

Estonian Ministry of the Interior

CONCEPT FOR NATIONAL FOUNDATION OF CIVIL SOCIETY

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## SUMMARY

The goal of the National Foundation of Civil Society (NFCS) is to increase the capacity of NGOs in developing civil society and shaping an environment that would favour civic action. Establishment of the Foundation no later than by 01 January 2008 and allocation of 20 million Estonian kroons (approx. 1.3 million Euros) annually from the state budget are included in the chapter „Civil society and statehood” of the Government Coalition Programme for 2007-2011.

The Concept for NFCS presents the basis and principles of action for establishing the Foundation. According to an agreement, the concept was compiled by the Ministry of the Interior and the Network of Estonian Nonprofit Organizations (NENO) who through meetings, discussions and Internet consultations involved also other civil society organisations. In compiling the concept, the development of civil society and researches on NGO funding in Estonia and abroad, experiences of similar foundations in other countries and the present situation of financing NGOs in Estonia were also taken into consideration.

The aim of the involvement process implemented in order to prepare the Concept was to find out the expectations of NGOs and the shortcomings of present funding system. By solving these issues, the NFCS can have the strongest long-term influence on the development of Estonian civil society.

At the moment mainly various thematic financial resources of Estonia and the European Union are accessible to Estonian NGOs that need not be duplicated by the NFCS. Problems proceed from (mainly short-term) dependence on project-based funding that limits the development of NGOs and the capacity to set and achieve long-term goals. Activities of NGOs to shape an environment favouring civic action and partnership with public authorities are randomly and poorly financed, although the goals are set in the Estonian Civil Society Development Concept (EKAK) adopted by the Estonian Parliament in 2002: gathering and representing the interests of citizens; involving citizens in its activities; building the capacity of non-profit organisations; increasing the capacity to provide public services; improving social activity; etc.

**In order to achieve its goal in capacity building to develop civil society and shape an environment favouring civic action, the focuses of the NFCS are the following:**

1. Institutional development of non-profit sector both on national and local level and the support of organisations and networks in implementing the Estonian Civil Society Development Concept in order to increase the capacity of NGOs and become a strong partner for public sector institutions.
2. Implementation of innovative civil society programmes and projects: researches, development projects, application of new knowledge, gathering and distribution of experiences in international development of civil society, initiating of cooperation structures needed for NGOs.

Proceeding from its goal and focuses, the NFCS is a grant-making as well as operational foundation initiating new programmes and projects. Regarding grants both projects and activities are implemented, contractual works and services are ordered.

In order to guarantee the elaboration of programmes proceeding from the Foundation's focus, the integrated conditions and criteria for grants and supervision on the use of grants, the transparency of decision making processes and reporting, the utmost independence, the democratic decision-making mechanism and participation of NGOs, and as a result of involvement and consultation processes the NFCS is established as an independent legal entity – a foundation.

The NFCS is managed by a Supervisory Board which according to a proposal would consist of the 3 members appointed by the Minister for Regional Affairs, two members appointed by the

Parliament and 5 members appointed by the Government Commission<sup>1</sup> which was established to implement and evaluate the fulfillment of the action plans of the Estonian Civil Society Development Concept and develop cooperation between the civil society and the state. The NFCS shall employ 3-4 persons and experts evaluating the project applications whose work would be remunerated. Administrative costs of the NFCS comprise 10-15 % of the Foundation's budget.

The NFCS is working by following the principles of transparency and openness. Specific programmes proceeding from the annual goal and focuses as well as the amount of funds allocated will be determined by the Supervisory Board of the NFCS. Procedures for announcing and informing about the grants as well as clear conditions for compiling an application will be established. The decisions of grant allocations will be made public and the applicants whose projects are denied will receive an explanation regarding the negative decision. Procedures of complaint will be established to renegotiate decisions.

Clear and specific conditions will be created for NGOs and other applicants financed by the NFCS regarding their previous funding and activities to prove their need for support, capacity to implement the planned projects, professional skills, openness and transparency with regard to the activities as well as the purposeful use of financial resources. NGOs supported by the NFCS must operate in public interest and follow the Code of Ethics for Estonian non-profit organisations.

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<sup>1</sup> Government of the Republic of Estonia, Order No. 380 of 16 August 2007

## INTRODUCTION

### Field of activity of the Concept

This Concept presents the principles compiled by NGOs in summer 2007 and included in the Government Programme for 2007-2011 with regard to the establishment of the National Foundation of Civil Society (NFCS) and support of Estonian civil society.

Funding is a form of cooperation based on the mutual interest of public authorities and NGOs, and the understanding of their complementary role towards each other in a democratic society in order to guarantee freedom, rights and justice, internal and external security, social success and general profit as well as endurance of the nation and culture.

Funding of NGO activities is a problem that limits the capacity of non-profit organisations to fulfil their role in a society with the greatest general benefit. Together with self-earned money and support from the private sector, public authorities are one of the three sources providing funding for NGO activities. By strengthening civil society and non-profit organisations, as a result of its development the NFCS - mainly public sector instrument for NGO funding –enables to involve also public sector resources.

### Historical background (2001 - 2007)

Public funding of NGOs has been under discussion among NGO representatives and politicians for years. The problem has occurred from the lack of transparency of the public funding schemes and insufficient systematic approach and control regarding the purposeful and efficient use of the allocated funds. Political influence on the decisions can be distinguished. During the processing of a new draft of the Gambling Tax Act in 2001 discussions were not held with NGOs nor were their proposals taken into consideration. Based on the proposals from NGOs, in summer 2001 Katrin Enno, Mall Hellam, Agu Laius and Daimar Liiv compiled the idea of the National Foundation of Civil Society, presented by the Estonian NGO Roundtable to public institutions for opinion.

The idea presented in 2001 foresaw the establishment of a legal body of public law similar to the Cultural Endowment of Estonia that would be financed by gambling tax (at that time in amount of approximately 160 million Estonian kroons per year). The idea grew from the fact that the funding system functioning through the Gambling Tax Board had many shortcomings (vague priorities, unclear roles of the decision-makers, unspecified requirements for applicants, chaotic reporting and supervision, etc.) and it needed some changes. The given shortcomings are presented in the audit report „Support paid out of gambling tax”<sup>2</sup> of the National Audit Office of Estonia. The idea reached the financial commission of the Estonian Parliament but due to the collapse of the coalition, discussions ended at the beginning of 2002.

In 2005 an opposition party Res Publica amended the goals, fields of funding and target groups of the four years old draft and submitted it to the Parliament for discussion<sup>3</sup> without previous consultation with any NGOs or other political parties. The draft was turned down at the first reading in January 2006<sup>4</sup>.

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<sup>2</sup> Audit report No. 2-5/04/24, 7.05.2004 of National Audit Office of Estonia, “Support paid out of gambling tax” [http://www.riigikontroll.ee/fake\\_index.php?lang=et&uri=%2Faudit.php%3Faudit%3D325](http://www.riigikontroll.ee/fake_index.php?lang=et&uri=%2Faudit.php%3Faudit%3D325)

<sup>3</sup> Draft of the National Foundation of Civil Society Act (697 SE I), <http://web.riigikogu.ee/ems/saros-bin/mgetdoc?login=proov&password=&op=ems&system=ems&server=ragne11&itemid=051670027>

<sup>4</sup> Parliament shorthand report. First reading of the draft of the National Foundation of Civil Society Act (697 SE), [http://web.riigikogu.ee/ems/stenograms/2006/01/t06011201-02.html#P55\\_8143](http://web.riigikogu.ee/ems/stenograms/2006/01/t06011201-02.html#P55_8143)

The proposal for establishing the Foundation was presented again before the parliamentary elections of 2007 in the Manifest of Estonian Non-governmental Organizations<sup>5</sup> compiled at the initiative of the Network of Estonian Nonprofit Organizations and it was included in the coalition agreement of the newly elected Government.

In the chapter „Civil society and statehood” of the Government Coalition Programme<sup>6</sup>, the Government finds it important for the development of state to strengthen civil society considering NGOs to be its partners in fostering Estonia and promising an active dialogue with the NGOs functioning on state level.

Among other, the Government Coalition undertakes the following obligations in the programme:

1) implements the viewpoints of the “Estonian Civil Society Development Concept“ passed in Parliament; [...]

5) establishes the National Foundation of Civil Society no later than by 01 January 2008 and annually allocates 20 million Estonian kroons from the state budget to support civil society. Division of grants will be delegated to umbrella organisations of NGOs.

### **Need for public funding of NGOs**

NGO funding as a form of cooperation with public authorities (just like the whole topic of civil society) has caught more attention of social scientists since the 1990s. The phenomenon is certainly older and examples of this can be found already from the beginning of the 19th century.

The need to finance civic society organisations from public funds proceeds from the role of NGOs in the society<sup>7</sup>. In the most general viewpoint the roles are divided into two: serving roles and expressive roles. The first roles include direct service providing in various fields (health care, education, social welfare, etc.); through the second roles the expression of cultural, mental, political and professional values, interests and beliefs of citizens (for example social movements, advocacy organisations, also recreation groups) takes place. Which role is dominating in a society depends on the existing political system, administrative arrangement as well as traditions<sup>8</sup>.

The interest of Government in supporting civic action is related to the social benefit it would provide. Although there are different viewpoints and practices on how the tasks for providing services should be divided between the public, business and non-profit sector, civil society organisations are mostly recognised as the finders and pointers of the so far unsatisfied needs, innovators who reach more difficult target groups and very often the ones with the greatest competence. Compared to the business sector, an advantage of NGOs is the possibility to focus on the activities that do not gain financial profit; compared to the public sector the advantages are closeness to target groups and possibility to react in a faster and more flexible way, sometimes also more economically.

Through the role of advocacy NGOs guarantee that the interests of and knowledge on various groups (especially the ones in unfavourable situation) reach public debates and enable increasing democracy and social security, improving the quality and legitimacy of decisions as well as the sense of citizenry in people. Organisations that concentrate on recreation (amateur performances,

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<sup>5</sup> Manifest of Estonian Non-governmental organizations, [www.ngo.ee/manifest](http://www.ngo.ee/manifest)

<sup>6</sup> Government Coalition Programme for 2007 – 2011, <http://www.valitsus.ee/?id=1307>

<sup>7</sup> At this point the focus is only on the role of NGOs in democratic societies.

<sup>8</sup> Traditionally in most countries the serving function of organisations is dominating, while in the regions closer to Estonia - in Scandinavia and Eastern and Central Europe - the expressive function is prevailing (see: Salamon, Sokolowski, List “Global civil society, vol. 2: Dimensions of the nonprofit sector” (2004), p. 23-29). There are different reasons for both regions. Central and Eastern Europe are influenced by the Soviet regime where organisations could operate only in a limited area mostly as hobby clubs; the present development of NGOs was initiated at the end of the 1980s as a movement of freedom (at the moment the serving function of NGOs in these countries is on the upgrade). The welfare state model of Scandinavia has decreased the need for the serving function of NGOs and the strong civil society of these countries is focused on the expressive function.

sports, handicraft, etc.) enrich the lives of participants and communities but also contribute to the vitality of culture and society. All the mentioned activities increase social capital which on the other hand increases the welfare of a country<sup>9</sup>.

The goal of advocacy organisations and networks is to protect the interests of a certain social group. Organisations often criticize state policies, protest against draft laws or mobilize against the activities of Government. Why should Government support its critics? The most important reason is the secure feeling of Government that its constituency is satisfied with the policies made. Giving people an opportunity to participate in and influence the decision-making processes, Government can anticipate possible dissatisfaction in a society. On the European Union level, consultations with interest groups are considered to be an inseparable part of good governance and all the attempts of the Member States to apply legislation should be based on social dialogue.<sup>10</sup>

The interest of NGOs towards public funding is mainly based on the need to guarantee stable financing in order to reach the goals of NGOs, initiate and support necessary activities and cover administrative costs of NGOs. It is important for both NGOs and public authorities to pay attention to the preservation of the principle of independence of civil society organisations.<sup>11</sup>

In order to describe the public funding of Estonian NGOs, the Ministry of the Interior has gathered twice the data on funds allocated to NGOs from the budgets of different Ministries. For the first time the data was collected in 2001 regarding funding in 1998-2000. According to the research:

1. The funding of NGO activities is lacking goals that would take into consideration national priorities (tasks of ministries).
2. The existing practice on funding cannot fulfil the financial goals.
3. Joint regulation for NGO funding is missing on governmental level.
4. Assessment of success and efficiency of the allocations is basically missing.
5. Ministries are lacking the overview of funding by different fields of activities.
6. Ministries do not practice co-financing of different fields of activities, on the contrary – duplications occur.
7. Data is missing regarding the goals of ministries and the goals set for funding.

Since the Government did not plan any actions on the basis of the research results, additional data was gathered in 2004 to update the results. The second research basically gave the same outcome.<sup>12</sup>

Government policy and the attitude towards financial relations with NGOs mainly depend on the role of NGOs in a developing civil society and the tasks of public sector delegated to the nonprofit sector. Financial support can be one part of the Government policy expressing the viewpoint that NGOs are partners of public authorities in order to reach significant political and social goals.<sup>13</sup> Usually it is accompanied by a thorough system for supporting the nonprofit sector based on legislation, some government policy document or a bilateral agreement.

In elaborating the financial system of NGOs, Government must consider the explanations, principles and preconditions of the system. What is the role of NGOs in the society? What role should they play according to the Government? What roles and activities should be financed by the state and why?

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<sup>9</sup> See more thorough approach to the relations of social capital with the mentioned indicators in the publication by David Halpern entitled "Social capital" (Polity Press 2005)

<sup>10</sup> Nilda Bullain and Radost Toftisova, "A Comparative Analysis of European Policies and Practices of NGO-Government Cooperation", The International Journal of Not-for-Profit Law, Volume 7, Issue 4, September 2005 [http://www.icnl.org/knowledge/ijnl/vol7iss4/art\\_1.htm](http://www.icnl.org/knowledge/ijnl/vol7iss4/art_1.htm)

<sup>11</sup> The specific content and mechanisms of this concept may differ by the functions (serving or expressive) and activities (for example, initiating or reacting advocacy) of NGOs, but in principle the goals, activities, expected results, evaluation and reporting are agreed in public funding (it may be the only source of income for an NGO) but the NGO is independent in its management and decision-making.

<sup>12</sup> Public funding of NGOs in 1998-2000 (2001). Public funding of NGOs in 2001-2003 (2004). Researches. Ministry of the Interior: Dept. of Local Government <http://www.siseministeerium.ee/?id=6892>

<sup>13</sup> Nilda Bullain and Radost Toftisova, "A Comparative Analysis of European Policies and Practices of NGO-Government Cooperation", The International Journal of Not-for-Profit Law, Volume 7, Issue 4, September 2005 [http://www.icnl.org/knowledge/ijnl/vol7iss4/art\\_1.htm](http://www.icnl.org/knowledge/ijnl/vol7iss4/art_1.htm)

The Concept for the National Foundation of Civil Society proceeds from the Estonian Civil Society Development Concept (EKAK)<sup>14</sup> that is a strategy for developing civil society, adopted by the Estonian Parliament in 2002. In order to implement EKAK, the Government has adopted the Development Programme for Supporting Civic Initiative 2007–2010<sup>15</sup> (KATA). One goal of KATA is to support and finance NGOs systematically based on their knowledge and experiences. KATA will be implemented by ministries and the related costs will be foreseen and reserved in the budget of each ministry in amount of 33.62 million Estonian kroons in 2007 up to 51.15 million kroons in 2010.

At the same time the goals and priorities of EKAK and KATA provide also significant tasks for NGOs in order to be strong partners for public authorities. Achieving such readiness and capacity is impossible without purposeful resources.

### **Process of compiling the Concept**

According to a contract with the Ministry of the Interior (Contract No. 7.1-9-1/211 of 20 June 2007), the Network of Estonian Nonprofit Organizations compiled the Concept involving civil society organisations. The main actors were the Project Manager Agu Laius and the Executive Director Urmo Kübar. A work group was established to compile the concept consisting of Katrin Enno (Open Estonia Foundation), Kaja Kaur (Enterprise Estonia), Mikko Lagerspetz (University of Tallinn), Maarja Mändmaa (Chancellor, Ministry of Social Affairs until 01 August 2007, later the Director of AS Hoolekandeteenus), Tiit Riisalo (Expert on Financing, NENO) and Einike Uri (Ministry of the Interior).

In the course of compiling the concept previous researches and analyses on public funding of NGOs, related documents of the European Union, an according theoretical material that has been indicated in this paper were explored and the existing international experiences were analyzed.

Exchange of information and preparation of involvement plan were a part of elaborating the Concept. Work documents were put on the NENO website and interested parties were invited to present their viewpoints and submit proposals. Information was distributed through the NENO and civil society list, in cooperation with the State Chancellery of the Republic of Estonia an involvement process was started on the Internet at [www.osale.ee](http://www.osale.ee). An informative event introducing the initial data of the Concept was held in the University of Tallinn on 27 June. The main principles of the draft version of the Concept were discussed with NGO representatives on 2 August in Tartu. Meetings with representatives of the interested organisations were held: Estonian Chamber of Disabled People, Peipsi Center for Transboundary Cooperation, Union of Estonian Pensioners Societies, Good Deed Foundation, Estonian Non-formal Adult Education Association, Association of Estonian National Culture Societies, Estonian Chamber of Environmental Organisations, Foundation of Estonian NGO Roundtable, Estonian Fund for Nature, Cooperation Network of Estonian Women, Estonian National Youth Council, Estonian Village Movement Kodukant, Federation of Estonian Student Unions, Estonian Roundtable for Development Cooperation, Center for Policy Studies PRAXIS. Regional discussions and roundtables took place in Pärnu, Jõgeva and Harju counties.

The ideas of the new Foundation were introduced in the NGO Summer School of NENO, Narva roundtable meeting for local NGOs, within the framework of Summer Academy for students and representatives of environmental organisations and in a seminar entitled “Exercises on Adhocracy” for leaders of self-initiated art practices. Proposals were also made by individuals.

All the proposals made during the discussions and meetings are gathered in a table enclosed as Appendix 1 of the Concept.

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<sup>14</sup> Estonian Civil Society Development Concept: <http://www.siseministeerium.ee/?id=5642>

<sup>15</sup> Development Programme for Supporting Civic Initiative:  
[http://www.siseministeerium.ee/failid/KATA\\_2007\\_2010.pdf](http://www.siseministeerium.ee/failid/KATA_2007_2010.pdf)



After finishing the draft Concept, there were consultations with the Ministry of Finance, the Ministry of Environment and the Ministry of Education and Research to make additional amendments and corrections to the Concept.

## **ANALYSIS OF EXISTING SITUATION**

### **Public funding of NGOs: possibilities, problems, solutions**

Public funding is one of the three income sources for NGOs besides self-earned profit (including membership fees) and support from private sector. The scope of each source differs depending on the functions of an NGO, field of activity as well as the specific organization itself. Division between the three sources differs also significantly in different countries. The comparative research of the Johns Hopkins University on 34 countries indicates that public funding makes the average of 34 % of NGO income being the second most important source of income (self-earned profit 53 %, private sector 12 %). The picture looks different when comparing developed countries (meaning larger and stronger non-profit sector) with developing and transition countries. Regarding the first, government is the main funder (48 %, self-profit 45 %, private sector 7 %) while in developing and transition countries the percentage of self-profit is bigger (61 %, government 22 %, private sector 17 %)<sup>16</sup>. In Estonia such thorough statistics regarding the extent of NGO funding from various sources is missing<sup>17</sup>.

Direct governmental funding of NGOs can be arranged in three ways: support of projects, delegation of services and support of activities<sup>18</sup>. In the first case specific (usually short-term) activities of an NGO are supported, in the second case the provision of some services is delegated to an NGO covering all the related costs, and in the third case the activities and development of an organisation in general are financed. All three have a stable position in NGO funding but in practice the support of activities is not widespread. An overview of the European Center for Not-for-Profit Law (ECNL) entitled “Principles and practices in grant tendering”<sup>19</sup> mentions one reason: compared to others, such source of funding requires better professional skills of the funder in the given field of activity as well as better knowledge and understanding of civic action in general. Governmental institutions often lack such competence.

At the same time the support of projects and delegation of services alone cannot meet the need to increase the capacity of NGOs to fulfill its functions better and bring more profit to the society. In case of these (usually short-term) projects the domination of even smaller scale grants sets strict limits to the activities of NGOs and decreases their efficiency: instead of activities directed to long-term social changes they get caught in implementing fast and easily measured small projects with poor influence and sustainability (projects tend to support new activities instead of the ongoing) and sometimes also little necessity for the target group (organisations prefer activities that are easier to find funding to but are not always the most useful).

On organisational level the dependence on project funding means difficulties in making strategic plans (plans are made for the project period and possibilities to continue activities after the end of

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<sup>16</sup> Salamon, Sokolowski, List “Global civil society, vol. 2: Dimensions of the nonprofit sector” (2004), p. 30 jj. In Germany governmental funding forms 64 %, in France 58 %, in the United Kingdom 47 % of the NGO earnings, being the most important source of income.

<sup>17</sup> Research of the University of Tallinn “Institutionalisation of civic initiative in Estonia: structure and resources of organisation” (2005) provides information on how many NGOs receive funding from different sources. See: Rikmann “Initiative, participation, organisations” (2007), p. 170-191.

<sup>18</sup> Additionally it is widespread that government supports organisations through tax system (tax benefit from donations made to organisations that are acting in public interest; tax benefit for NGO activities; sc. percentage laws that provide citizens with a possibility to give 1-2 % of their personal income tax directly to some organisation), free of charge or extra price for room rental, counseling, training services, loans or loan security etc.

<sup>19</sup> Manuscript in NENO, afterwards available at ECNL website [www.ecnl.org.hu](http://www.ecnl.org.hu)

the project are uncertain), developing an organisation (funding is foreseen for specific activities related to the project, and for administrative costs), keeping a staff (project teams of NGOs are short-term and changing) and employing necessary specialists (other employers offer better economic security); divisibility of activities is possible (different projects may not support each other).

Therefore an additional influence of project dependence can also waste resources. Requirements for project applications may not meet the most important needs of a target group. In case of many small grants there is also a threat for activity duplication by different organisations. The need to come out with more and more new ideas can create a situation where activities end together with the project before gaining a stable influence and the benefit of a project can be minor or even negative. An example of wasted human resources is the bigger fluency of staff with regard to projects; economic insecurity also generates the burn-out of NGO leaders<sup>20</sup>.

One obstacle for spreading the practice of supporting activities is a narrow interpretation of this idea. It is considered to be the support of activities as a simple financing of NGO existence regardless the activities or results. In such case the basis for qualification can be any formal criteria such as entry in registry, age of an organisation, number of members etc., and all the organisations that meet these requirements can be supported.

A constructive solution is the approach of the Canadian government: **support of activities as a strategic investment**. Funds are allocated to organisations for developing administration, management, target groups and increase the technical capacity of organisations that work to achieve the long-term goals set by national strategies. The length of an investment (1-3 years, sometimes up to 5 years) enables focusing on the activities with longer influence. The basis of allocation is an organisation strategy that explains the need for investment and indicates how it would help achieving the goals necessary for public authorities as well as NGOs. The expected results and tools for assessment are also fixed, on the basis of which interim reports are made and the efficiency of an investment is evaluated<sup>21</sup>.

### Experiences of similar organisations in other countries

The above-mentioned ECNL overview on the funding practices of NGOs by public authorities mentions the lack of necessary competence in state institutions as a problem regarding the support of activities. One solution can be the establishment of a foundation with necessary competence<sup>22</sup>. Such foundations or programmes are active in many countries and a short overview on some of them hereby follows.

**United Kingdom.** A research conducted by the Ministry of Finance of the United Kingdom in autumn 2002 regarding the role of non-profit sector in providing public services<sup>23</sup> provided a number of recommendations for increasing the NGO capacity. As a result the government in cooperation with civil society organisations in 2004 started a 10-year long strategy ChangeUp, in the course of which programmes such as the Capacitybuilders<sup>24</sup> and the Futurebuilders<sup>25</sup> were

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<sup>20</sup> More thorough approach to the problems proceeding from excessive domination of project funding can be read from the report "HIV/AIDSi valdkonna kodanikuühendused: mõtteid toetajale" of the Good Deed Foundation at ([www.heategu.ee/doc/HIV-raport.pdf](http://www.heategu.ee/doc/HIV-raport.pdf)). Although describing a specific topic, the problems covered are universal.

<sup>21</sup> [www.vsi-isbc.org/eng/funding/sia.cfm](http://www.vsi-isbc.org/eng/funding/sia.cfm)

<sup>22</sup> Additional solutions provided by ECNL: 1) covering reasonable amount of indirect project costs related to administrative costs (for example 10 % of total project); 2) funding the supporting and / or umbrella organisations dealing with NGO development; 3) fostering the activities of private foundations that would distribute such grants; 4) implementing programmes to increase the capacity of NGOs for earning self-profit (for example, it can be handled as a project with the aim of developing certain services or activities). It is important to remember that these are not excluding alternatives but complementing each other and ideally could function all together (and additionally an endowment-like foundation).

<sup>23</sup> [www.hm-treasury.gov.uk/spending\\_review/spend\\_ccr/spend\\_ccr\\_voluntary/ccr\\_voluntary\\_report.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_ccr/spend_ccr_voluntary/ccr_voluntary_report.cfm)

<sup>24</sup> [www.capacitybuilders.org.uk](http://www.capacitybuilders.org.uk)

created. The aim of the first programme is to strengthen the infrastructure of NGOs (including human resources) through support and services (for example the network of National Hubs); the second programme increases the capacity to offer public services and thereby guarantee a stable self-earned income for NGOs. The amount of the Capacitybuilders is 70 million £ (about 1.6 billion Estonian kroons) in 2006 - 2008 and the Futurebuilders 150 million £ (about 3.5 billion kroons) in 2004 – 2008. The first programme mainly contributes to funding the support organisations that have operated in public interest for at least 2 years (foundations, societies and social enterprises) whose activities help achieving the goals of the ChangeUp strategy. The programme of Futurebuilders supports the organisations providing or elaborating public services with long-term loans (to smaller extent also non-refundable assistance) and counseling.

**Hungary.** The National Civil Fund<sup>26</sup> was established with a law adopted by Parliament in 2003 with the aim of strengthening civil society and supporting NGO activities. Hungary was the first country to apply the so-called 1 % law that enables citizens to address 1 % of their income tax directly to some civil society organisation. The financial resources of the Fund mainly come from state budget with the government allocating the same amount of money as citizens are giving through the 1 % law (but not less than 0.5 % of the total income tax inflow), additionally it is possible to make donations to the Fund. In 2007 the Fund distributed 6.87 billion forints (about 433 million Estonian kroons). 60 % of the budget is spent on activities, 30 % on projects and 10 % on administrative costs of the Fund. 80 % of the funds are divided through public application rounds. Applicants can be organisations that have been active for at least one year, except for political parties, trade unions, churches, employers' unions and foundations established by public power. The Fund is managed by a 17-member Board (5 representatives of public sector and 12 representatives of civil society organisations) who determines the fields of activity. Applications are examined and decisions made by councils consisting of 5-11 members, most of them also representatives of NGOs.

**Croatia.** The National Foundation for Civil Society Development<sup>27</sup> was established with Parliament resolution in 2003 and began functioning in 2004. The mission of the Foundation is to support and develop civil society in Croatia. Six sub-goals have been defined: 1) to support civic activity, involvement and participation in local development; 2) to increase capacity for civil society activities; 3) to develop cooperation between sectors and organisations; 4) to increase the influence of NGO activities and raise public awareness; 5) to foster social entrepreneurship and employment in nonprofit sector; 6) to increase the influence of civil society in the decision-making processes of public politics. The financial capacity of the Foundation in 2006 was 29.9 million kunas (about 64 million Estonian kroons) and sources of funding were: gambling tax (84 %), state budget (6 %), foreign foundations (6 %), interests and self-profit (4 %). In 2005 the funds were divided as follows: long-term support of programmes and activities (30 %), support of activities (19 %), development projects of civil society (13 %), cooperation projects between sectors (8 %), projects of local initiative (4 %), foreign cooperation projects (1 %), projects of the Foundation itself (12 %), administration (13 %). Applicants can be NGOs, local governments and non-registered civic initiatives. The Foundation is managed by a 9-member Board (4 public sector representatives and 5 NGO representatives). Members are appointed by the Government after consultation with partners.

The National Foundation of Civil Society must meet the specific needs of the Estonian civil society and its development, therefore none of the above-mentioned or other models is fully applicable but many principles that the established foundation should follow in order to function efficiently can be phrased through these experiences.

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<sup>25</sup> [www.futurebuilders-england.org.uk](http://www.futurebuilders-england.org.uk)

<sup>26</sup> [www.nca.hu](http://www.nca.hu)

<sup>27</sup> [zaklada.civilnodrustvo.hr](http://zaklada.civilnodrustvo.hr)

## Funding of NGOs in Estonia

At the end of the 1980s Estonia began restoring its national independence and democratic social order. Through NGOs these attempts were supported by Western countries and lots of international organisations. Joint interests were often found initiating a long-term cooperation that was financed by international and foreign organisations. Such cooperation and funding of Estonian NGOs became especially intensive after the restoration of independence in 1991. An essential part of a democratic society quickly emerged in Estonia – organisations based on civic initiative, and the structure of non-profit sector was formed.

USAID played a significant role in the third sector development. The work of the agency in Estonia provided information to foreign countries and international organisations that Estonia is moving on a democratic development path and needs international aid to continue the process. The existence of the USAID in Estonia motivated many, especially American organisations to foster cooperation in Estonia.

Estonia quickly became a democratic country. It was acknowledged by Western countries and already in 1996 the USAID informed about ending its programme in Estonia. In 1997 the agency was closed in Estonia cutting down also its funding of civil society organisations. This was a signal to the US organisations and many other previous donors to find new challenges in other parts of the world. UNDP also ended its activities in Estonia.

As a result of the aid organisations leaving and the according programmes ending, at the end of the 1990s the financial support of Estonian NGOs by foreign countries and organisations significantly decreased. These decisions had a negative influence on the capacity of NGOs since the expected national funding mechanism had not been elaborated yet.

During this period the Open Estonia Foundation, the George Soros Foundation in Estonia became a significant source of funding for NGOs, especially in handling the problems of non-profit sector in general and guaranteeing the capacity of NGOs to be partners for public structures. Proceeding from the changed situation, the Open Estonia Foundation initiated many programmes in order to raise awareness on the role of NGOs and civil society in a democratic society and foster dialogue between the public authorities and the non-profit sector. As a result of negotiations it became possible to partially restore the US financial support when in 1998 the Baltic American Partnership Program (BAPP) was started. BAPP will end its 10-year activity in Estonia in 2008.

NGOs, especially the ones dealing with strategic issues of the sector need stability and security in their daily work. It presumes long-term grants. In a seminar organised by the Open Estonia Foundation in April 2007 regarding NGO funding from state budget, Douglas Rutzen, the President of the International Center for Not-for-Profit Law stressed the example of Ireland (Ireland White Paper on Framework for Supporting Voluntary Activity): „The largest part of public funds is divided annually based on the principle of *ad hoc*. It does not allow NGOs to plan their activities. It also means that remarkably lots of time and energy is constantly spent on finding financial support. It is unfavourable for the provided services [...]. Funding of many years also enables the financed unit or agency to have a more rational approach towards planning the buying of services and checking the funding applications.”<sup>28</sup> After the Government has decided to support such activities and organisations, the decision-making processes regarding grant allocations must remain independent from political preferences.

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<sup>28</sup> Public Funding, by Douglas Rutzen, International Center for Not-for-Profit Law, <http://www.ngo.ee/sihtkapital>

## Existing financial resources for Estonian NGOs

The establishment of the National Foundation of Civil Society creates the need to consider other funding schemes and programmes existing for NGOs.

On the national base NGOs are eligible applicants for various resources. In the elaboration process of the Concept the following funding instruments of Estonian NGOs were analysed:

- Regional development programmes<sup>29</sup>:
  - Programme for Local Initiative, 24 million Estonian kroons in 2007
  - Programme for Small Projects for Developing Regional Competitiveness
  - Programme for Planning Regional Development
  - Development Programme of Setomaa
  - Cultural Space Programme of Kihnu
  - Water Programme of Võrumaa for Scattered Infrastructure
- Gambling Tax Board<sup>30</sup>. Three Ministries allocate grants to support small projects. Programme for Local Investments is also financed by gambling tax.
- An excellent example is Youth Work Act<sup>31</sup> enacting that the Ministry of Education and Research supports the activities of youth associations and allocates annual grants thereto. The Act defines a youth association, sets the framework of general rules for allocating grants (entry of a youth association in the Register of Youth Associations of the Ministry of Education and Research is the basis for awarding an annual grant) and authorizes the Ministry of Education and Research to elaborate specific regulations<sup>32</sup>
- Cultural Endowment of Estonia and its structures in different counties<sup>33</sup>
- Environmental Investment Centre<sup>34</sup>
- Integration Foundation<sup>35</sup>
- Rural Development Foundation<sup>36</sup>
- Estonian National Culture Foundation<sup>37</sup>

In order to consult the NGOs active in rural areas, organise trainings and distribute information, NGO consultants are employed by County Development Centres<sup>38</sup>. NGOs also have some possibilities to use the county development funds<sup>39</sup>.

The projects of developing and strengthening NGOs are also supported by foundations established by individuals and private legal entities, including the Foundation Dharma<sup>40</sup>, “Stars to Shine” programme of Hansapank<sup>41</sup>, etc.

Funding possibilities of local governments increase year by year. Many local governments have included in their budget the support of NGOs and elaborated an according procedure.

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<sup>29</sup> Regional Development Programmes, <http://www.siseministeerium.ee/9670>

<sup>30</sup> Gambling Tax Board, <http://hmn.riik.ee/?id=1086>

<sup>31</sup> Youth Work Act, <https://www.riigiteataja.ee/ert/act.jsp?id=12851236>

<sup>32</sup> Conditions and Procedure for Applying and Allocating Annual Grant to Youth Associations. Regulation No. 14 of the Minister of Education and Research of 1 March 2004, <https://www.riigiteataja.ee/ert/act.jsp?id=714478>

<sup>33</sup> Cultural Endowment of Estonia, <http://veeb.kulka.ee>

<sup>34</sup> Environmental Investment Centre, <http://www.kik.ee/?op=body&id=3>

<sup>35</sup> Integration Foundation, <http://www.meis.ee/est/konkursid/index.php?show=konkursid>

<sup>36</sup> Rural Development Foundation, <http://www.mes.ee>

<sup>37</sup> Estonian National Culture Foundation, <http://www.erkf.ee/index.php?nid=8>

<sup>38</sup> County Development Centres, <http://www.eas.ee/?id=306>

<sup>39</sup> County Development Funds, <http://www.eas.ee/?id=710>

<sup>40</sup> Foundation Dharma, <http://www.dharma.ee/index.php?m1=81&lang=2>

<sup>41</sup> „Stars to Shine” programme of Hansapank, [http://w.hansa.ee/est/hansatoetab\\_sponsorlusprojektid.html](http://w.hansa.ee/est/hansatoetab_sponsorlusprojektid.html)

Estonian NGOs have also access to the European Union Aid Programmes. During the elaboration of the Concept, the planning of grants for the period 2007-2013 took place; regulations for the funding conditions were finalized in May – October. NGO representatives participated in the respective commissions. In most of the measures NGOs are planned to be eligible grant applicants. A large part of the EU financial aid is allocated through various measures to foster regional and local development. The measure for renewing villages planned into the framework of Rural Life Development Programme and the LEADER Programme and covering most of the Estonian rural local governments are worth special mentioning.

In 2008 the NGO Foundation of the Norwegian Financial Mechanism starts functioning (mediator is the Open Estonia Foundation) with the financial capacity of 36.5 million Estonian kroons and the NGO Foundation of the Swiss Cooperation Programme (at the moment in the elaboration process and planned to support the activities of NGOs located in less favourable regions) with the financial capacity of 23.7 million Estonian kroons.

The overview does not reflect all the available resources of Estonian NGOs but it is still possible to analyze and draw conclusions with regard to the activities that have received financial support.

Estonian public funds have so far been directed to support the main specific fields of activities of NGOs (although in certain cases it can be interpreted as administrative support) implemented mainly through the foundation established by ministries and government; but there is also direct funding from state budget. EU funds are also most of all used to support NGO projects on specific fields of activities.

The problems with NGO activities are continually their economic capacity, readiness for involvement, funding of advocacy activities, dependence on projects and other strategic, institutional and sustainability questions. As a conclusion it can be stated that NGOs are lacking resources for activities and development and therefore also stable capacity to implement the priorities and goals of the Estonian Civil Society Development Concept (EKAK)<sup>42</sup> and be equal partner for public structures.

### **Need to improve existing situation**

One strategic goal of the Development Programme for the Governing Area of the Ministry of the Interior for 2007 - 2010<sup>43</sup> is a functioning civil society and a joint approach of the government sector towards the support of civic initiative. Proceeding from this, the inter-ministerial workgroup together with the Commission of EKAK<sup>44</sup> and NGOs elaborated the Development Programme for Supporting Civic Initiative (KATA) for 2007-2010<sup>45</sup>. On 15 June 2006 the Government decided to approve the development programme. KATA proceeds from the goals of EKAK and the respective cooperation principles and values. **The development programme aims at forming a joint approach of the government sector to support civic initiative.** The main fields of activities are: administrative capacity of the public sector in supporting civil society development, funding, support system for civic initiative, involvement, public information and statistics, and civic action. Resources for implementing KATA from governmental side shall be foreseen in the annual budgets of ministries.

In order to implement the goals, priorities and measures set in EKAK and KATA, public funds have not been allocated to NGOs to become a competent partner for public structures and be able

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<sup>42</sup> Estonian Civil Society Development Concept, <http://www.siseministeerium.ee/?id=5642>

<sup>43</sup> Development Programme for the Governing Area of the Ministry of the Interior. 9. Local government, civic education, regional administration and development, [http://www.siseministeerium.ee/public/9\\_ptk.pdf](http://www.siseministeerium.ee/public/9_ptk.pdf)

<sup>44</sup> Joint Commission of the Government and NGO representatives to implement the Estonian Civil Society Development Concept, <http://www.siseministeerium.ee/?id=5642>

<sup>45</sup> Development Programme for Supporting Civic Initiative 2007 – 2010, [http://www.siseministeerium.ee/failid/KATA\\_2007\\_2010.pdf](http://www.siseministeerium.ee/failid/KATA_2007_2010.pdf)

to elaborate grounded proposals for achieving and implementing the development goals of the civil society.

As a conclusion of the NENO project „Principles for Funding NGOs from State Budget”<sup>46</sup> it was stressed that in order to strengthen civil society and solve general questions, the National Foundation of Civil Society should be established. The foundation helps developing civil society as a sphere in general. It must function independently from public authorities, its management must be under the control of NGOs and it must operate in cooperation with the Minister appointed by the Government to deal with civil society issues.

Today there is a certain funding system of civil society organisations existing in Estonia but no support of activities in order to shape NGO environment, solve inter-sector problems, implement the Development Concept of Civil Society by NGOs, communicate with public authorities and increase professional skills and competence. As a rule, these problems cannot be solved within the framework of the existing financial resources or by re-arranging them due to the lack of funds. It must be taken into consideration that the establishment of the NFCS cannot generate the cutting of other resources supporting various fields of activities.

**On the basis of researches and analyses made so far regarding the funding practices of NGOs, the action programme of Government Coalition has set the goal of creating a thorough vision and joint principles for NGO funding. The concept for joint principles of NGO funding will be finalized in the 3rd quarter of 2008. Establishment of the National Foundation of Civil Society is the first phase of compiling the above-mentioned vision and principles based on theoretical approach, proceeding from the practices of other countries on NGO funding and being in accordance with the goals to elaborate joint principles.**

## ALTERNATIVES FOR CHANGING THE SITUATION

### Initial data of alternatives

By comparing and combining the financial goals, legal status and different sources of funding of the Foundation, initial principles for the establishment of the Foundation can be decided proceeding from the set goals and taking into consideration the amount of allocated resources. An overview of the alternatives for NGOs in order to shape their viewpoints follows.

### Alternatives for the goals of Foundation

**1. Basic funding of NGOs operating in public interest**, on the basis of formal criteria (for example number of members, age of organisation, etc.) or proceeding from their action plans

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Helps decreasing the dependence of NGOs on project funding that is at the moment significantly hindering the achievement of larger social influence through NGO activities (see p. 7-8)</li> <li>▪ In case the number of members is the basis for funding, it forces organisations to turn to citizens since the large number of members is important</li> </ul>	<ul style="list-style-type: none"> <li>▪ Existing resources are insufficient to achieve actual influence; threat to splinter resources</li> <li>▪ Threat to lose previous channels for getting such grants</li> <li>▪ Difficult to elaborate clear and objective criteria for allocating basic funds (requires thematic competence from decision-makers)</li> <li>▪ In case the funding is based on formal criteria, it may lead to “vegetation” (organisations do nothing useful because funding is guaranteed) or massive establishment of new NGOs without actual need</li> </ul>

<sup>46</sup> Project for public funding of civil society, <http://www.ngo.ee/rahastamine>

	<ul style="list-style-type: none"> <li>▪ In case the funding is based on formal criteria, it may lead to “hunting” of members as a separate goal. Leaves without funding these organisations for whose activities the number of members is insignificant</li> </ul>
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## 2. Funding of small projects (analogous to gambling tax)

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Gives possibility to support the NGOs able to compile as many successful projects as possible</li> </ul>	<ul style="list-style-type: none"> <li>▪ Splintered resources</li> <li>▪ Requires thematic competence from decision-makers</li> <li>▪ Duplication of many existing funding sources and possible accompanying problems (same application from many sources)</li> </ul>

## 3. Starting package foundation from where organisations receive grants to start their activities, based on formal criteria or proceeding from the presented action plans

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Recently established organisations get the possibility to deal with principal issues without worrying about elementary work conditions</li> </ul>	<ul style="list-style-type: none"> <li>▪ In case of formal criteria there is a threat of NGOs being established to get money; difficult to elaborate clear objective criteria (requires thematic competence from decision-makers)</li> <li>▪ Splintered resources</li> <li>▪ Threat of wasting resources if established and supported NGOs stop functioning</li> </ul>

## 4. Investments related to obtaining capital assets to NGOs

Positive	Negative
<ul style="list-style-type: none"> <li>▪ By investments it is possible to strengthen the economic sustainability and independent existence of NGOs.</li> <li>▪ Investments remain stable and start producing additional resources (room rental, etc)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Present resources are too small to achieve significant influence.</li> <li>▪ Duplication of Programme for Local Initiative.</li> <li>▪ Difficult to elaborate criteria regarding the NGOs that should be supported (requires thematic competence from decision-makers)</li> </ul>

## 5. To cover self-funding of EU projects and/or support the elaboration / compilation of such projects

Positive	Negative
<ul style="list-style-type: none"> <li>▪ As a result of better NGO capacity, it is possible to initiate EU projects and bring lots of additional resources to Estonia.</li> <li>▪ Fosters cooperation between Estonian NGOs (NGOs of the same field of activity make joint projects)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Only a few NGOs are capable of compiling EU projects, small NGOs remain without resources</li> <li>▪ Starts a business of compiling EU projects where most of the project resources goes to the agency that prepared the project</li> <li>▪ Requires thematic competence from decision-makers</li> </ul>

## 6. To participate in international cooperation (conferences, membership fees, etc.)

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Enables Estonian NGOs to participate in international events equally with others (to pay</li> </ul>	<ul style="list-style-type: none"> <li>▪ Difficult to prepare criteria regarding the events preferred to support (requires thematic</li> </ul>



for participation), fosters international cooperation and brings additional competence to Estonia	competence from decision-makers) ▪ Creates lots of subjectivity and tensions between NGOs
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**7. Targeted funding according to the state priorities**, for example to implement the Estonian Civil Society Development Concept

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Fulfills an important strategic gap of previous national funding schemes</li> <li>▪ Financial resources are used in accordance with state priorities and policies and in the same direction</li> <li>▪ Creates the basis for implementing state priorities and policies and better work conditions for NGOs in the future</li> <li>▪ Creates the basis for systematic development of the civil society in general in a long-term perspective</li> <li>▪ No basis for losing previous funding schemes / funding opportunities</li> <li>▪ Provides an opportunity to afterwards deal with regulation of other NGO funding schemes (for ex.. thematic project- and basic funding)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Allocation of resources for implementing state priorities and policies means the funding of relatively few NGOs (who are capable of doing it) through negotiations or directed tenders</li> <li>▪ Results can be seen only after certain period of time</li> </ul>

**Alternatives for the legal status of Foundation**

**1. Legal entity of public law**

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Foundation as a legal entity of public law is a structure clearly defined by law with principles of action</li> <li>▪ Foundation of public law is not related to political authorities and guarantees the independence of NGOs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Requires the establishment of a new structure of public law that may face the resistance of public authorities</li> <li>▪ Time-consuming since it requires an understanding by politicians as well as large-scale political and social unanimity</li> </ul>

**2. Foundation established on the basis of Government resolution**

Positive	Negative
<ul style="list-style-type: none"> <li>▪ With political will of a coalition it can be quickly realized</li> </ul>	<ul style="list-style-type: none"> <li>▪ If established by Government, the Foundation has an imputation of political influence</li> <li>▪ If established by Government, it is likely that the Government would appoint the Board members proceeding from its political preferences</li> </ul>

**3. Funding scheme or programme of a functioning state (for example Enterprise Estonia) or private (for example Open Estonia Foundation) structure**

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Use of existing structure enables to quickly start solving the principal issues of the funding scheme (which activities and fields to finance and how)</li> <li>▪ The present skills and competent staff of these</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of an additional funding scheme to the existing structure shall be influenced by previous understanding and principles of this structure and may not create the new synergy (for example minor importance</li> </ul>

structures enables to efficiently implement the funding scheme	to the previous work of the structure, set viewpoints and attitudes of the managers of the structure) <ul style="list-style-type: none"> <li>▪ Negotiations may fail (for example regarding administrative costs) and the Foundation will not be started or the start postponed</li> <li>▪ Regarding state structure there is threat for political influence</li> </ul>
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**4. Funding scheme created by one or many ministries** (for example on the principle of dividing gambling tax resources)

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Ministries know the best the needs, problems and organisations in their jurisdiction and therefore can find the best use for resources</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministries as political structures politicize the process of funds allocation</li> <li>▪ Ministries are lacking sufficient competence regarding civil society</li> <li>▪ Allocation of funds to NGOs does not belong to the task list of ministries</li> <li>▪ Threat to start using the funds to cover budgetary gaps of ministries</li> <li>▪ Dividing funds through different ministries the resources are splintered and effect is not achieved</li> <li>▪ Organisations acting above specific fields of activities remain without support</li> </ul>

**5. Funding scheme in the jurisdiction of Minister for Regional Affairs**

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Activities related to the development of civil society are the task of the Minister for Regional Affairs having sufficient information for decision-making</li> <li>▪ Provides the Minister for Regional Affairs with resources to implement according policies.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Too politicized and threat to influence NGOs through funding</li> <li>▪ Handling of civil society and its organisations as a problem / object of one ministry, not as a subject influencing the general development of the country</li> </ul>

**6. Funding scheme functioning through county structures**

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Resources are taken closer to NGOs and decision-makers of the county structure know local needs the best</li> </ul>	<ul style="list-style-type: none"> <li>▪ Resources are splintered regarding the amount as well as the content, losing the basic goal of the Foundation</li> <li>▪ Poor resources do not provide necessary results in increasing the vitality and sustainability of NGOs</li> <li>▪ The highest administrative costs for managing the resources</li> <li>▪ The Foundation would start duplicating the Programme for Local Initiative</li> <li>▪ NGOs active on national level remain without support</li> </ul>

**7. Annual grant allocation to NGO umbrella organisations,** the use of funds is decided by themselves

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Directs organisations to gather into umbrella organisations, hence creating a strong social partner for public authorities</li> <li>▪ Umbrella organisations are interested in fostering their field of activity and know the needs for using resources</li> <li>▪ Fosters the culture of involvement because umbrella organisations are interested in bigger legitimacy and, on the other hand, with bigger mandate it is possible to speak out in legal processes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Difficult to elaborate basis for dividing funds between umbrella organisations</li> <li>▪ Many NGOs do not belong to umbrella organisations and therefore stay out of funding</li> <li>▪ Can generate the establishment of new umbrella organisations as a separate goal, and therefore splintering of funds on a new level</li> <li>▪ Umbrella organisations may tend to keep the funds to themselves without allocating grants to NGOs</li> <li>▪ Umbrella organisations are the easily „bought” by political authorities</li> <li>▪ Threat to lose previous channels of ministries for supporting umbrella organisations</li> </ul>

### 8. Incubator(s) of NGOs

Positive	Negative
<ul style="list-style-type: none"> <li>▪ Starting of structures and financial support for NGO activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ With present resource volume it is impossible to start such a mechanism</li> </ul>

### Alternatives for different types of funding

In the project of the Network of Estonian Nonprofit Organizations entitled „Principles for Funding NGOs from State Budget” it is stressed that specific principles should be followed for allocating funds from state budget to NGOs and these principles must be similar for all parties.

#### Project grants

- must be based on development plans and strategies or other thematic priorities;
- supported projects must contribute to sustainability, i.e. initiating, constructive, developing and with specific influence;
- decisions must be based on joint principles and made only through public tenders (*procurements, offers*);
- according to the good practice of involvement, NGO representatives must be included in the process of allocation decisions;
- supervision of the effectiveness and efficiency must guarantee the adequate assessment of the purposeful use of funds and achievement of goals set in the project.

#### Activity grants

- applicable only for the organisations operating in public interest and defined in §11 of the Income Tax Act<sup>47</sup> to support the fulfilment of their role and tasks provided in the contract;
- with regard to activity grants, the need to receive information on the organisation submitting an application must be considered confirming its qualification and previous activities in the respective field as well as sustainability (*for example: budget, development strategy, activity reports etc.*);
- according to the good practice of involvement, NGO representatives should be included in the process of allocation decisions;
- supervision of the effectiveness and efficiency must guarantee the adequate assessment of the purposeful use of funds and achievement of goals set in the thematic development strategies.

<sup>47</sup> Income Tax Act, <http://www.riigiteataja.ee/ert/act.jsp?id=12850769>

### Contractual ordering of work and services

- must be based on respective development plans, strategies or thematic priorities;
- must be based on the analysis of which public services can be provided by public sector (*ministry, local government*) itself and which should be bought from NGO sector;
- must follow the principle that an orderer would pay for all the related costs of the service, i.e. find a „*unit price*” for providing the services;
- must follow the good practice of service delegation;
- supervision must guarantee the adequate assessment of the purposeful use of funds and achievement of thematic goals set when ordering the work or service.

## **PROPOSAL REGARDING THE PREFERRED VERSION**

### **Basis for the Concept for National Foundation of Civil Society proceeding from analysis**

The main condition for governments to decide if and to what extent an NGO is entitled to receive public support is the public benefit proceeding from the activities of an NGO, not so much the type of activity. If an NGO operates in the public interest as determined in respective legislation (or similar legal acts, such as tax acts), it becomes entitled to direct and indirect public funding.<sup>48</sup>

For Estonian NGOs so far many thematic financial resources of Estonia and the European Union are available. These resources are allocated directly by the ministries or foundations and the financial schemes active under the jurisdiction of respective ministries. Thematic competence and skills are needed to evaluate projects and applications, providing grounds for thematic support by ministries.

Proceeding from the principle of subsidiary it is useful to apply resources on the level where the respective competence and overview on the funding needs are existing. At the same time it refers to the need to have many different financial structures according to the goals and competence.

Thematic activity and project grants as well as ordering of contractual works and services cannot be the task of the NFCS. It is also difficult for the Foundation to effectively support the NGOs active in regional and local level in order to achieve their thematic goals set with the statute. The resources of the Foundation are limited; therefore the splintering of funds among different themes and organisations would significantly decrease the efficiency and would not guarantee the achievement of goals of the Government activity programme for 2007 - 2011<sup>49</sup>.

**The NFCS is established to finance the activities of specifically defined NGOs and the activities supporting civil society development. The scope of its activities is strictly limited and does not duplicate the grants allocated by other funding instruments.** Proceeding from the Estonian Civil Society Development Concept, the Development Programme for Supporting Civic Initiative and their action and development plans (including the Development Plan for Voluntary Action<sup>50</sup>) and the Government Programme for 2007 – 2011, the NFCS focuses on increasing the capacity of NGOs and achieving the goals set in these documents.

The Foundation is increasing the capacity of NGOs on civil society issues; it is also a resource support and development foundation for shaping civil society environment.

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<sup>48</sup> Nilda Bullain and Radost Toftisova “A Comparative Analysis of European Policies and Practices of NGO-Government Cooperation”, The International Journal of Not-for-Profit Law, Volume 7, Issue 4, September 2005 [http://www.icnl.org/knowledge/ijnl/vol7iss4/art\\_1.htm](http://www.icnl.org/knowledge/ijnl/vol7iss4/art_1.htm)

<sup>49</sup> Government Programme for 2007 - 2011, <http://www.valitsus.ee/?id=1307>

<sup>50</sup> Development Plan for Voluntary Action 2007 - 2010, <http://www.vabatahtlikud.ee/?id=1087>

## **Principles for establishing the Foundation**

While compiling the Concept for the NFCS, the alternative goals, legal status and applied types of funding of the Foundation were analysed. Proceeding from the overviews and analyses of the proposals received in the involvement process and considering the feedback received from consultations with ministries, the National Foundation of Civil Society is established on the basis of the following principles:

- Strategic approach. The basis of the NFCS activities must be a long-term strategy that is based on national strategy (EKAK) and appropriate action plans (KATA). This way the NFCS is strictly limited and avoids duplicating the funding schemes of ministries based on the national thematic strategies and action plans.
- Assessment of needs. In order to avoid wasting resources, the NFCS shall introduce every year the more important gaps of the civil society and NGO capacity, the solving of which would provide the greatest additional value.
- Focusing. Taking into consideration the limited resources (needs are always exceeding the possibilities), the activities of the NFCS are clearly focused providing more thorough support to only a few topics rather than giving little support to everybody.
- Direction towards social change. The aim of the Foundation is not to simply support the existence of NGOs but the principle of decision-making should be the long-term influence of financed organisations and activities in achieving the expected changes in the society, elaborating also an according system of indices to evaluate the results.
- Counseling and supervision. In order to guarantee the accordance of financed organisations and activities to the strategic goals, the NFCS is not only checking the applications and making decisions but it is an active strategic investor providing funds as well as necessary counseling. It means individual approach to each applicant. Supervision is based on the expected results agreed with the applying organisation.
- Transparency and responsibility. In order to guarantee the credibility of the NFCS, information is easily accessible to everybody regarding the funding possibilities, requirements, decisions and results, also the administrative costs of the Foundation. Supervision of the Foundation is implemented according to the legislation; its activities are audited and evaluated by the National Audit Office of Estonia.

### Goal

Proceeding from the goals and priorities of the Estonian Civil Society Development Concept, the goal of the National Foundation of Civil Society is the following:

- **To increase the capacity of Estonian NGOs in developing civil society and shaping an environment that fosters civic initiative.**

### Focuses

Proceeding from the goal of the Foundation, focuses are the following:

1. Institutional capacity building of the non-profit sector both on national and local level, and supporting the activities of organisations and networks in order to implement EKAK and increase the capacity of NGOs to be equal partner for public institutions.
2. Implementation of innovative civil society programmes and projects: researches, development projects, application of new knowledge, acquiring and distribution of experiences in international civil society development, starting necessary cooperation structures.

Proceeding from the goal and focuses, the Foundation is funding activities directed towards civil society development both on national and regional level and the activities fostering cooperation

with the so-called key organisations (forms of cooperation). As a result the NFCS influences the activities that strengthen participatory democracy in Estonia: involvement, institutionalisation of NGOs, fostering their cooperation and communication, strengthening the identity of non-profit sector, fostering public awareness and civic education through NGOs, preparing the qualified provision of public services by NGOs, fostering voluntary work, further organisation of NGO funding and increasing of civic initiative and social capital through all these activities. Respective programmes of the Foundation shall be elaborated to operate on the basis of these focuses.

Proceeding from the focuses, the Supervisory Board of the NFCS initiates and approves every year a thorough funding programme that according to the annual priorities lists also the back-up activities and functions as a starter of necessary processes and researches.

The amount of funds allocated by the Foundation to programmes, including the local level programme of the first focus, is fixed by the Supervisory Board proceeding from the minimum amount of funds allocated for the focuses and the local programme.

#### Target groups

The contribution of the Foundation is most of all channelled to the advocacy organisations and networks with national scope, to finance the activities and projects of NGOs with similar public benefit, and the programmes and projects of organisations and institutions developing civil society. The organisations, networks and institutions fostering similar activities on regional level are supported as well.

#### Legal status

The National Foundation of Civil Society is established as an independent legal entity – a foundation, guaranteeing the elaboration of programmes proceeding from its goal and focuses, joint requirements and criteria for the grants, and supervision on the use of grants, democratic decision-making mechanism, participation of civil society organisations in forming the funding policy of the Foundation, and transparency of the decision-making processes and reporting.

As an independent legal entity, the Foundation creates a basis for arranging the activities and mutual division of work of different financial institutions and schemes. This way the Foundation will also acquire a necessary role for re-arranging NGO funding by ministries when compiling the concept of thorough vision and joint principles in 2008.

A funding scheme applied at any functioning legal entity would not allow the sufficient development of the NFCS by involving new resources and extending its activities; well-established practice may not fit with the programmes of the NFCS. Division of funds between different foundations, funding schemes and regions does not guarantee the achievement of goals directed to the general development of civil society.

### **Principles for funding activities of the Foundation**

The NFCS is both grant-making and operational foundation that initiates programmes.

#### Development grants

Proceeding from the goal and focuses of the Foundation, the most appropriate type of funding is applied through programmes.

Development and activity grants are allocated for a longer-term period (up to 3 years) proceeding from the scope of activity of an NGO on national level or regional and local level to strengthen cooperation between organisations. The Foundation does not allocate activity grants to NGOs for implementing their thematic goals set with the statute.

Longer-term activity grants are allocated only on the basis of the criteria defined in §11 of the Income Tax Act<sup>51</sup> to the associations operating in the public interest in order to implement the role and tasks enacted in grant contract. Proceeding from the updating of the government list of associations operating in the public interest, the NFCS takes into consideration the initial idea of the Income Tax Act with the possibility to make reasonable exceptions.

Information regarding the organisation that submitted an application must be taken into consideration in allocating development and activity grants to confirm its competence, previous efficient activities and sustainability: overview of previous funding and activities, existence of development strategy and action plan, operation according to the Code of Ethics of NGOs: openness, transparency, reporting will, etc. The goal of an activity, action plan and budget are provided in the application.

Long-term grants are supervised on a regular basis to guarantee the purposeful use of funds and achievement of application goals. Negative result of an interim report can be a basis for ending the grant contract.

Grants are allocated through grant tenders proceeding from the programmes established on the basis of the goal and focuses of the Foundation.

Grants are allocated through a clear selection process. The criteria of selection are: previous funding of an organisation, activities and achievements, partnership relations, recommendations, technical quality of an application, professional level of an organisation, credibility, management and financial competence, ability to receive additional funding to the project from other resources, ability to start mutually useful partnership in the future, implementation period of the project or activity, etc.

Due to the focus on innovative programmes and projects of civil society, the NFCS is funding institutions and organisations regardless their legal status if they deal with civil society researches.

#### Minimum financial amounts of focuses and programmes

Minimum amount for the focus of institutional development of non-profit sector is 50 % of the financial resources of the NFCS. It includes 10 % for the annual regional level programme implemented under the same focus.

Minimum amount for the focus of innovative programmes and projects regarding civil society is 15 % of the financial resources of the NFCS.

During start-up the administrative costs of the Foundation comprise 15 % of the resources, afterwards the amount will decrease. The annual budget of administrative costs of the Foundation is approved by the Supervisory Board of the NFCS.

#### **Principles for management and organisation of the Foundation**

The NFCS is managed by the Supervisory Board of the Foundation appointed by the Government at the proposal of the Minister for Regional Affairs. In order to appoint the Supervisory Board, the Minister for Regional Affairs consults with the Government Commission established to implement and evaluate the fulfillment of action plans of the Estonian Civil Society Development Concept and develop cooperation between the civil society and the state (hereinafter the Government commission of EKAK)<sup>52</sup>.

The Supervisory Board of the NFCS shall employ the Chairman of the Foundation and necessary staff, projects shall be evaluated by experts.

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<sup>51</sup> Income Tax Act, <http://www.riigiteataja.ee/ert/act.jsp?id=12850769>

<sup>52</sup> Government of the Republic of Estonia, Order No. 380 of 16 August 2007 „Establishment of Government Commission to implement and evaluate the fulfilment of action plans of the Estonian Civil Society Development Concept and develop cooperation between the civil society and the state”

## Supervisory Board

- The Supervisory Board consists of 7 - 10 members.
- Proceeding from the directed public resources, the Supervisory Board consists of the Minister for Regional Affairs, two members appointed by the Parliament and 4-6 members appointed by the Government Commission.
- Government Commission of EKAK presents the Supervisory Board members making a selection among the proposals of NGOs and taking into consideration the principle of different fields of activities being represented (for example general issues of civil society, social spheres, education, culture, environment, local initiative, etc.) as well as experts of civil society and representatives of business unions. Commission has a right to make propositions to experts and business representatives in order to be appointed to the Supervisory Board of the NFCS.
- The Supervisory Board elaborates the strategy, action plan and budget of the NFCS as well as annual programmes to be financed and also approves the conditions and regulations to apply for the grants.
- The Supervisory Board is established on the principle of rotation. The period of membership can be up to 3 years. The first time it would be reasonable to appoint members for two different periods of time to guarantee the continuity of work in case some members of the Supervisory Board change.
- The Government Commission of EKAK and the Supervisory Board control that the members of Supervisory Board would avoid getting into conflict of interests and also what appears to be conflict of interests.

## Administration, structure and staff

- At the starting period of the Foundation the maximum of 15 % of the resources is allocated to cover the operational costs of the NFCS. The exact amount shall be decided on the annual basis by the Supervisory Board of the NFCS when approving the budget.
- 3-4 people begin working at the Foundation (Chairman of the Management Board, Programme Manager, Accountant, Information Manager).
- The NFCS uses experts to evaluate projects and make decisions as well as to elaborate its own basic work documents. Each application is evaluated by at least 2 experts. The work of experts is remunerated.

## Work principles

- The NFCS works based on the principles and good practice of the European Foundation Centre<sup>53</sup>.
- The NFCS works through grant tenders arranged on the basis of strategy, action plan, budget and programmes approved by the Supervisory Board. Reasonable exceptions are decided by the Supervisory Board of the Foundation case by case.
- The NFCS cooperates with other funding instruments supporting civil society organisations, including the European Union institutions and units to plan its activities and elaborate programmes, avoid duplication and guarantee the best possible synergy. The Foundation has very much cooperation with the European Social Fund. Duplication is avoided and joint projects started if necessary.

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<sup>53</sup> European Foundation Centre. Principles and Good Practice,  
<http://www.efc.be/ftp/public/EFCpublications/EFCPrinciplesGoodPractice.pdf>



- The NFCS follows the principles of transparency and openness. There are certain procedures for announcing and advertising grant calls, conditions for filling an application, grant allocation decisions are made public, and applicants whose projects are denied will receive an explanation regarding the negative decision. Procedures of complaint are also established to renegotiate decisions.

### Development of the NFCS

Proceeding from the previous practice of funding civil society organisations from state budget, the researches and analyses of various funding instruments and the need to support cooperation between NGOs and public institutions, the concept of thorough vision and joint principles on NGO funding shall be compiled according to the Government action plan by the end of 2008.

The elaboration of the Concept for the National Foundation of Civil Society is the first phase. As a result of this a necessary funding instrument shall be started for development and activity grants and implementation of civil society researches, i.e. to implement the goals and priorities of the Estonian Civil Society Development Concept.

The NFCS is an active partner for the state initiating discussions on the sources and practices of the funding of civil society organisations and possible amendments. Previously presented ideas (sc. 1 % income tax, contribution of the Gambling Tax Board, etc.) are analysed and respective proposals submitted. Proposals are also made regarding the national fiscal policy to motivate the philanthropic activities of tax payers.

After the concept for public funding of civil society organisations is final, the division of work between all the active structures financing NGOs will be specified.

The NFCS applies for the increase of resources by having negotiations with the Government and compiling a development strategy and a respective action plan on how to increase resources by involving private funds.

To create the stability of the NFCS, an investment programme and strategy of the Foundation resources will be elaborated.

If the increase of financial resources is achieved, the Foundation will elaborate the goals and procedures to initiate sub-units and develop necessary competence. The use of private capital will be agreed with donators and supporters.

### **Requirements for funded civil society organisations and applicants**

In funding NGOs the NFCS must proceed from the principles of the European Council Regulation No 1605/2002 of 25 June 2002<sup>54</sup> regarding the financial regulation applicable to the general budget of the European civil society organisations. It includes also the principle of sound financial management that should be defined by reference to the principles of economy, efficiency and effectiveness, and compliance with those principles checked by means of performance indicators established per activity and measurable in such a way that results can be assessed.

Operation in the public interest on the basis of conditions defined in §11 of the Income Tax Act indicates that the services and activities provided by NGOs are necessary for the public in general or a certain group of less favoured persons and the state acknowledges these activities in terms of direct or indirect support. Proceeding from the ongoing update of the Government list of non-profit organisations operating in the public interest, in its work the NFCS proceeds from the idea of §11 of the Income Tax Act with the possibility to make reasonable exceptions.

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<sup>54</sup> <http://eur-lex.europa.eu/Notice.do?val=275017:cs&lang=et&list=447189:cs,386809:cs,283777:cs,275017:cs.&pos=4&page=1&nbl=4&pgs=10&hwords=&checktexte=checkbox&visu=#texte>

Clear and specific conditions will be created for NGOs and other applicants financed by the NFCS regarding their previous funding and activities to prove their need for support, capacity to implement the planned projects, professional skills, openness and transparency with regard to the activities as well as the purposeful use of financial resources.

NGOs supported by the National Foundation of Civil Society must operate according to the Code of Ethics for NGOs<sup>55</sup> and publish an according information on their website with reference to the Code of Ethics.

## APPENDICES

### Appendix 1. Some additional thematic resources

**Brophy, M.**, Charities Aid Foundation kui heategevuse müüja. VI Avatud Ühiskonna Foorum. Sotsiaalsed Investeeringud – miks ja kuidas?. Tallinn 2001.

**Kuhnle, S., Selle, P. (1990)**. Meeting Needs in a Welfare State: Relations between Government and Voluntary Organizations in Norway. - A. Ware, R. E. Goodin (eds). Needs and Welfare. Beverly Hills: Sage.

**Salamon, L. M. (1995)**. Partners in Public Service: Government and Non-profit Relations in the Modern Welfare State. Baltimore: The Johns Hopkins University Press.

**Estonian Civil society Development Concept.** <http://www.ngo.ee/7337>

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<sup>55</sup> Kodanikuühenduste eetikakoodeks, <http://www.ngo.ee/eetikakoodeks>