

## UKRAINE



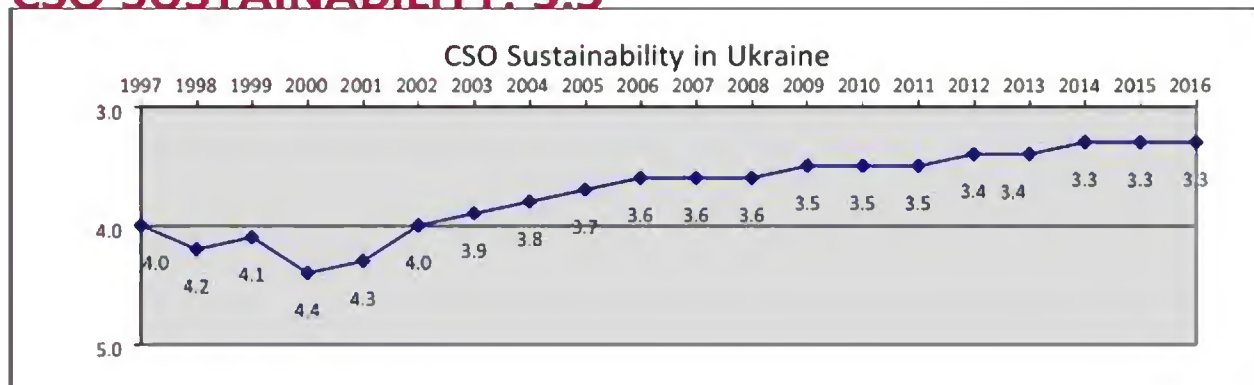
**Capital:** Kyiv

**Population:** 44,209,733

**GDP per capita (PPP):** \$8,200

**Human Development Index:** 84

## CSO SUSTAINABILITY: 3.3



Ukraine experienced acute political, security, and economic challenges in 2016. A new government took office in April 2016 and committed to continuing ongoing reform initiatives, including efforts to reform energy tariffs and social assistance, make public procurement more transparent, simplify business regulation, and reduce deepseated corruption. In May 2016, the government introduced a wide-ranging reform agenda and action plan addressing these issues. Moreover, the government prioritized decentralization and local government reform to give local communities the power to self-govern.

The military conflict in the Donbas region between two Russian-backed militant groups (Donetsk People's Republic and Luhansk People's Republic) and the Ukrainian Armed Forces continued in 2016 following the

Russian annexation of Crimea. According to the Ministry of Social Policy, there were 1.7 million internally displaced persons (IDPs) in Ukraine as of October 30, 2016. According to the UN, around 5 million people have been affected by the conflict in eastern Ukraine.

Civil society continues to be one of the strongest actors in Ukraine’s democratic transition. From assistance to IDPs and independent advocacy campaigns to participation in new anti-corruption institutions, Ukraine’s powerful civil society plays a crucial role in driving reforms aimed at building a functional democracy and the rule of law, as well as identifying solutions that promote peace and regional stability.

The overall sustainability of CSOs did not change in 2016. Infrastructure was the only dimension of sustainability in which a change in score was reported during the year. Intermediary support organizations (ISOs) in the regions strengthened their organizational capacities and provided organizational and financial support to local CSOs. In addition, more CSOs provided sub-grants to smaller organizations and IDPs, and CSO coalitions became more effective in achieving their objectives.

The government adopted the National Strategy for Developing Civil Society in Ukraine for 2016-2020. The strategy outlines the priorities for the sector’s development, including institutional strengthening of the CSO sector; enhancing the role of civil society in socioeconomic development and decision-making processes; and increasing intersectoral cooperation. Leading CSOs have strategic plans; are proactive in engaging target groups in their activities; and are taking steps to improve their governance and internal management. CSOs vigorously promoted the adoption of many draft laws and their implementation throughout the year and coordinated with public authorities on the implementation of various national initiatives. However, the ongoing economic crisis limited public and private sector funding to CSOs. CSO experts have become an integral part of media programs. Meanwhile, the government’s view of CSOs improved and it often relies on CSO expertise in decision making.

According to the Ukrainian Unified National Register of Companies and Organizations (UUNRCO), there were 75,924 public associations, 288 creative unions and other professional associations, 16,603 charity organizations, and 1,479 self-organized bodies registered in Ukraine as of November 1, 2016, slight increases from the previous year. The data does not include CSOs registered in the Autonomous Republic of Crimea, the city of Sevastopol, or the occupied territories in Donetsk and Luhansk oblasts, as there is no access to these regions. Access to a shortened version of the UUNRCO’s database is free. Alternatively, it is possible to pay a fee equal to two minimum monthly wages to access an electronic version of the full database.

**LEGAL ENVIRONMENT: 3.3**



CSOs can be registered as local, regional, or national organizations. It takes at least two natural persons or legal entities to register a public association. The registration process is free of charge and, according to the law, takes

between three and eighteen working days to complete. In 2016, the number of documents required for registration was reduced for all types of CSOs. In addition, the fee for changes to by-laws not required by law decreased from 30 percent to 10 percent of the monthly minimum wage for all organizations. Unlike other CSOs, charity organizations no longer have to notarize their documents for registration.

CSOs still face numerous challenges in the registration process: they can register only in Ministry of Justice offices in the capital and the twenty-five oblasts; they face delays in response to their applications despite statutory time limits; the registering bodies are understaffed; and registration personnel are not always fully trained. These challenges are aggravated by the fact that CSOs had to re-register with UUNRCO by January 1, 2017, although this deadline was later extended to July 1, 2017.

In February 2016, the president of Ukraine signed the National Strategy for Developing Civil Society in Ukraine for 2016-2020. It envisages annual action plans at the national and regional levels. In November, the Cabinet of Ministers approved the 2016 Action Plan for implementation of the strategy. As part of the implementation of the strategy, the Coordination Council for Civil Society Development was established in November as a CSO advisory body, enabling CSOs to contribute to national decision-making processes and promoting better coordination between civil society and state.

In 2016, a new procedure for maintaining the CSO Register was officially adopted, although it was not yet implemented by the end of the year. The procedure will provide for an online or one-stop-shop mechanism to register CSO and grant them non-profit status.

Laws No. 1664 and No. 1665 were adopted in October 2016 to improve opportunities for CSOs to raise funds through charity text messages by exempting such donations from value-added tax (VAT) of 20 percent and social security contributions (SSC) of 7.5 percent. These laws define a list of charity activities as well as conditions for which charity text messages are subject to VAT and SSC exemption. Law No.1797, adopted on December 21, 2016, removes limits on the amounts of charitable support participants in the military campaign in the Anti-Terrorist Operation Zone (ATO) and their family members can receive. Charitable support includes the provision of special personal protection equipment (such as helmets or body armor manufactured according to military standards); technical means of surveillance; personal care; food; items of property maintenance; and other goods and services.

In September 2016, the Constitutional Court ruled that it was unconstitutional for the state to require CSOs, religious organization, and others to receive permission to hold peaceful assemblies. As a result, groups no longer need permission to organize peaceful assemblies of any kind.

CSOs were subject to some state harassment during the year. CSOs engaged in charitable activities and other assistance to the ATO were subject to state inspections. For instance, the Kherson Protection Foundation was inspected by the military attorney department, the Serious Fraud Office, and the Security Service. These inspections were not limited to the foundation's charitable support to the ATO, but covered all of the organization's technical assistance projects during the past five years. CSOs also had issues with banks in 2016; some state-supported banks illegally required CSOs to open accounts with them, rather than the banks of their choice. In addition CSOs had difficulty wiring funds to foreign experts as they were required to obtain permission from various entities. CSOs did not report any other administrative impediments to their work in 2016.

Pursuant to the Tax Code, public associations can choose to use a simplified taxation system, paying a fixed tax of 4 percent in lieu of income tax or VAT. Individual and corporate donors to CSOs are entitled to tax

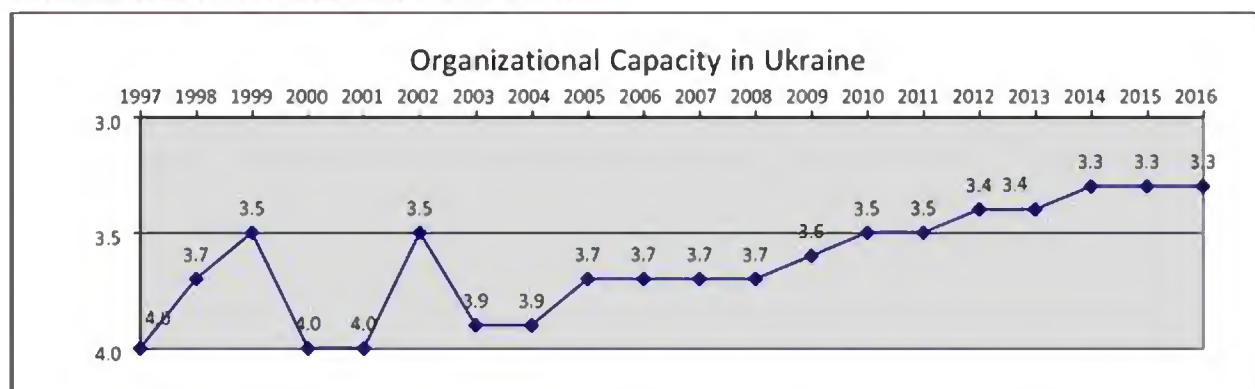
deductions of up to 4 percent of their income. However, most donors generally do not claim these benefits due to confusing regulations and difficult reporting procedures.

The revised Tax Code, which took effect in January 2016, introduces stronger provisions regarding the ban on profit-sharing, including between employees and related persons, stakeholders, interested parties, and associates. These steps, as well as already existing measures that require a CSO to transfer its assets to another CSO or the state when it is dissolved, are aimed at avoiding conflicts of interest and improving CSOs' governance practices.

CSOs are allowed to participate in public procurement related to social service provision.

CSOs have access to legal advice at the national and regional levels. More lawyers are providing legal advice to CSOs at designated offices established by local self-government bodies.

## ORGANIZATIONAL CAPACITY: 3.3



As a result of increased donor attention on organizational development over the past few years, the vast majority of active CSOs have increased their focus on institutional development, including by training staff, engaging new supporters, and developing internal policies and procedures. In addition, leading CSOs have allocated funding for capacity building. However, these efforts have not yet led to concrete improvements in organizational capacity and there continues to be a large gap in institutional capacity between Kyiv-based and regional CSOs, as well as between CSOs operating at the oblast level and community-based organizations. These gaps are exacerbated as less developed organizations have fewer opportunities to receive institutional support or large grants from donor organizations.

International donors—including USAID, the Swedish International Development Cooperation Agency (Sida), the Charles Stewart Mott Foundation, and the International Renaissance Foundation (IRF)—continued to support the institutional development of CSOs at levels similar to those in 2015. USAID and Sida continue to support the Marketplace, an online tool that helps CSOs find service providers in the area of capacity building. In addition, USAID and Sida provide core financial support to CSOs in order to promote their institutional development as well as more effective project implementation in line with donor requirements. IRF and Sida provide core support to national and regional think tanks. EU-financed CSO programs, including the European Initiative for Democracy and Human Rights (EIDHR) and Neighborhood Civil Society Facility (NCSF), also target regional CSOs with programs that include some institutional capacity building.

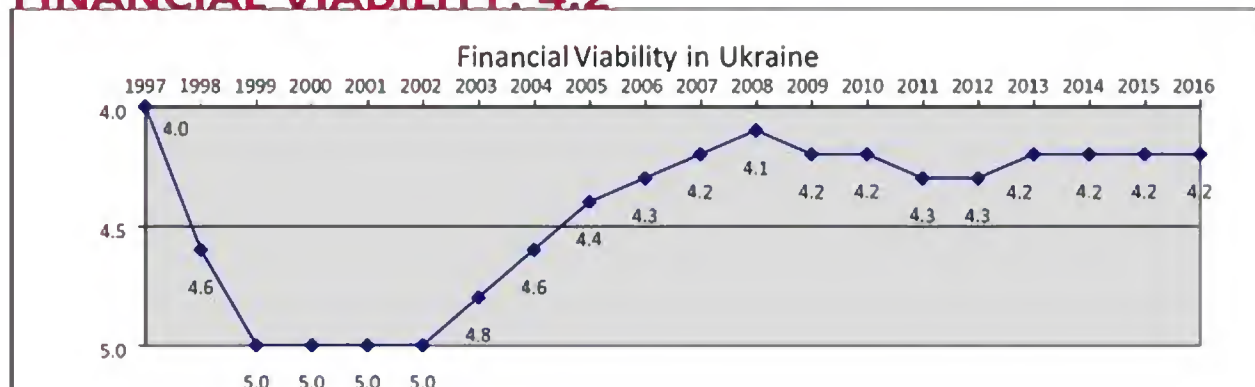
Most CSOs continued to engage in mission-driven strategic planning in 2016. Through the Marketplace, around 165 small grants—amounting to \$145,000—were provided to CSOs for strategic planning activities. However, CSOs often lack the skills to implement the strategies they develop. In particular, CSOs need better skills in planning, fundraising, attracting community support, and defining expected results, among other areas.

The public's increased interest in the work of CSOs has driven CSOs to become more transparent. In particular, CSOs have improved their division of duties and responsibilities among staff, members, and supervisory boards. In addition, some CSOs have started rotating the members of their governing bodies, and inviting external experts to become members of supervisory boards.

The CSO sector has a shortage of competent staff, especially directors, public relations managers, and fundraisers. Employment in the CSO sector has decreased, and fewer and fewer organizations can afford permanent paid staff. Instead, an increasing number of organizations rely either on part-time staff or volunteers. A 2016 Center for International Private Enterprise (CIPE) survey of seventy business associations found that 42 percent had between one and three salaried employees and 37 percent did not have any paid staff. A 2016 Ukrainian Forum of Charities (UFB) study found that seventy-four charity organizations had a combined total of 900 employees and 24,000 volunteers. Most CSOs have professional accountants or bookkeepers. According to the 2016 World Giving Index, 19 percent of respondents in Ukraine volunteered in 2015, compared to 13 percent in 2014.

CSOs upgrade their office equipment very slowly due to their limited funding. CSOs are replacing their websites with accounts on social networks. Due to donation programs offered by Microsoft and other IT companies, CSOs enjoy improved access to software and applications.

## FINANCIAL VIABILITY: 4.2



Financial viability did not change in 2016. While support from international donors, including USAID, the United Kingdom's Department for International Development (DFID), UNDP, EU, and Germany's GIZ, increased, the new support primarily targeted projects focused on mitigating the conflict in eastern Ukraine, regional development, and decentralization reform. Existing CSOs began to focus on these areas, while CSOs working in other areas, including social service provision, struggled to find available funding.

The State Committee of Statistics partially evaluated the 2015 statistical reports of 22,185 public associations and found that they declared \$242.9 million in income, including \$8.7 million from the state budget, \$6.7 million from local budgets, \$23.5 million in membership dues, \$142.76 million in charitable donations (which includes international funding), \$21.15 million from economic activities, and \$40.62 million from other sources.

In 2016, more than eighty banks went bankrupt, losing the funds of many CSOs including local charity foundations that supported programs for youth, children, orphans, and others. For example, Gavrylyshyn and the Community Well-being Foundation lost \$1.7 million and \$670,000 respectively. There is little chance that these funds will be recovered.

Only a few donors cover the administrative or indirect costs of CSOs, which impedes financial sustainability. The European Commission (EC) allows 7 percent of program costs to be allocated to administrative expenditures, but only a small number of CSOs receive funding from the EC.

More CSOs are seeking to diversify their funding sources, and anecdotal evidence indicates that the share of funding from local donors—including businesses, individuals, and foundations—is slowly growing. For instance, according to ISAR-Ednannia, a local CSO that supports the development of community foundations in Ukraine, the share of local funding in the budgets of twenty-two community foundations increased from 70 percent in 2015 to 80 percent in 2016. In 2016, CSOs introduced new methods of generating support from the local donor community. For example, some organizations organized fundraising dinners with donors in the town of Stryi. In 2016, CSOs raised \$173,076 for core support and \$846,154 for charitable projects in the areas of education, environment, literature, travel, new technologies, and capacity building through the Spilnocosht and Charity Exchange Stock crowdfunding platforms.

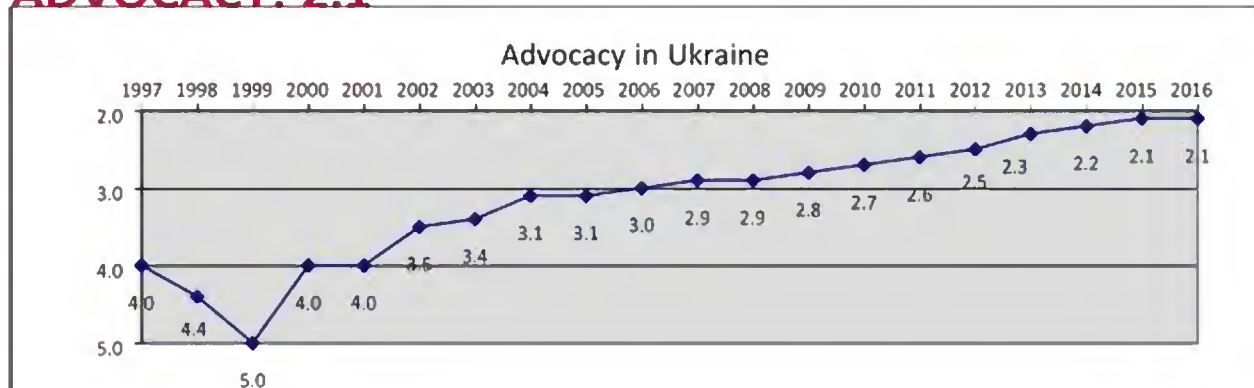
Local businesses continue to support CSOs in communities where their businesses are located. For example, Uber collected warm clothes from 6,551 individuals in Kyiv during a two-week charity action called UberGiving and donated them to Caritas Ukraine to disseminate to the most needy. Similar actions took place in sixty-five cities in thirty-one countries in Europe, Asia, and the Middle East, with residents in Kyiv being the most generous. However, such examples are still rare, and corporate support continued to decline in 2016 due to the economic crisis.

Although accurate data is unavailable, financial and in-kind support from central authorities and local selfgovernment bodies appeared to decrease in 2016. However, several ministries continued to run CSO grant competitions in 2016. The Ministry of Social Protection routinely provides financial support to CSOs, while the Ministry of Defense awarded grants to CSOs for the first time in 2016, mainly for projects to assist ATO veterans and their families. The Ministry of Youth and Sports organized a funding competition for long-term projects proposed by children- and youth-oriented CSOs. The Ministry is also focusing more on monitoring and evaluation of funded projects. Some local authorities also conducted competitions for project funding in 2016.

While CSOs often collect membership dues and increasingly engage in social entrepreneurship, these sources generally do not provide significant income. According to CIPE, in 2016, the share of income for business associations from membership dues reached 18 percent, while 35 percent of income came from service delivery, and 43 percent came from local and international donors.

An increasing number of CSOs improved their financial management systems in 2016. According to the tax office, almost 40 percent of registered CSOs submit financial reports to the tax office. CSOs increasingly undergo audits of their activities and publish annual reports with financial statements.

## ADVOCACY: 2.1



In 2016, civil society continued to advocate to influence reform processes. CSOs have become highly effective at influencing public authorities at all levels.

Cooperation between government and CSOs markedly improved in 2016. The prime minister held meetings with leading CSOs about the government's agenda and the draft budget and instructed other Cabinet members to set up similar meetings. The government also continued to work with CSOs to improve mechanisms for their participation in policy making. A forum under the Ministry of Justice that included CSOs developed a draft Law on Public Consultations to regulate citizen participation in national and local decision making; the draft will be presented to parliament for consideration in 2017.

The Reanimation Package of Reforms (RPR) is a collection of civic activists, experts, and journalists that has been deeply engaged in the reform process in Ukraine since the Euromaidan Revolution in 2014. After two years of work, RPR still needs to focus on the implementation of legislation by working with the executive branch at all levels, but particularly at the regional and local levels. In addition, RPR still needs to improve the analytic basis for the laws produced by its experts. Cooperation between the RPR and the parliament and presidential administration declined somewhat in 2016, and the National Reform Council suspended its activities. At the same time, the RPR improved its cooperation with the Cabinet of Ministers thanks to the prime minister's intention to prepare and solicit public feedback on key documents, particularly the reform agenda and budget.

In 2016, CSOs concentrated on the implementation of reforms they proposed. For example, according to the 2015 Law on Civil Service, which came into effect in May 2016, a twelve-member selection committee with four civil society representatives now appoints all senior public officials. Between August and December 2016, the committee appointed 109 senior public officials.

CSOs continued to lobby for anti-corruption measures in 2016. For example, CSOs initiated a policy on whistleblowing and the approval of the Law on Custodial Care for Orphans, an area plagued by corruption. The Chesno Coalition organized the Filter Court Campaign aimed at removing corrupt judges. CSOs also successfully lobbied for the adoption of new provisions to the Law on Corruption Prevention. The law, which was adopted in August 2016 and came into force shortly thereafter, newly requires public officials and members of the parliament to submit e-declarations of their assets.

In 2016, a network of CSOs lobbied the state to improve the effectiveness of public administration services, such as passport issuance, at the national and local levels. As a result, standards for administrative services were

introduced and more unified administrative service centers were established. Local authorities learned how to improve the quality of and better utilize limited funds for administrative services.

The 2015 Law on Introduction of Changes to the Law of Ukraine on Public Appeals allows individuals and groups to submit e-petitions through official websites to the president, the parliament, the Cabinet of Ministers, and local self-governments. The Law was implemented at the regional level in 2016, including in oblast centers such as Ternopil and Lviv and towns such as Kramatorsk, Mariupil, Bakhmut, and Dnipro. Individuals and groups also continued to use the e-petition system at the national level.

At the local level, CSO advocacy efforts are weak and not well-organized. Advocacy efforts on decentralization remain ad hoc and are hampered by a lack of knowledge and skills needed for wider promotion.

CSOs worked on a number of initiatives in 2016 to further improve the enabling environment for civil society. Cooperation between charity organizations and the parliamentary committee for humanitarian policy resulted in the adoption of a law that provides tax exemptions for charitable contributions made via SMS. CSOs and the committee also advocated for the return of funds lost by charity organizations to the banks that went bankrupt, although this process just started at the end of the year and results are thus yet to be seen. Also in 2016, experts developed recommendations to establish a national foundation for civil society development and discussed them with CSOs at eight regional meetings. Based on CSOs' comments and recommendations, the final document on establishing a national foundation was prepared and submitted to the government and presidential administration.

## SERVICE PROVISION: 3.2



Service provision did not change significantly in 2016. CSOs continue to provide training, consulting, and information services to youth and senior citizens, among other beneficiaries. CSOs also provide services such as civic education and legal aid to a broad range of constituents. In response to the conflict in eastern Ukraine and the occupation of Crimea, many new CSOs emerged to serve the needs and interests of groups such as veterans of the ATO and their families, IDPs, and people living in government-controlled areas in the Donbass region. Such CSOs provide information, advocacy, psychological support, humanitarian services, anti-violence



promotion, and other support to vulnerable groups. However, many services initiated in 2014 by CSOs and civic initiatives to support the Ukrainian Army and IDPs in eastern Ukraine were suspended in 2016 due to decreased international funding for service provision.

According to ISAR-Ednannia, nearly 100 CSOs received small grants from the Marketplace in 2016 to improve their interaction with customers, advance their skills in identifying the needs of their target groups, develop new services, and improve the quality of existing services. For example, a small grant helped the Gay Alliance to develop a business plan for a cafe for the LGBT community that is being realized and the CSO Act Together trained trainers to design courses for high school students on civil society development. However, most goods and services provided by CSOs do not fully meet the needs and priorities of their target groups, as many CSOs fail to recognize the importance of assessing the needs of their beneficiaries before designing services. CSO publications and analyses produced with the support of international donors are generally of good quality and in great demand, but their supply is usually limited as donors do not want to support printed products.

According to state data sources, in 2016 CSOs received contracts worth \$19 million from all sources to provide services to beneficiaries. However, international donors remain the primary funders of CSO services. CSOs continue to provide most services to beneficiaries for free.

Public authorities recognize the capacity of CSOs to deliver services to the public. However, in 2016, the state once again reduced the amount of funding allocated to social services, affecting vulnerable groups such as senior citizens and people with disabilities. Local budgets do not include funds to engage CSOs in service provision.

## INFRASTRUCTURE: 3.3



The infrastructure supporting the CSO sector improved in 2016. Eight regional intermediary support organizations (ISOs) established in 2015 with UNDP and EU funds continued to support local CSOs with small grants as well as legal, information, consulting, and training services. In addition, these ISOs strengthened their democratic governance procedures, financial stability, membership and volunteer management, as well as advocacy practices. In two years, these ISOs have managed to increase their staff by 30 percent; maintain an

average of twenty volunteers each; and increase their budgets two to four times. However, the sustainability of ISOs remains a challenge, as up to 85 to 95 percent of their budgets depend on international donor funding.

In 2016, forty local organizations provided grants of up to €10,000 to CSOs through EU-funded projects. There are twenty-three community foundations in Ukraine and approximately half of them provide grants to address pressing local issues, while the rest implement their own projects. In 2016, community foundations raised \$1.5 million and allocated \$1 million for grant support to local initiatives. Only a few local CSOs have the capacity to disburse large amounts of funding. For instance, in 2016 the CCC Creative Center disbursed around \$3.1 million to over 500 IDPs from eight oblasts after evaluating nearly 4,000 applications.

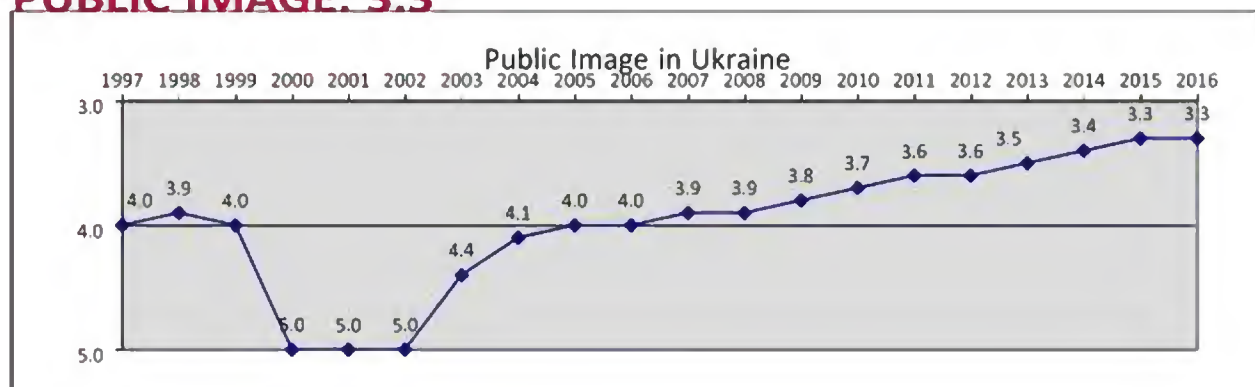
CSO coalitions, in particular the Ukrainian Regional Platform of Public Initiatives Partnership, the Coalition for Children's Rights, the Coalition for Transparent Local Budgets Partnership, the Public Initiatives of Ukraine Network, the Coalition for Election Rights of Internally Displaced Persons, and RPR, were very active in 2016. For example, the Coalition for Children's Rights prepared a report on how Ukraine met its obligations under the UN Convention on the Rights of the Child between 2012 and 2016. The Coalition for Transparent Local Budgets Partnership continued to update and promote its website with data about expenditures from local public budgets. New coalitions at both national and regional levels concentrate on issues such as the judicial system, economic development, and EU visa policy towards Ukraine.

CSOs have access to institutional capacity development workshops and trainings through the online capacity building Marketplace portal administered by the ISAR-Ednannia. In 2016, ISAR-Ednannia granted a total of 220 vouchers to CSOs for all types of capacity building projects. Although the number of vouchers remained at the 2015 level, the amount of funding decreased from \$500,000 in 2015 to \$200,000 in 2016. Around 1,000 service providers are registered at the Marketplace website, but the quality of these services varies significantly.

In 2016, the master's program for CSO managers under the Ukrainian Catholic University of Lviv received a license from the Ministry of Education. The Dragomanov National Pedagogical University of Kyiv continued to offer bachelor's and master's programs in CSO management.

Intersectoral cooperation among CSOs, businesses, and public authorities is on the rise. For instance, at the beginning of 2016, CSOs initiated cooperation with the Ministry of Information Policy to prepare and conduct the "Crimea is Ukraine" public awareness campaign. Also during the year, the Center of Corporate Social Responsibility Development initiated the Pact for Youth, which is aimed at solving youth education and employment issues through the establishment of 100 partnerships between businesses and educational institutions and the creation of 10,000 places for youth fellowships or first employment by 2020. The Pact was signed by forty-three businesses by the end of 2016.

### **PUBLIC IMAGE: 3.3**



The sector's public image did not change significantly in 2016.

Media attention in 2016 was focused on the government crisis, continued military conflict in the east, and the worsening economic situation, which somewhat reduced coverage of CSO activities. Nevertheless, civil society experts have become an integral part of media programs, and national and regional mass media continued to highlight the efforts of CSOs and volunteers to support the families of the bereaved, combatants from the ATO, and IDPs from Crimea and the Donbass region, although to a lesser extent. In general, coverage of CSO activities is positive and there were no major scandals in 2016, though there were reports of CSOs misappropriating funds, producing poor quality products, and other missteps. In 2016, there were also instances of regional media soliciting money from CSOs for publications that are usually free and considered public service announcements.

In 2016, CSOs continued to benefit from the public's positive perception of the sector. According to a public opinion poll conducted in December 2016 by the Kyiv International Institute of Sociology, the level of trust in CSOs did not change, with 37 percent of respondents reporting that they trust CSOs and 24.5 percent indicating that they do not trust CSOs. The same poll found that volunteers, churches, and the army are the most trusted entities in Ukraine. However, trust in volunteers decreased from 44.1 percent in 2015 to 33.9 percent in 2016. A poll conducted by the Democratic Initiatives Foundation in 2016 found that 50 percent of the population thinks people are now more willing to start CSOs, 8 percent believe that people are now less willing, and 27 percent think that there was no change.

Public authorities' perception of civil society continued to improve at both the national and regional levels in 2016. National public authorities often rely on CSO expertise and participation in decision-making processes. Public authorities at the local level perceive CSOs as an instrument to attract financial resources and expertise, and to demonstrate support for their policies.

Businesses improved their attitudes towards CSOs in 2016. Since the EU-Ukraine Association Agreement, which includes provisions for a Deep and Comprehensive Free Trade Area, was signed in 2014, an increasing number of CSOs have become involved in advocating for better conditions for business development in Ukraine. As a result, CSOs, including analytical centers and think tanks, increasingly play an intermediary role between government and business in promoting certain legislation through the establishment of intersectoral expert groups. As a result of the increasing role and influence of CSOs, companies are more willing to cooperate and create partnerships with CSOs.

Most CSOs use social networks such as Facebook to keep their supporters informed about their activities; engage new supporters, partners, and constituents; and assess the needs and opinions of their target groups. CSOs have also improved their communication with journalists, in part by providing media with expert opinions and important information.

CSOs continue to try to exercise more transparency. When reviewing their strategies, CSOs include transparency and preparation of annual reports among their priorities and objectives. Some donors, such as the IRF, now require CSOs to publish reports about their work. In addition, CSOs increasingly use modern visualization methods such as infographics when preparing their activity and financial reports in order to make the information more accessible.