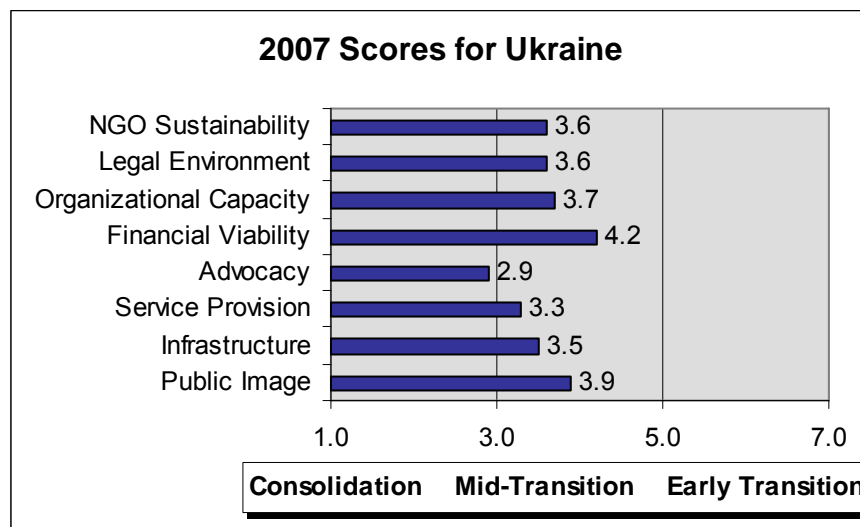


UKRAINE



Capital: Kyiv

Polity:
Republic

Population:
45,994,287 (July 2008 est.)

GDP per capita (PPP):
\$6,900 (2007 est.)

NGO SUSTAINABILITY: 3.6

Throughout 2007, the Ukrainian NGO sector was challenged to gain direct access to policy and law makers following the 2006 Parliamentary elections and subsequent dissolution of parliament. Despite these challenges, the sector continues to operate under slightly improving conditions while remaining in mid-transition. Three components in particular showed improvements over the year – advocacy, financial viability and public image.

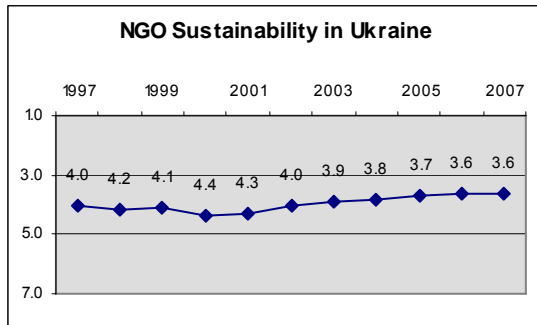
NGOs demonstrated an ability to adapt to the changing political landscape and advance initiatives at all levels of government. Despite the difficult political conditions, NGOs successfully drafted and introduced legislation on a number of topics and thwarted potentially negative legislation. The sector actively monitors the work of both national and regional governments, and NGOs often form short-term alliances on a variety of issues and causes. Think tanks provided crucial exit poll data in the recent September parliamentary elections, which both validated and helped prevent parties from contesting election results.

The financial viability of NGOs improved due to increased diversification of funding sources. Businesses practicing corporate social responsibility and new corporate foundations

provide more opportunities for mainstream NGOs to receive support. NGOs are also increasingly using non-traditional income generation and fundraising techniques, such as social entrepreneurship and a pilot workplace-giving program in Rivne. Despite these improvements, financial viability is still the weakest dimension for the sector and more needs to be done to mobilize domestic resources before international support can be fully replaced.

Relations with the media have improved. Public opinion polls show that NGOs are trusted more than government institutions, and a liberalized press has given birth to the “third expert” phenomenon in which NGO representatives are frequently sought out to comment on current events.

Clear and unambiguous licensing regulations and standards for service providers are still needed to allow for greater use of social contracting. While traditional resource organizations capably service start-ups, older NGOs now require more advanced and specialized services and targeted coaching support to manage growth and allow them to scale-up activities.

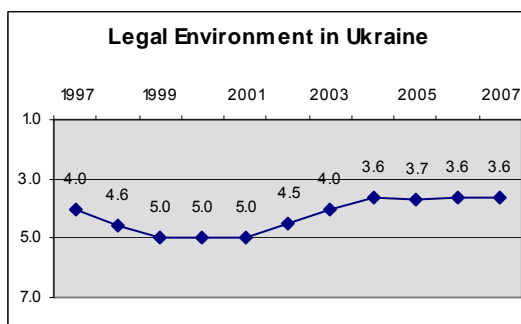


The number of NGOs registered in Ukraine is still relatively small compared to other democracies with similar population sizes. According to the Justice Ministry there are 38,500 public associations and 10,500 charities with an annual increase of seven to eight percent. There is no data available on the dissolution of NGOs, although the Justice Ministry estimates that 10 percent of registered Ukrainian NGOs do not operate at all.

LEGAL ENVIRONMENT: 3.6

The legal environment remained largely unchanged as lawmaking activities were essentially frozen after the President dissolved Parliament, which was not reconstituted for six months. Still, with lobbying and input from NGOs, incremental improvements were made to the legal environment in 2007.

A coalition of Ukrainian NGOs worked on a new draft Law on Associations with Justice Ministry officials that is more in line with European laws and resolves conflicts in existing legislation. But since Parliament was inactive for much of the year, the bill is still waiting for review. This has also delayed essential improvements to other outdated legislation related to taxation and earned income.



Tax laws currently provide a tax credit of two to five percent of taxable income for donations by companies and individuals who pay general taxes and can deduct expenses. However, 34 percent of companies paying general taxes declared no taxable income and those using the alternative minimum tax have no tax incentives for supporting public organizations. As a result,

44 percent of all businesses in Ukraine were not eligible for tax credits for donations.

While NGOs can earn revenues and have tax-exempt status under the Civil Code and tax laws, inconsistencies in the existing Law on Associations have led to restrictive interpretations by tax authorities that only allow NGOs to earn income through business subsidiaries. Nonetheless, administrative and judicial practices became slightly more favorable to NGOs during this period, with tax authorities losing 72 percent of court cases against NGOs.

NGOs now register only through the Justice Ministry (as opposed to through two ministries) and “one-stop” shop facilities began operating in most regions, reducing opportunities for corruption. Even with these improvements, it is still much easier to register a business than an NGO – usually five to 10 days for a business and 10 days to three months depending on the type of NGO.

For the most part, authorities do not interfere with the activity of NGOs. NGOs rarely faced harassment during the year with the exception of human rights groups, which continue to encounter problems in the regions, and of politically-affiliated organizations working in regions controlled by opposing political parties.

Budget and public procurement laws make it difficult for NGOs to access public funds. Licensing and standards for certain social services also need to be introduced.

Legal information is available online, as well as through qualified legal experts, lawyers and regional hotlines. Yet many regional NGOs still lack specific knowledge such as what types of

income generating activities are allowed, and do not always have the most up-to-date legal information.

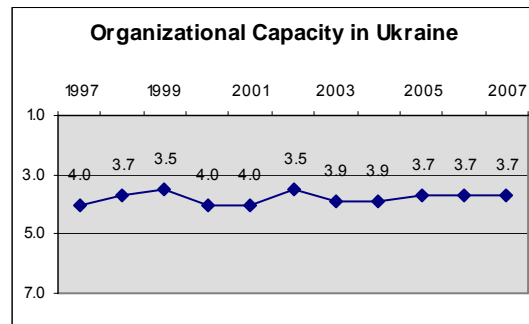
ORGANIZATIONAL CAPACITY: 3.7

The organizational capacity of NGOs witnessed some improvements over the past year, although they were not systematic enough to warrant a better score. Several opposing trends emerged. Studies show that the public is ready to volunteer and engage in civic action, and NGOs are using new approaches in working with the public. On the other hand, increased economic development is putting pressure on NGOs to retain staff and adequate office space.

NGOs are incorporating new ways of working with citizens, mobilizing local resources, and promoting their issues. In the small coal mining town of Svatove (Luhansk region), a local NGO piloted a “time bank” project in which 385 community residents participated in a river clean-up, while local businesses allowed them to redeem their volunteer hours for store credit. In Voznesensk, an organization reached out to constituents and gathered 82 proposals on how municipal funds could be effectively distributed; the city council approved and allocated funds for 53 of them. A Sevastopol NGO used “political theater” to advocate for reduced discrimination against people with HIV/AIDS.

Despite these improvements, NGOs continue to have weak links with their constituents overall. A Democratic Initiatives poll found that 85

percent of respondents are not members of or do not participate in NGO activities, demonstrating that despite the fact that people are willing to volunteer, civil society lacks the means to tap this potential.



For the second year in a row, qualified NGO leaders are being lost to more lucrative jobs in government and the private sector, indicating the need to systematically put in place internal management development programs. Keeping or finding office space is increasingly becoming a problem due to a boom in the real estate market. And while most organizations have a strategic plan and usually a governing body, there is little concrete, supporting evidence that they are used to add value, raise funds, or engage in strategic decision making.

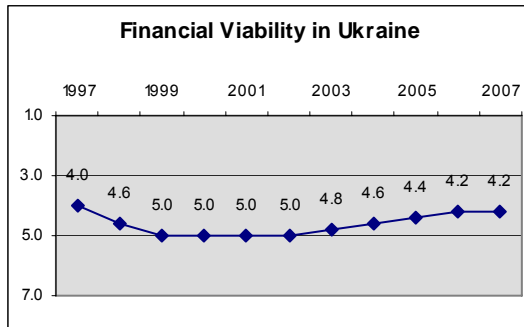
FINANCIAL VIABILITY: 4.2

The financial viability of NGOs has improved due mostly to increased diversification. Two recent studies show strong indications that government and businesses have learned how, and are ready, to fund NGOs. Despite the fact that the regulations governing access to these funds are complicated, the number of government contracts to NGOs has increased.

A report by the Cabinet of Ministers of Ukraine found that direct public funding to NGOs from the national budget increased from \$12.5 million

in 2006 to \$34.5 million in 2007. Some local governments are also active. For instance, the city of Odessa provided approximately \$100,000 in funding from the city budget for ten social projects. However, public funds still account for less than five percent of the total declared income of NGOs.

Substantial financial resources also exist within the business community in Ukraine to support NGOs. However, businesses target the majority of these funds to social needs projects, and so



social justice and advocacy projects still rely heavily on international funding. Additionally, while the number of corporate foundations continues to grow, their funds are not generally distributed in a transparent manner.

New collaborative approaches by businesses and NGOs to stimulate philanthropy continue to grow. For instance, Nadra Bank sponsored a “Philanthropist of the Year” award with NGO partners; a community foundation in Rivne has started a Social Action Fund to engage NGOs to market collectively to companies based on the Community Shares USA model; and the American Chamber of Commerce in Ukraine continues to provide essential support for the development of social entrepreneurship.

While larger organizations with a nationwide reach tend to be more dependent on one funding source, regional organizations are learning to diversify their support. A core of community foundations raises a significant percentage of its funding from local sources, and many regional media NGOs report receiving in-kind contributions from businesses. A Cherkassy NGO enlisted corporate donors (who normally funnel their regional earnings to the capital for charity events) and local restaurants and companies to erect 19 wheelchair ramps in the city.

ADVOCACY: 2.9

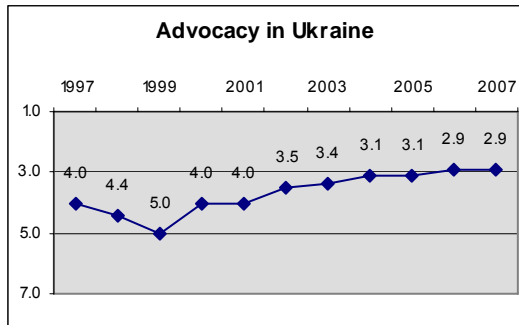
The practice of advocacy continues to increase and spread on all levels. Despite the difficulties posed by the new proportional parliamentary system, NGOs demonstrated that they are capable of adapting to monitor and act effectively on legislation and policy that affects the sector. Think tanks provided crucial exit poll

Social entrepreneurship continues to expand as organizations seek out niche markets for their services. Several organizations have started for-profit ventures to cover some of the expenses of their non-profit activities. For example, in Kherson, a human rights organization publishes a widely read regional newspaper with a sizable market share. Yet most NGOs lack basic business and marketing skills to earn money and are apprehensive of venturing into business because of the risk involved. There are also legal complications – many NGOs are not well-versed in the laws allowing for income generation or are confused by the contradictory laws still on the books.

Financial management systems and reporting remain weak. According to the Finance Ministry, of the 49,000 NGOs in Ukraine, 19,000 did not declare their incomes or file reports with the tax authorities. Many NGOs only report what is required of them by law, and do not seek to promote greater trust among the public through additional disclosure of financial resources and activities. Most organizations do not prepare an annual operational budget or the cash flow forecasts needed to guide their work in the short-term and develop fundraising plans. More organizations need to publish annual reports, manage multiple fund sources, separate income streams for internal analysis, and have independent audits.

Despite the increase in corporate giving noted above, NGOs’ corporate fundraising skills remain weak, and so they often cannot effectively tap into this important potential resource. Additionally, the majority of organizations lack fundraising strategies and do not engage their governing bodies in fundraising.

data in the recent September Parliamentary elections, which validated and helped prevent parties from contesting election results. The sector actively monitors the work of both national and regional governments, and NGOs often form short-term alliances on a variety of issues and causes.



On the national level, the proportional political system created new challenges for NGOs in accessing Members of Parliament. All MPs are now elected on national party lists, and therefore are no longer obligated to hold regular meetings with voters in their districts. In most cases, mandatory advisory councils to ministries which include NGO representatives continue to operate only on a *pro forma* basis.

Despite this, NGO coalitions had some important successes in working with Parliament and Government. For example, 15 organizations worked with Justice Ministry officials to write a new NGO law that is in line with European standards and resolves contradictions in current legislation, and a broad coalition of NGOs drafted a comprehensive anti-discrimination law and engaged members of parliament to lobby for it. However, due to the dissolution of Parliament, neither law could be voted on. Another coalition reviewed a presidential decree which resulted in the cancellation of over 3,000

acts because of their anticipated ineffectiveness; over 300 pro-democracy NGOs gathered at a Civic Assembly in Kyiv to draft a resolution demanding more cooperation from national government bodies; and a group of think tanks united to assess the state of democracy one year after the 2006 Parliamentary elections, attracting wide media coverage of their reports on the government's lack of accountability. NGOs also stopped several potentially harmful laws from being enacted, most notably, the Laws on Volunteering and on Information, both of which would have curbed NGO activities.

While most NGO coalitions form to address immediate issues, there are also several coalitions built around common long-term interests serving people with disabilities, HIV-AIDS, and breast cancer awareness.

NGOs also have had numerous successes on the local level, with many government watchdogs publishing performance assessments of local city councils and mayors to increase accountability. NGOs are working to improve citizen access to courts through a court monitoring program piloted in seven courts throughout Ukraine, and in Chernihiv, an NGO demanded and publicized the office hours of each city council member. In Kherson, an NGO forced the local government to remove illegally placed slot machines, and an NGO in Vinnytsia cooperated with government officials to give official park status to a large green zone under threat from developers.

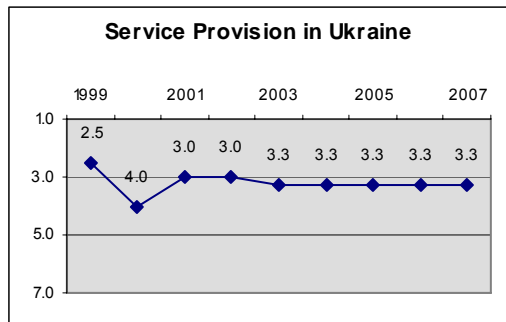
SERVICE PROVISION: 3.3

NGOs provide services in many areas. In a September 2007 survey, the Razumkov Center discovered that the five most recognizable types of NGOs are organizations working on consumer rights, Chernobyl, HIV/AIDS, human rights, and environmental protection. In addition to these, there are many youth development and rights groups that assist orphans and street children, promote quality lifestyles, and instill leadership skills. Other organizations assist the elderly or integrate former convicts, alcohol and drug abusers into society. Women's rights groups tackle domestic violence and human trafficking issues; condominium associations

continue to secure collectively better utility and building maintenance services for property owners; and mediation groups in the East of the country and in Kyiv are used by arbitration courts.

Services by NGOs are also in demand from other sectors and organizations. For example, the Cabinet of Ministers has asked a Kyiv organization to help design a code of ethics for government employees; a highly successful charity organization in Donetsk is often asked to provide assistance to other organizations wishing to emulate its fundraising success; a Dnipropetrovsk women's rights organization

trains local police officers and social workers to recognize signs of domestic abuse or violence; and another NGO trained 349 rural priests in an effort to reduce discrimination and distribute accurate HIV/AIDS information in parishes.



Although virtually no funds for public procurement are earmarked for NGOs, NGOs

INFRASTRUCTURE: 3.5

A “generation” gap has emerged among NGOs regarding the type of support they need. More experienced NGOs require more advanced services, such as coaching and mentoring, while regional NGOs still need access to basic information including sound legal advice. The sector is still best prepared to address the general needs of NGOs, although an ISO in Kyiv is developing more tailored assessment and coaching support emphasizing local resource mobilization, leadership and advocacy.

Several other ISOs also exist, including an NGO Management School which continues to operate in Western Ukraine and several regional resource centers that offer assistance including legal advice through hotlines. A Lviv ISO has solidly positioned itself as one of Western Ukraine’s leading NGO training and resource centers and as the main organizer of forums and conferences, with close ties to Eastern European donors.

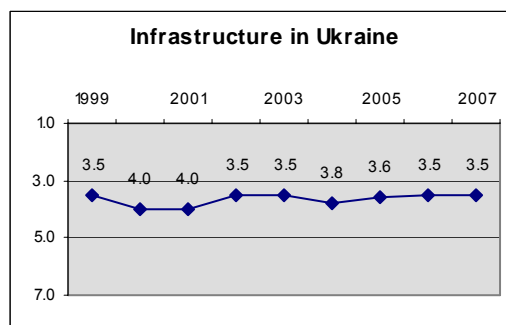
As stated in the legal environment section above, new charitable organizations are founded each year, which is a sign of growing philanthropy. Many organizations re-grant funds from Polish, American and other international donor organizations. Community foundations in

received more than \$2 million through public procurements in 2007. Procurement and reimbursement policies continue to make it difficult for NGOs to access public funds. International organizations are supporting efforts to introduce licensing and service standards so that NGOs can access these funds competitively and transparently.

The sector lacks concrete market information regarding the services they provide, such as client profiles, and supply and demand levels. When services are charged for, prices are generally determined through informal research, and are therefore either not competitive or unnecessarily low. Many services are provided for or subsidized by grants or donations.

Chernihiv, Donetsk, Rivne and Odesa raise significant local funds.

Issue-related coalition groups exist both locally and on the national level. In Kyiv, many formal and informal citizen groups unite to challenge illegal land development. Recently a coalition of organizations representing diverse interests such as people living with HIV/AIDS, senior citizens, youth, women, and sexual minorities drafted an



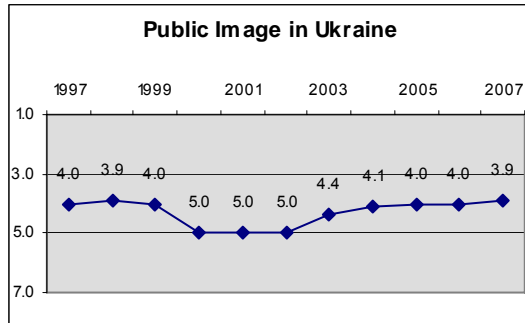
anti-discrimination bill in a coordinated effort; people with disabilities also have formed coalitions to demand equal access to recreation areas and public buildings such as restaurants and office buildings. While NGOs form coalitions around various issues, Ukraine still does not have a membership-based NGO or

other organization that advocates for the sector as whole.

Inter-sectoral partnerships are increasingly common, in part due to increased awareness among businesses about corporate social responsibility. These partnerships are most

prevalent in the areas of culture, children and health. For example, the Ukraine 3000 Fund holds an annual auction to benefit orphans and preserve Ukrainian culture. In Chervonohrad, a coalition of NGOs teams annually with municipal authorities to raise awareness of mentally challenged youth.

PUBLIC IMAGE: 3.9



Several positive trends accounted for an improvement in public image over the past year. A liberalized press has given birth to the “third expert” phenomenon, in which NGO experts on particular issues or topics are often quoted, resulting in increased media coverage of NGOs and their opinions. This is most evident among political analysts, think tank representatives, business association leaders, sociologists, and healthcare specialists.

Data regarding public perception of NGOs is mixed. According to a Razumkov Center survey, the public trusts NGOs more than government institutions and those with positive views about the role of NGOs in society outnumber those with negative views four to one. However, in the same survey, people who perceive NGOs as having an impact in modern Ukrainian society are only six percent higher than those who feel they don't have any influence, a dramatic decline from the 25.8 percent difference in 2005. Alarmingly, 60 percent of respondents either are neutral or found it difficult to respond to these questions, only slightly down from the 65.5 percent who had this problem in 2005. A

Democratic Initiatives expert opinion poll paints a different picture. This poll found that respondents were able to name specific NGOs

and provide examples of their causes or successes, suggesting that the portion of the public who is aware of the work of NGOs also has a very clear understanding of the value they add to society.

Information about the perception of government and business of NGOs is more anecdotal, but is seen to be improving through increased collaboration between sectors. However, government generally still does not seek out the expertise of NGOs; rather, NGOs approach government to collaborate. Businesses, small and large, are beginning to view NGOs as partners, especially in their CSR activities. This is beginning to raise ethical issues for some NGOs who fear they can be used as marketing tools.

The law on advertising is often cited as the main reason that TV producers or editors do not cover NGO successes or activities as there is still not a clear distinction between public service announcements, news coverage and advertisement. Coverage of NGO activities is often labeled as a “social advertisement” which should be paid for. Journalists also complain that NGOs do not prepare press releases and other materials in a newsworthy manner.

The sector has a code of ethics, and signatories to the code are growing – 140 organizations signed onto the “Declaration of Ethical Standards for Civil Society Organizations” as a result of regional outreach this past year. While the movement is expanding in numbers, challenges remain to implementing and enforcing the code, including what to do with signatories that do not follow the standards.