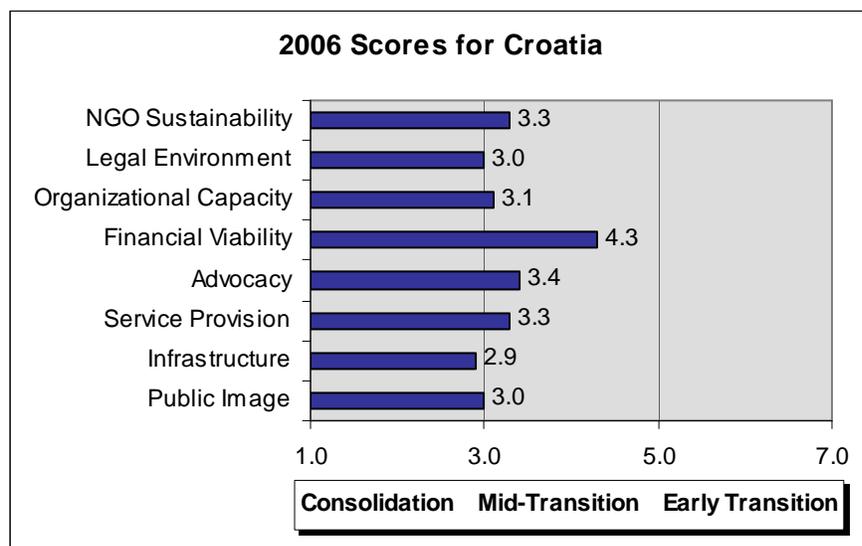


Croatia



Capital: Zagreb

Polity: Parliamentary Democracy

Population: 4,494,749

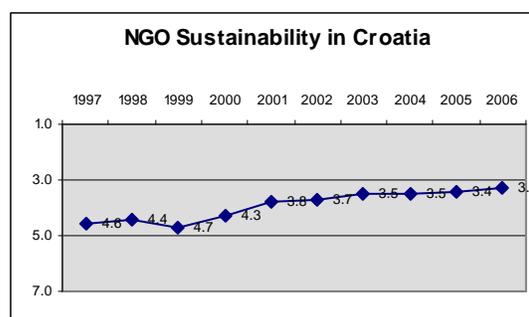
GDP per capita (PPP): \$13,200

NGO SUSTAINABILITY: 3.3

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

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

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



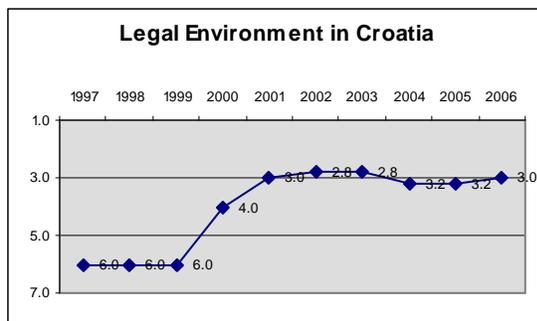
The Council for Civil Society Development, an advisory body to government, and the Government Office of Cooperation with NGOs have a greater commitment to promoting cooperation with NGOs. Similarly, local governments are forming more cooperative relationships with NGOs and signing more partnership agreements.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

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

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

LEGAL ENVIRONMENT: 3.0

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



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

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

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

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

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

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

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

ORGANIZATIONAL CAPACITY: 3.1



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

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

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

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

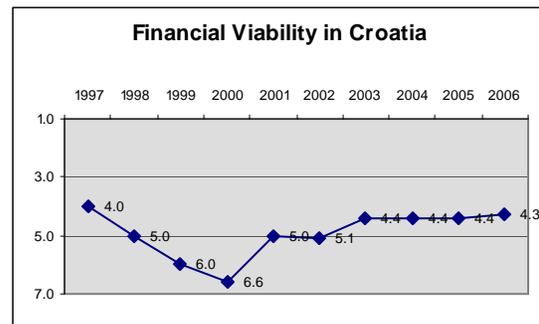
volunteerism, is expected to encourage more citizens to volunteer and NGOs and public institutions to use volunteers regularly and more effectively. Most organizations are relatively well equipped with information technology and regularly use computers, faxes, e-mail and the internet, though their equipment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

FINANCIAL VIABILITY: 4.3

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

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

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



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

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

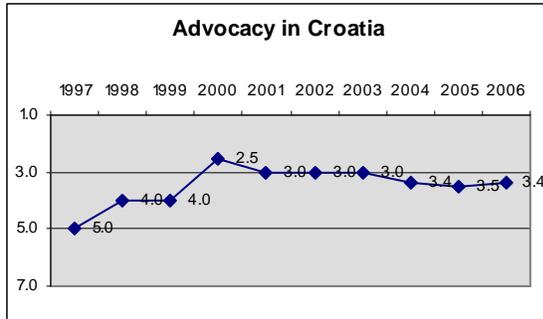
ADVOCACY: 3.4

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

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

government and political parties to improve the electoral process.

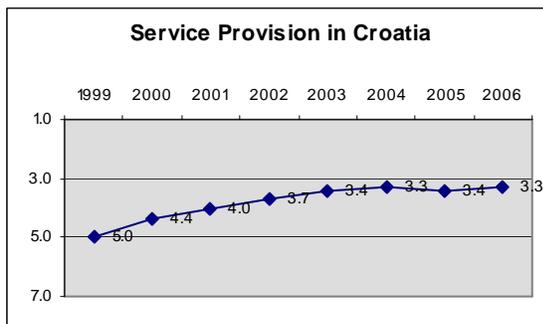
Other advocacy efforts include human rights and peace organizations that advocated for changes in the draft Law on the Secret Service. Their efforts led to a complete revision of the draft, which was recently submitted to the Parliament for consideration. Veterans' associations were successful in advocating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



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

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

SERVICE PROVISION: 3.3



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

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

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

NGOs remain uncomfortable selling their products.

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

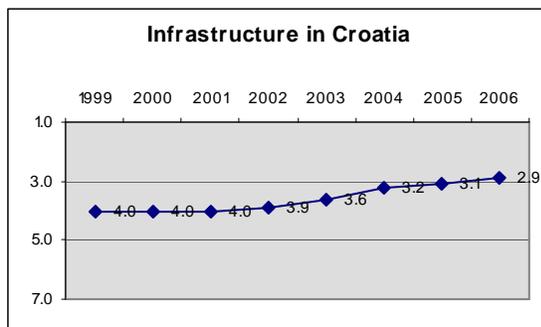
system. These initiatives may increase the level of professionalism and competitiveness, as well as increase the demand for NGO services. Some fear that such improvements will also result in experienced trainers leaving the nonprofit sector to become independent contractors.

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

INFRASTRUCTURE: 2.9

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

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



Several larger organizations operating in regional centers also provide NGO support

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

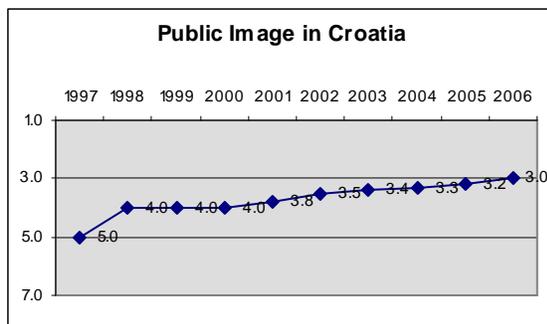
Civil Society Development was also established as the first regional foundation of its kind. In addition, several larger organizations experienced in grant-making, training, and other kinds of assistance to NGOs within their specific sector often operate as clearinghouses and post valuable resources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

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

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

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

PUBLIC IMAGE: 3.0



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

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

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

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

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