

# Executive Summary

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

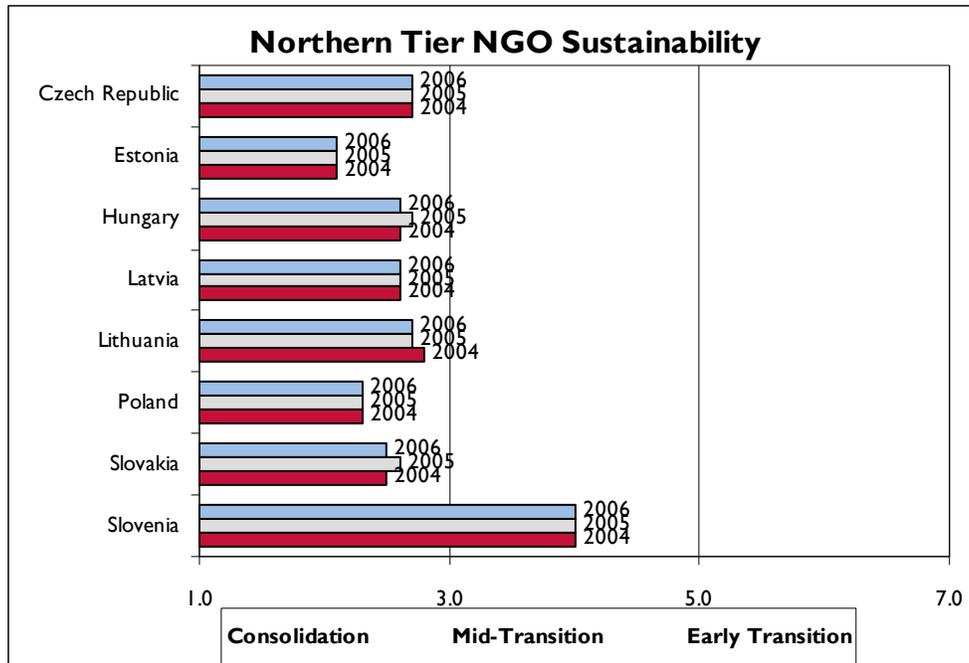
This year marks the 10<sup>th</sup> anniversary of the NGO Sustainability Index, an event which poses the question of what has been learned during the course of USAID's support for civil society in the region, and how will those lessons assist the development community and its stakeholders in the coming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

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

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

## Northern Tier

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



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

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

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

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

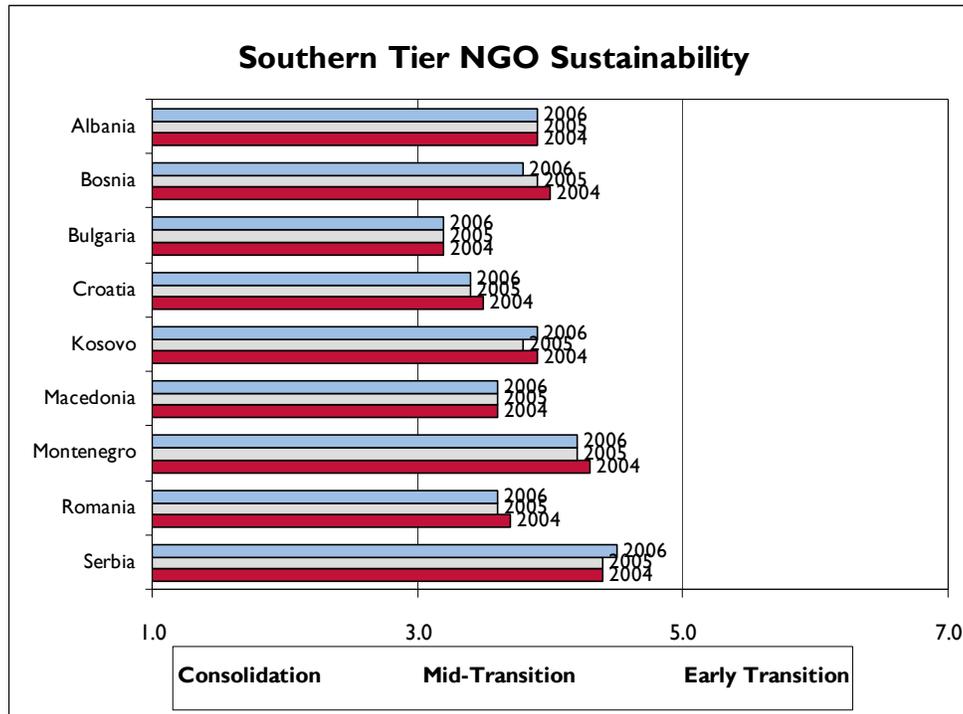
A number of countries, including Hungary, Slovakia, Estonia, and Poland, reported on a development that also affected the Southern Tier countries – the stratification of the NGO sector. Larger and more professional organizations have continued to grow stronger, while smaller organizations have foundered.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

## **Southern Tier**

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

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

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



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

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

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

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

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

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

## **Eurasia**

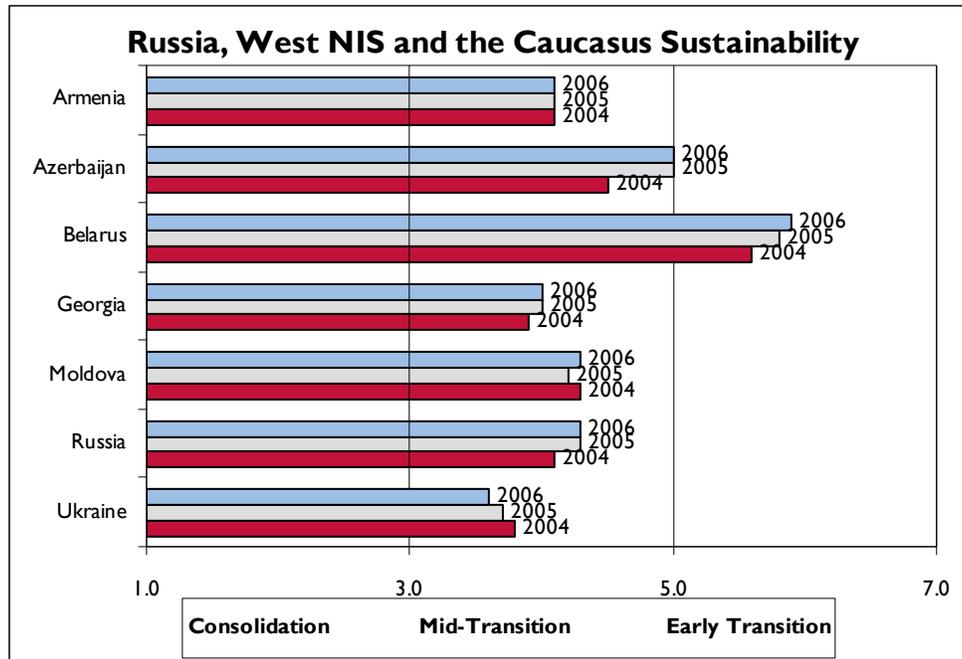
As discussed above, in Eurasia, only Ukraine had an overall score increase, reflecting continued progress since the “Orange Revolution” in improving laws governing NGOs, strengthening NGO advocacy efforts, and diversifying and increasing sources of funding for the sector. By contrast, continued restrictions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

### **Russia, West NIS, and Caucasus**

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

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

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



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

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

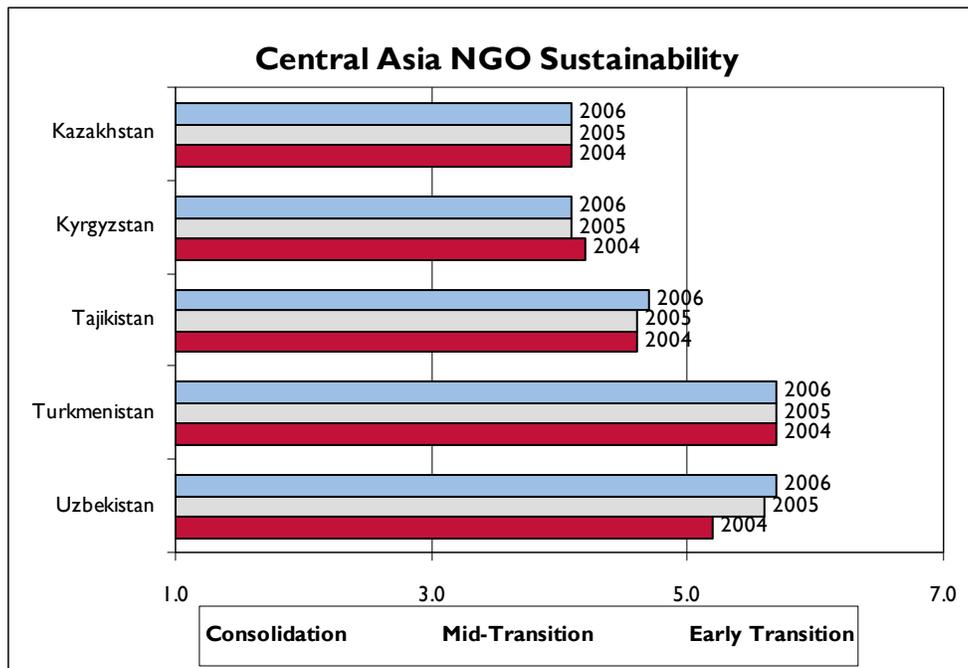
In Georgia, the NGO sector experienced setbacks in the public image dimension as a result of the sector's diminished visibility and difficulty in reaching out to the public. In addition, poor perception of the sector was fueled by media coverage that focused on scandals, and the belief that NGOs are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

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

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

### **Central Asian Republics**

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



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

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

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

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

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

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

## **Conclusion**

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