

ANNUAL REPORT 2004



TRUST FOR CIVIL SOCIETY
in Central & Eastern Europe

The Trust for Civil Society in Central and Eastern Europe, established in 2000, supports the development of civil society in Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia. The principal focus of its work is on helping to build a sustainable and vibrant nonprofit sector. The CEE Trust carries out its program through partner organizations located within each of the seven countries.

The CEE Trust represents the shared values of the establishing foundations – Atlantic Philanthropies, German Marshall Fund of the United States, Ford Foundation, Charles Stewart Mott Foundation, Open Society Institute, and Rockefeller Brothers Fund. The founders have committed \$64.59 million to the CEE Trust through December 2004.

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CHALLENGE OF CHANGE

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LETTER FROM THE CHAIR

The year 2004 marked the fifteenth anniversary of the fall of the Berlin Wall. Since those extraordinary times, countless individuals and organizations have been meeting the challenge of building civil society in post-communist environments. The founding of the Trust for Civil Society in Central and Eastern Europe was one such response to unprecedented needs. The result of a unique agreement among six private donors, the CEE Trust was established in 2000 to support the development of civil society in seven countries of Central and Eastern Europe.



In 2004, nearly eight years after first coming together to discuss how U.S. donors could use their resources to strengthen the long term sustainability of civil society in the region, the Board of Trustees of the CEE Trust decided to survey how far we had come and what still remained to be done. Looking back at the hard work of our first four years of operation, we saw a number of important achievements. Under the able leadership of Jacek Wojnarowski, our first executive director, the CEE Trust invested almost \$20 million in grants in a first round of activities in five countries. Our partner organizations in Slovakia, the Czech Republic, Poland, Hungary, and Slovenia have started up successful grant making and operating programs targeting the diverse needs and interests of NGOs in their countries; and several interesting regional initiatives are well underway.

The accomplishments of the year 2004, which are outlined in this report, bear out this positive assessment. In the area of legal and fiscal reform, partners such as the Hungarian Environmental Partnership Foundation and the VIA Foundation in the Czech Republic, offered crucial support to organizations and individuals engaged in drafting and reviewing legislation affecting civil society. The challenge of NGO sustainability was met by innovative programs such as that of the Soros Foundation Hungary, which launched a second round of institutional grants, and the Stefan Batory Foundation in Poland, which supported new models of funding for local initiatives, including community foundations and partnership groups. The Ekopolis Foundation of Slovakia restructured its advocacy program to better target public policy formation, legislative reform, and watchdog activities, while our new Slovenian partner, Umanotera, advocated for inclusion of NGO-related topics in the public debate. Throughout the year, partners such as the Open Society Foundation in Slovakia and the Civil Society Development Foundation Hungary strengthened the capacity of the nonprofit sector by providing training and materials in topics ranging from corporate philanthropy and leadership development to quality assurance systems.

Yet looking ahead, the Board also saw that many needs related to strengthening civil society were going unmet. Drawing on the input of scores of individuals from the region who were interviewed in the course of the last year, we realized that many of the challenges confronting civil society in the decade ahead are vastly different from those that emerged in the decade following the collapse of communism.

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Rapid economic growth, completed or pending membership in the European Union, withdrawal of many international donors, and the uncertain beginnings of local philanthropy are only a few of the factors contributing to a somewhat unstable outlook for the nonprofit sector. At the same time, misdirected political agendas, persistent public and private sector corruption, half-hearted or ineffective efforts at policy reform, and the low level and quality of citizen participation in public debates make the role of civil society more critical than ever in strengthening democracy. Given this kaleidoscope of complicated, evolving needs and conditions, the Board decided to undertake a strategic planning process to help both the Board and staff make decisions about the future direction of the CEE Trust.

The outcome of our year-long process of self-reflection is a proposed new strategic framework to guide our work in the years to come. While our mission remains the same – to support the sustainability of civil society in the region – the Board intends to strengthen the CEE Trust’s role as a catalyst for change by developing a larger toolkit of philanthropic instruments. Within our continuing regional scope, we will broaden our relationships to include a more diverse array of organizations and individuals. We will develop adaptable programs beyond grant making that will allow us to act quickly and effectively in the region’s complex, varied, and evolving environments. Above all, we will focus on the issues that those engaged in strengthening civil society identify as their most important concerns. To accomplish these goals, the CEE Trust intends in the coming years to make grants providing both project support and core support and to explore opportunities for impact beyond grant-making activity.

The Board is enthusiastic about our new strategic direction and is pleased to announce that Ms. Rayna Gavrilova has been selected as the next executive director of the CEE Trust. Currently executive director of Open Society Institute-Sofia, Ms. Gavrilova has been an important leader for civil society both in Bulgaria and throughout the broader region. She will assume her new position in October 2005.

With Ms. Gavrilova’s extraordinary experience and vision, we are excited to have her join the CEE Trust and are confident that she will provide strong leadership to guide us into our next stage of development.

Maureen H. Smyth
Chair, Board of Trustees



INTRODUCTION: THE CHALLENGE OF CHANGE

The concept of the Trust for Civil Society in Central and Eastern Europe dates from 1997, when representatives of private foundations and the United States Agency for International Development met to discuss a possible private-public partnership for investing in civil society in Central and Eastern Europe (CEE). The U.S. government was unable to continue as part of this coalition, but six private donors pursued the concept during 1998-99. By 2000, they had agreed upon an approach for creating and operating the CEE Trust.

The founding donors were Atlantic Philanthropies, Ford Foundation, German Marshall Fund of the United States, Charles Stewart Mott Foundation, Open Society Institute, and Rockefeller Brothers Fund. The donors have committed a total of \$64.59 million toward a budget of \$75 million for the CEE Trust, to be expended over a 10-year period. In 2004, Pfizer Foundation awarded the CEE Trust an additional \$200,000 to implement a regional program to strengthen health consumer groups and promote health care advocacy in CEE.

These founding donors brought considerable experience to the CEE Trust. All had been active in supporting civil society in the region since the beginning of the transformation to democracy in 1989-90. Realizing that the relatively high level of foreign funding for the nonprofit sector during the 1990s would not be sustained, the donors viewed – and continue to view – the CEE Trust as a bridge to increasing levels of indigenous and European support for civil society.

The CEE Trust's geographic focus embraces the four Visegrad countries (Czech Republic, Hungary, Poland, and Slovakia), Bulgaria, Romania, and Slovenia – five countries which are 2004 new EU members and two expected to qualify for second-wave European Union (EU) enlargement.

The year 2004 will be remembered as a watershed year in Central and Eastern Europe. On May 1, eight countries in the region realized a major foreign policy goal of the post-communist era by joining the European Union. Though this achievement stimulated rapid growth in trade, a large infusion of public and private investment, and other tangible benefits, doubts persisted over the broader implications of EU membership. For the region's civil societies, the outlook was especially unsettling. With long-time donors phasing out their support and the EU emerging as the likeliest source of future funding, a whole new future was about to unfold.

Among the new EU members were five countries that the Trust for Civil Society in Central and Eastern Europe has targeted for support: the Czech Republic, Hungary, Poland, Slovakia, and Slovenia. In 2004, two other CEE Trust countries – Bulgaria and Romania – reached agreement to join the EU in the next few years. For civil society actors throughout these countries, the transition to a new political and economic framework brought the challenge of redefining themselves in a context where – even

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today – the only constant is change. How well they make this transition in years to come will determine how well they meet society's most pressing needs – the need to reach more diverse target populations; to address deepening social and economic disparities; to find new resources and alternate approaches to policy and legal reform; and, as a sector, to work together more effectively to encourage citizen engagement and volunteerism.

The goal of the CEE Trust is to help the region's nonprofit sectors meet the challenge of change by serving as a source of private and independent support. In 2004 – our fourth year of operation – we awarded more than \$3.2 million for activities that, for the first time, spanned all seven of our target countries. Although in each country our means may differ, our end is consistently to aid in the stabilization of the region's civil society. Our main interests are the development of the legal and fiscal framework needed for healthy civil societies, of the skills and capacities that make nonprofit sector leaders strong and effective, and of conditions that ensure the long-term growth and sustainability of individual organizations.

The CEE Trust has accomplished its work in tandem with partner organizations, which are, for the most part, indigenous grant makers selected in competitive, nationwide processes. In 2004, our partners in Slovakia, the Czech Republic, Poland, Hungary, and Slovenia directed more than \$4.2 million of CEE Trust resources toward efforts they had identified as crucial for civil society in their countries. In the area of legal reform, for example, our Czech and Polish partners developed new ways of monitoring draft legislation, a Slovak partner focused on publicizing "percentage philanthropy," and a Hungarian partner developed a comprehensive legal reform concept. These diverse approaches illustrate the flexibility with which our partners can design responses to local needs under the broad umbrella of building support for philanthropy, engaging citizens in volunteer activity, and increasing the resources available to the nonprofit sector.

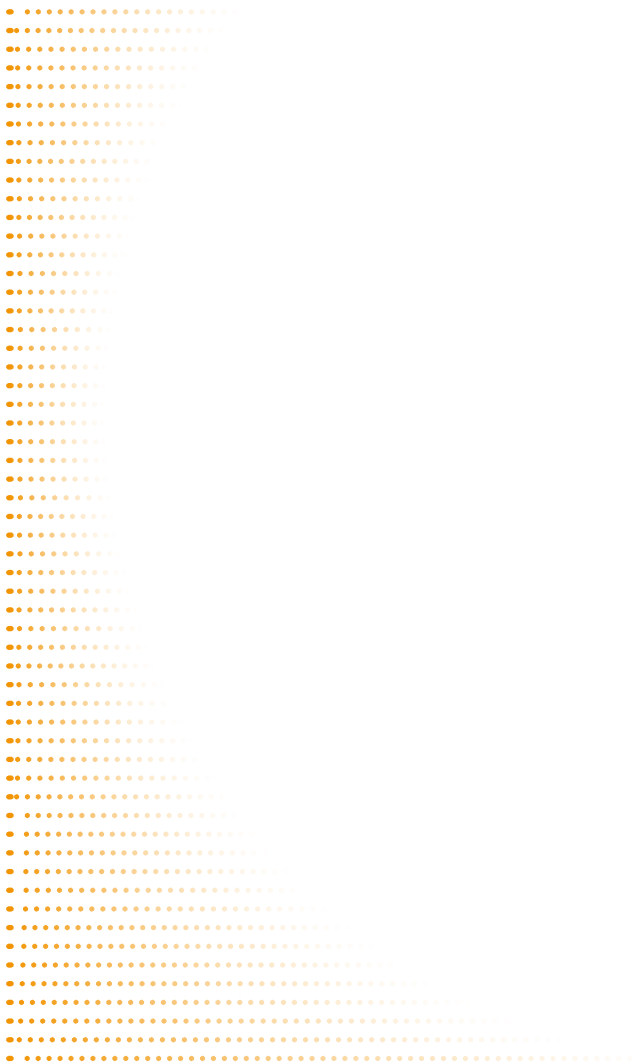
One of the hallmarks of the CEE Trust has been the investment of considerable resources in the institutional capacity of key NGOs. Multi-year grants to our partners, while used primarily for regranting, also allow them to secure their long-term financial outlook, aim for higher organizational performance, or cover core operating costs not funded from other sources of support. Our partners also make institutional grants to strengthen select organizations in their countries. In 2004, our Slovak partners continued a robust program of institutional grants to more than 50 advocacy, arts, social service, and other NGOs, while our Polish partner focused on meeting the reserve and endowment needs of a small group of key organizations. Although the concept of institutional grants is not without controversy, in the experience of the CEE Trust, this form of grant giving has allowed maturing organizations to achieve greater organizational efficiencies and more decisive, long-term impact.

NGO capacity was also enhanced by three special initiatives that are closely identified with the CEE Trust. The Cross-Border Initiative encouraged peer-to-peer learning through support to projects and organizations that address intra-regional issues. In 2004, the Cross-Border Initiative funded Romanian and Bulgarian participation in an international conference on fundraising hosted by our Czech partner, the VIA Foundation. Our Governance Initiative offered coaching to NGO chief executives and boards of directors and developed region-specific governance tools, such as the *Handbook of NGO Governance*, which was published in 2004. Finally, our annual partners' meeting, which took place in Warsaw in 2004, brought together NGO leaders and regional experts

to share insights on cutting-edge themes and discuss issues of shared concern.

The year was especially important for the CEE Trust in that it saw the launch of new programs in Slovenia and Bulgaria. With an award of \$924,200, Umanotera, the Slovenian Foundation for Sustainable Development, began a program aimed at enhancing public understanding of civil society, professionalizing the sector, and strengthening nonprofit and government ties. In Bulgaria, an intensive process of consultation with in-country players resulted in a new program based on locally identified priorities, which will be implemented by four partner organizations. A similar process of consultation is now underway in Romania, where a full program is expected to begin in 2005.

The following pages detail our record of achievement in 2004 – a record which, we believe, shows civil societies throughout Central and Eastern Europe taking part as confident, creative, and consequential players in a shifting environment. Topical essays by local NGO leaders outline three key issues – internal governance, fiscal reform and institutional grant making – that have occupied many of the region’s nonprofit sectors during the year. Individual sections offer a closer look at our partners’ grant making and operational priorities, and present our regional initiatives. We hope you enjoy this snapshot of the CEE Trust’s activities in 2004 and, reflected in it, a glimpse of civil societies meeting the challenge of change.



THE CASE FOR GOOD NGO GOVERNANCE

Gabriela Ivascu

In advancing both the general good and their specific missions, NGOs in CEE confront many challenges, ranging from the economic environment and country-level regulations to the need for greater sustainability, organizational capacity, and professionalism. Given the nature of NGOs as well as the forces shaping their development, their approach to governance can influence their overall performance and credibility.

But what is governance? The *Handbook on NGO Governance* issued by the Central and Eastern European Working Group of NGO Governance notes that the term “governance” generally refers to the way in which power is assumed, conveyed, and exercised in an organization. Ideally, good governance involves a balanced division of powers between the board and the staff of the organization. The development of an active, engaged board working in partnership with the chief executive is vital to any well-functioning NGO, because it encourages organizational stability, balanced decision making, and meaningful accountability to stakeholders.

In our region, NGOs work within a highly regulated environment where the legal framework establishes certain ground rules for setting up and running an NGO. These ground rules typically refer to the formal aspects of the organization, but they don’t always specify the purpose or duties of boards. Sometimes the laws are vague, contradictory, or silent about governance, thus failing to establish ground rules altogether. The communist past and local traditions also shape how boards are regarded and operate. In many cases, boards are perceived as entities that can raise an organization’s public profile without really bearing any responsibility for advancing its mission and goals. Indeed, boards can even be seen as standing in the way of achieving these things. While over time larger and more established organizations often evolve more defined governance processes, smaller grass roots NGOs may question the need for a board at all.

Yet no matter what the size of the NGO, a responsible approach to governance makes an organization reflect on the very core of what it does. In fact, consideration of governance structures is an excellent way for an NGO to put its operations in order. In the well-governed NGO, there is usually an alignment of staff and board roles and responsibilities, active use of the strategic plan, and consistency between the mission and programs. Working together, these elements contribute to a holistic structure in which policies are meaningful, everyone’s time and contributions are valued, and the resulting synergy contributes to an effective organization. This goes for smaller organizations, too, which also need boards even if the legal framework doesn’t demand it. The value of boards is that they help ensure there is a split between governance and management, operations are professional, conflict of interest in decision making is resisted, sufficient resources are raised, and the organization’s outreach is extended.

There is another, larger reason why well-functioning boards are vital to NGOs in CEE. NGOs in the region have undertaken the special role of advancing democratic

principles in their countries. In spite of this self-chosen role and their overall positive contribution to their societies, NGOs in CEE are often confronted with an unfavorable public image and even widespread distrust. It takes only a few bad examples of organizations misusing resources or abusing power to trigger negative perceptions, which NGOs further through insufficient transparency, lack of accountability, and inactive boards. Well-functioning boards help counteract this effect by setting standards internally, ensuring that good governance processes are in place, and enforcing external transparency and accountability.

Good governance is a step to professionalized operations and, ultimately, to building trust. Why would NGOs in CEE need trust? For the very reason that they can carry out their mission only if they have a trusting relationship with stakeholders and the general public. While public officials are accountable to their electorate, and business leaders are accountable to their shareholders (and sometimes beyond), an NGO is accountable to “stakeholders” or beneficiaries, partners, members, funders, and other groups that directly or indirectly support and legitimize the actions of the NGO. This support and legitimacy can only be achieved through a trusting relationship, especially in CEE, where a civic mentality is still maturing and traditions of helping a good cause are thin. The focus on good governance in the CEE countries is, therefore, justified by the need to develop better accountability and trust.

Given the special circumstances affecting the NGO sector in CEE, grant makers active in the region have a key responsibility regarding governance. They need to create rules for good governance not only within their own organizations but also within grantee organizations and the sector as a whole. In so doing, they can, in a larger sense, contribute to the shaping of a well-governed society.

Grant-making organizations in CEE can set an example by establishing their own healthy and coherent governing rules, enforcing conflict-of-interest policies for their board and staff members, and developing codes of ethics that include general values, principles, and norms of behavior in grant-making programs, for example, that decision making about grants has a clear and logical basis, includes appropriate controls and oversight, and is performed in a manner consistent with the organization’s policies.

Grant makers also have a broader responsibility to encourage greater accountability in the NGO sector as a whole. Is there a way they can introduce some general guidelines for governance at the sectoral level? Is there even sense in standardizing practices and expectations in already highly regulated environments? Over-regulation can result in stifling bureaucracy and may not make NGOs govern themselves any better. But effective self-regulation can have an entirely different effect. Potentially great benefits could result if some basic best practices of governance were to be defined, promoted, and ultimately fulfilled by grant makers. Efficient management practices, prudent use of all resources, regular publication of activity reports (including financial data), and compliance with legal responsibilities are just a few of the many important places to begin.

*Gabriela Ivascu is the Executive Director
of the Romanian Donors’ Forum.*



THE PERCENTAGE CLUB

Marianna Török

It has been almost 10 years since the 1 percent law was introduced in Hungary. This unique piece of legislation allows individual taxpayers to allocate 1 percent of their personal income tax to eligible NGOs of their choice that conduct public benefit activities. Hungary's 1 percent law sparked a chain reaction: five other countries (Japan, Lithuania, Poland, Romania, and Slovakia) have already introduced similar provisions, and six other countries (Czech Republic, Georgia, Macedonia, Mongolia, Switzerland, and Ukraine) hope to introduce laws based on the Hungarian model. The number of "Percentage Club" members is growing, and many people are wondering why this is so.

So far, every country that wanted to adopt such a law has in fact done so with success. In the cases of Poland, Slovakia, and Romania, these efforts have been supported by the Trust for Civil Society in Central and Eastern Europe.

- Slovakia started to work on a new law in 1999. It was implemented for the first time in 2002 and modified in 2003. Today, companies as well as individuals can allocate as much as 2 percent of their income tax to NGOs.
- In Lithuania, a new law was ratified in 2002 as a result of systematic advocacy campaigns. This law is based on the Hungarian model but allows people to allocate up to 2 percent to nonprofits. Both the Slovak and Lithuanian laws follow the Hungarian version in that tax offices transfer allocated sums to beneficiaries.
- The Polish law was enacted in 2003 after lengthy discussion. It imitates the Slovak and Lithuanian models in that the 1 percent "gift" can be allocated to several beneficiaries. Poland also added a new mechanism that provides for taxpayers themselves to transfer 1 percent of their personal income tax directly to beneficiaries.
- In Romania, a law was adopted as a result of considerable pressure by opposition parties and civil society groups. It was enacted in 2003 and will go into effect this year.
- In Japan, the media have played an inestimable role in popularizing the percentage philanthropy model. As a result, the city of Ichikawa will soon introduce a system based on the 1 percent model.
- The Czech Republic, Georgia, Macedonia, and Ukraine are shortlisted to become members of the Percentage Club. Civil society groups in these countries are making great efforts to enable nonprofits to benefit from this form of giving.

The Nonprofit Information and Training Center (NIOK), together with two main partners – the Forum Institute in Slovakia and the Non-Governmental Organization Information and Support Centre in Lithuania – launched the Percentage Philanthropy Project in 2003 to provide information and know-how to interested groups in countries considering such legislation. The project also aims to share best practices with countries that already have such laws, so they are better equipped to improve or fine tune its implementation. Through our international network, the Percentage Philanthropy Project has disseminated information on the Hungarian 1 percent law at conferences, through the media, and in presentations all over the world, from Bratislava to Tokyo. The project is supported by the Sasakawa Peace Foundation Central Europe Fund, with additional funding from the Local Government and Public Service Reform Initiative of the Open Society Institute-Budapest. NIOK also received institutional support from the CEE Trust through one of its Hungarian partner organizations, the Soros Foundation Hungary.

We have found that in every country the success of the percentage donation project depends largely on the efforts of a particular leader who is committed to the nonprofit sector, can think strategically on the macro level, and has unusual stamina as well as outstanding negotiation and communication skills. He or she must reconcile the interests of various participants to foster cooperation among stakeholders who usually do not listen to each other. These individuals are usually assisted by organizations that not only share their workload but also reinforce the project's credibility.

Their work is made difficult by ambivalent attitudes toward the new legal entities called nonprofits and the fact that legal frameworks are not always set and do not typically encourage private donation. Fortunately, in some new democracies, former civil society leaders now hold prominent positions in the government and have actively promoted percentage donations. Moreover, the fact that these countries are introducing new tax systems has had a significant positive influence. Newly emerging tax systems can accommodate innovations more flexibly, and percentage giving actually helps communicate the concept of personal income tax more easily to the public.

Some experts warn that countries planning to introduce percentage donation must be careful. One danger inherent in the system is that taxpayers who donate 1 or 2 percent of their personal income tax may mistake their percentage donation for real philanthropy. A more pressing worry is that these laws can take the place of real reform and, in the worst cases, conceal the lack of policy or even cover up harmful decisions. In several countries, the introduction of a percentage law has indeed been followed by a decrease in other kinds of support. In some instances, the state has reduced or cancelled allocations to nonprofits from central resources or cut indirect support, such as tax allowances. These decisions were usually made in an ad hoc manner as a quick solution to a particular budgetary problem rather than as part of a complex strategy. However, if the leaders of a country's nonprofit sector are not prepared for such developments, they could, in the long run, lose more than they actually gain through the successful introduction of percentage giving.

Yet as membership in the Percentage Club grows, even skeptics agree that the law can have many positive effects. Many observers of the percentage allocation experience believe that it really has served as a school for philanthropy. The Horizonti Foundation of the Third Sector in Georgia argues that "the 1 percent law enables citizens to decide how a certain portion of their taxes should be used...[which] can also be considered as civic participation in decision making as to the utilization of public funds."

Other potential advantages of a percentage law mentioned by Ágnes Vajda and Éva Kúti of Hungary:

- It is an important source of income for many nonprofits;
- It is a source of legitimacy for nonprofits;
- It encourages the professional development of nonprofit staff;
- It helps to spread classical and progressive techniques of collecting donations;
- It deepens and enriches relationships among citizens;
- Citizens participate more intensively in the community, and civil society becomes stronger.

Clearly, percentage allocation has financial benefits, but more often experts point to the added value the system brings as it initiates positive processes in the nonprofit sector and in society as a whole.

The percentage system is only one method to assist the development of the not-for-profit sector. Introducing it should be part of a true policymaking process in which development options are weighed and a rational choice is made. The greatest achievements can be expected when percentage philanthropy does not stand alone in the development palette, but instead, is introduced as part of a conscious and complex development policy for a country's civil society as a whole.

*Marianna Török is the Director
of the Nonprofit Information and Training Center (NIOK) in Hungary.*

GRANT MAKING FOR INSTITUTIONAL CHANGE

Boris Strečanský

Making grants to institutions for their own development rather than for activities or projects immediately raises many questions. What is the rationale for this type of grant making? Does it really make sense? What has been the experience so far with institutional grants in CEE? What are some lessons for other local and regional grant makers? In attempting to answer these questions, I shall draw on my own experience as both a donor and a grantee.

First, I should clarify what I understand by institutional grant making. In the CEE context, the term usually refers to the provision of unrestricted funds (sometimes called general operating support or general purpose grants) to nonprofit organizations and NGOs. Often such support targets the organizational development of the recipient. Indeed, from the recent practice of various indigenous grant makers, we can see that these grants are not always completely unrestricted but may contain specific organizational development conditions or components. Therefore, there is a distinction between the general purpose grants, which are unrestricted and institutional strengthening grants that target the organizational development of the grantee.

Institutional strengthening grants may stretch over several funding cycles and involve a closer than usual relationship between the donor and the grantee. They must include a plan of specific actions and activities that will contribute to the organizational development of the recipient – development of individual skills, abilities, competencies, implementation of internal changes in areas such as governance, funds development, communication or investing in the development of relations with various partners and/or constituencies. In order to make sense, this plan however needs to always be open to change and reflection by the grantee, rather than being a formal exercise or document.

On the other hand, it is generally acknowledged that the main value of unrestricted or general purpose grants is that they empower the grantee to pursue an organic or “authentic” course of development based on a strategic, rather than project, plan. A key condition for the success of these grants is that there is mutual trust between the donor and the recipient. This relationship requires a willingness to take risks and engage beyond traditional formal or contractual interactions. Both partners must be open to listening and learning from each other, respect their own and the other’s identity, and appreciate each other’s priorities, philosophy, and approaches. If mutual trust is established, then an effective managerial framework is usually created that can lead to more effective and efficient use of the resources invested.

Unfortunately, not every potential grantee has the resources, time or ability to invest in a long-term effort needed to develop such a relationship with a general purpose donor. There is no universal answer to this challenge. Donors must also be in frequent contact with grantees and critically examine the context in which they operate. Compared to international grant makers, indigenous donors are in a better position to develop these relationships because of proximity and intensity of formal and informal contacts. Moreover, they must have a funding approach that is independent of parochial interests and is of

a volume sufficient to meet the needs of the segment of civil society they intend to serve.

Along with a strong sense of mission, grantees should demonstrate an awareness of their role in the larger environment and an ability to manage internal planning and decision-making processes that are strategic in nature. Such skills allow the organization to remain in control of its future while respecting other actors in the field. Grantees also need to be able to contextualize their efforts so that they acquire a meaning for a broader audience. They must take the necessary time to make strategic decisions where such grants are concerned. For this reason, whether or not they include organizational development components, general purpose grants require thorough preparation and are typically provided for periods of longer than a year.

The emphasis on organizational change is a natural response to recent changes in the environment for NGOs in CEE – in particular, the phasing out of foreign sources of funding. Organizations that have been dependent on such funding have had to adapt. This is especially true of NGOs that have typically been most disadvantaged due to their missions and activities, that is, watchdogs, alternative policy institutes, and advocacy groups.

Organizational adaptation – be it a regrouping of staff, more intensive public outreach, outsourcing of work to volunteers, more intensive domestic fundraising, more transparent governance, or economizing in operations – often causes the role that organizations play in their communities to change. It sometimes leads organizations to a more savvy definition of what their core mission or interest is and how it can be sustained. For others, it means a decrease in activity. This happens because in most countries of CEE, there is still no equivalent domestic replacement for foreign-sourced funding. We may have to accept that organizational change is not always a replacement for the lack of indigenous independent funding and that for some NGOs, organizational adaptation may not be the key to survival.

As a donor of general purpose grants with institutional development components, my own organization, the Ekopolis Foundation, has realized that some of the challenges these grants were aimed to meet – such as the sustainability of advocacy organizations – do not have easy answers. We have seen grantees demonstrate very different levels of understanding about the potential of general purpose grants and very different approaches to strategic thinking. Different organizations come up with different answers that need to be tested in practice before a judgment about their appropriateness can be made. We admit that we were not always prepared to deal with some nontraditional answers, such as using a grant to buy a local advertising media weekly as a resource-generating tool.

The most important measure of the success for institutional grant-making strategies is, in the end, not well-executed organizational change but the sharp and bold presence of grantees in their civic landscapes. As they offer leadership and vision to their fellow citizens through their activities, values, and standing, the recipients of institutional grants show the real value of this form of grant making. For this reason, I recommend to donors that they continue to provide general purpose grants with institutional development components, and to grantees that they remain strategically focused on their missions.

*Boris Strečanský is the Program Director
of the Ekopolis Foundation in Slovakia.*

BULGARIA



The CEE Trust launched its program in Bulgaria in 2004. The launch followed a six-month cooperative planning process in which nearly 100 Bulgarian NGO representatives worked together to identify the nonprofit sector's needs, development priorities, and appropriate delivery mechanisms. Their recommendations for the CEE Trust's programming priorities included: enhancing the role of the nonprofit sector in the public policy process; raising the level of domestic resources available to NGOs; and developing NGOs' capacity to access alternative sources of support. These proposals were incorporated as objectives into the CEE Trust's program in Bulgaria as outlined in the call for proposals issued in May 2004. From an initial pool of 32 applicants, the CEE Trust selected four organizations to receive four two-year grants totaling \$1,030,000. Program implementation began in early 2005 in accordance with the following three objectives identified in the consultative process.

Objective One: *Strengthen the role of the nonprofit sector in the public policy process on national and local levels*

This objective aims at strengthening the role of the nonprofit sector in all phases of the public policy process. Special efforts will be made to increase the consolidation of the NGO sector through joint action. Support will be directed toward initiatives that help local organizations carry out public policy work and allow national-level advocacy

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initiatives to build on local activism. Both national and local organizations will be encouraged to engage in learning exchanges with one another and other countries in the region.

AWARDED GRANTS:

Open Society Institute-Sofia	\$350,000
Green Balkans Federation of Nature Conservation NGOs	\$150,000

Objective Two: *Increase the level of domestic resources available to NGOs*

The purpose of this program area is to increase the philanthropic involvement of individuals, corporations, and public administration and to introduce systemic changes in the legislative and fiscal environment of the nonprofit sector. Initiatives will cultivate new forms of philanthropy, offer technical assistance to philanthropic organizations, and promote legislative changes to enhance the scope of nonprofit activity and increase the level of available resources.

AWARDED GRANT:

Bulgarian Charities Aid Foundation (in partnership with the Bulgarian Center for Not-for-Profit Law)	\$280,000
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Objective Three: *Strengthen NGO capacity to access alternative sources of support*

Activities under this objective will encourage NGOs to think strategically about ways to fund their core costs. Through training, sharing, and practical experiments, NGOs will build their capacity in income generation and develop their organizational effectiveness. Emphasis will be on cultivating greater professionalism in the nonprofit sector.

AWARDED GRANT:

Workshop for Civic Initiatives Foundation	\$250,000
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CZECH REPUBLIC



The VIA Foundation became the CEE Trust's partner in the Czech Republic in April 2002 with a total award of a \$3.3 million grant (plus \$198,000 for institutional development). VIA was established in 1997 to strengthen democratic society in the Czech Republic. Its CEE Trust-funded programs focus on creating a favorable legislative climate for NGOs, building the capacity of the NGO sector, developing new sources of financial support, and providing institutional support to key organizations. In agreement with the CEE Trust, VIA extended the original three-year timeframe of its program to 2006. VIA realizes its programs in cooperation with several program partners: Civil Society Development Foundation, Czech Donors' Forum, Czech Environmental Partnership Foundation, Jan Hus Educational Foundation, and Open Society Fund Prague.

In 2004, Czech NGOs coped with an uncertain political climate marked by the fragility of the ruling coalition and widespread concern over public corruption. For NGOs, three factors were especially important: the shrinking of foreign sources of funding, particularly those available for general support and operating costs; the inconsistent decentralization of state administration, which shifted responsibilities to regional and local entities but left funds (including support for NGOs) in the hands of central bodies; and difficulties and delays in realizing projects funded by the European Union. On the plus side, progress was made in drafting the new Civil Code, which aims to establish a revised legal framework for NGOs. Tax reform came to the forefront as an urgent issue in 2004 and will probably have a substantial impact on NGOs in the years ahead.

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VIA worked to improve the legal environment for NGOs with six awards to organizations involved in drafting and evaluating the new legislation. Grantees included the League for Human Rights, which coordinated NGO comments on the new Civil Code; the Institute for Social and Economic Analysis, which analyzed the potential impact of a draft act on public benefit status; and the Environmental Law Service, which established a legal center to monitor the development of environmental legislation. These and other efforts ensured that feedback on new laws was forthcoming in the form of expert opinion and broad public discussion. Advocacy and think tank projects were begun in 2003 with grants awarded by VIA's program partner, the Open Society Fund Prague. In 2004, these projects continued to address a broad range of public policy issues, including corruption in government and transparency among NGOs.

VIA has identified as a major "blank spot" in the NGO sector the inability of organizations to identify, analyze, and respond to critical macro-level issues facing the sector. To fill in this gap, VIA's program partner, the Civil Society Development Foundation (NROS), conducted the Czech portion of the international CIVICUS Civil Society Index. This major research project included a national survey of NGOs, regional consultations with representatives from various sectors, and a review of articles on Czech civil society. NROS received additional support to strengthen NGO umbrella organizations operating in the Czech Republic. In addition, VIA awarded 14 grants to organizations engaged in researching nonprofit organizations, developing networking and collaborative projects, and improving the overall environment for NGOs.

To enhance the professional capacity of civil society organizations, VIA supported a regional meeting of NGO fundraisers and helped with the founding of the Consultants' Guild, a networking and professional development platform for consultants who serve nonprofit organizations. VIA also provided support to a group of members of the new guild to establish the Independent Think Tank - NETT, which aims to identify and offer solutions to the most pressing issues facing the sector. NETT's efforts will be complemented by the ongoing activities of the Center for Nonprofit Sector Research, established in late 2003 with a CEE Trust-funded grant awarded by VIA's program partner, the Open Society Fund Prague. During its first year of operation, the center completed a major study of the financial situation of Czech foundations and, with the Czech Statistical Office, set up a new mechanism for gathering statistical data about the NGO sector.

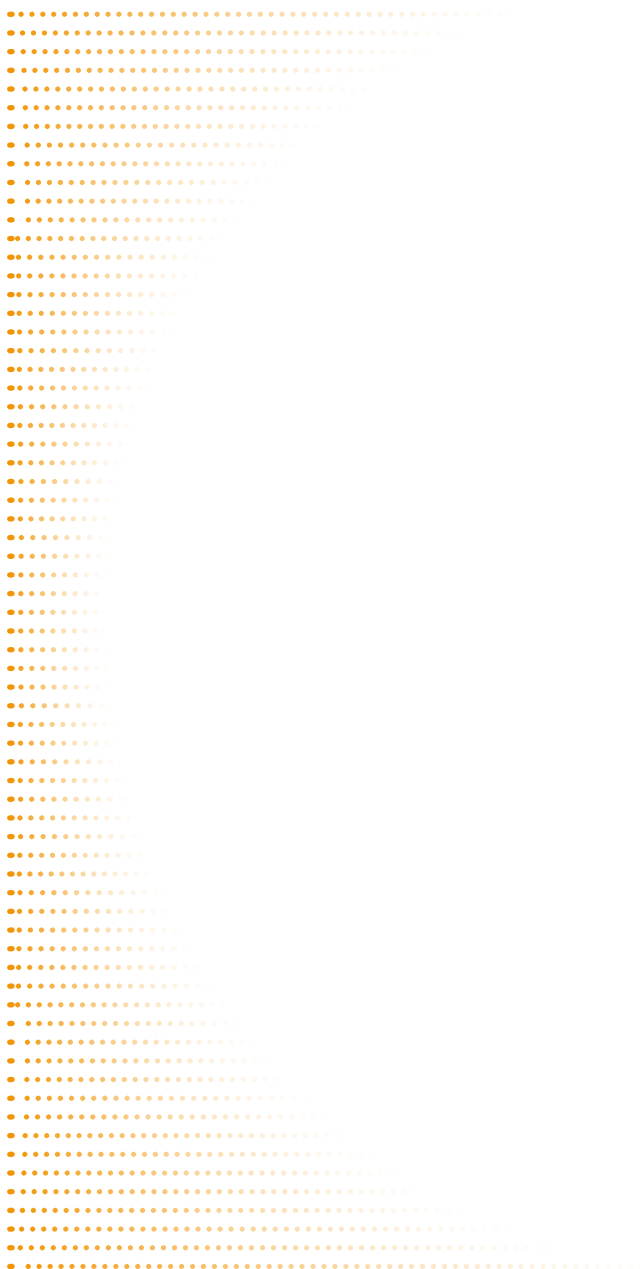
Helping NGOs tap into EU funding was a continuing priority in 2004. VIA's program partner NROS continued to enhance public understanding of EU opportunities with such projects as EU Gate, a Web portal that serves NGOs and the public administration, and various trainings and publications on EU issues. Signaling the positive impact of these activities, four NGOs that had received grants in 2003 to improve their ability to access EU funds successfully applied for such funding in 2004.

VIA continued to build corporate philanthropy and strengthen ties between businesses and NGOs by organizing seminars on corporate social responsibility and corporate giving. With partial support from the CEE Trust, the Czech Donors' Forum launched its highly successful "Donor SMS" program, an innovative giving program operating through cell phone text messaging. VIA also awarded its seventh VIA Bona Awards to corporations showing an exemplary record of philanthropic activity.

Two program partners, the Czech Environmental Partnership Foundation and the Jan Hus Educational Foundation, awarded grants totaling more than \$80,000 to eight local and regional foundations. These funds helped support many small but innovative

local and regional projects while developing the grant-making skills of foundation staff. VIA awarded five other regional foundations more than \$15,000 each on the basis of fundraising results in 2003. The ability of these foundations to diversify their sources of income and, in two cases, add to their endowments, confirmed the effectiveness of the program's intensive capacity-building effort.

Finally, 35 organizations received small organizational development grants for strategic planning, diversification of funding, and other essential processes, and 12 organizations received the second installment of their institutional support grants. VIA engaged an independent consultant to formulate case studies highlighting the impact of these types of support. Preliminary results indicate that the benefit of organizational development grants is relatively high in proportion to the funding invested, and that institutional support grants are apparently successful in promoting systemic change and targeted planning. NGOs receiving institutional support say they value the program as an important catalyst for necessary changes in their organizations.



HUNGARY



In 2003, after a year-long developmental phase, the CEE Trust awarded three-year grants to three Hungarian partner organizations. The Soros Foundation Hungary, an organization founded in 1984 to promote open society in Hungary, received \$2.4 million (matched by \$800,000 from the foundation's own resources) to promote the long-term financial sustainability of nonprofit organizations. The Hungarian Environmental Partnership Foundation, which has furthered the development of citizen participation since 1991, received \$798,000 to support the development of an enabling legal, fiscal, and political environment for civil society. Finally, the Civil Society Development Foundation Hungary (CSDF), founded in 1994 to provide NGO capacity building and development services, was awarded \$700,000 to strengthen the nonprofit sector through institutional capacity building. In cooperation with the Pfizer Foundation, the CEE Trust awarded CSDF an additional grant of \$200,000 for a regional program to strengthen health consumer groups and promote health care advocacy. After a preparatory phase following the award of these grants, the year 2004 saw the full-scale launch of grant making and operational activities.

The start-up of the CEE Trust's program in Hungary took place against a political backdrop of increasing tension and uncertainty. After the country's accession to the European Union in May, several factors contributed to a sense of deepening political and social unease. These included cutbacks in state expenditures, a change in government without elections, and a double referendum on hospital privatization and dual citizenship for Hungarians living outside of the country. Nevertheless, civil society scored a major victory when the National Civil Fund became

operational on January 1, 2004. This new financial mechanism—amounting to \$35 million in 2004—supports NGOs’ operational costs with an amount equal to 1 percent of taxpayers’ personal income tax allocations. It is governed in part by civil society groups, which in a nationwide process elected delegates to an oversight council and 11 regional grant-making bodies. Although, disappointingly, more than half of the applications received by the National Civil Fund in its first year were rejected on technical grounds, in general the new mechanism proved its viability. In other areas, the trends for civil society were mixed. In a controversial move that may have resulted from the very success of the fund, state ministries prepared to make significant cuts in their support for NGOs. Moreover, NGOs had trouble engaging in planning for the second National Development Plan. Also, despite the government’s stated commitment to dialogue, progress on a long-expected law on volunteering was stalled.

During 2004, the Soros Foundation Hungary addressed the challenge of non-profit sustainability by implementing a program of institutional grants and preparing a program of loans to NGOs. Following a pilot phase in 2003, a second round of institutional grants was awarded in 2004. In a multi-step process, a specially appointed independent board approved grants to advocacy, legal defense, grant making, civil society development, and public policy organizations selected from a pool of more than 200 applicants. Applications were judged in part on the basis of their sustainability plans and the quality of their internal operations. Altogether, more than \$1.1 million in three-year grants was awarded, with individual awards ranging from about \$30,000 to \$100,000. The Soros Foundation Hungary also made separate funds available to grantees and semifinalists for EU training purposes. A third round of institutional grants was announced by the foundation in December 2004.

With funds provided by the CEE Trust, the Soros Foundation Hungary started to expand a successful and innovative nonprofit credit system that it has supported for the last four years. The foundation selected the Business Basics Foundation, which provides counseling to NGOs and has experience in the area of NGO loans, to manage the expanded loan program. The Business Basics Foundation in turn engaged an independent corporation, Mikrohitel RT, operating under the supervision of the Hungarian Financial Supervisory Authority, to run the lending and financial process. In the expanded loan program, Mikrohitel will serve as a lending bank for NGOs, while the Business Basics Foundation will provide oversight and ensure that the assessment process and collateral requirements are tailored to meet NGO needs. In 2005, a marketing strategy will be developed for the expanded loan program and a six-month pilot phase will be launched.

To enhance the legal, fiscal, and political environment for Hungarian NGOs, the Hungarian Environmental Partnership Foundation formulated a comprehensive approach to nonprofit legal reform. Working with a team that included members from the European Center for Not-for-Profit Law and the Environmental Management and Law Association, the Hungarian Environmental Partnership Foundation drafted a concept paper and circulated it for review among NGO leaders, lawyers, and other experts. The purpose of this document was to create a long-term strategic view of civil society development that could serve as a guideline for NGOs, state authorities, and the judicial system when relevant legislation is formulated or amended. Following the review process, a new draft of the concept paper was

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circulated among government officials and presented to the public in a series of roundtables organized in cooperation with county civil service centers. This “road show” reached more than 350 NGOs, acquainting them with the approaches and regulatory options proposed in the concept paper and providing a forum in which they could offer feedback about pressing needs that present legislation fails to address. In 2005, the Hungarian Environmental Partnership Foundation plans to continue its intensive work with government representatives and NGOs to gain broad acceptance of the comprehensive legal reform concept.

Throughout the year, the Hungarian Environmental Partnership Foundation continued to monitor new and amended pieces of legislation affecting civil society groups. Among the most important issues were the operations of the National Civil Fund, proposed modifications to the Public Finance Act, reform of the Employment Act, and preparation of the Act on Volunteering. The Hungarian Environmental Partnership Foundation also ran a small-grants program targeting local fundraising campaigns. The aim of this program is to support workable fundraising ideas that could serve as models for other NGOs.

CSDF chose to broadly interpret its responsibility for institutional capacity building under the CEE Trust program. The focus of its programs, united under the Hungarian name *ÖnErő* or “Self Power,” ranged from leadership development to accountability and quality assurance systems, advocacy initiatives, and support for indigenous donors. Overall, the main goal of CSDF’s programs was to devise new, locally adapted training approaches and materials on quality assurance, leadership, and advocacy for Hungarian NGOs. During the year, CSDF provided training and consultation to several hundred NGO representatives, worked with a group of organizations on long-term projects, offered professional development to trainers and consultants, and coached or mentored civil society leaders. CSDF also advised emerging philanthropies, including the Hungarian Donors’ Forum and new corporate and private foundations, introduced three quality assurance systems, and at its annual residential training event – the Summer Institute – successfully piloted a new leadership curriculum. Through these and similar activities, CSDF has helped launch key Hungarian NGOs and their leaders on the road to greater autonomy, sustainability, and power.

POLAND



The CEE Trust's partner organization in Poland is the Stefan Batory Foundation, a leading Polish foundation established in 1988. With a \$5 million grant from the CEE Trust – which it matched with \$1 million from its own resources – the Batory Foundation provides long-term support in areas in which systemic change is needed to improve the environment for NGOs.

Its programs focus on four strategic directions:

- (1) policy development;
- (2) networking, partnership, and advocacy;
- (3) promotion of new models of funding local initiatives;
- (4) support for the institutional development and financial stability of key organizations.

The year 2004 was the first full year of programming activity. The Batory Foundation received an additional \$300,000 award for its own institutional development.

As elsewhere in the region, the major development affecting Polish NGOs during the year was the country's accession to the European Union on May 1, 2004. The results of this historic event – dynamic economic growth, the continued infusion of structural funds, and a steep rise in some prices, to name just a few – were felt as keenly by NGOs as by the rest of society. More directly for the nonprofit sector, the implementation of the 2003 Law on Public Benefit and Volunteer Work had important repercussions. Despite some

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obvious drawbacks, this law seems to have established a new framework for more productive cooperation between NGOs and local authorities. During 2004, the fiscal environment for NGOs continued to be extremely uncertain. At the same time, the new Civic Initiatives Fund set up to support nonprofit activity appeared to signal a more positive long-term approach by the government toward supporting and working with NGOs.

Against this backdrop, the Batory Foundation's activities under the award from the CEE Trust were a significant step toward stabilizing the environment for Polish NGOs. In the area of policy development, grants to two program partners made in 2003 continued to aid in the development of new research methodologies and legal monitoring instruments. The Klon/Jawor Association conducted several major surveys profiling public attitudes toward Polish NGOs and continued work on the Polish section of a 60-country study of civil society, the CIVICUS Civil Society Index. A second program partner, the Institute for Public Affairs (ISP), designed a new system for monitoring legal developments that should allow for better analysis of and influence over the formulation of laws affecting NGOs. ISP also hosted a series of experts' meetings and launched a new quarterly, *Third Sector*, which addresses the civil society environment. Taken together, these activities deepened knowledge about the NGO sector and enhanced the sector's ability to control developments in the legal environment.

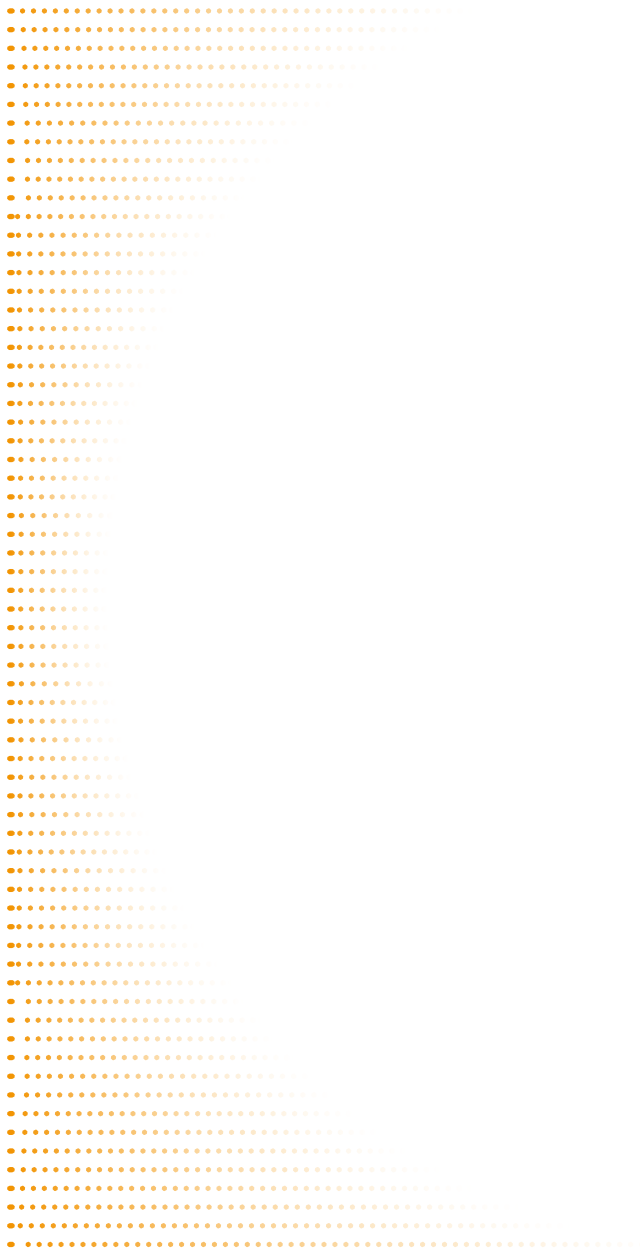
In the area of networking, partnership, and advocacy, the Batory Foundation awarded grants in 2003 to two program partners – the Foundation in Support of Local Democracy (FSLD) and the Non-Governmental Support Network (SPLOT). These awards had the dual goal of reinforcing cooperation among NGOs and developing partner-based relationships between NGOs and local and regional authorities. In 2004, FSLD and SPLOT made substantial progress toward achieving these aims. More than 500 organizations took part in the building of new representative structures, thus overcoming a lack of internal cooperation that has weakened the Polish NGO sector for many years. Working together, FSLD and SPLOT facilitated path-breaking agreements for cooperation between NGOs and local/regional governments as required by the new Law on Public Benefit.

In addition, SPLOT worked out a methodology for setting up regional NGO councils throughout the country and, in the first phase of implementation, established representative NGO bodies in two regions. SPLOT facilitated a model agreement among NGOs, regional authorities, and businesses in the Warmińsko-Mazurskie region and facilitated a project to establish service standards for various types of service providers, such as hospice operators. FSLD, meanwhile, organized regional conferences attended by more than 2,000 NGO and local government representatives to explore provisions of the Law on Public Benefit and Volunteer Work. FSLD distributed nearly 6,000 brochures on the new law and organized the first joint meeting of NGO representatives who work on the regional committees that allocate and monitor EU structural funds. These and other initiatives prompted many Polish NGOs to realize that they can influence policy and work with local and national authorities only if they cooperate with each other first.

The promotion of new models of funding for local initiatives was the aim of two additional program partners – the Academy for the Development of Philanthropy and the Polish Environmental Partnership Foundation. In 2004, these organizations continued to use grants awarded by the Batory Foundation in 2003 to establish and strengthen community foundations and partnership groups (a new model of cooperation among NGOs, local authorities, and businesses focusing on sustainable development).

Nine new community foundations received grants and partnership groups met for the first time and formalized a new networking structure. Awards totaling \$700,000 provided by these program partners were matched by \$800,000 in support from other sources.

Finally, in the area of institutional development, eight organizations received grants from the Batory Foundation in 2004 on the basis of an open competition that began in 2003. All of these organizations had to demonstrate their contribution to Polish civil society and their readiness to realize long-term strategies. Six NGOs – CASE Center for Social and Economic Research, Institute for Public Affairs, Academy for the Development of Philanthropy, Polish Children and Youth Foundation, Helsinki Foundation for Human Rights, and Polish Humanitarian Organization – received “seed” endowment grants that must be matched on a one-to-one basis. Three-year strategic grants were awarded to development foundations in Nidzica (for a reserve fund) and Lublin (to endow a program of youth stipends). Altogether, these awards bring to a total of 18 the number of institutional grants awarded since 2003.



ROMANIA



As a first step toward launching a program in Romania, the CEE Trust initiated consultations with Romanian civil society organizations in 2004. Facilitated by the Association for Community Relations (ARC), the consultations focused on the current and future needs of the sector within the main working areas of the CEE Trust. Through interviews, regional workshops, and online tools, nearly 50 organizations from a variety of mission areas took part in the consultative process. ARC produced a report summarizing the results of the consultations, which was posted on the CEE Trust Web site.

One of the findings that the ARC study highlights is the area of financial sustainability of NGOs. There are already several good examples of organizations that have developed diversified funding bases. However, this positive trend needs more support in the form of training, peer learning, information, and funding, if it is to continue. Another finding is that Romanian NGOs have relatively limited capacity to engage in sector-wide advocacy. They find it difficult to document the impact of legislation, in part due to inadequate communication and information flow within the sector. The report suggests that Romanian NGOs need locally adapted, rather than imported, organizational models to develop their organizational capacity.

The ARC report concludes that the CEE Trust and other donors in Romania can have the greatest impact if expectations are realistic, communications are open, new and flexible approaches to grant-making and programming are constantly encouraged, and patterns of dependency and paternalism are avoided.

Based on the outcomes of the consultations, the CEE Trust is defining the major priorities for its program in Romania and intends to launch the program in 2005.

SLOVAKIA



The CEE Trust launched its first country program in 2002 by establishing partnerships with the Ekopolis Foundation in Banská Bystrica and the Open Society Foundation (OSF) in Bratislava. The Ekopolis Foundation was founded in 1991 to work on behalf of sustainable development and civil society. The foundation received a total award of \$2.02 million for programs to foster an enabling environment for NGOs, build NGO advocacy capacity, develop community philanthropy in Slovakia, and secure the long-term sustainability of key organizations. Ekopolis also received a separate \$100,000 grant for its institutional development. OSF, founded in 1992 to support the development of open societies, received a \$1.96 million grant for programs focusing on nonprofit sector research and publishing, capacity building for NGOs, cross-sector cooperation, NGO institutional development (especially of marginalized groups), self-financing strategies, and the development of corporate and individual philanthropy. OSF also received a \$100,000 award for its own institutional development and that of its program partners – the Children of Slovakia Foundation and the Jan Hus Educational Foundation.

During 2004, Slovakia witnessed presidential elections, accession to both the European Union and NATO, and a quickening pace of economic growth. Not surprisingly, a growing portion of the public considered the country generally headed in the right direction. Continued government reform efforts met with public dissatisfaction but few overt expressions of discontent, except among Roma groups, who protested cuts in social welfare benefits. The NGO sector witnessed dynamic growth, with the number of organizations increasing by 17 percent. While this trend was due mainly to structural changes (under new legislation, for example, hospitals were registered as nonprofit organizations), it may have been encouraged by a new tax law that came into effect

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in January 2004 and enabled private and legal entities to allocate up to 2 percent of their taxes directly to Slovak NGOs. More than \$27 million was raised through this “percentage philanthropy,” and the new provision seems to have increased public appreciation of NGOs. Within the NGO sector, debate about the draft legal framework for nonprofits revealed a broad range of opinion, and there was widespread acknowledgement that basic NGO-related policies needed further discussion in the year ahead.

The Ekopolis advocacy program was restructured in 2004 to clarify its purpose and strengthen its impact. Targeting public policy formation, legislative reform, and watchdog activities, the program offered both institutional and project-related support. Altogether, 32 projects were funded on the national, regional, and local level in such areas as Roma issues, women’s rights, environmental protection, and public participation. Organizations receiving institutional support included Charter 77 Foundation, Alliance for Fair Play, ChangeNet, and other NGOs that disseminate knowledge and assistance to civic initiatives.

OSF and its two program partners continued their efforts to improve the legal and fiscal environment for NGOs with an array of educational and informational activities. OSF supported a public awareness campaign about the 2 percent tax allocation and training to strengthen the financial management of more than 50 NGOs. The Children of Slovakia Foundation launched a new Web site with case studies, news, links, and a list of upcoming events to encourage cross-sector cooperation. The foundation also hosted a series of meetings to foster increased cooperation between the business and nonprofit sectors. These meetings revealed that a lack of information and a legacy of mistrust still hinder contact between the two sectors and must be overcome.

Under its community philanthropy program, the Ekopolis Foundation provided grants to three community foundations totaling nearly \$12,000. The largest award went to the fund in Liptov for general operating costs, and organizations in Nitra and Banská Bystrica received support mainly for visits by experts. Ekopolis also organized several networking and learning events for leaders of Slovak community foundations and their international counterparts. Ekopolis assessed the overall impact of its two years of support for community foundations as the stimulation of gradual rather than rapid progress. Some community foundations have gained momentum in their communities or have exploited the 2 percent allocation skillfully, but general operating support from domestic sources, including corporations, remains scarce.

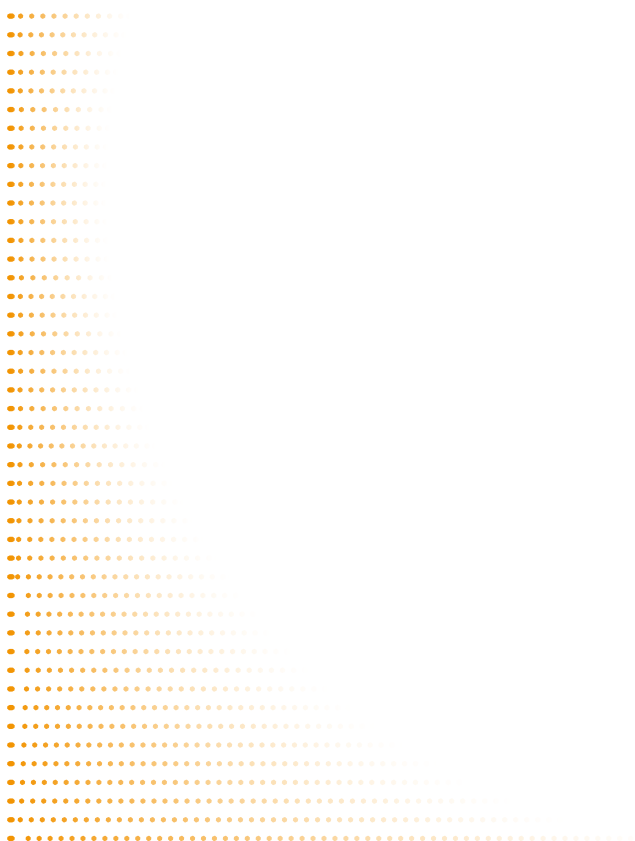
The Children of Slovakia Foundation worked to increase philanthropy with six grants aimed at promoting philanthropic enterprises or volunteerism. The largest of these grants went to the YMCA in Bratislava for a survey of human resource managers regarding volunteering. The foundation also carried out its own public opinion survey with the FOCUS agency on the issue of individual philanthropy. This survey showed that up to 65 percent of respondents had donated to NGOs in the past 12 months but only 13 percent had worked as volunteers.

OSF furthered the capacity of the NGO sector with a grant to the Information Center FORUM in Šamorín to develop a set of e-textbooks in Slovak, Czech, Hungarian, and Polish. With CEE Trust grants from previous years, the Institute for Public Affairs (IVO) published studies of corporate philanthropy and civic associations, and the think tank S.P.A.C.E. produced a quantitative survey of the Slovak NGO sector. In related developments, OSF co-hosted a conference to explore trends in NGO

consulting in Slovakia, Hungary, Poland, and the Czech Republic, and the Children of Slovakia Foundation organized training on evaluation for grant-making organizations. OSF contributed to the development of the concept of corporate social responsibility in Slovakia by supporting two key players in this field – the Pontis Foundation, which received a grant to establish a Business Leaders Forum to encourage cross-sector cooperation, and the Integra Foundation, which with Pontis co-hosted the first conference in Slovakia on corporate social responsibility. Both foundations also received institutional development grants.

In the area of institutional strengthening, OSF made awards totaling \$465,000 to 11 organizations working in advocacy, art and culture, policy research, social services, and other areas. OSF also launched a project to boost the institutional development of NGOs working with Roma communities. Five organizations receiving grants under this program will apply them toward accessing EU funds, human resource development, and other educational and employment activities. The Jan Hus Educational Foundation continued its program on improving NGO self-financing and plans to publish a brochure of case studies from this highly valued program. In 2004, the foundation awarded grants ranging from \$6,500 to \$15,000 to support various efforts, ranging from micro-loans in rural areas and a street paper for the homeless, to eco-tourism and wireless internet technology in a small town community.

Throughout the year, the Ekopolis Foundation continued to monitor the outcome of institutional grants made in previous years. As a result of interviews with grantees, Ekopolis concluded that such grants are valuable in that they push NGOs to clarify their long-term strategies and make decisions on the basis of their core mission rather than funder-driven opportunities.



SLOVENIA



Umanotera Foundation, the Slovene Foundation for Sustainable Development, was selected in April 2004 to be the CEE Trust's partner in Slovenia. The selection of Umanotera followed a developmental phase in which four organizations were awarded grants to meet immediate needs of the nonprofit sector and develop a strategy for working together on a national level. Founded in 1994, Umanotera received an award of \$924,200 from the CEE Trust to be used over a three-year period.

The program aims to meet four interlocking goals:

- 1) supporting the existing process for developing the NGO sector;
- 2) improving the image of NGOs in the media and the wider public;
- 3) professionalizing the NGO sector with improved education and training; and
- 4) strengthening the financial sustainability of local and regional NGOs, especially through the community foundation concept.

The year 2004 saw favorable economic trends in Slovenia with the country's accession to the European Union. Strong domestic consumption, accelerated trade, falling interest rates, and low inflation contributed to a picture of robust economic growth. For NGOs, however, financing was a chronic problem, as fundraising capacity remained weak, foreign sources of funding were drying up, and EU funds proved difficult to absorb. The most important event for NGOs was the formation

of a 12-member negotiating team to work with the government on a joint document outlining areas for strengthening the nonprofit sector. Known as the Initiative for the Future of NGOs, this effort shall lead to negotiations for systemic change aimed at improving NGOs' legal and fiscal environment. The government followed up by issuing a tender for a comprehensive study profiling the Slovene NGO sector. Less auspiciously, the Parliament passed new laws on employment taxes that adversely affected many NGOs, especially those in the cultural sector.

Umanotera spent the greater part of 2004 in start-up activities related to the new CEE Trust-funded program, known as "Dobra družba" or "Good Society." Among other activities, Umanotera prepared a strategic overview and consulted with the CEE Trust partners in Slovakia on a variety of issues related to program design and implementation.

On a project level, Umanotera provided a grant to the Initiative for the Future of NGOs for four regional workshops organized by the Center for NGOs (CNVOS). These workshops presented the agreement between the negotiating team and the government to develop a joint document and sought support for its implementation. Efforts to publicize details of the initiative will continue in 2005, along with a small-grants scheme to help find solutions to the initiative's major challenges.

In September 2004, Umanotera launched a competitive process for a project to develop local sources of financing for philanthropy. The Regional Environmental Center for Central and Eastern Europe was selected to receive an award totaling \$180,000 over 2004 and 2005. The center will work with five other organizations – the PIC Legal Information Center, the ŠENT Association for Mental Health, the Center for Nonprofit Management, CNVOS, and the Association of Slovene Foundations – to review existing resource-generating practices and sources of support in Slovenia and elsewhere, undertake a pilot community foundation project, and publish a handbook on managing community foundations. These activities are slated to start in early 2005.

On an operating level, Umanotera engaged in an advocacy initiative aimed at encouraging political parties to include NGO-related topics in their election platforms. In the first phase of this effort, data about the sector was collected and disseminated through publicity kits and face-to-face meetings with government officials and political parties. Through these activities, general awareness of the role of NGOs was raised. The second phase of this project will include a report on the efficiency of the government in improving conditions for the sector.

Umanotera also launched a project to promote NGO success stories in the media. The daily newspaper Delo has agreed to publish six stories illustrating how NGOs contribute positively to life in the country. These case studies will be chosen in 2005 through a competitive process.

Umanotera views the main achievement of the first year of the CEE Trust program in Slovenia to be the opportunities it has opened up to evaluate the impact of NGOs on Slovenian society. Just as important, the program's beginning has inspired many NGOs to think about their long-term needs and, in so doing, draw closer together in productive working relationships.



REGIONAL INITIATIVES

THE CEE TRUST CROSS-BORDER INITIATIVE

Recognizing the value of dialogue and cooperation across borders, the CEE Trust Cross-Border Initiative seeks to build a network of NGOs that can address issues that are common to the entire region. By building links among civil society leaders and organizations in CEE countries, the Cross-Border Initiative enhances the international visibility of key concerns. Grants awarded under that Cross-Border initiative fulfill CEE Trust objectives on a regional level and, in most cases, support activities that are not effectively supported from domestic or national sources. Launched in late 2004, the initiative targets projects from regional of NGO resource and infrastructure organizations, public policy networks, information exchanges, cross-border grant makers, and efforts to link civil society actors with public authorities.

In 2004, the Cross-Border Initiative supported the following efforts and organizations:

- Partners for Democratic Change Slovakia – for costs of Romanian and Bulgarian participants at a conference on trends in consulting;
- Romanian Donors' Forum and Bulgarian Donors' Forum – for travel to the annual Czech Foundation Conference; and
- European Center for Not-for-Profit Law – for a conference on NGO accountability and good governance in the Visegrad countries.

THE CEE TRUST GOVERNANCE INITIATIVE

The Governance Initiative is a multi-pronged project to strengthen NGO governance in CEE. Begun in 2004 with a grant from the Charles Stewart Mott Foundation and directed by consultant Marilyn Wyatt, the CEE Trust Governance Initiative has become an effective fulcrum for promoting good governance in Central and Eastern Europe and encouraging locally based approaches to board performance and accountability. The project encompasses a variety of interlocking activities on the organizational, country, and regional level. Foremost among these:

The Central and Eastern European Working Group on Nonprofit Governance. This group of NGO leaders from nine countries meets periodically to share ideas, information, and best practices and articulate the values of good governance. One of its main aims is to develop tools and resources to support the region's nonprofit boards. In 2004, the working group's *Handbook of NGO Governance* was published by the European Center for Not-for-Profit Law. The handbook is being translated into several CEE languages.

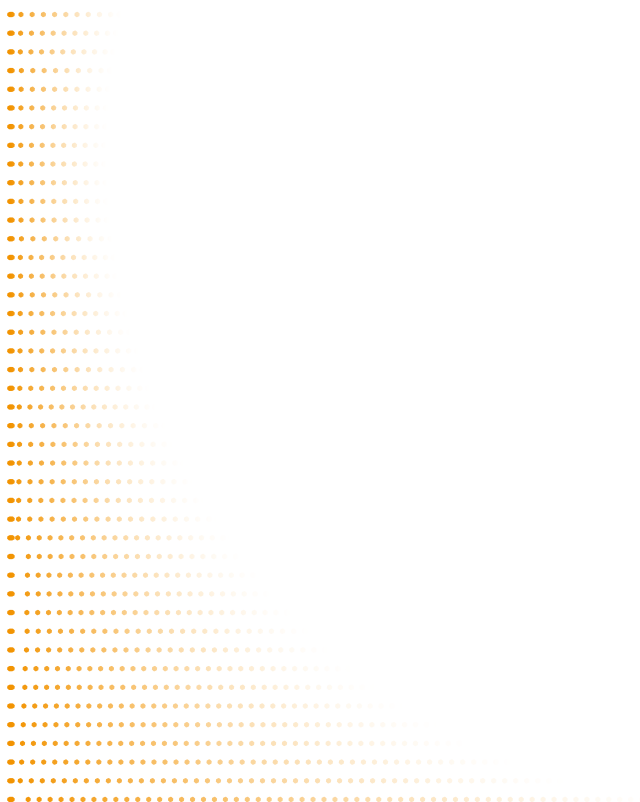
Board Development for Partner Organizations. CEE Trust partners are able to strengthen their boards through a program of coaching, self-assessment, and new member orientation. In 2004, partners in Slovakia and the Czech Republic participated in this program of board development.

COOPERATING TO STRENGTHEN ADVOCACY GROUPS

With \$200,000 in support from the Pfizer Foundation, the CEE Trust launched a project in 2004 to enhance the performance of health consumer groups and promote health care advocacy in CEE. Implemented by the Civil Society Development Foundation Hungary, the project aims to foster the ability of those who use health services to be active and aware consumers and to strengthen the organizational capacity of patient advocacy groups. Project activities in 2004 included training for Russian and Hungarian groups in management, organizational development, and fundraising. The project will eventually be offered to health care consumer and advocacy groups in nine countries.

THIRD CEE TRUST PARTNERS' MEETING

Partner organizations of the CEE Trust came together for their third annual meeting in June 2004 in Warsaw, Poland. The meeting served as a forum for information exchange and networking with international grant makers and other regional experts. During the opening plenary session, participants discussed the need for a long-term, comprehensive approach to developing civil society in Central and Eastern Europe. The value of the CEE Trust as one of the last remaining sources of independent and non-earmarked funding was highlighted. Thematic sessions aimed to establish ongoing working relationships on key issues, such as the institutional development of NGOs, the legal environment, evaluation, and resource development and strategic financial management. An overriding theme throughout the meeting was the challenge of EU enlargement for nonprofit organizations in new member states.



GRANT AWARDS 2001-2004



COUNTRY/ORGANIZATION	TOTAL
BULGARIA	1 030 000
Green Balkans	150 000
Workshop for Civic Initiatives Foundation	250 000
Open Society Institute-Sofia	350 000
Bulgarian Charities Aid Foundation	280 000
CZECH REPUBLIC	3 498 000
VIA Foundation	3 498 000
HUNGARY	4 177 970
Soros Foundation Hungary	2 400 000
Hungarian Environmental Partnership Foundation (HEPF)	866 587
Civil Society Development Foundation (CSDF)	911 383
POLAND	5 300 000
Stefan Batory Foundation	5 300 000
ROMANIA	14 244
Association for Community Relations - consultation process	14 244
SLOVAKIA	4 274 060
Ekopolis Foundation	2 208 660
Open Society Foundation (OSF)	2 065 400
SLOVENIA	1 173 200
Umanotera Foundation	1 003 200
NGOs Centre (CNVOS)	50 000
Legal Information Center (PIC)	70 000
Slovenian Association for Mental Health (ŠENT)	50 000
TOTAL	19 467 474

PARTNER ORGANIZATION GRANT ACTIVITY IN 2004

CZECH REPUBLIC
VIA FOUNDATION*

PROGRAM MODULE	Amount (USD)
GRANTS TO PROGRAM PARTNERS	
Renewal of general support to strengthen the institutional capacity of the Civil Society Development Foundation	12 000
CREATING SUPPORTIVE LEGAL AND FISCAL ENVIRONMENT	
Support for six grants to monitor, draft, and evaluate legislation affecting NGOs.	83,153
KNOWLEDGE FUND	
Support for 14 grants totaling \$146,149 to research the NGO sector, strengthen NGO collaboration, and improve the overall environment for NGOs; for a grant increase of \$4,101 to the Civil Society Development Foundation to support implementation of the Civil Society Index; for 35 small grants totaling \$22,758 to stimulate strategic planning, diversification of resources, and other organizational processes; and for a grant of \$1,844 to Partners for Democratic Change Slovakia to organize the international conference on trends in consultancy.	174,852
SUPPORTING REGIONAL FOUNDATIONS	
Support for grants of \$10,204 each to 8 foundations and non-endowed funds for institutional support and regranting to local NGOs, awarded by partner organizations the Czech Environmental Partnership Foundation and Jan Hus Educational Foundation. Additionally, support for challenge grants of \$15,625 each to 5 foundations; and for two grants totaling \$51,299 to the Czech Donors Forum for programs of technical assistance and education.	189,249
TOTAL	459,254

*All grants awarded by the VIA Foundation unless otherwise noted.

HUNGARY

**HUNGARIAN ENVIRONMENTAL
PARTNERSHIP FOUNDATION**

PROGRAM MODULE	TOTAL
NONPROFIT LEGAL REFORM	
Support for a grant of \$24,310 to the European Center for Not-for-Profit Law to develop a comprehensive legal reform concept; for two grants totaling \$30,800 to the Environmental Management and Law Association for a study of state outsourcing to civil society organizations; and for grants totaling \$13,135 to 17 Civil Service Centers for roundtable meetings.	68,245
LOCAL PHILANTHROPY	
Support for grants from \$1,305 to \$3,983 to 13 organizations with local fundraising campaigns that serve as models for other organizations.	27,635
TOTAL	95,880

SOROS FOUNDATION HUNGARY

PROGRAM MODULE	TOTAL
INSTITUTION BUILDING	
Support for grants from \$33,000 to \$95,200 to 18 organizations for strengthening their capacity in such areas as management, fundraising, and income generation and as contributions to reserve funds and general operating costs. In addition to CEE Trust funds, Soros Foundation Hungary contributed \$212,485 from its own resources to this program for a total award of \$1,107,723.	895,238

POLAND

STEFAN BATORY FOUNDATION

PROGRAM MODULE

Amount (USD)

PROGRAM MODULE	Amount (USD)
INSTITUTION BUILDING	
Support for grants ranging from \$160,000 to \$320,000 to six key organizations for seed endowment funds and for two strategic grants of \$107,000 each to the Nida and Lublin Development Foundations.	1,893,333

SLOVAKIA

OPEN SOCIETY FOUNDATION

With program partners: Children of Slovakia Foundation and Jan Hus Educational Foundation

PROGRAM MODULE

Amount (USD)

PROGRAM MODULE	Amount (USD)
IMPROVEMENT OF NGO ENVIRONMENT – OPEN SOCIETY FOUNDATION	
Support for 51 grants paid in the form of trainings in NGO financial management.	41,240
CAPACITY BUILDING – OPEN SOCIETY FOUNDATION	
Support to the Forum Information Center for an e-learning project.	10,000
FINANCIAL SUSTAINABILITY – JAN HUS EDUCATIONAL FOUNDATION	
Support for grants from \$6,587 to \$15,583 to four organizations to develop self-financing projects.	46,122
DEVELOPMENT OF PHILANTHROPY – CHILDREN OF SLOVAKIA FOUNDATION	
Support for grants from \$4,347 to \$11,119 to six organizations to promote philanthropic enterprises and volunteerism.	38,670
INSTITUTIONAL DEVELOPMENT OF NGOs – OPEN SOCIETY FOUNDATION	
Support totaling \$465,000 for grants from \$15,092 to \$69,094 to 11 civic associations, organizations providing publicly beneficial services, and NGOs playing an important role in Slovak civil society. Additionally, support for grants totaling \$54,421 to NGOs working with Roma communities.	519,421
TOTAL	655,453

EKOPOLIS FOUNDATION

PROGRAM MODULE	Amount (USD)
CAPACITY BUILDING OF NGOs AS ADVOCATES	
Support for awards ranging from \$800 to \$17,857 to 32 organizations working on behalf of local communities, women, children and youth, the disabled, and other groups.	180,660
COMMUNITY PHILANTHROPY	
Support for grants to community foundations in Banská Bystrica, Nitra, and Liptov.	11,632
TOTAL	192,292

SLOVENIA

UMANOTERA FOUNDATION

PROGRAM MODULE	TOTAL
CREATING A SUPPORTIVE ENVIRONMENT	
Support for a grant to the „Initiative for the Future of NGOs” for regional workshops.	2,551
PROMOTING PHILANTHROPY	
Support for a grant to the Regional Environmental Center for Central and Eastern Europe for a project to promote philanthropy and improve NGO financial sustainability on a local level.	27,635
TOTAL	30,301

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

DECEMBER 31, 2004 AND 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Trust for Civil Society in Central and Eastern Europe

We have audited the accompanying statements of financial position of Trust for Civil Society in Central and Eastern Europe (a not-for-profit corporation) as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trust for Civil Society in Central and Eastern Europe as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Lutz + Carr, LLP

New York, New York
March 3, 2005

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2004 AND 2003

Assets

	2004	2003
Cash (Note 2)	\$ 642,432	\$ 448,904
Investments, at fair value (Notes 1b and 3)	34,152,881	27,896,111
Unconditional promises to give (Notes 1c and 4)	7,628,118	12,533,468
Miscellaneous receivables and other assets	2,972	3,528
Property and equipment, net of accumulated depreciation (Notes 1d and 5)	4,617	18,463
Security deposit	4,268	5,046
TOTAL	\$42,435,288	40,905,520

Liabilities and Net Assets

	2004	2003
Liabilities		
Accounts payable and accrued expenses	\$ 33,654	\$ 45,954
Grants payable (Notes 1e and 6)	4,027,368	7,203,796
Total Liabilities	4,061,022	7,249,750
Commitment (Note 7)		
Net Assets		
Temporarily restricted (Note 8)	38,374,266	33,655,770
TOTAL LIABILITIES AND NET ASSETS	\$42,435,288	40,905,520

See notes to financial statements.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2004 AND 2003

Changes in Unrestricted Net Assets

	2004	2003
Revenues and Support		
Investment income	\$ 490,048	\$ 586,320
Realized gain (loss) on sale of investments	50,811	(279,071)
Unrealized appreciation in market value of investments	830,992	1,917,524
Net assets released from restriction	2,826,154	2,278,604
Total Unrestricted Revenue and Support	4,198,005	4,503,377
Expenses		
Program expenses	3,839,369	4,333,514
Management and general	336,947	169,863
Fundraising	21,689	—
Total Expenses	4,198,005	4,503,377
CHANGE IN UNRESTRICTED NET ASSETS	—	—

Changes in Temporarily Restricted Net Assets

	2004	2003
Contributions	7,544,650	5,777,784
Net assets released from restriction	(2,826,154)	(2,278,604)
Increase in Temporarily Restricted Net Assets	4,718,496	3,499,180
Increase in net assets	4,718,496	3,499,180
Net assets, beginning of year	33,655,770	30,156,590
NET ASSETS, END OF YEAR	\$ 38,374,266	\$ 33,655,770

See notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Cash Flows

From Operating Activities

	2004	2003
Increase in net assets	\$ 4,718,496	\$ 3,499,180
Adjustments to reconcile change in net assets to net		
Cash provided by operating activities:		
Depreciation	7,840	8,251
Realized (gain) loss on sale of investments	(50,811)	279,071
Unrealized appreciation in market value of investments	(830,992)	(1,917,524)
Gain on sale of equipment	(2,901)	—
(Increase) decrease in:		
Unconditional promises to give	4,905,350	4,022,216
Miscellaneous receivables and other assets	556	(122)
Security deposit	778	2,487
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,300)	29,386
Grants payable	(3,176,428)	(1,193,018)
Net Cash Provided By Operating Activities	5,559,588	4,729,927

Cash Flows

From Investing Activities

	2004	2003
Proceeds from sale of equipment	8,907	—
Net purchases of investments	(5,374,967)	(6,439,558)
Net Cash Used By Investing Activities	(5,366,060)	(6,439,558)
Net increase (decrease) in cash	193,528	(1,709,631)
Cash, beginning of year	448,904	2,158,535
CASH, END OF YEAR	\$ 642,432	\$ 448,904

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Note 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a – ORGANIZATION

The Trust for Civil Society in Central and Eastern Europe (the „Trust”) is operated exclusively for charitable and educational purposes by supporting activities for the benefit of, to perform the functions of, and to carry out the purposes of The German Marshall Fund of the United States. It helps Americans and Europeans learn from each other, and from other industrial societies how best to serve their economic, social, cultural, and political development. It operates a grant making program in Central and Eastern Europe in the areas of economic development, fostering democracy, the environment, immigration and integration.

The Trust is involved in a major initiative to create sustainability for civil society and nongovernmental organizations in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. The Trust provides a coordinated structure through which philanthropic institutions and individuals may combine their resources and efforts to provide an effective and efficient response to support the long-term sustainable development of civil society and nongovernmental organizations in Central and Eastern Europe.

The Trust assists local people and institutions in individual countries to take strategic steps with long-term benefits toward three primary objectives: (1) creating a supportive environment for Civil Society which includes the legal, fiscal, and political environments that nurture the development of strong civic life; (2) strengthening the nonprofit sector which includes capacity building especially intra sector and cross sectoral cooperation and partnership; and (3) enhancing the financial sustainability of nonprofit organizations which consists of encouraging indigenous philanthropy as well as public and other sources of support for nonprofits, operational and strategic development support for nonprofit organizations, and contributions to the endowment of proven „mature” nonprofit organizations.

b – INVESTMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the Trust reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

c – UNCONDITIONAL PROMISES TO GIVE

Contributions are recognized when the donor makes a promise to give to the Trust that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Note 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

c – UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

The Trust uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

d – PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related asset.

e – GRANTS PAYABLE

Grants payable are accrued at the time authorized. Grants payable later than one year from the end of a fiscal year are discounted to present value using a rate of 5%.

f – FINANCIAL STATEMENT PRESENTATION

The Trust presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Trust reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

g – USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h – TAX STATUS

The Trust is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and it has been designated as an organization that is not a private foundation.

Note 2 – CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash and certain investments in several financial institutions in the United States and Europe. The cash balances at the United States institution is insured by the Federal Deposit Insurance Corporation up to \$100,000.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Note 3 – INVESTMENTS

Investments consist of:

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 6,773,343	\$ 8,068,921	\$ 6,622,7855	\$ 7,122,233
Fixed income mutual funds	21,522,888	21,731,756	19,132,096	19,306,102
Cash	1,352,204	1,352,204	1,467,776	1,467,776
Certificates of deposit	3,000,000	3,000,000	—	—
	\$ 32,648,435	\$ 34,152,881	\$ 27,222,657	\$27,896,111

Note 4 – UNCONDITIONAL PROMISES TO GIVE

These amounts are restricted for future periods and programs and are due as follows:

	2004	2003
One year	\$ 4,000,000	\$ 5,450,000
Two to five years	4,000,000	8,000,000
	8,000,000	13,450,000
Less: Discount to present value	371,882	916,532
	\$ 7,628,118	\$12,533,468

Uncollectible promises are expected to be insignificant. Amounts to be received after one year are discounted to present value using a discount rate of 5%.

Note 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Life	2004	2003
Auto	5 years	\$ —	\$ 22,525
Office equipment	3-7 years	18,209	18,209
		18,209	40,734
Less: Accumulated depreciation		13,592	22,271
		\$ 4,617	\$ 18,463

Depreciation expense for the years ended December 31, 2004 and 2003 was \$7,840 and \$8,251, respectively.

Note 6 – GRANTS PAYABLE

Grants as of December 31 are payable as follows:

	2004	2003
Within one year	\$ 3,178,000	\$ 4,714,000
One to five years	937,000	2,745,000
	4,115,000	7,459,000
Less: Discount to present value	87,632	255,204
	\$ 4,027,368	\$ 7,203,796

Note 7 – LEASE COMMITMENT

The Trust occupies office space under an agreement, through 2006, providing for monthly costs of approximately \$2,000 (including VAT). These costs are paid in foreign currency (PLN), therefore, the amount may fluctuate.

Rental costs in 2004 and 2003 were \$26,128 and \$29,416, respectively.

Note 8 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are restricted for future periods and programs.

Note 9 – FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the program and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and the supporting services benefited.





**INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION**

To the Board of Trustees
of Trust for Civil Society in Central and Eastern Europe

Our report on our audits of the basic financial statements of Trust for Civil Society in Central and Eastern Europe for 2004 and 2003 appears on page 1. We conducted our audits in accordance with U.S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the years ended December 31, 2004 and 2003 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
March 3, 2005

SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	
	Program Expenses	Management and General
Grants paid	\$ 3,394,923	\$ —
Program implementation	84,723	—
Payroll, fees and related costs	170,772	48,799
Occupancy costs	14,503	14,503
Professional fees	25,500	231,948
Travel	76,684	—
Meetings and conference	28,481	—
Office expenses	16,336	10,869
Telephone	8,887	4,365
Insurance	—	7,145
Repairs and maintenance	—	8,557
Depreciation	7,840	—
Bank charges	—	3,983
Postage	4,295	1,998
Dues and subscriptions	6,425	—
Miscellaneous	—	4,780
Total Expenses	\$ 3,839,369	\$ 336,947

See independent auditor's report on additional information.

TRUST FOR CIVIL SOCIETY
in Central & Eastern Europe

2004		2003		
Fundraising	Total	Program Expenses	Management and General	Total
\$ —	\$ 3,394,923	\$ 4,070,952	\$ —	\$4,070,952
—	84,723	46,786	—	46,786
21,689	241,260	114,563	56,928	171,491
—	29,006	16,431	16,431	32,862
—	257,448	—	56,839	56,839
—	76,684	57,486	—	57,486
—	28,481	2,503	—	2,503
—	27,205	4,377	4,377	8,754
—	13,252	6,622	3,311	9,933
—	7,145	—	7,707	7,707
—	8,557	—	20,433	20,433
—	7,840	8,251	—	8,251
—	3,983	—	2,964	2,964
—	6,293	1,747	873	2,620
—	6,425	3,796	—	3,796
—	4,780	—	—	—
\$ 21,689	\$ 4,198,005	\$ 4,333,514	\$ 169,863	\$4,503,377

PARTNER ORGANIZATION INFORMATION

BULGARIA

BULGARIAN CHARITIES AID FOUNDATION
PARTNER ORGANIZATION (2004-2006)

65 Vitosha Blvd
1000 Sofia
Tel. + 359 2 981 1901
Email: bcaf@bcaf.org
www.bcaf.org

GREEN BALKANS FEDERATION OF NATURE
CONSERVATION NGOS
PARTNER ORGANIZATION
(2004-2006)

160 Shesti Septemvri Blvd.
4000 Plovdiv
Tel. +359 32 626 977
Email: greenbal@mbox.digsys.bg
www.greenbalkans.org

OPEN SOCIETY INSTITUTE-SOFIA
PARTNER ORGANIZATION (2004-2006)

56 Solunska Street
1000 Sofia
Tel. +359 2 930 6619
Email: info@osf.bg
www.osf.bg

WORKSHOP FOR CIVIC INITIATIVES FOUNDATION
PARTNER ORGANIZATION (2004-2006)

78 Knyaz Boris Str.
1000 Sofia
Tel. +359 2 987 98 03
Email: wcif@wcif-bg.org
www.wcif-bg.org

CZECH REPUBLIC

VIA FOUNDATION
PARTNER ORGANIZATION (2002-2005)

Jelení 195/9
118 00 Prague 1
Tel. +420 2 33 11 33 70
Email: via@nadacevia.cz
www.nadacevia.cz

HUNGARY

CIVIL SOCIETY DEVELOPMENT FOUNDATION (CSDF)
PARTNER ORGANIZATION (2003-2006)
ASSISTANCE GRANT (2002)

Mészöly u. 4. III/3
H-1117 Budapest
Tel. +36 1 385 3938
Email: ctf@ctf.hu
www.ctf.hu

HUNGARIAN ENVIRONMENTAL
PARTNERSHIP FOUNDATION
PARTNER ORGANIZATION (2003-2006)
ASSISTANCE GRANT (2002)

Szerb u. 17-19
H-1059 Budapest
Tel. +36 1 411 3500
Email: info@okotars.hu
www.okotars.hu

SOROS FOUNDATION HUNGARY
PARTNER ORGANIZATION (2003 - 2006)

Szent István tér 11/IV
H-1051 Budapest
Tel. +36 1 315 0303
Email: info@soros.hu
www.soros.hu

POLAND

STEFAN BATORY FOUNDATION
PARTNER ORGANIZATION (2002-2006)

Sapieżyńska 10a
00-215 Warsaw
Tel. +48 22 536 02 00
Email: batory@batory.org.pl
www.batory.org.pl

SLOVAKIA

EKOPOLIS FOUNDATION
PARTNER ORGANIZATION (2001-2004)

Komenského 21
974 01 Banská Bystrica
Tel. +421 48 4145 259
Email: epce@changenet.sk
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OPEN SOCIETY FOUNDATION (OSF)
PARTNER ORGANIZATION (2001 - 2004)

Baštová 5
811 03 Bratislava
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SLOVENIA

UMANOTERA - SLOVENIAN FOUNDATION FOR
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PARTNER ORGANIZATION (2004-2007)
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BOARD OF TRUSTEES:

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Senior Vice President, Charles Stewart Mott Foundation

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Chair of the Board, Centre for Liberal Strategies (CLS)

William Moody

Program Officer, Rockefeller Brothers Fund

Jacek Wojnarowski (until December 2004)

Executive Director, Trust for Civil Society in Central & Eastern Europe

STAFF:

Jacek Wojnarowski (until December 2004)

Executive Director

Anna Jakubik (leave of absence in 2004)

Head of Representative Office in Warsaw

Lidia Kotucka-Žuk

Program Associate

Matúš Minárik

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