

# The Sustainability of Serbian Civil Society Organizations: Evidences and Remarks



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## ABSTRACT

*This article try to analyze the question of sustainability of Serbian civil society organizations (CSOs) on the basis of a research carried out by CERFE about juridical and non-juridical obstacles for CSOs. As the study highlights, CSOs: still face difficulties in obtaining real recognition of certain fundamental human and juridical rights; still do not have full self-governance; have several problems in professional identity, as regards knowledge and operative capacities; have an inadequate image and poorly recognised public role; face serious problems of sustainability. These last problems deals with such aspects as whether CSOs have the possibility to conduct certain economic activities, their taxation treatment, their opportunity to access credit, the way to obtain government funding and funds from abroad, tax incentives for individuals and firms wishing to make donations to CSOs, and more besides. On the basis of the research results, at least 5 types of "social regimes" can be identified, concerning: the production of appropriate knowledge about CSOs situations; the capacity building of CSOs; the legislative reform concerning the economic and financial aspects of CSOs life; the public communication about CSOs; the awareness-raising of political society about the CSOs problems and opportunities.*

## The PRAVOK Project

Crucial obstacles for the civil society organizations (CSO) all over the world are those to the life and growth of CSOs as regards economic and financial activities, resources, and tax benefits, thus affecting the sustainability (Moore 2005; Salamon, Sokolowski, List 2003; Cacace M., Quaranta G., Quinti G. 2002; Irish, Simon 1999; Barbetta 1999). Even some studies carried out in Serbia have underlined that many problems the CSOs are coping with have to do with the limited sources of finance available, among others due to the dependency from the decreasing financial commitment of foreign donors, the modest funding by the state and private sector, the low capacity in fund raising, several legal problems concerning taxation and economic activities (FENS 2006; Golubović, Bullain, 2006; USAID 2006).

This article try to analyze the question of sustainability of Serbian CSOs on the basis of a research carried out by CERFE, within the framework of a broader project envisaging assistance to the institutions concerned of the Government of Serbia in order to facilitate citizens' participation by creating favourable legislative frameworks<sup>1</sup>. The project was conventionally referred to by the term "PRAVOK" (from *Pravni okvir*, the Serbian expression for "legislative framework"). The project has been granted by the Italian Ministry of Foreign Affairs – Directorate General for Cooperation and Development. The PRAVOK project was organised as an integrated itinerary including research, training and public communication activities, from 2006 to 2008<sup>2</sup>.

As many studies conducted over the last few years show, despite the start up of forms of cooperation between state and civil society and the fact that important service, information and legal assistance structures have been set up within the associations sector, there is for several aspects a weakening of civic participation, and most CSOs in Serbia today face many problems that hinder their full participation in public governance (ARGUMENT 2006; Civic Initiatives 2005; Dereta 2004; NGO Policy

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<sup>1</sup> The web site of PRAVOK project is: [www.pravok.org](http://www.pravok.org)

<sup>2</sup> The project was conducted in partnership with the European Center for Not-for-Profit Law (ECNL), and with the cooperation of the *Associazione italiana dei comuni, delle provincie, delle regioni e delle altre comunità* (AICCRE), the Association of local democracy agencies (ALDA), the Standing conference of towns and municipalities of Serbia (SKGO), and the municipalities of Subotica and Kragujevac.

Group 2001). These problems concern aspects such as knowledge and skills, public image, the available structures and resources, and inter-organisational coordination. Some of these difficulties depend on the environment these organisations operate in and, in particular, on the juridical structures whose context they work in. A notable obstacle for civil society development in Serbia has been the non adaptation of the legal framework of reference for CSOs that is still fragmented and weak (Paunović 2006; SKGO 2006; Golubovic, Paunovic, 2004; Kovačević Vučo, Milenković 2004), even if this difficulty should be partly overcome, by some new laws recently submitted to the Parliament. Some of these problems have to do with the CSOs sustainability, as the research carried out by CERFE in Serbia has shown.

### **The Map of Obstacles and the Guidelines**

The research was focused on the drafting of a map of the juridical and non-juridical obstacles to the emergence and operative capacity of civil society. The map was drafted first by analysing the existing literature and documentation in order to create an international inventory of obstacles (both juridical and non-juridical ones) that are *potentially* present, in that they have been found in other countries (thus a “virtual” map of obstacles, because it has still not been verified locally), and comparing this “virtual” map with the specific reality of Serbia in order to produce a “real” map of the obstacles found in this country; this took place by consulting 53 leaders of CSOs working in Serbia and 7 Serbian experts in the legal, administrative and political fields. The map of obstacles concerning Serbia includes 120 obstacles.

The research results formed the basis for drafting the “Guidelines on the management of the juridical and non-juridical obstacles for civil society” (Mezzana, Bormioli, Cacace 2008)<sup>3</sup>, addressed to national and international public, private and non-profit organisations interested in carrying out initiatives aimed at removing the existing obstacles to the activation of civil society organisations.

As the study and the Guidelines highlights, CSOs:

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<sup>3</sup> The Guidelines have been presented and discussed in Belgrade on December 16<sup>th</sup> 2008, within the framework of a seminar at Institute of Economic Sciences (IES). The Guidelines can be downloaded at: [www.pravok.org](http://www.pravok.org)

- still face difficulties in obtaining real recognition of certain fundamental human and juridical rights;
- face serious problems of sustainability driving many of them to limits of subsistence;
- still do not have full self-governance;
- have several problems in professional identity, as regards knowledge and operative capacities;
- have an inadequate image and poorly recognised public role.

In essence, what appears to emerge from all this is that CSOs still do not have a socially and publicly recognised “place”, so to speak, in the Serbian context. Hence, there is no full interpretation and adequate legitimisation of their existence, and of their work, that can lay the foundations for drafting legislation, strategies and policies.

We can now underline some of the findings of the research concerning namely the sustainability problems.

These problems deals with such aspects as whether CSOs have the possibility to conduct certain economic activities, their taxation treatment (also with respect to other organisations), their opportunity to access credit, the way to obtain government funding and funds from abroad, tax incentives for individuals and firms wishing to make donations to CSOs, and more besides. It should be recalled that as many as 9 obstacles concerning these aspects rank among the top 20 obstacles identified by the CERFE research.

The set of sustainability problems both juridical and non-juridical obstacles, specifically referring to some political and cultural aspects. The set consists of the following obstacles.

#### **OBSTACLES ABOUT SUSTAINABILITY OF SERBIAN CIVIL SOCIETY ORGANIZATIONS**

##### ***Juridical obstacles***

- Disparity between the framework regulation and tax law in defining Public Benefit Organisation (PBO) (i.e. activities deemed for public benefit)
- Lack of standardisation in dealing with PBOs in relation to the different organisational forms adopted
- Lack of clarity of the definition of “economic activity of CSOs”

- Uncertainty as to the possibility of conducting certain economic activities
- No distinction, for tax purposes, between occasional economic activities and on-going ones
- Low threshold of tax-exempt income generated from CSO's economic activities
- Difficulties in obtaining credit
- Fundraisers' need to meet complex legal criteria which sometimes come from different levels of authority
- Prohibition for foundations financed by private enterprises to do fundraising or to ask for donations
- Prohibition or restrictions on government funding
- Lack of transparency of government funding
- Existence of laws that create difficulties and restrictions for accessing foreign funds
- Difficulties in exchanging currencies at real market rates
- Lack of tax incentives for individuals making donations to CSOs
- Few tax incentives for firms making donations to CSOs
- Insufficient tax benefits for CSOs
- Existence of CSO tax reporting standards of the same level of for-profit enterprises
- The need for a formal procedure before the administrative authorities in order to enjoy tax benefits, despite there being a legal exemption system
- Impossibility for CSOs to apply for tax exemptions before some years have elapsed since the start of their activities
- The need to renew the status of tax-exempt organisation every few years
- Taxation of CSO real estate property
- Lack of public policy instruments (public funds, for instance) to mitigate the burden VAT imposes on non profit entities engaged in activities deemed for public benefit
- Lack or ineffectiveness of a tax system favorable to CSOs for customs duties
- Lack or insufficiency of the inheritance tax exemption system for CSOs
- Difficulty for governmental bodies to make fund transfers in favour of CSOs

***Non-juridical obstacles***

- Poor development of individual philanthropy and lack of donations for the CSO sector
- Widespread expectations of receiving free services from CSOs
- Government inertia in accessing European Union funds
- No government policy for enhancing the non-profit sector's capacity to access European Union funds
- Lack of transparency in commissions charged with distributing public funds to CSOs
- Inadequacy of CSO quality evaluation systems
- Unfair competition by CSOs financed by governmental or municipal agencies
- Lack of transparency in public contracting procedures
- Delays in public administration payments to CSOs
- Bureaucratic dysfunctions in handling European funds
- Occasional nature of private sector contributions
- Excessive structural and financial fragility of the non-profit sector
- Insufficiency of self-financing mechanisms
- Conflicts of interest for advocacy organisations that receive public funding
- Gradual withdrawal of foreign funds

*Source: CERFE 2008*

**The Current Situation and Open Issues**

The existence of serious problems of sustainability for Serbian CSOs clearly emerges from the analysis of the obstacle map drafted on the basis of the research carried out by CERFE. The map analytically shows what the various kinds of impediments are in this sphere.

On the whole, the obstacles linked to this aspect firstly show the difficulty of CSOs to operate in the economic space. This difficulty emerges in many obstacles (see the above list) which highlights the existence of restrictions to CSOs' economic activities and the resulting difficulty in generating income for the organisation's operations and for its staff.

There is also a significant problem of lack of confidence and lack of recognition regarding CSOs. On the economic and financial side, this problem is seen through things like:

- the difficulties in obtaining credit;
- the lack of tax exemptions and facilitations for CSOs, both Serbian and foreign ones;
- the poor clarity of public financing procedures for CSOs.

The lack of confidence often comes about in forms of conflict or competition between CSOs and other public or private actors. This can occur through such things as:

- the procedural obstacles to financing;
- the poor transparency of fund allocation criteria;
- the presence of forms of explicit blockage of financial provisions in favour of CSOs;
- the presence of forms of unfair competition in public competitions.

There is a strong problem of competition also within the CSO sector itself, in which the study found a great perception of disparity in fund access, such as between large and small organisations, between those closer to political centres and those less so, or between organisations based in Belgrade or in other large cities compared to those operating in small towns.

One need hardly say that all this makes for considerable risk for the very survival of CSOs – even the most important ones. The possibility of a prolonged interruption (or great downsizing) of activities, or closure, is something very real for many organisations.

All this may lead to stress, demoralisation and demotivation for CSOs. However, there are signs, albeit contradictory ones, of change in relations between CSOs and fundraising that can deeply affect the way CSOs can guarantee their sustainability:

- the existence of good practices of cooperation between the public and non-profit sector, and the resulting ways of CSO financing, such as in the case of governmental programmes for combating poverty;
- forms of operative convergence between political leaders and CSOs that can also thus generate funding opportunities;
- the emergence of a new generation of CSOs that are more careful of strategic aspects of sustainability.

New practices are also emerging, especially as regards “corporate social responsibility” (CSR) (Mezzana, Mastropietro 2004; Parodi Luna 1999). In this field, there is an initial spreading of theories and practices linked to CSR, also due to drives on the part of international and foreign organisations, and multinationals as well as CSOs and their networks, such as Civic Initiatives, FENS or the Balkan Community Initiative Fund (Belgrade NGO Center 2008). However, CSR is only slowly and very unevenly spreading. In this context, the study found:

- the persistence of a culture still linked to state intervention and thus poorly inclined to considering private initiatives favourably;
- the entrepreneurs’ poor awareness of the role of CSOs and the resulting tendency to finance just sporting and cultural initiatives rather than CSO activities themselves;
- private firms’ lack of confidence in CSOs’ operative capacities;
- the tendency for firms to associate their image to success themes rather than to those of support to marginal people (the main activity of many CSOs);
- the lack of tax incentives.

Underlying the CSOs difficulties in sustainability are particularly some elements of a juridical nature:

- the lack of legislation (such as tax incentives for CSOs and for donors, or the attribution of PBO status);
- the existence of restrictive legislation on such things as the possibility to carry on certain economic activities or to transfer government funds to CSOs;
- legislative uncertainty on aspects such as the definition of economic activity applicable to CSOs;
- the lack of CSO classification criteria in order to provide funding.

Here, too, the reasons underlying the obstacles in this field include a history, albeit a recent one, characterised by mutual suspicion or forms of conflict between state actors and civil society ones.

To this may be added the existence of inadequate cultural and professional models – inside some contexts, both as regards public administration and CSOs – for dealing with the need to financially support

civil society, and that are characterised by a certain degree of self-referencing. In this regard, the respondents stressed the following aspects.

- *As regards public administration:*
  - the existence of a public “machine” that is still backward and little inclined to relations with external actors like CSOs;
  - public administration’s poor support in enabling CSOs to access European funds;
  - the lack of formalised criteria for evaluating the quality of CSO activities in order to take public funding decisions.
- *As regards CSOs:*
  - the attitude of many CSOs to attribute to external subjects the responsibility of solving their own financing problems;
  - the little interest of many CSOs to have relations with public administration.

To this must be added, as already mentioned, the poor dissemination of a donor culture (see above).

The situation appears aggravated also by the gradual withdrawal of international donors, which is driving CSOs towards new forms of financing compared to the ones they were used to. This is a serious problem – at least until such time as an appropriate system of financing by also local actors comes into operation.

### **Some “Social Regimes”**

On the basis of the research results reported above, at least 5 types of “social regimes” (d’Andrea L., Quaranta G. 1996) can be identified. In particular, the research tried to identify some “dangers”, that is, the facts underlying the obstacles or clusters of obstacles, like the ones depicted before. We call “social regime”, in this case, the set of laws, institutions and policies that as a whole increase the capacity to handle the various dangers. These social regimes are the ways to turn these dangers into “risks”, that is, dangers made known, predictable and manageable in some way.

These social regimes, in the case of Serbian CSOs sustainability, could be: the production and management of appropriate knowledge about CSOs situations; the capacity building of CSOs; the legislative reform concerning the economic and financial aspects of CSOs life; the public

communication about CSOs; the awareness-raising of political society about the CSOs problems and opportunities. The five social regimes could be entail several kind of actions like the following ones.

- I. *Knowledge* (i.e. promoting studies on CSOs sustainability at a local level; creating portals and websites on CSOs sustainability; creating networks for promoting information exchange on civil society's sustainability, etc.).
- II. *Capacity building* (i.e. promoting courses on CSO management and development; promoting courses on fund raising; organising courses on Euro-project designing; favoring contacts and international visits for CSO and public administration actors; facilitating CSO and public administration access to counseling and networking services, etc., etc.).
- III. *Legislative reform* (i.e. promoting a favorable legal framework for endowments and foundations; promoting a favorable legal framework for voluntary organizations; broadening the definition of public benefit activities; creating incentives for firms that support CSOs; abolishing taxes on donations, etc.).
- IV. *Public communication* (i.e. promoting public initiatives in the territory in order to enhance citizens' knowledge of CSOs; promoting communication campaigns on CSOs; promoting competitions and prizes for CSOs; disseminating information on relations between CSOs and the private sector; promoting information channels and awareness-raising on CSOs for credit sector actors, etc.).
- V. *Awareness-raising of political society* (i.e. organising seminars and meetings on civil society geared to political actors at national and local level; creating government interfaces with CSOs about the problems of sustainability; setting up local interfaces between local public administrations and CSOs; favoring the implementation of local partnerships, etc.).

The discussion, elaboration and implementation of these, and possible further, social regimes could be a useful way to cope with the several problems connected to sustainability of civil social organizations in Serbia.

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