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## PUBLIC FUNDING FOR CIVIL SOCIETY ORGANIZATIONS - GOOD PRACTICES IN THE EUROPEAN UNION AND WESTERN BALKANS

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# PUBLIC FUNDING FOR CIVIL SOCIETY ORGANIZATIONS GOOD PRACTICES IN THE EUROPEAN UNION AND WESTERN BALKANS

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*(Technical Assistance to Civil Society Organisations in the IPA Countries*

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**„Capacity Building of Civil Society in the IPA countries and Territories”**

Developed by:

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The main purpose of the project **Capacity Building of the Civil Society in the Western Balkans and Turkey** is to increase the capacity of Civil Society Organisations and to strengthen their role within a participative democracy. The main expected outcomes of this project are: increased influence of CSOs in democratic decision-making processes; strengthened capacity of CSOs to further their agenda; improved capacity of CSOs in service delivery; strengthened cooperation and networking among the CSOs and between external stakeholders and CSOs; raised public awareness of the CSOs, improved public image of the CSOs.

The paper was developed by:



The **European Center for Not-for-Profit Law (ECNL)** is a public benefit organization working internationally, which promotes the strengthening of a supportive policy and legal environment for civil society in Europe and beyond. ECNL shares alternative regulatory models, lessons learned, and experiences across borders; and provides comparative information to assist local partners in adapting or creating new solutions appropriate to their environments. ECNL provides leading expertise to initiatives regarding regulation of civil society, including association and foundation law, public financing, philanthropy, counter-terrorism, public participation and partnerships between the state and civil society. ECNL has supported the development and implementation of laws, policy documents and institutional mechanism concerning public funding for CSOs in several countries, and has researched the topic intensively in order to support local initiatives. For more information see [www.ecnl.org](http://www.ecnl.org).

The paper was developed by Katerina Hadzi-Miceva Evans and Dragan Golubovic, Senior Legal Advisors at ECNL in Budapest, with the support of Hanna Asipovich, Project Coordinator and Eszter Hartay, Office Manager. This paper relies on the findings of the research publication „*Public Financing of Civil Society Organizations in Europe: Principles and Practices in Tendering*”, 2010 developed by ECNL (awaiting publication).

#### DISCLAIMER:

The views expressed in this publication do not necessarily reflect the views of the European Commission.

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# I INTRODUCTION

TACSO Montenegro commissioned ECNL to develop comprehensive analysis of good practices in public (state) financing of civil society organizations (CSOs) supported by examples from selected countries from the Western Balkan region and EU member states. The overall aim of this analysis is to improve understanding among local stakeholders and provide basis for strengthening the legal framework and practice in Montenegro.

The paper falls under the TACSO project component: *Building Relations between Civil Society Organizations and External Stakeholders*. The Needs Assessment Report (NA) undertaken by TACSO Montenegro recognized a lack of efficiency and transparency in public financing of CSOs as a problem both at national and local level. The NA recommended further actions to improve the legal framework and practice in the processes of CSO financing from public sources.

The paper was developed with the specific aims to:

1. Provide a general description of the most common issues which should be considered when planning for state funding mechanisms to support CSOs;
2. Present examples from countries in the Western Balkans and European Union to help illustrate the theoretical issues;
3. Highlight best practices in distributing state funding to CSOs.

The paper relies on examples of public funding schemes and mechanisms in Croatia, England, Estonia, Hungary, and FYR FYR Macedonia. These countries were preselected based on the following factors:

- Countries which have a legal system comparable to Montenegro;
- Countries with a longer tradition of state funding and cooperation with CSOs;
- Countries that can share lessons about implementation;
- Countries which introduce innovative schemes in state funding;
- Countries whose state funding schemes have the potential to serve as models;
- Initiatives on national level, rather than on local level.

Following recent changes of government in England and Hungary, changes to the framework for cooperation and the funding environment have either been implemented or are planned. As a result, some of the initiatives examined in this paper may no longer be in place or may have been reformed. Nevertheless, (*the authors feel that*) the systems highlighted from these two countries in this paper provide useful and valuable examples which are worthy of consideration in their own right.

The paper was developed based on desktop research, review of forms and documents related to the application and contracting in the process of public funding and discussions with some partners in the selected countries. The paper considers previously conducted studies and analysis by ECNL on the state funding mechanisms in countries of Europe and of the European Union and builds on existing recommendations in order to present the most workable solutions to improve public financing.

The analyses start by providing an overview of the selected countries – it presents the funding environment and points out the institutional mechanisms for cooperation. It then provides a more detailed discussion about good practices in all phases of the financing process. The paper focuses on the following particulars of grant making processes: (1) good practice principles in public financing, (2) issues to consider in the programming phase when planning for a public funding mechanism; (3) scope of beneficiaries which should be eligible for public funding and the various criteria which should be considered in the process; (4) a description of issues in the grant tendering and application process; (5) the decision making phase of the project; (6) contracting and payments; and (7) evaluation, monitoring and reporting in relation to the project funding and for the whole funding program.

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

## II OVERVIEW OF COUNTRY EXAMPLES

The paper discusses the funding mechanisms that exist in Croatia, England, Estonia, Hungary, and FYR Macedonia. This section provides a brief overview of each of these five countries.<sup>1</sup> It describes the context in which these good practices have developed, specifically relating to the following elements: overall framework for cooperation between the government and CSOs; institutions and mechanisms channelling public funding to CSOs and the legal and regulatory framework of public funding procedures. Where relevant, the country examples present briefly the role of lottery proceeds in financing CSOs because, as we understand in Montenegro lotteries are also important part of the public funding scheme.<sup>2</sup>

### Croatia:

Croatia<sup>3</sup> is the first country in the Western Balkans to undertake initiatives to develop specially designated mechanisms for Government-CSO cooperation and a mechanism to support transparent funding of CSOs. In 1998, the Government established the Office for Associations which was responsible, among others for the distributing state funding to CSOs. The Government Office for Associations initiated the creation of a new model with the aim to decentralize the cooperation and state funding from one centralized office into diverse stakeholders. As a result various ministries, government agencies and institutions are now responsible to channel state funds directly to CSOs active in their field of competence. To support a transparent funding process, in 2007 the Government adopted a *Code of Good Practice, Standards and Criteria for the Allocation of Grants for Programmes and Projects of Associations* (hereinafter: the Croatian Code), which sets out basic rules and procedures for public authorities at all levels of government in distribution of public grants.

As a result of the decentralization model in 2003 the National Foundation for Civil Society (hereinafter: Croatian National Foundation) was established. The Foundation was established and is funded predominantly from proceeds from lotteries. The National Foundation is acknowledged region-wide as a leading institution supporting the CSOs through carefully designed governance mechanism and funding procedures. The National Foundation's grant-making policies, the policies governing conflict of interest, as well as the Code are exemplary for other countries, which are at a similar stage of civil society development. The National Foundation is the largest donor which provides institutional support for CSOs. It signed agreement with four regional foundations which are now responsible to manage community grants programs in their specific regions.

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1 The description of the countries in this paper is based in general on the following papers: Hadzi-Miceva, K., „Legal and Institutional Mechanisms for Government-NGO Cooperation in Hungary, Estonia and Croatia”, in „Organizacje pozarządowe. Dialog obywatelski. Polityka państwa,” edited by Marek Rymza, published by the Institute for Public Affairs, Poland, 2007 and Hadzi-Miceva-Evans, K., *European Practices on Implementation of Policy Documents and Liaison Offices that Support Civil Society Development*, ICNL and ECNL, 2009

2 For more information on lotteries see: Hadzi-Miceva Evans, K., „Lottery Proceeds as a Tool for Support of Good Causes and Civil Society Organizations – A Fate Or A Planned Concept?”, in the „Trzeci Sektor” quarterly (Katerina Hadzi-Miceva „Loterie charytatywne w Europie. Współczesne rozwiązania w wybranych krajach”, issue 22, 2010

3 The description of the case of Croatia in this paper is primarily based on the following paper: Vidacak, Igor., „Developing Standards and Mechanisms for Public Financing of NGOs in Croatia”, *International Journal of Not-for-Profit Law (IJNL)*, <http://www.icnl.org/knowledge/ijnl/index.htm>

The National Foundation is one piece in the larger framework connecting civil society and the Croatian government. It fits into a tripartite system of Croatia's „new model,”<sup>4</sup> which includes the Government Office for Associations, a 2006 *Strategy for Development of Civil Society*, and the Council for the Development of Civil Society, which is a specialized advisory body of the Croatian government. The Council is charged with monitoring, analyzing, and evaluating the financing granted from the state budget, and ensuring compliance with the Code.

In 2009, there were more than 37,000 registered civil society organizations, including associations, foundations, sports and religious organizations.<sup>5</sup>

In the same year, the government funding amounted to 529,596,954,21 kn (approx. over 71.3 million Euro), which is 15.5% less than in 2008. Out of this amount, 46.2% was distributed from the lottery proceeds. Most of the funds were given through the Ministry of Science, Education and Sport (31% of total funding). Sport is the most funded activity (31%) followed by projects in the fields of culture, people with disabilities and socially disadvantaged groups.

From 1999 to 2009, 27,543 projects of CSO were funded by the state, amounting to more than 320 million Euro of funding allocated to the sector. According to a research conducted among CSOs that received grants from the state budget in 2008 almost 70% of CSOs rely on funding from the central and regional/local government's budgets as the main source of funding.

## England:

England has a long tradition of cooperation with CSOs (charities and voluntary organizations). Central government funding is often channelled through other bodies, such as the regional government and regional development agencies, non-departmental public bodies and local National Health Services trusts.<sup>6</sup> Lottery proceeds provide significant funding to CSOs working in selected fields of activities. The past decade has witnessed countless initiatives both from the government, funding agencies and CSOs to improve funding practices. It supports web-based portals which aim to facilitate the implementation of the granting schemes and ease the access to information about funding opportunities (e.g., [governmentfunding.org.uk](http://governmentfunding.org.uk), Decision Support Tool<sup>7</sup> and [fundingcentral.org.uk](http://fundingcentral.org.uk)).

4 For more information about the model see: Hadzi-Miceva Katerina, „Legal and Institutional Mechanisms for Government-NGO Cooperation in Hungary, Estonia and Croatia,” in „Organizacje pozarządowe. Dialog obywatelski. Polityka państwa,” edited by Marek Rymśa, (Institute for Public Affairs, Poland).

5 USAID, The NGO Sustainability Index for Central and Eastern Europe and Eurasia: Croatia, [www.usaid.gov/locations/europe\\_eurasia/dem\\_gov/ngoindex](http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex) 2009.

6 NCVO, The State and the Voluntary Sector; Recent Trends in Government Funding and Public Service Delivery, 2009, [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

7 National Audit Office, A Decision Support Tool for Public Bodies in England, [www.nao.org.uk/guidance\\_and\\_good\\_practice/toolkits/better\\_funding.aspx](http://www.nao.org.uk/guidance_and_good_practice/toolkits/better_funding.aspx)

The cooperation is institutionalized through the recently reformed Office for Civil Society in the Cabinet Office, which is active in the field of support for the sector through cooperation and funding, social enterprise, charity law and regulation volunteering and giving and the sector's role in public services. In 2008 the Government and CSOs concluded an agreement, called *Compact on Relations between Government and the Voluntary and Community Sector (hereinafter: English Compact)* which sets out commitments on both sides to improve the way in which they work together for the benefit of communities and citizens. The Compact was revised in 2009. It sets out a list of 'Compact values' and commitments in three areas –involvement in policy development, allocation of resources and commissioning, and achievement of equality<sup>8</sup>

There are 180,918 charities in England and Wales.<sup>9</sup> Government funding of CSOs was around £12.8 billion in 2007/08 and it accounts to over one third of all income to the sector. Around 40,000 organizations have a financial relationship with the public sector, but over 75% of CSOs do not have direct financial relationship with the state.<sup>10</sup> Most of the funding from state sources is distributed to organizations working in social service fields.

As part of the state funding, an important source of income is the proceeds from lottery. 28% of lottery proceeds are distributed to good causes in the categories of: charities, health, education and environment (50%); sports (16.67%); arts (16.67%); and heritage (16.67%). So far £25bn has been distributed to over 350,000 projects.<sup>11</sup> The largest distributor of lottery proceeds is the Big Lottery Fund.

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8 The revised Compact replaced the replaces the 1998 Compact agreement and five codes of practice including the Code of Good Practice in Funding and Procurement [www.thecompact.org.uk](http://www.thecompact.org.uk)

9 <http://www.charity-commission.gov.uk/showcharity/registerofcharities/registerhomepage.aspx> (data as of December 1, 2010) However, charities are not the only form of CSOs. They constitute about a half of around 865,000 CSOs in the UK. European Commission, „Recent Public and Self-Regulatory Initiatives Enhancing NPO Transparency and Accountability of Non-profit Organizations in the European Union“, developed by ECNL, 2009, [www.ecnl.org](http://www.ecnl.org)

10 NCVO, Funding Commission, Paper 4- Public Sector Funding- Findings and Emerging Recommendations, 2010, [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

11 [www.lotterygoodcauses.org.uk/lottery-grants/lottery-grant-faq/](http://www.lotterygoodcauses.org.uk/lottery-grants/lottery-grant-faq/)

## Estonia:<sup>12</sup>

Estonian CSOs receive funding from several sources on national (ministries, lottery proceeds, national foundations) and on local level. The major source of funding is distributions from the lottery proceeds; however, this fund decreased more than 30 percent in 2009. Estonia established the National Foundation for Civil Society (hereinafter: Estonian Foundation) in 2008, building upon the learning points of Croatia and Hungary. It also introduced some interesting innovations in its system, such as providing incentives for good governance practices among CSOs. For example, Estonian Foundation included the Code of Ethics of Estonian Non-Profit Organizations (developed by the CSO sector itself) in its funding requirements and organizations applying for funding from the Foundation have to explain how they follows the principles of the Code.<sup>13</sup>

In 2009 the Government approved concept of state financing, which outlines public funding issues based on a thorough analysis of existing practices. The document aims to harmonize funding practices between different public institutions, increasing transparency and efficiency and making the state funding more focused and efficient.<sup>14</sup>

The number of registered CSOs in Estonia is 30,267; 813 of these are foundations and 29,454 are associations. The Estonian Foundation, in its first year of operations 2008, supported 85 projects with a total of 23 million Estonian kroons (approx. 1.5 million Euro). For 2008-2011 the state allocated around 20 million Estonian kroons (approx. 1.3 million Euro). In 2007, ministries were distributing around 700 million Estonian kroons (approx. 44 million Euro).

The cooperation with CSOs is institutionalized through the Local Government and Regional Affairs Department under the auspices of the Minister of Regional Affairs<sup>15</sup> is specifically tasked to undertake activities to support the development of civil society. In 2002, the Estonian Parliament adopted the Estonian Civil Society Development Concept – EKAK and sent it to the Government for implementation. EKAK key goals and activities have been successfully implemented. As described by the local experts, „EKAK has allowed a strategic approach for

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12 The information on Estonia in this paper was prepared with the kind assistance of Mr. Mr. Agu Laius, Executive Director and Ms. Merlin Sepp, Program Coordinator of the Estonian National Foundation for Civil Society Development, [www.kysk.ee/](http://www.kysk.ee/). For more information see: Kubar, Urmo., „Estonian Civil Society Development Concept (EKAK): Framework for Cooperation between Third and Public Sector: Brief Overview and Some Learning Points”, European Conference „How to foster civil dialogue in Europe”, Brussels, May 15, 2008 and USAID, The NGO Sustainability Index For Central and Eastern Europe and Eurasia: Estonia, [www.usaid.gov/locations/europe\\_eurasia/dem\\_gov/ngoindex](http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex) 2009 and 2008.

13 About the Code see: European Commission, „Recent Public and Self-Regulatory Initiatives Enhancing NPO Transparency and Accountability of Non-profit Organizations in the European Union”, developed by ECNL, 2009, [www.ecnl.org](http://www.ecnl.org)

14 See: <http://www.siseministeerium.ee/>

15 The Minister of Regional Affairs operates under the Ministry of Interior. [www.legaltext.ee/cn/andmebaas/ava.asp?m=022](http://www.legaltext.ee/cn/andmebaas/ava.asp?m=022)



civil society development (as opposed to just doing random projects). As a result, Estonia has a functioning civil society and a sustainable nonprofit sector<sup>16</sup>. Following up to EKAK the Government adopted development plans to further the development of the EKAK longer term goals and ensure continued implementation of the activities.<sup>17</sup>

## Hungary:

Hungary is well-known in the Central European region for its extensive system of providing government support to CSOs. Hungary provides state funding through a multitude of central and local channels. It distributes money to CSOs from a „percentage mechanism,” by which taxpayer funds were allocated to support CSOs. CSOs also obtain funding from centralized channels such as individual ministry budgets, grant programs run by ministries, subsidies allocated to social organizations in the state budget, or public foundations, (quasi-governmental grant-making foundations established by Parliament, the national government, or local governments).<sup>18</sup> In the recent years Hungary started to develop universally applicable principles and procedures in its legislation concerning government funding of CSOs, including a Law on the Transparency of Public Funding (2008, revised in 2010).

The National Civil Fund (hereinafter: Hungarian Civil Fund) was established in 2003 in order to supplement the state support to CSOs that they already received from the existing percentage mechanism. It aims to strengthen the operation of CSOs and develop the third sector through allocating grant support for operational costs of CSOs, research on the third sector and other types of activities. By developing its own policy on funding mechanisms, it also determines the priorities and directions of the development of the sector. The Hungarian Civil Fund is administered by a Council and a number of regionally based Colleges. For the first time, it allowed CSO representatives to become involved in the distribution of the funds<sup>19</sup>.

As of July 2010 the duties concerning the operation of the Hungarian Civil Fund fall under the responsibility of the Minister of the Administration and Justice. The Minister coordinates the tasks of the government concerning the development of the civil and social relations, prepares the professional concept of the legal regulations affecting the civil sector, coordinates the execution of the overall governmental civil strategy and grant policies and carries out other tasks to develop the social and civil relations.

In 2002, the Government adopted the Strategy Paper of the Government of Hungary on Civil Society. The key elements of the Strategy were implemented and its key objectives were realized (e.g., setting up the National Civil Fund; adopting legislation on volunteering; increasing the proportion of public funding in the income of CSOs). In 2007 the Ministry of Labour and Social

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16 Kubar, Urmo., „Estonian Civil Society Development Concept (EKAK): Framework for Cooperation between Third and Public Sector: Brief Overview and Some Learning Points”, European Conference „How to foster civil dialogue in Europe”, Brussels, May 15, 2008

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

18 Hadzi-Miceva K., and Suplisson, F., „Overview of State Funding Schemes for Civil Society Organizations, ECNL and COW I/A (2007)

19 For more see: Hadzi-Miceva, K., „Legal and Institutional Mechanisms for Government-NGO Cooperation in Hungary, Estonia and Croatia”, in „Organizacje pozarządowe. Dialog obywatelski. Polityka państwa,” edited by Marek Rymysz, published by the Institute for Public Affairs, Poland

Affairs which was responsible for the civil affairs prior to the recent change of government in 2010 adopted a Resolution on Provisions Serving the Development of Government-Civil Relations with the aim of further enhance government-CSO relations. The Resolution identifies the governing principles and establishes procedures for cooperation with the third sector on the government level. The Resolution outlines five major goals and determines specific tasks and deadlines in order to reach the goals. One of the five major goals is to create supportive environment for **governmental** funding. The two major tasks within this goal are: (1) the establishment and operation of a unified ministerial organization to manage the grants and (2) assuring the transparency of the funding procedure, reducing the administrative burdens, measuring the usefulness of the distributed grants and enhancing the capacity of the organizations to apply for grants.

In 2008, there were 57.693 CSOs in Hungary. The total amount of direct government funding to CSOs in 2008 was HUF 484.600 billion (approx 1.730 billion Euro). This marks an increase in funding from past years. Out of this, HUF 2,816 billion (approx. 10.057 million Euro) was given to CSOs active in the field of legal protection.

The assets of the Hungarian Civil Fund in 2009 was altogether HUF 7.7 billion (approx 27.5 million Euro) out of which HUF 7.084 billion (approx 25.3 million Euro) was distributed through tenders. Until the end of 2009, 10,276 organizations received funding. Those CSOs active in the field of legal protection has received only 0,79% of the total amount of support in 2009 which is HUF 57.25 million (approx 207.5 thousand Euro)

## **FYR Macedonia:**

The CSO sector benefits from different funding mechanisms. Funding is distributed directly by the Government, by different ministries, agencies and also funding from lottery proceeds is available to certain types of organizations listed in the law. In addition, the Secretariat for European Affairs funds CSO activities focussed on promotion of the European Integration process. The procedure for financing was based on the principles included in the Code of Good Practices for Financial Support of CSOs (hereinafter: FYR Macedonian Code) which was adopted in 2007. Every year the Government publishes a Program for Financing of Programs Activities of Associations and Foundations and subsequently it adopts a Decision on the Allocation of the Criteria and Measures for Distribution of Financing of *Programs Activities of Associations and Foundations from the Budget of FYR Macedonia*.

In 2009, there were around 9,830 registered associations and foundations.<sup>20</sup> The FYR Macedonian Government allocates between 3.5 and 5.1 million Euro (data from 2004-2009) on yearly basis to different non-profit organizations, which is between 0.20-0.30% of the overall budget. The funding is distributed by the Government directly and by different line ministries and agencies. Due to the fact that the state budget contains a general line „transfers to non-governmental organizations”, the funding is distributed to associations and foundations but also to trades union, religious communities and political parties.

In addition to the funding from the budget and line ministries, 75.000.000 denars (approx 1.2 million Euro) is allocated yearly from the lottery proceeds to organizations listed in the *Law on Lottery and Entertainment Games from 1997 (amended in 2001 and 2007)* namely programs of associations of people with disabilities, sports associations and the Red Cross.

In 2004 FYR Macedonia established a Government Unit for Cooperation with CSOs, which, among others, is responsible for organizing the process of distribution of financial resources from the government towards the CSOs. To support development of civil society, the Government adopted a Strategy for Cooperation between the Government and the Civil Society Organizations (2007-2013) and an accompanying Action Plan; the Unit is responsible for overseeing its implementation and preparing a report on the status of the implementation. The strategy contains a separate section which contains measures to improve CSO financial viability. As part of those, the Strategy planned for the development of a financing system based on the principles of transparency, clearly defined criteria and previously determined community needs and priorities. As a result, the above mentioned Code was adopted.

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20 USAID, The NGO Sustainability Index for Central and Eastern Europe and Eurasia: FYR Macedonia, [www.usaid.gov/locations/europe\\_eurasia/dem\\_gov/ngoindex](http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex), 2009. Under the new 2010 Law on Associations and Foundations, all CSOs must re-register so a new accurate number is expected in 2011.

### III GOOD PRACTICE PRINCIPLES IN PUBLIC FUNDING

An underlying principle of the public funding is that it should be considered a possibility and not a right for the CSOs. This is important because it underlines a significant aspect of the relationship, i.e., that CSOs are „independent” or „autonomous” from the government and possess a certain level of self-financing capacity. Towards this end, the English Compact highlights the principle of independence:

”The independence of the third sector is recognised and supported. This includes its right within the law to campaign, to comment on and to challenge government policy (whatever funding or other relationship may exist with government) and to determine and manage its own affairs”

Other commonly found principles include:

- **Transparency:** the procedure is based on a clear application and assessment procedures which will provide maximum clarity and openness of the process, e.g., requirements to publish the tender announcements in official and local media, establish clear and objective criteria, give appropriate time for submission of the proposal, to publicize the selection criteria and names of the selected applicants, to send copies of the announcements and answer inquiries of potential applicants, etc.
- **Equal treatment of applications:** a set of pre-established objective criteria, which ensure non-discrimination and selection of the most successful applicant based on the merit of their proposals.
- **Free and fair competition:** the information about the state funding possibilities is advertised as wide as possible and encourages competition between the potential applicants.
- **Accountability:** spending the allocated funds in a responsible way and with clear reporting rules.
- **Goal oriented:** public funding it should be allocated clearly defined goals and priorities in line with the government policies and citizens needs. Further, the English Compact highlights that involving CSOs in designing new funding programmes and services, and focusing on results, can help government to ”provide the right resources, identify risks and solutions, and achieve better outcomes.”
- **Proportionality:** the procedure for application, the application documents and reporting requirements, oversight and supervision should be proportionate to the amount of funding provided.

The Decision Support Tool, England highlights the following principles:<sup>21</sup>

- *Focus on outcomes*: do not focus unduly on the process of awarding funds. Your primary concern should be achieving the outcomes desired;
- *Empathy*: if you and the funded organisation understand each other's needs and requirements, this should help to avoid problems and achieve outcomes;
- *Simplicity and proportionality*: make the funding process as simple as possible. Controls over payments, information requirements, monitoring and evaluation and external inspection should be in proportion to the level of, and risk to, the funds involved;
- *Well-managed risk taking*: you should not be overly risk averse. You should manage risk: tailor it to achieve the most effective and appropriate balance of risk between you and the funded organisation;
- *Commonality and co-ordination*: where possible, seek to join up or standardise the elements of your funding model with other appropriate funding models, such as those used by other government funders in allied policy areas or in funding the same organisations
- *Timeliness*: allow time for planning, decision making and action;
- *Transparency and accountability*: take funding decisions on a basis that is open to both government and the interested organisations.

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21 National Audit Office, A Decision *Support Tool for Public Bodies in England*, [www.nao.org.uk/guidance\\_and\\_good\\_practice/toolkits/better\\_funding.aspx](http://www.nao.org.uk/guidance_and_good_practice/toolkits/better_funding.aspx)

The FYR Macedonian Code outlines the following principles:

- *Strategic financing* on the basis of previously drafted plans and programs.
- *Independence* of associations and foundations in carrying out their activities.
- *Recognition* of the diversity of activities carried out by associations and foundations, and their need to be financed from different sources.
- *Transparency and openness* of the procedure for allocating funds, for the selection of members of the body that makes decisions regarding allocation, publishing the results and the projects that are being financed.
- *Adopting objective criteria* allowing equal treatment, non-discrimination, stimulating competition and leading to a selection of projects that meet the conditions the best.
- *Fair and impartial decision making and evaluating* the reports by the responsible officers based on an objective procedure and without a personal interest.
- *Responsible allocation and use of the funds* for the purpose for which they are intended and allocated.
- The procedure and requirements to be fulfilled by organisations in the process of applying and reporting shall be *proportional* with the amount of available funds and the type of the programs to be financed.
- *Evaluation of projects based on indicators* that will allow verification of the results from the projects and the fulfilment of the plans and strategies envisaged.

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

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



## IV PROGRAMMING PHASE: PLANNING OF FUNDING PROGRAMS

State funding schemes in general reflect a certain governmental policy. Calls for proposals are therefore based on strategic plans and tailored funding programs developed which reflect the priorities set in those policies. Programs for state funding can be developed on level of government but also on the level of each ministry.

Countries foster participation with the stakeholders (CSOs and other interested parties) in the development of those plans. That helps ensure that the calls for proposals respond to the needs and achieve the desired outcomes. Programming is perhaps the most important part of the process for CSOs, as it is at this stage that they must make their priorities and interests known so that they are reflected in calls for proposals.

### Decision Support Tool, England:<sup>22</sup>

*„make good use of internal expertise in good funding and commissioning practice: involve your organisation’s legal advisers, finance departments and procurement units. Also involve external stakeholders. You can learn a lot from the potential beneficiaries and providers of your programme. This may raise expectations among external stakeholders. However, these expectations can be managed if the process is fair and outcomes are seen to be paramount in your process of engagement.”*

Once the programming document or strategy is developed it should be widely communicated and publicized. This will enable interested applicants to plan the use of their resources and where possible acquire additional (matching) funding to support the implementation of the potential project. This is especially important for CSOs as they can become less dependent on one source of funding and could be enabled to develop multi-year strategies.

It is recommended that the government reports on the implementation of its program every year, and to publish relevant data and achievements. For example, the Hungarian Minister of the Administration and Justice is obliged to report in front of the Parliamentary Committee on Human Rights, Minorities and Religion once in a year concerning the activity and the operation of the Fund in the previous year.<sup>23</sup>

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22 National Audit Office, A Decision Support Tool for Public Bodies in England, [www.nao.org.uk/guidance\\_and\\_good\\_practice/toolkits/better\\_funding.aspx](http://www.nao.org.uk/guidance_and_good_practice/toolkits/better_funding.aspx)

23 Section 9/A of the Law on National Civil Fund

### FYR Macedonian Code:

In the process of distribution of funds, the Government and each state administration body should develop a program for financing associations and foundations, simultaneously with the budget drafting of the corresponding state administration body for the next year, which should contain a:

- a description of priorities, a plan for allocating the funds and type of financing to be provided (program, organizational, etc);
- the field to be financed, results to be achieved, essential priorities and goals, the process and a short description of the needs, the opinions of the target group, the amount of funds allocated for every field, a schedule for public calls during the year, the percentage of organizational (core) support to be provided through financing of the activities, and the duration of the programs to be financed (short-term or long-term programs);

The program shall be published on the internet site of Government and the state administration body in draft and final form.

## *Issues to consider in developing the program for funding<sup>24</sup>*

During the programming phase several key strategic issues can be addressed regarding the funding schemes.

### **1. Length of grant programs: short-term and multi-annual grants**

Most government grant programs support projects up to one year, which is in line with government budget planning processes. The advantage of providing one year grants is that it allows many CSOs to compete for grants in each annual funding cycle, keeping the process open for new proposals.

However, since some projects require long term planning and will not achieve results in only one year some governments have started to incorporate multi-year funding schemes cycle (e.g. 3-5 years). Some funding schemes allow for combination of both types of support (e.g., Croatian Foundation).

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24 The issues described in this section rely on the paper „National Funds to Support Civil Society Organizations” prepared by the International Center for Not-for-Profit Law (ICNL) for the Ministry of Social Development of the Hashemite Kingdom of Jordan.

The Estonian Foundation tried to incorporate a two year funding scheme, however, its experience showed that CSOs are not always able to plant to implement projects in such long run. Therefore, the Supervisory Board of the Foundation decided to introduce funds which last 14-16 months.<sup>25</sup> Most of the project funded through government support in Croatia last 12 months, but a small percent (6.3%) last more than 12 months.<sup>26</sup>

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

CSOs that receive multi-year grants benefit from reduced costs, because they only have to pay the start-up costs of their project one time, and may thereafter focus on its implementation over a period of year. Moreover, multi-year funding is helpful to CSOs because it allows them to focus on their work and programs and spend less energy fundraising.

#### Decision Support Tool, England

A short-term award (one year or less) will be appropriate in certain circumstances. For example, if you enter into an agreement with an organisation to run an engagement exercise in a deprived area within the next few months, a short-term award may be appropriate. This is clearly linked to specific purpose.

A long-term award can reduce risk and uncertainty for providers and be more costeffective for government bodies. In particular, the continuing use of renewable one-year agreements in a multi-year programme can lead to the diversion of valuable resources away from delivering better services. Longer-term financial arrangements are likely to be especially appropriate where finances are to be used either for major capital acquisitions or for long-term services, such as care for adults with learning difficulties. There is no 'Treasury rule' that prevents government bodies from agreeing longer-term financial arrangements, if they represent good value for money, and are necessary to achieve the objectives of your programme.

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25 Source: Mr. Agu Laius, Executive Director of National Foundation for Civil Society, Estonia

26 Office for Cooperation with Associations, Report on Financial Support Given to Projects and Programs of Civil Society Organizations, 2009. For further details concerning the funding scheme see this report. [www.usuvrh.hr](http://www.usuvrh.hr)

## 2. Financial conditions: in-kind support, matching funding requirement

### *Financial/in-kind support*

State funding schemes may offer financial support and/or in-kind support. Most commonly the state funding schemes select to provide for financial support to CSOs, usually in the form of grants but also contracts. In-kind support is given to the CSO in the form of goods or services, such as computers, software or training in a certain capacity.

One type of in-kind support is the provision of awards and acknowledgements. For example, the Croatia National Foundation gives awards every year for the development of volunteering, acknowledging schools that excel in organizing volunteer programs. It also provides an award called „Better together” to local governments that develop good cooperation with civil society.

### *Matching funding*

Sometimes CSOs are asked to raise a portion of the project costs (called „cost share” or „matching funds.”) It is not uncommon for a donor (whether government or a private funder) to require that CSOs raise cost share, usually between 10% and 20% of the total funds required. It is important for the matching formula to be realistic, with consideration of the general funding environment and to set out attainable goals for CSOs. For example, sometimes CSOs are not in a position, despite their best efforts, to raise additional funds for projects. This may be due to the lack of a philanthropic culture or the absence of donors who support a given area of activity (e.g., legal aid). Sometimes grants are so small that it is not worth the administrative cost to require matching funds. Therefore, it is not recommended to make the matching fund requirement an absolute for all government funding. Rather, decision-makers for each agency and project tender could to assess the need for and feasibility of such requirements on a case by case basis. In fact, in England the state funders are encouraged to consider funding of full costs related to the project.<sup>27</sup>

#### Estonia Foundation: Call for Operational Funding for Regional CSOs, 2010

The grant recipient needs to provide 10% of co-financing, half of which can be represented in-kind. In case of greater amount of co-financing the applicant receives additional points at the technical evaluation according to the suggested scale (up to 5 additional points). The contribution in-kind, such as volunteer work, must be valued according to the average wage levels available at the Central Statistics Office.

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<sup>27</sup> For a discussion on the full cost recovery see: HM Treasury, Improving financial relationships with the third sector: guidance to funders and purchasers, May 2006

### 3. Types of activities: service provision and advocacy

It is often asked whether government should be financing advocacy organizations. The division of CSOs into two categories – service providing and advocacy -- is not very helpful, since many, perhaps a majority of, CSOs are engaged in both kinds of activities. Very often, social service organizations that work with marginalized populations (e.g., Roma rights, or women rights) are best able to identify the roots of their problems and thus to advocate for particular policy solutions. On the other hand, a human rights advocacy organization may provide free legal aid services in order to redress violations of the rights of its constituents (e.g., rights of people with mental disabilities). Therefore, from the funding perspective, financing advocacy should by no means be perceived as pure budgetary „costs” (versus fees paid for service provision), since supporting advocacy may well result in tangible benefits for the government. For example, grants to organizations which advocate for proper education and social inclusion of the (otherwise underprivileged) Roma youth, may well supplement efforts to decrease the petty crime rate among them. The same pertains to the so called watchdog organizations, which do not necessarily fall into either of the two categories. Providing grants to a watchdog organization dealing with corruption may supplement government’s efforts in this field, and thus result in tangible and measurable benefits and budgetary savings.

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

#### Croatia:

Projects in the fields of democracy, development of civil society, volunteering, social cohesion and philanthropy received 7.3%, while projects concerning protection and promotion of human rights 1.6% of total funding. In comparison to 2008 however the amount of funding for democracy and human rights has increased.<sup>28</sup>

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28 Office for Cooperation with Associations, Report on Financial Support Given to Projects and Programs of Civil Society Organizations, 2009. For further details concerning the funding scheme see this report. [www.usuvrh.hr](http://www.usuvrh.hr)

## 4. Types of support: project support and institutional support

The state may provide funding as institutional support, as project support, or both.

*Project support* may be granted to encourage the development of the sector as such or for specific projects within certain government priority areas. The purposes and priority areas are determined by the government or the government body distributing the funding during the programming phase. For example, if the goal is to support development of the sector as a whole, it might fund work on reform of legal framework affecting CSOs. If the goal is to advance particular government policies, the priority areas for funding will be in line with the overall policy it wants to support, e.g., increase of employment opportunities, decrease of homelessness, youth activism. Subsequently, CSOs will be invited to submit specific projects which fit within these areas.

*Institutional funding*, sometimes called operational or core funding is directed at supporting organizational expenses of CSOs that cannot be allocated to a specific project, but are necessary for the organization's successful operation. These expenses can be represented by administrative costs, such as office and infrastructure costs, institutional capacity-building, board meetings, audit expenses and other recurring costs that cannot be necessarily linked to specific projects.

### *Issues to consider in institutional funding*

Institutional funding is important for increasing capacity of the sector and „investing” in its viability. It is especially relevant in the environment where the private funding is available for project based funding. Such funding supports especially smaller organizations which find it challenging to raise funds to support overhead costs. Moreover, the overhead costs are oftentimes too low and cannot cover all organizational non-project related expenses, such as project development and other fundraising expenses, board and management development, strategic planning, or improvement of financial management systems.

Institutional support can take several forms: normative, need-based, and in-kind. In normative support, a norm, or formula is used to determine how much support each applicant will receive, as in the case of the Hungarian Civil Fund. In need-based support, amounts of money are given to cover specific institutional capacity needs. For example, a grant may give to a CSO the specific funds needed to upgrade its information technology system. In-kind support, may be given to the CSO in the form of goods or services. In case of services, there is a need to create a mechanism for choosing how to provide them. They may be provided in-house, drawing on government expertise, or they may be contracted out to a service provider.

### Hungarian Civil Fund (Normative Support)

Hungary's Civil Fund is one of the few National Funds that chose as its main goal to provide institutional support to CSOs. According to the law on the NCF the Council shall determine a specific proportion to be spent on institutional support each year but it shall be at least 60% of the Fund's financial resources. Between 2004 and 2009 the average proportion devoted for institutional support was 66.81%, the average project support was 24.90% and 8.66% of the financial resources was spent for the operation of the Fund. The institutional support provided to CSOs is largely normative; each applicant may receive up to 30% of its operational expenses, including the salaries of its staff members, calculated on the basis of the previous year.<sup>29</sup> The Fund also supports research regarding CSOs, training and human resources development in the CSO sector, publications on the sector, and support to promote CSOs

Beyond the criteria specified in the Law on the National Civil Fund, the Funding principles issued by the Council, the Guideline and each call for proposals determine specific criteria and exemptions in terms of which organizations may or may not apply for funding. For example, according to the recent Funding Principles issued by the Council (valid from 2011) organizations which have a profit-oriented member, beneficiaries or target audience of more than 50% shall not receive institutional support.

Since the calls for proposals concerning the institutional support are announced by the regional Colleges only organizations which have a registered office within that specific region are entitled to apply for funding. Furthermore, in case the organization has an activity in at least 3 regions and 8 counties it can apply for only calls for proposals which were announced by the College which aim to support civil organization with nationwide effect..



The following table shows how the Hungarian Civil Fund will determine the level of institutional support available for the CSOs starting from 2011.<sup>30</sup>

Annual operational expenditure ( <i>Thousand HUF</i> )		Maximum amount that can be applied for:
-	500,000	300,000
500,000	- 3,000,000	300,000 + 16% of the amount above 500,000
3,000,000	- 10,000,000	700,000 + 15 % of the amount above 3,000,000
10,000,000	-	1,750,000 + 12% of the amount above 10,000,000, but max. 7,000,000

Importantly, institutional support can also be used to invest in particular organizations over time. This practice is followed by the Croatian National Foundation. The Foundation asks CSOs to develop organizational development plans („business plans”) for three years, and submit those with their applications. The plans will include the core activities of the CSO (e.g. in delivering social services) as well as ways in which the CSO would like to improve its services and various aspects of the organization itself (e.g., improve its governance structure, its accountability mechanisms, generate new sources of income, increase its visibility with the public etc.). The application is assessed by professional evaluators and the awards are given for three years, thus ensuring that a CSO can really develop a basis for its future sustainability.

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30 This table is only a technical tool considered in evaluating support, it does not lead to „automatic” support. Other criteria, including transparent reporting on activities and finances, other support available for the CSO, the organizational goals and objectives set by the CSO, and the relevance of the activities of the CSO to the objectives set for the given region (among others) are also considered when making a funding decision.

## Croatia National Foundation: Institutional Support

The purpose of institutional support is to increase the level of sustainability of CSOs which contribute to the democratization and development of civil society in Croatia through financial and professional support to their stabilization and further organizational and programme development. Institutional support represents a specific part of the Grant Giving Programme by the National Foundation with the purpose to invest, over a three-year period, into organizational development or stabilization of the work of CSOs registered in the Republic of Croatia.

According to the announcement for institutional support in 2010<sup>31</sup> posted on the National Foundation's webpage, there are three types of envelopes available for institutional support for 2010: up to 51,000 EUR for organizations that are registered in Croatia and actively operate in the last 5 years; up to 23,000 EUR for organizations that are registered in Croatia and actively operate in the last 3 years and up to 8,000 EUR for organizations that are registered in Croatia and actively operate in the last 1 year. As many as 10 organizations can be awarded in each category. The aid is provided on the annual basis depending on the assessment of the previous year performance during the period of 3 years. The organization is expected to secure 5-10% of co-funding from other sources.

The selection criteria include: quality of the project; public benefit and contribution to community development; organizational and staff capacity for project implementation; contribution to the increased employment in the non-profit sector; national or regional impact; cost-benefit analysis; cross-sectoral cooperation and cooperation with other CSOs; innovation and sustainability of the project. The project proposal evaluation forms are available from the Foundation's webpage.

The priority areas for institutional grants in 2010 include:

- promoting and protecting human rights, democracy and the rule of law;
- institutional education for the development of democratic citizenship;
- nature protection, environment and sustainable development;
- improvement of young people's situation;
- non-institutional culture;
- development of social CSOs by providing services to local community.

The tender for awarding institutional support for the stabilization and/or development of an association is the only tender by the National Foundation implemented in two parts. The first part includes the submission of applications by all associations interested in receiving institutional support. The second part of the tender begins with the selection of the highest-ranking associations resulting from the evaluation performed by the Council for Strategic Investment into Civil Society Development. This is followed by an evaluation of programme related activities and financial operations in the associations, after which the final evaluation and ranking of applications is made.

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31 Croatia National Foundation, Announcement for Institutional Support : [http://zaklada.civilnodrustvo.hr/upload/File/hr/natjecaji/natjecaji\\_zaklade/objave\\_i\\_dokumentacija/2010/20\\_kolovoz/ip/tekst\\_natjecaja.pdf](http://zaklada.civilnodrustvo.hr/upload/File/hr/natjecaji/natjecaji_zaklade/objave_i_dokumentacija/2010/20_kolovoz/ip/tekst_natjecaja.pdf)

Institutional support is one of the most delicate issues in the grant-making profession and requires a deep understanding of CSO operations, organizational development, the donor-donee relationship, and other issues such as financial management or governance. It also requires some degree of professional experience in grant-making in the field in which the CSO operates. Therefore, some countries have opted to provide such funding through specifically set up bodies for these purposes (e.g., Estonia, Croatia, Hungary). As the examples of Croatia show providing core costs of a CSO can be done accountably through clear objective criteria and reporting requirements.

## V SCOPE OF BENEFICIARIES: ELIGIBILITY CRITERIA<sup>32</sup>

The criteria for funding CSOs are closely related to the goals that the funding scheme wants to support. A transparent funding process is marked by clear criteria which must be developed to govern different stages of the funding process. A determination of eligibility criteria (enabling all or only certain CSOs to apply for funding) is necessary, followed by selection criteria (determining which CSOs from the pool of applicants will be awarded funding). Both eligibility and selection criteria can be used to advance government policies. Further, in order to ensure transparency, it is important that both the eligibility and selection criteria be easily available to CSOs and the general public at the time of publishing the call for proposals.

Eligibility criteria determine which CSOs will be allowed to apply for funding from a national fund. They may consist of substantive components, meaning those guided by the topic or objectives of the grant process, and also procedural components, which have to do with meeting technical requirements such as submission of all necessary papers in a timely fashion.

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32 Information about this section is obtained from the paper: International Center for Not-for-Profit Law (ICNL), National Funds to Support Civil Society Organizations, 2010 (on file with ICNL and ECNL)

The Big Lottery Fund, National Well-Being Program:<sup>33</sup>

Organisations that can apply are:

- registered charities
- other voluntary and community groups
- statutory bodies
- charitable-not for profit companies
- private organisations
- social enterprises.

Portfolios can operate at a national or regional level. They can also be made up of a number of locally based projects. The assessors will be aiming to achieve a balance of coverage for the programme across geographic, beneficiary and activity areas.

*Selection criteria*, give guidelines to those charged with deciding which CSOs out of the pool of eligible applicants will be awarded funding. Clarity and precision in the selection criteria will ensure that the members of the committee **charged with awarding the grants will make decisions based on objective**, previously-decided guidelines. The guidelines may leave some room for discretion, but not so much as to allow the selection process to become infused with personal preference.

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33 [http://www.biglotteryfund.org.uk/prog\\_well\\_being](http://www.biglotteryfund.org.uk/prog_well_being)

Estonian Foundation (NFCS)<sup>34</sup> procedures for financing „Good Idea” projects:

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#### 4.2. Technical evaluation

4.2.1. Technical evaluation will be carried out by the NFCS bureau and the results will be provided in the technical evaluation document. The following will be checked:

- complete and timely submission of the application;
- whether all cells in the application form are filled, if the budget is in accordance with the open call requirements;
- whether applicant(s) meet the set open call requirements;
- whether the amount of co-financing is in accordance with the board's requirements;
- whether the applicant's articles of association, board of directors and the last confirmed fiscal year report is published on the home page of the applicant.
- absence of accrued taxes.

...

#### 4.3. Content evaluation

4.3.1. The application will be eliminated from the contest during the content evaluation in case at least two experts find the application not to be in conformity with the goals of the open call

4.3.2. The experts will evaluate the applications:

- In case of open calls the NFCS' open call evaluation criteria approved by the Executive Director of NFCS;
- In case of „Good Idea” projects analytic approach will be applied to which evaluated project analysis will be formalized and recommendations to the implementer of the project and NFCS' Supervisory Board for financing the project will be provided.

Previous activities of the applicant and project implementation capacity, application's conformity with the open call's terms and conditions, content, correspondence of the activities and budget with the goals of the open call, goal orientation and thoroughness and clear connection to the budget, clear definition of results in the application, result-oriented approach and sustainability of project, openness to partnership and cooperation with public authorities, business organisations or other non-profit organisations or foundations will be assessed.

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<sup>34</sup> Procedures for announcing open calls, proceeding applications and „Good Idea” projects, disclosing and monitoring the implementation of the grant [www.kysk.ee/sisu/310\\_8739674\\_Procedures\\_for\\_announcing\\_open\\_calls\\_proceeding\\_applications\\_and\\_Good\\_Idea\\_projects\\_disclosing\\_and\\_monitoring\\_the\\_implementation\\_of\\_the\\_grant.pdf](http://www.kysk.ee/sisu/310_8739674_Procedures_for_announcing_open_calls_proceeding_applications_and_Good_Idea_projects_disclosing_and_monitoring_the_implementation_of_the_grant.pdf)

The following is a summary of issues concerning eligibility and selection criteria considered in a funding process.

## 1. Should the program support all CSOs or only qualified organizations?

Often, governments deliberate whether to distribute state funds to all CSOs or only those organizations which are engaged in activities which are determined as publicly beneficial or which have acquired a public benefit status (PBOs).

CSOs can pursue any legitimate aim, including both private benefit and public benefit. In most countries, however, the state does not want to extend benefits (tax exemptions, state funding) to all CSOs; instead, it typically extends benefits to a subset of these organizations, based on their purposes and activities and in return it requires a higher level of governance and accountability. By providing benefits, the state seeks to promote certain designated activities which are of interest to the public. CSOs pursuing such activities are given many different labels, including „charities” and „public benefit organizations”. Moreover, in some countries, there may be no explicit status defined in the law, but certain purposes and activities are nonetheless linked to certain benefits.<sup>35</sup>

Sometimes governments choose to limit state funding to PBOs because as described above those organizations are engaged in activities predefined as of public interest and because they are subject to stricter regulations and increased supervision, which increases their accountability.

However, allowing a wider group of organizations to apply for state funding (as opposed to only those with PBO status) can prove to be more beneficial for the government. First of all the PBO status is voluntary, and by making it a requirement for government funding, many otherwise capable and eligible organizations may lose the opportunity to receive funding and implement projects which the government needs. In countries where PBO status requirements are high and only a small portion of the CSO sector undertakes to apply and assume the related obligations, it may prove counterproductive to exclude non-PBO organizations from direct government support.<sup>36</sup> Second, different funding opportunities require different criteria and, as noted above, they should be proportional to the scope of the available funding. Third, the reporting, supervision and accountability requirements can also be part of the contract which the government will sign with the organization and therefore there is no need to limit it only to those with PBO status. Fourth, the (local) government may wish to provide grants to local CSOs to undertake community project (such as the rebuilding of a playground or cleaning of the cemetery). Local CSOs which may be membership associations and may best be suited to undertake such projects do not always apply for such status.

If the government decides to allow all CSOs to be eligible for funding, it may tailor a particular

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<sup>35</sup> For more information see: Moore, D., Hadzi-Miceva, K., and Bullain N., A Comparative Overview of Public Benefit Status in Europe, *The International Journal of Not-for-Profit Law*, Volume 11, Issue 1, November 2008

<sup>36</sup> However, government may consider requiring PBO or charitable status when providing operational (institutional) support. In such cases the increased accountability requirements that accompany the PBO status could serve as additional guarantees against a lack of accountability in the use of funds that is a general risk in institutional funding.

funding scheme to selected fields of activities to reflect on its policy priorities.

The 2010 Program for Financing of Programs Activities of *Associations and Foundations the FYR Macedonian Government outlined the following five* general areas for direct funding support: (1) economic development, competition, higher level of employment, increasing the life standard and quality of life; (2) NATO and EU integration; (3) fight against crime and corruption; (5) inter-ethnic relations; and (6) investment in education. The 2010 Program for Financing of Programs Activities of Associations and Foundations the FYR Macedonian Government outlined the following five general areas for direct funding support: (1) economic development, competition, higher level of employment, increasing the life standard and quality of life; (2) NATO and EU integration; (3) fight against crime and corruption; (5) inter-ethnic relations; and (6) investment in education.<sup>37</sup>

In Estonia, CSOs may apply to be included in a Government list to be eligible for certain tax benefits based on a list of public benefit activities and criteria defined by the Income Tax Law and the guidelines.<sup>38</sup> The Estonian Foundation has linked its funding scheme „*Operating Capacity Building Programme for Non-Profit Organizations and Foundations*” to the public benefit purposes defined in the tax law and the guideline. Therefore, while the associations or foundations that apply for this funding have to operate in these fields of activities, however they do not necessarily have to be included in the Government list.

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37 Official Gazette of FYR Macedonia, no. 8/2010 (<http://www.nvosorabotka.gov.mk>)

38 For more information see the guideline: „Carrying on Activities in the Public Interests of Non-profit Associations and Foundations Benefiting from Income Tax Incentives” Tax and Customs Board, <http://www.emta.ee/?id=14383>. See also: Moore, D., Hadzi-Miceva, K., and Bullain N., A Comparative Overview of Public Benefit Status in Europe, The International Journal of Not-for-Profit Law, Volume 11, Issue 1, November 2008



## 2. What are the factors that should be taken into consideration when determining the circle of eligible applicants?

### *Institutional criteria*

Usually calls for proposals will determine the types of organizations eligible to apply based on their legal form (e.g., associations, foundations, non-profit corporations). Sometimes additional criteria may be used reflecting a legal requirement or the purpose of the grant. Most common optional organizational eligibility criteria include:

- mission and field of activity (i.e. one that is related to the project purpose);
- length of time for which the organization has existed (usually one to three years minimum);
- partnership requirements (e.g. in case of cross-border or cross-sector projects a consortium needs to apply);
- exclusion from parallel funding (e.g. CSO should not have received funding from the same source or another governmental source supporting the same issue in the same year);
- having a status of public benefit;
- geographic location or scope of activity.

The FYR Macedonian Code outlines the following criteria:

1. To be registered in accordance with the Law on Associations and Foundations.
2. To carry out activities for a period of minimum one year.
3. To be engaged in activities and projects the purpose of which is meeting the needs of wider community, and which are of public interest.
4. Not to have been awarded funds by another state administration body or from other sources for the same project activity for which the application is being submitted, by meaning double funding for the same activity.

The Government and the bodies of state administration assign specific programmatic criteria for distribution of funds in line with the program and the results that need to be achieved.

Transition Fund grant, England (criteria):<sup>39</sup>

You can only apply for a if your organisation can meet all six of the following criteria:

1. You are one of the following civil society organisations:
  - a voluntary and community unincorporated charitable association
  - a registered charity
  - a community benefit society registered as an industrial and provident society
  - a community interest company
  - an organisation of another type if you operate as a social enterprise and principally reinvest surpluses for social benefit.
2. You are delivering the majority of your services in England.
3. You are spending at least 50 per cent of your total income delivering frontline public services in one or more of the following areas:
  - health and social care
  - homelessness
  - education and training
  - offender rehabilitation
  - welfare to work/employment services
  - children and families
  - debt counselling and legal advice.
4. You have approved annual accounts that are no more than 12 months old which show that:
  - your total income for that year was between £50,000 and £10 million and
  - at least 60 per cent of your total income came from taxpayer-funded sources.
5. You have evidence, or have substantial reason to believe, that between April 2011 and March 2012, your organisation will experience a reduction of at least 30 per cent of the taxpayer-funded income you receive for the delivery of front line public services in England.
6. Your free reserves could pay for your organisation's total expenditure for no more than six months.

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<sup>39</sup> <http://www.biglotteryfund.org.uk/transitionfund?regioncode=-uk>

### Legally defined eligibility criteria: beneficiaries of the Hungarian National Fund<sup>40</sup>

Those civil organizations are entitled to receive support from the National Civil Fund which are registered by the court at least one year prior the first day of the year, when the tender was announced and which actually carry out activities according to their statute.

Except for the institutional support of the civil organizations only those civil organizations are entitled to receive funding from the National Fund which achieved legally binding the status of public benefit according to Act CLVI of 1997 on Public Benefit Organizations.

Civil organizations are not entitled to receive institutional support from the National Fund, which in the given budgetary year directly receive - on the basis of the Budget Act - subsidies for operational purposes.

### Project/program related criteria

Government policies or priorities may be advanced by narrowing the substantive eligibility or selection criteria to include CSOs that conduct work or propose projects in areas of government interest. These programmatic criteria for eligibility are essentially tied to the purpose of the grant and may be defined broadly or narrowly. Usually, the more specific these are, the higher the rate of supported projects will be as only those CSOs that fit the specifics of the program will apply. Typical project related criteria, depending on the objectives of the call for proposals may include:

- Target groups (e.g., people with disabilities, children or unemployed women)
- Geographic scope (e.g. a municipality or region);
- Innovation (e.g. it has to be a project that has not yet been conducted in the country/region/municipality);
- Replication (e.g. it has to be a project that was already once successfully replicated, or that can be replicated or scaled up);
- Methodology (e.g. it should be a conference or it cannot be a conference; it should be participatory; it should include an evaluation component etc.); and
- Focus theme or cross-cutting approach (e.g. the project has to demonstrate diversity, sustainable development etc.).

The calls may also list the types of projects that will not be eligible for funding.

Big Lottery Fund, Youth in Focus, England (summary of criteria):<sup>41</sup>

Up to £30 million available for projects in England that support vulnerable young people through difficult changes in their lives.

You should not apply to Youth in Focus if your project does not specifically target one of the following groups:

- Young carers;
- Young people leaving care;
- Young people leaving youth offenders' institutions.

Programme outcomes: we want to fund projects that work with the young people we're targeting to:

- improve confidence, skills and knowledge - so they can better deal with the life events that affect them;
- provide more effective support that is joined up with other services - so they can tackle challenges better.

To bring about these changes we'll expect applicants to:

- target one or more of the groups that our Youth in Focus programme aims to support
- involve the young people who will benefit throughout, from the earliest stages
- form a partnership of voluntary, public or private sector organisations with relevant expertise, led by a voluntary sector organisation
- make sure that the benefits of the project carry on after our funding ends, and
- share what they have learnt with us and others.

## *Financial criteria*

While establishing financial requirements is important, there are few criteria that are commonly applied. The most important criteria are determining the maximum amount of funding available for one proposal. Without such eligibility criteria, it will prove very difficult for the government to make transparent decisions about the allocation of resources. Some governments publish the minimum and maximum available funding for a certain scheme. Other criteria include:

- Amount of required matching funds (or co-financing or cost-share);
- Eligible funding expenses. Sometimes calls for proposals may list the type of expenses that will be eligible to be funded and those which may not be;
- Overhead expenses that can be covered.

### Big Lottery Fund, Youth in Focus, England (summary of criteria):

We expect most applications to be for between £500,000 and £1million. We'll consider applications for less than £500,000 too but you must talk to us first, as smaller projects may find it more difficult to meet all the requirements set out in this guide.

We also want to award three grants of up to £1,500,000

These will be for England-wide projects that raise national awareness of the issues affecting the young people Youth in Focus is targeting, share learning and inform policy and practice. If you're thinking of applying for one of these larger grants you must discuss your ideas with us before you apply.

#### **What we'll pay for**

- Some or all your project costs for between three and five years.
- A contribution towards your organisation's overheads.

#### **What we won't pay for**

- Building or refurbishment work.

### Estonia Foundation: Call for operational funding for regional CSOs, 2010<sup>42</sup>

The grant recipient needs to provide 10% of co-financing, half of which can be represented in-kind. In case of greater amount of co-financing the applicant receives additional points at the technical evaluation according to the suggested scale (up to 5 additional points). The contribution in-kind, such as volunteer work, must be valued according to the average wage levels available at the Central Statistics Office. The call allows for recovery of 10% overhead costs of the total direct costs of the action.

### *Allowed percentage of institutional/overhead costs to be charged to the project.*

One of the ways to support CSOs' financial sustainability is to allow for recovery of indirect or overhead costs related to project implementation. Indirect costs are the institutional expenses that the organization bears in its operations and which cannot be directly allocated to a specific project. The examples of indirect costs can include expenses for annual audit, board expenses, staff training, program development and many other activities needed for the organization's proper functioning. The CSOs with developed accounting system can easily assess their indirect expenses and proportionally allocate them between the various projects the organization is implementing.

There are various approaches to reimbursement of indirect costs. Usually, the donors contribute a certain percentage of the total project cost to indirect expenses. For instance, according to the financing rules of the Croatian Foundation up to 20% of the project budget can be allocated to indirect costs. The Estonian Foundation allows up to 10% indirect cost recovery.

The United Kingdom offers full recovery of the incurred indirect costs. This method of project cost allocation is meant to ensure that appropriate portions of overheads are allocated to different projects and services and fully covered by the respective governmental donor. While there are challenges on the way to consistent application of the full cost recovery by all governmental departments, the 2007 report by the National Audit Office on the Office of the Third Sector- Implementation of the Full Cost Recovery states that „the issue of full cost recovery has been kept high on the policy agenda since 2002”,<sup>43</sup> and that „there is no dispute from the departments on the fairness of the financial principles underpinning full cost recovery.” The Report helped clarify how the principle can be applied across a variety of funding relationships, including contracts and project funding (grants). Practice has shown that departments providing project-based funding have become more engaged in applying the scheme: „the concept of full cost recovery makes more sense here as funders will have a due diligence interest in the specific project being fully and sustainably funded.”<sup>44</sup>

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43 „Office of the Third Sector- Implementation of the Full Cost Recovery” Report 2007, available at: [http://www.nao.org.uk/publications/0607/full\\_cost\\_recovery.aspx](http://www.nao.org.uk/publications/0607/full_cost_recovery.aspx)

44 „Office of the Third Sector- Implementation of the Full Cost Recovery” Report 2007, available at: [http://www.nao.org.uk/publications/0607/full\\_cost\\_recovery.aspx](http://www.nao.org.uk/publications/0607/full_cost_recovery.aspx)

More specifically, the guidance issued by the UK HM Treasury in 2006 on „Improving financial relationships with the third sector: Guidance to funders and purchasers”<sup>45</sup> states:

- There is no reason why service procurers should disallow the inclusion of relevant overhead costs in bids. Furthermore, funders or purchasers should not flatly reject or refuse to fund fully costed bids. Funding bodies must recognise that it is legitimate for third sector organisations to recover the appropriate level of overhead costs associated with the provision of a particular service.
- When grant-making, funders should assess in a simple, proportionate and equitable manner whether third sector organisations have allocated relevant overhead costs and ensure that costs are recovered only once.
- Under a competitive procurement regime, purchasers should be clear that they expect third sector providers to be aware of the risks of not bidding on a full cost recovery basis. A third sector organisation unwittingly subsidising a public service is unlikely to represent good value for money, particularly in the long term.
- Fixed percentages without any evidence base do not provide a sound basis for the calculation and award of relevant overhead costs. Clear and consistent allocation of relevant overhead costs can provide a more accurate guide to funders of the true cost of delivering a service or output.

### Technical requirements

Technical requirements are the requirements for information and documentation to support the eligibility criteria. These usually include:

- proof of registration;
- proof of PBO status (if required);
- (audited) annual financial reports;
- proof of no public debt;
- presentation other financial information (operational budget, overhead ratio, cash-flow statements etc.)
- statute or other acts of the organization;
- declarations concerning partnership with other organizations or other state bodies;
- form for submission of narrative proposal;
- form for submission of budget proposal;
- references.

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<sup>45</sup> HM Treasury, Improving financial relationships with the third sector: Guidance to funders and purchasers (2006): <http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/guidncefunders1505061v1.pdf>

The Croatian National Foundation funding program „Together for Better” outlines the following technical requirements:

1. Proof of registration (for associations not older than 3 months from the day the call for applications was announced that clearly indicates that the organization functions at least 2 years from the day of registration to the day when the call was announced; for foundations – the proof should clearly indicate that the organization functions at least 2 years from the day of registration to the day when the call was announced);
2. Certified and signed form for narrative proposal (in hard copy based on the form published by the Foundation);
3. Filled form of the narrative proposal electronically (in the form published by the Foundation and on CDrom);
4. Certified and signed form for financial proposal (in hard copy based on the form published by the Foundation);
5. Filled form of the narrative financial proposal electronically (in the form published by the Foundation and on CDrom);
6. CVs of the leader of the project in hard copy;
7. CVs of the leader of the project in electronic format on a CDrom;
8. For those who conduct double accounting – a copy of the financial report form the previous year with a stamp from the State Audit Office, and for those with simplified accounting a Decision not to develop a financial report from the governing body with a stamp from the State Audit Office and a copy of the accounting book;
9. Declaration of partnership signed and certified by the partner in the project in hard copy;
10. Declaration of partnership signed and certified by the partner in the project in electronic format on a CDrom;
11. Copy of the Statute;
12. Signed and certified Declaration from the head of the project on the financed projects from the state budget, the budget from the local and regional governments, or from the lottery funds, the ministries and other state agencies in the past year;
13. Other documentation (materials, publications, newspaper articles which will help illustrate the work of the organization).



## VI GRANT TENDERING AND APPLICATION PROCESS

Most common challenge in public funding is distributing the money in a transparent and accountable manner. CSOs in a number of countries complain that they often have difficulties accessing government funding because implementation of the funding mechanisms is not transparent, there are no clear criteria, and the decisions as to who can receive grants are politicized. In addition, the process lacks an effective evaluation and monitoring mechanism to oversee the use of funds and ensure accountability by the CSOs that have received them.<sup>46</sup>

To address this problem, several countries, including the ones discussed in this paper, have adopted regulations or codes that prescribe the framework for transparent funding procedures. Such frameworks documents help ensure the fair and orderly tender, funding, and successful completion of a funding program and projects. In addition, they aim to harmonize the funding practices among different state bodies and to ensure that CSOs understand better the opportunities related to such funding.

There are several issues which should be considered when developing a framework for a funding procedure. Those are briefly discussed here:

### 1. One or two-stage tendering

The grant announcements can be in one or two stage tenders. One-stage tenders are when after the announcement, proposals are accepted and a decision is made on the winners. This is most common practice. In a two-stage process, in the first instance only brief summaries of the proposed project are required, and based on the evaluation of the summaries, a limited number of CSOs are invited to submit a full proposal. In this process the first round of proposals („statements of interests”) are often screened by agency staff or invited experts and not the actual decision-making body.

In most cases the two-stage procedure is more burdensome for grant-making agencies as it takes longer time, requires more administrative effort and is overall more expensive than one-stage tendering. However, at some instances the government may want to consider a two-stage process (e.g., when it regularly receives too many applications and a considerable proportion of those do not meet basic selection criteria. CSOs might also prefer a two stage proposal, as writing full proposals inevitably increases costs for the organization and - in the absence of serious prospects of funding - the CSO would likely prefer to know it at an early juncture so that it can conserve its limited project development resources.

### 2. Pre-qualification systems

A pre-qualification system means that the government agency maintains a database of the ‘qualified’ CSOs who are eligible for funding through its grant programs and does not require proof of the eligibility criteria every time the CSO applies. This system essentially saves the

<sup>46</sup> Hadzi-Miceva, K., with Bullain, N., „A Supportive Financing Framework for Social Economy Organizations” in Social Economy – Building Exclusive Economies (OECD Local Economic and Employment Development (LEED) Programme, 2007.

administrative costs of deciding on the institutional and technical eligibility of a CSO for every single tender. The system can be particularly effective when a ministry or government agency finds that the same pool of CSOs applies for most of its grant tenders (e.g. in the case of international development, the limited number of development CSOs in a country applies foreign aid grant programs.) For example, the FYR Macedonian Ministry of Labour and Social Affairs registers organizations which want to apply for funding from this Ministry.

### 3. Design (content & format) of grant tender

The most important requirements in the design of the grant tender include:

- that it be clearly understandable by the readers;
- that it includes all the necessary information to prepare a good proposal;
- that it includes all the necessary technical and procedural information to apply;
- that it is proportional to the scope of the tender and available funding.

In order to maximize the number of potentially winning applications a call for proposals ought to be precise and concise in terms of eligibility. Additional information can be detailed but the core elements of the call should be able to be summarized on one page, if nothing else, for advertising purposes.

In Hungary the Implementing Regulation on the National Civil Fund makes a distinction between the Call for Proposals and the Guide for the Call for Proposals; the latter contains all the detailed information that the applicants need. The widely advertised Call for Proposals contains only the title, purpose, amount of funding available, and basic eligibility criteria, and a link to the website where the more detailed Guidelines can be found and the application forms can be downloaded. (See example below.)

It is helpful and a good practice to include information on the selection criteria, i.e. to inform applicants of the criteria that will guide the decision-making process. This increases transparency of decision-making and improves the quality of proposals as the applicants will focus their proposals on the stated criteria. In some cases, grant-making agencies publish the scoring tables, i.e. the potential scores that an applicant can receive for each selection criteria, or the weight in percentages or points that each criterion receives in the scoring process.

The selection criteria need to be developed before the call for applications is published. This is because the design of the application form should reflect the selection criteria. For example, if one of the selection criteria is the applicant's previous experience in the field, a question about experience needs to be included in the application form.

It is also useful to include information on what happens after the application: how much time it will take to make the decision, what are the conditions of contracting, when the winner can expect funds to arrive, will there be instalments, what are reporting requirements, etc. This will inform organizations about what they can expect and therefore facilitate implementation of the winning proposals. It is a good practice to make such information available at least on the webpage of the grant-making agency, if not in the grant call for proposals itself.

Estonia: Rules of Financing of the National Foundation for Civil Society (NFCS):

The experts evaluate applications based on the following criteria:

- In case of open calls the NFCS' open call evaluation criteria approved by the Executive Director of NFCS;
- In case of „Good Idea” projects analytic approach will be applied to which evaluated project analysis will be formalized and recommendations to the implementer of the project and NFCS' Supervisory Board for financing the project will be provided.

Previous activities of the applicant and project implementation capacity, application's conformity with the open call's terms and conditions, content, correspondence of the activities and budget with the goals of the open call, goal orientation and thoroughness and clear connection to the budget, clear definition of results in the application, result-oriented approach and sustainability of project, openness to partnership and cooperation with public authorities, business organisations or other non-profit organisations or foundations will be assessed.

The Croatia National Foundation is obliged to include the following information in the published tenders and calls:

- conditions of the tender;
- the organizations and program that are eligible and those that are ineligible to apply for the tender/call for the expression of interest;
- the maximum amount of funds earmarked for grants;
- the number of grants to be given in that tender/call for the expression of interest;
- how to apply (including access to forms and instructions on how to apply);
- deadline for applications;
- grant-assessment procedure;
- procedure of concluding a contract on the allocated grant;
- way of using the funds; and method of reporting on the use of the grant.

## Outline of Guidelines for Call for Proposals - National Civil Fund, Hungary<sup>47</sup>

1. Introduction (aim and structure of the guideline, general information of NCF)
  2. The funding procedure (timeline)
  3. The call for proposals (method of submitting the tender, supportable costs, amount of support)
  4. Application package (procedure of the obligatory registration, application form, conflict of interest, accounting rules, obligatory annexes)
  5. Supplementary submission of the missing documents (typical mistakes, formal supervision)
  6. Procedure and deadline of the decision
  7. The evaluation of the applicants after the decision
  8. Contract (the supervision of the contract and its annexes, request for additional documents)
  9. Amendment form (principles and general information)
  10. The disbursement of the support
  11. The settlement and supervision of the support (professional and financial report, rules of objection)
  12. Amendment of data
  13. Closing
  14. Objection
  15. Access to documents for review
  16. Annexes
- Annex I. The funding principles of the Council.
- Annex II. The form of accounting report.
- Annex III. The extract of the public benefit report.
- Annex IV. Draft of the letter of intent.
- Annex V. Decision concerning the milestones of the order of the reporting and amending procedure.

## 4. Publication of tender

Once the call for proposal is designed, it is in the interest of the tendering agency to have as many potential applications as possible. This can best be achieved by widely circulating and making available the tender among the target group. Some of the common dissemination mechanisms based on tendering practices in CEE and Europe include:

- Internet home page of the ministry or government agency;
- Ministry's database and electronic newsletter;
- Professional networks. (e.g., network of social service CSOs, environmental organizations or children and youth organizations);
- Support centres – central / regional/local;
- Electronic and print „non-profit media“;
- Daily newspapers;
- For-profit providers which monitor and give notice of calls for proposals in certain fields.

The Croatia National Foundation publishes public tenders/calls for proposals for the allocation of grants to users, and public calls for the expression of interest in cooperation at least once each year in the public media, on the Foundation's website, and at press conferences.

Estonian Foundation (NFCS)<sup>48</sup> procedures for financing „Good Idea“ projects:

„1.3. Advertisement concerning the announcement of an open call will be published in the national daily newspaper, on the home page of NFCS and will be spread through information lists of civil society organisations. Advertisement will include the deadline for the submission of the application, financial amount of the open call, information concerning submitting of applications and getting additional information.“

## 5. Timing issues and deadlines

### *Intention*

The most important requirement in terms of the timing of the publication of a tender is to ensure sufficient time for preparing and submitting the application. It is good practice to publish the intention of issuing a call for proposals even before the call itself is published in order to allow time for CSOs to plan and prepare for the application (e.g., in a form of a tender forecast or calendar of grants for the upcoming year).

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<sup>48</sup> Procedures for announcing open calls, proceeding applications and „Good Idea“ projects, disclosing and monitoring the implementation of the grant [www.kysk.ee/sisu/310\\_8739674\\_Procedures\\_for\\_announcing\\_open\\_calls\\_proceeding\\_applications\\_and\\_Good\\_Idea\\_projects\\_disclosing\\_and\\_monitoring\\_the\\_implementation\\_of\\_the\\_grant.pdf](http://www.kysk.ee/sisu/310_8739674_Procedures_for_announcing_open_calls_proceeding_applications_and_Good_Idea_projects_disclosing_and_monitoring_the_implementation_of_the_grant.pdf)

## *Submission*

As to the necessary time between publishing the call for proposals and the deadline for submission, there are no clear rules or best practices. This depends entirely on each agency and the nature and size of the specific tender. The deadlines may be changed for upcoming calls in order to reflect on particular circumstances. Still some general framework should be provided. As a rule of thumb, any period of time less than one month (or 30 days) will prove to be too short to issue a successful call. Here are few examples:

- The Croatian Code provides that „tenders should be open for application to association for at least 30 days following their publication.”
- The Good Idea Project calls for the Estonian Foundation provide that „The open call will be announced at least 45 calendar days before the deadline for submitting the applications”.
- The FYR Macedonian Code provides that: „Each state administration body shall allocate funds on basis of a public call published in the daily press, on the Internet sites of state administration bodies and the General Secretariat of the FYR Macedonia/the Unit for Cooperation with Non-Government Organizations 30 days after the adoption of the budget of the FYR Macedonia and the program for financing”.
- According to the implementing regulation of the Law on the National Civil Fund in Hungary<sup>49</sup> the calls for proposals shall be published at least 30 days before the deadline for the submission of the application.

## *Evaluation and decision*

The deadlines to be followed by the agency after the submission of the application are a sensitive issue in the grant-giving process. Most laws and regulations do not provide for these internal deadlines therefore they are either not established or are established in internal procedures that may be quite flexible. However, the time between submitting a proposal, making a decision, contracting and receiving the money transfer is of crucial importance not only to the CSO recipient but also to the government donor. It is therefore good practice to establish a deadline also for the decision-making by the government donor.

- The Good Idea Project calls for the Estonian Foundation provide that National Foundation for Civil Society assesses applications and projects in 60 days after the end of the deadline for submitting the applications.
- In Hungary the Guideline stipulates that the evaluation of the application shall take place within 77 days from the submission of the application in conformity with the timing approved by the Council<sup>50</sup>. According to the timing the rejected organizations shall be notified within 103 days while those organizations which have gained support need to be informed within 115 days. The contract should be concluded not later than 165 days from the submission of the application and the transfer of the support should take place within 180 days. On the basis of the above the whole procedure may even last half a year.

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49 160/2003. (X.7.) Government Regulation on the Implementation of Law No. 2003/L. on the National Civil Fund

50 Decision no. 43/2009 of the Council of the National Civil Fund on determining the milestones of the decision (4 April 2009)

## 6. Documentation to be submitted

An overarching principle that should guide the need to request information and documents concerning an application is the one on proportionality which requires that the amount of information requested should be proportionate to the amount of funding and the objectives the funding scheme want to achieve.

A common problem is the requirement to submit a large number of documents with the application, such as founding statutes, bylaws, registration certificates, financial and audit reports, bank certificates, licenses and certificates from various authorities (labor, tax, social security etc.). Donors seek these documents because they constitute proof of eligibility. However, such documentation may amount to over 100 pages, and sometimes must be submitted in duplicate or triplicate. This can create a serious burden on both the applicant and the government officials who receive and review the documents. Therefore, governments have used the following methods to overcome this burden, including:

- the introduction of a pre-qualification system (see above);
- creation of a central common file for CSO documentation that harmonizes the needs of multiple branches of government;
- preferring or requiring electronic submission of the application; or
- the introduction of a procedural rule that documented evidence of institutional or technical eligibility is only sought from successful grant recipients in advance of concluding a contract. In the first instance, all applicants provide only a signed statement that the CSO fully complies with the criteria listed in the call for proposals.

Another common problem is that applicants often provide incomplete information in regard to these technical requirements. Especially smaller CSOs or those who do not have professional administration staff will often find it hard to fulfil all the technical requirements precisely. In addition, at times the call for proposals may not be clear on the type of documents required. As a consequence, high quality applications may be dismissed on „technical grounds” for failure to meet the formal criteria.

The donor agency may have a policy to support only highly professional organizations that have the administrative capacity to fulfil technical requirements, in which case the dismissal is part of the selection process. However, in other cases the donor may adopt a policy which allows for a supplementary submission of the missing documents. In this case a procedure is devised in which the CSO is notified of the documents it still needs to supply or change and is given a relatively short deadline to complete the submission. This practice has proven to improve application practices of CSOs, as they appreciate the opportunity to correct their technical mistakes and learn from them.

### National Civil Fund, Hungary<sup>51</sup> -

In case of an application with errors or deficiency which can be supplemented, the authority calls the applicant organization within 10 working days of receiving the application to hand in supplements. Supplementary submission is only possible once, within 10 working days of receiving the notification, but not later than 15 working days from the sending of the notification. In case of an online application receiving the notification means opening up of the message containing the notification for supplementary submission.

Application is invalid if:

- a) the deficiency cannot be supplemented in the framework of a supplementary submission, or
- b) if the applicant organization does not comply with the supplementary submission notification or does not do so in a way defined in the notification.

### Estonian Foundation (NFCS)<sup>52</sup> procedures for financing „Good Idea” projects:

4.2.2. Should the technical evaluation reveal that the applicant, application or the „Good Idea” project is not in accordance with the requirements it will be formalized in an in-house evaluation protocol and is not a subject to content evaluation. In case there are any insufficiencies in the application NFCS informs the applicants in seven working days after the deadline for submitting the applications by e-mail. The applicant can dispute it according to the NFCS’ regulation for disputes.

4.2.3. In case of minor shortcomings in the application the applicant will receive a proposition to submit the correct application in three working days.

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51 160/2003 (X.7.) Government Regulation on the Implementation of Law No. 2003/L. on the National Civil Fund

52 Procedures for announcing open calls, proceeding applications and „Good Idea” projects, disclosing and monitoring the implementation of the grant [www.kysk.ee/sisu/310\\_8739674\\_Procedures\\_for\\_announcing\\_open\\_calls\\_proceeding\\_applications\\_and\\_Good\\_Idea\\_projects\\_disclosing\\_and\\_monitoring\\_the\\_implementation\\_of\\_the\\_grant.pdf](http://www.kysk.ee/sisu/310_8739674_Procedures_for_announcing_open_calls_proceeding_applications_and_Good_Idea_projects_disclosing_and_monitoring_the_implementation_of_the_grant.pdf)



## VII DECISION-MAKING

Decision-making is an important step in the public funding process. During this process, it is important to ensure that the criteria developed in the tender are objectively applied. Issues to consider when discussing the decision-making in funding process include the following.

### 1. Selection committee

The issues concerning the selection committee relate to its task and responsibilities, who decides and what the composition of the decision making body (and related to this how to avoid conflict of interest). It is often thought that the selection committee only needs to meet once to review and evaluate the proposals. However, its responsibility will usually go beyond that. A decision-making body generally has the following responsibilities concerning one grant program:

- Determine program goals;
- Develop targets / success indicators for the grant program;
- Develop eligibility criteria;
- Develop evaluation criteria;
- Agree on rules for decision-making (including scoring or other evaluation system, conflict of interest rules, voting procedures etc.);
- Agree on all elements of the Call for Proposals;
- Review Call for Proposals /grant announcement;
- Review and evaluate/score proposals;
- Agree on decisions;
- Agree on communication about decisions;
- Evaluate success of the program.

These tasks may be shared among various actors.

- The staff of the donor agency can take a lead in developing most of the criteria and calls for proposals.
- A customary solution is to contract out the review and scoring of the proposals (based on clear guidelines) so that decision-makers receive the results of the evaluation by independent professionals for each proposal.
- Alternatively, the decision-making process may be split between a committee (usually made of independent experts) that reviews and recommends proposals and a higher level board (usually made of government officials) that ultimately makes the decisions.

Estonian Foundation (NFCS)<sup>53</sup> procedures for financing „Good Idea” projects:

„4.2.4. Applications and projects which have passed the technical evaluation will be submitted to at least two („Good Idea” contest) or three (open calls) independent experts for content evaluation”.

FYR Macedonian Code:

„The selection of projects shall be done by a **commission**. Members of the commission shall be people employed in the state administration body, in other state administration bodies and, if envisaged, experts invited by the state administration body. The method and procedure for selecting the members of the commission, determining their duties and the way to avoid possible conflicts of interest shall be stipulated by each state administration body”.

### *Conflict of interest*

One of the questions related to the selection committee is who should take part in it and whether it should include CSO representatives. Essentially, participation of CSOs ensures that the committee includes representatives who know the field, understand the issues, and ideally possess political independence. However, participation of CSOs’ representatives can raise conflict of interest issues, which have proven hard to avoid.

Conflict of interest means any situation in which someone with decision-making authority has an interest that – potentially or actually – may influence his or her decision. Developing conflict of interest policies for government decision-making bodies are very important. Such policies help to ensure the prudent use of taxpayers’ money, as well as transparency, objectivity, and fair treatment of CSOs and other beneficiaries.

Hungary’s Civil Fund faced criticism for its lack of protections against conflicts of interest. The Civil Fund’s Board was composed of both civil society and government representatives, and the civil society representatives were also considered eligible to receive funding from the Civil Fund.<sup>54</sup> Moreover, no guidelines were developed to prevent these representatives from voting on matters that related to their own self-interest. As a result, CSOs affiliated with the decision-making civil society leaders tended to receive all the funding they applied for, while other CSOs did not. In the end, criticism from society and the Minister prompted the adoption of an internal regulation addressing conflict of interest issues.

In addition to developing a conflict-of-interest policy, the members of the body may be asked to sign that policy or required to submit annual statements that declare actual or potential conflicts of interest, or to declare certain or all affiliations, which can then be screened.

<sup>53</sup> Procedures for announcing open calls, proceeding applications and „Good Idea” projects, disclosing and monitoring the implementation of the grant [www.kysk.ee/sisu/310\\_8739674\\_Procedures\\_for\\_announcing\\_open\\_calls\\_proceeding\\_applications\\_and\\_Good\\_Idea\\_projects\\_disclosing\\_and\\_monitoring\\_the\\_implementation\\_of\\_the\\_grant.pdf](http://www.kysk.ee/sisu/310_8739674_Procedures_for_announcing_open_calls_proceeding_applications_and_Good_Idea_projects_disclosing_and_monitoring_the_implementation_of_the_grant.pdf)

<sup>54</sup> „National Civil Fund in Hungary,” ECNL (2008).

The policies and procedures for financing should describe: (1) what the decision-making body considers a conflict of interest (e.g. involvement with a beneficiary CSO; accepting gifts, awards or other honours from an applicant etc.); (2) what procedure is applied to disclose such interests (e.g. annual declaration); and (3) what are the ways to deal with conflicts of interest.

In many countries the regulation of conflicts of interest in the allocation of public funds is found in anti-corruption or ethics regulations of broader scope, including procurement laws, lobbying laws and regulations on the conduct of government officials.

## 2. Selection criteria

### *Objective vs. subjective criteria*

The key difference between eligibility criteria and selection criteria is that the former are objective conditions that may be supported by clear evidence, while the latter usually refer to conditions that can only be measured by the collective judgment of the decision-making body. Eligibility criteria establish the entry threshold; selection criteria establish the winning bid. The extent to which the selection criteria are fulfilled will inevitably be subjectively measured (which is an additional reason why many calls for applications state clearly that there is no opportunity to appeal the decision).

Nevertheless, it is a good practice to publish the selection criteria at the time that the call for applications is published (see above), and to establish a procedure to evaluate collectively these criteria (e.g., a scoring table). This will help CSOs understand the priorities of the donor and tailor their applications accordingly, thereby making the evaluation process easier for the assessors. Below are two tables which describe the criteria used by the Estonian Foundation.

After the first year of its operation the National Foundation in Croatia received harsh criticism regarding its process of distributing funds, and especially the potential conflicts of interest that arose from CSO representation on the Foundation's Management Board. Now, the implementing Regulation<sup>55</sup> contains the following provision addressing a conflict of interest policy, which is an attempt to ensure a transparent and fair process.

**Article 9: Protective Measures to Prevent Potential Conflict of Interest**

„Potential conflict of interest arises if a member of the Management Board or member of any other body of the Foundation decides on issues which relate to the legal person of whom he or she is a member, in whose management he or she participates, or in which he or she has assets. In that case, the provisions of Article 11 paragraph 1 of the Act on the National Foundation for Civil Society Development shall apply, so that the member of the Management Board or member of any other body of the Foundation (Program Committee, Council for Strategic Investments in Civil Society Development, etc.) cannot vote or decide in that case.

The procedure for disclosing or protecting from potential conflict of interest is additionally provided for in the Rules of Procedure for the Work of the Management Board and other bodies of the Foundation.

The register of potential conflicts of interest for each member of the Management Board and other bodies of the Foundation is stored in the Foundation's documentation. The register is not a public document but upon request it may be presented for inspection to the representatives of authorized bodies.”

**Table 1: Estonian Foundation: Technical Evaluation Criteria**

Applicant:		Application No:	
Sub-project title:			
	Yes	No	Comment
Application is sent electronically and on paper and signed by legal representative or sent electronically and signed digitally by legal representative:			
All cells in the application form are filled:			
Applicant is eligible (including operated in public interest at least for a year):			
Partners are eligible, there are at least two local municipalities as partners:			
Applicant's articles of association, board of directors and the last confirmed fiscal year report is published on the home page of the applicant, there is no tax liability:			
The budget is in accordance with the open call requirements, costs are eligible:			
The amount of co-financing is in accordance with the requirements:			
The costs calculations are correct and justified and explained in the application:			
Comments:			
Application passed the technical evaluation:	Yes	No	Name, date, signature

**Table 2: Estonian Foundation: The Content Evaluation Criteria**

<b>Evaluation criteria</b>
<b>1. Compliance of objectives of the sub-project with the objectives of the program and open call</b>
1.1. Are the objectives of the sub-project are in compliance with the objectives of the program and open call and financed activities, are they specific and achievable in practice?
1.2. How comprehensive and specific is the definition of target groups and final beneficiaries and have their needs been sufficiently justified?
<b>2. Experience and capacity of the applicant</b>
2.1. Are the knowledge, skills, experience and activities (incl. ethical) and economic capacity of the applicant and project manager adequate to implement the sub-project?
<b>3. Methodology (manner of operation)</b>
3.1. Reasons for the need for the sub-project: is the necessity to deal with the topic or problem comprehensive and reasoned in the application? Is there a respective analysis?
3.2. Is the action plan clear, logical and feasible? Have the planned activities been thought over, are they practical and do they lead <b>step by step</b> to the achievement of the objectives of the sub-project and the desired results? Are the planned activities enough to achieve the objectives set and do they occur during the entire sub-project?
3.3. Have representatives of target groups and final beneficiaries (partner organisations) been <b>involved</b> in the implementation of the sub-project and, if yes, to what extent? Does the sub-project support the participation of target groups?
<b>4. Results and outputs</b>
4.1. Are the planned results (impacts) relevant and do they comply with the planned objectives? If yes, to what extent? Can the results be measured? Does the sub-project include objective indicators of assessing the results?
4.2. Are the planned outputs relevant, necessary and reasoned and, if yes, to what extent?
<b>5. Sustainability</b>
5.1. How probable is the impact of planned activities on the general development of the Estonian civil society (guardianship of associations and policy-making ability or improvement of participation, increase in awareness of the public, etc.)?
5.2. Are the planned results sustainable: <ul style="list-style-type: none"> <li>– institutionally (launched impact and/or activities continue after the completion of the sub-project);</li> <li>– structural impact of activities – assessment on the durability of various forms of cooperation launched</li> <li>– cooperation between associations and public authority and private sector, etc.?</li> </ul>
<b>6. Added values</b>
6.1. To what extent does the sub-project contain added value (innovative approach, interesting solutions, usability and usefulness for other non-profit associations; efficient dissemination of information; partnership with other non-profit associations and/or structures of public authority, good governance, participation, advancement of involvement, sustainable development, social inclusion, etc.) deserving additional points?
<b>7. Accuracy of the budget and thoroughness of the explanatory note</b>
7.1. To what extent are the planned expenses required and optimal to implement the intended activities? How are the expenses clarified, justified and calculated in the explanatory note of the budget?
7.2. Is the relation between estimated expenses and planned results optimal?
7.3. To what extent have volunteers been involved and how accurate is the calculation of voluntary work?

### *Basic strategic choices and policies in selection*

One of the problems commonly encountered by any donor is the receipt of many more applications than it can grant within its budget. In order to ensure effective and transparent decision-making it is good practice to discuss and determine ahead of time (before reviewing the proposals) the priorities and basic strategies the decision-making panel will follow in the selection process. This will also help CSOs understand why they might not have been selected, even if their project proposals were highly rated and qualified for support. The following issues could be addressed:

- Shall we support more organizations with smaller amounts of funding or fewer organizations with higher amounts of funding?
- Shall we support the full budgets as requested or shall we propose support with possible cuts in the submitted budgets?
- Shall we ensure geographic diversity by limiting the winning applications from each region or county district?
- Shall we ensure diversity or balance in terms of fields of activity; size; ethnicity; legal form; or any other criteria?

According to the Law on the National Civil Fund the Council is entitled to determine the basic rules of the operation of the funding system and the colleges shall develop their practice accordingly. On the basis of this authorization the Council has recently adopted the new funding principles governing from 2011<sup>56</sup>.

To implement the principle of equal opportunities for the applicants coming from very different backgrounds the funding principles stipulate that the colleges may not consider the following aspects in the tendering and the evaluation of the applications:

- (a) evaluation or classification of the fields of professional activities or activities within a profession;
- (b) a differentiation in the legal forms of civil society organizations; and
- (c) determination of limits, proportions or order among the counties or separate arrangements for the counties.”

According to the report of the Ministry in 2009 the professional colleges distributed the project supports in a way that 34.8% was received by civil organizations registered in Budapest.

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<sup>56</sup> The Council made its decision on the 10th of November 2010 and it was published on the website on the 15th of November 2010.

### 3. The decision-making process

#### Decision-making methods, processes and rules

The specific method of decision-making depends on the size of the program, the number and length of applications received, the number of members on the decision-making body etc. Often times the actual decision-makers (e.g. the Board) do not see all the proposals in detail, only a summary of recommendations from the staff, experts or an assigned committee that actually carry the selection process (this scenario is described below in the case of the National Foundation in Croatia). It is important to ensure that in these cases the Board receives the fullest information possible necessary to make responsible decisions. It is good practice to allow time and opportunity for the Board to review, question, and if needed, re-assess the proposals that are recommended by the expert evaluators. At the same time the Board should not alter the recommendations based on considerations (e.g., political affiliation or personal interest) other than the established criteria.

The Croatian National Foundation in uses the following 3-step decision-making process:<sup>57</sup>

1. *Verification* that the formal requirements set in the tender have been met.
2. *Quality assessment* of the application by the Program Committee, which is a collegial body of 5 experts.
3. *Decision-making* on grant approval taken by the Management Board of the Foundation. If the Board does not agree with a grant approval made by the Program Committee, the latter is asked to reconsider the proposal. In this case, the procedure for allocating the grant is repeated.

The verification process can be achieved through a checklist to make sure that the application meets the eligibility criteria. The Program Committee of the National Foundation proceeds with the quality assessment process by using *evaluation grids* that guide the CSOs and the evaluators in the process of evaluating the grants. Importantly, the rating system must be matched with the selection criteria. Usually the points (e.g., on a scale 1-10) are given for each criteria and either averaged or aggregated for each proposal. This process leads to a numerical order of the proposals, which then can be discussed and finalized at the evaluation committee meeting.

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57 Hadzi-Miceva K., and Suplisson, F., „Overview of State Funding Schemes for Civil Society Organizations”, ECNL and COW I/A (2007)



Hungary: According to the Guideline, the procedure between the submission of the application and the notification of the applicant concerning the decision is the following:

1. The applications are received and the formal supervision shall be undertaken by the Managing Authorities. Only those applications are valid which suit each and every formal requirement. Those applications which do not comply with all formal requirements receive either the label of deficient or invalid. For the sake of valid applications the Guideline includes a chart with all supervision aspects.
2. In case the application is deficient the applicant has one opportunity to make up for the deficiencies from the notification of the Managing Authority thereon. In case the Managing Authority determined that the application is invalid the applicant is entitled to make a remark on the decision within 3 working days.
3. After the supplementary submission of the missing documents the Managing Authorities shall hand over the valid applications to the Colleges. The Colleges are authorized to assess the applications and make a decision.
4. The decision of the Colleges are countersigned and approved by the Managing Authorities.
5. The Managing Authorities shall notify the applicants in writing concerning the decision.

### *Transparency and communication of the criteria and the decision*

Most laws on public funding require publication of the results of the decision-making, i.e., the list of supported organizations and the amounts they received. This information is usually best distributed through the same channels as the calls for proposals; however, there should be at least one widely accessible platform (such as the internet or a daily paper) where those interested can find this information.

For example, the Croatian Office for Cooperation with Associations maintains an online database of financed projects by different state agencies which provide funding to CSOs: (<http://www.uzuvrh.hr/potpore.aspx?pageID=58>). The database is searchable by: level (national, local, regional, international), institution, project/program, organization and lead manager of the project.

A more sensitive issue confronted by government donors is whether to state the reasons for rejecting project proposals. Often applicants receive only a one-sentence rejection letter stating that while the proposal was worthy, there were not enough funds to provide for all proposals. However, this kind of explanation leaves open the question of why this, and not another similarly worthy proposal, was rejected. Failing to provide a clear explanation may leave the impression of a lack of transparency in decision-making, and will not help CSOs to prepare better proposals in the future.

It is therefore good practice to communicate the reasons for rejection e.g. by indicating in which areas the project proposal scored lower, leading to its rejection. While CSOs cannot expect the donor to write a tailored explanation for its decision on each proposal, a donor could, for example, provide a checklist of the selection criteria, with checks at the weak points. Alternatively, the decision-making body could provide full information on the scoring of the applicant, helping it to improve its project development skills.

The Hungarian Civil Fund provides that all sessions of the decision-making bodies (i.e. the Council and the Colleges) are open to the public.

According to section 9 of the Law on National Civil Fund the sessions of the Council and the Colleges are open to the public. The Council or the College may decide on closed sessions or closed negotiation of a specific agenda point in case the protection of the personal rights, the personal data or the maintenance of their operation justifies it. The decisions made on the closed sessions shall be published. 2/3rd of the present members shall agree to order closed sessions or closed negotiation of a specific agenda point. For the sake of publicity of the operation of the NCF the minister shall operate a website where inter alia the place, date and agenda of the open sessions shall be disclosed.

#### Croatia National Foundation

Ordinance on the conditions and procedure for the allocation of funds used for the fulfilment of the Foundation's purpose

„Decisions passed by the National Foundation for Civil Society Development on approving or denying grants are final. Every organisation which has competed to obtain a grant may file an appeal to the Foundation's Management Board within 8 days from the receipt of the notice of the results of the tender if it has noticed some omissions in the application of the determined assessment procedure concerning its application. The Management Board of the Foundation shall reply to the appeal within 15 days of receipt of the appeal”.

## VIII CONTRACTING AND PAYMENTS

Based on experiences with government funding, challenges do not end when the CSO is awarded the grant. In fact, it may even be more challenging for the CSO to execute the contract than to win the award, as in this phase there is no public pressure on the government and it may exercise its authority at any time by withholding the funds. Therefore, it is of great importance to introduce framework provisions on the contracting and payment procedures so as to enable CSOs to successfully execute the awarded project. Good practice issues to look at in the examined countries include the following.

### 1. The content of the contract

Contracting proceed the process of selecting the wining applications. In some countries, the mandatory content of the contract is detailed in laws governing public financing of CSOs. In the absence of such laws, general rules governing contracts, including those on sanctions and termination, apply. As a norm, the government bodies use their standard form contracts. Due to the difference in leverage of the parties involved, there is relatively little room for further negotiations.

160/2003. (X. 7.) Government regulation, Hungary

The Contract

„9. § (1) On the basis of the awarding decision of the College the Managing Authority of the Fund contracts the organization that applied for grant support. For the sake of concluding the contract the Managing Authority of the Fund calls upon the organization that applied for grant support within 30 days from publishing the awarding decision to send the documents necessary for the conclusion of the contract.

(2) The contract has to include the following by all means:

- a. Specific objectives of the grant;
- b. Conditions and timing of transferring the grant;
- c. Deadline and method of reporting and utilization of funds;
- d. A declaration of the beneficiary that it agrees to comply with the relative accounting, tax and social security regulations in the course of the utilization of the funds;
- e. A declaration of the beneficiary that it agrees to comply with the regulations of public procurement procedures in the course of the utilization of funds;
- f. A declaration of the beneficiary that it acknowledges the reporting obligation concerning the utilization of funds;
- g. A declaration of the beneficiary that it agrees to the fiscal control on the lawful utilization of funds by the Government Control Office, State Audit Office, other institutions enabled by specific regulations and persons or institutions assigned by the Minister;
- h. Cases and sanctions for the breach of contract;
- i. Regulations on waivers;
- j. A declaration of the beneficiary that it is under no bankruptcy or liquidation proceedings, and that the public prosecutor's office has not initiated its deregistration from the court register;
- k. Naming all bank accounts of the beneficiary, marking the account where it wishes to have the grant transferred;
- l. Other certificates and declarations as per the law.”

## 2. Modification of the contract's terms

Because the element of unpredictability is involved in any project planning, it is critical that the contract stipulates conditions for changing its terms, in case of unforeseen circumstances. The contract thus should provide clear guidance as to what will happen if there are unforeseen changes of circumstances in the implementation of the project.

For example, the contract might address:

- what changes require notification of or approval by the funder when the grantee needs to notify the donor of an already implemented change and within what time frame when the grantee needs to notify the donor of a planned change in advance;
- when the grantee needs to get approval for a planned change;
- when notification can be verbal and when it must be written;
- when the contract needs to be amended to accommodate a change.

### National Foundation for Development of the Civil Society, Croatia

#### Sample contract:

„The contracting organization is obliged to inform the Foundation in written form and in due time about possible objective circumstances in the realization of the project (or implementation of the institutional support) which impede its implementation within the agreed timeline, so that the parties agree on changes of the contracting obligations.”

### Estonian Foundation (NFCS)<sup>58</sup> procedures for financing „Good Idea” projects:

6.4. „The goal of the NFCS is to enhance the operating (including financial) capacity of supported organisations. Resulting from this, in case of deviations while implementing the project the NFCS together with its partners tries to find solutions which assure the continuation of the project implementation in accordance with the laws and present regulation and also with requirements set for open calls or for the „Good Idea” contest. For eliminating shortcomings found by the Executing Organisation while implementing the project NFCS will provide a deadline. Timely elimination of shortcomings and further correct activities by the Executing Organisation enables NFCS the continuation of the financial support”.

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58 Procedures for announcing open calls, proceeding applications and „Good Idea” projects, disclosing and monitoring the implementation of the grant [www.kysk.ee/sisu/310\\_8739674\\_Procedures\\_for\\_announcing\\_open\\_calls\\_proceeding\\_applications\\_and\\_Good\\_Idea\\_projects\\_disclosing\\_and\\_monitoring\\_the\\_implementation\\_of\\_the\\_grant.pdf](http://www.kysk.ee/sisu/310_8739674_Procedures_for_announcing_open_calls_proceeding_applications_and_Good_Idea_projects_disclosing_and_monitoring_the_implementation_of_the_grant.pdf)

### 3. Timing issue in contracting

One common problem is the delay of the contracting process. Laws and regulations seldom provide for deadlines for the preparation of a contract or for the transfer of payments. In addition, sometimes the authority to sign a contract or transfer a payment may not lie with the same department as the one which is responsible for the grant tendering process. As a result, even with the good will of all involved, the time between an CSOs award notification and receipt of funds may take several months or even up to a year.<sup>59</sup>

Such delays represent serious problems for both parties. For the CSO, the problems appear in planning its programs and managing its finances, as most of the times programs depend on timing and will affect the effectiveness of the project. In addition a delay of a major payment may cause problems in financing of CSO operations. For the government body, on the other hand, problems may appear in budgeting and accounting because it usually has to spend down its funds within a given fiscal year, which will be difficult if payments are delayed.

- A notable exception is included in the Croatian Code which states that state financing bodies must adhere to a deadline of 60 days from the grant of financial support in concluding a contract.
- In Hungary, according to the timing approved by the Council and indicated in the Guideline the applicant may have 40 days to submit all necessary document for the sake of the conclusion of the contract after its notification, after which the contract shall be signed within 10 days and the support shall be transferred within further 15 days. Considering the entire timeline the contract should be concluded not later than 165 days from the submission of the application and the transfer of the support should take place within 180 days.

### 4. Financing issues in contracting

One of the key provisions of a funding contract is the schedule of financing. There are three common ways to provide for the transfers of payments:

- (1) Reimbursement of costs after performance
- (2) Up front payment of the grant
- (3) Instalment financing.

It is important to recognize that the issues encountered in financing CSOs differ from those presented by the financing of other types of legal entities. Most importantly, CSOs are financially in a different position than for-profit provides in that they do not generally have access to bank loans, equity financing and similar means of raising funds that would enable them to sustain the costs of project activities themselves. In addition, CSOs funds are usually earmarked for particular projects, thus, even a well-financed organization may not be able to re-allocate funding for a new project. Therefore, reimbursement financing may present a serious obstacle to the ability of a CSO to implement a project. Since it is in the interest of a government donor to have its projects successfully implemented, reimbursement financing of CSO grants can be said to constitute a poor practice.

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<sup>59</sup> A year between awarding and contracting was reported in some of the new EU member states upon encountering the initial problems of contracting for Structural Funds.

When instalment financing is used, the contract should clearly provide for a schedule of payments as well as the reporting and other administrative requirements that must be satisfied in order to process payment of each instalment. It is customary for the donor to retain part of the funding until the project is fully closed down and audited reports are approved. While this can be good practice, it is important to remember that the main purpose of retaining the funds is to guarantee against occasional accounting errors, under-spending, failure to present cost-share etc., and not to interfere with project implementation. Therefore the final instalment might be between 10-20% of total funding (as opposed to, for example, 40-50%).

The Estonian Foundation disburses funds according to the following scheme: upon approval of grant by the Foundation the contract is signed within 5 days and 50% payment is made. Upon submission of the interim report – 40% of the grant is provided. The last 10% is transferred upon submission and approval of the final report.

# IX EVALUATION, MONITORING AND REPORTING

The government may use various methods to evaluate the effectiveness of its grant programs. In this process, however, it is important to differentiate between (1) the evaluation of the awarded projects and (2) the evaluation of the grant program itself (in terms of both process and content). This is important, because there may be a case when of the awarded projects is successfully implemented and yet the grant program does not reach its stated goal; e.g., because it followed a faulty premise in its strategy (programming).

For example, the Hungarian Civil Fund was critically evaluated by the State Audit Office after the first two years of its operation. The State Audit Office found that while the individual grants were - generally speaking - well implemented, the Civil Fund did not fully achieve its stated statutory goals, due to problems in defining its strategy and methodology of support.

## 1. Why evaluate?

Evaluation can be used to ascertain the effectiveness either of a grant program, or of an individual project:

- Monitoring and evaluating the effectiveness of grant programs usually serves as a basis for improving them and thus, improves the ability of the ministry or donor agency to achieve its policy goals. Evaluation is also closely linked to planning of future funding schemes and programs to help achieve these policy goals.
- Monitoring and evaluating of individual projects is primarily used to ensure that grant funds are managed well, being used properly and that outstanding payments may be made to the organization.

### Principles of Proportionate Monitoring and Reporting, England<sup>60</sup>

For funders, good monitoring and reporting:

- help to ensure value for money;
- show how the recipient spends the money, and
- Demonstrate the impact of funding.

For funded organisations, good monitoring and reporting help them to:

- Showcase the work they are doing, and
- Learn and develop.

On all levels, the government needs to understand the aims it is trying to accomplish through the evaluation process and the principles upon which it will conduct the evaluation.

60 <http://www.cabinetoffice.gov.uk/media/216752/principles.pdf>



The Decision Support Tool, England highlights the following principles:<sup>61</sup>

### Monitoring

Monitoring is about collecting information and assessing it. Such information may be needed for three purposes:

1. *Management of the programme.* This includes information on: progress towards the objectives of the programme, use of the programme's finances; your and the provider's management of risks.
2. *Wider accountability for the programme and its associated spending to your accounting officer, ministers, Parliament and the public.* This may involve information that is not necessary for the management of the programme but is likely to be needed, for example, to answer a Parliamentary question or to meet the requirements of your auditors. You must strike a sensible balance here. Do not ask providers to give information that would enable you to answer any foreseeable question, but do build in a requirement for information that is likely to be asked for. (Adding a requirement for information later, particularly on an ad-hoc basis, will add to cost and create frustration.)
3. *Policy development.* It may be sensible to ask your providers to collect and give you information about the policy environment to help you to continue to develop evidence-based policy. Again, you need to strike a balance here between collecting 'everything' and 'nothing'.

### Evaluation

Evaluation is the assessment of the extent to which the programme has met its objectives. This will help you and others improve the design and operation of the programme and design new programmes. There are two sorts of evaluation:

1. *Summative evaluation* makes the assessment after the programme has been in operation for some time or is completed; the length of time can be derived from the timescale element of the objectives of the programme.
2. Formative evaluation assesses the programme as it is being put in place and during its early operation.

### You must:

1. Design the evaluation scheme for your programme at its outset; otherwise you will find it hard to establish the effect it has had;
2. Embed the evaluation scheme into your agreement/s with providers;
3. Integrate, as far as possible, the demand for, and the collection of, information under the evaluation scheme with those that arise from monitoring requirements.

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61 National Audit Office, A Decision Support Tool for Public Bodies in England, [www.nao.org.uk/guidance\\_and\\_good\\_practice/toolkits/better\\_funding.aspx](http://www.nao.org.uk/guidance_and_good_practice/toolkits/better_funding.aspx)

## 2. Issues to consider in developing evaluation and monitoring mechanisms

During the evaluation process the following issues are most-commonly addressed: who evaluations, what is being evaluated and how evaluation is conducted.

### Who evaluates?

Evaluation of individual grants can be conducted by the following actors:

- The staff member of the government body usually conducts monitoring and evaluations of individual grant projects. Evaluation usually includes monitoring of grant implementation; approving interim and final reports; negotiating and approving any changes if necessary, etc.
- In some cases, paid grant monitors are contracted to follow the implementation of projects and suggest necessary changes regarding specific projects and/or grantee organizations.
- CSOs can be assigned to conduct the evaluation of their own programs and in this case the costs of conducting the evaluation should be included in their project budget.

Evaluation of grant programs can be done by the state body which implements the program or an independent agency or council that is commissioned by the competent ministry or by the government itself. For example in Hungary the State Audit Office conducts a periodic review of all agencies that use public funding.<sup>62</sup> In Croatia, the Council for the Development of Civil Society has been established as a policy advisory body regarding public funding. The Croatian Code stipulates that the Council „shall monitor, analyze and evaluate assistance granted by the providers of financial assistance from the state budget for programs and projects of associations in the Republic of Croatia through tenders in accordance with this Code.” Towards this end the state bodies/providers of financial assistance should submit to the Council and the Office for Associations information on the financed programs and projects.

#### The FYR Macedonian Code provides that:

Each state administration body shall assess the procedure for allocation of the funds and the results achieved with the supported activities on the basis of reports submitted by the associations and foundations. The assessment results shall be submitted, in form of annual report to the Unit for Cooperation with Non-Government Organizations. The Unit for Cooperation with Non-Government Organizations will inform the government once a year about the use of the distributed funds and the achieved results. The government and the state bodies should also assess the program for funding of CSOs, which is the basis for the funding scheme, and make recommendations which will contribute towards further development and financing of CSOs.

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62 Though the mandate of the Hungarian State Audit Office is primarily to monitor compliance with legal and fiscal requirements, it has repeatedly given its opinion and advice in broader policy and programming matters, which then have been taken into consideration by the government and other actors.

The Big Lottery Fund, National Well-Being Program, includes a combination of several methods to evaluate projects:<sup>63</sup>

1. Self-evaluations of the project by the CSOs implementing it, done both during the project and after its completion
2. Questionnaires: sent to the beneficiaries of the CSOs' projects to assess the impact of the projects. Since the projects were designed to promote healthy eating, physical activity and mental health, questions concerned the eating and activity habits of beneficiaries.
3. Evaluations done by outside national evaluators:
  - 7 Workshops held to inform CSOs about the evaluation prior to its commencement;
  - Ethics Committee established to oversee the research;
  - Large-scale event was held to launch the evaluation
  - 2 policy papers written and 3 newsletters published with the results (the newsletters target potential grant-applicants, explaining to them how to construct a successful, outcome-oriented project).

### *What to evaluate?*

Evaluation should focus on the achievement of the outcomes and goals of the projects based on the conducted activities. Sometimes, during the course of the project the activities may need to change to respond to emerging circumstances. Thus, certain level of flexibility in implementation, monitoring, evaluation and reporting should be exercised to ensure that the project meets the ultimate goals and impact the project aims to achieve.

### *Methods of evaluation*

Evaluation of individual projects can be done in several ways. Some examples include: submission of written narrative and financial reports by the grantee, phone calls, email exchanged, stakeholders' input or in-person visits. In person evaluations and supervision by the state body in order to obtain more in-depth information about the project and the issues faced by grantees during its implementation. In case of personal visits, the due process and privacy law requirements should be observed (e.g. advance notice of the visit; agreement on the timing of the visit; authority to inspect only documents related to the funded project but not other documents confidential to the organization). The terms of government supervision may be included in grant agreements to avoid misunderstandings.

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63 [http://www.biglotteryfund.org.uk/prog\\_well\\_being](http://www.biglotteryfund.org.uk/prog_well_being)

Estonian Foundation (NFCS)<sup>64</sup> procedures for financing „Good Idea” projects:

- 7.2.2. The Executing Organisations must submit interim reports and project final reports together with the bank statements according to the NFCS forms on deadlines fixed in the implementation contract to the NFCS bureau. Statement forms will be sent to project implementers by e-mail in ten working days after signing the contract.
- 7.3. Evaluation, monitoring and controlling of the implementation of the grant include communication with the Executing Organisation (including communication by phone or by e-mail in order to get information concerning the course of project implementation), site visits (including participation in events related to the project), submission of interim reports and project final reports on forms approved by the Executive Director of NFCS and controlling of them and controlling of project course and documentation confirming it.
- 7.4. The Executing Organisation is obliged to let NFCS bureau, members of the NFCS Supervisory Board and representatives of the Ministry of the Interior and Ministry of Finance to evaluate, monitor and control the NFCS financed projects.
- 7.5. Employees of the NFCS bureau make site visits concerning controlling of the implementation of projects regularly and participate in project events with the same goal. All inspections will be formalized on the project control-sheet approved by the Executive Director of NFCS which is opened after signing the implementation contract. Project control-sheet states the inspector's observations from the site visit, current project implementation situation during the communication (if needed a reference to the e-mail will be made), inspection results of interim reports and project final reports and if needed deadlines for eliminating shortcomings. An e-mail concerning shortcomings discovered at the inspection and deadlines for eliminating them will be sent to the project manager who will assure the timely elimination of the shortcomings and notify the NFCS bureau about it with an e-mail.

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<sup>64</sup> Procedures for announcing open calls, proceeding applications and „Good Idea” projects, disclosing and monitoring the implementation of the grant [www.kysk.ee/sisu/310\\_8739674\\_Procedures\\_for\\_announcing\\_open\\_calls\\_proceeding\\_applications\\_and\\_Good\\_Idea\\_projects\\_disclosing\\_and\\_monitoring\\_the\\_implementation\\_of\\_the\\_grant.pdf](http://www.kysk.ee/sisu/310_8739674_Procedures_for_announcing_open_calls_proceeding_applications_and_Good_Idea_projects_disclosing_and_monitoring_the_implementation_of_the_grant.pdf)

### 3. Reporting requirements

Reporting requirements should depend on the type and scope of the grant program and projects. If they will be used to evaluate the program then the reporting requirements should request information relevant for that evaluation. Commonly the following minimum requirements are identified:

- in case of longer projects there is usually one or more interim reports and a final report;
- grantees need to submit a narrative and a financial report on each occasion;
- outstanding payments may not be made until such reports are approved.
- The reporting requirements must be known to the grantee latest at the time of signing the contract, and should be part of the contract.
- The information required in narrative and financial reports varies significantly. Decision-makers should consider the following issues, already raised above (cite):
- Reporting should focus on outcomes (e.g. they should ask for information on targets, achievements, beneficiary evaluation and feedback, learning points etc.) and allow for some flexibility in activities and budget allocations (i.e. methods and activities through which the targets have been met.)
- Documentation of outputs and outcomes should not be unnecessarily burdensome
- It should be clear in which cases the grantee should provide a justification for changes and in which cases prior approval is needed.
- The level of detail and size of the report should be proportionate to the funds spent on the project.
- Timing of reports should be carefully considered, especially in cases when CSOs need to advance their own funds until the next instalment arrives.

### *Templates for reporting*

In order to facilitate and guide the reporting process, state bodies can develop templates for narrative and financial reports. This will ensure that the government receives the exact type of information it needs and narrows the focus of the report to the information that is needed to evaluate project implementation. The template could provide guidance to organizations on how to explain whether and how the funded activity has achieved the desired result, what are the lessons learned from implementation that can be applied to future funding, or how to identify remaining needs in the field.

The Ministry of Family, Veteran Affairs and Intergenerational Solidarity in Croatia has developed templates for financial and narrative reporting for different funding programs. For example the template for reporting on projects concerning children requires that the following information be provided:

1. Short description about the aims of project;
2. Name, exact date, duration and content of each activity;
3. Description of the achieved results;
4. Number of beneficiaries included in the project;
5. Number of those who have implemented the project, e.g. experts (and names of those), volunteers;
6. The extent to which the project was implemented;
7. Information about organizations which were collaborating on the project;
8. Information about other sources of funding used for the implementation of the project;
9. Short description about the main problems which occurred in the implementation of the project.

## X CONCLUDING REMARKS AND RECOMMENDATIONS

Public funding is an important source of financing in all the countries examined in this paper. It uses various channels (e.g. central government ministries, funds and foundations) and sources (a line in state budget, lottery proceeds, percentage mechanisms) to provide substantial resources to the sector. Even at times of economic crises, most governments have attempted to maintain funding levels for the sector, although this has not always been possible.

The allocation of state resources is conducted within a framework of regulations and/or codes which prescribe the main principles of public funding and regulate different aspects of the process. These frameworks reflect the overall government strategies and policies for support of civil society. In addition, the four countries presented in this paper (Croatia, England, Estonia and Hungary) have each established national foundations or funds which have been effective mechanisms for distributing public funds for institutional or project support of the sector.

Certain underlying principles are common to all systems examined in this paper. Namely: the independence of the sector is guaranteed; there is a transparent and accountable process for granting and spending funds; there is fair and equal treatment of all applicants; and the processes for distribution and monitoring the use of funds is proportionate.

In most cases, these general principles are set out in framework regulations or codes, with specific rules on processes and criteria delegated to individual state bodies or national funds to meet the particular needs of the funding schemes. These rules cover a range of issues, including but not limited to the following:

- Length of funding (one year or multi-year funding);
- Types of support (e.g. financial, in-kind support);
- The level of matching funding allowed or required;
- Eligibility criteria (e.g. whether applicants must have a specific legal status, such as public benefit status);
- Rules for publicising the tender; and
- The evaluation and reporting process;

Two key principles or features are common to the most effective funding processes examined in this paper. First, they have predetermined and carefully outlined goals and policies **as to what the funding aims** to achieve. Secondly, the process for the distribution, monitoring, reporting and evaluation of funds is **clearly** set out and tailored to the specific objectives of the funding.

The following recommendations **relate to specific** aspects of the funding process:

- Funding programs, calls for proposals and strategic plans should be developed in consultation with stakeholders.
- Funding programs should be widely available and the **responsible bodies should conduct** reporting and evaluation on the results to assess what was achieved and to develop recommendations for improvement;
  - **Short-term funding** should be considered as a means of facilitating applications of by a larger number CSOs and to help the government to monitor the effectiveness of the process and patterns within the sector more easily.
  - **Longer-term (multi-year) grants** should be made available to encourage and support more complex projects and to provide security of funding to CSOs.
  - Where match-funding is required, it should be rationalized and planned based on the specific circumstances of the project and the overall funding situation of the sector;
  - Countries should consider introducing schemes which provide institutional funding for the development of the sector to complement existing project-funding schemes. Institutional funding helps build a strong sector that can ensure more effective project funding in the long term and ultimately **play a significant role** in addressing citizens' and community needs. However, such schemes can be hard to develop and require comprehensive planning. A designated body tasked with the responsibility to design, enforce and monitor their implementation are important components of successful schemes (the Croatian, Estonian and Hungarian Foundations are good examples).
  - A transparent funding process is necessary, marked by clear criteria which must be developed to govern different stages of the funding process. Such criteria must be developed prior to publishing of the call for proposals, and should be easily available to CSOs and the general public at the time of publishing the call.
  - The call for proposal should: be understandable by the readers; include all the necessary information to **prepare a good proposal**; clearly explain the **goals it wants to achieve**; **and include** all the necessary technical and procedural information to apply. The documents that need to be submitted should be proportional and relevant to the scope of available funding.
  - The call for proposal, the results of the selection process and the results of the reports and evaluation should be widely published through various channels.
  - Appropriate time should be given for interested parties to **develop proposals** in response to a particular call for proposal. It is good practice to publish the intention of issuing a call for proposals even before the call itself is published in order to allow time for CSOs to plan and prepare for the application.
  - Donors should establish, announce and respect the deadline for making a decision on the awarded grants.
  - The decision-making process should be developed based on objective criteria and with consideration of issues which will help avoid potential conflicts of interest. Decisions may be done by various parties, but the respective government or agency should ensure



that those actors are **knowledgeable about the funding program**, are qualified in grant-making schemes and do not have a **personal interest in the process**. The specific method of decision-making should be proportionate to the size of the program, the number and length of applications received and the number of members on the decision-making body.

- There should be clearly prescribed and respected contracting and payment procedures so as to **enable CSOs to successfully** execute the awarded project.
- Reporting requirements should depend on the type and scope of the **grant program and projects**. Reporting requirements should request information relevant for the execution of the project and possible evaluation.
- To assist the process of application, selection, reporting and evaluation the government could develop specific templates (e.g., forms for narrative proposals and reports, forms for budget proposals and reporting, evaluation grids).
- Evaluations should be undertaken on both the effectiveness of individual projects and of the grant program as a whole. The results of the evaluation can help identify other measures which may be needed to achieve the policy goals, and may produce recommendations for improvement for subsequent projects, so as to better anticipate possible future challenges and risks, and to highlight and promote best practice.

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