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THE DEVELOPMENT OF CIVIL SOCIETY IN LATVIA 2002/2003
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The development of civil society in Latvia:

An analysis

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The analysis presented in this study does not always reflect the views of the Secretariat of the Minister for Special Assignments for Society Integration Affairs.

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1. Introduction

There are various interpretations of civil society and its role in a democratic country. Some theories consider civil society to encompass all formal and informal groups that are independent of the state, family and business, hence they are private, but are not connected to reproduction (family ties) or production (manufacturing). Other theories believe civil society encompasses all private (independent of the state) institutions, including businesses and the family.

On the one hand, without democracy, civil society cannot develop, while on the other, without civil society there is no guarantee of a democratic country. It has a unique role as a watchdog to monitor the public administration so that economic inequality does not impact or lead to inequalities of democracy. In a democracy, civil society provides representation for those issues and groups that cannot represent themselves either economically or politically (the environment, children, people with special needs).

One of the most important elements of civil society are formally and informally created social networks¹. Irrespective of the area of activity – whether it be sports, knitting or environmental protection – common activities promote the development of cooperation, communication, management and team skills, responsibility for achieving common goals, and mutual trust. A culture of cooperation is essential for democracy to function at all levels of authority.

Non-Governmental organizations (NGOs) play an important role in promoting participation in public policy development because people are more active in NGOs than in political parties. NGOs, by participating in public debates can greatly affect policies, as well as involve a broad spectrum of society in the debates. NGOs are particularly important in representing the interests of socially vulnerable groups.

After Latvia's accession to the European Union (EU), the country's civil society will have new tasks to perform. It will have to involve itself not only in decision-making in Latvia, but also in EU institutions, join EU non-governmental organization networks, and learn lobbying skills. A major undertaking will be to supervise the distribution and implementation of EU structural funds in Latvia so that these resources are used in accordance with environmental and social needs. Additionally, these organizations will have to be able to attract structural and other EU funds for their own work, find partners, and attract co-financing and pre-financing to implement projects.

In this study, civil society is defined as "a society in which individuals cooperate to resolve their own and common issues." Its purpose is to identify the most critical problems so that policy guidelines and a national program to promote civil society development is prepared.

This study analyzes four areas:

- 1) what promotes cooperation between individuals;
- 2) what promotes the establishment and sustainability of formal cooperation networks (non-governmental organizations or NGOs);
- 3) what promotes cooperation between individuals and NGOs for public policy development (i.e. development, implementation and evaluation);
- 4) how Latvia's accession to the EU will affect cooperation/ collaboration.

It is the government's responsibility to ensure that civil society is not hindered from self-organizing to resolve problems it faces. This study analyzes the legal framework in which civil society operates, the availability of financial resources, public attitudes and the culture of public administration.

¹ Formal cooperation networks are, for example, public organizations, foundations, trades unions, and churches. Informal social networks include interest groups, Internet communities, and individuals, who spend their free time together.

The creation and development of non-governmental organizations is particularly dependent on funding, therefore this study includes an analysis of NGO funding. It includes a financial overview of NGOs, their income and expenditure structure, tax payments, as well as examines which EU funds are available to NGOs.

Special attention was placed on analyzing existing legislation that governs cooperation between various levels of public administration and society, for example, the delegation of responsibilities, and state and local government funding for the NGO sector.

This study is based on surveys and research conducted specifically for this study as well as in recent years on the development of society in Latvia (see *Resources*) including financial and legislative analyses.

To gain a broader perspective on issues relating to the development of civil society in Latvia, the authors of this study interviewed representatives of state and local governments and non-governmental organizations.

2. What promotes cooperation between individuals

This section will examine the creation and operation of formal and informal social networks. Special attention will be paid to reasons, motivations and the environment which have either promoted or hindered the creation of such networks. The section will also provide an overview of public participation in various events and organizations.

2.1. Individual motivation to take initiative and become involved

In order to create a national policy for civil society development, it is important to examine the reasons why people involve themselves in social activities or refrain from doing so.

Only a small number of Latvia's residents are involved in social activities. In 2002, the market research and public opinion center SKDS conducted a survey² that revealed that people are most actively involved in trades unions, sporting clubs, congregations and free-time activity groups (around 10% in each of these groups). Around 5% participate in organizations connected with raising children, homeowner or tenant organizations, professional associations, as well as charitable, social welfare and self-help organizations (around 5% in each of these groups). Only around 1% said that they are involved in pensioners' organizations, political parties or organizations representing ethnic minorities (around 1% in each of these groups). At the same time, 60 indicated that they are not actively involved in organizations or informal groups.

Analyzing this information from the gender aspect, women are active in trades unions, religious organizations, childrens' organizations, and professional associations, whereas men are active in sporting organizations and clubs. Amongst those who don't participate at all in organizations (formal and informal), 62.2% are men and 54.3% women. Although the answers to this question indicate that men are less involved in social activities, on average, women answered more frequently that they tend not to participate in social life.

The majority of those who don't participate at all in organizations are people aged 45-54 (66.8%) and people with primary educations (69.7%). Members of other nationalities and non-citizens are also less active than Latvians. The least socially active people include those not working – pensioners, homemakers, and the unemployed (65.2%)

In autumn 2003,³ 54% of those surveyed indicated that "they are not involved in anything". This answer was given more often than average by people aged over 55 (64%): people with primary or secondary educational levels; Russians; members of other nationalities (excluding Russians and Latvians); non-citizens; unemployed, people with low incomes (average income per family member not exceeding 42 lats per month) and residents of Riga.

One of the reasons why people choose to participate in social activities is **to improve the lives of friends and family members**. Around 1/3 of those who responded stated⁴ that active participation in social life can improve their own lives and the lives of friends and family members. Slightly more than 1/3 think that social activities will not change anything in their lives, while the remaining 1/3 do not tend to be active in social life.

People with a higher education (33%), with incomes above 127 Lats per month, and Riga residents are most likely **to understand the benefits of being socially active** and how it can improve

² The integration of residents: social activities. A survey of Latvia's residents. SKDS, March 2002. Commissioned by the Ministry of Justice.

³ A survey of residents on various aspects of integration. SKDS, November 2003. Commissioned by IUMSILS.

⁴ The integration of residents: social activities. A survey of Latvia's residents. SKDS, March 2002. Commissioned by the Ministry of Justice.

their own lives and those of friends and family members. People with primary educations (16.7%) and low incomes (less than 42 Lats per month) gave the lowest ratings. People living in Latgale are more likely to believe that social activities have an impact on their lives than residents of Kurzeme and Zemgale. In reality, only 2.2% have participated in an NGO or have utilized the assistance of an NGO to resolve their own problems or those of friends and family members or broader issues.

Local government representatives were asked to characterize what **type of person** is usually involved in social activities. The answers show that a very wide spectrum of people become involved if they find like-minded people and if the activities relate to their value systems, needs, and capabilities. They are often “people who have been unable to prove themselves in other spheres – positively or negatively”⁵. The most active people, especially in rural areas, are pensioners and young people. This contradicts the survey, which revealed that it is precisely these groups who “don’t participate in anything.” An explanation for this divergence could be that both young people and the older generation are more directly involved in social activities that affect the social life of society and that are connected with the work of local governments.

Local government leaders also stress **the role of leaders** – the existence of activities depends on having a leader. Leaders tend to be “people beating their own path”, artists, people with more initiative, people with good verbal communication skills or who are strongly committed to resolving a problem. Positive thinkers and those seeking solutions, enjoy more success in achieving their objectives.

In order to identify what motivates socially active people, a qualitative study⁶ asked what **benefits arise from the activities of individuals**. The majority of people mentioned the following benefits: access to information and resources; contacts that are also useful in everyday life and in business; moral satisfaction; a sense of fulfillment; satisfaction if changes are achieved; the awareness that you haven’t been a bystander; a feeling of being needed; proving yourself; an interesting life; great experience; broadened horizons and the opportunity to be with like-minded people. Working for public benefit develops flexible thinking, gives energy, lets you receive support and understanding, stimulates you to keep moving forward, and helps you to meet people and understand the situation in which you are living. Social activities make life worth living and provide the opportunity to prove yourself.

Asked about the **“losses”** arising from a socially active life, almost all of the respondents said that the main sacrifice is **time** that working people could spend with their families and friends. Sometimes they have to give up free time and other interests. Other losses include costs for transportation and communications, which they often have to cover themselves.

The qualitative study⁷ attempted to discover the reasons **why people have become socially active**, and whether there are any commonalities. Those surveyed, who are socially active mentioned several factors that motivated them to establish NGOs or to get involved in them:

- Some of the surveyed leaders have **always been active**, participating in theaters or other activities during the Soviet era. When they were young they organized leisure events at school, became involved in extra-curricular activities, or organized events in conjunction with young people in foreign countries.

⁵ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees.

SKDS, February 2004. Commissioned by IUMSILS.

⁶ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees.

⁷ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees. SKDS, February 2004. Commissioned by IUMSILS.

- On the other hand, some leaders were previously socially inactive. For them, the decisive factor was **encouragement from people around** them (through election or invitation) because of their education, contacts or knowledge about the relevant sector and connected to their primary occupation.
- **Primary occupation** – people who were seeking work and found it within a NGO.
- Several leaders started their social activities through awareness of a **pressing problem that affected them**, including personal problems, i.e. the need to resolve a domestic issue or an illness that is easier to live with if those affected participate in self-help groups. These problems spurred them to either join (on their own initiative or by invitation) an existing interest group or to start a new one.
- A large number of people had a **particular interest** in a social or political issue (environmental protection, assisting people with special needs, gender equality). They founded their organizations in connection with their studies, literature they had read or because of patriotism.
- A conviction that there **is strength in numbers**, that by working together, people achieve more. One person can make an analysis, another can generate ideas, while a third can provide critical feedback to “keep everyone’s feet on the ground.”
- Several people mentioned **international experience**: interest was generated by a trip or studies abroad, the visit of a foreign delegation, or organizing the visit of a foreign delegation.
- In some cases activists stated that receiving support from local governments or others gave the impetus to become more active. International support and educational support from the NGO Centre were also mentioned as positive factors.

When questioned about why people **aren’t more active in formal and informal** social networks, those surveyed mentioned the following reasons:

- There is a **lack of information**, people don’t know what NGOs are. They haven’t heard of anyone accomplishing anything, so they don’t believe that together with others they could achieve anything with enthusiasm, but without big financial investments.
- A **lack of education** – schools do not teach students how to think critically, analytically. People rarely form their own opinions by finding and analyzing information from a variety of sources, they prefer to listen to authority figures.
- **Personality traits** – inertia, unwillingness, close-mindedness, introversion, not wanting to admit that they have problems. The basis for this could be that people don’t believe in themselves, or their abilities, or that society will accept them. People are afraid of being rejected and misunderstood. It could also be fear of the unknown, laziness or a lack of initiative.
- **Poor communication skills** – people “are afraid of approaching one another, yet at the same time they’ve heard hundreds of stories about the other person and they’ve formed their views about them. But they’re afraid of going up to them to talk.”⁸

⁸ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees.

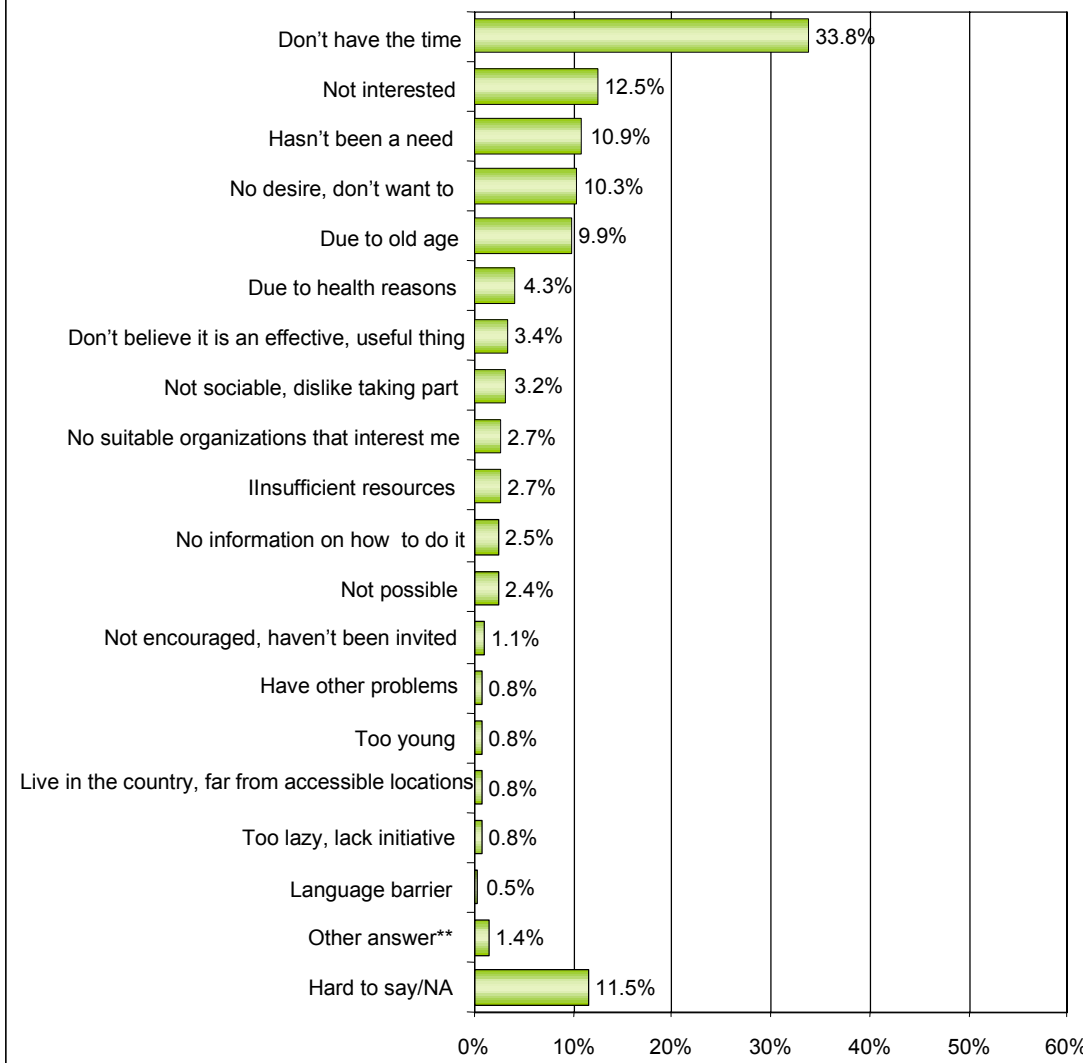
SKDS, February 2004. Commissioned by IUMSILS. Opinions about civil society. Interview representatives of NGOs. February 2004, SKDS. Commissioned by IUMSILS.

- People are held back by **negative experiences** – they’ve tried to achieve something but haven’t succeeded. They would like to be socially active and have tried to be, but they “can’t deliver results” – if you can’t get anything done, then why waste your time.
- Negative or skeptical attitude from others: it’s easier to be a bystander and to criticize others than to assume responsibility.
- The inherited Soviet tendency to rely on others - that more active people will resolve issues for them. City dwellers have developed a consumer mentality, they come asking for support and humanitarian assistance but are too lazy to participate themselves.
- The **economic situation** – low income levels, especially for rural residents. People are busy with their own lives and work. Many work willingly if there is the possibility of getting paid for it. A large number of people do not believe that it is worth doing anything unless it brings a profit.
- A **lack of traditions, the baggage of the past** – the middle and older generations are allergic to formal organizations because they remind them of the useless Soviet trades unions. For their part, young people are afraid of bureaucracy, they want to enjoy freedom and democracy. Previously, local governments regulated everything, so people lack experience and are only gradually taking responsibility for their own lives.

The most inactive people have slightly differing opinions. At the end of 2003, SKDS asked people⁹ who had answered that, “they don’t participate in anything” the question “If you have not joined a non-governmental organization (NGO), what are the main reasons for this?” They were not offered a selection of answers – they could freely formulate their answers, which were compiled into larger groups during data processing (see diagram 2.1).

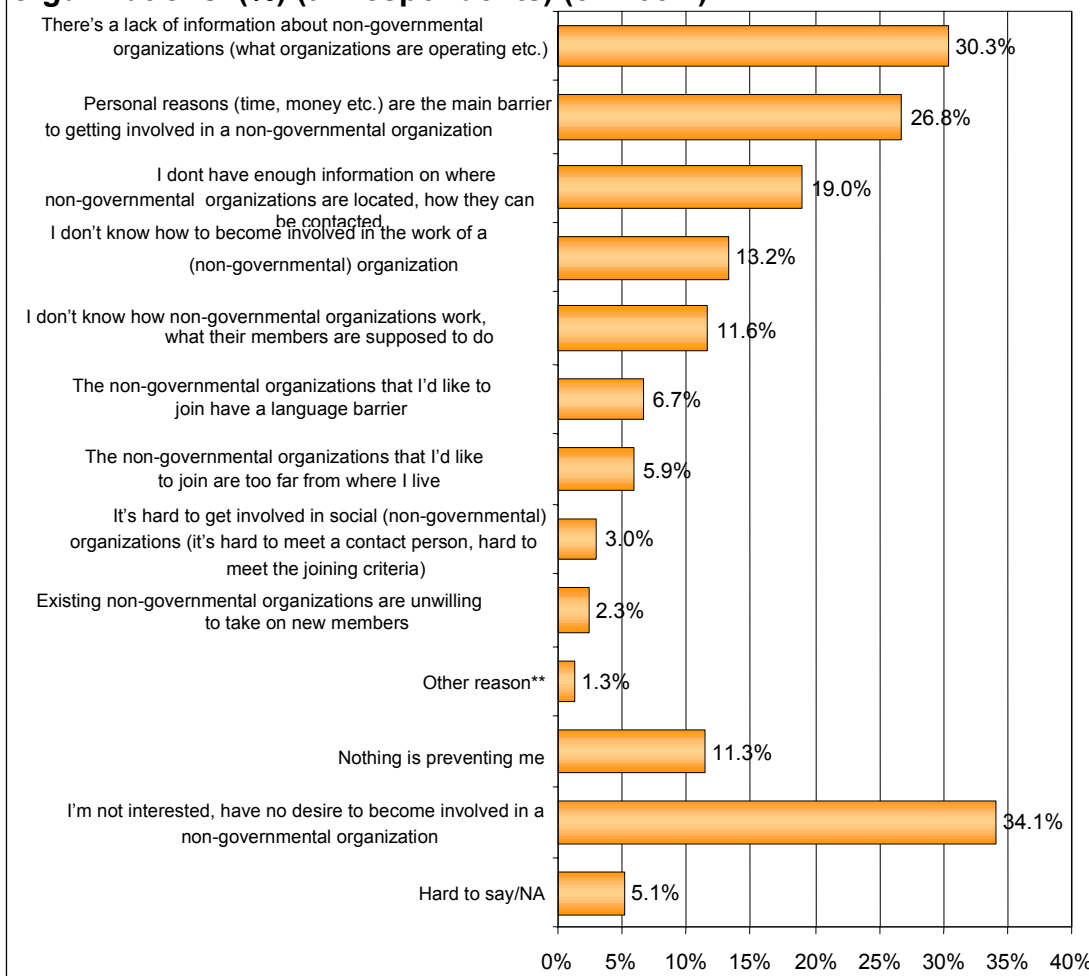
⁹ A survey of residents on various aspects of integration. SKDS, November 2003. Commissioned by IUMSILS.

**Answers to the question ‘If you have not joined a non - governmental (NGO), what are the main reasons for this?’
 (%) (respondents who indicated that they are not involved in organizations, n = 570) (11.2003.)**



According to the results of this survey, a lack of time is the main barrier for people to participate in various non-governmental organizations. Approximately 1/10 of respondents who are not involved in the work of such organizations said that the main reasons for this are a lack of interest, necessity, as well as their age. The main hindering factors are listed in Diagram 2.2.

Answers to the question 'Please indicate the main issues preventing you from becoming involved in non – governmental organizations' (%) (all respondents) (01.2004.)

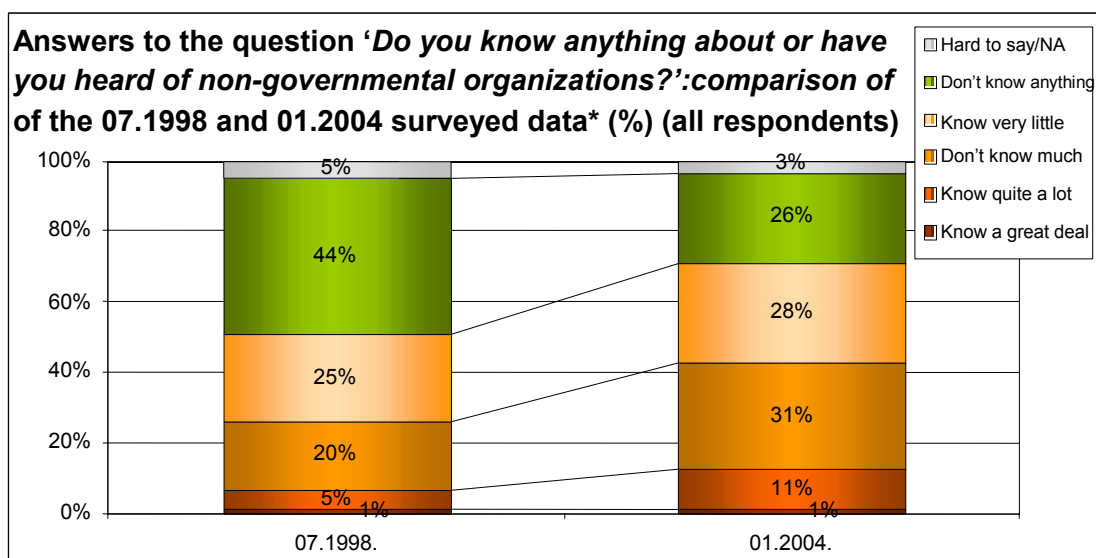


**Since each respondent was permitted to give more than one answer, the total number of answers exceeds 100%.*

One reason why people do not become involved is because they lack information about NGOs and doubt that it is possible to achieve something by participating in an NGO. In the survey, which provided no answers from which to choose, only 2.5% of respondents said that they lack information about NGOs. On the other hand, when this answer was given as an option, 30% of respondents mentioned it as the main factor hindering them from becoming involved. Therefore, this question was examined in more depth in a January 2004 survey¹⁰ in which people were asked to answer the question "Do you know anything about or have you heard of non-governmental organizations?"

A similar question was put to people in a survey conducted by the Baltic Data House market and public opinion research center. The data of the surveys are compared in diagram 2.3.

¹⁰ Attitudes toward NGOs and donations. Survey of residents, SKDS, February 2004. Commissioned by IUMSILS.



*07.1998 survey by Baltic Data House, 01.2004 survey by SKDS.

In the last five years the number of people who know quite a lot about NGOs has roughly doubled—this percentage is in line with the percentage of people who are actively involved in the work of NGOs. On the other hand, the number of residents who don't know anything about NGOs has decreased. Over this period of time, the NGO sector has gained greater recognition.

As already stated, people are becoming involved in both formal and informal social networks. The authors were interested in finding out **the reasons why informal groups decide to establish organizations.**

The leaders of NGOs indicated the advantages of informal organizations – there is no need to establish an organization (the formal registration process), there are no legal obligations, there is no need to assume responsibility for the organization's members, and statutes do not have to be observed.

These can be initiative groups that come together through common interests. Informal groups also have the advantage that they don't have to report to, or interact with any official institutions, including financial control, and they don't have to waste time on bureaucratic overview and control procedures.

The negative aspects are that informal groups do not have a legal status, and they cannot do anything requiring a higher level of responsibility that offers a greater return. If such groups organize an event, they need a lot of mutual trust, including on financial matters. Furthermore, informal organizations have difficulties attracting funding because any potential donor wants a responsible and legally established cooperation partner.

The leaders of these organizations believe¹¹ that formal organizations need to be established:

- to address problems that require **permanent and legally regulated operation.** For example, receiving humanitarian aid requires having a registered NGO with a permit granted by the Ministry of Finance.

¹¹ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees. SKDS, February 2004. Commissioned by IUMSILS.

- to **cooperate with foreign partners**. To receive technical assistance and participate in joint projects.
- to receive **funding** to actively participate in political processes and to influence them. If a formal organization is established, it is possible to attract funding for ideas and to provide greater quality on policy analysis and lobbying.
- because an organization, that represents a group of people has **greater impact in influencing processes and public opinion**. Formal organizations are considered more serious in the eyes of institutional leaders. This is also a **representational** issue. If a person cannot deal with their problem on their own, they have to seek like-minded people.
- by **working on a joint project**, people get to know each other, learn to work as a team they enjoy this. It becomes a stimulus for further cooperation and development of the organization.
- people recognize that not only local governments are capable of achieving something, but that they also have the ability to accomplish what they want.

Local government representatives stress¹² that formal organizations have **better experts**. Formal groups have **concrete objectives** set out that individuals do not. Organized groups present concrete proposals which are developed within the organizations. Formal organizations usually **respect legal requirements**, they know what is allowed and what is not. People involved in NGOs **see the bigger picture, they think about the interests of all people**, not just their own. They have a different level of education and **think in the long term, they are able to justify their proposals**. They understand the situation. However, sometimes the primary motivation for people is not the idea, but the funding – they establish an organization in order to get funding. The idea and the objective are two different things.

Informal groups generate **ideas and emotions**. Sometimes they have **great ambitions** but are unwilling to do anything themselves. The voice of an individual has less impact than that of a group. Sometimes by helping one person, it is possible to help a large number of people. This depends on the issue that an individual or organization brings before a local government. Several local government representatives stressed that “nobody gets turned away.”

People who are not formally organized also have **good initiatives**, especially for spending free time. Motorcyclists, dancers and singers are all active. There are informal anti-AIDS activities. Sometimes they have big ideas that are not in the interests of greater society. Cooperation with informal groups is possible if they are not politicized, if some power (political or economic) is not behind them, if they are not being used as puppets. There are local governments that have permanent officials whose job is to cooperate with informal organizations.

2.2. Description of a cooperation-promoting environment

There is a correlation between local governments with higher levels of economic development (higher income tax revenues) and the level of social activity (a larger number of non-governmental organizations operating within their territory)¹³.

However, the causal relationship is unclear – whether an economically active environment promotes social activities, or whether social activities are the foundation for a flourishing economy. Socially

¹² Opinions about civil society. Interviews with socially active people, representatives of organizations and local government employees. SKDS, February 2004. Commissioned by IUMSILS.

¹³ The NGO sector in Latvia 2000/2001. NGO Center, Riga, 2002.

active people and local government leaders were asked to characterize **environments that promote cooperation**¹⁴.

The leaders of NGOs and local governments believe that an environment promoting cooperation will have the following characteristics:

- **Economic activity**, so that people have incomes. People are primarily interested in the social welfare of themselves and their family members. The middle class that could support social processes is pitifully small.
- **Education** – socially active people are those who have received an education (or experience) that prompts them to think for themselves, to analyze, to get involved. In their projects, the leaders of organizations often teach other members and their clients this type of approach to life.
- **The value system** prevailing in society, a common understanding of what is important and what leads to development. This is an **environment in which people have similar interests and goals**. It is important that people feel that they belong, that they are local patriots.
- **Traditions** – the more active the society and the more pleasant the environment, the more creative ideas are generated.
- **Support** (including moral) for an organization's ideas and work **from the surrounding society, the local government and the media**. A culture of cooperation – whether a local government is able to listen and all parties are interested in resolving an issue.
- **Initiative and trust by the local government** – it is very encouraging and stimulating if a local government organizes gatherings and planning meetings.
- **The local NGO support centre** – if there is interest to address an issue or organize and establish an NGO, this is a place that helps understand where to begin.
- **Interest by and support from the government** - registration procedures and other legislated regulations for operating an NGO are simple.
- **Foreign funding** – “Initially NGO activities in the city were funded by the Soros Foundation in Latvia, it was a sort of non-competitive environment, they give out money and we work, hey, here we are.”¹⁵

The respondents also characterized **environments that hinder** social activities:

- **Depression, low income levels**, inactive people, dull surroundings where nothing changes, social isolation.
- **Failure** – a person has tried to resolve a problem, hasn't achieved anything, they feel they have no rights and they no longer believe in any laws, they don't trust anybody. If there is interest to do something but the person is just shuffled from one office to another, they lose confidence. Another hindrance is if people don't see any results from their work.

¹⁴ Opinions about civil society. Interviews with socially active people, NGOs and local government employees. SKDS, February 2004. Commissioned by IUMSILS.

¹⁵ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees. SKDS, February 2004. Commissioned by IUMSILS.

- **The political environment** - if state or local governments block the efforts of a particular organization to reach its objectives, if an organization is directly or indirectly compromised. An attitude of rejection by the government is a barrier.
- **The role of the mass media** – social activity is hindered if mass media interpret socially important information as advertising and demand payment for publicizing it, media that create social tension and vilify an organization.
- **Authoritarian-style education.**
- **Local public opinion** – surrounding criticism, rejection, a lack of support (including moral) nullify any activity and interest to work.

In response to the question of **where people gather and exchange views**, there were differences between Riga and the regions. In smaller towns and villages, meeting places are libraries, post offices, service centers, sports halls, markets, pharmacies, cultural centers, shops, and municipal youth centers. In bigger cities, they can be clubs, cafes, outdoor public squares, parks, beaches, resource centers, interest group centers, day centers, the offices of NGOs (sometimes these are local government-funded) where several organizations gather, and meetings are held with local government representatives and Parliamentarians. For the most part, NGOs in Riga responded that they don't have these types of venues near their homes, that there are no social centers for people to meet and discuss issues. An exception was the Mezaparks Development Society. The majority meet in their organization's office.

Description of a cooperation network from the perspective of an individual

One of the issues studied in depth was **how accessible or open existing social networks and non-governmental organizations are.**

As diagram 2.2 shows, 19% of those surveyed responded that they don't know where non-governmental organizations are located or how to contact them, 13.2% said they didn't know how to get involved, 3% said it is hard to get involved or to meet a contact person, while 2.3% said that existing NGOs are unwilling to take on new members¹⁶.

Those surveyed¹⁷ were asked whether they joined an existing organization or established a new one themselves. The majority of respondents who had established new organizations admitted that there were no similar organizations in the immediate vicinity, that the existing ones were not working to achieve the same objectives, or they employed different operating methods. Founding a new organization allowed their objectives to be more fully realized. Sometimes the motivation was that people wanted to work in their own organization.

It is interesting to note that those leaders who chose to establish new organizations were less active in recruiting new members and didn't consider membership to be a goal. Results are taken as the mark of the quality of an organization's work, the achievement of which does not always require a large number of members. The members of small organizations are also like-minded people who can work as a team, share ideas, complement one another. Some organizations have a referral system:

- If someone wants to get involved, it is not enough that they express a desire to join, they need to be proposed by members of the organization.

Several leaders also admitted that extensive advertising and promotion demands time and funds – and it is better to spend the money on achieving the organization's goals and implementing its

¹⁶ Attitudes toward NGOs and donations. Survey of residents, SKDS, February 2004. Commissioned by IUMSILS.

¹⁷ Opinions about civil society. Interviews with socially active people, representatives of NGOs and local government employees. SKDS, February 2004. Commissioned by IUMSILS.

projects. Some organizations try to inform the public about new developments, get the media interested by preparing press releases and inviting journalists to their events and project presentations. Many organizations have Internet homepages. If an organization operates on a voluntary basis, it may not have a permanent office and can only be contacted by phone or on certain days of the week when someone is on duty. Internet communications are playing an ever increasing role. Organizations are trying to promote their work and attract volunteers through various highly visible public campaigns. If an organization represents the interests of a broader group, the number of members can be important in discussions about the legitimacy of its position. In these cases (especially to cooperate with public institutions or to join the social networks of European Union organizations), organizations try to cooperate with other like-minded bodies, and try to create social networks or umbrella organizations with related groups.

2.3. Summary

- In theory, people believe that formal and informal networks can influence social processes, but in practice they do not stimulate people to take action.
- Young people and pensioners are more involved in social activities connected with social life and local governments. Middle aged people are more involved in organizations with a set group of members, for example sports teams.
- Social activity provides additional access to information and resources as well as new contacts and experience, however it also demands a lot of time and the ability to balance commitments.
- The main hindrances mentioned for becoming involved in organizations are personal reasons and a lack of information about the essential elements, operating principles and opportunities provided by NGOs.
- The overall level of awareness of NGOs by people has improved in comparison to 1998.
- There are two different opinions about the preconditions to increase social activities. Some people indicate that positive changes are brought about by an orderly environment and visible positive examples, while others believe that the less active the environment, the more organizations are established as socially active people seek opportunities.
- Especially in small towns and counties, NGOs play a big role in informing and involving the public.
- Research shows that the better the economy of a local government, the more active society is in establishing organizations. Respondents stated that low income levels and as a result emotional depression hindered activity. At the same time, respondents stated that NGOs have the biggest role to play in the least developed and most depressed towns, because often they are the only generators of social activities.
- Examining the structure of non-governmental organizations, there is a trend to establish small organizations, groups of like-minded people that provide services to target groups or represent the interests of a broader group.
- The leaders of both organizations and local governments believe that formal organizations have certain advantages compared with informal ones – they have better opportunities for long-term development, and it is easier for them to attract local and foreign funding, develop cooperation networks, represent their interests and shape public opinion.

3. Factors promoting the establishment and sustainability of formal social networks (NGOs)

3.1. Number of non-governmental organizations and their prevalence, registration and classification

3.1.1. Description of non-governmental organizations in Latvia

Usually the term non-governmental organization is defined as an organization operating on voluntary and non-profit principles. A **precise definition** of the non-governmental sector in Latvia **has not been worked out**, and **criteria have not been determined** to ascertain whether an organization, institution or enterprise can be considered to be part of a non-governmental organizations. Public organizations and private not-for-profit organizations were considered to be non-governmental organizations in Latvia.

The term public organization is defined in Article 1 of the Law on Public Organizations and their Associations (15.12.92.). of this Law states:

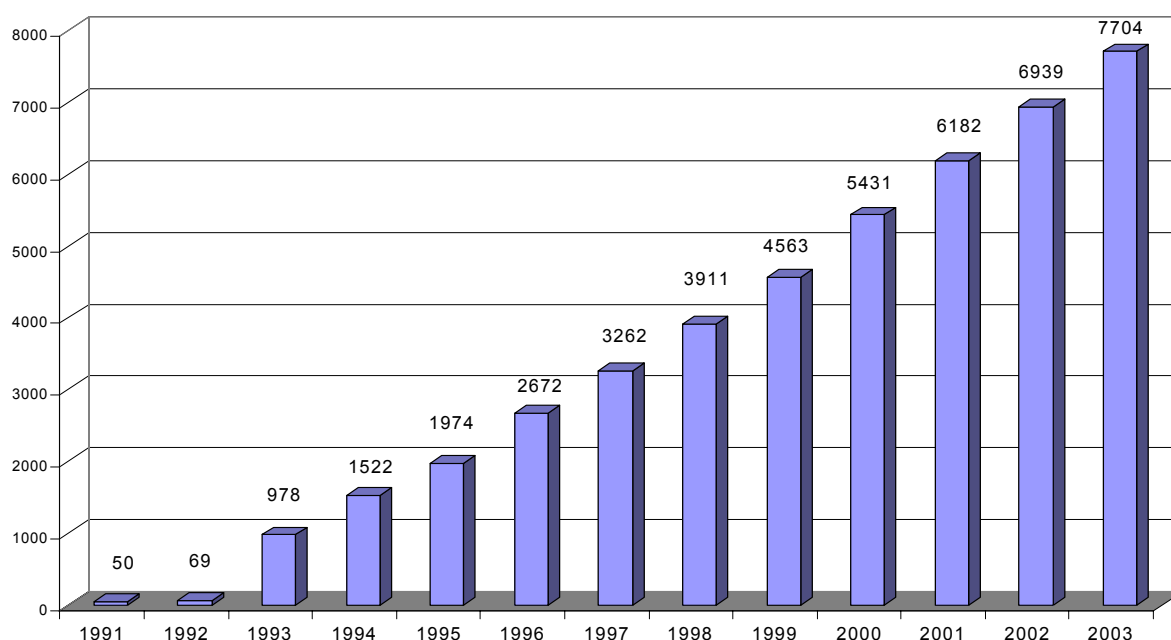
"in accordance with the procedures set out in this law, several physical persons or legal entities can on a voluntary basis and based on common objectives, establish a common governing institution to coordinate work and achieve objectives set out in statutes. Public organizations can not have profit making as their objective, nor have business undertakings as their intention or character. Public administration institutions and local governments may join organizations only in cases prescribed by law and in accordance with the procedures stipulated by the government. Local government institutions can become members as stipulated by the respective local government."

Public organizations

Since there is no precise definition of the NGO sector, and no precise statistical information about the sector in Latvia, a financial analysis may also be incomplete. Such an analysis can be conducted only for one section of the non-governmental organization sector –public organizations. In 2001, a study conducted by the Latvian Academy of Science's Economics Institute "Economic calculations regarding the impact on state and local government budgets of proposed taxation amendments in legislation governing public benefit organizations" discovered that it is almost impossible to obtain plausible statistical information on the work of NGOs in Latvia. During this study, which was conducted at the beginning of 2004, the situation regarding the supervision and analysis of the sector had not improved.

According to Lursoft data, on 1 January 2004 there were 7,704 social organizations in Latvia. The founders of organizations are not just private sector legal entities or physical persons, but in cases stipulated by legislation they can also be state and local government institutions. Diagram 3.1 shows that every year the number of organizations in Latvia changes and increases.

The number of organizations



Private non-profit organizations

Information from the Central Statistics Board (CSB) indicates that at the beginning of 2003 there were 532 non-profit enterprises (LLC, JSC) in Latvia, whose entire capital was held by private persons. At the beginning of 2004 there were 552 non-profit enterprises, which have neither state nor local government capital. Since statistics about non-profit organizations are not collated, more detailed analysis, especially about non-profit enterprises, is not available.

Nevertheless, the question of whether to count non-profit enterprises as part of the non-governmental organization sector will not be relevant in the immediate future, because the law regulating the entry into force of the Law on Commerce (Article 25 sections 1 and 2) provide that:

(1) A company (corporation) registered in the Enterprise Register that has been established as a non-profit organization shall, following the entry into force of the Law on Commerce and until the adoption of a respective law, continue to operate in accordance with the laws in accordance with which it was established.

(2) The subject set out in section 1 of this article may be reconstituted as an organization without alienating its reserve fund.

Section 5 of Article 25 of the law provides that:

(5) The granting of non-profit organization status to a commercial enterprise registered in the commercial register is prohibited.

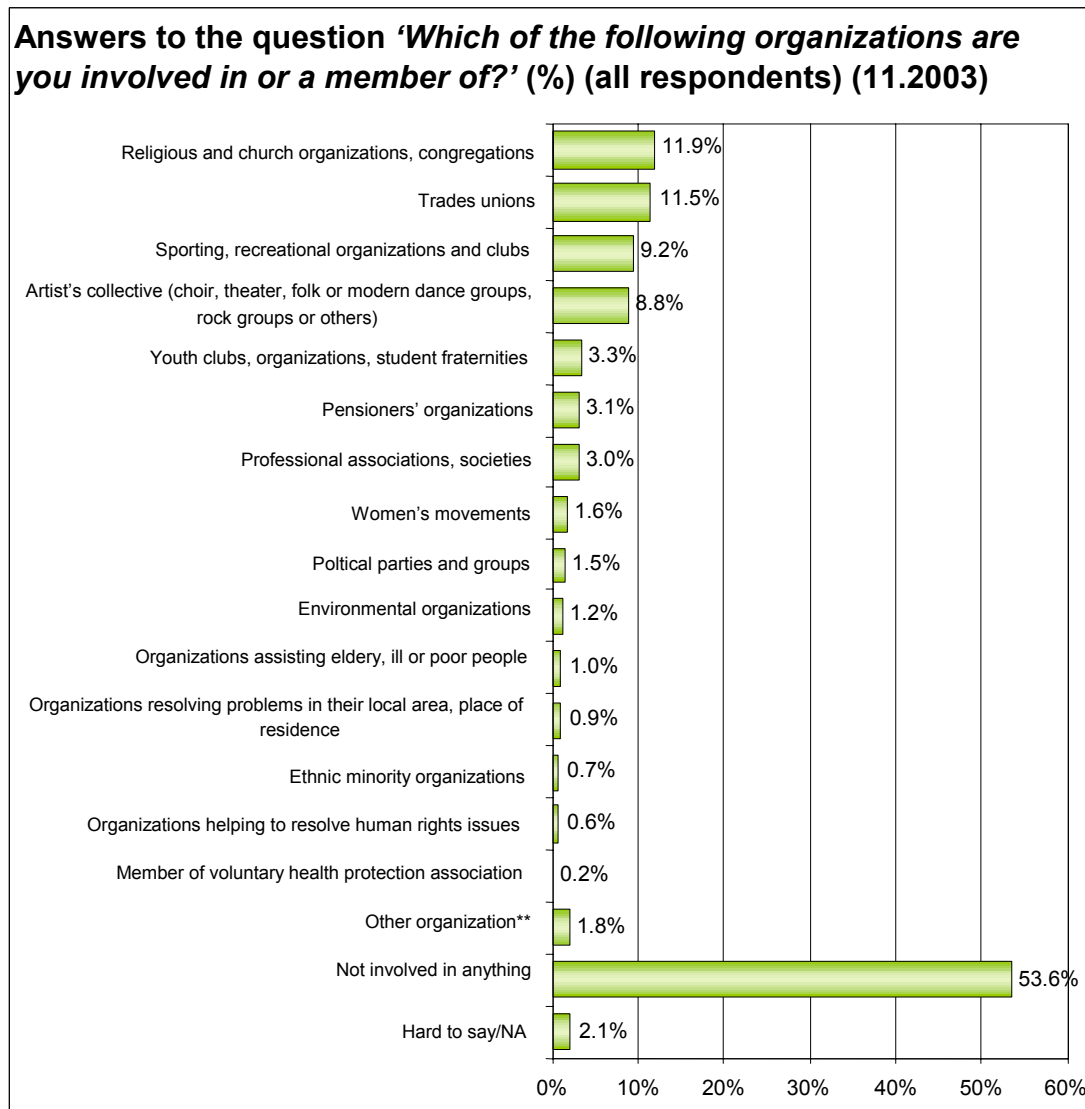
Members of organizations

Only 27% of citizens and 15% of non-citizens participate in organizations (including churches, religious organizations and political parties). Data from the University of Latvia Philosophy and

Sociology Institute indicate that only 6% of Latvia's residents are active in non-governmental organizations (excluding churches and political parties)¹⁸.

Diagram 3.2 provides more detailed information about the representation of society in various types of organizations.

Diagram 3.2



**Because each respondent could give more than one answer, the total amount of answers exceeds 100%.*

The survey¹⁹ indicates the correlation between peoples' occupations and the type of social activities they are involved in. Public sector employees involve themselves in various organizations more often than private sector employees. Their activities are connected with trades unions, various leisure groups and professional associations, as well as organizations linked to raising children. Private sector employees most frequently mention involvement in sporting clubs and organizations.

¹⁸ Situation analysis. The development of social integration policies and processes. Monitoring of social integration policies and processes, RL Ministry of Justice, 2002, unpublished material.

¹⁹ The integration of residents: social activities. A survey of Latvia's residents, SKDS, March 2002. Commissioned by the Ministry of Justice.

2.6 % of the population are involved with political parties or NGOs in their free time²⁰. This indirectly indicates that the majority of activities connected with the above-mentioned non-governmental organizations are also the full-time or part-time places of employment for these people.

3.1.2. Classification of non-governmental organizations

As already mentioned, Latvia does not have a unified classification for NGOs. Until 1 April 2004, organizations were divided into 9 groups (see table 3.1). There is no information indicated about how many organizations are operating in a certain field, such as the environment or social sector. The only exception is sports. This classification is strictly voluntary because the law does not stipulate any criteria (except for trades unions, open social funds and political parties) to do so.

Table 3.1

Types of organizations by type (11.02.2004.)

	Number	Proportion %
Public organization	4956	63,7
Sporting organization	1343	17,3
Open social fund	1018	13,1
Trade union	136	1,7
Fraternity (professional society)	107	1,4
Sporting association	88	1,1
Political organization (party)	58	0,7
association	53	0,7
Professional artist organization	19	0,2
Total	7778	100

Source: Lursoft

The adoption and entry into force of new laws – the “Law on Associations and Foundations” (AFL) and the “Law on Public Benefit Organizations” (PBOL) - will make it possible to clearly define the non-governmental organization sector, differentiate it from political parties, and make it possible to classify organizations into four main types (see table 3.2).

Table 3.2

The following are the types of non-governmental organizations after the adoption and entry into force of the “Law on Associations and Foundations ” (AFL) and the “Law on Public Benefit Organizations ” (PBOL):

	Public Benefit	Member benefit
Association	Public Benefit Organization	Member Benefit Association
Foundation	Public Benefit Foundation	Member Benefit Foundation

²⁰ The integration of residents: social activities. A survey of Latvia’s residents, SKDS, March 2002. Commissioned by the Ministry of Justice.

There is no **unified** classification for non-governmental, including public organizations **based on: the substance or area of their work**. Such information will continue to be unavailable after the new legislation is in force. This lack of information also hinders the government from planning potential support to the sector. The NGO Centre's 2002 report "The NGO sector in Latvia, 2000/2001" is based on 1998 data. The latest data on the numerical distribution of non-governmental organizations by areas of work are not available²¹. This study only provides information from the NGO Centre data base, which does not include sports as a separate category. At the same time, the Lursoft data base only identifies sports as an individual category. This can be explained by the fact that the NGO Centre's statistics primarily relate to its clients.

According to data available to the NGO Centre, 55% of organizations are public benefit, 24% are mutual (small group) benefit and 21% are member benefit²².

Not all public organizations registered in Latvia are active and there is no precise information on their numbers. It could be assumed that active organizations are those that submit annual reports to the State Revenue Service (SRS) (see also table 3.4).

3.1.3. The prevalence of non-governmental organizations in Latvia

NGOs in Latvia operate in almost all spheres and throughout the country. However, their distribution is uneven (see table 3.3). The biggest concentration – 9 NGOs per 100 inhabitants – can be found in Riga and other large cities, and furthermore this distribution also corresponds to income distribution per inhabitant (based on personal income tax payments). The largest number of organizations is in Riga (3.9), Valmiera (2.4), Cesis (2.2) Ventspils (2.2), and Liepaja (2.1). The smallest number of organizations is in Ludza (0.5), Gulbene (0.7), and Jekabpils (0.9)²³. Within this study it was not possible to ascertain a precise distribution of organization activities by districts.

²¹ The 1998 data reflect the distribution of activities for such public organizations by spheres, indicating the distribution of NGOs within the following spheres:

51% - social sector; 33% - environmental protection; 28% - education and culture; 26% - youth, 21% - human rights, 9% - health protection and medicine; 4% - protection of children's rights, 4% - economy.

²² NGO Center. Overview of the NGO sector in Latvia 2000/2001. See Internet (29.02.04)

<http://www.ngo.org.lv/>

²³ Economic calculations regarding the impact on state and local government budgets of proposed taxation amendments in legislation governing public benefit organizations, Republic of Latvia Economics Institute, 2001, unpublished study.

Information on the number of NGOs districts, counties and cities²⁴

District, city, county	Number of residents (Thousands) ²⁵	NGO*	NGO**
Jekabpils	27871	43 NGOs indicated, their addresses, areas of activity	Jakabpils District 53
Ogre	26573	Not indicated	Ogre District 115
Riga	764329	Not indicated	Riga District 3875
Ventspils	43928	15 NGOs indicated, their addresses, descriptions, areas of activity, objectives, target audience ²⁶ , however it can be concluded that there are more of them	Ventspils District 133
Talsi	12374	Not indicated	Talsi District 129
Lielvarde	7319		Ogre District 115
Liepaja	89448	According to Latvian Enterprise Register data, 132 NGOs had been registered in Liepaja by 2000. However most of these are not particularly active or they have only been operating for a short time ²⁷ .	Liepaja District 288
Aizpute	5799		Liepaja District 288
Daugavpils	115265	Not indicated	Daugavpils District 199
Koceni County Valmiera District	3122	Valmiera District - over 100	Valmiera District 146
Līvāni	10368	5 NGOs indicated <i>Rozupe Women's Club, the Livani Fund „Balta maja” (White House), The Children's and Youth Consultation Centre "Pasparne” (Under the Wing), Children's and Youth Centre</i>	Preili District 65
Jaunpils County Tukums District	2641	Not indicated	Tukums District 85
Ergli County Madona	2975	Information from the Madona NGO Support Center indicates that there	Madona District 75

²⁴ Materials collated by SKDS using Internet resources, 2004.

²⁵ Central Statistics Board. 2000 Census data ([www.csb.gov.lv/ Satr/tsk.htm](http://www.csb.gov.lv/Satr/tsk.htm))

²⁶ Note: in addition to the 15 indicated NGOs, the following have also registered as participating organizations with the Ventspils District NGO Support Centre: the Ventspils Debating Club "Autogrāfs" (Autograph), the Ventspils Belarusian Society "Spadcina", The Ventspils Local Branch of the Latvian Blind Society, s/o Ventspils Enterprise Association, the Latvian Health and Social Care Employees' Trade Union's Ventspils City Organization (LVSADA). See Internet (29.02.04) [http:// www.ventspils.lv/ LV/3iedzivotaji/82Nevalstiskas+organizacijas/NVO.htm](http://www.ventspils.lv/LV/3iedzivotaji/82Nevalstiskas+organizacijas/NVO.htm)

²⁷ Note: the main groups of organizations are ethnic cultural societies, organizations providing social support, youth, women's, Christian and other organizations.

District		are 13 NGOs in Ergli County, while there are about 110 NGOs in total in Madona District	
Sigulda	10727	8 organizations indicated	Riga District 3875

* Source: homepages of the respective cities or districts

** NGO Centre. Overview of the NGO sector in Latvia 2000/2001. Distribution of NGOs by district. See Internet (29.02.04) <http://www.ngo.org.lv/>

3.2. Legislation

Laws regulating the NGO sector include:

1. The Constitution of the Republic of Latvia (Articles 91, 99, 100, 101, 102, 104);
2. The Law on Associations and Foundations (AFL) of 30 October 2003, in force from 1 April 2004;
3. The Law on the entry into force of the Associations and Foundations Law of 22 January 2004; and
4. The Law on Public Organizations and their Associations" of 15 December 1992.

The Law on Associations and Foundations has resolved many previously unclear and problematic legal issues for public organizations. It is not expected that its entry into force will create any legal barriers for the NGO sector. The new law also provides the opportunity for a single founder to establish a non-governmental structure (foundation.)

Therefore the broadest possible development of private initiatives in the NGO sector is possible. From a legal perspective, the establishment of NGOs in accordance with the new law is also quite a simple process.

If **barriers** arise in the process of establishing an NGO, the causes are probably in **areas other than the legal sphere**. A possible reason could be a lack of information and education (for example, the inability to write statutes or minutes of meetings, register the organization, etc.) There could be bureaucratic hindrances such as the unwillingness of an official to permit the establishment of a particular organization, etc. Such barriers have not been analyzed in the study.

Special attention should be given to the **re-registration of public organizations as associations or foundations**, which is required as of 1 April 2004. The time frame for re-registration has been set until 31 December 2005²⁸. Considering the slow rates of re-registration for companies and corporations after the entry into force of the Law on Commerce, there are grounds for concern that many public organizations will be liquidated solely because there will be insufficient time for re-registration, due to a lack of information or some other technical reason²⁹.

Another issue, which should be addressed is the inequality or **monopoly status of a few organizations** (for example sporting and various professional organizations). However, this is a politically sensitive issue whose resolution goes beyond the bounds of this report.

3.3. Availability of funding

3.3.1. Analysis of incomes and expenditures for organizations

Article 21 of the Law on Public Organizations and their Associations" (15.12.92.) "Transparency in NGO activities" stipulates that no later than 31 March of every year, organizations must submit a

²⁸ RL Parliament. The Law Proclaiming the Associations and Foundations Law (BNLSSKL). Adopted 22.01.2004. Article 9.

²⁹ BNLSSKL Article 13.

report on their income and expenditure for the preceding year. Any member of the respective organization as well as journalists may examine such reports.

In accordance with Article 13 para 2.4 of the "Law on Accounting" (14.10.92.) the government adopted the "Regulations on Annual Reports for Public Organizations, their Associations and Trade Unions" (Regulation No.251 01.08.01.). These regulations set out the structure, amount and content of the annual reports for public organizations and their associations, as well as the procedure to prepare, review and submit the reports. Article 13 of this law does not stipulate the form or content of annual reports for associations and foundations. It is expected that amendments to this law will include these two legal forms and make references to the government regulations on annual reports.

Since 2001, the State Revenue Service (SRS) has an electronic database, which provides information from its regional branches as well.

Table 3.4

Number of registered public organizations and how many have submitted annual reports

	2000	2001	2002
Number of registered public organizations (Lursoft data)	5431	6182	6939
Number of public organizations that have submitted annual reports (SRS data)	2081	3987	4522
Percentage of how many organizations have submitted reports	38,3%	64,5%	65,2%

Public organizations are also taxpayers and they are required to submit tax reports. The SRS has not analyzed whether the number of reports submitted corresponds with the number of organizations that are taxpayers. Currently, this database is the most complete source of information about the finances of public organizations, but it does not group organizations by their area of activity.

According to Article 20 of the Law on Public Organizations and their Associations (15.12.92.), **income can be generated from:**

- 1) membership fees;
- 2) donations from individuals and legal entities;
- 3) income from business activities and other entrepreneurial activities;
- 4) other income that is not prohibited by law.

Article 20 of the law also stipulates:

- Local governments and state or local government institutions are prohibited from funding the political activities of any organization. They can only fund concrete activities (except political) of organizations. They are not allowed to pay salaries for permanent staff.
- Public organizations are prohibited from collecting dues or any other mandatory payments excluding membership fees. If an organization has been delegated a responsibility by law or government regulation, then the government or relevant ministry will determine the financial payment for services provided.

In principle, there are no legal restrictions on NGOs to conduct economic activities. However, there are restrictions placed on performing economic activities that require business status. Article 1 of the

Law on Commerce, states that NGOs are not allowed to conduct economic activity, which require licenses, (for example financial or insurance services).

Associations and foundations established and re-registered after 31 March 2004 will have to observe Article 7 the "Law on Associations and Foundations", which stipulates that funds obtained from economic activities may be used only for the objectives of the organization and they can not be used for profit generation.

Analysis of incomes for public organizations

Public organizations are required to submit the following financial information in their annual reports:

1. Membership fees and other dues;
2. Donations and gifts received;
3. Grants from state and local government budgets;
4. Income from economic activities;
5. Other income.

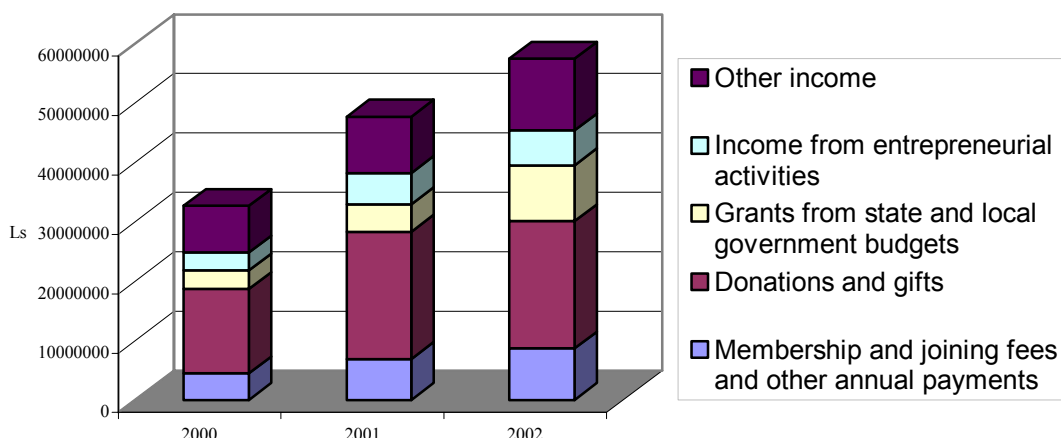
According to SRS data (see Table 1, Annex A) in 2002, based on the annual reports submitted by 4522 **public organizations, the total income was 57,451,000 lats**. The total income of public organizations increases every year. The figure was 32,686,000 lats in 2000, and 47,731,000 million lats in 2001. There was a 46% increase from 2000 to 2001. From 2001 to 2002, the increase was smaller - 20%. This report also found that the income of organizations rose in 2003 as well.

In 2002, Latvia's gross domestic product (GDP) was 5,0943 billion lats (Annex 1 of the "Law on the 2002 National Budget") and the income of public organizations constituted **1.3% of the national GDP**.

It must be noted that the income of political parties is included within the category of public organizations.

Diagram 3.3

Income structure for public organizations



Information source: SRS data

In the last three years, donations and gifts made up the biggest proportion of public organization income (see Diagram 3.3 and Table 1, Annex A), but compared with other years, in 2002 the

proportion decreased by 37.4% of the total income. The second largest group was "other income", with 21% of the total, and the third largest group was grants from state and local government budgets. Compared with previous years, in 2002 the amount of grants rose markedly and made up 16.4% of total income. Income from membership and other annual payments made up 15% of total income. The proportion of income from this group is relatively stable from year to year. Economic activity constitutes the smallest segment of income with only 10.2% of total in 2002.

Membership and other annual payments

In 2002, membership and other annual payments generated 8.64 million lats for public organizations, 15% of the total. Approximately 45% of all organizations have membership fees as a source of income.

Every year the amount generated by membership fees and other annual payments has also risen (2000 – 4,45 million lats, 2001 – 6,91 million lats, 2002– 8,64 million lats). The proportion of the total has been relatively stable from year to year, with a slight increasing trend: 2000 – 13,6%; 2001 – 14,5%; 2002 – 15%.

Membership fees are the main source of income for organizations whose main objective is to benefit its members and advocacy. This is a generalization that does not apply to all organizations. In a large number of cases benefits to members also bring positive benefits to society. For example, an association that protects the interests of businesses in a particular sector facilitates the development of the economy as a whole.

The role of member benefit organizations is set to increase following Latvia's accession to the European Union, as it will be necessary to have their interests represented in Europe. To receive and respond quickly, in some cases it will be necessary to open representational offices in Brussels. As a result, an increased income can be predicted for this group.

Donations and gifts

Donations and gifts make up the largest part of income for public organizations. For this form of income, organizations rely on gifts and donations and in some cases, grants from foreign or international programs. Some organizations list grants under other forms of income.

In 2002, public organizations received a total of **21,46 million lats** in donations and gifts, comprising 37.4 % of their total income.

Whereas the total amount of gifts and donations rose significantly in 2001 compared with 2000 (from 14,26 million lats in 2000 to 21,43 million lats in 2001, an increase of 50,3%) and there was also a slight rise as a proportion of total income (from 43,6% in 2000 to 44,9% in 2001), a very small increase was recorded in 2002 compared with 2001 (from 21,43 million lats to 21,46 million lats or 0,12%). As a result, there was a significant decrease in the share of donations and gifts as a proportion of total income (from 44,9% in 2001 to 37,3% in 2002.)

Unofficial SRS data shows that in 2002, 1483 organizations, or 33% of all public organizations, had incomes from gifts and donations. The number of organizations receiving donations and gifts has increased annually.

Whether an organization has received charitable status has impact on the amount of the donation, because businesses that donate to organizations with charitable status receive a significant tax refund.

Based on the "Law on Business Tax" (Article 20, Section 1 of 10.07.01), the government adopted Regulation No. 315 "Procedures for Issuing or Revoking the Rights of Public Organizations

(foundations) and Religious Organizations to Receive Donations and the Donor to Receive a Tax Refund". The Ministry of Finance issues the permits to social, cultural, educational, scientific, sports, charitable, health and environmental protection organizations (foundations), as well as religious organizations. Permits are issued for one taxation year with the right to reapply annually. In order to receive a permit, applicants must submit their organization's registration documents, annual reports, proof that taxes have been paid, as well as letters of recommendation from the state or local government institution that oversees the respective sphere of activity. In order to extend a permit, an organization must submit its annual report and a separate report on donors, donated sums, and expenditure of donations, which must be published in the government newspaper "Latvijas Vestnesis" or another newspaper. No other criteria for receiving a permit have been set.

The law also stipulates that donations to the Latvian Olympic Committee, the Latvian Culture Fund and the Latvian Children's Fund are tax deductible without requiring special approval from the Ministry of Finance. These organizations do not have to submit reports to the Ministry of Finance.

Table 3.5.

**Number of registered public organizations, number of organizations submitting annual reports,
Number of organizations that have received charitable status**

	2000	2001	2002
Number of registered public organizations (<i>Lursoft</i> data)	5431	6182	6939
Number of organizations submitting annual reports (SRS data)	2081	3987	4522
Number of organizations whose donors receive tax refunds (Ministry of Finance data)	649	717	734
The number of organizations that have submitted reports relative to the number of organizations whose donors receive tax refunds	31%	18%	16%

Table 3.5 shows that although the number of active organizations is increasing, there is a much slower increase in the number of public organizations that have received charitable status. **As a result, the proportion of the total share held by such organizations is decreasing.**

In accordance with the law, businesses can receive tax deductions of 85% of the amount that has been donated to a public organization with charitable status. Donations to the Latvian Olympic Committee (LOC), the Latvian Culture Fund (LCF) and the Latvian Children's Fund (LChF) are eligible for a tax deduction of 90% of the donated amount. There are also restrictions on donors – total tax refunds may not exceed 20% of a company's total income tax for the respective year. Tax refunds are not granted to companies with tax debts.

In reality, a company spends 15% (or 10% if the donation is to the LOC, LCF or LChF) of the donated amount after it receives the tax refund. 85% of the donated amount is not received by the state budget. Therefore, when making a donation and receiving a tax refund, the donor indirectly participates in the distribution of the state budget.

In accordance with the **Law on Averting the Misuse of State and Local Government Funds and Property**" (19.07.95.) companies (corporations) with more than 50% of their core capital held by state or local governments may only donate toward cultural, artistic, educational, sports and health causes, as well as to promote social welfare. Such businesses may donate amounts up to 500 lats without restriction. For donations over 500 lats, state-owned businesses require permission from the Ministry of Finance, while local government businesses require authorization from the local council (board.)

According to the Taxation Policy Department of the Ministry of Finance, at the end of 2002, the amount of money donated to public organizations for which refunds had been granted totaled 10,936 million lats (this information was obtained from documents submitted by SRS regional branches to the Ministry of Finance to extend the charitable status terms for 2003.

The Ministry of Finance has differing calculations based on its data regarding extended terms for charitable status. Their data on donations and the amount of tax refunds issued to public and religious organizations and government institutions in 2000, 2001 and 2002 are shown in table 3.6 (the authors of this report did not have access to information about individual organizations for all years.) According to the Ministry's data, the amount of donations for which refunds were issued was less than in the previously mentioned calculations. In 2002, they totaled 7,669 million lats to public and religious organizations and government institutions.

Donations to public and religious organizations that have charitable status³⁰

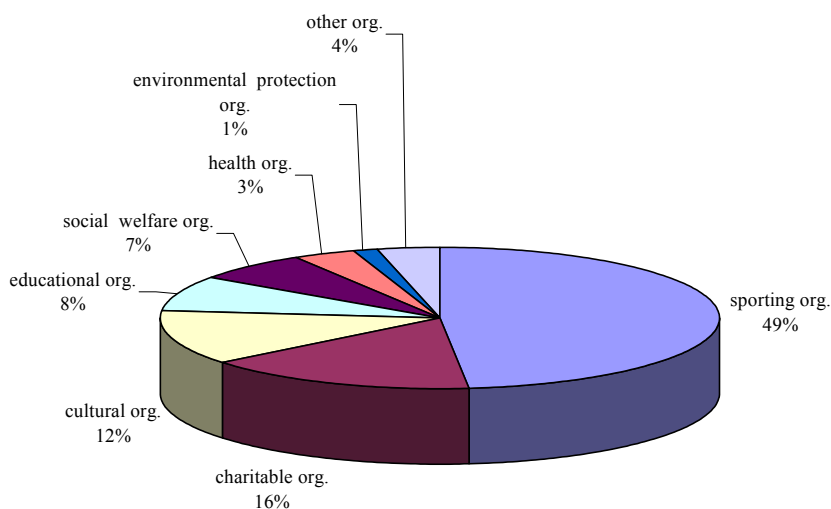
All amounts in Lats	2000	2001	2002
Total amount of donations received	16,965,049	15,400,000	7,669,226
Total tax refunds for donations including:	7,020,881	8,232,726	6,615,797
85% of donated amounts to public, religious organizations and government institutions	3,515,103	4,281,803	4,870,621
90% of amounts donated to the LOC, LCF and LChF	3,505,778	3,950,923	1,745,176

Ministry of Finance, Taxation Policy Department, Taxation Payment Application Section, 20.01.2004.

In 2003, the Ministry of Finance conducted an "Analysis of Donations in the Preceding Years", which revealed that in 2001 donations to public organizations totaled 13,428 million lats. This analysis also showed that in 2001 state-owned businesses donated 1,021 million lats to public organizations. The largest amounts were donated to sport, the LCF and the LChF, as well as to the "Doma vitrazas" (Doma Cathedral Stained Glass) Fund (see diagram 3.4). In 2002, state-owned businesses donated considerably less – 40,000 lats to the Latvian Culture Fund.

³⁰ Based on data available to the Ministry of Finance regarding charitable status with extended terms

Distribution of donations in 2001³¹



Ministry of Finance "Analysis of donations in preceding years", 2003.

Sports organizations receive the greatest proportion of donations by a considerable margin. According to Lursoft data, these make up 17.5% of the total number of public organizations, but in 2001, they received almost half (49%) of the total donations for which donors received refunds. Additionally, if the LOC, LCF and LChF are included, the proportion of donations going to sport is even larger, because according to Ministry of Finance data in 2001, 3.3 million lats were donated to the LOC.

Ministry of Finance information also shows that in 2001, 13,43 million lats were donated to public organizations with charitable status, but SRS data show (Annex A, Table 1) that in 2001, donations and gifts totaled 21,43 million lats. Therefore, 8 million lats, including gifts and financial grants from foreign and international sources were donated to other organizations, including to political parties.

Grants from state and local government budgets

A form of income for public organizations is grants from state and local government budgets. In accordance with the Law on Budgetary and Financial Management (24.03.94.), grants are budgetary resources allocated to other budgets, companies (corporations), or organizations to perform or provide services to state and local government bodies.

As previously indicated, local governments and state or local government businesses can only fund concrete activities (excluding political activities) of public organizations or their associations. These funds may not be used to pay for the employment of permanent employees. According to SRS information, in 2002 public organizations received a total of 9,45 million lats from state and local government budgets. This was an increase of 103,5% in comparison with 2001.

Unofficial SRS information indicates the number of organizations receiving state and local government grants was as follows:

³¹ Except for LOC, LCF and LChF.

2000 – 266, 2001 – 568, 2002 – 680. Comparing this number with the number of active public organizations, it can be concluded that the proportion is relatively small (2002 – 15%).

Grants from state and local government budgets are not separately identified in the SRS reports. Therefore, a detailed analysis of state and local government grants to public organizations would require separate analysis of state and local government budgetary expenditures.

On 9 January 1998, the Ministry of Finance issued a Decree (No. 4) “On the **Economic Classification of State Budget Expenses**”, which is binding on both state and local government budget institutions, when preparing budgets. It does not reflect what share of the grants has gone to public organizations. They can be listed under either code 3410 or code 3420. In order to ascertain the amount of grants given to public organizations from state and local government budgets, information had to be specially requested from the ministries and local governments.

Table 1, Annex B is a compilation of responses from **ministries regarding grants to public organizations** issued in 2002 and 2003. It should be noted that the information should not be considered as complete or exact, but rather as a reflection of trends. Ministries were also asked to indicate contracts concluded with organizations for procurement of services. (this data is presented in Annex B Table 2). Public organizations regard grants as support for the organization’s objective and the use of which has a less restrictive character, while the procurement of services are linked with stricter conditions, specific tasks and concrete results.

The total amount of allocated grants indicated by the ministries in 2002 was 1,66 million lats. Slightly more than half of these grants were from the Ministry of Education for sports (914,000 lats). Significant grants were also made by the Ministry for the Environment (280,000 lats) and the Ministry of Culture (233,000 lats). The biggest amount of contracted work came from the Ministry of Welfare (305,000 lats) for social welfare services.

The biggest grants to public organizations were made by the Secretariat of the Minister for Special Assignments for Society Integration Affairs (IUMSILS) after its establishment in 2003. This includes its allocation of funds to the Social Integration Fund and funds from the Phare ACCESS program. In comparison to grants given in 2002, there was an increase to support sports by the Ministry of Education in 2003. The Ministries of Culture and Welfare had the largest numbers of signed contracts. The data in Annex B reflects that the ministries also made grants and concluded contracts with non-profit companies.

Based on the present State Treasury’s summary of local government budgets, the codification is not detailed enough to discern how much each of the 540 local governments spends on grants. Such information would have to be requested from each local government individually.

In 2003 and 2004 the NGO “**Society for transparency – Delna**” has a project “Introducing principles of transparency in Latvian local government budgets” in the Balvi, Bauska, Cesis and Tukums local governments. This project will also examine local government grants to public organizations.

For example, an analysis of the 2004 Tukums city budget plan it has planned to provide grants to the following public organizations:

The Latvian Association for the Hearing Impaired	400 Ls;
The Pensioners’ Association	6637 Ls;
The Christian Mission TABEA	300 Ls;
The Diabetes Society	5238 Ls;
The Latvian Disabled Womens’ Association „Aspazija” Tukums branch	110 Ls;
Awards to public organizations	3000 Ls;

The Riga Samaritan Association's Day Center „Avots”	1730 Ls;
The Organization “Vecaki – Tukumam” (Parents for Tukums)	250 Ls;
The Tukums Disabled Society –	265 Ls;
The public organization “NEVO DROM” –	735 Ls;
The project “Rehabilitation of the Hearing and Sight Impaired”	1163 Ls;
Social committees and a lottery for responsible citizens	3200 Ls.

The local government earmarked funds to also provide grants for:

Sports Club for the Disabled	2000 Ls	social care and assistance,
Sports clubs	12 600 Ls	culture, leisure etc.

The total amount of projected grants is 37,600 lats. It is impossible to deduce the planned amount of grants to all organizations based on the budget without special help from the local government. Additionally, grants are not the only way in which local governments fund organizations.

To ascertain the amount of grants given by local governments would require additional in-depth budget reviews and analyses of accounting documents.

Local government grants to organizations can be general grants, in which case the organization submits a report at the end of the year. Grants can also be for a concrete purpose. In this way, the Talsi Council indicated a specific objective when making a grant to the Talsi Region Fund (for a kindergarten playground and a sports field).

Local governments can also allocate funds for organizations to participate in project tenders, and make a grant based on the results. For example, the Liepaja City Council organized a tender for the last two years to fund projects submitted by organizations. In 2003, the Liepaja City Council supported 35 projects for a total of 22,900 lats, as well as 27 summer camps for 14,300 lats. Another example is the open tender organized by the Riga City Council's Education, Youth and Sport Department to support youth organizations and youth clubs under the auspices of the Riga Youth Initiative Support Program.

Overall there is no system for state and local government support to organizations, but support is given to concrete initiatives through tenders. In some spheres, there are set criteria for allocating funding (the environment, agriculture), while in other cases, support is given to those organizations that are well known and it is harder for new initiatives to obtain funding.

Income from economic activities

Economic activities include the manufacturing of goods, retail, the provision of services and other activities for payment, including income from housing (rentals).

The information presented in Table 1, Annex A reflects that the income earned by organizations increases annually. In 2001, it totaled 3 million lats, in 2001 the figure was 5,3 million lats, while in 2002 it was 5,9 million lats. Income from economic activities constituted the smallest share of total income for organizations. In 2002 it constituted 10,2% of total income.

Since it cannot always be ascertained what part of an organization's income is from economic activities, it is easier for organizations to assign it to some other category, because income from economic activities is connected with value added tax and company tax payments.

With regard to state and local government procurements, the “Law on Procurements for State and Local Governments”(05.02.01.) does not place any restrictions on organizations as applicants.

A large proportion of Latvia's organizations provide services to their target groups for education, care, assistance in crisis situations, and organizing various events. These services are often subsidized by international donors, the state or local governments. A majority of the are unable to pay, although organizations are trying to gradually introduce fees for services provided (for example, paying for coffee breaks at seminars, etc).

The transition of charging fees for services to those who are financially able is slowly taking place. Such an approach allows organizations to provide services to their target groups that are unable to pay.

Other sources of income

Table 1, Annex A, shows that "Other Income" constituted 12,07 million lats in 2002, comprising 21% or one fifth of the total income. This is the second largest source of funding, after gifts and donations for the three years reviewed in this report.

Organizations list different types of income such as, services provided for state or local governments, funding from tenders, (including foreign or international program grants), income from organizing events, income from company dividends, bank interest, etc.

The large proportion of total income held by "Other Income" clearly identifies the need for a more detailed breakdown of incomes in the annual reports of organizations.

Income can also be broken down into other groups. For example, whether funding sources are state, local government, foreign and international programs, or individuals. Unfortunately, this type of data is unavailable in Latvia. As a result, it is impossible to identify the total amount of state or local government funding for organizations, etc. It is also not possible to see in which areas funding is being reduced.

Foreign and international programs

Latvia does not have a unified system for collating information about various foreign and international funding sources.

The Centre for Non-Governmental Organisations has identified the following donors that provide funding in Latvia:

- The Soros Foundation – Latvia;
- The Baltic-American Partnership Program;
- The World Bank and the United Nations Development Program (UNDP);
- The Queen Juliana Fund (Oranje Foundation);
- The Charles Stewart Mott Foundation (operating until 2003).

The "**Soros Foundation – Latvia**" (SFL) has been in Latvia since 1992 and its objective is to develop and strengthen an open society in Latvia (www.sfl.lv). The main source of funding for the SFL is annual grants provided by the philanthropist George Soros. The SFL provided 2,8 million US dollars in 2001 and 2,4 million US dollars in 2002 for various programs. Table 3.7 gives a breakdown of funding by program areas based on its priorities.

Table 3.7

Funding granted for "Soros Foundation – Latvia" program areas

<i>Program sphere</i>	<i>2001</i>		<i>2002</i>	
	<i>US dollars</i>	<i>%</i>	<i>US dollars</i>	<i>%</i>
Support for democratic development	790319	27,4	627210	25,8
Civil society	1185705	41,1	1013613	41,7
Education	481,742	16,7	473,159	19,5
Public health	266,746	9,2	195,218	8

Arts and culture	160,494	5,6	120,179	4,9
Total:	2,885,006	100	2,429,379	100

SFL funding decreased in comparison to previous years, and it is still decreasing. In 2003, its' budget was approximately 1,8 million US dollars, while in 2004 it will be approximately 1,1 million US dollars.

SFL provides funding to public and not-for-profit organizations, state and local government institutions, independent working groups, and individuals. A proportion of the funding is given to other NGOs, for example, the NGO Centre, to organize grants competitions for NGOs.

In 2003, the SFL established an independent public policy center "Providus", which has taken over some SFL activities.

The SFL also administers the **Baltic-American Partnership Program (BAPP)**, which supports the development of civil society and non-governmental organizations through various grants. Table 3.8 reflects the funding for this program in 2002. The program will continue until 2008, and from 2004 it is the only program administered by "Soros Foundation – Latvia" that provides grants to non-governmental organizations. As the table shows, under this program money is allocated to non-governmental organizations that will spend it themselves, and to organizations that will distribute the funds further, for example the NGO Centre, as well as for funding non-governmental organization projects that are co-financed by local governments.

Table 3.8

Baltic-American Partnership Program funding for 2002

<i>Purpose</i>	<i>US dollars</i>	<i>%</i>
Development of non-governmental organization legislation and promotion of a philanthropic environment (NGO Centre)	83106	15,5
Operation and development of regional NGO support centers	41345	7,7
Non-governmental organization support program	170831	31,8
Coalition building to promote NGO sector advocacy	112733	21,0
Co-funding to local governments to support local non-governmental organization development	50000	9,3
Foreign travel to promote the development of non-governmental organizations	7852	1,6
BAPP development and administration	71960	13,4
Total	537827	100

Since 2000 the **World Bank's** Small Grants Program has been operating in Latvia, which is co-financed by the **UNDP**. The program supports NGO projects with the objective to reduce poverty in rural Latvia and improve conditions for socially vulnerable groups. The total amount of grants issued by both organizations exceeded 100,000 US dollars over this period. In 2004, 55,000 US dollars was allocated from the World Bank and UNDP. Applications for these funds could be submitted until 22 March 2004. This initiative is expected to continue for the next few years.

The **Queen Juliana Fund** (the Oranje Foundation, Netherlands) is an important source of funding for organizations working in the social sector. Without doubt funding provided by this Foundation has led more than one local government to select an organization to provide social services rather than its own agencies. A representative of the Queen Juliana (Oranje) Fund has stated that the fund will be available to Latvia until at least 2006.

NGOs can also **receive funds through the projects of various foreign embassies**. However, there is no overview available about this funding. An example is the MATRA program run by the Netherlands Ministry of Foreign Affairs. In Latvia, this program supports projects that support the social transformation process. In 2001, 78,590 Euros were granted, in 2002 – 108,553 Euros and in 2003 – 109,785 Euros. This program is continuing in 2004.

Upon Latvia's accession to the European Union several international funding organizations will terminate their support for Latvia's non-governmental sector. It will have to rely more on both local funding and funding from European Union programs.

For the most part, local businesses have favored sports and culture as areas to support while other areas have received only 14% of the total donated by businesses. The same applies to funding and grants from ministries and local governments, which usually support those organizations that they have worked with and have good reputations. Often it is impossible to discern on what basis funding has been granted.

Many organizations do not have diversified sources of income – they rely on one funding source and shape their work and objectives based on those identified by the funder. In such cases, it is difficult to continue such work after the specific donor or program no longer provides resources and the values and objectives are alien to local funding sources. Another problem is that the recipients of such services are unaccustomed to paying for the services.

Analysis of expenditures

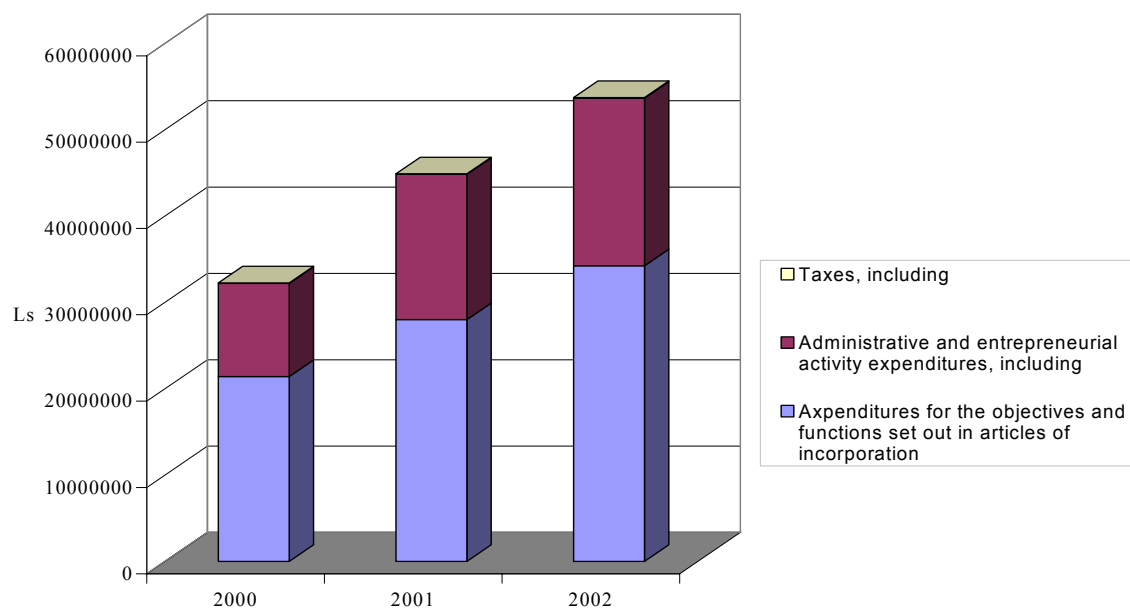
Government Regulation No.251 "Regulations on the Annual Reports of Public Organizations, their Associations and Trades Unions" (01.08.00.) set out the following financial reporting requirements:

1. Expenditures for the objectives and functions identified in the statutes;
2. Expenditure on administrative and economic activities:
 - Runningcosts;
 - Wages;
 - Social insurance payments;
3. Taxes.

Table 2, Annex A contains data on public organization expenses in 2000, 2001 and 2002. Based on Tables 1 and 2 in Annex A, income has exceeded expenses in all three years (see also Diagram 3.5.).

Diagram 3.5

Breakdown of expenses



Although the income and expenses increase annually, the breakdown of expenses remains relatively stable.

A little less than two thirds of the expenses are related to the objectives and functions identified in the statutes, and a little over one third are for administrative and economic activities. Property and income tax payments comprise just 0.14% of the expenses. Tax payments listed in income and expense reports are a small percentage of the taxes paid by organizations. To gain a general overview of taxes paid by organizations would require an analysis of reports submitted to the State Revenue Service.

Taxes paid by organizations

Article 22 of the "Law on Public organizations and their Associations" relates to taxes and stipulates that organizations must pay taxes in accordance with the procedures and for the amounts indicated in the law. The "Law on taxes and Dues" (02.02.95.) and other legal documents regulating specific taxes identify the responsibilities, procedures for reporting and making payments. Unlike other countries where local governments also have rights to levy taxes, Latvian legislation only provides for state taxes.

The following taxes are levied in the Republic of Latvia, regulated by the respective laws:

- 1) income tax – "Law on Income Tax";
- 2) business tax – "Law on Business Tax";
- 3) property tax – "Law on Property Tax";
- 4) value added tax – "Law on Value Added Tax";
- 5) excise duty – "Law on Excise Duty", "Law on Excise Duty for Petroleum Products", "Law on Excise Duty for Tobacco Products", "Law on Excise Duty for Alcoholic Beverages", "Law on Excise Duty for Beer";
- 6) Customs duty – "Law on Customs Duty (tariffs)";
- 7) natural resource tax – "Law on Natural Resources Tax";
- 8) lotteries and gambling tax – "Law on Lotteries and Gambling Tax";

9) mandatory state social insurance payments – “Law on State social Insurance” (Article 8 of the “Law on Taxes and Duties”).

State Revenue Service revenue is divided between state, local government and special budgets. SRS information on taxes, duties and other state-regulated payments for organizations, which is prepared based on tax payer reports , is summarized in Table 3, Annex A.

SRS data reflects that **the amount of taxes paid by organizations is increasing every year.** In 2000 , taxes paid totaled 2,813 million lats, in 2001, 3,374 million lats, in 2002, 3,924 million lats and in 2003 – 4,499 million lats.

In 2002, NGOs paid 0.24% of all state taxes, duties and other mandatory payments, while in 2003 the figure was 0.25%. This SRS data does not include property tax. Property tax is administered by local governments, while the other taxes are the responsibility of the SRS (with the exception of the Riga, Ventspils and Liepaja local governments which also administer income tax).

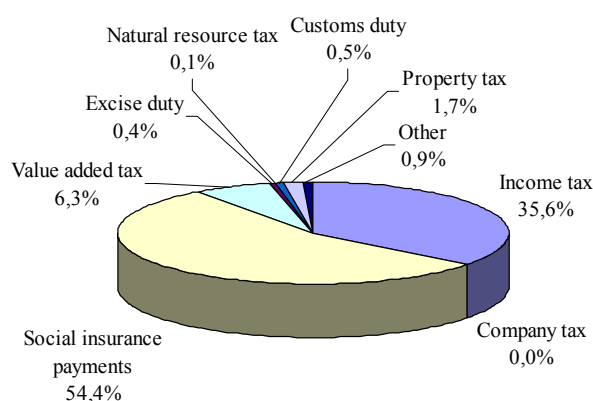
If property taxes are included (see Annex A, Table 2), the total taxes paid by NGOs was: 2,850 million lats in 2000; 3.433 million lats in 2001; and 3.990 million lats in 2002.

Comparing these figures with NGO expenses, it can be concluded that in 2000 tax payments constituted 8,8% of all NGO expenses, while the figure was 7,65% in 2001, and 7,4% in 2002.

Although reports for 2003 have not been compiled, based on the amount of taxes paid, the overall income of NGOs has increased in 2003.

Diagram 3.6

Breakdown of Taxes paid by NGOs in 2002



Annex A, Table 3 and Diagram 3.6 show that social insurance payments (54,4%) and income tax (35,6%), i.e. taxes connected with salaries constitute the largest proportion of taxes paid. These make up 90% of all taxes while the remaining 10% include: 6% value added tax; 1,7% property tax, and 1, % other taxes.

Mandatory state social insurance payments

In the context of state social insurance, NGOs are employers, legal entities or physical persons employing employees or paying for employees' work. The mandatory payment rate for employees who are covered by all forms of social insurance is 33 percent, of which 24 percent is paid by the

employer and 9 percent by the employee. This rate does not include mandatory work-related accident insurance.

In 2002, Latvian state budget income from social insurance payments totaled 515,733 million lats ("Law on the 2002 state budget", Annex 1), and the percentage paid by NGOs for social insurance totaled 2,172 million lats or 0.42% of all social insurance payments.

Income tax

As employers paying employees' wages, organizations are subject to income tax. Article 9 of the "Law on Income Tax" sets out **forms of income that are not subject to tax**. The following can apply to organizations:

- payments paid from funds approved by the government;
- scholarships paid from funds approved by the government or from international educational or cooperation programs, which are approved by the government;
- physical and monetary prizes (awards) received in competitions and contests whose total value does not exceed 150 lats in a taxation year, and prizes and awards won in international competitions and contests whose total value does not exceed 3000 lats in a taxation year, as well as monetary prizes paid to winners of the Baltic Assembly awards.
- scholarships and remuneration paid for project-related work for the "Soros Foundation - Latvia", with persons that are not employed by the SFL.

The income tax rate is 25%. 71,6% of this amount is directed to the local government where the taxpayer resides and 28.4% is directed to a special state budget (for health).

In 2002, 87,827 million lats³² were paid into the special state budget, and 226,690 million lats went to local government budgets³³. The total amount paid was 314,517 million lats. Organizations paid 1.4 million lats in income tax or 0.45% of the total.

At present, tax refunds are given to those that donate to organizations that have received charitable status from the Ministry of Finance. If a new type of tax incentive is developed, it must be taken into account that local government budgets will be reduced. The government will have to seek new means by which to generate other revenue sources. In 2002, income tax constituted 40,8% of the budget for local governments. The total budget of local governments in 2002 was 556 million lats.

Value added tax (VAT)

The application of VAT is governed by the "Law on Value Added Tax" (09.03.95.). Transactions on which value added tax (VAT) is levied include:

- 1) supply of goods, including personal consumption;
- 2) provision of services, including personal consumption; and
- 3) imported goods.

The SRS has defined who is subject to pay value added tax. If a person has conducted transactions that total more than 10,000 Lats in the preceding twelve months, then they must inform the SRS within one month. The "Law on Value Added Tax" does not include any special instructions pertaining to organizations. The standard rate of value added tax is 18%, while in certain cases

³² Republic of Latvia Parliament. "Law on the 2002 State Budget".

³³ State Treasury information.

regulated by law, it is 9% or 0% (see Article 6). For this reason, a range of services provided by organizations are not subject to VAT.

397,681 million lats were paid into the state budget in 2002 and 252,400 Lats were paid by organizations.

Property tax

The "Law on Property Tax" (04.06.97.) states that property tax is levied on items located in the Republic of Latvia that cannot be transported from one location to another without causing external damage to it:

- 1) until 31 December 2006 — land, buildings and structures (hereinafter — property), except for properties set out in Section 2 of this article;
- 2) from 1 January 2007 — land and buildings (hereinafter — property), except for properties set out in Section 2 of this article.

Therefore, organizations that own property are obligated to pay property tax. The current rate of property tax is 1.5 percent of the total tax assessment value of a property.

The "Law on Property Tax" allows identifies under what circumstances exemptions exist:

- heritage sights or historical monuments, including the land on which the property is located, that are protected by the state, excluding maintenance of private housing and private property used for business.
- in accordance with government regulations, mass recreation centers, sports structures and buildings and land surrounding the buildings irrespective of the ownership of the property;
- structures, which are connected to private housing, if they are not used for economic activities, including sections of multi-story residential buildings used for residential purposes, and artists' workshops which are not used for business purposes;
- buildings or sections of buildings that are used for educational, health, social care, or cultural (except for cinemas and video outlets) purposes;
- buildings or sections of buildings that are used to protect the environment;
- buildings owned by organizations that are included in a list approved by the government.

The government adopted Regulation No. 396 "Regulations on the non-levying of property tax on recreation centers, sports facilities and buildings, and land surrounding the property", which were amended on 06.01.04. so that property tax is not levied on recreation centers, sports facilities and buildings, and land surrounding the property.

The government has identified which organizations are exempt from paying property tax in the "Regulations on organizations exempt from property tax payments for buildings and structures owned by organizations" (No.677, 02.12.03.).

For the past two years, these exemptions were listed in the "Law on Property Tax for Organizations for 2002-2003" (07.12.01.). In addition to the organizations listed in Regulation 677, the "Soros Foundation – Latvia" is also excluded. This list is not based on strict criteria or requirements for organizations, but rather on established traditions.

In accordance with government Regulation No. 180 (07.05.02.) "Forecasting income from property tax and coordination with local governments", the State Land Service does not include the above-mentioned properties when calculating the property value of each local government. As a result, these tax exemptions have a negative impact on calculating the financial needs of local governments.

The "Law on Local Governments" states that **local governments can also provide tax breaks** for properties within their territories. Local governments can provide tax breaks of 90%, 70%, 50% or 25 % of the property tax. Local governments must adhere to the law which monitors commercial activities when providing tax exemptions for businesses.

Local governments that provide tax exemptions reduce their revenues, and any exemptions are not taken into account when property tax collection forecasts are made. These forecasts are used to calculate local government payments into or from the local government equalization fund. Tax exemptions have a double impact on local government revenue.

Local government revenues from property tax totaled 46,168 million lats in 2002 (State Treasury information). 66,300 lats were paid by organizations (0,14 %). Property tax payments constitute a minute percentage of NGO expenses. The same is true for revenue from property tax for NGOs.

Business Tax

The "Law on Business Tax" (Article 2, Section 1 "Tax Payers") identifies tax payers as domestic businesses, that conduct business activities, public and religious organizations and institutions funded by the state or local governments, that earn income and those that are not regulated by sections 2, 3 and 4 of this article (hereinafter - residents).

However, section 2 of this same article also states that:

Business tax is not paid by state-owned enterprises, institutions funded by the state budget whose income from business activities is intended for local government budgets, non-profit organizations, and also private pension funds.

Therefore, business tax should not apply to NGOs. However, Article 4 of the same law states that: *1¹) Public organizations, religious organizations, as well as other taxpayers that are not regulated by the "Law on Company Annual Reports", the Credit Institution Law or the Insurance Companies and their Supervision Law do not apply, and who earn income from business activities, and to whom Sections 2, 3 and 4 of Article 2 of this law do not apply, the amount that is not taxed is the difference between income from business activities and the expenses associated with earning the said income.*

There are clear contradictions in these legislative documents.

The tax rate for residents is 15%. Based on the annual reports of NGOs, they paid only 8,953 lats for social tax in 2002, (see Diagram 3.3, Table 1, Annex A). The total revenue from business tax in 2002 was 97,633 million lats.

The application of business tax to associations and foundations, including public benefit organizations should be clearly defined in relevant legislation.

3.3.2. Factors promoting private donations

Unlike companies, individuals are free to spend their money as they wish. In the USA, donations by private individuals constitute 85% of non-governmental sector funding.

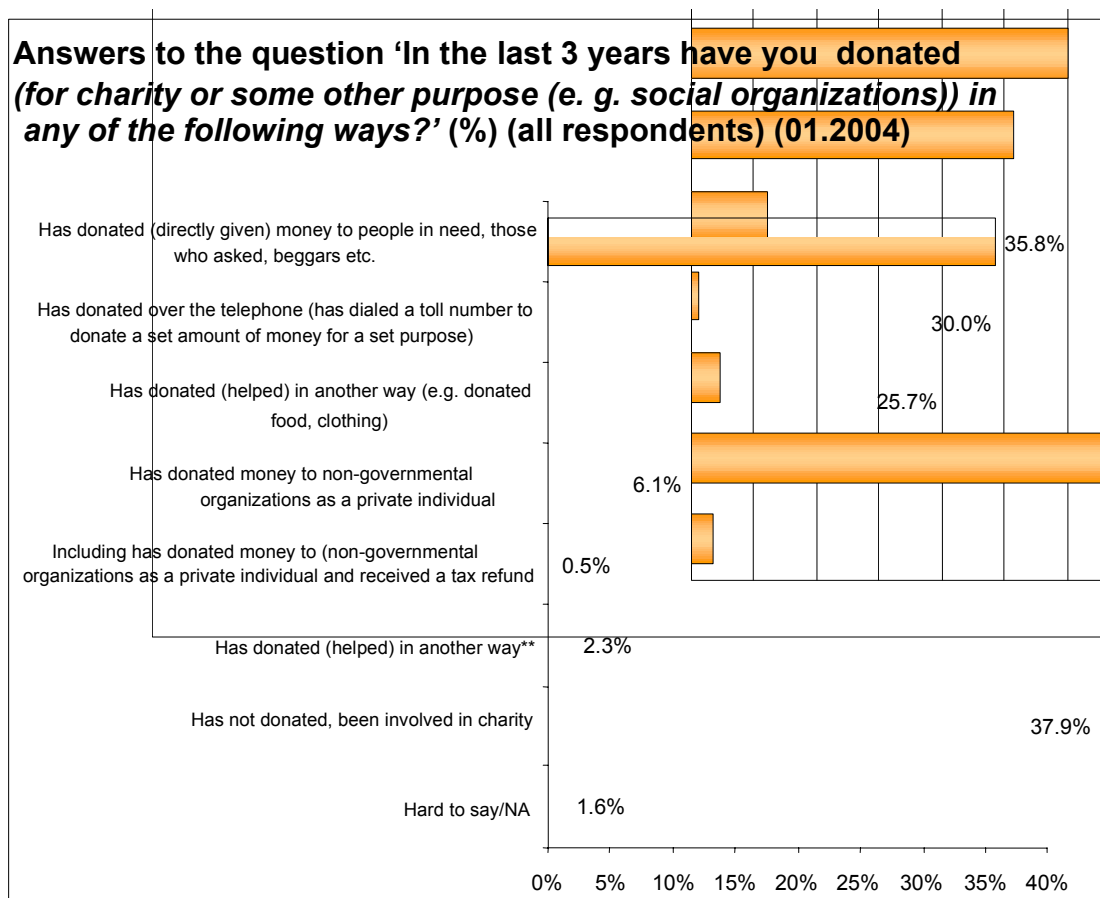
Individuals are also eligible for income tax refunds on donations to charitable organizations. Section 3 of Article 10 of the "Law on Income Tax" (11.05.93.) specifies that tax refunds can be received if donations or gifts are made to organizations, that have charitable status. The amount may not exceed 20% of taxable income. To receive this refund, an income declaration must be filled out and submitted to the SRS. One quarter of a donation is deducted from the taxes paid by the donor. Not all donors take advantage of this possibility because writing a declaration demands extra time and effort.

Information provided on the internet portal "Ziedot.lv", donors wishing to receive tax refunds must:

- fill out an annual income declaration indicating the amount donated and submit this to the SRS by 1 April of the following year;
- although normative acts do not specify what documents must be attached to the annual income declarations, it is advisable to submit a copy of the organizations' charitable status and the amount donated (a cash register receipt or bank payment slip);
- Individuals must keep documents which verify the donated amounts for 3 taxation years.

Survey results show³⁴ that although 6,1% had donated to organizations, only 0.5% requested a tax refund. Responses to the question "In the last 3 years have you donated (for charity or some other purpose in any of the following ways?" are summarized in Diagram 3.7.

Diagram 3.7



³⁴ Attitudes toward NGOs and donations. Survey of residents, SKDS, February 2004. Commissioned by IUMSILS.

**Since each respondent could give more than one answer, the total number of answers exceeds 100%.*

Almost 40% of those surveyed indicated that in the last 3 years they "have not donated or been involved in charity". Men most frequently gave this response (43%), as well as respondents aged 18 to 24, people over the age of 55, people with primary educations, non-citizens, blue-collar workers, those not working, pensioners, students, the unemployed, people with low incomes, residents of Kurzeme, Zemgale and Latgale, and also people living in rural areas.

1/3 of those surveyed (36%) – indicated that in the last three years they had "donated (directly given) money to people in need, those who asked, beggars, etc." The response was slightly less often regarding donations over the telephone".

Donations, which require the least amount of effort were those most frequently given. The most active donors are socially active people of working age (25 – 54 years old), that have mid-level or high incomes, higher educations, state sector employees, managers and specialists.

Those who donated to organizations (6%) in the last 3 years are managers, self-employed people, homemakers and people with high incomes (average monthly earnings per one family member exceeding 127 lats).

Organizations require Ministry of Finance approved charitable status to receive both private and corporate donations. The annual procedure to apply for the status is a burden for many organizations because it creates a discontinuity in receiving donations (also humanitarian assistance) and leads to insecurity about whether the status will be renewed. It is therefore impossible to develop long-term cooperative relationships with donors.

Yes, we hate the long and stupid procedures to obtain charitable status or to get VAT refunds. Very unpleasant. If you take into account the capacities of NGOs and those of other sectors, you have to understand that in an NGO, one person does the work of five people. We achieve a lot more with fewer resources, and these extra bureaucratic processes just... they just sap a lot of energy. If an audit comes from the Ministry of Finance then this is just needless stress, needless worry, energy etc. It just eats up time.³⁵

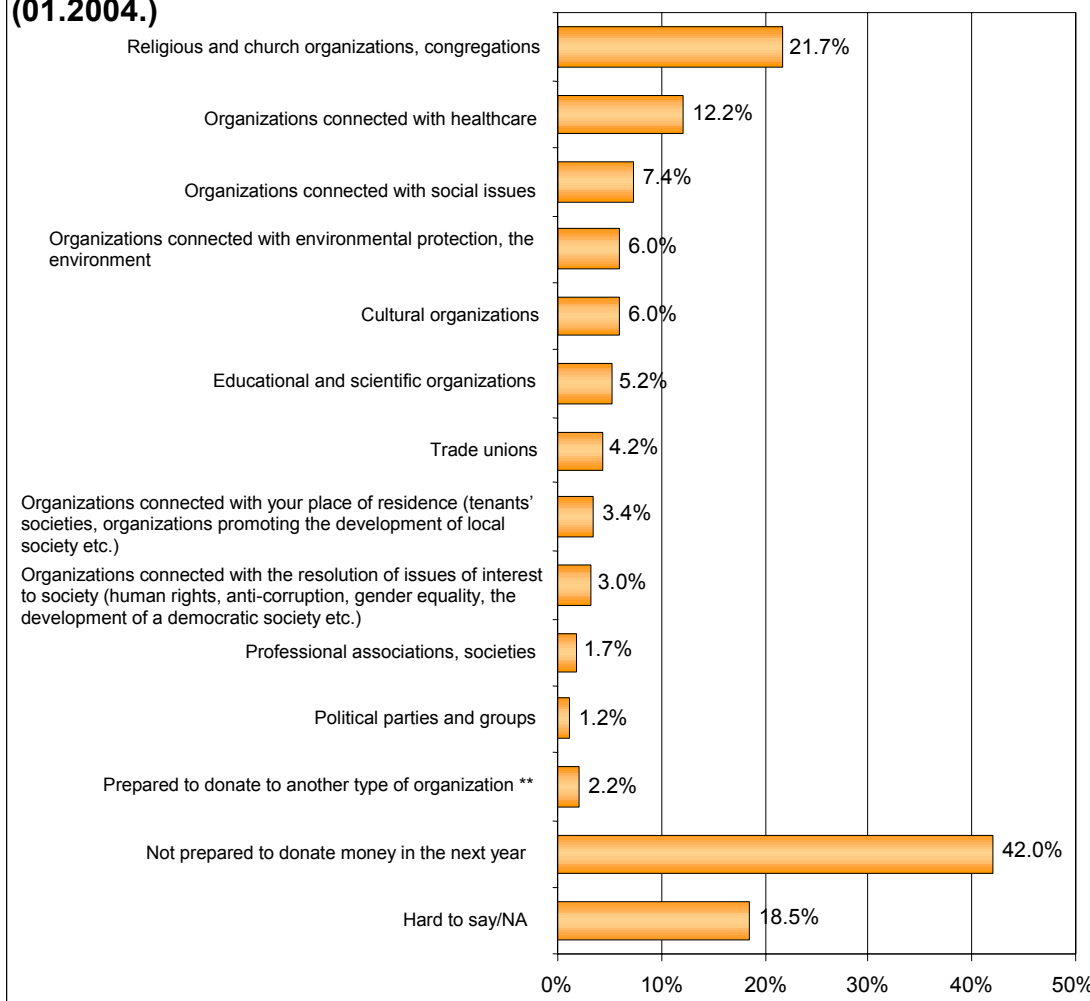
Significant changes to the procedures for granting tax refunds to donors are expected along with the adoption of the "Law on Public Benefit Organizations". Charitable status to provide tax refunds for donors will be given only to public benefit associations and foundations operating in one of the following spheres: charity (assistance for socially vulnerable groups, underprivileged persons and families), education, science, culture, preservation of historic monuments, environmental protection, amateur sports, healthcare, health promotion and disease prevention, victims of medical emergencies and disasters, citizens and human rights protection, anti-corruption activities, social integration, and social welfare.

Currently, a significant majority of donations are for sporting organizations. After the adoption of the law on public benefit organizations, the spheres receiving donations eligible for tax refunds could change significantly.

A survey questioned people on whether they would be willing to donate money to various organizations in the next year shows that people have trust in and would willingly donate to organizations (see Diagram 3.8).

³⁵ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

Answers to the question 'In the next year would you be prepared to donate money to these sorts of organizations?' (%) (all respondents) (01.2004.)



* Since each respondent could give more than one answer, the total number of answers exceeds 100%.

The survey results show that more than 2/5 of Latvia's residents would not be prepared to donate money to various organizations in the next year and 1/5 of respondents declined to answer this question.

The survey showed that people with higher educations or incomes, managers, specialists, officials, and residents of Vidzeme would be more willing than average to donate to the said organizations.

Volunteer work can also be considered as donation of time, knowledge and skills for the benefit of society, without receiving payment. Volunteer work can be performed in hospitals, organizations, protecting the environment and other socially important areas.

Very few people have been involved in volunteer work up to now. A majority of respondents spend their free time meeting friends (68,3%), and attending various sporting, cultural or educational events. Only 2,6 % admit that they participate in the activities of political parties or NGOs in their free time³⁶.

³⁶ The integration of residents: social activities. A Commissioned by the Ministry of Justice.

In 2003, the Volunteer Center conducted a study on the factors hindering the volunteer movement. It identified bureaucratic barriers such as providing workers with the necessary resources and the compensation of expenses incurred by volunteers. Some of the problems identified have been partially resolved by the new Law on Associations and Foundations.

The law does not resolve problems connected with volunteer work in hospitals, schools or other state and local government institutions. The Volunteer Center has developed recommendations and a draft law on volunteer work that has been discussed by organizations and submitted to the Parliament's Human Rights Committee for review.

3.3.3. Factors promoting corporate philanthropy

Corporate donations include both financial and other means of support to organizations (or schools, hospitals, etc.) by businesses. Company donations are a significant income source for NGOs. In 1999, a study by the University of Latvia Sociology Department found that donations by companies contributed 24% to the budgets of Latvia's NGOs.

Donations can be in monetary or other ways, by helping out with goods, premises and transportation, for considerable amounts and without excessive self-promotion.³⁷

As previously mentioned in the "Gifts and donations" section, Article 20 of the Business Tax Law and Paragraph 3 Section 1 Article 10 of the Income Tax Law stipulate that donors have the right to receive tax refunds if they donate to NGOs that have charitable status approved by the Ministry of Finance.

Businesses that donate can receive a tax reduction of 85% of the amount donated. The law identifies three organizations (the Latvian Culture Fund, the Latvian Olympic Committee and the Latvian Children's Fund), which have a more favorable status – businesses that donate to them receive a 90% tax reduction. Tax refunds cannot exceed 20% of the total tax amount.

Article 20 of the Law on Business Tax, states that businesses that donate to cultural, educational, scientific, sporting, charitable, health and environmental protection organizations and foundations, religious organizations and budget institutions that are registered in the Republic of Latvia and have been granted charitable status, have the right to receive business tax refunds.

To receive a tax refunds, businesses must:

- fill out an annual business tax declaration form and indicate the amount donated;
- the declaration must be submitted in line with general SRS procedures;
- submit to the SRS a copy of the charitable status granted to the respective organization and documents affirming the amount (a cash register receipt or a bank payment slip that must be kept for 5 taxation years).

What motivates businesses to donate?

Businesspeople are not indifferent towards the area where they and their employees live and work. Recently, the concept of "corporate social responsibility", to provide positive impact and invest resources to benefit not only the company, but the community has gained interest. Businesses are beginning to understand the importance of reducing or eliminating environmental pollution, providing social guarantees for employees, hiring people from vulnerable groups and the role that they can play.

Businesses operate to generate profits and in such a manner that benefits shareholders. For this reason, it is important to understand, that businesses donate to increase profits, to improve their

³⁷ Tisenkopfs, T. Corporate donating in Latvia. "Diena" supplement "The invisible web", 2000.20.10.

image, for marketing purposes and to increase sales. This type of support is sponsorship and it frequently imposes obligations on the other party – the recipient of the resources.

Businesses that provide systematic support for the social sector, or corporate philanthropy, improve their reputation and image, develop and strengthen employee loyalty, give their products a boost in the market, and maintain the loyalty of existing clients and attract new ones.

What is your attitude toward charity?

The philosophy is as follows: a fishing rod rather than a fish. Back in 1993 we decided to concentrate on education, and education in Liepaja. Because the city can't survive and develop in conditions of tough competition unless young people return after getting an education. So, for the fifth year now, our company earmarks the maximum possible amount to an education fund run by X. He's proven that he knows how to handle this money.

I can imagine that the amount of support isn't small?

I don't want to discuss amounts because if you do that, it's no longer a mission to donate, it's called advertising. We don't exploit charity for advertising. If necessary, we also spend money on advertising, but donating is a very intimate process, and if it gets publicized it creates a feeling of dependency for the recipient, which is something that we would never want.³⁸

Businesses that do not have profits can support organizations through their advertising, public relations or marketing budgets, but there are no tax breaks for this type of support.

The internet portal "ziedot.lv"³⁹ provides a variety of options for companies to provide support, such as: voluntary work, employee participation programs, grants programs, challenge grants programs, donations by clients, community philanthropy, corporate foundations, private foundations, donations of products, pro bono work, cause-related marketing, and scholarship programs.

Various intermediary services have also developed in Latvia for companies that want to engage in charity. One of these is the National Food Fund, which organizes the distribution of donated food that can no longer be sold, but can be consumed. Companies donating their products get an 85% tax refund of the value of the products donated.

"ziedot.lv" has been operating since December 2003 and individuals and businesses can use it to donate to projects submitted by public benefit organizations and receive tax refunds.

What hinders the development of charity in Latvia? It is almost embarrassing to admit that frequently the problem is the actions of government agencies. For example, experience shows that regional branches of the State Revenue Service rush to audit businesses that have donated and it has been reflected in the media. Other potential donors see this and it hinders them from donating. Overall, there are few donors, but the need is great and donors frequently have to say no. Donations in the regions are often organized with the assistance of the regional Non-Governmental Organization Center, because businesses trust these centers. For example, the head of the Aluksne Non-Governmental Organization Center, Dzintra Zvejniece, has developed positive and effective cooperation with businesses. Every year she organizes an exhibition of all the work that has been done in Aluksne using funds donated by local businesses or with their support. No names are mentioned, but the results can be seen.

At the same time, recognition is also an important factor and motivates people or businesses to donate. It would be much better if the State Revenue Service wouldn't regard donations as sign to audit businesses and would gain information on the financial situation of companies in some other

³⁸ Pujene, Sarmite. Free person, free person. Free action. Free philosophy. Interview with Uldis Pilens, Kurzemes Vards. February 2001.

³⁹ www.ziedot.lv, for most recent see 26.02.2004.

way. Finally, NGOs seeking donations should also try to attract new donors rather than following the same well-trodden paths.⁴⁰

Several Latvian companies willingly provide pro bono services – consultations, training, translating, and other forms of expertise. This type of support is not recognized as a donation that is eligible for a tax refund.

It is also important to make a clear distinction between donating and sponsorship so that government support is not used to advertise and promote companies.

Based on interviews with businesspeople, both sponsorship and donations are important to businesses. Companies use sponsorship to provide publicity for their work and generate profits, while the donation process is more discreet and those who pursue it do not want too much publicity.

3.3.4. State and local government support to NGOs

NGOs can receive compensation or support from government institutions as regulated by law. The most important legal document regulating this issue is the “Law on Eliminating the Misuse of State and Local Government Funds and Property” (19.0795.).

NGOs **can receive compensation** or other funding **from state and local governments** in the following cases and forms:

1) for work or services provided under contract to the benefit of a government body.

This form of compensation arises from the economic activities NGOs. In certain cases, contracts can only be concluded in accordance with public procurement procedures (tenders, etc.). The “Law on Procurements for State or Local Government Needs” places no restrictions on NGO participation in public procurement tenders. However, there can be certain restrictions. For example, Article 17, Section 1 of the law limits the documents to be submitted to the sphere of commercial activity even though NGOs do not perform commercial operations (in accordance with the Law on Commerce this can only be performed by commercial entities, NGOs can perform economic activities). It is likely that this is the result of unclear terminology, but it creates formal barriers to NGOs. This could be remedied by amending the relevant legislation and broaden the term “commercial activity”. However, the author of this study has information that organizations are established for the sole purpose of performing business activities without paying company tax. This will be resolved after the new laws on associations and foundations and public benefit organizations enter into force, which foresee that company tax exemptions only apply to public benefit organizations, and by increasing administrative oversight of obtained funds for public benefit;

2) compensation for performing government tasks based on joint cooperation contracts;

3) monetary gifts (donations) or property to an NGO. Only state (local government) businesses can donate, while state and local government bodies are prohibited from doing so.

For this reason, a donation is not considered as support from the state or local government. Detailed procedures to donate are regulated by the “Law on Eliminating the Misuse of state and Local Government Funds and Property”, government Regulation No. 16 (09.01.96.) “On Donations of State and Local Government Funds and Property given under Contract”. The law lists those spheres to which donations can be made: culture, art, science, education, sport or healthcare. In principle, state or local government bodies are prohibited from making donations,

⁴⁰ Viksna, Aiva, Speech to the Non-Governmental Organization Forum. 27 November 2002; see <http://www.ngo.org.lv>, (26.02.2004).

with few exceptions..⁴¹ In this context, Article 5, Section 1 of the “Law on Eliminating the Misuse of State and Local Government Funds and Property” is very unclear on this point, stating that local governments, state and local government bodies, businesses, as well as corporations in which the state or local government owns more than 50%, are prohibited from transferring state or local government property to other persons for use without compensation. An example of this is that NGOs are not allowed to use state or local government premises for their activities. Whether this is justified remains an issue. For example, if an NGO meets on local government premises, it uses the electricity and this is paid by the local taxpayers. On the other hand, it would be absurd to ban a trade union from a state-owned business to hold a meeting on its premises. From a legal standpoint such a restriction currently exists.

The government provides direct and indirect financial support to organizations.

Currently, direct support includes:

- 1) grants;
- 2) procurements from organizations;
- 3) government financed funds to support projects (the most important being the Social Integration Fund);
- 4) tax breaks for organizations.

There is currently no long term strategy to involve organizations in the work of the government (delegation of responsibilities). Therefore, the largest share of allocated grants is based on relationships established earlier. Grants to organizations are not differentiated from the procurement of services. Unlike grants, procurements are contracted based on price surveys, tenders and auctions.

Several funds have been established to manage state budget funding for specific objectives. NGOs can also apply. Some of the funds are: the Social Integration Fund, Cultural Capital Fund, the Social Assistance Fund (Ministry of Welfare), and the Environmental Investment Fund.

The Social Integration Fund was established as a public foundation, by law (05.07.01.) The purpose of the fund is to provide financial assistance and promote social integration processes based on the National Social Integration Program. The Fund administers government and EU Phare funding programs.

Tax breaks for donors are an indirect form of government support for organizations.

Local governments currently support organizations through:

- 1) grants;
- 2) procurements from organizations;
- 3) funding for projects through tenders;
- 4) direct repayment of organization expenses (usually for utilities);
- 5) providing premises, equipment or transportation free of charge or on favorable terms;
- 6) consultations provided by local government employees (for example, for project preparation) or other forms of assistance;
- 7) information to organizations and disseminating information about organizations.
- 8) local governments can grant property tax refunds.

While this type of support deserves praise, legislation does not clearly state whether it is legal. By supporting organizations, local governments may come into conflict with the “Law on Eliminating the Misuse of State and Local Government Funds and Property”. It should clearly state the ways in which local governments can support organizations. Meanwhile, local governments should give

⁴¹ Article 10 Section 1 of the “Law on Eliminating the Misuse of State and Local Government Funds and Property”.

support based on previously set criteria, by organizing tenders, and ensuring the transparency of the whole process.

3.3.5 Community philanthropy

As with other forms of philanthropy, community philanthropy is the donation of money, time, skills or other resources for public benefit. However, it is restricted to a specific geographical area and promotes the improvement and development of life for a specific community. It is a good example of how residents and NGOs get involved to resolve local problems and establish long-term funds for developing the local community.

Community foundations are independent charitable organizations established by people to improve the quality of local life and to help donors do good. These types of funds unite all social groups and promote a sense of belonging to the place and environment where people live. Community foundations provide an opportunity to achieve exactly those objectives that are important to the local society through money donated by local people. Community foundations have three characteristics:

- a broad and universal objective encompassing the needs of a diverse society;
- a permanent reserve of funds permitting the accrual of resources for long-term local support and large-scale activities.
- permanent and goal-oriented work with donors - individuals, families, entrepreneurs, other foundations, state and local government resources (See www.talsi.info).

The Talsi Regional Fund was established as an open public fund at the beginning of 2003 with the support of the Baltic-American Partnership Fund and the Centre for Non-Governmental Organizations. The mission of the Talsi Regional Fund is to nurture local philanthropic traditions and promote local development in Talsi and its region, by supporting the implementation of projects in education, culture, art, amateur sport, literature, the social sector, local history, environmental protection and other spheres indicated by the foundations that are not for profit. The members of the fund are individuals and legal entities.

Looking back on its first year of operation, a representative of the Talsi City Council said that the Talsi Community Forum organized by the foundations was the biggest and most informal attempt to understand the interests of the local community. The interests and concerns raised at the forum provided the basis to implement the city development program. The projects implemented by the fund are in the interests of the city (sports field, kindergarten playgrounds). It also creates a positive image of the city in the eyes of both residents and others (www.talsi.info).

The Talsi Regional Foundation can be cited as one of the most successful philanthropy examples of cooperation between a non-governmental organization and a local government because it:

- promotes donating through facilitating the involvement of residents in decision making,
- operates in the public sphere and is therefore eligible for local government support (grants or also general funding),
- is sustainable, because a reserve fund is being accrued,
- is oriented toward results by providing a general report of operations and financial resources, thereby making it attractive for various types of funding.

3.4. The capacity of NGOs

Leaders of both organizations and local governments admitted that the majority of organizations in Latvia are weak. Only around 10% have long-term viability.

What is the long-term viability of the organizations in (..) District?

There's a lot of attrition, out of ten organizations founded over a three year period, three will survive. One reason for this is that NGOs are established to get money – if you write project proposals, you'll get money. Another reason is that local governments cannot apply for funding foreseen for NGOs, so they secretly set up organizations. When the money or chance of funding disappears, the organization collapses. Another factor is that people lack professional skills and don't really know what to do.

Most organizations work in accordance with the missions set out in their statutes, but only some of them do long-term strategic planning. Organizations frequently adjust to funding possibilities because their sustainability depends on funding. Most people are not paid for their work in NGOs. They might receive some payment from concrete projects. In many organizations the only paid part-time employee is the accountant.

Most organizations are poorly equipped. Outside of Riga it's hard to get on-line Internet connections. Dial-up connections are expensive to use. The computer equipment available to organizations is often outdated and cumbersome to use. This is another reason why organizations face difficulties in seeking potential funding opportunities and in keeping current with relevant policy development and the work of local governments⁴².

A small number of NGOs are involved in cooperation networks and coalitions. The first platforms for cooperation and advocacy in the European Union have started to develop in Latvia – on gender equality issues, to protect people with special needs, the elderly ("Balta maja" in Livani established this network and coordinates it).

Organizations form coalitions to advocate issues of importance to the sector or individual sectors (support for the adoption of the NGO Law, stopping the governments initiative to amend the "Law on Business Tax").

Organizations have access to training and experts in almost all aspects of their lives. Training is required for organization leaders to learn how to obtain funds and get members interested in achieving the organization's objectives, inform people about the organization's work and the benefits to society from it, as well as to understand relevant legislation, etc. Organizations are unable to cover the costs of experts themselves, therefore training is subsidized by various sources (Baltic – American Partnership Fund, Social Integration Fund). Organizations frequently include training costs in their project proposals.

3.5. Summary

- Latvia does not have a universal definition or criteria for organizations to classify them as non-governmental. It is therefore impossible to obtain statistical data on the work of NGOs. The adoption of the new draft laws "Law on Associations and Foundations" and the Law on Public Benefit Organizations will clearly define the non-governmental sector, resolving previously unclear legal issues affecting organizations.
- The lack of a unified classification for organizations reduces the possibility to monitor and assess the NGO sector and plan the sector's development.
When the new legislation comes into force, it will be important to develop sector classification both by the forms arising from the new legislation and by substance and sectors. The compatibility

⁴² Miezaine, Z. State administration and NGO participation – in search of an effective cooperation model. Riga: Providus, 2004.

of this classification with the Single Economic Activities Classification, the Economic Activities Statistical Classification in the European Union, and the budget expenditure classification by government functions should be assessed. A classification system based on regional or territorial criteria would be useful for national regional development planning.

- Currently, the most detailed information on NGO finances is available from the SRS database of NGO annual reports. Unfortunately, the data available is incomplete. A precise understanding of state and local government grants to organizations would require either the introduction of a separate code in the economic classification of budget expenses, or the introduction of a special annual report form so that the information is collected annually.
- Tax benefits are a political rather than a legal issue, and this study has not assessed the set amount. However, the current refund policy does not promote private individual donations, but does promote corporate donations to two areas – sports and culture.
- NGO income is increasing every year. Gifts and donations make up the biggest share of income, while economic activities comprise the smallest share. As the number of organizations and their incomes increase, the amount of taxes paid also increases. In 2002, NGOs paid 0,24% of the total state revenue from taxes, dues and other mandatory payments.
- The present legal definition of a donation is very broad, which allows businesses to ask for publicity in return for a donation. This could explain why the great majority of donations in Latvia are for sport (54%) and culture (32%). These areas are able to provide the largest amount of publicity. Others areas receive 14% of total donations.⁴³
- Organizations are getting more income from state and local government grants, but it is not possible to identify the amounts given precisely. Either individual ministries or the government as a whole, should develop unified guidelines on the delegation of tasks and responsibilities that are transparent.
- From a financial aspect, the NGO sector lacks stable financial support from the government. A new fund could be established for this purpose, or the mandate of the Social Integration Fund could be broadened. Earmarking a share of taxes to fund the non-governmental sector could be considered by the Ministry of Finance. The experience of other countries should be examined because practice shows that local governments have a greater diversity to financially support NGOs. Such options should be clearly defined and foreseen in laws to avoid activities that are illegal.
- There is no system of data collection on funding available from various foreign and international programs. Such a system would be of tremendous value for the NGO sector.
- One of the largest funding sources for the NGO sector is the Soros Foundation – Latvia. However, its funding has decreased in recent years and from 2004, will no longer provide grants to NGOs (except through BAPP).
- Social insurance and income tax payments make up the largest share of NGO expenditures. If NGOs were given a tax break on these two taxes, it will affect social insurance resources and local government revenues and this should be taken into account.
- Legislative acts list which NGOs do not have to pay property tax. Local governments can also grant tax breaks, but not only will the local government's revenues fall, the tax breaks granted are not included in financial equalization calculations for local governments. In the future, property tax refunds for NGOs should be decided by local governments. The government could stimulate such refunds by including the refunds in the calculation of local government budgets. The government

⁴³ DDB. Study of the Latvian sponsorship market, December 2003.

could be responsible for issuing property tax refunds for NGOs that have property in more than one local government.

- Based on information gathered in this report, the 25% income tax refund to individuals is not an effective way to promote private donations. The government should identify new ways to promote donations and to lessen the cumbersome system that exists. Survey results show that if it were easier to donate to NGOs, people would willingly donate.
- There are no significant institutional barriers to the development of civil society. It is easy to establish an NGO and there is great diversity in the different forms or organizations as well, that opens the door to broad social initiative opportunities.
- Membership is slowly increasing in established NGOs. It is easier for NGOs to work with smaller memberships, but often people are not informed about these organizations and are not interested in working in them.
- Latvia has a regional NGO support network and the NGO Centre in Riga which provide information and services to organizations. A majority of these services are free of charge or for a minimal fee. The resource support centers could not exist without foreign donors and project funding.

4. Factors promoting individual/ NGO participation in public policy development (development, implementation and assessment)

The previous section reflected what factors affect people to cooperate and resolve problems together and to establish NGOs. The working environment for NGOs was described with particular attention paid to forms of funding. This section will examine the current situation for the participation of society in policy development.

We will examine participation at the local government level, then move on to the central government and conclude with the possibility for society to influence the decisions made by Parliament. Because the need to delegate tasks and responsibilities is frequently discussed, it will also be addressed.

4.1. Legislation

In accordance with existing laws, society can become involved in public administration⁴⁴ processes by:

1. requesting and receiving information from government institutions;
2. participating in public discussion on issues under the jurisdiction of the administration;
3. becoming involved in working groups, consultative councils and by providing reports;
4. receiving and implementing a delegation of responsibility or task on behalf of the administration.;

Each of these forms has different consequences, including different rights and responsibilities. We will examine each form individually, mainly from a legal perspective, analyzing its essence, implementation procedures and problems hindering the participation of society. We will also provide general recommendations.

Information exchange

Whether public participation is effective, to a large extent is determined by the quality of information exchange between society and the public sector. Society must have access to information about public administration processes so that it can become involved, if it is interested to do so. There is

⁴⁴ The study uses the term "public administration", which encompasses administration at both state and local government levels.

also a need for information to flow from the private to the public sector because this is the only way that the public sector can find out if the private sector is interested in a particular issue.

Information exchange between the public and private sectors is regulated by two main laws:

- *The Information Transparency Law (06.11.98.)*. Its objective is to ensure public access to state administration and local government information. It sets out a unified procedure by which people and legal entities have the right to obtain and use information from public bodies.
- *The Law on Procedures for the Examination of Submissions, Complaints and Proposals by State and Local Government Institutions (27.10.94.)* sets out the obligations of public bodies to provide responses to complaints, recommendations and submissions received. The government regulations "On Record Keeping for Submissions, Complaints and Proposals in State and Local Government Institutions" (No.99, 18.04.95.), provides a detailed description of how government bodies are required to respond.

Public discussion

The Law on Public Administration (Section 2, Article 48) foresees public discussion as a means to involve society. It states that *public institutions are obliged to organize public discussions on issues important to society*.

It stipulates that in the event that an official or a body adopts a decision that is counter to the views (proposal, report, etc.) expressed by society, it is required to justify why the views of society were not taken into account.⁴⁵

Public discussion can be a highly effective means to involve society in administrative decision-making processes. This effectiveness is increased by two conditions set out in the law: organizing public discussions is not the right but rather the obligation of a public institution, and secondly, that the information obtained cannot be ignored.

Working groups, consultative councils and the submission of reports

This form of involvement is widely used in public administrative structures because it is relatively simple. It doesn't always require additional resources, and is often very effective because it allows people to participate, including qualified experts, to resolve various issues. Participants in such groups can be individuals or NGOs representing a larger group of people.

Neither the procedures to involve, nor the forms of involvement are regulated by law. It is at the discretion of officials, unless otherwise stipulated, to set criteria and select who will participate in working groups, councils etc.

Working groups and consultative councils can be established based on laws or government regulations. For example, the agency responsible for insolvency has a consultative council that must involve specialists in the sector as well as representatives authorized by non-governmental organizations (including the mandatory involvement of Latvian Free Trades Unions Association and Latvian Employers Confederation representatives).⁴⁶

Working groups and consultative councils can also be established on the initiative of a body or an official even if this is not directly provided for by law, government regulation, regulations binding on local governments, an institutions' by-laws or some other legal act.

⁴⁵ An analogous norm in relation to another form of participation, public discussion, is already included in Article 48 Section 2 of the Law on Public Administration.

⁴⁶ Paragraphs 17-23 of the by-laws of the state agency "Insolvency Administration". (approved by Cabinet Order No. 425 of 17 September 2002)

The most significant problem, which could also create certain legal consequences, is the diversity of public opinion. It is important to gain a broad spectrum of opinions, rather than those of one person or organization. If this is not done, the responsible body can be blamed for lack of objectivity. Officials often find it difficult, if not impossible to identify all persons or organizations that are interested in a specific issue. Another problem is that if the scope of participants is too broad, work and particularly reaching a common conclusion can be very difficult. A possible solution to the problem of many interests could be that, in the event of several interest groups or individuals, if it is impossible to give them all representation in a working group or council, these groups or individuals elect a representative.

The government Rules of Procedure state that draft policy documents and legislative acts that are submitted to the Cabinet must attach the opinions expressed during consultations with local governments and non-governmental organizations.

NGOs are allowed to prepare draft legislation, but it must be submitted through the relevant government body or representative.⁴⁷

Regarding the delegation of authority, responsibilities or tasks, see Section 4.4.3.

4.2. Opportunities for people/ NGOs to participate in public policy development at the local government level

People frequently try to resolve their problems by approaching local governments. 9.7% of people surveyed⁴⁸ said that in the last year they had contacted the local government and 7% have participated in public discussions. This response was provided most often by people aged 35-40, residents of Kurzeme, and residents of rural areas.

A comparative study on local democracy in Central and Eastern Europe⁴⁹ showed that 26% of NGOs have contacts with local governments, 15% of them have contracts with local governments for providing services, and 34% receive local government support.

NGOs most often have contacts with local governments in small municipalities and rural areas, and less in big cities.

Open council meetings

The Law on Local Governments stipulates that council/ board meetings are open to the public. Local government representatives stated that few people take advantage of this opportunity. A significant factor here is the selection of suitable (sufficiently large) premises and of meeting times. Council/ board meetings take place in rooms that do not have enough space for observers. Council/ board meetings usually take place during the day, which hinders people who are employed from attending.

In 2003, this law was amended and local government committee meetings are also open to the public.

⁴⁷ Government Rules of Procedure, Paragraphs 7 and 10.

⁴⁸ 52 Integration of residents: social activities. A survey of Latvia's residents, SKDS, March 2002. Commissioned by the Ministry of Justice.

⁴⁹ The State of Local Democracy in Central Europe. Budapest: Local Government and Public Service Reform Initiative, 2002.

Meeting with elected officials. Based on the Law on the Status of City Council and County Board Officials, all elected officials must be available to meet with the public at least once every two months. In practice, officials meet with members of the public more frequently (even once a week).

Public discussions

The Territorial Planning Law and the Construction Law state that local governments are obligated to hold public discussions.

The results of territorial and development planning have the most direct impact on society. A study was conducted in 2002 on NGO participation in development planning⁵⁰. Most of the local government representatives surveyed said that they support NGO participation, but they also indicated that either NGOs had not been interested in cooperation, or they lack the capacity. Unfortunately, there have also been cases in which NGOs have developed internationally funded planning projects and there has been a lack of local government support.

Successful cooperation, at the planning level, is most common in municipalities where NGOs are already cooperating with, or implementing projects and providing services to the local government. For example, the regional non-governmental organization support center in Aluksne organized a community forum to gather recommendations from the community on the city development plan. The first community fund in Latvia was established in Talsi that attracts local resources for implementing development projects chosen by residents. NGOs have been established in specially protected territories to inform residents about permitted land use, and to attract experts and resources for the development of detailed plans for these areas. It should be noted that the level of participation at the community forums in Lielvarde, Talsi and Aluksne was visibly higher than at most public discussion events. People were also receptive to filling out surveys, which were distributed.⁵¹

Procedures for submitting complaints and proposals

The Law on Procedures for Examining Submissions, Complaints and Proposals in State and Local Government Institutions, stipulates that residents may submit written recommendations and receive replies from local governments.

NGO representatives noted that it is important to refer to this law in the letter and to reiterate the requirement of the local government to respond within a set time and to justify its decision. If this is done, comprehensive responses are received within the specified time.

Cooperation with local governments is one form of political influence that people believe is effective. 48.5% of those surveyed ranked it third, in terms of importance (following participation in referendums and elections (66,8%) and media influence (2,1%)). 31,2% believe that personal contacts are important in cooperation and 20,3% believe that establishing separate working groups is effective in solving issues.

The level of activity offered by the law for participation (except for elections) is extremely low. Only 3,6% of those surveyed said⁵² that they have tried to influence a local government (council) to

⁵⁰ Indriksone, Andra. Non-governmental organizations – partners of local government in development planning. Riga: Providus, 2003.

⁵¹ Indriksone, Andra. Non-governmental organizations – for municipal development. Logs. No.12 (103), December 2003.

⁵² Integration of residents: social activities. A survey of Latvia's residents, SKDS, March 2002. Commissioned by the Ministry of Justice.

adopt, rescind or change a decision in the last 3 years. 2,7% have tried to influence decisions by local government bodies.

Local government and public initiatives not specified by law

Local government representatives say that they are willing to involve the public in decision-making because it will bring better results and greater understanding. Joint initiatives, or those from the general public are viewed more positively than proposals developed only by the local government.⁵³

Local government representatives stress that they widely distribute information about their work through local newspapers, information at the local government hall, on the notice board, and information on internet websites. Almost all local governments have tried to make information easily accessible, using post offices, stores and pharmacies, places where people often show up.

The surveyed organizations indicated that they don't have problems in receiving information from local governments – if you have the time and interest and “know what you're looking for” the information can be obtained. Several organizations indicated that the availability of information depends on its nature. It is hard to get access to information of a commercial nature. This is required by, for example, environmental organizations. Even if “all” information is available, for example on local government homepages, it can still be hard to find and people have to spend a long time browsing through various Internet resources to get an “overall picture” about an issue. Taking into account the technical and human resources available to organizations, the availability of information is debatable.

Do you follow decisions prepared by the council, their preparation and discussion?

It's hard to follow if you're not on the inside yourself. They give you the information you request at the last minute, for example a draft project can be obtained only on the day before a meeting. Information isn't withheld, but what is given out, is not complete. We can only see it in full on the day of the meeting. The number of issues reviewed by local governments is huge and it is difficult for them to provide timely information.⁵⁴

Are they forthcoming in giving out information, is there interest to inform your organization?

If we are interested in an issue then we have to be the ones who make the effort to get the information. If you show the initiative, then they are forthcoming. But it's not as if they call you up and say “We're preparing a decision here that will affect you, maybe you're interested?”⁵⁵

On the whole, NGOs said that they can influence local government decisions. As soon as an organization has established contact and proven that it is an equal cooperation partner, its ideas are willingly received and discussed. It is also invited to committee meetings and involved in the development of projects.

⁵³ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

⁵⁴ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

⁵⁵ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

Local governments also successfully cooperate with formal and informal groups. A proposal made by a single resident can also get supported if its implementation leads to benefits for the broader community and if its implementation is within the capacity of the local government.

Serious participation at the local government level requires resources – knowledge about local government functions and decision-making processes, skills to debate and defend opinion.

Yesterday I spoke to an elected official who said: "Well, put that law together, put together that law and bring it here and then we'll vote. Some organizations do it." I say: "But listen, we don't have the money to hire a team of experts to do it." You're paid for working on the committee, set up a working group, maybe bring in some more experts from outside, do it. Well, obviously there's no 'political will' on this issue.⁵⁶

Meetings with residents are organized in several municipalities. People prefer an interactive form of cooperation in which they can express their own opinions and see that these are taken into account. An action plan is worked out after joint discussions.

The rural partnership program was implemented in three Latvian districts, Balvi, Daugavpils and Rezekne. It is based on the idea that to understand the needs of your community to plan and implement the necessary steps, those most vulnerable or unable to formulate their views, must be included in the process. The objectives of the program were to activate economic activity and peoples' business skills and to receive the necessary credit resources. In accordance with a method developed in Britain, representatives from local government, organizations promoting development, communities and non-governmental organizations, and service providers are involved in partnerships, as well as local coordinators whose role it is to create or activate communities and ensure the development of community opinions and representation in local development planning (for more information see Partnerships in action. The rural partnership program in the Baltic countries for the development of sustainable rural communities).

4.3. Opportunities for people/ NGOs to participate in public policy development at the state administration level

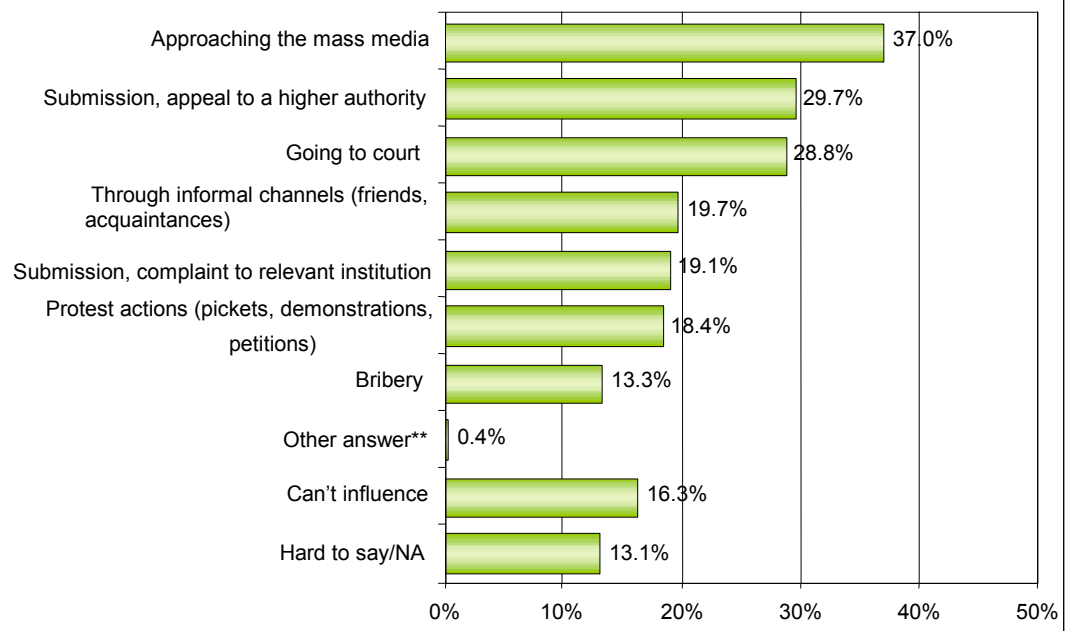
People do not actively cooperate with ministries or try to affect government decisions. When asked: "In the last 3 years have you tried to make a state or local government institution adopt, rescind or change a decision either as a private individual or through an NGO?" only 1.8% said that they have tried to influence a government decision or order, and just as many had tried to influence the decisions of another state body. 2,3% said that to resolve their problems they had approached the government or written letters to ministers.

A majority do not believe that it is possible to influence state (and local government) decisions. Diagram 4.1 summarizes data from the survey (each respondent could give a maximum of three answers).

Diagram 4.1

⁵⁶ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

Answers to the question 'In your opinion, which of the following activities is most effective in influencing state or local government institutions to adopt, rescind or change a decision?' (%) (all respondents) (11.2003.)



**Since each respondent could give more than one answer, the total number of answers exceeds 100%.*

16% responded that state or local governments "can't be influenced". This opinion was expressed more often than average by respondents aged 35 to 44 (22%), non-citizens (22%) and residents of Kurzeme (27%).

In 2002-2003, a study was conducted on cooperation between ministries and non-governmental organizations⁵⁷. It concluded that there are a range of cooperation possibilities at the policy development and formulation stages where organizations can participate. The study concluded that these are not utilized much and that cooperation is not always effective.

There are few organizations that are able to actively follow policy development. The current practice of ministries providing information and involving organizations in policy development is not effective in all cases. Resources would be utilized much more efficiently if communication between the ministries and non-governmental organizations was improved.

One of the most "painful" issues for non-governmental organizations is the resources needed to participate – time and expertise.

What are the minimum resources needed to participate in decision-making?

You definitely have to be educated so that you can talk to officials on equal footing, to understand the spirit, purpose and the meaning of the law and to be able to interpret it. This means that there almost have to be courses on what the legal system in Latvia is in general, the hierarchy and so on. You have to know all that, no doubt about it. Of course you need an office, access to the laws as such, you need some sorts of meetings, consultations, and you need the means of communication, the Internet, good computer equipment, etc. This helps you to get the information more quickly, to respond, influence and understand better. If an official sees that we're talking to

⁵⁷ Miezaine, Z. State administration and NGO participation – in search of an effective cooperation model. Riga: Providus, 2004.

him as equals and have an equal understanding of these problems, it leaves a much more positive impression than if, say, a person comes along who has never had any contact with the law and has worked his whole life as, say, a laborer, and has never had any involvement with the state or local government systems as such, then it will be terribly hard for him to have impact.⁵⁸

The study⁵⁹ analyzed the possibilities for organizations to attract funding for advocacy. The Social Integration Fund and the Ministry of Agriculture provide such possibilities, but many other areas are dependant on foreign funding for various advocacy projects. Membership fees contribute a very small amount to the budgets of organizations (due to small membership numbers and members' lack of financial resources. NGOs believe that if their representatives participate in official working groups, their costs should be covered by the government (responsible ministry).

Timely information from ministries about their work plans and draft projects is very important, as well as knowing what opportunities organizations will have to participate. Experience shows that organizations often find out about a ministry's activities indirectly - from contacts in the ministry, from other organizations, and in some cases even from international partners.

The study "State administration and NGO participation – in search of an effective cooperation model" suggests involving organizations more and more in the initial stages of policy development. These stages involve discussions about principles and policy assessment criteria. Later on, when weighty policy documents or laws have already been developed, it is difficult to inject new ideas or perspectives into them.

4.3.1. Delegation of responsibilities to non-governmental organizations

Government Regulation No. 356 "**On the delegation of public administration functions to authorized institutions**" (15.09.98.) was in force until 1 January 2003. These set out the procedures on how, who and to whom public administration responsibilities could be delegated, as well as to whom they could not be delegated. These regulations were annulled after the Public Administration Law (01.01.03) came into force. Section V, "Delegation of individual state administration tasks" (Articles 40-47) of the law mandate the delegation of responsibilities. The law does not provide a detailed description of how responsibilities and tasks can be delegated. There may still be new problems in understanding and applying the law, and that a single procedure and stable practices have not been established. The implementation of the new practices could very possibly lead to breaches of the law mostly due to a lack of experience and understanding.

The Public Administration Law defines "delegation" as the transfer of an administrative task under the authority of a public institution to a private body (both physical persons and legal entities)⁶⁰, which is to be performed by adopting or preparing an administrative decision (including an administrative act). In the event of delegation, the transfer of an administrative task is accompanied by the transfer of the authority to adopt the respective administrative decisions.⁶¹ However, private persons may be given the right to issue administrative acts only if this is provided for by the law⁶². As a result, delegation is the transfer to a private person of a set amount and content of public authority and its implementation rights. This is the difference between delegation and another form of involving society – the authorization of private persons (see further).

⁵⁸ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

⁵⁹ Miezaine, Z. State administration and NGO participation – in search of an effective cooperation model. Riga: Providus, 2004.

⁶⁰ Since the objective of the study is to examine the involvement of the NGO sector in administration, it will not examine the issue of delegation between public subjects.

⁶¹ Public Administration Law (PAL) Article 40 Section 1, Article 1 Paragraph 7.

⁶² PAL Article 41 Section Paragraph 1.

It should be noted that the law stipulates that only administrative tasks, not administrative functions, can be delegated. "Administrative task" is a narrower concept than "administrative function." The main difference is that tasks can be delegated, but not responsibility. This means that a public body will always be responsible for the fulfillment of an administrative task, even in the event that the task is delegated or otherwise transferred to someone else. The law does not provide more detailed definitions either of direct state administrative functions or administrative tasks. Local government functions are partially set out in Article 15 of the "Law on Local Governments" (19.05.94.) Overall public administration tasks and functions are regulated in many laws and legal documents, but it would be virtually impossible to list and classify all of them.

The delegation of administrative functions to private persons is strictly regulated. Each concrete case of delegation must be directly or indirectly based on the law⁶³. In accordance with this principle, the delegation of administrative tasks can be done based on the following principles:

1. *By law*. Concrete tasks delegated to concrete individuals. Currently, the law allows tasks to be delegated to the following NGOs⁶⁴ – the Latvian Doctors' Society⁶⁵, the Latvian Nurses' Association, the Latvian Veterinarians' Society⁶⁶, the Latvian Association of Sworn Auditors⁶⁷, and the Latvian Chamber of Trades⁶⁸;
2. *By an external legislative act* (government regulations or binding local government regulations), if the relevant institution is authorized to do so. To whom the task is delegated is under the discretion of the delegating party, but the law does set criteria for the selection process.
3. *By a delegation contract* concluded between a delegating party and a private person. Such a contract can only be concluded if this is provided for by law. The law must also provide for the rights of the respective delegating party to transfer the administrative task to a private person, without concretely specifying the private person. In such a situation, the choice of the private person is at the discretion of the delegating party. The law does set criteria for the selection process.

Delegation may in no cases apply to policy and strategic planning and approval, coordination of sectoral activities, supervision of institutions and officials, approval of public budgets, and disbursement and control of funds.⁶⁹ These are tasks that can only be implemented by public authorities.⁷⁰

Delegation can occur only if a person can perform the respective task more effectively than the delegating party. The law does not provide more detail regarding the principles, procedures or criteria for determining effectiveness. In any case, the assessment of how effective the task was implemented is the responsibility of the delegating party.

The delegation of *functions* to organizations has been discussed in detail by the NGO sector. It is often seen as a stable source of income. The public administration regards delegation as a means of providing services with the assistance of those that are closer to the community. Sometimes it is a

⁶³ PAL Article 40 Section 2.

⁶⁴ Most of the below-mentioned laws were adopted more than ten years ago, and therefore they do not use the same terminology as is used in the PAL.

The said laws do not mention delegation, but it is clear that the said organizations are given broad authorization in their respective professional organizations and supervisory spheres.

⁶⁵ RL Parliament. The Medical law. Adopted 12.06.1997.

⁶⁶ The Law on Veterinary Medicine. Adopted 26.04.2001.

⁶⁷ The Law on Sworn Auditors. Adopted 03.05.2001.

⁶⁸ The Law on Trade. Adopted 02.02.1993.

⁶⁹ PAL41.p.2.-3.d.

⁷⁰ PAL41.p.3.d.3.pkt.

case of self-administration. For example, members of artistic unions receive social guarantees in large part due to member registration performed by the artistic unions.

Section VI of the PAL states that members of society can participate in administrative processes by performing administrative tasks that they have been authorized to do. This form of involvement differs from delegation (see previous) because authorization takes place with a joint cooperation contract and *does not encompass the right to adopt or draft administrative decisions*.

This form can be used more widely than the delegation of administrative tasks. Unlike delegation, which is permissible only if the authorized subject can perform the delegated task more effectively than the delegating party, joint cooperation contracts can be concluded if the authorized person can perform the task at least as effectively as (i.e. not worse than) the delegating party.

The Law on Public Administration also stipulates that persons authorized by contract can only perform administrative tasks rather than functions.

In addition to the PAL, government Regulation No. 419 "Procedures by which Direct Administrative Bodies Conclude Joint Cooperation Contracts and Procedures for the Publication of the Contracts" of 29.07.2003, clearly define the purpose of joint contracts – facilitating the involvement of society in public administration.

In order for an authorized person to perform an administrative task on the basis of a joint contract, the authorized institution must evaluate whether the task to be transferred meets the following criteria:

- 1) It is being performed for public benefit (non-commercial) purposes,
- 2) It facilitates the involvement of society in administration,
- 3) The authorized party will be able to perform the relevant administrative task as well as the authorizing body.

The same regulations also set out: the procedures to prepare and conclude joint contracts, the obligation to publish information about the contracts in the newspaper "Latvijas Vestnesis"; and the need to organize a tender if the price of the contract exceeds 10,000 lats.

Sometimes NGOs do not understand the distinctions between delegation, provision of services, or grants from ministries and regard all of these forms of cooperation as the delegation of functions. Often organizations are entrusted with tasks without appropriate funding. Relevant terminology, including "delegation", lacks clarity. Both local government leaders and NGO representatives use the term "delegation of functions" for the delegation of authority with funding, with partial funding, as well as for local government procurement or financial support or any other form of local government support to organizations. It should be reiterated that in legal terms, administrative functions cannot be delegated – only individual administrative tasks can be delegated.

During this study, **ministries were surveyed** about delegation and authorization, requesting information about transferred administrative tasks, organizations and funding amounts. The Secretariat of the Minister for Special Assignments for Society Integration Affairs and the Ministries of Defense, Economy, Regional Development and Local Government Affairs, Finance, Transport, Environment, Foreign Affairs, Interior and Education did not transfer administrative tasks to the private sector, and the Ministry of Justice did not provide an answer.

In order to better inform pensioners, the Ministry of Welfare's State Social Insurance Agency cooperates with the Latvian Pensioners' Federation in the public relations sphere. During the preparation of this report, the Ministry of Culture transferred information storage, analysis and also the promotion of accessibility to the Latvian Literature Center and the Latvian Music Information Center. The Ministry of Agriculture transferred functions connected with bloodlines to the relevant

animal breeders' associations (organizations, joint stock companies and limited liability companies). All of the ministries are satisfied with the work of organizations. Surveyed ministerial officials did not have suggestions for changes to legal documents.

NGO activists were also surveyed about their experience in this area.

What is your attitude toward the transfer of administrative tasks? Are you fulfilling any state or local government orders?

For free, yes. We have a project with the Ministry of Welfare, we are the ones implementing the (..) project. In theory, the Ministry of Welfare is responsible, but we are implementing it. We also have cooperation with the National Latvian Language Center, which offers us its teachers and in return, we get clients and premises. Then there is also cooperation with the police who send us girls who have been victims of human trafficking, of sexual exploitation. They get sent back to Latvia and the police simply call us and our social worker works with these girls. But the state does not give funding to these girls. Now we're thinking about how to get paid for the services that we provide.⁷¹

The surveyed **local government leaders** have transferred or are planning to transfer administrative tasks to organizations in the following spheres: adult education, tourism development, organizing cultural and sporting life, social assistance – homecare, caring for the elderly, education for certain at-risk groups, activities with at-risk families, summer youth camps, after-school activities for children, work with homeless people, orphanages, crisis centers, the integration of marginalized groups into society, and the management of social homes.

The **motivation for local governments to transfer tasks** include:

- Organizations are also able to attract funding for their ideas from elsewhere and so local governments only need to invest co-financing. Private entrepreneurs won't give money to a local government but they willingly donate to NGOs.
- If an organization assumes responsibility for, say, the distribution of humanitarian assistance, it emerges that society itself decides who needs more of what. If this was done by a local government, questions would be asked about "...why did they get it, but the others didn't."
- A local government and an organization might have common interests in a particular sphere.
- NGO initiatives have usually already been publicly discussed and deemed as necessary.
- Local governments lack human resources, and organizations give them a hand.

Some local government leaders were skeptical about the possible transfer of tasks, arguing that organizations take a subjective, emotional and crusading approach to issues.

Local government leaders said that in most cases the idea of transferring a task was the **initiative of an organization** that had proven itself in a specific sphere and found an innovative approach to resolving an issue.

Some organizations complain about local governments being chaotic and disorganized in their approach to issues – decisions are taken slowly and without a clear decision-making process. The surveyed NGO representatives said that it is hard to find out what tasks a local government is preparing to transfer.

⁷¹ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of social organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

Theoretically there is the possibility of delegating some sorts of functions. There are also situations where part of a local government's budget for implementing objectives for certain groups of residents is delegated. I don't have any information about something like that happening in Latvia. I think that if there were enough involved, conscientious and competent members of such a group then it could be done. But in my opinion, local governments have shown that they, are a closed group who only look out for each other's interests. They have no interest in burdening themselves by involving the community.⁷²

Organizations that have cooperation agreements with local governments were mostly the initiators of the cooperation.

Everything depends on incentive of the organization. We went on our own initiative to the local government to say that we would like to take over the functions of the homecare service. The local government was overjoyed and agreed because it's in their own interest for this sphere to be well organized. Now I know that there is such a thing as function delegation, but many organizations don't know and don't utilize it.⁷³

One of the tasks of this study is **to conduct an analysis of local government finances in relation to the performance of the tasks that are transferred to local government enterprises**. It is formulated based on the fact, that local governments and local government enterprises are closest to the NGO sector, and therefore the transfer of the tasks of these enterprises to the NGO sector should be examined.

The Law on Local Governments (Article 14, Section 1) provides that within their mandates, local governments have the right, to establish local government bodies and enterprises and to participate in corporations with their own funds. As a result, by establishing enterprises (or by acquiring shares in corporations) local governments choose the concrete form to perform the functions rather than delegating the function to an enterprise.

Central Statistics Bureau data show that in April 2003 there were a total of 669 enterprises in Latvia with some local government capital share. Table 4.1 shows the distribution of such enterprises by type and by what local government capital share they have.

⁷² Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

⁷³ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

Table 4.1

Number of companies with local government capital

<i>Form of enterprise activity</i>	<i>Local government capital</i>			<i>Total</i>
	<i>100%</i>	<i>Over 50%</i>	<i>Under 50%</i>	
Total	532	34	103	669
Local government enterprise	365	0	0	365
LLC	157	31	70	258
Joint stock company	10	2	25	37
Other	0	1	8	9

This is changing with the entry into force of the Law on Commerce. Until the end of 2003, local government enterprises had to be re-registered as corporations, local government agencies or institutions.

Enterprises with local government capital had a total net turnover of 2582 million lats in 2001. The breakdown of turnover for enterprises with local government capital is given in Table 4.2.

Table 4.2

Net turnover in 2001 for local government enterprises and enterprises with local government owned shares

	<i>Local government shares</i>	<i>Enterprises with local government capital =>50%</i>	<i>Enterprises with local government capital <50%</i>
Net turnover, thousand lats	2390799,4	7777,3	183772,9

The main fields and spheres (by number of companies) in which there are enterprises with local government capital are:

- utilities, water supply, sewage, heating supply, collection and storage of waste, landscaping;
- healthcare;
- real estate transactions;
- sport;
- public transport.

A precise breakdown of the number of companies is shown in Table 4.3.

Local government enterprises perform activities connected with fee-based services (utilities, healthcare, real estate transactions, public transport), therefore their operation should be transferred to the private sector rather than NGOs. The current trend is for fee-based services to be transferred to the private sector. These enterprises are regulated by natural competition or, by utility regulating committees.

NGOs have proven their success in providing social care, which is a local government responsibility. However, there is no precise information on how many local governments have contracted NGOs to provide social services and in which municipalities new organizations have been established for this purpose.

There is a correlation between the NGO selected and its ability to attract additional funding for the same purpose (the Queen Juliana (Oranje) Fund is a good example), and this is an initiative that should be supported. A successful example of this practice is the Dundaga Care Fund established in Dundaga County, which provides both in-patient and mobile care for elderly people. The fund attracts money from various donors and the local government receives money for the services provided that would otherwise have to be paid by the residents.

Table 4.3

Number of enterprises with local government capital by sphere of activity (April 2003)

<i>Economic activities</i>	<i>Local government capital</i>			<i>Total</i>
	<i>100%</i>	<i>Over 50%</i>	<i>Under 50%</i>	
Total	532	34	103	669
Heating and hot water supply	88	1	2	91
Water sourcing and supply	15	0	0	15
Waste collection and removal, landscaping	66	3	5	74
Healthcare	115	0	1	116
Pharmacies	17	0	2	19
Real estate transactions	81	0	3	84
Real estate rental	16	1	3	20
Sports	10	7	6	23
Public transport	18	0	3	21
Social care	12	1	1	14
Radio un TV	6	1	5	12
Legal, bookkeeping and auditing consultations	0	2	10	12
Adult education	4	3	3	10
Extracurricular activities (except sports)	8	0	1	9
Travel agencies	4	3	1	8
Agricultural services	3	1	4	8
Electricity production	3	1	4	8
Hotels	3	1	3	7
Restaurants	3	0	2	5
Retailing	4	0	0	4
Publishing	1	0	2	3

4.4. Opportunities for people/NGOs to participate in policy development at the Parliamentary level

The two main ways in which people can participate in the work of the parliament is by electing members of parliament (MP) and by working in political parties. Until now there has been a relatively high level of participation in parliamentary elections: 89.9% turnout at the 5th parliamentary elections, 71.9% at the 6th and 7th elections and 71.3% at the 8th Parliamentary elections.

Between elections, people can meet MPs, write letters and take part in committee meetings, if they are invited as experts.

Voters also have the right to submit draft laws if 1/10 of voters vote in favor of this. The government, parliamentary committees and also MPs (not less than five MPs) have the right to submit draft legislation.

If a group of people is dissatisfied with a law adopted by Parliament they can request the President to recall it. This was done by organizations in the winter of 2004 regarding the Law on Education. They organized a large-scale campaign involving school students in front of the Presidents' palace.

Influencing parliamentary decisions is not a popular method for residents to participate in policy development. Over the last 3 years, only 1.7% of the population have tried to influence a parliamentary decision or law. In the last year just 0.7% of residents have approached MPs or written letters to them to resolve problems experienced by themselves, their friends or family or society as a whole.⁷⁴

Only a small number of the surveyed NGOs admitted to having cooperated with the Parliament on policy development. The majority (especially organizations outside of Riga) believe that umbrella organizations working on the particular issue or the NGO Centre can be more effective at the Parliamentary level.

Those organizations that cooperate with the Parliament on policy development mentioned the following forms of cooperation – personal meetings with MPs, attending committee meetings where projects important to the organization are developed or discussed, consultations with Parliamentary parties before plenary session votes, and preparing and distributing informative materials to MPs before a vote.

Cooperation with Parliamentary committees is based on mutual respect and recognition of expertise. The committees determine the terms of cooperation and can use their discretion regarding who will or won't participate. If an NGO (or representative) is not allowed to attend, it usually tries to get the media to attend, because all meetings are open to the media.

The meeting times of committees can also deter participation. For example, if an issue affecting children is being discussed during school hours it is difficult for the children to get time off to attend the meeting.⁷⁵

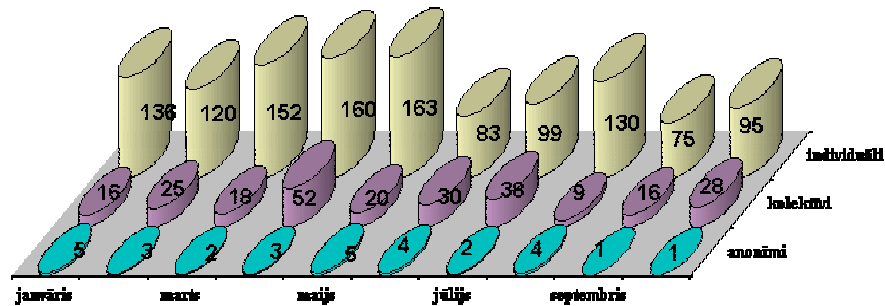
The Parliament's homepage has statistics on letters received from the public during the 7th session of Parliament.

Diagram 4.2

⁷⁴ Survey of residents on various aspects of integration. Commissioned by IUMSILS.

⁷⁵ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

Number of individual, collective and anonymous submissions



More detailed information in 1999 shows that 953 people met with MPs, of whom 413 also submitted letters. A total of 4317 written submissions were received during that year. Of these cases, 245 replies were written by the submissions office, 1937 submissions were handed over to the relevant MPs, 1573 went to parliamentary committees, 261 went to branches of the Parliament, 154 were forwarded to other institutions, and 91 were sent to the archive (anonymous submissions without specific content).⁷⁶

4.5. Summary

- Although the law provides ways for being involved in policy development, only a small proportion of residents and non-governmental organizations are involved in policy development with local governments, ministries and the Parliament. There are few positive examples of advocacy. Each unsuccessful attempt dissuades from further involvement.
- Participation in policy development requires resources that a majority of NGOs do not have. As a result, only a small number have influence on policy development.
- Although formal cooperation between the non-governmental and public sectors is open and laws regulating this area are very democratic, there is a lack of practical regulations that would make such cooperation effective. Relations between society and the state are based on the principle that "everything that is not permitted is forbidden." Practical and unified detailed guidelines should be developed.
- Ministries and local governments (except for specific cases stipulated by law as well as procedures in council by-laws) do not have criteria for involving concrete NGOs in working groups, consultative councils, project evaluation or discussions. Procedures must be introduced (including open tenders, public discussions) that make this opportunity accessible to all interested parties, irrespective of the resources available to them. (A Ministry of Agriculture example – the Agricultural Organizations Cooperation Council which is funded through tender procedures).
- The lack of legal regulations with regard to the conclusions and decisions of working groups and consultative councils, and also the consequences of reports by private persons, is not entirely democratic. There is no doubt that such decisions, conclusions and reports cannot be binding on state institutions and their officials, but because of there are no regulations, they are often totally ignored. A possible solution would be to require officials or institutions that adopt a decision that is contrary to the views submitted by the public, (recommendation, report etc.) must state the specific reasons why they were not taken into account.⁷⁷

⁷⁶ Parliament of the Republic of Latvia Mandates and Submissions Committee information on submissions received by the Submissions Office in 1999, see (27.02.2004) <http://www.saeima.lv>.

⁷⁷ Analogous norms in relation to other forms of participation – public discussion are already covered in Article 48 Section 2 of VPIL.

- The main problem of public discussions is how to define what topics are “issues of public importance” as specified in the law. At present, this is completely at the discretion of the responsible institution. This situation does not create a favorable climate for advocacy. One solution could be to set out general factors that must be taken into account when deciding on organizing a public discussion. For example, it could be stipulated that it is mandatory to hold public discussions if a decision is being made on an issue that obviously affects the interests of residents in a certain area or of a certain social group, or if such an issue affects, for example, environmental protection or health issues. A list could also be created of issues which may not be discussed publicly, for example state or domestic security issues.
- The delegation of public functions with rights to adopt administrative decisions is only possible with direct or indirect authorization from the law, because this form of public involvement is connected with the significant transfer of state authority to private individuals. As a result, delegation cannot occur purely on the basis of an official’s decision. Therefore, delegation occurs quite rarely, and it is likely that this will remain the case, leaving the greatest emphasis on other forms of involving society.
- Although the Public Administration Law is very democratic and the by-laws of almost all public institutions include the function “cooperation with non-governmental organizations”, the lack of detailed mechanisms is a serious defect because officials are completely justified in being afraid of overstepping the boundaries of cooperation. The laws contain many general formulations about the obligations of the delegating party. This creates some legal uncertainty and therefore hinders the involvement of society. These general obligations are not set out in detail in the law or in any government regulations because the law does not provide for any government authority to adopt such regulations on delegating procedures.
- Delegation procedures should be set out in more detail to make them more understandable to both officials and society. The following are some ways in which regulations could be clearer:
 - 1) provide explanatory notes or regulations in relation to each concrete case of delegation;
 - 2) adopt government regulations to provide detailed instructions on delegation. The PAL would have to be amended (possibly adding a new Section 4 to Article 40) to authorize the government to issue the respective regulations;
 - 3) Issuing internal legislative acts – instructions or recommendations.
- A definition must be provided of what is an administrative task, unlike an administrative function, may be delegated. As already stated, this does not apply to local government functions because they are defined by law. Administrative functions encompass the totality of administrative tasks and responsibility to implement them. Therefore, by stipulating that only tasks may be delegated, responsibility cannot be transferred to the authorized person under any circumstances.
- Problems are also created by legal ambiguity over the terms “administrative function” and “administrative task”. The ambiguous phrasing of administrative functions leads to the ambiguous phrasing of administrative tasks as components of administrative functions. This leads to misunderstandings about what can and cannot be delegated. Problems can also arise because the law does not foresee the termination of contracts. This is needed if the authorized person does not fulfill their obligations, performs them inadequately, etc. There are some doubts as to whether the regulations of the Civil Law could be fully applied to such a contract, which is public law rather than private.
- The problems with the legal regulation of joint contracts are similar to those existing for the delegation of administrative tasks (see the preceding section on delegation). This is very relevant for the authorizing body when assessing the effectiveness of the cooperation. government regulation No. 419 (29.07.03.) does provide a clearer understanding of joint contracts.

- NGOs are concerned that regulations on the procurement of services restrict the ability of organizations to plan their operations for the long term. On the other hand, these regulations promote competition between organizations and discourage the creation of “tame” organizations.
- The Information Transparency Law and government regulations “Procedures for the examination of submissions, complaints and proposals to state and local government institutions” are democratic, and the procedures encompassed in them for requesting and providing information are not complicated.

5. Latvia’s accession to the EU and its effect on cooperation/participation

5.1. Opportunities to attract EU funds

Following Latvia’s accession to the European Union, from 2004 state and local government institutions, enterprises and organizations in Latvia will have access to European Union Structural Funds (EU SF).

From 2004 to 2006, 830 million EUR will be available for Latvia under the structural funds (625 million EUR from EU structural fund and 205 million EUR from the Latvian Government).

Funding is provided for the priority areas set out in the Latvian Development Plan for 2004-2006 (Ministry of Finance, 04.12.2003), which has been approved by the European Commission, encompasses the following priorities:

- Priority 1 – Promotion of territorial unity (promotion of balanced development);
- Priority 2 – Promotion of business activity and innovation;
- Priority 3 – Development of human resources and promotion of employment;
- Priority 4 – Promotion of agricultural and fisheries development:

- Sub-Priority 4.1 – Promotion of agriculture and rural development;

- Sub-Priority 4.2 – Promotion of the development of sustainable fishing.

Each priority identifies activities and short descriptions, including the target groups, objective, compatible activities and recipients.

Table 5.1 summarizes the priorities and activities and indicates which activities include NGOs as potential recipients.

Table 5.1 shows, non-governmental organizations may receive support under the following activities:

Activity 1.1. Improvement of environmental infrastructure and promotion of tourism development (NGOs – in connection with tourism).

Activity 1.4. Development of education, healthcare and social infrastructure.

Activity 3.1. Promotion of employment.

Activity 3.2. Promotion of education and continuing education.

Activity 3.3. Reduction of social marginalization.

Activity 4.1.6. Development of local capacity (LEADER+ similar activities).

The implementation of the national priorities set out in the Development Plan will involve co-financing from EU Structural Fund, the amount of which will be greater than private and public funding from Latvia.

Priorities and Activities
Latvian Development Plan's (Unified Program Document) for 2004-2006

<i>Priority/Activity</i>	<i>NGOs as qualifying recipients</i>
1. Promotion of territorial unity	
1.1. Improvement of environmental infrastructure and promotion of tourism development	NGOs, non-profit legal entities
1.2. Accessibility and development of the transport system	
1.3. Development of information and communications technology	
1.4. Development of education, healthcare and social infrastructure	NGOs
2. Promotion of enterprise activity and innovation	
2.1. Support for the promotion of innovation development	
2.2. Development of infrastructure promoting business activities	
2.3. Support for the promotion of small and medium business development	
2.4. Improvement of access to funding for small and medium businesses	
2.5. Support for scientific research	
3. Development of human resources and promotion of employment	
3.1. Promotion of employment	NGOs, social partners, professional associations
3.2. Promotion of education and continuing education	NGOs, social partners, professional associations
3.3. Reduction of social marginalization	NGOs
4. Promotion of agricultural and fisheries development	
4.1. Promotion of agriculture and rural development	
4.1.1. Investments in agricultural enterprises	
4.1.2. Support for young farmers	
4.1.3. Improvement of the processing and marketing of agricultural products	
4.1.4. Adaptation of rural areas and promotion of development	
4.1.5. Development of forestry.	
4.1.6. Development of local capacity (LEADER+ similar activities)	Legally established Local Action Groups
4.1.7. Training	
4.2. Promotion of the development of sustainable fishing	
4.2.1. Balancing of fishing intensity	
4.2.2. Fleet renewal	
4.2.3. Improvement of the processing and marketing of fishing and aquaculture products, equipping of fishing ports and aquaculture	
4.2.4. Development of inshore fishing, socioeconomic activities, promotion of the development of new markets and support for producer organizations	

For the programming period up to 2006, the EU Structural Funds are:

- The European Regional Development Fund (ERAF);
- The European Social Fund (ESF);
- The European Agricultural Advancement and Guarantee Fund (ELVGF);
- The Fisheries Management Financial Instrument (ZVFI).

The following schemes are the basis for the implementation of projects under the Development Plan:

- Open tender projects – in cases of ERAF, ESF, ELVGF, and ZVFI;
- National projects;
- Grant schemes – in ERAF and ESF cases.

Table 5.2 shows the connection between the priorities and EU structural funds from which each respective priority is funded.

Table 5.2

Priorities of the Latvian Development Plan and EU Structural Funds for co-financing

<i>Priority</i>	<i>Share of funding for the priority from EU funding</i>	<i>EU Structural Funds</i>
1. Promotion of territorial unity	32%	ERAF
2. Promotion of business activity and innovation;	25%	ERAF
3. Development of human resources and promotion of employment;	21%	ESF
4. Promotion of agricultural and fisheries development	19%	
4.1. Promotion of agriculture and rural development;		ELVGF
4.2. Promotion of the development of sustainable fishing.		ZVFI

Table 5.3 summarizes information on funding available for those activities under which non-governmental organizations are mentioned as qualifying recipients. The data are taken from the Draft Program Complement for Latvia Objective 1 Single Programming Document 2004-2006) up to 23 February 2004. Changes may still be made to it because the final version of the document is expected to be approved by May 2004.

As of March 2004 Latvia's regulations for obtaining EU Structural Funds had not been approved. Approval of the "Regulations for the management of European Union Structural Funds" is on the agenda of the Cabinet of Ministers. In mid-February these regulations were reviewed at the highest civil servant level (state secretaries).

The Ministry of Finance has created a homepage on available EU funding: www.esfondi.lv, which is currently being expanded. A separate section is planned (not available yet) to cover non-governmental organizations. Draft project application forms are available as of March 2004.

**Total funding of priority activities in the Latvian Development Plan,
EU co-financing and Latvian public funding**

	<i>Total funding, euros</i>	<i>EU structural fund co- financing, euros</i>	<i>Fund</i>	<i>Latvian public funding, euros</i>
Activity 1.1	78806534	59104900	ERAF	19701634
2004	20300387	15225290		5075097
2005	28496560	21372420		7124140
2006	30009587	22507190		7502397
Activity 1.4	38214376	30571500	ERAF	7642876
2004	9843938	7875150		1968788
2005	13818375	11054700		2763675
2006	14552063	11641650		2910413
Activity 3.1	76107135	57080350	ESF	19026785
2004	19605134	14703850		4901284
2005	27520574	20640430		6880144
2006	28981427	21736070		7245357
Activity 3.2	67257468	50443100	ESF	16814368
2004	17325467	12994100		4331367
2005	24320507	18240380		6080127
2006	256114944	19208620		6402874
Activity 3.3	31526939	25221550	ESF	6305389
2004	8121313	6497050		1624263
2005	11400238	9120190		2280048
2006	12005388	9604310		2401078
Activity 4.1.6	3044435	2283325	ELVGF	761110
2004	784234	588175		196059
2005	1100867	825650		275217
2006	1159334	869500		289834

After Latvia's accession to the EU, non-governmental organizations will not only have access to Structural Funds for the implementation of Structural Fund priorities, but also the EU Community initiatives INTERREG and EQUAL.

INTERREG is an EU Community initiative funded by the European Regional Development Fund. INTERREG is a program for the harmonious and equal development of the European territory, and its main principle is that national borders should not be barriers to European territorial integration, balanced development and cooperation. A current INTERREG initiative is the so-called third programming period called INTERREG III, which is divided into 3 lines:

- INTERREG III A (trans-border cooperation);
 - INTERREG III B – international cooperation;
 - INTERREG III C – inter-regional cooperation.
- Lines A and B of INTERREG will apply to Latvia.

EQUAL is a community initiative co-financed from the European Social Fund. EQUAL is an international cooperation program aimed at fighting all forms of discrimination and inequality in the labor market and supporting the integration into the labor market of residents at risk from social marginalization.

Funding from the EU Phare program, for which representatives of the non-governmental organization sector can apply, will continue in the initial period after EU accession.

Applications to the Phare 2002 CBC (Cross Border Cooperation) program (total funding 3 million euros) will start in spring 2004; applications for Phare 2003 CBC (total funding 3 million euros) are planned for autumn 2004. On the other hand, under the Phare 2003 ESC (Economical Social Cohesion) program there is a possibility that non-governmental organizations will be able to receive support for preparing projects to receive EU Structural Fund co-financing.

There are two important conditions non-governmental organizations must meet to successfully attract co-financing from EU Structural Funds:

- The ability to ensure funding during the project implementation period – funds for both project co-financing (in accordance with the complementarity principle EU funds are earmarked for co-financing), and for project commencement and implementation (in most cases EU funds will be available after project implementation);
- There must be a qualitative project application that meets the Latvian Development Plan and the project guidelines.

Latvia's banks are prepared to offer loans to project applicants if they can present justified project plans and guarantees. The banks require guarantees of an organization's continuing viability and of financial repayment. In this regard, significant government assistance to organizations could involve:

- co-financing through a tender (not for 100% of the amount, but for a proportion) from a national/government fund;
- loan guarantees until the receipt of EU funds from a national/government fund.

Conditions and requirements to receive EU structural funds are difficult for NGOs to meet. Therefore, there should already be active involvement in the preparation process for the next EU planning period (2007 – 2013). The 3rd Cohesion Policy Report approved in February by the EC, which sets out the main principles for the next period, 3 objectives and 3 financial instruments, should be reviewed. There must be active involvement at the beginning of 2004 in the development of the National Development Plan, which will be basis for EU funding in the next period.

Several organizations were optimistic⁷⁸ about opportunities to attract EU funds. However, more often they had not examined specific issues connected with attracting EU funds in detail, or they do not have previous experience of managing EU funds.

Attracting EU funds requires language skills, the ability to prepare documents, and to develop projects. Smaller organizations said that EU funds are more accessible to larger organizations and that they could obtain these funds in cooperation with other organizations or local governments.

Those local governments that have planned to attract EU funds for infrastructure and other investment projects, do not plan on involving non-governmental organizations in these projects.

Organizations that have more seriously analyzed their chances for obtaining EU funds mentioned the following possible barriers:

⁷⁸ Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

- Co-financing is needed to implement EU projects (10-20%, depending on the program). As foreign funding declines and as the ability of local donors to donate becomes restricted, it could be difficult for Latvia's organizations to generate such co-financing.
- EU procedures reimburse the full costs of projects only after the completion of the projects. This means that organizations may require bank loans. Very few Latvian NGOs have a credit history that would let them receive such loans. If a project is implemented using bank funds funding will still be required to repay loan interest.

Will a regional NGOs be knowledgeable enough to develop projects that will assist in obtaining funds from NGOs?

This is a serious question, of the 170 organizations about 20 are working with projects while seven are working with two or three projects simultaneously.

Two or three organizations might meet the requirements. The minimum is 5,000 euros, and organizations do not have this sort of money to suddenly invest for six months to make this possible.⁷⁹

- In several spheres non-governmental organizations will be competing with local governments and their institutions. Furthermore, it is easier for local governments to work with such projects because co-financing is guaranteed by the government. NGOs have to seek co-financing themselves.
- EU project amounts will depend on how much experience a non-governmental organization has in a specific sphere. "For example, if its last project was for just \$5,000, an organization will not receive more than \$10,000 or \$15,000. Even less, no more than \$10,000. This means that you can't get to the big amounts in one leap. You have to work systematically from one project to the next, gradually increasing the project amount."⁸⁰

5.2. Opportunities to participate in formulating national policies

The interim government regulations on the development of national policies foresees that they will be prepared by the relevant ministries. The ministries are obligated to inform the public about their work on preparing national policies. The government reviews such documents at meetings which are not accessible to NGOs.

Information is not available on whether non-governmental organizations are being effectively informed about the development of national policies and whether they have been able to have input or influence in the processes.

5.3. Level of knowledge regarding EU decision making

The organizations surveyed demonstrated widely divergent levels of knowledge about decision making in the European Union. In those spheres where cooperation organizations are being established to get involved in European Union NGO networks – care for the elderly ("Balta maja", White House), advocacy for people with special needs ("Sustento") and others – cooperation structures are already being created and information gained

In 2003, the "Soros Foundation – Latvia" (SFL) and the Baltic American Partnership Program began a European Union project. Its first phase was to study the capacity and needs of organizations following Latvia's accession to the EU. The project's second phase (spring 2004) involves training

⁷⁹ Interview with representatives of organizations, 2004 Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

⁸⁰ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

selected organizations about European Union funds, decision-making and advocacy in the EU. An SFL representative working in Latvia, works closely with non-governmental organization representatives in Brussels to develop a system for Latvian organizations to become more effectively involved in already existing advocacy/lobbying mechanisms.

About European Union funds – initially they seemed so positive, but over time as I listened and examined the conditions I understood that they aren't available to us, the "little guys." The solution is to look for organizations performing similar functions. International cooperation partners are very necessary, there's hope of getting these partners. We've started cooperating with Swedes at the youth education level. The things that are relevant to us don't seem relevant to them because they already exist across the whole country. But there are other countries with which cooperation is possible. Cooperation possibilities at the local government level are at an introductory stage, we are looking for options.⁸¹

5.4. Summary

- Following EU accession, EU Structural Funds will be available for the objectives and priorities set out by the Single Programming Document, as will funding under the European Community initiatives INTERREG and EQUAL for which non-governmental organizations can also apply. However, the requirements to receive EU funds are difficult to meet for a large number of organizations. The main problem is the lack of co-financing and insufficient knowledge to prepare qualitative project applications. Furthermore, in most cases the credit histories of NGOs bar them from receiving bank loans to implement projects.
- Accessing EU funds by the non-governmental sector would require the development of new forms of support by state and local governments.
- Practical participation by NGOs in formulating Latvia's national positions is determined by subjective factors i.e. experience of cooperation and contacts with ministry officials, as well as the interest of the ministries in the process.
- NGOs have highly differing levels of knowledge about decision-making in the EU. Those NGOs that have established partnerships with organizations in other EU member states have gained the necessary knowledge and skills.

6. Conclusions

Cooperation among people

The basis of civil society is an active body of people. People's interest, motivation and participation in formal and informal networks is the basis to developing civil society. Informal networks, charity and volunteer work stand are just as important as non-governmental organizations.

An informed community (especially through personal contacts) promotes positive attitudes and support to the activities of civil society. An education system must be developed that promotes cooperation skills, and traditions affirming the expressions of civil society must be established and renewed.

It is important that people have concrete opportunities to participate both formally and informally. Organizations and local governments should take the initiative in developing and expanding networks. Non-governmental organizations can stimulate residents to self-organize, and to

⁸¹ Interview with representatives of organizations, Opinions on civil society. Interviews with socially active people, representatives of organizations and local government employees, SKDS, February 2004. Commissioned by IUMSILS.

cooperate. Local governments can foresee possible cooperation networks and invite individuals to participate in them to resolve an issue. The creation of geographical communities (building, street, neighborhood, suburb and other levels) is a good way to help people become active. The involvement of people who are restricted by financial or other conditions (for example distance, health problems etc.) should be promoted.

In planning policies to promote civil society, attention should be paid to significant differences between cooperation in big cities and small towns/ rural areas.

A sustainable NGO sector

In order for Latvia's non-governmental organizations to satisfy the ever increasing needs of society, a sustainable body of NGOs is required that develops, self-organizes and transforms itself in accordance with society's needs.

There must be an increase of society's understanding of and support for the work of non-governmental organizations and an increase in the possibilities for NGOs to obtain funding from various sources. Information campaigns about NGOs, training for their members and the diversification of government-supported funding sources are important tools for achieving this objective. When people know more about organizations, when they are convinced that NGOs are effective and honest, and when they feel that they have enough money to meet their own needs, they will be ready to support NGOs both financially and with their own work.

The lack of clear definitions and reporting about non-governmental organizations hinders a qualitative analysis of the sector. The development of a long-term sustainable strategy and targeted support policies by state and local government institutions are hindered.

In analyzing the expenditure of non-governmental organizations funds, one of the most significant problems is inadequate and sometimes contradictory information. It is therefore necessary to create a coordinated classification for non-governmental organization incomes and expenditures and to improve the reports submitted by organizations.

There is a tendency for organizations to excessively rely on a single income source. This can affect an organization's objectives and reduce its sustainability.

Many foreign donors (sponsors) that fund non-governmental organizations are terminating or scaling down their activities in Latvia. It is not known whether these funds will be replaced by other foreign funding sources. In any case, sustainable NGO activities require funds from various sources. This gives organizations the freedom to select objectives that meet the needs of society. This study affirms that current government support for businesses and private individuals (refunds for donations, tax rebates) insufficiently stimulate philanthropy. Foundations, including community funds, have not developed, nor have other possible mechanisms for stable, accessible funds.

Those working in the NGO sector believe that one of the most important barriers to sustainability is a lack of funds for meeting administrative expenses (premises, wages etc.) Income from membership fees and services is increasing in the sector as a whole, however such payments may be a barrier to participation for underprivileged residents.

One additional income source for non-governmental organizations could be income from authorizations to perform public administration functions. However, it must be understood that this income helps implement government objectives rather than developing the work of NGOs.

Although the attraction of EU structural funds will be a significant step for the further development of NGOs, there are currently significant barriers blocking NGOs from using this opportunity. It is

necessary to consider state/ local government support to facilitate the ability of NGOs to use the opportunities offered by the EU.

The participation of civil society in policy development

In order for state and local government policies, legislation and decisions to be easier to implement, of a higher quality and in accordance with the needs of society, it is necessary to improve the effective participation by people and organizations in policy development (including development, implementation and assessment) at the local government, central government administrative, parliamentary and EU levels.

The government's first task is to educate people about policy development principles and mechanisms.

Although legislation does not create barriers for people to participate in policy development, state and local governments should develop procedures to assist administrative employees to justly and effectively involve individuals and organizations in decision-making. They should also provide civil society with equally accessible information about the rights and possibilities to participate, and on the usefulness of participation and its mechanisms.

Courtesy is a pre-requisite for civil servants to promote better cooperation with the community. Informing the public about its work is also an important factor to build trust.

The practice of delegating public administration responsibilities and tasks to non-governmental organizations has not been unified.

This is connected with both a lack of experience in implementing such a complex process and the capacities and resources of organizations. These problems reduce the political will to take on the responsibility for entrusting administrative tasks to non-governmental organizations.

Unlike public administrative institutions, local government institutions find it easier to involve non-governmental organizations in their work. They have experience cooperating. However, in order for people to support and trust this approach, the selection process, work and results must be transparent.

Civil society needs information about the possibilities to participate in Latvia's EU-related policy issues. NGOs must be involved in the development of national policies. This requires support to participate in EU networks.

There are no serious barriers, either legal or institutional, for civil society development and public participation, a national policy for strengthening civil society development is needed. A policy, which would allow members of society, that have not been active to do so, and to create a more stable NGO environment so that NGOs can work to benefit the community at large.

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Annex A. Table 1. Incomes of organizations						
<i>Information on 28.02.04</i>						
SRS data						
<i>Source</i>	2000		2001		2002	
	<i>Amount, Ls</i>	<i>Proportion of total income, %</i>	<i>Amount, Ls</i>	<i>Proportion of total income, %</i>	<i>Amount, Ls</i>	<i>Proportion of total income, %</i>
Membership fees, and other annual payments	4453613	13.6	6904890	14.5	8641182	15.0
Received donations and gifts	14257511	43.6	21432952	44.9	21458205	37.4
Grants from state and local government budgets	3135540	9.6	4639890	9.7	9448660	16.4
Income from economic activities	2981703	9.1	5258275	11.0	5854591	10.2
Other income	7857095	24.0	9494600	19.9	12071517	21.0
Total income:	32685462	100.0	47730756	100.0	57450810	100.0

Annex A. Table 2. NGO expenses						
<i>Information on 28.02.04</i>						
SRS data						
		2000		2001		2002
Name of indicator	Amount, Ls	% of expenditure	Amount, Ls	% of expenditure	Amount, Ls	% of expenditure
Expenses for objectives indicated in statutes	21417113	66	27997743	62	34238431	64
Expenses from administration and economic activities, including	10778313	33	16823474	37	19408292	36
Material expenditures	1194481	4	2020157	5	2107955	4
Wages	3075551	10	5055446	11	5580403	10
Social insurance payments	817620	3	1295479	3	1454549	3
Depreciation and writing off of foundation capital and non-material investments	934516	3	1674635	4	1991675	4
Other expenditures	4763323	15	6757400	15	8268435	15
Taxes, including	60136	0.19	61480	0.14	75305	0.14
Company tax	22383	0.07	2255	0.01	8953	0.02
Property tax	37749	0.12	58528	0.13	66352	0.12
Total expenditures	32262984	100	44889315	100	53726929	100

Annex A. Table 3. Taxes, duties and other state-mandated payments actually paid to the state budget by NGOs

Information on 28.02.04

SRS data								
	2000		2001		2002		2003	
Name of tax type	Amount, Ls	%	Amount, Ls	%	Amount, Ls	%	Amount, Ls	%
Income tax	1 068 205.34	37.98	1 243 106.19	36.84	1 419 581.99	36.18	1 742 220.60	38.72
Company tax	8 367.83	0.30	4 128.72	0.12	1 889.87	0.05	5 763.93	0.13
Social insurance payments	1 602 681.70	56.98	1 893 275.14	56.11	2 172 212.94	55.37	2 394 374.23	53.22
Value added tax	90 059.35	3.20	173 262.39	5.14	252 450.37	6.43	278 640.14	6.19
Excise duty	3 290.57	0.12	1 204.80	0.04	16 924.74	0.43	952.38	0.02
Natural resource tax	1 082.17	0.04	3 384.27	0.10	3 913.72	0.10	3 388.42	0.08
Customs duty	2 703.10	0.10	30 106.34	0.89	18 915.49	0.48	26 378.11	0.59
Other	36 118.77	1.28	25 669.40	0.76	37 488.64	0.96	47 619.56	1.06
Total:	2 812 508.83	100.00	3 374 137.25	100.00	3 923 377.76	100.00	4 499 337.37	100.00

Annex B. Table 1. Grants by ministries to NGOs*Information on 28.02.04***Collation of survey data**

		2002		2003		Total
Ministry	Number of organizations given grants	Grant amount, Ls	Number of organizations given grants	Grant amount, Ls	Number of organizations given grants	Grant amount, Ls
Ministry of Defence	3	31000	2	13100	5	44100
Ministry of Foreign Affairs	0	0	0	0	0	0
Ministry of Economy	0	0	0	0	0	0
Ministry of Finance	0	0	0	0	0	0
Ministry of the Interior	1	77000	1	75691	2	152691
Ministry of Education, including Sport	50	922216	57	1123387	107	2045603
Professional training	48	914316	51	1100972	99	2015288
Leisure education, youth issues	2	7900	4	7900	4	15800
IUMSILS			4	14515	4	14515
Ministry of Culture			73	3555003,530		3555003,529
Ministry of Welfare	18	233357	20	156691	38	390048
Ministry of Regional Development and Local Government Affairs	7	48600	4	42910	11	91510
Ministry of Transport	0	0	0	0	0	0
Ministry of Health	0	0	0	0	0	0
Ministry of the Environment	31	280028	32	278463	63	558491
Ministry of Agriculture	4	64500	6	156500	10	221000

Annex B. Table 2. Contracts signed by ministries with non-governmental organizations						
<i>Information on 28.02.04</i>						
Collation of survey data						
Ministry	2002			2003		
	<i>Number of contracts with public organizations</i>	<i>Amount, Ls</i>	<i>Notes</i>	<i>Number of contracts with public organizations</i>	<i>Amount, Ls</i>	<i>Notes</i>
Ministry of Defense	3	15492.5		8	40297.2	
Ministry of Foreign Affairs	2	190	Not indicated all	2	22781.8	
Ministry of Economy	1	2000		4	53000	
Ministry of Finance	0	0		0	0	
Ministry of the Interior	1			1		
Ministry of Education	6	4363.59		1	2000	
IUMSILS			Secretariat established 2003	1	123	Additionally 2 BOSIA - 4489
Ministry of Culture	4	16416	Additionally 1 BOSIA - 10000	25	103414	Additionally 4 BOSIA - 63700
Ministry of Welfare	6	305394		6	266139	
State Employment Service	7	28348,1		5	45650,78	
Ministry of Regional Development and Local Government Affairs			Established in 2003	0	0	
Ministry of Transport	0	0		0	0	
Ministry of Health			Not sent			Not sent
Ministry of the Environment	12	24351.68		17	23491.75	
Ministry of Agriculture	2			2		