



NGO Sustainability in Central Europe

**Helping
Civil
Society
Survive**

Edited by Katalin E. Koncz

NGO Sustainability in Central Europe: Helping Civil Society Survive

Edited by

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Helping Civil Society Survive in Central and Eastern Europe

George Guess and Scott Abrams

Over the past decade and a half, Western countries, international institutions, and private donors invested vast resources into building a strong and effective civil society in the transition states of Central and South Eastern Europe. Viewed as an indispensable component of a healthy, functioning, modern democracy, newly established civil society or nongovernmental organizations (NGOs) were provided financial and technical support as a means to gain a foothold in the governance affairs of their respective countries. Some of these organizations succeeded at playing an integral role in the decision-making, capacity building, and/or monitoring activities that helped put their countries on a path to eventually joining the European Union. But now, as much of the foreign money used to finance such organizations begins to dry up or move elsewhere, one of the looming questions in the region is how the civil society sector can be sustained, at least to some acceptable degree.

The Open Society Institute (OSI) has long been at the forefront of promoting a strong civil society in the region. It was thus naturally of concern to OSI that many civil society organizations were ostensibly jeopardized by the reallocation of funds—both by OSI and many other traditional donors—to other parts of the world that had relatively greater need of support. Underlying this shift in regional priorities was the accession of eight Central European, former-socialist states to the EU in 2004 and the promise to accept Bulgaria and Romania in 2007. While still lagging far behind old EU members, all of the new inductees have undoubtedly taken great strides since 1989 toward becoming successful, burgeoning market economies. And the resources that the EU has at its disposal to invest in its new members overshadows what had previously been invested by other donors. But how would civil society be affected by this transition?

Donors that had made large investments in civil society, and the national and sub-national governments that often had to rely on such institutions (sometimes reluctantly), as well as the NGOs themselves, all began to ask similar questions: Should it be the EU's role to fill this potential gap in NGO support? If not, what other players could help to sustain the region's civil society? Should this task be handed over to individual national governments, local philanthropists or the general public? What roles do civil

society organizations have to play in achieving sustainability? Have they reached the point where at least some of their activities are self-sustainable? What can they do to best ensure continued support from traditional donors, EU Structural Funds, the private sector, or anyone else who benefits from their services?

In order to try and provide answers to these, and many similar, vexing questions, the Local Government and Public Service Reform Initiative—an operational program of the OSI—commissioned a team of policy research fellows, who worked between late 2003 and early 2005 under mentorship of Katalin E. Koncz,¹ executive director of OSI Budapest, to undertake an analysis of the situation. The results of five of those studies are presented herein. Importantly, this volume differs from many previous related studies in that it does not look at the sustainability of the sector in general, but rather it analyzes, in some detail, individual aspects of civil society sustainability within the national framework of each represented country.

As such, this study includes sectoral policy papers on nongovernmental organization resource centers in Romania, rural NGOs in Ukraine, and cultural associations in Estonia. It also covers examples of sustainability mechanisms, such as the one percent philanthropic tax systems and endowments in Poland, and the one percent tax system in Hungary. It is believed that much of the analysis, and many of the policy recommendations, included in the studies will have considerable applicability to other countries in the region as well. The target audience for this publication is both those institutions that have supported—or plan to support—the civil society sector in the region, as well as the recipients of that succor. Everything from strategic donor interventions to improved management of NGOs is addressed in a way that should help to better sustain those NGOs that fulfill a demonstrable public good. The case studies are prescriptive in nature and ensure that policymakers, donor representatives, and NGO leaders will be able to carry away with them clear-cut, practical steps that they can take toward this end.

The five case studies underscore the similarity of problems and constraints faced by NGOs in this region. Despite the differences in types of activities in which the nonprofits engage, the issues they face, as well as the solutions they offer, are very similar. For example, Ülle Lepp focuses on cultural organizations in Estonia. These are the theatrical, choral, dance, folkloric, and media groups that historically intensified the national movement and ensured solidarity in Estonian society. As the cradle of professional culture, they formed the very basis of modern statehood. It may not be too much of an exaggeration to say that weakening of this cultural base could threaten the foundation of Estonian society. Nevertheless, many of the 2,000 cultural organizations are having financial sustainability problems. Lack of a statistical database containing regularly re-

¹ Kinga Réthy of OSI's Executive Office also provided valuable insights and feedback to the fellows.

ported NGO fiscal information impedes direct analysis of this problem, so that anyone seeking to draw conclusions about the situation of nonprofits must rely on surveys.

There are general financial resources that all NGOs in principle can access. NGOs receive direct support from some combination of: (1) public subsidies covering general support; (2) public grants for individual projects; (3) grants from international donors or non-budgetary sources; (4) public procurement of goods/services delivered by NGOs; and (5) donations from private benefactors and companies. NGOs can also receive indirect support through: (1) organizational tax deductions; (2) statutory exemption or credit allowed from individual income tax liability; and (3) use of public property at reduced rates. NGO resources consist of: (1) entrance and membership fees; (2) revenues from sales of products/services; and (3) time contributed by members and volunteers.

However, Lepp finds that financing is a necessary but not sufficient resource to sustain cultural NGOs. Much of the financing provided to cultural organizations is not managed well, which means the funding does not enhance performance of their roles. Thus, an important finding of this study is that NGOs must locate partners from the business and public sector who can build NGO management capacity—financial, economic, and organizational. This is critical, because, as Lepp notes, many cultural NGOs: (1) lack capacity to communicate with the business sector; (2) do not notify local governments of their activities; (3) often engage in in-fighting over public procurement contracts, thereby diminishing local government interest in working with them; (4) do not disseminate valuable cultural products; (5) know how to write grant proposals but not how to manage the funds or their organizations well; and (6) passively rely on membership fees instead of actively pursuing funds through concerts and benefits.

In Poland and Hungary, NGOs have flourished since the 1990s transition, in large part following the tradition of democratic underground opposition to the previous communist regime. These NGOs have also received support from those who distrust the democratic model based on political parties and an all-powerful state. Both the parties and the state have been perceived as distant, external forces, while NGOs are seen as an alternative source of legitimacy. Tomasz Perkowski examines how both countries use the fiscal incentive of a one percent tax credit to allow a portion of society to directly contribute to the financing of particular NGO activities.

Specifically, the one percent system is a form of private-public partnership in which an individual can earmark or allocate up to one percent of their personal income tax liability to support particular nonprofit organizations—cancer research, animal shelters, private schools, churches, hospital foundations, etc. Individuals can designate up to one percent of their past year's taxes to specific beneficiaries, such as NGOs, and the funds are transferred through the tax authorities. The one percent laws in Poland and Hungary differ from tax deductions, which reduce individual taxable income by only that amount pledged. They are also different from a tax credit, which lowers one's tax liability by exactly the amount pledged. The one percent system is thus a form of tax

credit. In the author's view, the danger of supporting NGOs through the one percent system is that it can fragment society into smaller groups, incapable of supporting common interests, and it effectively gives individuals the right to allocate public funds. A Hungarian survey found that many NGOs were also opposed to this method of funding, as it kept their donors anonymous.

Perkowski finds that the one percent system is an important experiment that allows a portion of the people to allocate public funds and to strengthen a philanthropic culture. To ensure sustainability, the goal should be financial diversification of NGOs. He recognizes that NGOs cannot rely on state budgets and that citizens must be encouraged to use their own funds to support them. However, the restricted one percent system used in Poland encourages competition between exemptions and donations. Perkowski concludes that the one percent system should be a supplement, rather than a substitute for tax deductions. Among his recommendations is the proposal that the one percent system serve as an interim tool for creation of endowment-based foundations. In his view, the one percent system is less a form of charity than granting of personal choice in allocating public money. The successful creation of endowments (following the American and European models) could relieve NGOs of some of their strategic planning and fundraising obligations.

In another study of the financial sustainability of the Hungarian NGO sector, Marianna Török traces the constraints and opportunities for the development of a philanthropic culture. For the roughly 53,000 NGOs in Hungary, funding has increased by 48 percent since 2002. The problem is that about half the NGOs received little funding, and overall reliance on government financing has increased. Most state funding targets NGOs with which the state is associated, such as public benefit companies and public foundations. In other words, the funding is often politically allocated. Private sector financing has dropped from 23 percent in 1995 to 13 percent of total NGO financing in 2002. The issue for Török is how to stimulate private philanthropy to reduce dependence on state financing. The legal tax credit provision is rather limited in that it applies to only 30 percent of a donation and is limited to about USD 500 per year. The one percent partial tax credit system (described also by Perkowski above) is not widely used. While about 90 percent of the population say they like the provision, only about 35 percent designate the one percent to charity. Consistent with Perkowski's findings, many do not use the provision because they are doubtful about ethics and the accountability rules for potential NGO beneficiaries. Török suggests that tax incentives to generate revenue and diversify financing are overrated options. To increase long-term NGO sustainability, greater public trust in NGO activities is required. To achieve this, an independent institution should be created to collect information on NGOs from the courts and tax offices, and the information should be available to the public. This can provide the missing transparency that now impedes increased private donation of funds to NGOs in Hungary.

As Lepp notes, in Estonia, the sustainability of cultural NGOs has been constrained by management capacity issues. Financing was deemed necessary but not sufficient for comprehensive sustainability. In Romania, intermediary resource organizations between NGOs and donors attempt to increase the NGOs' capacities to recruit qualified staff and motivate them to manage resources properly. Raluca Negulescu notes that, over the past 14 years, NGO behavior has been donor-driven, without much consideration of strategic issues, such as the need to improve management capacity in order to increase transparency and build supporting constituencies. Now that international support for Romanian NGOs (and NGOs generally in this region) is dropping, the role of NGO resource centers will become even more important in strengthening the NGO sector.

The question is: How is it possible to sustain the resource centers so that they can help sustain NGOs? Negulescu recounts the disappointing experience of a 1997–1998 EU Phare program, which funded 21 county-level centers. The program was terminated after one and a half years, with only two centers becoming sustainable. The major problem was that the centers themselves lacked managerial capacities to provide services, effectively creating two problems where before there was only one—weak capacity NGOs. Negulescu also notes that: the failure to institutionalize the centers was due to lack of sufficient funding (there were no other donors to pick up the tab after the EU terminated its support); resource centers were treated as projects rather than core activities; resource centers were viewed as serving the central government rather than local needs; and resource centers lacked strong leadership and vision.

In an effort similar to Phare's, in 2000, the Mott Foundation began a five-year project to fund a network of regional resource centers in Romania. The purpose was to build the resource centers' capacity to provide training, consultancy, and technical services to NGOs, in order to reduce their dependency on foreign funding. The results from the Mott program were also disappointing: centers still lacked sufficient funding and experienced staff, despite training and technical assistance; centers did not manage to secure co-funding; and staff turnover was high. Despite these negative experiences, the author outlines a series of options that may help resource centers think strategically beyond daily operations. However, given the fundraising and project management experience of some NGOs, it may be more effective to concentrate future capacity-building resources directly on NGOs, rather than diffusing funding on resource centers on the theory that they can then increase NGO capacities.

Much of the research on NGO sustainability concentrates on urban NGOs operating from larger cities. By contrast, Olha Zakharchenko and Volodymyr Holovatenko examine NGO sustainability amid the poverty and breakdown of community capacity in rural Ukraine. If anything, the problems facing NGO sustainability are much more serious in rural areas. To generate information, the authors employ surveys of NGOs and investigative interviews with stakeholders in Ukraine and elsewhere in Europe. The basic problem is that rural NGOs are invisible—being out of the capital city (Kyiv)

means being out of the loop. In Ukraine, as elsewhere in the region, rural communities score low on basic human development measures—birth rates, disease, poverty, education levels, access to social protection, and municipal services are all far worse than in urban areas. Rural NGOs lack financial resources; they are also impeded by lack of standardized procedures to contract with local governments to provide services. Most rural NGOs rely on international donor funding. But most are small—62 percent of them have annual budgets between USD 0–470; only 10 percent have annual budgets in the USD 1,900–9,500 range.

Rural NGOs are plagued with the same kinds of problems as their urban counterparts—lack of management skills, inability to recruit talented personnel, and lack of funds—only their situation is far worse. A more serious problem is the stifling and contradictory legal framework. Registration and reporting requirements for rural NGOs are burdensome and seem intended to limit the growth of rural civil society by maintaining central government control and patronage. For example, NGOs must obtain (for a fee) a special license to provide social services. NGO personnel lack access to reliable legal information, and they gain most of their information from newspapers.

While the picture is rather bleak, the authors suggest that efforts to strengthen management of rural NGOs should be tried. This can be done directly, through project aid, or indirectly, through collaboration with local government units and private firms. For example, an EU Phare project is working to increase organizational development, fundraising, project management, and networking skills of rural NGOs in Harghita Judet (county), Romania. This direct approach contrasts with the relatively unsuccessful “resource center” approach noted above by Negulescu. Despite dangers of dependence on local funding, the authors suggest that rural Ukrainian NGOs should cooperate more with local governments. They note that local government units do appreciate rural NGO efforts, but they also tend to favor those NGOs with contracts that agree with their policies and procedures. And there is growing evidence of more cooperation between local government units and rural NGOs, through public hearings, advisory boards, strategic planning tools, and project sharing. The authors view collaboration and cooperation with local government units and the private sector as the key ingredient to sustainability of rural Ukrainian NGOs.

The authors in this symposium have provided path-breaking information in the area of NGO sustainability. It is hoped that policymakers, NGO staff, and civil society stakeholders in these countries and others from the region will use the lessons offered to improve the current performance and medium-term sustainability of NGOs.

Shoes for Shoemakers: NGO Resource Centers in Romania

Raluca Negulescu

ABSTRACT

The purpose of this chapter is to analyze the performance of resource centers, or support structures, for nongovernmental organizations in Romania, from the perspective of sustainability. The crucial role that these organizations have played in the evolution of Romanian NGOs is documented by a review of existing literature. This paper presents the evolution of these support organizations during the past 10 years and shows that these organizations are still critical for the future consolidation of the sector.

In an environment with limited available funding, resource centers face problems with sustainability. International donors, who are traditionally the main supporters of these intermediary organizations, have been constantly decreasing their funding for Romanian civil society—and consequently for resource centers. Meanwhile, local resources and domestic philanthropy have not developed enough to provide an adequate level of funding for resource centers to survive. Some of the centers have downscaled their operations or even closed, while most of the others do not have a life expectancy of more than one year with the existing finances.

This study, addressed to both resource centers and their existing and potential donors, focuses on a specific set of resource centers that were identified using a working definition, which is based on several models recognized by theory and practice. The study looks at sustainability from both a financial and a non-financial perspective.

The chapter is different from studies already conducted by a few donors, NGOs and independent experts, as it does not look at the sustainability of the sector in general. Instead, it analyzes in detail the performance of various resource center models and discusses their situation, offering specific sustainability recommendations for the centers and donors. Because it is important to understand the environment where the centers operate, the chapter presents key data about the NGO sector, together with a review of funding sources for Romanian nonprofit organizations in general.

The causes of the current lack of sustainability are explained by analyzing the evolution of two sets of resource center models: the ones that were created as projects within stronger organizations, and were never institutionalized; and the ones that were founded as independent NGOs. Both types of structures displayed a strong donor-driven behavior, but in each case, the donors did not make support commitments of longer than two years. In the case of resource centers run as projects, causes for failure include: insufficient funding; a poor fit between the mission of the center and that of the hosting organization; a lack of local constituencies and locally adapted services; and a lack of strategic planning and leadership. In the case of centers run as independent NGOs, which generally have a better track record of achievement and survival, the causes for their unstable financial situation and short life expectancy include: a lack of locally raised resources; insufficient cooperation and communication among centers; unsatisfactory performance in recruiting and retaining highly qualified and motivated staff; insufficient diversification and innovation; and a low capacity to recover some costs via paid services, such as training, consulting, and research.

This chapter presents both centers and donors a set of recommendations that are based on the principles that competent, value-adding resource centers are still needed for the nonprofit sector; that existing centers must be improved; and that financial and non-financial aspects of sustainability are equally important. A key premise of the study is that sustainability can be achieved only if both its actors, the resource centers, and its supporters, the donors, understand and act on the strategic issues that encourage survival and sound development. This is why it was considered important to make recommendations to both these groups, which are deemed the two most important stakeholders when it comes to sustainability for resource centers. The majority of the recommendations are addressed to resource centers, because they should first assess their current status and determine future direction, and then present donors with clear action plans. Over the course of a 14-year history, donor-driven NGO behavior in Romanian civil society has proven to have faults. Nonetheless, the NGOs still depend to a large extent on donor support. It is thus essential that the structures that aim for sustainability—the resource centers—undertake a serious strategic review process before donors can intervene. Resource centers can help donors make good use of their money by offering them long-term impact proposals instead of short-lived, survival actions.

Recommendations for centers include:

- thinking and acting strategically;
- building real constituencies;
- improving cooperation and communication;
- looking for ways to achieve sustainable diversification;
- enhancing staff qualifications and motivation;
- attempting to recover costs by providing services for fees;
- promoting transparency and best practices;

- improving partnerships with public administration, especially local governments;
- promoting social corporate responsibility and philanthropy;
- and working proactively with donors to influence their strategies.

Recommendations for donors include:

- continuing support for those existing resource centers that offer needed services at a high level of quality;
- covering operational costs beyond project costs;
- focusing on long-term results;
- encouraging local resource mobilization;
- contracting services with resource centers;
- considering more local input in their decisions;
- maintaining consistency between strategy and action;
- and ensuring better coordination.

A proper exit strategy is also recommended before international donors go through with plans to withdraw from supporting resource centers in Romania.

If donors' investment in the resource centers—estimated at USD 1 million so far—is to achieve any long-term impact, it is important for both funders and grantees to understand the factors that will determine whether the support organizations will survive and produce positive change in the very dynamic Romanian nonprofit environment. This chapter is an effort to start discussion on these issues and to encourage proactive steps in the direction of achieving sustainability.

1. INTRODUCTION

1.1 Context: The Role of Resource Centers in the Romanian NGO Sector

The relatively young Romanian nonprofit sector was born in a challenging environment. In a society where civic participation, volunteerism, and philanthropy are only in the very early stages of development, NGOs have had to cope with government distrust, media hostility or indifference, and insufficient funding. These groups have fought hard to survive and to make use of rather scarce opportunities for growth. Information, training and technical assistance, discussion forums, specific publications, and advocacy for the sector have generally been produced by an uncoordinated combination of providers. Among these providers, resource centers for NGOs have played a very important role

in promoting the growth and professionalization of the sector, which is still far from sustainable. For a healthy civil society to thrive in Romania, the sustainability of support structures, such as NGO resource centers, is very important. These centers provide services to a large number of beneficiaries in various fields of NGO activity, and they have proven to be capable of achieving significant multiplier effects.

The crucial role that resource centers have played in the evolution of Romanian NGOs is documented by a series of studies and reports, whose conclusions generally state that such organizations are still critical for the future consolidation of the sector.¹

1.2 Problem Definition: Resource Centers Need to Move Fast to Survive

Resource centers were generally set up and supported as a consequence of several donors' conclusion that such structures are needed for cost-effective development of the nonprofit sector. These donors, however, did not coordinate their efforts, nor did they have a long-term funding strategy for resource centers. As a result there were variable funding levels and, consequently, a waste of expensive resources, including qualified staff, relationship capital, and documentation and knowledge about the sector.

International support for Romanian NGOs in general, and for resource centers in particular, is decreasing, and will further drop after the country's accession to the European Union, planned for 2007. It is therefore imperative for resource centers to develop feasible sustainability plans, so they can avoid critical funding situations that may result in significant downsizing of their operations, or even force them to close. It is also very important for donors to recognize the important contribution that resource centers have had, and continue to have, for the sustainability of the sector as a whole—and to channel remaining funding effectively for long-term results. To this end, donors need to understand the causes for failure or success of resource centers and to formulate their strategies accordingly.

1.3 Statement of Intent

This paper aims to provide NGO resource centers in Romania, as well as donors and other interested stakeholders, with an analysis of past and current performance of resource centers, to show that this type of support structure is still needed for the strengthening of the country's NGO community. The paper will also propose a set of recommendations for keeping these centers sustainable.

Previous studies, by donors, NGOs, and independent experts, have sought to evaluate specific funding programs or to assess the role of resource centers for the NGO sector

as a whole. This study focuses on the performance of various resource center models and discusses their situation from the specific perspective of sustainability. It also offers detailed sustainability recommendations, for the resource centers and for donors.

1.4 Methodology and Limitations

Methods used during the research include:

- A database review,² intended to identify organizations whose mission is connected to providing resources for NGOs.
- A study of secondary sources, such as reports on the state of the NGO sector in Romania, NGO publications, and white papers by NGO forums.³
- Primary research, consisting of in-depth interviews with all identified active NGO resource centers and analysis of documents produced by resource centers. The NGOs interviewed are listed in Appendix 1, and the set of questions around which the interviews are based are presented in Appendix 2.
- Structured discussions with donors that have funded resource centers and with several resource centers active in other countries in Central and Eastern Europe (CEE). Discussions were also conducted with donors who have not funded such organizations.

It is important to note the contributions of organizations that do not claim to be NGO resource centers but still do similar work. Stronger NGOs, and resource centers for various professions, have provided resources and assistance, sometimes informally, to other NGOs. However, due to time and information constraints, this paper will focus on those organizations with a primary mission of serving nonprofit organizations and/or developing civil society. The paper will also focus on resource centers that serve all types of NGOs generally. There are sectoral resource centers, which work with NGOs in specific sectors, like the environment or social services, and give more specialized assistance, but these are not the focus of the current study.

The research did not aim to collect direct information from beneficiaries of NGO resource centers. Instead, the study has used records made available by resource centers, together with existing literature, to document the need for, and usefulness of, services provided by resource centers.

As a final note, it should be pointed out that the conclusions drawn in this report are based on currently available information. These conclusions might need to be altered or even dropped if significant changes take place in the legal, political, or economic environment. Furthermore, it is important to understand that, while sustainability strategies can vary greatly in Romania's unequally developed regions, the recommendations of this study are general, so they should be implemented with consideration to local

factors. Finally, it should be emphasized that, when acting on these recommendations, the resource centers' beneficiaries, i.e., NGOs, should be consulted and involved.

1.5 Roadmap

This chapter offers a working definition for resource centers, explains the importance of these centers for the nonprofit community, and explains why resource centers need to become sustainable. The paper examines and discusses the role, functions, and added value that NGO resource centers have brought to the Romanian NGO sector. The paper also looks at the evolution of resource centers established by several donors in various contexts. The final section of the paper contains a set of recommendations, intended to help donors and resource centers improve their strategies for sustainability.

2. NGO RESOURCE CENTERS IN ROMANIA: POINTS REACHED IN EFFORTS TOWARDS SUSTAINABILITY

2.1 Clarification of Terms

Before discussing the current sustainability issues with regard to Romanian resource centers, it is useful to introduce an operating definition of a resource center and to identify the major features of their sustainability.

To outline a definition for resource centers, several sources were used, including the description of the Orpheus Network of Resource Centers in CEE,⁴ an evaluation conducted for the Charles Stewart Mott Foundation by Charities Evaluation Services in 1997, a Charity Know How Fund report on the Romanian NGO sector written in 2000, and a strategy document produced by The Assistance Center for NGOs (CENTRAS) for the five regional resource centers set up with Mott funding in 2001.

An NGO resource center⁵ can be described for the purposes of this research as an organization that fulfills the following criteria:

- It is an independent legal structure, not a project of a different organization.
- Its mission consists predominantly of developing the NGO community, by providing resources and/or assistance to nongovernmental organizations.
- It offers assistance to NGOs, irrespective of their field of activity, rather than to a specific sub-sector, like youth or the environment.
- Its projects are generally related to this mission; unrelated activities are incidental in the life of the organization.

Generally, the services provided by a resource center to its beneficiaries include: information; technical assistance and consulting; training; advocacy on behalf of the sector; promotion of the sector; promotion of cross-sector partnerships, between NGOs and public administration, the business sector, and academia; and sector integration work, like facilitating relations with other NGOs, promoting best practices, and organizing NGO forums, fairs, and other events.

Obviously, in a fluid environment characterized by scarcity of funding and by different donor perceptions of the functions that a resource center should perform, the functions and services provided by resource centers may change. However, most of the support structures that have played a role in the development of the Romanian NGO sector meet the above general criteria, so it is safe to use these parameters when deciding which organizations to include in the research.⁶ This definition is not meant to integrate all theoretical approaches to the issue, nor to cover every type of organization providing services for other NGOs, but it is useful in identifying the organizations playing this role for the purposes of this research.

“Sustainability” in this study is understood to mean a state of organizational development sufficiently advanced such that:

- The organization has enough resources, including financial and other tangible assets, to survive for more than the immediate time horizon of two-to-three years.
- These resources are sufficient and uninterruptedly available to perform services at an adequate level of quality, recognized by clients.
- The organization can afford to invest in its own development, which means it can allocate resources for recruiting and training competent staff, for fundraising, and for promotion.
- The organization has built sufficient trust and credibility in the community to be able to attract support from partners, beneficiaries, and public institutions.
- The organization has a clear mission and vision and adequate leadership to advance its goals.
- The supporters of the organization are diverse. In other words, there are a variety of funding sources in the organizations’ donor portfolio.

In its 2003 NGO Sustainability Index, USAID identifies seven dimensions of sustainability for the nonprofit sector in general: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image. Thus, USAID recognizes in its research that there is more to sustainability than financial viability, and it explores important issues, such as advocacy and public image, which are particularly relevant for the sustainability of NGO resource centers as well.

2.2 Importance of Sustainable Resource Centers for the Romanian NGO Sector

Strong and financially stable resource centers have been considered essential for the sustainability of the NGO sector in Romania. Resource centers have been a key factor in seeding civil society, accelerating the progress of the NGO sector, and using scarce resources effectively to build capacity of nonprofit organizations. When services provided by resource centers were downscaled or interrupted, consequences were serious, not only for the centers themselves, but also for the sector as a whole.

A study conducted in 2001 for the Romanian Donors' Forum⁷ states:

The intermediary organizations in this system bring important benefits, such as: an improved access to funds for the communities they serve; a better regional balance in the flow of resources; greater awareness of changing needs and opportunities to articulate these changes; a reduction in the cost of maintaining operations (compared to the costs of bigger donors); opportunities for cost sharing for a number of donors [...] If cost effective systems are maintained and quality services offered, then intermediaries play an important and positive role, through the timely identification and response to needs and increased advocacy capacity.

In another review of the Romanian NGO sector, Vera Dakova and her colleagues note the importance of resource centers, especially in remote areas:

Much of the early support and development of the sector came from international agencies. A number of professional trainers, advisors, information resources and publications now exist within the sector. However, there is a critical need to develop intermediary support organizations and particularly regional NGO resource centers to overcome the lack of resources for NGOs outside the principal cities.⁸

The sustainability of resource centers is important for the NGO sector because:

- In the absence of such support structures, NGOs will ask donors to do the same things that a resource center can do more cost effectively. Donors have difficulty performing these services because they have neither the detailed information, nor the flexibility, nor the capacity—which includes available personnel and customized competencies.
- Resource centers not only help established NGOs but also newly emerging organizations, thereby encouraging associative behavior and supporting grassroots NGO activity.
- Resource centers promote the sector, increasing its visibility and trustworthiness, two features that are essential to stimulate private giving and creation of social capital. No single NGO has the capacity to undertake this activity.
- Resource centers provide accurate and up-to-date assessment of NGO needs and performance, thus enabling donors, administration and businesses to make informed strategic decisions in their relationship to NGOs.

- Resource centers give NGOs tools to become more sustainable, from up-to-date information to complex training and customized assistance.
- These centers are a suitable vehicle for facilitating communication among NGOs. They also facilitate partnerships between NGOs and other sectors and advocate for the interests of the sector as a whole.

Resource centers need financial security as well as non-financial sustainability to perform quality services. If resource centers cannot achieve sustainability, and are under the stress of unpredictable funding, they are likely to believe that they have limited long-term prospects and that they run the risk of being abandoned by their institutional supporters on short notice. This is a strong disincentive to engage in proactive, innovative behavior. Furthermore, because their activities are extremely human resource-intensive, disruptions in funding for resource centers can result in lack of motivation and enthusiasm and in departure of qualified staff, entailing losses in valuable knowledge and experience.

2.3 Brief Facts on Romanian NGO Resource Centers and their Clients

Based on the definition presented above in Section 2.1, eight resource centers for NGOs were identified and interviewed in depth. A summary table featuring key quantitative data about their activities is presented in Table 1.

Recent quantitative data about NGOs—the clients of resource centers—is also relevant to understand the level of demand for the centers’ services. Based on financial reports submitted by NGOs to the Ministry of Finance, and on estimations by different organizations, there are between 2,500 and 4,000 active¹⁰ NGOs in Romania, which has a population of 22.5 million people. The number of registered NGOs in 2002 was about 39,000. The NGO sector employs 62,700 people, up from 12,000 in 1997. A sizable proportion of the sector’s funding still originates from external sources, as is shown in Figure 1.¹¹ The Civil Society Development Foundation, which collected the data, notes that, according to Romanian fiscal legislation, most respondents actually included external funding in the donations and “others” categories. For example, funds paid by a foreign donor with an office in Romania would be recorded as a “donation.” This means that the percentage of external funding may actually be closer to 35–40 percent, a lot more than is indicated in Figure 1.

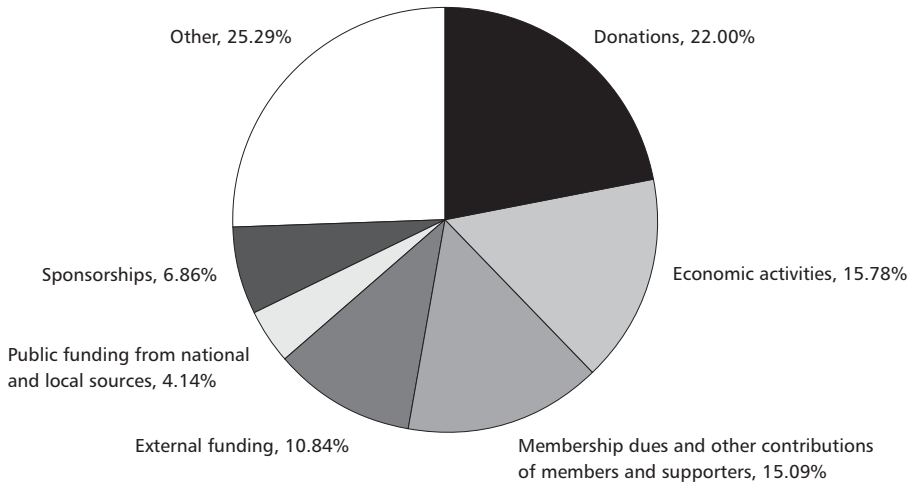
Table 1.
Key Indicators for Romanian NGO Resource Centers—2003

Center Full name	Location Year established	Employees 2003	Volunteers 2003	Beneficiaries 2003	Budget 2003 (USD)
AID—ONG (Agency for Information and Development of Nongovernmental Organizations)	Timisoara 1997	4 full time 2 part time	28 (222— projects of the Volunteer Center)	29 information 29 consultancy 8 training 50 events 327 e-lists	25,013
CENRES (Regional Resource Center for NGOs)	Suceava 2001	3 full time + 2 part time	12	49 all services	48,335
CENTRAS (Assistance Center for Nongovernmental Organizations)	Bucharest 1995	10 full time + 2 part time	4	43 consultancy 47 technical assistance 450 training 1,500 magazine 1,000 other publications	214,910
CENTRAS (as a fully autonomous branch of CENTRAS Bucharest)	Constanta 2001	5 full time 2 part time	30 (placed 160 trained 80 via the Volunteer Center)	300 information 931 access to technical resources 30 consultancy 259 technical assistance 140 training 300 NGO Forum, fairs, conferences, and exhibitions 150 promoting partnerships with local public administration 8 coaching	29,434

CERAS (Regional Resource Center for NGOs)	Ramnicu Valcea 2001	3 full time 7 part time	10 (72— volunteer center projects)	85 67 48	technical assistance consultancy training	37,130
CRR (Regional Resource Center)	Cluj-Napoca 2001	1	2	183 479 46	training, consultancy, technical assistance, library e-lists events	7,630
CREST (Resource Center CREST)	Satu-Mare 1998	6 full time + 7 part time	5	53 27 63 7 6	NGOs in Romania, France, and Hungary City Halls education institutions state institutions businesses	180,172
FDSC (Civil Society Development Foundation)	Bucharest 1996	34	n/a	n/a		n/a

Source: Primary research—questionnaire and annual reports.⁹

Figure 1.
Sources of Funding for Romanian NGOs, 2002 (%)



Source: Civil Society Development Foundation.

The size of donor support for NGOs varies, but, according to 2001 data, only a small number of donors could provide annual support of more than USD 500,000.¹²

Dakova and her colleagues note:

In the current environment, a funding level of USD 100,000 per year was thought to be the maximum income level that a well-established and credible organization could hope to raise from all sources of finance. While there are a number of small to medium sized grant programs, there is an absence of long-term strategic support for the larger agencies (many of which are key organizations in the sector).¹³

According to donors, Romanian NGOs still experience weaknesses with regard to their public image, accountability and trustworthiness. Other issues include a lack of long-term vision, strategies, and policies, as well as a marked dependency on donors. NGOs need to improve their capacity to respond to needs and to implement quality projects.¹⁴ Donors also said that a typical organization's capacity to raise resources to accomplish their mission is limited, and there is a much greater focus on short-term survival than on long-term change. NGOs are not yet perceived by the public as being strong enough to solve community needs, monitor government, or enhance civic participation. Dakova and her colleagues also note a limited capacity of donors to receive representative information about the needs of beneficiaries:

In the past, donors tended to consult with NGO leaders and influential experts in Bucharest, which in some cases led to serving a limited circle of interests. These NGO leaders often did not recognize their responsibility as ‘spokespersons’ for the sector and expressed only personal views or self-serving interests. While donors recognized the need to consult more broadly, Romania is a large country with poor transport infrastructure, particularly in remoter areas. This means that donors will continue to rely on intermediaries and/or other donors for information, placing great importance on the reliability and validity of their views. Specifically, it requires intermediaries to be aware of sectoral issues and interests outside principal cities and to represent these in discussions with donors.¹⁵

The 2001 study for the Romanian Donors’ Forum notes problems with core costs, which is a controversial issue in the NGO sector:

While many donors provide non-financial support in the form of technical assistance, training and networking support, a small number of donors regularly provide financial support for organizational development. Also, in most cases, only a small percentage of funding covers core costs of the organizations, while the largest proportion supports specific projects, making it difficult for NGOs to maintain a permanent office and core staff.¹⁶

At the end of 2002, records of active resource centers indicated that the demand for their (free) services was still exceeding their capacity. Although some of these resource centers had been established almost 10 years ago, all respondents of this research expressed serious concerns with regard to their funding. These funding concerns centered around three relevant points of view: the amount, which respondents considered insufficient to meet the demand for services; the sources, which have almost exclusively consisted of foreign money, in a higher proportion than external funding for the sector as a whole; and the donors’ inconsistent commitment to support resource centers, which have experienced serious interruptions in funding in the past few years. It cannot be said that existing Romanian NGO resource centers have achieved sustainability, as it is defined earlier in this chapter.

2.4 Causes for Lack of Sustainability of Resource Centers

To understand the causes of the problem, we need to look briefly at the history of resource centers for NGOs in Romania.

2.4.1 The early years

In the first half of the 1990’s, a massive inflow of international funding was channeled through NGOs for various programs and activities. These NGOs were getting information, training, and technical assistance, in some cases from abroad and in other cases

from local donors, but there were no support structures of the type earlier defined as resource centers. Stronger organizations were, in some sense, often playing the role of support structures, because, in many cases, they were offering younger grassroots NGOs access to their resources, information, and assistance.

The first two organizations with a formal mission and strategic action in the direction of providing resources and assistance to NGOs were the Civil Society Development Foundation (CSDF), established in 1996, and the Assistance Center for Nongovernmental Organizations (CENTRAS), set up in 1995, both based in Bucharest. With major funding from both public and private sources, such as the EU Phare program and C. S. Mott Foundation, these organizations started to provide extensive information, training in NGO management, and fundraising. They also organized landmark events of the sector, such as the annual National NGO Forum coordinated by CENTRAS or the NGO Fair organized by CSDF. The two organizations have been involved in drafting and promoting key legislation for the sector, including the new law for associations and foundations, the sponsorship law, and, later, the one-percent mechanism. In addition, they have systematically published two periodicals dedicated to the NGO sector: CSDF published a weekly electronic newsletter, *Voluntar* (“Volunteer”), and CENTRAS published a monthly print magazine, *Atitudini* (“Attitudes”). These two resource centers continue to be active organizations, with large operational budgets of more than USD 100,000 per year and a relatively diverse portfolio of funders.

It is to be noted that both these organizations, which can be considered the more advanced among other resource centers in terms of sustainability, did not emerge in response to any specific call for proposals by a donor, but rather from a recognition by a few leaders with good donor contacts that there was a tremendous need for services for NGOs countrywide. This need was documented somewhat later by NGO Forums and by professional research.

2.4.2 Resource centers funded by Phare in 1997–1998

In 1996, the European Union’s Phare program opened a dedicated funding line for resource centers. The model required that already established NGOs applied for funding to open resource centers as projects, meaning the recipients could thus obtain resources that enabled them to offer assistance to other organizations in their vicinity. These support centers could be local or sectoral, which means serving organizations active in one specific field, such as the environment.

The program, administered by the Civil Society Development Foundation, called for organizations to fulfill very specific conditions in order to set up a resource center: “It had to be initiated by NGOs with established activities, with sufficient human and material resources [...], and to be based on partnerships between NGOs themselves

and with local authorities.”¹⁷ However, the grant recipients were not required to set up new legal entities. Their role included provision of information, advice, consultancy, and training, as well as offering other NGOs access to material resources, such as meeting space and the Internet. It was also considered desirable that the grant recipients advocate on behalf of the sector.

Twenty-one organizations were funded through Phare, with around ECU 300,000, to start county-level¹⁸ resource centers. Services offered included legal advice, information on funding opportunities, consulting in proposal writing, NGO contact information, advice on project management and other NGO management-related issues, reporting to funders, event management, and training. Beneficiary NGOs noted that other assistance from the resource centers included: facilitation of local NGO cooperation via local forums, coalitions and events; partnership with local authorities, especially for NGO forums; and a contribution to the improvement of the sectors’ visibility in the community, in many cases via good media relations.¹⁹

The program effectively started in 1997, but, after a year and a half, the funding was abruptly interrupted. One of the resource centers funded by this program, AID-ONG Timisoara, very quickly became an independent NGO. Another one of the resource centers funded by this program, CREST, was spun off as a separate NGO much later, in 2002. But these were the only two lasting outcomes of the program, and in the vast majority of cases, the services ceased once the funding was over.

2.4.3 Phare-funded resource centers: Why did they not survive?

According to Dakova and her colleagues:

During the 1998 National NGO Forum it was reported that about 20 resource centers were functioning in the country. This was seen as one of the biggest strengths of the NGO sector. There was also some critical reflection during the discussions at the Forum, raising concerns about the institutionalization of the centers, their representative function, the quality of services, and a lack of networking and cooperation between centers. The same year, funding through the CSDF was unexpectedly suspended and many of the centers ceased to exist. Four centers were selected for interview as part of this review, of which only one was still delivering services to NGOs.²⁰

In 2000, CENTRAS research also found that only three of these organizations had maintained their role as a support center in some form. Generally, they were deriving some resources from the organization’s mainstream projects and performing support activities incidentally, on a reactive rather than proactive basis. Some of the grantees were no longer active at all. Those that were active as NGOs, and were also able to provide some support to other groups, were, at best, information and contact points for NGOs in their regions. They did not provide a clear range of services to a clearly defined group of clients, nor were they aware of any standards needed for delivering these services.

The 1998 NGO Forum hosted a special workshop to discuss the role, setup and operations of resource centers. According to the final report of this event, recipient organizations reacted to the funder's institutional development criteria rather than pro-actively initiating structures in response to local needs. The document mentions the positive side about the program: It gave an opportunity for mature organizations to incubate resource centers successfully. On the other hand, there are also some long-term risks associated with this model: "incubator" organizations may exhaust resources in supporting resource centers; the program runs the risk of giving the "incubator" organization the image of a structure seeking to become a representative for the local NGO community; resource centers are not sufficiently motivated for dynamic institutional development; there is no service market for NGOs and for local development projects.²¹ Participating NGOs said that the centers needed to become independent from their initiating organizations, so they could gain strength and credibility. The forum also asked for better service quality and a for a more dynamic information policy from the resource centers.²²

Local NGO Forums, which are often organized by resource centers themselves, confirmed the usefulness of support services. These forums called for the establishment of more centers at the local level and/or the improvement of the existing ones.

It is worth noting that the new Phare funding, made available again in 2003 and discussed later in this study, calls for a similar model.

Some of the weaknesses that kept the original Phare program from making these resource centers sustainable included:²³

- **Insufficient funding:** When the EU funding line was halted, no other donor counterbalanced this shortage of funds. It was too early for the new resource centers to look for alternative funding sources locally, and the environment did not allow for sustainability based on paid services. Funding was divided in small amounts that was given to many grantees. Instead, funding could have been concentrated, to give consistent support to a smaller group of centers, which would have had a better chance of succeeding. No funding was available for the training needed for quality services or for further fundraising. Not enough capacity was built up.
- **Resource centers were built on existing organizations with different missions:** Some of the grantees regarded the resource center function as just another project, and maybe a fundraising opportunity, instead of treating NGO support as their core activity. This model meant the groups had insufficient commitment and a lack of motivation to continue the activity when funding stopped.
- **Lack of local constituencies and lack of locally-adapted services:** Many centers were seen as distributing Bucharest-originated resources, rather than responding to local needs. They did not define clearly what services they would provide, what clients they would provide them to, and what standards of service they

would provide. They did not seek input or feedback from their beneficiaries, which meant they did not adapt their offerings to the local demand.

- **Lack of strategic planning and leadership:** A lack of strong leaders and specific expertise often meant a lack of vision and strategic planning. This had many consequences. For example, instead of multiplying expertise and best practices, in many cases, the lack of information sharing meant there was a waste of time, resources, and experience.

It is important to note that the failure of the program to build sustainable resource centers does not reflect an absence of needs at the grassroots level. Instead it indicates a questionable theoretical approach and a major funding crisis at the donor level. The need for services provided by resource centers continued to exist. It was documented by subsequent studies and by hundreds of requests for information, assistance, and training received by the two national resource centers, CENTRAS and CSDF. Of course, these centers could not cover the whole range of needs expressed by NGOs all over the country.

There was a need for resource centers to act as a network, to address issues of regional disparities, to improve sectoral cooperation, to facilitate local consultative processes in order to define priorities, to reach out for smaller grassroots NGOs located in the country, and to actively seek and use beneficiaries' feedback. Aside from these services, resource centers were also needed to perform functions that were vital for the consolidation of the sector but that no other NGOs were capable of fulfilling. These functions include: "changing negative practices in the sector—exclusiveness, competition, mistrust; providing reference points for donors and other institutions; utilizing existing resources for NGO development (information, training materials, publications) more effectively; representing the local NGO community—by assisting communication and interaction with local authorities and the media; promoting the sector by participation in local bodies and ensuring that NGOs participate in relevant negotiations and discussions; fundraising on behalf of the local community for joint projects."²⁴

2.4.4 Mott-funded network of regional resource centers: Better model, still not sustainable

In 2000, as international resources for the NGO sector started to decrease, the Charles Stewart Mott Foundation, which had an active presence in Romania, decided to fund the setup of a regional resource centers network with USD 100,000 per year for the first two years. The project was designed and implemented by CENTRAS. As a national resource center which, besides its 3,500 annual beneficiaries, saw many more requests that could not be satisfied, CENTRAS thought that the establishment of several well-managed,

pro-active resource centers—with a strong vision and with a clear understanding of their clients, services and standards—would be an effective way to help the Romanian NGO sector build its strength, increase its networking capacity, and adopt better transparent operating practices. The original objectives of the project, which was designed for five years, were stated as follows in the proposal submitted to the Mott Foundation:

- to develop a network of resource centers covering the entire country, address regional imbalances, and challenge the current lack of cooperation within the third sector;
- to provide training, consultancy, and technical assistance services to NGOs, allowing for transparency and experience exchange, in order to achieve a multiplier effect;
- to ensure equal access to services to all beneficiary NGOs;
- to allow for continuous feedback, which would be incorporated in the functional strategies of the centers, in order to permanently adapt their demand to developing needs instead of providing a preset, rigid range of services.

In the short- to medium-term, the program aimed to build trust between NGOs, to facilitate networking and coalition building, to help the sector create partnerships with the local public administration and contacts with the business sector, and to develop local resources for the nonprofit sector in an attempt to reduce its dependency on foreign funding.

The project started from the idea that it should set up new, independent legal structures, instead of using developed NGOs. It was feared that existing NGOs might be willing to undertake a center as a project but then would fall back on the mother organization's projects as soon as funding was over. In an attempt to avoid donor-driven behavior and to build local buy-in early in the project, CENTRAS agreed with the Mott Foundation to re-grant the money to the resource centers. CENTRAS also agreed to facilitate the setup process, staff training, and communication among centers.

Thus, the startup process was designed to take into account input from future beneficiaries in each region that would be served by a center. After a two-week study tour, involving key players such as active local NGOs, local public authorities, and former Phare grantees, five locations were chosen for the resource centers: Ramnicu-Valcea, Constanta, Timisoara, Suceava, and Cluj-Napoca. The only place where an existing resource center was included in the program was Timisoara, where the previously mentioned AID-ONG center was chosen. The location selection considered criteria such as: demand vs. available services, the existing experience and capacity of NGOs, the human resources available in the area, the funding and development opportunities, and the degree of receptivity shown by local administration.

The model of services was based on needs expressed by local NGOs, as well as on an assessment of similar services fully or partly provided by other organizations. The planned services included:

- **Information:** This service covered information on donors and funding opportunities, training programs, and legislation. Other information services included databases of NGOs in the region, library and resource materials development, Internet access, press clipping, and basic how-to kits in NGO management. This function also included a research component.
- **Technical assistance and consulting:** This encompassed: assistance with strategic planning; project management; human resources, including volunteer management; board development; fundraising; media relations; and financial/accounting issues. Another aspect of this service was access to equipment and facilities.
- **Training:** Services in this area included identification of training needs; evaluation services; and training in NGO management, covering areas like fundraising, project management, cooperation with local government, teambuilding, public relations, and strategic planning.
- **Sector integration:** This work involved help in building and strengthening the base for cooperation among NGOs, facilitating coalition-building, offering advice for the establishment of umbrella organizations, and initiating and coordinating NGO events, such as county forums.
- **Cooperation between NGOs and other sectors:** This service included building contacts and encouraging partnerships with the local administration, business, media, the church, schools, and other community stakeholders. It also involved providing leadership in: facilitating input from NGOs in the policy making process; asking for transparent regulations regarding contracting of services and granting funds from local budgets to NGOs; and collection and dissemination of success stories and best practices in partnership management.
- **Promotion of the NGO sector in the region:** This work involved establishing permanent contacts with: local authorities; the media, to promote the projects developed by NGOs in the region; the business sector, to facilitate links between NGOs and possible sponsors; funders; and national organizations and institutions.

The centers were already functional in 2001. CENTRAS facilitated the startup process, provided training, managerial assistance, and informational resources to newly established resource centers. But it was the centers' responsibility to decide on the services they were to provide, what clients they would serve, and at what standards. Also, although the quality standards of the Orpheus network were taken initially as a starting point, the centers were encouraged to jointly develop standards for services adapted to the local context.

At the end of 2002, the following results could be reported to the constituents and the funder:²⁵

- **Information:** The centers built local extensions of CENTRAS's RO_NGO database, adding more than 2,000 records. Fifty issues of NGO newsletters reached 1,000 subscribers. The newsletters offered information about NGO activities, funding programs, regional and national NGO events, and legal issues. E-mail lists, designed to raise cohesiveness in the associative sector and allow discussion of common issues, were established, with about 1,000 subscriber organizations. Media monitoring resulted in reports being distributed to NGOs, local administration, and funders. Information kits were created to support the establishment of new NGOs. NGO calendars and web pages were set up for each resource center, and a documentary service with 1,300 volumes and 1,500 e-documents was created.
- **Partnership and cross-sectoral cooperation:** All centers provided consulting for NGOs and public institutions, conducted joint training sessions, and organized regular meetings between NGOs and local administration. Meetings and common projects were also initiated with local businesses, journalists covering the NGO sector, and members of academia.
- **Integration of the associative sector:** The centers initiated or participated in county forums in all five regions, offered technical assistance and consulting for event planning and coordination, and followed up with initiatives like permanent committees or NGO catalogues. They also published event calendars and initiated NGO clubs, research projects, public information campaigns, and local partnership groups.
- **Training and consulting:** The centers performed 15 training sessions on organizational management, proposal writing, project management, promotion tools, financial management, legal issues, and volunteer management. A total of 300 NGOs received technical assistance for event coordination, legal issues and fundraising. Consultancy was provided to 210 NGOs on legal issues, organizational management, fundraising and financial/accounting topics.
- **Promotion of the sector:** The centers established media relations, issued news releases, and organized press conferences, mostly related to the forums. They participated in public communication campaigns, carried out press monitoring, and published the results. They also initiated periodical meetings between NGOs and the media. The e-newsletter *Voluntar* showed an increase in visibility of 27 percent in the areas served by the resource centers, compared to a decrease of 15 percent in a witness group consisting of areas that were similar in population and development but had no resource centers. The periods measured were April 2000-August 2001 versus September 2001-December 2002.

Sustainability was a priority from the beginning, and it was expected to be a challenge in the first years. CENTRAS was of the opinion that a paid services scheme was really premature in the NGO environment at that point. However, financial and non-financial sustainability was considered a key long-term objective, and the centers were encouraged to try to avoid dependency on Mott funding. Therefore, they tried to secure support from additional sources. A total of 52 projects were submitted to various national and international donors, resulting in about USD 80,000 in cash and in-kind contributions. United States Peace Corps volunteers were integrated into the centers' projects. At the beginning of 2003, CENTRAS also secured from the Canadian Embassy USD 30,000, to fund training and assistance for the centers' staff in the field of promotion and media relations. In 2003–2004 three of the centers were involved in a technical assistance project financed by USAID.

At the end of 2002, the C.S. Mott Foundation, which was reducing its presence in CEE, announced that it would grant only USD 40,000 for all five centers for the next two years.

An internal evaluation of the resource centers conducted at the end of 2002 showed both the significant results mentioned above and a series of shortcomings:

- According to the centers' own perception, they were showing a deficit in regional cooperation projects and image promotion. The centers said they thought resources, such as sufficient funding and experienced staff, were lacking. Also, the geographical areas each center was supposed to cover in the original design proved to be too large, given the time frame and the resources.
- Most centers did not manage to secure sufficient co-funding, and therefore they relied almost exclusively on the Mott grant. This proved to be a very serious problem when the funder unexpectedly stepped out of the project. Centers also mentioned the lack of NGO capacity to pay for services, as well as the lack of involvement from some local public administration representatives, as obstacles on the way to sustainability.
- As it became clear that funding would drop dramatically, centers were confronted with high staff turnover, which resulted in loss of accumulated expertise and information.

A SWOT analysis was conducted within this evaluation process. It resulted in the chart shown in Figure 2. Some of the points in this chart are applicable only to particular centers, rather than the whole network.

Figure 2.
SWOT Analysis of the C. S. Mott Foundation Project

Internal	<p>Strengths</p> <ul style="list-style-type: none"> • Young, innovative team • Adequate office/equipment • Diverse, up-to-date information available to NGOs requesting assistance • Center staff now have more experience in producing and distributing information in varied formats • Capacity to perform personalized services such as coaching • Ability to network • Experience in web site building and management • Centers are better equipped for NGO sector research 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Small budget for travel in the region and no adequate transportation means • Lack of funding to accomplish regional cooperation • Lack of volunteer management experience • Lack of volunteers • Lack of financial resources to promote the centers' services • Difficulty in recovering costs from paid services • The network was not used effectively as a tool to raise significant funding for regional/national projects • Trainers are not available to deliver training on site
External	<p>Opportunities</p> <ul style="list-style-type: none"> • Support from regional NGO communities for the centers' setup and operations • Receptiveness of media and universities • Clear, though insufficient, development of NGOs relations with local governments, media, businesses • Formal openness for collaboration expressed by NGOs, local governments, and citizens interested in associative life 	<p>Threats</p> <ul style="list-style-type: none"> • Low degree of cooperation among local NGOs • Low receptiveness of NGOs with regard to feedback on services received from the centers • Lack of specific funding programs for particular regional needs • Limited financial resources for activities with regional outreach • Lack of success stories involving NGOs and local government; in general, low receptiveness for cooperation/partnership projects • Few NGO financial resources for projects in partnership • Decrease of external funding for activities/services of resource centers for NGOs • Insufficient implementation of best practices • Reduced IT infrastructure results in a limited number of beneficiaries being able to use electronic communication

The project continued at a reduced pace in 2003, as Mott funding decreased to USD 20,000 for all centers—compared to USD 100,000 per year during 2001 and 2002.

The Cluj center downsized significantly, paying only one full-time employee and closing its newsletter, while maintaining the library, technical assistance, and advisory services, management of electronic groups, and facilitation of a club of new NGOs, with US government support.²⁶ CENRES Suceava implemented a citizens' information center, financed through a Phare program, and a local advocacy effort, with US funding. The Suceava, Valcea, and Constanta centers were able to continue all of their services, though at a somewhat reduced level, thanks to good relationships with local public administration and a series of projects that covered their operational costs—even though these projects were not 100 percent related to their missions as resource centers.

Most centers continued to participate in the organization of local NGO forums and managed to conduct training sessions for local NGOs. CENTRAS involved all five centers in a training-of-trainers program with a focus on public relations/media relations for NGOs. CENTRAS also included the Constanta center in a technical assistance contract with World Learning for a USAID-funded program.

The centers in Constanta, Valcea, and Timisoara started, and secured funding for, volunteer centers, run as projects within their organizations. This enabled them to cover a portion of operational costs while staying close to their mission. The Constanta center also founded, together with a school and another NGO, a center for sustainable rural development, which shares premises with the resource center. This particular move can be interpreted as a shift in strategy based on available funding, given that rural development is now a priority for EU's financial aid to Romania.

2.4.5 How far did the Mott-funded resource centers go in terms of sustainability?

Although the Mott-funded program to establish regional resource centers was based on a better model than the earlier Phare program, it cannot be said that these centers are sustainable. Their life horizon is at most a year based on currently available cash, and one of them has *de facto* closed down due to lack of resources. Being independent organizations, they were able to secure some, if limited, resources, separately from their initiators, and they have the opportunity to continue fundraising in the future. However, a series of factors, including C. S. Mott Foundation's reduction in support after two years of funding, combined with the inability of centers to raise funding from local communities, resulted in a critical situation for the Cluj center—and some departure from the mission in the cases of CENRES Suceava, CENTRAS Constanta, and CERAS Rm. Valcea.

The capacity to mobilize local resources for the support of the resource centers' activity was overestimated. Although, in many cases, the public, the local administration, and even businesses, have improved their awareness of, and relationship with,

NGOs, it is still hard to prove the immediate benefits of an NGO resource center. This makes it hard to effectively fundraise for the activities of such a center. Thus, even where local resources are available, they are generally directed towards organizations with an immediate, direct impact in the community, such as organizations working in social services, catering to youth, or seeking to protect the environment. Also, it seems it was still too early for some centers to recover even a part of their costs through paid services, because beneficiary NGOs were not willing or able to pay for training, consultancy or participation in events.

This outcome seems consistent with the findings of a study on philanthropic behavior conducted by the Association for Community Relations Romania in 2003. The study suggests that the “less visible” types of organizations, which include organizations working for democracy or human rights, as well as resource centers, still have to rely on the support of institutional donors.

The following table of funding sources for the resource centers shows that most of them depend to a very large extent on international donors.²⁷

Table 2.
Sources of Funding for Resource Centers

Center	Total budget (USD)	Own income (%)	C. S. Mott funding (%)	Other int'l sources (%)	Local administration (%)	Bank interest, VAT reimbursement, credits, etc. (%)
AID-ONG Timisoara	25,013	10	8	82	0	0
CENRES Suceava	48,335	0	7	89	4	0
CENTRAS Bucharest	14,910	23	0	75	0	2
CRR Cluj	7,630	41	52	0	0	7
CERAS Rm. Valcea	37,130	0	8	92	0	0
CENTRAS Constanta	29,434	16	10	73	0	1
CREST Satu-Mare	180,172	18	0	67	0	15

Source: Annual reports.

For comparison, the Orpheus network of resource centers in CEE estimates that the budget of the average center in the region comprises two main categories: grants (80–90 percent) and other contributions, such as donations from local government and the corporate sector, and income-generating activities (10–20 percent). The funding of resources centers varies, and it depends on the scope of activities undertaken, services provided, and the range of the target group. Well-developed centers reach annual funding at the level of USD 150,000–200,000, while smaller centers report having budgets of around USD 20,000.²⁸

An interesting perspective, according to Dan Siegel, Jenny Yancey, and Caroline Hartnell,²⁹ is that many leading infrastructure organizations in poor countries and emerging democracies have relied heavily on foreign foundation funding during their startup years. While their setup and survival could not have been possible without this support, the article notes that this model can trigger suspicions about civil society being controlled by foreign agendas, thereby making it even more difficult to get local support.

From the non-financial perspective, the centers faced several challenges, one of which was cooperation, both with regard to their communities and among themselves. While lack of collaboration in the sector—including asymmetry of information, limited resources, cultural and leadership issues—is a problem external to the resource centers, the absence of real cooperation within the network of centers was a major setback from the point of view of sustainability. The centers missed opportunities to conduct joint projects, to take proactive behavior towards funders, and to exchange best practices. Usually, real communication and cooperation only took place via an external facilitator, such as CENTRAS, in the cases mentioned before. Thus, rather than working as a point-to-point mechanism, the network has operated *de facto* like a hub-and-spoke system, meaning that, without the hub, the points at the far ends of the spokes were left disconnected. This did not so much occur due to lack of trust or leadership, but rather because resources were stretched too thin, and there was a need to pay attention to operational, urgent challenges, which took over strategic thinking and actions. The executive management of the centers was so much involved in solving current activities that thinking and acting for long-term results was always at the bottom of the priority list.

Communication opportunities, infrastructure, and skills seem to have been under-used. Although centers frequently use electronic forums to disseminate information, few cases can be cited where communication vehicles like *Atitudini* or *Voluntar* were used to start analysis or debate in the sector. There are even fewer instances of these vehicles facilitating advocacy work, such as the successful promotion of the one percent mechanism in 2003.

Another problem is the attraction and retention of highly qualified staff. Interviewees have made it clear that, as the Mott funding diminished, most of the centers lost at least one person, who found more attractive opportunities elsewhere—usually

after they had gained qualifications and participated in training and events. The staff turnover issue has two main causes: the low financial and non-financial compensation, which in some cases was not adequate for staff members; and the vision of the organization, as well as the overall organizational culture, which in some cases was not a good fit for the centers' staff. Because resource centers are knowledge organizations, based to a large extent on the knowledge, experience, and motivation of their employees, high staff turnover—which usually means discontinuing certain operations—affects them more than other organizations. Thus, maintaining a strong team is, for resource centers, a crucial component of sustainability.

Respondents also noted a lack of common strategy on the funders' level. Many interviewees expressed the perception that, when specific strategies were drafted, they were not applied for periods longer than one or two years. Thus, even though funders might have recognized the need for resource centers in their strategy documents, they still seemed to fail to consistently support the respondents' organizations.

One center leader said that another cause for the difficulties faced by resource centers was the international economic recession, which led to a general decrease in philanthropic support and a specific decrease from private US funders, who had been quite active in Romanian civil society until 2000.

Perceptions related to the capacity of nonprofit organizations to pay for services were mixed. Organizations based in Bucharest and Constanta, Romania's second largest city, were more optimistic about this possibility, while smaller centers said that NGOs still had a very limited potential to pay even part of the cost of training, consultancy, event management, and other such services.

Some of the centers are structured around strong leaders or around people who have been NGO activists since the early 1990s. There are cases where these leaders are perceived as sole "owners" of strategies, human resource policies, resource distribution, etc. Such perceptions resulted in the departure or loss of motivation of qualified employees, who were not satisfied with high discrepancies in salaries, the level of use of the organization's resources, and insufficient participation in decision-making. This "leader syndrome" is actually a common feature of many Romanian NGOs in various fields of activity. It can occur when a strong founder or executive director who "grew" the organization works with a weak board and a technical, rather than managerial, team.

Image, trust, and credibility are crucial non-financial elements of sustainability. Some of the respondents interviewed appreciated that efforts could have been directed more effectively towards communicating with opinion leaders, funders, beneficiaries, and the media, to build a positive perception and improve credibility for the sector and for the resource centers. Such efforts could possibly have resulted in more publicity, local funding, volunteers, and partnerships.

No other resource centers were established in Romania as new NGOs after this project, though some organizations did initiate or continue activities falling into the

range of resource center services. No other specific funding was available until 2004, and, where some resources were available, donors, public administration, and NGOs preferred to work with existing NGO resource centers or stronger organizations.

In 2002, the Delegation of the European Commission in Romania announced, through its 2001 Phare program for civil society, a new competition for resource centers. This program was based on a model similar to the one in 1997, whereby local or regional resource centers could be established by NGOs as projects, in areas previously uncovered by any support structures. The sub-program, called “Establishment of NGO Resource Centers,” funded six projects, with almost €200,000, to set up resource centers. The role of these centers includes the traditional functions: improving access to resources for new and small NGOs; promoting good practices in the NGO sector; increasing the sector’s visibility; encouraging NGO involvement in solving local and regional problems; implementing more effective use of resources to build NGO capacity. Activities financed included: training and consulting; providing information on the legal framework, funding, etc.; developing partnerships; and promoting NGO participation in public policy making. In June 2004, the projects had just started for about half a year, and initial feedback reported by representatives of the EC Delegation was good. In August 2004, a second competition for funding, along the same lines, was announced. This time existing resource centers were allowed to receive funding, along with new organizations. It would be interesting to monitor the funded proposals submitted by already existing resource centers, but this was beyond the scope of this study, as projects were not expected to start earlier than January 2005.

It is worth noting some details about the two organizations that this research revealed to be more advanced in terms of sustainability: CENTRAS and CSDF. Both are Bucharest-based resource centers with an uninterrupted record of activity for almost 10 years. Although they were often initiators of large-scale efforts to improve the environment in which NGOs operate—including working to change legislation, staging major events, putting out national publications, and conducting important research—neither organization perceives itself as sustainable.

CENTRAS passed through a difficult period at the end of 2002 and beginning of 2003, when lack of funding caused it to cut down on salaries, lose some staff and redistribute responsibilities among the remaining employees. From 14 full-time people employed at the beginning of 2001, CENTRAS now has eight, but it works more with sub-contractors and employs trainers and consultants on a specific basis. However, at the end of the 2003, the organization won grants for projects well connected to its mission as a resource center, and it managed to re-balance its finances. An important survival strategy for CENTRAS has been a radical shift towards paid services, especially training and consulting, which brought in more than USD 20,000 in cash.

CSDF has sustained its activities via various projects, including collateral initiatives that are not directly connected to its mission but help cover some administrative costs.

One such collateral initiative was research on the social services strategy in Bucharest. Of CSDF's more than 30 employees, four work full-time for resource center-related activities. The rest are involved in managing the Phare grants, for which CSDF is a contracted administrator. It might be asked whether there is truly a strategic fit between managing grants for NGOs and at the same time performing resource center functions. But grant administration allowed CSDF to secure significant resources, without which the existence of this organization as a resource center would have been threatened. Like CENTRAS, CSDF has made many efforts to obtain funds from as many donors as possible. Both organizations try to avoid dependency on a limited group of financing sources.

Both organizations continue to perform advocacy on behalf of the sector, and they usually cover associated costs from their own money. In the case of CENTRAS, these funds are generated by paid services, for which no specific reporting is needed. As a recent example, the one percent NGO-support mechanism was introduced in Romania, thanks to a quick but well-thought-out process in which CSDF was a major player.

However, even though both organizations expressed awareness of the sustainability issue, neither of them has clearly formulated a formal medium- to long-term strategy for this purpose. A lot of creative ideas were expressed during the interviews, and some of them were built upon in the recommendations section of this paper, but respondents were aware that they do not have a coherent long-term strategy.

It can be concluded that, although there is a strong need in the nonprofit sector for the services of resource centers, and although much has been and continues to be done by existing resource centers to achieve their mission and to survive in difficult operating conditions, resource centers for NGOs are not sustainable. Furthermore, those interviewed acknowledged that they had not formulated viable sustainability strategies for the medium- to long-term. Survival tactics were mentioned for the next year or so, but it seems the centers are too caught up in managing daily operations to undertake a serious strategic effort for the coming years. Other challenges to sustainability exist: coordination among existing resource centers can be much improved, staff turnover is a serious issue, funders are perceived to be inconsistent in their support, and the possibility of recovering some costs from paid services seems to be limited to large cities with a better level of NGO activity.

Institutional funders for resource centers undertook short-term interventions, based on uncoordinated models, which resulted in major funding variations. Aside from funding for work in NGO support, resource centers could apply for funding for other programs that were sponsored by such international donors as the US Embassy, the Canadian Embassy, the Dutch Embassy, the Co-operating Netherlands Foundations, other Phare funds, USAID, and the Open Society Foundation–Romania. Thus, while some projects were funded for activities like information dissemination, training, etc., which are encompassed in the mission of a resource center, the centers also often

undertook activities unrelated to their mission, to become eligible for funding within specific competitions.

One member of the donor community pointed out in an April 16, 2004 interview that:

Many centers were set up based on donors' agendas. Thus, they did not really pay attention to demand and dynamics in the market. They were not truly professional, and they could not survive and were not appreciated by many organizations in a more advanced level of development. There are NGOs that have far better experience in fundraising and project management than some of the resource centers. Thus, it is important for the centers, in order to survive, to be truly professional and to offer value-added services.

3. FRAMEWORK OF ANALYSIS

The analysis of the policy options presented in the next section of this chapter relies on a set of three basic, but important criteria:

1. Support organizations are still needed for the Romanian nonprofit sector to become sustainable. Some of the benefits of resource centers, in addition to the ones presented in this chapter, are explained by the Charity Know How Fund in an introduction to its review of the Romanian NGO sector:³⁰

It is obvious that large institutional funders, especially public ones such as the European Commission, cannot have the flexibility to quickly identify, fund and in many cases assist these local initiatives. This is where the resource centers or other support structures can come into play, as they are well aware of local needs and in permanent contact with grassroots NGOs and informal groups, but they are also well-trained and have access to national information resources, which enables them to offer professional support for small projects. Thus, a support organization would be the ideal combination of expertise, flexibility and professionalism, allowing for effective distribution and monitoring of the funds provided by large institutional donors.

However, this argument is not sufficiently strong to support the existence of *all* currently active resource centers. They can contribute to the growth and strengthening of the sector only inasmuch as they add value through high-quality services. This assumption underlies most of the forthcoming recommendations: Suggestions for resource centers are very much related to continuous improvement of services, as well as the importance of truly understanding and responding to the needs of beneficiaries. Furthermore, there is no point in asking donors to continue supporting structures that are questionable from the point of view of quality.

2. Existing centers, with some very desirable recommended improvements, are the most appropriate support operators for the nonprofit community. Several donors have already made an estimated investment of over USD 1 million in cash for the direct

establishment and development of these resource centers, and they hold tangible and intangible assets that are very costly and do not necessarily need to be replicated by creating new organizations with the same mission.

3. Sustainability has two important components: financial and non-financial. According to Tony Venables of ECAS, “Sustainability has nothing to do with fundraising. Fundraising is simply a consequence of an organization fulfilling a useful function.”

From the financial sustainability perspective, local funding—from public funds, local companies, or paid services—is a key component. From the non-financial point of view, key elements, among others, are: qualified and motivated workers, including staff, collaborators, and volunteers; a good public image; and a good reputation as quality service providers. Without these components, no real sustainability can be achieved, even if temporary cash flow is secured.

One remark, made by a donor in a May 28, 2004 interview, ties into the importance of non-financial aspects of sustainability:

Success will happen where these services are needed by the local community and there is local buy-in, not where centers are imposed by donors. Most centers had an agenda oriented towards donors and not towards needs.

Based on the above criteria, the following sections of this paper present a set of options for resource centers, as well as for their existing and potential funders, and they argue for best solutions to enhance chances for sustainability. Short-term and long-term courses of action are identified. The options for resource centers are more detailed and also present specific steps, because it is easier, and also more urgent, from an institutional point of view, for centers to adopt some of these actions quickly. For donors, options are presented on a rather general level. It is important for funders to adopt adequate *strategies*, as the institutional mechanisms for implementation are generally in place and function well. The recommendations are presented with an awareness that resource centers generally do not have significant resources to go through large-scale organizational changes, so they need to take affordable actions with high impact.

One more important premise underlying the recommendations is that sustainability can only be achieved if both the resource centers and the donors understand and act on the strategic issues that determine survival and sound development. This is why it was considered important to make recommendations to both these categories, which are deemed the two most important stakeholders with a direct impact on the issue of sustainability for resource centers. More recommendations are addressed to resource centers, because they should assess their current status, determine future direction, and then present donors with clear action plans. Over 14 years of existence, donor-driven NGO behavior in Romanian civil society was shown to have strategic faults. Nonetheless, NGOs still depend to a large extent on donor support. It is therefore essential

that the structures that are to be sustainable, the resource centers, undertake a serious strategic review process before donors can intervene. Resource centers can then help donors make good use of their money by offering them long-term impact proposals, instead of short-lived survival actions.

It should be stressed again, before presenting the detailed recommendations, that the author would not argue that all resource centers are good for Romanian civil society, or that they should all survive, regardless of the quality of their services. Some recommendations bring forward points raised by donors and by beneficiaries underlining the idea that a supply-demand model, coupled with a need for high quality, are key factors that determine whether a resource center should continue to exist or not. This paper was not written with the intention of advocating for unconditional donor support to NGO resource centers. Instead, it seeks to situate correctly the centers' contribution to the progress of Romanian civil society and to propose appropriate steps for the benefit of the NGOs they assist. After all, sustainability of NGO resource centers is by no means an end in itself, but a vehicle for helping Romanian civil society to grow. Investment in resource centers should be conducted with this in mind. Donors should be aware that, if resource centers do not perform well, it is possible that a good share of their money does not reach "end users," the grassroots NGOs, effectively. The recommendations that follow were written with the aim of helping centers and donors minimize this waste and gain a higher return on their investment in Romanian civil society.

3.1 Options for Resource Centers

3.1.1 Think and act more strategically instead of only considering survival

As one member of the donor community suggested in an interview on September 27, 2004, while the level of service professionalism is satisfactory in comparison to the existing resources, strategic thinking and long-term plans are still on the wish list of resource centers—and the sector in general. Boards and top management should make sustainability and medium-to-long-term planning a priority, instead of getting completely absorbed in the work of ensuring the short-term survival of the organization. Most resource centers have a clearly formulated mission, a vision and a set of strategic objectives, but they should go further than that, possibly by means of scenario planning and finding good ways to link strategy to action without getting immersed in operational details, which should be left to the staff to solve. Resource center managers should use their leadership and experience to identify strong points in the organization and capitalize on them. They should also look at both financial and non-financial means to grow their organizations sustainably.

Specific steps:

- ***Involve boards:*** Management boards should be more active in strategy-related activities. They should receive structured and relevant information, and it should be clear that the organizations need strategic reviews from the board. Resource center directors and staff need to create conditions facilitating creative exchange with the board. More radically, if current boards are not active enough to start this process, changes in board members can be a viable option.
- ***Involve more stakeholders:*** A wide variety of stakeholders should be involved at different stages in the strategic planning process. It's important to collect information and opinions, not only from top management and board members, but also from collaborators, volunteers, beneficiaries, donors, consultants, authorities, and partners.
- ***Involve strong leadership:*** For some centers, a good strategic option can be to find and retain strong leaders, both for the board and the staff. Currently, due to the short-term orientation of the centers, it seems that, those centers with any human resources strategy at all give more attention to securing people with very practical abilities, like proposal writing or public relations skills. Often these skills are valued over more strategic skills, such as being able to understand the organization and its environment, identifying and stating organizational goals, creative thinking, and the ability to lead and motivate a team. Indeed, it is very difficult, given the current funding available to the centers, to find and adequately pay professionals with this kind of expertise. One possible solution would be to identify which of the existing proposal-writers and project managers have good leadership potential, expose them to leadership-building exercises—such as quality training, strategic planning sessions, and interaction with other experienced leaders—and then empower them to act strategically. Many of these people would arguably be more likely to remain with the organization, because they understand it from within and they have generally built a connection with the work of the organization that extends beyond the literal terms of their contract. In this case, salary costs would likely be lower than using the solution of hiring new top managers or using outside professional consultants.
- ***Find resources for strategic planning:*** Planning processes should be handled professionally, possibly with external facilitators. The planning should take place away from daily disruptions, be adequately prepared, and have a clear agenda, with as many stakeholders as possible participating. Usually these processes do not require significant financial efforts, but they do need attention and time. Free meeting space can be obtained easily, and there are good chances that experienced facilitators would be willing to offer their skills for a day or two free of charge, or at discounted rates.

- *Plan for the diversification of the portfolio of funders:* Although it is already understood in the Romanian NGO sector that a diverse group of funders is needed, very few organizations have actually taken proactive steps toward this goal. And many understand this statement as simply meaning that they should apply to all available funding programs. But donor diversification first of all means identifying potential categories of funders, such as institutional donors, local and central government, local, national, and multinational companies, private individuals, tax rebates, endowments, and membership fees. Then an organization must proactively develop relationships with these sources, even in the absence of open competition for grants. This relates strongly to the following recommendation of building constituencies.

3.1.2 Build real constituencies

As resource centers based on the two models presented above have been set up at donors' initiatives, they have traditionally looked more to donors than to beneficiaries in order to define their priorities and operations. This was also underlined by the Romanian Donors' Forum coordinator, who remarked during an interview on September 27, 2004 that resource centers have been looking almost exclusively to donors and re-granters for survival, because private sources had been traditionally non-existent, and the idea of individual giving to NGOs had also been missing from the Romanian culture. The same interviewee stressed the importance of ensuring that resource centers' projects are based on the real and well-researched needs of their clients, not on funding announcements. While it is normal to receive institutional support from donors, it is essential that resource centers—and donors—escape the trap of donor-driven strategies, which many times tend to leave beneficiaries out of the loop. Especially if they are to become paying clients, beneficiaries should be considered and involved in all stages of programming and in project implementation.

Specific steps:

- *Build monitoring and evaluation components into all projects:* Monitoring and evaluation components ensure that the organization has the necessary knowledge resources for collecting and processing beneficiaries' input. It is also important to design mechanisms to feed back this information into the centers' future programs and activities.
- *Connect with the target public in all possible ways:* Questionnaires, focus groups, events, and informal interactions help a resource center keep in touch with the public. This feedback allows centers to fine-tune their services, so they can meet the real demands of their beneficiaries.

- ***Encourage learning behavior among staff and volunteers:*** This can involve actions such as: making sure employees write a brief report for other workers as soon as they return from a conference, workshop, or seminar; having trainers discuss insights from their latest training session with their team members; and holding regular, informal meetings with the purpose of sharing information and points of view about the external environment.

3.1.3 Improve communication and networking, within the NGO sector and among centers

The resource centers should become better equipped to initiate and participate actively in NGO coalitions, forums, events, and other means of exchanging information and expertise. Also, it is important that the centers facilitate the sharing of success stories in the sector, as they generally have better communication infrastructure and skills than other NGOs. A member of one funding institution said in a February 6, 2004 interview that it is important for centers to manage the exchange of experience and promote lessons learned, to prevent NGOs from reinventing the wheel.

A great deal of information is now easily available to NGOs in Romania. Therefore, resource centers must do more than simply disseminate information. The centers should emphasize analysis, research, debate, influencing policies, building trust, and improving the visibility and the perception of the NGO sector.

Specific steps:

- ***Approach funders together and submit joint project proposals:*** It is essential to enhance the network's capacity to act as one on issues of common interest for the sector, such as legislation, funding sources, and adapting the donors' agenda to NGO priorities. Joint projects can help achieve this unity, while also adding to the sustainability of resource centers and other NGOs. By cooperating in projects, members of the sector can generate economies of scale when it comes to producing results, joint promotion, and other common actions.
- ***Obtain adequate resources for communication and networking:*** NGO resource centers should budget the necessary time and money for the tasks of communication and networking, and they should seek funding for this work. Paid services or corporate donations can be directed to expenses related to networking.
- ***Establish a "mutual referral"³¹ mechanism:*** Centers can refer each other to beneficiaries, in order to improve access to different services for a common beneficiary group and to avoid missed opportunities. For example, if a center is contacted to provide a training session but lacks the expertise or available trainers, it can pass on this contract to another center. This mechanism has started to function

informally between centers that have strong relationships with another. But a clear system for referrals would prove even more beneficial, especially if the centers could think of integrated services for specific client groups. By contributing in the various areas in which they are strongest, a group of several resource centers could work with an NGO during many important stages: the moment of registration, writing project proposals, publishing a print publication, and organizing an event or campaign. To assist such cooperation, and other collaborative efforts, centers should develop, maintain, and periodically update quality standards; and they should find a common system for record keeping.

- ***Enable resource sharing/pooling:*** Centers can use complementary or excess resources to maximize their effectiveness. For example, experts employed by one center could be hired for short-term periods by others, thus minimizing downtime and avoiding the need for expensive expertise from the outside. A more sophisticated resource pooling system is already being applied by some NGOs in the western part of Romania:³² The NGOs organize auctions within a limited group, in order to rent out their underutilized resources to other organizations that need them for a short time. These groups also created an “insurance fund,” which helps cover possible damage to equipment, or meeting space.
- ***Merging training services:*** This more radical approach, in which several centers could unite to produce a single training service, was recommended by one respondent organization. It is worth noting that, during a January 20, 2004 interview, the leader of a similar center in Lithuania suggested that fully merging with another organization would be a possible approach to sustainability.
- ***Approach the Romanian Donors’ Forum:***³³ NGO resource centers could propose a common project to create a pool for the strategic development of the sector. Through this project, the Donors’ Forum, which works to support civil society, could set aside 4 or 5 percent of its total yearly funding for distribution to existing resource centers, on the basis of well-documented proposals and subsequent reports.

A good example of successful cooperation among support organizations in another country in the region is the Polish group called The Network of Information and Support for Nongovernmental Organizations (SPLOT).³⁴ The basic services offered by the 14 offices that belong to SPLOT are well known by the Mott Centers in Romania, because CENTRAS used a Polish consultant and all five centers took a study trip to visit the Polish centers before setting up their operations in Romania.

The Romanian centers would do well to imitate SPLOT’s efforts to maximize the common assets of its members. SPLOT established local information networks, made efforts towards the integration of the NGO sector, catalyzed the setup of NGO local

and sectoral federations, introduced common practices of working with public institutions, started research and analysis of the NGO sector, and focused on incorporating the nongovernmental sector into the EU accession process. The Polish centers became proactively involved in the development of the voluntary sector in their regions. They have taken part in establishing volunteer centers, local funds, and a network of Citizen Advice Bureaus. The clients of the Polish resource centers are not only NGOs, but also groups of citizens, as well as individuals, social groups, and institutions engaged in civil society building.

SPLOT members agreed on a set of minimum standards that became the condition for membership. They also agreed on a document entitled *Communication Rules*, which defines basic standards for information exchange. Coordinated governance is ensured by a program board, consisting of two representatives from each center. Furthermore, the centers keep standardized records of the information and advice provided. The centers are also discussing a certification system for NGO trainers, and many SPLOT trainers belong to a nongovernmental trainers association called STOP.

The most important point derived from this case is that the Polish resource centers identify themselves as a group and work together based on common principles. This coordination gives them greater visibility and credibility—among their beneficiaries and among outside stakeholders.³⁵

3.1.4 Examine possibilities of sustainable diversification

NGO resource centers can engage in diversification of clients and diversification of services. Client diversification means selling existing services—such as training, consultancy, event management or research—to organizations other than NGOs: universities, donors, businesses, and government. Geographical diversification may also be considered, especially in rural areas, which the centers have not been able to reach so far due to lack of capacity. If client diversification is adopted as a strategic option, centers need to plan carefully. First they must perform cost-benefit analyses on serving new clients and, if they decide to go ahead, they must secure resources that will help them develop these new client groups.

Service diversification is when a center adds totally new services—such as management of public communication campaigns—or attaches innovative sub-services to the ones they are already performing.

A useful example of diversification of both clients and services is The Foundation Center in the United States. According to its website,³⁶ this organization, founded in 1956, aims to strengthen the nonprofit sector by advancing knowledge about U.S. philanthropy. It collects, organizes, and communicates information on U.S. philanthropy; conducts and facilitates research on trends in the field; provides education and training

on the grant-seeking process; and ensures public access to information and services through its web site, print and electronic publications, five library/learning centers, and a national network of cooperating collections. The Foundation Center targets not only NGOs, but also donors, the media, academia, and the general public. Ideas to be examined by Romanian support organizations include: keeping libraries and learning centers open to many categories of the public, a news digest on philanthropy, an online database of funders, virtual learning modules, research on various issues of the sector, information kits built specifically for donors and the media, and publication of specialized directories and newsletters. The Foundation Center puts strong emphasis on connecting grant-seekers with grant-makers, and it wants to empower under-resourced NGOs to access funding.

Specific steps:

- *Reaching out to rural areas:* Significant funding will be available for rural development in Romania, so efforts to serve rural areas can prove beneficial to NGO resource centers. The Constanta center has already pioneered this approach, which can bring needed services to small countryside grassroots NGOs and informal civic groups, while at the same time providing an important group of clients for resource centers. Contact, a Moldovan resource center, has successfully reached out to rural areas to foster community development. But before trying such a strategy, a center must examine whether their resources and capabilities are sufficient to diversify geographically without being stretched too thin.
- *Expand client groups beyond the nonprofit sector:* Centers have acquired skills and experience that can be useful to other types of clients, including public administrators, universities, informal citizens groups, advocacy alliances, donors, and even the business sector. Examples of services that have already been sold by some resource centers to other types of clients include training, research and publications, and even consulting. Government funding is finally beginning to look like a future option for Romanian NGOs, especially in the context of EU integration and regional policies. However, centers should be careful to make sure they remain independent and do not to allow government funding to influence their strategic behavior. Contact Moldova, which increased its income for paid services from 3 percent to 20 percent in one year, is a good example of successfully selling services, such as information centers for citizens. CENRES, the resource center in Suceava, has piloted a similar project within an EU program to disseminate information about the integration process. To the extent that this approach does not require centers to dramatically change their focus, it can be explored as an option, especially because it would be a very good means for working in partnership with local administrators.

- *Be ready to diversify services quickly:* Diversifying and offering new services does not necessarily require large initial investment in staff training, expensive publications or costly equipment. Resource centers should carefully examine what they are doing and determine whether there are services that are more needed. Some areas of service are clearly becoming outdated. For example, information on funding opportunities is no longer difficult to obtain, thanks to many specialized websites, and access to resources, such as a fax or the Internet, is now easier and more affordable for many NGOs. Instead of helping in these areas, centers could free up resources to start non-standardized services. The Romanian resource centers have already offered such assistance in the fields of coaching (Constanta),³⁷ establishing working groups with the business sector (Timisoara and Cluj), research on the third sector (Timisoara and Suceava), and promotion of volunteerism (Timisoara and Constanta). Some other suggestions for fresh, but related, services would be: professional evaluation, event management, campaign planning and coordination, producing various publications, and cross-border projects. Resource centers in Poland and Moldova have chosen to act as a facilitator and/or secretariat for various coalitions, networks and other NGO groups. CENTRAS has also played this role on various occasions, and it would be interesting to test the market for this kind of paid service. A large institutional donor, interviewed February 6, 2004, pointed out that research is an important function missing from the sector, as most studies have been conducted by foreign institutions or donors. Several of the existing resource centers have the capacity to perform this kind of service.
- *Keep in mind the initial mission and strategic objectives:* When resource centers diversify, it is important for them to decide whether the new services or client groups are in keeping with their organization's general strategic scope. They must carefully judge how far they can go in terms of collateral services without over-diversifying, and thereby losing their focus. Furthermore, every diversification plan should be accompanied by a careful cost-benefit analysis, because significant immediate investment may be needed to expand into an area that will only yield results in the medium- to long-term.

3.1.5 Enhance staff qualifications and motivation

Resource centers have built a significant pool of well-trained experts with a high level of specific knowledge in the Romanian NGO sector. It has been shown in this chapter that the lack of perspective prompted some of these people to leave the centers in pursuit of better opportunities. Thus, investing in people is a strategy that should go along with the other sustainability steps. To quote a leader of a Lithuanian resource

center, “it is individual strength that sustains the cash flow,” and staff can be considered a key stakeholder group for a resource center. If employees do not see a future, they leave, and this can shake up the organization. In a September 27, 2004 interview, the Donors’ Forum representative also remarked that resource centers are not doing enough to motivate their staff to remain. The representative said that enthusiasm for an NGO’s good work usually wears out after a few years, especially in cases where a low salary is the person’s sole source of income. Non-financial incentives, including training or having the opportunity to represent the organization in events and meetings, were mentioned as possible solutions. A respondent from a resource center noted that Romania has few training and development opportunities for advanced professionals, such as trainers and consultants. The respondent said it might be a good idea to participate in twinning projects, one-on-one consulting or internships with best-practice organizations abroad, in order to improve staff qualifications and motivate professional employees.

Specific steps:

- *Budget adequate resources to attract and retain qualified staff:* Centers should allow for fair salaries and adequate incentives, and they should build these into their projects. Part of a worker’s pay could vary, based on the amount of services sold, as additional motivation for good work. A variable pay component can also encourage staff to bring in additional income-producing work for the resource center.
- *Work with a wider pool of collaborators and service-providers:* Resource centers can work with outside contractors and partners instead of having a larger team of full-time employees. This option has already been successfully applied by some centers. Its advantages include: higher flexibility in response to variable funding; a lower payroll tax burden, which is one of the highest operational costs in Romania; a means of avoiding potential conflicts of interest; more professional contracts, instead of standard, form-based work contracts; better productivity and more effective use of resources, such as office space and equipment.
- *Attract qualified and motivated volunteers:* Volunteerism is starting to recover in Romania, and NGO resource centers should work with volunteer centers to facilitate this relationship. In Timisoara and Constanta, the volunteer centers are actually departments of the resource centers. Resource centers can also design and implement internship programs for students, many of whom are increasingly interested in such work during their vacations, or even during semester terms. Competent and enthusiastic volunteers are already helping some of the centers with specific tasks, such as promotion, fundraising, and event management. The use of volunteers is beneficial in two ways: volunteer work is recognized by many funders as a valuable in-kind contribution, and volunteers can contribute very significantly to the increase in the centers’ credibility and

constituency building process. If hired later on, volunteers are already familiar with the mission, culture, and procedures of the organization, and there is a smaller chance that they will leave early.

- *Find innovative services and new methods for delivering services:* Changing the type of work that staff does prevents them from falling into a routine or working in isolation. Both these types of work behavior were mentioned by several respondents as potential obstacles to sustainability.

3.1.6 Seriously examine the opportunity to provide services for fees

Some of Romania's NGO resource centers have already tried to recover costs by charging fees, with mixed results.³⁸ The successes and failures of these experiments should be examined, so that centers can identify the real opportunities for charging for their work. One approach could involve variable pricing, where different types of clients pay different fees.³⁹ Another option is cross-subsidizing functions, to allow funding for important services that cannot be charged at full cost. For example, publications can be sold in order to subsidize the cost of training sessions. This shift in strategy also requires a simultaneous process of educating clients that the services they are accustomed to receiving for free actually cost money. Clients should be made to perceive value in these services. One donor, interviewed April 16, 2004, even suggested that no service of support organizations should be completely free, so that the beneficiary will have some control over quality of service and a minimal interest in the service they receive.

A British organization called the Directory of Social Change (DSC) provides a good example of successful use of paid services. According to the official website of DSC,⁴⁰ this support organization for the voluntary sector in the UK wants "to be an internationally recognized, independent source of information and support to voluntary and community sectors worldwide. ... We are able to contribute towards positive social change by supporting these organizations to succeed."

DSC offers advice on fundraising, resource management, advocacy, organizational management, and strategic planning. It also promotes the NGO sector and publishes reference guides, handbooks, CDs, and e-information. It organizes practical training courses, topical conferences and briefing days, as well as Charityfair, the biggest annual forum for the sector. The vast majority of these services are paid according to a well-thought-out marketing plan, which has been enhanced by the recent appointment of a marketing manager. DSC is the leading provider of grant guides and handbooks to the UK voluntary and community sector, and it has a list of 100 books, journals, and CDs. It sells these materials through a variety of methods, including a secure online bookshop. The group is paid for the hundreds of training courses, conferences, leadership

and fundraising briefings, and summer schools that it hosts. These events have earned both money and a good reputation for the organization.

According to its annual report,⁴¹ DSC's resources consist mainly of earned revenue, which provided 80 percent of its total income in 2002 and 95 percent of its income in 2000. DSC is not financially dependent on any single funder, and it does not have an endowment or any donated reserves. The organization occasionally receives grants and sponsorships, which provided GBP 524,684 in 2002. The marketing and advertising function is very well developed, and in 2002, it cost DSC a total of GBP 207,000.

Specific steps:

- *Assess the market potential:* The first step is to determine who are the current and future potential clients for paid services. Resource centers can perform market research themselves, via questionnaires distributed through mail or during various events, interviews and focus groups. They can also obtain resources to commission professional market research—a model that was implemented by the NonProfit Information and Support Center in Lithuania. Hiring professional market researchers probably makes more sense for Bucharest-based resource centers, which offer services to a larger number of more geographically dispersed clients.
- *Build some business-related knowledge:* To be able to charge for their services, resource centers need appropriate knowledge about market research, business planning, and costing. It might be a good idea for resource center staff to participate in business-oriented training and internships with small- and medium-sized businesses.
- *Do not plan to become a “nonprofit businesses”:* Resource centers should not try to live entirely on income generating activities. They should balance their funding portfolio and continue to subsidize other necessary services, such as advocacy or sector integration, which most likely could not be self-sustainable.
- *Perform cost-benefit analyses:* Centers need to conduct analyses to help them decide what services they should provide for a fee, and how much to charge for them. It may turn out that some projects undertaken on a paid basis actually eat up more resources than initially planned. Some services may have less tangible opportunity costs, such as loss of focus, downtime incurred in other projects, and issues related to independence or credibility. Furthermore, some projects may require serious initial cash outlays, such as equipment, for which the break-even point is too late to provide any significant benefits in terms of sustainability.
- *Present clients with the future shift in strategy:* Resource centers can use annual reports, training sessions, NGO forums, and other opportunities to prepare clients for the idea that donor support for many services are likely to cease. At

the same time, centers should understand clients' needs and expectations and start building truly value-adding services that clients would feel motivated to pay for. Services need to be really worth the money that clients pay for them: It's hard to charge for basic, non-personalized training and general information. Instead, centers should offer practical, personalized training, with case studies and examples taken from local experience.

- ***Price carefully:*** In setting prices for their services, NGO resource centers should be careful to start neither too low nor too high. They don't want to send the message that their services are cheap because they are not professional enough, but they don't want prices so high that potential clients are discouraged from even analyzing the potential benefits of buying these services.
- ***Use barter arrangements:*** Resource centers can perform services, such as training or consultancy, in exchange for something else, like meeting rooms, printing services, Internet connections, discounted accommodation, and so on. This approach has been used successfully by a number of centers: An NGO resource center in Hungary, called NIOK, pays more than 50 percent of its costs via in-kind contributions, and CENTRAS Constanta managed to secure a fast Internet connection in exchange for promotion services.
- ***Explore financial management and accounting consulting as a service:*** There are few accountants qualified in NGO accounting, which is different from typical business accounting, so this should be a highly valued service. The vast majority of NGOs get accounting services on a contract basis, from accountants who generally do more work connected to business and are not always qualified or interested in providing the best solutions for NGOs.
- ***Publicize services to beneficiaries of funding programs and donors:*** Resource centers should let NGOs know about their services, even while the NGOs are in the application phase, to convince them to build such services into their budgets. Donors should also be made aware of the centers' services, because donors often need professional monitoring and capacity building for their grantees but do not have the flexibility and staff to perform such work.
- ***Obtain accreditation as training providers from the Ministry of Education:*** If a trainer can issue certificates recognized by the ministry, then the training services they offer will be more highly valued. In certain cases, public institutions may insist on only using ministry-certified trainers. The procedure is rather costly and bureaucratic, but it is worth considering via a cost-benefit analysis.
- ***Function like a business:*** A donor representative interviewed on May 28, 2004, said that centers should be able to function like small businesses. Their business plans should very clearly state their target groups, list what services are provided, and describe how community resources can be mobilized. Building a relationship with people who need the centers' services is a key ingredient for success.

3.1.7 Promote transparency and best practices

By keeping their operations transparent, resource centers set a good example, and will help contribute to a better public perception of the nonprofit sector.

Specific steps:

- *Publish and distribute annual reports:* All the centers have annual reports that they write for funders. It is important that they disseminate these as widely as possible.
- *Adopt and implement codes of ethics:* While one of the Romanian NGO Forums resulted in a set of good practice principles for NGO work, these guidelines were not implemented for the whole sector. The centers, however, could take on these principles, apply them, and promote them within their regional nonprofit community.
- *Provide training and advice on transparency:* Resource centers could teach NGOs how to set up transparent and accountable work practices, including policies on conflict of interest and annual-report writing. They should also disseminate examples of existing good practices within Romania and in other countries.

3.1.8 Improve partnerships with local and central administration

NGO resource centers can cooperate with government authorities by: submitting common projects, especially for European funding; providing assistance to local administration on proposal writing, project management, reporting, monitoring, and evaluation, and dissemination of results; advocating for the inclusion of NGO funding as earmarked lines in local budgets; advocating for clear transparency principles and grant award procedures; promoting the advantages that local government has in working with NGOs; and advocating for effective civil society communication channels at the level of public administration. The centers should also spread examples of best practices and success stories in working with public administration, and they should participate in the elaboration of local strategies.

So far, public administration has only provided very limited support for the activity of resource centers—and NGOs in general. However, once Romania enters the EU, the local authorities will have more funding and more decision power. Resource centers should start now to advocate for their work and to show how important it is that local administration offers resources for it. There should be clear instances where activities performed by a resource center are eligible for public funding. One interesting suggestion coming from a leader of a Hungarian support center was that the state could also

finance vouchers for services provided by resource centers. These vouchers could be distributed to clients, including NGOs, or other local institutions.

As the coordinator of the Romanian Donors' Forum noted on September 27, 2004, until now, the state has provided next to none of the resources used by NGO resource centers, or the NGO sector in general. From the funding picture presented earlier, it is clear that Romanian NGO support structures have grown in a context where no public funding was available, except in some very specific cases, such as fees for using meeting rooms or payments for one-time training for civil servants. It is also clear that this situation needs to change, because the work of the resource centers resulted in stronger NGOs, better prepared to take over much-needed social services or community development programs.

Still, another donor, interviewed on April 16, 2004, warned about the danger of cooperating too closely with government, saying that "administration support is important, but not directly, because in the Romanian context this would mean a serious threat to independence." Indeed, if resource centers want to maintain their advocacy role, some of their positions might contradict those of the government.

Specific steps:

- *Gain a seat among the regions' stakeholders:* In the perspective of European integration, regions will play an increasingly important role. However, NGOs, including resource centers, have generally been left out of policymaking, with respect to governance, strategies, and funds disbursement at the local and regional level. While there is not much public discussion about this topic at the moment, resource centers should recognize this very important trend and try to take their place in the policymaking process. As one NGO leader suggested, resource centers could try to secure annual funding from county councils, to help them act as key partners in the relationship between local/regional government and civil society.⁴² Resource centers could follow a model pioneered by NGO consortia in Cluj and Timisoara, whose advocacy efforts resulted in the local council's decision to set up a funding system for NGOs out of the local budget. The city authorities also required NGOs to help in setting up appropriate selection procedures for grantmaking.
- *Advocate to central and local government:* Resource centers should lobby for the improvement of legal and fiscal regulations for NGOs, and for support to the nonprofit community. To do this, centers should be aware of the improvements that can be made, they should build the necessary advocacy skills, and they should raise resources needed to accomplish advocacy objectives.

3.1.9 Promote social corporate responsibility and philanthropic behavior

The Romanian culture of corporate responsibility is only beginning, and the fiscal burden on local businesses is so high that many of them struggle hard to survive. Siegel, Yancey and Hartnell⁴³ note that businesses are not doing much to support Romanian NGOs thus-far: “corporate investment is usually linked to specific issues and communities ... while more promising than individual giving, corporate support for infrastructure organizations is typically limited.” Nonetheless, the new tax code, and the practices of a few multinational companies, have sparked discussion among Romania’s NGO sector about corporate giving. It is worth trying to secure at least one or two long-term commitments from respected local companies, even if the amounts are small, because these donations would carry more than their actual financial value: They would also provide credibility for the idea of corporate donations, give a signal for other NGOs that it is possible to fundraise from companies, and help foster mutual trust between the two sectors.

Specific steps:

- *Take advantage of tax deductions:* Approach companies with the purpose of promoting the new fiscal facilities introduced by the 2004 Tax Code. Under this code, sponsorship expenses are deductible, up to a limit of three per thousand of revenue, not exceeding 20 percent of the tax on profits. Thus some of the sponsorship expenses can actually be offset against the tax liability.
- *Initiate and/or participate in community programs with companies:* Resource centers can organize events such as “open days,” to promote the NGO sector. The centers can also set up prizes for local corporate responsibility and choose specific dates for events where NGOs and companies can be partners. These types of activities will provide a good image for companies in their local community and help companies learn more about the NGO sector’s efforts to help solve the community’s problems.
- *Promote the one percent mechanism to NGOs, citizens, and companies:* The new one percent law, passed as an amendment to the Fiscal Code in late 2003, allows taxpayers to choose worthy causes to receive one percent of tax revenues. By organizing one percent campaigns, promoting the concept and the NGO sector, centers will gain in visibility and will raise additional funding for their clients. This can ultimately have a positive impact on the resource centers themselves. The centers are in an ideal position to run such campaigns, because they usually do not claim the one percent funding, they have the infrastructure, knowledge, and contacts to run such communication plans, and they are very well informed about the legislation. Resource centers should also continue to build and maintain good media relations, which will lead to positive coverage

related to NGO activity in local and national media. As a side effect, centers will build a good reputation, for example, as media relations professionals, enabling them to manage communication campaigns as part of their paid services plan.

As of October 2004, when this study was finalized, there was still no significant effort by resource centers to promote the one percent funding opportunity. It might be a good idea to set up several regional, or national, publicity campaigns, enrolling media partners recruited from the larger TV stations, radio stations, and the print media. This campaign, which should also enlist the support of the tax authorities, could be initiated by a consortium of resource centers, one of which could run its secretariat. The campaign would have two goals: to make taxpayers aware of the one percent possibility, and to increase the visibility of the NGO sector as a whole. In Hungary, during the first years of campaigning for one percent funding, there were inexpensive, creative media campaigns to promote the idea. Romanian groups could use similar ideas, and the *pro bono* contribution of an advertising agency. Advertising agencies have already offered free services for other social campaigns, such as fighting domestic violence or protecting children at risk.

3.1.10 Approach donors proactively

Resource centers should reach out to donors, to remind them of the centers' role, functions, importance and quantified results. Centers should offer documented proposals and detailed action plans.

Specific steps:

- *Ask donors to fund operational costs:* It's important to have operational costs covered as it is very difficult to go on with daily activities and at same time plan organizational change. Time and resources should be set aside for strategic planning—under very clear conditions and with quantifiable deliverables presented by the resource centers. If planning is not supported, there is a risk that the most skilled employees will spend their time trying to ensure the survival of an organization, rather than taking it forward. The coordinator of the Donors' Forum also suggested that resource centers take the time for a careful and honest analysis of their past and current performance, design a carefully thought-out action plan on a short- to medium-term, and approach interested donors with this plan pro-actively, rather than waiting to see what other funding contests there are on the horizon.

- *Set up or participate in a representation mechanism in Brussels:* Because the EU will remain the largest institutional donor for Romania in general, and for civil society in particular, for the next three years, one respondent suggested the idea of having representatives to lobby European decision-makers. Clearly the implementation of this idea requires significant resources and a carefully thought out plan, to make sure that the spokesperson truly represents all of Romania's NGO sector. Resource centers should seriously examine the possibility of paying one or two people to liaise with European stakeholders, much as the Polish NGO office does now.
- *Obtain a voice within the Romanian Government's process for regional decision making:* The Romanian Government will design the procedures for regional fund allocation, and the capacity of resource centers to access EU structural funds will depend to a large extent on their ability to think and act regionally. Centers should start lobbying both European and Romanian decision-makers now, in order to make sure they are consulted and included in this mechanism for regional decision-making.

3.2 Options for Donors

The following recommendations are aimed at past, current, and potential donors to NGO resource centers.

According to Siegel, Yancey and Hartnell: "Investing in civil society infrastructure is a bit like paying taxes. It may not be immediately gratifying or easily measurable. But it is a basic civic obligation, part of paying your dues for where you live. Indeed, all funding sources for NGOs should consider the larger ecology or support system that is needed for civil society to succeed, rather than relying on a small number of large foundations to underwrite the support system from which all benefit."⁴⁴

Nancy Morris, a Peace Corps Volunteer with AID-ONG, a regional resource center in Timisoara, also noted the importance of giving, especially to resource centers: "When I think about how much this resource center does, I wonder how many people really understand the role resource centers play. They do not offer direct services, such as feeding a child or farming a plot of land. The work they do is not so visible, but it is vital for the future of NGOs in Romania."⁴⁵

3.2.1 Funders should continue to support resource centers

Currently, institutional donors constitute the main source of funding, and in some cases, they are the only source. This happened because the activities and services of

resource centers do not directly, visibly impact the community, as is the case of, for example, child welfare, environment or youth organizations. Resource centers are also more dependent on institutional donors because many of the centers were set up at the initiative of donors. Thus, it is more difficult to attract donations from private sources, either citizens or businesses. The recommendation for continued support is made under the assumption, described earlier in the framework of analysis, that resource centers provide value-adding, quality services to a well-researched group of clients, with clear outputs.

3.2.2 Donors should fund existing resource centers rather than setting up new ones

Given the investment already made, as well as the expertise, information, and infrastructure accumulated by existing resource centers, it is advisable that donors direct scarce resources towards organizations that do not need to incur the costs of setting up, hiring, and training staff, developing libraries, and acquiring equipment.

3.2.3 Donors should fund operational costs besides supporting project-based costs

For resource centers, activities such as updating the library, maintaining meeting space, and paying legal and fiscal advisors, are very hard to include in any funded projects. However, these activities directly impact the effectiveness of resource centers, and they answer real needs in communities. One innovative approach would be for donors to support buildup of self-income generation—for example, to finance business plans or give seed money for startup of paid services.

3.2.4 Donors should fund longer-term initiatives, with more constant amounts

As one donor explained, in an April 16, 2004 interview, donors' attitudes toward NGO support organizations should be to expect long-term results, because it is not realistic to look for measurable results in less than one year.

While tangible, quantifiable results should not be ignored, resource centers are usually dealing with longer-term changes. Thus, donor commitment focused only on projects with a very limited time horizon, as is typical in Romania, is not likely to yield significant results. Some respondents suggested that, in an effort to properly prepare for their exit,

donors should allocate about 3–5 percent of their funding to strategic development of the NGO sector. The respondents said the most effective use of this money would be funding NGO support organizations, like the resource centers. Interview subjects also indicated that it is preferable to contribute smaller amounts of money over a longer time period rather than large funding one year followed by almost nothing the next year. Like any organization, resource centers have a certain amount of inertia, which makes it hard for them to react immediately to dramatic variations in funding.

3.2.5 Donors should incorporate more of the results of local research into their strategies

In the year 2000, it was estimated that, for about 25 percent of all donors, funding decisions were not taken based on local information.⁴⁶ Even donors who do consider local input, tend to give it rather informal or limited importance. A few relevant research studies, commissioned by donors themselves, have yielded valuable information and recommendations for donors, but more consistent action based on this research is needed.

3.2.6 Donors should discourage donor-driven behavior and should support good projects aimed at raising resources locally

For this purpose, donors could condition a part of their support on matching funds raised locally. They could also advocate the necessity of strong NGO resource centers to local and central government, and call for the allocation of public funding for these support structures. In this regard, smaller investment in building appropriate fundraising momentum can be dramatically leveraged. For example, donors can give seed money for business plans or for one percent campaigns.

3.2.7 Donors should make the case for NGO support organizations

Donors are in the best position to promote NGO support organizations to existing and new partners, other donors, central and local government, and even corporations. Donors have the important contacts, visibility and credibility that can leverage the effort to get new players to the table.⁴⁷ Furthermore, donors should make it clear to government, at levels where NGOs are not heard or listened to very often, that the almost nonexistent public funding for resource centers is not a normal situation.

3.2.8 Donors should commission or subcontract activities to resource centers

Donors should commission any training, research, monitoring, and evaluation work that they need to NGO resource centers, whenever possible. The money for these activities is generally spent more effectively by resource centers, which are usually better equipped from the point of view of flexibility, administrative costs, local information, and experience in working with grassroots organizations. Furthermore, giving resource centers this kind of work will help in the sustainability of the donors' grantees, because they will enter into a permanent relationship with resource centers, who will help NGOs start local partnerships and participate in subsequent events of the sector.

One resource center in Lithuania pointed out that "these centers have extensive knowledge about the NGO sector and can advise funders about the areas in which they should invest."⁴⁸

3.2.9 Donors should coordinate more and should share strategic goals

If donors work together, common actions and support can take place effectively. It should be noted that Romanian donors are already working together in a structure on its way to formalization—the Romanian Donors' Forum, which brings together 17 donors, including the most significant institutional funders for NGOs. These donors have reached mutual trust after a considerable level of information exchange and coordination. However, not all donors have an equal level of active participation. Donors should also try to plan for the longer term, and use available communication channels to improve exchange of information and success stories, as well as to avoid duplication of efforts.

Based on data from Romanian NGO resource centers' records, donors have invested more than one million dollars so far in these support organizations. If this effort is to have a sustainable impact, donors need a proper exit strategy.

4. CONCLUSION AND RECOMMENDATIONS

The present research found that there are less than 10 NGO resource centers in Romania that correspond to the chosen definition: an independent structure that seeks to strengthen the nonprofit community and offers a range of services covering the main institutional capacity building needs for both grassroots and stronger organizations. Two main models have guided the setup and functioning of Romania's resource centers: the Phare model, which sought to establish centers as projects of stronger organizations,

and the Mott model, which sought to establish independent NGOs. The first model did not result in sustainable resource centers, as only very few centers set up through the Phare model still exist in some form today. The second, more recent, model led to a set of regional resource centers that managed to have a better survival rate, even as foreign support decreased. In some cases, these resource centers were able to secure funding from other sources.

The research shows that the main reasons for failure of the project resource centers were: insufficient funding; a poor fit between the mission of the center and that of the hosting organization; lack of local constituencies and locally adapted services; and lack of strategic planning and leadership. In the case of independent NGO centers, with a better track record of achievements and survival, causes for their unstable financial situation and short life expectancy include: the lack of locally raised resources; insufficient cooperation and communication among centers; unsatisfactory performance in recruiting and retaining highly qualified and motivated staff; insufficient diversification and innovation; and a limited capacity to recover some costs via paid services, such as training, consulting, and research.

This research takes into consideration that: resource centers are still necessary for the nonprofit sector; consolidation of existing centers is needed; financial and non-financial aspects of sustainability are equally important; and donors should continue supporting centers only if there is a real demand for their services and these services are of high quality. Based on these considerations, the chapter offers a set of recommendations, both to resource centers and to their existing and potential donors. These two groups are the main audience of this study, because they are key stakeholders and they have the incentives and the resources to implement some of these suggestions.

For resource centers, recommendations include:

- **Thinking and acting strategically:** Instead of simply seeking means for survival, resource centers should plan for the long term, by: activating and involving boards in strategy-making, finding and retaining strong leaders, involving beneficiaries and other stakeholders in the strategy process, and diversifying the donor portfolio.
- **Building real constituencies:** This will help resource centers avoid the excessive donor-driven behavior that has had a bad effect so far. One possible action is building monitoring and evaluation components into all projects, and using the evaluations in future programs and activities. It is also important to encourage learning behavior among employees.
- **Improving cooperation and communication:** Where practical, suggestions encompass: initiating joint projects, approaching donors together, creating complementary services, and pooling resources.
- **Looking for ways to achieve sustainable diversification:** Avenues to explore include diversification of clients—such as rural NGOs, small- and medium-sized

enterprises, universities, and public institutions—and diversification of services, which means giving up outdated services and adding new ones, like facilitation or event management. While diversifying, it is important that the centers are careful to stay within their mission and not over-stretch their resources.

- **Enhancing staff qualifications and motivation:** This is achieved through: attracting and, especially, retaining highly qualified staff, to mitigate “brain drain”; working with a larger pool of collaborators and service providers, to increase flexibility; finding and using suitable non-financial incentives; and building a strong volunteer base.
- **Attempting to recover costs by providing services for fees:** This involves: assessing the market potential; building or acquiring business management knowledge; performing cost-benefit analyses; marketing and selling resource centers’ services to direct clients and indirect clients, such as donors wishing to build the capacity of grassroots NGOs.
- **Promoting transparency and best practices:** Resource centers can do this by writing and publicizing annual reports and by developing and implementing codes of best practices.
- **Improving partnerships with public administration, especially local governments:** Specific recommendations include: providing training and consulting for public institutions, preparing and submitting joint projects for donors, and gaining a voice among local stakeholders.
- **Promoting social corporate responsibility and philanthropy:** This can be done by becoming more active in presenting companies and taxpayers with the fiscal facilities offered by the new Tax Code.
- **Working with donors to influence their strategies:** This is done by offering information proactively, rather than on request; working towards support of operational costs, in addition to project costs; and trying to be more involved in the EU accession process.

For donors, the paper recommends actions such as:

- continuing support for the existing resource centers, instead of ceasing funding or supporting new organizations with the same mission;
- covering operational costs besides project costs;
- focusing on long-term results, as the specificity of resource centers makes it less relevant to look for immediate transformation of their clients;
- encouraging mobilization of local resources, such as companies, individual donors, community foundations etc.;
- contracting resource centers to provide services, such as training and technical assistance for NGOs;

- considering more local input in their strategic decision-making processes, which could be provided successfully via resource centers;
- maintaining consistency between strategy and actions/budget structures;
- achieving better coordination among donors working in complementary fields of activity.

The chapter has looked at the situation from a very pragmatic perspective, with a sense of urgency derived from the very short time span that the centers have until their current funding expires. As one leader of a resource center said on January 20, 2004, sustainability is a constant consideration and concern. The definition and conditions of sustainability vary with environmental factors, and with internal strengths and weaknesses of an organization. Thus, it cannot be always said that elements that characterized a sustainable organization at one time and one place will necessarily be the same in different conditions. Acknowledging this relativity, this study has tried to suggest actions that can be taken here and now, and it has sought to justify these suggestions through a broader strategic analysis. If at least some centers are to survive, they should be able to understand the essential strategic factors determining their sustainability, to improve the quality of their services and to capitalize quickly on existing strengths and opportunities. Likewise, if donors want their resources to be used effectively, they should avoid institutional inertia and make an effort to leverage their funding via coherent and strong actions.

As one important Romanian donor noted: “There is a gap between theory and practice as well as between identified needs, available resources and the interest of NGOs to access these resources. Needs are identified but often no, or too little, action is taken.”

Indeed, awareness about the issues presented in this study is not sufficient. If something is to change, then all stakeholders need to recognize that investment is needed to close the gap between theory and practice. The recommended actions require consideration, debate, and effort, from both resource centers and donors, but it is absolutely necessary that at least some of these recommendations are followed if the resource centers are to survive and grow.

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APPENDIX 1

List of resource centers interviewed for this study

CENRES (Regional NGO Resource Center Foundation)

Suceava, Strada Universitatii nr. 48, cam. 7, 720228

Telephone/Fax: +4-0230-524128

E-mail: cenres@home.ro

Web: <http://cenres.home.ro>

Contact: CEZAR GROZAVU, Executive Director

Civil Society Development Foundation (CSDF)

Bucharest, Splaiul Independentei nr. 202K, 4th floor, sector 3

Telephone: +40-21-3100177

Fax: +40-21-3100380

E-mail: access@fdsc.ro

Web: www.fdsc.ro

Contact: CARMEN EPURE, Executive Director

CENTRAS (Assistance Center for NGOs)

Bucharest, Strada Arcului nr. 16, sector 2

Telephone: +40-21-2114815

Fax: +40-21-2116040

E-mail: office@centras.ro

Web: www.centras.ro

Contact: VIOREL MICESCU, Executive Director
IOANA OLTEANU, Program Director

AID-ONG

(Agency for Information and Development of Nongovernmental Organizations)

Timisoara, Calea Aradului nr. 12, apt. 12

Telephone: +40-256-433943

Fax: +40-256-492352

E-mail: aidong@xnet.ro

Web: www.aid-ong.ro

Contact: MIHAI LISETCHI, Executive Director

CRR (Regional Resource Center for NGOs)

Cluj Napoca, strada Ion Creanga nr. 2
Telephone/Fax: +40-264-591539
E-mail: crrcluj@go.ro
Web: www.resurse-ong.ro
Contact: IONUT RAITA, Executive Director

Centrul de Resurse CREST

Satu Mare, P-ța Libertății nr. 14, cod 440014
Telephone: +40-(0)261-706736, 706737, 714580, Fax: +40-(0)261-714580
E-mail: office@crest.ro
Web: www.crest.ro, www.telecentru.ro
Contact: KAZAMER ANDREA, Program Coordinator

CERAS (Regional Resource Center for NGOs)

Ramnicu Valcea, Bd. Tineretului nr. 1B, Casa Tineretului, et. 8, cam. 305
Telephone: +40-250-711440
Fax: +40-250-711440
E-mail: ceras@onix.ro
Web: www.resurse-ong.ro/ceras/index.htm
Contact: DANIELA VENTER, Executive Director
OVIDIU SAMSON, Program Coordinator

CENTRAS Constanta

Constanta, Strada 1907 nr. 17, Ap. 8
Telephone/Fax: +40-241-522012
E-mail: centras-ct@rdsct.ro
Web: http://www.sitex.ro/centras_cta/
Contact: IONICA BUCUR, Executive Director

APPENDIX 2

Interview Guide

LGI Research, 2003–2004: Sustainability of NGO Resource Centers in Romania

Researcher: RALUCA NEGULESCU, Romania

I. Contact Information

- Name of organization
- Contact person
- Address
- City
- County
- Phone
- Fax
- E-mail
- Web page

II. Strategy

- What is the mission of the organization?
- To what extent does the organization involve itself in activities that do not relate directly to this mission?
- To what extent do you think that the members/employees of the organization have the same understanding of this mission?
- Did you define a set of strategic goals of the organization? If so, which are these?
- Do you have a document of project planning? Who drew it and when?
- Who is involved in planning and decision making for these projects and programs?
- What are the values of your organization?
- What distinguishes you, in your opinion, from other organizations working in the same field?
- Which should be the mission and the strategic goals of a Resource Center for NGOs?

III. Services, beneficiaries, projects

- Which are the main categories of beneficiaries of your organization?
- How many beneficiary organizations do you have? How many did you have last year? Do you keep track of the evolution of beneficiaries since your organization was founded?
- Which, in your opinion, is the ratio of supply and demand on the Resource Centers for NGOs market?
- How do you gather data on the needs and aims of the beneficiary organizations? What about the data on how your services met their expectations?
- Do you have a database of beneficiaries?
- Which are the main types of services that you provide for beneficiary organizations? Please describe them in as much detail as possible.
 - Information
 - Training
 - Technical assistance and consultancy
 - Organizing events for the nongovernmental sector
 - Access to resources (meeting room, Internet, equipment)
 - Lobby and advocacy on behalf of the beneficiary organizations
 - Facilitating the relationship with the public administration/business sector/other community players
 - Others—which?
- Do you think your services ought to be diversified? How?
- Which are the principles and information that guide you in choosing and providing these services? How do you communicate with the beneficiary organizations with regard to their need of and the quality of these services?
- Do you have quality standards for providing these services?

IV. Projects

- Please name the organization's most important current projects.
- How many projects did you run in 2003? And in 2002?
- Of the projects you submitted for funding this year, how many have been approved?

V. Organizational structure

Board

- What is the name of your governing body and who are its members?
- How often does this structure meet?
- What is its role and implication in the organization's activities (establishing the organization's strategy, planning, fundraising, PR, contacts with employees)?

- What are, in your opinion, the strengths of the board? And its weaknesses?
- Do you think the members of the board would be interested to participate in a training session? If so, what topics would be of special interest to them?

Management

- Which person/group ensures the management?
- How does the management involve personnel and volunteers in achieving the goals of the organization and in establishing policies and procedures?
- How does the management communicate with the board? And with the employees?
- Does the management need training? On what topics?

Staff

- How many full-time employees do you have this year? How many were they last year?
- Is there a clear assignment of tasks and responsibilities? Are there job descriptions? Do you have an organizational chart?
- How do you recruit new employees?
- Which issues do you think your staff need most training on?
- In what training sessions did your employees, including management, take part as yet? Do you think these lead to professional development?
- Are there any important tasks for which you need new employees, but the organization has no financial resources to hire them?
- How large is staff turnover?
- Which do you think are the reasons for the high/low personnel turnover within your organization?

Collaborators

- Are there any persons to which you occasionally call to for performing tasks that you cannot cover with full time staff?
- In what fields do you resort to collaborators?

Volunteers

- How many volunteers do you have this year? How many did you have last year?
- What are their jobs? How do you assign the volunteers' tasks?
- Do you have a system for attracting, training and developing volunteers? Which are its main characteristics?
- Do you have a coordinator for volunteers? Is s/he paid or volunteer?

VI. Material and financial resources

Budget

- What is the evolution of the organization's total budget since the center was founded up to now?
- Is there a planning of the budget according to proposed programs? When do you do the planning?
- Do you elaborate reports to present the situation of the budget against actual expenditures?
- Is there a concern to measure or improve cost effectiveness? What instruments do you use?

Financial management

- Who bears responsibility for the financial management of the organization?
- Who is responsible for primary accounting work?
- Who elaborates financial and accounting reports?

Resource portfolio

- What material resources does your organization have?
 - Computers—how many?
 - Printer, copy machine, fax—how many?
 - Vehicles—how many?
 - Internet access (cable, dial-up, other)
 - Office space
 - Others—try to quantify them

VII. Funders and fundraising

- Which are the main funders of your organization? What is their percentage share in the total budget? What is the share of international funders in the total budget of the organization?
- What alternative solutions to grants are there? When did you start using them?
- Are there paid services that you provide? Details (which services, how do you set prices, how do you figure out the interest of beneficiaries for such services and how do you choose which services should be paid for, how do you assess the willingness of beneficiaries to pay for at least a part of the services' costs, how do you record the revenue, were you successful)?
- Are there any sponsors? How did you approach them? Do you have a long-term relationship with the same company?
- Are there any membership dues?—details.
- Are there any donations?—details. How do you assess the citizens' willingness to donate individually? What about legal persons?

- Are there any other fundraising methods?—details.
- Do you have an employee responsible for fundraising? What other tasks does s/he perform within the organization?
- Are members of the board involved in fundraising? How?
- Do you have a fundraising plan? Who mapped it out? What is the time span?

VIII. External relations, communication, promotion

- Which are the main strategies for promoting your organization and its projects?
 - Promotional folder/kit
 - Relationship with the media (news releases, conferences). How do you assess the way the media covers your activities? What about the coverage of the local NGO sector?
 - Publications
 - Promotional objects
 - Volunteers
 - Annual report (how do you publish it, where do you distribute it)
 - Others—please describe
- Events
 - What events did you organize for the nonprofit sector?
 - In what events on civil society related topics did you participate?
- Partners
 - Does your organization collaborate with other sectors of the community, be it public or private? Who are they? What is the subject of this collaboration?
 - Did you take part in any of the efforts for drafting a best-practice code for NGOs? To what extent do you think this is necessary/useful for the development of the NGO sector?
 - Does your organization take part in the planning process along the structures of public authorities? (e.g., local development strategies, allotting part of the local budgets for the activities of NGOs, etc.?)
 - What is your relationship with the relevant public authorities?
 - Does your organization cooperate with other organizations? Who are they? What is the object of this collaboration?
 - How does your organization gather data about the needs of beneficiaries and their points of view?
 - To what extent has the center been involved in advocacy and/or lobbying activities or in coalitions for advocating the interests of NGOs? What results did you achieve?

IX. Sustainability strategies

- What is, in your opinion, a sustainable organization?
- What do you think the share of financial resources should be in the resource portfolio of a sustainable organization?
- Did you design or do you intend to design a plan for the sustainability of your organization?
- Which are the strengths of your organization in what concerns sustainability? And the weaknesses?
- Which do you think are the main opportunities in your environment for the sustainability of resource centers? And the main risks?
- Do you know of sustainable organizations in Romania?
- What other Resource Centers do you know? Do you believe that some of them have viable sustainability strategies?
- What would you recommend in terms of sustainability for the Resource Centers for NGOs in Romania? What recommendations do you have for funders? And for public institutions?

APPENDIX 3

Other Stakeholders Interviewed/Researched for This Study

Donors

Delegation of the European Commission in Romania (Ioana Derscanu, Dolores Neagoe, civil society program coordinators)—June 2, 2004

Development Alternatives International—GRASP Program (Anca Socolovschi, program manager)—April 16, 2004

Romanian Donors' Forum (Gabriela Ivascu, Coordinator)—September 27, 2004

United States Agency for International Development (Gabriela Manta, Civil Society Coordinator)—May 28, 2004

Other organizations and individuals

CONTACT—Moldova (Aliona Niculita, Executive Director)

Directory of Social Change—UK (website research)

Foundation Center—US (website research)

NIOK—Hungary (Marianna Török, Executive Director)

NISC—Lithuania (Vajdotas Ilgius, Executive Director)

SPLIT and BORIS—Poland (website research and previous work with Zbigniew Weiczman, BORIS director)

Alina Porumb, independent consultant

APPENDIX 4

Orpheus Civil Society Project—Resource Centers Network (www.efc.be)

The **Orpheus Civil Society Network**, a project of the European Foundation Centre, started in 1994 and aims to promote civil society development in CEE and NIS. It is a decentralized and open network of information and support organizations serving foundations, associations, and other nonprofit organizations. The network includes currently 31 organizations from the region, which provide (through their national networks of support organizations) services to more than 30,000 nonprofits in CEE and NIS in five key areas:

- Information and communication (including info about funding for the NGO sector);
- Training and other educational programs;
- Advocacy of a positive legal and fiscal environment for the sector;
- Mediation within the nonprofit sector;
- Partnership building.

In 1999, the Project approved the Guidelines of Good Practice of the Network. From that moment, the network includes two types of members: **Orpheus CSP Centers** and **Orpheus CSP Information Points**. For each member category the Guidelines specifies standards that have to be fulfilled. For Orpheus CSP Centers, an important requirement is that they serve all kinds of NGOs rather than supporting specific groups of NGOs.

As shown in a report presented in the 2000 meeting of Orpheus CSP Centers, in general, the main part of the budget of CEE resource centers comes from grants (80 percent to 90 percent). Those resource centers that carry out development projects (such as volunteer centers) in addition to providing basic services, have an annual budget at the level of USD 150,000–200,000. Smaller centers have budgets of around USD 20,000.

The same report states that the resource centers have to adapt to the new environments of their societies and to the changing needs of their clients. These challenges include:

- Federalization;
- Fostering ethical standards and self-regulation mechanisms;
- Cooperation with local government;
- European integration process;
- Developing a positive legal and fiscal environment (including strengthening of accountability and transparency of NGOs);
- Service provision outside capital cities (a possible solution being the development of national networks of resource centers);
- Developing NGO management skills.

Three Romanian organizations are members of the Orpheus CSP Network: CENTRAS (The Assistance Center for NGOs), CSDF (Civil Society Development Foundation) and AID-ONG (Agency for Information and Development of NGOs).

During the 2002 meeting of the EFC in Brussels, the Orpheus network discussed the sustainability of information and resources centers for NGOs. One of the conclusions (p. 42) was that “centres should not rely exclusively on providing services to NGOs but should also explore possibilities of working with other sectors provided that these services promote civil society development.” Another conclusion was that “the most important function of the network is to provide opportunities for the centres to develop and strengthen their organizational capacity and increase the impact of their work.” The rolls of the network includes:

- “providing access to existing knowledge and expertise
- promoting a favorable legal and fiscal environment for civil society development
- improving the image of the network
- facilitating the information flow within the network

The Orpheus Civil Society Network promotes civil society development in Central and Eastern Europe and the Newly Independent States. It acts as a decentralised and open network of NGO information and support organizations that serves as a platform for exchange of experiences, expertise and information among members, thus empowering them to better serve the NGO communities in their respective countries. These organizations provide services in the following key areas: information related to NGOs; training and other educational programmes; advocacy of a positive legal and fiscal environment for the sector; partnership and coalition building.

Values and Standards of The Orpheus CSP Network

- I. The Orpheus CSP Network Accepts the Following Values: The principal values that characterise the relations between the Orpheus centres are: partnership, openness, solving problems by mediating, recognition of and respect for cultural differences, the right to have individual opinions.
- II. Basic standards of participation in the Orpheus CSP Network: Two levels of participation can be distinguished in the activities of the Orpheus CSP Network. These are:
 - A. Orpheus CSP Centres
 - B. Orpheus CSP Information Points

A. Orpheus CSP Centres—minimum standards:

1. The Orpheus CSP Centre participates in the agreed Orpheus CSP Network activities. This can be done on two levels by:
 - A. introducing changes in activities being undertaken and implementing projects,
 - B. initiating activities/projects (and/or reproducing the results by implementing the projects in other places)—the Orpheus CSP Centre becomes the source of information for the other Orpheus CSP Centres.
2. The Orpheus CSP Centre participates in at least two Orpheus CSP Network initiatives per year. It can work on a bilateral or twinning basis in the course of realising its own programmes.
3. The Orpheus CSP Centre informs other members of the Orpheus CSP Network about its activities.
4. One Orpheus CSP Centre (Coordinator) per country coordinates the activities of all Orpheus Centres operating in a given country.
 - A. The Coordinator is chosen by the Orpheus CSP Centres in a given country.
 - B. The Coordinator is a principal point of contact for the Orpheus Network.
 - C. The Coordinator is responsible for replying to all enquiries coming to Orpheus CSP Centres in a given country and distributing any information that can be of relevance to other Orpheus CSP Centres.
5. The characteristics of the Orpheus CSP Centre also include those of the Orpheus CSP Information Point listed below.

B. Orpheus CSP Information Points—minimum standards:

1. The information coming from the Orpheus CSP Network is recognised as important and is given appropriate priority.
2. In the information materials it should be stated that the Orpheus CSP Information Point is a part of the Orpheus CSP Network.
3. The Orpheus CSP Information Point informs about its current activities and is ready to provide this information on demand.
4. The Orpheus CSP Information Point can participate in the Network's meetings.
5. The Orpheus CSP Information Point has a staff member assigned to communicate with the Orpheus CSP Centres.

Values and Standards of The Orpheus CSP Centres and the Orpheus CSP Information Points

- I. *The Orpheus CSP Centre and Orpheus CSP Information Point accept the following values:*
 1. The Centre and the Information Point are non-partisan organisations.
 2. The Centre and the Information Point serve all kinds of NGOs as defined in the mission statement and do not support specific groups of NGOs (e.g., only environmental NGOs).
 3. The Centre and the Information Point are flexible in terms of services delivered.
 4. The transparency and accountability of the Centre and the Information Point are ensured.
 5. The Centre and the Information Point have an open system of accessing and distributing information to NGOs and the public, not automatically excluding NGOs who cannot afford to buy its services.
 6. The Centre and the Information Point operate at the national level (or is a part of the national network).
- II. *Basic standards of operation:*
 1. The Centre's and the Information Point's premises should be accessible to the public with clearly stated opening hours.
 2. The Centre and the Information Point should respond in a timely way to incoming inquiries.
 3. The Centre and the Information Point have all the necessary technical equipment and access to the Internet.
 4. The Centre and the Information Point receive and provide assistance to clients in the office and have a system for registering clients.
 5. The Centre and the Information Point have the following resources:
 - a) an accessible library,
 - b) data bases on NGOs operating in the country,
 - c) information on: current legislation concerning NGOs, funding sources (in the country and abroad—major foreign funders, grants applications of the country programmes, e.g., European Union programmes), trainers and training courses available in the country, co-operation with the public administration, basic data about the sector in the country (e.g., number of NGOs, fields they operate in, etc.).
 6. The Centre and the Information Point regularly offer and exchange information available in the Centre and the Information Point.
 7. The Centre and the Information Point have an internal capacity to communicate in English with other partners in the Orpheus CSP Network.

8. The Centre must have the ability to provide consultancy services for NGOs on a long-term basis.
9. The Centre provides training on management and legal and fiscal issues on a regular basis.
10. The Centre undertakes advocacy initiatives on behalf of NGOs.
11. The Centre undertakes initiatives to promote self-regulation and self-identification of NGOs as members of the NGO community.

APPENDIX 5

Resource Centers Funded by the C. S. Mott Foundation in CEE

Atitudini. 2002. Nos. 5–6. p. 20.

The Mott Foundation began funding Resource Centers in 1993 and today funds them in 11 countries in the region. The Centers act as a clearinghouse and catalyst for the nonprofit sector, facilitating intrasectoral communication, providing services such as information, consultancy, training, and research. The concept underlying the functioning of the Resource Centers is that they should not directly solve particular problems of NGOs, but should empower them to find solutions by offering professional tools and by facilitating communication and networking processes.

An evaluation conducted for the Mott Foundation by Charities Evaluation Services in 1996 concluded: “funding Resource Centers to accelerate the development of the sector is an effective strategy.” The funded Centers contributed to the development of the sector in the following areas:

- information sharing;
- increasing access to available sources of funding for NGOs;
- training and technical assistance on management and legal/fiscal NGO regulations;
- contributing to the preparation of legislation favorable to NGO operation;
- promoting an understanding of the role and potential of the sector with government.

As grassroots NGOs have: a) limited access to NGO resource centers based in capital cities, and b) historically-rooted apprehensions that capital-city based organizations may take up too much visibility and representativity on behalf of the sector, the evaluation study showed that an outreach of Resource Centers is much needed, so that NGOs outside capital cities can benefit from a wide range of services provided locally. Also, Centers were seen by beneficiaries as potential players to fulfill needs such as:

- development of specialist NGO networks and federations;
- preparation of training courses in media relations, government contracting etc.;
- increased (especially in-country) funding made available to NGOs;
- securing passage of prepared legislation, educating the public about the role of the third sector.

A challenge mentioned in the report was the fact that Centers were asked to help NGOs with developmental problems while having to struggle themselves with the same

problems. As the dominant funding pattern in CEE countries was at the time (and still is) project-based, core funding was and is particularly difficult to secure.

The Centers funded by Mott believed that civil society development can be promoted through providing the following support services:

- information clearinghouse for NGOs and their potential partners and donors;
- networking of NGOs with common interests;
- training, consultancy and technical assistance for NGOs;
- increased funding for NGOs; advocacy for the NGO sector;
- raising the public awareness about the sector, philanthropy and volunteering.

The Centers' representatives identified in 1995 seven categories of goals against which to evaluate their impact:

- improved information sharing and networking between NGOs;
- better management of NGOs;
- increased accountability, transparency and self-regulation of the NGO sector;
- secure sources of finance (including in-country sources);
- a favorable legal and fiscal framework;
- effective working relationships between NGOs and the government and business sectors; public knowledge of, trust in, and contribution to NGOs.

ENDNOTES

- ¹ For example: Vera Dakova, Bianca Dreossi, Jenny Hyatt, and Anca Socolovschi. 2002. *A Review of the Romanian NGO Sector: Consolidation of Donor Strategies*. Bucharest: Editura FDSC; and Alina Porumb, Catalin Gheorghe, Cristia Lazar, and Dana Pirtoc. 2001. *Review of Donor Support for the NGO Sector*. Bucharest. Commissioned by the Romanian Donors' Forum.
- ² CENTRAS' database was used for this purpose. Online: www.centras.ro.
- ³ A list of these publications can be found in the bibliography.
- ⁴ The Orpheus Civil Society Project was initiated by the European Foundation Centre in Brussels and is now in the process of becoming a distinct legal entity. More information is available at the website of the European Foundation Centre. Online: www.efc.be.
- ⁵ This type of organization will also be referred to in this paper as a "support organization."
- ⁶ For functions that a resource center performs, see also: Vera Dakova et al. Op. cit. pp. 25–27.
- ⁷ Alina Porumb et al. Op. cit.
- ⁸ Vera Dakova et al. Op. cit. p. 3.
- ⁹ As can be seen, the centers do not keep standardized records of their indicators. Thus it is difficult in some cases to make comparisons between the number of beneficiaries.
- ¹⁰ "Activity" is considered to have taken place when the organization submits annual financial reports to the fiscal authorities and the Ministry of Finance. However, this is not necessarily indicative that there was continuous activity during that year. Other sources estimate the number of active organizations at around 2,000.
- ¹¹ The information in this paragraph was produced by the Civil Society Development Foundation and published in a short paper entitled "The Romanian Nongovernmental Sector—Indicators for 2002," which was distributed during the debates of the recently adopted one-percent funding mechanism.
- ¹² Alina Porumb et al. Op. cit. p. 8.
- ¹³ Vera Dakova et al. Op. cit. p.23.
- ¹⁴ Alina Porumb et al. Op. cit. pp. 37–38.
- ¹⁵ Dakova, Vera, Bianca Dreossi, Jenny Hyatt, and Anca Socolovschi. 2002. *A Review of the Romanian NGO Sector: Consolidation of Donor Strategies*. Bucharest: Editura FDSC. p.25.

- ¹⁶ Alina Porumb et al. Op. cit. p. 8.
- ¹⁷ Vera Dakova et al. Op. cit. p. 25.
- ¹⁸ Romania has 41 administrative units named counties.
- ¹⁹ Vera Dakova et al. Op. cit. pp. 25–27. And subsequent CENTRAS records in 2000.
- ²⁰ Vera Dakova et al. Op. cit. p. 25.
- ²¹ Mihaela Lambriu. 1998. *Local and Sectorial Fora 1998, National NGO Forum 1998*. Bucharest: CENTRAS. pp. 8–9.
- ²² Ibid. p.12.
- ²³ These causes are mentioned in CENTRAS' proposal to C.S. Mott Foundation—an internal document (2000: 4).
- ²⁴ Vera Dakova et al. Op. cit. pp. 25–27.
- ²⁵ CENTRAS' report to C. S. Mott Foundation—internal document (2002).
- ²⁶ In April 2004, the Cluj Center, due to lack of funding for rent and salaries, shut down its office and moved its assets to the premises of CONSENS, a federation of social NGOs.
- ²⁷ The chart includes as revenue barter arrangements or in-kind contributions such as offices provided by public institutions, Internet, paper, etc.
- ²⁸ Meeting report, Warsaw 2000, available at www.efc.be.
- ²⁹ Dan Siegel, Jenny Yancey, and Caroline Hartnell. 2004. “Funding Civil Society Infrastructure—Paying Your Dues?” *@lliance*. Vol 9, No. 3. p. 31.
- ³⁰ Letter sent on November 13, 2000 by Jonathan Edwards, programme manager, Charity Know How, to participants at the EC Delegation to Romania Civil Society Meeting on November 15, 2000. See also: *Romania 2001—Making Civil Society Work*, a team research report led by the Group for Implementation of the NGO forum's resolutions (2001: 54), according to which support organizations enjoy experience and notoriety and can provide resources for the development of civil society: information, sectorial credibility, professional standards and know-how in financial planning, training, and technical assistance.
- ³¹ This term was introduced in Vera Dakova et al. Op. cit. p. 33.
- ³² This interesting system was described by the Executive Director of CIVITAS, on January 20, 2004.
- ³³ According to www.donorsforum.ro, the Romanian Donors' Forum is a donor group, soon to be registered as a legal person, whose mission is to facilitate information exchange among donors, as well as to promote philanthropy.

- ³⁴ Online: www.splot.ngo.pl.
- ³⁵ See also *Atitudini* (2002) Nos. 5–6, an issue dedicated to Resource Centers. The Polish experience is described on page 21.
- ³⁶ Online: www.foundationcenter.org.
- ³⁷ CENTRAS Constanta has already pioneered an original coaching idea. The service is designed to support organizational development, and it encompasses a mix of areas where interventions can be initiated by coaches: training, giving information, consulting and technical assistance, monitoring, and evaluation. Coaching starts with an initial evaluation of the beneficiary's organizational capacity. Accordingly, an intervention plan is designed for one-to-two years. The main areas of intervention are: legal registration, proposal writing, project management, fundraising, and event planning
- ³⁸ In 2003-2004, CENTRAS earned more than 10 percent of its income based on paid services. CSDF has started to practice the same approach, especially for training and some publications, and CENTRAS Constanta has also been successful in selling training to local NGOs, local administrators and even businesses. However, other centers, acting in smaller markets, did not experience the same success. AID-ONG, for example, believes that small NGOs, which need services such as training the most, do not have resources to pay for them, and those NGOs that have resources are not interested in the training offered by the resource center.
- ³⁹ Here, centers could look at the model of Strawberry Net, an NGO that designs and hosts web pages for other NGOs at differentiated pricing, depending on the capacity of each customer to pay. Online: www.ngo.ro.
- ⁴⁰ Online: www.dsc.org.uk.
- ⁴¹ Directory of Social Change. 2003. *Annual Report*. p. 6. Online: www.dsc.org.uk.
- ⁴² Suggestion made by Csaba Hajdo, CIVITAS executive director, on January 20, 2004.
- ⁴³ Dan Siegel et al. Op. cit. p. 30.
- ⁴⁴ Siegel, Dan, Jenny Yancey, and Caroline Hartnell. 2004. "Funding Civil Society Infrastructure—Paying Your Dues?" *@lliance*. Vol 9, No. 3. p. 32.
- ⁴⁵ "Yesterday in Timisoara, Tomorrow in All the Western Regions." *Atitudini*. 2002. Nos. 5–6: 26.
- ⁴⁶ Alina Porumb et al. Op. cit. p. 9.
- ⁴⁷ Dan Siegel et al. Op. cit. p. 32.
- ⁴⁸ Vaidotas Ilgius, cited in the minutes of the Warsaw meeting of Orpheus Network Resource Centers 2000. Online: www.efc.be.

Rural NGOs in Ukraine

Olha Zakharchenko and Volodymyr Holovatenko

ABSTRACT

This policy paper tackles the often-neglected issue of rural NGO sustainability and is probably the first policy paper to deal exclusively with rural nongovernmental organizations in Ukraine. The exclusion of rural communities from the policy process is well known, and the marginalization of rural civil society from international initiatives is a matter of fact. This has resulted in unrelenting poverty and the breakdown of community capacity in rural areas of Ukraine. By directly targeting NGOs currently operating in Ukraine's towns and villages, and highlighting their strengths as well as issues that threaten them, it will be possible to draft policy recommendations that will directly involve them in Ukraine's development process.

As this policy paper illustrates, rural NGO sustainability is a very complex issue. It is not limited to financial sustainability but is also directly linked to an organization's capacity, relations with its partners and the legislative conditions regulating the sector. To uncover the issues, we conducted a survey of rural NGOs across Ukraine and carried out investigative interviews with key stakeholders in Ukraine and Europe.

The recommendations produced by this policy research confront the principle issues of rural NGO invisibility, the need for civil society law reform and implementation and the challenges associated with developing partnerships across sectors (local government, private and civil society). If implemented, these recommendations will create a balance of power in rural communities and assist in community development. Our research has revealed a need for an integrated approach to rural development, and it has shown that working collaboratively on community issues remains the most effective approach to developing sustainable communities. While this may be construed as a threat to some rural actors, the benefits will be felt by all.

ACKNOWLEDGMENTS

This work would not have been possible without the generous support of many individuals. First, we would like to thank our partners, Kate Woodman and Ed Zakharchenko,

for their tremendous help and encouragement, and also Damian Hornich, FRD's CBIE/CIDA intern, for his assistance with research and technical issues. They each read the drafts, discussed the ideas and offered comments and assistance throughout the process. In addition, we are grateful to the members of our LGI policy fellowship group, especially Scott Abrams, Katalin E. Koncz and Kinga Rethy, for their insight and logical analysis. As a result, we kept our focus and sought out the positive aspects of rural NGO development, while faithfully delineating the problem areas. Finally, a special thanks to Glen Wright, who read the drafts and imparted his extensive knowledge in civil society development throughout CEE.

We take full responsibility for the information in this policy report and sincerely hope the recommendations will be adopted and that Ukrainian rural communities and their NGOs will be strengthened.

—*Olha Zakharchenko and Volodymyr Holovatenko*

LIST OF ACRONYMS

CCC	Counterpart Creative Center
CEE	Central Eastern Europe
CIDA	Canadian International Development Agency
DFID	British Department of International Development
GDP	gross domestic product
ICNL	International Center for Not-for-Profit Law
INTRAC	International NGO Training and Research Centre
NGO	nongovernmental organization
TACIS	Technical Assistance for Commonwealth of Independent States
UCAN	Ukraine Citizen Action Network
UNDP HDR	United Nations Development Program Human Development Report
URLP	Ukraine Rural Livelihoods Project
USAID	United States Agency of International Development
VAT	value-added tax
WB	World Bank

1. INTRODUCTION

1.1 Problem Statement

Not all NGOs are created equal; if funding problems exist at the core of the NGO sector, the problem is even greater for those organizations that subsist on the margins. NGOs working at a local level in rural communities in Ukraine are especially vulnerable to problems associated with invisibility and sustainability. Their critical role in supporting civil society development in rural communities, monitoring government responsiveness, and providing social protection, is often underestimated. Their physical distance from donor offices in Kyiv, Ukraine's capital, make them far more susceptible to the ebb and flow of the funding environment. This distance limits their access to training and information that could build their capacity to mobilize local resources.

In addition, the legal restrictions placed on NGOs in Ukraine significantly challenge their sustainability. Apart from the difficulties associated with the registration process, limited access to legal advice and weaknesses of the current legislation also affect an organization's stability and its capacity to mobilize resources. There are no standardized procedures to regulate contracting between local NGOs and government officials, further limiting the provision of services to NGOs in Ukraine.

An NGO's capacity to build and maintain partnerships with other NGOs, as well as the private sector, local government and the media, is another area of concern. It is essential for an NGO to access and network with all stakeholders in community development in order to diversify their funding base. This involves developing procedures for government funding and corporate investment. Rural NGOs also need to improve their networking skills in order to form partnerships and coalitions and become more self-regulatory.

In spite of the growing number of essential functions they perform, rural communities in Ukraine (as elsewhere) and the NGOs that support them, are at risk. Key indicators of human development (per capita salary, life expectancy, number of pensioners, male/female ratio, birth rate, level of education, access to social safety nets, etc.) are significantly lower in rural areas than in urban centers. These communities and their associated NGOs are even more at risk due to the imbalanced development and distribution of the communication sector in Ukraine: telephone lines and Internet connections are still in their infancy, and local access is intermittent and unreliable. Access to communication tools such as the Internet, which provides a wealth of information and research possibilities, exists to a much lesser degree in rural communities than in larger centers. All of these factors directly affect a rural NGO's capacity to maintain or increase its funding base.

There is a growing consensus among international donors that poverty reduction targets will not be met until the situation in rural communities becomes sustained focus in research, stakeholder mobilization, and capacity building. Rural NGOs could play a significant role in assisting in this process and becoming key partners in the UN's Millennium Development Goals. By increasing the sustainability of rural NGOs, the health of rural communities would also improve.

1.2 Research Goal

In recent years in Ukraine, many donor-funded research projects dealt with civil society development in general and the third sector in particular.¹ However, the number of initiatives that addressed the needs of rural NGOs was negligible, and those that do exist need much wider dissemination. In addition, the existing research tends to not have a national focus, but to look instead at only a handful of regions.

We will highlight the current situation of rural NGOs in villages, towns and rayon centers across Ukraine, and develop policies aimed at increasing their sustainability. The analysis focuses on rural NGOs and the communities they inhabit, the challenges they face and the strengths they currently possess. This exclusive focus is new to Ukraine, and the accumulated research will heighten the visibility of this marginalized sector. We will expose the existing capacity of rural NGOs to manage themselves, to collaborate with other sectors, and to contribute to their community. We will then highlight policy solutions to address the challenges associated with each of these areas. This research illustrates the main policies with which rural NGOs increase their effectiveness and sustainability.

1.3 Definition of Terms

a) Rural NGOs

Researchers must set their own parameters as the term “rural NGO” is not legally defined in Ukrainian legislation. This research characterizes rural NGOs as organizations that are based in, and conduct their activities in, villages, towns, and rayon centers with populations of up to 50,000. We included towns and rayon centers because NGOs registered in these locations typically undertake missions that target rural groups and initiate rural-based activities. We examined a variety of nongovernmental structures that exist in rural Ukraine, including citizens associations, community development foundations, and charitable organizations.

b) Rural NGO sustainability

In the case of rural NGOs, maintaining sustainability goes beyond matters of funding.² The research reveals that, as a result of their isolation from the international donor community, rural NGOs are less dependent on donors than their urban counterparts. As such, we have identified the following dimensions of rural NGO sustainability:

- Legal sustainability
- Social sustainability
 - Organizational development
 - Cooperation with others
 - Involvement in the decision-making process
- Financial sustainability

1.4 Research Methodology

This research explores the following five hypotheses:

1. Rural NGO sustainability is a complex issue that involves a variety of indicators, including all matters relating to funding.
2. In spite of the many obstacles, Ukrainian rural NGOs make a contribution to their communities.
3. There are regional differences within the rural NGO sector.
4. Ukraine's current legal environment challenges the sustainability of rural NGOs.
5. Rural NGOs lack the skills and expertise needed to develop their capacity (infrastructure, collaboration, policy skills).

The hypotheses were tested using a multi-stage methodological approach:

a) Survey:

- In November–December 2003, a 47-part questionnaire was developed. It consisted of mostly close-ended questions, used to survey the sustainability dimensions of rural NGOs in Ukraine.³
- From a database of 660 rural organizations, selected from a pool of the more than 30,000 Ukrainian NGOs, 200 rural NGOs were randomly selected from across Ukraine to participate in the survey.
- 62 organizations returned the questionnaire, producing a response rate of 31 percent.

b) In-depth interviews and focus groups:

We conducted several loosely structured interviews with stakeholders who work in the rural development sector throughout Ukraine. The interviews were approximately one to two hours in length and covered topics relevant to the sector. Participants were selected from the following categories: representatives of rural NGOs, local businesses, local government authorities, international donors, and rural project managers.

c) Document search:

Local and international publications, articles, and Internet resources were reviewed for information regarding issues of third sector sustainability common to both Ukraine and other CEE countries; the focus of this research was on legal, social, and financial issues.

2. ADDRESSING RURAL NGO SUSTAINABILITY IN UKRAINE

2.1 Profile of Rural Communities and their NGOs

2.1.1 General features of rural Ukraine

A broader examination of the social and economic living conditions in rural Ukraine is critical to understanding the nature of rural NGOs. Research gathered from various studies consistently paints a bleak picture of the present circumstances. In fact, 42 percent of Ukraine's poor reside in rural communities.⁴

Based on an average per capita consumption of UAH 314 (USD 59) and average rural earnings of UAH 151 per month (USD 28), the majority (67 percent) of the rural households are classified as low-income. Of this group, 31 percent are listed as poor, and 12 percent are extremely poor.⁵ Unemployment is a critical problem in rural communities, where 25.2 percent of youth (aged 15 to 19) and 11.1 percent of young adults (20 to 29 years) are unemployed.⁶ Most of the employment income in rural areas is still derived from farming: In 2000, more than 54 percent of the rural population was employed by farm enterprises, on private farms or household plots.⁷ During the period of transition to a market economy, the percentage of the population employed in agriculture increased slightly. This reflects the importance of household plots or subsistence agriculture in absorbing surplus labor. This has provided a critical social safety net in rural areas during the transition period.

It is also important to note that, even though a majority of households own land and produce small amounts of food for their own consumption, 72 percent of a household's

monthly income is spent on foodstuffs. Furthermore, access to household amenities, such as running water, sewage systems and telephone cables, are not at all universal, and this reflects the strained household incomes and the depressed development of rural infrastructures.⁸ Access to health care, education and other forms of community development also remain problematic in rural communities. Clearly, rural NGOs are operating in an economically stressed environment. Ukraine urgently needs to develop and implement policies that will provide a more equitable distribution of resources.

The difficulties faced in rural areas are aggravated by social problems characterized by a weak social fabric. An overwhelming majority of respondents in the URLP survey felt that their fellow villagers were self-interested and that they could not be trusted with funds allocated for village development. Over one-quarter of survey respondents said they were unaware as to how decisions were made in their villages. In response to the question, “Have you ever participated in the decision-making process or made any suggestions to the local government concerning the development of your oblast or settlement?” the majority (84 percent) of Ukrainians answered, “No.”

The implications of this kind of attitude toward NGOs are widespread and severe. For example, it is difficult for NGOs to attract volunteers and private donations or to forge partnerships with local businesses. Involvement in formal or informal community associations is very low (approximately 7 percent).¹⁰

In response to the question, “Do you participate in the activities of NGOs?,” 8 percent of respondents in western Ukraine said they do, whereas only 2 percent from the Kyiv region said they participate in NGO activity. Responses between the two groups varied somewhat.¹¹ At present, it appears that social capital in rural Ukraine is quite weak, due to the fact that the community level networks that foster trust are still underdeveloped.

Box 1: A Case in Point: Education in Rural Ukraine

For Ukraine, the most significant actions required in education would be to improve the overall quality and access to secondary education in rural areas. Throughout rural schools, one fifth of the subjects are taught by teachers who are not specialized in their particular field (often pensioners or older students), and over 3,000 individuals who teach these children have no pedagogic education at all. Rural schools are poorly equipped with computers and other educational materials.

Source: UNDP. 2003. *HDR*. p. 28.

2.1.2 Profile of the rural NGO

Rural NGOs are located in every corner of Ukraine and cover a broad spectrum of interests and activities. Of the nearly 660 rural NGOs in existence, we gathered information from NGOs across Ukraine, to achieve comprehensive geographical coverage. We divided Ukraine into the following five oblasts and conducted the survey in these regions:

1. Western oblasts: Lvivska, Zakarpatska, Ivano-Frankivska, Khmelnytska, Ternopil'ska, Rivnenska, Chernivetska.
2. Eastern oblasts: Zaporizka, Dnipropetrovska, Kharkivska, Luhanska, Donetsk.
3. Northern oblasts: Kyivska, Sumska, Chernihivska, Zhytomyrska.
4. Southern oblasts: Odeska, Mykolayivska, Crimea, Khersonska.
5. Central oblasts: Vinnytska, Cherkaska, Kirovograd'ska, Poltav'ska.

From our survey data, of the 62 NGO respondents, 79 percent are legally classified as “Citizens’ Associations,” while 16 percent are categorized as “Charitable Organizations.” The areas of interest that predominate include:

- social issues, such as health, invalid/veteran care, and education (42 percent);
- youth issues, such as HIV/AIDS, employment, sports and political activities, MDG monitoring, and community development (29 percent);
- human rights issues, such as minority rights, gender issues, indigenous peoples, and election procedures (26 percent);
- community development issues, such as agricultural development, local economic development, special community events, and citizen participation events (21 percent).

Target groups for these activities are primarily children, youth, the disabled and women. Based on this information, it appears as though there is a strong local community element in the work of rural NGOs, rather than a broader, national scope.

Our results indicated that nearly 60 percent of all rural NGOs are located in western Ukraine and are very active, particularly in the Lvivska and Zakarpatska oblasts.

Furthermore, organizations from these regions are most likely to seek out and acquire donor support. These findings are not at all surprising, given the long-standing tradition of independence, community development, and active participation in volunteer activities.

Rural NGOs’ location is both a blessing and a curse in that the organization is highly accessible to the immediate community yet extremely isolated from the center, and other rural NGOs. Their isolation hampers the ability of these organizations to communicate with one another, form partnerships, share information, and learn “best practices.”

Figure 1.
Targets for Rural NGO Activities (%)

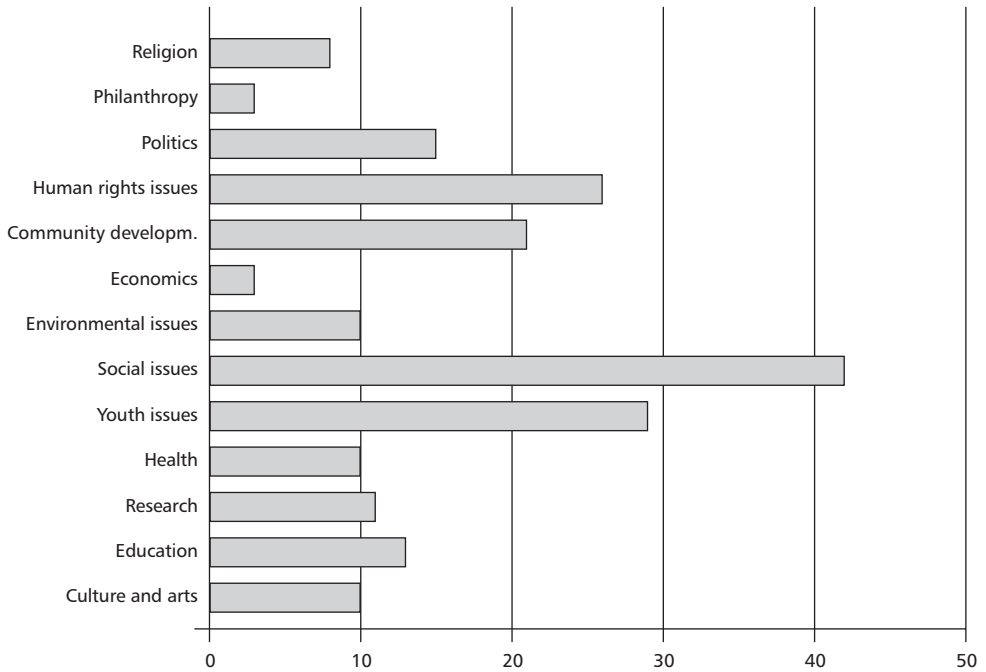


Figure 2.
NGO Target Groups (%)

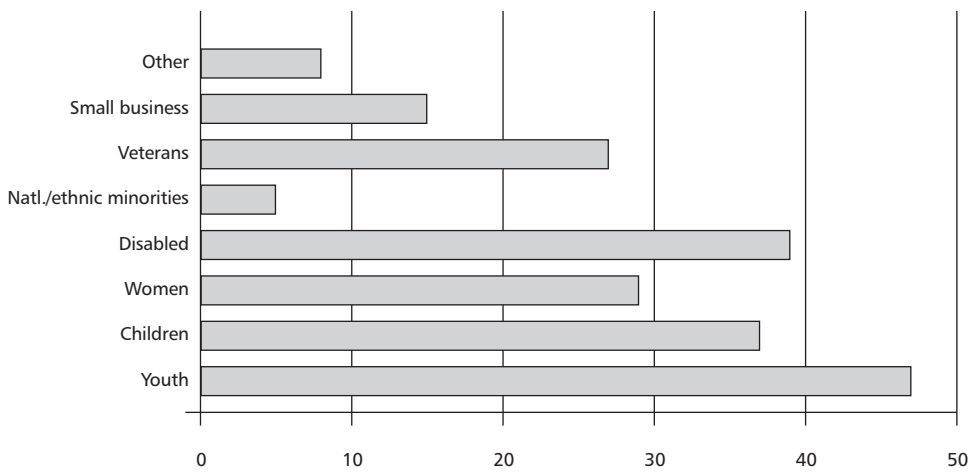
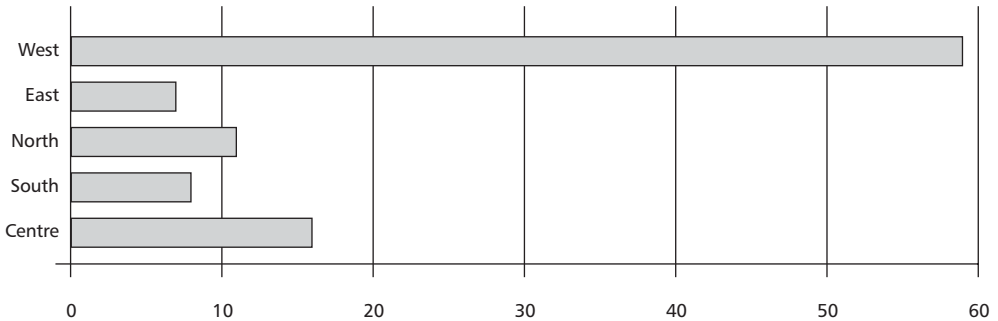


Figure 3.
Rural NGO Location (%)



Being close to constituents allows these organizations to cultivate strong collaborative relationships with their local communities and to build trust, once they've received training in the dissemination information and how to build their membership base.

The chances for NGO development, efficacy, and prospects for rural NGO sustainability are all closely linked to the portrait of rural life as illustrated above. For example, it is impossible to collect high membership fees from a population with severe income restrictions. Therefore, the annual budgets of rural NGOs must remain very low, with the majority being less than UAH 2,500 (USD 470). This statistic alone has had a serious impact on the way in which an NGO operates. The groups typically have between one and three part- and full-time paid employees, if any at all, and very few organizations are able to rent their own office space—virtually none own an office. Instead, many NGOs must accept donated rooms in government office buildings. The ability of a nongovernmental organization to achieve independence and non-alignment are jeopardized in such circumstances.

Box 2: Youth in Action

In Bila Tserkva (Kyiv oblast), youth have become active participants in community life. The League of Ukrainian Youth (NGO) has been working since 1999 with favorable results. Thousands of young people have participated in training programs and other activities. As a result almost all members of the organization have good, stable jobs and a clearly defined vision of their place within the community. Furthermore, this NGO has strengthened the sense of national identity among young people, increased their awareness of political and social issues, and prompted communication with the various stakeholders.

Source: Gurt Resource Centre. 2003.
For the Sake of the Community. Kyiv. p. 16.

Small working budgets also seriously impede an organization's ability to improve their existing management structures while remaining current with developments in the field. Rural NGOs are not only physically removed from Kyiv and other major centers where international donors and government offices are located, but they are further isolated as a result of limited office space, and a lack of communications and information technologies, particularly Internet access. Forty percent of NGOs operate without even a single phone line and 73 percent do not have access to the Internet. This type of inaccessibility to information prevents these vulnerable yet essential community organizations from seeking out new funding opportunities or obtaining much-needed financial or legal counsel that is largely impossible to access in rural regions. For example, many rural NGOs consult local newspapers and friends with regards to potential funding opportunities.

However, there are a few key areas that give cause for optimism. Firstly, our data indicates that, while rural NGOs' operating budgets are very small, most of them are not accessing what little funding is available from major international donor agencies. In fact, 68 percent receive no donor support whatsoever. While this might simply be because they are unaware of donor opportunities or lack the skills with which to create an effective proposal, these organizations are more prepared than their counterparts in other CEE countries for what is becoming a "post-donor environment." With improved capacity building and skills training, rural Ukrainian NGOs could bypass these problems and reach a level of self-sufficiency through new partnerships with local SMEs and other NGO organizations.

Rural NGOs have been reporting relatively high levels of volunteerism and membership. In many cases the number of volunteers is ten to 20 times greater than the number of employees. These figures give the impression that the interest in NGOs and their work is growing, as is their capacity to integrate into the local social fabric and make meaningful contributions to village life. For example, in Borispyl (Kyiv oblast), the NGO "God's Gift" has attracted more than 70 volunteers, from 14 to 65 years of age. Most of these volunteers are members of the local church and are working together to resolve social issues. They visit the local children's hospital to present theatre entertainment and holiday celebrations, organize humanitarian aid for orphans, and coordinate sports events for school children. These types of church-based volunteer activities are on the rise in Ukraine and have significantly strengthened social capital at a local level.

Unfortunately, the negative aspects clearly outweigh the positive. While many rural NGOs have been registered for more than five years (1996 and earlier), their level of expertise does not seem to have grown. Human resources, including volunteers, are plentiful, yet they do not possess all the skills needed to achieve long-term sustainability and success. This problem exists across Ukraine; many individuals cite their lack of competence, and their lack of knowledge as to how to help, as major obstacles to their participation in NGO activities.¹² Our survey respondents, who were mostly directors

of rural NGOs, said that less than 35 percent of their staff possess program monitoring, project proposal writing, and fundraising skills, which are all essential in promoting the growth of an organization. Furthermore, strategic planning and program evaluations are practiced only sporadically, at best. This situation is clearly untenable, and basic yet vital skills must be developed in order to ensure sustainability. It is time for rural NGOs to access the variety of training opportunities that exist in Ukraine, and time for centrally based Ukrainian trainers to turn their attention towards their rural counterparts.

2.2 NGO Sustainability: Legal Sustainability

The welfare of NGOs in Ukraine, as elsewhere, is dependent upon a legal environment that defines, regulates, and protects the interests of civil society. Ukraine's Constitution, ratified in 1996, guarantees the basic democratic rights of association and freedom of speech essential to ensuring a democratic society. In addition, the state is party to international conventions that further reinforce this legal environment, with some exceptions (see Box 3).¹³ Despite these provisions, changes to the legal procedures endured by Ukraine's NGOs still lag behind those taking place elsewhere in the region and are not at all comparable to the situation in the western democracies. In fact, the current legal framework often inhibits the growth and effectiveness of the NGO sector. As NGOs grapple with the stresses of fundraising, membership drives, strategic planning, and all the other details involved in establishing a successful NGO, it is of critical importance that the legal procedures be made clear, efficient, and effective.¹⁴

Box 3: The International Rights of Agricultural Trade Unions are not Ratified

A key sector of rural civil society—trade unions—is in need of advocacy. Ukraine has not yet ratified the ILO's "Rural Workers Organisations Convention," (1975), that expands the definition of "rural workers" to include farmers; it also clarifies the rights and freedoms of association. The states that ratify this Convention must encourage the development of rural worker organizations. It is important that Ukrainian rural stakeholders lobby the government to provide this fundamental international legal right for all rural workers.

Source: Ludmila Shanghina (ed.). 2001. "The Trade Union Movement in Ukraine." *National Security and Defence*. No. 8. p. 24.

The unnecessarily complex legal environment creates another obstacle for NGOs seeking to achieve sustainability. Faced with multiple and contradicting laws, and unclear

definitions of terms, it is not surprising that Ukrainian society and state authorities do not have a clear understanding of the role of foundations and associations. Between legal complications and the country's overly complex and ambiguous tax environment, NGOs in Ukraine are suffering. Taking measures to improve the legislative environment must become a long-term focus of rural NGO advocacy initiatives throughout Ukraine.

Given the problems stated above, what is the actual situation for rural Ukrainian NGOs? Our research, which is similar to other surveys conducted by international projects working in the rural sector, has revealed some alarming results. Rural NGOs are not satisfied with the current legal standards regulating their work. They identify the contradictions and legal uncertainties as problematic and difficult to comprehend. Yet nearly 70 percent of respondents rely on the press for updated legal information, because they live in remote communities without easy access to professional legal advice. Only 18 percent have the resources to consult lawyers to keep them abreast of the legal issues that affect their work. When in need of legal advice, the vast majority of rural NGOs depend upon local or executive government officials, whereas nearly 30 percent receive no help whatsoever. Respondents also confirmed that the current legislation impedes NGO development, particularly tax legislation, which nearly 75 percent felt was an issue that must be resolved if their work is to continue.

It is difficult to imagine how rural NGOs can sustain themselves without sufficient access to information or support from readily available advisory networks. This has been identified as a pressing issue for those working in the sector; they have expressed an urgent need for direct access to advisors who assist them with development concerns.¹⁵ However, even with Internet access, NGO legal advisory services are slow in posting up-to-date information, highlighting any changes, and providing analysis on new legislation.¹⁶

2.2.1 Legal issues concerning NGO operation: General provisions

Typically, rural NGOs in Ukraine register as non-entrepreneurial legal entities.¹⁷ There are currently eight types of non-entrepreneurial organizations, all of which are eligible to claim tax deductions within predetermined income brackets.¹⁸ It is important to note that, if an NGO receives funding in excess of these parameters, it will lose its not-for-profit status and be taxed as a business entity.

In order for rural NGOs to remain sustainable, they must have the legal capacity to enter into collaborative relationships. Currently, there are no legal impediments preventing NGOs from forming partnerships and coalitions, or entering into contracts with other types of legal entities.¹⁹ To achieve organizational goals, NGOs may promote their activities throughout the public and private sectors, as well as civil society.

Additional legal issues regarding the maintenance of an NGO's day-to-day functioning manifest themselves in an overly bureaucratic process. The inefficiencies of the

system are especially problematic for rural NGOs, as they have difficulties in accessing the relevant authorities and gathering information that will assist them in their work. NGOs are responsible to many bodies including:

- registration authorities, who ensure that an NGO adheres to its statutes;
- tax authorities, who ensure compliance with financial reporting standards, requiring monthly, quarterly, and semi-annual financial reports—even if an organization does not engage in financial activity;
- judicial authorities, who ensure compliance with the law.

NGOs must also report to the Pension Fund, Social Insurance Fund and Employment Fund and will be fined if these agency deadlines are not met.

Box 4: Registered NGOs in Ukraine Possess the Following Rights as Legal Entities

- to engage in civil and legal relationships;
- to acquire property and non-property;
- to appear as a party before the court;
- to establish other legal entities;
- to hire staff and perform the activities delineated in the NGO’s statutes;
- to enter into contracts with other legal entities;
- to perform bank transactions.

Clearly, the regulations and procedures noted above create obstacles for rural NGOs who do not have access to advisory services and up-to-date legal information. Their limited revenues and small number of staff also make it difficult to complete simple administrative tasks. Simplifying and reducing redundant procedures would create a much more favorable environment for the sustainability of rural NGOs.

One proactive response to this issue has been implemented in the Dontesk region. The NGO, “Donetsk Agricultural Development,” has taken the initiative to open branch offices throughout villages in the oblast, in order to assist rural communities in establishing local NGOs. By so doing, the main office circumvents the bureaucracy of NGO registration procedures, given that branches can be established simply and efficiently, and within a day. The experienced main office also manages all the administration, including financial, legal, and reporting obligations, freeing the branch offices from these onerous tasks. Once the main office has succeeded in winning grants, it can easily disperse this income among the branches. What results is the development of a community of NGOs, with an immediate network and the capacity to share expertise, opportunities, and risks.²⁰

2.2.1.1 *New legislation (came into force January 1, 2004)*

Ukraine has recently entered into a self-governing civil society.²¹ Our research identifies the following issues, which have arisen from these new laws (see Table 1.):

Table 1.
Issues, Advantages, and Disadvantages for NGOs

Issue	Advantages	Disadvantages
1. According to the new Civil Code, associations are now divided into two categories: entrepreneurial and non-entrepreneurial.	<ul style="list-style-type: none"> • Article 86 of the Code permits non-entrepreneurial associations to conduct entrepreneurial activities. 	<ul style="list-style-type: none"> • There is no conceptual threat to the development of the third sector under the new Civil Code; however, some unforeseen problems could arise once NGOs have adopted special legislation that will regulate the provisions of the Code.
2. The new Civil Code of Ukraine has provision for foundations and non-membership based institutions. Although there is still no legal definition of “foundation” in the Code, it does define an “establishment” (“organization”), which is very similar in meaning to “foundation.”	<ul style="list-style-type: none"> • Foundations do not have fixed memberships and are new to the Ukrainian third sector. • Both legal and non-legal persons are now allowed to establish associations. 	<ul style="list-style-type: none"> • Problems may arise when the new Civil Code and the new Economic Code are concurrently implemented, since various articles contradict with one another.
3. Beginning July 2004, NGOs must be registered with the State Registrar of Legal Entities and Natural Persons-Entrepreneurs. This requires a fundamental reform to the current national system for the registration of legal entities (including NGOs).	<ul style="list-style-type: none"> • A centralized registry will assist the NGO community. 	<ul style="list-style-type: none"> • Public access to the registry is not yet defined. • If it is not an open registry, therefore it may become an instrument of state control.
4. The Ukrainian law “On social services” defines the legal and organizational basis for providing social services to persons who are experiencing difficulties and in need of outside help.	<ul style="list-style-type: none"> • Local governments are now able to enter into contracts with NGOs to finance the provision of social services. Central and local government authorities are responsible for regulating the funding, volume, and quality of the provision of these social services. 	<ul style="list-style-type: none"> • NGOs must obtain a special license to provide social services. This is a new regulation that will involve bureaucracy and fees and will impede the implementation of the program. This could also provide another means of government control and patronage.

As a result of the above-cited revisions, some of the most significant outcomes for Rural NGOs include:

- *Challenge:* They will have to re-register as of July 2004, and include the term “association” or “establishment” in their title. This re-registration process will be time consuming and the fees will pose a problem.
- *Challenge:* It is unforeseeable how the government will implement any changes, partly because there is a considerable amount of ambiguity in the new regulations. To date, procedures are undefined, and given past experience, information will be difficult to access, particularly for rural NGOs.
- *Opportunity:* All NGOs now have the option to participate in the development of regulatory policies for economic activity.
- *Opportunity:* One positive achievement of the law “On social services” is that it defines the term “volunteer” as it relates to Ukrainian legislation. According to Article 1 of this law, a volunteer is a private person who voluntarily/freely conducts charitable, nonprofit motivated activity that is beneficial to society.²²

2.2.2 Laws on financing

Economic growth and development of the NGO sector, and its capacity to garner support from the private sector, cannot be achieved until the tax situation in Ukraine is resolved. Bearing in mind an NGO is a nonprofit legal entity whose principle activities are nonprofit, by modern standards, its revenues (grants, fundraising, and some forms of limited economic activity) should not be taxed in the same manner as a business.²³ But it is quite common, throughout the former Soviet Union, for states to operate without effective legal frameworks that regulate the tax environment of the third sector. The survey reveals that, among rural NGOs in Ukraine, 70 percent identify the need for tax reform as critical to their sustainability.

Currently, rural NGOs in Ukraine are being financed by government subsidies and procurement, donations from individuals and legal entities, charitable donations from donor organizations, as well as their own economic activities.

2.2.2.1 Government funding

The new EU member countries have made considerable progress in establishing a basic legal framework to regulate the public funding of NGOs. As a result, these NGOs now have a reliable source of income by providing services under contract to the government.²⁴ Such public funding is assisted and monitored by the creation of a government liaison office for NGOs that oversees the development of the third sector at a national level. The NGO community has also created a national umbrella organization to liaise with

government officials. In such an environment, it is possible to institutionalize the procedures, documents, and mechanisms needed to ensure democracy and transparency.²⁵ Unfortunately, without such agencies in Ukraine, monitoring the implementation process of government funding for NGOs is quite difficult.

Table 2.
Public Financing of NGO Activities²⁶

Criteria	Romania	Hungary	Ukraine
Implementing agencies:			
1. Government liaison office	Yes	Yes	No
2. NGO national umbrella organization	Yes	Yes	No
Forms of support:			
1. Subsidies	Yes	Yes	Yes
2. Grants	Yes	Yes	Yes
3. Procurement	Yes	Yes	Yes
4. Use of state property	Yes	Yes	Yes
Sources of support:			
1. Parliament	Yes	Yes	Yes
2. Ministries	Yes	Yes	Yes
3. Municipalities	Yes	Yes	Yes
4. Special Funds	Yes	Yes	No
5. Privatization	No	No	No
6. Lotteries	No	No	No

Although there are provisions in Ukraine for NGOs to undertake state contracts for procurement, there are no procedures for tenders, or regulations regarding transparency in the selection of NGOs. The “Law on Local Self-government in Ukraine” (1997) provides a legal basis for NGO-government partnerships, which are funded from local budgets. Yet, what is still missing are procedures to regulate the implementation of the law in a fair and transparent manner. Rural NGOs must also develop their capacity for self-regulation, adopt codes for ethical conduct, and institutionalize procedural transparency, in order to fulfill the obligations of a procurement contract.

2.2.2.2 Donations from individuals and legal entities

Our research indicates that rural NGOs have identified a need to develop proactive partnerships with the local business community, for the mutual benefit of both sectors. However, in Ukraine there is little incentive for individuals or legal entities to make donations to NGOs. Although there is currently a legal provision for small tax deductions if a donation is made to a charitable or religious organization, community organizations

are not included in this provision. Meanwhile, the law only covers deductions for donations of up to four percent of the entity's revenue. However, financial support is only one of the advantages of such a partnership, and there are still many reasons to actively pursue alliances between these two groups.

NGOs are also subject to VAT when they provide paid services that are not defined in their statutes. For example, if an NGO is a relief or humanitarian organization that provides assistance to refugee groups in rural Ukraine, they have no special rights or privileges regarding import/export taxes. This directive severely affects the capacity of such groups to assist in the alleviation of poverty.²⁷

Box 5: Culture of Business Philanthropy Starts to Develop

The private sector is becoming increasingly interested in contributing to charitable organizations, but they require some assurance that transparency and accountability will be observed. Publishing annual reports would be one of the most effective ways to demonstrate this.

An additional obstacle to giving is the unfavorable tax environment. Until 2004, companies could allocate up to 5 percent of their annual income for non-taxable contributions made to nonprofit and charitable organizations. However, businesses were unwilling to make donations in this way, as it required them to disclose their revenues. Now this provision has been abolished and the situation, as a result, has worsened. Businesses pay taxes to state social services on profits, and only then can charitable donations be made. Most countries have tried to promote charitable activities; for example, Hungarian companies may allocate 1 percent of their income tax to a charity of their choice. According to Tetyana Bilteska (International Women's Club of Kyiv) there was a well-developed charity culture in pre-revolutionary Ukraine, but it was destroyed during the Soviet era, and the business community predicts that it will take upwards of 70 years to re-establish a culture of corporate philanthropy in Ukraine.

Source: adapted from: Yulianna Vilkos. 2004. "Culture of Business Philanthropy Starts to Develop." *Kyiv Post*. 10 June. p. 25b.

2.2.2.3 International donor funding

Ukrainian legislation does not make a distinction between domestic and international donors. Furthermore, the lack of clarity of such undefined terms as "donor," "sponsor," and "patron" must all be legally defined, in order to alleviate any legal complications. If a donor organization is legally registered in Ukraine, its contribution to an NGO is exempt from income tax and VAT.

For a rural NGO, the primary issue is access to information that allows them to compete on a level playing field for international donor support. Poor communication, lack of Internet access and reduced budgets to support travel to Kyiv, where donors typically hold tender information seminars, all contribute to the marginalization of rural NGOs and prevent them from taking part in funding competitions. This problem could be alleviated if donors were to provide small grants to NGOs for travel to such seminars. Donors could also present road shows throughout the country, announcing the grants they provide and supplying the corresponding information. The Ukrainian Citizen Action Network (UCAN, USAID funded) has used this method with good results since 2003 and the MATRA/KAPP initiative (Netherlands Embassy) has also begun to travel to the regions and has achieved similar results.

2.2.3.4 *Own economic activities*

In the past, public organizations in Ukraine could not raise funds from selling services that were consistent with their statutory purpose (such as research, consultation, etc). To engage in such commercial activities was to put an NGO's organizational status at legal risk or invite the possibility of being taxed as a business entity.

Legislation that came into effect in January 1, 2003 liberalized the third sector tax regulations by permitting organizations to raise funds for their primary activities, given that their statutes contained a concrete list of activities. However, there is significant bureaucracy regulating access to this type of legal activity.

Another viable solution within the parameters of Ukrainian law would be for NGOs to create a separate, subsidiary business entity under which such work would be permitted, however this is a costly option that cannot be accommodated by the budgets of most rural NGOs.

Furthermore, NGOs are required, for the purposes of tax compliance, to make contributions to the Wage Fund, the Pension Fund, the Social Protection Fund, and the Employment Fund for all salaried staff within the organization.

2.2.3 Legal sustainability: Conclusions

Despite existing constitutional provisions and legislation, and the newly adopted legislation, Ukraine's third sector urgently needs a new law for NGOs that will include the following liberal provisions:

- legal definition of "NGO";
- de-regulation of the geographical scope of the organization;
- simplification of the registration process (in accordance with private sector reforms);

- reduction of registration processing time (in accordance with private sector reforms);
- creation of a framework for government-NGO relations;
- creation of an appeal process for the denial of NGO registration applications and the addition of a “presumptive registration” clause so that, in the event of government negligence, an NGO could become officially registered if a reply is not received within a predetermined amount of time;
- amendments to the tax code that clarify the status of grants that exempt NGO staff from paying social benefits and that exempt revenue generating activities (such as selling raffle tickets).

Without access to information or professional legal and policy advice, rural NGOs’ capacity to initiate policy reform or engage in regulatory policy advocacy, is severely diminished. Although NGOs are aware of their needs, they are excluded from participating in legal reform activities. An NGO’s lack of involvement in such matters can be attributed to “passivity.”²⁸ Our analysis, however, points to a lack of information as being the major obstacle in the proactive political participation of a rural NGO.

2.3 NGO Sustainability: Social Sustainability

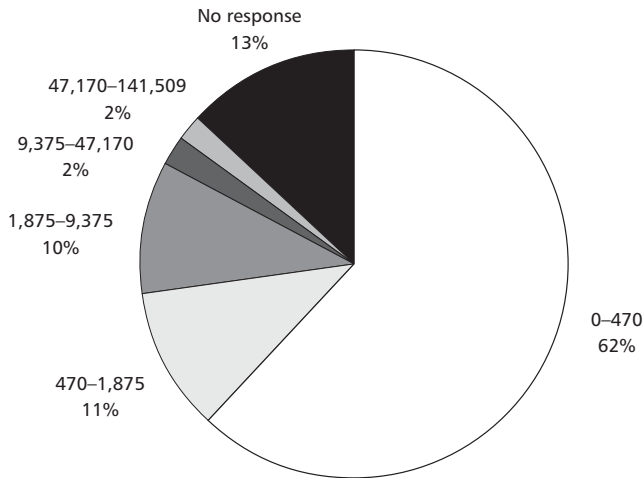
2.3.1 Organizational development

In order to measure the rural NGO sector’s prospects for sustainability, one must look beyond an organization’s ability to attract or generate funds. Instead, a combination of elements, including material assets, management techniques, business practices, and expertise need to be examined, in order to establish a more comprehensive picture of a rural NGO’s potential for survival.

2.3.1.1 *Material assets and resources*

An examination of rural NGOs’ material assets provides useful insight into the sector’s capacity to reach a broad audience, to remain abreast of developments in the field, and to acquire new skills—all of which are essential to an NGO’s survival. The assets used in our analysis include: annual budgets (liquid assets), real estate, office equipment, and communications technologies. Average figures clearly indicate that rural NGOs are operating with very limited resources.

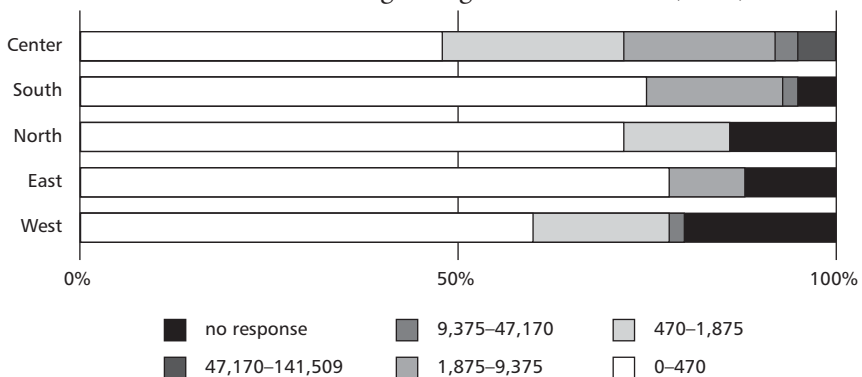
Figure 4.
Rural NGO Annual Budget—2003 (USD)



The principal material asset indicator is the **annual budget**, (Figure 4) which in nearly all cases mirrors the poor economic conditions of rural Ukraine:

- 62 percent of NGOs are operating with an annual budget between USD 0–470;
- 11 percent have a budget between USD 470–1,875; most of these NGOs are located in Central, Northern, and Western Ukraine (Figure 5);
- 10 percent receive USD 1,875–9,375, and most of these conduct their activities in Central, Southern and Eastern regions.

Figure 5.
Rural NGO Annual Budget: Regional Differences (USD)



Only 2 percent have budgets between USD 47,170 and USD 141,509, and they are located in Central Ukraine.

The small number of organizations operating with annual budgets greater than UAH 2,500 (USD 470), is represented by a minority of rural NGOs that receive funding from international donor agencies. Sixty-eight percent of rural NGOs reported no funding from international donors, while 32 percent indicated some level of international support. Despite the fact that so few rural NGOs receive donor support, nearly all organizations surveyed expressed their opinion regarding who should support Ukrainian NGOs in the event that donor assistance were to end:

- 40 percent feel that organization members should provide funds;
- 30 percent said that funds should come from private individuals and small businesses;
- 27 percent suggested that government agencies should contribute.

For a majority of rural NGOs, small budgets have wide-ranging consequences, most noticeably the impact on other material assets. First and foremost is the issue of office space. Only a very small segment of rural organizations—approximately 8 percent—own their own offices, while 45 percent have the financial resources to rent. A small number of organizations said that they operated out of workspaces donated by various local government agencies or offices owned by other NGO groups. However, 31 percent of the respondents said they had no dedicated office space whatsoever. This situation poses a major problem for the visibility and public image of community-oriented organizations such as rural NGOs. Moreover, the lack of a fixed address can lead to complications in the funding application process and severely limit funding opportunities for these already impoverished rural organizations.

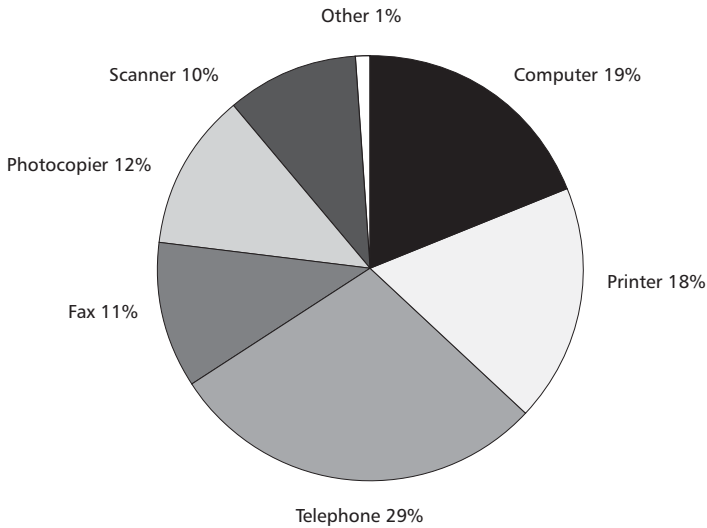
The third most important category in gauging material assets and sustainability is the ownership of office technologies. (See Figure 6.) Analyzing the situation of this group reveals that rural NGOs are also operating with minimal office equipment:

- while 45 percent of rural NGOs have one telephone at their disposal, 26 percent have no telephones at all;
- similarly, 39 percent do not have a computer;
- only 21 percent of the respondent organizations have a fax machine.

The communication and research tools available to rural NGOs are considerably limited. An astounding 73 percent of rural organizations do not have access to the Internet. Despite the wealth of domestic and international news agency publications, donor opportunities, and third sector listings available on the Internet, most rural organizations cannot access any of them. This isolation is further exacerbated by their physical remoteness and their dire financial situation. Even though an NGO's annual budget

determines their capacity to purchase office equipment and access information technologies, both the poorer and more financially stable NGOs face the same problem: The severely underdeveloped infrastructure of rural Ukraine. This is best exemplified by the fact that only 21 percent of rural homes in Ukraine have a telephone connection.²⁹

Figure 6.
Rural NGO Office Equipment (%)



2.3.1.2 Management

Based on the number of full and part time employees identified in our survey, it appears that the management of rural NGOs lies in the hands of one or two people or, as suggested, by a “charismatic leader.”³⁰ However, even the most skilled director faces a variety of challenges. First of all, they must master such complicated tasks as legal affairs, program evaluation, strategic planning, fundraising, accounting, and audits. The difficulties associated with this position are exacerbated by limited access to funds, which could be used to pay for consulting services to help managers handle any problems that might arise. Organization leaders must also deal with the red tape and the complex bureaucracies associated with working in the third sector. (See Box 5.)

Box 6: Rural Banking in Ukraine

Accessing banking services is a considerable challenge for rural NGOs because the banks that do exist in villages are only equipped to assist with private finances. To register an NGO account, one must travel to a larger urban center and deal with the regional bank there. This is often a difficult process, as urban centers can be as far as 30 kilometers apart, and only approximately 19 percent of the rural population owns a car.³¹ Consequently, basic banking services are inaccessible to smaller rural NGOs. This can seriously inhibit the receipt of international funds, and is due in part to the stringent requirement of donor organizations, which demand that the recipient organization meet transparency requirements.

2.3.1.3 Skills and training: Core skills

Developing skills, such as good business practices and effective training modules, are at the core of any successful and sustainable NGO. An NGO's ability to plan for the future while simultaneously reviewing current practices and performances can be counted among these skills.

Our survey indicates that rural NGOs actively undertake the management of their operations. For instance, 53 percent of rural NGOs reported that they performed a program evaluation once a year, while nearly the same percentage performed such reviews much less frequently. Furthermore, 63 percent of organizations have a strategic plan regarding their activities, while more than 33 percent operate without one. However, subsequent findings from the focus group and private interviews indicate that terms such as "program evaluation" and "strategic plan" are open to a wide range of interpretations and depend on one's ability to implement such a plan. This also somewhat reframes the survey results.

Nonetheless, it is clear that additional training and access to advisory services and resources (both physical and virtual) would have a significant impact not only on the promotion of sustainability, but also the effectiveness and professionalism of the work undertaken by the rural NGOs. Introducing rural NGOs to the application of objective tools, such as the Results Based Management frameworks could also impact their understanding of management practices.

2.3.1.4 Skills and training: Employee skills

Nearly 81 percent of rural NGOs feel they have the necessary skills to lead seminars, roundtable discussions, and training sessions. However, no other skill was nearly as prevalent. (See Table 3.)

Table 3.
Skills Available in NGOs

Identified skills	Percentage
Leading seminars, roundtable discussions	80.6
Writing project proposals	32.3
Fundraising	30.6
Leading training sessions	29.0
Lobbying interests	27.4
Development of analytical documents	22.6
Strategic planning	17.7
Program monitoring	12.9
Managing daily tasks	12.9
None of the above	3.2

Table 3 underscores the previous statement that rural NGOs lack core management skills. Fundraising, analytical document development, strategic planning, program monitoring, and writing project proposals were all skills that were lacking, yet these are essential to promoting efficiency and sustainability.

However, rural NGOs did identify other areas in which skills could be developed, as well as reforms needed in their operating environment:

- 63 percent would like to develop stronger ties with local businesses;
- 54 percent said that they need additional training in fundraising techniques;
- 46 percent wanted to improve their public image.

Comparatively, few NGOs look for assistance with:

- writing project proposals (36 percent);
- improving program monitoring strategies (29 percent);
- strategic planning training (23 percent).

It is particularly interesting to note that, due to differing levels of development, some, but not all, NGOs have a strong sense of their role as community-focused organizations that have made a positive impact through community involvement and increased awareness of their activities. To that end, it is important for NGOs to seek out partnerships, especially with the private sector, to disseminate information regarding their activities and to garner support. For this to happen, NGO staff need to be trained in the basics of establishing partnerships and coalitions. Urban NGOs already possess such skills; 78 percent report constructive cooperation with governments and 45 percent with the private sector.³² Such opportunities need to be realized in rural Ukraine as well.

Box 7: Forging Ties with Local Businesses and Avoiding Donor Dependence

Sixty-three percent of rural NGOs agree that establishing closer ties with businesses is essential to achieving sustainability. This situation provides both donor and development agencies with a unique opportunity to help rural small-and-medium-sized enterprises and NGOs develop a mutually beneficial partnership. This could help Ukraine's rural NGOs avert the condition of "donor dependence" that affects CSO sectors in other Central and Eastern European countries, as the European Union expands eastwards and donors begin to pull out.

2.3.1.5 Skills and training: Skills in action

For the most part, training initiatives undertaken by rural NGOs are consistent with their skill set. Principle training activities include conferences, roundtables, and producing publications, whereas training in developing fundraising techniques is least likely to be undertaken. In any case, most NGOs rarely perform training sessions for other NGOs, but when they do, it usually involves network building, team building, or attracting volunteers.

It is important to question whether or not these activities are effective, not only in identifying local problems, but also in finding practical solutions. Given the typical target groups of rural NGOs (youth, children, and the disabled), extending core activities would do a great deal toward helping NGOs achieve their mission. Additional skills training could address the need for diversification and improve communication between rural NGOs—such as sharing "best practices" to improve efficiency and effectiveness. Fortunately, as noted above, some NGOs are making an effort to help one another develop functioning networks.

2.3.1.6 *Skills and training: Additional skills development*

There are a host of other essential skills that are lacking among the staff of rural NGOs, the first being computer and web literacy. The problem is that most organizations operate without either a computer or access to the Internet. Even if an organization has this equipment, there are usually very few available resources in the event of technical queries or servicing requirements.

While many third sector online resources are available in Ukrainian and Russian, the vast majority of information is available only in English. Despite the fact that English language training is increasing among the younger generations of civil society volunteers, this training is still significantly underdeveloped and is not available in rural areas.

2.3.1.7 *Conclusions*

Clearly, rural NGOs need additional skills training and capacity building in the sphere of organizational management. Many NGOs are still unaware of the benefits or necessity of developing a strategic plan and standardizing their program review processes—this remains a major issue. Through the continuation of skill building and technical assistance, rural NGOs in Ukraine can move towards self-sustainability, despite the decline of the donor environment in CEE. An encouraging example of this exists in the PHARE project from Romania (Harghita County, completed in June 2004). This initiative targeted specific capacity building for rural CSOs with the aim of increasing community development in rural Romania. The specific objectives of the project were:

- to increase capacity and community involvement of NGOs in villages throughout Harghita County by providing training in organizational development, fundraising, project management, networking with NGOs and local public authorities;
- to facilitate local development initiatives by organizing forums within the villages and offering assistance and consultancy to NGOs for the design and implementation of projects in their communities.

2.3.2 **Cooperation with others**

Our research confirms that rural NGOs in Ukraine are interested in building their capacity to develop constructive yet impromptu partnerships. Rural NGOs are also interested in finding ways to maximize the potential of such alliances. The benefits of working together, as confirmed by this research, have also been proven by nation-wide surveys on the state of civil society in Ukraine, which were recently undertaken by a variety of donors.³³

Box 8: Cooperation Does Work!

In the village of Hrytsiv (Khmelnyska oblast) citizens united their efforts to improve living conditions. The first step involved a meeting to develop a strategic vision for Hrytsiv. This was followed by the establishment of the Hrytsiv Renaissance Association, an NGO created to facilitate this action plan. Due to the effective mobilization of local resources, this community has seen an increase in tourism, an upgrade to the road networks, improvements to the village water supply, and the creation of small and medium enterprises. The association also provides leisure programs for children (English study and ecological camps) and for adults (fishing programs and psychological care).

Source: Institute of Reforms. 2003.

Local Economic Development: Models for Success. Kyiv. p. 15.

2.3.2.1 Cooperation with other NGOs

The World Bank report highlights the decline in cooperation among NGOs, with the situation progressing from a local to a national level.³⁴ For instance, 65 percent of local and oblast NGOs work together, whereas only 36 percent of Ukrainian NGOs have similar relationships.³⁵ The research, which focuses on the smallest clusters of village and rayon level NGOs, reveals that, among these populations, cooperation exceeds 80 percent.

However, not every village has an NGO, whereas most villages have political party branch offices. Moreover, many NGOs with local offices are simply branches of regional and/or national organizations (such as veteran councils).

In rayon centers and larger towns with populations up to 50,000, there is a stronger NGO presence due to the larger populations and easy access to services. In this instance, local NGOs with similar goals tend to cooperate with one another. The same is true of international NGOs. Clearly, the sector is divided along horizontal lines and it would be much more effective if vertical communication and cooperation existed between the various geographically grouped organizations.

Competition between NGOs also impacts these results and deepens the lack of trust among rural communities. In rayon centers, where municipal budgets are larger than village allotments, local NGOs often compete with each other for the attention of local government. Competition has a tendency to undercut cooperation and social capital, and the long-term effects of this type of environment are the weakening of an organization's sustainability. With such limited budgets, the costs involved in financing

cooperative efforts, such as consultations, meetings, etc., also contradict principles of sustainability.

Our survey reveals the most universal tool in establishing partnerships among rural NGOs: the exchange of information during meetings or conferences. Twenty-three percent of survey respondents felt that strong ties between the directors of rural NGOs and other leaders were an important aspect to achieving sustainability. At the same time, joint projects between rural NGOs rarely occur, unless they are budgeted for and donor supported. If a rural NGO has received support from a donor, they are more likely to have the skills required to facilitate networking and collaborations. It is also important to note that donors currently include the presence of NGO partnerships among the criteria for support, and, at the moment, this regulation prevents much of the available funds from reaching the rural sector.

It is customary for rural NGOs to work with the community and one another during public meetings and demonstrations. During the Soviet era, it was a tradition to attend such gatherings, and these activities remain a powerful outlet. In Ukraine, public hearings have recently been introduced as a form of public participation, and they are much more effective than previous methods, in that individuals are invited to express their views rather than just sit passively. Rural NGOs are beginning to participate in these events (skills for hosting such hearings exist at a rayon center level). When there are no costs involved, rural NGOs tend to participate in donor sponsored seminars and trainings, often hosted at rayon centers.

Box 9: Focus-Group Snapshot

In the Dolynsky rayon (Ivano-Frankivsk oblast), the Dolynsky Business Center now provides consultations and information sessions free of charge, to the local NGO community. In the future, they hope to develop into a resource center for community development in the Dolynsky rayon.

The sharing of material assets also takes place at the village and rayon level. NGOs share office space, equipment, and transport, and this type of generosity helps these organizations remain sustainable.

Thus far, CEE experience has shown that cooperation between NGOs must be encouraged. For example, in Romania, the Open Society Foundation currently supports networking among rural NGOs, with the aim of promoting a common understanding of community development as a useful tool in poverty reduction. Within the framework of this initiative, there will be an exchange of best practices between similar initiatives in the region. It is of critical importance that Ukrainian rural NGOs be linked to such programs.

2.3.2.2 *Cooperation with the private sector*

Cooperation between rural NGOs and the private sector is considerably underdeveloped, and it has recently been recognized as a problem that must be addressed. In comparison to support between NGOs, cooperation with the private sector tends to be very limited and quite sporadic. Only 37 percent of survey respondents, located mostly in Western Ukraine, maintain regular contact with businesses, while more than 80 percent have regular contact with civil society groups and local government. The Ivano-Frankivsk focus group has identified that contact between private and NGO sectors takes place once per quarter. Yet, rural NGOs realize that maintaining strong contact with the business community is essential to their survival. The private sector also has a growing understanding of the critical role that NGOs play within their community.³⁶

Rural NGOs and businesses are small and in need of development, and they face a tremendous amount of obstacles that impact their survival. Lack of awareness, lack of shared information, and lack of understanding of mutual needs (for example, infrastructure training), keeps these groups marginalized. Only active NGOs tend to receive attention from the private sector, while non-active NGOs remain invisible. Relations are often unilateral, whereby NGOs seek out businesses for support and not the other way around. This is unfortunate, in that cooperation could be beneficial to both sectors. By overcoming the differing concepts of *profit-driven* versus *value-driven* activities, and by seeking out relationships, opportunities for networking and growth could be developed. This change could also strengthen the fight against poverty that is endemic to rural Ukraine. For example, both groups could have the opportunity to participate in joint training activities that would provide the necessary skills, while also initiating networking opportunities.

Patronage also plagues such relationships. Funding from businesses is too often reserved for NGOs established by family members and friends of these businesses. This lack of transparency and open competition for funding or in-kind donations, undermines social capital and community building.

Our survey indicates that the following practices are being undertaken by the most developed rural NGOs in western Ukraine in order to build the capacity of the local business community:

- training in the application of information technology;
- training in business English language skills;
- training in networking;
- consultations.

Businesses across Ukraine are also providing NGOs with assistance in the following areas:

- material assets (office rent, equipment, transport);

- training in strategic planning and budgeting;
- information exchange.

Box 10: Successful Private-Public Partnership

In Vyzhgorod (Kyiv Oblast), the Regional Educational Rehabilitation Center (NGO) was strongly supported by the Normax Company. This business donated two computers and a photocopier to help the Center systemize its workload. In addition, the business provided an opportunity for local children to vacation in the Ternopil region. While at the sanatorium there, these children improved their health and returned to their community stronger and refreshed.

*Source: Gurt Resource Centre. 2003.
For the Sake of the Community. Kyiv. p. 33.*

Joint projects with the goal of carrying out community service do a great deal to promote the sustainability of both rural NGOs and the private sector. For example, in the Kalush rayon (Ivano-Frankivsk) the business community worked together with local NGOs to produce a local business directory, which has benefited the entire community. Such cross-sector initiatives impact the dissemination of information and experience of both groups and affect how they contribute to rural community development. These partnerships strengthen advocacy, promote local activities, and raise social capital.

2.3.2.3 Cooperation with local government

Our research reveals a disturbing trend of over-dependency between rural NGOs and local government. Whereas other surveys simply identify high levels of cooperation,³⁷ we feel that the appalling lack of advisory services that are available to these communities force rural NGOs to approach government offices as a single source of assistance. Eighty-one percent of our survey respondents said that they regularly cooperate with local government and, when in need of legal advice, 74 percent of rural NGOs consult with governmental authorities. This lack of information and access to external expertise has created an overwhelming dependence of rural NGO on local governments.

There is, however, a belief that local governments have a growing appreciation for the efforts of local NGOs. These community groups have their fingers on the pulse of local issues and provide governments with an accurate source of objective information. Yet favoritism is still a problem: Rural NGOs that disagree with current local policy development are excluded from this dialogue. This also implies that these organizations are less likely to win procurement tenders. Other government impediments to forming healthy partnerships with NGOs include:

- lack of governmental transparency, often experienced as an overwhelming bureaucracy;
- weak resource base of local government (lack of computers or other basic equipment);
- lack of staff experienced in working with the public;
- lack of stable personnel, due to patronage appointments during or after elections;
- lack of time and motivation to cooperate with the community.

NGOs also limit their capacity to work with the government by limiting the activities of their partnerships to the receipt of funds or other types of material support. They are not thinking creatively in terms of what other benefits, such as access to information, strengthened advocacy, and the development of transparent procedures, could be made available through the development of strong working relationships with local authorities. However, lack of trust and non-participation in the decision-making process marginalizes NGOs from the public sector.

Despite these difficulties, and the risk of over-dependency, rural NGOs and local governments are beginning to cooperate, and this trend is growing. To date, they have come together to network and exchange information, provide expert consultations (legal and tax related), and negotiate the terms for receiving material assets (office space, operating costs and capital investments, NGO registration fees, etc). NGOs and local government involve the public as well by assisting each other with public hearings, advisory boards, strategic planning, and policy development and implementation. There are also examples of project sharing, particularly involving events for children and youth with special needs. In such cases, local governments and rural NGOs cooperate well with one another. Procurement and social partnerships are also emerging, particularly in larger cities. Such actions can provide a model for rural communities to adapt and implement.

**Box 11: Social Partnership in Action:
An Example of Good Practice from Odesa**

In 2004, the Odesa City Council made a provision for social contracting in its annual budget. A total of USD 50,000 was set aside for a social contracting system. These funds will be disbursed via a competition among NGOs and charitable organizations that are able to provide the required services. The first step is to undertake baseline research on local priorities that can be resolved through this initiative. This way, the needs of the community will be identified and local organizations will be supported in meeting these needs.

Source: Online: www.nonprofit.org.ua.

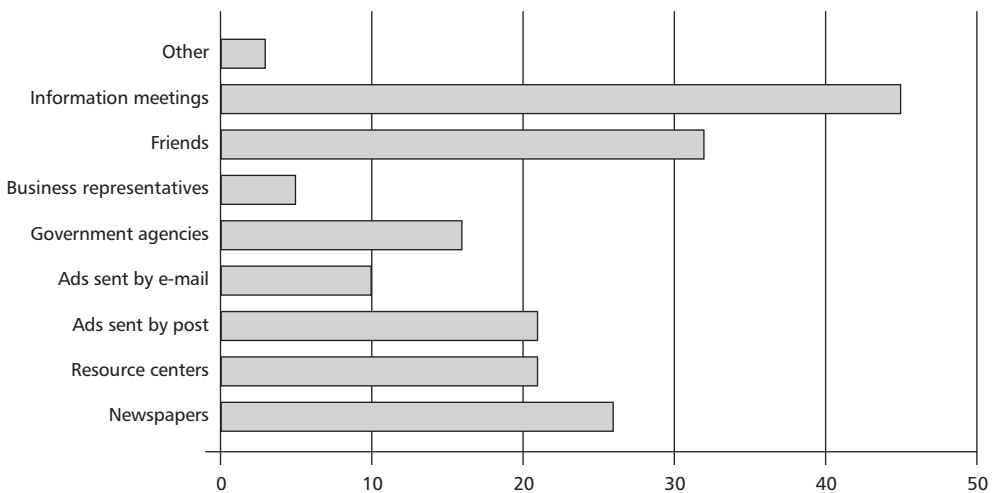
2.3.2.4 Cooperation with mass media

Local newspapers supply an information lifeline for rural NGOs. They depend on this single source to meet almost all their information needs, from articles on legislative and tax revisions, to announcements of conferences and public events, and information on current affairs. The main reason for this popularity is that it is a cheap resource. Once contacts are established between the media and NGOs, other benefits could also arise.

According to our survey, NGOs depend on local media to provide information on a variety of subjects, such as legal procedures (68 percent of respondents) and funding opportunities (26 percent). Thirty-nine percent of our respondents contact the media once a month; only seven percent are in contact on a weekly basis. However, 84 percent of NGOs provide the local media with information regarding their activities, as and when necessary. The local newspaper is most often consulted in rayon centers.

An NGO's lack of public relations skills however, impedes their relationship with the media. Without training in how to write press releases, short articles, editorials, interviews, or advertisements, the value of an NGO's interaction with the media is reduced. Furthermore, local media is short-staffed, has limited means, such as computers, printers, and Internet access, and the media is often unable to take the time to provide NGOs with advice that may help them. Yet, there has been a long history of reporting community events and charitable activities by local newspapers, and this tradition will continue. As a result, there is a high readership of local newspapers throughout Ukraine, and for most rural inhabitants, it is the only source of news and information.

Figure 7.
Sources of Information for NGOs (%)



Other types of media (television, radio, e-newspapers) are nowhere near as relevant to rural NGOs. Television and radio typically broadcast nation-wide programs, while some oblasts have their own television programs. The difficulty lies in accessing these programs, and it depends on the availability of resources to purchase a television and obtain a constant supply of electricity. Only 53 percent of families in rural Ukraine own a color television and 39 percent have black and white television. Forty-three percent of homes have radios, one percent own a computer, and less than one percent have satellite receivers.³⁸ In this type of environment, access to information through the media is severely restricted.

2.3.2.5 Cooperation with international donors

Our survey has uncovered what may actually be the strength of rural NGOs in Ukraine: They are not donor dependent. In fact, 68 percent of respondents said that they have never received funding from the international donor community. Those respondents, who have received funding (32 percent), listed the following donors: EU-TACIS, International Renaissance Foundation (OSI), United States Agency for International Development (USAID), Canadian International Development Agency (CIDA), the Mott Foundation, Eurasia Foundation and the British Department of International Development (DFID).

It is important to note that, of these internationally funded rural NGOs, 50 percent are located in western Ukraine and less than 17 percent either in the south, north or central regions. NGOs that receive the most support tend to be those that work with youths and children.

Some donors are now focusing on developing strategies for rural communities in Ukraine. Both DFID's "Rural Livelihoods Program" (UK) and CIDA's "FARM Program" (Canada) are implementing major, multi-year initiatives to improve rural livelihoods and community development. USAID has also begun work in this sector, with a four-year agricultural marketing project (concluding in 2007) to increase the capacity of small and medium sized commercial farms, and reduce poverty in selected oblasts. Furthermore, USAID supported the development of the Centre for Private Farming and Outreach—located at Uman Agricultural Academy (Cherkasy Oblast)—to provide advisory services and training for private farmers. That project concludes in 2005. These initiatives bring material and intellectual resources to the regions; unfortunately coverage is selective, not national.

So what are the obstacles for rural NGOs in connecting with the international community? The problem appears to be two-fold: Firstly, NGOs have limited ability to access donor information—due to a shortage of computers and Internet access, lack of funds to travel to Kyiv-based tender launches, and poor proposal development and networking skills. Secondly, NGOs have limited foreign language skills, so they have a hard time communicating effectively with the international donor community.

It is also important to mention the phenomenon known as “donor fatigue.” Ukraine’s current market for technical assistance has changed considerably since the arrival of independence. Before the transition, donor tenders were very under-subscribed, and any proposals that were well written stood out among the others. Today, even though they have much the same number of staff available to process applications, donors are frequently inundated with proposals. The professionalism of written proposals has increased in Ukraine, as has the level of competition. The market has become demand driven and the client—the NGO—is not likely to receive open and friendly service from the donor agency. NGOs are encouraged to network with donors, to develop a personal relationship, but then they discover that donors are not interested in the meeting with them and do nothing to promote cooperation with local partners. It is impossible to imagine how rural NGOs can effectively interact with donors under such intimidating circumstances.³⁹

2.3.2.6 *Conclusions*

Rural NGOs are open to cooperation and recognize that this is dependent on their level of skills. Our respondents consistently reaffirmed the need for training to facilitate stakeholder relationships, particularly with the private sector. They are familiar with the connection between collaborative efforts and sustainability. What is needed most, aside from financial support, are individuals with the skills and experience that can be transferred to other NGOs and used to cultivate a cooperative environment. This type of systematic collaboration was achieved in Estonia through the Rural Parliament initiative, which has actively united the community since 1996. Parliamentarians produced policy recommendations, based on public participation, that were then incorporated into rural development strategies. (See Box 12.)

Box 12: How Estonians Plan to Develop Their Rural Communities

The results of the most recent Estonian Rural Parliament (August 2003, West Viru County) produced the following selected policy recommendations:

1. Develop support for community initiatives that include multiple administrative territories and that are managed by NGOs.
2. Sustain advisory services with government support, for village leaders and associations focused on the development of village life.
3. Include the relevant decisions that arise from village development projects and the rural private sector, at a regional level.

4. Employ the EU community's experience on improving rural communities, in order to widen the experience of rural Estonians.
5. Work towards achieving an effective partnership (clear obligations, rights and responsibilities) between villages, municipalities, and county and state government.

Source: Kodukant's report. 2003. *5th Estonian Rural Parliament*.
Estonia. pp. 6–7.

2.3.3 Involvement in the decision-making process

A healthy democracy depends on informed citizens with the freedom to participate in policy decisions being made at all levels of government. Accountability, transparency, and trust only become sustainable when citizens participate in the process and government authorities listen and take these decisions into account. This also includes rural communities; it is of critical importance that they too have their say in their community's development, particularly at a local level, where the implementation of government policies are more immediately felt. It is important that a constructive dialogue be maintained between the citizens and their governments. Rural residents must work hard to overcome the many challenges that prevent them from full participation in decisions that directly affect them.

Limited understanding among rural citizens as to how the local decision-making process works is the basis of all problems associated with this process. More than 25 percent of villagers do not know what occurs in their village councils.⁴⁰ Their confusion is justified in that political authority through the various levels of government in Ukraine is contradictory, chaotic and in desperate need of reform (see Box 13).

Box 13: The Complexity of Decision-making at the Local Level

In Ukraine, decentralization has not been a clear-cut process. Instead, it has been hindered by the shuffling of roles between local and central governments. This confusion is embedded in contradictory constitutional provisions and leads to unclear policy development and lines of authority that negatively impact community participation.

The impact that rural NGOs have on the local decision-making process is severely hampered by both the unfamiliarity with basic governmental processes and the inherent

problems that exist between government bodies. In fact, only 5 percent of rural NGOs from the Southern and Western regions rated their influence on local decision-making as significant. Forty-one percent of NGOs surveyed rate their influence as average, 38 percent as low and 16 percent felt they had made no impact at all. The vast majority of the latter group is comprised of NGOs from Central Ukrainian regions. (See Figures 8 and 9.)

Figure 8.
Rural NGO Influence on Local Decision-making Process (%)

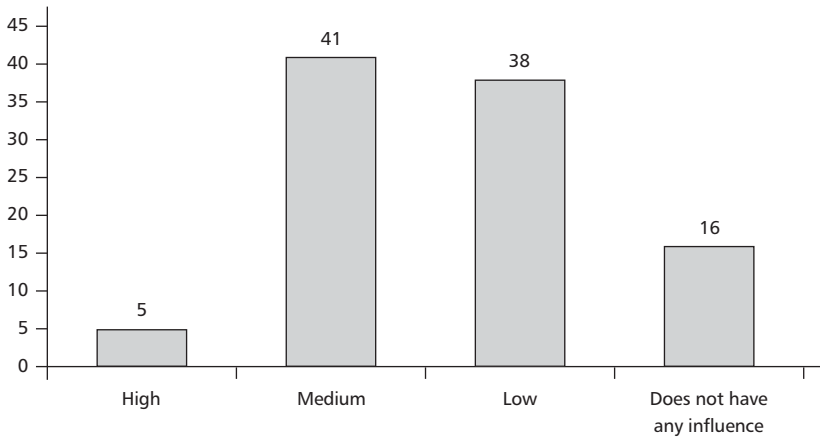
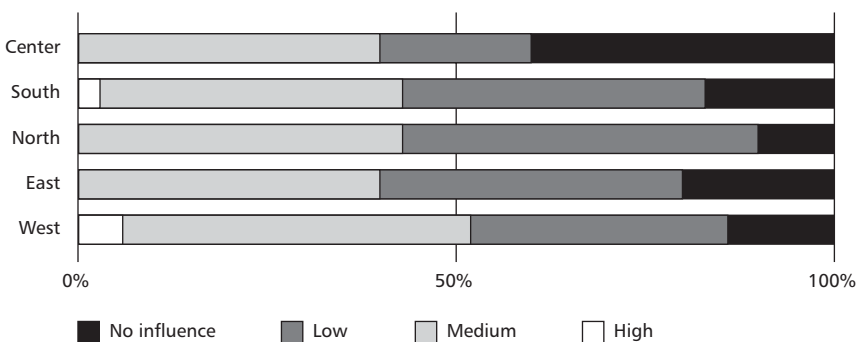


Figure 9.
Rural NGO Influence on Local Decision-making Process: Regional Dimensions



However, local governments are very interested in listening to the ideas of rural NGOs, and 77 percent of the surveyed NGOs said they are aware of this interest. Nonetheless, NGOs require skills and capacity building in policy analysis, writing, and

advocacy, in order to become more actively involved in the decision-making process. Our research revealed that 74 percent of rural NGOs attend public forums and meetings, whereas only 34 percent are members of advisory boards, 18 percent are involved in budget hearings, and 11 percent assist with local strategic planning. Meanwhile, an astonishing 15 percent do not participate in any such events. Results show that the latter group is made up of rural NGOs that target invalids/the disabled, ethnic minorities, and businesses.

Examples of how rural NGOs have become effectively involved in local decision-making need to be disseminated to encourage others to participate. For example, representatives of rural NGOs in many regions:

- attend plenary sessions of the local council;
- discuss problems and advise on policy options to assist their local government;
- have an advisory voice in special committees of local councils, some of which are ad hoc while others are on-going.

This growing wealth of experience could be expanded to include the active participation of rural NGOs in a variety of ways. Through training and consultations, rural NGOs should become involved in: consultations, expert councils, public opinion surveys, the discussion and creation of draft laws, and deliberations with the media.

2.3.3.1 Conclusions

By increasing the capacity of rural NGOs to participate in the local decision-making process, local communities will be improved, NGOs will gain support, and momentum and the democratic transformation of Ukraine will be facilitated. Progress could also be made in addressing the issue of rural NGO invisibility. Active involvement would help NGOs shift from the marginalized position they currently inhabit and centralize them within community involvement. As a result, the capacity and efforts of rural NGOs in helping alleviate poverty and meeting community needs would increase.

Box 14: Odesa Establishes Mediators

Odesa has found a way to increase public participation in local decision-making by establishing village coordinator networks to facilitate cooperation among local governments and their jurisdictions. The coordinators are assigned to develop grassroots initiatives with the intent of solving social problems within the community. They also help disseminate information, consult on legal issues and facilitate trainings and seminars. The coordinator is selected through a competition and the local government and citizens approve this selection.

This individual is then sent to a training program specially developed for local coordinators. In the Village of Poplavka, for example, there was no local grocery store, and thanks to the work of the coordinator, this need has been filled.

Source: URLP Report. 2003. Kyiv. pp. 23–24.

2.4 NGO Sustainability: Financial Sustainability

Recent trends in the financing of rural NGOs reveal:

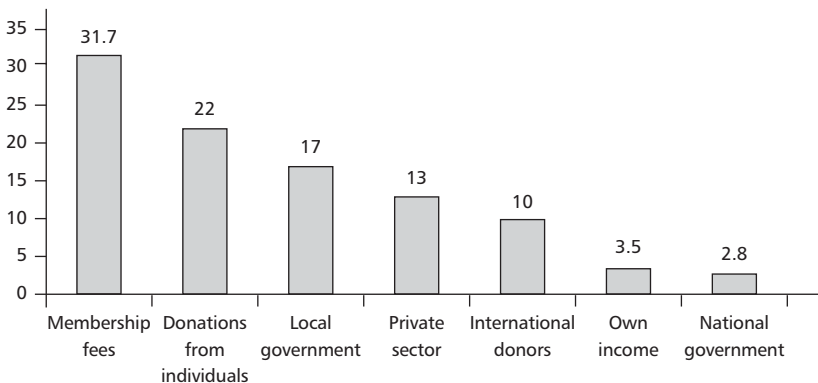
- increased competition for access to financial resources;
- restrictive criteria set by donors;
- greater diversity of potential funding sources;
- skills developed for fundraising;
- potential to develop partnerships with international NGOs in order to increase the funding base.

This list contains benefits as well as challenges. Both must be addressed in order for rural NGOs to be marketable in today's Ukraine. If NGOs are to take advantage of this situation, they will require extensive training and capacity building.

2.4.1 Sources of rural NGO funding

When it comes to the funding of rural NGOs in Ukraine, our survey reveals the results shown in Figure 10.

Figure 10.
Total Revenue by Source of Income (%)



Membership fees currently account for most of the financial support received by rural NGOs. These fees typically cover 31.7 percent of an organization's budget. This shows the ability of rural NGOs to attract generous support from their communities. Unfortunately, given the poverty in rural regions, most members simply cannot afford to pay fees. To simplify matters, many rural NGOs have reduced membership fees to assist members, however, they in turn, are unable to raise their operating budgets.

Donations from individuals account for 22 percent of a rural NGO's total budget. While it is encouraging that charitable giving is taking place in rural communities, this type of philanthropy is very new to Ukraine. Through development and capacity building it could become viable means of generating funds and could be further facilitated by the adoption of a 1 percent law in Ukraine—a legislative option that should be addressed.

Local government also supports rural NGOs by funding up to 17 percent of their annual budgets. Many municipalities have created budget policies to support NGOs, as well as opportunities for social contracts and procurement tenders. They also frequently provide in-kind contributions to assist rural NGOs. This bodes well for rural Ukraine and is certainly in keeping with European standards. However, implementation and regulation must be developed concurrently in order to offset tendencies towards patronage and corruption.

Private sector donations account for 13 percent of rural NGOs' budgets. This support comes in the form of financial assistance as well as in-kind donations of materials and services. In fact, labor and materials are more commonly provided than cash. A barter system also exists between these sectors. There are considerable opportunities to increase collaborative efforts between the private and third sector that could prove mutually beneficial and help reduce poverty in the community.

Internationally donors are currently in the fifth place for contributions made to rural NGOs, at 10 percent. This confirms the assumption that rural NGOs are much less donor dependent than other organizations from the third sector. This situation is both positive—given the trend toward reduction of donor support in the region—and negative, due to the lack of skill and remoteness from central regions that keeps rural NGOs marginalized and invisible. Furthermore, donors work only with officially registered groups, and this hinders the ability of the non-registered community based organizations to enter into competitions. Institutional stability, organizational effectiveness, and high quality development programs are all factors considered by donors when selecting organizations for funding.⁴¹ Rural NGOs are less likely to meet these criteria. Donors are also less likely to finance new NGOs and infrastructure development, making it very difficult for these organizations to establish themselves.⁴²

Self-generated income represents only 3.5 percent of a rural NGOs' budget. This source of income could be significantly increased if these organizations knew how to respond to government tenders or how to implement new legislation, such as charg-

ing fees for the goods and services they provide, that correspond with their statutes. Furthermore, marketing training would allow NGOs to raise their exposure within their communities.

The national government is in last place, with a contribution of only 2.8 percent of rural NGOs' total budgets. This percentage would be far more acceptable if decentralization was in alignment with European standards. Given that the central government has a strong voice in local decision-making, the national government's contribution to community development should be much greater.

2.4.2 Determinants of success and challenges in fundraising

Our survey results show that only 1.6 percent of respondents feel they have access to sufficient resources at a local level. Table 4 outlines the strengths and opportunities for fundraising in rural communities.

Table 4.
Determinants of Success and Challenges in Fundraising

Success Factors	Challenge Factors
Strong relationships between the NGO director and sponsors	Over dependence of the NGO on one person and the potential for patronage
Fundraising skills identified as essential	Lack of access to training within current methods
Skilled, professional staff	Lack of access to infrastructure training and professional development to encourage staff
Partnerships with other sectors	Lack of networking skills
Increasing dissemination of funding opportunities through national media and the Internet	Lack of access to ICT, lack of technical tools and skills required to use these resources
Solid organizational reputation throughout the local community	Lack of awareness of NGO activity and contributions being made to the community.
Small communities produce many opportunities for NGOs to get involved in policy development	Disagreement with local decision-makers threaten an organization's existence
Close proximity to community needs encourages volunteerism	Weak tradition of local philanthropy
Growing interest in financially supporting rural NGOs	Poor tax legislation for charitable donations
Local media interest in covering rural NGO activities	Lack of public relation skills among NGO staff

2.4.5 Conclusions

Our research indicates that financial sustainability for rural NGOs in Ukraine is a pressing issue, but it is not the only means by which to achieve success. However, rural NGOs exist in a poverty stricken environment and this reality directly affects their operations. In spite of expert opinions that Ukraine's economy is improving, the benefits are not widely felt in the everyday lives of its citizens. The culture of social responsibility is slowly taking root among Ukrainian businesses. However, it will take some time before contributions to the third sector become part of their strategic planning.⁴³

3. POLICY OPTIONS

Table 5 outlines policy options, and the related opportunities and challenges.

Table 5.
Policy Options for Rural NGOs in Ukraine

Policy Option	Opportunity	Challenge
1. Status Quo: <ul style="list-style-type: none"> • Legally guaranteed freedoms • Procedures, documents in place • Budget achieved • Skills in place • Presence of community support • Activities implemented • Participation in local decision-making 	Maintaining results depends on a predetermined a course of action. Rural NGOs have in hand a basic capacity for organizational management, for cooperation with other sectors in their community and for implementing activities for stakeholders.	Although basic legal provisions exist, the environment is still chaotic, and this makes NGOs vulnerable. Skills that are not in keeping with the complexity of the present situation, and the highly bureaucratic procedures, become a detriment to an NGO's effectiveness. Activities are not directly targeted at focus groups, and this will eventually erode the basic community support that NGOs currently enjoy. Having a voice in local decision-making is dependent on a number of variables that could suppress the overall effectiveness. Lack of funds severely limits the capacity of rural NGOs, and the all these factors only exacerbate the situation and prevent budgets from being increased.

Policy Option	Opportunity	Challenge
<p>2. Autonomy: In this scenario, rural NGOs are self-reliant. The organization is entirely responsible for its own sustainability.</p>	<p>Self-reliance tends to alleviate the difficulties in managing an organization. This also ensures independent decision-making regarding all stakeholder concerns.</p>	<p>This is a very vulnerable position; without external input regarding development, the organization's perception quickly becomes skewed and it becomes susceptible to takeover. Rural NGOs are further marginalized, because issues of isolation are not addressed through building partnerships. This severely reduces an NGO's capacity for advocacy.</p>
<p>3. Government Dependent: In this scenario, rural NGOs are aligned with local and other government authorities in order to gain support and achieve sustainability.</p>	<p>Governments are reliable sources of long-term funding. Opportunities for work are ongoing and capacity for in-kind support is strong.</p>	<p>The organization loses its status as "nongovernmental" and becomes simply an agency for implementing government policy. This undermines the key contributions made by NGOs in the building of civil society. It also erodes social capital; this kind of NGO can no longer provide alternative services to the community.</p>
<p>4. Donor Dependent: In this scenario, rural NGOs significantly depend on the international donor community to support their organization.</p>	<p>For a period of time, donors are reliable, often generous in the dispersal of funds. Opportunities to develop partnerships and join international networks, or develop advanced skills and profit from the experience of other countries, are all benefits felt by organizations closely aligned with donors. The capacity to implement activities in the community is great, due to a dependable source of funding.</p>	<p>Donor support is not interminable. Single-sourced funding is unstable, because when it is withdrawn, NGOs may lack the skills and networks needed to survive. This also erodes community trust, as these types of NGOs do not have staying power.</p>
<p>5. Interdependent: In this scenario, rural NGOs participate in a community of networks that are mutually beneficial and that ultimately increase their chances for survival.</p>	<p>Interdependent rural NGOs are linked to a variety of sources for various needs. Funding, training, community involvement, advocacy development, self-regulation—all of these elements are supported through multiple sources, financial and otherwise. In addition, these NGOs are free to make sound contributions to the decision-making process.</p>	<p>Thanks to working relationships with all stakeholders, these types of rural NGOs face less challenges. The poverty in rural areas remains the key impediment to their development.</p>

4. CONCLUSION

The hypotheses that were stated in the introduction of this policy papers have proven to be true: Rural NGOs in Ukraine are providing an important community service, yet they face many roadblocks that impede their ability to remain self-sustainable. They have found creative ways to cope and forge relationships with key stakeholders in their communities. With intervention from trainers, capacity builders, policy experts, and others, these organizations have tremendous potential to actively participate in community development and the reduction of poverty.

Aside from legal and financial obstacles, Ukraine has yet to resolve the threat to rural NGOs, in terms of their needs for organizational capacity, management, and expertise. Rural NGO directors share the views of the survey that NGOs need to access advisory services in order to manage the complex environment in which they work. Furthermore, they have asked for assistance in improving their management skills, to be able to interact with other like-minded organizations, the private sector, and the international community. The concern is: Will these needs be met?

Lastly, subtle regional difference were found: This policy paper indicates that western Ukrainian NGOs, especially those in Zakarpatska and Lvivska oblasts, are more developed and active in their communities. It is also interesting to note that they have done far more to attract donor support. This suggests that such NGOs have the capacity to assist others in their development and to relay the experience they have gained in community development.

Rural exclusion has recently become an important topic of discussion within the international community. Poverty reduction targets will not be met until the potential of rural communities is realized. To that end, strategic planning and social mobilization of rural civil society must become the focus of these efforts. Forming partnerships with all stakeholders and bringing rural policy recommendations onto the table at a national level are necessary steps in improving the wellbeing of these communities.

4.1 Policy Recommendations for Rural NGOs:

Proactively enter the legal and legislative environment affecting this sector.

It is no longer possible for rural NGOs to isolate themselves from the legal issues that affect their work. These organizations need to access the information that will help them understand why a gap exists between Ukrainian and European NGO legislation. They must join advocacy campaigns organized by various civil society actors, in order to align themselves with Western practices and to fully implement, wherever possible, the current legislation. Rural NGOs must bring the issues regarding NGO legal development to the forefront of government consideration. Finally, they need to seek out advice on

managing legal and tax issues, which they are obligated to fulfill. They must find and lobby for resources and training opportunities that will help them gain advocacy skills and legal proficiency; this will require the allotment of a research budget. As these organizations increase their advocacy activities and gain knowledge in the legislative process, authorities will become increasingly interested in their activities. By forging strong partnerships with the community, these NGOs could also minimize risks, such as increased tax investigations.

Develop internal organizational skills.

Rural NGOs need to locate publications and other sources of training material (handbooks, technical tools for evaluation, policy papers) in order to increase their management skills, while focusing on financial, legal, and human resource issues. They also need to develop skills in the use of ICT, proposal writing, strategic planning, program evaluation, self-regulation, networking, public relations, public participation, and public awareness. By working with current volunteers, they can expand the volunteer base through membership drives and the dissemination of information. NGOs must actively pursue relationships with community youth and encourage their participation in civil society initiatives. Working with stakeholders to develop a code of ethics that could be adopted by a network of rural civil society organizations would send out the message that rural NGOs are interested in transparency and good governance. This, in turn, would increase their chances of being included in tender opportunities. Rural NGOs also need to focus on their stated target groups and become experts in facilitating the development of those sectors, be it youth, minorities, women, etc. Building a specific set of expertise and experience in working with these groups could increase potential funding opportunities.

Create a strategic plan for funding that includes achieving recognition and diversifying sources of income.

Rural NGOs must avoid the trap of thinking only of present needs, and instead adopt a long-term strategic view. This will help them envision funding opportunities that have not yet been explored. To facilitate this process, NGOs must work on developing advertising, door-to-door campaigns, membership drives, and other initiatives that will achieve two important results: publicizing their work and reaching potential financial partners. In order to build trust, NGOs will need to publish annual reports that are freely distributed throughout the community. By partnering with other civil society organizations, they will be able to pool their resources and experience, strengthen community development, and inform the public of their programs. Finally, NGOs must perform staff evaluations that expose the specific skills and talents of their staff, particularly those with social entrepreneurship expertise. Staff members with such

abilities must be encouraged and trained, so that they may assist in increasing the funding base of their organization.

Develop outreach skills and learn to network with CSOs and the private sector.

Regional resource centers are available in most regions of Ukraine, though the level of activity is not consistent. Rural NGOs need to determine if their resource center has the capacity to assist them with such matters as training and access to information. NGOs must also establish working relationships with the local business community in order to increase the overall impact on community development. The private sector should be made aware that it shares much of the same legal issues as local NGOs and that a strong legal environment for civil society will favorably impact the business sector as well. By building advocacy partnerships and sharing experience, networks, and best practices—for example, private sector lobbying for efficient business registration procedures—NGOs can build momentum for legal reform. If NGOs hold roundtables, informal discussions and the sharing of community development concepts, local businesses will become motivated to pursue joint community development opportunities. These two groups share much in common and could take advantage of such opportunities to expand upon and even participate in joint advocacy and other training sessions. For instance, environmental NGOs could work with the local tourism industry in a mutually beneficial way. By establishing themselves as private sector partners, rural NGOs will be able to build trust, so that business groups will consider funding their activities and developing philanthropy within the community.

Establish links with the local government and lobby for rural community development.

The local government is at an advantage when it works strategically with community development operators, and rural NGOs need to bring this to their attention by initiating joint meetings. Together, they must develop a local strategic plan to facilitate community reform. For instance, local government officials are well positioned to help local NGOs gain access to the advisory services and information needed for capacity building. In addition, local government officials should simplify registration procedures, establish new NGOs, and develop partnerships for social provision and social contracting schemes. Normative acts should be established at a municipal level, in order to facilitate procurement and social contracting. This will redefine rural NGOs as organizations that provide services-for-fees, and it will assist them in developing a client base. Local government officials also need to receive training in procedures and document creation, in order to implement changes to the sector. Rural NGOs need to work with their constituencies through training sessions and seminars, to increase the public's knowledge of the workings of local governments and the decision-making

process,. Finally, local government has the capacity to assist NGOs with a number of material assets. In this way, NGOs are at an advantage when their work and concepts become recognized by government officials.

Actively pursue information from donors and draw their attention to rural issues.

Invisibility in the case of rural NGOs is not advantageous. They must overcome their isolation from donors. This is not about donor-dependency but about making the international community a stakeholder in rural community development. Rural NGOs need to gather information regarding tenders and donor priorities, and they need to become firmly placed in a donor's radar. Rural NGOs must encourage donors to leave Kyiv and travel to oblast centers, on a regular basis, in order to discuss their work and their intentions. They need to form partnerships with other NGOs and lobby donors to include infrastructure development as an eligible activity for funding, thereby allowing for the purchase of basic office equipment. Rural NGOs are experts on rural needs and they have experience and ideas that donors can access when drafting national strategies. Rural NGOs need to coordinate roundtables and invite donor organizations to attend meetings on rural development. They should provide input as to what aspects of local community development require donor support. Jointly and strategically, they must tackle the legislative and legal obstacles—which rural NGOs know all too well—in order to promote healthy rural NGOs. Through the establishment of rural legal consultative bodies, donors could also assist rural NGOs in becoming legally sustainable. (See Box 15.)

Box 15: Creating Solutions to NGO Needs in Canada

In Canada, national NGOs are funding training initiatives, which address recent changes to legislation governing religious freedom for lawyers working in local communities. The lawyers receive expert training and professional development for free (including travel, accommodation, etc.), with the understanding that they will return to their communities and provide up to 300 hours (over two years) of pro bono advice to churches and small NGOs that require help with the new laws. This is proving to be an effective response to the legal need, and rather than funding advisory centers, donors are working with existing, local law firms to build the capacity of these lawyers to provide civil society organizations with current and reliable legal advice.

Source: See, for example, the Evangelical Fellowship of Canada, www.efc.ca.

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ENDNOTES

- ¹ See: Bachynsky et al. 2003. *Civil Society in Ukraine*; Counterpart Creative Center. 2003. *Civil Society Organizations in Ukraine*; Natalya Romanenko. 2003. *Rapid Assessment of NGO Activity in Rovenskaya, Sumsкая and Khersonskaya Oblasts of Ukraine*.

- ² For this research we consulted both the USAID sustainability index and INTRAC's (UK) model. Our criteria are consistent with both tools and were adapted to the rural Ukrainian environment.
- ³ The questionnaire was developed by the authors.
- ⁴ Regarding livelihood indicators, this policy paper uses statistics generated by: UNDP. 2003. *Human Development Report: The Power of Decentralization*; and Roman Schmidt and Yuri Kuharyk (eds.). 2003. *Improving Rural Livelihoods in Ukraine*. These statistics are from UNDP, *HDR*, 27.
- ⁵ Schmidt and Kukharuk (eds.). 2003. *Improving Rural Livelihoods in Ukraine*. URLP and DFID. Rural average monthly income cited in: Pavlo Khobzey. 2003. "Vocational Education and Training in the Ukrainian System of Education." Kyiv: IRE. p. 147.
- ⁶ Other relevant unemployment statistics: 7.1 percent of rural adults (age 30 to 39); 5.2 percent (age 40 to 49); 4.1 percent (age 50 to 59); and 0.1 percent (age 60 to 70). Cited in: Khobzey. Op. cit. p. 111.
- ⁷ OECD and World Bank. 2004. *Achieving Ukraine's Agricultural Potential. Stimulating Agricultural Growth and Improving Rural Life*. Washington, D.C.: OECD and World Bank. pp. 3. Online: [http://lnweb18.worldbank.org/ECA/ECSSD.nsf/ECADocByUnid/995A3DCDC1D086E285256F0900717FE8/\\$FILE/Achieving%20Ukraines%20Agricultural%20Potential.pdf](http://lnweb18.worldbank.org/ECA/ECSSD.nsf/ECADocByUnid/995A3DCDC1D086E285256F0900717FE8/$FILE/Achieving%20Ukraines%20Agricultural%20Potential.pdf)
- ⁸ Schmidt and Kukharuk. Op. cit. p. 20.
- ⁹ UNDP. 2003. *Human Development Report*. p. 121.
- ¹⁰ Schmidt and Kukharuk. Op. cit. p. 23.
- ¹¹ UNDP. 2003. *HDR*. p. 122.
- ¹² UNDP. 2003. *HDR*. p. 122.
- ¹³ See *Constitution of Ukraine*, Article 36 (citizens rights and freedoms); Article 34 (freedom of speech and conscience); Article 39 (freedom to collect and distribute information); Article 54 (freedom of creative work).
- Furthermore, in 1992 the newly independent Ukraine adopted the "Law on Public Associations"; together, these laws provided a basis for the development of the third sector. However, the term "NGO" was not defined. Please note: for the purposes of this research we will follow the English translations used by International Center for Not-for-Profit Law. 2001. "An Analysis of Ukrainian Laws Relating to the Development of the Third Sector." Kyiv: World Bank.
- ¹⁴ Bachynsky et al. 2003. *Civil Society in Ukraine*. pp. 5, 21, 22; this report argues that 25 percent of Ukrainian NGOs identify legal problems associated with sector legislation as one of the most serious problems plaguing sustainability.

- ¹⁵ Schmidt and Kukharuk. Op. cit. p. 25.
- ¹⁶ The newly created internet portal for NGOs, “NGO Law,” (Online: www.ngolaw.org.ua) as of June 2, 2004 still has not posted any analysis on recent legislative changes relevant to the third sector that came into force/effect on January 1, 2004.
- ¹⁷ Prior to January 1, 2004 there were two ways of classifying NGOs in Ukraine by profit: as for-profit entities regulated by standard tax procedures and as nonprofit, included under various tax incentives. These organizations are now referred to as entrepreneurial and non-entrepreneurial organizations.
- ¹⁸ Classifications are: national government/local government; charitable organizations; civic associations; credit unions; pension funds; religious organizations; creative unions; housing and communal cooperatives.
- ¹⁹ See Law on Charity and Charitable Organizations (1997).
- ²⁰ Rural Livelihoods Programme Ukraine. 2003. “Report.” Kyiv. p. 16.
- ²¹ New Civil Code; New Economic Code; Law on Social Services; Law on State Registration of Legal Entities and Natural Persons-Entrepreneurs; Principles of the State Regulatory Policy in the Area of Economic Activity.
- ²² The Ministry of Justice is currently drafting a law on volunteer activities in Ukraine and is at the stage of inviting stakeholders to participate in the process.
- ²³ “Income tax: Associations and foundations do not have to pay income tax if they are working as nonprofit organizations. In other cases income tax is the same as for commercial organizations (30 percent).” See “Legal and Fiscal Framework for Voluntary Organizations (Associations) and Foundations in Ukraine.” Online: www.gurt.org.ua/english/general_information/Legislation/Legislation.htm, 3.
- ²⁴ International Center for Not-for-Profit Law. 2001. “Preliminary study of the legal frameworks for public financing of NGO activities in Bulgaria, Croatia, Hungary, Romania and Slovakia.” *International Journal of Not-for-Profit Law*. Vol 3. No. 4. Online www.icnl.org/JOURNAL/vol3iss4/prelimstudy1.htm.
- ²⁵ Ibid. For example, the Government of Romania has established the Department for Social and Institutional Analysis and the NGO community created the National NGO Forum (annually elected). These organizations oversee cooperation between the government and the third sector.
- ²⁶ Ibid. Condensed from ICNL study with Ukrainian data derived from our own research.
- ²⁷ See Internet portal for Counterpart WestNis, which lists comprehensive legislative and technical information. Online: eng.counterpart.org.ua/LearnMore/UkrL.aspx.

- ²⁸ See: Counterpart Creative Centre. 2003. *Civil Society Organizations in Ukraine*. Kyiv: Counterpart Creative Centre. p. 15. Also see: Lyuba Palyvoda. 2002. "Ukrainian NGOs Launch Tax Reform Initiative." *SEAL Journal*. Winter. p. 24—where she writes: "All previous attempts to make changes in NGO legislation have failed due to a lack of understanding and support at a grassroots and regional level."
- ²⁹ Schmidt and Kukharuk. Op. cit. p. 20.
- ³⁰ Counterpart Creative Centre. Op. cit. p. 10.
- ³¹ Schmidt and Kukharuk. Op. cit.
- ³² Bachynsky et al. 2003. *Civil Society in Ukraine*. Washington, D.C.: World Bank. p. 24.
- ³³ For instance, the Copenhagen Centre (Online: www.copenhagencentre.org) was established in 1999 to build the capacity of Denmark's government, private, and civil society sectors to work collaboratively in a tripartite structure in order to address social issues. This initiative reflects a growing trend in the international community, that collaboration is better than isolation.
- ³⁴ Bachynsky et al. Op. cit. p. 31.
- ³⁵ Ibid, 30.
- ³⁶ It is important to note that 100 percent of the Ivano-Frankivsk focus group's private sector representatives had very positive attitudes towards the NGO community.
- ³⁷ Bachynsky et al. Op. cit. p. 24.
- ³⁸ Schmidt and Kukharuk. Op. cit.
- ³⁹ This kind of donor reluctance contravenes established notions of donor-local community relationships. For instance, the World Bank set out the *Comprehensive Development Framework* that identifies four criteria for development strategies. Two of these criteria specifically target the formation of viable relationships with the local community.
- ⁴⁰ Schmidt and Kukharuk. Op. cit. p. 34.
- ⁴¹ Michael Schueber. 2002. "Strategies for sustainable NGO financing." *The Organization*. Vol. 5, No. 4, October–December. pp. 13–18.
- ⁴² For instance, in January 2004 UCAN (USAID funded) launched a tender of "Advocacy Partner Grants" for third sector development; only registered NGOs, with a registration date prior to 2000, were eligible to apply.
- ⁴³ Alexander Vinnikov. 2003. "Ukrainian Business and Social Responsibility: Trends, Taxes, and Practices," *SEAL Journal*. Winter. p. 15.

From Dimes to Millions

The One Percent System: Financing for Central European NGOs

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EXECUTIVE SUMMARY

This study explores the features of the newly introduced one percent mechanism—a system of public funding for Poland’s third sector. The target groups of the study include, but are not limited to, the NGO community, decision-makers, and foreign donors. The one percent law has provoked debate surrounding the legitimization of a process of voting by designation and has raised questions regarding the democracy model supported by countries that have introduced this law. These issues are only touched upon in Section 3, inasmuch as they may directly or indirectly impact nongovernmental organizations. The main emphasis has been placed on defining the one percent law for the nonprofit sector, focusing on whether and to what extent the one percent provision will nurture the development of civil society in Poland, and identifying what conditions must be met in order to facilitate this process. The author has examined the differences between the one percent law’s implementation in Hungary and Poland, in an attempt to present the pros and cons of either approach, while exploring existing loopholes. The Hungarian model, which is more established than the Polish model and which has been more closely scrutinized in practice, could potentially provide a number of sustainable solutions as well as insight into areas in which the system being implemented in Poland can be

improved upon. Section 6 presents the results of a survey conducted on representatives of civil society in Poland regarding their views on the one percent law. The survey was divided into three categories as follows: expectations of the law, its implications on the financial sustainability of nongovernmental organizations, and the practicalities of its implementation.

Policy recommendations regarding the law are presented in Section 7. This paper focuses on the Polish model, on the belief that, once the law has been implemented, these recommendations can be used by other countries within Central and Eastern Europe.

The final chapter focuses on combining two mechanisms for financing nongovernmental organizations—the one percent system and endowment funds, which can both assist in the development and long-term financial sustainability of NGOs while strengthening their role within society.

1. INTRODUCTION

The financial situation of NGOs in Central and Eastern Europe (CEE) at the beginning of the 1990s was somewhat provisional. Due to a more than 40-year hiatus in the building of a democratic and civil society, CEE NGOs lacked the social foundation to promote their growth and gain experience. There was also a shortage of human and financial resources. Their unexpected development and subsequent success was facilitated by the population's enthusiasm at the end of the communist regime and by a tradition of democratic underground opposition, as well as significant international financial support.¹

It became evident early on that social capital resources were considerably limited. New opportunities for personal and professional development in the private or public sectors compelled many skilled and resourceful people to leave civil society. The ethos of working for common good was deteriorating. The rebuilding of civil society in CEE was fuelled to a large extent by the financial support of Western donors.² However, not all the expectations of donors were met. Considerable amounts of money were invested in capacity building and training programs. Due to high turnover rate of volunteers and employees in NGOs, an important part of this newly acquired knowledge was lost to other sectors. Only a few organizations became “learning institutions,” where knowledge and know-how remained the property of the organization and not the individuals. Many organizations were based on strong leadership rather than cooperative governance, and they did not survive the shift in power. Capacity building programs led to the strengthening of resource centers or umbrella organizations, which sometimes alienated themselves from grassroots initiatives. Apart from a few environmental organizations, there was very little success in building an extensive membership base.³ Despite these obstacles, NGOs began to play an important role in the political and social life of countries within CEE.

However, their relative power was not anchored on a social level, and a significant part of civil society remained very dependent on foreign aid.⁴

The role of foreign donors has raised some concerns about potential problems, such as donor-driven activity. Nonetheless, the sheer influx of money passing through the nonprofit sector from foreign sources means that these donors' impact cannot be underestimated. The activities of foreign donors was prompted by such factors as:

- their involvement in capacity building of the third sector;
- an interest in activities which were beyond the scope of other donors—both private and public;
- the creation of “terms of reference” between donors and beneficiaries (transparency, independence, evaluation, competition, etc.);
- diversification of available funds within the sector.

Since their entry into the region, donors treated foreign financial support as seed money, which helped NGOs in the first phase of their development.⁵ A decrease in Western donor activity, particularly private, as seen today, is causing profound changes in the management and policymaking of NGOs. Still, this is an unavoidable phase in the development of civil society in CEE. The pull-out of foreign donors won't likely jeopardize the entire nonprofit sector, but it will certainly affect an important segment: organizations that are not directly involved in providing social services to particular communities or society as a whole. Such organizations include: watchdog groups, think tanks, resource centers, clearinghouses, various in-country grant-giving foundations, a number of environmental organizations—especially those with a counter-cultural or confrontational approach—or NGOs focused on shifting attitudes over a long-term period.

The withdrawal of foreign donors from civil society has created a gap, which needs to be filled by in-country sources of funding such as public money. In order to fulfill its broad range of activities the nonprofit sector will require a wider base of financial resources.

2. THE ROLE OF THE ONE PERCENT LAW IN A DEMOCRATIC SOCIETY

The strong influence of NGOs within CEE is often based on society's lack of trust in the democracy model, how it has been presented, and the political parties associated with it. This opposition stems from the disillusionment of the populace—a common side effect during the initial stages of socio-political change from the implementation of an idealized free market democratic state model to the everyday realities of the situation. The state is also perceived as an external force, which cannot be trusted, and is often hostile towards its citizens. This is not only the residue of several decades of

communist regimes, but in many cases a much longer period of governance imposed by occupations, hostile empires, or socially intolerable rule. Although these attitudes may be seen as threatening to civil society, they may also provide a foundation on which to rebuild social trust.

Development of civil society, however, is not the only solution to the inherent problems of democracy. Placing too much emphasis on NGOs rather than the outcome of democratic elections, or treating social activities as a substitute for civil obligations, may result in the splintering of society into a variety of small interest groups with an infrastructure too weak to support common interests. On the other hand, governments can benefit from the work of NGOs, and officials cannot expect NGOs to relieve them of their social responsibilities without providing some level of financial support.

The one percent law provides a legal remedy for supporting NGOs, but it may raise concerns regarding the relationship between the growth of the NGO sector and the development of democracy in CEE. It is not by accident that the one percent mechanism has only been introduced in post communist countries rather than in countries with long-standing democratic rule.⁶ The one percent law is a compelling experiment, which allows citizens who pay their taxes to partake in the distribution of a portion of public funds. Treating this as a kind of “power to the people” approach raises concerns as to why a taxpayer should only be able to determine how one percent, as opposed to 100 percent, of their taxes may be distributed. In addition, the one percent provision is a system that allows only a portion of taxpayers, as opposed to the entire voting population, to redistribute public funds. The Hungarian Act on the “Use of a Specified Portion of the Personal Income Tax” (also known as the “one percent law”) was designated unconstitutional shortly after it was passed by Parliament. The argument supporting the claim filed with the Constitutional Court states that only representative bodies elected through a democratic procedure are eligible to render decisions on the designation of public money to be allocated in accordance with state priorities. The one percent law hands this power over to a marginal group of citizens, which represent less than 50 percent of all voting members of society. In fact, this group was even smaller, due to the established tax threshold mentioned below, which means taxpayers who do not meet the threshold are prohibited from taking part in the one percent scheme. According to the claim filed with the Constitutional Court, Parliament should grant all voting citizens the opportunity to allocate public funds. The court agreed with this argument, but it stated that the one percent law was not a system for redistributing public funds but a parallel system to the tax benefits program, which involved the input of individual taxpayers. One of the 11 judges disagreed with this statement, stating that the two tax incentives cannot be compared, because the tax benefits are applied before taxes, whereas tax designation is applied afterwards.⁷

It is also worth exploring the implications of the one percent system for NGOs. The main concern is whether or not this system constitutes a charitable activity, even if it does

not involve an individual's allocation of their income for the good of the public. The precedent in countries where the one percent law has already been implemented proves that taxpayers who make these decisions are influenced by one of two factors: Either they believe that the organization being supported, such as private schools, hospital foundations, etc., will perform duties in the taxpayer's best interest or in the best interest of the local community, or they are influenced by their emotions, which urge them to give support to such organizations as animal shelters, child care foundations, cancer research foundations, etc.⁸ This is a reasonable thought process, but, it raises ethical questions such as: Do we have the right to feel moral satisfaction if we spend money that does not belong to us on such noble causes? Or is it just an attempt to uplift one's own self worth without paying the fee?

In June 2003, a Hungarian NGO called the Nonprofit Information and Training Center (NIOK) performed a survey in which it asked civil society organizations about the one percent law. It found that 29 percent of the organizations surveyed were satisfied with their one percent income, and 48 percent were only partly satisfied. The organizations said that, along with the funding, the principal advantage of the one percent law was that several taxpayers acquired knowledge on NGOs and their activities. Almost 60 percent of the organizations surveyed complained that the one percent system kept donors anonymous, when these groups would prefer to establish a closer relationship with their donors.⁹ Support for the financial growth of organizations was ranked fourth on the list of advantages of the one percent law. The first three advantages listed were: "drawing the attention of taxpayers to the nonprofit sector," "evaluation of social support for NGO activity," and "enhancing charitable and philanthropic activities."¹⁰

The one percent law can be a useful tool for re-establishing a philanthropic culture within CEE. Unfortunately, when it was introduced in Poland, it was connected to rigorous limitations on tax deductions for giving to NGOs. A similar situation arose in Hungary, Slovakia, and Lithuania (see appendix II), even though income deductions were more favorable than the one percent system, for both the state and the general population.

There are different forms of tax initiatives to support nongovernmental organizations. A tax deduction reduces an individual's taxable income by the amount of the charitable contribution made. A tax credit lowers one's tax liability by the amount, or a portion thereof, of the charitable contribution. Although in the progressive tax system, tax deduction favors the higher income brackets, and tax credits are considered more egalitarian, most Western countries (excluding Canada, France, Italy, and Spain) use the tax deduction mechanism.¹¹

The one percent system is a form of tax credit, in which the whole amount of the charitable contribution reduces the taxpayer's tax liabilities. The tax deduction or partial tax credit, in which only a portion of the contribution lowers the tax liability, is clearly

more beneficial for the state. A taxpayer receives some tax breaks—depending on their tax bracket—in exchange for contributing to causes deemed by the state to be socially beneficial. This can be seen as a form of public/private partnership. Without the co-existence of the two mechanisms, the one percent system and tax deductions, it is likely that the most valuable element of the one percent law would be lost: the connection between the donor and the beneficiary.

3. THE HUNGARIAN EXPERIENCE

The concept of the one percent law first appeared in Hungary in 1991 as a result of efforts by the Alliance of Free Democrats, the liberal party, to reform the mechanism used for funding religious organizations, rather than all nonprofit organizations. Their rationale behind the reform was to allow people to participate in state budget allocations. The plan did not come into being until December 12, 1995, when Parliament adopted Law CXVII/1995, which included the one percent provision. The primary objective of the law was modified, from reforming the financing structure of religious organizations to creating an additional source of income for NGOs. The method used to implement the provision and to provide a list of eligible beneficiaries, was regulated by a separate act, which was passed by the Hungarian Parliament on December 19, 1996 (Law CXXVI/1996). Following the implementation of the new law, governmental funds for nonprofit organizations were reduced.¹²

According to this law, taxpayers could allocate one percent of their personal income tax to support nonprofit organizations. The taxpayers could choose only one beneficiary and one percent of the tax had to be in excess of HUF 100 (less than USD 0.50), which meant that income tax had to exceed HUF 10,000 (approximately USD 50).¹³ This provision was removed in a later amendment.¹⁴

The two types of organization eligible for the one percent designation included: public institutions—primarily local and national cultural institutions—and NGOs that were active in at least one of the following areas: preventive medicine, health care, social services, culture, education, research, public safety, human rights, environmental protection, protection of cultural heritage, sports and leisure activities for youth and the disabled, care for children, the elderly, the poor, and the disabled, and preservation of national and ethnic minority rights (including Hungarian minorities living abroad). Following an amendment in 1998 this list was extended to include: consumer protection, employment rehabilitation and employment related services, Euro-Atlantic integration, flood prevention, services for public benefit organizations, and the promotion of public transport. Private foundations, volunteer associations and other institutions run by churches lost their eligibility in 1997 when the new Law CXXIX, passed by Parliament, stated that another one percent of personal income tax could be used to support

religious organizations. Since the introduction of the law, some conditions were changed and further amendments were made.

There were also other administrative restrictions placed on eligible organizations. For example, they had to be registered in Hungary for at least three years before filing their taxes, they had to remain politically independent and have no burden of unpaid tax or duties that could otherwise be paid or reduced by income received from taxes. The three-year ineligibility period did not apply to public law foundations.¹⁵

The declaration of income tax designations made by the taxpayer forms part of his or her annual tax declaration but must be placed in a separate envelope. The envelope should be labeled with the taxpayer's tax number, name, and address, and, in the case of a declaration, the tax identification number of the eligible organization together with their name (not mandatory). The envelope may be sent together with the annual tax declaration by the taxpayer or by the employer, if the tax declaration has been prepared by the employer. The transfer of funds is completed by the tax authority. If the declaration is incorrectly filled out, or the designated organization is ineligible, the designated amount may be transferred to the state budget. The tax office is not obliged to inform a taxpayer of the acceptance or rejection of his designation, however he may be informed after submitting a personal inquiry to the tax authorities.¹⁶

According to a 1996 opinion poll, 56 percent of the population supported the idea of the one percent system, whereas 20 percent felt that the expense of implementing the system would far outweigh its benefits.¹⁷ In a 1994 survey, 94 percent of the adult population, and 98 percent of the taxpaying population, acknowledged that they had heard of the one percent system.¹⁸ This percentage is very high, due to a successful promotional campaign led by several NGOs. By 1997, nonprofit organizations were able to acquire almost 50 percent of the funds available to them. However, in the following year, this percentage remained fixed, with no perceivable signs of growth. Data from the tax office revealed that, between 1997 and 1999, nearly 40 percent of taxpayers were ineligible to participate in the one percent scheme, because their income tax did not exceed HUF 10,000. In the years mentioned above, valid declarations from the one percent system were received by no more than 40 percent of the eligible taxpayers. And, from this sum, not more than 90 percent of the designated funds were used to support nonprofit organizations. The rest was consolidated with the state budget, either because the designated organizations did not carry out the activities specified by the law, they did not accept or rejected the allocation, or they were ineligible for other reasons.

Funds which were received by NGOs through this scheme accounted for less than one percent of civil society revenues, an increase of only four percent from NGOs' income from 1996 to 1997. After 1997 however, the one percent provision doubled the number of organizations using public funds—including one percent of designated

personal income tax. Between 1997 and 1999, only 30 percent of all taxpayers—one fifth of the adult population—were regularly exercising their right to designate one percent of their taxes. One third of this segment did so on at least one occasion.¹⁹

The Hungarian data reveals a strong correlation between an individual's level of education and their involvement in the one percent scheme. There is also a positive correlation between a taxpayer's personal income and their willingness to participate in the scheme. According to another survey conducted by NIOK, the Hungarian NGO, in June 1999, on large organizations with an income of over HUF 10 million (approximately USD 48,000), the one percent allocation accounted for an average of four percent of their budget, while in smaller organizations with an income below HUF 100,000 (approximately USD 480) there was much more dependence on the one percent system, which provided approximately 25 percent of their annual budget. In 1998, organizations received an average of HUF 295,000 (approximately USD 1,430) from the one percent scheme. In 46 percent of these cases, the income from the one percent scheme did not exceed HUF 100,000, and in four percent of the cases, it exceeded HUF 1 million (USD 4,800). All the organizations that sought the support of taxpayers received at least 35 times more than what they invested in promotional activities.

While the level of funds designated for NGOs doubled between 1999 and 2003 (from HUF 3 billion in 1999 to HUF 6.1 billion, approximately USD 29 million, in 2003) the number of taxpayers participating in the one percent scheme remained almost the same, increasing only slightly from 1.3 million in 1999 to 1.5 million in 2003.²⁰

4. THE LAW ON PUBLIC BENEFIT AND VOLUNTEERISM AND THE ONE PERCENT SYSTEM IN POLAND

The one percent system was adopted by the Polish Government as part of a larger legal framework to improve relations between the private sector and the state. It was incorporated into the Law on Public Benefit and Volunteerism, adopted in April 2003, and into the amendment to the Law on Personal Income Tax. The Law on Public Benefit and Volunteerism is designed to regulate such matters as volunteerism, transparency of the NGO sector, cooperation between NGOs and public authorities, and legal and tax procedures. It makes a distinction between organizations that carry out activities that benefit the public and organizations that are legally judged by the court to be public benefit organizations. Only the latter are eligible to receive one percent of personal income tax.

There are 24 categories of activities that may be conducted by nonprofit organizations seeking to be classified as legally recognized public benefit organizations. These activities are mentioned in paragraph 4.1 of the Law on Public Benefit and Volunteerism, and they include activities such as: the protection and promotion of health, science,

education, culture, the environment, animal rights, consumer rights, civil rights, public safety, European integration, volunteerism, and so on.

The Polish mechanism for transferring one percent of the taxpayer's personal taxes requires much more effort and good will than the Hungarian model. The taxpayer is personally responsible for sending money to the eligible organization, through bank transfer or by post, between January 1 and April 30 of the following year—the last day to submit a tax declaration. The taxpayer then has to wait up to three months before being refunded by the tax authorities. It is still unclear what will happen in the event that errors are made in designating ineligible organizations.

Although the system is very demanding on the taxpayer, advocates argue that it strengthens the relationship between the taxpayer and the beneficiary organization, and therefore is an improvement on the Hungarian method of anonymous transfers. It is also much more cost-effective in that the tax authorities do not act as intermediaries between the organization and the taxpayer. Furthermore, at the discretion of the tax authorities, the taxpayer's choice of beneficiary organization may remain confidential.

In 2003, the Klon/Jawor Association, in cooperation with the SMG/KRC, conducted a survey on a representational group of 1,005 adult Poles, regarding their opinions of the one percent scheme, and their willingness to participate in it.²¹ A total of 15.5 percent of the respondents had some background knowledge of the scheme. Although the percentage seems low, it should be taken into account that the Law on Public Benefit and Volunteerism came into effect at the beginning of 2004. To everyone's surprise, taxpayers were able to designate one percent in that same year, by submitting an annual tax declaration for 2003. There was a very small number of official public benefit organizations at the beginning of 2004, due to the fact that the registration process only began on January 1, 2004. It is believed that the system will be more effective in 2005. The organizations themselves were not prepared for this opportunity and, as such, only a limited amount of information was made available to taxpayers. More than 39 percent of the respondents said that they would designate one percent to public benefit organizations, and 24 percent said they would consider it. Only 18 percent of the group who wished to designate their one percent felt that the time consuming and cumbersome process would prevent them from doing so—12 percent said they would be "somewhat" deterred, while 5.6 percent were certain. The respondents said they would prefer to support a particular field of activity rather than a specific organization. Only 1.8 percent of the respondents chose the Polish Red Cross as a potential recipient, and 1.7 percent chose the Foundation of the Great Orchestra of Christmas Charity. It is important to note that one percent of one percent of the total income tax is roughly PLZ 3 million (approximately USD 800,000)²², which could be a significant help to any organization. These numbers suggest that even the largest organizations were unable to create a strong brand awareness, which would appeal to taxpayers. This issue needs to be further examined, as it deals with the fundamental

issue of channeling the taxpayers' desire to participate in the one percent scheme, into concrete action of supporting a charitable organization.

Respondents from Warsaw were much more reluctant to participate in the one percent scheme (22.2 percent) in comparison with the respondents from small towns of up to 50,000 habitants (45.1percent), towns with over 200,000 habitants (40.7 percent), and towns with populations between 50,000 to 200,000 inhabitants (36.7 percent). Unless this is a procedural error, it implies that Warsaw is inhabited by a splintered population, with very lax social responsibilities, a situation typical of urban dwellers. This assumption is supported by other findings of the survey, particularly that Warsaw respondents ranked the lowest in such categories as membership in non-profit organizations, and volunteer and charity work. This may also have some impact on the potential yield of NGOs from the one percent system, despite the size and wealth of the capital city.

Another important finding of the survey is the correlation between a lack of trust for the state and the tendency of taxpayers to designate their one percent to the non-profit sector. The one percent scheme may be used by this group as a way to protest governmental policy. Surprisingly, there is no correlation between one's willingness to participate in the scheme and one's trust in the integrity or effectiveness of NGOs. Hungarian research also found this to be the case.²³ Therefore, transferring one percent of one's income to nonprofit organizations as opposed to the state budget may not be an act of choosing the greater good, but rather the lesser evil.²⁴

There are about 23 million taxpayers in Poland who could potentially support public benefit organizations with one percent of their income tax. The average personal income tax in 2002 was PLZ 1,383 (approximately USD 370). Documents from the Ministry of Finances show that approximately PLZ 28 billion will be collected from personal income tax for 2004. If 100 percent of taxpayers choose to designate one percent of their taxes to a public benefit organization they could stand to gain PLZ 280 million (over USD 75 million). This projection, however, is very unrealistic, bearing in mind the results of the survey as well as the level of participation of taxpayers in the one percent system in Hungary. The preliminary data suggests that about PLZ 10 million (approximately USD 2.7 million) was gathered by the public benefit organizations in 2004. The Polish Humanitarian Action, Polish Scout's Association, Caritas Poland, and the Batory Foundation are among the key beneficiaries of the one percent system.²⁵

5. RESULTS OF THE SURVEY

5.1 Methodology

In March 2004, as part of this study, nine-point questionnaires were sent via e-mail to approximately 820 NGOs, randomly chosen from different parts of Poland. The aim was to identify their financial situation and expectations of the newly introduced Law on Public Benefit and Volunteerism, in particular, the one percent system. Some of the questions also referred to the future plans of establishing an endowment system. Fifty-two organizations replied, yielding a return rate close to 6.5 percent. Nearly 30 percent of the e-mail addresses proved to be incorrect, even though they were obtained from the largest and most up to date database, coordinated by the resource center Klon/Jawor Association. Although the number of samples is not sufficient for statistical analysis, the survey shows some general tendencies that reflect the NGO community's views on the above issue. This assumption is based on the fact that the wide variety of respondents are very representative, in terms of geographical diversity, fields of interest, number of members, and levels of income. Still, there are problems associated with analyzing civil society opinions, due to the very disparate range of opinions. In fact, the public relations teams within every organization should be interviewed, and then the relative weight of the organization's opinions should be compared with other organizations. This would be a very complicated task, due in part to the highly dynamic shifts in this sector, and it exceeds the scope of this study. As such, the findings presented below should be treated as strictly preliminary.

The questionnaire is attached as Appendix 1.

5.2 Types of Respondent Organizations

Twenty six percent of the organizations described themselves as local, 38 percent as regional, and 32 percent as national. Two organizations did not define themselves at all. Nineteen percent of the organizations were registered as foundations and 77 percent as associations. Two organizations, four percent, had an undefined status (Figure 1.).

As a main field of activity, seven organizations chose the promotion of health care and six chose social services. Three organizations selected environmental protection, culture, science, sports and volunteerism. The remaining organizations focused on education, human rights protection, entrepreneurship promotion or social development. Fourteen organizations did not define their main field of activity.

Figure 1.
Annual Budget of the Surveyed Organizations

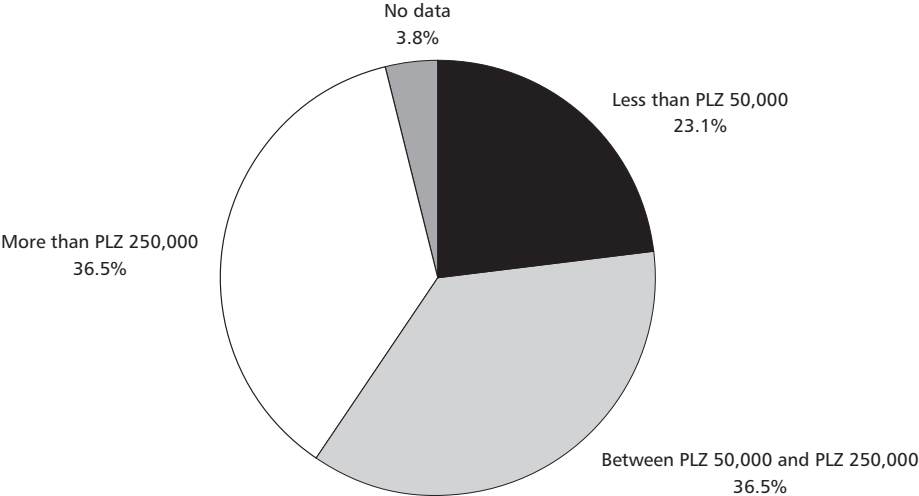
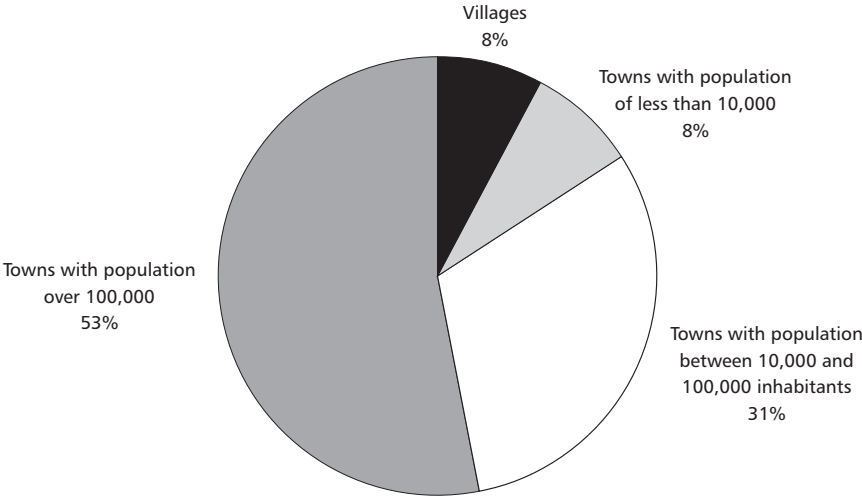


Figure 2.
Localization of the Surveyed Organizations



5.3 Results of the Survey

The first question of the survey addressed the financial activity of organizations within the past 12 months. According to 50 percent of the organizations, their situation worsened during this period. For 36 percent, the situation improved, and 13 had no comment. Expectations of the Law on Public Benefit and Volunteerism were quite high. Nearly 60 percent of the organizations surveyed believed that it would have a positive impact on their financial stability, whereas only 17 percent expected it to worsen their financial situation in the following two years. Twenty three percent did not comment. Ninety seven percent (47 out of 52) of the respondents said they would apply for Public Benefit status. Among those organizations, 23 percent felt the one percent system would improve their financial situation; 32 percent felt this could be achieved with public/private partnership (such as governmental contracts); only 4 percent felt that the best solution would involve conducting profitable nonprofit public benefit activities, a special category outlined in the Law on Public Benefit and Volunteerism for generating income outside of fiscal activities; and 29 percent felt that direct assistance from European funds would benefit them. The Public Benefit Law does not cover European funds, so the respondents were either unaware of this or they were referring to the public/private partnership's use of EU structural funds. The remaining respondents left the question unanswered.

The second question dealt with income expectations from the one percent system and was applicable only to organizations that were applying for official public benefit organization status. This question was also answered by the respondents who had no such intentions. As such, Figure 3 refers to 49 of the organizations as opposed to 47.

Most organizations confirmed that they would not carry out any promotional campaigns or invest any financial resources in such activities (Figure 4). Only 11 out of 47 organizations were ready to spend however much money on a campaign, whereas the majority had not planned on spending more than PLZ 1,000 (approximately USD 270). In the following questions, organizations could choose up to three means of communication for their campaign. The majority chose personal contact with taxpayers, existing donors, and friends and family. No one had planned a nation-wide campaign on television or any other medium. Comparatively low-cost methods of communication, such as leaflets, the Internet or local media were chosen by only a small number of the organizations.

Forty-five organizations confirmed their knowledge of the one percent designation process. Six organizations were unfamiliar with it, and one did not answer. The majority of them—23 respondents—thought the procedure was too complicated, while the remainder felt that it strengthened the relationship between the organization and the donor. The anonymity of the donor was not an issue for any of the respondents, since

there isn't any anonymity in the donor system. The motivation behind this question was to assess the respondents knowledge of the process.

Figure 3.
Expected Income from the One Percent Scheme by the Surveyed Organizations

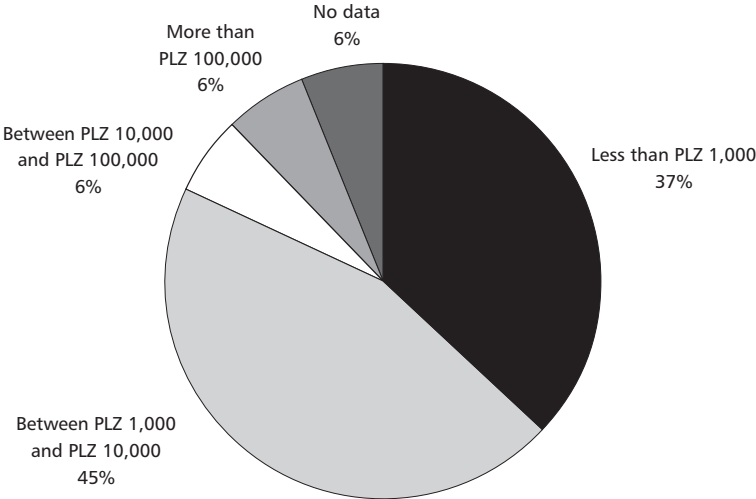
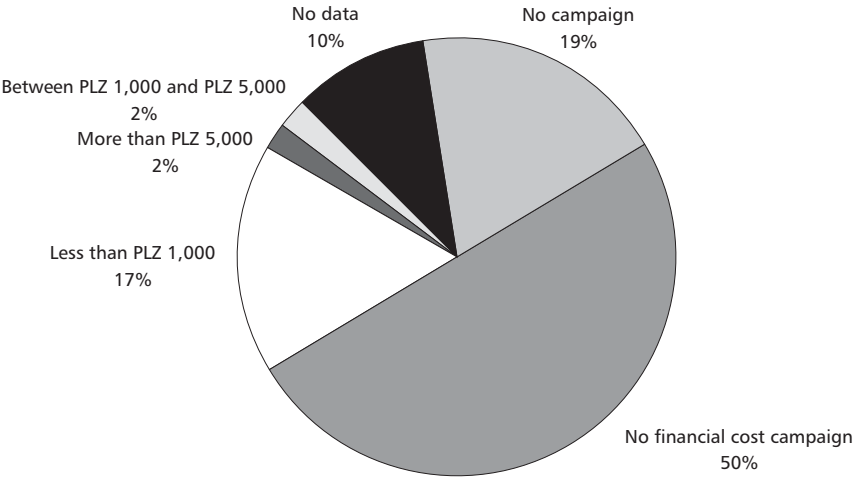


Figure 4.
Expenditures for a One Percent Informational Campaign



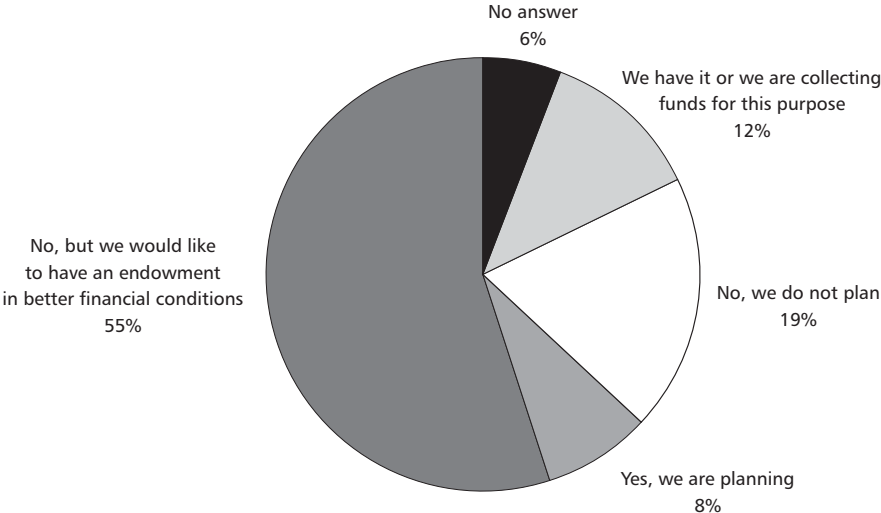
In the following question, organizations were asked to rate the impact of the one percent system on the nonprofit sector. This question was used to determine whether respondents treated the one percent system as conflicting with the system of tax-deductible donations. Respondents were allowed to choose more than one answer. The two groups of respondents were easily identified. The first group, the pessimists, included 27 groups that were convinced that the one percent system would not bring about any major changes and would even decrease the amount of donations. The second, and smaller group, the optimists, consisted of 19 organizations that believed this solution would radically improve the situation of civil society, or would at least strengthen philanthropic activities in Poland. The outcome considered least probable, which was selected by only four of the respondents, was that the one percent would coincide with an increase in tax-deductible donations. Five organizations did not answer this question and one respondent believed that the system would radically improve the situation of NGOs, even though it would reduce the total amount of donations.

The final question of Part I dealt with the anticipated beneficiaries of the one percent system. Below is a list derived from respondents' answers, of the types of organizations or their main field of activities in order from most likely beneficiaries to least likely:

1. large, national organizations
2. organizations that support children and youth
3. educational organizations
4. organizations with the best informational campaigns
5. organizations that support the poor and unemployed
6. transparent organization with a good standing
7. health care organizations
8. organizations from large towns
9. cultural organizations
10. environmental organizations
11. local organizations from small villages or towns
12. watchdog groups that deal with human rights and democracy

In the second part of the survey, questions were asked about the potential for building endowments or at least reserving funds in Poland. Twenty-one organizations declared they had a financial surplus, which had not been spent on the organization's activities. No organization had recruited a financial advisor. Most of them kept the financial surplus in the bank. Figure 5 shows the breakdown of the respondents' willingness to create an endowment fund.

Figure 5.
 Building an Endowment Fund



5.4 Discussion

The surveyed group is small yet geographically dispersed, and it represents organizations that partake in a wide spectrum of activities. The opinions expressed are not representative of all civil society, but they do give some impression of the present financial situation of NGOs in Poland and their attitudes toward the one percent system.

The financial situation of half of the surveyed organizations has worsened, which implies that the situation within civil society has also worsened. This issue, however, requires further investigation, particularly investigation into the cause of the current situation. Most organizations will apply for public benefit organization status and believe that their financial situation will improve as a result, mostly through contracts with the local or national government. Only a small number of the organizations surveyed expect the one percent system to significantly improve their financial status, which suggests that the respondents are capable of reasonably assessing their situation. There is no particular correlation between an organization’s annual budget and its expectations of the one percent system. In other words, there are organizations with budgets below USD 10,000 and budgets over USD 60,000 that believe that the one percent system can improve their situation. This belief, however, is more common among organizations from cities where the population exceeds 10,000.

The reaction of the respondents to the subsequent question is discouraging. Apparently organizations see no need for an informational campaign on the one percent system. Taking into account that the process of designation is rather complicated and requires a considerable amount of good will on the part of the taxpayer, the informational campaign is vital to the success of the one percent scheme. Most organizations intend to use an existing network of contacts, including previous donors, friends and relatives. This will prevent them from accessing new donors and increasing their support base. The results of the survey show a lack of foresight among NGOs. They should be expanding their approach to reach individuals who, to date, have been unaware of the vital role of NGOs in fulfilling the needs of society. According to the Law on Public Benefit and Volunteerism, public benefit organizations should have easier access to public television and radio broadcasting, both of which could be a powerful tool in the one percent campaign. The organizations participating in the survey, however, preferred to use personal contacts, presumably the most successful yet also most time consuming of all approaches. One should remember that “easy access” is a very ambiguous term, which does not, by any means guarantee free access to prime time television, yet organizations resign themselves rather too quickly to this obstacle. The preliminary data from 2004 reveals that the frontrunners of the one percent system are organizations that have a strong brand identity and that dared to invest money and human resources into extensive campaigns aimed at the general public. This example may persuade other organizations to follow suit.

The respondents agreed that the one percent system of designation within the Polish model is too complex but said they appreciate the taxpayers’ personal involvement, which has the potential of building a stronger relationship between donor and beneficiary. It shows that they treat the taxpayer as a donor, and not simply an individual designating public money.

The survey question regarding the most substantial beneficiaries of the one percent system received very interesting responses. Although the respondents have no intention of conducting an extensive informational campaign, they believe that it could increase the amount of funds they collect through the one percent system. Environmental NGOs and watchdog organizations were at the bottom of the list of beneficiaries. This supports the assumption that, when private foreign sources of funding are replaced to a large extent by public sources of funding, the activities of these organizations could be jeopardized. The fact that the respondents did not place the transparency of an organization and the level of public trust among the three key factors of their success is disconcerting, but not at all surprising. Similar findings appeared in the research presented earlier in this report. There are two possible explanations, as mentioned previously: In the view of the pessimist, neither the organizations nor the potential participants of the one percent system regard the trustworthiness of an organization as vitally important, while

the optimist seems to feel that their reliability enables them to receive funding through the one percent system.

Part II of the survey exposes two noteworthy issues. Only 10 respondents were not concerned with generating some form of reserve capital, which could financially stabilize their organization. This reveals the need for organizations to move towards financial self-sufficiency. On the other hand, if an organization has a financial surplus, it is being managed in a very conservative way. The most obvious explanation would be the complex legal and tax policies that discourage organizations from more active forms of asset management. The lack of asset management know-how is also likely a contributing factor.

6. POLICY RECOMMENDATIONS

The one percent system can easily be challenged from a social and democratic perspective, as was done in the previous chapter. The intention of the liberal party in Hungary was to create a more transparent mechanism for funding churches and other religious organizations that would be separate from the state budget. In an act of benevolence, this idea was adopted for all civil society.

The three most obvious policy choices for the one percent system include: maintenance, comprehensive modification, or termination. Withdrawing from the one percent system in countries where it has already been introduced or is in its developmental phase, would be complicated and difficult to justify to taxpayers. Maintaining the system seems like a much more practical solution and takes into account the time and energy invested in introducing the system, as well as the benefits it could provide to civil society. Due to the simultaneous introduction of legal restrictions, however, the one percent system may be in direct competition with other forms of public support for NGOs, such as cash donations or tax exemptions. The real benefits of the system are reserved primarily for service providing organizations that are not necessarily the most beneficial to the development of society. The modification option, which treats the one percent system as a temporary solution in the post-donor era, seems to be the most practical. One must remember that the goals of the state, the goals of nongovernmental organizations and the goals of various interest groups within government and civil society differ greatly. The existing models of the one percent system, and the relationship between NGOs and CEE governments, form a kind of patchwork that is the result of a series of compromises, driven more by interest groups than by a desire for common good.²⁶ In order to create a revised one percent system or any other program of public support for NGOs, there must first be unanimity between the state and civil society regarding the system's objectives, and its role within a broader legal environment. For example, the long-standing procedures for tax deduction or partial tax credit are more

beneficial to the state than the one percent system. The public budget provides only a portion of what is required, thus encouraging citizens to engage in philanthropic activities. This is a preferred solution, given that decisions made by taxpayers regarding their own money are usually more thoughtfully considered than the manner in which public money is spent. It is also more beneficial for civil society in the long term, because it fosters a much stronger relationship between taxpayers and the organizations within the nonprofit sector.

Relationships between the state and civil society should be based on real partnerships, meaning that the nonprofit sector cannot be reduced to a low-cost subcontractor that assumes the responsibilities of the state. One of the main strengths of this sector is its independence and its handling of social capital. If the one percent system is taken as a temporary solution for the post-donor era, and a means by which to re-establish a philanthropic culture in CEE, it cannot be treated as a substitute for other measures used by the state to support civil society. In order to help NGOs survive the withdrawal of foreign donors, the government must first deal with following issues:

1. creating favorable social and legal conditions to develop other forms of support for NGO's;
2. creating an effective infrastructure;
3. providing sustainable and longer-term solutions for the nonprofit sector.

6.1 Building a Friendly Environment

The one percent system is only partly responsible for building relationships between government and civil society. In order for it to be effective, it must first be embedded in the existing legal and economic infrastructure. The implementation of the one percent system should not exacerbate the situation of those nonprofit organizations that do not wish to participate. Yet the introduction of this system in Poland was accompanied by a decrease in tax deductions, and, on the proposal of the Ministry of Finance, it was made accessible only to legally approved public benefit organizations.²⁷

By stipulating a tax deduction of €80 per taxpayer per year in 2004, rather than 15 percent of income before taxation, the Polish government not only reduced the financial provisions for NGOs but it also replaced a socio-economically sound system with a much more problematic alternative. Similar approaches might be integrated into the one percent system of other countries, in lieu of tax deduction. This suggests that countries within CEE still lack sufficiently developed policies regarding bilateral relations between governments and NGOs. Current budgetary constraints dominate the long-term perception of NGO's role in the socio-economic life of Poland. As stated in previous chapters, the financial diversification of NGOs cannot be solely dependent on public money, regardless of which coffers it's taken from. One percent of personal

income tax is public money, much like that which is meted out by the government. The state should therefore encourage its citizens to participate in financing civil society activities with their own money, using different tax deduction incentives. The one percent system should be used as a supplement rather than a substitute. Although it would be difficult to maintain a harmonious relationship between the one percent system and tax deduction methods for any length of time, the one percent system may serve as a provisional means to develop other ways of financing civil society. This will be explored further in the following sections.

6.2 From Opportunity to Reality

Hungarian figures revealed that only one third of taxpayers participated in the one percent system. Consequently, organizations from countries where the system was introduced at a later date need to determine how to match that level of participation, how to make the procedure of designation more appealing to those who are eligible, and how to increase the effectiveness of promotional and informational campaigns. Appendix II briefly outlines the different procedures of the one percent designation. Key factors, which may affect the success of the procedure, are as follows:

6.2.1 Decision on eligibility

The maximum transparency in acquiring, maintaining, and in some cases losing, public benefit organization status is of the utmost importance in preserving a taxpayer's trust in the system. In this regard, one must first assume that decisions made in granting or denying funds through the one percent system are not preferentially biased. These cases must therefore, be assigned to an independent court rather than a governmental body, as is fortunately the practice in Poland. The activities of public benefit organizations must be under the permanent supervision of the court, but, more importantly, they should be supervised by civil society—not only by public benefit organizations but also by organizations that are ineligible or do not wish to acquire public benefit organization status. In other words, there must be a mechanism of self-control, which is acceptable and can be implemented by a majority of the organizations. There must also be an efficient mechanism for suspending a public benefit organization's status, as well as a clearly defined process by which a public benefit organization may appeal the court's decision. The entire system must be transparent, unbiased, and efficient, while taking into account the potential for errors.

6.2.2 Information on eligibility

The cost of researching information and the cost of mistakes made by the taxpayer are issues of vital importance. If the eligibility criteria are self-evident and easy to understand, and the amount of information required for proper designation is concise, it will reduce the time spent, and thereby the cost to the taxpayer. In the Hungarian system, the taxpayer only has access to the tax number of the eligible organization. Whereas, in the Polish system, the taxpayer has access to the name, address and bank account number. The former is more simplified, as the tax number is usually fixed for a particular organization whereas the bank account may change from year to year. It is also less likely for errors to occur in the Hungarian system, since the tax number distinguishes eligible from non-eligible organizations. More important is the fundamental difference between the two systems: In the Polish system, the taxpayer is responsible for the entire procedure, which means that any mistakes, such as designating one percent to an ineligible organization, will burden them personally. The taxpayer must designate one percent before submitting an annual tax return. If an ineligible organization is designated the taxpayer will not receive his refund. The taxpayer must therefore take into account the risk of error, the value of time involved in the transfer and the value of money over time. In Poland, refunds are usually received three months after filing. Bearing all of this in mind it would easy to see why Polish taxpayers would be less likely to participate in the system than Hungarian taxpayers.

6.2.3 Procedure of designation

The complexity of the procedure mentioned above is justified by Polish officials with the rationale that decisions made by taxpayers are more deliberate because they require considerably more personal involvement. This logic is not only questionable, but it also defies the fundamental logic of the entire system. If the one percent system is part of a national strategy for the redistribution of funds, it would be more practical to use tax offices as agents in this case. The tax offices are responsible for administering taxes and should also be responsible for sending the one percent to eligible organizations according to the wishes of the taxpayer. There is not yet any data on the number of taxpayers participating in the one percent system in Poland, but it is likely much lower than in Hungary, largely due to differences in the procedure of designation. In the Polish system, the cost of errors in designations made to ineligible organization should be assumed by the tax offices rather than the individual taxpayer.

6.2.4 Minimum amount of designation

The fiscal threshold in the Polish system is the cost of money transferred. If, as suggested above, the tax offices were to take responsibility for distributing the one percent tax, it would be reasonable to establish a minimum amount, which could be designated, thus increasing the cost-benefit ratio. This threshold should be set quite low, so that several small payments could be made—though the Hungarian model illustrates that wealthier taxpayers have a much larger impact on the system.

6.2.5 Divisibility of one percent

There are two possibilities in this case: either the entire one percent can be designated to one organization or be split between more than one organization. However, the former would be more effective, and would present less of an administrative burden.

6.2.6 Anonymity

In the Hungarian system, the taxpayer maintains their anonymity from the beneficiaries. In the Polish system the tax authorities believe that, since the one percent is sent directly to the eligible organizations, the designation should be built on a relationship between the donor and the beneficiary, and anonymity will inhibit feedback from the organization.²⁸ The taxpayer, however, may prefer that their choice of beneficiary remain anonymous.

Both arguments are difficult to defend. Charity should be based on personal relationships, but the one percent system is not actually a form of charity, rather the granting of personal choice in the designation of public money. Still, an organization may feel obliged to acknowledge the gift in the form of a letter or specific services to the taxpayer. The former is kind yet unexpected, the latter borders on corruption, as a form of public money being used for private purposes. For this reason, the taxpayer should remain anonymous, and an agent or tax office should act as an intermediary.

6.3 From One Percent to Endowment

Elements of NGO funding in CEE are quite underdeveloped as compared with Western Europe or USA, particularly in the area of private endowment-based foundations. Such grant-giving foundations are essential to the NGO sector and play a crucial role in building civil society, and securing the development and success of nongovernmental

organizations. Endowments allow NGOs not only to take on strategic planning but also relieve them of some, if not all, of the challenges associated with raising funds. The development of civil society in CEE is difficult to envision without the development of independent foundations, which could facilitate a financial, logistic and strategic foundation for nongovernmental organizations.

An endowment can be defined as a fund that maintains economic sustainability and ensures the kind of financial stability an institution needs to make long-term goals.²⁹ In CEE there are a limited number of philanthropists who have sufficient resources as well as a desire to fund such endeavors, and this situation is not likely to improve in the near future.³⁰ The one percent system may therefore be used as a tool in creating endowment-based foundations in each country where it has been implemented. If the one percent system is treated as a temporary solution for approximately 10 years, endowments could become financially self-sustaining. There are, however challenges associated with building such funds. These include: persuading taxpayers to support activities that do not offer a direct “pay-back,” raising enough funds to establish endowments, and choosing the appropriate organizations to manage these endowments. A similar system to the one mentioned above already exists in Hungary, where a portion of the one percent designation is assigned to the National Fund.³¹ Such a system also has its weaknesses in that there is only one fund for the entire country, and therefore no diversification of scope or objectives, such as would exist if there were a number of foundations. There are also insufficient endowment-based funds, so the National Fund would be primarily supported by the one percent system, and its fate would be in the hands of the government’s representatives. This could raise issues of a politically sensitive nature. Moreover, its connection with the taxpayers is rather ambiguous, because they may only be indirectly responsible for the amount of money being transferred to the Fund.

In Poland, there are no restrictions on using the revenue from the one percent to build endowments. However, there are both financial and administrative challenges associated with accumulating enough revenue to build an endowment. Previous experience illustrates that revenue derived from the one percent system is too dispersed among organizations to make such an endowment feasible.

The process of building endowments through the one percent system may be approached in the following stages:

1. Choosing potential candidates as endowment managers: The competition should be open only to grant giving foundations that have been operating for at least three years in their respective countries, have maintained a high profile, are politically independent, and are engaged in least five public benefit activities throughout the entire country. The foundation must have significant financial resources of its own, which are earmarked for future endowments.

2. Public voting: Any nongovernmental organization in Poland, public benefit organization, or other organization eligible to participate in the one percent system could vote for their preferred foundation as per stage 1.³² Foundations that acquire the most votes are promoted to stage 3.
3. Foundations from stage 2 should be listed on the annual personal income tax form. Taxpayer should be able to designate one percent of their taxes to any eligible organization or one of the six to seven existing foundations. They may also have the option of dividing one percent of their income tax between any two organizations.
4. If the one percent designations are carried out for at least 10 years, income generated by these designations in the first five years should only be used by foundations to build endowments. After five years, foundations that have collected the least amount of funds should redistribute them among other foundations. This method will provide the necessary incentives for organizations to compete with one another and thereby raise the profile of the scheme. After the first five years, foundations will be able to disburse grants from revenue generated by endowments.
5. The minimum endowment should exceed USD 5 million. If the return on investment was five percent, the endowment would generate USD 500,000 annually, which is the minimum threshold for providing grant-giving services on a national level. Foundations that were unable to build such endowments from the one percent system, or other sources, within 10 years, would create a jointly administrated endowment with other foundations.
6. There are also certain obligations, such as transparency and the proper management of endowments, which should be carried out by foundations participating in the process.

6.3.1 Difficulties during the transition period

In order to support the building of endowments, funds from the one percent system must be supplemented by foreign donors, as well as government contributions. Firstly, the government should create a legal framework to encourage foundations to build endowments and persuade taxpayers to take part in the process. The Polish government may also use the Czech example, whereby funds from privatization were used to build endowments.

The participation of foreign donors in endowment building is key to stepping up the process and encouraging other stakeholders—public and private—to take part. Foreign donors could also assist in bridging the gap from the inception of an endowment to the first pay-out. Even though the process of building endowments will take

at least five years, the grant-giving activities of foundations must continue. The most vulnerable civil society organizations, which cannot rely on financial support from other sources, should be identified throughout the process. However, endowment building and grant disbursements must occur simultaneously. Foreign or private donors could be asked to provide low-interest or no-interest loans as a temporary measure to fund any shortages that may occur. Such loans could be paid back from income generated by the one percent system, or from returns on investment. The remainder could be used for grant giving. This would be a risk-free solution, in which loaned capital would remain untouched and costs would be limited to the value of profits from lost capital.³³ If loans are paid back in installments, the revenue gathered by the donor each year could again be used to provide endowment loans. It is a more economically viable approach than disbursing grants, which are not paid back, however it could not be used to secure an organization's financial stability in the long-term.

7. SUMMARY: THE ENDOWMENT AND THE ONE PERCENT SYSTEM—TOOLS FOR BUILDING A SUSTAINABLE THIRD SECTOR

The Act of the State Board (Rada Państwa) of 1952, which liquidated all foundations in Poland and transferred their fortunes into public funds, disrupted the 40-year development of the foundation sector in Poland. Its restoration, which began in the late 1980s, was fraught with difficulties, as foundations had no contemporary models to work from. The Western European models were not a perfect fit for CEE, and in a rapidly evolving political climate, the variety of legal, administrative, and financial standards of each country could not easily be adopted by CEE foundations.

Nongovernmental organizations have a very important role in CEE: On the one hand, they strengthen democratic infrastructures through the nurturing of civil society, and on the other, they fill the gap between the responsibilities and duties of the state and the responsibilities of NGOs—a gap which is much wider than in Western Europe. NGOs from CEE also have a much more challenging role than NGOs in the West, because quite often neither the citizens nor the administration of CEE countries fully comprehend an NGO's role in society.

One must also remember that NGOs in CEE are currently at the stage of gaining public trust, establishing a standardized course of action, and defining their specific role within society. These elements are key in preventing NGOs from abusing their privileged status. They also have the negative side effect of creating a legislative pendulum—from legal liberalism to extreme inflexibility.

Imposing new instruments of control over NGOs that do not abide by the law is to the detriment of those organizations that are law abiding. There is no clear or long-term plan for cooperation between the authorities and NGOs. Such a plan could define what

privileges NGOs can enjoy, what government imposed concessions they need to accept, where and how the mechanisms of self and social control should be implemented, and when state legal control is necessary.

Philanthropy is seen in many countries as a kind of mutual aid activity, which implies that some NGO activities may receive much more support than others. This is often the case for organizations representing the interests of minority groups, such as refugees, or organizations that deal with long-standing issues of which many members of society are not yet aware. These organizations need to explore other sources of funding, or redefine their mission in the post-donor era.

When private Western sponsors fully withdraw from CEE, it is important not only to prevent a drastic collapse of civil society funding, but also to provide NGOs with an alternative to government funding. In some cases, this may lead to clientelism, or make NGOs susceptible to political pressure. It is also important to preserve the diversity of this sector, by protecting organizations that may not currently have substantial financial, social or governmental support. In Western countries, especially in the United States, the independence and diversity of nonprofit organizations is based on a system of foundation endowments. In CEE a limited number of institutions have endowments at their disposal, but this concept is becoming more and more popular. To take advantage of this possibility, NGOs need legal regulations that give organizations the freedom and flexibility to access and establish endowments, and to spend endowment revenues for socially beneficial purposes.

The table at the end of the chapter presents a matrix that indicates specific steps necessary to achieve policy recommendations. The table summarizes the various issues mentioned in this policy paper. The rationale behind these recommendations has been discussed in previous chapters.

The last two columns reveal the subjective ranking, in order of importance and feasibility, of the proposed actions. A score of one in importance indicates an activity of least importance, from the perspective of policy recommendations, and a one in feasibility indicates an activity that is the least feasible, based on the numerous challenges involved in its implementation. A five indicates the most important and most feasible activities. The shaded fields highlight the course of action, which, based on importance, should and, due to feasibility, could be used in the first order. There is, of course, no correlation between importance and feasibility. Therefore, other courses of action may be considered equally important but may require much more effort, preparation, further study, and the good intentions from all partners, to be brought into effect.

In this work, two different approaches to the challenges of financing NGOs in the post-donor era were presented. The one percent solution is an innovative concept used to fund nonprofit organizations. It creates a strong link between society and civil society, but may sometimes be perceived as a fee for services rendered. The one percent system requires that organizations have good marketing skills and be capable

of providing almost instant feedback from the target group's evaluation of their activity. Conversely, it discourages organizations from making long-term plans. Acting as politicians, they must think in terms of upcoming elections and the following period of one percent designation. Organizations that have endowments or that are financed by endowment-based foundations may not experience the same urgency. There is however, a danger that organizations will alienate themselves from society as well as a host of other concerns, such as proper management and handling of the endowment. If the nonprofit sector does not make the transition to an endowment-based financing structure, it is difficult to envision the development of a strong network of civil society organizations within CEE.

In the author's opinion, the one percent system may play an important but transitory role in developing the sustainability of civil society, the three main objectives being: building a philanthropic culture, bridging the financing gap of the post-donor era and, most significantly, building a foundation of endowment-based organizations within CEE. All of these objectives require politically and socially-aware decision-making and affirmative action on the part of both the government and NGOs.

Problem description	Policy recommendations	Policy options	Specific steps	Main actors	Importance (increasing from 1 to 5)	Feasibility (increasing from 1 to 5)
1. The withdrawal of the Western–private American–private sponsors from CEE will affect mostly the portion of the Third sector that is not involved in providing direct services to the community.	<p>1. The one percent system should be preserved but only as a provisional solution to bridge the gap between the withdrawal of the Western donors and the development of in-country private funding sources.</p> <p>2. It should be used to enhance the process of building the endowments of independent foundations.</p> <p>3. These foundations should focus, first of all, on supporting NGOs that provide indirect services.</p> <p>4. Social and legal conditions in which other forms of support for NGOs are developed should be elaborated upon.</p>	I. Implement a special mechanism to support the process of raising funds through the one percent system for building endowments.	<p>Choose potential candidates as endowment operators.</p> <p>Create a procedure which allows funds from the one percent system to be allocated to building endowments of the selected endowment operators.</p>	Government, parliament, NGO community	4	3
		OR-IA. Use existing tools to gather funds through the one percent system to build endowments.	<p>Introduce the term “endowment” to the Polish legislation.</p> <p>Create a nationwide informational campaign outlining the importance of building endowments using the one percent designation.</p>	Government, parliament	4	5
		II. Undertake various political and administrative initiatives to make the one percent system more efficient, by increasing the number of taxpayers participating in the system.	<p>Make the eligibility criteria for the one percent designation unbiased, transparent, and efficient.</p>	NGO community	5	4
				Government, courts, or any other body responsible for registering eligible organizations, NGO community.	5	5

Problem description	Policy recommendations	Policy options	Specific steps	Main actors	Importance (increasing from 1 to 5)	Feasibility (increasing from 1 to 5)
2. The development of in-country private grant-giving organizations, which are independent from First and Second sector, is key to the sustainability of the Third sector, particularly the division of the sector described above. In order to retain its independence, grant-giving organizations must become endowment-based foundations. Due to the scarcity of a philanthropic culture and pool of wealthy philanthropists, endowments cannot be built or established in the traditional manner, as they have been in the United States and in Western Europe.	5. The process of building endowments should be promoted through legal, administrative and financial means.		<p>Provide easily accessible and clear information on eligibility for taxpayers</p> <p>Simplify the designation process so that the onus of any potential errors will not be placed on the taxpayer.</p> <p>Set a minimum threshold for funds, which may be designated (in order to increase cost-benefit ratio).</p> <p>Make the one percent designation indivisible.</p> <p>Retain the anonymity of the one percent designator, from the organization or provide an intermediary such as the tax office.</p> <p>Create an effective campaign, which focuses on the one percent system and not on the marketing of any one organization.</p>	<p>Government, courts or any other body responsible for registering eligible organizations, NGO community</p> <p>Government, parliament</p> <p>Government, parliament</p> <p>Government, parliament</p> <p>Government, parliament</p> <p>Government, NGO community</p>	<p>5</p> <p>5</p> <p>3</p> <p>3</p> <p>5</p> <p>5</p>	<p>5</p> <p>3</p> <p>4</p> <p>4</p> <p>3</p> <p>5</p>

Problem description	Policy recommendations	Policy options	Specific steps	Main actors	Importance (increasing from 1 to 5)	Feasibility (increasing from 1 to 5)	
<p>3. The so-called one percent system, which was introduced in some countries of CEE as a tool for securing financial sustainability within the Third sector, can be challenged from a social and democratic perspective.</p>		<p>III. Increase the level of tax deduction for the PIT and CIT payers.</p> <p>IV. Support the process of building endowments.</p>	<p>Introduce appropriate changes to the Acts on PIT and CIT.</p>	<p>Government, parliament</p>	<p>5</p>	<p>4</p>	
			<p>Create a special category of grants for endowments.</p>	<p>Foreign donors</p>	<p>4</p>	<p>4</p>	
				<p>Implement a system of "endowment loans."</p> <p>Launch an educational campaign focused on financial management targeting NGOs.</p>	<p>Foreign donors, NGO community, financial institutions (asset managements, banks, etc.)</p>	<p>5</p>	<p>4</p>
						<p>5</p>	<p>4</p>
				<p>AND IVA. Create favorable legal and economic conditions for establishing and managing endowments.</p>	<p>Implement rules which create a friendly legal environment for endowment management, based on the principle of prudent investment.</p> <p>Avoid introducing legal regulations for foundation's statutory expenses (level of pay-out) for the next few years</p>	<p>Government, NGO parliament, NGO experts (as advisers)</p>	<p>5</p>
					<p>5</p>	<p>3</p>	

Problem description	Policy recommendations	Policy options	Specific steps	Main actors	Importance (increasing from 1 to 5)	Feasibility (increasing from 1 to 5)
			<p>Avoid introducing legal regulations for foundation's statutory expenses (level of pay-out) for the next few years.</p> <p>Introduce an effective system to control endowment-based organizations, without limiting their freedom to investment or overburdening them with reporting tasks.</p> <p>No action required.</p>		5	3
		OR IV B. Preserve the status quo			3	5
		IV C Implement an internal set of rules on prudent investing.	<p>Elaborate on internal financial policy and regulations regarding the level of risk, diversification of assets, and methods of financial management.</p> <p>Implement an effective mechanism of financial accountability and control of the endowment.</p>	Organizations building or managing endowments	5	5
					5	4

APPENDIX 1

Questionnaire

PART A

1. Has the financial situation of your organization improved or worsened during last 12 months?
 - improved
 - worsened

2. Do you think that the Law on Public benefit organizations will worsen or improve the financial stability of your organization in the next 2 years?
 - It will improve
 - It will worsen

3. Is your organization going to apply for public benefit status?
 - Yes
 - No
 - I. If yes, which provisions of the LPB will influence the financial situation of your organization (please chose one answer)?
 - the one percent law
 - public–nongovernmental partnership
 - profitable nonprofit public benefit activities
 - direct assistance form European funds
 - II. Taking into account the one percent law, you feel that your organization will be able to raise:
 - a) Less than 1,000 PLZ
 - b) Between 1,000 and 10,000 PLZ
 - c) Between 10,000 and 100,000 PLZ
 - d) More than 100,000 PLZ

4. How much would you like to spend on a public information campaign on the one percent law, on behalf of your organization?
 - 0 PLZ, we are not planning such a campaign
 - 0 PLZ, we are planning a low profile campaign
 - Less than 1,000 PLZ
 - Between 1,000 and 5,000 PLZ
 - More than 5,000 PLZ—how much:

5. The primary medium of our campaign will be (please chose no more than 3 answers):
 - a) friends and family
 - b) existing donors
 - c) leaflets and posters
 - d) personal contact with potential taxpayers
 - e) local media
 - f) internet
 - g) national media

6. Are you familiar with the detailed procedure of one percent tax deduction?
 - a) Yes
 - b) No
 - I. If yes, do you feel that it (please choose only one option):
 - a) creates a strong link between the beneficiaries and the taxpayer
 - b) secures the anonymity of the taxpayer
 - c) is too complicated for the taxpayer
 - II. Do you expect that the one percent law will (you may chose more than one answer):
 - a) radically improve the situation of NGOs in Poland
 - b) strengthen philanthropy in Poland
 - c) create growth in Poland by the total sum of donations (deductible income)
 - d) decrease the total sum of donations (deductible income) in Poland
 - e) cause no major changes
 - III. The one percent law will be mainly used by (please rank your answers from 1, being the most likely beneficiaries to 12, being the least likely)
 - a) large national organizations
 - b) organizations from small towns or cities, local organizations
 - c) organizations from large cities
 - d) transparent organizations with a good standing
 - e) organizations with the best information campaigns
 - f) organizations that support the poor and unemployed
 - g) organizations that help children and youths
 - h) educational organizations
 - i) health care organizations
 - j) cultural organizations
 - k) environmental organizations
 - l) watchdogs groups that deal with human rights and democracy

7. Does your organization have any financial surplus?
- a) Yes
 - b) No
- I. If yes were is it kept? (you may chose more than one answer)
- a) in a bank account
 - b) invested in bonds
 - c) invested in Investment Funds
 - d) invested in equities
 - e) invested in economic activity
- II. Does your organization have a financial advisor or asset manager?
- a) yes
 - b) no
8. Is your organization planning on creating an endowment fund?
- a) We have, or we are collecting funds for this purpose
 - b) Yes, we are planning on it.
 - c) No, we have no such plans.
 - d) No, but we would like to have an endowment fund if our financial situation improves.
9. Information on your organization:
- a) range of activity
 - regional
 - national
 - d) legal status
 - foundation
 - association
 - other
 - c) Annual budget
 - Less than 50,000 PLZ
 - 50–250,000 PLZ
 - more than 250,000 PLZ
 - d) localization
 - rural
 - in a city with a population of less than 10,000 inhabitants
 - in a city with more than 10,000 but less than 100,000 inhabitants
 - in a city with more than 100,000 inhabitants

APPENDIX 2
Comparative Chart on Percentage Legislation in CEE³⁶

	Hungary	Slovakia	Lithuania	Poland	Romania³⁷
Time of adoption	1996	1999	2002	2003	2003
Implemented	1997	2002	2004	2004	2005
Designation	1% + 1% in favor of the churches (introduced in 1997) from PIT	2% of PIT and 2% of CIT	2% of PIT	1% of PIT	1% of PIT – special tax credit for corporations
Eligibility	1% – associations, foundations, public foundations, various state institutions (for example Hungarian Academy of Sciences, The Hungarian Opera House, The National Scientific Research Fund), specialized museums, specific cultural institutions 1% – churches, religious denominations, religious communities; budget priorities for given year	the four types of NGOs: civic associations, foundations, nonprofit funds, public service organizations; institutions and religious organizations, Slovak Red Cross, some international organizations	NGOs and fiscal organizations including public agencies, religious organizations and communities, and trade unions	Registered Public Benefit Organizations: foundations, associations, religious organization, local self-government unions	Nonprofit entities: associations and foundations

	Hungary	Slovakia	Lithuania	Poland	Romania ³⁷
Criteria for entitlement	<ul style="list-style-type: none"> - Registered at least two years before the year of designation (in the case of outstanding PBOs, one year prior to the year of designation) - Conducting public benefit activities - Domestic address - To operate in the interest of a domestic population or Hungarian Diaspora - No direct political activity - No public debt, unless the designated money is spent to pay such debt 	<ul style="list-style-type: none"> - Active in at least one of the seven groups of activities - Included in the central register of beneficiaries in the year prior to the year of designation - Established no later than the year following the year of registration in the central register - No public debt - Having a bank account 	<p>From 2004 to be entitled to the 2% designation and tax-free gifts, all public or private non-profit organizations must apply for a status of PBO under the Law on Charity and Sponsorship</p>	<ul style="list-style-type: none"> - Public benefit status requiring inter alia: involvement in one of the specified activities: <ul style="list-style-type: none"> Serving the entire community or a specific disadvantaged social group Collective supervisory board separate from the management board/board of directors Economic activity limited only to the fulfillment of statutory goals Entire income spent on public benefit activities 	
Decisions on eligibility	The Tax Authority	The notary offices (the register of entitled organizations is kept in the Chamber of Notaries)	Department of the Land Registry	Local Registry Court (the eligible organizations are included in the National Court Registry)	
Minimum amount of designation	No (there was such a limit in the past version/ amendment of the law)	20 Slovak crowns for PIT payers/payees 250 Slovak crowns for CIT payers/payees	10 Litas	No	

	Hungary	Slovakia	Lithuania	Poland	Romania ³⁷
Money usage	<ul style="list-style-type: none"> - public benefit activities of beneficiaries - no general operating expenses - indirect program expenses (salaries of program staff) 	<ul style="list-style-type: none"> - public benefit activities - the funds must be spent by the end of the following fiscal year 	any activity related to the public benefit goals of the beneficiaries	any purposes including operating expenses	
Reporting requirements	<ul style="list-style-type: none"> - A report on the usage of funds (published in the form of a press release) must be received by the 31st October of the next year 	<ul style="list-style-type: none"> - beneficiaries that received over 100,000 Slovak crowns - financial report sent to the Ministry of Justice (published in the Commercial Bulletin) - beneficiaries which received over 1,000,000 Slovak crowns must also be audited 	Two reports must be filed: on grants received and distributed, and an annual report on activity expenses; reports must be accessible to the public (there are some specific exceptions)	The report on activities and finances must be submitted to the Ministry of Economy, Labor and Social Affairs and must be accessible to the public	
Number of beneficiaries	A taxpayer may support one nonprofit organization and one church	PIT payer/payees – one beneficiary, CIT payer/payee – several (but each one must receive at least 250 Slovak crowns)	No limit	No limit	

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- ³ P. Gliński. Op. cit.
- ⁴ P. Gliński. Op. cit.

- ⁵ P. Czajkowski. Op. cit.
- ⁶ Mechanisms of one percent designation were implemented in Spain and Italy; however, they differed from the CEE model in many crucial aspects.
- ⁷ N. Bullain. 2004. *Percentage Laws Explained*. NIOK & ECNL (draft version).
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- ⁹ Unpublished survey of NIOK sponsored by USAID.
- ¹⁰ A. Vajda and E. Kuti. Op. cit.
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- ¹² A. Vajda and E. Kuti. Op. cit.
- ¹³ This and next values were calculated according to the following exchange rate: 1 USD=205 HUF.
- ¹⁴ A. Vajda and E. Kuti. Op. cit.
- ¹⁵ A. Vajda and E. Kuti. Op. cit.
- ¹⁶ "Provision of the one percent law (Law CXXVI/1996 on the use of some part of the personal income tax in accordance with the disposition of taxpayer)" In: *Forint votes for civil society organizations-studies*. Budapest: Research Project on Nonprofit Organizations.
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- ²³ A. Vajda and E. Kuti. Op. cit.
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- ²⁵ M. Borkowska. 2004. "Jak się organizacjom zbierało 1%." Online: www.ngo.pl. May 10.

- ²⁶ It must be admitted that the “interest of the state” is a very broad term and it is not necessarily identical with the short-term interests of the government or particularly the Ministry of Finances.
- ²⁷ E. Kulik-Bielińska. 2003. “Polish NGOs Rally Against Draft Income Tax Amendments,” *SEAL Journal*. Vol. 6, No. 2. Autumn. Warsaw.
- ²⁸ Because in 2005 some of the tax offices required in the annual tax form not only the information on designated sums but also names of the organizations. Although the Ministry of Finance declared such practices unjustified at the moment of submitting the forms, the tax offices may require such information within five years after submitting the annual tax form during standard, spot checks of taxpayers.
- ²⁹ F. Dopierała. 1998. *Kapitał żelazny (Capital endowment)*. Warsaw: Akademia Rozwoju Filantropii.
- ³⁰ It is worth mentioning the Open Society Institute or different initiatives of Western foundations, such as the Mott Foundation or Ford Foundation.
- ³¹ A. Vajda and E. Kuti. Op. cit..
- ³² It means that one organization has one vote which is of course preferential for smaller organizations, but it is difficult to find another system of representative democracy within civil society.
- ³³ Of course only in nominal terms; the real value is diminished by inflation.
- ³⁴ This idea has been already developed in Poland by the Academy for Philanthropy Development.
- ³⁵ The NGO demand on this issue was partly accepted by the government and should be introduced to the Act on PIT in 2005.
- ³⁶ Based on N. Bullain. 2004. “Percentage Laws Explained.” Draft version. Budapest: European Center for Not-for-Profit Law. Online: http://www.onepercent.hu/Dokumentumok/Chapter_2_ECNL.pdf
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Gaining Trust is a Must: Hungarian NGOs and Private Giving

Marianna Török

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ABSTRACT

“... The development of fund raising has come to a turning point, or at least the time is very near when extensive development options will dry up and radical qualitative changes are needed.”¹

Éva Kuti, June 2004

This paper was prepared in autumn 2004, when the Hungarian nonprofit sector began to show signs of weakness in the area of its future self-sustainability. The level of private funding is growing only marginally faster than the level of inflation. To increase the revenues of the nonprofit sector in Hungary, the following policy options will be examined:

- a) increasing state support for nongovernmental organizations;
- b) implementing mechanisms for good governance, transparency, and accountability;
- c) raising public awareness and socially responsible behavior;
- d) improving tax incentives for private philanthropists;
- e) maintaining the status quo.

This paper contends that the future of a self-sustainable nonprofit sector in Hungary lies in the hands of local private donors. Based on Hungary’s socio-economic environment, accumulated research, experience and common sense, it has been suggested that the best way to improve NGO financing is to implement mechanisms for good governance, transparency and accountability. Such measures should be taken within the next two years. Following this, tax incentives for private philanthropy should be increased. When these policies have been realized, a sizeable investment will be required to raise public awareness and promote socially responsible behavior.

The above mechanisms will lay the groundwork for the further development of the third sector in Hungary. Registered NGOs will be accountable to the public for their use of public funds and for their activities. If action is not taken to resolve accountability issues, trust in the nonprofit sector will deteriorate and private support for NGOs will continue to decrease. Providing information to the public on NGOs, and on establishing ethical standards and transparency within the NGO sector, will encourage greater public confidence and the development of a philanthropic culture.

These actions are the responsibility of both the state and other stakeholders—NGOs, donors and the media. Their respective roles are referred to in this paper, but the prime target audience is the governmental sector. The current political climate is to the benefit of NGOs, and it gives hope that the policies outlined in this paper could soon become a reality.

1. RESOURCES, TRENDS, CHALLENGES

1.1 Legal Background

In 1987, the legal groundwork was laid for the development of Hungarian civil society. This was followed up in 1995 by new nonprofit legislation. Tax incentives for private donations, as well as the introduction of the one percent law in 1996, were the preliminary steps in the development of a philanthropic culture.

By 2003, there were 53,022² registered nonprofit organizations in Hungary. The following entities fall into the category of nonprofit organizations in Hungary: foundations, associations, advocacy groups, and public benefit organizations. In Hungary there is very little difference—in theory or in practice—between an association, a foundation, a public organization, a public foundation, etc. In this paper the expressions nonprofit organization and NGO are used synonymously. Public benefit status can be obtained through a request from the courts by the applicant organization. After an organization is granted public benefit status, neither the court nor any other institution monitors its activity, so long as it adheres to the public benefit regulations. The Public Prosecutor's Office has the right to inspect any alleged infringements, but this right is rarely exercised and the results are never made public.

If potential donors would like to learn more about a particular public benefit organization or NGO, there is very little information available to them.

1.2 Revenue Structure

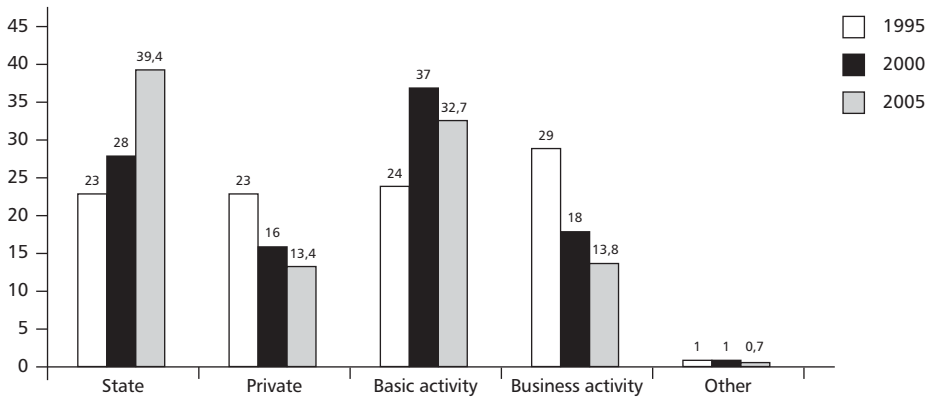
In the past three years, there has been a 48 percent increase in revenues within the NGO sector, yet in 2003, less than HUF 500,000 (USD 3,000)³ in revenues were derived from 45 percent of these organizations. The total sector employed no more than 64,000 people on a full time basis (on average one person per organization) and 24,000 people on a part time basis (on average 0.45 persons per organization).⁴

The annual revenue of the Hungarian nonprofit sector in 2003 was approximately 731 billion HUF.⁵ The share of revenue from the government sector has increased since 1995. While private sector revenues constituted approximately 23 percent of the total revenues of the nonprofit sector in 1995, this decreased to only 16 percent in 2000, and by 2002 it was down to 13 percent. The tendency was the same in 2003: within the Hungarian sector, there has been a decrease in business activity as well as private support.

As Figure 1. illustrates, the share of nonprofit income from principle business activities or activities unrelated to business is decreasing slightly.⁶

Figure 1.

The Revenue Structure of the Hungarian Nonprofit Sector—1995, 2000, 2002 (%)



Since these four main revenue categories provide a significant amount of income for NGOs, they will each be analyzed below.

1.2.1 Self-generated income and business activity

NGOs are at liberty to engage in business activities in Hungary, within specific parameters. During the first few years of NGO legislation, the laws were far too liberal and several smaller companies conducted various types of business under the registered legal status of “foundation” or NGO. Such activity has decreased in proportion to the revenue structure, since regulations regarding business practices, particularly unrelated business activities, are being more closely monitored.

Although the laws regulating self-generated income have been amended, the public’s consternation towards NGOs remains, due to earlier abuses of the foundation system. In addition, NGOs that generate their own income are often regarded with skepticism. It is also clear that these potential sources of income only provide sustainability to a limited number of NGOs, mostly service providers and hobby groups (e.g., education, sports, health related organizations).

1.2.2 State funding

While Hungary has still not met EU standards in this area, the country’s level of direct state funding for NGOs has begun to increase in the past two years, after several years of dormancy. Direct state funding is a revenue generating strategy favored by the MSZP,

the Socialist Party of the current socialist-liberal coalition government. Among this party's election promises was the promotion of civil society organizations. In accordance with this promise, the National Civil Fund was created. The Fund is welcomed by NGOs as it is expected to provide approximately HUF 6 billion in annual funding to the new sector.

There has also been some criticism leveled at the state funding mechanism. Rather than support independent civil initiatives, the state tends to finance NGOs that it is associated with, such as public benefit companies and public foundations. It is estimated that these organizations have received more than half of the allocated HUF 310 billion in state support.⁷

Further criticism is aimed at the new democracies, where direct state funding to NGOs is seen as politically biased, because it seems that political allies are being bought with state funds.

Nevertheless, the growth of state funding has been very well received within the NGO sector. It could prove to be a positive development, so long as the newly established democratic state is capable of setting up mechanisms to ensure support without political restrictions and to ensure that funding reaches a broad audience as opposed to a narrow, privileged circle.

1.2.3 Private revenues, the seeds of independence

Private philanthropy has the possibility of fostering a self-sustainable civil sector in post-socialist countries such as Hungary. Private philanthropy involves more donations of cash and time, and these will hopefully increase in the emerging market economy of the new democracy. The moderate private philanthropy seen in Hungary is felt locally, even though, in comparison to other parts of the world,⁸ giving is lower in Eastern Europe. The region is on a par with Latin America and Asia, where donations are at 0.5 percent of GDP.

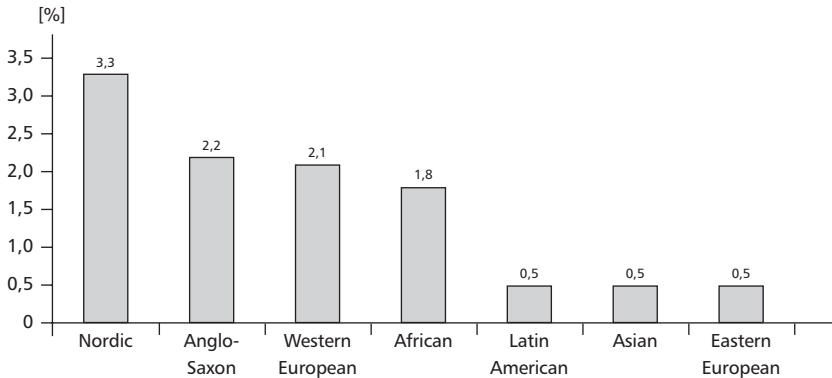
While this chapter recognizes the importance of non-financial philanthropic support that does not involve cash contributions, for the sake of simplicity we will focus on the financial aspects. It is assumed however, that all charitable contributions correlate and share similar roots within the socio-economic environment.

With regard to financial revenues for this sector, the following categories of private funding are currently available to NGOs:

- support from other local nonprofit entities (e.g., private foundations);
- foreign donor support;
- company support;
- individual support.

Figure 2.

Private Philanthropy as a Percentage of GDP (includes cash, in-kind contributions and volunteerism; contributions to religious congregations not included)⁹



1.2.3.1 Support from other local nonprofit entities

The support from other nonprofit entities is limited. They contributed only 2.4 percent of the total revenue of the Hungarian nonprofit sector in 2000.¹⁰ A separate study¹¹ on their roles and responsibilities has already been produced.

The most important conclusion of this paper, contrary to expectations, was that local grant-giving organizations do in fact exist. A surprising finding that emerged from the research revealed that local private grant-giving organizations work in isolation and their outreach is limited. There is scarcely any flow of information among them. At most they share information about applicants and grantees.

1.2.3.2 Foreign donor support

The portion of foreign donations comprise approximately 6 percent of Hungarian nonprofit sector revenues.¹² U.S. donors have been the most active for the past 15 years, through private grant-giving foundations, such as the Open Society Institute, C.S. Mott Foundation, Ford Foundation, and U.S. state agencies, such as USAID. The role of European foundations, like the Cooperating Holland Foundation, and the European Union are expected to increase in the 21st century.

The foreign foundations' role was immensely important following 1989, as they tended to support issues related to democracy building. Their contribution to the revenues of the nonprofit sector has rarely ever exceeded 10 percent, but the issues they supported were crucial to the development of a democratic society.

1.2.3.3 *Company support*

Companies generate only 5 percent of nonprofit sector revenues.¹³ Corporations can deduct up to 20 percent of gross profits for donations made to legally recognized public benefit organizations. In this case, 150 percent of the donation can be deducted, up to 20 percent of gross profits. Legal regulations acknowledge companies that are committed to charitable activities for at least four consecutive years; in such cases, an additional 20 percent of the donation may be deducted from taxes each year. These benefits however, provide very little incentive for companies to make such contributions.

Despite the weak incentives, a recent study in Hungary¹⁴ found unexpectedly high levels of philanthropic activities among the 2,053 companies surveyed. Of those surveyed, 63 percent considered themselves to be a donor, 21 percent said they were not currently donors but were considering it, while 16 percent said they have not considered it at all.

When those respondents explained why they do not donate, none of them cited a lack of tax incentives; instead, the financial situation of the company or the management were to blame. In addition, they expressed their lack of trust towards the requesting organization, as well as bad past experiences, or too many requests.

Interviewees from both donor and non-donor companies made the following spontaneous remarks

- “We were deceived last year.”
- “We had to go to court, the one we supported was a cheat.”
- “We realized that 30 to 40 percent of our donation is not used for its intended purpose but for other costs. We don’t want to be part of this.”
- “One can’t see where the money is going; the overhead costs are too high.”
- “It’s not transparent...”
- “It’s impossible to check.”
- “We couldn’t make any choices because there were so many requests.”
- “Bad experience.”
- “Much stricter financial monitoring and penalties would be necessary.”
- “Not enough information, too much negative news in the media.”
- “There are three to four organizations with similar names. They all say they are the real one...”
- “We would be willing to give more but we’re afraid we’ll end up with some non-existent organization.”

1.2.3.4 *Individual support*

An individual may receive a tax credit for 30 percent of their donation to a public benefit organization. The credit may not exceed HUF 50,000. In the case of donations to prominent public benefit organizations, the tax credit would be 30 percent of the

donation, up to HUF 100,000. From 2005, tax benefits can be obtained for donations, adult education, insurance, school fees, and several other expenditures, amounting to HUF 100,000. This new law does not allow any benefits for those individuals who earn more than HUF 6 million per year.¹⁵ It is easy to see why legitimate benefits may only provide a limited incentive to those in the lower income brackets and may be inconsequential to white-collar workers.

Research¹⁶ on social habits shows that people with higher education, women, and urban dwellers are the most frequent donors. People who have had any direct contact with an organization—for example as a member or volunteer, or through a friend—are also frequent donors.

The survey revealed that 65 percent of the Hungarian population partakes in some form of charitable activity. This comprehensive research was conducted in 1995, and unfortunately, due to high costs, the survey has not been repeated. Given that no major socio-economic changes have taken place since its publication, it can be assumed that the results are still valid.

The survey also revealed that the two most important motivating factors for making charitable contributions involved the emotional reward, and the feeling that a concrete goal was attained. The third most important motivating factor was the ability to trust the organization being supported. Information concerning the beneficiary organization ranked fourth among the nine factors identified in the research.

Table 1.

Motivations for Cash Donations: The Percentage of Respondents Who Said the Given Motive had Not had any Impact (mark 1) or had had a Large Impact (mark 5) in their Decision, and the Average Scores¹⁷ (%)

Motivations	Not important at all (1)	Extremely important (5)	Average score
Helping makes me feel good about myself	4.3	39.3	4.16
My living conditions improved	61.2	4.7	1.80
The quality of services improved	67.1	2.0	1.57
Tax advantages, cost reimbursement	85.9	0.5	1.15
A concrete objective was reached	27.4	17.0	3.11
Information about the organization to be supported	35.9	11.1	2.70
The example set by friends	45.7	4.7	2.15
Broadcasted the plight of people in need	58.0	4.7	1.91
Trust in the supported organization	16.6	27.0	3.63

This suggests that, similar to the charitable activities of businesses, individuals also handle their resources sensibly. The lack of tax advantages however, do not present a major obstacle in their charitable activities.

1.3 One Percent Allocation

The so-called one percent¹⁸ model is worth examining independently of the category of state support in which it belongs. Under the one percent scheme, personal income tax legislation enables private individuals to designate one percent of their previous year's taxes to specific beneficiaries, particularly NGOs conducting public benefit activities. The funds are transferred through the tax authority.

The one percent personal income tax allocation is based on an individual's decision and it technically means that the individual is responsible for the allocation of state resources. The aforementioned research confirms that individuals donate funds when there is sufficient information available, and when they have a reason to do so. The same is true for the one percent campaign. Research shows that 94 percent of the population is aware of the one percent designation system and 90 percent of taxpayers think its a good idea. Yet, only 35 to 40 percent of the population designated one percent of their personal income tax to charity.¹⁹

Two probable reasons for such a low levels of designation could either be that there is a lack of information, or a lack of transparency and accountability among NGOs. NGOs agree that there is a lack of information being exchanged between potential donors—all taxpayers—and the recipient NGOs. This could also be attributed to accountability issues within the NGOs.

To fill in the information gap, an information hotline and internet service was created in 1997 by the Nonprofit Information and Training Center Foundation (NIOK),²⁰ which continues to provide information to taxpayers who are indecisive about who to designate their one percent to. The service also provides information regarding the organization that the taxpayers wish to support. As there is no official database of NGOs in Hungary, such a database was also created in order for NGOs to register their profiles and any relevant information. With the addition of a strong marketing component, these services have become immensely popular. In 2004 alone, 35,000 people used the database service during the income tax period, to access information on NGOs. Out of the 20,000 organizations that received support from the one percent system in 2003, this database contained information on 7,000 of them. The high number of users reveals that the NGOs' assumption regarding the information gap is valid and even such an ad hoc service offered by one NGO can make a difference in bridging this critical gap.

The second argument, that the lack of accountability presents a significant obstacle to one percent designation, was substantiated in research that explored the public's

disapproval of the one percent system. The survey reaffirms the attitudes of businesses and individuals towards charitable activities, namely an emphasis on ethics and accountability of the potential beneficiaries.

Table 2.
Reasons for Objecting to the One Percent Provision²¹

Reason	Percentage of all reasons given		
	Taxpayers	Non-taxpayers	Total
Ethics and accountability issues of potential beneficiaries	45.0	47.2	45.9
Transparency issues, procedural difficulties and the high cost of the one percent scheme	38.8	29.1	34.7
Opposition to the system's goals, refusal to assume government responsibilities	16.2	23.7	19.4
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Answers from respondents who expressed their disapproval of the one percent scheme.

1.4 Information Regarding NGOs

There are several institutions that fail to publicize information collected on NGOs. The courts²² in which the NGOs are registered are responsible for making information public, yet only a limited amount of this information is made available. Upon receiving specific requests from interested parties, the courts only provide contact information for one or two of the organizations. Even if the courts assist further, they are only able to store and administer an organization's legal documents, such as founding documents, which contain the names of board members, statements of purpose, contact information, etc.

The tax authority is also able to disseminate information, but it cannot provide extensive data regarding a particular organization since the information it stores only relates to tax issues, and sharing information on particular organizations is not within its mandate. The Central Statistics Office has an equally valuable source of data, yet it does not provide information on individual organizations, as its role is to prepare and distribute general statistical information. Databases managed by NGOs are not necessarily a good solution, because these are managed on a voluntary basis, and the accuracy of information is not tested.

Many welcomed the first steps taken by NGOs towards achieving transparency as required by Public Benefit Organization Law, that a "public benefit organization shall

disclose, through the local or national press, the most important data regarding its activities as defined in its founding documents and its management.”²³

This ruling requires public benefit organizations to prepare and maintain a comprehensive report, which must be made available to anyone upon request; a very concise report is also published specifically for the public. There is no obligation to send the report to any agencies, nor are there any organizations that archive them. What often happens in practice is that public benefit organizations publish their abridged reports in newspapers throughout the country, in the form of an advertisement. It is impossible, however, to trace the thousands of reports from organizations that appear in thousands of publications throughout the year. NGOs are also required to undergo the same reporting procedure once they receive their one percent allocations.

There are several issues with this system:

1. There is no standard report, so organizations publish whatever they feel is appropriate.
2. The reports are often incomprehensibly brief.
3. The reports appear at different times and in various publications throughout the country and are very difficult to track.
4. There is no system to check whether the required information on organizational activities has been published.
5. The validity of the reports remains unchecked.

These reports are the basis for achieving a level of transparency that is currently far from satisfactory. One percent designations to a particular organization will only increase once the organization has resolved its transparency and accountability issues.

In summary, there is currently no central system for collecting information on NGOs. One cannot obtain information on a public benefit organization at any given time, unless they directly approach the organization themselves. This can be a real disadvantage if someone wishes to conduct a general search for an organization that he/she is interested in supporting.

In practice, the lack of available information on NGOs hampers the ability of a potential donor to acquire objective, valid information on a potential recipient’s activities or financial records. There is no existing body that could provide such data. A potential donor is only able to request information directly from a given NGO, and this information may or may not be accurate. As such, potential donors cannot take the NGO sector seriously, nor can they make a well-informed decision in terms of their investment.

2. THE POLICY OPTIONS

Based on situational analysis, the research helped identify several policy options that could increase the revenue of the Hungarian nonprofit sector. Given that the Hungarian government has expressed a willingness to collaborate with NGOs in strengthening the sector, the following policy options are targeted towards the state. In several cases, other stakeholders can take part in implementing or supporting a particular strategy, and it is hoped that they will also seriously consider these options.

This chapter outlines five policy options based on the Hungarian nonprofit sector's development and the local socio-economic environment.

2.1 Option 1: Increase Direct State Support of NGOs

The first option is to increase direct state support of NGOs. The current coalition government, led by the Socialist Party, which strongly supports the NGO sector, has been practicing this option. Further economic improvements continue to provide funds to a number of NGOs. Many NGOs are fond of this option, because revenue can be accessed without engaging in extensive fundraising activities. The government received positive responses from thousands of NGOs, their employees, clients, and members, who have benefited from the initiative. However, the nonprofit sector risks losing its independence if it becomes dependent on government as a singular source of revenue. Furthermore, even at the current level of charitable activities, transparency mechanisms need to be enforced, due to the politically biased nature of state giving.

2.2 Option 2: Setting up Transparency and Accountability Mechanisms

The second option involves setting up transparency and accountability mechanisms under which NGOs are accountable to the public regarding their activities and use of resources. This option is rarely addressed, although it could be used to further develop the sector and serve as a mechanism to increase levels of private giving. This option is practiced in a variety of ways in several countries, from Kenya to the U.K. In the U.K., the Charity Commission provides a good model. According to their web site: "The Commission's aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' efficiency and effectiveness and public confidence and trust."²⁴ A strategic review of the Commission is currently underway, and this should provide more information regarding its effect on stakeholders.

To make such a system work in Hungary, a comprehensive action plan is required. The recommendations on how it can be implemented are described in Section Four of this chapter, which covers actions required.

The stakeholder analysis shows that it is challenging to convey to NGOs that setting up transparency mechanisms is in their long-term best interest and would not be an additional burden on their administration. With a one-time state investment and continuous maintenance, a well-designed transparency mechanism could eventually lower costs for state administration and increase the public's trust toward NGOs. This, in turn, would raise the level of private giving. Fortunately there have not been any major fraud cases among Hungarian NGOs. Such a situation would cause irreparable damage to the entire sector.

Without taking action, the private support of NGOs will not increase, and it could likely decrease if this situation is left unresolved.

2.3 Option 3: Improving Tax Incentives for Private Philanthropy

The effects of the third option—to improve tax incentives for private philanthropy—are often overestimated but should nonetheless be considered. This option is practiced in Australia, where the government provides considerable tax advantages to private donors. Employing this option could increase revenues for NGOs, but this has yet to be fully proven and has never been tested in a post-socialist country. The state, which could legitimately take away such revenue, would be the sole obstacle in exercising this option. All the other stakeholders, including NGOs, companies, individuals, and the media, would most likely welcome such an opportunity.

Through this option, NGOs would be able to attract the necessary funding. However, without accountability mechanisms in place, potential fraud could cause major setbacks to the sector.

2.4 Option 4: Investing in Socially Responsible Behavior

NGOs have repeatedly requested that funds be allocated to raise public awareness of what constitutes socially responsible behavior. However, this type of investment is difficult to measure and is not visible in the short term. The U.K. government has been practicing this option through the Giving Campaign that was created in July 2001.²⁵ This campaign's aim was to encourage people to make charitable contributions in a tax-effective manner and to increase total contributions by half a billion pounds during the three years of the campaign. The total cost of the program was GBP 4,257,000. The numerous contributing charities included Inland Revenue, Charities Aid Foundation, and National Council for Voluntary Organizations.

Several organizations may welcome the introduction of this policy choice, however the associated costs may be disconcerting to certain stakeholders as well as the general public, who could otherwise serve as an ally.

2.5 Option 5: Status Quo

The fifth option requires the maintenance of the status quo, thereby eliminating governmental involvement. Since other stakeholders are not prepared to get too thoroughly involved, the NGO sector could, at best, remain at its current stage of development and would not evolve into an independent and sustainable sector.

2.6 Balancing the Options

Policy choices must be made based on the specific policy's ability to assist an NGO in achieving its mission. A well-informed policy decision will strengthen the Hungarian nonprofit sector by establishing mechanisms that support the allocation of independent, politically unbiased, resources to the sector, thereby contributing to its independence and sustainability.

Except for Option 5, status quo, the four options above could have a significant impact on dramatically increasing revenues for the third sector. If correctly implemented, these policy options could generate funding independent of the state. They are all feasible and timely options, which address the political and socio-economic climate. They can also have a positive, long-term impact on attracting donors. Stakeholders' support—apart from state support—varies from one scenario to the other. Some may even serve to enhance the government's image. Nonetheless, all policy options could produce both positive and negative results.

To make an informed policy choice, the options are weighted according to the eight criteria shown in the table below. Extensive explanations accompany the rationale for one criteria being more weighted in one scenario and less so in another. For the sake of this exercise, a ranking system has been developed to clarify relative weights.

Criteria are ranked between 0 and 5, with 5 being the best. In the cost category, a ranking between 5 and 0 is given; the lower the number, the more costly the option. These ratings are not scientific, but are based on available information and common sense. Wherever possible, the available information was used, but in most cases there is no certifiably measurable data behind the ranking. The numbers provided were measured against the ranking of other policy options. The aim was to be objective, though discrepancies may exist. Nonetheless, the rankings are deemed to be realistic.

Table 3.
Policy Option/Effects

	Increased revenues To NGOs	Brings independent resources soon	Timeliness	Lasting effect	Cost	Stakeholders' support	+ PR for government	Side effect/s	Total points
Increase state support to NGOs	5	2	0	3	-5	5	5	3	18
Mechanisms for good governance, transparency, accountability	3	3	5	5	-3	2	2	5	22
Improving tax incentives for private philanthropy	3	3	3	4	-3	4	4	3	21
Invest in raising public consciousness, socially responsible behavior	3	1	3	5	-3	3	5	3	20
Status quo	0	2	2	0	0	3	3	0	10

It is obvious that, if action is taken, positive results will occur. Decision-makers need to know which policy option will produce the most positive results. The following list details how the measuring of options can help. If the rankings in the chart are condensed, a list of priorities can be drawn in the following order:

1. Set up mechanisms for good governance, accountability, and transparency.
2. Improve tax incentives for private philanthropy.
3. Invest in raising public awareness and socially responsible behavior.
4. Increase direct state support to NGOs.
5. Maintain the status quo.

The first three options received such similar rankings (22, 21 and 20) that one may consider implementing all three policies. If this is not an option, the policies can be introduced in succession. In such a case, the following order would be the most logical:

Policy	Timing for introduction
Set up mechanisms for good governance, accountability, and transparency.	Year 1 and 2
Improve tax incentives for private philanthropy.	Year 2 and 3
Invest in raising public awareness and socially responsible behavior.	Year 3 to 6

This method of policy implementation would comprise a six-year program divided into three stages. Each stage would last approximately two years.

An action plan needs to be developed, to implement mechanisms for good governance, accountability, and transparency. This was determined to be the best option as it lays the groundwork for future development.

This chapter proposes a plan of action by which to implement such mechanisms, but will not address the actions required for the remaining options, as this can be done at a later stage.

3. ACTION REQUIRED

“Without adequate disclosure, information on...performance has all the appeal of a second-hand car sales pitch.”

European Foundation Center,
SEAL Magazine, Editor.²⁶

The goal of the policy recommendations in this chapter is to ensure that steps are taken to assist in the development of the Hungarian nonprofit sector.

The first policy, which needs to be implemented immediately, suggests that a mechanism be established that ensures that information regarding NGOs is relevant, valid, and serves to heighten the public’s confidence in the nonprofit sector. If action is not taken on this issue within the next couple of years, private support for NGOs is not likely to increase and may, in fact, continue to decrease.

3.1 How to Implement the Policy Choice?

The state is primarily responsible for the implementation of policy choices, through the establishment of mechanisms for good governance, accountability, and transparency, not only because it is in government’s best interest, as stated in the civil society strategy of the current government (2002–2006), to have a tenacious third sector, but also because it holds most of the resources necessary for the implementation of this option. Most of

the elements of this action plan are designed for state actors, but stakeholders and their partners can implement some of the other elements.

3.2 Required Actions

The state should collect and make information regarding NGOs readily available to the public. After identifying a need, a company database was created and implemented over a year ago; the same action should be taken for NGOs. In order to build trust in the sector, accountability criteria are needed to ensure the implementation of standards and ethical behavior. An independent body is also needed to supervise and convey information about NGO accountability issues. As such, a harmonized, open-access database of NGOs throughout the EU needs to be created. As a general rule, a multi-stakeholder policy requires planning, monitoring and evaluation. The following proposal outlines the necessary steps in implementing sustainable and transparent policies:

1. Collect and make information regarding NGOs readily available to the public. Given that a centrally accessible company database has existed for one year, the third sector should also have such a system
 - 1.1. Ensure that data from the courts, Statistics Offices, and the Tax Authority are available to the public (e.g., in the United States, portions of Internal Revenue Service Form 990 are made public).
 - 1.2. Set up one central NGO database, which stores relevant information.
 - 1.3. Make this database public.
 - 1.4. Ensure equal access to this information; the database information should be provided free of charge.
 - 1.5. Harmonize the work involved in the collection of information from various sources (courts, tax authorities, Statistics Office).
 - 1.6. Link available and accurate information to NGOs; this may include annual and/or other public reports. (see “Guidestar: The National Database of Nonprofit Organizations” model in which information received from IRS records is added to the internet database daily.)²⁷
 - 1.7. Some of the information provided by NGOs should be compulsory, while some can remain voluntary.
 - 1.8. Create a user-friendly NGO registry system, offering such incentives as one-step registration.
 - 1.9. Always update the system.
 - 1.10. Encourage state and private donors to use the registry when requesting information on NGOs. An important part of this work is ensuring that the database is well known and frequently used; this could be achieved through a major publicity campaign. As part of the secondary element

of confidence building, one must ensure the implementation of ethical behavior and accountability. Good ethics is a valuable to the sector and must be maintained.

- 1.11. Encourage internal discourse on NGOs' ethical standards, such as how much an NGO director should earn, when professional financial audits are needed, the challenge of cost effectiveness and so on. Such discussions are necessary.
- 1.12. Welcome the establishment of internal norms. *BBB Wise Giving Guide* is a good example in which NGOs that understand the value of accountability, undergo the BBB Wise audit to achieve a seal of excellence, which they can use as a PR tool.
- 1.13. Legally enforce a portion of the agreed-upon ethical standards. (e.g., Poland regulates the maximum percentage of an NGO's income which can be used for fundraising.)
2. Invest in an independent committee that oversees the transfer of information to and from NGOs.
 - 2.1. Consider financing a new supervisory committee (such as the Charity Commission in the U.K. or the NGO Coordinating Board in Kenya)
 - 2.2. Consider supporting a private initiative or a coalition of various stakeholders.
3. Encourage the establishment of a harmonized open access database of NGOs throughout the EU, as EU citizens are likely to become donors both in their home countries and in other member states.
 - 3.1. Consider cooperation with previously tested and available systems. For example, such a database is being created in the U.K. with the cooperation of U.S. Guidestar International.
4. A multi-stakeholder policy planning, monitoring and evaluation system is needed.
 - 4.1. A multi-stakeholder committee that can plan and monitor policies should be created. (e.g., Poland has implemented such a committee).
 - 4.2. Regular revision of policies is required. (e.g., Lithuania has set up mechanisms in advance, to revise its new two percent law once its impact can be measured.)

4. THE BEST-CASE SCENARIO

If the above actions are taken, the government would create a new, independent, legal entity, which is responsible for collecting information on NGOs from courts and tax offices and making this information available to the public. The information would

be made available free-of-charge to the public, and would also be available on a well-publicized Internet site.

The preparation for this new committee should be treated with caution, as some NGOs may be apprehensive about the additional administrative burdens, and will be unable to foresee the long-term benefits. NGOs should become stakeholders in this process rather than victims of it. The type of information being stored on NGOs should be negotiated with leading umbrella organizations and leaders within the sector. Submission by NGOs of some of the data should also be optional. The database should be launched through a major publicity campaign, which will outline its purpose and make it more appealing. This effort will increase the public's trust in the sector, a change that should make more revenues available to the sector as well.

In the short term, setting up this committee could be an enormous expense for the state, but this is an initiative that should be invested in for its long-term benefits.

Such a system may seem implausible to the Hungarian NGO community, however they will soon realize that it is in their best interest to demonstrate their credibility. Otherwise, the few NGOs involved in fraudulent activities will completely destroy public faith in the entire NGO sector. Trust in NGOs will be maintained through the establishment of ethical standards that an independent and reliable supervisory body can use to monitor these organizations.

Implementing the above policy could have a positive impact in gaining the public's trust. This new system could help donors guide their emotions, while making rational decisions based on valid information, particularly if this is done in a manner that is harmonized with EU standards.

Providing accurate information on NGOs is a prerequisite to introducing further tax incentives, which can encourage charitable activities and raise public awareness and socially responsible behavior.

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Estonian Cultural Organizations: The Threshold of Change

Ülle Lepp

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LIST OF ACRONYMS

AEN	Association of the Estonian Nationalities
EATA	Estonian Amateur Theatre Association
ECS	Estonian Choral Society
EKAK	Estonian Civil Society Development Concept
EMTAK	Estonian Classification of Economic Activities

ENCF	Estonian National Culture Foundation
ENFC	Estonian National Folk Council
ERRS	Estonian Folk Dance and Folk Music Association
GTC	Gambling Tax Council
NENO	Network of Estonian Nonprofit Organizations
NGO	nongovernmental organization
USAID	US Agency for International Development

ABSTRACT

The aim of this research is to study the roles of Estonian cultural associations and to analyze their financial sustainability.

The research provides an overview of the Estonian cultural associations, their roles in Estonian society and the difficulties faced in performing these roles. The ways in which the Ministry of Culture and public authorities on the local government level support the cultural associations are subjected to a more thorough analysis. The analysis also focuses on how the cultural associations are supported by private foundations and the business sector. The research analyzes the capability of cultural associations in finding the resources required for their development. It also points out policy solutions for increasing their sustainability.

The number and professional quality of cultural associations in Estonia has increased during recent years, but their financial capability has not increased, and most of them do not have a stable basis for operation. Aside from their traditional historical roles, the cultural associations have started to fulfill new needs, but their enlarged responsibilities have not been acknowledged or recognized by the national or local governments. The means for providing support to cultural associations from the state or local budgets fail to ensure that the associations can continue to do all the work expected from them and still remain sustainable.

The sustainability of the cultural associations has two important components: financial and non-financial. From the financial sustainability perspective, local-level associations count on stable local funding in the form of activity support and project grants. They also need indirect non-financial assistance from the local governments, including use of public property at no cost or at reduced rates. Nationwide cultural organizations require stable financing in the form of direct support from the state budget.

Recommendations for cultural associations, and the local government workers who are involved with them, include: finding stable cooperation partners from the public and business sector; informing local government and the local community of their endeavors; offering new types of public services; presenting and disseminating the products completed within the framework of projects in Estonia and abroad; developing

knowledge and skills in organizational management and economic activities; arranging benefit events involving the local community; and training and employing professional managers to assist the creative leaders who run the associations.

Realizing these recommendations requires principal changes in the way public budgets are used to finance nonprofit associations. To help initiate those changes, this chapter will present recommendations to the leaders of local governments; the Finance, Cultural Affairs Committee and Support Group of the Riigikogu (Parliament) for the Implementation of Estonian Civil Society; the Ministry of Finance; and the Joint Committee for implementing the Estonian Civil Society Development Concept.

1. INTRODUCTION

1.1 Problem Statement

1.1.1 Background

Although research¹ has shown that the public, the government, and nongovernmental organizations themselves do not have a clear picture of the role and potential of the nonprofit sector in Estonian society, several important steps have been taken recently in an effort to influence the relationship between the public sector and the nonprofit sector in the country. In December 1999, a body that united political parties and nonprofit organizations prepared a draft document called “Estonian Civil Society Development Concept” (EKAK). EKAK was passed by the Estonian Parliament December 12, 2002.

EKAK describes the basis for partnership between nonprofit organizations² and the public sector, and sets out a framework for promoting civil initiative and strengthening democracy in Estonia. The short-term priorities of implementing EKAK include: mapping the conditions necessary for the nonprofit sector and its sustainability; development of the classification system for nonprofit associations and systematization of statistics; mapping, systematization and improvement of the system for financing nonprofit associations from public budgets; and informing the general public of these plans.³

The tasks and priorities set in EKAK are ambitious and extensive, especially in a situation where existing statistical information does not reflect the nonprofit sector accurately, and it is even difficult to determine the actual number of functioning NGOs. First steps have been taken towards improving statistics: The PRAXIS Centre for Policy Studies has undertaken a project designed to create a means for gathering and analyzing statistics on the nonprofit sector of Estonia, and the Ministry of Internal Affairs has

prepared a report based on government data pertaining to financing for citizens' associations from the state budget in 2001–2003. Nonetheless, there is still no systematic and comprehensive survey of the financial and non-financial resources allocated to nonprofit associations by local governments, ministries and other public institutions. There are also no statistics measuring how well these allocations are used.

Implementing EKAK requires an in-depth analysis of the situation, in order to develop proposals for legislation that will create the appropriate environment for development of NGOs. To assist in analyzing the situation and identifying appropriate measures, the Estonian Government set up a joint commission of government officials and NGO representatives on October 9, 2003.⁴ On August 12, 2004, the Estonian government unanimously adopted the 2004–2006 implementation plan for EKAK. This plan summarizes the work done so far by the joint NGO-government commission, and it sets forth the most important, feasible actions for the implementation of EKAK.

1.1.2 Problem statement

Despite the vital role played by nonprofit organizations during the period in which Estonia regained its independence, civil society is still the weakest component of the country's democracy today. This problem is not caused by an insufficient number of NGOs in the country—where there were 20,039 nonprofit associations as of February 1, 2004—but rather by the insufficient resources at the disposal of NGOs, and their inadequate capacity to participate in the development of Estonian society.⁵

Now representatives of Estonia's public and nonprofit sectors are discussing the roles of the NGOs and looking for the resources needed to fulfill those roles.

1.2 Research Goal

The aim of this paper is to use research focusing on cultural associations as a means for making a complex analysis of the roles of all Estonian NGOs—as well as an analysis of the resources requested for the performance of those roles.

There are several reasons for focusing research on Estonian cultural associations. Cultural associations are one of the largest and most vital segments⁶ of the nonprofit sector operating in Estonia. Cultural associations have been the founders and bearers of the tradition of civil initiative in Estonian society: They have played an important unifying role, starting from the period of National Awakening in the second half of the 19th century and on through the so-called Singing Revolution in 1988.⁷ Cultural associations have also gained an important voice as a pressure group, especially since 2003, when the tradition of Estonian song and dance festivals and Kihnu cultural space were entered

in the United Nations Educational, Scientific and Cultural Organization (UNESCO) list of Masterpieces of Oral and Intangible Heritage of Humanity. This international recognition of Estonian national culture and cultural associations has noticeably enlivened the field domestically. Due to the work of cultural associations, national culture in Estonia now receives increased attention on the governmental level. Discussions on a National Culture Act, for which a draft was started six years ago, have been renewed. A draft is now being developed with close cooperation between the public authorities and national cultural umbrella organizations. Although the roles of the cultural associations have been enlarged, and the number and professional quality of associations has increased, this growth has not been acknowledged by the public authorities.

In the course of research, the following questions are addressed:

- What are the roles that citizens' associations consider relevant and what difficulties do they face in performing those roles?
- What role is acknowledged by the policy of the Estonian public sector?
- What are the main components of the financial sustainability of the cultural associations, and what are the solutions for increasing their sustainability?
- In what way do public authorities in the Ministry of Culture, and on the local government level, support the associations active in the field of culture?

In order to answer these questions I will set out three hypotheses, to be described in detail in Section 2.3.

In the research process, recommendations will be developed for increasing the sustainability of cultural associations and ensuring the appropriate acknowledgment of their role. The solutions offered are input for the joint commission for the application of EKAK, and they cover funding the Estonian nonprofit sector as a whole. These recommendations are directed toward all public institutions that can assist in the sustainable development of local and national-level nonprofit associations.

1.3 Research Methodology

Citizens' associations that were active in the field of culture became the founders of civil initiative in Estonia in the second half of the 19th century. These are nonprofit associations with long-term traditions, and they have fulfilled, and continue to fulfill, various roles in Estonian society.

In researching cultural associations in Estonia, I explore three hypotheses:

- (1) The responsibilities of cultural associations have grown, as has their number, but this growth has not been acknowledged by the public authorities. The biggest increase was experienced in the number of cultural societies, hobby groups, and creative groups that are involved in Estonian folk culture. The growth of their

number is based on their long-term traditions and their special role in carrying on the national identity.

- (2) The cultural associations' future success in fulfilling their roles is dependent on the creation of an environment where financially sustainable nonprofit associations can develop. Financial sustainability of cultural associations has not increased considerably, as the associations lack a stable basis for operation, and they suffer from lack of skills and courage in dealing with local governments and the business sector.
- (3) Public authorities use various means, both financial and non-financial, for supporting nonprofit associations on the local and national level. Although some specific action is being taken to enhance the financial sustainability of the nonprofit associations, it is still necessary to specify some general strategic principles to ensure their sustainability.

These hypotheses are tested using a multi-dimensional methodological approach: (1) survey(s), (2) in-depth interviews, and (3) analysis of secondary sources. The research methodology is described in detail in Appendix 2.

2. CULTURAL ASSOCIATIONS

2.1 Brief Historical Overview

Civic initiative has been essential in building the Estonian nation and state. It was through civic initiative in the second half of the 19th century that national and cultural identity took shape in the period of the national awakening. Civic organizations helped intensify the national movement and ensured solidarity in Estonian society. The Estonian's respect for education is rooted in the traditions of educational associations, and choral and theatrical societies were the cradle of Estonian professional culture. Through the network of self-initiated organizations and through local governments, Estonians created the possibility to take part in the management of public issues. The willingness of people to cooperate allowed for the establishment of Estonian statehood and made it possible to reclaim that statehood following occupation. Even now, citizens' associations are necessary for ensuring the continuation of involving the population in Estonia's democratic process.

In the Soviet period, choir singing allowed for a guarded initiative.⁸ By meeting in choirs, Estonians could celebrate their culture within officially sanctioned associations. The choir movement even received some support from the state, which founded the Choir Society in 1982. The Choir Society has become one of the strongest umbrella

organizations of cultural associations and the carrier of the tradition of song festivals.

Over the years, song festivals have been an important form of civil initiative for Estonians. The first Estonian singers' association, "Revalis," which had its own choir, was founded in 1863.⁹ The first all-Estonian song festival took place in 1869 in Tartu. It involved 51 choirs and brass bands with a total of 845 singers and musicians.¹⁰ The tradition of song festivals continues to date, carried on by thousands of singers, folk dancers, and folk musicians, who have joined into hundreds of citizens' associations that are legally either nonprofit organizations or partnerships. The ongoing song and dance festivals represent a continuous process of social practice that involve various communities in numerous events highlighting performing arts. About 847 groups and 21,325 performers participated in the 24th Song Festival, which took place in summer 2004, and 7,111 performers participated in the 17th Dance Festival, which took place at the same time. The festival circuit consists of regular choir and dance practices, involving hundreds of individual, grassroots-level groups; many concerts; recurring reviews and festivals on the local or regional level; and choir reunions and other joint events on the local and national level.

It seems clear that the cultural associations enjoyed a surge of enthusiasm and activity when the tradition of Estonian song and dance festivals and Kihnu cultural space were entered into UNESCO's list of Masterpieces of the Oral and Intangible Heritage of Humanity on November 7, 2003.¹¹

2.2 Profile of Cultural Organizations

Associations active in the field of culture can be classified in several ways. In 1995, Aili Aarelaid, who researched citizens' initiatives, distinguished between the cultural associations as follows: (1) cultural societies; (2) associations engaged in amateur art activities; (3) professional associations; (4) trade unions representing cultural workers; (5) societies focusing on the maintenance of local cultural traditions; (6) foundations founded for supporting culture; and (7) citizens' associations performing other cultural goals.¹²

These classifications were based on the database of the Institute of International and Social Studies of the Estonian Academy of Sciences. The database contained 906 culturally oriented citizens' associations and foundations, some of which had terminated their activities by that time.

The second half of the 1990s was characterized by important changes in the numbers and classifications of the associations in the field of culture. Parliament passed the Foundations Act on November 15, 1995, and on June 6, 1996, it passed the Non-profit Associations Act, which took effect October 1, 1996.¹³ As of January 1, 2004, 19,939 nonprofit associations and foundations were entered in the register of nonprofit associations and foundations. The classification of nonprofit associations entered in the register

relies on the Estonian Classification of Economic Activities (EMTAK). The number of nonprofit associations in the field of culture was 2,056, which is 10.3 percent of the total number of organizations in the register.¹⁴ During 2001–2004 the number of associations operating in the field of culture almost doubled. An overview of the associations in the field of culture is provided in Table 1.

Table 1.

Number of Nonprofit Organizations Active in the Field of Culture in 2001–2004

Areas of activity	January 1, 2001		January 1, 2002		January 1, 2003		January 1, 2004	
	Nonprofit associations	Foundations	Nonprofit associations	Foundations	Nonprofit associations	Foundations	Nonprofit associations	Foundations
Activities of creative societies	52	5	53	5	57	4	58	3
Associations and foundations supporting culture and education	185	56	252	80	330	98	397	116
Associations of national minorities and cultural societies, and associations facilitating respect and friendship between nations	148	1	164	1	178	2	202	2
Associations and hobby clubs involved in recreational activities, entertainment and cultural activities or hobbies	474		563		622		710	
Activities of creative groups	118		135	2	150	1	180	1
Production of films and videos	1		3		1		1	
Operation of sound recording studios	1		1		2		2	
Other supporting activities of production of films and videos	2		2		2		2	
Screening of films	1		1		2		2	
Radio, TV	1		1		1		1	
Production and/or broadcasting of radio programmers	7		9		9		8	

Production and/or broadcasting of TV programs	2		2		2		1	
Staging and presenting of events and concerts	62		64		75		83	
Activities of freelance artists and painters	3		4		4		4	
Activities of creative structures and ticket agencies		3		4		4		4
Activities of dance schools and dance instructors	74	1	81	1	86	2	99	2
Cultural centers and folk houses			15		19	1	24	1
Other entertainment activities	13	7	20	6	26	5	36	7
Activities of news agencies, journalists and photo reporters	2		2		1		1	
Libraries	1		1		1		2	
Archives		2		2		2		2
Museums	20	5	26	5	27	7	34	8
Protection and maintenance of historic places and buildings	2	4	3	5	7	5	12	7
Botanical gardens and zoos					3		4	
Protected areas	4	5	5	7	5	7	6	7
Recreational activities not classified elsewhere	6		11		18		20	
Culture in total	1,194	89	1,418	118	1,630	138	1,896	160
Total of organizations in the register	13,666	372	15,886	436	17,774	502	19,369	570
Total of all types of organizations in the register	14,038		16,322		18,276		19,939	
Cultural organizations out of total organizations in the register	1,283 (9.1%)		1,536 (9.7%)		1,768 (9.7%)		2,056 (10.3%)	

Source: Excerpt from the Register of Nonprofit Associations and Foundations.

2.2.1 Various types of cultural organizations

The major groups that make up more than three-quarters of all associations active in the field of culture are presented in Table 2.

Table 2.
Major Groups of Cultural Associations Based on EMTAK

Group	Description	Total of associations	
		Number	% of all cultural associations
Cultural societies and hobby clubs	This group contains cultural societies focused on Estonian culture and the so-called amateur societies (associations of individuals engaged in music, folk dancing, art, acting etc). Most of the cultural societies were founded in the early 1990s and the second half of the 1980s. These included several societies that were originally founded in the late 1800s and were restored by legal succession. Organizations in this group include the Estonian Society of Female Choirs and the Estonian Society of Male Choirs.	710	34.5
Creative groups	This group includes orchestras, choirs, and associations of choirs—such as the Estonian Song and Dance Celebration Foundation and the folk dance group “Sõprus” (“Friendship”).	181	8.8
Associations and foundations supporting culture	This group comprises societies focusing on maintaining local cultural traditions, as well as foundations founded in order to support culture. This group includes: heritage conservation associations, the Estonian Association of Museums, the Pokumaa Foundation, and the Estonian Society of Informal Education.	513	25
Associations of national minorities	This group consists of cultural societies of national minorities and the associations of individuals interested in the culture of foreign countries. It also includes organizations concerned with protecting ethnic and minority groups and improving the conditions of these groups. This group includes the Association of the Estonian Nationalities, which is one of the major umbrella organizations of national minorities.	204	9.9

Source: Author

Below are detailed descriptions of the main associations for Estonian folk culture. The financial sustainability of Estonian cultural associations involved in the folk field depends on the activities of these associations as pressure groups.

1. **Union of Estonian Culture Associations:** Founded in 1997, this association aims at the facilitation of culture and national education. Today the Association consists of 25 cultural societies, including the oldest societies of the Estonians—the Vanemuine Society and the Estonia Society, which was founded in 1865. The total membership amounts to about 3,000. The association has close links with Estonian cultural societies and is active in Eastern and Central Europe.
2. **Estonian Folk Dance and Folk Music Association (ERRS):** ERRS aims at the comprehensive preservation and development of Estonian folk dance and folk music, and it supports and arranges nonprofit folk dance and folk music events. ERRS handles the organization of daily activities of folk dancers and musicians, in order to ensure a sufficient quantity of artistically high-quality groups for the all-Estonian dance festivals. ERRS represents the interests of 15,000 folk dancers and folk musicians.
3. **Estonian Choral Society (ECS):** The Estonian Choral Society is an umbrella organization, which united all Estonian choirs and brass bands and the Choral Society of the then Estonian Soviet Socialist Republic when it was established March 28, 1982 as the legal successor to the Estonian Association of Singers (1921–1940). The aim of the ECS is to facilitate and popularize choral and brass band music, both in Estonia and internationally. This work includes contributing to the organization of all-Estonian song festivals. ECS has about 30,000 members. The major members of ECS are legal entities, including: the Estonian Male Choir Society, the Estonian Female Song Society, the Estonian Society for Music Education, the Union of Chamber Choirs in Estonia, the Estonian Mixed Choirs' Union, and the Association of Estonian Choir Conductors. ECS is a member of the International Federation of Choral Music and a member of the Federation of European Youth Choirs, Europe Cantata.
4. **Estonian Folk Art and Craft Union:** The aim of the Estonian Folk Art and Craft Union is to maintain and develop Estonian handicraft traditions. The union, which was founded in 1929 and re-established in 1992, unites the handicrafts associations from the counties of Estonia. In 1994, the union became a member of the European Folk Art and Craft Federation and the Folk Art and Craft Union of Nordic countries.
5. **Estonian Amateur Theatre Association (EATA):** The EATA was created in 1989 as an independent, national NGO. The EATA's major task is to offer training programs, organize theatre festivals and communicate with other countries. Since 1991, the EATA has been a member of International Amateur Theatre Association (IATA).

6. **Estonian National Folklore Council (ENFC):** ENFC, founded in 1992, is an organization set up on an interdisciplinary basis. It acts as the umbrella organization for institutions that are practically, organizationally, and scientifically engaged in safeguarding and diffusing folk culture, folk art, and cultural heritage. ENFC represents the Estonian Republic in the International Council of Organisations for Folklore Festivals and Folk Art. It arranges the international folk festival BALTICA (1989, 1992, 1995, 1998, 2001, and 2004) under the auspices of the International Council of Organizations of Folklore Festivals and Folk Art. ENFC has 36 members: 10 cultural, educational, and academic institutions; seven societies and associations; and 19 folklore festivals organizations.

Based on the data provided in Table 1, the majority of the associations in the field of culture are active in folk culture. The associations active in other fields of culture make up about one quarter of all organizations active in culture. The large share of associations engaged in folk culture is one of the specific features of Estonian cultural associations. The number of associations active in the field of culture has increased year by year, reaching 10.3 percent of all nonprofit associations in early 2004.

3. THE ROLE OF NONPROFIT ASSOCIATIONS IN ESTONIAN SOCIETY

In order to establish the potential for sustainability of nonprofit associations, it helps to look at these groups' own understanding of their role in society. We need to know the extent to which these associations are prepared to make an impact on society—and the extent to which the associations' efforts along these lines are enabled by the legal environment and public authorities.

Naturally, there are different perspectives regarding the role that nonprofit organizations play within society. Within these various perspectives, it is possible to identify four primary roles: a) service delivery, b) innovation, c) maintaining the value system, and d) lobbying.¹⁵

A survey conducted in the second half of 2000, to gauge the expectations of representatives of the government, business and nonprofit sectors, as well as academic experts, found that nonprofit organizations are seen as performing three roles:

- providing services based on contracts concluded with public authorities;
- participating in policy-making processes;
- providing recreational activities for communities.¹⁶

According to this survey, the area of activities of the citizens' associations is seen as relatively limited: culture and sports, charity, the protection of marginalized groups, and the promotion of particular economic interests.¹⁷

It should be noted that citizens' associations themselves do not see service delivery as their major role. Surveys conducted in November 1999, during the conference of the Network of Estonian Nonprofit Organizations (NENO), and in November 2003, during the conference of citizens' associations, showed that the representatives of citizens' associations considered maintaining values and advocacy as their most important work. More specifically, these associations felt their role was:

- representing the opinion of stakeholders, exerting influence on public policy;
- promoting civic initiative;
- keeping and carrying democratic values.¹⁸

3.1 The Role of Cultural Associations in Estonian Society

3.1.1 The role of citizens' associations from their own viewpoint

In the survey conducted among the participants of the conference of citizens' associations in November 2003, respondents were asked to look at nine potential roles for citizens' associations and to choose the three most important of these roles.¹⁹ Representatives of 21 organizations, or 17 percent of the respondents to the survey, said the most important roles of citizens' associations are:

- | | |
|---|-------|
| • Rallying civil initiative | 52.4% |
| • Representing stakeholders' opinions and influencing public policy | 47.6% |
| • Carrying and keeping democratic values | 33.3% |
| • Keeping and carrying national identity | 33.3% |
| • Providing of possibilities for recreational activities | 33.3% |

In the same survey, cultural associations were asked to select, from a list of nine, the one role that is most important for their own organization. Most of the cultural associations considered the main roles for their type of organization to be providing recreational activities (28.6 percent) and keeping and carrying national identity (19.6 percent).

The roles that the cultural associations see for themselves basically coincide with their stated organizational goals. About 75 percent of the associations engaged in the cultural field are involved in recreational activities and preservation and facilitation of folk culture.

The cultural associations consider their role as carriers of national identity and providers of recreational activities as being more important than the abstract and more general role of carrier and keeper of democratic values. The role of influencing public policy is primarily considered important by central associations of folk culture. Those

associations include, for instance, the Estonian Choral Society and the Estonian Folk Dance and Folk Music Association. Influencing public policy is also considered important by foundations that support cultural organizations, like the Estonian Song and Dance Celebration Foundation.

Central associations of folk culture facilitate exchange of information to their own members and to their field of activity as a whole. The central associations protect the interests of their members—the creative leaders of folk dance groups, choirs, etc.—and they have been assigned with the overall responsibility of preservation, continuation, and development of the traditions of Estonian folk culture.

Several of the central associations have assumed responsibilities exceeding those first stipulated in their founding statutes. For example, the Estonian Folk Art and Craft Union has developed into the leading advocate for the whole field of Estonian national handicrafts. The union has become an important government pressure group, and they tell the Ministry of Culture what state support is needed in the field of handicrafts.

The initiative of the Estonian Choral Society, the Estonian Folk Dance and Folk Music Association, and the Estonian Song and Dance Celebration Foundation to enter the tradition of Estonian song and dance festivals in UNESCO's list of Masterpieces of the Oral and Intangible Heritage of Humanity is further evidence of the role of major associations of folk culture as pressure groups.

“This was also an initiative, effort and management of a couple of people, and not so much the will of a state body that the song festival would be included in the list of UNESCO. We understood that when the song festival gets acknowledged outside Estonia, this would put pressure on top Estonian officials [...] The active work of the cultural associations as a pressure group has yielded its first fruits: the song festival is in the list of UNESCO, and the elaboration of the Folk Culture Act has been included in the Government's coalition agreement.”

(In-depth interview conducted on February 26, 2004.)

The performance capacity of the nonprofit associations

An organization's ability to perform its role is dependent both on the sustainability of the organization as well as the acknowledgment of the role performed by the associations by the public authorities, or, more broadly, on the relationship with the public authorities, and especially with the local government.

More than a half (53 percent) of the respondents assessed their organization's performance of its major role as excellent or good. Two main obstacles to good performance that were cited by the respondents were lack of finances and insufficient professionalism among the individuals who were active in the organization. Another obstacle to good performance that was cited was problems with the local government—either due to opposition to the citizens' initiative or due to insufficient local funding. Generally, the

relationships between the respondents' organization and the local government were assessed as quite good. In all, 67 percent of the respondents assessed their relationship with local government as excellent or good.

The representatives of the public authorities shared the opinion of the nonprofit associations:

“Lack of money is the major issue. [...] Actually we all are engaged in voluntary work while doing extra work. Take the conductors, choir leaders or representatives of any field—their work days are long indeed, plus working at the weekends. Many people do overtime just because they do not get paid sufficiently. [...] The field of culture is not valued today. They are not paid salaries that would be equal to their work, effort, and qualification. This would need additional resources.”

(In-depth interview conducted on February 18, 2004.)

Aside from a lack of funds and professional skills, the representatives of central associations considered the lack of active people and leaders of organizations to be the main obstacles in performing their roles.

3.1.2 Roles of citizens' associations from the viewpoint of the public sector

The representatives of the public authorities form their viewpoints of the roles of citizens' associations mainly on the basis of: their personal contacts with the civic initiative through participation, their experience in communication with the citizens' associations, and their general knowledge of the reciprocally complementary roles of the third sector and the public sector.

Discussing the roles of nonprofit associations, representatives of the public authorities made the following observations:

“The role of the nonprofit associations may be considered from various viewpoints. We tend to think that nonprofit associations are a balancing pressure group, in the case of our three sectors. But, on the other hand, nonprofit associations should be considered to be cooperation partners, to whom various tasks may be delegated, depending on the level of the public service or institution.”

(In-depth interview conducted on February 18, 2004.)

“It is my opinion that nonprofit associations should develop so that they could form some kind of a pressure group. It starts with a dependent relationship, then becomes a partnership, and finally, it should become a pressure group.”

(In-depth interview conducted on February 26, 2004.)

Besides the role of a pressure group and a cooperation partner, citizens' associations are seen as the innovative associations focused on a central idea, a mission:

“The state needs both those who would fulfill a certain niche, helping to put certain activities into practice, but there is also a need for the ideological approach. In the case of associations with the ideological approach, their ideas are of great relevance. Ideas can be quite revolutionary, extremely innovative.”

(In-depth interview conducted on February 23, 2004.)

The role of the citizens’ associations is not treated separately in documents regulating the activity of the Ministry of Culture, such as the statutes of the ministry. The Ministry of Culture’s action plan for implementing the developmental patterns of folk culture comprises a clear trend towards partnership with the third sector. The action plan foresees:

- engaging the central associations of folk culture in activities in the field of national culture;
- elaborating long-term development plans for the central associations;
- securing governmental support for the activities and development of the central associations.

The following train of thought is an eloquent reflection of the role of the third sector in the field of folk culture:

“From the ministry’s viewpoint or level, the share of state cultural institutions was quite high. Estonia has chosen such a course: It tried to de-nationalize the state structures and created favorable preconditions so that certain functions or roles are today delegated to the third sector. For example: The largest third sector organizations that are cooperation partners at least in my area of activity are the Estonian Choral Society and the Estonian Folk Dance and Folk Music Association. The Estonian Song and Dance Celebration Foundation, the organizer of the general song celebration, is also essentially third sector.”

(In-depth interview conducted on February 18, 2004.)

On the level of the local government, the tasks of public officials are formalized in the Local Government Organization Act, passed in 1993, which states: “The functions of a local government include the organization, in a rural municipality or city, of the maintenance of preschool child-care institutions, basic schools, secondary schools, hobby schools, libraries, community centers, museums, sports facilities, shelters, care homes, health care institutions, and other local agencies, if such agencies are in the ownership of the local government. Payment of specified expenses of such agencies from the state budget or other sources may be prescribed by law.”

“Depending on how this article is interpreted, local governments may support only the maintenance of the premises of libraries, community centers, and hobby centers, or they may also support the activities taking place therein, reimbursing the work of conductors and other creative personnel. And they are indeed the supervisors of cultural associations. Through that we value the third sector, its role in the facilitation of folk culture and maintenance of patriotism.”

(In-depth interview conducted on February 26, 2004.)

While other fields of culture—including public libraries, museums, concerts, and drama agencies—have their own legal acts, there is no legal act governing the sphere of hobbies and folk culture, though the phenomenon of the song festival builds on that line.

Regardless of the declarative character of the Local Government Organization Act, and the non-existence of the folk culture act, local governments highly value cooperation with the citizens' associations. According to the survey of community involvement conducted by the Ministry of Internal Affairs,²⁰ local governments engage in active cooperation with local interest groups, first of all in the field of culture and sports, and also by working with village societies and village elders.

According to the Ministry of Internal Affairs survey, local governments saw the options for cooperation between local government and the citizens' associations as quite extensive:

Exchange of information	97.7%
Involving the representatives of associations in the development of long-term development plans and strategies	94.7%
Consulting with the associations active in the respective pertinent fields prior to passing relevant decisions on local life	88.5%

Thus, local governments consider it important to cooperate in areas like exchange of information, consulting with associations, and involving representatives of associations in long-term development plans. Delegation of public services to the citizens' associations is a relatively less common form of partnership, mentioned by only 48.9 percent of the local government respondents. Usually, local governments limit themselves to commissioning single contractual works.

On the level of local government, the issues of citizens' associations are regulated in each municipality by a separate legal act. In the largest Estonian municipality, Tallinn, the main tasks of the Cultural Heritage Department, according to its statutes,²¹ include, *inter alia*:

- providing counseling to organizers of cultural events in the city, nonprofit associations, and cultural societies;
- supporting nonprofit associations, cultural societies, hobby groups, and projects within the limits prescribed in the budget of the department.

One of the strengths of this overall approach, according to the assessment of the Cultural Heritage Department, is the preparedness of the private and third sectors to cooperate with the city authorities.

A premier event of the City of Tallinn, Old Town Days, provides a good example of the cooperation of between public authorities and citizens' associations. The main

organizers were the public authorities, first the Board of Culture of Tallinn and after that the Government of the Center of Tallinn District. Old Town Days is an event that celebrates the milieu of the old town of Tallinn. During this event, cultural activities help to display the old and valuable environs of the Old Town. Old Town Days comprise some 300 small events, undertakings that together make up an integral mosaic picture. The task of the local authorities is to find nonprofit associations operating in the field of culture, to rally them to participate in the organization of Old Town Days, to request them to organize some events, and to conclude contracts and pay for the organization of events.

Summary

Nonprofit associations in general, and nonprofit associations that work specifically in the field of culture, fulfill several roles, depending on whether they act on the local or national level.

During their entire period of existence, cultural associations have been active in reproducing national culture, thereby reproducing the Estonian national state. This role is considered natural, self-evident, and self-explanatory. The wider role of maintaining values is exactly the role for which government and local government support are considered relevant by the cultural associations.

One of the key issues for the development of cultural associations is the importance assigned to the idea of partnership. For a partnership to yield productive cooperation, it must involve all important levels of mutual communication and reciprocal dependence. This means that officials must engage in an exchange of information with the associations, they must consult the associations and involve them in development of long-term plans and strategies, and officials must delegate public services to the citizens' associations. The success of citizens' associations in acting as partners of public authorities depends both on the abilities of the associations to represent their members as well as openness of the public servants in co-operating with the citizens' associations.

In summary, the survey seems to have shown that the first hypothesis of this paper has proven to be partly true: It is true that the number of cultural associations and their responsibilities have increased. It is also true that public authorities have not fully acknowledged the importance of this growth—but they have acknowledged it to a certain extent.

During as short a period as 2001–2003, the number of associations active in the field of culture increased by almost twofold, from 1,283 in 2001 up to 2,056 by 2004. The biggest increase was experienced in the number of cultural societies and hobby clubs, from 474 in 2001 to 710 by 2004; associations supporting culture and education, from 241 in 2001 to 513 by 2004; and creative groups, from 118 in 2001 to 181 by 2004.

As for official recognition, it does seem that the Ministry of Culture acknowledges the roles of central associations of Estonian folk culture as partners of public authorities. And the cooperation with grassroots-level cultural associations is acknowledged by most local governments.

Nonetheless, the role of cultural associations as maintainers of values, and developers of new innovative initiatives and services, is not acknowledged by public authorities either on the level of state or local government.

4. FINANCIAL SUSTAINABILITY OF NONPROFIT ORGANIZATIONS

Background Information

EKAK (the Estonian Civil Society Development Concept) emphasizes that, in order to achieve the goals established in the concept, public funding for nonprofit organizations must be used efficiently and transparently, and must be fully accounted for. Therefore, those implementing EKAK have given priority to mapping, regulating, and improving the system of public funding for nonprofit associations—and ensuring public notification of this support.

The following issues should be considered when addressing the financial capacity of associations:

- diversity of sources of funding;
- government and/or local government support contracts that provide general support;
- government and/or local government contracts for service delivery from nonprofit associations;
- business sector support;
- nonprofit association's ability to attract non-financial support and volunteers from their communities;
- the existence of additional revenue sources for nonprofit associations, such as revenues from services, products, or rent from assets;
- capacity building.

There are no statistical data in Estonia covering all the nonprofit associations or their sources of revenue, including voluntary work and other non-financial support. Therefore, their financial capability should be assessed on the basis of indirect methods. Good sources of information include the survey conducted by the Ministry of Internal Affairs in February 2004, addressing the issue of funding of citizens' associations from the state budget; the survey of community involvement conducted by the Ministry of

Internal Affairs in early 2004; and the annual accounts of foundations. Some overview of the sources of funding of the nonprofit associations is also available from the survey conducted in November 2003 during the conference of NENO.

The means necessary for supporting activities of the nonprofit associations include direct and indirect support and the private resources of NGOs.

Forms of direct support are:

- *Public sector subsidies*: This includes funding, from the state budget or the local government budget, given as general support for the activities of nonprofit associations, either as targeted financing or through contracts.
- *Public sector grants*: This is funding, from the state budget or local government budget, to pay for implementation of a given project that falls within the government's programmatic objective.
- *Grants*: This includes support from nonbudgetary local funds and international funds.
- *Procurement*: This is money from public authorities for the purchase of goods and services delivered by nonprofit associations.
- *Private sector subsidies*: This includes donations of private individuals and companies.

Forms of indirect support²² from the public sector are:

- tax deductions;
- tax exemptions on income;
- use of public property at no cost or at reduced rates.

Private resources of nonprofit organizations are:

- entrance fees and membership fees;
- private revenues of the organization, such as income from sales of products/services;
- time contributed by members and volunteers engaged in the work of the organization.

Most of the citizens' associations have found several sources of revenue for financing the operation of their organization.

According to the data of the survey conducted in the conference of the citizens' associations in 2003,²³ most of the financial support to the organizations during the last three-to-four years has come from national funds and foundations, which provided funding to 57 percent of the respondents. The survey found that about 40 percent of the organizations have also received financial support from local governments and companies, 35 percent have received support from international funds, and 33 percent have received funding from EU programs. Other sources included subsidies from the

ministries, which assisted 23 percent of the organizations, and local funds, which assisted 25 percent of the groups. On average, each organization received subsidies from 3.2 different sources.

4.1 Subsidies from the State Budget

Legal framework

The following legal acts regulate the funding of nonprofit associations from the state budget:

- State Budget Act
- Competition Act
- Gambling Tax Act

Funding from the state budget relies on the State Budget Act, which stipulates the procedure for the preparation, passing, and performance of the state budget. Means are allocated from the state budget to constitutional institutions, ministries and county governments. The major basis for the draft budget in the administrative area of a ministry is the budget strategy approved by the Government of the Republic.

The procedure for third persons to apply for state budget funding is established by the regulation of the Minister of Finance of May 8, 2003. On the basis of that regulation, the ministries applying for budget allocations to legal persons, including nonprofit associations and foundations, submit the budget of the current year and the draft budget of the next year and a cover letter. In addition, the application is based on the draft contract, to be concluded between the ministry and the recipient.

The Competition Act establishes the notion of state aid and the grantor of state aid. Along with the state, the following shall also be deemed grantors of state aid:

- foundations that directly or indirectly use the resources of the state or a local government;
- nonprofit associations that directly or indirectly use the resources of the state or a local government.

According to the survey conducted by the Ministry of Internal Affairs in 2004,²⁴ there is no uniform scheme covering the financing of nonprofit associations from the state budget. Based on the data collected during that survey, a variety of schemes have been used for financing nonprofit associations, including:

- during budget planning, support is foreseen for nonprofit associations operating in a narrow area of activity covered by the budget;

- during budget planning, support is foreseen for a specific aim or task, including support for financing projects conducted by the citizens' associations;
- during budget planning, support is foreseen for specific organizations, which are specified as separate items in the State Budget Act;
- during budget planning, support is foreseen for the implementation of specific national programs developed for the achievement of the more general goals, and nonprofit associations are seen as the groups responsible for implementation;
- allocations for the coordination in one area of activity are earmarked for government foundations, which organize further allocation of funds to citizens' associations;
- during budget planning, a necessary service is purchased from nonprofit associations.²⁵

The most used forms of financing nonprofit associations from the state budget in 2001–2003 are presented in Table 3.

Table 3.

The Forms of Direct Government Support to Nonprofit Associations 2001–2003

Project grant	These finance narrower goals in specific areas, or pay for single activities supporting citizens' initiatives, on the basis of ideas submitted to public competition for projects.
Activity support	Specific organizations are financed, because their stable and continuous operation in the area of activity is considered important.
Contract based orders of works or services	Implementation of specific activities is financed. The service providers/contractors are nonprofit associations that are capable of providing the highest quality service in the most efficient way.
Partnership agreements	These finance completion of specified tasks based on cooperation. Ministries have specific partners among the citizens' associations, and they cooperate on addressing a focused subject or area of activity. The responsibilities of both partners are established in the agreement.

Source: Adapted on the basis of the survey of the Ministry of Internal Affairs (2004).

4.1.1 Subsidies from the state budget to cultural associations

One of the prerequisites for making government allocations to citizens' associations is that the groups' activities must mesh with national aims and agreed-upon priorities. Another prerequisite is that the citizens' association must fulfill some task assigned to the government by law.

State financing for nonprofit associations that are active in the field of culture is mainly conducted through the budget of the Ministry of Culture. Table 4 presents data

regarding the financing of nonprofit associations²⁶ from the budget of the Ministry of Culture in 2001–2003.

Table 4.

Budgetary Allocations to Nonprofit Associations from the Ministry of Culture 2001–3

	2001	2002	2003	Total 2001–2003
Allocations to nonprofit associations, including foundations in the governmental sector	EEK 65,334,724 (€4,175,650)	EEK 107,902,300 (€6,896,214)	EEK 127,742,700 (€8,164,247)	EEK 300,979,724 (€19,236,111)
Number of nonprofit associations receiving financing	85	96	108	X
Allocations to cultural associations	EEK 36,662,450 (€2,343,158)	EEK 63,703,300 (€4,071,383)	EEK 76,213,700 (€4,870,943)	EEK 176,579,450 (€11,285,484)
Number of cultural nonprofit associations having received financing	21	26	35	X

Source: Adapted on the basis of data of the survey of the Ministry of the Interior (2004).

Allocations from the 2004 budget of the Ministry of Culture to the cultural associations are presented in Table 5.

Table 5.

Budgetary Allocations to Cultural Associations from the Ministry of Culture in 2004

Type of allocation	Recipient of allocations
Allocations for legal persons in the governmental sector	Cultural Endowment
Allocations for the foundations of the governmental sector for current costs	Estonian Film Foundation
	Foundation of the Museums of the Virumaa
	A. H. Tammsaare Museum Foundation
	Estonian Drama Theatre Foundation
Allocations to cultural programs and activities	Allocations from the income from the gambling tax
	Allocations to national programmers
	Allocations to activities, including to the Estonian Song and Dance Celebration Foundation and to cultural societies

Source: Adapted on the basis of State Budget 2004.

In 2004, cultural associations may apply for funds from the Ministry of Culture for the following activities:

- activities intertwining with the following national programs: “Manor school-houses,” “Preservation and Development of the Southern Estonian language,” and “Setomaa”;
- other activities in the cultural field, such as support for museums, libraries, and folk culture;
- single programs, on the basis of public competition;
- activity support for the central associations of folk culture.

The Ministry of Culture supports the central associations of folk culture in activities to promote development in their field. The ministry’s criteria for giving activity support is that the central association must have put together its own development plan and it must have a national network. Respective committees, mostly comprised of officers of the Ministry of Culture, have been established by the decree of the Minister of Culture for examining the applications.

The ministry also provides support from its budget to important festivals that target the whole population of Estonia. These festivals include Viljandi Folk Music Festival, Võru Folklore Festival and the “Baltica” International Folklore Festival.

Citizens’ associations can also apply for project grants from the Cultural Endowment, and they can submit applications to the Gambling Tax Council each month, for project grants given through the Ministry of Culture, on the basis of a separate application form.

In addition to direct financial support, the Ministry of Culture provides indirect non-financial support to the cultural associations, by organizing information days, training, and counseling for the associations. The Development Centre of Folk Culture, an agency of the Ministry of Culture, has begun to provide information on EU structural programs and to conduct training on the preparation of project applications.

4.1.2 Support of the Gambling Tax Council to civic initiatives

Pursuant to Section 7 of the Gambling Tax Act, the tax is paid into the state budget. Of the amount of gambling tax paid into the state budget:

- 46 percent is transferred to the Cultural Endowment of Estonia by the 25th day of the month following its receipt of the amount, and 63 percent of this money is allocated for cultural buildings;
- 3.9 percent is allocated to the Estonian Red Cross;
- 12.7 percent is allocated for supporting investments in regional programs related to children, young people, families, elderly persons, and disabled persons;

- 37.4 percent is allocated to supporting projects related to sports, science, education, children, young people, families, medicine, welfare, elderly persons, and disabled persons; of this total: 32 percent is allocated for supporting projects related to science, education, children, and young people, 22 percent goes to supporting Olympic preparation projects, 10 percent goes to supporting other sports projects, 32 percent supports projects related to families, medicine, welfare, elderly persons, and disabled persons, and 4 percent is used for supporting cultural projects.

The income from the gambling tax amounted to EEK 173.3 million (€11 million) in 2003.

A Gambling Tax Council (GTC), which is formed by the Parliament and comprises six members of the Parliament (Riigikogu) and one representative each from the Ministry of Education, the Ministry of Culture and the Ministry of Social Affairs, shall review the applications submitted for grants from applicants. The procedure for application for support from Gambling Tax receipts is established by regulation of the Government of the Republic.

Each of the ministries that receive these applications—the ministries of Culture, Social Affairs, and Education—have established a procedure for acceptance, review, and preliminary assessment of project applications. Based on project applications, nonprofit associations, foundations, local governments, state institutions under the administration of county governments, and governmental agencies can obtain financial support. The GTC passes the final decision on applications.

Despite the rules established in the legal acts, the priorities set by GTC are often declarative, and applicants cannot be sure what are the priorities of the ministries. The role of the GTC and the ministry in making decisions regarding applications are also unclear, and thus, the whole decision-making process remains unclear. Although the ministries must submit a written opinion on the applications, the GTC does not always take account of them. Often, the GTC has decided to support applications for which the ministry has made a negative decision, while failing to grant the support to projects that were approved by the ministry. This has resulted in a situation where several applicants think that the success of the projects will be granted by lobbying the politicians who make up the GTC. The State Audit Office of Estonia has also pointed to shortcomings in the work of GTC.²⁷ The Audit Office found that it would be more useful to reduce the circle of areas funded and to detail these subjects each year. Furthermore, a common practice should be shaped for the assessment of the applications, to establish a clear form for the ministries to submit their opinions.

Summary

The Ministry of Culture provides direct financial and indirect non-financial support to the cultural associations, in the form of project grants and activity support on the basis of common application forms. Although the support allocated to cultural associations by the ministry is remarkable, and has increased on a yearly basis, it is not always clear what the criteria are for selecting the organizations that receive activity support. It is also not always clear what services are being bought from the state budget, or which organizations are being contracted. Although project grants distributed through the GTC offer an important opportunity for nonprofit associations, including cultural associations, to receive funding, those grants only provide one-off, short-term funding, which lasts for a maximum of one year. Thus, their impact on the development of the organization is short, and fails to secure the stability of the organization.

4.1.3 Funding of cultural associations by the Cultural Endowment

The activities of the Cultural Endowment are regulated in the Estonian Cultural Endowment Act. The Estonian Cultural Endowment is a legal entity created to collect funds and distribute them to support the establishment and renovation of buildings housing art, folk culture, physical fitness facilities, sports, and cultural activities.

The tasks of the Cultural Endowment include, *inter alia*: the support of projects that facilitate, introduce, and promote arts and sports, creative groups, and scientific research in the field of culture and sports; and facilitating the development of arts, folk culture,²⁸ and physical fitness and sports.

Associations active in the cultural field may apply for support from the foundation that covers their field. Most of the support to cultural associations is allocated from the National Culture Foundation, which has the main task of supporting the groups, agencies, and organizations engaged primarily in national culture and informal education. The foundation also supports the organization of various events related to national culture. Most of the allocations are in the range of EEK 3,000-EEK 10,000. The recipients of those allocations include national representative organizations in the field of culture—the Estonian Choral Society, the Estonian Folk Art and Craft Union, the Estonian Amateur Theatre Association, the Estonian National Folklore Council, and the Estonian Folk Dance and Folk Music Association—as well as small cultural societies and cultural associations engaged in the promotion of folk dance and folk music.

In 2002, the Folk Culture Foundation made 678 allocations. Grants from the Cultural Endowment to the artistic associations and associations in the field of culture in 2002 are presented in Table 6.

Table 6.
Grants of the Cultural Endowment to the Artistic Associations and Associations
in the Field of Culture in 2002

Foundation	Total of grants allocated (EEK)	Grants allocated to the associations in the field		
		Organizations	Total amount (EEK)	% of the endowments of foundation
Foundation of fine and applied arts	7.7 million	Associations, societies.	536,700	7
Foundation of architecture	5.8 million	Estonian Union of Architects;	1,188,900	20
		Estonian Union of Designers.	88,600	2
Foundation of drama art	7.9 million	Professional associations;	1,152,400	15
		Estonian Theatrical Society.	1,175,200	15
Foundation of audiovisual arts	8.8 million	Estonian Cinemagraphic Society;	1,951,000	22
		other societies and associations.	1,023,900	12
Foundation of folk culture	7.8 million	Professional associations;	555,500	7
		Estonian song and dance celebration foundation;	45,000	1
		societies, associations, groups;	1,645,000	33
		agencies of informal education.	395,600	5

Source: Yearbook of Estonian Cultural Endowment 2002.

The grants allocated for citizens' associations are mostly of single character—whether for the organization of certain events; to support folk culture groups in the acquisition of necessary items, like folk costumes, instruments etc.; or for travel support for participation in international cultural events, such as competitions, exhibitions etc. The exception to these one-off grants are three artistic unions, which also receive activity support from the Cultural Endowment: the Estonian Theatrical Society, the Estonian Theatrical Association, and the Estonian Cinemagraphic Association.

According to representatives of the public authorities, the Cultural Endowment should only provide support to civil initiatives.

“Providing subsidies to the cultural institutions should be an exception. Theatres receive 150 million from the state budget and then they still ask from the Cultural Endowment. [...] This is not fair, and the Cultural Endowment could be more direct and say that, if you are an institution administered by the owner, the owner will provide you with sufficient funds for operating.”

(In-depth interview conducted on February 26, 2004.)

Summary

Applying for support from the Cultural Endowment is less complicated than applying to the GTC, and the procedure for the preparation, submission, and examination of the applications is clear and transparent. From the viewpoint of cultural associations, the representatives of the central associations in the Council of the Cultural Endowment might be more actively involved in setting the priorities of the foundation.

4.2 Direct and Indirect Support from Local Budgets

The data on subsidies allocated to citizens' associations from local budgets is incorrect or insufficient in many municipalities, so it is impossible to obtain an overview of the financial support provided by local municipalities to citizens' associations around Estonia.

The Ministry of Internal Affairs' early 2004 survey on the problem of community involvement gives a basis for describing the ways in which local governments support citizens' associations.

Citizens' associations may apply for direct support from the budget of local governments for:

- project grants;
- activity support;
- support for the commencement of an activity.

The survey conducted by the Ministry of Internal Affairs in 2004 shows that 97.7 percent of the local governments have allocated project grants, 83.7 percent have provided activity support, and 26.6 percent provide support for the commencement of an activity.

Most of the project grants of the local governments had been allocated for the following areas:

culture and leisure	73.2% of respondents
sport	53.7% of respondents
community and village development	34.1% of respondents

Activity support was mainly given to the associations active in the following areas:

culture and leisure, activities of cultural associations	67.1% of respondents
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sport	54.3% of respondents
social protection: associations of the retired, associations of the disabled	30.0% of respondents

Most often, the basis for funding citizens' associations from the local budget is either an application of the citizens' association or an agreement signed with the local government for budgetary support. There are legal acts in more than a half of the local governments governing the funding of nonprofit associations. These acts most often regulate the financing of citizens' associations operating in the fields of culture and sports.

Local governments also use their budgets to support citizens' associations via indirect subsidies, which cover the following operational costs:

salaries of an employee, such as the instructor/ leader of a hobby group, cultural group	29.8% of respondents
administration costs of the rooms used by the citizens' associations	68.7% of respondents
costs of the office equipment and goods used by the citizens' associations	50.4% of respondents
transport costs	16.0% of respondents
costs for organization of events	20.0% of respondents

Local governments also provide support services to citizens associations:

counseling free of charge	75.6% of respondents
training free of charge	40.5% of respondents
mediation and distribution of information free of charge	85.5% of respondents
use of rooms for events free of charge or at reduced rates	87.8% of respondents

Summary

The most common ways in which local governments provide direct budgetary support to citizens' associations is through project grants and core financing for activity support. Support for the commencement of an activity was used less often. Indirect support includes compensation of certain costs of citizens' associations from the local government budget, provision of support services free of charge, and provision of rooms for events free of charge, or at reduced rates. Most of the local governments have established a

particular procedure for allocation of support, most often the procedure for allocations for culture and sports has been regulated.

4.3 Application of Support from Non-budgetary Foundations

Non-budgetary foundations are private organizations that have their own financial resources, which they use at their own discretion, to fund projects or activities for public benefit. In Estonia, such foundations include the Open Estonian Foundation and its sub-program, the Baltic-American Partnership Program.

The largest non-budgetary foundation providing support to the associations in the cultural field in Estonia is the Estonian National Culture Foundation (ENCF).

Citizens' associations may use project applications to apply for funding from national, foreign, and international foundations. International foundations and programs mostly finance projects with a longer time perspective and a larger budget. When applying to international foundations, the associations are sometimes competing on an equal basis with local governments and companies. As an EU member, Estonia has the opportunity to receive major funding from the EU budget, while participating in the regional policy of the EU. Although the support going from external funds to the third sector may be quite remarkable overall, this money will probably reach only a small part of the active citizens' associations, because most of them lack the needed financial capacity to pay the requested share of co-financing—usually 20–25 percent of the project volume. Smaller associations also lack the professional skills needed for the management of voluminous projects.

4.3.1 The ENCF

The Supreme Council of the Republic of Estonia established the ENCF on June 19, 1991. Its aim is to aid the preservation and development of Estonian national culture. Since 1991, the foundation has issued scholarships and subsidies totaling EEK 35 million. There are 84 affiliated foundations administered within the ENCF.

In its 12th year of activity (2002–2003), ENCF received a total of EEK 3,909,476 (€249,878) in the form of donations from individuals, companies and nonprofit associations.²⁹ Seven new sub-foundations were founded with individual donations. It is noteworthy that sub-foundations were not only established through donations from individuals and companies. Citizens' associations themselves have also established sub-foundations, so ENCF initiated two sub-foundations for the support of folk culture.

Grants for scientific research were given to 54 individuals, grants for studies and continuous training to 109 persons, and 38 cultural projects received support. In total, grants and support were allocated from 59 sub-foundations.³⁰

4.4 Business sector support to nonprofit organizations

Companies can grant donations using the following means:

- *Charity programs:* This is a program conducted and controlled by the company and funded directly through the company.
- *Sponsorship or an advertising contract:* The contract stipulates how and in what extent the beneficiary will advertise and promote the financier in its activities.
- *A foundation established by the company:* This is a legal entity, separate from the company, that is mainly financed through the company.
- *A sub-foundation counseled by the financier:* In this arrangement, the company establishes a sub-foundation at some existing charity foundation, like the Estonian National Culture Foundation.³¹

One particular example of business sector support is the charity program run by Hansabank, which is called “Let us make the stars shine!” and is a competition of projects for children and youth. Through this competition, Hansabank initiated an all-Estonian support program that has contributed to the systematic development of children’s and youth activities. Already almost 100 organizations and movements working with children and youth have received support.

Almost 700 project applications were received for the fourth consecutive competition. This was the largest number of applicants ever, and they were seeking a total of EEK 50 million (€3,195,807). Most of the projects involved support for construction of playgrounds and arrangement of various dancing, sports, drama, and arts camps. Thirty-six projects were selected, and EEK 1.04 million (€66,472) were allocated to them. The projects in the field of culture stood out among the recipients of support.

The most common method used by companies for supporting citizens’ associations is a cash donation. Companies are especially likely to support social projects and development activities. In Estonia, a company may receive tax exemptions on up to 10 percent of its pre-tax income or 3 percent of the salary fund—the amount subject to social tax—for donations to charity, provided the recipient of the donations is entered in the list of nonprofit associations and foundations that are granted tax benefits.

On the local level, business donors are more likely to support particular events and not daily activities of the associations. Businesses more readily donate products, free transport service, or rooms.³²

In addition to cash donations there are several other means for supporting citizens' associations, and one of the most widely spread means in Estonia is non-financial support.³³ Non-financial support may include products, services, real estate, spare inventory, or office equipment. These donations may consist of such services as printing of materials, copying, design, establishment of web pages, or provision of rooms for use free of charge.

The attitude toward support from the business sector is eloquently illustrated by the following comment:

“They do support us to some extent, but this is rather the marketing of the business sector in the form of advertising.”

(In-depth interview conducted on February 26, 2004.)

Summary

The business sector is not yet prepared to provide extensive support to citizens' associations, and these associations lack the courage and skills to seek support and develop cooperation with businesses. Up to now, the most widely spread means for businesses to support citizens' associations is through advertising contracts or through non-financial support. Besides supporting citizens' associations, businesses and cultural associations have commenced cooperation in their fields. Thus, first steps towards cooperation are being made between tourist companies and associations of folk culture.

4.5 Private Resources of Nonprofit Organizations

The main types of resources that nonprofit organizations own themselves include:

- entrance fees and membership fees;
- economic activity—revenues of the organization, such as income from sales of products/services;
- voluntary work of organization members and the work of volunteers involved in the organization.

As there are no statistics in Estonia regarding the income of nonprofit associations, their income can only be estimated using indirect methods. On the basis of the survey conducted in 2003 during the conference of nonprofit associations,³⁴ 75 percent of the organizations found cash donors when searching for means for their activities. Volunteer work was used by 65 percent of the organizations. Half of the respondents, or 54 percent, have been granted facilities or office equipment free of charge or at favorable

terms. Generating private revenues through preparation and publishing of printed matter or counseling was not used very often—both had been used by 13 percent of the organizations participating in the conference.

In Estonia today, the main resource at the disposal of nonprofit associations is volunteers and their work. Unfortunately, there is no data whatsoever regarding the number of volunteers or the volume of work done by them. The level of voluntary work can be estimated on the basis of the survey of citizens' associations conducted by the PRAXIS Center for Political Studies in early 2003.³⁵

In 230 organizations, or 78.2 percent of the respondents surveyed, the members are engaged in voluntary work. The involvement of volunteers from outside the organization is somewhat less common, and was only mentioned by 106 organizations, or 36.1 percent of the respondents. On the average, one volunteer worked for 12.5 hours a month, and the average number of volunteers working for the organizations was 4.7 per month.³⁶

Income received from the sale of services and products offered by the citizens' associations is only starting to become an important source of revenue. For a citizens' association, entrepreneurship includes sale of such goods and services that the association may transfer to a nonmember for a fee.

The number of associations that focus their activities on the provision of a specific service is increasing, whether they perform contractual delegation of a public service or offer services that are not sufficiently profitable and attractive for businesses but that have a demand in society, such as training or social services.³⁷

Culturally oriented associations are the main organizers of cultural events in a number of local municipalities, including the largest municipality in Estonia, Tallinn. Events range from those with a more local focus, like Tallinn's Old Town Days, to all-Estonian functions—such as the Folk Music Festival in Viljandi, organized by a nonprofit association consisting of a couple of members, and the song and dance celebration, organized by the Estonian Song and Dance Celebration Foundation in cooperation with hundreds of folk culture organizations.

Summary

The private resources of the associations active in the field of culture mainly include membership fees, voluntary work, and income from economic activity. While membership fees and voluntary work have been among the main resources of the cultural associations for decades, it is only recently that nonprofit associations have been looking for income from the sale of services and products and arrangement of benefit events. With the improvement of the economic and marketing skills of the leaders of associations, the share of such income will certainly increase in the future.

4.6 Nonprofit Organizations' Expectations of Support

4.6.1 Desired methods for support

The survey of participants at the conference of citizens' associations in 2003 found that 61 percent of the respondents wished the national government and local governments would provide funds to nonprofit associations. A similar result was found in the survey conducted at the 1999 NENO conference, where 63 percent of the respondents favored financial support from governments. In the later survey, 57 percent of the respondents gave importance to moral support or public recognition. In the earlier survey, this figure was 11 percent higher. Compared to those responding in 1999, 25 percent fewer participants at the 2003 conference considered the options that the national government and local governments would support nonprofit associations by providing tax benefits for donors, and 14 percent fewer expected governments to facilitate sponsorship. Between the 1999 survey and the 2003 survey, there was also a 18 percent reduction in the number of respondents who believed that it was appropriate for government to establish an advisory council.³⁸

The role of the local government in providing support to cultural associations is considered important, both by representatives of the cultural associations and by public authorities.

“While other financiers support lofty ideas, the local government could improve the environment for the activities of the cultural associations. Often the rooms of the local government are used. [...] The local government should not bear large financial loads, but its presence would give a guarantee that what is done locally will remain at the disposal of the same nonprofit association in the future. The guarantee is the major issue.”

(In-depth interview conducted February 23, 2004.)

“Actually the local government also provides the rooms for associations. In our community, for instance, instructors of hobby groups receive a salary from the local government. [...] Besides this, each group receives activity support from the local budget each year.”

(In-depth interview conducted February 26, 2004.)

Based on the survey of community involvement conducted by the Ministry of Internal Affairs, it can be concluded that the expectations of support from local governments are often fulfilled. During the last three years the local governments that participated in the survey have supported the activity of the citizens' associations as follows:

Making allocations from the budget of local governments	91.6%
Supporting the associations in the arrangement of events (e.g., provision of rooms and means free of charge and/or under favorable conditions)	91.6%
Compensating for the costs of the citizens' associations (remuneration, administration costs of rooms, etc.)	67.9%
Giving public appreciation to the associations	57.3%
Offering the associations free support services, such as counseling, training, information, etc.	65.6%
Signing contracts for the execution of single tasks, such as event organization	54.2%
Signing contracts for the delegation of public services	22.9%

4.6.2 Future of Funding for Citizens' Associations

The participants of the conference of citizens' associations in 2003 were asked to imagine what the future of the funding of the Estonian nonprofit associations would be like in 10 years. Half of the respondents named the EU as one of the main financing agencies. Local governments were mentioned by 48 percent of the respondents and the state was mentioned by 47 percent. A similar number of respondents, 46 percent, said that citizens' associations shall have to manage by themselves, by providing their services and products.

Only 29 percent of the organizations said that businesses will support associations in the future. A total of 28 percent expected support from private individuals, and 21 percent suggest that associations will manage with their membership fees. During the NENO conference in 1999, more respondents considered it likely that nonprofit associations would develop based on government support—in the so-called Northern Countries Model—instead of following the “American Model” of development based on private support.

The least favored option was the idea of supporting nonprofit associations through the introduction of additional taxes for particular initiatives. In their added comments, many respondents said they considered it important that nonprofit associations be included as equal partners in various discussions on public matters.

The representatives of the public sector who were surveyed were of the opinion that government aid should not remain the only source of funding for citizens' associations—there should be also other sources of funding. At the same time, these respondents said that the public sector, both on the central and local level, should seek to achieve long-term contracts with citizens' associations.

The public sector respondents' opinions on use of EU programs were summed up by the following:

“From the second half of 2004, or early in the next year, the EU Structural Fund will be opened. [...] Anyone can apply for those funds. There are a number of different international EU projects, cross-border projects. Today a couple of professional organizations with larger budgets who have received money from EU support programs already are ready for that. But, actually, the number of weaker organizations who would need help [with becoming eligible for EU funds] is quite high.”

(In-depth interview conducted on February 26, 2004.)

Summary

In summary, it may be said that research supports both the second and third hypotheses of this chapter.

Hypothesis two states that cultural associations’ success in fulfilling their roles is dependent on an environment where financially sustainable nonprofit associations can develop—and that this environment has not developed sufficiently, as associations lack stability, skills, and other necessary factors.

In the survey conducted in 2003, citizens’ associations listed lack of finances and the insufficient professional qualities of their individual members as two main obstacles to performance of their roles. Aside from asking the state and local governments to provide more stable financing, nonprofit associations say they are also prepared to enhance their financial capacity, while developing cooperation with the business sector and encouraging marketing of their products and services. Respondents also emphasized the importance of improving their organizations’ management skills and the need to notify local governments and local communities of their activities.

Hypothesis three states that public authorities use various means, including financial and non-financial, for supporting nonprofit associations, and that, despite some specific efforts, it is still necessary to specify general strategic principles, to ensure the sustainability of nonprofit associations.

The research indicates that public financing helps guarantee the survival of the majority of active cultural associations, but their financial sustainability is not achieved. Therefore, the capability of the cultural associations to carry out their roles is not increasing. It is not enough to give some public support to cultural associations without specifying general strategic principles for improving their financial sustainability.

For the future, nonprofit associations are primarily looking to national and local governments for stable long-term support for their activities. Both financial and non-financial support is considered equally relevant. Cultural associations stress the need to increase support for their activities as a process of maintaining values. Thus, the most significant strategic principles are: there must be a change in methods for financing nonprofit associations with state and local government money; there must be a considerable increase in the share of support for activities; and the contracts with nonprofit

associations for the provision of public services and activity support should be long-term contracts, of three years or more.

5. POLICY OPTIONS

The potential policy options outlined below are based on the analysis above. This analysis leads to three important conclusions:

1. **Cultural associations form one of the largest, rapidly increasing, and vital parts of all nonprofit associations in Estonia.** One of the sources of their vitality has been their long-term traditions and their special role in carrying on the national identity. Besides their traditional historical roles, the cultural associations have started to fulfill new roles: These groups are taking an increasingly active part in the development of policies in their areas of activity on the national level as pressure groups, and they are acting as leaders in the promotion of local life, providing new initiatives and innovative ideas where public authorities fail and the business sector is not interested.
2. **The changed roles of the cultural associations need to be acknowledged and recognized, both on the national and the local level.** This means recognition of the roles of cultural associations in national development plans, state programs, and local development plans. In order to perform their new roles, the associations' sustainability must be secured. Cultural associations, like other nonprofit associations, need means for performing their roles, both financial and non-financial, so that they can undertake their activities and also establish or improve their operational environment.
3. **The sustainability of the cultural associations has two important components: financial and non-financial.** From the financial sustainability perspective, stable local funding in the form of project grants and activity support for associations that are active on the local level is a key component. In the case of national organizations, these groups need stable financing from the state budget. From the non-financial point of view, it is important to find partners from the public and business sector who can help, and to improve the management and economic skills of the nonprofit organizations' leaders.

Based on these conclusions, this paper will present here a set of options for improving the sustainability of cultural associations and a set of options for increasing the financial sustainability of all Estonian nonprofit associations.

The options for improving the sustainability of cultural associations are presented as tactical options, which can be undertaken by the cultural associations and local

officials involved in cultural matters. These options rely, in turn, on strategic options that can impact the financial sustainability of the cultural associations and all Estonian nonprofit associations. Strategic options can be taken by the institutions responsible for decision-making on the local and national level: local government leaders, the Finance and Cultural Affairs committees of the Parliament, the Support Group for the Implementation of Estonian Civil Society, the Ministry of Finance, and the Joint Committee for implementing EKAK.

5.1 Options for Cultural Associations to Improve their Own Sustainability

Options	
Permanent cooperation partners vs. single grants	<p>Current situation: Today, support from the business sector for cultural associations is mostly of single character. Non-financial and financial support is mainly granted through advertising contracts.</p> <p>Weaknesses: Cultural associations lack the skills and preparedness to communicate with the business sector. They are not accustomed to the operating levers of the business sector. Businesses are not yet aware of the role of citizens' associations in society.</p> <p>Opportunities: Businesses are gradually growing to be permanent partners of the cultural associations, instead of just granting single subsidies. Even today, there are examples of such cooperation with travel agencies, who order concerts of folk music, introduction of folk handicrafts, etc.</p>
Exchange of information vs. isolation	<p>Current situation: Cultural associations organize numerous events in their communities, thereby invigorating local life and keeping cultural traditions alive.</p> <p>Weaknesses: Sometimes, associations fail to notify the local government and local people of their activities.</p> <p>Opportunities: By notifying the local government and local communities, associations can improve their reputation, as well as their ability to involve more people in their activities and to find potential supporters from among local government and businesses.</p>
Offering new types of public services vs. taking over the existing ones from the competitors	<p>Current situation: Cultural associations provide several public services on the national and local level, and these services are one important source of revenue.</p> <p>Weaknesses: As the public sector lacks funds for purchasing public services, associations are often fighting with each other to provide the services. This makes the public sector cautious about dealing with nonprofit associations, and the options for cooperation with these associations is inhibited.</p> <p>Opportunities: Cultural associations can offer new types of services besides the existing public services. New, fresh ideas can be added to the traditional services and events, and these new types of services can attract supporters from local government, the business sector, and nongovernmental foundations. The associations' reputation with local government officials will be improved.</p>

Measurable project results vs. dissemination of results	<p>Current situation: Within the framework of numerous projects implemented by the cultural associations, valuable publications and recordings introducing Estonian national culture have been completed.</p> <p>Weaknesses: Upon completion of a project, the introduction and dissemination of the products is not finished. The use of a valuable product will be limited to a very narrow circle, and it will not reach the potential interested target group.</p> <p>Opportunities: Cultural associations can present and disseminate completed products in Estonia and abroad, thereby earning additional revenue for development of their activities.</p>
Project writing skills vs. organization management skills	<p>Current situation: Numerous training events teaching project writing training have been arranged for the cultural associations, and many people have already mastered project writing skills.</p> <p>Weaknesses: Result-oriented project-writing skills are not sufficient for management of an organization as a process. Associations need theoretical knowledge and practical skills, both for project management and for management of the whole organization.</p> <p>Opportunities: Training in organizational management, including financial management and economic activities, such as marketing of products and services, can take an important place in the training programs of the cultural associations.</p>
Arrangement of benefit events and development of economic activities vs. membership fees	<p>Current situation: In the case of small grass-root associations, membership fees are more important as stable sources of income. The practice of earning income through the sale of services and products is not widespread yet.</p> <p>Weaknesses: Membership fees are a passive means of supporting the activities of an organization. These fees do not inspire the members' economic activity.</p> <p>Opportunities: Cultural associations and folk culture groups can arrange benefit events, like concerts, exhibition sales, etc., involving the local community. Benefit events provide the chance to show skills and improve a group's reputation. They provide additional means for the development of daily activities, an improved operational environment, and new initiatives.</p>
Professional managers vs. creative personalities with a feeling of mission	<p>Current situation: The leaders of folk culture groups, such as leaders of choirs and dance groups, are creative personalities, who also have to deal with the practical side of organization management.</p> <p>Weaknesses: Creative personalities can be short of time and skills for continuous development of the activities of an organization.</p> <p>Opportunities: Cultural associations with permanent support can employ professional managers to organize daily activities and development. This would give the leaders of cultural groups more opportunities to focus on creative activities.</p>

If cultural associations are to realize some of these options, they will need national and local government officials to also make the right choices. The options for officials are described in the next section.

5.2 Options for Public Authorities and the Joint Committee for Implementing EKAK to Increase the Financial Sustainability of Nonprofit Associations

Options	
Activity support vs. project grants	<p>Current situation: Since the 1990s, project grants have dominated the financing of nonprofit associations on the national and local levels. Instead of funding organizations, ministries and local governments fund specific projects. Only representative organizations in certain fields, and larger associations, have received activity support on the national level. In a competitive funding environment, many nonprofit organizations have great difficulties in covering general operating expenses.</p> <p>Weaknesses: Project grants are targeted at single outcomes, which do not have an influence on the activities of an organization as a process and do not secure an organization's stability and sustainability. Most of the organizations are living from project to a project, an approach that inhibits development of the organization.</p> <p>Opportunities: On the local government and national level, distribution of activity support and project grants has begun to change in favor of activity support. Activity support secures more stability for associations, and it increases their ability to develop their operational environment and acquisition of additional funds. Financial and non-financial support from local governments is vital if associations are going to obtain additional money from national foundations and EU structural funds. Activity support relies on the development and activity plans of the organizations. Besides activity support, project grants are provided for the support of single actions, new ideas, and initiatives.</p>
Multi-year contracts vs. one-year contracts	<p>Current situation: The project grants, activity support, or public service provision contracts signed between local governments and nonprofit associations are short-term, usually lasting no more than a year. Long-term agreements for provision of specific services or execution of long-term activity programs are nonexistent.³⁹</p> <p>Weaknesses: Short-term contracts do not provide security for the future of the associations or guarantee the development of an organization or its services.⁴⁰ One year is also too short a period for public authorities to establish the actual capability and competence of their contractual partners.</p> <p>Opportunities: Multi-year contracts, of 3–5 years, secure the stable development of associations and provision of professional services. Associations and public authorities develop a long-term, stable partnership.</p>

<p>Failure to regulate the financing of nonprofit associations from the public budgets vs. common principles</p>	<p>Current situation: There are no common principles and procedural rules for financing nonprofit associations from the state and local government budgets.</p> <p>Weaknesses: The multitude of models and mechanisms used in reality decreases the transparency of financing, and nonprofit associations consider the funding nontransparent and unjust.</p> <p>Opportunities: The ministries and local governments have agreed on general principles for supporting citizens' associations when it comes to providing project grants and activity support—and supporting new initiatives, new ideas, and new citizens' associations. A balance has been struck between the support of existing traditional events and new initiatives. The requirements for applicants and the procedure for reviewing the applications and evaluation criteria have been established and made public. Funding schemes have become clearer, organization of financing is less complicated and more transparent, and trust between the donors and the agents receiving support has increased.⁴¹</p>
<p>Financing of the activities of nonprofit associations from Gambling Tax through the Gambling Tax Council vs. forming a civil society foundation for financing the activities of the nonprofit associations; failure to regulate the financing of associations from the public budgets vs. common principles</p>	<p>Current situation: The resources collected on the basis of the Gambling Tax Act are allocated to nonprofit associations by the GTC, which is comprised of members of parliament and top-level officials of the ministries.</p> <p>Weaknesses: The decision-making and allocation processes of the GTC are not transparent.⁴² Priorities set by the GTC are often declarative and general, and the applicants do not have correct information as to what the priorities of the ministries are. The role played by the GTC in making decisions regarding financing is not clear. There are no adequate criteria for allocation of means, and therefore the whole decision-making process is not transparent.</p> <p>Opportunities: The Civil Society Foundation is an independent legal entity, funded from resources collected on the basis of the Gambling Tax. The general aim of the Civil Society Foundation is to support sustainable development of the civil society and nonprofit sector in Estonia. In the process of development of civil society, the allocation mechanism of the means collected on the basis of the Gambling Tax will be regulated. The principles for allocation thereof, the procedure for reviewing the application, and the assessment criteria have been stipulated and made public.</p>

6. CONCLUSIONS AND RECOMMENDATIONS

The three hypotheses that were stated in the beginning of this chapter have proven true.

The number of the cultural associations has grown, and so have their responsibilities, during recent years, but this growth has not been acknowledged by the public authorities. The number of cultural associations, and their responsibilities, have increased. During as short a period as 2001–2003, the number of associations active in the field of culture increased by almost twofold. Aside from their traditional historical roles, the cultural associations have started to fulfill new roles, but the altered roles have not been acknowledged or recognized by the national or local governments. The roles of the cultural associations are not included in development plans—such as the national development programs of the specific regions, national programs, or local development programs. The means for providing support to cultural associations from the state or local

budgets fail to ensure the sustainability that associations need to perform their roles. The roles of central cultural associations as partners of public authorities are acknowledged by the Ministry of Culture, and cooperation with grassroots level cultural associations is acknowledged by most local governments, but this is not enough. The role of cultural associations in maintaining values and developing new, innovative initiatives and services is not acknowledged by public authorities, either on the state or local level.

The cultural associations' success in fulfilling their roles is dependent on their stable development and financial sustainability. Financial sustainability of cultural associations has not increased considerably, as the associations lack a stable basis for operation, and they lack the skills and courage necessary to deal with local governments and the business sector. In Estonia today, the main resource at the disposal of the nonprofit associations are volunteers and their work. The income received from the sale of services and products is only starting to become an important source of income for citizens' associations. The business sector is not yet prepared to provide extensive support to citizens' associations, which lack the courage and skills to seek support and develop cooperation with businesses.

When it comes to performing their role, the two main difficulties citizens' associations face are lack of finances and insufficient professional qualities. For these reasons, the associations have said that finding cooperation partners from the public and business sector, and improvement of the management and economic skills of their organizations' leaders, are important for their development.

Public authorities use various means, both financial and non-financial, for supporting nonprofit associations on the local and national level. In order to ensure the sustainability of the cultural associations, it is vital to specify common strategic principles approved by the public authorities and nonprofit associations. Generally, public funding ensures the survival of the majority of active cultural associations, but their financial sustainability is not achieved. This situation prevents the cultural associations from increasing their capability to carry out their roles. If cultural associations are going to fulfill the roles expected of them by the public authorities, it is necessary to specify some strategic principles for improvement of their financial sustainability.

In the future, nonprofit associations are looking forward to stable and long-term support, from the national and local governments, to fund their activities. While stable local government funding for associations, in the form of activity support and project grants, is important, another key factor is indirect non-financial support from local governments. This non-financial support can include the use of public property at no cost, or at a reduced rate, and free counseling. More and more officials and members of civil society emphasize the need to increase activity support for cultural associations, as part of a process of maintaining values. In the case of national, representative organizations of specific cultural areas, direct support in the form of stable financing from the state budget is of vital importance.

Thus, according to the most significant strategic principles, it is necessary: to change the means for financing nonprofit associations, on the local government and national level; to considerably increase the share of activity support; and to move from short-term contracts to long-term cooperation contracts.

6.1 Recommendations for Cultural Associations and Local Culture Officials

Recommended activities for cultural associations—and also local government officials who are engaged in the field of culture—are the following:

- find stable cooperation partners from the public and business sector;
- inform local government and the local community of the cultural associations' endeavors;
- offer new types of services besides the existing public services;
- present and disseminate products completed within the framework of projects in Estonia and abroad;
- develop knowledge and skills in organizational management and economic activities;
- arrange benefit events involving the local community;
- train and employ professional managers, to work with the creative leaders of groups.

To realize the above recommendations, basic changes are needed in the way nonprofit associations are funded by public budgets, and cultural associations must take concrete actions as well. Implementing these changes requires close cooperation between the public authority and the citizens' associations.

6.2 Recommendations for Other Officials

Recommendations for the leaders of local governments; the Cultural Affairs Committee, Finance Committee, and Support Group for the Implementation of the Estonian Civil Society of the Parliament; the Ministry of Finance; and the Joint Committee for implementing the Estonian Civil Society Development Concept (EKAK) are the following:

- change the means for financing nonprofit associations on the local and national level, giving a considerable increase in the share of activity support;
- convert short-term contracts signed with the nonprofit associations for the provision of public services and for activity support into long-term contracts, of three years or more;

- make an all-Estonian agreement, on the ministerial level, outlining general principles for funding nonprofit associations from the state budget and general principles for allocation of project grants, activity support and purchases of public services;
- develop the principles for funding nonprofit associations from local budgets and create general principles for allocation of project grants, activity support and purchases of public services;
- amend the system used for allocating income from the Gambling Tax to nonprofit associations, and found the Civil Society Foundation, in order to support sustainable development of the civil society and nonprofit sector in Estonia.

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APPENDIX 1

Definition of terms

Citizens' associations: A citizens' association is a voluntary organization of natural persons, formed as a manifestation of their initiative. This definition is often used as general term for nonprofit associations and civil law partnerships. Not all nonprofit associations are citizens' associations. Thus, this definition does not extend to a foundation when, after the foundation of the legal entity, founders draw back and the legal "body" continues its independent legal life. A foundation has no membership.

Cultural associations: A general term applied in this research work to all nonprofit associations, foundations, civil law partnerships, and other cultural groups established through citizens' initiative, operating in the field of culture.

Financial sustainability of nonprofit associations: When addressing the term of financial sustainability, the criteria of the USAID Sustainability Index have been used in Estonia since 2000. Dimensions of financial sustainability of nonprofit associations used in the NGO Sustainability Index for Central and Eastern Europe and Eurasia are:

- government and/or local government support (core financing) contracts;
- government and/or local government contracts with nonprofit associations for services;
- diversity of sources of funding;
- business sector support;
- nonprofit associations' ability to attract non-financial support and volunteers from their communities;
- existence of additional income sources of nonprofit associations (revenues from services, products, or rent from assets);
- capacity building.

Foundations: The Foundations Act specifies:

- a foundation is a legal entity in private law that has no members and is established to administer and use assets to achieve the objectives specified in its articles of association;
- a foundation may use its income only to achieve the objectives specified in its articles of association.

Nonprofit associations: The Estonian Nonprofit Associations Act specifies:

- a nonprofit association is a voluntary association of persons, the objective or main activity of which shall not be the earning of income from economic activity;

- the income of a nonprofit association may only be used to achieve the objectives specified in its articles of association; a nonprofit association shall not distribute profits among its members.

Nonprofit organizations: In the Constitution of the Republic of Estonia, nonprofit associations are specified as a general term. Used in this sense, the term comprises all nonprofit organizations of any kind founded by individuals residing in Estonia—regardless of their citizenship or lack of it. Also, the government and/or a unit of local government may found and/or participate in the activities of nonprofit associations. This is often used as general term for Nonprofit Associations and Foundations.

Nonprofit sector: None of the legal acts valid in Estonia contain the definition of the term “nonprofit sector.” Based on the international definition, the nonprofit sector includes all organizations that are not applying for profit. In Estonia, this applies to all organizations that are founded and entered in the register of nonprofit associations and foundations on the basis of the Nonprofit Associations Act, Foundations Act, Churches and Congregations Act, Political Parties Act, Trade Union Act, and Apartment Associations Act. The term is often used synonymously with “third sector.”

APPENDIX 2

Research methodology

1. Survey(s)

In cooperation with the Network of Estonian Nonprofit Organizations (NENO) and the survey company Faktum, a questionnaire was prepared in October–November 2003. It includes mainly closed-ended questions that seek to explore the general situation of participatory democracy, the roles of nonprofit associations in society, and financial sustainability dimensions of nonprofit associations.

The survey was conducted 14–15 November, 2003, during the conference of citizens' associations organized by NENO, where there were about 300 participants representing nonprofit organizations all over Estonia. The questionnaire was distributed to all participants, together with the conference materials. One-hundred-twenty organizations returned the questionnaire, i.e., the response rate was 40 percent.

A similar survey was conducted among participants of the NENO conference in 1999, so that it is possible to observe the developments in the Estonian nonprofit sector over a longer time frame.

The Ministry of Internal Affairs agreed to provide access to the data collected in the course of the survey that concerned the funding of citizens' associations from the state budget, including from the budgets of the Ministry of Culture in 2001–2003. Access was also granted to data collected during the local government survey, which was organized by the Ministry of Internal Affairs in March and May 2004 and which addresses the problem of community involvement. That survey covered all 241 Estonian local municipalities, and 131 of them returned the questionnaire, comprising a response rate of 54.4 percent.

2. In-depth interviews

Semi-structured interviews with stakeholders involved in the development of nonprofit associations active in the field of culture in Estonia were conducted on the following days: February 18, 23, and 26, 2004. On average the interviews lasted between 1.5 and two hours and covered two topics: (1) the roles of nonprofit associations in society, (2) financial sustainability of nonprofit associations.

In total, four experts were interviewed, including the high officials of Ministry of Culture, the head of department of Culture of Tallinn City Government, and the representatives of the biggest umbrella organizations active in the field of culture.

3. Analysis of secondary resources

The main documents of the Ministry of Culture (development plans, action programs, budgets) and the Tallinn City Government (development plans, strategy plans) have been analyzed from the standpoint of the roles of nonprofit associations.

Multiple Internet resources, like the homepages of the Ministry of Culture, Ministry of Finance, Tallinn City Government, Gambling Tax Council, and the biggest nonprofit associations' umbrella organizations have been studied, to explore nonprofit associations roles, and the ways and means that the public authorities use for providing financial support to these associations.

ENDNOTES

- ¹ See: Mikko Lagerspetz, Aire Trummal, Rein Ruutsoo, Erle Rikmann and Daimar Liiv. 2003. *Tuntud ja tundmatu kodanikuühiskond*. Tallinn: Avatud Eesti Fond.
- ² Hereinafter the terms “nonprofit organization” and “NGO” will be used interchangeably.
- ³ Estonian NGOs Roundtable. 2003. “Estonian Civil Society Development Concept.” Estonian NGOs Roundtable website. Online: www.emy.ee.
- ⁴ One of the three working groups of the commission focuses on the analysis of the current situation in the statistics and funding of the nonprofit associations.
- ⁵ Mikko Lagerspetz and Aire Trummal. 2001. *CIVICUS Civil Society Index: Research Report*, Tallinn: Open Estonia Foundation.
- ⁶ As of January 1, 2004, the cultural associations made up 10.3 percent of all nonprofit associations entered in the Nonprofit Associations and Foundations Register.
- ⁷ Aili Aareleid. 1996. *Kodanikualgatus ja seltsid Eesti muutuval kultuurimaastikul*. Tallinn: Jaan Tõnissoni Instituudi Kirjastus. p. 98.
- ⁸ Kristin Kuutma. 1996. “Laulupidu kui kodanikualgatuse erivorm.” In: Aili Aareleid (ed.). *Kodanikualgatus ja seltsid Eesti muutuval kultuurimaastikul*. Tallinn: Jaan Tõnissoni Instituudi Kirjastus.
- ⁹ *Ibid.* p.41.
- ¹⁰ *Ibid.* p. 42.
- ¹¹ UNESCO's list of Masterpieces of the Oral and Intangible Heritage of Humanity was started in 1999. It contains the oral and intangible heritage of humanity. The aim of the project is to draw the attention of governments, NGOs, and local communities to the need to define, value, and preserve their oral and intangible heritage. The list

of masterpieces of oral and intangible heritage include oral literature, music, dance, games, mythology, rituals, and handicraft, the relevance of which is not limited to just one country and nation but to the whole world. The first laureates were entered in the UNESCO's list of masterpieces of oral and intangible heritage in 2001.

- ¹² Aili Aarelaid et al. 1996. "Vanad head kultuuriseltsid." In: Aili Aarelaid (ed.). *Kõdanikualgatus ja seltsid Eesti muutuval kultuurimaastikul*. Tallinn: Jaan Tõnissoni Instituudi Kirjastus.
- ¹³ Pursuant to those legal acts, all nonprofit associations and their federations, as well as other nonprofit organizations founded before October 1, 1996 and entered into the Companies Register, re-register themselves in the Register of Nonprofit Associations and Foundations at the Ministry of Justice. Nonprofit associations, their federations, and other nonprofit organizations that were not entered in the register or applying to join the register by March 1, 1999 were considered to be subject to compulsory dissolution.
- ¹⁴ The actual number of associations active in the field of culture is even higher, because a part of them are classified in the EMTAK as "associations and foundations facilitating and supporting regional/local life," or as "trade unions," if they are professional unions in the field of culture. Unfortunately, due to the low classification level of EMTAK, those cannot be analyzed as a separate group.
- ¹⁵ John Casey. 1998. "Non-government Organizations as Policy Actors: The Case of Immigration Policies in Spain." Ph.D. dissertation. Universitat Autònoma de Barcelona. p. 51. Online: blues.uab.es/mgp/papers/casey2.html.
- ¹⁶ Rein Ruutsoo et al. 2004. "A Broadening Debate: Is Estonian Society Ready for Civil Initiative." In: Mikko Lagerspetz et al. (eds.). *Non-Profit Sector and the Consolidation of Democracy*. Tallinn: Open Estonia Foundation.
- ¹⁷ Ibid. p. 77.
- ¹⁸ See the report of the Faktum Research Center on a survey conducted in a conference of nonprofit associations in 2003.
- ¹⁹ The categories presented in the questionnaire were: (1) carrier and keeper of democratic values, (2) guarantor of stability in the society, (3) creator of new jobs, (4) provider and developer of services, (5) rallying of civil initiative, (6) representing stakeholders' opinions and influencing public policy, (7) mediators, liaison agents between citizens and state institutions, (8) providers of possibilities for recreational activities, and (9) keepers and carriers of national identity.
- ²⁰ At the time of writing this report, the report of the Ministry of Internal Affairs was still under way. Thanks to the Ministry of Internal Affairs, the author had a chance to take part in the analysis of the survey data and to use them in her work.

- ²¹ Tallinn City Government. 2004. "Statutes of the Tallinn Cultural Heritage Department." Tallinn City Government website. Online: http://www.tallinn.ee/ametid/kultuurivaartuste_amet/pohimaarus, accessed March 1, 2004.
- ²² Of the indirect kinds of support, this report addresses more comprehensively the use of public property at no cost or at reduced rates.
- ²³ Faktum Research Center. 2004. Survey conducted in the conference of nonprofit organizations. February 2004.
- ²⁴ Ministry of Internal Affairs. 2004. "Financing of Citizens' Associations from the State Budget from 2001 to 2003." Online: www.sisemin.gov.ee/atp/failid/Kodanikeyhenduste_rahastamine.rtf.
- ²⁵ Ibid.
- ²⁶ The activities cultural and sports organizations are financed from the budget of the Ministry of Culture.
- ²⁷ State Audit Office of Estonia. Support funded from the Gambling Tax: Report no. 2–5/04/24, May 7, 2004.
- ²⁸ In the meaning of the Estonian Cultural Endowment Act folk culture includes folk art, like traditional (folklore) fields of folk culture, societies, and informal education.
- ²⁹ Estonian National Culture Foundation. 2003. *2002–2003 Annual Report*. Tallinn: ENCF. p. 45.
- ³⁰ Ibid. p. 64.
- ³¹ EMSL. 2002. *Kujunda oma heategevusprogramm: käsiraamat väike- ja keskmise suurusega ettevõtete juhtidele*. Tallinn: EMSL. p. 7.
- ³² EMSL. 2002. *Vabaihenduste arengust Eestis 2002: Eesti ühenduste jätkusuutlikkuse võrdlev hindamine ja vajaduste analüüs*. Tallinn: EMSL. p. 14.
- ³³ EMSL. 2002. *Kujunda oma heategevusprogramm: käsiraamat väike- ja keskmise suurusega ettevõtete juhtidele*. Tallinn: EMSL. p. 9.
- ³⁴ Faktum Research Center. Survey conducted in the conference of nonprofit organizations. February 2004.
- ³⁵ The PRAXIS Center for Political Studies conducted a pilot study within the framework of the project "Arrangement of the collection and analysis of the statistical indicators on the nonprofit sector in Estonia," in two counties and in Tallinn, in order to test the data collection methods developed within the project framework and to collect statistical information on the Estonian nonprofit sector. A total of 294 organizations, i.e., 20.2 percent of the respondents, answered to a mailed questionnaire.

- ³⁶ Tartu Vabatahtlike Keskus. 2003. *Esimene Eesti Vabatahtlike Foorum: Ettekanded*. Tartu: Tartu Vabatahtlike Keskus. p. 7.
- ³⁷ Kalle Merusk, Vallo Olle, and Virgo Saarmets. 2003. *Analysis of the Issues Concerning the Legislation of the Citizens' Associations*. Tallinn: Ministry of Internal Affairs.
- ³⁸ Faktum Research Center. Survey conducted during the conference of nonprofit organizations. February 2004.
- ³⁹ Ministry of Internal Affairs. 2004. "Financing of Citizens' Associations from the State Budget from 2001 to 2003." Online: www.sisemin.gov.ee/atp/failid/Kodanikeyhenduste_rahastamine.rtf.
- ⁴⁰ Ibid.
- ⁴¹ Ibid.
- ⁴² Ibid.

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September 2005

The Open Society Institute has long been at the forefront of promoting civil society in Central and South Eastern Europe.

In an honest assessment of the development of the civil society sector in this region so far, this volume asks what will be the consequences for organizations for which funding is being curtailed as international donors shift their priorities to new regions that have a greater need for such support.

Many post-communist states have joined the European Union, and fears for the future of civil society may seem unnecessary, but the ease with which these organizations may or may not sustain themselves is an important question. Despite great improvements for many new EU members in the last fifteen years, a sizable gap in parity remains.

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In each case the authors ask: Should it be the EU's role to fill this potential gap in civil society support? Should this task be handed over to individual national governments, local philanthropists, or the general public? What roles do civil society organizations have to play in achieving sustainability? What can they do to best ensure continued support from traditional donors, EU Structural Funds, the private sector, or anyone else who benefits from their services?

The policy and legal changes necessary to enhance the opportunities for sustaining NGOs are made at the end of each chapter. Policymakers, donor representatives, and NGO leaders will be able to carry away with them clear-cut, practical steps that they can take towards this end.



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