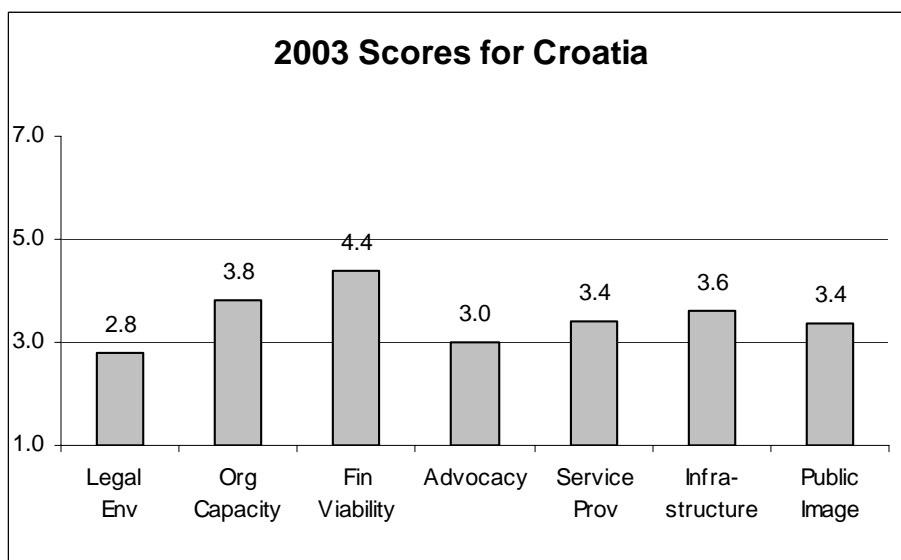

CROATIA



Capital:
Zagreb

Polity:
Parliamentary
democracy

Population:
4,300,000

**GDP per capita
(PPP):** \$8,091

NGO SUSTAINABILITY: 3.5

The Croatian NGO sector continued to expand and improve in 2003.

NGO SUSTAINABILITY	
2003	3.5
2002	3.7
2001	3.8
2000	4.3
1999	4.7
1998	4.4

The number of NGOs increased to approximately 23,800 registered organizations and associations.

NGO activities are more visible

and better recognized in society; although there is still a need for additional improvements. Traditionally the largest number of associations still operates in the area of sport, culture, economy, and veteran issues. Many associations continue to operate in the capital and three regional centers; although some new initiatives have been started in smaller municipalities throughout the country. Such developments are primarily the result of donors' efforts.

During the past year additional improvements were achieved in NGO/government relations, This is primarily a result of the exceptional and very effective role which the Government Office for Cooperation with NGOs (GOCN) played in improving NGO/government relations. Together with the National Council for Civil Society they effectively recommended various legal and policy changes to the Government of Croatia (GOC). The Council for Civil Society continued to operate as an advisory body to the government and as a mediator between NGOs and the Government.

Despite the positive developments, numerous NGOs continued to face problems related to their financial and organizational sustainability. This area remains the main obstacle for future development of NGOs in Croatia. This weakness is also caused by weak philanthropic practices and the economic difficulties of the last ten years.

2003 NGO Sustainability Index

The legal environment continued to improve slowly, especially with enactment of the new Law on the National Foundation for Civil Society Development and the government's decision to allocate 50 percent or approximately \$20 million of lottery funds for NGO activities. The civil society budget from lottery funds will be approximately \$2 million and will be managed by the new Foundation for Development of Civil Society. The Foundation will be focused on implementing programs that stimulate the sustainability of the non-profit sector, support cross-sectoral cooperation, development of civic initiatives, philanthropy, and volunteerism, and promote democratic institutions. Its main areas of work will be education, research, advocacy, evaluation, IT, international cooperation, public-private partnerships and publishing. The Foundation was already registered in November of 2003.

NGOs still face some problems related to tax incentives and VAT, especially when funding comes from Croatian sources. In spite of such issues the scoring for legal environment is still the highest, compared to the area of financial sustainability, organizational capacity and NGO infrastructure which still remain the weakest areas. In addition to the legal

environment Croatia's NGO sector continues to be relatively strong in the area of advocacy and service provision.

Thanks to the efforts of the Government Office for Cooperation with NGOs. There is greater openness and cooperation from local and national government. However, there are still many government officials who do not recognize potential benefits and impact of NGO/government cooperation. Even in many urban centers departments for social services tend to be the most open and interested in such cooperation than representatives of other departments.

Some positive trends were also evident regarding NGO-business sector cooperation and promotion of corporate social responsibility and philanthropy. NGO efforts to promote volunteerism have increased, although a number of active volunteers in many NGOs continue to be relatively modest. Networking among broader number of NGOs is still not sufficiently practiced, although networking is more common among bigger NGOs. Many smaller NGOs continue to operate in isolation, although many of them recognize the importance of partnering with other sectors.

LEGAL ENVIRONMENT: 2.8

The 2001 Law on Associations provides for a fairly reasonable procedure for associations to register. In addition, access to information about registered associations was further facilitated after the introduction of an online registry of associations. Training programs for registration officials also had an impact on improvement of the NGO registration process. On the other hand, the 1995 Law on Foundations and Funds still provides restrictive conditions for the registration of organizations. For

example, it provides that organizations cannot be entered into the registry if their statutory goals are deemed trivial or if their property is not deemed sufficient to carry out their statutory activities.

The Law on Associations is reasonably clear and transparent on the issues of internal management, scope of permissible activities and financial reporting. However, the provisions on prohibition give rise to concerns, and even

minor departures from statutory goals may lead toward prohibition of an association.

LEGAL ENVIRONMENT	
2003	2.8
2002	2.8
2001	3.0
2000	4.0
1999	6.0
1998	6.0

On the other hand, the Law on Foundations and Funds confers upon the government a great deal of unwarranted power regarding the appointment of the organization's management body. Generally NGOs are free to take a stand on public issues and express criticism towards government.

A positive development in 2003 was the enactment of a new Law on Humanitarian Assistance, which supercedes the 1992 Law. The new legislation provides a more comprehensive definition of humanitarian assistance and permits all recognized forms of NGOs in to deliver humanitarian assistance.

There was improvement in local legal capacity over recent years in this regard. There is indeed a body of lawyers that have been trained and are familiar with NGO law. There are also resource centers providing legal advice to NGOs in regional centers, including Rijeka and Osijek. However, in spite of that there is a perceived need to strengthen this kind of service in the capital and other centers as many NGOs are still not aware of legal services which NGO support centers can provide.

Although many NGO leaders tend to disagree, the tax regime for NGOs is relatively favorable. Grants and donations to NGOs are not taxable as long as they are used to finance an NGO's non-profit activities. Membership dues that are not directly related to the purchase of goods and services are also not taxable, provided that the organization's statute includes members' fees. The Red Cross and other humanitarian organizations, associations,

and foundations are exempt from gift and real estate taxes. As for VAT, normally, an organization is included in the VAT system if it applies for such status or if the value of its taxable deliveries exceeds approximately \$14,000 a year. The Red Cross, trade unions, religious communities, and other institutions established under separate laws are exempt from VAT, the rate of which is 22 percent on the total value of the organization's deliveries. Domestic humanitarian organizations have the status of a final consumer and are thus also not included in the VAT system. Goods necessary to accomplish statutory goals purchased by domestic organizations with donations from foreign organizations are exempt.

Donations made by corporations or individuals to organizations pursuing cultural, scientific, educational, health, humanitarian, sport, religious and other activities are deductible up to 2 percent of the donor's income generated in the prior calendar year.

The Law on Associations does not clearly define the extent to which associations can engage in economic activities, and the registration practice has not been consistent on that issue either. In contrast, the Law on Funds and Foundations is more explicit in defining permissible income-generating activities. The tax code does provide certain exemptions for the income generated from the economic activities of NGOs. An organization's income from economic activities is taxed if its exemption would result in the organization obtaining an "unjustified privileged position in the market." The Tax Administration, on its own initiative or upon the request of a taxpayer or other interested person, may determine on a case by case basis whether to tax income generated from an NGO's economic activities. No distinction is drawn between associations, funds and foundations, or between related and unrelated business activities.

NGOs are allowed to legally compete for government contracts and procurement at the central and local level. The 2003 enactment of the law establishing the National Foundation for the Development of Civil Society promises to lead to greater financial support for NGOs and informal

civic initiatives. The National Foundation will play an integral part in a new model of public financing, which envisages an increased role for government ministries, thus ensuring a more equitable distribution of responsibility among government stakeholders.

ORGANIZATIONAL CAPACITY: 3.8

NGOs are becoming more aware and ready to improve communication with their constituencies, especially on a local level. The Consumer Association was active in establishing a direct relationship with their constituency. There is also progress with youth groups. NGOs were more active organizing various humanitarian campaigns to increase public awareness and provide assistance to people in need.

ORGANIZATIONAL CAPACITY	
2003	3.8
2002	4.0
2001	4.0
2000	4.8
1999	4.0
1998	3.0

Despite such developments there is a need for further improvements in NGO-constituency relationship.

Generally larger NGOs have both a well-defined organizational structure and a well-defined mission, with clear distinction between governing and management structure. Often many of them respect that structure in decision-making process. They also incorporate strategic planning in a decision-making process. On the other

hand, NGO boards in numerous NGOs are still not sufficiently open to contributors and supporters to verify appropriate use of funds.

There are several important differences among Croatian NGOs, with some having relatively large paid staff and few volunteers while others have a large number of volunteers and just one, or maximum two, paid staff members. It is less common that NGOs have good balance between several paid staff members and bigger number of volunteers. Often several NGOs provide training for volunteers and assisting NGOs to better integrate them in an organization. On the other hand an interesting trend is that Croatia has more soldiers who are more interested in civil service in NGOs instead of traditional military service. According to the recent research almost 60 percent of soldiers prefer civil service with various NGOs instead of military service.

Many NGOs have basic office equipment with internet access although that equipment is often not the most recent.

FINANCIAL VIABILITY: 4.4

Many local governments provide support to a broader number of NGOs, especially to groups active in local communities. This is especially related to small NGOs active in the area of social services. Some local governments provide office space to NGOs in bigger urban centers. However,

FINANCIAL VIABILITY	
2003	4.4
2002	5.1
2001	5.0
2000	6.6
1999	6.0
1998	5.0

this practice often does not apply to human rights and peace groups. An increased number of small businesses and volunteers supported community building initiatives. It is evident that it is easier for NGOs to mobilize

community members and raise funds locally when NGO programs are designed to satisfy community needs.

Mature NGOs made progress in diversifying their funding base which helps them to remain viable during a short-term period. On the other hand, many local NGOs are heavily dependent on relatively small support from local and municipal authorities. However, most NGOs have problems ensuring their longer-term sustainability. With decreased foreign support, NGOs are more dependent on local donor support. Recent adoption of the Law on Lottery Proceeds will enable a large spectrum of NGOs to receive funding through the new National Foundation for Development of Civil Society.

Many NGOs understand the importance of sound financial management systems and frequently use services of independent accountants and auditors. NGO efforts to improve financial management are the result of pressure that comes from foreign and Croatian donors, including Croatian government. Improvements are mostly the outcome of better monitoring and evaluation practices by the Government Office for Cooperation with NGOs and several ministries. In addition, larger NGOs continue to publish their annual reports with financial statements, although that practice is still not common for a large number of them.

Some NGOs have a loyal core of financial supporters, either local governments, foreign or corporate donors. For the first time some concrete initiatives were undertaken by several NGOs to build a community partnership and establish approximately four community foundations in different municipalities. These few NGOs are aware that only through commitment and creation of broader coalition; community foundations can become effective and sustainable. Still many NGOs continue to have a weak membership base. The government has continued to have social contracts for provision of services with 131 NGOs in the area of social services, health, education, culture and youth.

ADVOCACY: 3.0

Communication between NGOs and the government continued to improve, especially thanks to the leadership of the

ADVOCACY	
2003	3.0
2002	3.0
2001	3.0
2000	2.5
1999	4.0
1998	4.0

Government Office for Cooperation with NGOs. Additional improvements are especially evident on the national level regarding direct NGO communication with various ministries and the Parliament. Several NGO leaders serve as NGO representatives in parliamentary committees. The work of the Council for Civil Society was critical for improvements in NGO/government relationship. The Council recommended various policies and decisions critical for NGO-government relationship and civil society development projects, including civil society strategy, criteria for government funding and other policy issues. Progress in NGO-government relations is especially evident in the area of civil society, gender, youth, social services, education and culture. While the progress is evident on the national level there are still some obstacles on a local level. In spite of significant improvements in several regional centers and smaller municipalities, there are still evident obstacles in some communities like in Vukovar.

NGOs have been effective organizing various peace, environmental, educational and other advocacy initiatives, as “Stop Wars”, Papuk Nature Park – organized public protest against illegal dumping and

Kvarner Eco-Initiative against Druzba Adria Project. Advocacy initiatives organized on the local level were especially successful.

There is a group of NGOs that successfully ran lobbying and advocacy campaigns. During the last year, successful campaigns included consumer associations, women, human rights, youth and other NGOs. They were critical in lobbying new legislation, as for example the law on gender equality, law on consumer rights, the Law on Access to Information, Law on Conflict of Interest and other.

The Government Office for Cooperation with NGOs continued to be the key organization in promoting legal and regulatory framework that can better promote civil society and the NGO sector interests, including voluntarism, philanthropy and corporate social responsibility. Several NGO support centers also participated in this initiative, providing logistical support for regional events.

From time to time some NGOs tend to be harassed by different political lobby groups. Often the government tends to be weak responding to this kind of political pressure. On the other hand NGO advocacy and lobby efforts are not steady but rather irregular, NGO lobbying and advocacy activities are missing regarding some sensitive but critical issues, as corruption, rights of minorities and victims of war, and privatization.

SERVICE PROVISION: 3.4

NGOs continue to provide various types of services, including basic social services. These services are becoming more diversified and focused on filling gaps which government is unable to cover. NGOs are trying to assess and

SERVICE PROVISION	
2003	3.4
2002	3.7
2001	4.0
2000	4.4
1999	5.0

respond to the needs of communities in which they work. A lesser number of NGOs conduct needs assessments before starting new programs. Most NGOs provide services and assist broader constituency than just their own membership. NGOs have become more active in publishing books targeted towards the NGO community although there are several NGO reports and publications targeted towards broader public and other sectors, including government and business sector. Such example is a booklet "Guide through Inter-sectoral Cooperation" published by the NGO "Slap." Another book "Importance of Gender in Views and Sexual Behavior of Female and Male Adolescents" published by women NGOs CESI is also an interesting publication not just for NGOs but also for teachers, psychologists, sociologist and other medical professionals. Another NGO GONG published a guide for first time voters and an election lexicon for youth. RI Center published a book on accounting for NGOs. Association SMART published two books on fund-raising and project proposal writing as well as on capacity building of women human rights groups. Most NGO

publications are distributed for free, although several NGOs have been trying to sell them, arguing that NGO activists value more publications which they buy than those which they get for free. Most NGO publications have reasonable prices, often approximately around seven dollars. Despite such publishing successes NGOs still do not put more effort into informing broader NGO community and public about their publications, but keep such information among their traditional NGO circle.

In 2003 Croatian NGOs have continued with social contracts they signed with several ministries and government offices, mostly in the area of social services, health and education. The government is ready for social contracting with NGOs, although that is mostly distinctive for traditional NGO areas as social services, education and health. In 2003 NGOs had a total of 131 social contracts with various ministries and government offices. Out of 131 government social contracts almost 60 are in the area of social services, 24 in the area of health and drug addiction, 22 in the area of education, and the remaining 25 in other areas. Practice of social contracting is also common for some regional centers.

However, there are still some ministries and local government departments which are not yet ready to cooperate with NGOs more. This will require additional improvements on both NGO and government side and improved knowledge and trust among both sides.

INFRASTRUCTURE: 3.6

Croatia continues to have several intermediary support organizations (ISOs) including training organizations, regional

INFRASTRUCTURE	
2003	3.6
2002	3.9
2001	4.0
2000	4.0
1999	4.0

NGO support centers and new grant making organizations, which are mainly based in the capital and three regional centers.

During the past year with donor's support three grant-making organizations have made significant progress in improving their outreach and assisting community building groups and civic initiatives throughout their specific regions. Thanks to that assistance new initiatives have been successful in organizing community activities and bringing community members and volunteers together, partnering with municipal authorities, small businesses and other community partners. Despite ISOs valuable efforts to assist a broader number of NGOs, many of them still are not able to respond fully to the needs of a larger number of grassroots and less developed NGOs throughout their specific regions. Almost all intermediary organizations are mostly supported by foreign donors. These organizations have continued to support regional networking among NGOs, organizing regional NGO forums, various training programs and providing technical assistance and other types of support. Additionally the Croatian Office of the Regional Environmental Center also continues to provide support services to environmental NGOs, through training, provision of grants, information sharing, i.e., e-mail lists, bulletin, and web-site.

Croatian NGO sector continues to be fragmented across various sub-sectors and still does not have a strong NGO focused on promoting and protecting interest of the whole sector. Until now that

role was played mostly by the Government Office for Cooperation with NGOs. In future the new National Foundation for Development of Civil Society registered in November of 2003 will serve that role in addition to re-granting funds from lottery funds and other activities. Expectations are that the new foundation because of its respectful leadership will be even more effective in filling numerous gaps as they will be established as public-private foundation.

However in spite of present weaknesses of Croatian NGO sector there is still a lot of networking and cooperation among different NGOs. The strongest networks remain connected with women, environmental, youth and human rights and peace NGOs groups.

Croatia has a group of relevant basic NGO management trainers in the capital and three regional centers. On the other hand the number of advanced and qualified trainers specializing in areas critical for NGO management is relatively small, for example in the area of NGO monitoring and evaluation. On the other hand a number of trainers specializing in areas such as conflict resolution, psycho-social support, gender issues is significantly bigger. Improvements are evident regarding availability of basic training materials in Croatian language, which is also covered in the section on service provision. Such materials are especially valuable for smaller grassroots NGOs. It is excellent that some of these publications are also available electronically, as SMART fund-rising guide, GONG's publications on election, and publications on legal framework for NGOs etc. However there are still needs for translation of more advanced materials and textbooks.

Cross-sectoral partnerships with other sectors to achieve common objectives, especially with local businesses and local governments are practiced more frequently. Such partnerships are the

result of efforts to help both partners to learn more about and consequently understand that working together they can achieve more, especially in promoting development in local communities.

PUBLIC IMAGE: 3.4

Media increasingly covers NGO activities, especially regarding children, disabled, gender, and the environment. The most effective in promoting NGO issues continues to be the national TV program called "Good Morning Croatia." Other print and electronic media are open and interested in civil society, including two

PUBLIC IMAGE	
2003	3.4
2002	3.5
2001	3.8
2000	4.0
1999	4.0
1998	4.0

national weeklies, although many NGOs still have difficulties successfully presenting their activities to media and public. On the other hand, there are still instances when media portrays NGO activities in a sensational way. Thanks to NGOs efforts and media's interest in such topics, the public is more aware and sensitive towards family violence, trafficking in persons, abuse of children, and rights of disabled persons.

NGOs are aware of media's role in promoting their public image and actively try to improve their media communication, organizing press conferences, presentations, and other public events to

which they regularly invite media representatives. Therefore NGOs tend to receive more public support than before, in spite of limited public awareness and understanding about civil society issues.

Perception of NGOs by businesses and government representatives has slightly improved, mainly as a result of progress in their communication and better understanding of corporate social responsibility practices in the business sector, especially among several large companies. Although NGOs still have to make significant improvements in their cooperation with the corporate sector and encourage development of joint partnership instead of restricting that cooperation to financial support only.

Several well-established and professional NGOs have a code of ethics. During the last year a group of NGO trainers worked together on development of trainer's code of ethics, which is an important step forward for Croatian NGO trainers. Also well-developed associations actively demonstrated openness and transparency in their operations through their web sites, annual reports, and annual NGO forums.