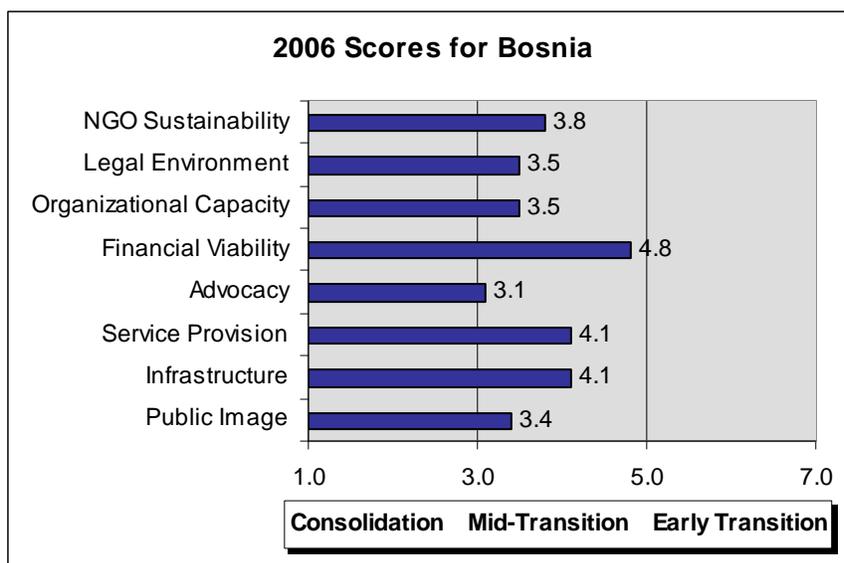


## Bosnia and Herzegovina



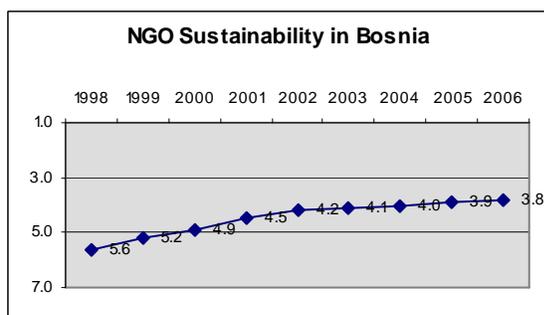
**Capital:** Sarajevo

**Polity:** Federal  
Democratic Republic

**Population:**  
4,498,976

**GDP per capita (PPP):**  
\$5,500 (2006 est.)

### NGO SUSTAINABILITY: 3.8



The NGO sector in Bosnia and Herzegovina continued to improve its overall sustainability with gains in all dimensions but the Legal Environment. The greatest improvements were made in the Advocacy and Public Image dimensions as NGOs are more effective with regards to their public image and recognition, publicizing their activities, and legitimacy and cooperation with the government. Advances in building local constituencies and networking also led to improvements in the Organizational Capacity and Infrastructure dimensions. Though the legal environment did change somewhat over the past year, the effects of this

change and the direction in which it will lead the NGO sector are not yet apparent.

Despite improvements, the NGO sector continues to face many challenges. The Financial Viability dimension remains the most tenuous. Though continued consolidation of NGO activities may lead to future improvements, NGOs continue to depend heavily on the international donor community. Some organizations are beginning to diversify their funding in reaction to the decrease of foreign funding and in preparation to access EU pre-accession sources of funding. Not all organizations, however, have begun to do so. The NGO sector is decreasing in both size and level of activity, a trend that is likely to continue in the future. Cooperation between NGOs and the business community continues to be minimal.

Approximately 7,000 domestic associations, foundations and other organizations are registered in BiH; of these, one-half are active. Only 229 organizations and associations are registered at the state level, while others are registered at the entity or local level.

## LEGAL ENVIRONMENT: 3.5

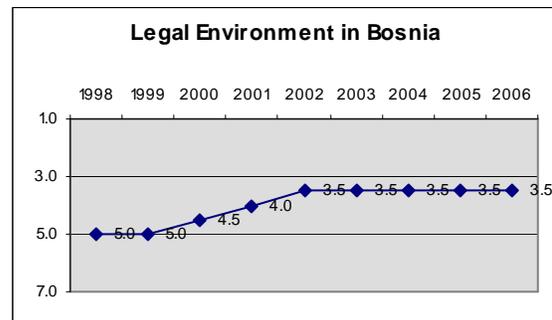
The government failed to adopt any reforms to the legal framework governing NGOs; as a result, the score for the Legal Environment dimension remains unchanged. In light of the current need for reforms, the NGO sector considers the government's inaction a negative development. Bosnia has three governing bodies, the State, the Federation and the Republic of Srpska (RS). All three have laws that affect NGOs and will be discussed separately.

### STATE LEVEL

The 2001 Law on Associations and Foundations of Bosnia and Herzegovina (the Law) contributes to a favorable legal environment for NGOs operating in the BiH. NGO registration, however, has been inconsistent since the inception of the law, a trend that continued through 2006. The registration authority denied registration to numerous umbrella organizations and trade unions, claiming that they do not qualify as associations. The law and implementing regulations are vague on a number of issues, contributing to inconsistent regulation of the sector. In the absence of written instructions and set procedures, the registration authorities deny applications for registration for a variety of reasons, such as submitting the application at an inconvenient time. Government officials have yet to take any steps to clarify the law or provide for clear guidelines for its implementation.

The VAT Law came into force on January 1, 2006 and its impact on the NGO sector is still unknown. Representatives from the Directorate for Indirect Taxation informed NGO representatives that NGOs are eligible to register with the VAT system. NGOs may generate income by providing goods and services, though the tax implications remain unclear. An NGO may engage in economic activities, but the income it generates by forming a separate corporation is limited to 10,000 KM or one-third of the organization's budget, whichever is higher. NGOs are

permitted to compete for government contracts.



According to a law adopted in 2003, public utility companies may only make donations that support athletics, culture, social welfare, and humanitarian purposes. Such donations are subject to a number of procedural restrictions to safeguard public funds. NGOs, especially those in rural areas, face another barrier in that they do not have access to lawyers that are trained in NGO issues and affordable.

### FEDERATION OF BOSNIA AND HERZEGOVINA

In the past year, neither organizations nor individuals reported any instances of abuse by the registration authorities, though it is unclear whether this is a result of more consistent and impartial implementation of the law. The tax laws that affect NGOs remain unchanged. Corporate donations for amateur sports or to support humanitarian, cultural, educational, scientific issues are deductible, though only up to 0.5% of a business' gross income. Donations to organizations that engage in other public benefit activities, such as advocating for human rights, do not appear to be deductible. Businesses are permitted to deduct up to 0.5% of their gross incomes for representation costs; this provision is thought to be broad enough to cover sponsorship payments. Businesses may also deduct membership fees and contributions to professional associations up to 0.1% of their gross incomes. NGOs are exempt from paying taxes on both foreign and domestic grants. The government is considering a Personal Income Tax Law that allows a taxpayer to deduct up to

0.5% of gross income for donations that support recognized public benefit activities. In addition, a donor may take a deduction if his or her donation is approved by a competent ministry and supports specific public benefit programs.

NGOs may generate income by providing goods and services, though they must create separate corporations to engage in economic activities. Such corporations have to pay a 30% tax on all of their income. Only services provided by religious and humanitarian organizations that are serving their statutory goals are exempt.

*REPUBLIC OF SRPSKA*

The 2005 amendments to the Law on Associations and Foundations failed to offer any tangible benefits for NGOs applying for status as public benefit organizations. In addition, it is unclear whether the Law on Donations to Public Enterprises and Institutions, enacted in October 2005 to tighten government supervision on donations, applies only to organizations entrusted with public duties or all organizations with public benefit status.

**ORGANIZATIONAL CAPACITY: 3.5**

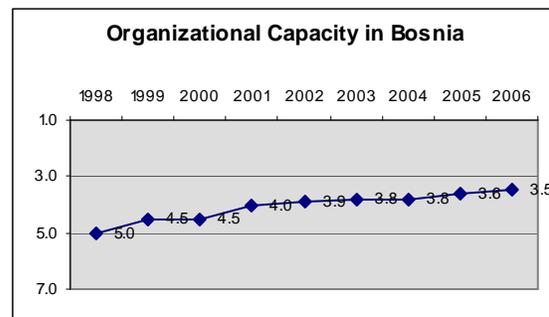
Over the past year, NGOs increased their efforts and ability to build constituencies and engage the communities and groups that they serve, including those focused on pensioners, youth, war invalids, citizen victims of war, the Roma, and trade unions.

More NGOs, including all of the large organizations and many smaller ones, recognize the benefits of delineating responsibilities between their staff and board members. Many small organizations, however, are in crisis mode due to their lack of funding. Evidence shows that some NGOs, especially those in urban areas, are struggling to stay open; they have scaled back their operations and up their office space and now operate out of the homes of their leaders. This is an inevitable consequence of the decrease in international funding. While smaller organizations struggle, the strongest 100

Corporations may deduct up to 1% of their incomes for donations that support humanitarian, cultural, educational, and sports activities; they may also deduct up to 1% for membership fees and contributions to professional associations. Donations that support other activities are not deductible, even if made to public benefit organizations. Costs to cover NGO sponsorship payments are deductible up to 3% of a corporation's gross income. Individuals are not permitted a deduction for donations.

NGOs may engage in economic activities related to their statutory purposes, including the provision of goods and services. All legal entities, including NGOs, are subject to a 10% tax on their profits. Only legal entities engaged in labor and professional rehabilitation and the employment of disabled persons are exempt. Services provided by religious and humanitarian organizations that support their statutory goals are tax exempt. Both foreign and domestic grants are exempt from taxes. NGOs may compete for government contracts. Tax authorities apply tax laws inconsistently.

organizations have taken a lead role in organizing and developing the NGO sector, encouraging many organizations to improve their relationships with their constituents. Many of the stronger organizations serve as models for the smaller organizations throughout BiH.



As a result of the greater focus on the goals and needs of their constituencies, NGOs are developing and implementing projects that

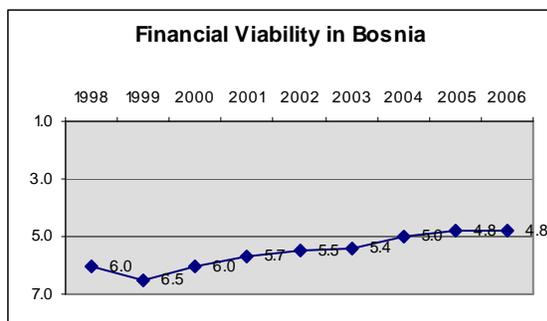
incorporate input from the public, and promoting community awareness. NGO staff members have demonstrated greater skills in drafting effective project proposals, addressing donors, and communicating with government officials at the local, entity, and state levels.

Financial constraints continue to impede the efforts of most NGOs to further their organizational capacity. Most organizations are run by a small number of members and are underdeveloped in areas such as strategic planning, public relations, and effective, transparent management. Though the

government has yet to approve a law on volunteerism, organizations are increasingly incorporating volunteers into their activities. All of the larger organizations are developed and may be considered professional organizations. They have fully equipped offices, internet access, websites, organizational charts, delineation of responsibilities, more diversified funding, and greater transparency. Some organizations have begun using more modern equipment and updating their webpages more frequently. Many smaller organizations have made progress in these areas as well.

### FINANCIAL VIABILITY: 4.8

Despite some evidence of progress, the Financial Viability dimension remains the weakest. Cooperation between NGOs and municipal governments has continued to improve, though local funding remains inadequate considering the role the NGOs play in providing basic services for citizens. At the Federation level, the government adopted the Law on Distribution of Public Revenue (Official Gazette 22/06). At the Republika Srpska level the government adopted amendments to the Law on the Budgetary System (Official Gazette 34/06). These laws state that 8.42% of the VAT collected will be distributed directly to the municipal governments, bypassing the cantonal level in BiH. As a result, municipalities will have larger budgets that will be a potential funding source for NGOs.



Local funding is increasingly available for NGOs, and with better relations with government bodies, NGOs are in a better position to take

advantage of these opportunities. In the Republika Srpska, the funds available for the youth sector doubled to KM500,000 (US \$340,207) over the past year. Some municipalities have also made funds available and the Ministry for Civil Affairs published a call for proposals from NGOs in the areas of health; science and education; scientific research; humanitarian projects; social services; human rights and minority justice; services for the invalid, elderly, and youth; inter-religious dialogue; culture; and sports. In most cases the grant process lacks transparency, as the regulations are unclear and the committee decisions are made without clear guidelines.

Organizations have improved their fundraising skills and diversified their funding sources, though they continue to rely on foreign donors. Many organizations are sufficiently developed and could survive a decrease in donor funding. NGOs generally recognize how transparency and accountability affect their funding, though few have adopted appropriate measures, highlighting the need for training in effective management.

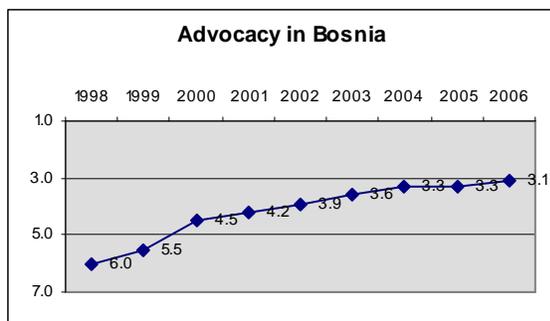
Cost-sharing is more common in the BiH. The Mozaik organization, for example, had partial funding for a project and asked the beneficiary community to contribute the difference. The community responded by contributing the resources, financial and in-kind, necessary to complete the project. Such collaborative

partnerships are effective in producing outcomes and promoting government and community participation. Many corporations are developing social responsibility strategies. In November 2005, Mozaik's launched an initiative to recognize socially responsible

corporations, and the first awards were granted this year. NGOs are increasingly aware of the basic principles of corporate philanthropy, but do not apply the pressure necessary to increase philanthropic giving.

### ADVOCACY: 3.1

NGO advocacy efforts improved dramatically in 2006 in terms of visibility and the number of stakeholders involved. NGOs have had more frequent and sustained contacts with different levels of government. They have also taken the lead in parliamentary hearings on issues such as higher education reform, youth policy, environmental protection, amendments to the Law on Health and Social Protection, and victims of civil war. The GROZD initiative organized 200 organizations and 2,000 volunteers to pressure political parties in the pre-election campaign to adopt the GROZD platform. It also lobbied political parties and monitored political activities before the election.



Policy analysis organizations and think tanks have increased their visibility and developed cooperative relationships with government entities. Government officials increasingly

recognize that when they lack the capacity, resources or expertise, think tanks are a valuable resource for policy analysis. This year think tanks presented policy papers to parliament through the Parliamentary Research Center. These efforts led to greater media coverage for NGO activities; the media now actively seeks out prominent NGO leaders for comments and analysis of important social issues.

Expertise in advocacy remains concentrated in a few leading national organizations; smaller organizations generally lack the staff and expertise to advocate effectively on behalf of their constituents. As local NGOs become more involved in coalitions, they provide a channel for advocating at the national level. Similarly, local NGOs more often engage larger, national organizations or seek out coalitions for assistance with their advocacy efforts.

Though the sector improved, NGOs missed several opportunities to collaborate on certain issues. Few grassroots organizations working on similar issues, for example, developed collaborative partnerships. Similarly, despite improvements, the NGO sector has few examples of clear, concrete results, or legislative changes that may be directly attributed to their efforts.

### SERVICE PROVISION: 4.1

The NGO sector made slight improvements in the Service Provision dimension over the past year. Organizations provide a growing range of goods and services in areas such as health, relief, human rights, economic development, training and others. Local governments and

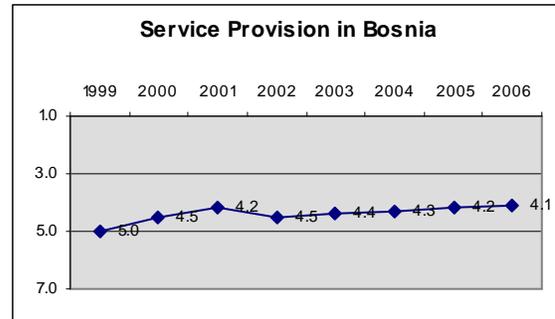
institutions increasingly recognize NGO services providers. Though government officials appear to be more receptive to partnering with NGOs, they remain unwilling to provide funding for services at the national level. NGOs, however, are making great efforts to collaborate with higher levels of government to

harmonize services for those in need. A network of NGOs that provide services to breast cancer survivors, for example, cooperated with medical and health care professionals to ensure that their services are available throughout the country. A number of women's rights organizations that provide services to victims of domestic violence and human trafficking have incorporated these topics in to school curriculum. Local governments recognize these efforts and some provide limited funding.

Following several years of extensive advocacy efforts, a nation-wide NGO network for disabled persons finally enjoyed its first concrete results. The entity level government began implementing two major laws that assist registered people with disabilities. Since being implemented in January 2006, the RS Law on the Employment of Disabled Persons resulted in local businesses hiring 89 disabled persons; the government subsidized their salaries. Following great lobbying efforts, the Federation of BiH Entity government this year began distributing social benefits to people with disabilities.

Local NGOs provide employment services while engaging in economic activities, though the fiscal environment is unfavorable and fails to distinguish between NGOs and for-profit entities. A few NGOs such as the Bosnian Handicraft, which employs 300 women refugees from different ethnic groups, successfully recovered their costs by implementing well-developed business plans, accessing global

markets, and maintaining ties with international and local businesses. Their success permits them to maintain a high level of financial sustainability for years to come.



NGOs now recognize that providing workshops and training activities free of charge is unsustainable, though they continue to charge minimal fees or fully recover their costs. NGOs also understand that the sector ought to adopt a standardized fee schedule for trainings and other services, in order to provide quality services in a sustainable manner.

As a result of the implementation of the Mid Term Development Strategy (MTDS), a Poverty Reduction Strategy Paper, the government recognizes NGOs as partners in addressing social welfare needs. Only when the government recognizes the need to implement the MTDS at the municipal level will NGOs have an increased role in the process. Due to the elections, implementation was not a priority for the government this year.

## INFRASTRUCTURE: 4.1

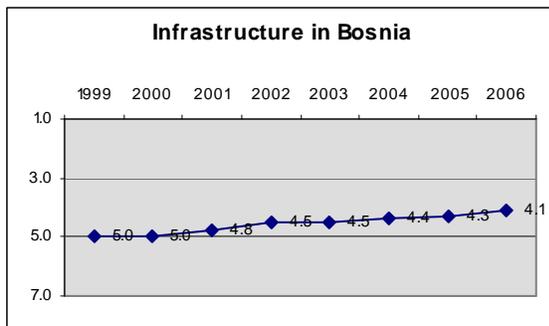
Developments in the Infrastructure dimension revolve around the growth in coalitions and inter-sectoral partnerships. Intermediate support organizations and the well-developed NGOs both included smaller organizations in their initiatives. The sector is increasingly aware of the benefits associated with NGOs being better organized and having stronger communication with one another. Organizations formed ad hoc networks around common interests and strengths; these

networks were at times sparked by international donors, while at other times they were purely the initiative of local organizations.

The new center for Civil Society Promotion became fully operational in December of 2005 and was increasingly active over the past year. The Center maintains an electronic database of NGOs in BiH, provides legal and financial management services, and trainings; facilitates information sharing; and offers a library of materials of NGOs. Located in Sarajevo, the

Center is the only resource center; it is still in the earliest stages of building a membership base and raising funds. The absence of resource centers in other cities hinders the exchange of information and opportunities for cooperation.

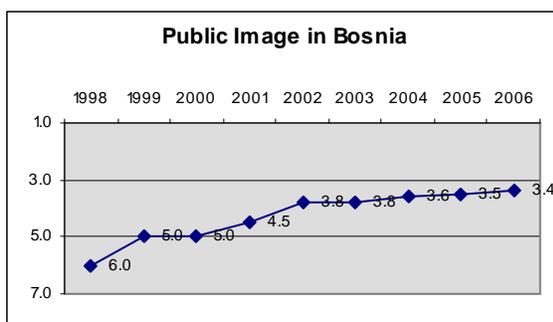
Partnerships with the government sector and the media improved significantly, though relations with the business community remain weak. Local grant-making organizations continue to re-distribute grants from international donors while making efforts to diversify their funding sources.



### PUBLIC IMAGE: 3.4

NGOs increased their visibility and publicized their activities over the past year. The media assisted by providing greater coverage. Some organizations are more effective than others in taking advantage of the increased coverage by the media, which has invited NGO leaders to comment on NGO activities as well as broader social and policy issues. All levels of government are increasingly willing to consult a variety of NGOs, including basic service providers, grassroots activists, larger advocacy organizations, and policy think tanks.

The GROZD initiative attracted a great deal of media coverage before the election. NGOs held more than 30 press conferences and made more than 380 media appearances in which they directly challenged political candidates. NGO representatives also attended over 250 public hearings and two large conferences, and distributed 100,000 brochures, 10,000 flyers, and other promotional materials. NGOs also gathered 500,000 signatures in support of the Civic Platform, which was adopted by many of the political parties. These efforts demonstrated the growing influence of NGOs throughout Bosnia. Before the GROZD initiative, the public generally viewed NGOs as money launderers or donation hunters. Since the elections, citizens have begun to recognize civil society organizations as advocates that are able to promote change.



NGOs need to continue developing their public relations skills and the ability to communicate their missions and clearly express their ideas. Without improvements, the increased publicity may not lead to an improved public image.