

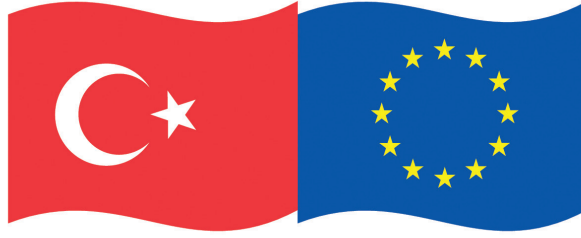
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Standards and Good Practices for Public Funding of Civil Society Organisations

Author: **Vanja Skoric**, European Center for Not-for-Profit Law Stichting

MONITORING AND ENHANCING THE ENABLING ENVIRONMENT FOR CIVIL SOCIETY PROJECT





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STANDARDS AND GOOD PRACTICES FOR PUBLIC FUNDING
OF CIVIL SOCIETY ORGANISATIONS

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About TUSEV

Third Sector Foundation of Turkey (TUSEV) was established in 1993 with the objective of strengthening the legal, fiscal and operational infrastructure of civil society organizations. For over two decades, TUSEV has been working to create a more enabling environment for civil society and providing solutions to common and emerging problems of CSOs with the support of its members.

With the vision of a stronger, participatory and credible civil society in Turkey, TUSEV works under four main program areas and undertakes activities that aim to;

Establish an enabling and supportive legal and fiscal framework for CSOs,

Encourage strategic and effective philanthropy and giving,

Facilitate dialogue and cooperation between the public sector, private sector, and civil society,

Promote the credibility of Turkish civil society,

Encourage collaborations at the international level,

Create resources and raise awareness through research on civil society.

Preface

Since 1993, Third Sector Foundation of Turkey (TUSEV), has been working to improve the legal, fiscal and operational infrastructure of civil society organizations (CSO). With our vision of a stronger civil society in Turkey, our foremost aim is to find solutions to the common problems of CSOs and develop a more enabling environment. In May 2018, under our Civil Society Law Reform programme, we started implementing the EU-funded Monitoring and Enhancing Enabling Environment for Civil Society Project, through the activities of which we strive to raise awareness about the legal and fiscal legislation concerning CSOs, to monitor the enabling environment for civil society development and to strengthen Public Sector - CSO collaboration.

Within the scope of the project objectives, TUSEV has developed a report named “Standards and Good Practices for Public Funding of Civil Society Organisations”. The report emphasises the development of civil society organizations funded by public administration and its importance for public benefit with specific references to the international standards and good practices in various countries. The report includes a detailed analysis of the methods and principles of the public funding models adopted in these countries. Lastly, the report concludes with a roadmap for Turkey with the aim of contributing a public funding model compatible with international standards.

TUSEV will continue to work for a stronger civil society, share its knowledge and experience with its stakeholders through the common platforms and information resources we have created.

We would like to thank all the individuals, institutions and organizations, who were involved in the preparation of this report and provided their views and experiences, for their valuable contribution and Vanja Skoric Program Director of European Center for Not-for-Profit Law Stichting who conducted the research.

Sincerely,

TUSEV

1. Introduction

This paper presents an overview of main ideas, considerations and examples of public funding for civil society organizations (CSOs). It builds on previously conducted studies and analysis by European Center for Not-for-Profit Law (ECNL) on the public funding mechanisms in countries of Europe and of the European Union and considers existing recommendations in order to present the most workable solutions to develop and improve public funding.

For the purpose of this paper, public funding for CSOs includes government implemented measures to support CSO development, including their sustainability or their ability to fulfil their vision and mission, through a variety of financial or in-kind mechanisms. The term “civil society organization” used in this paper includes all types of non-profit organizations that exist in various European countries and Turkey.

The paper is based on desktop research, review of examples, forms and documents related to the process of public funding and discussions with partners. The paper starts by providing an overview of effects of public funding on both the policy development and civil society, existing public funding models and established good practice principles, examining the planning and programming process as well as various forms of public funding. It then turns to analysing five countries and their public funding models, including a detailed example from each country that showcases a variety of potential mechanisms for allocating funding.

Countries that were selected for the purpose of this analysis include Croatia, Germany, Czech Republic, Ireland and Estonia. These countries were preselected based on the following factors:

Countries with a long tradition of public funding and cooperation with CSOs;

Countries which introduce innovative schemes in state funding;

Countries that can share lessons about implementation and have the potential to serve as models for Turkey;

Countries representing both Eastern and Western Europe, and variety of development stage of civil society;

Countries represent different levels of economic and CSO sector development as well as different stages in the development of the CSO funding system itself. However, in all the countries there are practices and lessons that can be considered as good examples for developing public funding in the current context of Turkey.

Finally, the paper offers a set of recommendations for developing an effective public funding model and hopes to provide stakeholders (respective policy makers on national and local level as well as CSOs) with directions for further improvement of the legal framework. It therefore concludes by highlighting the main aspects that should be considered when developing such a framework.

2. Importance and Effects of Public Funding

Countries around the world recognize the importance of vibrant and sustainable civil society.¹ In order to strengthen the capacity of CSOs, many governments have set up different public funding mechanisms. They all have a common objective to invest in civil society. A number of European countries have over the decades invested systematically into the development of their CSOs, through different instruments and in various forms. Here are some of the reasons why such support exists:

a. Civil society is crucial for democracy and participation

Many of the countries believe that CSOs are an important element of democracy. They provide access for citizens and various groups to the public debate, present variety of opinions on different topics and are one way for citizens to be engaged in the decision-

making process. For governments, investing in civil society is a sound strategy - an active and sustainable civil society is one way to ensure citizen participation in government decision making and to create partners who are capable of delivering efficient and cost-effective social services to the population.²

b. Civil society solves important problems

CSOs frequently identify important problems in society and try to address them through conducting various awareness raising, prevention and intervention, advocacy activities and developing models. They are the ones that unite people behind important causes or reacting to natural disasters (collecting donations, mobilizing volunteers). They bring together people that share the same problems or interests or protect the interests and rights of vulnerable groups.

1 Models to Promote Cooperation between Civil Society and Public Authorities Working Paper, ICNL, <http://www.icnl.org/research/resources/ngogovcoop/Models%20to%20Promote%20Cooperation%20Working%20Paper.pdf>

2 A Comparative Analysis of Civil Society Foundations and Funds, 2012, ICNL/ECNL, http://ccc-tck.org.ua/storage/books/eng_comparative_analysis_on_civil_society_funds_2012.pdf

c. Civil society delivers important social services

The government asks for the CSOs to provide specific and tangible services to the population on behalf of the state. In this case CSOs are contracted to provide these services in order to contribute to resolve serious social problems such as homelessness, unemployment, disability care, or child protection. CSOs set up services where the state does not have the capacity to do so, and they developed innovative models that proved more effective than existing services. CSOs often undertake social innovation in the fields of education, childcare, disability care, elderly care, etc., by taking over the risk of the reform initiatives for the central and local governments. The government then often help to scale up and disseminate successful innovations. Therefore, the government has strong interest that such service provider CSOs are sustainable and financially viable.

There is a well-recognized tendency among the countries to expand the space and mechanisms of cooperation in order to ensure civil society sustainability.³ In addition, the benefits of a strategic approach towards civil society development is gaining more prominence, which includes also the public funding. This reflects country's position that CSOs are partners in achieving important political and social tasks and therefore entitled to strategic public support. Several European countries have developed specific long-term strategies or plans to guide the relationship between the state and CSOs. In some cases, it was adopted in a form of a strategy (Croatia), in other cases in a form of a "compact" between the government and CSOs (UK) or the Parliament and CSOs (Estonia). These documents usually include references or concrete measures for the public funding policies towards civil society. Additionally, these documents are often co-created or widely consulted with civil society stakeholders to provide policies and measures

that will be most efficient and beneficial for the society. Both the government and civil society actors take on responsibility to implement such strategic documents through their work.

In addition, The Office for Democratic Institutions and Human Rights (ODIHR) of the Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe have been actively involved in setting the standards for the regulation of the environment for CSOs, including the standards for access to financial resources. Some of these documents related to the public funding and regulation of CSOs include:

Recommendation CM/Rec (2007)14 of the Committee of Ministers to Member States on the Legal Status of Non-governmental Organisations in Europe⁴;

The Joint Guidelines on Freedom of Association between the Venice Commission and OSCE/ODIHR⁵.

According to Recommendation CM/Rec (2007) 14 of the Committee of Ministers to Member States on the Legal Status of Non-Governmental Organisations in Europe:

"57. NGOs should be assisted in the pursuit of their objectives through public funding and other forms of support, such as exemption from income and other taxes or duties on membership fees, funds and goods received from donors or governmental and international agencies, income from investments, rent, royalties, economic activities and property transactions, as well as incentives for donations through income tax deductions or credits."

Many countries included strategic focus and long-term planning for civil society development that enhance impact and use of public funds for CSOs. This also improves the management and effectiveness of

³ Legal and Institutional Mechanisms for NGO-Government Cooperation in Croatia, Estonia, and Hungary, ECNL, http://ecnl.org/dindocuments/196_Legal%20Mechanisms%20for%20Cooperation_KHM%20Final.pdf

⁴ Recommendation CM/Rec(2007)14, <https://rm.coe.int/16807096b7>

⁵ OSCE/ODIHR Guidelines on Freedom of Association, <https://www.osce.org/odihr/132371?download=true>

the work needed by civil servants for distribution of public funding. For example, the case of Croatian and Estonian national foundation to assist development of the CSOs shows that such targeted approach makes even a smaller investment by the government beneficial for society.

Finally, it is important to ensure that there is long-term independent funding available for CSOs through public sources. This type of funding is the one that remains flexible and responsive to community needs; and importantly, it finances social innovation and financially risky social investments. Public funding can help address the lack of institutional or administrative funding that the CSO can use to pay its running costs, such as salaries and rent, and the costs of organizational and service development, e.g. IT, staff training, fundraising etc. Its key added value for the CSO sector is supporting CSO ability to develop innovative solutions to complex social problems and to cater for the needs of the most vulnerable and disadvantaged groups.

3. Public Funding Models

This section will present an assessment of existing models of Government-CSO relationships in Europe that was developed by ECNL.⁶ These are based on two characteristics of the relationship that are especially relevant from the point of view of cooperation and partnership: the level of independence and the aspect of institutionalization. Institutionalization means the capacity of the non-profit sector to undertake projects and services for the government, i.e. the potential of the sector to be a reliable and accountable partner to the government in providing public goods and services. This includes for example, the number of registered organizations, their average budgets, the proportion of CSOs who are of public benefit their physical infrastructure as well as their human and financial resources etc.

Independence considers the ability of the non-profit sector to function independently from the government (or other institutions, e.g., the church, political parties or foreign donors); i.e. its potential to remain a partner on equal footing or to challenge the government (or other donors) in its policies and practices. Key features of the level of independence are the general level of funding the government provides to the sector; or the types of mechanisms used for advocacy and interest representation.

Based on this, there are four main models identified:

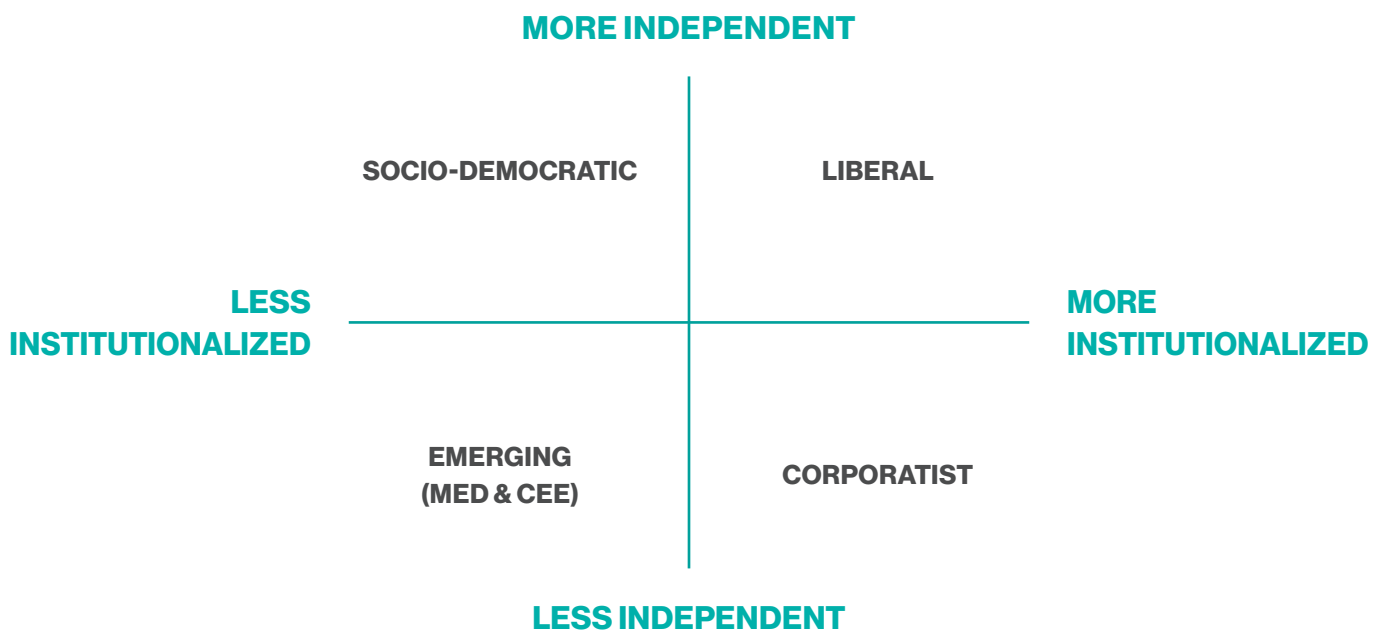
Corporatist (or Continental) model;

Liberal (or Anglo-Saxon) model;

Social-democratic (or Scandinavian) model;

Emerging (or Mediterranean and Eastern European) model.

FIGURE 1: THIRD SECTOR MODELS TYPOLOGY



⁶ This model was developed by ECNL based on published research by a number of scholars and institutions, e.g., on statistical data on the nonprofit sector in Europe (Salamon, Sokolowski, List, 2003 - Global Civil Society); foundations in Europe (Anheier 2001), nonprofit sector legal frameworks (Archambault, 2003, ICNL, 2003), The Three Worlds of Welfare Capitalism (Esping-Andersen, 1990) among others.

3.1. CONTINENTAL (CORPORATIST) MODEL

This is the model where CSOs play a very important role in providing welfare services⁷. The relationship in this model between government and the non-profit sector could be best described as a “hierarchical interdependence”. This means that on the one hand the parties both need each other – the government needs CSOs to fulfil its obligations towards providing welfare services and the CSOs need the government to finance their work. On the other hand, due to the nature of the relationship, CSOs adjust their operations to the government’s rules and expectations - they adjust their financial needs to the yearly budget cycle; they advocate for CSO rights and even privileges to be included in laws and regulations, etc. In short, government and CSOs are dependent on each other to be effective. CSOs also contribute to shaping the government policies in certain fields. This model is most typical in Germany, but Austria, the Benelux states and France could also be listed into this category. Based on the principle of subsidiarity, CSOs are the main providers of social services and especially at the local level. CSOs are well organized and co-opted into various decision-making and implementing bodies in the state administration through “councils” and “committees”. The main forms of financing are often subsidies and the normative support - i.e. there is a legislative basis, an entitlement for CSOs⁸ to receive government financing.⁹ The government takes responsibility for financing the services; therefore, it provides a high level of funding to non-profit organizations (over 50% of the income of the non-profit sector comes from government sources). CSOs also receive significant funding from the local governments.

3.2. SOCIO-DEMOCRATIC (SCANDI) MODEL

In this model, the state provides most welfare services itself. CSOs play a less prominent role in the welfare state as in the other models. However, the sector is wide-reaching; countries in this model have the highest rates of membership in organizations and volunteering. The purpose of the CSO sector can be characterized as having an “expressive function”,¹⁰ i.e. they serve the cultural and mental well-being of the citizens rather than their imminent social and health needs. Thus, organizations are less institutionalized, work with small administration and little infrastructure. In general, the state-CSO relationship may be characterized as “laissez-faire” or “live and let live”. The CSO sector is regarded as independent and is subject to very little regulation. Rather, there are sectoral partnerships, or occasional partnerships driven by the need to jointly solve a concrete problem. This sector is the least “antagonistic” - at the same time confrontation is less needed here, because citizens are directly involved in decision-making, to a greater level than in other models (e.g., through referenda or public budget hearings). In addition, the state both at the central and local levels is open enough to integrate the aspects articulated by the organizations in its policies.

-
- 7 In this assessment we looked beyond only social service provision. By welfare services we mean a multitude of services the provision of which is usually government responsibility in Europe, including of course social services, but also education, health, employment or even cultural services (depending on the given country). Depending on the country this may even mean protection of human rights; e.g. if the government contracts with an CSO to provide legal aid to immigrants or supports a patients' rights group to guard both government and private health provision.
- 8 It is important to note that in some segments, such as health, for-profit providers may also receive the normative support.
- 9 As explained above under the subsidiarity principle, the assumption is that when a need arises that is regarded as a public task the state is responsible for providing for it in the long run. As long as the public task is defined in a law or local regulation the government is obligated to finance its provision. As a consequence, all CSOs that provide this service (and otherwise fulfill their legal obligations) are entitled for financial compensation.
- 10 Global Civil Society: An Overview, Lester M. Salamon, the John Hopkins Comparative Nonprofit Sector Project, 2003, www.jhu.edu/~ccss

3.3. LIBERAL MODEL

The central principle in the relationship between government and the civil society is to have a contractual agreement. In contrast to the corporatist approach, there is no assumption that the state is obliged to take care of all needs that may arise, therefore CSOs have no entitlement to public funding as such. Instead, services that the government wishes to provide for are open to tenders, and the best proposal wins; that is, the one that can provide the service at the highest quality and at the lowest cost (Best Value Concept)¹¹. In Europe this model is represented in the UK and Ireland. The level of government financing of the non-profit sector in the liberal model is in between the social-democratic and the corporatist, i.e. around 40% of the income of the sector originates from government sources. Besides contracts, grants are a typical way of funding CSOs in this model, reinforcing the culture of open competition among organizations. In this model, organizations have a high level of professionalism, not only in terms of services, but in fundraising and advocacy as well. The amount of private donations to the organizations under this model is the highest in Europe. Self-regulation is also the strongest, partly due to the high-quality standards required by state tenders and also in order to maintain public trust. As CSOs enjoy wide societal support and have significant own income, they are considered as strong partners by the state, and are able to contribute to the development and implementation of its policies as well as challenge them.

3.4. EMERGING (MEDITERRANEAN AND EASTERN EUROPEAN) MODEL

In this model, the system of providing welfare services is in a developmental stage, services of the welfare state are primarily based on EU obligations and working through EU mechanisms, mainly in the fields of social security and labour. Social care is mostly family and community-centred and is not very institutionalized. The level of “philanthropy” in a Western meaning, such as organized donations and volunteering is lower in these countries. The entirety of the civil society sector is less formed, and organizations are typically strongly interwoven with the state and the church or political parties. The relationship between CSOs and the government is ambiguous; government tends to try to control (especially if funding is involved) or simply neglect CSOs. There has been meaningful progress made in terms of legislation in most countries, however, the culture of cooperation between the government and civil society has not yet taken a constructive and effective form. Countries where this emerging model could be seen are, for example, Spain, Italy, Portugal or Greece. In addition, although no such targeted research has so far been conducted, the situation in Central and Eastern European countries (CEEs) is similar as well.

¹¹ Traditionally in procurement the state was often obliged to select the lowest price offer if otherwise the service standards were the same. Recognizing the qualitative nature of welfare services, the Best Value Concept challenges this practice by allowing to select a provider, which may not have offered the lowest price but in comparison with others offers the “Best Value”, i.e. its service quality may be higher than the standard requirements.

TABLE 1: OVERVIEW OF POLICY CONSIDERATIONS IN EUROPEAN GOVERNMENT-CSO COOPERATION MODELS

	CORPORATIST	LIBERAL	SOCIAL- DEMOCRATIC	EMERGING
Main role of CSO sector	Service orientation	Service and advocacy orientation	Expressive orientation	Expressive orientation, increasingly services orientation
Provision of social services	Primarily CSOs (also government)	Government, CSOs and business entities	Government	Primarily government (also CSOs)
Financing of social services	Government	Government and private providers	Government	Government
Welfare model	Conservative	Liberal (Mixed)	Social-democratic	Rudimentary / conservative
Central principle of the relationship	Subsidiarity	Contracting / agreements	Autonomy	None typical
Nature of relationship	Hierarchical interdependence	Compact partnership	Live and let live	Dependency or neglected
Typical forms of financing	Third party payments, subsidies	Contracts and grants	Grants and contracts	Subsidies and grants
Basis for financing	Legal norms / entitlement	Best value offer / competition	Problem solving / occasional	Tradition, nepotism, political interest



4. Good Practice Principles in Public Funding

The following section will provide an overview of the current good practice principles that have been developed for the purpose of public funding. There is a growing importance to regulate public funding of CSOs, and one of the useful and practical mechanisms used by countries is to set out a clear list of principles that regulate the distribution and monitoring of the use of public funds. Different governments have adopted or incorporated good practice principles in their funding policies as main requirements that should be observed to ensure effective implementation of public funding for CSO. These are:¹²

a. Independence

A key principle of public funding of CSO is that it should be considered a possibility and not a right. This means that CSOs can access public funding, but this possibility includes the right to remain independent and autonomous from the government. The CSO independence is one of the key characteristics of a CSO and non-interference in the internal affairs of a CSO

is one of the elements of the freedom of association, according to the European Convention on Human Rights.

b. Transparency

Public funding procedure should be based on a clear application and assessment rules which will provide maximum clarity and openness of the process. These rules include requirements to publish the tender announcements, establishing and publishing clear and objective criteria, allowing appropriate time for submission of the proposals, publicizing the selection criteria and names of the selected applicants, providing feedback and answering inquiries of potential applicants.

c. Equal treatment

All applications should be treated equally through a set of pre-established objective criteria, which ensure non-discrimination and selection of the most successful applicant based on the merit of their proposals.

¹² Public Financing Of Civil Society Organizations In European Countries, ECNL, <http://www.icnl.org/research/resources/ngogovcoop/engb54.pdf>. Original text of main principles has been updated to reflect latest good practice in European countries.

d. Free and fair competition

This principle requires all relevant information about the funding possibilities to be published as wide as possible so that it would encourage competition between the potential applicants. This process should ensure equal treatment for all and selection of those which match the set criteria.

e. Accountability

CSOs should report regarding the way they implement the project and provide financial account on the use of the public funds. This principle also includes the expectation that the authorities will also need to be responsible and account for the way taxpayers' money has been spent.

f. Impartiality

During the awarding of the public funding, potential conflicts of interest might arise. To preclude biased judgment or undesired contacts, authorities should include specific requirements for the CSOs as well as for the authority, such as asking to sign a statement or declaration of impartiality, which certifies that they are obliged to take precautionary measures to avoid conflict of interest and inform contracting authority of any conflicts that may arise in the course of the tender or execution of the project/contract. Another example is that members of the CSOs that applied for funding should not be included in the evaluation commission and decide on the awards.

g. Proportionality

The authorities should not burden the CSO that receive public funding out of proportion to the amount of funding. Monitoring and reporting arrangements should be proportionate to the level of the amount of funds that CSOs get.

h. Exclusion of overlapping

The authorities should ensure that the same activity or project is not awarded more than once. For example, a coordination body could be set up to monitor the coherence of statutory funding among the various departments and agencies and to review the overlaps and gaps in the support to CSOs at policy and program level.

In order to ensure that the good funding principles are respected, governments across Europe have adopted documents that set up a framework for the public funding procedures. Such documents aim to unify the procedure of funding and guarantee that the principle requirements are applied across all bodies and agencies of the government which distribute public funds. In addition, documents also aim to ensure that the CSOs applying for funding are informed and understand the framework that guides the funding process. Documents can be adopted in different forms and result from different processes - such as codes, or parts of CSO legislation or specific sections in national level strategic documents.¹³

13 The Joint Guidelines on Freedom of Association between the Venice Commission and OSCE/ODIHR state (point 208) state that some elements of the public funding system for CSOs should be regulated: "The criteria for determining the level of public funds available for each association must be objective and non-discriminatory, and clearly stated in laws and/or regulations that are publicly available and accessible."

The Croatian Code* highlights eight principles which should guide the financing processes:

1. *Determining priorities for funding programmes and projects of CSOs for the budget year;*
2. *Announcing public tenders, with clear tender conditions, benchmarks for the appraisal of applications and the procedure for awarding grants (including priority areas for applications, ways of preventing potential conflicts of interest, and the possibility of insight into the appraisal procedure). The public tender should be open for applications from CSOs for at least 30 days from the date of the announcement;*
3. *Opening of received applications by a commission;*
4. *Appraisal of submitted projects and programmes by expert bodies established by grant providers and composed of representatives of state administration bodies, research and professional institutions and non-profit legal persons (associations, foundations and others), pursuant to the rules of procedure or some other act regulating the functioning of expert bodies;*
5. *Delivering written responses to applicants about the funding approved, or reasons for denied funding;*
6. *Publication of tender results, including information about associations, programmes and projects for which grants were awarded, and about the amount of the grants;*
7. *Concluding contracts concerning the funding of programmes and projects with associations which have been awarded grants at the latest within 60 days following the expiry date;*
8. *Monitoring and evaluating the implementation of approved programmes and projects, and of the purposeful spending of the grants awarded on the basis of an obligatory descriptive and financial report submitted by CSOs to grant providers pursuant to the provisions of grant agreements.*

* <http://www.propisi.hr/print.php?id=5035> In 2015, Code was replaced by the Regulation.

5. Planning and Programming of Public Funding

This section will analyse the planning phase of the public funding process. The most important good practice in countries regarding public funding is to have a strategic approach. Strategy and priority setting are also important considering government is responsible to citizens for how it spends public money. In order to maximize effectiveness in the use of public funds, it is advisable for governments to engage in a participatory planning and programming process prior to deciding on public funding mechanisms and amounts.¹⁴

Public funding programs generally relay on certain governmental policies. Usually, the government wants to fund programs that reflect existing strategic goals, and programs are based on strategic plans and priorities. Funding programs can be developed centrally, on a state level, or on the level of each ministry for their scope of work, linked to existing plans.

Planning and programming is the most important part of the process for all interested stakeholders, as it sets priorities and interests that should be reflected in calls for funding proposals. Many countries encourage and practice consultation with stakeholders (CSOs and other interested parties) in the development of those funding programs and plans. In addition, The Joint Guidelines on Freedom of Association between the Venice Commission and OSCE/ODIHR confirm this (in point 207) by stating “associations should be involved in the drafting of legislation and policies on state funding and support.” This underlines that CSOs should be part of the process of deciding how to set up a public funding system. This helps ensure that the programs and funding respond to the needs on the ground and achieve the desired outcomes. Once the funding programming document or plan is developed, it should be widely communicated and publicized. This will enable interested CSOs to plan the use of public resources and where possible acquire additional (matching) funding to support the implementation of the potential projects.

During the programming phase several key strategic issues should be addressed:

5.1. LENGTH OF PROGRAMS: SHORT-TERM AND MULTI-YEAR GRANTS

Most government programs support projects up to one year, which is in line with government budget planning processes. This allows many CSOs to compete for grants in each annual funding cycle, keeping the process open for new proposals. However, since some projects require long term planning and will not achieve results in only one year, some governments incorporate multi-year funding schemes cycle (e.g. 3-5 years). Some funding schemes allow for combination of both types of support.

Multi-year grants allow for longer projects that may promote more long-lasting outcomes and development of the sector. However, in order to ensure that projects with such funds lead to the intended outcome, more frequent monitoring and evaluation may be needed (for example, once a year). In addition, there should be clear criteria and procedure for suspending payment in case the project does not seem to lead to the expected results.

5.2. TYPES OF SUPPORT: PROJECT SUPPORT AND INSTITUTIONAL SUPPORT

Public funding may provide financing as institutional support, as project support, or both. Project support is usually granted within certain government priority areas. For example, if the goal is to support development of the sector as a whole, it might fund work on reform of legal framework affecting CSOs. If the goal is to advance particular government policies, the priority areas for funding will be in line with the overall policy it wants to support, e.g., increase of employment opportunities, decrease of homelessness, supporting youth activism. Subsequently, CSOs will be invited to submit specific projects within these areas.

¹⁴ Elaborated further in <http://www.icnl.org/research/resources/ngogovcoop/engb54.pdf>

Institutional funding, sometimes called operational or core funding, is directed at supporting organizational expenses of CSOs that cannot be allocated to a specific project; but are necessary for the organization's successful operation. These expenses can be represented by administrative costs, such as infrastructure costs, institutional capacity-building, board meetings, audit expenses and other recurring costs that cannot be necessarily linked to specific projects. Institutional funding is important for increasing capacity of the sector and its viability. This aspect is reflected in the Joint Guidelines on Freedom of Association between the Venice Commission and OSCE/ODIHR (in point 210): "States may also establish mechanisms that allow for long-term funding, the covering of real costs of produced services or implemented projects, or the covering of institutional support provided to associations." Importantly, institutional support can also be used to invest in particular organizations over time. For example, the practice by the Croatian National Foundation for Development of Civil Society asks CSOs to develop organizational development plans (business plans) for three years and submit those with their applications. The plans include the core activities of the CSO as well as ways in which the CSO would like to improve its services and various aspects of the organization itself (e.g., improve its governance structure, its accountability mechanisms, generate new sources of income, increase its visibility with the public etc). The application is assessed by professional evaluators and the awards are given for three years, ensuring that a CSO can really develop a basis for its future sustainability.¹⁵

5.3. OUTREACH OF PUBLIC FUNDING: WIDE RANGE OF CSOS OR SMALLER SEGMENT?

Another consideration in public funding for CSOs is the breadth of the outreach: should public funding support include the widest possible range of CSOs, or should it focus on just a smaller segment that is considered important? The reason to reach out broadly is usually to support CSO sector development as a whole (in order to enhance democratic development or increase CSO capacity to assist in resolving social problems). The reason to concentrate the outreach is to make more effective use of the limited funding resources that are available.

Practice shows that there is no solution for every CSO. Spreading the support too widely will inevitably result in smaller amounts of assistance for each CSO, which is likely to lose its efficiency after a while. On the other hand, the challenge in the model which tends to focus on the more established CSOs is that it may make these CSOs "too comfortable" and loyal to their main funding source (state), without the need to look for community and individual support. This can present a problem in countries where additional funding sources are less developed.

While there is no clear-cut solution, the following has been the practice in European countries:

Investing in direct funding and capacity building of CSOs that are of "strategic" importance to the state and to CSO development (e.g. state service providers, CSO support centres, CSOs with special expertise etc);

At the same time, the governments have extended the outreach of their support through indirect incentives such as tax benefited donations, tax incentives for economic activities, supporting the creation of independent grant-giving entities, subsidies, etc.

¹⁵ Croatia National Foundation for Development of Civil Society Development, Announcement for Institutional Support: <https://zaklada.civilnodrustvo.hr/en/development-cooperation/centres-of-knowledge>

5.4. FINANCIAL CONDITIONS IN PUBLIC FUNDING

Financial or in-kind support

Public funding may include financial support and/or in-kind support. Most commonly the public funding mechanisms select to provide financial support to CSOs, usually in the form of grants but this can also include contracts for service provision. In-kind support is given to the CSO in the form of goods or services, such as computers, software or education. In kind support can also include the provision of awards and acknowledgements. For example, Croatian National Foundation for Civil Society Development gives awards every year for the development of volunteering, acknowledging schools that excel in organizing volunteer programs.

Matching funding

Governments sometimes ask CSOs contribute to their own project costs (called cost share or matching funds). This amount is usually between 10% and 20% of the total funds required. It is important when determining the matching formula to be realistic, with consideration of the general funding environment and to set out attainable goals for CSOs. For example, sometimes CSOs are not in a position, despite their best efforts, to raise additional funds for projects. Sometimes grants are so small that it is not worth the administrative cost to require matching funds. Therefore, it is not recommended to make the matching fund requirement an absolute for all government funding. Rather, decision-makers for each institution and project tender could assess the need for and feasibility of such requirements on a case by case basis.

5.5. TYPES OF ACTIVITIES FUNDED

Various types of activities can be funded by public funds, as CSOs are engaged in different types and kinds of activities - i.e. they can provide services and be involved in advocacy at the same time. For example, a human rights advocacy organization may provide free legal aid services in order to redress violations of the rights of its constituents (e.g., rights of people with mental disabilities). Therefore, from the funding perspective, financing both services and advocacy activities is possible, since both types of activities may result in tangible benefits for the government and society. For example, grants to organizations that advocate for proper education and social inclusion of the marginalized youth, may well supplement efforts to decrease the petty crime rate among them. Providing grants to a watchdog organization dealing with anti-corruption may supplement government's efforts in this field and result in tangible and measurable benefits and budgetary savings.

Since distinguishing between service providers and advocacy organizations is quite difficult considering that their functions sometimes overlap, governments should not try to make such distinction. Instead, they incorporate the fields (topics, issues) of activities in which such organizations are involved (e.g., democracy, human rights, women rights, children rights, minority rights) in their funding programs.

6. Different Forms of Public Funding

This section will present a variety of forms for public funding that are most commonly used in European countries. Many countries use several different forms at the same time, complementing the objectives they wish to achieve with supporting CSOs.

6.1. GRANTS

Grants are the main mechanism to provide support to CSOs and are generally designed to pay for the implementation of a given project which falls within the authority's objectives. Grants are generally awarded through an open tender-type application process and should not be given by an individual administrative decision of a state authority.

Grants are usually regulated in detail in the bylaws or other policies of the grant-making authority. However, the main principles of grant-making and some basic procedures are often spelled out in laws in order to ensure transparency and accountability of government grants. In the case of grant-making, the authority sets out a certain amount available for the CSO grant projects under certain conditions. Many CSOs can apply and several may win grants for their projects. CSOs who win a grant, are accountable to the authority for this funding.

Grants may originate from the central or local budget or from special funds formed by income from alternative revenue sources, such as lottery proceeds (Croatia), or taxes (Hungary, Poland). This type of financial support is provided in wide range of fields such as education, human rights, welfare, youth, regional development, economic development, sport, arts, culture, health, human rights, and environment. The vast majority of CSO grants are served to promote sustainable positive changes.¹⁶

While project-based grants are main form of income for the most CSOs, they are limiting in several ways. The biggest limitation of project-based grants is that they force CSOs to be focused on short-term grant activities rather than investing in long-term sustainability, developing a strategy or investing in organizational development. On the other hand, institutional funding ensures CSOs financial possibility to expand and increase their full capacity.¹⁷

¹⁶ The International Journal of Not-for-Profit Law. Volume 7, Issue 4. September 2005 page 93, <http://www.icnl.org/research/journal/archives.html>

¹⁷ Inclusion Of Civil Society Organizations In Contracting Of Government Tasks, 2013, ECNL, http://ecnl.org/wp-content/uploads/2015/10/Contracting-out-services-to-CSOs_ECNL-preliminary-reserach-paper.pdf

6.2. SERVICE PROCUREMENT

Another form of public funding is service procurement or contracting with CSOs to provide services. In this case, rather than a donor-donee relationship, there is a contractual relationship between the government and CSO. The main purpose is to provide a concrete public service with the help of the CSO. In this case, the government knows exactly what needs to be done and it prescribes procedural details (e.g. minimum standards of the service). Usually, the government looks for those who will deliver the service at the highest quality and for the lowest price. CSOs are supposed to provide bids (not applications), they compete with other providers and there is usually one winner. The cost structure of the bid is mostly based on fees for some kind of unit (e.g., a fee is charged per beneficiary or per day) and the fee includes both direct and indirect costs.¹⁸

Contracting is the usual mechanism for executing procurements, and as such is often regulated in specific procurement laws. It is also the EU requirement to have procurement mechanisms harmonized in all EU member states and accession countries. However, the main issue with contracting is that some of the general procurement rules that governments use may not be suitable for CSOs as non-profit organizations. For example, provision of a collateral, pre-financing of services, bank guarantees and similar financial requirements, could be problematic for CSOs. In addition, in case of procurement CSOs often need to bid on the same market as other service providers (such as local government or businesses), and sometimes have lesser capacity to fulfil technical or quality standard requirements. Finally, services that are provided by CSOs are often services that do not come under the scope of a general procurement law, e.g., education or health services. This is especially true in the new EU member states. In these countries, contracts with CSOs are regulated in special laws; for example, in the laws on Public Benefit Activities.

Regardless of the applicable legislation, the procedures fall in several broad categories. The following are different possible procedures for selecting service providers:¹⁹

- a. Tender – this is the procedure in which the government invites more than one provider to bid for a service. In some cases, this may be an open call and in other cases the government may invite a limited number of qualified candidates.
- b. Negotiation – This possibility is usually applied in cases when there is only one potential candidate, when the candidate is an eligible provider with a solid track record, or when there is an emergency, or under a specific amount.
- c. Partnership agreement – This is an approach in which the government and the provider share the burden of financing the service e.g. the provider may have a building and the government provides funding. Another example is the case of co-financing different projects (some donor-funded projects require cost-share which can be provided by the respective local or national government).
- d. Third party payment – this is a mechanism prescribed through which the client of the service selects the provider, for example, parents select a childcare facility that can be organized through CSO (foundation) and CSO receives payment based on number of clients.

Contracting should be considered widely, not only in the area of social services. A central or local government agency could contract a CSO, for example, to conduct an environmental impact assessment study of a planned measure; to draft a reform policy on child welfare; to perform a concert at a special event. The scope of contracted services may also vary widely: a local government may contract a CSO to run its residential home, to provide weekly counselling to its residents or to supply organic food for its kitchen.

¹⁸ Ibid

¹⁹ Ibid

Some benefits of having CSOs provide services include:

Effective problem solving – CSOs usually work close with the groups that need support and know best their needs. That is why they are also more trusted in their social work.

Innovative – As mentioned above CSOs are the first ones to introduce innovative solutions to problems.

More flexible – If the framework allows it, CSOs could use more flexibly the workforce (for example, they do not need to open a full-time position if the job can be done part-time). Also, they are less bureaucratic and can immediately react in case of emergency e.g., pay the transportation costs of someone who was sexually harassed and needs special medical treatment).

Additional resources – They can bring additional resources such as volunteers and donations.

6.3. THIRD PARTY PAYMENTS / VOUCHER MECHANISM

Third party payments are a specific form of contracting arrangement, similar to the payment scheme of the social security system, where the government pays the CSO on behalf of the client beneficiary (the third party). These amounts are also paid for performing a government service; however, the terms of contracts are very concretely specified in the law. In this case, the government determines a certain type of service (e.g., day care provision for the homeless), as well as the standards and costs (fee) of this service. Every provider who meets the conditions or criteria set in the law will receive a set amount of compensation for every client beneficiary they provide service to. In this arrangement indirect costs are usually not included in the service fee and there is a general overhead percentage calculated which may be fully or partially paid to the organization. Given the nature of this financing mechanism, this type of payment is usually regulated in the laws for the specific field (i.e. health, education, social services).

The voucher mechanism is one method of third-party payment. It focuses on the choice of the beneficiaries or clients. In this system, potential beneficiaries receive vouchers that entitle them to use certain services free of charge. The beneficiaries are the ones who choose to which service provider they go to. There is usually a preliminary approval of all specialists who are licensed/ approved to provide these services. Based on the vouchers collected by each provider, the state transfers a fixed fee for each client served.

Third party payment schemes are more common in Western Europe. As these payments can be made in exchange for providing specific public services, they have proved to be useful mechanisms of public support mainly for social service delivery CSOs. For example, the voucher mechanism, which was introduced in Czech Republic, allows municipalities to provide vouchers for the services that fall within their obligation and leave the decision to the citizens to choose their provider.

6.4. BUDGET SUBSIDIES

Subsidies serve as general (institutional) support to the CSO's activities, as they are not linked to a specific project and can be used to cover general operating expenses. Subsidies are generally distributed to CSOs whose contribution to public policy implementation is considerable and the state wants to recognize that through allocating them subsidies. They are prescribed by law and distributed by the authority, which is responsible for the topic area. Funding through subsidies is usually given to major international agencies (e.g. Red Cross), national interest representation groups (e.g. Associations of Pensioners), major service-providing organizations, and sometimes even advocacy organizations (e.g. the European Commission gives institutional support to some European think tanks that advise and advocate on EU policies).

Allocation of budget subsidies has several challenges. One of them is that such practice may be considered as discriminatory towards other CSOs working in the same field.²⁰ This is the case especially in CEE countries, where subsidies are often given to organizations originating the “old system”, e.g. Union of Blind People, Union of Deaf People and others, due to historical reasons. In Germany, for example, all six major national welfare federations receive subsidies and thus, at least in the area of social assistance, organizations are treated on equal footing - the only debated question being who receives how much. In several CEE countries, only one federation (the traditional one) receives the subsidies, while newly emerging national federations demand equal treatment. Governments do not have the funds to support all new claimants, therefore the trend is that subsidies are being reduced and taken away from the traditionally favoured organizations as well. It has to be noted that the subsidy model is less favoured from the point of view of transparency and accountability of public funding, as it lacks open and fair competition as well as any performance measures accompanying the funding that would ensure “value for money”.

6.5. IN KIND SUPPORT

Several European countries have adopted special laws setting guidelines for subsidizing. Subsidies are usually determined through a centralized process but can be allocated and distributed by the separate ministries as well (Croatia, Hungary). There are also cases when the Parliament determines which CSO applicants would receive a subsidy (Hungary). Use of public property as a form of indirect support is widely used in CEE countries. Governments allow CSOs to use state or, more often, municipal property, for their statutory activities, including, office space, meeting halls, or sports facilities. Usually this is done on the basis of a law and upon certain conditions. For example, in Croatia, the Social Care Act provides for the free use of state or municipal property only if the organization will use it to

provide social welfare services. The lease on the public property is concluded either by the public institution that exercises the ownership rights (e.g., the municipality), or by a special body.

Subsidy model is less favoured in terms of transparency and accountability of public funding. However, this can still be a good solution for organizations that have not yet achieved financial sustainability, especially in case of limited availability of foreign funds.²¹

6.6. STATE LOTTERY AS A SOURCE OF CSO FUNDING

Lotteries and games of chance offer an alternative source of public funding and a substantial source of money. When organized by the state, they represent both the method of collecting the funds, as well as the mechanism for distributing public funding. The state lotteries are divided based on how the funding is distributed, to:

lotteries where the level and areas of support are determined by law and/or decided each year by the government or a government body (Croatia, Ireland);

entities distinct from the government or lottery operator, where the areas and level of support may be decided in law or by the government, but decisions on individual grants are made by an independent body (United Kingdom);

detailed distribution and entire procedure (including level, areas of support as well as percentage of distribution) prescribed solely by law.

²⁰ Except for cases like the Red Cross, when the state has a funding obligation based on international treaties.

²¹ Inclusion of Civil Society Organizations In Contracting Of Government Tasks, 2013, ECNL, http://ecnl.org/wp-content/uploads/2015/10/Contracting-out-services-to-CSOs_ECNL-preliminary-research-paper.pdf

For example, in 2012, more than 60% of the gross gaming revenue (stakes minus the prizes) generated by state lotteries in the EU was returned to society as contributions to the state budget and funds for sports, culture, charity and social projects, science, health, research, education, youth, environment and development.²² It is important to note that there is substantial variety among countries as to types of issues supported, because the national legislators decide on specific priority areas for lottery funding. The actual allocation of the funds is based on decisions made by national governments and parliaments. The characteristics of most state lotteries are:

part of the lottery revenue is earmarked for good causes in specific fields, for example sports, culture, education or health.

this can be prescribed by legislation or be decided on an annual basis, together with the national budget.

in some states, part of the payments to society from the lottery go through a specific ministry or foundation.

State lotteries are administered by public authorities or licensed to private operators through bidding processes. Allocation of lottery revenue is not subjected to some legal restrictions, due as taxes and other income-generating activities, making lotteries an easier and faster mechanism for allocating resources.²³ Therefore, potential of lotteries to fund social and development objectives is high and growing steadily.²⁴

22 Factsheet: Money from State Lotteries to Society, The European Lotteries, 2013, <https://www.european-lotteries.org/system/files/document/1780/files/elfs12moneytosociety201307.pdf>

23 More information at <http://www.undp.org/content/sdfinance/en/home/solutions/lotteries.html>

24 The World Lottery Association estimates national lotteries generated US\$189 billion in 2013. Out of the latter, US\$52 billion were allocated to the Treasury (41.4 per cent), education (28 per cent), sport (5.4 per cent), culture (3 per cent), social activities (1.4 per cent) and other good causes (20.8 per cent). http://world-lotteries.org/cms/images/stories/WLS2014_rome/docs/WLA%2520Compendium%25202014_U1_Inhalt_U4_4-Dec-2014.pdf

TABLE 2: OVERVIEW OF SPECIFIC CHARACTERISTICS OF THE FORMS²⁵

	GRANTS AND SUPPORT	PROCUREMENT AND CONTRACTING	THIRD PARTY PAYMENTS
Aim	Implementation of government policy	Providing services to the government	Providing a government service
Terms of contract	Set by the government	Set by both parties (though dominantly by government)	Set by law
Key selection principle	Best ideas and project plans	Highest quality at the lowest price	Fulfilment of legal requirements
CSOs funded	Several applicants	One bidder	Several licensees
Type of activity financed	Generally, any activity proposed by the CSO that fits program goals ²⁶	Typically services	Services described in regulations
Cost structure	Project budget	Fee based budget	Budget according to regulations
Indirect costs related to the activities	Percentage of project budget	May be fully covered in fees	General overhead % set by law
Competition	Open for CSOs	Open for all potential providers	Open for all potential providers

²⁵ Public Financing Of Civil Society Organizations In European Countries, ECNL, <http://www.icnl.org/research/resources/ngogovcoop/engb54.pdf>

²⁶ Certain tenders usually have specific limitations, e.g. one will not support conferences, another one will not support scholarships etc. Also tenders may be limited to specific fields (e.g., health) or specific types of CSOs (e.g., public benefit CSOs). In addition, most grant programs do not support investments.

	BUDGET SUBSIDIES	IN KIND SUPPORT	STATE LOTTERY
Aim	Implementation of government policy	Providing services to the government	Providing a government service or implementing government policy; CSO sustainability
Terms of contract	Set by the government	Set by the government or law	Set by law and other regulation
Key selection principle	Fulfilment of legal requirements	Fulfilment of legal requirements; Best ideas and project plans	Highest quality at the lowest price; Best ideas and project plans
CSOs funded	Several applicants	Several applicants	Several applicants
Type of activity financed	Generally, any activity proposed by the CSO that fits program goals	Generally, any activity proposed by the CSO that fits program goals	Generally, any activity proposed by the CSO that fits program goals
Cost structure	Budget according to regulations	Not applicable	Fee based or project budget
Indirect costs related to the activities	Budget percentage or prescribed by regulation	Not applicable	Percentage of budget or prescribed by regulation
Competition	Open for CSOs	Open for CSOs	Open for CSOs

7. Country Examples

The following sections will analyse examples of public funding legal framework, models and specific mechanisms for five different countries. The countries represent enough differences in their public funding models and civil society development, but all include relevant aspects for possible adaptation in Turkey.

7.1. CROATIA

7.1.1. LEGAL FRAMEWORK

The most important strategic documents and acts promoting civil society development is National Strategy for Creating an Enabling Environment for the Development of Civil Society.²⁷

The legal framework for public financing of CSOs has undergone some significant changes in the recent years, directed towards improving the transparency and efficiency of the funding procedures. Law on Associations came into force in 2014. It includes a basis and pre-conditions for efficient public funding of programmed and projects in the public interest implemented by associations. Subsequently, *Regulation on the Criteria, Standards and Procedures for Financing and Contracting Programmes and Projects of Public Benefit Interest Implemented by Associations* was adopted in 2015, replacing the former Code of Good Practice, Standards and Criteria for Providing Financial Assistance to Programs and Projects of Associations.²⁸ These were created with the aim of regulating the system of financing programs and projects of associations, and include the basic requirements and standards of conduct that providers of financial resources from public sources must ensure, as well as basic and additional conditions required for associations when implementing programs and projects financed from public sources.

7.1.2. FUNDING MODEL

The post-civil war period entailed a strong position for CSOs within the society. They played a prominent role in delivering aid and assistance and helped in post war conflict resolution in affected communities. As the whole state system was to a level newly created, the interaction with a newly formulating CSO sector was frequent, compared to early phases in other countries in the Central and Eastern Europe. There were large scale international donor programs implemented in Croatia.²⁹

Croatia was the first country in the Western Balkans to undertake initiatives to develop specially designated mechanisms for Government-CSO cooperation and a mechanism to support transparent funding of CSOs. This process resulted in significant innovations. It included a broader institutional framework connecting civil society and the Croatian government - a tripartite system. Government Office for Cooperation with NGOs was created in 1998, followed by the Council for the Development of Civil Society, which is a specialized advisory body of the Croatian government. The Council is tasked with monitoring, analysing, and evaluating the financing granted from the state budget, and ensuring compliance with the regulation on financing. NGOs are seen as both recipients and partners in government funding. Government Office for Cooperation with NGOs and Council for Civil Society Development played a significant role in creating National Foundation for Civil Society Development in 2003. The Foundation is established as a public law, non-profit entity. Its establishment was a crucial step towards development of civil society and financial sustainability of non-profit organizations in Croatia. The Foundation supported innovative programs as developed by CSOs and informal, community-based initiatives. With financing from state budget funds, Croatian lottery funds, private donations, income from economic activities and certain other sources, the Foundation works to promote the sustainability of the sector, cross-sectorial cooperation,

²⁷ First strategy adopted for the period 2006-2011, second strategy adopted for 2012-2016 period, strategy for 2017-2021 is in progress.

²⁸ Regulation available at https://narodne-novine.nn.hr/clanci/sluzbeni/2015_03_26_546.html

²⁹ International Practices on Funding Civil Society Organizations, 2010, OSCE, <https://www.osce.org/ukraine/76889?download=true>

civic initiatives, philanthropy, and voluntarism. Foundation provides institutional support and funding for the projects under the development of civil society, in order to promote the sustainability of the sector, cross-sectorial cooperation through multi-year funding programs. In addition, Croatia undertook successful decentralization of a once centralized model of support for civil society. (All state funds to CSOs used to be distributed through the Government Office for Cooperation with CSOs).

This model has the strength of focusing on large and mid-size leader CSOs that are able to deliver good programs; at the same time this represents a weakness, because more rural CSOs and start-ups have difficulties to access public funding. Another advantage is that while the overall strategies are set with the government, the Foundation has autonomous decision making and it has been able to develop good funding practices, responsive to the needs of CSOs.

Financial income of the CSOs in Croatia is rather diversified. In 2016, the number of registered non-governmental organizations (NGOs only) was 52 811. In the year 2016, according to data provided by the Ministry of Finance of Croatia, state and local governments represent dominant source of funding to CSOs, accounting 28% of overall income. Other sources of income included economic activity 18,6%, executing public competences delegated by the special laws 15,0%, membership fees/contributions 10,3%, revenues from international organizations 8,8%.³⁰ Statistics indicate that Croatian legal framework for CSOs is generally favourable in terms of availability of diversified income. Law stipulates economic activities of CSOs are not taxed if they are conducted within the framework of the CSO mission and work. Smaller CSOs are mostly financed from local sources. Local self-government units try to provide financial support to as large a number of local CSOs as possible with their limited budgets, but these funds are insufficient for more concrete activities. Larger CSOs have more diverse sources of financing,

including foreign grants, EU grants, and grants and contracts from the national government. Furthermore, in 2015, 52,208 volunteers were involved in different organizations and institutions in Croatia.³¹

7.1.3. SPECIFIC EXAMPLE: COORDINATING AND EVALUATING DECENTRALIZED MODEL OF STATE FUNDING THROUGH LINE MINISTRIES

This example will showcase how Croatian government developed a decentralized but highly cohesive and well-coordinated model of public funding, with line ministries as the main grant-makers. In Croatia, state cooperation with CSOs in the implementation of public policies is most often manifested through various forms of financial and non-financial support that public authorities provide to projects and programmed of public benefit interest. This kind of cooperation has great potential to generate a number of positive changes and create the necessary synergies for sustainable social and economic development. The extent to which that potential is realized depends largely on the quality criteria, standards and procedures for financial and non-financial public funding, as well as organizational and human resources within the public institutions necessary for successful monitoring and evaluation of agreed support model.

Government Office for Cooperation with CSOs has a key role in this process; its mission is to encourage and coordinate development of legal, institutional and financial framework for CSO activities and support building a strong and autonomous civil society as an indispensable partner of the state in drafting and implementing public policy. Specifically, Government Office for Cooperation with CSOs is responsible for better coordination of all ministries and other public bodies in implementing of public funding procedures, including the education on the need and importance of consistent application of the regulatory framework. These are examples of the Office's competences:

³⁰ More information at <http://taxdesignation.org/croatia/>

³¹ Report from Ministry of Social Policy and Youth for 2015

Coordinating the preparation, implementation and monitoring of public calls for financing programs and projects of CSOs from public sources,

Giving prior opinions to all providers of financial resources from public sources at the national level on the compliance of areas of financing and implementation of the call's procedure with the Regulation, and for tenders worth more than 10 million performing prior quality control of tender documentation and other conditions to be met by service financial resources related to the application of the criteria of financing and contracting programs and projects,

Preparing of joint annual plan of calls and other CSOs programs financed from public sources at the national level in order to harmonize and better planning by all bodies from national public sources and the EU funds for finance CSOs projects and programmes,

Organizing Info days at the beginning of each year in order to present calls for the current year to potential and interested beneficiaries,³²

Collecting and publishing information on announced calls at the national and local levels and publishing them on the Office for Cooperation with CSOs web page - Annual Tender Plans³³,

Ensuring timely exchange of information among donors of funds to associations that inappropriately spend resources allocated to them or otherwise do not comply with contractual obligations,

Preparing Manual on the application of the public funding Regulation including templates of calls documents as guidelines to donors of funds,

Organizing counselling and trainings of donors' institutions staff that are directly responsible for implementing (applying) Regulations for financing CSOs projects and programs,

Submitting reports to the Government and interested public including developing comprehensive analysis on financing of CSOs projects and programs at least once a year.³⁴

Regulation on the Criteria, Standards and Procedures for Financing and Contracting Programs and Projects of Public Benefit Interest Implemented by Associations include steps of public institutions at all stages of funding cycle - from planning and preparation of priorities for funding, publication and implementation of tenders, evaluation of projects, the contents contract on financing, monitoring and evaluation of project results, as well as possible termination of the contract and refund - in accordance with the existing best practices, and procedures used in contracting and implementation of projects financed from EU funds.

Based on these Regulations, the Government adopted a Manual for Implementation of the Regulation on the Criteria, Standards and Procedures for Financing and Contracting Programs and Projects of Public Benefit Interest implemented by Associations³⁵.

The Manual was developed as a guideline to all public institutions that grant financial and non-financial support from public sources to projects and programs of public benefit implemented by associations as well as other civil society organizations. The Manual provides basic standards for planning of financing of programs and projects of associations and for the implementation of procedures and sets preconditions for the providers of public funds, including necessary

³² More information at <https://udruge.gov.hr/istaknute-teme/financiranje-programa-i-projekata-udruga-iz-javnih-izvora/info-dani-o-natjecajima/4933>

³³ More information at <https://udruge.gov.hr/istaknute-teme/financiranje-programa-i-projekata-udruga-iz-javnih-izvora/godisnji-plan-natjecaja-tijela-drzavne-uprave-za-2019-godinu-4004/4004>

³⁴ General information in English: <https://udruge.gov.hr/financing-of-projects-and-programmes-of-civil-society-organizations/2964>

³⁵ Manual: https://issuu.com/uzuvrh/docs/priru_nik_za_primjenu_uredbe_v_2.?e=32027115/56295883

financial, organizational and human resources. The Manual is aimed at state bodies, government offices and bodies, other public institutions as well as the local and regional self-governments, companies founded by the Republic of Croatia, or respectively by one or more local and regional self-government and other legal entities founded by the Republic of Croatia, or respectively one or more local and regional self-government, but also other legal entities that finance, grant or sponsor CSOs' project and programs from public funds.³⁶

Annual official reports on financing of CSOs projects and programs show the way of spending of funds from the public budget aimed at project and programs of associations and other CSOs.

The reports are comprehensive containing detailed analysis on the following:

Which state bodies give funds and in which amount

Areas of financing

Beneficiaries of the financed projects

Territorial distribution of projects

The Reports are drafted by the Government Office for Cooperation with CSOs which, in line with the Regulation on the criteria, standards and procedures of funding and contracting programs and projects of the public benefit implemented by associations, collects and analyses the reports submitted by all the public administration bodies (i.e. Government offices and authorities, other public institutions, local and regional self-government units, public companies in the ownership of the Republic of Croatia or one or more local and regional self-government units), as well as other legal entities that allocate public funds for CSO projects and programs.³⁷ Apart from the data on the allocated funds to

certain projects and programs of public benefit interest implemented by CSOs and the analysis of general and specific funding areas, users and activities of the projects implemented, the Report also presents the analysis of the compliance of the procedures of public funds allocation with the provisions of the Regulation.³⁸

Since 2015, a database of the parties obliged to implement the criteria, standards and procedures when allocating funds to associations for their projects and programs, as well as reporting to the Government Office for Cooperation with CSOs, has been multiplied. The annual Report also includes the data collected from 284 public companies in the ownership of the Republic of Croatia and one or more local and regional self-government units, out of which half (142) reported that in 2015 they did not allocate any funds to civil society organizations, while the other half reported the allocations in the amount of 1.9% of the total allocated funds from their budgets via sponsorships and donations.

The analysis of the reports submitted and approved for 2015 has shown that 36,104 programs and projects of CSOs were (co)financed with public funds on the national and local levels. Within these programs and projects 22,232 people were employed, 51,623 people received remuneration on the basis of a service (copyright) contract, while 501,663 volunteers participated in the implementation of the financed programs and projects.

The integral part of the Report includes the examples of the projects successfully implemented by CSOs that had received public funds on the national level in 2015, the consolidated presentation of funds allocated from the budgets of counties, towns and municipalities in 2015 and the list of all the CSO projects and programs that were financed from public sources in 2015, which are published on the platform of the Central State

36 Manual with variety of forms: <https://udruga.gov.hr/vijesti/objavljena-nova-verzija-prirucnika-za-postupanje-u-primjeni-uredbe-o-financiranju-udruga/4155>

37 More information at <https://udruga.gov.hr/istaknute-teme/financiranje-programa-i-projekata-udruga-iz-javnih-izvora/godisnja-izvjesca-o-financiranju-projekata-i-programa-organizacija-civilnog-drustva/4285>

38 Example and details: Report on Public Funding of CSOs in 2015 adopted by the Croatian Government <https://udruga.gov.hr/news/report-on-public-funding-of-csos-in-2015-adopted-by-the-croatian-government/4101>

Portal of Open Data. Additional resources available for transparency and coordination of public support include the online publication of detailed information on the allocated support in user-friendly formats³⁹ as well as data on regional and local level support⁴⁰.

7.2. GERMANY

7.2.1. LEGAL FRAMEWORK

In Germany, CSOs mostly rely on a mix of funding resources. Those CSOs active in the welfare domain (social services and health care) are financed primarily through social and health insurance allowances. Such monetary transfers to providers of social and health services are subject to Federal legislation and regulated by the state's social laws. Regulation for public funding is very decentralized and depends on the sectors and institutions.

7.2.2. FUNDING MODEL

Germany has a significant civil society sector that has a strong government support. CSOs play a prominent role in the everyday lives of people by being the main provider of the basic social services. Due to this significant role in service provision and everyday community life, CSOs are well respected by society as well as the state. There are highly professionalized organizations that mostly work on providing social welfare or health services, as well as CSOs that work almost exclusively with volunteers in the areas of leisure and sports.⁴¹

German civil society sector is highly dependent on public money or at least publicly regulated income, as the main role of the vast majority of larger CSOs is provision of various social services. The largest share of funding consists of contract-based payments either from state entities or from social and health care insurances.

Public support in form of subsidies and temporary grants constitutes the second most important source of funding. There are a few policy areas, such as the youth, environment or international development, where state support on federal level is also available. In these cases, it is common to have project grants but also long-term strategic partnership agreements between the competent Ministry (or federal agency) and the CSOs.

Additionally, CSOs in the field of arts and culture as well as in sports contribute significantly to local infrastructures in terms of facilities and opportunities for leisure activities, therefore are usually supported by local government grants and subsidies as well as infrastructural support in terms of facilities (e.g. sports hall, playing fields). At the local level, grants and direct budget support are typical ways to support CSOs.

Almost every CSO in Germany is a member of an umbrella association that simultaneously serves bridging and bonding functions. These are in close contact with state at the federal and regional level and heavily engaged in policy development. The umbrella associations are subsidized by state grants which enable them to also aid and support for their affiliated membership organizations. However, funding has recently shifted from block grants or so-called institutional support to project related grants. This changed how CSOs active in the welfare domain operate - they now have to work in an environment characterized by both increased competition and reduced political protectionism. Furthermore, the increasing project character of public funds results in a planning insecurity and a shortening of the financial planning interval.⁴²

39 More information at <https://udruga.gov.hr/istaknute-teme/financiranje-programa-i-projekata-udruga-iz-javnih-izvora/pregled-odobrenih-financijskih-podrski/155>

40 More information at <https://udruga.gov.hr/istaknute-teme/financiranje-programa-i-projekata-udruga-iz-javnih-izvora/otvoreni-podaci-o-financiranju-udruga-3158/3158>

41 European Civil Societies Compared: Typically German-Typically French? <https://halshs.archives-ouvertes.fr/halshs-00797886/document> page 11

42 National Report Germany: Identifying External and Internal Barriers to Third Sector Development, <https://thirdsectorimpact.eu/site/assets/uploads/documentations/tsi-national-report-no-6-external-internal-barriers-third-sector-development-germany/TSI-National-No.-6-79p-1x.pdf> page 14

Despite a significant presence of state financial support, there is a high degree of political independence of CSOs. There is an inherent understanding that CSOs have their own autonomy and that it is not proper for the state to dictate the direction of their development. CSOs are essentially recipients of the funding but also seen as partner actors in the social and economic development of the communities. Both the state and CSOs have the same goals (e.g. assist the needy, develop the poor communities), and it can be assumed that the local CSO will know the needs and possibilities better and it can devise better solutions. However, the lack of state political and professional influence does not mean that there is no control over the use of public funds; or in case of service provision, over the quality of service. There are rules by which the CSOs have to abide; and the funding has to be transparent from the side of the government as well. CSOs have had to develop a certain level of institutional capacity to be able to take advantage of this system.⁴³

7.2.3. SPECIFIC EXAMPLE: TRANSPARENT AND ACCOUNTABLE SERVICE PROCUREMENT FUNDING FOR CIVIL SOCIETY

This example will explore how the German government established and is currently supporting the service provision by CSOs as main actors in implementation, as well as in policy development. German social policy has encouraged CSOs to be involved with social service provision since the first decades of the 20th Century. The German social and economic model, including the welfare system, is an example of a “corporatist” model, which is defined typically by interest group cooperation rather than competition - it is highly stratified, delivering specific benefits to targeted groups.⁴⁴

Such system of social service provision is highly decentralized, but also highly bureaucratically and

legally structured. The principal responsibility for the planning, financing, and provision of social services is on the local authorities. The Federal level of government is mainly responsible for guaranteeing the social service system, including the formulation of general objectives, conditions and standards for social service provision. According to the Social Security Law, public bodies include all legal persons of the public law. With regard to the non-public sector, there is a differentiation between CSOs that belong to the free welfare associations and other organizations. The public bodies are obliged to carry out their work most effectively by co-operating with the non-public bodies. Also, the Law explicitly mentions that the co-operation should be based on partnership ideals.

According to the German Social Security Law, the local authorities have to respect the independence of these bodies concerning the setting of objectives, carrying out the tasks, and the arrangement of their organizational structure. However, the local authorities have the right to examine the appropriate use of public means employed by them.⁴⁵

A large network of CSOs, headed by six large organizations, shares with the government the provision of social welfare services. The “free welfare associations” include Catholic (Caritas), Protestant (Diakonisches Werk), and Jewish (Central Welfare Association for Jews) social welfare agencies. Also included are the Arbeiterwohlfahrt (Workers’ Welfare Association), Deutscher Paritätischer Wohlfahrtsband (a nondenominational, nonpartisan association), and the German Red Cross. In addition, these organizations are by law involved in national decision-making and law-making processes. With regards to social services, they must be consulted in governmental decision-making in all issues touching on those areas.⁴⁶

⁴³ International Practices on Funding Civil Society Organizations, 2010, OSCE, <https://www.osce.org/ukraine/76889?download=true>

⁴⁴ Outsourcing Social Services to CSOs: Lessons from Abroad, 2009, <http://documents.worldbank.org/curated/en/517011468019451377/Outsourcing-social-services-to-CSOs-lessons-from-abroad>

⁴⁵ German Social Security Law, 2004.

⁴⁶ Ibid

Recent developments show that social service organizations are perceived as competitors in social markets which are increasingly tougher and simultaneously, CSOs are supposed to work on behalf of the common good by running programs and initiatives which primarily serve those parts of the population that are in a very difficult situation. Currently, this is not resolved and the German government lacks a coherent policy towards the civil society sector.⁴⁷ Additionally, organizations working at the local level in areas such as leisure or sports, which do not enjoy legally secured funding, face a difficult situation due to the fiscal constraints of local governments and are therefore increasingly cut off from an important source of funding. Against this background, small and medium-sized organizations are increasingly competing for local government grants and subsidies. A downsizing of the civil society sector, less organizations with fewer members and reduced programs of leisure and sport activities might be the most likely outcome of the current situation.⁴⁸

A crucial element of the whole relationship between CSOs and the German government is the element of partnership. The following is important in organizing the system of funding CSOs through service provision generally, but proved to work in Germany in particular.⁴⁹

CSOs are able to pilot many innovations and introduce new services which are then taken over by the government

CSOs have already invested substantial resources in areas where they have developed specific experience and know-how or have even created the infrastructure for providing certain services. In these cases, partnership is the best approach rather than competition, opposition, etc.

In certain areas CSOs are the natural partner of the government because there are no other providers and because the beneficiaries of the services are not able to pay for the services and therefore there is no business willing to provide them.

CSOs, because of the way they operate, are able to attract additional resources to develop their services, they can use volunteers, they can attract donor funding and they can attract donations from individuals or corporations. These resources can help increase the quality of the services provided.

In Germany, funding for service provision is mostly predictable, which is feasible as the government has a clear policy aiming to support it. Predictable funding also means that multi-year planning is possible, allowing a service provider to enter into long-term (multi-year) agreements. This is of great importance from the beneficiary perspective as multi-year funding framework provides continuity of service, and also continuity of familiar service provider (as long as the provider is providing good quality services in line with the prescribed standards).

7.3. CZECH REPUBLIC

7.3.1. LEGAL FRAMEWORK

The basic law regulating the public funding of CSOs is Act No. 218/2000 on budgetary rules, Section 7. It states that funding may be provided from the state budget to non-governmental non-profit organizations such as civic associations, charities, special-purpose facilities of churches and religious societies, foundations and endowment funds or other legal entities.⁵⁰ In addition, the Government adopted the "Government Principles for Providing Funding from the State Budget of the Czech Republic to non-state non-profit organizations

⁴⁷ European Civil Societies Compared: Typically German-Typically French? <https://halshs.archives-ouvertes.fr/halshs-00797886/document> page 17

⁴⁸ Ibid

⁴⁹ A Handbook on Non-State Social Service Delivery Models, http://ecnl.org/dindocuments/416_UNDP-ECNL_Handbook%20on%20social%20contracting_2012.pdf

⁵⁰ See more information at <https://www.mfcr.cz/cs/verejny-sektor/podpora-z-narodnich-zdroju/neziskove-organizace>

by central state administration bodies”.⁵¹ However, these set a general framework; any specific funding rules and conditions are set by individual ministries and public bodies, based on their competences and annual programs.

7.3.2. FUNDING MODEL

Czech civil society can be described as a mixture of several types of CSOs.⁵² One of them is old, membership-based organizations and types of civic activities, having a large number of members and good connections and contacts with the political elite. It is typically represented by sports and leisure organizations, culture and youth organizations or specific interest organizations (e.g. hunting, fishing or bee-keeping associations). Such organizations are oriented toward providing services and representing their members’ interests, and they are seldom publicly active.

The other type is characterized by professionalized CSOs whose membership base is rather limited and whose main mode of operation is acting on behalf of various constituencies. These organizations focus on professionalized activities and engage political elites and institutions, other CSOs and other actors. The last type of activism is the grassroots or self-organizing type of civil society, which often materializes in urban spaces. In 2018, the number of CSOs was 132,953.⁵³

The most important sources of funding for CSOs are public resources (65%); the second most important are revenues from the sale/provision of goods and services (22%); and the rest is derived from philanthropy or giving (13%). Public resources are distributed mostly from the national level, i.e. from the government budget

and funds (62%), while lower administrative units are rather secondary, with regions distributing 13% and municipalities 25% of public resources.⁵⁴

The most recent data from the Center for Nonprofit Sector Research provides more insight into the composition of government funding to the sector. According to this research, in 2016, CSOs – which includes foundations and endowment funds, associations, subsidiary associations, public benefit corporations, institutes, church organizations, educational legal entities, and common-interest associations – received subsidies worth 689,370,487 EUR. Of this amount, 418,862,895 EUR came from the state budget; 109,821,458 EUR from regional budgets and the capital city of Prague; 152,208,687 EUR from municipal budgets (excluding the budget of the capital city of Prague); and 8,515,979 EUR from Czech state funds.⁵⁵

The public administration continues to support CSO services via subsidies and grants. Governmental funds are mostly given to NGOs with a multi-year history. Newer organizations receive smaller amounts. The biggest share of governmental subsidies given to CSOs in 2016 focused on social affairs and employment policy, physical education, and education and school services. These funds are generally awarded in a competitive and transparent manner. Most of these funds are for a single year, which poses challenges to CSO sustainability. In 2016, the number of CSOs receiving public funds almost doubled as the Ministry of Education began supporting small NGOs, such as sport and leisure clubs. This trend is expected to continue.⁵⁶

⁵¹ The most recent version of these Principles was approved by Government Resolution No. 657 in 2014.

⁵² https://www.academia.edu/34755717/Country_Report_Czech_Republic_Civil_Society_in_Central_and_Eastern_Europe_Challenges_and_Opportunities_

⁵³ See more information at https://eu-russia-csf.org/wp-content/uploads/2019/04/190327_RU-EU_Report2018_allpages.pdf

⁵⁴ Country Report: Czech Republic (Civil Society in Central and Eastern Europe: Challenges and Opportunities), https://www.academia.edu/34755717/Country_Report_Czech_Republic_Civil_Society_in_Central_and_Eastern_Europe_Challenges_and_Opportunities_

⁵⁵ CSO Sustainability Index 2017 <https://www.fhi360.org/sites/default/files/media/documents/resource-civil-society-organization-2017-regional-report.PDF>

⁵⁶ Ibid

Public resources are distributed mostly in the area of sports (36.5%), social services and employment policy (29.6%), and culture and the conservation of monuments (11.3%). The areas that receive less support are health care, agriculture and industry (less than 2%).⁵⁷ Therefore, the largest share of public support goes to service-oriented organizations that provide some public services and have good connections with the political elite.⁵⁸

The Government Council for Non-Governmental Non-Profit Organisations⁵⁹ has a coordinative role when it comes to allocating public funding, as a permanent consultative, initiative and coordination body of the Government. It develops and analyses information about funds from public budgets for CSOs and about the process of allocating and using them. In addition, the Czech Republic has uniquely introduced targeted funding to support civil society not only directly from the State budget but from specially dedicated funds from the EU and other foreign support schemes. One example is the EU Transition Facility, which was an instrument for new member states to help the transition period after becoming a member of the EU. While other countries used this mainly to build capacity for the public administration, the Czech Republic dedicated a part of the funds to support the development of the CSO sector. To achieve this purpose, it contracted an independent domestic grant-giving foundation for the management of the funds - Civil Society Development Foundation (NROS)⁶⁰. This was a good way to find a balance between the need to have a strict reporting and accounting framework for the EU and the Government, and the need to have smaller, flexible and needs-based projects for the CSOs. CSOs did not have to undertake unreasonably big administrative burdens, yet the

reporting and accounting requirements of public budget spending were met by NROS.

7.3.3. SPECIFIC EXAMPLE: ENABLING SUCCESSFUL ABSORPTION OF EU FUNDING THROUGH PARTNERING WITH LOCAL FOUNDATIONS

The Czech example will show the development of the partnership between the government and the existing structures, namely, foundations in order to foster more efficient distribution of public funding. The Civil Society Development Foundation (NROS) was established by the government decision in 1993 to help revive and strengthen the NGO sector in the Czech Republic. The initial purpose was to administer the EU Phare Civil Society Development program.⁶¹ NROS was acting as local management unit for the administration of Phare programmes support to civil society development (both National and Multi-Country Programmes). NROS has acted, since its establishment, primarily as a resource and information centre supporting enhanced professional standards and capacities for CSOs, as well as a grant provider to co-finance specific CSO activities in selected sectors. From 1993 to 2002 the NROS evaluated around 7,300 applications, of which it supported almost 2,700 projects with grants totalling more than 23.3 million EUR.⁶²

With the help of this program, NROS gained experience from working in a transparent system of grant distribution and assessments of successful project implementation. This experience was then used to further manage funding from the EU, EEA and Norway Grants. Further, NROS created many new programs which were supported from private foreign and local sources of

⁵⁷ Government of the Czech Republic statistics, 2016.

⁵⁸ Country Report: Czech Republic (Civil Society in Central and Eastern Europe: Challenges and Opportunities), https://www.academia.edu/34755717/Country_Report_Czech_Republic_Civil_Society_in_Central_and_Eastern_Europe_Challenges_and_Opportunities

⁵⁹ See more about the Council at <https://www.lada.cz/cz/pracovni-a-poradni-organy-vlady/rnno/basic-information-45510/>

⁶⁰ See more about the Foundation at <https://www.nros.cz>

⁶¹ Promoting Democracy Through Civil Society: How to Step Up the EU's Policy Towards the Eastern Neighbourhood, Kristi Raik - 2006, <https://books.google.hr/books?id=AKt4OOUakalC&lpg=PP1&dq=isbn%3A9290796138&hl=hr&pg=PP1#v=onepage&q&f=false>

⁶² See more information at <https://www.nros.cz/en/we-support/archive-of-programmes/>

funding. NROS has also been managing the Czech NGO Fund (Block Grant for NGOs) that supports Czech CSOs under the Financial Mechanisms of European Economic Area and Norway, with over 10 million EUR. While the Norway mechanism supported CSOs also in other new EU member states, this was the first program in the region that provided institutional support for the development of CSOs and the CSO sector.⁶³

NROS stood behind the formation of many new projects and organizations which later became significant and indispensable entities of the then newly forming CSO sector. Today, these organizations are able to compose quality projects and concepts able to help solve serious problems which include social exclusion, unemployment of young people and educating Roma children. NROS played a major role in this and continue to pay great attention to it as part of educational programs and activities which further strengthen the position of the CSO sector in the Czech Republic.⁶⁴

The internal governing structure of the NROS in general composes of a strategic decision-making body, an executive body (executive director) and the staff (bureau) supporting the work of foundation. The strategic decision-making bodies are composed of both civil society representatives and government officials. Therefore, the NROS is able to make autonomous decisions in regard to the priorities and the activities of the funds. In addition, securing CSO representatives in the decision-making body it is equally important to select all members based on certain professional criteria and ensure that the staff is properly trained.

The grant making procedures are undertaken by permanent bodies or temporary bodies set up for a

specific call and experts and CSO representatives are involved in the quality assessment of the applications. When deciding whether to give a particular grant, NROS must conduct an open transparent competition in compliance with detailed procedures on advertising the grant, technical and substantive requirements, and specific timelines.

Another example from the Czech public funding scheme includes building support for local foundations. In the Czech Republic, the government provided endowment⁶⁵ capital for several qualifying foundations in the beginning of 2000s. They allocated 1% of the proceeds of privatization to a Foundation Investment Fund, which then re-distributed the funds to local foundations in the forms of endowments.⁶⁶ The purpose of this mechanism was to enhance building of endowments as a secure resource base for CSOs. For example, in 2002, 27 million euros were distributed to 64 foundations, which at that time represented one-third of all foundations in the country.⁶⁷ Following the introduction of this mechanism, the government introduced changes in the legal and tax system to create rules for good management of the endowments and to enhance the ability of foundations to maximize their potential. This seed endowment capital method of supporting the CSO sector, while unique and hard to apply in other circumstances, serves as an important example of innovative funding. The existence of independent, private grant-giving foundations, which can fill the funding gaps for a variety of CSOs from community groups to public policy think tanks is of critical importance for the healthy development of the CSO sector and civil society. To provide even a small initial capital for such foundations and catalyse their development is an important role that any government may well consider undertaking.

63 Ibid.

64 Ibid.

65 An endowment consists of funds or property donated to an institution or individual, with the stipulation that it should be invested in order to provide regular income for the organizations. The original amount of the fund on which interest is calculated should remain intact for a certain legally prescribed period or based on agreement with the donor.

66 The law in Czech Republic differentiates between foundations with endowment and non-endowed foundations. The regular foundations must maintain an endowment with minimum values of approximately 16,000 euros.

67 "Czech Endowments: An Improving Framework", Pavlína Kalousova, SEAL Winter 2003

Civil society funds, in general, are established when state recognizes the importance of civil society to a stable and democratic state and the lack of sufficient financial resources available for the development of the sector. One feature that seems outstanding is that in the Czech model, the government built on already existing capacity of suppliers in the country for managing government funds. This is exemplified not only by the NROS example, but also e.g. by the establishment of the Czech Development Agency, that was inducted by the Ministry of Foreign Affairs to develop policy and manage programs in development cooperation of the Czech Republic. Instead of creating a new institution, it took up the activities of the already existing think-tank, the Czech Development Center. This approach also means that the Czech Government – unlike some of its neighbours in the region – considers the effectiveness of independent or semi-independent (arms-length) agencies in distributing state funding.

7.4. IRELAND

7.4.1. LEGAL FRAMEWORK

In Ireland, Charity Act and Charity Regulator⁶⁸ provide basic legal framework for funding of CSOs. However, more specific provisions for public funding are included in the National Lottery Act⁶⁹. It is the legal basis for the allocation of public funds, providing that the moneys paid into the Central Fund is be applied for: a) the purposes of such one or more of the following, and in such amounts, as the Government may determine from time to time, that is to say, sport and other recreation, national culture (including the Irish language), the arts (within the meaning of the Arts Act, 1951) and the health of the community, and b) such (if any) other purposes, and in such amounts, as the Government may determine from time to time. Each year the surplus of proceeds from the national lottery is attributed in its entirety to a National Lottery Fund,

from which prize payments, operating costs and capital expenditure are transferred back to lottery operator.⁷⁰

7.4.2. FUNDING MODEL

In Ireland, there is a wide variety of the non-profit sector. On one end, there are large hospitals and universities with budgets funded by the state, extending to hundreds of millions of euro, and hundreds of paid staff. Many of these are large charities engaged in delivering critical health, education and social services. On the other end, there are very small volunteer-led organizations on community level with tiny budgets. Despite this huge variance in the size, structure and composition of organizations within the sector, they share a few things in common:

they are mostly run by volunteers i.e. on their boards or committees;

they do work for the public benefit i.e. no gain or benefit is given to owners or shareholders.⁷¹

The Irish civil society relies heavily on state funding. Many of Ireland's organizations are part-funded by the state to provide health, social and community services, and they form a critical part of Ireland's social infrastructure. These organizations are charities and all of them are run (governed) by volunteer board members, or charity trustees. In 2017, there were 29,300 CSOs registered, and the state was the biggest single funding source - amounting to 8.4% of all Government expenditure that year. Almost three quarters of reported State funding goes to 1% of large Irish CSOs.⁷² These mostly include hospitals and other health organizations, institutes of technology/ universities and other higher education/research organizations and education and training boards.

68 See more information at <https://www.charitiesregulator.ie/en/information-for-charities/guidance-for-charities>

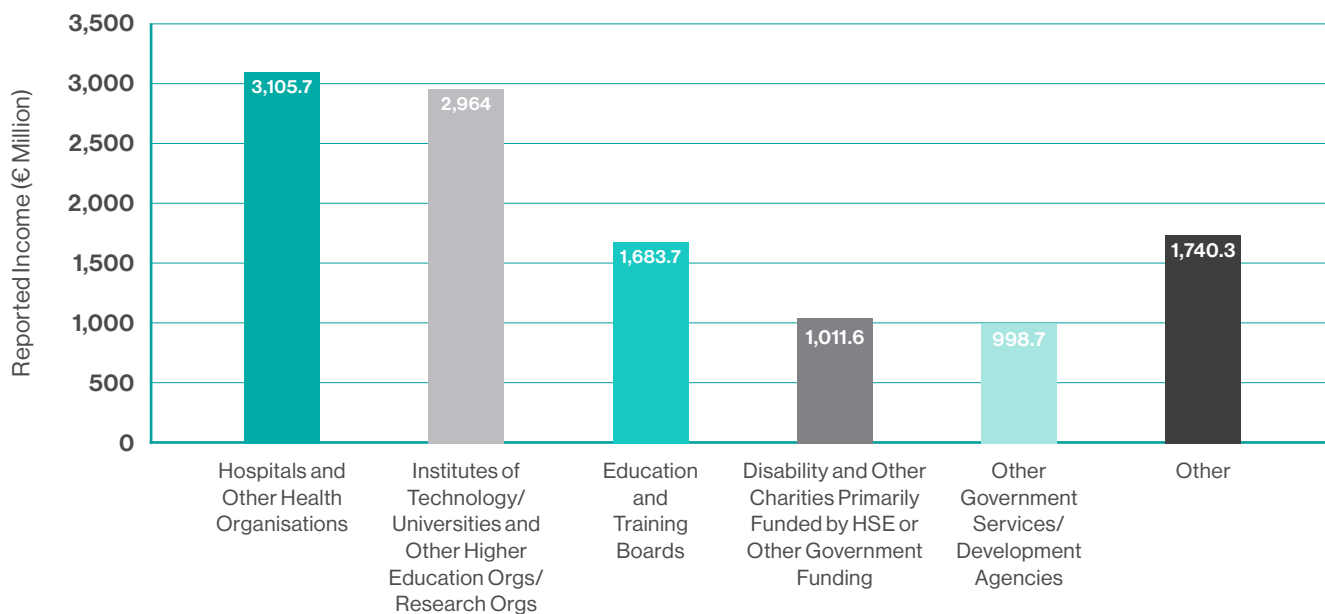
69 Section 5, <http://www.irishstatutebook.ie/eli/1986/act/28/enacted/en/html>

70 See more information at <https://www.lottery.ie/en/Good-Causes-Winners/National-Lottery-Fund>

71 See more information at <https://www.charitiesregulator.ie/media/1495/Infographic-indecons-social-and-economic.pdf>

72 See more information at <https://analysis2019.benefacts.ie/funding/>

FIGURE 2: TOTAL INCOME OF ORGANIZATIONS EARNING OVER 10 MILLION EUR BY SOURCE OF INCOME⁷³



Additional funding comes from earned and unearned sources including donations and fundraising from Ireland and overseas. The report shows that some 300,000 volunteers donate 67.9 million hours (an average of 226 hours annually per volunteer). Based on the minimum wage, this is worth 649 million EUR per year.⁷⁴

Increasingly, state funding is awarded through “commissioning” services to CSOs. Recent voices from the civil society sector are requiring the state to produce a comprehensive development strategy for the sector that includes a sustainable funding model. CSOs face governance, managerial and operational challenges just like other types of enterprises and need to ensure that the supports that are available to commercial enterprises are also available to charitable or social enterprises.

7.4.3. SPECIFIC EXAMPLE: STATE LOTTERY FUNDING SUPPORTING CIVIL SOCIETY DEVELOPMENT

The Irish National Lottery example is presented to showcase how the state-run lottery can be used for public funding of CSOs. It raises funds on behalf of the Government and 32% of proceeds are distributed to good causes. The Lottery is operated by the Premier Lotteries Ireland (PLI) under license from the Minister for Finance. According to its founders⁷⁵, the National Lottery generates funds for good causes in the areas of Youth, Sport, Recreation and Amenities, Health & Welfare, Arts, Culture & National Heritage and the Irish Language. Funds raised by the National Lottery are transferred to the Exchequer and are used to part-finance expenditure by various Government Departments on projects in these categories. The National Lottery publishes the list of funded programs on its website.⁷⁶

⁷³ See more information at <https://www.charitiesregulator.ie/media/1489/social-and-economic-impact-report-2018.pdf>

⁷⁴ See more information at <https://www.charitiesregulator.ie/en/information-for-the-public/our-news/2018/july/research-highlights-the-major-social-and-economic-impact-of-registered-irish-charities>

⁷⁵ See more about National Lottery at <https://www.lottery.ie/Services/About-the-National-Lottery>

⁷⁶ See more about grants at http://www.nicdtf.ie/RESOURCES/upload/National_Lottery_Grants.pdf

In general, areas available for funding include Youth, Sport, Recreation and Amenities, Health & Welfare, Arts, Culture & National Heritage and the Irish Language. There is no separate fund or foundation distributing the proceeds. The money allocated for good causes is distributed to different government departments and bodies:

Department of Environment, Community and Local Government

Department of Education and Skills

Department of Children and Youth Affairs

Department of Transport, Tourism and Sport

Department of Arts, Heritage and Gaeltacht

Department of Health

Health Services Executive

Department of Public Expenditure and Reform

To provide an example, the distribution of funds by Department of Children and Youth Affairs and Department of Health is examined more closely, as these represent a variety of areas and mechanisms funded by the state lottery.

Available amount of the lottery proceeds for CSOs and areas of support

Department of Children and Youth Affairs⁷⁷ had a fund of 910,000 EUR available for 2014⁷⁸. In 2014, it mainly targeted small scale projects⁷⁹ of up to 20,000 EUR. In all cases applicants had to ensure that the proposals

demonstrate how a meaningful project can be completed with a grant of this scale. Funding was not available for ongoing running / staffing costs. Department also sets annual priorities for funding. During 2014, priority was given to projects and activities that involve:

Culture, play and recreation

Children and young people led initiatives

Healthy Lifestyles for Children and Young people including innovative new projects aimed at emerging issues for children such as smoking, obesity, alcohol consumption, cyber bullying etc.

To provide marginalized groups with access to extra-curricular activity-based projects.

Department of Health⁸⁰ operates a National Lottery Discretionary fund under which it can provide one-off large grants to organizations for the provision of health-related services. The fund is aimed at community groups and voluntary organizations operating in Ireland providing health services to specific client groups (like people with an intellectual and/or physical disability), providing information and support for various disabilities and illnesses or groups with a specific interest (like providing equipment for hospitals, for example).⁸¹ In 2016, the available funds amounted to 3,286,000 EUR. Applications were accepted from community groups and voluntary organizations with an involvement in the provision of health services to specific client groups, national groups providing information and support for various disabilities and illnesses and groups with a specific interest (for example to provide respite for elderly, equipment for day services, residential homes, etc).

⁷⁷ See more about grants at http://www.dcy.gov.ie/viewdoc.asp?fn=%2Fdocuments%2FNational_Lottery_Grant_Scheme%2FNational_Lottery_Grant_Main_Page.htm

⁷⁸ DCYA was not in a position to operate a National Lottery Scheme in 2015 and 2016.

⁷⁹ Average grant amount of €3,900 per project.

⁸⁰ See more about grants at <http://health.gov.ie/about-us/national-lottery-grant-scheme/>

⁸¹ See more about funding at <http://health.gov.ie/wp-content/uploads/2016/01/2016-National-Lottery-Grants-Information-Leaflet.pdf>

Procedures and criteria for selection

Department of Children and Youth Affairs⁸² process of review of the applications is described in the published leaflet.⁸³ An acknowledgement of receipt is issued from the Department on receipt of a fully completed application form. A fully completed application is then assessed and evaluated by the Department and forwarded to the Minister for final consideration. The Minister, taking account of the details of the application and the internal Departmental assessment, makes the final decision. When the application is approved a formal letter of approval is issued. The available application forms⁸⁴ nor the leaflet do not list specific criteria for the allocation of funds, rather they only list the administrative requirements: a copy of organization's recent audited accounts, annual report and/or bank statement.

Department of Health⁸⁵ has the following procedure: upon receipt of a completed application form, it is registered by the Finance Unit and referred to the relevant Service Division within the Department for their assessment, evaluation and recommendation of the proposed project in consultation with the Health Service Executive (HSE). The Minister makes final decision. The application form⁸⁶ states that all projects must have a specific health related benefit. In addition, administrative requirements include providing a copy of their organizations recent audited accounts, annual report and/or bank statement. A valid Tax Clearance Certificate is required for grants over 10,000 EUR.

7.5. ESTONIA

7.5.1. LEGAL FRAMEWORK

The Estonian Civil Society Development Concept – EKAK is a unique policy document relating to Government-CSO cooperation. Concept was adopted by Estonian Parliament in 2002. The initiative was launched and coordinated by Network of Estonian NGOs (NENO). EKAK recognizes the different roles of the public sector and the non-profit sector which complement each other, and the co-operation principles and values in developing and implementing public policies and building up the civil society. The main goal and purpose for the adoption of the document was to “phrase the basis of partnership between non-profit associations and the public sector, and a framework to promote civic initiative and strengthen democracy in Estonia.”⁸⁷

Estonian CSOs receive funding from several sources on national (ministries, lottery proceeds, national foundations) and on local level. In 2009 the Government approved concept of state financing, which outlines public funding issues based on analysis of existing practices.⁸⁸

The Ministry of the Interior supports the development of CSOs through the National Foundation of Civil Society (NFCS) which belongs to its area of government and the goal of which is to strengthen civil society. NFCS arranges calls for proposals, supports activities developing civil society organizations, and contributes to the international cooperation among CSOs. It is a major source of distributing funding from the lottery proceeds.

82 See more about procedure at http://www.dcy.gov.ie/viewdoc.asp?fn=%2Fdocuments%2FNational_Lottery_Grant_Scheme%2FNational_Lottery_Grant_Main_Page.htm

83 See leaflet at http://www.dcy.gov.ie/documents/lottery_grants_docs_2013/NationalLotteryInfoLeaflet2014.pdf

84 See application form at http://www.dcy.gov.ie/viewdoc.asp?fn=/documents/national_lottery_grant_scheme/NationalLotteryAppForm2014.doc

85 See more about procedure at <http://health.gov.ie/about-us/national-lottery-grant-scheme/>

86 See application form at http://health.gov.ie/wp-content/uploads/2016/03/2016Lottery_App_Form-Word.docx

87 The Estonian Civil Society Development Concept, available at: https://www.siseministeerium.ee/sites/default/files/dokumentid/Kodanikuyhiskond/estonian_civil_society_development_concept.pdf

88 See more information at <http://www.siseministeerium.ee/>

There are several regulations regarding public funding processes in Estonia. Some of the regulations are adopted based on a provision of a law covering a specific sector or area, while others have been adopted on the initiative of the competent ministry. These include rules for the preparation of calls, project appraisal and monitoring. The state increased the level of transparency and clarity improved the effectiveness of using public resources for funding associations by developing the Guidance document on financing associations in 2013 that was compiled by the PRAXIS Center for Policy Studies in cooperation with the working group on clarifying the funding of associations, coordinated by the Minister of Regional Affairs. The objective of this guidance document was to lay a groundwork for harmonizing the national practices and principles of funding associations at state and local government level. The funding system became more effective and transparent with this document. The accompanying sample documents are mainly aimed at the financing entities who wish to establish a system of funding or update an existing system.⁸⁹

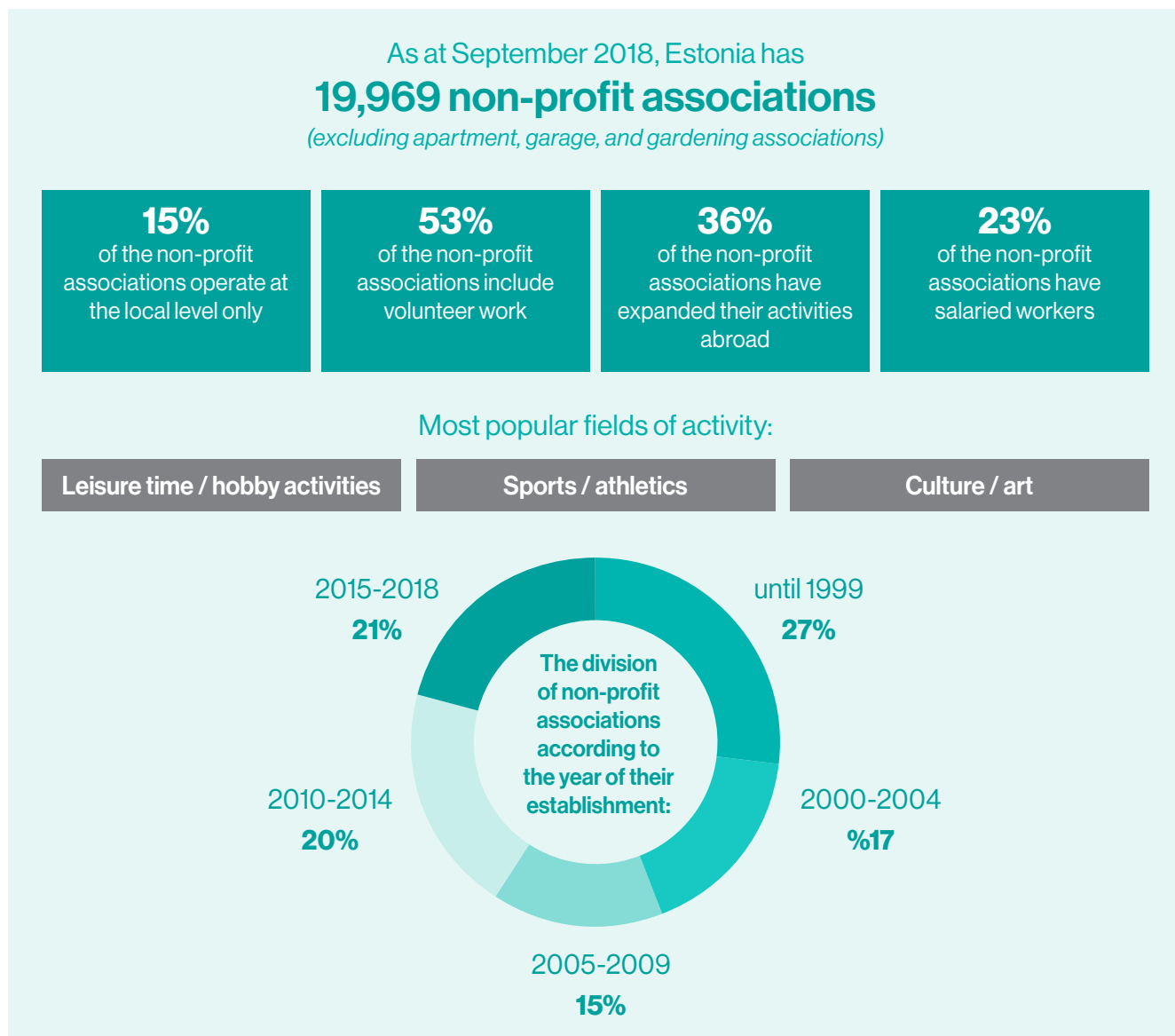
7.5.2. FUNDING MODEL

Estonia is the first among Baltic countries to start working on sustainable development of CSOs and elaboration of instruments aimed at establishing cooperation between the Government and the third sector. The strategic document EKAK has allowed a strategic approach for civil society development (as opposed to just doing random projects). As a result, Estonia has a functioning civil society and a sustainable nonprofit sector. Following up to EKAK the state adopted development plans to further the development of longer-term goals and ensure continued implementation of the activities.⁹⁰

⁸⁹ See more about Guidance at https://www.siseministeerium.ee/sites/default/files/elfinder/article_files/guidance_document.pdf

⁹⁰ The development plans are available at: <http://www.ngo.ee>

FIGURE 3: CSOS IN ESTONIA BY NUMBERS⁹¹



Country has achieved significant developments in all aspects of non-profit and civil society sustainability in recent years. Estonian CSOs successfully manage gaining support from both the public and business sectors. Available sources of CSO income include: state funding (on both national and local level), donations

from domestic and foreign individuals and legal entities, income from lotteries, charity events or collections, membership fees, funding from corporate foundations and/or endowment fund, income from economic activities, international and EU funding mechanisms. CSOs are active in all various fields. Many of them

⁹¹ See more information at https://www.siseministerium.ee/sites/default/files/dokumendid/Kodanikuühiskond/estonian_ngos_2018.pdf

are engaged in culture, social services, sport, health and environment, civic rights, education and local development; fewer in philanthropy, policy analysis and etc. Several CSOs are functioning as business and professional associations. Similarly, to other countries, Estonian CSOs perform as service providers, advocacy groups, grant makers, societies, think tanks, institutes, clubs, networks and umbrella organizations.⁹²

In Estonia the Parliament plays a key role in the implementation and monitoring process, as the Parliament adopted policy documents. The Parliament will usually have every two-year hearing at which progress reports are presented; the main responsibility for implementation and monitoring lies at the governmental level. The coordination and implementation of the civil society development plan is the responsibility of the Ministry of the Interior. Currently, Ministry of Interior has three strategic partners: NENO - for working on activities related to the civil society development, Estonian Village Movement - working on volunteerism and Estonian Social Enterprises Network - for working on social entrepreneurship.

Estonia has a diverse system of funding of CSOs, which uses various funding resources and distributes funds through a number of different channels. Public resources for funding of CSOs include funds from the central state budget and lottery funds. According to legislation all resources for public funding of CSOs on the national level go through the state budget. Available state resources include:

Regional development program

Gambling Tab Board - the Ministry of Education and Research, the Ministry of Culture and the Ministry of Social Affairs allocated grants to support small projects

Ministry of Education and Research supported the activities of youth associations and allocated annual grants based on the Youth Work Act

Cultural Endowment of Estonia and its structures in different counties

Environmental Investment Centre

Integration Foundation

Rural Development Foundation

Estonian National Culture Foundation

County Development Centres- in order to consult CSOs active in rural areas, organize trainings and distribute information, CSO consultants are employed by these Centres

County developments funds were also available for CSOs

Local governments included the support of CSOs within their budget and it increased year by year

European Union Aid Programs.⁹³

According to the Guidelines for Funding Organizations, the public sector provides funds to CSOs under three different categories: 1) operating grants – to support an organization's activities and development in general to maintain or increase its capabilities; 2) project funding – for solving a particular problem or carrying out an activity through a one-time competition; 3) delegation of public services – an association or private enterprise offers a public service but the public sector retains control over the provision of the service. According to NENO's 2016 shadow report on CSO funding,⁹⁴ CSOs received between 60 and 100 million EUR annually from public

92 CSO Sustainability Index 2017; <https://www.fhi360.org/sites/default/files/media/documents/resource-civil-society-organization-2017-regional-report.PDF>

93 A Comparative Analysis of Civil Society Foundations and Funds - European Center for Not-for-Profit Law, http://ccc-tck.org.ua/storage/books/eng_comparative_analysis_on_civil_society_funds_2012.pdf

94 See report at <https://heakodanik.ee/sites/default/files/files/variraport.pdf>

funds based on 2013–2015 data. The report found these funds are often allocated through unclear funding criteria and project selection procedures. One of the most problematic areas in CSO funding in Estonia is the allocation of the so-called roof money (katuseraha). The 'roof money' is a line in the state budget that holds approximately € 6 million annually and is allocated to CSOs, private enterprises, and government agencies by the fractions of the Parliament without any project competitions or review of development or action plans. The allocation of 'roof money' has been criticized on numerous occasions by experts and civil society as the process is not transparent and is prone to corruption.

Public funding is increasingly distributed through procurements, rather than grant-funded projects. While procurements allow CSOs more flexibility in how they spend their funds, they generally put more emphasis on price than the quality of services. In addition, procurements often offer too little funding to allow CSOs to develop their services further. CSOs have advocated for changes in the public funding system, such as increasing the transparency of the decision-making process for funds collected through the gambling tax. However, such changes are not high priorities for the government.⁹⁵

In 2017, the Center for Applied Social Sciences, in cooperation with NENO and with funding from the Ministry of Interior, put together an online database with information on the public funding available to CSOs.⁹⁶ The database, which is based on information from government agencies and CSOs' annual reports, is a work in progress, but the platform provides useful information on the current funding situation for CSOs, donors, and other stakeholders, and confirms that public funding constitutes the main source of CSO funding.⁹⁷

7.5.3. SPECIFIC EXAMPLE: INNOVATIVE APPROACH TO FUNDING CIVIL SOCIETY - SOCIAL IMPACT BOND INVESTMENT MODEL

By 2015, more than 30 Social impact bonds (SIB) have been launched across the globe, mostly in the UK, the United States and Australia. Estonian example includes an innovative approach in funding civil society through public structures. SIBs are a novel investment model aimed at increasing the effectiveness of solutions to social issues. The bond model enables the government to use private support in testing alternative services and, if successful, implementing these instead of services provided by the government. At its core is an agreement between the three parties – private investors, government and third sector organization(s) – to engage private investment in solving a specific social issue. The issue will then be tackled by a capable CSO that can provide an innovative and effective approach.⁹⁸ The EU sees the model as an opportunity to approach a high-potential capital market with an innovative financing model.

Estonian project is one of the most elaborated and includes a feasibility and impact study that offers specific details for policy-makers to decide whether this might be an appropriate pilot in their country. Estonian Ministry of Interior was leading a feasibility study on the possibility of introducing public SIB to strengthen the link between CSOs and private investors on specific social issues.

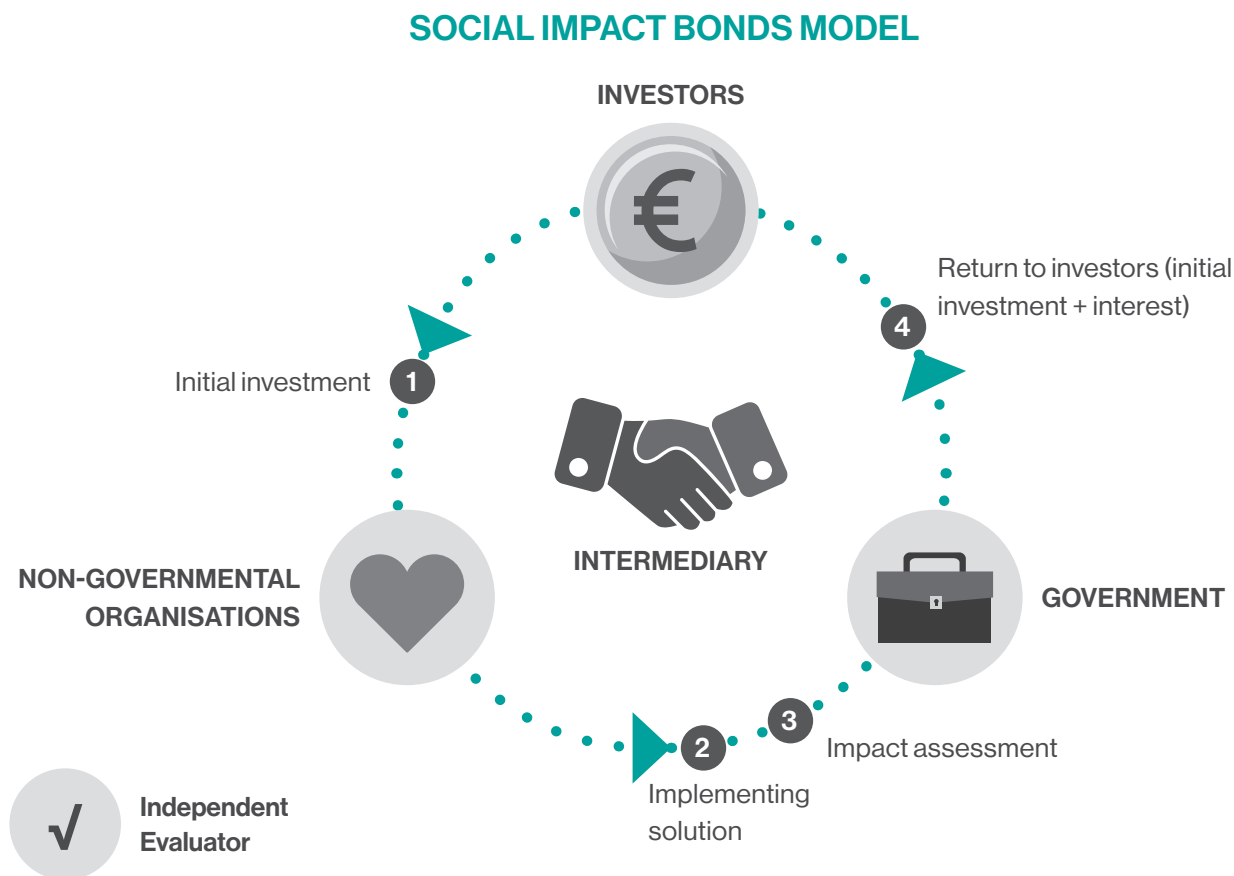
⁹⁵ CSO Sustainability Index 2017; <https://www.fhi360.org/sites/default/files/media/documents/resource-civil-society-organization-2017-regional-report.PDF>

⁹⁶ The financing data and visualization have been made available on the website <http://mtyraha.heakodanik.ee>.

⁹⁷ Ibid.

⁹⁸ See more information at <https://www.heategu.ee/sib-eng>

FIGURE 4: HOW SIB MODEL WORKS⁹⁹



According to the Good Deed Foundation, if the proposed solution yields better results than the existing public service during an agreed period of time, the government shall reimburse the investment to the investor with interest.¹⁰⁰ The Good Deed Foundation, together with the Estonian Social Enterprise Network and the Praxis Centre for Policy Studies, released a study in 2015 underlining the positive impact that the measure could have. The study found that “the Estonian state, investors and CSOs are ready for testing social impact bonds as a novel performance-based financing model”. The government also accepted a proposal by

civil society to create a mechanism for people to donate their tax return to CSOs of their choosing.¹⁰¹

An important condition for the successful launch of social impact bonds is the parties’ interest and readiness to test the model. Firstly, state authorities should be motivated to seek opportunities for solving issues in their field of administration more effectively and reduce the cost base. Secondly, investors’ interest in investing into social impact is necessary. And thirdly, capable third-sector organizations with motivation to develop and offer new services need to be in place.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ See more at <https://media.voog.com/0000/0037/7761/files/Feasibility%20study%20on%20implementing%20Social%20Impact%20Bonds%20in%20Estonia%2C%20Good%20Deed%20Foundation%202015.pdf>

The private sector's role in implementing social impact bonds is to provide primary financing for the launch of a novel service aimed at solving a social problem. For example, the European Venture Philanthropy Association (EVPA) is an umbrella organization for foundations that invest into social enterprises to achieve double profits - social impact and financial revenue. According to EVPA the sector has attracted 5 billion euros in investments since it came into being. In the global arena, these investors include charity and/ or impact investment funds, state-controlled funds, private persons and institutional investors. The range of investors is the same for social impact bonds.¹⁰²

The role of CSOs in the social impact bonds model is to develop and implement a novel intervention. This provides an opportunity for the third sector to show itself as a capable partner for the state as well as for investors and gain long-term financing for its services.

The structure and framework of social impact bonds depends on the laws of the state concerned, as well as the needs and preferences of participants of the specific project. In international practice, three main structures have been employed for social impact bonds. Twenty-five per cent (25%) of all projects use the "project leader model" in which one party assumes leadership (and responsibility for ensuring effectiveness), raises investment capital and concludes agreements with all parties. This structure also enables "subcontracting" of services from several providers. In 33% of the cases, representatives of the public sector, investors and service providers conclude a trilateral agreement without intermediaries, leaving the service provider solely responsible for ensuring effectiveness. In 42% of cases, investors founded a special purpose vehicle (SPV) to implement a project, which then concludes an agreement with the service provider and the party responsible for effectiveness.¹⁰³

Steps for launching the social impact bond model project include the following:

state needs to announce a public procurement and conclude a performance-based agreement with the successful bidder;

state will sign a contract with the intermediary that will be selected through the public procurement process;

intermediary would then conclude:

- loan agreements with investors providing initial investment for the project,
- contracts with the service provider(s) who would carry out the agreed-upon intervention,
- jointly with the state, an agreement with an independent evaluator to assess whether the results have been achieved.

Based on Estonian example, it is important to involve responsible state agencies at an early stage of the (pilot) project and ensure the interest of high-level officials in order to ensure their readiness to work towards novel intervention and financing models.

In the longer term, it is useful to have multi-year planning allowed by the state. If the state can assume obligations for up to four consecutive fiscal years, it could limit the implementation of longer-term and larger-scale projects. There is a need to incite potential investors' awareness of impact investment through effective communication and dialogue, which is currently rather low.

As for potential service providers (CSOs), they should improve capability for implementing evidence-based practices. It is also necessary to create a line-up of organizations able to assume the role of intermediary and coordinator in the development of future projects.

102 The EVPA Survey 2014 at <http://evpa.eu.com/publication/european-venture-philanthropy-and-social-investment-20132014-the-evpa-survey/>

103 Bridges Ventures (Oct 2014). Choosing Social Impact Bonds: A Practitioner's Guide, <http://www.bridgesventures.com/wp-content/uploads/2014/12/SIB-report-DPS.pdf>

The feasibility study and cost-benefit assessment provided a strong base for launching the first social impact bonds project in Estonia. The study concluded these are positive measures which would incentivize private support

for CSOs. A major drawback of these models is that they tend to be directed mostly to CSOs providing services, rather than organizations working on advocacy.¹⁰⁴

TABLE 3: COMPARING MAIN FEATURES OF PUBLIC FUNDING

Country:	CROATIA	GERMANY	CZECH REPUBLIC	IRELAND	ESTONIA
Main policy documents	National Strategy for Creating an Enabling Environment for the Development of Civil Society	Strategy on government-civil society cooperation in post-2015 development policy (only for development aid for outside Germany)	Government Principles for Providing Funding from the State Budget of the Czech Republic to non-state non-profit organizations by central state administration bodies	Charity Regulator's Strategy	Civil Society Development Concept – EKAK
Key institution(s)	Government's Office for Cooperation with CSOs	Federal and state ministries of social and health services	Government ministries, Government Council for Non-Governmental Non-Profit Organisations, regional governments	Government ministries, Charity Regulator	Parliament, Ministry of Interior
Funding model main feature	Decentralized public funding with strong coordination, also specialized body (National Foundation)	Decentralized service provision contracting	Decentralized public funding, also using structures outside government (Foundations)	Decentralized public funding through ministries	Decentralized public funding through ministries and specialized body (National Foundation)
Main sources of public funding	Ministry's budget, lottery proceeds	Federal and state budgets	Ministry's budget, regional governments	Lottery proceeds, state budget	State budget, local budgets
Main types of funds provided to CSOs	Both project and institutional support; both short and long-term programs	Service provision contracting; project support	Both project and institutional support; subsidies	Both project and institutional support; subsidies	Both project and institutional support; both short and long-term programs

¹⁰⁴ See more information at <https://www.heategu.ee/sib-eng>

8. Recommendations

This section presents a coherent set of recommendations for developing an efficient model of public funding of CSOs based on the lessons learned from the findings and available examples. These are general recommendations that outline the proposed model and suggest the use of potential instruments and mechanisms for funding of CSOs.

Strategic approach and framework: Establishing public funding of CSOs was part of a more general strategy for supporting civil society development and its relationship with the government and citizens. In order to develop efficient public funding models, there should be predetermined and carefully outlined goals and policies as to what the funding aims to achieve; and clearly defined process for the distribution, monitoring, reporting and evaluation of funds and tailored to the specific objectives of the funding. In this regard, it is very important to adopt regulatory framework which is developed in line with the strategic approach and existing strategies of some specific areas such as health, social protection, culture, environment that public authorities aim to support and prioritize.

Variety of channels and sources: Public funding is an important source for financing CSOs in all the countries examined in this paper. In order to provide substantial resources to CSOs, public authorities should develop various channels (e.g. central government ministries, specific funds and foundations, innovative mechanisms) and sources (state budget lines, lottery proceeds for public funding while taking into considerations specific conditions of a country).

General principles: Certain underlying principles shared in this report are common to different systems and should be carefully followed by public authorities in developing public funding mechanisms (e.g. the independence of the sector, transparent and accountable process for allocating and spending funds; fair and equal treatment of all CSOs, proportionate in the processes for distribution and monitoring the use of funds).

Regulations: Allocation of state resources is conducted based on regulations and/or codes which prescribe the main principles of public funding and regulate different aspects of the process. Having a single set of procedural rules is useful and efficient in terms of clarifying the process for both the public authorities and CSOs. Regulations can cover a range of issues, including but not limited to:

Main principles

Length of funding (short-term, one year or multi-year funding)

Types of support (financial, in-kind support etc.)

Eligibility criteria (whether applicants must have a specific legal status etc.)

Rules for publicizing the tender

Reporting details and forms

The evaluation and reporting process

Engagement of stakeholders: Funding programs and strategic plans should be developed in consultation with stakeholders, namely CSOs. With the contribution of CSOs and other stakeholders, direct needs of the beneficiaries of the funding, limitations, expectations can be determined and considered in developing funding procedures and plans.

Transparency: A transparent funding process by setting clear criteria which should be developed to govern different stages of the funding process is necessary. Such criteria must be developed prior to allocating funds and should be easily available to CSOs and the general public. The call for proposal, the results of the selection process and the results of the project or program reports and evaluation should be widely published through various channels.

Various forms of funding: Short-term funding should be considered as a means of facilitating inclusion of larger number CSOs and to help the government to monitor the effectiveness of the process and patterns within the sector more easily. In addition, longer-term (multi-year) grants should be made available to encourage and support more complex ongoing programs.

Moreover, it would be useful to introduce schemes which provide institutional funding for the development of the sector to complement existing project-funding schemes. Institutional funding helps building a strong civil society that can ensure more effective policy implementation and play a significant role in addressing community needs. However, such schemes can be hard to develop and require comprehensive planning. It is possible to develop a balanced combination of targeted project grants, which respond to existing needs of citizens for CSOs' activities and services, and grants for institutional support, which contribute to the financial sustainability and long-term development programs and of CSOs.

Objective and clear criteria: The decision-making process should be based on objective criteria which also eliminate having potential conflicts of interest. There should be clearly prescribed and enforced contracting and payment procedures. Reporting requirements for CSOs should be clear and proportionate, depending on the size and scope of the program and projects.

Evaluations and improvements: Responsible funding bodies should conduct reporting and evaluation of the project or program results to assess and develop recommendations for improvement of subsequent projects to anticipate possible future challenges and risks.

Increasing knowledge and strengthening coordination of public officials: There is need to have qualified public officials that understand the purpose and importance of the funding process as well as the technicalities of the procedure. Public authorities should ensure increasing the capacity of public officials who are responsible for designing contracting procedures, carrying out, evaluating and monitoring allocation of funds. Public officials should be also informed about the

importance of participation of CSOs to the development of public funding mechanisms. In addition, guidelines for coordination and development which include step-by-step information about procedures should be prepared for public officials to assist them during the process.

8.1. ROADMAP FOR DEVELOPING PUBLIC FUNDING

Step 1 - Strategic Decision

Public authorities should map out the existing mechanisms and practices in order to analyse the needs, opportunities and challenges. Based on this analysis, a strategic goal corresponding with the expected achievements of the state should be determined with the aim of supporting civil society sector and strengthening relationship with the CSOs.

Step 2 - Framework Decision

Considering the strategic decision, public authorities should decide which form of public funding is most suitable for the country. Based on this form, it is significant to determine the profile of distributors/channels of funds (e.g. central government ministries, specific funds and foundations, other bodies).

Step 3 - Regulatory Decision

Public authorities can adopt a framework that will guide the overall process of public funding. The framework can cover general principles (e.g. code of conduct for cooperation), overarching legislation (e.g. NGO Law) and/or institutional set up (e.g. specific government bodies tasked to coordinate public funding or departments within existing body).

Step 4 - Procedural Decision

It is important to clearly elaborate procedural rules and details of public funding on all levels and through all existing channels, without leaving space for non-transparent decision-making. Rules and procedures should be unified to apply for various institutions involved in funding, and should include clearly prescribed and enforced contracting and payment procedures.

Step 5 - Priorities Decision

It is recommended to decide on priorities of public funding for a specific period of time (e.g. annually or next 3 years) based on the strategic goals and program documents from various sectors (e.g. health, education, sport, youth, etc.). Identification of priorities gives clear insight of what topics the government is willing to support through public funding.

Step 6 - Capacity Building

Public authorities should plan to increase the capacity of public officials and CSOs to be involved in public funding procedures for smooth implementation, monitoring, evaluation of the funds by developing manuals and guidelines, by providing training opportunities and sharing good practices among institutions.

Step 7 - Coordination

A specific body can be tasked to coordinate all partners involved in procedures. It is recommended to develop an internal system for tracking, reporting and assessment of public funding process. Annual internal reporting by institutions that allocate fundings and manage the system and external reporting by the CSOs which receive fundings can be applied. Reporting requirements for CSOs involved in the process should be clear and proportionate to size and scope of funded projects.

Step 8 - Pilot Implementation

Public authorities are recommended to start with a pilot implementation in order to sample the public funding mechanism (e.g. in one institution only that has the biggest capacity to implement the pilot), to monitor its functioning on practice, as well as to receive feedbacks, identify shortcomings and revise the system for better functioning.

Step 9 - Monitoring and Evaluation

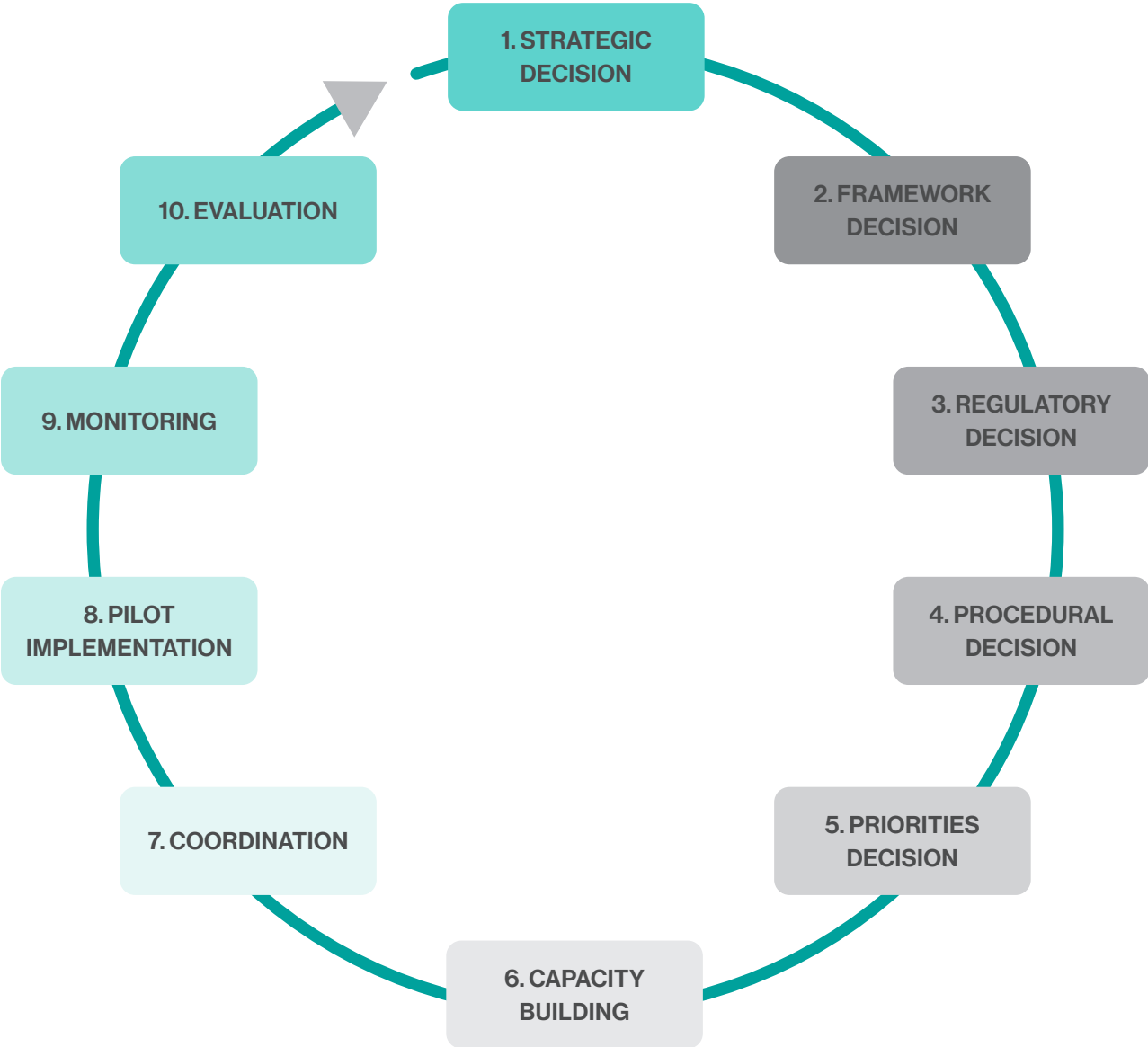
It is recommended to assess the performance of the public funding mechanism systematically over time. It involves the ongoing collection and review of data to provide public authorities and CSOs with indications of progress within the public funding mechanism plans and towards its objectives.

Step 10 - Enhancement

After assessing and reporting the initial implementation of the public funding mechanism, public authorities should evaluate the process by providing more in-depth, objective assessments of the relevance, efficiency, effectiveness, impact and sustainability of mechanism, based on the strategic goals and objectives defined in the Step 1.

The common principle of all these steps is participation. As a general principle it is important that CSOs are engaged and consulted at the various stages of the process and all relevant information is accessible online. CSOs can bring the experience from the groundwork to improve funding priorities, procedures and planning.

FIGURE 5: CYCLE OF STEPS FOR ROAD MAP





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