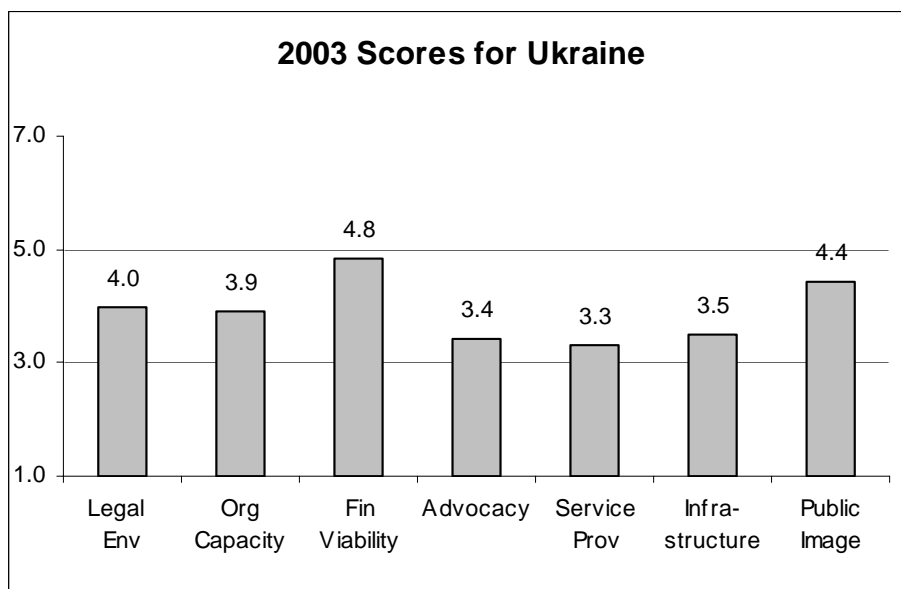

UKRAINE



Capital:
Kyiv

Polity:
Presidential-
parliamentary
democracy

Population:
48,200,000

**GDP per capita
(PPP):** \$3,816

NGO SUSTAINABILITY: 3.9

Overall, the NGO sector changed little over the last year, with gains in some areas and challenges remaining in others. The legal environment improved noticeable, thanks to changes in the legal framework. Additionally, there was progress in two areas where the NGO sector was weakest last year – financial viability and public image. Although dependence on international donors remains high, many organizations have diversified their sources of funding and demonstrated the ability to attract local funding from both government and business. Overall, the public perception of NGOs progressed due to an im-

NGO SUSTAINABILITY

2003	3.9
2002	4.0
2001	4.3
2000	4.4
1999	4.1
1998	4.2

provement in the public and media relations skills of NGOs. However, organizational capacity, advocacy skills, infrastructure and service provisions did not improve and in some areas there was a slight deterioration.

The precise number of registered organizations is still unknown, because NGOs may register at either the national or local level. The previous estimates are likely to remain accurate: approximately 30,000 groups are registered, of which 4,000 are active. Ukrainian NGOs continue to work on a variety of issues from social services and public policy to culture and politics, representing most demographic groups. As in many other countries, NGOs in the capital and large urban centers are more developed than those in smaller towns or rural areas.

Although dependence on international donors remains high, many organizations have diversified their sources of funding and demonstrated the ability to attract local funding from both government and business. Overall, the public perception of NGOs progressed due to an im-

LEGAL ENVIRONMENT: 4.0

The legal framework for civil society organizations improved in Ukraine. Several important laws were adopted, such as the Law on State Registration of Legal Entities and Individual Entrepreneurs, the new Civil Code, the

LEGAL ENVIRONMENT	
2003	4.0
2002	4.5
2001	5.0
2000	5.0
1999	5.0
1998	4.6

Law on Social Services, and several new favorable amendments to existing tax legislation.

The new Law on State Registration of Legal Entities and Individual Entrepreneurs adopted in 2003, will become effective in July 2004. This law establishes a progressive identical registration procedure for all legal entities, including NGOs. For example, it requires the government to process the registration within three days following submission of the documents, and does not impose registration requirements based on the area or location of organizational activity.

Tax legislation does provide tax benefits to certain groups of NGOs. However, in practice, these existing benefits are not sufficiently used by eligible NGOs since they are not aware of their rights and are often unable to defend their interests with the tax authorities. Charities and some public associations specified in the law enjoy a great number of benefits, but this excludes many public associations who are then unable to enjoy these benefits. As in the past, grants and donations to NGOs are not taxed, nor are loans or funds raised from publishing activities.

Ukrainian NGOs are permitted to have endowments and to engage in grant making. Furthermore, Ukrainian law encourages charitable organizations and

other public associations listed in the Registry of Not for Profit Organizations to engage in investment activities, with tax exemptions on certain types of income.

Donations to NGOs registered in accordance with the Law on Charity, Professional Unions, and Religious Organizations are considered tax-deductible. However, a need exists for a special mechanism to use deductions for in-kind contributions, which in other countries comprise a substantial share of support to charities from businesses.

While tax legislation, deductions, and exemptions for NGOs and their donors improved, legal regulations on earned income remain quite ambiguous, hampering the economic activities of NGOs. There is also a need to raise awareness among NGOs and tax inspectors that commercial activities by NGOs are not prohibited according to the recent tax law amendments.

The new Law on Social Services should soon allow NGOs to compete in the government procurement of social services. Ukrainian NGOs may receive assistance (grants and subsidies) from state or local authorities. At present, a number of regions have adopted special regulations on government assistance requiring the distribution of such assistance on a competitive basis. Yet, implementing these special regulations remains challenging due to a variety of reasons, including problems in interpretation of the law, a lack of information and funding, and poor relations between the government and NGOs. In spite of the difficulties related to the current procurement regulations, there have been positive developments at the local level as some local governments have engaged NGOs as partners in

implementing projects.

Legal advice is generally available to NGOs in Ukraine, even outside large cities, but often on an ad hoc basis and for relatively simple cases, such as fiscal law, registration, civil contracts etc. Many NGOs have no access to qualified legal assistance even at the time of registration. There are also no training courses offered regularly by the few institutions with NGO law specializations. More legal education, publications, and networking are needed to further improve the ability of NGOs to influence their legal environment.

NGOs continue to face various problems with legal issues, such as long registration periods, regional issues because of their geographical areas of work, expensive and complicated procedures for registering national and international associations, and registration with multiple government agencies. Ukrainian laws often use contradictory or unclear legal terminology, which allows state officials to restrict NGOs activities or to interpret the law with their discretion.

ORGANIZATIONAL CAPACITY: 3.9

NGOs need to invest more in their own organizational development, so that they are better able to identify the impact of changes in their funding sources. This means more attention to research, learning, monitoring, evaluation, overall strategic direction, and their function in society.

ORGANIZATIONAL CAPACITY	
2003	3.9
2002	3.5
2001	4.0
2000	4.0
1999	3.5
1998	3.7

At present, the majority of Ukrainian NGOs have the basic capacity to further strengthen their organizational development. Necessary administrative and management procedures are in place. However, unstable and insufficient funding from local sources limits the growth of the sector. This may be from a lack of long-term strategic vision and access to information technology.

NGOs may need to focus more on the needs and interests of their communities. To date, only around 20 percent of NGOs have stated that they involve their clients in activity implementation. The majority of NGOs still function as service centers for their clients, and not as facilitators or promoters of locally derived initiatives. NGOs should shift from information gathering to keeping citizens informed and engaged in solving social issues, formulating policy positions, and finding alternative methods of problem resolution.

NGOs have a high awareness of their mission and role in the development of civil society. At present, most NGO internal management systems are characterized by a clear definition related to the client interests. Although many organizations do have a governing body, one charismatic leader often takes control of decision-making. At the same time, Ukrainian NGOs have demonstrated human resources administration capability, with paid staff and adequate numbers of

2003 NGO Sustainability Index

volunteers, written administrative procedures, and staff professional development strategies.

While almost all NGOs are transparent about their program activities, only about half of them can claim transparency in financial activities. Only one third of NGOs prepare annual reports, and an equal portion has not had the experience of undergoing external audit.

Many NGOs still lack access to telephones, fax machines, computers, and the gap between those NGOs that have access to the new technology and those that do not, tends to become wider over time. Usage of information and communication technologies is still at a basic level, while some NGO sector analysis suggests a direct relationship between technology and NGO organizational and advocacy capacities.

FINANCIAL VIABILITY: 4.8

Dependence on international donors remains high for most NGOs, but many organizations have demonstrated the

FINANCIAL VIABILITY	
2003	4.8
2002	5.0
2001	5.0
2000	5.0
1999	5.0
1998	4.6

ability to attract local funding from government and business during last year. It should be noted, that NGOs with local funding are generally more skillful and pro-active in seeking new sources of funding than their counterparts supported by international grants. Organizations with mixed funds (both local and international) often show the best results, not only in general but also in every component of the NGO organizational capacity index. It looks as though organizations with different funding sources have more opportunity and capacity to grow and adapt to changes in the external environment.

At the same time, even when the share of local funding is significant, NGO financial sustainability remains questionable. Legal regulations on earned income are still very ambiguous, and the majority of NGOs believe that commercial activities are

prohibited. NGOs also do not often participate in government procurement because of unclear legislation.

Ukrainian NGOs may freely receive foreign or local funding in accordance with the Law on Humanitarian Assistance. Grants and donations from foreign and local sources are tax-exempt for Ukrainian NGOs. Under Ukrainian law, NGOs are permitted to engage in fundraising activities by telephone, mail, television, etc., and the law does not require licenses or permits for these activities. No laws governing occasional charitable fundraising events exist, and contributions made during these events are treated as donations.

The labor law does not address the legal status of volunteers. Under Ukrainian law, those who work should be eligible for minimal wage and labor and social protection. However, in practice, volunteers are not treated like employees and do not receive similar benefits. In turn, volunteers have no legal obligation to the organization. The new civil code regulates the provision of free-of-charge services, and, when applied, these provisions will improve the clarity of volunteer labor.

ADVOCACY: 3.4

To the extent that NGOs have been effective in changing government policy, they have done so almost exclusively on the local government level. Even though, by nature, NGOs are likely to take more initiative than the general public, the NGO community has not yet galvanized

ADVOCACY

2003	3.4
2002	3.5
2001	4.0
2000	4.0
1999	5.0
1998	4.4

enough popular support to form a strong lobbying effort on the national level.

Ukraine's leading NGOs initiated more collaborative efforts when advocating on

specific issues. There are several issue-based NGO coalitions, including *Democratic League*, *New Choice-2004* and *Women's Health and Family Planning*. The Committee of Voters of Ukraine (CVU), the largest Ukrainian NGO specializing in election-related issues, took the lead in creating the ambitious NGO coalition *New Choice* that will conduct various projects in support of credible and fair presidential elections in 2004. Another

example, *The Khmel'nitsky Association of Women in Business*, succeeded in persuading the city council to amend the public tender regulations to allow civic organizations to compete for social services contracts.

An increasing number of NGOs understand the importance of collaborating with the government. This year the Cabinet of Ministers issued a decree "On Citizens' Engagement in the Decision-Making Process." Nearly all government agencies and parliamentary committees have advisory boards with the participation of NGOs and think tanks. There was progress at the national level with regards to the NGO roundtables conducted in the Parliament on different policy issues. On the local government level, there was some success, especially with regards to social service NGOs, in part because social service issues are more tangible for the average citizen than democracy-building or economic reform.

SERVICE PROVISION: 3.3

In general, NGOs implement projects based on their understanding of their role in society, which can often differ from citizens' needs and expectations. The country's tax code doesn't allow all types of NGOs to generate income. Al-

SERVICE PROVISION

2003	3.3
2002	3.0
2001	3.0
2000	4.0
1999	2.5

though there are provisions in the law that allow for some benefits, NGOs have not yet made full use of these provisions, because of the complexity of the law, the legal illiteracy of many tax officials, and the lack of clear implementing regulations. Therefore, most NGOs remain heavily dependent on external donor assistance. This dependence on donors negatively affects the NGO sector's ability to provide

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goods and services that truly reflect the needs and priorities of their communities.

Some NGOs have matured by developing goods and services that can be used by a broader constituency, for example, providing workshops and publications on specific issues to local government, similar NGOs, schools, and other institutions. There are also examples of NGOs involved in specific service sectors that have been successful with cost recovery. Local governments are becoming more appreciative of the contribution that NGOs make in their communities. Sometimes, NGOs fill in the gaps left by under-funded local government agencies or in attracting new expertise and assistance. So far, this has not been duplicated on the national level, as the expansion of NGO-provided services

is limited by the weak economy and challenging legal environment.

About half of all active NGOs provide basic social services, addressing the needs of the community, as well as the priorities of the donors. The areas where NGOs are most effective are humanitarian assistance, youth initiatives, and environmental concerns. They also operate in other areas, including human rights, women's rights, and education. Examples of the services that NGOs provide include consultations for farmers and businesses, civic and legal education services, and support for the disabled.

INFRASTRUCTURE: 3.5

NGO cross-sector partnerships have begun to exchange technical expertise and foster stronger lobbying efforts. Despite some success with these programs, there

INFRASTRUCTURE	
2003	3.5
2002	3.5
2001	4.0
2000	4.0
1999	3.5

is still a long way to go for a stable and constant working relationship among NGOs. Information sharing among NGOs

continues to be rare. With a few exceptions, many NGOs operating in the same area are unaware of similar on-going efforts by other NGOs.

The number of NGO trainers has expanded, though the supply of training currently available is not able to meet the growing needs of the sector. There are areas where some organizations are ready for more advanced and specific courses than are presently available. An expanded corps of qualified in-country trainers is needed to conduct more training-of-trainers and provide more third-country training opportunities. There is a good range of training materials available in Ukrainian, but more are needed, and their dissemination has to be improved too.

PUBLIC IMAGE: 4.4

Overall, the public perception of NGOs improved. According to a recent public opinion poll conducted in Ukraine¹, 20 percent of respondents are aware of NGOs active in their communities. This represents nearly a two-fold increase from the 12 percent in the 2002 poll. In 2003, 38 percent of Ukrainians expressed a great deal of confidence in NGOs, up from 27 percent in 2002. Government perception of the third sector also seems to have improved as well, as NGOs are now invited to debate draft laws.

NGOs were successful in raising public awareness on important social issues, such as HIV/AIDS prevention, domestic abuse, the trafficking of women, and environmental and legal advocacy issues. The success stories made the public more supportive of these grassroots efforts and encouraged other NGOs to follow suit.

PUBLIC IMAGE	
2003	4.4
2002	5.0
2001	5.0
2000	5.0
1999	4.0
1998	3.9

Public policy institutes are slowly beginning to play a role in building a long-term strategic approach to public policy and measuring the public's attitude through opinion surveys, conferences, and roundtables.

NGOs are also developing skills in the areas of public relations and working with the media. However, journalists are generally still not sufficiently educated about the role of the third sector. Although NGO activities receive some coverage in the press, most of these reports include only basic and limited factual information. NGOs are not sufficiently proficient in portraying their work to the general public on regular basis, showing the need for more efforts to involve the media and the general public in NGO activities.

¹ IFES 2003 Annual Survey available at www.ifes.org