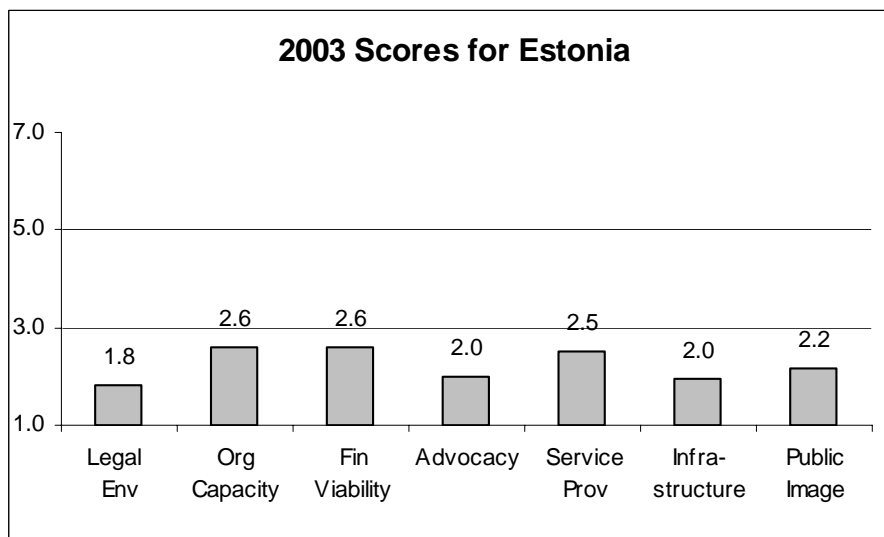

ESTONIA



Capital: Tallinn

Polity:
Parliamentary
democracy

Population:
1,400,000

**GDP per capita
(PPP):** \$10,066

NGO SUSTAINABILITY: 2.2

NGO SUSTAINABILITY

2003	2.2
2002	2.2
2001	2.1
2000	2.4

Estonian NGOs gained more popularity and support from the public and private sectors. There is a large number of registered organizations with 19,090 asso-

ciations and 563 foundations which totals 19,653. It should also be noted that the large number of housing associations doubled the size of the third sector. Only about 1,200 are public benefit organizations. It is estimated that about 16,000 people or 4-5 percent of the workforce is employed in the NGO sector.

LEGAL ENVIRONMENT: 1.8

LEGAL ENVIRONMENT

2003	1.8
2002	2.0
2001	2.0
2000	2.0

In general, the legislative environment for nonprofit organizations in Estonia is favorable. The fact that in recent years the number of NGOs has increased enormously is proof

that the legislation allows for easy registration of associations, and foundations. NGOs are registered according to three laws: the Act on Associations, the Act on Foundations and Law on Obligations (for non-registered organizations). Specific governance duties and obligations are detailed in laws like Law of Parties, Law on

2003 NGO Sustainability Index

Apartment Associations, Law on Trade Unions, etc. Like any legal entity, the non-profits must also act in accordance with the Income Tax Law, Accounting Law, etc.

The laws guarantee independence from the state, freedom of speech and the right to profit. One downside is that the law treats all NGOs equally without taking into account certain important variations. For example, the law does not distinguish whether an NGO is founded by individuals, local authorities or other organizations.

Since the management and governance structures, scope of permissible activities, financial reporting, accounting and dissolution are all covered in the legislation, founding members of an NGO often copy the legislative text directly into their statutes. Paperwork related to accounting and taxation has proven to be difficult for smaller NGOs who are required to do almost the same amount of work as larger organizations. Advisors and auditors have their hands full creating balance sheets suitable for NGOs.

The NGO fiscal law is progressive yet superficial. Tax deductions for businesses and individuals who are engaged in charity are not used to maximum limit because the procedure and deductions are not motivating. Individuals may deduct income tax on documented gifts and charitable contributions to organizations on the Ministry of Finance list. Deduction is limited to 5 percent of taxable income. Regarding corporate donations, there are two alternatives: either to deduct up to 3 percent of the total remuneration paid to employees in the previous calendar month or to deduct up to 10 percent of profit from the previous year as charitable contributions to associations and foundations on the

Ministry of Finance list. The process of getting on the list has been made complicated as the criteria for being applicable is ambiguous. On January 1st, 2003, there were about 1,400 NGOs on the list. These are NGOs operating in the public benefit.

Fiscal laws hinder the use of volunteers since transportation and food expenses for volunteers are considered gifts from a legal perspective. Additional taxes mean that the amount paid for food and transportation exceed the actual cost of the service itself. Volunteer work is critically important for NGOs but they do not receive tax-exemption for costs incurred by using volunteers. Local authorities are typically less criticized since they are usually the main sponsors of NGOs. Smaller NGOs rely heavily on personal contacts with local authorities. No one can influence NGOs through legislative means as long as all obligations to the state have been fulfilled. From time to time it seems that state control should be stronger, especially in the case of state-controlled foundations.

Most lawyers have basic knowledge of NGO law – they are usually familiar with the legal text related to registering an NGO. All other topics are covered by specific laws such as Income Tax Law, Accounting Law, etc. It is always possible to hire a lawyer or specialist but it is expensive and most organizations cannot afford this option.

Estonian legislation allows NGOs to gain profit from their actions and participate in government procurement both locally and nationally. Technically, permits a range of opportunities, but it could be amended because it does not meet the needs of NGOs.

ORGANIZATIONAL CAPACITY: 2.6

Most NGOs in Estonia operate on a clear set of mission statements. They have defined their target groups and actively seek to build local constituencies for their initiatives. Latest examples can be drawn from the field of environment, child support and trade unions. They are becoming more and more successful.

NGOs work on their strategic planning and marketing training and skills. There is a clear shift to more professional management techniques that NGOs want to incorporate. The activities of organizations are usually planned not more than a couple of years in advance. A well-defined management structure and permanent jobs exist mostly in older and larger organizations

ORGANIZATIONAL CAPACITY	
2003	2.6
2002	2.2
2001	2.3
2000	2.5

such as umbrella organizations. The law requires the division between boards, councils and the staff. Organizations, their structure and labor division, are quite clearly defined in the legislation. Boards and/or councils are required by law. Most Boards/councils work in open and transparent manner, information is public and elections/nominations regulated. Since Estonia is a small country, organizations try very hard to avoid potential conflicts of interest and follow either general or organizational codes of ethics.

In most NGOs one or two leading members do the lion's share of the work. That is why there is a general notion that NGOs

are usually run by a single individual. Temporary jobs are created within the context of a project but this does not solve the problem regarding permanent jobs. Projects usually allocate payments for the project leader but not to the accountant.

NGO activities are based on volunteer work; however, NGOs pay additional taxes related to volunteers.

Organizations do not have proper funds for acquiring office equipment. A complete office setup is not always necessary and members use computers at home, at their main jobs, at libraries or public Internet access points, or at the offices of local authorities. The lack of Internet access in rural areas has made some organizations use the telephone instead of e-mail as a default tool for distributing vital information. This is problematic because at present many application forms for various projects must be typed up and sent in via e-mail.

The controlling documents of an NGO are the following: statute, reports (financial report, activity report), accounting documentation, budgets, project drafts, meeting protocols, event calendar, plan of action, house rules (in the case of bigger organizations) and strategy. The general notion is that documenting is performed actively only by the larger and older organizations. Some projects require the presentation of an annual budget and plan of action, which fortunately motivates formal documenting in some NGOs.

FINANCIAL VIABILITY: 2.6

NGOs have mastered different skills in order to survive. The skill to adapt to new conditions, which can also mean project-

FINANCIAL VIABILITY	
2003	2.6
2002	2.6
2001	2.6
2000	2.8

based funding or providing services, is a determining factor. Organizations have a diverse range of income sources: direct support from the state and local govern-

ments, grants from foundations, programs for the EU, membership fees, fees for services, volunteer work. A majority of NGOs are project-hunters and their funding comes from outside their region – either from state-controlled or international foundations. If, however, we consider the regional centers of the *Cultural Endowment of Estonia*, local self-initiative programs and funds from local authorities as local sources then some organizations can receive two thirds of their funding locally. Although NGOs usually have many sources of income, available resources are not sufficient to let NGOs feel secure about the future.

Local philanthropy is developing but local donors usually support events and not the daily activities of NGOs. Support is offered in various forms. The primary means of

support seems to be non-financial: offering free goods, transportation, housing, etc. The importance of non-financial support is often underrated by NGOs. It would be a great help to include the rough value of non-financial support in reports. This would give an overview for the organization of its true financial capabilities and would formally increase the importance of a particular donor.

Although associations are organizations with members, they usually do not live off membership fees alone. The fee is generally symbolic.

The income gained by providing services or renting assets is rather small, depending on in which field the NGO is operating. NGOs typically lack the marketing know-how, not to mention resources. Organizations usually do not expect 'income' as such from these sources. Only a few NGOs have real estate that they rent. Only older and more persistent NGOs create annual budgets. The average NGO relies heavily on the local authorities who are the main consumers of the organization's services. The interest range of these authorities, however, is rather narrow with supported fields normally being sport, culture, social care and youth work.

ADVOCACY: 2.0

There have been times when organizations have had a profound impact on the politics and general development of Estonia. In almost all counties there are ties between organizations and politicians on both the local-government level and the council level. These ties are mostly personal and not institutional (e.g. ties be-

tween an organization and civil service). They are mainly used to develop a single organization or field. In more than half of the counties, the general opinion was that organizations could do very little in the government sector. In others, however, the opposite opinion was reported.

Advocacy depends on volition and the skill to create rapport. Rapport does not always happen at the level organizations would desire. Findings show that organizations are not sufficiently familiar with lobbying and influence methods nor are they aware of the legal subtleties that exist. When commenting on draft legislation, NGOs do not always have enough information about existing possibilities under the law. Themis, the web-based legal forum founded by the Estonian Law Centre, lets organizations and individuals post supplements and comments on draft laws. This concept is new and unique on a global scale and is still gaining trust and popularity on a nationwide basis in Estonia.

Organizations are not that keen on forming coalitions in order to influence politics in a congruent manner. But organizations with

ADVOCACY	
2003	2.0
2002	2.1
2001	1.8
2000	2.0

a common objective, regional location or field do reach agreements. Successful, large-scale advocacy campaigns were implemented by the Estonian Students Union (loans for student families), Movement for the Estonian Child, and preserving trees in Jämejala National Park.

Since local organizations tend to work in isolation, they hope that change will be brought by national political acts. Known nationwide organizations are the Estonian NGO Roundtable, its General Assembly, and NENO. At the end of last year there came another nationwide legislative pillar to lean on – the Estonian Civil Society Development Concept, also known as EKAK. EKAK is a document that was founded by

NENO and other organizations in close collaboration with the public sector. The document defines the reciprocal roles between the nonprofit and public sector, their rules of interaction, the set of spheres that are to be supervised by both parties and the mechanisms constructed to regulate these spheres for the purpose of developing and practicing open politics in order to build a civil society. In order to achieve this local counties and townships have to be kept more informed. The Joint Committee for the implementation of EKAK, consisting of public servants and nonprofits, headed by the Minister of Internal Affairs, began working in October.

Despite the general notion that organizations are incapable of finding success, there are a few exceptions. Namely NENO, the Estonian Fund For Nature, Kodukant and others have done well in helping to develop legislation and in the creation of the National Development Plan in the framework of the European Union's funds structure, as well as participation in educational and environmental politics.

Currently, NENO together with Law firm Raidla & Partners and several nonprofits are working with the Ministry of Finance to change the content of the public benefit status and the Income Tax Law accordingly. Assistance was provided by the ICNL. Government offices are now obliged to discuss their proposed actions with specific organizations, consider the organizations' proposals and also give feedback before any decisive action is taken. Ministries should not only consider involving appropriate organizations a formality but they should also maintain an open dialog with them.

SERVICE PROVISION: 2.5

SERVICE PROVISION	
2003	2.5
2002	2.5
2001	2.3
2000	2.5

In recent years discussion has centered around service provision by NGOs as their contribution to the well-being of the society. Organizations offer a wide range of

services in such popular spheres as health care, education, accommodation, schooling, counseling and environmental protection, but also in lesser known fields such as economic development, administrative and supporting services. There could be more but the lack of financial opportunities creates limitations. Organizations are also not professional in business planning and service distribution. The possibility to create consistent, full-time jobs in the nonprofit sector is minimal and therefore organizations have to rely on volunteer work. With these resources it is difficult to develop a line of quality goods and services.

Most of the goods, services, and events are based on the needs of a target group and the community in general. They usually cover a group besides an organization's own members NGOs rarely make a profit from an event. Goods and services are offered free of charge or relatively cheaply and organizations are typically unable to cover their expenses, although there are a few exceptions (tourism, schooling, entertainment, sports clubs, etc.).

Marketing of services in the nonprofit sector is still taking shape. Organizations mainly focus on satisfying their clients' needs, searching for channels of distribution and locating partners. At present the

nonprofit sector lacks the resources necessary to study needs and demands. Also, most organizations lack basic know-how. Older and more experienced NGOs, however, are fully able to provide and develop services that compete with the public and private sector both in quality and price.

Since most services are offered voluntarily or within the context of a funded project, it is difficult for inexperienced organizations to set a fixed cost for their services, not to mention a retail price. To find a buyer for a service where the retail price has been calculated based on related expenses is uncommon.

Organizations agree that the public sector does not recognize the value NGOs can add to various social services. This recognition may take place on a formal level. The number of ordered service contracts offered by the public sector is small and the initiative usually comes from the NGO itself. The state is handing over less significant services. If an organization shows the capability to provide a service effectively, the state hands over the service and withdraws from the process.

The state has not yet mapped the capabilities and possibilities of NGOs. Some services are offered by many organizations, thereby creating competition (for example schooling, social services, events for children and cultural services). Some spheres, such as accommodation and care for the homeless, are covered by very few organizations. Organizations provide services mainly via projects which limits their continuation.

INFRASTRUCTURE: 2.0

Previous studies have shown that compared to other countries in Central and Eastern Europe, Estonia's nonprofit sector has a rather well-developed infrastructure.

INFRASTRUCTURE

2003	2.0
2002	1.9
2001	2.0
2000	2.5

This means that the functional environment is well structured in terms of fields and regions.

The state continuously developed a base structure favoring entrepreneurship, but not for NGOs. Organizations have managed by themselves. By finding alternative means and foreign investments, many organizations have created their own nonprofit sub-networks. Some examples are the intermediary support organizations of the Estonian Chamber of Disabled People, Open Education Association, Estonian Popular Education League, Estonian Women's Union, Estonian Consumers Union, Association of Pensioners in Estonia, Estonian Association of Families, etc. The organization that offers the strongest support network related to country life is Kodukant (Movement of Estonian Villages and Small Towns). In order to assist in solving all the problems organizations and individuals may have regarding nonprofit activities, NENO created a support network of NGO resource centers in most counties (2000 – 2003). The initiative was funded primarily by the Baltic-American Partnership Program (BAPP). NENO has been requesting funds for this network from the state budget but with no results.

Besides distributing information, these centers coordinate information networks, counsel local NGOs, organize seminars, cooperate with other support centers and act as a motor for action in their region. Another problem is the project-based protocols of support centers: the funding from BAPP and other sources is constantly decreasing and the missing funds have to be

acquired by the centers themselves. Support centers spend a lot of time and energy justifying their own existence and writing projects instead of working with their target group.

Starting from 2003, NENO will work with the state owned Enterprise Estonia to train and coordinate the NGO module in the regional development centers, replacing and uniting former business advisory and NGO resource centers.

The services of organizations that operate as centers are usually free or charge a nominal fee. Information about these organizations is public and easily accessible. As many of the smaller NGOs do not have Internet access, and access time in Internet cafes is limited, the primary methods of communication remain the telephone, press and word of mouth. Unfortunately, township administrations often form a bottleneck – the information flow stops at these administrations due to the lack of information officers (i.e. people who would cover local organizations). The lack of information and basic financial resources is the main reason villages are underrepresented in seminars and conferences.

The basic training of NGO directors is possible everywhere where there is a corresponding interest group. Special training such as strategic planning, fundraising, volunteers' management and marketing is available in Tallinn and Tartu. If special training were requested in more peripheral regions appropriate instructors would have to be transferred there. NENO is known for its professional training courses and most NGO leaders attend these courses. Umbrella organizations attempt to subsidize these trainings with the help of projects and other resources. Training materials are available, and Estonian books about management, marketing and human resources are being printed. NENO has

2003 NGO Sustainability Index

agreements with publishing houses that allow NENO's members receive these books for a reduced price.

The intra-sector cooperation differs from region to region. The decisive factor is cooperation with local authorities. As mentioned before, NGOs themselves play the active role. Cooperation with the business sector varies, but is strongest when businesses sponsor NGOs or their events.

Foundations, through which organizations receive support and resources, are also a part of the infrastructure. The first commu-

nity foundation was established in 2002 in Viljandi County. A similar foundation is currently being formed in Järva County. It is as yet too early to evaluate these foundations. On a regional scale there are local foundations of the Cultural Endowment of Estonia, the Local Self-initiative Program by Enterprise Estonia, local foundations for people with special needs, etc. There are also local organizations that redistribute funds gained from international foundations. In certain areas (for example clerical and youth organizations) the existing structure functions efficiently.

PUBLIC IMAGE: 2.2

Media coverage of NGOs was positive in 2003. It was much easier for organizations to get coverage in local newspapers and radio. Putting aside a couple of incidents involving scandalous newspapers (there have been negative experiences with *Põhjarannik* from Ida-Virumaa, and *Pärnu Postimees* from Pärnumaa County) organizations seem to be rather inter-

PUBLIC IMAGE	
2003	2.2
2002	2.0
2001	2.0
2000	2.5

ested in promoting their activities. In most newspapers and other media there is a price difference between commercial and social advertisements. The opportunity to advertise without charge exists but it usually means print space of microscopic proportions.

An analysis of the role of organizations was published by Foorum, a monthly addendum to the main newspaper *Postimees* (published until May 2003). Many NGO leaders are published in media, attend TV shows and radio broadcasts on regular level.

The Estonian TV telecast *Third sector (Kolmas sektor)*, which was discontinued

in December 2002, was broadcast at an inconvenient time when potential viewers had little chance to see it. The show covered all major NGO-related happenings and proved to be helpful in explaining the notion of the third sector to the public. In winter – spring 2003, the radio show “*Vabaühendused*” (Voluntary organizations) was on the air.

There has been much talk recently about forming associations and the necessity of getting the nonprofit sector into mainstream media. The real question is: do all associations need media coverage? This is not true for the business and public sector. It is more important for an organization to have their sphere of interest covered by the media. In some places, organizations have developed ties with journalists in order to guarantee positive coverage of their organizations but not all journalists will guarantee this.

People and society generally perceive organizations as positive entities but with some exceptions. Most people who have a positive attitude are involved somehow with the third sector, its organizations or spheres of interest. The general public, however, does not understand the con-

cept and goal of the nonprofit sector and is therefore apathetic.

Some businesses put forth a superior attitude treating organizations as unequal partners but it is changing. Local authorities generally have a better attitude but these attitudes are shaped by personal contacts and how well the involved parties get along. It is difficult to generalize the perception of state officials. Those who happen to be 'enlightened', either because their job demands it or because of personal interest, delegate services to NGOs and consult with them. But people do not always consider NGOs to be resourceful and trustworthy. It is also the case that organizations sometimes express superior attitudes regarding the public sector and state officials, while seeing the business sector as completely alienating. The long hard road to success-

ful inter-sector cooperation and understanding still lies ahead although the last two years have seen lots of improvement.

NGOs are often crippled by the demands of the public sector wherein the latter requires all NGOs to be represented by an umbrella organization, and also that all NGOs should share a common and congruent view on the issues. State officials and politicians often do not understand the diversity and dynamics of the nonprofit sector and NGOs themselves are not helpful either. They also may not understand that the structure of the third sector is not hierarchical. An organization's reputation is based on knowledge and skills (especially the skills to gather and redistribute information) and not by choosing a conspicuous name or proclaiming oneself as an umbrella organization.