

## Innovative and inspiring: Trends in State Financing

*Report for the Regional workshop on state funding,*

*November 13-14 - Novi Sad, Serbia*

BCSDN in cooperation with the European Center for Non-for-profit Law (ECNL) and its member EHO organized a regional workshop on State funding for CSOs on 13-14 November in Novi Sad, Serbia as part of the EU and BTD funded “[Balkan Civil Society Acquis](#)” project<sup>1</sup>. The workshop attended by 38 representatives of CSOs and relevant state institutions from 13 countries<sup>2</sup>, was aimed to map existing frameworks for state financing in the Balkan countries, to exchange experiences and to share European tendencies and good practices. Moreover, the goal of the workshop was to identify key bottlenecks in Enlargement countries and steps to overcome, as part of the advocacy plans for 2014 for increasing state funding and improving regulatory practices in the represented countries.



The workshop was organized in 7 panels. On the **first panel** the preliminary results of the Monitoring Matrix were presented on the *national frameworks for CSOs' financial sustainability* in 8 Enlargement countries<sup>3</sup>. The **second panel** was devoted to different *European trends and examples of state funding*. Within the **third panel** the participants were introduced with the *public funding cycle* and good regulatory practices in distribution of public funds on the case study of Serbia. The **forth panel** covered the basics of the *procurement process* and the mechanisms to monitor procurement. Within the **fifth panel** models for using *lottery proceeds as source for funding* of CSOs were presented. The **sixth panel** focused on principle of *accountability in public funding*. The **seventh** and **last panel** was a working and wrap-up session, in which participants were grouped to identify the main bottlenecks and discuss *next steps that should be taken to increase the sustainability of CSOs* in individual countries and the region.

<sup>1</sup> Concretely, the workshop falls within the Area 2 of the Monitoring Matrix that deals with enabling environment for CSOs financial viability and sustainability.

<sup>2</sup> There were participants from the following countries: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Hungary, Macedonia, Montenegro, Serbia, Slovenia, Turkey, and United Kingdom.

<sup>3</sup> Kosovo was present via written inputs only.

The state of play on national level regarding CSOs financial viability and sustainability were presented on the first panel. The representatives of BCSDN's members presented the preliminary findings driven from the Monitoring Matrix for Enabling Environment for CSDev<sup>4</sup>.

Concise presentations (follow the links for the PPP or the documents presented) were given for [Albania](#), [Bosnia and Herzegovina](#), Croatia, [Macedonia](#), Montenegro, [Serbia](#) and Turkey, and written handouts with the preliminary monitoring results were given for [Kosovo](#). From the presentations it appears that from the countries in the region, Croatia is by far the most advanced in the national set up supporting the CSO's financial viability while the other countries more or less still lag in basic institutional framework. Among the common issues presented were: the lack of Strategy for support and cooperation with CSOs (Albania, Bosnia and Herzegovina, Serbia and Turkey), lack of developed mechanisms for support for social dialogue and inclusive practices, lack of funds and mechanisms for co-financing, lack of non-financial support, and still insufficient transparency in state funding.



Different **European models and trends in state funding** were presented on the **second panel**. Ms. Eszter Hartey from ECNL, discussed about the state funding mechanisms in Hungary, where 42% of the whole CSO sector is funded by the state. Most of the state funds go to public organizations or non-profit companies and each year a list of 100 organizations receiving public funding is published. The Hungarian

*The Hungarian model allows the people to designate 1% of personal income tax payments to civil society organizations of their choice. This created competitive environment for CSO to be recognized and valued among the citizens. As CSO started to work with their constituencies, the public trust in the sector increased.*

model allows the possibility people to designate 1% of personal income tax payments to civil society organizations of their choice (mostly these are CSOs providing welfare services), with a limit the individual donation not to exceed 1% of the total income of the sector. In total, this generates around 30 million USD for 40.000 organizations. The positive aspect of this model is that the citizens can choose what they considered as priority to put their money to; the government does not control where these money go to, but creates competitive environment for CSO to be recognized and valued among the citizens. Additionally, such funding is not project related and provides an important source especially for the organisations that do not receive any state funding. As in the countries from the region, Hungary faced problems with the lack of

trust in the sector and very low percentage of citizens who believe in voluntary work (as compared to the Western countries). Significant improvement has been noted since organizations has started to work with their constituencies and the percentage of people who believe in voluntary work rose from 5-6% to 15%. This example, according to Ms. Hartey is necessary to be followed by organizations from the region, especially considering that the public perception for the sector is fragile.

<sup>4</sup> [http://balkancsd.net/images/BCSDN\\_Monitoring\\_Matrix.pdf](http://balkancsd.net/images/BCSDN_Monitoring_Matrix.pdf)

Mr. Sam Deckmyn, from the Federations of Socio-Cultural Organizations (FOV) in the Flanders, Belgium, introduced the Belgian model and the recent trends there. About 50% of the funding of organizations in Belgium is provided by the government. FOV, working as an umbrella organization, receives the remaining 50% from membership fees. FOV is constituted as an overarching structure of local community organizations which are organized in bigger structures. The organizations at the bottom level receive their money through public funding and volunteering, while the umbrella organization receive funding from the government as membership fee for the individual organization (e.g. from each state funded organization FOV receive 0.7% of the organization's budget). There are several other mechanisms in place for supporting the financial viability of CSOs in Belgium. For example, people receive 30% money return of the sum donated to CSOs or charitable organizations. Organizations with public benefit status receive state funding and special exemptions upon receiving certification from the government via based criteria (sport organizations, churches and chambers are not included). Additionally, a new model that was implemented for business is also currently on test in Belgium for providing bank loans to CSOs with a favourable balance between the interest rate and the tax reduction.

*Innovative mechanisms for supporting the financial viability of CSOs in Belgium:  
A 30% money return on donations to CSOs;  
Special exemptions for Public benefit Organizations;  
New model - bank loans to CSOs with a favourable balance between the interest rate and the tax reduction is currently being tested.*

Mr. Alari Rammo from the Network of Estonian Non-profit organizations (NENO) talked about the practices in Estonia where also the state funding is the biggest source of funding for the civil society sector, accompanied with the other sources of financing such as funds from gambling or mechanisms for return of money for donation.

One of the issues that challenged the debate was the question of independency of the organizations if recipient of state funding. In Belgium, the government has a clearly stated policy (implemented in practice as well) of no interference with the work or the ideology of the individual organizations.



The Estonian practice is somewhat similar; it applies also to a government ordered research: the output is expected to be conducted in professional and un-biased manner (although in practice CSOs refrain from being extremely critical). As one of the suggested mechanism for increasing CSOs' independency, applicable for the countries in the region is organizations to invest enough capacities for increasing their internal transparency. For example, in practice, organizations tend

not to publish the sources of funding if the amount is very small; however, publishing the sources of funding is very important, especially if provided by the government, even if it is 1% of the total organization's budget. One of the biggest challenges for organizations for which the state funding makes significant portion of their total funds is how to do an active advocacy in order to affect government policies. In Hungary, concretely for addressing and improving this issue ECNL provided advocacy

trainings for CSOs. A recommendation from UK's example was given which was discussed whether and to which extent can be applied in the countries in the Balkans: acquiring financial sources through providing services, renting out office space, membership fees, requiring conference fees for organization of conferences.

The **third panel** dedicated to **the Public funding cycle** served as an opportunity for presentation of the Report for state funding for CSOs by the Government Office for Cooperation with Civil Society in Serbia for 2012. The report, shared with the public for the first time, was presented by Ms. Milena Banovic, a representative from the Office. The report included data about funding on national and regional level but also information about local level public financing. For the preparation of the report, other than analysis of the gathered data, a questionnaire on spending of public funds was prepared complied with suggestions from line ministries and CSOs, on which 60% of the institutions have responded. According to the report, in total, 76 million Euros were distributed in Serbia in 2012 to civil society. If out of this amount the funds awarded for political, sports and religious organizations and the church are excluded, the funding for CSOs amounts approximately 40 million EUR. According to the report, the majority of the funds are distributed by the national bodies (51.5 million euros), while 11 million euros are distributed by 71 local governments. From the individual institutions, the biggest funding is provided by the Ministry of Youth and Sports - 47%, and 40% from the Ministry of Finances and Economy.



Mr. Goran Forbici from CNVOS Slovenia discussed the key issues that arise in distribution of public funding. Outlined were the key challenges that need reform and discuss them vis-à-vis the good

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regulatory principles and practices. The need for the state funding cycle to be project oriented was highlighted and presented in the Slovenian example particularly as implemented by the Slovenian Ministry for Social Affairs. Additionally, discussion was raised for the importance CSOs to be included in the process of programming (example of Montenegro). As one of the main issues highlighted was the lack of skills and programming capacities for strategic planning, and that unfortunately, in most of the countries the programming money is still seen as pocket money, not as a strategic approach for development.

As a possibility for addressing this issue was presented the example CNVOS used in Slovenia where initially support for better programming was offered to the institutions for free (drafting a list of suggested stakeholders to be involved in the consultation, or organization of consultation and events). Subsequently assistance in programming was offered to the institutions as a consultancy service, which



proved as a good practices as the institutions had the time to develop trust in the professional approach of CSOs especially in the money related manners.

As a good example for planning of the state funding was presented with the Serbian example where all information about planned public calls (with priorities, timeline and other info) of the line ministries and institutions are published in one place – on the web page of the Government Office for Cooperation with Civil Society. The representatives from the Albanian Ministry of Finance raised another issue - difficulties with the evaluating of the reporting materials which frequently is not adequately done by the CSOs. Additionally, it was highlighted that even though it is desirable, evaluating and measuring the success of projects as per outcomes and not per bills, activities and inputs, is very difficult.

The **fourth session**, and the final one of the first day of the workshop, was devoted to the different modalities of **procurement process**, the eligibility criteria to participate in public procurement and how it affects CSOs in the represented countries. Mr. Luben Panov from the Bulgarian Center for Non-Profit (BCNL) law presented the main issues in the area of service provision, which are also a separate sub-area of the BCSDN Monitoring Matrix (to view the PPP click [here](#)). Practical issues and recommendations were given on the different models (with their benefits and challenges) for state funding for social service providers: public procurement, social contracting, and vouchers). Mr. Panov also spoke about the



eligibility criteria and conditions for CSOs to provide social service and the issue if CSOs are allowed to compete on equal basis. In the discussion it was highlighted that the EU Procurement directive is being revised and sets a threshold: for procurement over 750.000 Euros EU rules apply to public procurement. EU Member States have 2 years to comply with this rule.

In the second part of the panel, Mr. Aleksandar Bratkovic from CRNPS, Serbia discussed the issue of monitoring of public procurement and transparency. He pointed to some practical issues on the matter: the need for further tailored made capacity building for anticorruption activities was raised, and the importance that government (esp. local government) follow the rules for proper procurement and reporting procedures and more transparent distribution of money. Additionally, as the government tends to fund public enterprises or religious organizations (for ex. The Church) under the same budget line as CSOs, it was highlighted that there is a need for more purposeful and strategic approach in this area, and introduction of the concept of “civil supervisory “. It was noted that event though it is not up to the civil society to judge the setting of the government’s priorities for financing, it should be consulted in determining the needs of the society.

**The first panel of the second day** of the workshop concentrated on presenting examples **how lotteries proceeds** are used functionally to provide funding for civil society.

Ms. Ingrid Gardnier from NCVO, [presented](#) the UK model and the functioning of the Big Lottery Fund which is responsible for distributing £600 million each year (40 per cent) of all the money raised, for civil

*In the UK, 40% of lottery proceeds are distributed to CSOs aside from the government funding. In Montenegro ¾ of the funds for distribution from the lotteries has to be awarded strictly to CSOs.*

society projects (health, education, charitable purposes). The Big Lottery Fund was established in 2004, and since has awarded almost £6 billion. The funding provided is distinct from the Government funding for CSOs, although as of 2006, “BIG” has the powers to handle non-Lottery as well as Lottery funding, and has managed funding on behalf of some other state institutions.

The Montenegrin example of distributing funding to CSOs from lottery proceeds was presented by Ms. Ana Novakovic from CRNVO. In Montenegro, 60% of the lottery proceeds are to be distributed out of which 75% should strictly be distributed to CSO. In 2012, 1.8 million EUR in total were awarded as funds for CSOs (due to some inconsistencies which should be adjusted, this is 50% drop from the previous years). A Commission consisting of government and CSO representatives is responsible for awarding the funds and setting up the priorities. The decision for the awards is published on the web along with the integral part of supported projects. For assuring that small organization have access to the fund, the awarding of the funds is divided in two categories: up to 50.000 EUR and 50-100 000 EUR Detailed audit procedures have been put in place to ensure proper implementation and sufficient capacities of the organizations implementing the funds.

The issue of **Accountability** was covered in separate panel on which Ms. Sasa Segrt from GONG, Croatia [presented](#) the Croatian model for state financing and the efficient monitoring methods based on European best practices. The participants were introduced in details with the Croatian institutional and legislative set up giving an overview to the strategic documents (National Strategy for Enabling Environment for CSO, Code of Good Practice, Standards and Benchmarks for the Allocation of Grants for Programmes and Projects of NGOs) and the Institutional Framework (Government Office for NGOs, Council for Civil Society Development, National Foundation for Civil Society Development). Additionally, a discussion was raised about the Procedures and Principles for the Approval of Funding, the model of co-financing and the Implementation of the Code.

The **final panel** was envisaged as an interactive session where the participants had the opportunity to work in groups for developing concrete proposals. Firstly, the seven issues identified as the main bottlenecks were put on flipcharts, and the participants were asked to place a mark on two issues they regarded as the most pressing ones.



The majority of participants chose the lack of civil society strategy to be the most pressing issue for enabling environment for CSO development, generally and state financing for CSO in particular.

The participating representatives of CSO identified the following issues as most important:

- Lack of civil society strategy
- Lack of co-financing to CSO projects
- Funding priorities are limited and not consulted with CSOs
- Lack of sufficient impact assessment
- Lack of separate mechanisms for social contracting

While the representatives of the government institutions from the individual countries as most pressing issues have identified:

- Lack of civil society strategy
- Lack of sufficient impact assessment
- Lack of common standards for state funding to CSOs

The participants then, through work in groups, developed concrete strategies per country. One group was working on a regional proposal consisting of participants from different countries (where there were not enough participants for a country group).

The participants from **Albania** chose to work on the bottleneck “**lack of civil society strategy**”. They reported that in Albania there is already a Task force of CSOs which will draft the concerns of the sector and will present to the Government on a National conference in December. The Conference is expected to be concluded with signing of a resolution by both parties, after which can start the Drafting of the Strategy. The strategy will be developed within the Monitoring Matrix framework and will address the CSO legal framework, the state support for services and the involvement of CSOs in policy-making and decision making processes.

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The **Croatian** group focused on the issue of **Impact Assessment and Social Contracting**, by first focusing on the issue of putting it on the agenda. For this purpose it will be necessary to find a critical mass to support it, before an analysis of the gaps in the existing legal provisions is made especially in the strategic plans of the line ministries. The assessment will identify which services will be needed, which are provided by the state, and which can be more efficiently outsourced to be provided by CSOs. On the basis of the assessment, efforts should be put for pushing for revisions and more efficient allocation of priorities. Finally, it will be crucial that the capability of service providers is raised for entering the market.

The group from **Serbia** focused on developing priorities and **consultations with CSOs** in order to increase CSOs participation in the consultation process/importance of involvement in all phases of the decision making process. The focus will be in involving citizens/public to give them the chance to choose



priorities for State Budget financing. For this purpose promotion campaigns – on-live (“in vivo”) should be developed. Additionally, to increase cooperation with local institutions on the citizens’ needs, a bigger focus should be put on town meetings, motivation actions (very inactive citizens in small communities) and positive media exposure for cooperating with local leaders. The final outcome should be local community foundations in the sense of public-private partnership in financing CSOs, not for infrastructure projects.

The group from **Turkey** developed an action plan for **preparation of Strategic document for development and cooperation with the civil society**. As In the Turkish legal framework there is no single definition of CSOs and there are specific laws for associations, separate from foundations, and they are even regulated under different bodies, a code of civil society should be prepared. This code should include general rules of funding. Here sources of information on funding should be provided (central source of information, not only one source of info). The purpose is to establish basic unified standards and same evaluation criteria, although each ministry can agree on different standards. It was identified that there is a need for coordination body that will be responsible for coordination of the ministries and will enhance the flow of information and efficiency of the funding. The code can be reached through the Council (to convene the Code) which is already foreseen with the amended law on associations. The selection of the members of the Council should be regulated to ensure the representation of the civil society and to establish a systemized way of consultation process under sub-committees.

The group working on developing **regional approach** drafted ideas that can contribute for development of civil society strategy through preparation of Best-practices case study – “Strategy Breach”, Internalizing the Monitoring matrix and Advocacy one-to-one member.