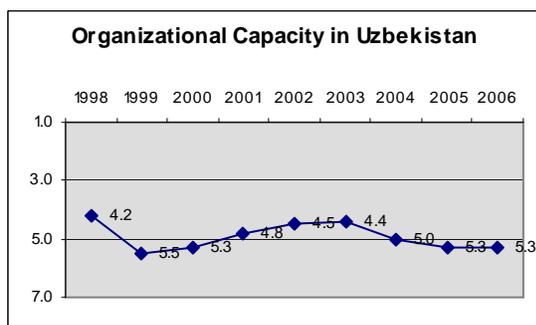
The legal framework only provides tax exemptions to NGOs that provide humanitarian assistance. Otherwise, NGOs are subject to the Unified Tax (14%), Social Insurance (30%) that is deducted from salaries, and Income Tax (33%), as well as other smaller taxes such as the pension fund tax. If an NGO engages in commercial activities, it must also pay a social insurance tax (2.5%). NGO representatives

report that up to 65% of their salaries are consumed by taxes. Some organizations do not include salaries in their financial reports to reduce their tax liabilities, though they run the risk of being caught and closed down by law enforcement agencies.



The government forced several NGOs to close over the past year, though the exact numbers are difficult to determine due to the repressive working environment and the lack of public information. Local experts believe that the government forced between two-thirds and three-fourths of the approximate 3,000 NGOs that existed in years past to close. In addition, the government forced 13 international organizations, including USAID-funded partners, the Open Society Institute, IREX, Freedom house, ABA/CEELI, Counterpart, and Winrock, to close following court hearings. Another international organization pulled out before the court had a chance to decide its case.

ORGANIZATIONAL CAPACITY: 5.3



The decrease in international funding and government harassment has forced many organizations to close or lose their paid, permanent staff. Organizations increasingly rely on volunteers, though the culture of volunteerism is underdeveloped. A few experts report that government officials discouraged volunteers from supporting certain NGOs. Employees of organizations that closed down were forced to find other ways to continue their work, either as individuals, group

initiatives, or by re-registering their organizations as commercial entities. NGOs that continue to exist maintain a low profile and avoid attention from law enforcement agencies; this prohibits them from building local constituencies. Organizations that have existed for many years and continue their operations adhere to their missions as defined in their organizational documents; failure to do so would provide government officials a reason to close them down.

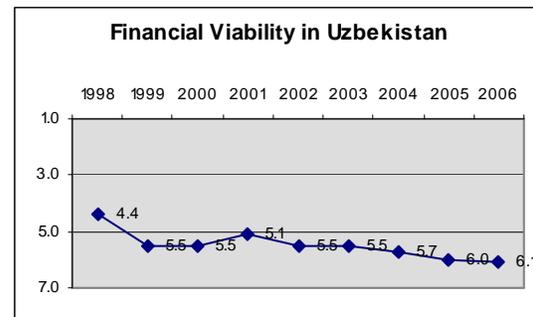
FINANCIAL VIABILITY: 6.1

Both the government's closure of the international organizations and the stagnant economy had negative repercussions on the financial viability of local NGOs. Even before these developments, international organizations were unable to provide grants to NGOs due to banking restrictions. This year, the government created the National Fund for NGO Support under the National Association. The National Fund sought funds from international donors, including USAID, and government officials allegedly coerced members of the business community to make donations. The Fund had at least two grant rounds this year, though it was extremely difficult for independent organizations to attain funds through the application process.

Most organizations continue to rely on funds they saved from previous grants or income from second jobs. Some continue to receive cash donations when possible, though generally there is a lack of local philanthropy. The government forces businesses to donate to local GONGOs; businesses do not, however, donate to other traditional forms of organizations. NGOs keep any donations they

Few organizations have boards of directors, and those that exist are underdeveloped. The lack of funding prevents NGOs from upgrading their office equipment and technology. Most NGOs continue to use the same equipment they purchased under past grants; as organizations no longer receive grants, their equipment will soon be outdated. Internet cafes are open around the country, permitting groups access to the internet.

receive confidential so not to attract attention from law enforcement agencies.



The government only provides support or contracts to GONGOs. Civil society organizations, including GONGOs, do not publish financial reports. The government does require that NGOs submit quarterly financial reports to the Ministry of Justice, which closely monitors whether they engaged in any activities over the reporting period and whether they received any funding. Some organizations, especially professional associations, collect membership dues, which are generally small and insufficient to sustain their activities.

ADVOCACY: 5.9



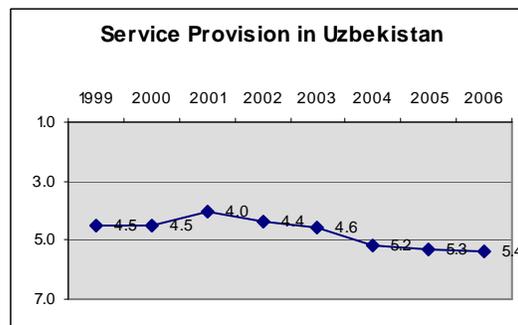
NGO advocacy campaigns are sporadic and focus exclusively on non-political issues. NGOs are able to lobby government officials and even have success when they are apolitical and in

accord with the interest of the agency they are lobbying.

The Center for Studying Issues of Law, for example, engaged in numerous lobbying campaigns related to a number of laws that further NGO development, such as the Law on Charity, but have been stalled in the Parliament for a long time. Since the Andijan events of May 2005, government agencies are afraid to partner with NGOs and opt to work alone, with GONGOs, or with a limited number of civil society organizations.

SERVICE PROVISION: 5.4

The ability of NGOs to provide services became worse over the past year, as many providers were closed. A few NGOs provide basic services in areas such as healthcare, education, and HIV/AIDS. In addition, women's organizations and environmental organizations continue to serve their constituencies. NGO representatives allege that secret regulations prevent NGOs from providing certain types of services, such as education. NGOs are unable to claim a large stake in the service-market due to the weak economy, restrictive banking regulations, limited clientele, and the common belief that NGOs services ought to be provided free of charge.



NGOs do not generally conduct market research in part because the organizations that remain try to maintain a low profile. Even in the past, NGOs only conducted needs assessments when required by a donor as a part of a project. As the number of international organizations with a presence in Uzbekistan decreased, funding for market research and needs assessments has also decreased. A network of women's organizations working on human trafficking issues, however, conducted a study on single mothers.

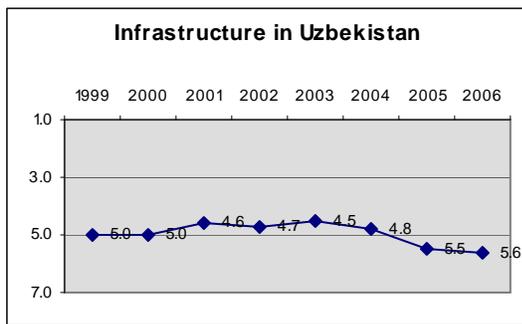
INFRASTRUCTURE: 5.6

In the past, USAID created the Association of Civil Society Resource Centers, which covered most of Uzbekistan and served as an

Intermediary Support Organization for local NGOs. All six members of the Association either closed or re-registered as commercial organizations. In their new capacity, they no

longer provide services to NGOs for free, which reduces their potential impact since many organizations are unable to pay

The National Fund sought support from international donors such as USAID and the government is allegedly coercing businesses to support the National Fund's activities. The National Fund held two funding rounds in 2006, and has at least two more planned. During the past grant round, 140 NGOs competed for 70 million sums (approximately US \$57,000) in available grants. Each applicant had to pay a nonrefundable application fee of US \$15. The National Fund approved a total of 50 million sums (approximately US \$40,600) in grants to public organizations that are reportedly affiliated with the President's daughters.



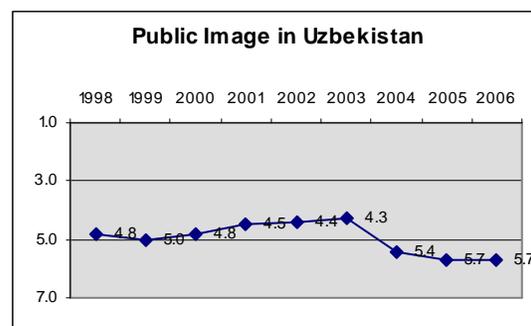
PUBLIC IMAGE: 5.7

The public perception of civil society in Uzbekistan did not improve in 2006. Following the Andijan events in 2005, the government became even more suspicious of NGOs and exerted even greater control over the sector's activities. Most citizens fail to understand the concept of "not-for-profit" or "non-governmental" and they are often indifferent towards NGOs and politics. The government's closure of NGOs is generally accompanied by negative campaigns in the local press accusing them of violating the law.

The remaining 20 million sums were distributed among twelve winners of the grant competition, all of which are believed to be GONGOs.

NGOs have great difficulties sharing information with one another. Some networks, such as the Network of Women's NGOs, which works on human trafficking, make efforts to communicate with each other on a regular basis. A cadre of local NGO trainers still exists and training courses on specific topics such as HIV/AIDS are available, though general training for NGO management, project development, and fundraising are non-existent. The Association planned to provide such training, employing professionals.

NGOs and government agencies did form partnerships on a few occasions. The Ministry of Internal Affairs, for example, expressed interest in working with local organizations to address human trafficking issues. The government only seems to tolerate social partnerships that involve apolitical organizations and activities.



Several NGOs maintain a working relationship with the local media and journalists that write sporadic articles in newspapers or have local television programs. Such opportunities are uncommon and often available only for GONGOs. Due to the politically sensitive environment, NGO representatives were

unable to conduct a survey of the public's attitudes towards NGOs or membership levels in NGOs in 2006. In 2005, only 23.8% of those surveyed stated that they were aware of the third sector, and 3.4% reported that they were members of an NGO. As the number of NGOs

declined over the past year, NGO representatives speculate that these numbers are even lower. NGOs generally prefer to avoid transparency due to the restrictive political environment. Similarly, no organization has adopted a code of conduct.

Annex A: Statistical Data

COUNTRY SCORES 1997-2006

NORTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Czech Republic	N/R	N/R	N/R	2.4	2.3	2.5	2.4	2.7	2.7	2.7
Estonia	N/R	N/R	N/R	2.4	2.1	2.2	2.2	2.1	2.1	2.1
Hungary	2.3	1.6	2.0	2.3	2.6	2.6	2.7	2.6	2.7	2.6
Latvia	3.6	4.2	N/R	2.8	2.9	2.8	2.7	2.6	2.6	2.6
Lithuania	4.0	3.1	3.0	3.2	3.0	2.8	2.6	2.7	2.7	2.7
Poland	1.8	2.0	2.1	2.1	2.1	2.2	2.1	2.3	2.3	2.3
Slovakia	2.8	2.8	2.1	1.9	1.9	2.1	2.2	2.5	2.6	2.5
Slovenia	N/R	N/R	N/R	N/R	N/R	N/R	3.4	4.0	4.0	4.0
Average	2.9	2.7	2.3	2.4	2.4	2.5	2.5	2.7	2.7	2.7
SOUTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Albania	4.4	4.2	4.8	4.6	4.6	4.3	4.1	3.9	3.9	3.9
Bosnia	N/R	5.6	5.2	4.0	4.5	4.2	4.1	4.0	3.9	3.8
Bulgaria	4.0	3.6	4.0	3.7	3.6	3.1	3.1	3.2	3.2	3.2
Croatia	4.6	4.4	4.7	4.3	3.8	3.7	3.5	3.5	3.4	3.3
Kosovo	N/R	N/R	4.4	4.6	4.6	4.3	4.2	3.8	3.8	3.8
Macedonia	4.4	4.4	4.6	4.6	4.2	4.0	3.7	3.6	3.6	3.6
Montenegro	N/R	N/R	4.6	4.6	4.7	4.6	4.5	4.3	4.2	4.2
Romania	3.6	3.8	4.1	4.1	4.0	3.7	3.8	3.7	3.6	3.6
Serbia	4.8	5.4	5.4	4.5	4.1	4.1	4.0	4.4	4.4	4.5
Average	4.3	4.5	4.6	4.3	4.2	4.0	3.9	3.8	3.8	3.8
EURASIA										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Armenia	N/R	N/R	5.1	2.0	4.4	4.2	4.1	4.1	4.1	4.1
Azerbaijan	N/R	6.4	5.7	5.0	4.9	5.2	4.1	4.9	5.0	5.0
Belarus	N/R	N/R	N/R	5.7	5.5	5.3	5.6	5.6	5.8	5.9
Georgia	N/R	3.4	3.8	4.0	4.0	4.2	4.1	3.9	4.0	4.0
Kazakhstan	4.6	4.4	4.8	4.7	4.3	4.1	3.9	4.1	4.1	4.1
Kyrgyzstan	4.6	3.9	4.1	4.3	4.3	4.1	4.1	4.2	4.1	4.1
Moldova	N/R	N/R	N/R	4.6	4.2	4.2	4.3	4.3	4.2	4.3
Russia	3.4	3.4	4.1	4.3	4.3	4.0	4.4	4.2	4.3	4.3
Tajikistan	N/R	6.6	6.1	5.4	5.1	4.6	4.6	4.6	4.6	4.7
Turkmenistan	N/R	N/R	6.6	6.0	5.8	5.6	5.7	5.6	5.7	5.7
Ukraine	4.0	4.2	4.1	4.4	4.3	4.0	3.9	3.8	3.7	3.6
Uzbekistan	N/R	4.7	5.3	5.1	4.6	4.7	4.7	5.2	5.6	5.7
Average	4.2	4.6	5.0	4.6	4.6	4.5	4.5	4.5	4.6	4.6

N/R=Country was not studied in that year

COUNTRIES RANKED BY SCORES

LEGAL ENVIRONMENT	ORGANIZATIONAL CAPACITY	FINANCIAL VIABILITY
CONSOLIDATION	CONSOLIDATION	CONSOLIDATION
Hungary 1.5	Estonia 2.4	Estonia 2.5
Estonia 1.8	Lithuania 2.6	Czech Republic 2.7
Bulgaria 2.0	Poland 2.6	Poland 2.8
Lithuania 2.1	Slovakia 2.8	Lithuania 2.9
Poland 2.3	Hungary 2.9	Latvia 3.0
Slovakia 2.3	Latvia 3.0	
Latvia 2.4	MID-TRANSITION	MID-TRANSITION
Czech Republic 3.0	Czech Republic 3.1	Hungary 3.3
Croatia 3.0	Croatia 3.1	Slovakia 3.3
MID-TRANSITION	Bosnia 3.5	Bulgaria 4.2
Macedonia 3.1	Macedonia 3.7	Romania 4.2
Kosovo 3.2	Ukraine 3.7	Ukraine 4.3
Montenegro 3.3	Romania 3.8	Croatia 4.3
Georgia 3.3	Kosovo 3.8	Slovenia 4.5
Slovenia 3.5	Albania 3.9	Macedonia 4.5
Bosnia 3.5	Georgia 3.9	Russia 4.5
Romania 3.5	Armenia 4.0	Albania 4.6
Albania 3.6	Kazakhstan 4.1	Bosnia 4.8
Ukraine 3.6	Moldova 4.1	Kazakhstan 4.8
Kyrgyz Rep 3.7	Russia 4.1	Montenegro 5.0
Armenia 3.8	Slovenia 4.2	Georgia 5.0
Kazakhstan 4.2	Serbia 4.3	Kosovo 5.0
Moldova 4.2	Kyrgyz Rep 4.3	EARLY TRANSITION
Serbia 4.7	Bulgaria 4.5	Kyrgyz Rep 5.1
Russia 4.7	Tajikistan 4.6	Moldova 5.2
Tajikistan 4.8	Montenegro 4.7	Armenia 5.4
Azerbaijan 5.0	Azerbaijan 4.7	Serbia 5.6
EARLY TRANSITION	Belarus 4.9	Tajikistan 5.6
Uzbekistan 5.8	EARLY TRANSITION	Azerbaijan 5.9
Turkmenistan 6.5	Uzbekistan 5.3	Turkmenistan 6.0
Belarus 7.0	Turkmenistan 5.4	Uzbekistan 6.1
		Belarus 6.5

COUNTRIES RANKED BY SCORES

ADVOCACY		SERVICE PROVISION		INFRASTRUCTURE	
CONSOLIDATION		CONSOLIDATION		CONSOLIDATION	
Poland	1.8	Czech Republic	2.2	Estonia	1.7
Estonia	1.9	Slovakia	2.2	Poland	1.8
Latvia	2.0	Estonia	2.3	Hungary	2.2
Lithuania	2.0	Poland	2.3	Slovakia	2.2
Czech Republic	2.4	Hungary	2.4	Latvia	2.6
Slovakia	2.4	Latvia	2.4	Croatia	2.9
Bulgaria	2.4	MID-TRANSITION		Czech Republic	3.0
Macedonia	3.0	Bulgaria	3.1	Lithuania	3.0
Ukraine	3.0	Romania	3.1	Bulgaria	3.0
MID-TRANSITION		Croatia	3.3	MID-TRANSITION	
Bosnia	3.1	Ukraine	3.3	Macedonia	3.2
Hungary	3.2	Slovenia	3.5	Romania	3.4
Albania	3.3	Lithuania	3.6	Kosovo	3.5
Croatia	3.4	Albania	3.9	Kazakhstan	3.5
Romania	3.4	Macedonia	3.9	Ukraine	3.5
Kosovo	3.6	Kosovo	4.0	Kyrgyz Rep	3.6
Kyrgyz Rep	3.6	Montenegro	4.0	Armenia	3.7
Montenegro	3.7	Armenia	4.0	Moldova	3.7
Armenia	3.8	Georgia	4.0	Serbia	3.8
Kazakhstan	3.8	Kazakhstan	4.0	Russia	3.8
Moldova	3.9	Bosnia	4.1	Albania	3.9
Slovenia	4.0	Kyrgyz Rep	4.1	Slovenia	4.0
Serbia	4.0	Russia	4.1	Georgia	4.0
Russia	4.0	Serbia	4.5	Bosnia	4.1
Georgia	4.1	Moldova	4.5	Montenegro	4.1
Tajikistan	4.9	Azerbaijan	4.6	Tajikistan	4.2
EARLY TRANSITION		Tajikistan	4.6	Azerbaijan	4.6
Azerbaijan	5.1	EARLY TRANSITION		Turkmenistan	5.0
Uzbekistan	5.9	Turkmenistan	5.2	EARLY TRANSITION	
Belarus	6.0	Belarus	5.4	Belarus	5.5
Turkmenistan	6.1	Uzbekistan	5.4	Uzbekistan	5.6

COUNTRIES RANKED BY SCORES

PUBLIC IMAGE

CONSOLIDATION	
Estonia	2.1
Poland	2.2
Czech Republic	2.5
Slovakia	2.5
Latvia	2.9
Lithuania	2.9
Hungary	3.0
Croatia	3.0
MID-TRANSITION	
Bulgaria	3.1
Bosnia	3.4
Romania	3.7
Kosovo	3.8
Macedonia	3.8
Georgia	3.8
Albania	3.9
Armenia	4.0
Kyrgyz Rep	4.0
Ukraine	4.0
Slovenia	4.1
Kazakhstan	4.2
Moldova	4.2
Tajikistan	4.4
Montenegro	4.6
Russia	4.7
Serbia	4.8
Azerbaijan	5.0
EARLY TRANSITION	
Turkmenistan	5.7
Uzbekistan	5.7
Belarus	6.0

NGO SUSTAINABILITY- COUNTRY RANKINGS

		2006	2005	2004
CONSOLIDATION				
Estonia	2.1	1	1	1
Poland	2.3	2	2	2
Slovakia	2.5	3	2	3
Latvia	2.6	4	4	4
Hungary	2.6	5	5	4
Czech Republic	2.7	6	5	6
Lithuania	2.7	6	5	6
MID-TRANSITION				
Bulgaria	3.2	8	8	8
Croatia	3.3	9	9	9
Macedonia	3.6	10	10	10
Romania	3.6	10	10	11
Ukraine	3.6	10	12	12
Kosovo	3.8	13	13	12
Bosnia	3.8	13	14	16
Albania	3.9	15	14	14
Georgia	4.0	16	16	14
Slovenia	4.0	16	16	16
Armenia	4.1	18	18	18
Kazakhstan	4.1	18	18	18
Kyrgyzstan	4.1	18	18	18
Montenegro	4.2	21	21	22
Moldova	4.3	22	21	22
Russia	4.3	22	23	21
Serbia	4.5	24	24	24
Tajikistan	4.7	25	25	25
Azerbaijan	5.0	26	26	26
EARLY TRANSITION				
Uzbekistan	5.7	27	27	27
Turkmenistan	5.7	27	28	28
Belarus	5.9	29	29	29

DIMENSION SCORES 1997 – 2006

LEGAL ENVIRONMENT

NORTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Czech Republic	N/R	N/R	N/R	2.0	2.0	3.0	3.0	3.0	3.1	3.0
Estonia	N/R	N/R	N/R	2.0	2.0	2.0	1.8	1.8	1.8	1.8
Hungary	2.5	1.0	1.0	1.0	1.7	1.4	1.3	1.3	1.5	1.5
Latvia	5.0	4.0	N/R	3.0	3.0	2.8	2.6	2.4	2.4	2.4
Lithuania	4.0	4.0	4.0	4.0	2.0	1.6	1.6	1.8	2.0	2.1
Poland	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.3	2.3	2.3
Slovakia	4.0	3.5	3.5	2.5	2.5	2.6	2.5	2.3	2.3	2.3
Slovenia	N/R	N/R	N/R	N/R	N/R	N/R	3.7	3.7	3.7	3.5
<i>Average</i>	3.5	2.9	2.6	2.4	2.2	2.2	2.3	2.3	2.4	2.4
SOUTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Albania	4.0	4.0	4.0	4.0	4.0	3.6	3.5	3.4	3.6	3.6
Bosnia	N/R	5.0	5.0	4.5	4.0	3.5	3.5	3.5	3.5	3.5
Bulgaria	4.0	4.5	4.5	3.5	3.5	2.0	2.0	2.0	2.0	2.0
Croatia	6.0	6.0	6.0	4.0	3.0	2.8	2.8	3.2	3.2	3.0
Kosovo	N/R	N/R	3.0	3.0	4.0	3.3	3.2	3.0	3.0	3.2
Macedonia	4.0	3.0	3.0	3.0	3.0	3.0	2.9	2.9	3.1	3.1
Montenegro	N/R	N/R	3.5	3.5	3.7	3.7	3.4	3.3	3.3	3.3
Romania	4.0	3.5	3.5	3.0	3.0	3.0	4.0	3.8	3.6	3.5
Serbia	5.0	5.0	6.0	5.0	5.0	4.5	4.5	4.5	4.5	4.7
<i>Average</i>	4.5	4.4	4.3	3.7	3.7	3.3	3.3	3.3	3.3	3.3
EURASIA										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Armenia	N/R	N/R	4.0	4.0	4.0	3.8	3.8	3.8	3.8	3.8
Azerbaijan	N/R	7.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Belarus	N/R	N/R	N/R	7.0	7.0	6.5	6.8	6.9	7.0	7.0
Georgia	N/R	3.0	3.5	3.0	4.0	3.9	3.7	3.5	3.3	3.3
Kazakhstan	5.0	4.9	5.0	4.5	4.5	4.2	4.0	4.2	4.2	4.2
Kyrgyzstan	5.0	3.9	3.5	4.3	5.2	3.7	3.9	3.7	3.7	3.7
Moldova	N/R	N/R	N/R	3.0	3.0	3.3	3.7	4.2	4.1	4.2
Russia	3.0	3.0	4.0	4.0	4.2	4.0	4.3	4.3	4.5	4.7
Tajikistan	N/R	6.5	6.0	5.0	4.8	4.6	4.3	4.3	4.5	4.8
Turkmenistan	N/R	N/R	7.0	6.5	6.5	6.5	6.7	6.5	6.6	6.5
Ukraine	4.0	4.6	5.0	5.0	5.0	4.5	4.0	3.6	3.7	3.6
Uzbekistan	N/R	5.6	6.0	5.4	4.4	4.3	4.2	5.2	5.5	5.8
<i>Average</i>	4.3	4.8	5.0	4.7	4.8	4.5	4.5	4.6	4.7	4.7

N/R=Country was not studied in that year

DIMENSION SCORES 1997 – 2006

ORGANIZATIONAL CAPACITY

NORTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Czech Republic	N/R	N/R	N/R	3.0	3.0	2.9	2.9	3.2	3.2	3.1
Estonia	N/R	N/R	N/R	2.5	2.3	2.2	2.6	2.5	2.4	2.4
Hungary	2.5	2.0	2.0	3.0	2.8	2.7	2.9	3.0	3.0	2.9
Latvia	3.0	4.0	N/R	2.6	3.3	3.0	2.9	3.0	3.0	3.0
Lithuania	4.0	3.0	2.5	2.5	3.0	2.9	2.9	2.6	2.5	2.6
Poland	1.0	2.0	2.0	2.0	2.0	2.2	2.2	2.5	2.6	2.6
Slovakia	2.0	3.0	2.0	1.5	1.5	1.7	2.0	2.3	2.8	2.8
Slovenia	N/R	N/R	N/R	N/R	N/R	N/R	3.5	4.2	4.2	4.2
<i>Average</i>	2.5	2.8	2.1	2.4	2.6	2.5	2.7	2.9	3.0	3.0
SOUTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Albania	4.0	4.2	4.5	5.0	5.0	4.5	4.2	4.0	3.9	3.9
Bosnia	N/R	5.0	4.5	4.5	4.0	3.9	3.8	3.8	3.6	3.5
Bulgaria	3.0	3.0	3.5	4.5	4.5	4.5	4.4	4.5	4.5	4.5
Croatia	3.0	3.0	4.0	4.8	4.0	4.0	3.8	3.4	3.3	3.1
Kosovo	N/R	N/R	4.5	4.5	5.0	4.2	4.3	4.0	3.9	3.8
Macedonia	4.0	4.0	4.0	4.0	4.0	4.0	3.7	3.7	3.7	3.7
Montenegro	N/R	N/R	5.0	5.0	5.0	4.8	4.8	4.7	4.7	4.7
Romania	3.0	3.5	4.0	5.0	4.5	4.0	3.8	3.8	3.8	3.8
Serbia	4.0	5.0	5.0	4.5	4.0	3.9	3.8	3.9	4.1	4.3
<i>Average</i>	3.5	4.0	4.3	4.6	4.4	4.2	4.1	4.0	3.9	3.9
EURASIA										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Armenia	N/R	N/R	5.0	5.0	4.0	3.9	3.6	4.0	4.0	4.0
Azerbaijan	N/R	6.0	5.8	5.2	5.0	5.0	4.8	4.7	4.7	4.7
Belarus	N/R	N/R	N/R	5.0	4.8	4.7	4.8	4.6	4.8	4.9
Georgia	N/R	4.0	3.5	4.0	4.0	4.0	4.0	3.8	3.8	3.9
Kazakhstan	4.0	4.0	4.5	5.0	4.2	4.0	3.8	3.8	4.1	4.1
Kyrgyzstan	4.0	3.9	4.0	4.0	4.0	4.3	4.3	4.3	4.3	4.3
Moldova	N/R	N/R	N/R	4.5	4.5	4.5	4.2	4.1	4.1	4.1
Russia	3.0	3.0	3.5	4.0	4.4	3.9	4.3	4.0	4.1	4.1
Tajikistan	N/R	6.0	6.0	5.5	5.0	4.5	4.6	4.8	4.7	4.6
Turkmenistan	N/R	N/R	6.0	5.8	5.5	5.3	5.3	5.2	5.4	5.4
Ukraine	4.0	3.7	3.5	4.0	4.0	3.5	3.9	3.9	3.7	3.7
Uzbekistan	N/R	4.2	5.5	5.3	4.8	4.5	4.4	5.0	5.3	5.3
<i>Average</i>	3.8	4.4	4.7	4.8	4.5	4.3	4.3	4.4	4.4	4.4

N/R=Country was not studied in that year

DIMENSION SCORES 1997 – 2006

FINANCIAL VIABILITY

NORTHERN TIER										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Czech Republic	N/R	N/R	N/R	2.0	2.0	2.0	1.9	2.7	2.8	2.7
Estonia	N/R	N/R	N/R	2.8	2.6	2.6	2.6	2.5	2.5	2.5
Hungary	2.0	2.0	2.5	3.0	2.8	3.0	3.3	3.3	3.4	3.3
Latvia	3.0	5.0	N/R	3.5	3.5	3.5	3.3	3.1	3.1	3.0
Lithuania	4.0	3.0	3.5	4.0	3.0	2.9	2.9	3.0	2.9	2.9
Poland	2.0	2.0	2.5	2.5	2.5	2.8	2.8	2.9	2.9	2.8
Slovakia	3.0	4.0	3.0	3.0	3.0	3.0	3.2	3.5	3.5	3.3
Slovenia	N/R	N/R	N/R	N/R	N/R	N/R	3.3	4.5	4.5	4.5
<i>Average</i>	2.8	3.2	2.9	3.0	2.8	2.8	2.9	3.2	3.2	3.1
SOUTHERN TIER										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Albania	5.0	5.0	5.0	5.0	5.0	4.8	4.6	4.5	4.5	4.6
Bosnia	N/R	6.0	6.5	6.0	5.7	5.5	5.4	5.0	4.8	4.8
Bulgaria	5.0	5.0	5.5	5.2	4.5	3.8	3.7	4.1	4.2	4.2
Croatia	4.0	5.0	6.0	6.6	5.0	5.1	4.4	4.4	4.4	4.3
Kosovo	N/R	N/R	6.0	6.0	6.0	6.0	5.6	5.3	5.2	5.0
Macedonia	5.0	5.0	5.0	5.0	4.0	4.6	4.5	4.5	4.5	4.5
Montenegro	N/R	N/R	5.5	5.5	5.5	5.5	5.4	5.2	5.0	5.0
Romania	4.0	4.5	5.0	5.5	4.5	4.5	4.3	4.3	4.3	4.2
Serbia	5.0	6.0	6.0	6.0	6.0	5.5	5.4	5.6	5.6	5.6
<i>Average</i>	4.7	5.2	5.6	5.6	5.1	5.0	4.8	4.8	4.7	4.7
EURASIA										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Armenia	N/R	N/R	6.0	6.0	6.0	5.6	5.5	5.5	5.5	5.4
Azerbaijan	N/R	6.0	6.0	6.0	6.0	6.0	5.8	5.8	5.9	5.9
Belarus	N/R	N/R	N/R	6.0	6.0	5.7	6.2	6.2	6.4	6.5
Georgia	N/R	4.0	4.9	5.0	5.0	4.9	4.6	4.8	5.0	5.0
Kazakhstan	4.0	4.4	5.5	5.5	5.0	4.8	4.7	5.0	4.9	4.8
Kyrgyzstan	5.0	4.2	5.5	5.5	5.5	5.0	5.0	5.0	5.1	5.1
Moldova	N/R	N/R	N/R	5.5	5.3	5.2	5.3	5.2	5.2	5.2
Russia	4.0	4.0	5.0	5.0	4.7	4.4	4.9	4.6	4.7	4.5
Tajikistan	N/R	7.0	7.0	6.0	6.0	5.5	5.7	5.6	5.6	5.6
Turkmenistan	N/R	N/R	7.0	6.0	5.5	5.3	6.0	5.8	6.0	6.0
Ukraine	4.0	4.6	5.0	5.0	5.0	5.0	4.8	4.6	4.4	4.3
Uzbekistan	N/R	4.4	5.5	5.5	5.1	5.5	5.5	5.8	6.0	6.1
<i>Average</i>	4.3	4.8	5.7	5.6	5.4	5.2	5.3	5.3	5.4	5.4

N/R=Country was not studied in that year

DIMENSION SCORES 1997 – 2006

ADVOCACY

NORTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Czech Republic	N/R	N/R	N/R	2.0	1.8	1.8	2.0	2.2	2.2	2.4
Estonia	N/R	N/R	N/R	2.0	1.8	2.1	2.0	2.0	2.0	1.9
Hungary	3.0	1.0	1.5	3.0	3.5	3.5	3.3	3.3	3.2	3.2
Latvia	4.0	4.0	N/R	3.0	2.2	2.0	2.0	2.0	2.0	2.0
Lithuania	4.0	2.0	1.5	2.0	2.0	1.8	1.6	2.0	1.9	2.0
Poland	2.0	2.0	2.5	2.0	2.0	2.2	1.9	1.9	1.8	1.8
Slovakia	2.0	2.0	1.5	1.5	1.5	1.6	1.6	2.2	2.3	2.4
Slovenia	N/R	N/R	N/R	N/R	N/R	N/R	3.0	3.8	4.0	4.0
<i>Average</i>	3.0	2.2	1.8	2.2	2.1	2.1	2.2	2.4	2.4	2.5
SOUTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Albania	4.0	4.0	4.0	4.0	3.0	3.9	3.6	3.4	3.3	3.3
Bosnia	N/R	6.0	5.5	4.5	4.2	3.9	3.6	3.3	3.3	3.1
Bulgaria	4.0	2.8	3.0	3.0	3.0	2.5	2.5	2.5	2.5	2.4
Croatia	5.0	4.0	4.0	2.5	3.0	3.0	3.0	3.4	3.5	3.4
Kosovo	N/R	N/R	5.0	4.5	5.0	4.1	3.8	3.5	3.4	3.6
Macedonia	5.0	5.0	4.5	4.5	4.0	3.6	3.3	3.1	3.1	3.0
Montenegro	N/R	N/R	3.5	3.5	4.5	4.7	4.3	4.0	3.8	3.7
Romania	4.0	3.5	4.0	3.5	4.5	4.0	3.8	3.6	3.4	3.4
Serbia	5.0	6.0	6.0	4.0	3.5	3.3	3.2	3.8	3.8	4.0
<i>Average</i>	4.5	4.5	4.4	3.8	3.9	3.7	3.5	3.4	3.3	3.3
EURASIA										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Armenia	N/R	N/R	5.0	5.0	4.0	4.2	3.8	3.7	3.8	3.8
Azerbaijan	N/R	6.5	6.0	5.5	5.0	5.0	4.8	4.8	5.1	5.1
Belarus	N/R	N/R	N/R	6.0	5.5	5.4	5.7	6.0	6.0	6.0
Georgia	N/R	4.0	3.5	2.0	4.0	4.3	4.0	3.7	4.0	4.1
Kazakhstan	5.0	N/R	4.5	4.5	4.3	4.0	3.6	3.6	3.8	3.8
Kyrgyzstan	5.0	3.5	3.5	3.5	3.0	3.3	3.8	4.0	3.8	3.6
Moldova	N/R	N/R	N/R	5.0	4.2	4.2	4.1	4.0	3.9	3.9
Russia	3.0	3.0	3.5	4.5	4.9	4.2	4.5	4.2	4.2	4.0
Tajikistan	N/R	6.5	6.0	5.5	5.0	4.5	4.5	4.6	4.6	4.9
Turkmenistan	N/R	N/R	6.5	6.3	6.3	6.1	6.1	6.1	6.1	6.1
Ukraine	4.0	4.4	5.0	4.0	4.0	3.5	3.4	3.1	3.1	3.0
Uzbekistan	N/R	4.6	5.5	5.2	5.1	4.9	5.1	5.6	5.8	5.9
<i>Average</i>	4.3	4.6	4.9	4.8	4.6	4.5	4.5	4.5	4.5	4.5

N/R=Country was not studied in that year

DIMENSION SCORES 1997 – 2006

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>	<u>2006</u>
Czech Republic	N/R	2.0	2.0	2.2	2.2	2.2	2.2	2.2
Estonia	N/R	2.5	2.3	2.5	2.5	2.4	2.4	2.3
Hungary	2.5	2.0	2.3	2.3	2.3	2.3	2.4	2.4
Latvia	2.5	N/R	2.4	2.5	2.5	2.4	2.4	2.4
Lithuania	3.5	3.5	4.0	3.8	3.4	3.7	3.7	3.6
Poland	2.0	2.0	2.0	2.1	2.0	2.3	2.3	2.3
Slovakia	2.0	2.0	2.0	2.2	2.2	2.2	2.2	2.2
Slovenia	N/R	N/R	N/R	N/R	3.0	3.6	3.6	3.5
<i>Average</i>	2.5	2.3	2.4	2.5	2.5	2.6	2.7	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>	<u>2006</u>
Albania	5.0	5.0	5.0	3.9	4.0	3.9	3.9	3.9
Bosnia	5.0	4.5	4.2	4.5	4.4	4.3	4.2	4.1
Bulgaria	4.0	3.0	3.0	2.8	2.9	3.2	3.1	3.1
Croatia	5.0	4.4	4.0	3.7	3.4	3.3	3.4	3.3
Kosovo	4.0	5.0	4.0	5.0	4.8	4.0	4.0	4.0
Macedonia	5.5	5.5	5.0	4.8	4.0	3.9	3.9	3.9
Montenegro	4.5	4.5	4.0	4.2	4.2	4.0	4.0	4.0
Romania	4.0	4.0	3.5	3.1	3.1	3.1	3.1	3.1
Serbia	4.0	4.0	3.8	4.2	4.1	4.5	4.5	4.5
<i>Average</i>	4.6	4.4	4.1	4.0	3.9	3.8	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>	<u>2006</u>
Armenia	5.0	4.0	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	4.6
Belarus	N/R	5.0	5.0	4.9	5.1	4.9	5.1	5.4
Georgia	4.0	5.0	4.0	4.2	4.4	4.1	4.1	4.0
Kazakhstan	4.5	4.7	4.0	4.0	3.9	4.1	4.0	4.0
Kyrgyzstan	4.0	4.5	4.3	3.9	3.8	4.1	4.1	4.1
Moldova	N/R	5.0	4.5	4.4	4.5	4.5	4.5	4.5
Russia	4.5	4.5	4.3	3.7	4.0	3.9	4.1	4.1
Tajikistan	5.5	5.5	5.0	4.5	4.3	4.6	4.6	4.6
Turkmenistan	6.0	5.3	5.0	5.0	4.8	4.8	5.2	5.2
Ukraine	2.5	4.0	3.0	3.0	3.3	3.3	3.3	3.3
Uzbekistan	4.5	4.5	4.0	4.4	4.6	5.2	5.3	5.4
<i>Average</i>	4.5	4.7	4.3	4.3	4.3	4.3	4.4	4.4

N/R=Country was not studied in that year

*Service Provision was not a dimension studied in 1997 or 1998

DIMENSION SCORES 1997 – 2006

INFRASTRUCTURE

NORTHERN TIER								
	1999	2000	2001	2002	2003	2004	2005	2006
Czech Republic	N/R	3.0	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	1.7
Hungary	2.5	2.0	2.5	2.5	2.4	2.3	2.3	2.2
Latvia	3.0	N/R	3.0	3.0	2.8	2.7	2.7	2.6
Lithuania	3.0	3.0	2.5	2.3	2.2	3.0	3.1	3.0
Poland	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.8
Slovakia	1.5	1.5	1.5	1.7	1.9	2.2	2.2	2.2
Slovenia	N/R	N/R	N/R	N/R	3.8	4.2	4.1	4.0
<i>Average</i>	2.4	2.3	2.4	2.3	2.5	2.6	2.6	2.6
SOUTHERN TIER								
	1999	2000	2001	2002	2003	2004	2005	2006
Albania	5.5	5.0	5.0	4.6	4.4	4.2	4.1	3.9
Bosnia	5.0	5.0	4.8	4.5	4.5	4.4	4.3	4.1
Bulgaria	3.0	3.0	3.0	2.5	2.5	2.9	3.0	3.0
Croatia	4.0	4.0	4.0	3.9	3.6	3.2	3.1	2.9
Kosovo	5.0	5.0	4.0	3.7	3.5	3.4	3.6	3.5
Macedonia	5.0	5.0	4.5	3.7	3.3	3.2	3.2	3.2
Montenegro	5.0	5.0	5.0	4.6	4.6	4.3	4.1	4.1
Romania	4.0	4.0	4.0	3.6	3.6	3.5	3.4	3.4
Serbia	5.0	4.0	3.0	3.4	3.4	3.7	3.7	3.8
<i>Average</i>	4.6	4.4	4.1	3.8	3.7	3.6	3.6	3.5
EURASIA								
	1999	2000	2001	2002	2003	2004	2005	2006
Armenia	5.5	6.0	4.5	4.2	4.0	3.9	3.7	3.7
Azerbaijan	5.5	4.5	3.0	4.6	4.7	4.6	4.6	4.6
Belarus	N/R	5.0	4.5	4.5	4.8	5.0	5.3	5.5
Georgia	3.5	3.0	3.0	4.0	3.8	3.9	4.0	4.0
Kazakhstan	5.0	4.5	4.1	3.9	3.6	3.6	3.5	3.5
Kyrgyzstan	4.5	4.0	3.8	3.7	3.8	3.6	3.6	3.6
Moldova	N/R	4.0	3.8	3.8	3.8	3.7	3.7	3.7
Russia	3.5	3.5	3.4	3.2	3.9	3.8	3.8	3.8
Tajikistan	6.0	5.0	4.8	4.1	4.1	4.3	4.2	4.2
Turkmenistan	6.5	5.7	5.5	5.2	5.0	4.6	4.8	5.0
Ukraine	3.5	4.0	4.0	3.5	3.5	3.8	3.6	3.5
Uzbekistan	5.0	5.0	4.6	4.7	4.5	4.5	5.5	5.6
<i>Average</i>	4.9	4.5	4.1	4.1	4.1	4.1	4.2	4.2

N/R=Country was not studied in that year

*Infrastructure was not a dimension studied in 1997 or 1998

DIMENSION SCORES 1997 – 2006

PUBLIC IMAGE

NORTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Czech Republic	N/R	N/R	N/R	3.0	2.5	2.3	2.1	2.5	2.5	2.5
Estonia	N/R	N/R	N/R	2.5	2.0	2.0	2.2	2.1	2.1	2.1
Hungary	1.5	2.0	2.0	2.0	2.8	3.0	3.2	3.0	2.9	3.0
Latvia	3.0	4.0		2.0	2.7	3.0	2.8	2.9	2.9	2.9
Lithuania	4.0	3.0	2.5	3.0	4.0	3.8	3.3	3.0	2.9	2.9
Poland	2.0	2.0	2.0	2.0	2.0	2.3	2.2	2.2	2.2	2.2
Slovakia	3.0	1.5	1.0	1.5	1.5	1.8	2.0	2.6	2.6	2.5
Slovenia	N/R	N/R	N/R	N/R	N/R	N/R	3.6	4.1	4.2	4.1
<i>Average</i>	2.7	2.5	1.9	2.3	2.5	2.6	2.7	2.8	2.8	2.8
SOUTHERN TIER										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Albania	5.0	4.0	5.0	4.5	5.0	4.6	4.5	4.2	4.0	3.9
Bosnia	N/R	6.0	5.0	5.0	4.5	3.8	3.8	3.6	3.5	3.4
Bulgaria	4.0	2.8	4.5	4.0	4.0	3.5	3.4	3.3	3.2	3.1
Croatia	5.0	4.0	4.0	4.0	3.8	3.5	3.4	3.3	3.2	3.0
Kosovo	N/R	N/R	3.5	4.0	4.5	3.9	3.9	3.7	3.7	3.8
Macedonia	4.0	5.0	5.0	5.0	4.5	4.0	3.9	3.8	3.7	3.8
Montenegro	N/R	N/R	5.0	5.0	5.0	4.8	4.7	4.6	4.6	4.6
Romania	3.0	4.0	4.0	3.5	4.0	3.8	4.0	3.8	3.7	3.7
Serbia	5.0	5.0	5.5	4.0	3.5	4.0	3.9	4.5	4.6	4.8
<i>Average</i>	4.3	4.4	4.6	4.3	4.3	4.0	3.9	3.9	3.8	3.8
EURASIA										
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Armenia	N/R	N/R	5.0	5.0	4.0	4.0	3.9	3.9	4.0	4.0
Azerbaijan	N/R	6.5	6.0	4.5	5.0	5.5	5.3	5.1	5.1	5.0
Belarus	N/R	N/R	N/R	6.0	5.5	5.2	5.6	5.6	5.8	6.0
Georgia	N/R	2.0	4.0	5.0	4.0	4.4	4.4	3.7	3.7	3.8
Kazakhstan	5.0	4.0	4.5	4.5	4.1	3.9	3.9	4.2	4.2	4.2
Kyrgyzstan	4.0	3.8	4.1	4.5	4.5	4.1	4.1	4.3	4.1	4.0
Moldova	N/R	N/R	N/R	5.0	4.3	4.3	4.2	4.2	4.0	4.2
Russia	4.0	4.0	5.0	4.5	4.5	4.4	4.0	4.5	4.7	4.7
Tajikistan	N/R	7.0	6.0	5.0	5.0	4.5	4.4	4.4	4.3	4.4
Turkmenistan	N/R	N/R	7.0	6.2	6.0	6.0	5.9	5.8	5.7	5.7
Ukraine	4.0	3.9	4.0	5.0	5.0	5.0	4.4	4.1	4.0	4.0
Uzbekistan	N/R	4.8	5.0	4.8	4.5	4.4	4.3	5.4	5.7	5.7
<i>Average</i>	4.3	4.5	5.1	5.0	4.7	4.6	4.5	4.6	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

www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex