

## SIGNATURE PAGE

Country: Republic of Moldova

UNDAF Outcome(s)/Indicator(s):

Capacities and partnerships of local governance actors developed in urban/rural areas for transparent and accountable policy formulation, service delivery and resource management

(Link to UNDAF outcome. If no UNDAF, leave blank)

Expected Outcome(s)/Indicator (s):

(CP outcomes linked to the SRF/MYFF goal and service line) 2.6. Decentralization, local governance and urban, rural development

Expected Output(s)

Capacities increased and enabling environment created off/for CSOs to mobilize more diversified resources

(CP outputs linked to the above CP outcome)

Implementing partner:

Ministry of Justice

(designated institution/formerly executing entity)

Responsible parties:

(formerly implementing entities)

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Programme Period: 2006 - 2008  
Programme Component:  
Project Title: Increasing financial sustainability of Civil Society Organizations in the Republic of Moldova

Project ID:  
Project Duration: 2006 - 2008  
Management Arrangement: Combination

Budget: 550,146.80 USD  
General Management Support Fee: 22,065.60 USD  
Total budget:  
Allocated resources:  
• Government  
• Regular 274,250.00 USD ✓  
• Other:  
• Soros Foundation 275,820 USD ✓  
• Donor  
Unfunded budget:

Agreed by (Government): ✓



Ministry of Economy

Agreed by (UNDP):



18/10/06

Resident Representative

THE GOVERNMENT OF THE REPUBLIC OF MOLDOVA

and

UNITED NATIONS DEVELOPMENT PROGRAMME  
SOROS FOUNDATION MOLDOVA  
MOLDOVA SOCIAL INVESTMENT FUND

**Increasing financial sustainability of  
Civil Society Organizations  
in the Republic of Moldova**

Executive Summary

The present project is designed to assist the Government of the Republic of Moldova, Civil Society Organizations and private sector to create an enabling environment – legal and institutional - for increasing financial sustainability of civil society organizations by promoting individual giving, corporate giving, social entrepreneurship and service provision.

Providing activities targeted to the Ministry of Justice, Ministry of Finance, Tax Authority, CSOs and private sector the project will contribute to development of their institutional capacity, transparency and effectiveness in mobilizing resources for the poor.

## Section I - Narrative

### Part I. Situation Analysis

The Moldovan NGO sector works within a challenging environment in a country that is small but diverse with little recent tradition of trust, self-determination and community responsibility. The last ten years have witnessed deep social and economic difficulties that have penetrated all aspects of everyday life and are characterized by slow economic reform, environmental problems, weak social welfare and health systems, corruption and crime, poor educational systems and widespread poverty. Marginalized people particularly have been severely affected.

#### 1. Size and scope of the sector:

Civil society in Moldova is active but still quite weak. Since independence, the number of NGOs has grown to reach more than 3200 NGOs registered by December 2004<sup>1</sup>, but only about 35 percent of them are working at the local level.

Based on the CONTACT Center's 2002 Study on the Development of Non-Governmental Organizations in the Republic of Moldova, only 53% of registered NGOs declared themselves active, primarily those located in the larger cities. This geographical concentration can be explained by the fact that NGOs in these communities have benefited to a greater extent from access to resource centers and donor support. The areas of activity mostly covered by NGOs are: health (11%), culture (10%), sport (10%), economical and community development (8%), human rights protection (6%), social services (6%), ecology (5%). There is a lack of Community Foundations and private foundations in general.

#### 2. The legal and tax framework:

The basic legislation of the Republic of Moldova that regulates NGO activity involves: The Law on Public Associations (1996), The Law on Foundations (1999), The Law on Philanthropy and Sponsorship (2002), The Civil Code (2003) and the Fiscal Code. The procedures for the creation and registration of NGOs are clear, and they are the same for both national and local NGOs.

The only tax benefit that NGOs in Moldova enjoy remains the exemption from income taxes. Other taxes are paid by NGOs at the same rate as private sector companies.

NGOs may carry out commercial and economic activities, according to the Law on Public Associations, though a well developed mechanism that would encourage NGOs to earn income from the provision of goods and services, does not exist. The Public Benefit Certificate, which is an official document proving the public benefit of the given organization and serving as grounds for total or partial exemption of certain taxes and state fees, is not deemed to be effective.

#### 3. The state of relationship with businesses and government sectors:

According to the CONTACT Center's 2002 Study on the Development of Non-Governmental Organizations about 60 % of active NGOs established relations of cooperation with the private sector, but 53% of them are not satisfied by their cooperation. The main reasons for dissatisfaction are: the imperfect legislation, lack of cooperation tradition, insufficient training of the private sector, lack of efficient communication skills, insufficient financial opportunities of the private sector, lack of knowledge about NGOs and their activities. The main fields of cooperation are sponsoring the NGO activities (22%).

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<sup>1</sup> Ministry of Justice, January 2005

Only 18 % of active NGOs have common projects with Local or Central Public Administration, the same number is advised in various problems, and only 14 % of NGOs are contracted for special services or activities. Even less organizations (11%), mostly mass media and ethnic minorities NGOs, participate together with LPA in decision-making. More than a half of NGOs aren't quite or at all satisfied by the cooperation (51%)

#### 4. Financial resources

The financial resources of NGOs come from various sources, the main being grants, membership fees and sponsorships. Grants, as the main financial source for the NGO's activity were mentioned by 28 %, 27 % mentioned membership fees, 23 % - sponsorships. If analyzing the budgets of the NGOs in 2001 - 17% of active NGOs didn't have a budget. The percentage of organizations with the budget up to 500 USD was 28 % and up to 1000 - 9 %. The number of organizations that have an annual budget up to 100,000 USD is very small - 5% mostly covered by grants. The deficiencies in fund raising failed the projects of about 2/3 of NGOs from Moldova, because as the study demonstrates only a little more than 1/3 of organizations can cover integrally the necessary annual expenses.

Source	Market	Legal provision	Perspective
International Donors 28%	Depends on terms established by donors and government	<i>Memorandum</i> Grants are taxes exempt	Lowering international donors support Change in funding priorities
Sponsorship 23%	Growing business social responsibility influenced by international companies	Fiscal Code, Law on Philanthropy and Sponsorship/ Business can deduct up to 10% of their annual taxable income	Current legal provisions are not incentive for sponsorship and corporate giving
Individual Giving ?%	Citizens are not knowledgeable about civil society	Fiscal Code, Law on Philanthropy and Sponsorship/ Individuals can deduct up to 10% of their annual taxable income as tax credit	Better legislation, Growing local fundraising and image of NGOs will pursue individual giving
Statutory Activity 37%	Members and founders are paying membership fees (symbolic)	Law on Public Associations, Civic Code	Growing income of citizens
Services 4%	Members and Clients are paying fees/ service driven versus mission driven	Law on Public Association, Fiscal Code/ Public benefit NGOs are taxes exempt	Income will depend directly on quality of service
State Funding 2%	Lack of integrity and long term provisions	Law on Youth, aw on Social Assistance; Budget Law and number of separate regulations of Ministries	State is not interested in supporting SCOs SCOs advocacy is needed

##### 1. Public image of and trust to NGOs. Public participation and citizen's responsibility.

According to the Public Opinion Barometer 28, 1% does not know about NGOs and 37, 3% of Moldovan does not trust them. Only 30, 8 % of citizens have some trust in NGOs and 2, 8 fully trust them. The perception is that NGOs are "money launders and grant eaters". Rare local or no fundraising campaigns, low level of social service provision, rare or no economic activities managed by NGOs and low business support make NGOs fully dependent on donors support.

The CSOs in Moldova are playing an increasingly role in promoting democracy and human rights, advocating for the poor, offering services for their communities. In the same time an important part of CSOs have weak organizational capacities, insufficient understanding of constituency building, weak participatory management. The limited financial resources make them dependent on external donors resulting in shifting missions to attract funding. The Government of Moldova can create an enabling environment so SCOs become stronger and financial sustainable to better serve their beneficiaries and provide better quality services.

## Part II. Strategy

The Government of the Republic of Moldova is increasingly recognizing the real value of engaging citizens and Civil Society Organizations in decision making for sustainable development. The Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) stipulates that a “Better governance and a more efficient activity of the public sector in partnership with the civil society constitute the basis for the insurance of sustainable economic growth and the reduction of poverty. In order to implement the stipulations of the Strategy, the challenge is to join together in partnership the efforts of public administration, civil society, the business community and international partners to achieve the common goal of improving the lives of the country’s people.”<sup>2</sup> The Government committed to ensure respect for the freedom of association and foster the development of civil society by facilitating and supporting civil society development, and enhancing dialogue and cooperation.<sup>3</sup>

UNDP recognize that Civil Society Organizations (CSOs) can play a critical role in developing the social and political capacities of the poor, increasing their effectiveness in influencing governance institutions and making the latter more responsive to their needs. UNDP includes as a criterion of support to CSOs, a demonstrated understanding of the social, cultural, political and economic circumstances that shape the lives of the poor. UNDP helps identified CSOs pursue a variety of measures designed to help the poor get their voices heard and reduce their political exclusion.

According to the second Country Cooperation Framework (2002-2006) UNDP Moldova is integrating the civil society development in the design and implementation of its operational strategies. UNDP will help facilitate conditions to support civil society wherever appropriate. This may include efforts to refine the supporting legislation or to assist with concrete mechanisms for more active participation in decision making processes. NGOs will be assisted to develop skills in project planning, management, evaluation and resource mobilization. They will be used to implement various UNDP projects and actively involved in partnerships to support observance of human rights and gender equality.

As a cross-cutting issue, this project falls within the two UNDP priority area of *Achieving the MDGs and reducing human poverty and Fostering Democratic Governance* and proposes to make an identifiable and specific contribution towards the **Multi Year Funding Framework<sup>4</sup> Service Line 1.7 of Civil Society Empowerment**, with particular focus on advocating for an enabling legal and regulatory environment where CSOs could contribute more to the development processes.

The project will support the creation of an enabling environment – legal and institutional - for increasing financial sustainability of civil society organizations by promoting individual giving, corporate giving and developing economic activities and service provision.

The project will work towards the **overall objective: Capacities increased and enabling environment created off/for CSOs to mobilize more diversified resources**, through several streams of activities, covering the creation of an enabling legal environment, partnership creation and capacity building for the Government, CSOs and private sector:

### **1. A favorable legal and fiscal environment and mechanisms for Civil Society development in place**

The project will focus on creating a legal and fiscal environment and mechanisms that primarily will relates to facilitate individual giving, corporate giving, economic activities/social enterprises development and service provision by CSOs.

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<sup>2</sup> Economic Growth and Poverty Reduction Strategy Paper, Republic of Moldova, May 2004

<sup>3</sup> EU/Moldova Action Plan

<sup>4</sup> Multi Year Funding Framework is a strategic framework document for UNDP worldwide for the period 2004-2007; it determines the priority areas UNDP is focusing and the funding envelopes available.

Increasing individual giving relates to the development of percentage philanthropy. Percentage philanthropy refers to legal mechanisms that allow taxpayers to allocate a certain percentage of their previous year's paid income tax to beneficiaries entitled to receive such funds. By the spring of 2003, percentage type laws had been adopted in four countries in Central and Eastern Europe: Hungary, Slovakia, Lithuania and Poland. At the end of 2003, Romania became the fifth country to adopt a percentage provision. In 2004 Ukraine, Georgia and Macedonia started to work on such legislation. The legal framework and mode of operation of the percentage laws differ in each country. The number and types of beneficiaries also vary but largely include non-governmental organizations (NGOs) carrying out public benefit activities.

Percentage laws allow taxpayers a direct say in the distribution of state funds. In the context of countries that have only relatively recently emerged from communist rule, percentage laws also promote the revival of good citizenship and awareness of the third sector. In Central and Eastern Europe where average earnings are low and the financial background of NGOs is fragile, percentage laws are especially relevant because they generate much needed revenue for NGOs and other types of organizations serving the public good, encourage a new form of "giving" by the tax-paying public without loss of personal income, educate the general public about philanthropic behavior.

A further outcome of percentage laws is the increased visibility and outreach of NGOs as a result of campaigns run each year to maximize public participation in the percentage schemes.

In the same time, in order to develop corporate giving, social entrepreneurship and service provision by CSOs the Law on Philanthropy and Sponsorship and Fiscal Code should be amended and legal provisions for social contract should be developed.

In order to implement this activity a set of actions will be carry out:

**Action 1: Comprehensive analysis of current legislation, NGO development, public perception**

- Analysis of the NGO sector, especially - financial resources, relations with the central and local government, relations with business community, citizens involvement
- Analysis of current legislation
- Analysis of public perception
- Analysis on business support
- Analysis of central/local government support

**Action 2: Drafting laws on the basis of CEE experience and amendments to the Law on Sponsorship and Philanthropy and Fiscal Code**

- Establishment of an working group: Government (Ministry of Justice, Ministry of Finance, Fiscal Inspectorate)+NGOs (Coalition)
- Provide international consultancy on drafting the legislation and mechanism of implementation
- Round table discussions of the draft law and mechanism with stakeholders

**Action 3: Capacity Building Government (Ministry of Justice, Ministry of Finance, Tax Authority)**

- Assistance to tax authorities on enforcing percentage provision (how to design declaration, identify beneficiaries etc.) – seminars and brochures
- Assist the Ministry of Justice to develop a NGOs data base
- Train and assist the Certification Commission
- Training for tax authorities

**Action 4: Information campaign with communication strategy for three categories: NGOs, government and citizens**

- PR campaign for taxpayers (mass-media and PR companies)
- Consulting taxpayers, NGOs, tax administration (free phone line and TV)
- Seminars for NGOs, Internet WEB-site

**2. Improved capacities of CSOs to mobilize resources through individual giving, developing economic activities/social entrepreneurship and deliver services**

More and more NGOs have the basic skills for fundraising but lack the business planning and strategies to find innovative ways to fund activities and overhead without turning to external donors. In the future, it is important to incorporate sound business practices into our NGO capacity building tool box: providing access to revenue generating models such as social enterprises and other revenue generating schemes; and transferring skills in performance-based management, customer service, marketing and public relations.

**Action 1: Design and provide module-based training on resource mobilization**

- design the training module
- train the trainers
- provide training for NGOs
- design the Guide for NGOs
- publish the guide

**Action 2: Pilot projects – resource mobilization campaign**

- support NGOs to develop and implement resource mobilization campaigns

**Action 3: Support the NGOs to develop and implement economic activities**

- design and provide the training program
- consulting on business plan development
- support in business creation
- training on financial management

**Action 4: Pilot projects – economic activities/social entrepreneurship (in cooperation with BOYW Project)**

- support NGOs to develop and implement economic activities

**Action 5: Training and consultancy for NGOs to provide better quality services**

- marketing for NGOs
- products/service development

**3. Corporate giving programme developed and implemented (in cooperation with Global COMPAC)**

Businesses play a vital role in maintaining the state's quality of life. Not only do they provide jobs and economic stability, but also they can offer charitable support to the many projects and programs that enrich the lives of all Moldovan communities.

Moldovan business owners are trying to respond to community needs, but they do not have a plan guiding the distribution and use of their charitable contributions. In the same way that a business plan helps a company stay on course toward its financial goals, a charitable giving program—however informal—can help a business achieve a number of goals for itself and the community in which it operates. A giving program can include direct cash gifts by your company, loans of employee talent to nonprofit organizations, a company-sponsored foundation—or any combination of these and other options. A defined charitable giving program can help the business:

- Make wise decisions about which community programs to support;
- Increase the sense of satisfaction that everyone in the company derives from charitable giving;
- Strengthen ties to customers and the community.

The project will promote “organized” philanthropy in the in Moldova and will provides assistance and tools for giving to business including:

#### **Action 1: Organize the outreach campaign**

- Establishment of an working group: (Companies, banks, NGOs)
- Round table discussions of the Corporate Social Responsibility/Corporate giving
- Organize social events
- Establishment of a Forum of CSR
- Media campaign

#### **Action 2: Support the companies to develop a giving programme**

- support companies to develop and implement a giving programme for MDGs

#### **Action 3: Design and provide module-based training for companies**

- design the training module
- provide training for companies
- design the Guide
- publish the guide

### **4. Community Foundations development**

Community Foundations are independent philanthropic organizations. They collect, manage and redistribute donations from a wide range of mainly local donors to meet important needs of local community. The main goal of CFs is to improve the quality of life in a specific geographic area, usually a town or a county. Community Foundations do this by involving local citizens and by generating new permanent resources, as well as by building partnerships among local businesses, local authorities and non-profit organizations. What provides Community Foundations sustainability is endowed funds contributed by many donors to be used for charitable purposes (e.g. grants to local non-profit organizations in order to strengthen NGO sector in local level or scholarships to poor talented young people in order to accelerate development of local community). An endowment also gives community foundation’s donors the guarantee that their help will have long-term consequences to the future. The capital endowment is composed of several donations to be allocated at financing specific purposes, the so-called restricted funds.



#### Activity 4: 3 Community Foundations developed

##### Actions:

**4.1. Training and advisory assistance** (including coalition building, fundraising, grant programs, promotion, accounting),

- Guides: "How to Establish a Local Community foundation," "Rules for Creating and Managing Community Foundations," "The Donor's Manual," "Capital Endowment," Community Foundation a Solution to Donor's Problems and NGO Hassles," and others;
- Presentation on the concept of local philanthropic organizations, cooperation with donors;
- Document templates: internal statutes, operating rules for Advisory Committees, CF boards, organizational support procedures, legal expertise;
- Expert assistance from lawyers, leaders of CEE community foundations,
- Distributing information through the electronic bulletin ,

**4.2. Financial assistance** (support given to CFs in form of matching funds); co-financing grant and scholarship programs of CFs, capital endowments, and current expenses of organizations,

**4.3. Networking:** regular meeting of CF leaders, exchange of experience, help in developing operating standards,

- Promotion, chiefly through publications, information materials, brochures of the Network, providing new contacts, cooperation with European.

##### Expected impact

- Moldova is a country with low level of citizen's participation in public activities, characterized by population apathy and distrust. Percentage philanthropy provides people the chance to equally participate in funding social, cultural and other publicly beneficial activities together with the State. It encourages participation and creates trust to civil society.
- It is not amounts of money that matter: most important is the recognition of social value of NGOs as people "vote" by every cent for civil society.
- In Moldova NGOs could not get public trust and recognition due to their low level of professional service provision, absence of transparency and openness. Interaction between NGOs, tax administration and citizens together with financial stimulus will make NGOs be more responsible for their declared missions.
- Community Foundations represent a challenges in developing new sources for financial sustainability of Civil Society Organizations in the Republic of Moldova
- Individual giving is a challenge in convincing the government in redirecting part of taxes by citizens thus giving them power to decide over state budget, and to justify the budget losses.
- The business will become more social responsible
- The NGOs will have the capacity to provide better quality services
- The coalition building of committed civil society leaders and civil servants