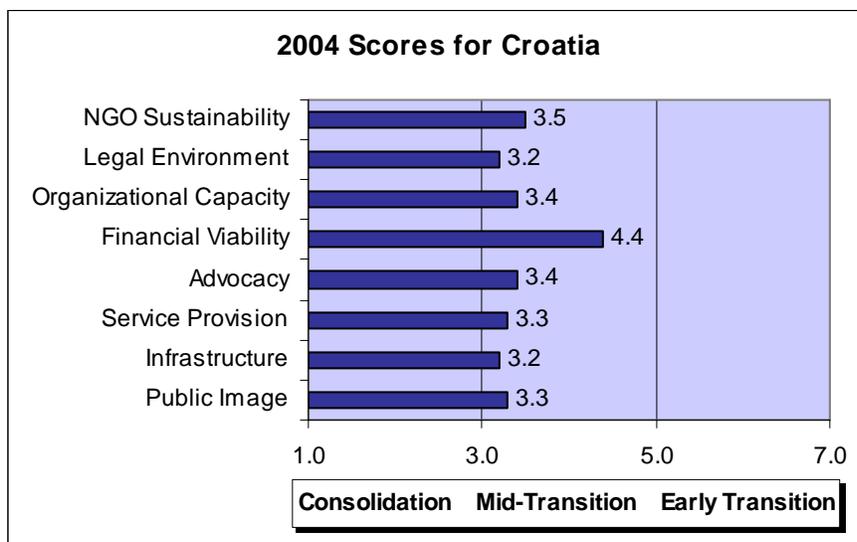


## CROATIA



**Capital:** Zagreb

**Polity:** Parliamentary democracy

**Population:**  
4,500,000

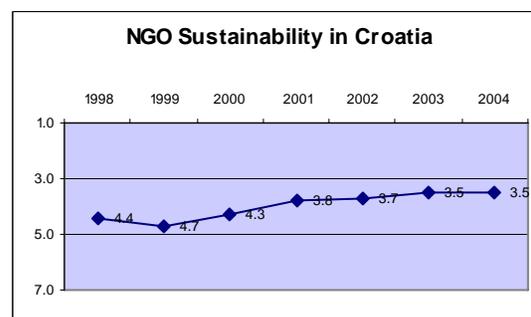
**GDP per capita (PPP):** \$10,600

### NGO SUSTAINABILITY: 3.5

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

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

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



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

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

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

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

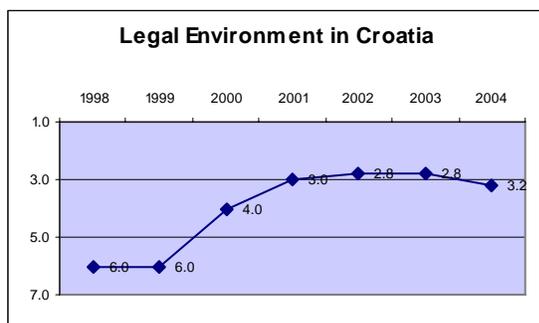
The financial sustainability of most NGOs remains unstable. Smaller local organizations continue to receive support from the local governments, and the better developed NGOs are still largely dependent on foreign donors. Overall, the image of the NGO sector has slowly continued to improve.

### LEGAL ENVIRONMENT: 3.2

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

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

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



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

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

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

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

#### ORGANIZATIONAL CAPACITY: 3.4

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



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

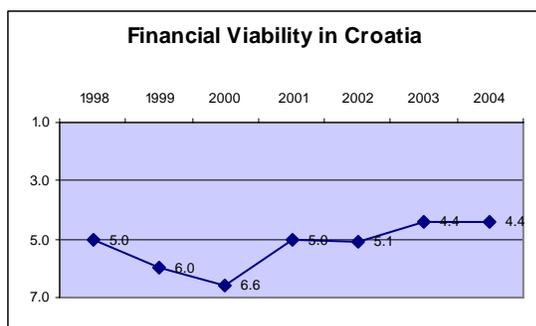
## 2004 NGO SUSTAINABILITY INDEX

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

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

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

### FINANCIAL VIABILITY: 4.4



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

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

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

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

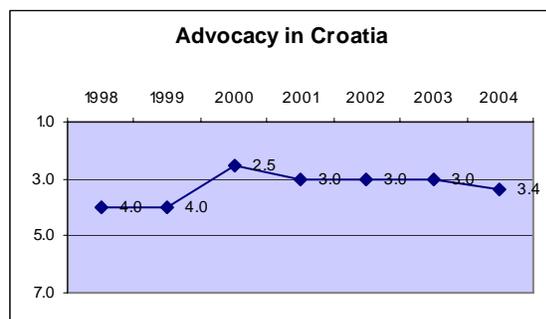
Only the larger organizations have the resources to hire qualified accountants and to publish an annual report on the internet. Even these larger organizations, however,

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

### ADVOCACY: 3.4

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

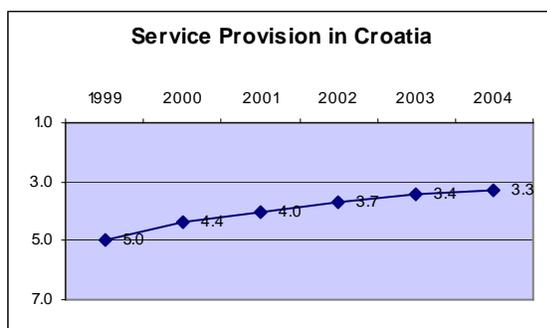
Some NGOs have had success in their advocacy efforts, despite the unfavorable environment. The Croatian Helsinki Committee and the Legal Services Coalition were successful in advocating for the Freedom of Information Act (FOIA). Women's rights organizations made recommendations for the prevention of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



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

**SERVICE PROVISION: 3.3**

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



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

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

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

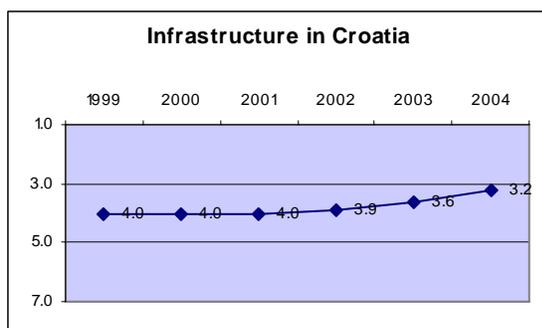
**INFRASTRUCTURE: 3.2**

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

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

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

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



### **PUBLIC IMAGE: 3.3**

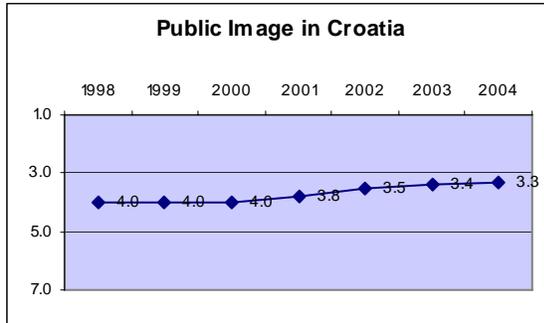
Though the NGO sector has slightly improved its public image, organizations still have much work ahead of them, as most Croatians are still unaware of NGOs and their activities. NGOs continue to receive more media coverage, and are increasing their efforts to improve their public image

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

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

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

## 2004 NGO SUSTAINABILITY INDEX



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

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

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