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**„Administrative convergence and development of civil society in
Croatia“**

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„Administrative convergence and development of civil society in Croatia“

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1. The emergence of an independent third sector

The civil society in Croatia has a certain tradition. There existed certain civil initiatives in late 19th and 20th century, which have established foundations for some cultural, educational and social institutions, and in such way contributed to modernization of society. In that period Croatia was a part of Central European cultural region and these initiatives were linked to the similar ones in the Austria-Hungary Monarchy. These initiatives have also played an important role in the period between the World War I and World War II (Bežovan, Zrinščak, Vugec, 2005).

During the communist regime the freedom of citizens' association was restricted and controlled. The communist regime had a profound and long lasting impact on development of civil society. Its effects can still be seen, and it will be difficult to overcome this legacy in the future. The state had a paternalistic attitude to the citizens, and today, the citizens have a high level of mistrust to the state institutions and to each other. In the late 1980s the independent initiatives of intellectuals, as well as ecological and women's groups were active in Croatia. The development of civil society in late 1980s was related to establishing of multiparty political system and democratization of society¹. The war for the country's independence (1991-1995) suspended and slowed down to a great extent the development of the civil society. The crisis related to displaced persons, refugees and war victims has resulted in wide-ranging social problems. Yet, this has brought about the enhanced solidarity and self-organizing of citizens in various associations. The technical and material assistance to these organizations was provided by foreign humanitarian organizations active in Croatia, the number of which once amounted to no less than 80 (Bežovan, Zrinščak, Vugec, 2005).

Civil society development in 1990s was influenced by a considerably unfavourable political environment. The nondemocratic government has in this period used the media to defame the nongovernment organizations, as they were mostly called in public. Several researches warned of the negative attitude of citizens to civil society organizations (Bežovan, Zrinščak, Vugec, 2005). Such attitude is still recognizable with a part of the public. The understanding of the civil society concept is mostly limited to a narrow circle of educated members of middle classes and younger generations. Most of the nongovernment organizations have aligned themselves as a part of political opposition and correspondingly

¹ Strong part of Croatian civil society, in a country and abroad, with the prominent persons from intellectual life, had a mission of establishment of independent Croatian state.

organized the no partial political campaign at the 1999 elections, advocating for the democratization of society. The term non-governmental association itself is assessed as inappropriate, for it is negatively defined and thus not understandable to the ordinary citizens. This term is associated with the work of the UN agencies in the 1950s, and it was often said to imply neo-colonial approach. Also, in the Croatian legal system, association is by definition non-governmental, and some authors (Bežovan, 2007.) warned about it and advocated for the usage of the term civil society organization.

In this period a comparatively large number of civil society organizations has been established, mostly associations. The number of associations increased from 12.000 in 1990 to some 41.953 in the end of 2010. However, only a considerably small number of citizens are members of civil society organizations, especially if trade unions, sports and recreation organizations, cultural clubs and similar are not accounted for (Bežovan, Zrinščak, Vugec, 2005).

Box 1. Chronology of regulatory events

- 1989 – Changes of Law on Social Organisations and Citizens Associations provide the legislation for registration of political parties
- 1992 – Law on Humanitarian Aid
- 1993 – Tax reform without incentives for civil society organisations, no incentives for corporations and citizens to give donations
- 1995 – Law on Foundations and Funds
- 1997 – Law on Associations
- 1999 – Establishment of Government Office for Associations
- 2000 – The Programme of Cooperation between the Croatian Government and the Non-governmental, Non-profit Sector
- 2000 – On the proposal of civil society organisations Constitutional Court abrogated 16 provisions of Law on Associations
- 2000 – Tax incentives favourable for civil society development
- 2001 – Law on Associations
- 2002 – The Government Council for the Development of Civil Society (an advisory and expert body)
- 2002 – National Foundation for Civil Society Development
- 2004 – Tax reform against the part of civil society organisations
- 2006 – National Strategy for the Creation of an Enabling Environment for Civil Society Development 2006 – 2011 (+ operational plan in 2007.)
- 2007 – Code of Good Practice, Standards and Benchmarks for the Allocation of Grants for Programmes and Projects of Associations
- 2009 – Code of Practice on consultation with the interested public in procedures of adopting laws, other regulations and acts

In Croatia the legal regulations have been passed considerably late, in particularly the Associations Act, regulating the establishing, registering and activities of civil society organizations. The procedure of passing acts was not democratic. The Government was not willing to recognize the comments and proposals of independent experts or various associations. On proposal of civil society organizations the Constitutional Court of the Republic of Croatia has abrogated 16 provisions of Associations Act challenging the constitutional right of association. This experience is likely to have bad impact to civil society development for a long period (Bežovan, 2004).

The passing of the tax incentives for non-profit organizations' activities was considerably deferred. Pursuant to the tax system reform in 1993 the donations to non-profit organizations were not considered as tax deductible expenses since these were considered to be cases of money laundering. In 1990s, the donations to humanitarian and ecological organizations were not considered as tax deductible expenses. The incentives for such donations applied only to culture and sports. The tax incentives for citizens and corporate sector donations for public good were introduced only in 2000 after the government change.

Under pressure from abroad the Government has in 1999 established the Governmental Office for Associations. The Office has considerably contributed to transparent distribution of funds allocated to associations from the State Budget. The Office has organized several educational programmes, attended by the representatives of CSOs, state and, what is of great importance, of the local authorities. In order to promote the cooperation between the state and the civil society, the Office has, with foreign support, organized the launching of the *The Programme of Cooperation between the Croatian Government and the Non-governmental, Non-profit Sector*, adopted by the Government in late 2000.

The Office has implemented the innovative three years financing programme of associations' activities as well. On initiative of the Office, the Council for Civil Society Development has been established. Having in mind the ongoing expansion of national and foreign resources aimed at civil society development, in 2003 (at the end of the mandate of the former coalition government) the National Foundation for Civil Society Development was established, also on initiative of the Office. Alongside the Foundation, certain ministries invite tenders for allocation of funds to CSOs. The passing of the National Strategy for the Creation of an Enabling Environment for Civil Society Development 2006 – 2011 was a conflicting process and provide the new challenge for civil society development. Partly it was top-down approach to “justify” interest of government for civil society development.

The civil society development in Croatia depended to a large extent on the funds coming from abroad. Due to war and corresponding political issues, Croatia was not involved in the EU PHARE Programme, which as well stimulated the civil society development. This reduced the speed of civil society development, as well as its regional networking. The foreign donors used to implement their programmes, frequently without consultations with local stakeholders. As a rule, those programmes were not adequately evaluated. The support of foreign donors was in particular provided by means of technical assistance and training of CSO employees and activists (Bežovan, Zrinščak & Vugec, 2005.).

Institutional infrastructure for civil society development is impressive, but real content of these institutions are rather weak.

2. Types of organisations

The CSOs comprise associations, foundations and funds, public benefit companies, some kinds of cooperatives and nonregistered initiatives.

The legislative framework for the work of associations is set by the **Law on Associations** (Official Gazette 88/01). It regulates the establishment and activities of associations as the most numerous types of civil society organizations in Croatia. The act elaborates the right of citizens guaranteed by the Constitution to associate in any form of free and voluntary union of a number of natural or legal persons, for the purpose of protection of their interests or the promotion of their human rights and freedoms, and their ecological, humanitarian, informational, cultural, national, pro-natalist, educational, social, expert, sports, technical, medical, scientific or other convictions and objectives, without the intention of generating profit.

The establishment and work of foundations and funds are regulated by the **Law on Foundations and Funds** (Official Gazette 36/95) and the **Act on Amendments to the Act on Foundations and Funds** (Official Gazette 64/01). The former stipulates the manner of establishment and functioning of foundations, which are properties assigned to serve by themselves, or through their generated income, serve to the accomplishment of some generally beneficial or charitable purpose. The latter regulates foundation, organization, activity and termination of foundations and funds, registration and termination of foreign foundations' representatives, i.e. funds, and supervision of their work.

The **Law on Public Benefit Companies** (Official Gazette 76/93) regulates the establishment and activities of institutions as organisations to permanently perform activities related to education, science, culture, information, sport, physical education, technical culture, child care, health care, social welfare, care for the disabled and other activities, provided they are not performed for the purpose of generating profit. An institution may be established by citizens as natural persons, thus it can belong to civil society organisations, while public institutions are mostly established by the State or regional and local self-government units.

3. Size, structure, and functions of the non-profit organisations

Apart from the current number of 41.953 associations², and 161 registered foundations³, in May 2010 there were also around 130 foreign associations, 600 public benefit companies with the status of civil society organization, 291 trade unions, 6 employers associations, 1604 cooperatives, 50 religious communities and 1976 legal entities of the Catholic Church (Butković, Vidaček, 2010.).

The most recognizable areas of civil society are as follows:

1. The circle of organizations in social welfare sector firmly associated within umbrella organizations originating in the period of socialism, with a stable state financing, but mostly lacking new initiatives or enterprising employees.
2. A lesser number of social, charity and ecological organizations, frequently organized on the principle of self-help that promote innovations, mobilize membership and local resources and attract reputable persons from public life.
3. A minor number of organizations, being a part of international organization network, financed mostly from abroad, without wider support of local stakeholders, and frequently attracting wider media attention.
4. Local organizations established after 1990 with substantial foreign support and well educated and skilled employees, functioning on principles of social entrepreneurship, developing innovative programmes, with missions and visions recognizable by the potential partners.

² According to the Register of Associations, Ministry of Public Administration, available from: <http://195.29.186.154/RegistarUdruga/login> <Accessed on 20th November 2010>

³ According to the Register of Foundations, Ministry of Public Administration, available from: <http://www.appluprava.hr/RegistarZaklada/faces/WEB-INF/pages/searchForm.jsp> <Accessed on 20th November 2010>

5. The professional associations, with rather oscillating activities, are becoming important for education, self-organization and are being recognized as partners. They also appear as the mobilization framework for the necessary support of new initiatives.

6. Organizations in local communities, oriented toward the needs of citizens and practical issues, governed on voluntary basis gain increasingly importance. The networking of local stakeholders, as well as mobilizing of additional resources is an important part of these organizations' missions.

3.1 Foundations

Foundations have been recognized as new factors in mobilizing additional resources, and framework for innovative actions towards positive social change (Bežovan, 2008.). In 2001, 47 foundations and 3 funds were registered in Croatia. At that time, majority of foundations were scholarship foundations, followed by foundations in the filed of social welfare and development in general. Endowment funds were relatively small, and due to that, 58% of foundations raised funds for their operation. (Bežovan, 2008.). Environment for development of foundations was assessed as rather unfavourable. Furthermore, foundations were lacking managerial skills and knowledge. The dominant socio-cultural framework determined by inherited distrust in civil initiatives, and the monopolist position of the state are a strong counter-balance to the inveteracy of the foundation culture in Croatia. Also, previous research indicated the problem of restrictive and rigid legal framework. Also, lack of philanthropic culture and its slow spreading are mentioned as restricting factors for the development of foundations. However, at that time, first valuable steps forward were recognized, as well as respectable resources which could be mobilized through foundations for public good (Bežovan, 2008.). In 2006 there were registered 94 foundations and 6 funds. Greater trend of registration of foundation is noticeable. Thus, in 2008 there were 124 foundations, and currently there are 161 foundations. Most of them need to raise funds for their operation, whereas only ten foundations could be considered as independent, according to the principle that their endowment guaranteed them certain income for realising their purpose. Five foundations were founded by corporations, and four by political parties (Bežovan, 2008.). Again, most were active in the fields of education (scholarships) and social welfare, with an increase of foundations in the field of culture. In those fields, foundations fulfil different roles: substitution or complementation to the state's programmes, redistribution

(in social welfare), promotion of social and policy changes, social innovation and protection of national heritage.

Foundations in Croatia are an urban phenomenon, and there are obvious regional disparities. Almost 60% of them had their headquarters in the capital, followed by other larger cities. In five counties there are no registered foundations (Bežovan, 2008.). In previous research endowment was shown to be one of crucial challenges for sustainable development of foundations in Croatia (Bežovan, 2008.). Most of foundations have to fundraise, where domestic citizens and domestic companies constitute the greater proportion in the structure of donators, followed by the local and regional self-government. Unlike other civil society organizations, there are only few foundations in Croatia that receive donations from abroad (Bežovan, 2008.). When it comes to individual donations, experience of the representatives of foundations shows citizens' readiness to donate. In a survey from 2001 (Bežovan, 2008.) 50% of respondents coming from the foundations considered that citizens were willing to donate when the process of fundraising is transparent. Reluctance to give is explained by the lack of trust, lack of knowledge about the work of foundations and poor tradition. Therefore, foundations should work more on public promotion of their work in media and on building the public awareness. Further incentives for charitable giving should come from the state, concretely, tax policy. Considering donations from the business sector, only 10% of companies declared readiness to donate, whereas around 45% were averagely willing to donate (Bežovan, 2008.). Therefore, both citizens and business sector showed tendency towards unwillingness to donate.

Total expenditures of foundations in 2005 amounted to 13.1 million Kuna. A half of this amount was related to two foundations.

Representatives of foundations named the following examples of successes as most frequent: socio-humanitarian work, help to poor families, help to children and organization of humanitarian activities, followed by giving scholarships, assistance to the ill and infirm, incentives to innovations and research.

Respondents named the following obstacles in their work: insufficient means and fundraising, low trust of the local authorities and lack of political support of the local self-government, and the problem of managing of the foundations on a volunteer basis.

For the long time Croatia was the only country in the region which had no stimulating fiscal policy for donations for the purposes of general welfare, nor a favourable status of non-profit organisations. Nowadays it can be said the tax framework is rather favourable and modern.

The state does not act as a partner in development of foundations, which hinders trust in their legitimacy.

4. Policy and institutional environment for civil society and welfare mix development in Croatia

Programme for fight against poverty and social exclusion

The Programme was launched in 2002 by the Ministry of work and social welfare. In it, civil society organizations were given a more visible role in the programme activities. However, civil society organizations were not adequately included in the programme creation, nor its implementation (Bežovan, 2007.).

Strategic Development Framework for 2006 – 2013, adopted by the Croatian Government, generally pays little attention to the problem of social development. The focus is on social cohesion and social justice; however, the programme does not envisage the role of civil society organizations and the welfare mix model is not advocated (Bežovan, 2007.).

The National Strategy for the Creation of an Enabling Environment for Civil Society Development for 2006 – 2011, adopted by the Croatian Government in 2006, advocates for greater involvement of civil society organizations in delivery of public services in social care, health and education. One of the goals is a good quality social contracting with civil society organizations in delivery of public services. The Strategy advocates for development of social economy and social entrepreneurship. It also puts emphasise on the development of voluntarism, philanthropy and foundations, with a special emphasis on the development of the local community foundations (Bežovan, 2007.).

Operational Implementation Plan for the National Strategy for the Creation of an Enabling Environment for Civil Society Development was adopted in 2007. However, Bežovan (2007) notes that the Strategy and its operational plan would have had a greater impact if had been passed in the Croatian Parliament. It can be said that representatives of civil society organizations were adequately included in the preparation of the abovementioned documents (Bežovan, 2007.).

In January 2001 Croatian Government adopted the *Programme of cooperation between the government of the Republic of Croatia and the non-governmental, non-for-profit sector in the Republic of Croatia*, as a framework for improving the cooperation between the public and the civil sector. It is based on the common values of democracy, pluralism, social justice, solidarity, transparency and participation in decision-making. It foresees the creation of effective mechanisms that would enhance the communication between the public administration and CSOs. Even though not legally binding, the Programme envisages the key guidelines which are to underpin the development of civil society. It sets the priorities on the cooperation between the government and civil society, most importantly those regarding the increase of the influence of CSOs in creation, implementation and monitoring public policies. The Programme stipulates the need to develop the positive practice code and enhance the quality action regarding consultations, policy evaluation and implementation. That is to be achieved, among other things, by defining an obligation to hold consultations of all state administration bodies with the representatives of the civil sector in cases of deliberation of laws and programmes from their jurisdiction⁴.

Ministry of Health and Social Care and the European Commission have made the *Joint Inclusion Memorandum*, which was signed in 2007. The document is aimed to give assistance to Croatia in the fight against poverty and social exclusion and in the preparation for fully fledged participation in the open method of coordination. The memorandum stipulates the need for strengthening the cooperation and partnership between civil society and the government, in all phases of social programmes-making. It is encouraged to use the expertise that associations have in development, implementation and evaluation of social programmes. It also stipulates the expectations from the business sector to act socially responsible (Bežovan, 2007.).

With an aim of introduction of basic principles and standards within public administration, in financing civil society organizations' programs and project of special interest for public good, in 2007 *Code of Good Practice, Standards and Benchmarks for the Allocation of Grants for Programmes and Projects of Associations* was delivered.

⁴ Programme of co-operation between the Government of the Republic of Croatia and the non-governmental, non-for-profit sector in the Republic of Croatia (2001)

The Government Office for Cooperation with Association was established in 1998, and for the first time donations from the state budget were granted through public calls for application. It was set up as an expert body with an aim of establishing trust and developing inter-sectoral cooperation between the state and non-profit organizations. It participates in the creation of new legislative frameworks for non-profit sector in Croatia, creates the database on the programmes of the CSOs and on the finances they receive from the state budget.

In the beginning of 2002, the government established the *Council for Civil Society Development*⁵, as an expert and consultative governmental body composed of representatives of the public administration, CSOs and independent experts. Its main task is to work on development, application and achieving greater effectiveness of the policies enhancing civil society, on promotion of philanthropy, partnership and inter-sectoral cooperation.

In 2003 *National Foundation for Civil Society Development* was established, which gave further incentives for development of civil society in Croatia. Associations can receive a three-year institutional support to their sustainability and supports for different programmes (Bežovan, 2007.).

5. Analysis of civil society in Croatia

Generally, there is scarcity of research and empirical data on civil society in Croatia. Croatia⁶ has participated in the international comparative research project CIVICUS Civil Society Index (CSI) from its inception phase in 2001. The following section presents a comprehensive analysis of civil society in Croatia, i.e. its main dimensions, based on the findings from the CSI 2001 and CSI 2003-2005 phases.

5.1 Structure

Research results showed that civil society in Croatia had fragile structure. only 5.3% of Croatian citizens have written at least one letter to newspaper, 61.3% have signed a petition and 14.6% have participated in demonstrations. For Croatian citizens this whole field

⁵ <http://www.uzuvrh.hr/stranica.aspx?pageID=38>

⁶ National coordinator organization in Croatia in all CSI phases was CERANEO – Centre for Development of Nonprofit Organizations

comprises a new type of political action, related to the development of civil culture which almost did not exist by 1990. When it comes to charitable giving, the survey showed that 66.8% of citizens have donated cash or other goods such as garments and food for humanitarian purposes. Charitable giving in Croatia during last several years has increased thanks to new technology of giving by phone calls or permanent transfer orders. The number of women giving for charitable purposes is slightly higher than the number of men. Persons with higher education are more inclined to donate. More donations are recorded with respondents assessing their financial status as higher. Croatian and foreign programmes of civil society support were not providing incentives for local stakeholders to give in public purposes. In some areas (NorthWest Croatia, Split) cases were recorded of young entrepreneurs coming to social institutions offering support for their programmes (Bežovan, Zrinščak & Vugec, 2005.).

The results and information assembled in public speak in favour of developing the giving culture. In several cases the trust in charity giving, involving during the War the diaspora as well, was challenged due to non-transparency. The trust in convenors of these actions is being restored, what can be the basis for establishing new types of solidarity and sentiment for public good (Bežovan, Zrinščak & Vugec, 2005.).

Concerning the membership in civil society organizations and volunteering, the CSI survey also showed that 35.2% of Croatian citizens are members of at least one CSO, whereas 12.3% are members of more than one organization. This indicates a somewhat decreased level of participation in comparison to the data gathered in 1999 European value survey (EVS) when only 40% of citizens declared to be members of some civil society organization. A breakdown of the EVS data reveals that most of the members belong to faithbased organizations (12.9%), sports recreation (11.9%) and trade unions (10.6%), while an insignificant number belongs to social, ecological, women's or some other organizations (Bežovan, Zrinščak & Vugec, 2005.). However, active participation in associations is rare, and the lack of active participation is a great problem for CSOs. The citizens are not willing to pay even a symbolic membership fee, and expect assistance with their problems for free. The membership is experienced as an unnecessary obligation. In this respect the frequently asked question is: whom do the CSOs represent, as modest membership levels challenge the legitimacy of CSO activities.

The survey shows that about 38% of citizens were engaged in voluntary work during the year before, providing some support outside the family/relatives circle, to the members of wider community, and outside of activities of certain organization. Consequently, these were cases of individual initiatives, as for instance buying for neighbours, assistance in learning, without

compensation. About half of the volunteers dedicate more than 8 hours per month to this activity. Only a small percentage of volunteers dedicate less than 2 hours. The respondents with higher education, as well as the ones with lower education (probably housewives) are more inclined to volunteer. Apart of it the respondents, assessing their financial status as higher, are more inclined to volunteer. It can be said that we are dealing mostly with traditional, informal support to neighbours and less with formalised support through CSO (Bežovan, Zrinščak & Vugec, 2005.). The citizens do not volunteer due to several reasons, mainly because of bad financial status, lack of appropriate values or lack of information (Ledić, 2001).

The level of activism in local communities is rather low. The survey findings show that less than one third of citizens participate in community actions or are aware of the activities in this area. It can be said that community activism is taking place, albeit on a rather small scale. The citizens are more willing to participate and engage in solving the problem in cases where they recognise these issues relate to their personal interest. Here belong the developed activities of good neighbourly assistance as well.

Regarding the representation of different social groups among CSO members, there is an evidence of 'feminization' of the civil society sector, evidently in humanitarian and social organisations. The poor are mostly not recognized as CSO participants. As a rule, the poor are not members of civil society organizations. The rural population is modestly represented as well. Rural population is equally represented for 8.7% and poor for 7.5% of respondents. Ethnic/linguistic and religious minorities are well represented, in regions where such minorities exist (Bežovan, Zrinščak & Vugec, 2005.). Research also assessed the role of mentioned social groups in leadership of CSO. Women are well represented in leadership of CSO, 54.7%. The representatives of higher class are perceived as citizens who have more power in society, 38.1%, particularly in local communities where they are particularly prone to be elected to bodies of various associations. According to the opinion of key informants associations in new time look for respected citizens (doctors, managers, entrepreneurs, journalists) asking them for membership in their boards. It is a way of CSO appearance increase in local communities. The poor 2.6% and rural population 3.8% are not recognised in leadership of CSO. Ethnical/linguistic 17.7% religious minorities 12.1% run their organisations and they are well represented in leadership. Leadership as a topic in CSO is becoming more and more important for civil society development. CSO can be recognised on the basis of respect and prominence of person which lead organisation (Bežovan, Zrinščak & Vugec, 2005.).

Civil society organizations are regarded to be either concentrated in large cities (47.9%) or at least mostly limited to urban areas (40.8%). In cities below 5.000 inhabitants, active associations can hardly be found. More than one fourth of all associations are registered within the wider Zagreb area. Around the four largest cities there are 50.4% registered associations. There is a statistically significant positive correlation between the high educated and the number of associations per regions (Bežovan, Zrinščak & Vugec, 2005.).

When it comes to membership in umbrella organizations, there is lack of reliable data; however, according to CSI 2003-2005 around 40% of organizations belong to umbrella organizations. Some of the better known umbrella bodies are active at national level in the area of sports, recreation, culture, social welfare and health. In some sectors (social welfare, culture), umbrella bodies are present at the regional level. In cases where the umbrella bodies appear at the county level, their strength appears to be fragmented due to large number of counties. Lack of networking was detected as the most pressing problem regarding the structure of civil society. The associations have still not adequately recognized the importance of umbrella organizations and the need to belong to them. The problem of ineffective umbrella bodies was recognized, where umbrella bodies frequently become its own purpose, they are prone to bureaucratization and member organizations are often engaged in conflicts about the umbrella bodies. Stakeholders frequently do not recognize the purpose of such organizations, and rarely emphasize the examples of good governance and effective activities. When it comes to self-regulation practice in civil society, such as abiding by a specific code of conduct or other rules regarding the internal organization, less than 20% of respondents in the CSI 2003-2005 survey confirmed the existence of such rules. However, it can be assumed that most of respondents had in mind their statutes or other rules necessary for registration. A rather small number of organizations have their own additional rules which relate to activities that they perform or networks to which they belong. Willingness among reputable CSOs to further their self-regulating efforts or to consistently apply a code of conduct regarding the activities of their members is not recognizable. This applies, in particular, to professional associations with considerably high reputation and consequently potential public influence. These associations are frequently considered “privatised”, acting for the benefit of a narrow management (Bežovan, Zrinščak & Vugec, 2005.). A bottom up approach in which CSOs realize the importance of establishing and implementing self regulatory mechanisms is advocated for.

Regarding the infrastructure supporting the work of civil society organizations, during the 1990s, it was rather unfavourable. In the early 2000s, mostly through support of international development programmes, civil society support organizations finally emerged and started their activities. Their geographical distribution and activity setup adequately met the civil society development needs (Bežovan, 2004). Efforts of support organizations have as well produced several manuals and other publications which are useful to various organizations. However, the extent of support infrastructure, examined by the CSI 2003-2005 was still not satisfactory and mostly depended on foreign financial assistance (Bežovan, Zrinščak & Vugec, 2005.). The infrastructure was dominantly assessed as limited and less than 4% of respondents assessed it as well developed. There are regional variations when it comes to the level of support infrastructure, for instance, the respondents in northwest Croatia see a lack of such infrastructure in their region. Similar issues have been identified by the representatives of organizations which are located far away from the regional centre. These are few examples of organizations providing support to civil society, some of them specialized in more specific areas of civil society development. Furthermore, it can be said that Croatian civil society organizations have weak international connections. The membership in international networks is more common among larger CSOs and umbrella organizations (Bežovan, Zrinščak & Vugec, 2005.). 35.5% of organizations were not members of such networks or participate just sporadically. Participation of domestic CSOs in international civil events is even lower as respondents stated that 51.3% of organizations did not or only rarely participated in such events. Representation of Croatian civil society organizations abroad was described as generally weak.

The level of communication between CSOs, including information exchange between individual organizations, was seen as moderate (39.2%) or limited (31.7%). The problem of disloyal competition between certain associations was also revealed (Bežovan, Zrinščak & Vugec, 2005.). Conferences, seminars and workshops are considered to be adequate means of information exchange, yet such gatherings regularly assemble the same participants, namely representatives of strong and well developed civil society organizations. Public officials also recognized a low level of communication among CSOs, which they see as the root cause for the often encountered overlap among programmatic activities of CSOs. Also, channels of information exchange needs to be established.

Cooperation among CSOs in form of federations, networks and coalitions aimed at addressing common issues within various sectors of civil society justifies the mission of a number of organizations and contributes to the dynamics and vitality of civil society in Croatia.

Observation of civil society developments in Croatia suggests that these coalitions and campaigns are usually most effective. However, a wide range of stakeholders in the CSI 2003-2005, agreed to the fact that the CSOs in Croatia mostly proceeded reactively. They were often perceived as the ones being against, offering rarely solutions to issues from their agenda.

When it comes to financial resources, most of the respondents in the CSI 2003-2005 shared the opinion that financial resources available to their CSO were either fully insufficient (39.2%) or partially insufficient to accomplish the assigned CSO goals (25.3%). Only 13.6% declared to have sufficient resources and 4.2% have quite insufficient resources (Bežovan, Zrinščak & Vugec, 2005.). Absence of stable institutional support systems for civil society organizations was stressed. Most CSOs are operating in a state of permanent financial crisis, which is threatening the sustainability of their development. These financing issues were more acute in regions where foreign donors were less active (Istra, NorthWest Croatia). Financial insecurity, mostly reflected in inability for long-term planning of activities, has been emphasized as the most significant issue of CSOs development (Bežovan, Zrinščak & Vugec, 2005.). The CSOs are being financed from various sources. The survey findings reveal that the most funds come from the state, member fees, foreign donors, individual donations etc. The national corporate sector is sparsely represented. Foreign donors frequently come with previously designed programmes, without consultations with local stakeholders, and not taking in account the local achievements and the fact that the bottom up development of civil society is required. By establishing of the National Foundation for Civil Society Development a wide range of stakeholders have perceived the increase of funds allocated for civil society financing, as well as the regional approach in funds allocation (Bežovan, Zrinščak & Vugec, 2005.).

As regards human resources, 56.4% of respondents in the CSI 2003-2005 consider the competence and skills of CSO staff as adequate, whereas some 40.6% consider their human resources as insufficient. However the sample was dominated by bigger, better known CSOs which in many cases have permanent employees, whereas several experts who were consulted were not so confident about the high level of competence among the CSO employees as found in the survey. State representatives and civil servants also commonly express their doubts about the competency of the civil society sector. The opportunity to employ young persons, educated experts with state support to civil society organizations was emphasised (Bežovan, Zrinščak & Vugec, 2005.).

The technical and infrastructural resources (office, computer, Internet, fax, telephone) at disposal to CSOs, constitute an essential factor to the development of the sector. According to the CSI 2003-2005 survey, 29.6% of organizations have sufficient technical and infrastructural resources, 45.1% claim to have partially sufficient infrastructure, 24.0% insufficient, while in 5.0% of organizations infrastructure is described as absolutely insufficient. The organizations in regions where foreign donors are not active, such as Istra and NorthWest Croatia appear to have more problems with the technical and infrastructural resources. The towns, in general, increasingly provide office space for associations' activities and actions (Bežovan, Zrinščak & Vugec, 2005.).

5.2 Environment (political, social, economic, cultural and legal)

When it comes to political environment, according to the Freedom House, Croatia has rather high level of political rights (Bežovan, Zrinščak & Vugec, 2005.). When it comes to **the rule of law**, the legal system in the Republic of Croatia is structured on the principle of its division to legislative, executive and judicial authority. The courts of general jurisdiction are the municipal court, county court and the Supreme Court of the Republic of Croatia. The right to constitutional complaint is guaranteed against the courts decisions which violate the basic constitutional human rights and freedoms. There are several challenges to efficient functioning of judicature, which have considerably contributed to the general status of legal insecurity: the courts are overburdened with cases, the number of pending cases is huge and increasing, there is abundance of regulations, which is mostly of poor quality and is frequently being amended. The trust of citizens in courts is at rather low level. According to Transparency International 2004 report, Croatia was on the 67th place out of 146 countries. The annual reports of Transparency International Croatia regularly draw attention of the public. The trust of citizens, according to EVS, in the government and state administration is rather low. The public perceives civil services employees as low-paid, unmotivated and incompetent for the tasks they perform. The competent and entrepreneurial civil servants are often leaving the sector. The CSI 2003-2005 survey indicated that 82.7% of citizens do not trust the Government (Bežovan, Zrinščak & Vugec, 2005.).

The Republic of Croatia has 21 counties, 122 towns and 424 municipalities. The **decentralization process** in earnest began only in early 2000. This comprised the transfer of

responsibilities and resources for financing of health, educational and social welfare systems to local authorities. The decentralization process is a significant development issue.

When it comes to **basic rights and freedoms**, the Constitution of the Republic of Croatia guarantees their full protection. Other laws have been passed as well, pursuant to these regulations of the Constitution of the Republic of Croatia, thus additionally stipulating and guaranteeing the human rights. During the 1990s serious violations of basic civil and political rights were recorded, yet in the recent years the significant positive trend is evident. However, the mentioned positive trend is considerably less evident with respect to the right to protection of rights and freedoms within the court, as well as to rights violated in the context of war and post-war period: the rights of national minorities, the right to (sustainable) resettlement, as well as equality before law in the context of war crime trials. Regarding the status of national minorities (Serbs, Hungarians, Bosnians, Italians, etc.), it should be emphasized that essential progress was made at the level of political rhetoric and legislation, whereas the progress is less visible in the practice. In case of social, economic and cultural rights, the most severe violations of labour and other social rights were recorded in the context of the so called privatization. A serious discussion has finally emerged about the significance of the “third generation” rights – primarily on the right to sustainable development and safe environment, as well as on children’s rights, rights of persons with special needs as well as rights of sexual minorities. The enactment of the Gender Equality Act, as well as efforts to increase the public awareness of women’s rights, promoted not only by women’s human rights organizations, but the administrative bodies as well, speak of positive trend in the area of women’s rights protection. According to the Freedom House 2005 Civil liberties indicator Croatia scored a high 2 (Bežovan, Zrinščak & Vugec, 2005.). Concerning the information rights freedom of the press, despite Access to Information Act adopted in 2003, it can be said that the access to information is still inadequate. The state does not respond to requests, neglects the rush notes, some cases protract over two or three years. There is no systematic media reporting on the area of democratization. This is mostly the practice at the level of local government. Apart of the few dishonourable and exceptional cases, the Government in general respects the media and press freedom. According to Freedom House (2004) data on freedom of the press in the Republic of Croatia got a score of 3.75, which indicates a partly free media (Bežovan, Zrinščak & Vugec, 2005.).

When examining **socio-economic context**, the CSI 2003-2005, the following aspect were taken into account: poverty, recent war, severe ethnic or religious conflict, severe economic

crisis, severe social crisis, severe socio-economic inequalities, illiteracy and lack of IT infrastructure.

According to the recent poverty survey (Šućur, 2004), poverty rate between 2001 and 2003 ranged between 17% and 18%. The poverty in Croatia is of stagnant character. According to World Bank Development Indicators (2004) less than 2% of Croatians lived below the international poverty line of US\$ 2 per day (survey carried out in 2000). Even though Croatia did not experience any armed conflict lately, the Homeland war 1991-1995 had significant and long-lasting impact on Croatian society. Also, the process of disintegration of former Yugoslavia, resulting in several armed conflicts in this area, had and still has negative impact on the effective functioning of civil society. Public life has been dominated by political parties and in the 1990s civil society organizations have been seen as agents of foreign forces acting according instruction from outside. It made negative image of civil society organizations (NGOs) to ordinary citizens. In spite of severe Socioeconomic inequalities which are not met with public approval, the Gini coefficient for 2003 was 0.28. The socioeconomic context is not very conducive to civil society development. The barriers for civil society development, if we compare it to the region, exist in the legacies of the war, ethnic conflict and long-lasting economic crisis what slow down the new middle classes formation (Bežovan, Zrinščak & Vugec, 2005.).

Examining **socio-cultural context**, trust, tolerance and public spiritedness were examined. According to the EVS 2004, In Croatia, like in other post-communist countries, public mistrust is widespread (Bežovan, Zrinščak & Vugec, 2005.). Tolerance is an ambiguously accepted norm in Croatian society. According to the CSI 2003-2005, two fifth (38%) of population does not accept homosexuals as neighbours, one fourth does not accept the persons with AIDS, 12.8% does not accept the foreign workers and 12.6% does not accept the members of other religions. Public spiritedness was defined as the extent to which the citizens tend to violate certain public norms: tax evasion, free-riding etc. As the survey shows, 51.7% of citizens are ready to always or sometimes justify a nonpaid journey in public transportation, 25.3% accepts fiddling with one's own taxes if an opportunity shows up, and 21.3% justifies application for a state benefit even though one is not eligible for it (Bežovan, Zrinščak & Vugec, 2005.).

There are no legal restrictions with respect to **civil society advocacy activities**. The civil society organizations criticise the Government and its procedures. However, many CSOs which have received or expect to receive funding from the state or local government use to have their own self-censorship mechanisms. A part of such organizations considers not

criticising those who provide money as a good practice advocating of different attitudes as always understood as criticism. It is consequently not surprising that 25.7% of respondents considered that there were reasonable limitations with respect to advocating activities being pursued by the civil society, and only 20.4 % of recipients considered that there were no limitations. No less than 45.3% of respondents did not know the answer to this question. The organizations most prominent in criticizing the government, as for instance the ecologic associations, have frequently earned a bad reputation among the civil servants, what hinders their activities with respect to obtaining necessary information (Bežovan, Zrinščak & Vugec, 2005.).

5.2.1 Revenue structure and financial characteristics of the nonprofit sector

As far as the sectors of activities of associations are concerned, approximately half of associations work in the area of sports and culture. While social, health, youth, environment, agriculture, war veterans and other associations are significantly less numerous their potential in terms of initiating social entrepreneurship projects is considerably higher. According to the data of the State Bureau for Statistics for 2008, associations provided direct employment to 7321 people in that year (Butković, Vidaček, 2010.).

The analysis of awarded financial supports from public sources, based on the field of activity demonstrated that in the last two years the field of sports absorbs one fourth of total amount awarded. After that follows the field of protection and promotion of culture and cultural heritage and nature preservation. Projects supporting persons with disabilities and socially vulnerable groups are being awarded some 12 percent of the total amount. Projects focusing on youth and children gain about 12 percent, while war veterans amount to around 10 percent (Butković, Vidaček, 2010.).

According to the research conducted among associations that received grants from the State budget in 2008 (National Foundation for Civil Society Development, 2010), almost 70% of associations rely on State budget and local/regional governments' budget as the main source of funding. Only one third of associations covered by that analysis had self-financing activities as part of their budget (Butković, Vidaček, 2010.).

Most of the regional stakeholder respondents share the opinion that financial resources available to their CSO are either fully insufficient (39.2%) or partially insufficient to accomplish the assigned CSO goals (25.3%) (Bežovan, Zrinščak, 2007). Only 13.6% declared to have sufficient resources and 4.2% have quite insufficient resources. The regional consultations have additionally clarified this issue, stressing the absence of stable institutional support systems for CSOs. Experts do see this issue as a crucial obstacle for the future development of Croatian civil society. Most CSOs are operating in a state of permanent financial crisis, which is threatening the sustainability of their development. According to the stakeholders survey these financing issues are more acute in regions where foreign donors are less active (Istra, North-West Croatia). The financial insecurity, mostly reflected in inability for long-term planning of activities, has been emphasized as the most significant issue of CSOs development.

The CSOs are being financed from various sources. The survey findings reveal that the most funds come from the state, member fees, foreign donors, individual donations etc. The national corporate sector is sparsely represented. A part of consulted experts consider the establishing of systematic dialogue with the representatives of foreign donors essential, which still provide for substantial financial and technical support to civil society development. These donors frequently come with previously designed programmes, without consultations with local stakeholders. The missions of such programmes are frequently narrow conceived. A part of experts, more acquainted with these issues consider that a part of foreign programmes forces the civil society development, not taking in account the local achievements and the fact that the bottom up development of civil society is required. In debate on civil society development, the problem of “imported” civil society is mentioned often.

By establishing the National Foundation for Civil Society Development a wide range of stakeholders have perceived the increase of funds allocated for civil society financing, as well as, as announced in the programme, the regional approach in funds allocation. However, the National Foundation was only recently set on its feet and no precise estimates can be made in this respect.⁷

⁷ More details on the National Foundation Programme on www.civilnodrustvo.hr .

The funds distributed by the Associations Office (from the State Budget) have mostly been allocated to organizations from the area of social policy. On the other hand the highest amounts of funds from the State Budget are distributed to sports organizations.

The most notable incentives to the welfare mix development in Croatia have been made through financial support to civil society organizations (Bežovan, 2007.). Social civil society organizations are dominantly financed from members' fees, from the state, donations from individuals and business sector, or international organizations, from their products and services, and from the lottery.

In social organizations, members' fees are characteristic for organizations which advocate their members' interests or provide services, most notably organizations for people with specific illness (Bežovan, 2007.).

Donations from national or local government in 1990s were distributed mainly without criteria, public calls for proposals and informing the public on the amounts of donations and financed projects. Establishing the Government Office for Cooperation denoted the introduction of practice of public calls for project proposals (Bežovan, 2007.).

Alongside the aforementioned role of the National Foundation for Civil Society Development, certain ministries, counties and cities (regional and local self-government) also give donations to civil society organizations. For instance, the associations in social and health area have in 2004 received approximately Kuna 14.5 million. At these levels the funds are increasing, yet the largest share is still allocated to sports and cultural organizations (Bežovan, 2007.). In the late 1990s, some larger cities introduced the practice of public calls for project proposals. Concerning the responsibilities of the local self-government in social care system, it is expected that it finances the work of civic associations. Some research results have shown that the largest share of donations from the cities received Caritas and the Red Cross, as well as different associations of disabled, associations from the homeland war, associations of pensioners and the programmes aimed at social integration, such as different prevention programmes (Bežovan, Zrinščak, 2001.). According to the CSI 2003-2005 survey, the Government, counties, cities and municipalities are the main CSO financier. The foreign donors were particularly present in Zagreb, Slavonia and Dalmatia. However, some recent insights have detected the problem of withdrawal of foreign donors from the former war affected areas. It was shown that in the period of stronger presence of foreign organizations and donors, civil society was mostly speaking "foreign" languages and was not deep-rooted in local communities and citizens' consciousness. The people used to speak about the virtual and

imported civil society which “lasted” as long as it was financed from abroad (Bežovan, Zrinščak & Vugec, 2005.).

The problem of poor cooperation between different donors, i.e. National Foundation for Civil Society Development, respective ministries, counties, cities and municipalities has been recognized (Bežovan, 2007.).

In Croatia, the tax laws favourable for CSO development were enacted only in early 2000s. (CSOs do not pay profit tax, they can get tax free donations, they do not pay tax on membership fees.) In the 1990s, citizens and business subjects could not donate to social non-profit organizations and have tax deductions. Organizations were often suspected of moneylaundering activities. The tax benefits for activities of these nonprofit organizations were one of the most favourable in the region. The donations, endowments, grants, membership fees and contributions from public funds were all not subject to income tax. However, such tax benefits are more a result of foreign pressure with expectations that it would create the space for civil society development, rather than being expression of indigenous expectations from these organizations to contribute in country’s development. No systematic tax policy was pursued in this area (Bežovan, Zrinščak & Vugec, 2005.).

Value Added Tax (VAT) has been applied in Croatia since January 1, 1998. It is in compliance with the Sixth EU Guideline and it is of consumable type, according to the principle of the destination of delivery and when calculating the tax obligation a credit method is used, enabling tax prepayment deduction. VAT exemptions are defined in Article 11 of the **Value Added Tax Act** (Official gazette 47/95). Among others, VAT is not due for services and delivery of goods of religious communities and institutions. The Item 10 of the Article describes that VAT exemptions refer to services and deliveries of goods of independent artists and art organizations.

The new Government has in April 2004 by the Law on Amendments of the VAT Law abrogated the right to a part of CSOs to be exempted from VAT payment for goods and services paid from foreign donations in money. The environment protection associations, human rights protection associations and associations active in democratization were left without benefits. GONG has initiated public discussion on this topic, as well as the law amendment procedure aimed at restoring the previous status. At this moment, use of such benefits is limited only to non-profit organizations working as the humanitarian, health, educational, cultural, scientific, religious and social institutions, sports amateur clubs and local and regional self-administrative bodies. The arguments were made that such associations

are abusing those benefits, engage in money laundering, are pursuing the policy of political parties, or are plainly following own personal interests. (Bežovan, Zrinščak & Vugec, 2005.).

The **Income Tax Act** (Official Gazette 117/04) stipulates that taxpayers may increase their personal tax deduction for inland donations made in kind and money paid into a direct gyro account for cultural, educational, scientific, health, humanitarian, sports and religious purposes, to associations and other persons that perform the aforementioned activities in compliance with special legislation, in the amount of up to 2% of the revenue, which was submitted in the tax return the previous year and for which annual income tax was determined. However, there is relatively small number of subject which uses this possibility. Donating to civil society organizations in Croatia has poor tradition (Bežovan, 2007.).

The Profit Tax is established and paid according to the provisions of the **Profit Tax Act** (Official Gazette, 177/04) and provisions passed based on the Act. Defining tax payers the Act, in Article 2, item 6, prescribes that state institutions, institutions of regional self-government units, institutions of local self-government units, state institutes, religious communities, political parties, unions, chambers, associations, art associations, volunteer fire brigades, technical culture associations, tourist boards, sports clubs, sports associations and alliances, and funds and foundations are not liable to pay profit tax.

Also, according to the same Act, organizations liable to profit-tax can reduce their tax base by the value of donations in cash or in kind done for public good (including non-profit organizations). These deductions may be as high as 2% of the total revenue generated in the previous year, and with approval of the relevant ministry the tax deductible donations can exceed the given figure.

Generally, the tax regulations are considerably complex. Therefore, only small number of persons involved in activities of CSOs understands their purpose and promotes them in advocating the citizen or corporate sector donations (Bežovan, Zrinščak & Vugec, 2005.).

5.2.2 Relationships between the government and the civil sector, the government's civil strategy

The autonomy of CSOs in new democracies is considered as one of key issues for a healthy civil society. The paternalistic attitude of the state, as well as the tradition of being in absolute

control, challenges the autonomy of civil organizations. In opinion of 54.7% of CSI 2003-2005 respondents, the state was sometimes over involved in activities of civil organizations. The problem of local authorities meddling with associations' activities was repeatedly emphasized. As example green organisations were under control and supervision of local authorities. The local authorities were determined to control all local events and were suspicious to all forms of civil initiatives, striving to direct and control them. The powerful political protagonists often undermined the civil society initiatives and actions since those contradicted or did not comply with their interests. The financial dependency on the state challenged the autonomy of civil organizations. The respondents mentioned the abovementioned amendments with respect to VAT as case of involvement of state in civil society activities, indicative of current government's pursuit of a systematic policy aimed at demolishing the organizations which are asking unpleasant questions.

The cooperation and dialogue between the CSOs and the state was rather restricted in 1990s. The dominant impression was that of a conflict. Apart of the humanitarian area there were only few areas of cooperation and partnership. During the mandate of the coalition government in 2000/2003, which had a pronouncedly positive inclination to the idea of civil society, the dialogue and better cooperation between the state and civil society organizations was established. The CSOs were frequently invited to cooperate in implementation of various projects. Though, some considered this cooperation to be only declarative one and not truly contributing to establishing successful partnership between the state and the civil society. The current Government does not proclaim the need of cooperation with civil society in its programme papers. The main challenges, namely, the slow pace of establishing communication, the poor quality of communication, as well as the dynamics of possibly agreed cooperation are still present. The dialogue between the state and CSOs has a short tradition and is rather limited. In recent time the counselling bodies are being established at the state level, involving the representatives of CSOs. These bodies are engaged in children's rights, rights of disabled persons, gender equality, minorities, environment protection, protection of human rights, consumer protection and similar. As well, the Council for the Development of Civil Society has been established. Some of more critical experts consider that by having established such bodies the government avoids its own involvement with some difficult issues, at the same time presenting its democratic qualities to the international public. At regional level and in bigger towns similar bodies involving the CSO representatives have

been established. The signed charters on cooperation of local and regional authorities with CSOs are likely to enhance the dialogue.

The relations between the CSOs and the state are often vulnerable due to government shift. The CSOs are frequently not able to clearly articulate their attitudes and express their interests towards the state or the programmes the state is implementing.

It seems that the CSOs have better cooperation with the political parties while they are in opposition than when they become a ruling party. The government changes result in the discontinuity of dialogue with the state at all levels. Experience of dialog with earlier government is not relevant for the new one. A part of civil society activists have been exposed to contempt, humiliation and belittlement from the representatives of political parties. It was a case with organisations dealing with consumer protection. CSOs are perceived as acting subversively against the Government and obstructing the previously agreed deals.

There seems to be an increasing number of regions the associations are striving to assemble in order to establish the dialogue with the government's representatives. In these efforts a part of associations has difficulties in overcoming its particular interests. However, this dialogue is frequently of occasional character, what means that the new communication standards should be established.

There is empirical evidence and, also, it is more and more obvious from the general public that civil society in Croatia is co-governor in different field of development.

5.2.3 Relationship between the private sector and the civil sector

When it comes to private sector – civil society relations, it can be said that civil society organizations have only recently aroused some interest from the private business sector. The CSI 2003-2005 research revealed that the private sector was still mostly indifferent (42.6%) or suspicious (32.8%) attitude towards civil society. The private sector is hard pressed in day by day struggle for survival with market competition in environment characterized by insecurity and instability. In such an unfavourable environment only a few have time and resources for civil society. The respondents considered that the corporate sector associations seldom 49.4% or occasionally – 23.8% participated in wider initiatives of civil society. Though, the small and medium entrepreneurs increasingly recognise the CSOs. In more developed regions (Varaždin, Rijeka, Istra), the attitudes of the private sector to civil society were more favourable (Bežovan, Zrinščak & Vugec, 2005.). According to another survey on the welfare mix in Croatia, cooperation with business sector is assessed moderate to limited,

where institutions report on somewhat better cooperation. Almost 40% of associations in survey had experience of cooperation with business sector, namely, corporations giving donations in cash and in kind, giving premises, employing some socially excluded groups, and other examples (Bežovan, 2007.).

Corporate social responsibility

Corporate social responsibility, which also includes donating to social civil society organizations, has gained greater importance in recent times (Bežovan, Zrinščak, 2007.).

Some previous research revealed that the type of social state that is developing in Croatia does not contribute towards development of the socially accountable corporate sector. The corporate sector is obliged to pay high taxes and contributions for social and public purposes, yet it is not an important stakeholder in addressing the issues in society or community. A rather small number of firms are on their way to establish socially accountable relations in communities and localities in which they are active. The research revealed that CSOs concerned with public good have not set up any quality expectations from the corporate sector, which would help the sector to establish its part of social accountability. The corporate sector supports to a larger extent the activities of public institutions in health care, education and social services than the activities of civil society organizations. Traditionally, the corporate sector used to maintain good cooperation with various sports and cultural organizations. The corporate sector considers CSOs solely as beneficiaries of their support, while the associations consider the corporate sector solely as donors. Such restricted relations result in a small number of partnerships between CSOs and the corporate sector (Bežovan, Zrinščak & Vugec, 2005.).

The culture of corporate social responsibility, which is engaged in community and wider society, has been introduced in Croatia by international companies, which have become the owners of most profitable sectors of economy during the privatization process. More recently, well educated younger managers and the owners of small and medium companies have as well contributed to development of such culture. The award “Donor of the Year” for the business sector, which was awarded during the period from 2001 to 2003, promoted value of such practices as value, and was supported by the Zagreb Chamber of the Croatian Chamber of Commerce. The termination of the award is a good indicator of immaturity of the culture of corporate social responsibility in Croatia (Bežovan, Zrinščak & Vugec, 2005.).

Survey respondents rated corporate social responsibility activities as insignificant (20.8%). Yet, the study of ten major Croatian companies' web sites has revealed some positive development trends of social accountability. It is evident that companies do not have clear policy towards this part of development and they do not have an idea what does it mean for reputation of company. In general, it is more seen like spending “money” for marketing sponsorship than a real social responsibility (Bežovan, Zrinščak & Vugec, 2005.). A few Croatian companies have a long experience in inviting tenders for grants to CSOs (Zagrebačka banka) and first reports on socially accountable corporate sector have been published (Coca Cola Beverages Croatia, INA, Pliva) (Bežovan, Zrinščak & Vugec, 2005.). Those companies have incorporated the concept of social responsibility, and together with the concepts of environmental protection and sustainable development, it forms part of their reports. Analysed cases in the CSI 2003-2005 research have shown that the greatest emphasis was on environmental issues and ecological and health safety of their products and services (often referring to various ISO standards). Promotion of environmental protection is characteristic for companies in petrochemical and pharmaceutical industry, albeit present in different forms in all companies declared to be socially responsible. Konzum, INA and Coca Cola Beverages are examples of companies which explicitly pay attention to their users/buyers. Investing in sport and culture is represented the most on the web pages of studied companies, and majority of socially oriented activities and donations were in this fields (Bežovan, Zrinščak, 2007.). Responsibility toward the local community is less represented. For example, Pliva had activities related to public health, and Coca Cola had activities for children and anti-discrimination policy (Bežovan, Zrinščak, 2007; UNDP Croatia, 2007.). Examples of social responsibility towards the employees could be found in companies which produced social reports. Important attention was given to the companies' contribution to the education of their employees and quality and safety at work (Bežovan, Zrinščak, 2007.). It can be said that leading companies declare their social responsibility. At the same time unequal attention is given to different aspect of social responsibility, whereas environmental protection is largely accepted, while the wellbeing of the users and the employees is not always considered within their CSR policies. Concrete actions within the social responsibility are rather rare, with limited scope and mostly directed to the sphere of culture (Bežovan, Zrinščak, 2007.).

Some examples of corporate social responsibility

In the case of Coca Cola Beverages Croatia a strategic approach to CSR seems to have developed a great deal due to the opportunities and needs identified through the reporting process. Since 2003, the following policies have been formulated: quality, environmental protection, work safety, human rights protection, advertising and children, HIV/AIDS (UNDP Croatia, 2007.).

The *Adris* Foundation is one of the largest corporatist foundations in the region, which promotes innovations and high quality in the science and the arts, supports talented students and young researchers, promotes environmental consciousness and helps the neediest in society⁸. In 2010 the *Adris* Foundation has through its programmes donated 3.000.850,00 Kuna in total⁹.

Karlovačka pivovara sees its social responsibility in three aspects: positive relations toward the local community, positive relation toward the environment and in promoting the responsible alcohol consuming¹⁰. It has launched its first social responsibility report for the year 2009. In 2009 it started with the donations programme, with an aim to make the giving strategy of *Karlovačka pivovara* more transparent and accessible for local projects. Three main strands of the programme are: sport, humanitarian projects and project of social importance (education, environment and culture). Last year through the programme 43 project were supported with the total amount 800.000,00 Kuna, with an average of 20.000,00 Kuna per project¹¹.

There is no reliable information on the scope of corporate philanthropy in Croatia. The research outcomes indicated that 33.2% of surveyed CSOs receive funds from the corporate sector, whereas the average share of corporate sector funds in the structure of certain CSOs amounts to 18.2% (Bežovan, Zrinščak & Vugec, 2005.). The corporate sector is undergoing a permanent crisis and remains under tough tax pressure. The development of corporate philanthropy has still not become a part of the Croatian corporate sector image. There are some positive development in this filed with small and medium companies active in local communities, still providing most support for sport and culture events.

⁸ Web pages of the Adris Foundation, available from:
http://www.adris.hr/Adris_i_Zajednica/zaklada_adris/rezultati.asp

⁹ *ibid.*

¹⁰ Web pages of the Karlovačka pivovara, available from:
http://www.karlovačka.com/upload/tbl_godisnja_izvjesca/114045-izvjecse_2009.pdf

¹¹ http://www.karlovačka.com/upload/tbl_godisnja_izvjesca/114045-izvjecse_2009.pdf

It can be said that the environment is still not sufficiently conducive for civil society development in Croatia. The political context marked by legal instability, corruption, contributes to citizens' passivism. The CSOs receive respectable funding from the state however, there is still no clear and conducive policy defined in this field. The way is being paved for partnership relations between the civil society and the state, primarily at local levels where the space for dialogue is being established. There is enough room available between the state and civil society for establishing new initiatives for increasing the human resources capacity on both sides. Socio-cultural context is marked with low generalised trust and undeveloped public spiritedness. This part of civil society as a crucial for future development is not present in debate of civil society development. In spite of the economic instability and tax pressures the corporate sector is beginning to recognise the civil society as a partner.

Social economy and social entrepreneurship in Croatia

Social economy and social entrepreneurship are new phenomena in the third sector of modern economies, which differ from the traditional non-profit sector (Bežovan, 2006.). In Europe it was mainly the rediscovery of nonprofits organisations as service providers that paved the way for the conceptualization of the social enterprise (Butković, Vidaček, 2010.). It produces goods and services on permanent basis, such as activities in social integration of the elderly excluded from the labour market, where is impossible to develop profitable activities. Social entrepreneurship does not strive to gain profit, but it emphasises the product and its benefits (Bežovan, 2006.). The multi-stakeholder foundation of these organisations should be considered as their strength because it enables more comprehensive viewing of an issue and generally fosters more democratic governance (Butković, Vidaček, 2010.). Social entrepreneurship often serves to the local community or particular social groups and promotes responsibility at local levels. In Croatia, part of organizations, especially those gathering the war victims, with the help of foreign donators incorporated the ideas of social entrepreneurship. The concept of the social economy still remains rather unknown by the wider public in Croatia. It is often used as an equivalent to the idea of social entrepreneurship, extensively promoted during the last decade by various international (mostly US and UK funded) donor agencies active in Croatia, as well as by the Organisation for Economic Co-operation and Development (OECD) (Butković, Vidaček, 2010.). Discussions about social entrepreneurship took place already in the second half of 1990s. Contrary to its increasing

importance at the European and international level, the social economy in Croatia is still facing the challenge of a lack of visibility in the overall institutional and legal structure. The first steps in promoting institutional recognition of the social economy were taken by the government in July 2006 with the adoption of the abovementioned National Strategy for the Creation of the Enabling Environment for Civil Society Development (Butković, Vidaček, 2010.). Some civil society organizations, with their activism and by bringing together local stakeholders, and with the assistance of foreign donators, managed to some extent to initiate programmes of local development (Bežovan, 2006.). As in many other countries, social economy initiatives in Croatia are predominantly linked to associations, foundations and public benefit companies with the status of non-profit institutions as representatives of non-market, non-business subsector of social economy, and co-operatives, as the most prominent representative of social economy market or business subsector (Butković, Vidaček, 2010.). Over the past several years, there have been some improvements particularly in regard to the availability of funding for social enterprise initiatives and projects, as well as concerning the awareness raising activities. Through the existing funding programmes of the National Foundation for Civil Society Development and several line ministries (especially Ministry of Health and Social Welfare, Ministry of Family, War Veterans and Intergenerational Solidarity and Ministry of Economy, Labour and Entrepreneurship), there have been numerous opportunities for associations, foundations, public benefit companies and cooperatives to develop innovative projects in the field of social service delivery, social employment and other related areas. Many attempts to set up social enterprises that would ensure long term funding for non-profit, public benefit programmes failed due to the lack of funders' interest in these hybrid initiatives, but also due to the lack of stimulating measures and tax benefits for such public benefit initiatives (Butković, Vidaček, 2010.). War veterans have also contributed to greater incorporation of social economy, by organizing them self through cooperatives. The most notable examples of social economy in Croatia can be found in the field of social services, by establishing public benefit companies. For example, services for the elderly, whose accommodation in residential home is partly paid by the elderly themselves, partly by the government, and finally, the company can extra fundraise, and thus ensure better quality of their services (Bežovan, 2006.). There has been a rather limited number of associations engaging in economic activities or setting up social enterprises. This might be due to the predominant reliance on public budget as the main source of funding, but also to the fact that Croatian non-profit organisations have legal restrictions on revenue introduced in order to avoid "grey areas" between profit and not-profit activities (Butković, Vidaček, 2010.).

According to the results of the research conducted by UNDP Croatia, the share of alternative social services provided by associations is very high (57,7%), compared to public benefit companies with private status (17,1%). Direct beneficiaries of alternative social programmes identified by this research include predominantly elderly persons (23,4%), disabled persons (17,3%) as well as children and youth (16,9%) (Butković, Vidaček, 2010.). According to the data of the Ministry of Health and Social Welfare there are 106 non-State, public benefit companies with non-profit status providing social and health services for more than 6300 direct beneficiaries in Croatia. Although there is a commitment to promote de-institutionalisation of social services, this process still proves to be very slow according to the latest report on the implementation of Joint inclusion memorandum (JIM) in Croatia in 2009 (Butković, Vidaček, 2010.).

Apart from associations and public benefit companies, cooperatives are usually stressed as the most important social economy actors. As indicated by the data published by Croatian Union of Cooperatives, there are 1617 cooperatives registered in Croatia, employing more than 4000 people and having more than 22.000 members. The distribution of cooperatives per sectors is as follows: crafts (435), agricultural (964), housing (20), savings and credit (47) and service cooperatives (151). In recent years, an increasingly important role is played by the war veterans' cooperatives. There are more than 400 war veterans cooperatives that have received around 45 million Kn (cca 6 million euros) for their programmes since 2004, employing more than 10 thousands war veterans (Butković, Vidaček, 2010.). The Ministry of Economy, Labour and Entrepreneurship initiated specific programmes for supporting social cooperative entrepreneurship, with particular focus on promoting employment of socially marginalized and disadvantaged groups. According to the Operational plan for supporting small and medium entrepreneurship in 2010, the Ministry invested 3,5 million Kn (480.000,00 euros) for supporting social cooperative entrepreneurs in 2010 (Butković, Vidaček, 2010.).

In the process of The prospects of Croatia's EU accession and the forthcoming possibility of using the European Social Fund (ESF) in the near future have opened up new pathways for promoting and strengthening the social economy in Croatia, and it is expected to be put on the agenda (Bežovan, 2006., Butković, Vidaček, 2010.). Therefore, greater emphasis should be put on development of social economy as important development priority (Bežovan, 2006.).

5.3 Values

When it comes to the role of civil society in practicing and promoting democratic values, the primary question was in what way is the leadership of the organizations chosen and what is the extent of the organization members' influence on the decision-making. According to the CSI 2003-2005 the leadership in civil society organizations in most of the cases is chosen by the members themselves (78.2%). In a smaller number of cases they are appointed and in even smaller number they are self-elected. Somewhat different image, although still favourable, is derived from the answer to the question concerning the influence of the members on the decision-making where 45.7% of the respondents feel that the influence is substantial. 20% of the persons interviewed feels that the influence is small to nonexistent or limited, which indicates a need for future enhancement of the internal democracy of the CSOs. The problem of extensive influence exerted by the founders of the particular organizations was emphasised, as well as internal conflicts that have been tried to be resolved by the use of nondemocratic methods (for example, hiring security services during the assemblies of particular organizations) (Bežovan, Zrinščak & Vugec, 2005.). Taking in to consideration specific Croatian historical circumstances, such as the fall of Yugoslavia and the creation of Croatian independence, the Homeland war, the late start of democratic reforms connected with the joining to the Council of Europe and European Union, the issue of the development of democracy has been one of the key issues for civil society. A certain number of CSOs was and still is dedicated to the development of democracy in the country. Some CSOs were included in a major democratization campaign concerning the general elections held at the beginning of 2000. After that, it seems that the promotion of democracy has not so much been in the centre of public attention any more. To the question whether they can remember an example of the last year's public campaigns, actions or programs of the civil society concerning the promotion of democracy, recall several cases (34%) and one or two cases (27.2%), whereas 24.2% has not heard for such cases (Bežovan, Zrinščak & Vugec, 2005.). Promoting good governance is very new idea for Croatian CSOs. Greater democratization in relation to Croatia joining the EU is a topic of only several CSOs.

A series of social research studies conducted in Croatia during the transition period showed, similar to other post-communist countries, a high level of distrust in the main social institutions as well as a high level of perception of corruption in society. According to the Transparency International Croatia, the corruption perception in Croatia was extensive and, what ranked the Croatia 67th out of all surveyed countries (Bežovan, Zrinščak & Vugec, 2005.). In that respect it is very interesting to see in what extent the civil society differs from other parts of the society and in what extent is it aware of the perception of the spread of

corruption through the society, since corruption certainly influences the public image of the CSOs as well. According to the CSI 2003-2005 research results, only 16.2% of respondents feel that the incidents of corruption are very rare. However, 20% consider such cases frequent or very frequent, and no less than 32.1% of respondents have in this question chosen the option “do not know”. Interestingly, the highest level of perception of corruption has been documented in the capital of Croatia. Some previous research also pointed out the problems with financial transparency within CSOs and the problem of public distrust in the financial transparency of the CSOs. Corruption incidents within the civil society can be efficiently fought with the increase of transparency of all aspects of CSO activities. Among all aspects, financial transparency is being of paramount importance. A certain number of the organizations publish their reports in the brochures, and some publish it on the web pages (Bežovan, Zrinščak & Vugec, 2005.).

The actions of civil society considering their own transparency are necessarily linked with the actions concerning the promotion of transparency of other social actors. Most respondents remembered only one or two examples of the campaigns dedicated to the promotion of transparency of the government, the percentage being even lower while considering the transparency of the functioning of the business sector: 10.6% recalled several cases of such campaigns and, and 17.4% of just one or two cases. About 52.4% of respondents felt that the influence of these campaigns was insignificant or limited, and in the case of transparency of the functioning of the business sector, there was even higher portion of those who evaluated the influence as insignificant. Promotion of transparency seemed to be a new topic for CSOs and that the promotion of transparency mostly depends on (non)existence of dialogue between the CSOs and the local government (Bežovan, Zrinščak & Vugec, 2005.).

The promotion of tolerance is being inherently self-understood as a part of a CSOs mission. Despite that, the CSI 2003-2005 survey showed that 20% of respondents felt that there were several or many examples of forces within the civil society that were racist, discriminatory or non-tolerant. However, the most important result derives from the fact that the majority felt that these forces were isolated from the rest of civil society, in other words that they were condemned by it. Only 1.5% of the respondents stated the opinion that such forces dominate the civil society, while 11.7% share an opinion that they constitute a considerable part of the civil society. In 34% of cases they have recalled one or two examples of public campaigns, actions or programs dedicated to the promotion of tolerance, while 24.5% have recalled several such examples. For the majority of survey respondents, the role of the civil society in the promotion of tolerance is moderate or significant, while a significant portion (38.9%)

estimates it as irrelevant or limited. Respondents have stated that tolerance was mostly promoted by women's organizations and homosexual and lesbian groups, with a large number particularly mentioning the gay parade in Zagreb (Bežovan, Zrinščak & Vugec, 2005.).

When examining to what extent civil society practices and promotes non-violence, although not in a large percentage, there are forces that resort to violence within civil society in order to promote their interests. The survey showed that there are some isolated groups that frequently, or from time to time, use violence. Again, it is encouraging that most people think that such cases are usually or always condemned by the rest of civil society, while 14.7% of the respondents feel that such cases are rarely condemned. The civil society soccer supporters and skinheads are most frequently mentioned as groups that use violence for the promotion of their interests.

Many CSOs state in their reports that a smaller or larger portion of their activities is specifically dedicated to the promotion of tolerance and/or peaceful resolution of conflict. There are many examples of such actions, but that they are poorly covered by the media. The role of CSOs in nonviolence promotion is dominantly limited 29.8%, and moderate 28.7%. For 16.2% of respondents is significant. The ecumenical societies, peace studies and UNICEF programs have been singled out by respondents as most recognized promoters of peaceful conflict resolution. In 1990s several organizations were active organizing training and promoting the concept of peaceful conflict resolution. There are forms of violence not addressed by anybody, and to which the CSOs should focus: violence against elderly, inability of persons with special needs to actualize their rights, etc. (Bežovan, Zrinščak & Vugec, 2005.). It can be said in general that civil society is dedicated to positive social values.

5.4 Impact

Perceived impact describes and analyses the extent to which civil society is active and successful in fulfilling several essential functions in Croatia. When assessing the impact on public policy, the following three issues: women's rights, children's rights and workers' rights were examined. In the field of campaigning for women's rights the CSO activities have dominantly been assessed as active to some extent (44.2%) or active (28.3%). In the case of children's rights, CSOs have been dominantly assessed as active (39.6%) or active to some extent (32.5%). Regarding the workers' rights issue, the CSOs have dominantly been assessed as active to some extent (33.6%) and non-active (26%). The organizations active in the area of

children's rights and women's rights have been perceived as more successful by the respondents. The influence in the field of workers' rights, a rather new area of CSOs activities, is regarded as less pronounced with respect to the perceived activities or success within this area.

By employing the examples of the care for the elderly and self-organizing of unemployed, the **social policy impact** of civil society organizations was explored. At that time topical public campaign of the Bishop Josip Lang Foundation demonstrated that it is possible for CSOs to exert influence on various stakeholders in this social policy area. With this campaign it became very clear that status of the elderly, sick and frail has been recognised as a social policy issue. This campaign influenced general public, also created policy agenda of social care for this part of population. Also, this case has shown the respectable potential of corporate sector and citizens as donors. The issue of unemployment and new experiences with the self-organizing of the unemployed was at that time a completely new area of development which used to be the state monopoly, dominated by the national employment agency. The activities of the Zagreb Unemployed Society, as CSOs, indicated that this area was open for innovations, such as providing education courses, practical information about the social rights of unemployed, advocating new social rights of the unemployed, and ultimately influencing the employment policy at large. They provided advice in office about the social right of unemployed people. Taking a part in different round tables and governmental bodies they advocated rights of unemployed and they were proposing the new initiatives in employment policy. The unemployed represented via the civil society association appeared as a new stakeholder in the social policy area. The other stakeholders recognized and appreciated that initiative. Local authority, political parties, entrepreneurs, media were in different ways open for cooperation with this initiative. However, the lack of such organizations and initiatives was indicated. The need of special stimulating the development in this area by the local authorities was emphasized, in order to contribute, in partnership with civil organizations, to development of social entrepreneurship (Bežovan, Zrinščak & Vugec, 2005.).

However, it can be said that interested actors have still rather limited impact in the process of preparation delivery and implementation of legislation and social programmes. It can be expected that the implementation of the standards of the Open method of coordination in this field will soon result in visible improvements (Bežovan, 2007.).

With respect to the status of **human rights** in Croatia it was agreed that rights to safe and decent standard of living are definitely appearing on the agenda. This primarily means the

social rights issue. The case of family violence to be violation of basic human rights was considered in the CSI 2003-2005 survey, which are to be countered by non-discriminatory laws and equal rights guarantees. The problem of family violence triggered a comprehensive campaign in 2004 organised by coalition of CSOs. The selected case indicated that CSOs involved in this campaign tackled an important political issue. As well, at local level they were accepted as social partners who were assisting victims of family violence by providing services which were absent from the state programmes. That meant that the public was sensibilized for that form of infringement of human rights, which was increasing and becoming more frequent. Under the influence of those activities, the National Strategy of Family Violence Protection from 2005 to 2007 has been adopted. It was stated that it was a result of 15 years long program of women organisations activities. Thus, results achieved in civil society were long term.

When it comes to the **impact on national budgeting process**, as a relevant policy issue for it is the most important financial policy decision by the Croatian government, it can be said national budget process was still not sufficiently democratic. There were no relevant experiences of CSOs involved in the overall budgeting process. Some institutions like Institute of Public Finance, they are state organisation, deal more with budgetary process and provide some critical opinion about this issue. In one way they educate general public about the budgetary process and about possible influence of CSOs. The trade unions and representatives of some vocational associations as well campaign to exert influence to the budget. There are no independent think-tank organizations which would systematically address this area, in particularly the budget process. If civil society in Croatia tries to deal with the national budget, they usually seek specific interventions in the budget, either through contacts at the ministries or via MPs during the legislative phase. Usually the strong players such as bank lobbies are more successful in this lobbying. The local government usually do not encounter the initiatives aiming to establish impact in budgetary appropriation. It is hard to find and detect some crucial activities of civil society in budgetary process. That is the reason why it is hard to say which organizations are active and successful in influencing the national budget. When speaking about the influence of CSOs on public policy in general and on particular policymaking processes, some progress was identified. The civil society broke its silence in public. The representatives of civil society are being invited in working groups, appointed in various councils, they are invited to submit parallel reports and give their own amendments. Though, some considered such commitment and practice as being primarily cosmetic. Government official got a stile of modern administrator inviting CSOs but not

providing a real space to then how then can take a part in policy making process. Compared with the findings of the CSI pilot phase report in 2001 it can be said that some improvements were in place (Bežovan, Zrinščak & Vugec, 2005.).

When analysed the extent to which the civil society is active and successful in **holding the state and private corporations accountable**, there are several areas in which CSOs hold the state accountable to some extent. These were mostly the issues of human rights and environment protection. Some organizations played the role of monitoring (watchdog) and alerted the public on significant issues with varying success. They were mostly supported by foreign donors. CSI 2001 indicated that the CSOs are not efficient in monitoring of Government's policies and commitments. There were not recognised as legitimate actors to do that and their capacities have been weak. In most cases the respondents assessed that the CSOs were active to some extent (48.3%) or active (20.8%) in holding the state accountable. Furthermore, it was revealed that such activities were primarily perceived in terms of holding the central state accountable, rather than holding the local authorities accountable. The perception about the level of success of the civil society in their efforts to hold the state accountable was not encouraging, most respondents assessed these efforts as either not successful (34.8%) or only somewhat successful (46.4%). However, it was pointed that these were the first serious steps, and that that was the area where significant progress was to be expected. The GONG activities related to the elections and the Eko Kvarner association were examples of successful cases of holding state accountable. These two cases were well known as such to general public. GONG was a serious partner supervising elections and undertaking the new initiatives for legislation supporting democratic and faire elections. Eko Kvarner was accepted as organisation advancing environment protection having sensitivity for risk related to investment on islands and cost line.

It could be said there was no ability of holding the state accountable for significant issues. Occasionally the CSOs were invited in committees, but the principle of selection was not transparent. Mostly were chosen the organizations inclining to self-censorship. Emphasized was the crucial importance of the reporters and the media in the efforts of holding the state accountable.

Assessing the impact of civil society in **holding private corporations accountable**, civil society was mostly perceived as inactive (35.5%), or active to certain extent (35.1%). The perception of success of civil society in this area is more modest. Almost half of respondents (50.2%) consider the civil society actions in this field unsuccessful and only about quarter (24.9%) consider it successful to some extent. Holding of Croatian corporate sector

accountable mostly boils down to the issues of sustainable development, and activities of small number of consumers associations. A couple of associations from this area promote contemporary practices (Croatian Business Council for Sustainable Development, Agenda 2005 for Corporate Social Responsibility), aimed at the sustainable development, transparency of corporate sector business operations, as well as corporate social responsibility. Such associations and initiatives are rather few in number and appear in public arenas only occasionally. The consumers associations are increasingly gaining trust of the wider public, despite being few in numbers. However, there is obvious lack of initiatives for establishing new consumers associations, which would associate in coalitions, act as partners and demonstrate the civic strength. Yet, despite increased openness of the corporate sector, it was showed that survey participants usually had no articulated idea on what the concept of holding the corporate sector accountable implies. CSO representatives therefore agreed that this issue is not yet on the agenda of civil society development in Croatia (Bežovan, Zrinščak & Vugec, 2005.).

When analysing the **extent the civil society actors are responsive to social interests**, it needs to be emphasised that CSOs reacted to various social issues and assisted in meeting the social interests during and after the war and as humanitarian crises emerged. Examples of civil society's responsiveness to social interests included: psychosocial support for the war victims which was mainly provided by a small number of civil associations. The CSOs and initiatives have been the first to meet the increasing needs of the elderly. They have put the issue of hospice as a needed project into agenda. The position of vulnerable groups, such as disabled persons, was considerably improved through civil initiatives ran by group members themselves with some expert support. These associations have exerted pressure for inclusion of disability questions into the population census in order to finally get the total number and structure of disabled persons in the country. The interests of these groups have thus become recognizable and legitimate in public. The civil organizations have as well participated in lawmaking on the issue of patients' rights, thus including this issue in agenda. It was noted that in certain areas of development (e.g. new legislation) civil society has more competent experts and associates than Government does.

When it comes to **public trust in civil society organizations**, several previous surveys had revealed that a substantial number of respondents have a negative opinion, less than 20% have a positive perception (B.a.B.e. 2002). The outcome of the CSI 2003-2005 survey reveals large differences in level of trust towards different types of CSOs. The citizens are in average not

acquainted with the CSOs, they are self-contained, do not publicly present the achievements of their activities and do not emphasize the public benefit of their activities. When compared to other institutions, the results revealed that the citizens had more trust in CSOs than in media, Government, political parties and big companies. It was emphasized that low level of citizens' trust in CSOs, as well as low level of trust between the individual CSOs, stand as one of the key civil society development problems in Croatia (Bežovan, Zrinščak & Vugec, 2005.).

When it comes to **the role of civil society in empowering citizens**, the following aspects were analysed: informing/educating citizens, building capacities for collective action, empowering marginalized people, empowering women, building social capital and supporting livelihoods.

5.4.1 Informing/educating citizens

Some of the CSOs active in issues of democratization, human rights, environmental protection, community development and like, have integrated informational and educational activities as core element of their mission. According to survey, civil society is mainly perceived as somewhat active (53.6%) or active (19.2%) in this area. With respect to success, these actions were mainly seen as somewhat successful (52.8%), while only 15.8% of respondents see civil society as unsuccessful (Bežovan, Zrinščak & Vugec, 2005.). Only 29.1% of citizens are actually aware of organizations willing to assist the community, inform the citizens of their rights or improve their living conditions in their local community. 15.6% of respondents could remember that such organizations inform citizens about the issues of relevance to them. Only 7% of the respondents have themselves participated in such an activity. It seems that on the local level such CSOs activities are still in early phase of development. Due to strong public pressure, the Government adopted the law on availability of publicly owned Information in October 2003. This success was a result of the campaign involving a broad coalition of 28 associations who have acted together as pressure and advocating group, supported by a group of local and foreign experts who provided legal support and designed the draft of the law. Some CSOs, for example in the environment protection field, have made significant steps in educating the wider population on the national development issues. Campaigns in the area of genetically modified food as an example of useful information and education reaching the public through CSOs were mentioned. The

activities of GONG were also mentioned with respect to education for active citizenship, particularly of the youth who are going to the polls for the first time. The free of charge legal assistance is well recognized as a part of the CSOs activities. Education on various aspects of civil society activities and duties would be appropriate educational content for schoolchildren of all ages, but the CSO representatives have complained that the access to schools is rarely permitted. Many schools are closed for such initiatives. According to the consulted experts the initiatives for implementation of civil society education programme at the universities were as well unsuccessful. It was pointed out that most of the CSO actions would be way more efficient in serving the public with information and education if they had more realistic goals, better professional expertise, adequate funds, more employees and better cooperation with media. Therefore, there is a need of acquiring new knowledge and skills on preparing and pursuing public campaigns. It was emphasized that with respect to educating and informing the citizens the institute of public panels on concrete issues in local communities has been neglected.

5.4.2 Building capacity for collective action

The outcome of the 2004 Civil Society survey (Bežovan, Zrinščak, 2007) indicate that only 7.8% of respondents have perceived CSOs as active in building capacity within the local communities with respect to solving specific issues, while only 4.5% had actually participated in such activities. Consequently, the role of CSOs as conveners who help in addressing local problems is very modest. The regional stakeholder survey paints a slightly more positive picture. As far as local community capacity building is concerned, CSOs are perceived as active to some extent (49.4%), or, less frequently, active 15.1% and inactive (14%). The success in local capacity building is mainly assessed as somewhat successful, 51.3% while 17.7% of respondents see it as unsuccessful.

However, civil society's work at the local level is changing and, as regional stakeholder consultations have shown local development is increasingly being recognized as a focus of activities for some associations, which are building capacities of people for selforganizing, mobilizing resources and joint activities in order to address the problems in local communities. The interviewers mention the considerations of the respondents on the significance of good neighbourly assistance and solidarity for functioning of the neighbourhood. Within these projects, partnerships with local authorities have been established, and considerable level of trust was built at the local level. This area of

development, although limited in volume, is becoming one of the most recognized areas of CSOs activities: building the local communities and civil society from the bottom up. Within these efforts, the idea about local community foundations was initiated.

Such institutions could become the point of dialogue and a framework for mobilizing the resources of local development.

The discussions in the focus group indicated the respectable social capital and other forms of assistance the local communities can count on if they cooperate with the representatives of various elites, originating in these communities, living now in urban settlements. Mentioned were cases in which the local governments are not inclined to such cooperation, considering it as competition, challenging their untouchable status.

5.4.3 Empowering marginalized people

According to the research (Bežovan, Zrinščak, 2007) 14.1% of respondents reported on the existence of CSO poor relief actions in the local community, while only 6.3% of respondents participated in such activities. This again speaks about the modest volume and scope of CSO activities. However, there exists a recognizable range of organizations in social and health protection sectors, which are providing assistance to marginalized groups. Among the ranks of social organizations are those providing programmes for mentally handicapped persons and assisting in their social integration seem most outstanding. Among the health organizations, those empowering persons with rare diseases are receiving best recognition. Good cooperation with professional organizations increases the quality of these organizations stand out in contrast to the others. The 2001 CSI research revealed that CSOs are not able to mobilize the marginal groups, but that they frequently implement projects on their behalf, which they consider to be useful for marginalized groups. This was the long standing problem with the Roma organizations. Insight in the civil society practice indicates the increasing activities with respect to empowering of marginal groups. The self-organizing of marginal groups and providing services designed for the users can be considered as advantages of the CSOs compared with the state institutions.

5.4.4 Empowering women

According to the Civil Society survey, respondents remembered a CSO in their community which was assisting women in improving the quality of their life in 5% of cases,

while the respondents themselves have participated in such activities in 2.3% of the cases. This indicates the large potential area for further initiatives.

The women's organizations in Croatia are active in various areas: women's rights, combating violence against women, improving the status of women in the labour market, promoting the role of women in politics and campaigning for their appropriate representation in parties' election lists, in representative and executive government bodies, advocating the rights of women with specific diseases. As well, women are organized within some professional organizations, while some political parties have women's clubs. The Women's Network, which assembles 45 organizations, is lately engaged in struggle for women's reproduction rights and sexual education in schools. (www.zenskamreza.hr). The women's studies programme is operating in Croatia for ten years as a CSO with the aim to empower women and influence positions of women in society. These organizations as well inform and educate the public, having developed respectable publishing activities. The representatives of women's organizations have in early 2005 presented the Report on Status of Women's Human Rights in the Republic of Croatia to the UN Committee on the Elimination of Discrimination against Women. The women's organizations are recognized as a prominent stakeholder in Croatian society, yet their influence on the local level, according to survey results, seems to be limited.

5.4.5 Building social capital

CSOs are the major source of social capital in society. Comparing the level of trust for members of CSOs and non-members there are no differences among the two groups. Besides, the members and non-members do not differ with respect to tolerance towards other races, other religious affiliation or immigrants/foreign workers. The members of associations show more tolerance, not statistically significant, to homosexuals and those suffering from AIDS. Furthermore the members and non-members do not differ in their attitudes with respect to their requests for state subsidy to which they are not entitled, or avoiding paying for public transportation, or tax fraud if they have the opportunity for it. Consequently, according to the mentioned outcomes the CSOs in Croatia are not the resources of social capital. The society with widespread mistrust does not avoid the CSOs. The mistrust shown towards them does not strengthen or make their members civil. It could be said that a part of surveyed CSOs belong to the imported, virtual civil society, being mostly financed from foreign donations.

They are engaged in civil society within their projects, but actually do not exercise civility. A part of consulted experts in our civil society has recognized the issue of “projectitis” – the civil initiatives and activities are being exercised if an acknowledged project is available, what implies the financing of the activity. The issue of the culture of reactive activities in Croatian civil society is associated with it.

5.4.6 Supporting livelihoods

The CSOs employ citizens on their various activities and thus contribute to employment and social development. These organizations have rarely attracted attention of institutions which are formally addressing the employment issues. CSOs were partially recognized by the Croatian Employment Office “public works” programme which is now defunct. Such efforts have never perceived as an important part of social development which would as well contribute to employment of some groups. Recently, an increasing number of young people with academic degree are being employed through the state employment incentives programmes, some of them working in the CSOs. The CSOs have not been recognized within the local communities for their activities of providing assistance to community members in their business startups. Only 1.5% of respondents of the CSI 2003-2005 heard of such activities while 1% of the respondents participated in them.

5.4.7 Lobbying for state service provision

Social services in Croatia are mostly provided by state institutions and mostly being financed by state funds. The recent decentralization trends were guided by the idea of transferring a part of financing and management authority to regional and local level. Nowadays a part of the institutionalization costs in social institutions is paid by the beneficiaries themselves. The business sector provides services at commercial basis to a narrow range of well-off beneficiaries. The following cases of civil society lobbying the Government for provision of public services to citizens were noticeable: improvement of health related services, education on human rights in the schools, establishing the alimony fund, home support and care, better services in child care centres, improvement of home providers’ status, improvement of addict therapeutic communities etc. The civil society success in lobbying was mostly (50.8%) perceived as somewhat successful, and in 22.2% of cases it was seen as not successful, and

19.0 as successful (Bežovan, Zrinščak & Vugec, 2005.). it was agreed that Croatian CSOs have little experience and capacity with respect to advocating their interests. However, some new positive development on that issue at the local level took place.

5.4.8 Meeting societal needs directly

CSOs, including the self-help initiatives, regularly provide services to groups which were not involved in the network of state social welfare programmes. According to the Civil Society Survey, as many as 65.3% of respondents affirm that they are acquainted with the services provided to the population by CSOs, which somewhat contradicts the assessment of stakeholders and the dominant role of the state. Respondents named the following services most frequently: addict therapeutic communities, women's shelters, home care and support, legal counselling to those in need, support to disabled persons, support to children with development disorders, support to minority groups, especially Roma, free provision of medical services (like blood pressure and sugar level measurement). Such programmes most frequently address two specific groups: the poor (19.2%) and women (8.3%). In assessment of CSO efficiency in service provision, the outcomes are more than optimistic, the dominant views being that they are successful to some extent (38.5%) and successful (22.3%) 78 . Similar findings were reached in 2001 (Bežovan, 2004), and it is rather likely that due to their profile, the respondents are not being critical enough. We must stress again that, according to experts, the absorption power of social civil organizations to accept new challenging role providing social services is rather questionable.

Recently, nonprofit institutions are being established as well, contracting with the state the provision of services. The dominant area of social services development is the accommodation and provision of services to the elderly. The pensioners' associations are lobbying for enhancements in service provision, in particularly for income support and assistance. The recently established associations, being a dominant type of CSOs in Croatia, provide a limited range of services in this field, that is, they expect services to be provided by the state. Recent CARDS programme, programme of the European Union, Providing Services through Non-profit Organizations was aimed at enhancing service provisions in social welfare, health system and non-formal education. With respect to the perceived role of CSO in meeting the societal needs, the outcomes are illustrative of the development problems of this sector. In order to efficiently realize their mission in this area, CSOs as well engage in research of societal issues at local level and campaign for their actualization in public.

Previous research indicated that Croatia has no public awareness about the societal issues at local level. (www.ceraneo.hr). Civil society services are known at the local level mostly through church, Caritas, Red Cross and similar organisations.

Research on the welfare mix in Croatia from 2007 has look at cooperation and the role of different stakeholders in social service provision, namely: counties, cities, associations, Centres for social welfare and social and health institutions. It was shown that other stakeholders, notably Centres for social welfare and institutions, were rather critical towards the quality of social programmes run by civil society organizations (Bežovan, 2007.). Furthermore, the quality of cooperation with civil society organizations was assessed as rather good, where better cooperation is reported by the cities and other organizations, whilst institutions assessed cooperation somewhat worse. Some of named obstacles for better cooperation were: lack of finances, lack of interest within organizations for some types of service users, small number of organizations, lack of information on organizations' projects and activities, lack of professional knowledge and skills in organizations, perceived passivity and lack of good quality programmes in organizations (Bežovan, 2007.). Therefore, better coordination, joint education, joint programmes and strategies, participation of civil society representatives in cities' programmes, partnership in social services delivery and greater funding of social programmes is needed (Bežovan, 2007.).

5.4.9 Meeting the needs of marginalized groups

Meeting the needs of marginalized groups is an important area of CSO activities, since they often require a prompt intervention. Many organizations have established their legitimacy in providing support for the poor, frail, addicts, socially excluded, Roma etc. Within the CSO milieu, the opinion prevails that they are able to provide services in more efficient way than the state organizations do. The state welfare institutions (social welfare centres, city offices for social activities) officials often recommend the poor who are not satisfying the official aid criteria to approach CSOs for assistance. The assistance within the state organizations is exercised in line with the inflexible, stipulated bureaucratic procedures.

The CSI 2001 research indicated that CSOs had rather low impact, and that it was not easy to present the outcomes of their activities to the wider public – and therefore contribute to legitimacy of their mission in the society. Weak structure and not incentive environment limit influence of civil society. The civil society, although still nascent, is gathering its momentum

and is starting to accomplish recognizable results in the process of preparing and passing the decisions on public policies. The trust in CSO and among them is one of the key obstacles in future development, although CSOs do enjoy higher level of public trust than most other institutions. The CSOs have been recognized in their efforts of informing and educating citizens, yet with respect to the engagement in empowering local communities they are at still at the beginning. The Croatian society is overwhelmed by mistrust and in this context the fact, that the CSOs do not generate social capital, should be considered (Bežovan, Zrinščak & Vugec, 2005.).

6. Croatian civil society in the context of the EU policies and the accession process

Croatia's accession to the European Union has given additional impetus to the strengthening of domestic civil society. In this process, it is expected that civil society organizations have more important role. By employing the concept of good governance and by participating in the Open Method of Coordination (OMC), it is expected that Croatia develops new, modern model of programmes and policy-making, which includes all relevant stakeholders. This way, they will be enabled to have impact on decision-making and to participate in delivery and evaluation of social programmes (Bežovan, Zrinščak, 2007.). This way OMC underpins the strengthening of welfare mix. In Croatia, the OMC has been already applied, most notably in the abovementioned JIM process. The JIM was assessed as an example of good practice, where all relevant stakeholders, namely, civil society organizations, social institutions, local government and representatives of different state institutions were adequately involved in the delivery of the Memorandum (Bežovan, 2007.).

Good governance, according to the White Paper on Good Governance (Commission of the European Communities, 2001.) is underpinned by five principles: Openness, Participation, Accountability, Effectiveness and Coherence. According to the White Paper, civil society plays an important role in giving voice to the concerns of citizens and delivering services that meet people's needs. In the context of Croatia's accession to the EU and current trends in the development of the welfare mix, the White Paper emphasise that the Union has encouraged the development of civil society in the applicant countries, as part of their preparation for membership. The paper advocates for strengthening the culture of consultation and dialogue, better involvement of the general public, greater flexibility in policy-making, improving the

quality, effectiveness and simplicity of regulatory acts etc. (Commission of the European Communities, 2001.). Greater participation of all relevant stakeholders in policy process is crucial for quality and effectiveness of public policies. It is also expected that greater participation result in greater trust (Bežovan, 2007.).

Accession process enables the process of Europeanization, which can be understood as: *»[The] Processes of (a) construction (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the making of EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies«* (Radaelli, 2000.). Thus, the definition highlights learning, adaptation and policy change. Moreover, Radaelli (2000) argues that Europe does not only affect formal structures, such as public administration and legal structures, but it also influences values, norms and discourses on national level. This »cognitive transformation« can change the preferences of policy-makers. Lendvai (2004) also refers to »cognitive Europeanization« or, how she names it, meaning-making process, by which changes happen in the way policy-makers construct, speak, discuss and act on social issues. Effects of Europeanization can be traced in recent years when the process of accession has been intensified.

Stubbs and Zrinščak (2010) characterize this process of cognitive Europeanization as complex and specific. According to the authors, the effects were largely confined to the sphere of new civil society organizations, particularly those concerned with human rights, gender equality and the rights of national minorities. Skilled in advocacy and lobbying, well networked internationally, and with a strong presence and credibility 'on the ground', many of these organisations were able to gain support within Europe and, crucially, within the EU institutions themselves, and increase pressure on Croatian authorities to address the very considerable problems in these areas (Stubbs, Zrinščak, 2010.). In line with the obligations of candidate status, preparation for the signing of the JIM began in September 2005, based on a wide process of dialogue and consultation with stakeholders, and is viewed as a rather successful part of the whole accession process. It was characterized by a long and intensive consultation process, including different Ministries and Government agencies, civil society organizations, social partners as well as some representatives of regional and local governments (Stubbs, Zrinščak, 2010.). However, the full impact of Europeanization is not limited to the measures in the JIM. For example, EU funds, often in partnership with Croatian bodies such as the National Foundation for Civil Society Development, have supported many

valuable projects which, taken together, have strengthened a local welfare mix and established NGOs as credible service providers (Stubbs, Zrinščak, 2010.).

Alongside the JIM process, the effects of Europeanization is also noticeable in institutional changes, i.e. participation of civil society representatives in Parliamentary Committees, where they have mandate to take part in decision making on equal footing as the MPs. Another example is participation of CSO representatives in Social Council of the City of Zagreb, which serves as a platform for dialogue on social and developmental priorities of the city.

In the accession process the EU-Croatia Joint Consultative Committee was established, as an institutional arrangement for inclusion of civil society representatives in the process. Working in liaison with the Commission, the European Economic and Social Committee (EESC) establishes Joint Consultative Committees with acceding countries as additional institutionalized dialogue with an aim of promoting social dialogue and strengthening civil society in the candidate countries. The follow-up committee was constituted in March 2007, with an aim to complement the already existing bodies within the framework of the Stabilization and Association Agreement (SAA). It was established for the purpose to open the possibility for CSOs from both sides to monitor the accession negotiations. It also encourages the Croatian government, to actively involve civil society in the implementation of the reforms are taking place within the negotiation process. The composition of the Committee reflects the composition of the EESC, and this way it is ensured that civil dialogue is institutionalized in a manner that it complies with EU practice.

Aforementioned *Code of Practice on consultation with the interested public in procedures of adopting laws, other regulations and acts* is seen akin to the EU's OMC process and can be also attributed to the Europeanization process. The Code is built on the idea of active role of the citizens, openness and readiness of the public administration to consult with the interested public when adopting laws, other regulations and acts. The principles and standards of consultation, namely participation, trust, openness and accountability, and effectiveness are in line with the White Paper's principles set by the EU.

7. Conclusions

Civil society in Croatia was rediscovered in the early 1990s, when civil society organizations were active most notably as humanitarian organizations in the circumstances of the war and specific social problems and needs. In the period that followed, up until the late 1990s, the

relationship between civil society and the government was rather conflict which led to the negative public recognition of civil society organization (non-governmental organisations). From the beginning of 2000s onwards, the policy and institutional framework, as well as general socio-political environment of the civil society have been improved.

In the observed time period, the size of the civil sector has increased considerably. The number of associations increased from 12.000 in 1990 to some 41.953 in the end of 2010. However, active membership in CSOs is still a development issue, as recognized in insufficient civil engagement of citizens and considerably sparse actions in local communities. The civil society is still a phenomenon concentrated in larger cities. Low level of trust between the CSOs results in considerably poor networking and insufficient cooperation, what reduces their development potentials. The financing issue remains the main problem within the structure dimension, as well as an obstacle to sustainable civil society development. The development of civil society shall considerably depend on investment in human resources, what can contribute to competence of CSOs as partners. The socioeconomic framework – i.e. the economic crisis – is still having a negative impact to civil society development. The tax framework for civil society development is very vulnerable to the arbitrary changes at instances of government change. Stimulating tax incentives do not correspond with the role of CSOs. It was established primarily as a result of foreign pressure. The subsidies granted by the various levels of state to civil society are rather respectable and should become a constitutive part of systematic cooperation policy between the state and CSOs, from local to the national level.

The corporate sector is gradually showing an increase in interest for cooperation with civil society actors. These changes have been recognized primarily at local levels among small and medium entrepreneurs.

The value dimension indicates that CSOs exercise and advocate civil values, but are frequently not recognized as such by the public. The corruption issue in some CSOs reflects a negative picture of the sector, therefore the requests for increased financial transparency appear to be justified. The civil society still acts reactive to problems, and to lesser extent proactive. The CSOs are in particular profiled in the area of environmental protection, whereas their activities are rather restricted in programmes of combating poverty.

The impact of CSOs is evident in some priority areas, such as social policy, environment protection and human rights issues. In these areas the civil society appears as a vanguard in establishing of the new institutional infrastructure, one which can meet the rising social needs. The civil society is far from becoming a relevant watchdog factor, one holding the

government and corporate sector accountable. The widespread mistrust present in society does not avoid the CSOs. Their members do not exercise or advocate higher civil norms and values than the citizens who are not CSOs members. Consequently, the CSOs do not appear as specific “generators” of social capital. The CSI 2003-2005 research outcomes indicate to younger, more educated generations that are exercising the civil engagement to a greater extent. The interest of local entrepreneurs and local government has been aroused for cooperation with civil society initiatives.

The civil society is currently in the process of building the relations of trust and partnership with other stakeholders. Higher interest of local media has been shown in this respect as well. The considerable space for dialogue is being created at local levels, where new networks are being established, which could be the pillars of positive social changes.

The process of accession to the European Union, especially in the last 5 years when it has taken an upward trajectory, has resulted in the Europeanization of different policy processes, including the policy toward civil society. There have been some notable improvements, and so-called cognitive Europeanization taking place. The principles of good governance: openness, accountability, participation, consultation and others have become an integral part of the public discourse on civil society. Notwithstanding a still limited impact of civil society, perceived by civil society representatives and other stakeholders, it can be said that today civil society organizations act as co-governors in some important policy areas. It can be expected that civil society act as important actor in policy-making, underpinned by the Europeanization process, as well as growing economic sector in furnishing employment and provision of social welfare.

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II. FINANCIAL REPORTING AND CONTROL OF CIVIL SOCIETY ORGANIZATIONS¹² IN CROATIA

1. INTRODUCTION

From the beginning of 1994 until the end of 2007, nonprofit organizations in the Republic of Croatia had been applying the accounting system governed by the Regulation on Accountancy of Non-profit Organizations (Official Gazette 112/93). In spite of numerous essential and formal drawbacks, this system withstood the various criticisms within the professional society for a long number of years. In practice, different professional, but unofficial accounting and reporting solutions were used as substitutes for the inconsistent legislative provisions in regards to the charts of accounts, recognition of financial reporting elements and the content of financial statements alike. Such solutions were also accepted by outside data users, including the supervisory and statistics state bodies. In the meanwhile, budget and company accounting systems have been updated on several occasions. Most of the changes were introduced within the context of adjusting our legislative regulations to the Acquis Communautaire. This context represented an adequate moment for the systematic and professional standardization of the accounting system in nonprofit organizations. The reform in the accounting for nonprofit organizations was radically implemented. On January 1, 2008, the new accounting system was introduced and it was based on the application of the full accrual concept and the relevant economic classification of revenues and expenses. As a result, the divergence of accounting systems for governmental and private nonprofit organizations was significantly reduced.

2. CONCEPTUAL DEFINITION OF NONPROFIT ORGANIZATIONS IN CROATIA

There are different definitions of a nonprofit organization depending on the different aspects such as the legal, financial and especially the economic aspect.

The term *nonprofit organization* is not explicitly legally defined within the existing legal texts of the Republic of Croatia.

The Constitution of the Republic of Croatia proclaims the freedom of association as one of the fundamental political rights (Article 43.): “Everyone shall be guaranteed the right to freedom of association for the purposes of protection of their interests or promotion of their social, economic, political, national, cultural and other convictions and objectives. For this purpose, everyone may freely form trade unions and other associations, join them or leave them, in conformity with law. The exercise of this right shall be restricted by the prohibition of any violent threat to the democratic constitutional order and independence, unity and territorial integrity of the Republic of Croatia.”

Even though, there is no legal definition of a nonprofit organization, it is possible to single out certain legal characteristics of nonprofit organizations. The first characteristic is that this type of legal entity exists and operates for some other reason than generating profit. The emphasis here is not on avoiding generating profit, in the sense of accumulating net income surplus, but on the presence of a prevailing public benefit. The second characteristic of a nonprofit organization is that it is prohibited from distributing the realized profit to third parties that could, due to their position, influence the work of the organization in order to

¹² In this paper term NONPROFIT ORGANIZATIONS supstite a term civil society organizations. It includes a **non-governmental organizations (NGO)** as a legally constituted civil society organizations created by [natural](#) or [legal persons](#) that operates independently from any [government](#).

acquire personal gains. The third assumption indicates that the characteristics of a nonprofit organization do not necessarily depend on its legal form, i.e. the activities and the purposes of the organization are vital rather than the character of its legal identity (Vrhovski, 2005).

The most common definition of a nonprofit organization includes those in relation to the founder. A *nonprofit organization* is an organization whose objective is something else rather than the acquisition of profit for its owner. Its *purpose* usually includes providing services (Anthony/Young, 1988, p. 49). This definition stresses the basic difference between profit and nonprofit organizations.

The goals of nonprofit organizations are, above all, oriented towards achieving better conditions for providing services based on available resources. The relations with the service users are achieved without direct market links. Nonprofit organizations are not financed through the sales of goods or services on the market but are, as a rule, financed from other sources (various subsidy means, grants, alms, contributions, membership fees etc). Due to the nature of the activities of nonprofit organizations, the measuring of expenses and benefits, and especially expressing provided benefits in terms of values is quite difficult.

In accordance with the manner of financing, and thus financial reporting, nonprofit organizations in Croatia are also divided into two main categories:

- a) Governmental nonprofit organizations or public nonprofit organizations and
- b) Non-governmental or private nonprofit organizations.

If the activity of a nonprofit organization is initiated and supported by the state, then it is performed in compliance with the state policy and is financed, directly or indirectly, out of the fiscal and quasi-fiscal state revenues. Such nonprofit organizations are included in the national public sector, i.e. the general state sector. Namely, the public sector is determined according to the methodology of the International Monetary Fund, the United Nations System of National Accounts and the European System of National Accounts.¹³

The organization of non-governmental nonprofit organizations is mostly founded on voluntary basis (they are made up of a group of citizens that have voluntarily joined in order to carry out certain activities). They are mostly financed through donations, grants, membership contributions and other similar specific forms of financing that are, as a rule, based on voluntary and humane grounds. In order for the nonprofit organizations to achieve an optimal level in performing set goals and tasks, it is necessary to establish an adequate accounting information system as a support for managing nonprofit organizations.

3. DEVELOPMENT OF THE SYSTEM OF FINANCIAL REPORTING

A separate accounting system for nonprofit organizations in the Republic of Croatia was established at the end of 1993 and was to be applied starting from January 1, 1994. In the first year of its implementation, this system encompassed all nonprofit organizations, therefore also the governmental nonprofit organizations (budget users) and other (private) nonprofit subjects regardless the difference among them in terms of the process of their establishment or financing sources.

One year later, budgetary accounting was singled out as an individual system from the universal accounting system for nonprofit organizations. All budgetary organizations that are financed out of the state budget or the budget of local and self-government authorities are obliged to implement the budgetary accounting system. The other nonprofit organizations i.e.

¹³ European System of Accounts - ESA

those that are financed mainly through other means (means provided by the founders, membership contributions, non-budget funds, donations, grants, sponsorships and the like) are obliged to conduct their accounting in line with the accounting system for nonprofit organizations. After the budgetary organizations were excluded from the accounting of nonprofit organizations, the necessary adjustments, due to new circumstance were not made within the accounting of nonprofit organizations.

The identifiable feature of accounting for nonprofit organization was fund accounting and the modified accrual as an accounting concept that determines the criteria for accounting recognition of economic events regardless of when cash transactions occur.

In process of choosing the accounting model, and by following some, superficial and inconsistent global experiences, the model of fund accounting was set up, that based on the different types and number of funds, had to be modified to suit our specific features. This model of fund accounting is especially developed in the United States of America for the needs of reporting of supported units, above all on state level. The implementation of such a system in Croatia, without significant adjustments, was unsuitable in its mere beginning.

Inconsistency in the accounting for nonprofit organizations and the needs of nonprofit organizations for certain type of information were especially evident in the inconsistency of applying the economic classification of revenues and expenses (structure of the chart of accounts) and subsequently the content of certain positions of financial statements.

Moreover, the analysis of financial statement content showed inconsistency of their elements with the content of books kept according to prescribed valuation methods.

The prescribed valuation method – the accounting concept of modified accrual, was actually the cash basis concept. Recognition of revenues was conditioned by the collection of revenues within the period or 20 days upon the end of the accounting period.

Accordingly, expenses did not include the recognition of costs that were not paid within the period or upon the 20 days from the last day of the accounting period. In the conditions of non-liquidity, as well as in other possible situations, significant unpaid amounts were not recognized or stated as expenses within the period in which they occurred.¹⁴

This accounting system was abandoned by the end of 2007. Within the context of the accounting reform, the following changes were taken into account:

- a) Restructuring of fund accounting,
- b) Changes in the choice of accounting concepts,
- c) Changes in the form and content of financial statements,
- d) Harmonization of registering data in main and secondary books of accounts and
- e) Changes within the chart of accounts.

4. BASIC PROPOSITIONS OF THE REFORMED ACCOUNTING AND FINANCIAL REPORTING SYSTEM

The formal legal framework leading to the changes within the existing system of accounting and financial reporting for nonprofit organizations was the new Accounting Act. Pursuant to the provisions of this Act,¹⁵ the accounting of religious communities, political parties, trade unions and other nonprofit organizations shall be prescribed by the Government of the Republic of Croatia. This was further enforced by the Regulation on Accountancy of Non-profit Organizations¹⁶ that defines bookkeeping documents, business books, organization of bookkeeping, listing of assets and liabilities, principles for presenting assets, liabilities,

¹⁴ More on the assessment of the accounting system for nonprofit organizations 2004-2007 see Vašiček V and D. (2007), Stanje i potreba razvoja računovodstva neprofitnih organizacija, Riznica (8/9)

¹⁵ Official Gazette No. 109/2007, Article 2, Paragraph 5

¹⁶ Official Gazette No. 10/2008

own resources, revenues and expenses, content and implementation of the accounting plan, financial reporting and other areas related to the accounting of nonprofit organizations.

The entities that are obliged to employ the new Regulation on Accountancy of Non-profit Organizations are mostly non-governmental nonprofit organizations i.e. associations and alliances, funds, foundations, institutions, political parties, chambers, unions, religious and other communities, and all other legal entities whose basic goal is not generating profit and that are classified as nonprofit organizations under specific regulations

In defining the entities obliged to implement this Regulation, it should be pointed out that that it does not apply and never did to the State Budget, the budgets of local and regional self-government units, budget and extra-budgetary users defined by the Budget Act and identified within the Register of State Budget Users.

Namely, due to the similarities in the nature of their activity and the manner in which they were founded it is often quite hard to determine whether they are governmental (budget) or nongovernmental (extra-budgetary) nonprofit organizations. As already emphasized, in order to achieve a clear distinction, the Budget Act, the Regulation on defining budget users and keeping the Register of state budget users set forth the criteria for the recognition of budget users emphasizing the founding and/or ownership rights and the percentage of state or local budgets financing of overall expenses (50% and above).¹⁷

Governmental nonprofit organizations (budget and extra-budgetary users) published in the Register of state budget users are obliged to implement budget accounting. Therefore, all other nonprofit organizations (non-governmental) are obliged to employ the nonprofit accounting system.

Exempted from full implementation of accounting principles and financial reporting under this Regulation still remain the *small* nonprofit organizations. Pursuant to Article 71 of the Regulation, a nonprofit organization with an asset value and annual revenue, according to the data for three previous business years, under HRK 100,000 (ca. EUR 13,000) is not obliged to complete and turn in financial statements and implement the double-entry bookkeeping and the account plan according to the stipulations prescribed by the Regulation. The Regulation on Accountancy of Non-profit Organizations does not stipulate the obligation to apply fund accounting. It still enables nonprofit organizations to decide upon setting up a system of fund accounting and its adjustment to internal needs.

Starting from January 1, 2008, the full accrual concept was prescribed for the recognition of business transactions, i.e. the recognition of revenues and expenses.

The data obtained from the financial statements completed on accrual basis are more complete and thorough or in other words they have a greater span and scope in relation to the data presented in financial statements completed on the modified basis. The application of accrual basis ensures recording data on business transactions that will be extended through following accounting periods. These data can be found useful to financial statement users in assessing future trends towards increasing or decreasing of resources that are at the nonprofit organization's disposal and the assessment of the ability of the organization to fulfill the tasks for which it was established as well as management's performance and their responsibility for entrusted resources.

The most significant features of today's system of accounting concepts are related to the following:

- a.) Capitalization of costs of acquisition and calculation of depreciation of a non-financial long-term asset

¹⁷ Official Gazette (2003) Zakon o proračunu, Zagreb Narodne novine d.d.(96)
Official Gazette (2004) Pravilnik o utvđivanju korisnika proračuna i vođenju Registra korisnika proračuna, Zagreb Narodne novine d.d.(80)

Recognition of assets is primarily based on the historical cost (value) of the asset or the estimated value. Hence, assets are capitalized and initially valued according to the amounts spent on their acquisition unless the cost of acquisition cannot be established and then the estimated value is used. This means that the system introduces the calculation of depreciation as proportional costs of its use over time and abandons the former system of presenting total expense at the moment of its acquisition.

The Regulation also prescribes the compulsory revalorization (in conditions of inflation when the increase rate, measured by the coefficient of the price quoted by industrial product manufacturers for three previous years, is above 30%) in which the effects of valorization are assigned to own resources (capital).

b) Recognition of revenues

In recognizing revenues the categories of reciprocal and non-reciprocal incomes are introduced and defined. This assumes a difference among two groups of revenues:

- Reciprocal income i.e. counter-service income from delivering goods, service or the like that assumes invoicing and
- Non-reciprocal incomes as specific sources of nonprofit organization's financing such as membership fees, donations and other similar incomes.

Reciprocal incomes, as incomes based on the delivery of goods or services, are recognized in the relevant accounting period under the condition that they can be measured regardless the moment of their collection. In this case, the recognition of incomes is assumed at the moment of its occurrence in relation to the moment of delivery under the general conditions of measurement and reliability of collection.

Non-reciprocal incomes, as incomes that are not realized from direct delivery of goods or services (donations, membership fees, contributions and the like) are recognized in the relevant reporting period under the condition that they are available i.e. that they will be collected before the financial statements for the relevant period are presented.

c) Recognition of expenses

Unlike the previous system that recognized expenses in correlation with the moment of payment, the new system is completely based on accrual basis, i.e. the expenses are recognized regardless the moment of payment. In this sense, the Regulation stipulates the following:

- Expenses are recognized in the corresponding reporting period regardless the moment of payment
- Expenses for acquisition costs of short-term non-financial assets are recognized in the moment of the occurrence of the actual expense i.e. moment of sale
- Acquisition costs of long-term assets are capitalized, whereas expenditures are recognized during their useful life
- Acquisition costs of long-term non-financial tangible assets at historical cost per unit under HRK 3,500 (ca. EUR 500) can be written off on a one-time basis

d) Classifications and accounting plans

The Regulation also covers the new approach to classifications and introduces a new, more comprehensive and systematic chart of accounts. The new accounting plan for nonprofit organizations defines numerical labels and descriptions for individual accounts that are to be used by nonprofit organizations in their bookkeeping records of assets, liabilities and own

resources as well as revenues and expenses.

The new classification system provides for the comparability of data of nonprofit organizations and those of governmental nonprofit organizations (budget users) as it is based on the application of the international economic classification of assets, liabilities, revenues and expenses as defined by GFS 2001¹⁸.

Accounts are classified as: classes, groups, subgroups and sections. Hence, the new system of four-digit compulsory accounts (chart of accounts) has been introduced.

Sections, as the fourth account level within the accounting plan can be further subdivided into analytical and sub-analytical accounts according to needs. The classification of sections within the accounting plan is still carried out according to the decimal system.

Revenues are classified according to the following groups of accounts:

- 31 – Income from the sales of good and services,
- 32 – Income from membership fees and contributions,
- 33 – Income under special regulations,
- 34 – Income from assets,
- 35 – Incomes from donations and
- 36 – Other incomes.

Expenses are classified according to the following groups of accounts:

- 41 – Compensation of employees,
- 42 – Material expenses,
- 43 – Depreciation expenses,
- 44 – Financial expenses,
- 45 – Donations and
- 46 – Other expenses.

e) Financial reporting

The system of financial reporting is based on standardized forms and in scopes of financial statements. Basic financial statements include: the balance sheet, profit and loss account and notes accompanying the financial statements. All financial statements are completed for a business year which is in alignment with the calendar year whereas only the profit and loss accounts are prepared for accounting period during the year and this is on six-month basis from January 1 to June 30. All financial statements give a clear picture of the financial position and the performance of the nonprofit legal entity. As stated, only those nonprofit organizations whose value of assets and revenues in the former three years were above HRK 100,000 (ca EUR 13,000) are obliged to submit their financial statements to the Ministry of Finance and the State Audit Office. At the moment, this applies to only 8.340 entities or 20% of the total number of registered nonprofit organizations.¹⁹

¹⁸ IMF, A Manual of Governmental Finance Statistic, 2001

¹⁹ According to the research of economic and financial position of nonprofit organizations for 2008 and 2009, 8,340 entities submitted their financial statements. For more, see D.Vašiček/D.Kovačić: *Prikaz i analiza rezultata poslovanja neprofitnih organizacija u Republici Hrvatskoj*, Riznica br.10, HZRIF, 2010, p.15

5. CONTROL OF NONPROFIT ORGANIZATION PERFORMANCE

5.1 External control

The Amendments and Supplements to the Regulation on Accountancy of Non-profit Organizations in January 2009 stipulated the obligation of registering the organization within the Registry of Non-profit Organizations. The Registry is organized and lead by the Ministry of Finance. The Registry was established to enable a more quality monitoring financial data of non-profit organizations at the level of the entire sector. Nonprofit organizations are entered according to special provisions into relevant registries that are not related and that do not contain data relevant to financial statement databases. Due to the above mentioned and with the aim of regulating and increasing business transparency as well as introducing financial discipline within the nonprofit organization sector, the Ministry of Finance sets up a special Registry that enables the interconnection of individual (local) registries. Registry of Non-profit Organizations contains the following data on nonprofit organizations:

- General data: name of the nonprofit organization, registration number, individual identification number, registration number in the local registry, account number, address, city/municipality and county statistical label, business activity code, contact person, telephone/fax number, e-mail, web page;
- Data on authorized person/s, and
- Data relevant for financial statement databases.

The data in the Registry of Non-profit Organizations are public and available pursuant to the provisions under the Act on the Right of Access to Information. Nonprofit organizations are entered into the Registry of Non-profit Organizations after filling in the Registry of Non-profit Organizations Form (Form: RNO) and submitting it to the Ministry of Finance no later than 30 days upon their registration within the local registries. The non-profit organization shall inform the Ministry of Finance on any changes of data entered into the Registry of Non-profit Organizations within two working days upon the change by means of Form on Changes within the Registry of Non-profit Organizations (Form: RNO-P)

The external control over nonprofit organization's performance is directed towards the following:

- a) Respecting economic principles, rationality and achievement of performance success measured by financial indicators and with the aim of protecting the interests of founders and wider social community – the country;
- b) Performing registered activities in compliance with the provisions, regulations and founding acts.

Depending on the source of their financing, the interests of founders and the tasks to be met by the nonprofit entities through their activities, the external control is institutionalized according to special legal regulations that govern the area of business operations of a nonprofit segment. In Croatia, external control is mostly conducted by the State Audit. The State Audit as an autonomous body performs its activities in line with the State Audit Act that regulates the area of its activity and its jurisdiction.

The area and jurisdiction of the State Audit are adjusted in order to protect the state interests. As a result, its activities within the nonprofit sector are oriented towards those entities that are founded by state means and/or financed from budget and extra-budgetary funds.²⁰ The audit of the mentioned nonprofit entities includes auditing of document, statements, systems of internal control and internal audit, accounting and financial procedures

²⁰ See State Audit Act, Article 1, Official Gazette No. 70/93, 48/95

as well as other records in order to verify the accuracy of financial reports on the business performance and financial position of the engaged state assets

External control over financial performance, with the aim to meet state interests in accruing fiscal and parafiscal revenues, is present in all nonprofit organizations. Conforming to special regulations, the same is carried out by state bodies responsible for generating state revenue. The normative base for implementing specific forms of external control of individual nonprofit entity performance is defined by fundamental regulations that govern the conditions and ways of setting up an organization and the area of its activities.

Thus, for instance, the external control of the activities of a citizen association is defined by the Associations' Act (Official Gazette Nos. 88/2001 and 11/2002). The Act defines the administrative and inspection control. The administrative control refers to the enforcement of the Act and related provisions, while the inspection control covers control over the legality of an association's financial operations and activities.

Inspection control is carried out by government bodies responsible for the registry of associations' activities and control of public revenues. The external control over the activities of institutions is regulated by the Institutions Act (Official Gazette Nos. 76/93, 29/9., 47/99). The financial activities of an institution are supervised by the relevant public administration body while the supervision over professional activities is conducted by a professional body determined by special regulations. Similar form of normative inauguration of external control can be found in other special regulations that regulate in more detail the activity of individual nonprofit organizations.

Certain interest groups – founders of nonprofit organizations in line with the founding acts and with the aim to control the achievement of their interests may also use other forms of control such as external audit.

5.2. INTERNAL CONTROL

The development of an internal control in nonprofit organizations largely depends on its size, organizational chart and complexity of business activities. Certain segments of internal controls or individual internal control mechanisms can be recognized to a greater or lesser extent in all organizations, while a comprehensive system of internal controls and internal audit is only present in a few complex nonprofit systems. The reasons for this are closely connected with the characteristics of the functioning of most nonprofit entities. Our practice confirms the conclusions presented by Emerson O. Henke analyzing the reasons for the lack of a developed system of internal control in nonprofit organizations.

The key reasons usually include the following (Emerson/Henke, 1992):

- 1) Governing bodies (boards of managers, management committees and similar groups) are often large and consist of volunteers who are relatively inactive in operational activities. None of them has an ownership interest within the organization he or she would be interested in protecting.
- 2) Resources that should be invested in the development of the internal controls are limited.
- 3) The accounting function is inadequately treated, often divided and understaffed.
- 4) Organizations employ a small number of employees and it is not possible to achieve the desired level of separation of duties and responsibilities.
- 5) Due to the non-market nature of activities, there is a lack of market valuation and control of the quantity and quality of provided services and goods.

Current regulations governing the accounting and financial reporting system for nonprofit organization indicate that there should be certain internal control mechanisms in the field of

financial and accounting controls and the preservation of material resources.

These cases closely meet the needs for control of the business of undeveloped (according to the volume and complexity of activities) nonprofit entities, especially in the bureaucratic model of organizational functioning of those with a strong line management system. More complex nonprofit entities should necessarily take more intensive approach to setting up (or upgrading) the system of internal controls that, along with the control, includes internal audit.

In nonprofit organizations, internal audits are often faced with the same basic features as well as profit oriented units, but due to the significantly different operational objectives, related ratios for analysis and definition of activity and effectiveness of operations are often different.

The specificity of certain analytical procedures in the internal audit of nonprofit organizations and their use for evaluating the success often stems from the limitations that are given by a non-market orientation.

Decisions of interest groups and other founders of the nonprofit entities can significantly influence the direction and scope of activities. The reduction of funding in certain time intervals may significantly affect the efficacy and effectiveness.

Lack of market valuation of output and value for money achieved, prevents reliable assessment of whether the conversion of resources into the services has been carried out effectively i.e. whether the level of services rendered is consistent to invested efforts.

6.CONCLUSION

The success of nonprofit organizations - a component of civil society in carrying out the objectives and tasks, is directly linked to good governance. To secure the information base necessary to support the management, it is necessary to establish the appropriate accounting and information system and management control.

The reform of accounting and reporting systems is directed towards leaving fund accounting and towards the change in the accounting basis choice. This has resulted in the change in form and content of financial statements and the application of systematic classification that requires changes within the contents of the chart of accounts and records of compliance with primary and subsidiary ledgers.

The reform direction that has been selected in terms of applying accrual accounting has enabled the establishment of consistent and modern accounting systems in the nonprofit sector. Moreover, this is further regulated by the requirements demanding for the application of relevant classification systems of international financial and statistical reporting.

At the same time, the optimal degree of harmonization of reporting systems of "private" and "state" nonprofit organizations has been achieved. This suggests that it is justified and reasonable, for all nonprofit organization groups, to apply the same rules of measurement and evaluation, recognition of revenues and expenses and the internationally comparable and acceptable economic classification of revenues and expenses.

The nature of activities and different sources of financing generally require that nonprofit organizations accurately account for not only the overall financial performance but also its business segments that are financed from various, often severely restricted resources. Therefore, accounting for nonprofit organizations is facing a growing demand for the development of internal accounting and monitoring of operations by segments and sources of financing.

In the management processes supported by the accounting information, the importance of developing and functioning of the internal financial monitoring and control is increasingly emphasized. In the nonprofit sector in transition countries, the situation in this regard is still

unsatisfactory. The development of internal control in nonprofit organizations largely depends on its size, complexity of the organizational chart and business activities.

By following the international trend of affirmation and implementation of the accrual accounting concept, the reform direction of change of external financial reporting of nonprofit organizations in the observed transition was determined to a complete or slightly adapted accrual accounting concept, i.e. direct or indirect application of IAS. In close connection to this, there is the necessity of implementing relevant and internationally comparable classification for the presentation of the elements of financial statements of nonprofit organizations.

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