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# RUSSIA

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**Capital:**  
Moscow

**Polity:**  
Presidential-parliamentary democracy

**Population:**  
143,000,000

**GDP per capita (PPP):** \$8,377

## NGO SUSTAINABILITY: 4.4

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Public space for civil society organizations in Russia contracted in 2003. The Civic Forum (2001) did not realize its potential to be the "positive turning point" in the relationship between NGOs and federal structures. Although leaders in the NGO community struggled to keep the opportunity alive, they were unable to make significant headway in strengthening the viability of the Third Sector. Despite the lack of overall sector progress, a few specific organizations made inroads. Local governance and economic think tanks were invited by the government of Russia to provide input on national issues. Regional NGOs pressed for dialogue on social problems with municipal govern-

### NGO SUSTAINABILITY

2003	4.4
2002	4.0
2001	4.3
2000	4.3
1999	4.1
1998	3.4

ments, and won some municipal services contracts. Russian trainers were recognized for their development expertise, and their consultation was sought out by Russian and international organizations. Nevertheless, it would seem that a "managed" Third Sector may be joining a long list of other politically managed entities in Russia.

The legal environment remained unusually confusing, restrictive, and inhospitable. Legislation did not support the continued development of NGOs and the third sector, nor did it advocate for conditions that would encourage public advocacy initiatives. Due to continued lack of meaningful activity and the emergence of new obstacles, NGO legislation moved beyond 'stalled' to what can now only be characterized as backsliding. Indicators forecast further deterioration in the coming year.

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## 2003 NGO Sustainability Index

Local sustainability of NGOs was seriously undermined with the arrest of a prominent businessman-philanthropist and the raid on another's offices. Earlier indications of the administration's readiness to pressure businesses to contribute to preferred projects and initiatives significantly increased.

Announcements of imminent reduction in international donor support jeopardized the long-term sustainability of NGOs working in sensitive spheres, and will likely curtail the expansion of the sector's overall institutional capacity. Hardest hit are those organizations that work in the advocacy arenas, such as human and civil rights. Complicated legislation and arbitrarily enforced laws regarding earned income, factually remove the possibility for organizations to establish a financial base integral for self-sustainability.

The sector fell far short of realizing the post-civic forum prediction of "leveraging dialogue into concrete changes." NGOs were, for the most part, barred from participating in defining social policy priorities and decision-making. The overall decline of the 2003 NGO sustainability rating is substantiated by a considerable body of information from within the NGO sector; by data derived from public opinion research and surveys; and by the external evaluations and analytical reports of partners and leading experts.

### LEGAL ENVIRONMENT: 4.3

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The 2002 NGO Sustainability Index described legislation as "primitive, out-dated,

LEGAL ENVIRONMENT	
2003	4.3
2002	4.0
2001	4.2
2000	4.0
1999	4.0
1998	3.0

and unclear," these conditions did not improve in 2003. Existing legislation encumbered nonprofits, and perpetuated inequitable treatment. Organizations reported difficulty registering and complying with legislation; petty harassment from tax authorities, including tax audits that went on for months; taxation of grants; undue questioning on their operations and activities by security organs; and demands to pay bribes. The ability to generate revenue tax-free was severely limited. Corporate donations were not tax-deductible, and efforts to make them so were met with strong resistance from the government,

under the premise that such donations would only

encourage tax evasion schemes. While theoretically, it is legal for individuals to make tax-deductible donations, it is not always so in reality. The legal environment does not facilitate or encourage endowments or trusts. There are few local lawyers specializing in charitable or NGO law. Although donors encouraged the NGO community to concentrate its efforts to pursue resolution of these issues, NGOs have not achieved any significant successes in this sphere. There are examples of cooperation among a select group of NGOs, but for the most part, NGOs do not perceive their interests as being broadly shared by others.

Draft legislation, pending in the Duma for the past three to four years, was adversely affected: the Law on Lobbying and the Law on How NGOs Use their As-

sets became obsolete; the requirements relating to the Law on Volunteers changed; and the Law on Foundations stalled. In addition to the obvious negative effects of the legislation related to NGO infrastructure languishing for long periods of time, many advocates lost the will to pursue passage. Prominent lawyers in the NGO community, officers in the RF Ministry of Justice, and members of Duma committees were nearly unanimous in rating the legal environment as controversial and ineffective. Through their inactivity on this front, federal authorities sent a strong message to the third sector, and that message negatively affected their relationship with civil society organizations.

One initiative that was slowly progressing is UNDP's, *Promoting Improvement and Development of the Legislative Framework for NGOs and the Third Sector*. This program is a collaborative effort between UNDP and the Duma Committee for Non-Government and Religious Organizations. An independent evaluation of federal legislation was conducted, and the collaborative next proposes to identify priorities for new legislative initiatives and amendments to current laws. However, following recent Duma elections, this committee

may become defunct, and future funding is uncertain.

At the federal level, there was some recognition that outsourcing community services could offer relief in meeting the burgeoning needs of the population. It is unclear at this point which approach the government will take, whether to contract with NGOs or to create new, 'independent' state-owned enterprises. Further complicating the question is what affect the new Law on Local Self-governance, which contains provisions for creeping recentralization of government, will have on the NGO sector.

NGOs in the major urban centers are aware of the serious implications that the legislative challenges present for the future of the sector. There were efforts, albeit uncoordinated, to improve advocacy campaigns. Local organizations and international supporters continued to design strategies to address issues; however, it is uncertain if NGOs have the capacity, sufficient resources, or the stamina to break through the wall of federal bureaucracy.

**ORGANIZATIONAL CAPACITY: 4.3**

The sector did not develop a critical mass of NGOs with transparent governance or with a willingness to hold themselves accountable to the general public. There were a number of NGOs that demonstrated increased capacity to govern and organize their work effectively. Generally speak-

ORGANIZATIONAL CAPACITY	
2003	4.3
2002	3.9
2001	4.4
2000	4.0
1999	3.5
1998	3.0

ing, these were NGOs that were working with western organizations. These NGOs benefited from an array of training and information, and often made remarkable improvement while implementing projects under foreign grants. Nevertheless, it is estimated that this group comprises only 5-10 percent of all operational NGOs.

One of the leading causes of arrested organizational development is a phenomenon referred to as "the one-man show". It is commonplace for Russian NGOs to be wholly dependent on the vision, energy,

and contacts of a single charismatic leader. With regard to organizational control, Soviet era attitudes often still prevail. These organizations rarely develop beyond the personal control of their leader. Even when such an NGO creates a board of directors, it is generally in response to a donor requirement. There remains a low-level of awareness of the applicability or utilization of organizational norms, such as boards of directors, by the leaders of Russian NGOs.

At the local level, the introduction of competitive procurement revealed that the average NGO did not possess the capacity for social contracting. Some NGOs indicated a resistance to adjusting their organization's activity in order to meet the contractor's needs, and others withdrew if services were to be monitored from the outside. Findings of a study conducted by the Urban Institute indicated that there is

still a great need for greater education on organizational development and management before NGOs will be ready to compete for contracts, or are competent to fulfill the terms and conditions of a municipal contract.

The sector's organizational growth was also impeded by the NGOs limited access to professional services—accountants, lawyers, fundraisers, and other interlocutors competent to interact with authorities and donors. NGOs' were unable to pay market prices for services and training opportunities. In an attempt to respond to this deficit, resource centers, NGO networks, and community foundations endeavored to transfer lessons learned through a multi-tiered fee system.

### **FINANCIAL VIABILITY: 4.9**

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Previous years' amendments to the Law on Charitable Organizations severely restricted the ability of NGOs to generate

<b>FINANCIAL VIABILITY</b>	
2003	4.9
2002	4.4
2001	4.7
2000	5.0
1999	5.0
1998	4.0

revenue. In 2003, a few regional NGOs were successful in winning municipal contracts. Moscow business associations and think tanks consulted with the federal government on a fee-for-service basis. Community foundations grew in number and strength. These organizations began to adopt procurement and conflict of interest rules, and to diversify their sources of funding. However, these advances were limited to the more progressive regions, and a small number of particularly well-organized NGOs. The

majority of Russian NGOs are still effectively excluded from generating revenue through service fees.

For the majority of NGOs, securing adequate financing became more difficult, and will likely worsen in the next few years. NGOs discovered that they were less competitive than municipal agencies, which are not subject to VAT, when bidding on contracts. While NGOs are also by law excluded from paying these taxes, more often than not, they are forced to pay. As a result, NGOs found themselves having to severely underbid in order to win contracts. NGOs also discovered that they had new competition for private donations. The administration frequently pressured businesses to make specified donations, and thereby reduced the pool of available resources.

In 2006, when the budget undergoes greater recentralization, the frequency of municipal government contracts, consolidated budget initiatives, and local grant competitions for which NGOs will be able to compete, will most likely be reduced. Amendments to the Law on Charitable Organizations restricted fee-for-service activities and the establishment of endowments. Top-quality financial management and legislative advocates are rare, so NGOs must attempt to navigate these issues on their own. Today, the majority of NGOs have less than two-months of operating capital, live from grant-to-grant, and are dependent on one or two donors---usually foreign.

It had been expected that the private sector would emerge as the strongest force to initiate and/or support social activity. However, in October, Russian philanthropy suffered a serious setback when a leading local businessman-philanthropist was jailed, and his foundation's assets seized. Subsequent searches of the foundation's offices coupled with interrogation and threatened tax inspections of grant recipients had a withering effect on philanthropy. Since then, many Russian philanthropists and private businesses have turned to 'safer' or 'recommended' initiatives while others have taken their philanthropy underground.

When Russian donors did engage with the Third Sector, they were less interested in

democracy-oriented initiatives. The focus of their activity was on improving the communities where their businesses are located. There was a willingness to fund projects that improved the quality of life of employees and their families. Projects that filled in the gaps in government spending, such as supporting educational, sports, and cultural opportunities for youth and underwriting health initiatives, were preferred. In rare cases, businesses encouraged their employees to volunteer.

The future of Western donor assistance is less optimistic than it was a year ago. There were announcements of withdrawal and phase-down from several key donors. Groups, whose work is perceived to be more sensitive, such as human rights, environmental protection, and democracy building activity (such as election observation), will likely be the most adversely affected.

Traditionally, even the poorest of the poor have found the means to help one another; however, the widening gap in the distribution of wealth in Russia is making private donation more difficult for the average citizen. The inhospitable legal and regulatory environment for charitable giving seriously calls into question the hypothesis that indigenous sources of funding will take the place of western funding in the near future.

## **ADVOCACY: 4.5**

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The majority of NGOs have not yet become highly effective or sophisticated in conveying their viewpoint to government or the general public. There is little in the way of coalition building based on mutual

interest or need, and what exists generally is in response to donor initiative. Most organizations do not know how to undertake advocacy, or have an understanding of the concept limited to campaigns. NGOs are

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either uneducated about other forms of advocacy, or lack the skills to take advantage of them.

ADVOCACY	
2003	4.5
2002	4.2
2001	4.9
2000	4.5
1999	3.5
1998	3.0

Contributing to the problem is the fact that many leaders in the NGO sector suffer from the "great leader" syndrome, and working in concert with others is of little interest to them.

Dedication to a campaign wanes when initiatives are stalled by bureaucrats, as with the taxation campaign that 'drowned' in the Ministry of Finance's bureaucracy. Mistrust, passivity, and cynicism has grown stronger among those who have been engaged in advocacy for any length of time.

This past year, some organizations in Moscow and in other urban centers improved their skills in policy analysis, information sharing and networking. NGOs that focused on business, governance, environment, and human rights steadfastly lobbied the government and the general public. The government sought the expertise of some of these independent organizations.

Think tanks were staffed with professionals, and often had prominent figures in their leadership and on their advisory boards. At times, their message reached the 'ear' of key government's decision makers. Environmental NGOs continue to draw attention to national issues; unfortunately, that attention could have negative consequences. Foreign investors were increasingly concerned about repercussions when supporting environmental NGOs, and local philanthropists were generally unwilling to fund them. Unfortunately, the government's interest and willingness to discuss critical issues dropped off rapidly if the topic was political or if it affected revenues. Equally unfortunate was the fact that these issues were rarely debated in public

forums, and thus, the general citizenry remained uninformed.

NGO resource centers, located in the regions, had limited opportunity to advocate at the federal level, although their nascent coalition-building efforts met with some success at the local government level. NGOs in Tomsk monitored Duma members and officials to confirm whether pre-election promises were met. Six NGOs in Samara formed a coalition to cooperate with the government in solving social problems. However, frequent changes in the regional administration meant lost relationships, and the NGOs found themselves starting over several times. Regional successes have largely been dependent of personal contacts or individual personalities. A sociological survey, conducted by the Institute of Systemic Analysis at the Russian Academy of Sciences, studied NGO participation in the drafting and implementation of social policy in nine regions. Findings revealed that NGOs were, for the most part, barred from participating in social policy decisions such as budgeting for the social sphere, oversight of program and project implementation, and from defining social policy priorities.

The average Russian places employment and housing issues at the top of their list of concerns. Because citizens are unaware that many NGOs focus their efforts on improving these day-to-day issues, they feel little connection to NGOs. Although NGOs tried to improve the visibility of their efforts, it was questionable whether NGOs had a real opportunity and/or the necessary access to advocate on behalf of the public. In Russia, access to forums where dialogue and decisions take place is closely guarded. Further complicating the issue is that NGOs generally have a very narrow interpretation of advocacy. Efforts are directed solely at promoting their projects or advancing their philosophy.

NGOs still have serious obstacles and bi-

ases to overcome before they can build broad-based coalitions that advocate for mutual interests. Whether or not NGOs have the capacity to become effective advocates may be linked to issues beyond

their immediate control. Nevertheless, there are indications that the Third Sector is beginning to turn its focus toward the citizenry.

## SERVICE PROVISION: 4.0

The Russian NGO sector is just beginning to move into Mid-Transition. A small number of NGOs successfully provided contract services at the municipal and federal level.

SERVICE PROVISION	
2003	4.0
2002	3.7
2001	4.3
2000	4.5
1999	4.5

The best in-roads were in the more progressive regions, where forward-looking leaders were more receptive to

change. Unfortunately, the majority of regions were uninterested or unaware of the potential of this mechanism. A study conducted by the Urban Institute identified six factors that contributed to local governments' reluctance to engage in contracting for services:

- Local governments thought that NGOs were too inexperienced to deal with reporting and taxation requirements, and lacked necessary organizational skills, management capacity, and staff training.
- NGOs were not overly interested in competing for contracts. They were unable or unwilling to expand their operations to handle a larger or diversified clientele. Local government contracts were competed annually, and NGOs often had access to money with fewer demands.
- Legal systems were weak, and NGOs found themselves in an inferior position legal disputes with local governments.

- Local governments were not entirely convinced that there were advantages to the 'new public management'.
- Local government agencies did not want to compete with NGOs for contracts.
- Local governments were not ready to contract for services.

Source: Raymond J. Struyk, *Contracting with NGOs for Social Services: Building Civil Society and Efficient Local Government in Russia*, Urban Institute, September 2003.

There were too few opportunities to win contracts to provide government services, and the prospects were even more limited when it came to fee-for-services. Opportunities were further reduced if NGO services were more expensive, were poorly promoted, or lacked a marketing strategy. The phenomena of NGO service provision has rarely been studied or discussed in Russia. Most observers believe that NGOs only provide 'virtual' services, such as information dissemination, training, and consultations. It is important that the sector generate a broader awareness of their capacity to provide 'physical' services.

At the federal level, there seemed to be an acknowledgement that the NGO sector could be an important factor in bridging the gap in social service provision. It has been widely held that the results of the Kozak Commission signaled a reversal of

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the trend towards decentralization. Municipal budgets will almost entirely depend on regional and federal authorities. There has even been public discussion about municipal services being provided by a mega corporation. These changes would effectively reduce the potential for NGOs to provide public services. In two years, there may be more adverse change when

the Law on Local Self-Governance (2006) is implemented. How the new law is implemented over the next few years will determine whether it will promote or discourage the contracting of services to NGOs. If the law is used to reject contracting, there will be serious sustainability implications for the NGO sector.

### INFRASTRUCTURE: 3.9

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INFRASTRUCTURE	
2003	3.9
2002	3.2
2001	3.4
2000	3.5
1999	3.5

NGO development capacity improved, but did not reach the robust stage described in Mid-Transition. The number of ISOs

increased, but it would be an exaggeration to say that they are active in most major population centers. Russia has more than 35 cities with a population of 500,000 to 1,000,000. Some networking and coordination occurred; however, the notion of 'associating' remained weak or non-existent---despite donor initiatives to encourage and facilitate this practice. Following the second Civic Forum in November 2003, there were hints of a government-managed Third Sector.

Training capacity has steadily grown throughout the country. Intertraining, a Russian association of certified trainers, was highly sought after to provide local and international expertise. The Academy for Educational Development (AED) indicated that a group of local trainers provided professional services to corporations on a fee basis. Unfortunately, NGOs were unable to afford these services without donor assistance. The Center for NGO Support (CNGOS), in its third year of a USAID technical assistance program, pro-

vided distance learning courses on management and organizational development via the Internet. Each year, the number of applicants from Russia and abroad has increased. Russian trainers and evaluators are in high demand in the Central Asian Republics and neighboring CIS countries. Courses on NGO Management were designed in some regional universities, and local NGOs assisted with curriculum development. In response to donor demand, USAID/Russia began to strengthen the capacity of regional organizations to serve as local grant-makers. Unfortunately in the NGO sector, there is still a shortage of expertise in the spheres of accounting, law, public relations, fundraising, personnel management, and advocacy.

In 2003, NGOs discovered that they were not alone in advocating for cooperative mechanisms. The authorities began using NGO sector concepts, and arranged trainings for officials on NGO theories of cooperation. Russian businesses were also employing these mechanisms. LUKoil used competition to award social projects in Perm, and contracted with Charities Aid Foundation (CAF) and Institute of Urban Economics (IUE) to administer these projects. SUAL Holding regularly signed and implemented social partnership agreements with the municipal authorities.



Little progress was made in developing an infrastructure for the Third Sector. Russians resisted the concept of forming ‘umbrella organizations’. A long history of mistrust often prevents them from believing that it is possible to come together in a collaborative effort without losing their indi-

vidual organizational autonomy. Until this myth is dispelled, the infrastructure for sector self-regulation, united sector initiatives, and the ability to monitor government and business on behalf of the general public will not be difficult – if not impossible.

## **PUBLIC IMAGE: 4.6**

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In general, the perception of NGOs did not significantly improve over the past years. The public, by and large, remains unin-

<b>PUBLIC IMAGE</b>	
2003	4.6
2002	4.4
2001	4.5
2000	4.5
1999	5.0
1998	4.0

formed and suspicious of NGOs, and does not believe that NGOs contribute to their overall welfare. Conversely, where citizens have become familiar with NGOs, they mis-

takenly believe that NGOs are now responsible for provision of certain services that were (and still are) the obligation of the government. When certain NGOs did not provide those services efficiently and consistently, it diminished the reputation of the sector as a whole. Many NGOs are cognizant of the importance of their public image and continuously work to improve it. There were nascent efforts to systematize education and engagement of the public, to strive for organizational transparency, and to seek out opportunities for media coverage.

Philanthropists and businesses were willing to contribute to NGOs provided they were not controversial, and their mission satisfied a personal interest. Giving was done silently, as less recognition meant less attention. ‘Edgy’ NGOs, such as human rights and environmental groups, were avoided by almost everyone.

The NGOs’ relationship with the government was a paradox. On the one hand, local NGOs were effective partners and advisors to municipal government; prominent NGOs served as advisors on federal commissions; economic think tanks provided substantive input on draft legislation; and President Vladimir Putin hosted two civic forums where NGOs and government discussed the future of the sector. On the other hand, municipal governments arbitrarily implemented, enforced, and interpreted the Laws of Charitable Organizations; commissioners had trouble working within the precepts of the democratic process and issued ultimatums to advisors; governmental pledges from the first civic forum never materialized; and the second forum did not even make a pretense of being anything more than a ‘managed’ democratic event. Many believe that the Administration fully understands the potential of the Third Sector, and desires to control this resource. One day, a strong Third Sector may exist in Russia, but the form might not be consistent with the principals of a free and open civil society.

Utilizing the media sector to improve image was difficult for NGOs, and they found it hard to access or influence the media. National broadcast media is entirely government owned, and was generally uninterested in the activities of NGOs. Regional media outlets were sometimes

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more open to covering NGO events, but most are also owned or controlled by local government structures, corporate entities, or oligarchs. Thus, decisions about whether to cover NGO activity were often influenced by factors other than newsworthiness or public interest. NGOs still have a long way to go before they are proficient at luring media to cover their actions. Many still maintain an air of 'entitlement' with regard to media coverage, and this does not advance their position or image.

Adding to the public's confusion was the growing interest that business and government took in the nonprofit sector. Some observers estimate that as many as half of Russia's NGOs are of government creation. Business, not to be left out, determined that contracting for services would be a lucrative venture. Government and business involvement sometimes leads to increased loss of identity for NGOs and creates further misunderstanding about the role of Third Sector organizations.