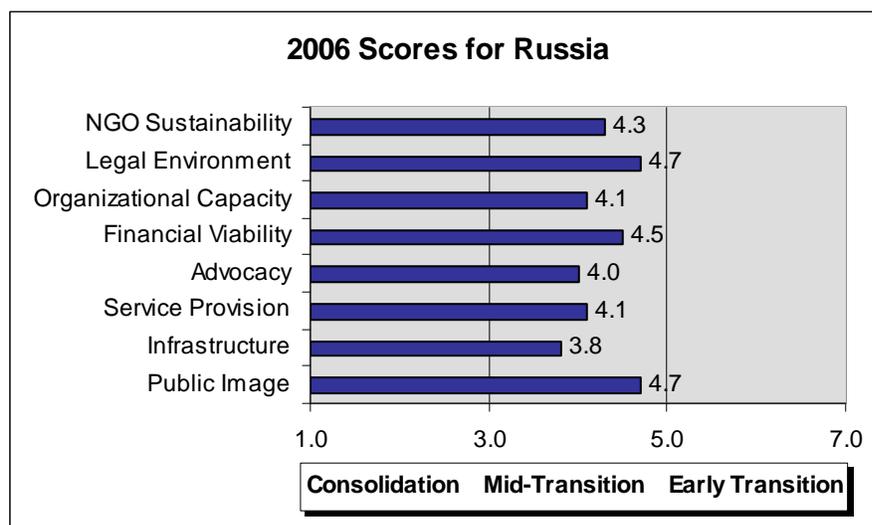


Russia



Capital: Moscow

Polity: Federation

Population:
142,893,540

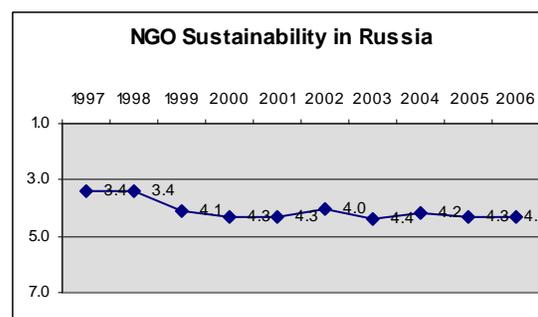
**GDP per capita
(PPP):** \$12,100

NGO SUSTAINABILITY: 4.3

NGOs Sustainability improved slightly over the past year, and the nonprofit sector's development was influenced by recent trends in Russia. The government's policy towards NGOs is based on its desire to control NGO activities to the greatest extent possible. In January 2006, the government approved amendments to the laws governing NGOs, though the most restrictive provisions of the original draft were withdrawn following protests by NGOs. The Russian Federation Public Chamber began operating this year with mixed reviews from NGOs. Some organizations see the Public Chamber as a way to communicate with government officials. Others fear it as yet another way for the government to control the nonprofit sector. Regional Public Chambers, by contrast, have been effective mechanisms for NGO-government cooperation.

Greater access to local resources allowed NGOs to improve their financial viability this year. Amendments to the federal law governing procurement recognize the right for NGOs to compete for State contracts, giving service providers greater access to public funding. Similarly, for the first time the State provided funding to NGOs; the Public Chamber

distributed over 600 grants worth US \$20 million to develop civil society.



Municipal governments increasingly include the public and NGOs in addressing community needs, providing NGOs with more opportunities to advocate for their constituents. In some regions, however, the government permits NGOs to engage in advocacy activities only when it furthers their policy interests. Overall, NGOs have limited influence over policy making, especially at the federal level.

Despite some positive attention in the regions, NGOs continue to struggle for media coverage. The federal media continued their campaign to discredit NGOs that receive foreign funding. They categorize NGOs that are supported by

the State and address social issues as “good organizations,” and those that receive support and purportedly follow instructions from

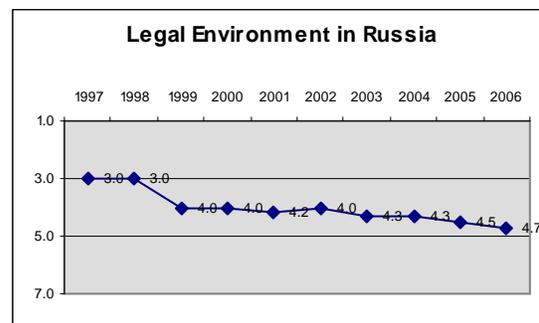
Western governments as “bad organizations.” NGO development is hindered by low levels of public confidence and support.

LEGAL ENVIRONMENT: 4.7

The new NGO law (The Federal Law of the Russian Federation #18-FZ) came into effect April 17, 2006, and introduced significant changes to the regulation of domestic and foreign NGOs. The changes include: new reporting requirements; a new registration process; a new notification procedure for inclusion in the registry of representative offices and foreign NGOs; restrictions on the rights of foreign nationals; stateless persons; prisoners and extremists to be founders; participants or members of NGOs; and authority for registration bodies to determine whether NGOs’ activities serve their stated goals and to dissolve them when they are not. The nonprofit sector protested early drafts of the amendments and the government removed the most egregious provisions. The new provisions are vague, allowing officials to interpret them in a broad and restrictive manner. Some reporting requirements are burdensome and permit officials to enforce them disparately. The law, for example, requires that NGOs submit reports detailing funding sources, expenses, the number of participants, and their background. NGOs fear that officials will enforce these provisions only against those who criticize the government. The law also complicates the registration process and provides officials with more justifications for denying registration to foreign organizations and their affiliates. Thus far, the new law has affected only new organizations that applied for registration, offices of foreign NGOs that had to re-register by October 16, 2006, and domestic NGOs with founders who are foreign nationals. The full impact of the amendments will remain largely unknown until next year when NGOs submit their annual reports to the new supervisory authority.

The amendment requiring NGOs to register funding received from foreign organizations as part of technical assistance and support

programs is especially burdensome; and as a result of the unclear legislation, organizations with large projects have to endure a lengthy registration process and insurmountable barriers in connection with their funding. Some NGOs defer registration, which may result in a higher tax liability. Each official that oversees the registration process creates a different set of rules.



The government also approved amendments to the law regulating procurement, permitting NGOs to bid on state or municipal contracts and giving NGO service providers access to funds from the government budget. The NGO law, however, created new rules for government contracting; they are vague and officials have applied them in a haphazard manner, negatively affecting the legal environment. In December 2006, the government approved the Federal Law on Endowments, which creates opportunities for NGOs working in social services, education, science, health care, and culture to increase their economic stability.

The government files criminal lawsuits, assesses large tax penalties, and liquidates assets to restrict the activities of advocacy organizations, watchdog groups, and others that promote government accountability.

The laws provide NGOs with numerous tax benefits, though they only apply to grants,

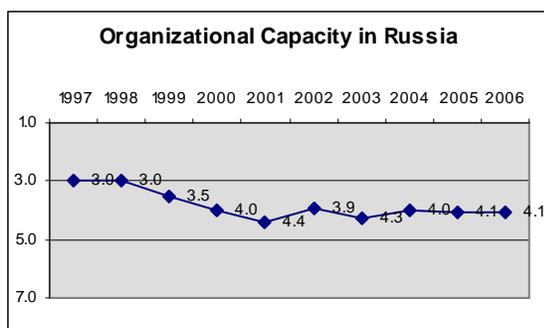
donations, and similar sources of funding. The government taxes income from NGO economic activities on the same basis as that of for-profit entities. Overall, the tax laws are vague and permit tax officials to apply them in an unfavorable manner. The law, for example, requires NGOs to use their property for its stated purpose, though it fails to enumerate prohibited expenditures, leaving officials the discretion to determine whether an NGO has used its funds appropriately. Individuals may take a deduction for donations they make to state noncommercial organizations, though only 5,000 taxpayers per year do so.

NGO representatives consider the government's streamlining of the legal framework a positive step. They have concerns, however, that the laws remain incomplete, vague, and inconsistent. Supervisory authorities are given broad discretion to interpret the laws, leaving NGOs dependent on the Federal Registration Services' regional divisions, individual officials, and differing legal practices. Overall, the legal environment fails to provide NGOs with a sense of stability or confidence.

ORGANIZATIONAL CAPACITY: 4.1

Some NGOs have a fairly high level of institutional development, including large staffs, effective boards, and strong internal management. Most organizations, however, need to improve even more. As in past years, building broad public support remains a weakness for Russian NGOs. Even larger organizations with many constituents incorporate few citizens in their activities. NGOs are most able to mobilize citizens in those rare instances when they have wide media coverage, as they did during the demonstrations organized against the law that eliminated in-kind social benefits.

withdrawal of foreign donors and the government's unclear NGO policy, as well as the lack of strategic planning skills. Most NGOs have one leader (who is often the founder), an accountant, and two or three staff members. Leaders rarely delegate authority to their staff, and often have difficulties hiring qualified employees. NGO experts have noted that the sector is aging and that young people are looking more to the business and government sectors for careers. Less than 2% of all registered organizations have an effective board of directors, and those that do are large organizations, foreign grant-making foundations, or corporate foundations. Of existing boards, the majority only provides moral support or guidance on short-term plans. The boards of directors of community foundations typically limit their roles to fundraising.



Most NGOs have mission statements or at least slogans, though these often serve more as declarations of intent and seldom a description of the organization's function. NGOs are familiar with strategic planning, but few incorporate it into their organizational management due to issues such as the

Participants of the 2006 national conference of NGO leaders entitled Russia's Nonprofit Sector: Today and Tomorrow reported that no more than 5% of the population is inclined to take part in NGO activities. Though many organizations have volunteers, few regularly incorporate them into their activities. Due to their inability to offer competitive salaries and the sector's low public image, NGOs struggle to retain their key personnel, especially those that are well-trained.

NGOs generally have the resources necessary to survive, though they are often insufficient to

ensure effective performance. Those in large urban areas have greater access to second hand office equipment and internet cafes, while communication technologies in smaller cities

are limited and unaffordable. NGOs must replace their equipment as it becomes obsolete, which is more difficult for those in smaller communities.

FINANCIAL VIABILITY: 4.5

Though their net income remains unchanged, Russian NGOs are increasingly able to diversify their funding sources, allowing them to endure the waning of foreign funding. Many NGOs diversify their funding by seeking out local contracts, fundraising, soliciting support from the business sector, and competing for federal, regional and local grants. Reforms to the laws governing the federal budget have given NGOs greater access to state funding. In 2006, NGOs received financial support from the government for the first time; the Public Chamber distributed grants to over 600 organizations from the fund for civil society development.

At numerous events, President Putin declared 2006 the Year of Philanthropy. Numerous charitable events were organized throughout Russia by the Russian Donor's Forum, Potanin's Foundation, the Dynasty Foundation, the Charities AID Foundation, the WWF, and well-known print and broadcast media outlets. Corporations continued developing private foundations and social programs; there are now 20 active private foundations and 25 community foundations. Experts estimate that in 2006 philanthropic giving reached US \$1.5 billion. Individual giving, however, is developing at a slower pace. Public opinion surveys report that only 55% of Russians are aware of the activities of charitable organizations. In the past, few NGOs engaged in economic activities; this year, however, most organizations provide goods and services, and compete for state and local contracts to increase their budgets. NGOs now prefer engaging in economic activities, though focusing on financial viability has

distracted many from furthering their nonprofit objectives.



Financial management remains a weakness for NGOs, which failed to make any improvements in 2006. NGOs have sufficient resources, but lack the ability to manage them. Some only have experience with grants, and diversification of funding has adversely affected those organizations that are unable to manage different sources of funding. Many NGOs continue using accounting systems designed for grants or foreign assistance, and lack mechanisms to account for other types of income. As a result, NGOs often categorize all of their income as tax exempt, when much of it is subject to tax. For example, many consider local or state contracts as government grants, resulting in misreporting, taxation, arbitration, and fines. Absent appropriate accounting systems, NGOs are unable to earn interest on their cash assets or take advantage of tax credits. Transparency remains low and most NGOs do not conduct audits as required by law. NGOs audit projects only when required by a donor. When independent audits are conducted, they often find that the organization failed to publish their financial reports.

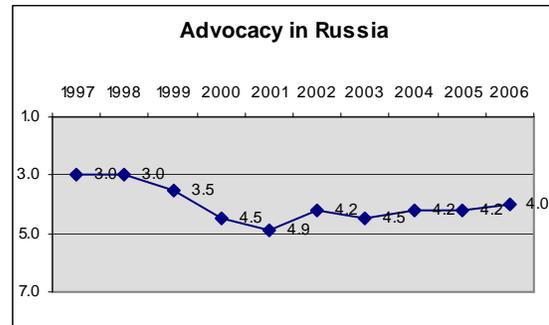
ADVOCACY: 4.0

Despite progress, the nonprofit sector remains in the mid-transition stage with regards to its

advocacy efforts. NGOs participated in deliberations for the General Principles of Organization of Legislative and Executive

Authorities in the Member Regions of the Russian Federation, as well as the General Principles of Local Self-Governance in the Russian Federation. NGOs also contributed to the Concept of Administrative Reform in the Russian Federation in 2006-2008. A government entity is required by law to hold public hearings on issues such as the adoption of a city charter or local socio-economic development programs, as well as the proposed budget for the next fiscal year. In several regions NGOs have representatives on public commissions for administrative reform. Advocacy efforts of NGOs based in Vladivostok resulted in the adoption of the new city charter. In Krasnodar, NGOs were successful in promoting public discussion of the city budget, both its planning and execution, and facilitating public debate on the issues related to the reconstruction of the historical city center. Overall, NGO cooperation with politicians remains low; NGOs are often unprepared and unable to hold a productive dialogue with government officials. They have the greatest success at the municipal level where NGO representatives have been elected to local legislative bodies and now cooperate with NGOs.

Overall, the nonprofit sector's advocacy efforts, which include a rapid response to new developments and greater cooperation between coalitions, were robust. NGOs lobbied against draft amendments to the NGO Law and as a result the most severe provisions withdrawn. For many NGOs, advocacy became an ongoing activity rather than a one-time event, and now includes promotion of public interest, surveys, and citizen involvement in NGO programs.



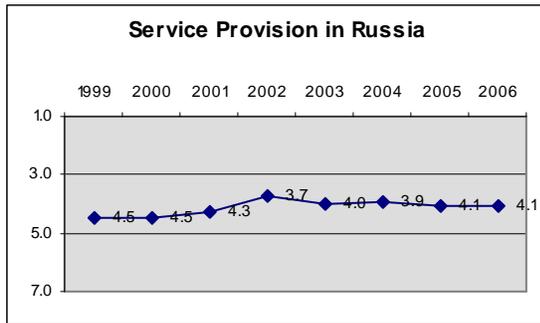
In 2006, NGOs began forming coalitions to address local and regional issues such as health care, education, women's rights, youth, ecology, and public housing and utilities. NGOs demonstrated a greater sophistication by using mass media, petitions, and public awareness campaigns to pressure government officials to discuss specific issues. A coalition of 22 environmental organizations, for example, mobilized over 7,000 indigenous citizens in Siberia to prevent passage of a new Forest Code, which was postponed until the next legislative session. In another example, 11 NGOs representing citizens with multiple sclerosis lobbied for more screening and the inclusion of modern medications in the government treatment protocol, which provided 400,000 citizens with multiple sclerosis greater treatment options. Another coalition of 40 environmental NGOs mobilized 5,000 citizens to protest the Transneft pipeline near Lake Baikal, the largest freshwater lake in the world. To maximize public pressure, they collected 50,000 signatures on a petition against the pipeline's planned course, as well as reached out to the media and lawmakers. A women's rights alliance, a coalition of trade unions, cultural institutions, and NGOs in the Tula Oblast, joined forces to create a Gender Action Plan to improve the position of women. The Tula Oblast government adopted the plan and has agreed to provide appropriate funding from the 2007 budget.

SERVICE PROVISION: 4.1

Over the past year, NGOs did not improve the quality of or expand the services they provide. They did, however, change the nature of their

services, serving some groups of citizens, more than others. NGOs increasingly provide services in the areas of HIV/AIDS prevention, drug treatment, support vulnerable children,

such as orphans and teenagers released from penal institutions. NGOs, however, continue to lack the capacity and technical expertise to serve larger groups of clients. In addition, strict regulatory and licensing requirements limit the effectiveness of NGOs in providing social services.



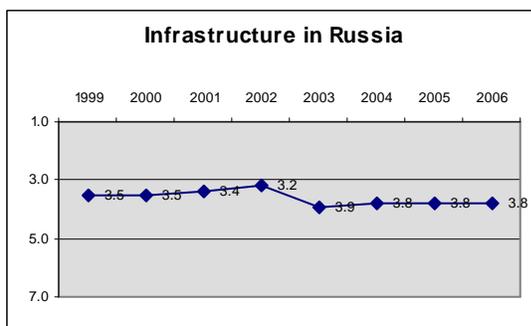
Generally, NGOs with five to ten years experience offer more specialized and higher quality services. The public holds the largest and oldest NGOs, including the Russian Society for the Disabled, the Russian Society for the Blind, and the Russian Society for the Deaf, in poor regard because their activities are no longer in line with the needs of their constituents. New organizations often ignore the experience of others and instead struggle to recreate methods and models that are already in use, giving the impression that service providers in general are not improving. These NGOs are created by people with insufficient institutional and professional development or

management skills. In addition, NGO activities are rarely documented, making it difficult for organizations to benefit from the experiences of others.

NGOs generally lack the ability to market their services. Those that provide services to constituents are often unable to market these same services to other organizations or the government. NGOs are similarly unable to market services for fees. Competition among NGOs that provide similar services is increasing. NGOs are studying market demands, though they do so infrequently. Low-income citizens are the primary consumers of NGO services, though they are unable to pay. NGOs often do not even calculate the cost of their services, which means they are unable to compare their costs to those of municipalities and other NGOs. This practice is a barrier to marketing their goods and services to potential customers.

Government officials continue to view NGOs as unable to provide a variety of quality goods and services. The State, however, approved amendments to facilitate contracting with NGOs. Regional and municipal governments now have contracts for services, which would not have occurred five years ago. Government entities grant the largest share of these contracts to municipal institutions and NGOs controlled by government officials.

INFRASTRUCTURE: 3.8



Most of the NGO resource centers operating in Russia were created with support from

Western donors. The most active resource center networks are in Southern Russia, the Volga district, and Siberia. The services provided by resource centers have transformed over the past ten years. Centers now advocate for better regulations and greater access to funding for NGOs, and promote philanthropy and volunteerism. Several NGO resource centers became community development centers that promote interaction between the NGO community and government officials, community governing bodies, large and medium-sized businesses, and the media.

The need for additional resources has led many resource organizations to specialize and develop services such as education that are marketable to the government and business sectors. The main priority of the Federal Public Chamber's grant program, which manages 500 million rubles (US \$1,919,995), was to support NGO infrastructure by providing trainings and technical assistance. More than 12 resource centers were awarded grants. Funding, however, remains an acute problem, and only the strongest resource centers were able to diversify their funding sources by developing partnerships with the government and business sectors and charging fees for their services.

Russian NGOs have a wealth of experience and information to share with one another, though they only do so when funding is available. Equipment and computers were purchased years ago when foreign funding was more available. It is now outdated and NGOs are often unable to even update their webpage.

PUBLIC IMAGE: 4.7

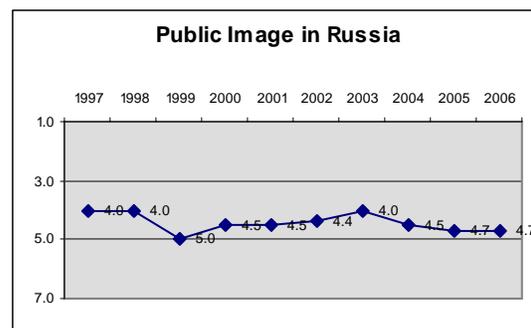
Media coverage, particularly by the federal media, increased significantly over the past year. This is the result of national debates over amendments to the NGO law, which received a great deal of attention. While most media coverage was positive, some was negative, reflecting a wave of anti-western sentiments related to accusations by high-ranking officials that western governments and foundations were engaged in subversive activities. The additional media coverage influenced the public's awareness of NGOs, though the media coverage did not influence the public's confidence in the sector. The lack of public support remains an issue for Russian NGOs, particularly for human rights organizations that have come together to discuss ways in which they can develop a more positive image.

Government officials have mixed attitudes towards NGOs, and there are numerous examples of both cooperation and confrontation. Officials in every region look to a few strong NGOs that are able to offer viable

The nonprofit sector's capacity for training remains high, and government officials and businesses often seek out NGO trainers as advisors. This is the result of foreign grants that promote the professional development of NGO employees, offering training programs covering different aspects of NGO management.

The success of cross-sectoral relationships varies. Though limited, NGOs partnered with government entities on issues of local and regional social and economic development. The government also appointed representatives of several strong NGOs and resource centers to the Public Chamber, which ought to provide an opportunity to promote the sector's interests at the Federal level. NGOs increasingly cooperate with businesses; there are examples of corporations holding grant competitions for social projects, and of NGOs advising corporations on their philanthropic policies.

solutions to local issues instead of just collecting information. Some officials, on the other hand, view such NGOs as competition rather than as allies. Other officials take issue with organizations that receive foreign funding, which allows for greater independence and less susceptibility to government influence and control.



The development of private foundations and corporate programs is increasing steadily. Yukos and the Open Russia Foundation, however, are an unfortunate precedent for the rest of the business sector in that they are

disinclined to provide support for human rights organizations.

While NGOs are aware of the importance of public relations, they often lack the resources to maintain ongoing public outreach campaigns. NGOs with years of experience and many successes have significant media coverage. Journalists in the regions generally view NGOs as sources of interesting stories and often contact NGO representatives for information. The media frequently invites NGO leaders, as

experts, to provide their views on social and political events.

Despite numerous external factors, Russian NGOs have improved their public image over the past year. NGOs increasingly play a more important role in the formation of public policy. Experts in other fields recognize the authority of NGOs and heed their opinions, listen to what they have to say, and even fear them. The public's low levels of confidence and support, however, remain a major issue for the sector's public image.