

# The Role of Foundations in the Transformation Process in Central and Eastern Europe

## 1 Introduction

This chapter explores the role of foundations in central and eastern Europe. Ten EU accession countries, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia are covered here. There is no reference to Russia and the CIS countries, nor to the countries of south-eastern Europe. Although these countries receive substantial funding from the same, primarily Western, foundations that are active in the accession countries, they fall outside the remit of this book.

The ten countries considered here are very important because their European Union membership will have a profound impact on Europe as a whole. Their landmass will represent a 33% expansion of the geographical territory of the EU. An additional 105 million people will comprise 28% of the total population. The aggregate GDP, even when adjusted to purchasing power, is only 9% of the EU with an average GDP equal to 32% of the EU average per head. The unadjusted figures of 4% and 13% respectively make for even grimmer reading.<sup>1</sup>

It is against this backdrop that foundations have come to play a significant role, firstly in the transition from communism to democracy and market economy, and secondly in the long journey down the road towards EU accession. This double transition places additional burdens on the countries.

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<sup>1</sup> Avery and Cameron.

In this time of pervasive upheaval foundations have taken on a multiplicity of roles. They bring money and know-how. As they finance new innovative models of activity, introducing new patterns of governance, they enable the creation of the building blocks of civil society. The more people are offered opportunities to develop new relationships unhampered by the authoritarian structures of old, the easier it becomes to establish trust, take risks and create the social capital needed for a functioning civil society.

Much social transformation is occurring as the countries grapple with the requirements and implications of EU membership. Each country is required to bring its laws into line with the *acquis communautaire* or as it is now referred to the 'acquis of the Union'. Twenty thousand laws and regulations need to conform to EU standards. Membership of bodies such as the Council of Europe as well as association with NATO, OSCE and

others have helped set standards to which these countries have committed themselves, thereby requiring substantial legislative and social reforms. Foundations support the development of independent perspectives on the nature of the changes to come.

The first decade of foundation activity since the collapse of communism has been dominated by foreign foundations. There are few corporate foundations concerned with the public good, and community foundations are in their infancy. However, governments are watching foundation activities and beginning to establish independent government-sponsored foundations as the benefits of such independence become increasingly evident. Most foundations are grant making and rely on third parties such as nonprofit organizations to undertake implementation. However the Soros Foundation network, the largest in the region, functions both as a grant-making and an operating foundation. This dual-capacity strategy was chosen to handle their rapid growth during the 1990s.

Foundations in central and eastern Europe are beginning to look more like those in the West but still maintain some persisting differences. Most are non-membership based and require some kind of charter. In most countries they are required to register with an official body. Some countries distinguish between public and private foundations although the former are institutionally separate from government. Nonetheless, the foundation sector discussed in this chapter is primarily private. The governance of these entities is prescribed by law and the principle of self-governance has been widely adopted, although in some countries there can still be informal governmental influence. On the whole foundations are not allowed to distribute their funds to their owners, but irregularities have certainly been more prevalent than in western countries. A continuing distrust of foundations as serving the public good has prevented them from gaining public confidence, irrespective of the fact that such objectives are now reflected in the new laws.

## **2 Historical background**

The role of foundations (both public and private) in central European society cannot be divorced from the enormous upheavals of the past decade. With the sudden arrival of democracy there was little clear thinking on how to establish, maintain and encourage foundations that could work for the benefit of society. This was hardly surprising given their virtual absence between World War II and 1989. The origins of the new foundations determined the emergence of a very different relationship between foundations and their grantees. Most foundations were, and still are, governed by foreign funders.

Though the distinction is perhaps somewhat artificial one can divide the 1990s into two periods: the revolutionary moment when looming difficulties were understated due to the general climate of euphoria, and the post-revolutionary period when realism set in. In the early 1990s foundations were primarily concerned with economic reform. The theory was pragmatic; for democracy to prevail a functioning market economy needed

to be established. For various reasons activities were later broadened to encompass arts and culture, education and information, health and civil society development. By the end of the 1990s disappointment with institutional reforms had brought about a shift in emphasis toward public administration, legal reform and human rights.

The first wave of new laws in the early 1990s did little to promote the interests of foundations that were truly philanthropic. Loose wording encouraged less than scrupulous individuals to use foundations as tax avoidance shelters with no intention of ever promoting a public good. This diminished public confidence in the concept of 'good works' as corruption became visible on an unprecedented scale. In some countries foundations attempting to create social change were accused of social manipulation and, if foreign, were branded (some times with anti-Semitic tones) as agents of the 'imperial West'. Extremist political parties at both ends of the left-right spectrum attacked foundations to suit their purposes.

The parameters of acceptable activities for foundations are still taking shape. The political influence of foundations is probably considerably greater than in many other countries. In most western countries, to maintain tax privileges foundations must not participate in political campaigns or engage in activities to influence legislation. The very same foundations that adhere to these rules in the West are engaging in activities that have a very substantial political impact in the East. Even if not directly funding political parties, the mere fact that so much legislative and policy review as well as support for various forms of media comes from foundations (mostly foreign funded at that) puts a different complexion on their activities.

Assistance coming into central and eastern Europe from bilateral and multilateral agencies has influenced the directions taken by foundations. Although some argue that help from the West was insufficient, the money that flowed in did have an impact, though on occasions with attached conditions that were at odds with what local people wanted to achieve. While the European Bank for Reconstruction and Development focused on infrastructure development, their work could not be carried out without cadres of trained local economists, public administrators and functioning businesses. World Bank education loans concentrated on structural changes such as re-organizing the administration, computerizing facilities and streamlining delivery to accommodate dwindling state resources. Foundations worked to modernize curricula and balance the development of life skills with the knowledge-based education that had been core to education under communism. Western staff from these various bodies intermingled, sharing ideas and increasingly co-sponsoring projects.

After 1989 the countries of central and eastern Europe watched their economies spin into recession. With this came a total redefinition of the role of the state in every aspect of human activity. It was inevitable that dislocations in the supply of goods and services would occur while the governments, with their universally underpaid civil servants, re-defined their existence and reconstructed their sources of financing. Responsibility and power were shifting away from the centre, but to where exactly was not clear. Revolutions turned out not to take place overnight and transitions took even longer.

'Transitology' became an academic discipline. Only towards the end of the 1990s did 'consolidology' enter the picture, the study of which is likely to extend for at least another decade.

Concepts of power have very different roots in the post-communist societies. The idea of a positive relationship between strong civil societies and strong effective states was muddled to people whose experience with strong states was negative. Historically, the strength of a communist state depended on how strength was measured. Its ability to crush opposition by brute force was unquestionable, but it had long lost legitimacy. In the subsequent vacuum people lost the ability to identify with anything as subtle as a self-regulating civil society.

One major obstacle was the absence of trust, an element considered essential to the formation of a strong civil society and democracy. Without it there can be no social fabric. Marxist interpretations of society had little patience with the concept of trust given their preoccupation with conflict; trust as a precondition of social organization was considered a wishy-washy western concern. In post-revolutionary countries it was far from clear where, apart from family and close friends, one could place trust; even betrayal from the closest of relations was not unheard of, as revealed by Tina Rosenberg<sup>2</sup> and others. Its presumed absence historically does much to explain how central and eastern Europe responded to the arrival of idealistic western foundations.

In a perhaps excessively critical account of western aid to eastern Europe, Janine R. Wedel<sup>3</sup> argues that western foundations were naive in their approach and were seduced by recipients' abilities quickly to learn the art of grant applications. The importance of these grants, she contends, was far more than money – it was 'symbolic capital':

... an individual's combined cultural, social, and financial power, which served to compound the power of the individual's group in the public arena – that could be leveraged both in and outside the region ... Securing Western – sometimes specifically American – funds greatly enhanced one's reputation and lent legitimacy that could be leveraged internally to enhance symbolic capital and accrue further political, financial and social rewards. For this reason, even small sums of hard currency could be enormously life enhancing to the beneficiaries.

As states withdrew subsidies to softer areas such as arts and culture, foundations leapt in, eager to respond to requests and often creating a dependency which they would later find difficult to abandon. At the same time, western foundations had arrived with idealistic notions about goals that could be achieved and the time required to achieve them. With a highly-educated population apparently eager to adopt democracy it was all too easy to believe that only a few crash courses in business and economics would be required. But 40 years of communism had created a population with values and priorities that were different, often antipathetic, to western ideals. The slow realization of these differences in the second half of the 1990s brought a re-evaluation of foundation roles in the transition.

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<sup>2</sup> Rosenberg.

<sup>3</sup> Wedel, P91.

With hindsight it is easy to say that the extent and depth of the transition had been underestimated. During the latter part of the 1990s much soul-searching was undertaken by western foundations as well as the liberal vanguard of the East who were trying to instil a sense of the civil into their societies. Everyone agreed that 'social capital', described by Robert Putnam<sup>4</sup> as 'features of social organization, such as trust, norms and networks, that can improve the efficiency of society by facilitating coordinated action', was in short supply. Former dissidents had assumed a latent civil society had been 'forced under ground, shackled by apathy and fear, and thereby reduced to "the safety of the mousehole"'<sup>5</sup> and was now awaiting its renaissance. But there was simply too little understanding of the know-how required for this rebirth to occur. Politicians of the region needed skill not as 'ironfisted' leaders, but as 'skilled practitioners of the difficult art of unscrewing the lids of despotism and enabling the growth of civil society, mainly by forging new compromises between state actors and their subjects, and by withdrawing and retreating from unworkable positions'.<sup>6</sup> Such skills are acquired with practice that new politicians did not have.

Might there have been a different set of outcomes leading to a speedier transition? Looking at other countries' experiences it seems unlikely. For example Spain's transition to democracy actually took much longer than apparent to the casual observer. It involved three overlapping stages - transition, consolidation and institutionalization – the first of which Victor M. Perez Diaz argues cannot even begin without some prior beginnings of democratic tradition and practice from which to draw. Although these stages are:

often understood as sequences that follow from critical choices made by elites, social groups, and the population at large [...] the fact is that only very rarely do these people face problem situations as rational choice makers, weighing the costs, benefits, risks and probabilities of success of several alternatives, in the short, medium and long run.

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<sup>4</sup> Putnam, p.167.

<sup>5</sup> George Konrad in Keane, p.22.

<sup>6</sup> Keane, Political Quarterly, pp.340-52 and Keane, 1993, p.43-4.

More often they simply react to the situation at hand and to others' responses to it in the framework of previously existing traditions that shape their preferences and their definitions of the situation.<sup>7</sup>

Thus it is hardly surprising that when change is initiated more rapidly, it is more difficult for civil society to take root. Arguably, foundations can have an irreplaceable role in nurturing an emerging civil society if these lessons can be translated into better decision making.

There were no models from the economic sphere that could show the way toward a more functional society. Growth through central planning clearly did not work. Trust and risk-taking, essential to democracy and a modern economy, had been crushed under communism. Deregulation and privatization did not have a proper environment in which to flourish. Francis Fukuyama defines trust as 'the expectation that arises within a community of regular, honest, and cooperative behaviour, based on commonly shared norms, on the part of other members of the community'.<sup>8</sup> As such, trust is a 'social virtue that creates social capital (passim) by allowing persons to organize and spontaneously associate with others'.<sup>9</sup>

Lack of trust stultifies the emergence of large complex enterprises. For example Fukuyama cites Latin America, with its preponderance of family run businesses, as a 'low trust' society. However in regions like central and eastern Europe where large enterprises were held together by authoritarian rule and there was little scope for even small-scale private enterprise, the transition starting point was considerably lower than zero. It was hardly surprising then that the economies fell into decline for several years, not just because of structural re-organization but also because of the massive change in mind-sets needed to implement the changes.

The need for greater transparency emerged in the second half of the 1990s. Western foundations felt betrayed as their funds failed to produce the changes that they had anticipated. Recipients did not understand this reaction, seeing little wrong with arbitrary and closed procedures still being used to allocate new funds to the 'right' people.

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<sup>7</sup> Perez-Diaz, pp.6-7.

<sup>8</sup> Fukuyama, p.26.

<sup>9</sup> Fukuyama, p.48.

In western countries funds from foundations account for only a small amount of NGO income and activity. However, it is generally recognized that their impact far surpasses the relative size of resources, as foundations are able to fund innovative projects without political or other constraints. Much cutting edge thinking in education, culture and other spheres of social life comes from experimental pilot projects that only foundations are able and willing to support. This model was previously unknown in the East, which naturally used foundation funds to maintain essentials that were suddenly chronically under-funded by the state.

By the latter half of the 1990s the sustainability of foundation financed projects rose high into the agenda, as did the absence of any precedent for third sector engagement in income-generating activities. Newly-formed NGOs were reliant either upon the state budget or on foundations to finance their activities. In the early 1990s many of the countries of central and eastern Europe did not have adequate legislation enabling the third sector to free itself from centralized single source funding. So while NGOs flourished, nonprofit organizations that funded themselves through the sale of goods

and services could function only after a second round of legislation was introduced in the late 1990s.

The development of professional know-how in both grant-making and operating programmes had to begin from scratch, as there was little tradition in philanthropic work. Decision-making processes within the organs of state that were previously responsible for much of what foundations now undertake were certainly not models to be emulated. Competition based on clearly-stated criteria and transparent evaluation and selection methods had been the exception rather than the rule. The introduction of this methodology was not easy; the previous social order came under attack, simple seniority and status (or party membership) could no longer ensure access to resources, and small cliques were forced to give up preferential treatment. In the early 1990s rules of governance were unclear. The intellectual elite, much revered as the vanguard of reform, now found their incomes decimated by inflation and their status in society equally diminished. Education followed arts and culture as candidates for drastic cuts. These were the areas through which foundations, particularly foreign, felt they could influence the development of democracy. The inevitable clash of perceptions, eastern Europe seeing foundations as a lifeline, and western Europe seeing them as a means of changing society, was widely debated over the decade.

With much of the fledgling NGO sector relying on foundation grants, it is interesting to see how governments have responded to the pressures to establish independent public foundations that operate transparently and are able to serve the needs of specific sectors. Much of the methodology for running new public foundations was drawn directly from the standards set by the larger foreign foundations.

Another fundamental impediment to implementing change was, and still is (at least for the older generation) the common attitude toward risk. Writing on the history of risk, Peter Bernstein points out interestingly that:

the word 'risk' derives from the early Italian 'riskare' which means 'to dare'. In this sense, risk is a choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being.<sup>10</sup>

He concludes that 'when the Soviets tried to administer uncertainty out of existence through government fiat and planning, they choked off social and economic progress'.<sup>11</sup> Accepting and taking calculated risks has been one of the most difficult and subtle adaptations necessary to the creation of a functioning civil society, democracy and market economy. With pivotal programmes that reward innovation and risk-taking, foundations have often played a crucial role in the transition of central and eastern Europe.

No historical summary can be complete without a word about the role of the Soros Foundation in central and eastern Europe. As shown in Table 1.55, page 295, the Soros

Network of Foundations accounts for well over one-third of all support from international foundations to central and eastern Europe. As is well known, George Soros set out to open the world of closed societies as defined by the philosopher Karl Popper. Soros created a network of national foundations in central and eastern Europe which also worked with regional programmes that were established at his Open Society Institutes (OSI) both in Budapest and New York. Cumulatively, Soros has spent over \$2 billion in central and eastern Europe and the former Soviet Union in the 1990s. The Soros model of operation is unique: in all cases national foundations are run by boards comprised of local citizens. Most staff are also local to the countries in which they operate, with the Budapest regional programme headquarters housing a multinational group of individuals from both East and West. Also unique to the region (and the world) is such a large foundation operating with a single living donor. Soros's individual stamp is clearly on the foundations. His ear is close to the ground, enabling a fruitful dialogue between the founder and the national foundations to flourish.

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<sup>10</sup> Bernstein, p.8.

<sup>11</sup> Bernstein, p.8.

The historical development of the role of foundations in central and eastern Europe could be said to have two distinct phases. In the first phase foundations were mainly concerned with economic reform. They found themselves also rapidly replacing the withdrawing state in traditional activities such as the arts. There was a quantitative emphasis during this phase. The persistence of some of the problems forced foundations to reconsider their role as they realized some of the more structural issues involved in the transition. Their concern turned to issues of transparency and sustainability and their support turned mainly to education and political development in particular and innovative approaches that reward risk-taking in general. It could be said that foundations too have undergone transformation.

### **3 Legal issues**

The legal framework governing the establishment and functioning of foundations is currently going through a second round of adjustment since the changes of 1989-90. Although there are still some pieces of legislation dating from earlier periods they exist often more in theory than in practice. For example Slovenia still has intact the Kingdom of Yugoslavia's Law on Foundations 1930, which did not function under communism from 1945 to 1991. Similarly a few sections of Bulgaria's Persons and Family Act 1949 still serve to regulate some aspects of foundation activity.

While many of the countries operate under a civil code, Slovenia, for example, does not. The concept of a charitable trust, an Anglo-Saxon legal institution operating under common law, is non-existent as most legislation is based on the German tradition.

Countries vary significantly in the way they define a foundation. For example while Estonia distinguishes only between private and public foundations, Bulgaria also

defines religious and non-religious institutions in its legislation. Hungary further distinguishes public and private foundations which can then be either public benefit organizations or 'special public' benefit organizations. Since January 1999 only those that qualify as public or special public benefit organizations are eligible for special tax considerations.

There are also differences in registration requirements. While state authorization is required in Slovenia this is not the case in Estonia. Hungarian foundations are required to register at the local county (Budapest) court and receive permission to do so only if their papers are in order. In Bulgaria any local court can determine an entity's right to register as a foundation.

The management and governance of foundations has proven difficult to prescribe in law. Laws are only beginning to tighten up regarding the abuse of foundations evident in the early 1990s. For example, Bulgaria recently adopted a new law governing legal persons with nonprofit purposes which attempts to prevent the problems that arose from a lack of regulations governing conflict of interest and self-dealing. The new law's provisions regarding self-dealing, however, might still require tightening up. In Hungary the supervisory or governing board only requires a minimum of two people, although in practice these tend to be composed of three to five people. Legislation in Slovenia dictates that persons (or their relatives) are not eligible to vote on particular decisions that might be to their personal benefit. On the other hand, Estonia has tried to assure accountability by insisting on separate supervisory and management boards.

With much of the funding for foundations initially coming from outside these countries it is interesting to note the nationality requirements of the governing bodies. Of the ten countries only a minority have any nationality or residency requirements. Estonia requires half of any foundation board to be residents of the country.

Policies on tax relief on donations have been cautious. This may be in part because there is little by way of tradition of giving, while tax incentives are not perceived as sufficient inducements. The range of deductible taxable income varies from 5% to 35%. Some countries distinguish between individual and corporate donations. In the case of Hungary the formulation appears overly complicated with various levels of deductible donations ranging from 20% to 33% while in Bulgaria founder donation tax exemption is limited to 5%.

While in the early 1990s foundations were often prohibited from engaging in commercial activities, by the mid-1990s legislative changes began to take a more balanced approach. Nonetheless, there are significant differences among countries. In Slovenia there are no proscribed activities but the strict state authorization process for registration and the tight tax regulations prevent foundations from benefiting their founders. In Hungary not more than 50% of a foundation's total income may be derived from commercial activities. The inherent distrust of commerce among people who engage in public good activity has actually been a greater hindrance to the development

of nonprofit commercial ventures than has legislation. Such attitudes can easily be understood given the historical context.

In general it has been necessary for all the countries to create new legislation governing foundations. This appears to have been a two-step process with the earlier laws of the first half of the 1990s subjected to revisions in the second half. Each country has its own traditions and concerns that need to be taken into account when creating new laws.

## **4 A profile of foundations in central and eastern Europe**

### **General overview**

It is again helpful to divide analysis of foundations in central and eastern Europe into the two time periods of early and late 1990s. By the end of the 1990s foundations were financing a broader range of activities than before. The shift from simple assistance in the economic reform process to a more complex web of activity both in grant-making and operating programmes has enhanced the role of foundations in the evolving third sector. As their benefits become clearer, laws governing foundation activities have been strengthened. The EU accession process itself has further galvanized efforts to strengthen their role.

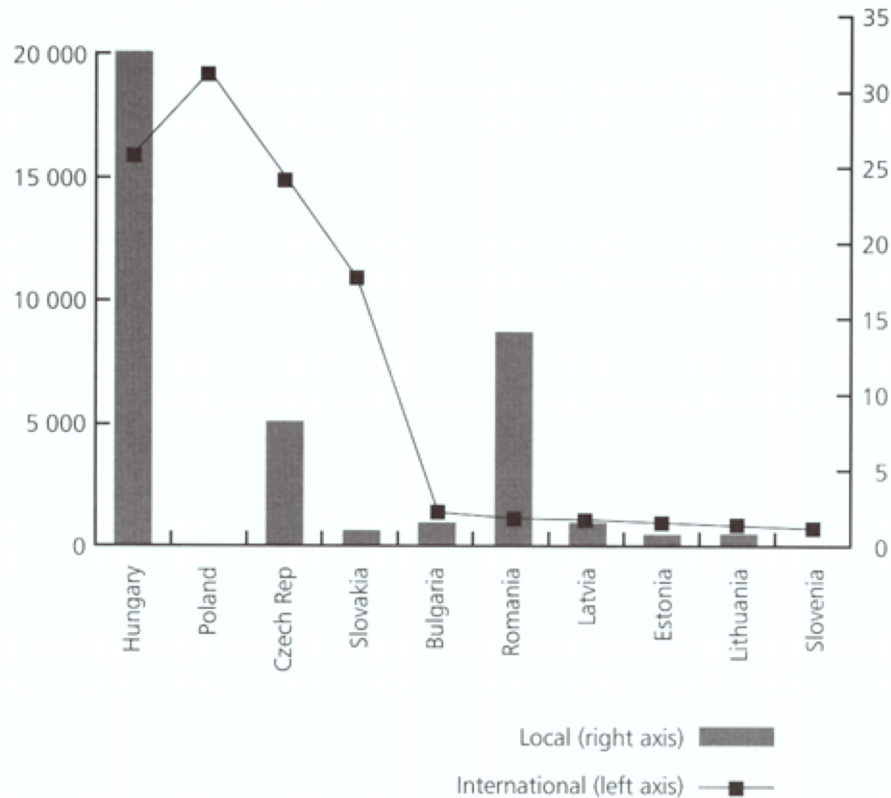
The number of active foundations is difficult to ascertain. From the three sources cited in Figure 1.7 there appear to be relatively few. However, some local directories list additional organizations that probably have very limited impact and are quite small (and may indeed not be true foundations as defined by law). In a directory of nonprofit organizations in Bulgaria, for example, out of just over 1000 NPOs, 233 called themselves foundations.

### **Funding**

The known financial contributions from major foundation sources to the accession countries during the 1990s probably approach close to \$1 billion. Quigley<sup>12</sup> provides probably the most comprehensive statistics for the period of 1989-94. For the purposes of this chapter Quigley's data has been updated and expanded to include additional countries and activities.

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<sup>12</sup> Quigley.



**Figure 1.7** Number of foundations per country in central and eastern Europe  
 Source: Centre for European Foundations, Funders Online, and Quigley<sup>13</sup>

A clear pattern can be discerned from Table 1.55. The main players are by and large the major US foundations with German foundations following in second place. Foundations from other countries such as France and Holland and Japan follow.

### Activities

The interests of foreign foundations become evident when distinguishing between types of activities (Table 1.56). Using the International Classification of NonProfit Organizations code it is clear that the main preoccupation has been with education (23% of total). This is in line with recognition that at the heart of the transition process is a re-orientation towards the world, which can only be achieved through complete reform of the education process.

<sup>13</sup> Centre for European Foundations (online database), Funders Online (online database), and Quigley.

Foundations	Poland	Hungary	Czech Rep	Slovakia	Czechos.	Bulg et al. <sup>14</sup>	C. Europe	Interreg	Total
Konrad Adenauer Stiftung	3890	3560	2160	280	1440			3220	14,550
Stefan Batory Foundation (Soros)	32,835							708	33,543
Bertelsmann Stiftung								3480	3480
Bosch Stiftung	9950						1930		11,880
Lynde and Harry Bradley Foundation	284		80		430		200	2041	3035
Carnegie Corporation of New York		25		300				12,776	13,101
Co-operating Dutch Foundations		2980	830	500	1250				5560
Central European University (Soros)		1500					53,889	3000	58,389
Civil Society Development Foundation			3050	370					3420
Friedrich Ebert Stiftung	8930	4300			4200			560	17,990
European Cultural Foundation								2055	2055
Fondation de France	1860								1860
Ford Foundation	15,500	1962	2317	568	1162		3722	12,537	37,768
International Media Fund	1460	1780	1130	900				1300	6570
German Marshall Fund of the United States	2322	345	445	223	341		879	610	5165
Alexander von Humboldt Stiftung	18,096	8309	1097	1134	4922				33,558
John D. and Catherine T. MacArthur Foundation	107		1300		2100		60	2371	5938
Andrew W. Mellon Foundation	11,763	8962	1223	1306	6456		9200	6143	45,053
Charles Stewart Mott Foundation	934	647	226	199	342		1553	4254	8155

**Table 1.55** International foundation funding by country US\$000 1989-97

Foundations	Poland	Hungary	Czech Rep	Slovakia	Czechos.	Bulg et al. <sup>14</sup>	C. Europe	Interreg	Total
Friedrich Naumann Stiftung	2960	3390			1840			3220	11,410
National Endowment for Democracy	11,372	4550	618	1730	2442	4232	365	5419	30,728
Pew Charitable Trusts	3455	1145	85	315	1600		4840	19,640	31,080
Rockefeller Brothers Fund	1757	1489	996	110	470		5220	1003	11,045
Sasakawa Peace Foundation	250	100	70	150	132		4349		5051
Hanns Seidel Stiftung								8160	8160
Soros (Open Society) Network of Foundations	423	72,666	9537	11,471		115,800	45,870	219	255,986
Fritz Thyssen Stiftung	222	2351	99		39		412	104	3227
Volkswagen Stiftung	197	1109						21,726	23,032
<b>Total</b>	<b>128,567</b>	<b>121,170</b>	<b>25,263</b>	<b>19,556</b>	<b>29,166</b>	<b>120,032</b>	<b>132,489</b>	<b>114,546</b>	<b>690,789</b>

Source: Foundations' annual reports (data between 1995–1997) and Quigley (1997) (data between (1989–94)).

**Table 1.55 cont'd**

	1	2	3	4	6	7	8	11	12	Inst. Build.	Unknown	Total
Poland	2634	28,741	1269	2403	18,235	9497	21,602	582	11,392		32,212	128,567
Hungary	4569	21,917	7560	12,656	6723	6934	11,594	1320	24,947	6940	16,010	121,170
Czech Rep	1227	2746	435	3051	1914	1940	3759		1701		8490	25,263
Slovakia	1668	4222	357	2055	751	2144	1208	321	2420		4410	19,556
Czechoslo		6221			5895	64	6046		2210		8730	29,166
Bulgaria	2484	1674	513	3102		7301		1690	26,841			43,605
Estonia	1254	3354	675	1086		1854		45	3249			11,517
Latvia	1455	570	111	3951		2296			3393			11,776
Lithuania	1611	740	438	6429		1021		797	4566			15,602
Romania	1149	2921	1170	4062		5665		1218	10,653			26,838
Slovenia	1461	360	645	3495		817			3916			10,694
C Europe		52,672			2538	3391	6277		3649	53,032	10,930	132,489
Interreg.		33,554			12,077	10,524	29,262		9189		19,940	114,546
<b>Total</b>	<b>19,512</b>	<b>159,692</b>	<b>13,173</b>	<b>42,290</b>	<b>48,133</b>	<b>53,448</b>	<b>79,748</b>	<b>5973</b>	<b>108,126</b>	<b>59,972</b>	<b>100,722</b>	<b>690,789</b>
% of total	3%	23%	2%	6%	7%	8%	12%	1%	16%	9%	15%	100%

Source: Foundations' annual reports for data between 1995–97 and Quigley<sup>15</sup> for data between 1989–94. Amounts in US\$000. Activities corresponding to ICNPO code can be found below. 'Inst. Build.' stands for 'institutional building'.

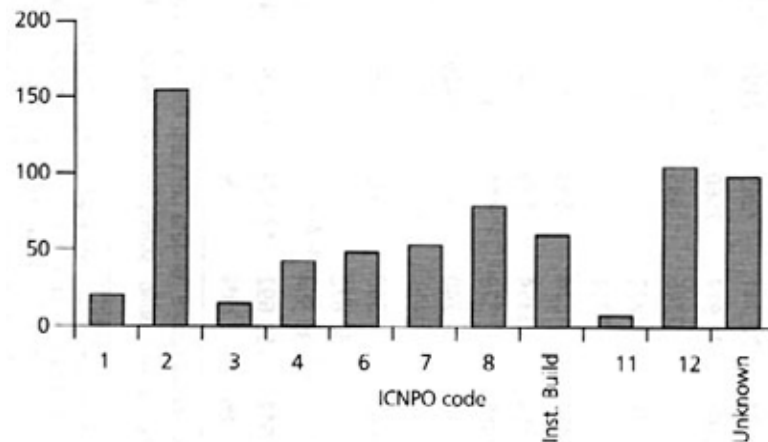
<sup>15</sup> The description of foundation activity made by Quigley (1997) does exactly follow the ICNPO code, thus the following conversion was made: 'education and training' was interpreted as 'education'; 'technical assistance' was interpreted as 'development'; 'policy research' was interpreted as 'law, advocacy and politics'; 'institutional building' and 'funding for intermediaries' were interpreted as 'philanthropic intermediaries and volunteerism promotion'; 'Other' was interpreted as 'not elsewhere classified'. Quigley's work is one of the few with quantitative data on foundation activities in central and eastern Europe; however it is concerned primarily with funding for democracy and thus less interested in foundation activities such as arts or health. Since we draw extensively on Quigley's work for this chapter his bias towards activities related to democracy is probably still very strong in this chapter.

**Table 1.56** Archives (ICNO code) supported in each country

**ICNPO classification code**

- 1- Arts, Culture and Recreation
- 2 - Education and Research
- 3- Health
- 4 - Social Services
- 5- Environment
- 6- Development
- 7- Law, Advocacy and Politics
- 8- Philanthropic Intermediaries
- 9- International
- 10- Religion
- 11- Business and Professional Associations
- 12 - Not Elsewhere classified

Whilst in the first half of the 1990s law programmes represented only 8% of expenditure, they grew substantially in the late 1990s and will increasingly be a focus of attention as corruption in society and rule of law become more significant issues. Law is tied with institution building, which received 9% of funding but has a much broader brief. Spending on philanthropic intermediaries and volunteerism promotion (21%) point toward the supportive role of foundations in strengthening local civil society and thus assisting the transition to a more transparent and democratic society.



**Figure 1.8** Foundation assistance per area of ICNPO activity code US\$m 1989-97  
 Source: Foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94.

Perhaps as revealing as what Figure 1.8 shows is what it hides. There was a relatively low level of funding for environmental issues by foundations. There is a very large number of 'not elsewhere classified' and 'unknown' activities, reflecting the difficulty of obtaining detailed data and applying traditional classification systems to the activities in the region. This fact lends credit to the argument that foundations have been quite innovative and supportive of innovative activities in the region. Activities in areas such as women, information and ethnic groups escape more traditional classifications but constitute a very large part of foundation spending in the region, and highlight another important role foundations have in the transition process in the region.

	CE Europe	UK	Germany <sup>17</sup>	Italy	Portugal	Turkey
Art, culture and recreation	3	9.8	22.3	35	29	6.3
Education and research	23	40.7	57	20	14	22.6
Health	2	12.1	11.6	10	6	5.3
Social services	6	15.3	55.1	26	43	20.5
Environment	<1	5.1	5.8	1	1	2.3
Development and housing	7	2.2	0.5	5	1	6.6
Law, advocacy and politics	8	0.4	1.4		2	1.7
Philanthropic intermediaries and volunteerism promotion	21	0.5				12.4
International			4		1	
Religion		8.9	6.1		3	
Business, prof. assns, unions	1	<0.1	2			
Not elsewhere	16	3.5		3		22.3
Unknown	15					

**Table 1.57** Comparison between central and eastern Europe foundation spending in proportion of amount spent and western Europe spending<sup>16</sup>

Source: Figures for CE Europe as Figure 1.8; figures for other countries taken from chapters in this book.

<sup>16</sup> Figures for central and eastern Europe, UK, Italy and Portugal refer to percent of amount spent in different activities. Figures for Germany and Turkey refer to percent of the number of foundations (not amount) dedicated to the different activities. It is hoped that both measures can be comparable as they both refer to the relative attention of foundations concerned with various activities in the different countries.

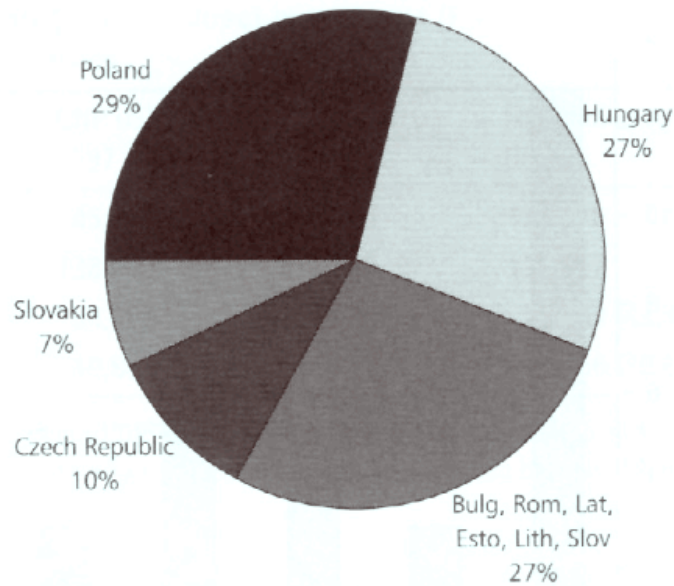
<sup>17</sup> The description of foundation activity in Germany does not exactly follow the ICNPO code. Here the figure for business, professional associations and unions is the sum of 'non-charitable purposes' and 'economy' in the German description.

From Table 1.57 we can see a remarkable similarity between foundation spending in central and eastern Europe and in Turkey. As a developing nation Turkey is also undergoing a number of transitions and arguably faces some of the same challenges faced by countries in central and eastern Europe. Turkey also has large spending on 'not elsewhere classified' activities. In Turkey foundations strongly support civil society development by devoting a large part of their spending to philanthropic intermediaries and volunteerism promotion. However, low spending on legal and political activities may suggest that the transition in Turkey may be more economic than political in nature.

Foundations have very different spending priorities in central and eastern Europe compared to those in Germany or the UK, despite a common primary focus on education and research. Legal and political spending in both countries is minimal. This reinforces the idea that foundations in central and eastern Europe have an extraordinary role in supporting political transition in the region. Foundations in both the UK and Germany also have non-trivial spending on environmental and religious activities that do not appear to be priorities in central and eastern Europe.

### ***Geographic distribution***

The geographic distribution of foreign foundations demonstrates a greater interest in the stronger economies. Hungary was initially seen as the strongest, soon to be overtaken by Poland and Czechoslovakia. A few years after the creation of the Czech Republic economic growth slowed down. Hungary itself experienced a set-back in the mid-1990s, resuming growth only after an austerity package put in place in 1996 began to have an impact. While Poland, Hungary, the Czech Republic and Slovakia seemed like safe bets to most outside investors, the other accession countries had a rougher ride. Bulgaria only began to grow economically after a new government came to power in 1997. Romania's economy was still struggling at the end of the decade despite a promising government elected to office in 1997. Estonia's head start (with growth at one time rising to 13% primarily due to re-exports of Russian metal goods) slowed down significantly. None of the countries experienced continuous growth after recovery from the initial shock of the breakdown of communism which plunged economies into negative growth for the first few years.



**Figure 1.9** Share of foundation support by different countries

Source: foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94

As shown in Figure 1.9, Poland and Hungary have received over half of the total foundation support to central and eastern Europe since 1989. The reasons for this are complex and warrant some examination; factors explaining the allocation of foundation support to different countries in the region include the size of their population and economy, their attractiveness to foreign investment, their relative poverty and the amount of official aid received. The following analysis relating to Table 1.58 through Table 1.60 and Figure 1.10 through Figure 1.14 is restricted to four countries due to the difficulty of obtaining data on the other countries. The four countries covered in Table 1.58 had considerable variance in GNP.

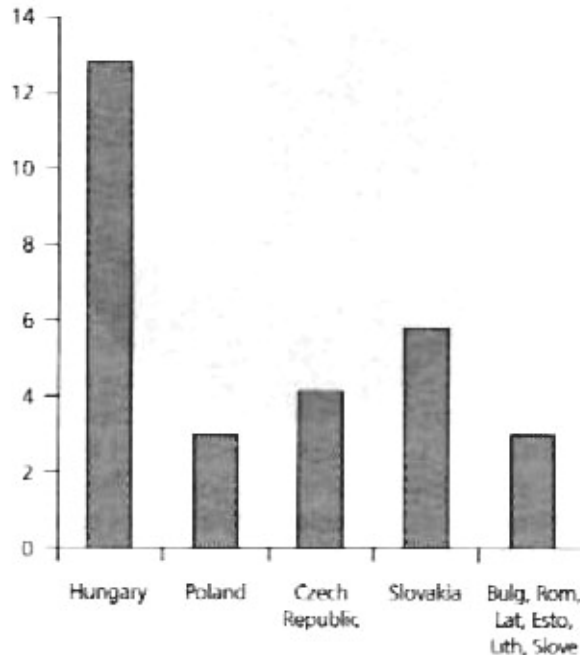
	Population 1998(m)	Foundation support (1989-97) US\$m
Hungary	10.116	121.170
Poland	38.718	128.567
Czech Republic	10.282	25.263 (43.346)
Slovakia	5.377	19.556 (30.639)
Bulg, Rom, Lat, Esto, Lith, Slove	40.350	120.032 [all 6 countries]

**Table 1.58** Foundation support and population numbers for selected countries

Source: population figures from UN<sup>18</sup> and foundation support from foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94.<sup>19</sup>

<sup>18</sup> United Nations, Department of Economic and Social Affairs, Population Division: 'World Population 1998', New York, 1999. <http://www.undp.org:80/popin/wdtrends/p98/fp98.htm>.

<sup>19</sup> Figures in brackets include the attribution of US\$29.166m in donations to Czechoslovakia. This was added to donations to the two countries after 1993. The addition maintained the proportion between donations to the Czech Republic and Slovakia (i.e., 62% to the Czech Republic and 38% to Slovakia).



**Figure 1.10** Foundation assistance *per capita* in US\$ 1989-97

Source: Foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94.<sup>20</sup>

<sup>20</sup> As per 19

Although Poland and Hungary receive similar total assistance from foundations, the picture changes dramatically when considered on a per capita basis (Table 1.58). Hungary is the clear favourite, as Figure 1.10 illustrates, with just over US\$12 *per capita*. It receives as much as Poland although it has only one quarter of Poland's population. Poland, on the other hand, received only US\$3 *per capita* – as much as Bulgaria, Romania, Latvia, Estonia, Lithuania and Slovenia combined. Foundation giving is therefore not directly related to population size. Countries with a larger population seem to receive more money (e.g. Poland) than countries with less population (e.g. Slovakia) but Hungary is a clear exception to this rule.

Could the size of the economy be responsible for attracting foundation support? A look at Figure 1.11 shows that as GNP grows foundation support also grows with a remarkable fit. The notable exception is again Hungary, receiving proportionally more foundation assistance for its size of the economy than would be expected according to trends in the other countries.

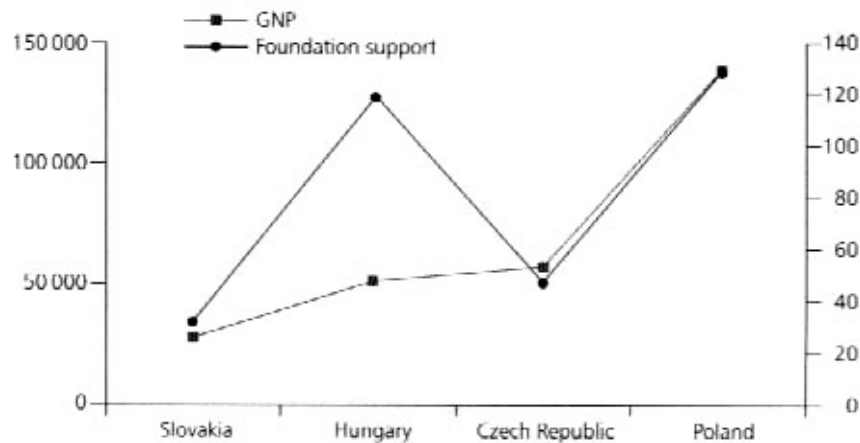
Could investment attractiveness as measured by net foreign direct investment be a good predictor for foundation support in central and eastern European countries? Looking at

the evidence it could be said that by and large the answer is yes. Figure 1.12 shows a correlation between falling FDI and falling foundation assistance. There is a somewhat less good fit in each individual country when looking at size of the economy, but Hungary no longer stands out as an exception. Indeed the fit between FDI and foundation assistance in Hungary is better than for any other country, suggesting that much foundation assistance to Hungary could be explained by the FDI it attracts. On the other hand, the very large funding of the Hungarian Soros Foundation may distort this fit.

	GNP US\$m 1997	FDI US\$m 1995	Foundation support (1989–97) US\$m
Hungary	45,800	4540.35	121.170
Poland	138,900	3370.55	128.567
Czech Republic	54,000	2294.86	25.263 (43.346)
Slovakia	19,800	166.17	19.556 (30.639)

**Table 1.59** GNP, foreign direct investment (FDI) and foundation assistance in selected countries

Source: GNP data from UNDP<sup>21</sup> FDI data from UNDP<sup>22</sup> Foundation support data from foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94<sup>23</sup>



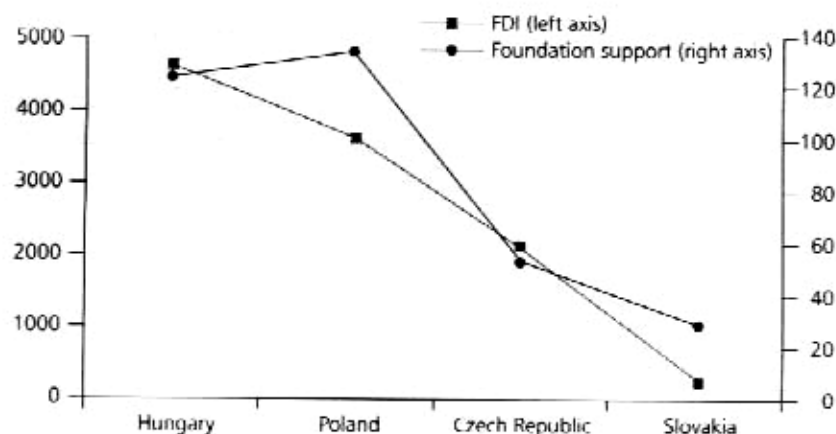
**Figure 1.11** GNP 1997 (US\$m) and foundation support 1989-97 (US\$m)

Source: see Table 1.59

<sup>21</sup> United Nations Development Program: 'World Development Report – 1999', New York, 1999. <http://www.undp.org/hdro/report.html>.

<sup>22</sup> Foreign direct investment figures from multiplication of two UNDP indicators: GNP figures (<http://www.undp.org/hdro/iectrends.htm>) and net foreign direct investment as % of GNP (<http://www.undp.org/hdro/ifinance.htm>).

<sup>23</sup> As per note 19.



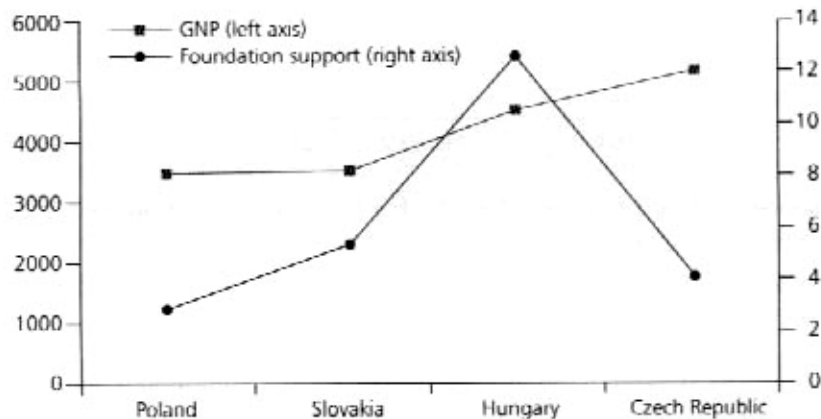
**Figure 1.12** Foundation support US\$m (1989-97) and FDI US\$m (1995)  
 Source: FDI data from UNDF<sup>24</sup> Foundation support data from foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94<sup>25</sup>

	GNP per capita (US\$) 1997	FDI per capita <sup>26</sup> US\$	Foundation Support per capita ('89-'97) US\$
Hungary	4510	448.82	12.70
Poland	3590	87.05	3.13
Czech Republic	5240	223.19	4.21
Slovakia	3680	30.90	5.70

**Table 1.60** GNP per capita, FDI per capita, and foundation support per capita for selected countries  
 Source: GNP data from UNDF<sup>27</sup> Foundation support data from foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94<sup>28</sup>

<sup>24</sup> As per note 22.  
<sup>25</sup> As per note 19.  
<sup>26</sup> FDI per capita obtained from dividing total FDI by the countries' populations presented on Table 1.58.  
<sup>27</sup> As per note 21.  
<sup>28</sup> As per note 19.

Do foundations give more to poorer countries? Evidence indicates that foundations give less to the poorest countries. Figure 1.13 demonstrates that as income per capita grows (from left to right in the chart) foundation assistance per capita also increases. Perhaps foundations concentrate more giving (per capita) on countries that have already achieved a minimum level of wealth. However, as countries achieve a higher level of wealth foundation giving is reduced, possibly because it becomes less necessary. That is the case of the Czech Republic. Part of the explanation might be that as state functions are increasingly taken over by the private sector there is less need for the state to subsidize activities of foundations. Another factor not to be underestimated is the political climate of each country.



**Figure 1.13** Comparison between foundation giving *per capita* (US\$) and GNP *per capita* (US\$). Countries in ascending order of GNP *per capita*.

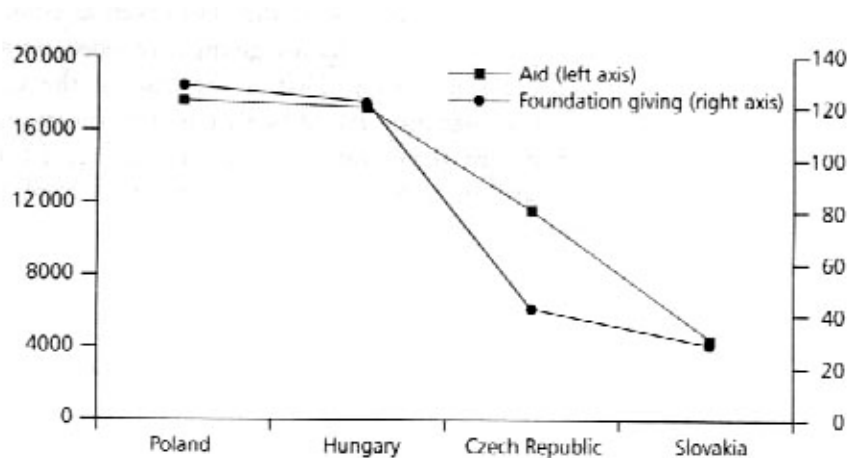
Source: GNP data from UNDP29 Foundation support data from foundations' annual reports for data between 1995-97 and Quigley for data between 1989-94<sup>30</sup>

Foundation assistance followed a pattern remarkably similar to official assistance from bilateral and multilateral donors, as comparisons in Figure 1.14 show. Aid resource flow has been the best predictor of foundation giving in the countries examined. Foundation giving is equal to about 1% of aid resource flows. From 1990 to 1996 aid flows totalled US\$62,470m (OECD, 1999) while foundation assistance from 1989 to 1997 was US\$690m. Foundations also appear to have responded to major structural transitions such as entry into the EU, which determines much of official aid.

The poorer countries attracted less attention for a number of reasons. In the eyes of many they were less attractive financial investments. They have weaker human capacity actually to deliver programmes and fewer contacts to build on from the pre-1989 days.

<sup>29</sup> As per note 21.

<sup>30</sup> As per note 19.



**Figure 1.14** Aid resource flows US\$m 1990-96 and foundation support to central and eastern Europe US\$m 1989-97

Source: Aid – OECD;<sup>31</sup> foundation assistance – foundations' annual reports for data between | 995-97 and Quigley for data between | 989-94<sup>32</sup>

The striking correlation between aid and foundation assistance may be related to the need to find delivery channels that rely on the same types of people to implement projects. The result is that foundations are not complementing official aid (at least quantitatively), rather they are following the same structural patterns. Countries less attractive to aid are left without the alternatives that perhaps organizations from civil society such as foundations should provide. This trend is confirmed by the above mentioned close fit between foundation giving, FDI and size of the economy. Foundations appear to be giving more to countries that are already receiving more from other sources.

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<sup>31</sup> OECD: Aid and Other Resource Flows to the Central and Eastern European Countries and the New Independent States of the Former Soviet Union Development Co-operation Directorate, 1999. [http://www.oecd.org/dac/htm/pubs\\_foc.htm](http://www.oecd.org/dac/htm/pubs_foc.htm).

<sup>32</sup> As per note 19.

The same analysis is true on a *per capita* level. Here too foundations appear to be giving more *per capita* to countries with a higher income *per capita* at least until they reach a certain level of income *per capita*. It is beyond the scope of this chapter to estimate the impact this might have on the speed of transition but the question is clearly of significance.

### **Regional initiatives**

Alongside the bilateral activity of government programmes such as USAID, the British Know How Fund and other programmes, as well as help from regional authorities such as the German Lander, the programmes of the EU such as Phare, Tempus, Socrates, Tacis, Leonardo and Bistro play an important role.

Regional initiatives funded by Soros include the Constitutional and Legal Policy Institute (COLPI) which currently focuses on legal reform and human rights. A separate Roma Programme was developed and a Women's Programme augments the national foundations' initiatives. Established in 1998, a new Institute for Educational Policy develops demonstration models with a view to larger-scale funding coming in at later stages (e.g. from the World Bank) once the effectiveness of a model is proven. The Higher Education Support Program (HESP) founded in 1991 aims to support higher education institutions and academic centres that show potential for excellence and set examples of innovation.

In the area of information provision Soros has been active on a regional basis through programmes such as the Network Media Program, the Network Library Program and the Centre for Publishing Development. Extensive internet infrastructure building was a

priority in the mid-1990s, but now that the backbone has been established there is a greater focus on content creation and information dissemination. The East-East programme funds local initiatives that involve more than one country, thus contributing to transfer of know-how and improved communication between countries.

One issue that transcends borders everywhere is that of the environment. Although perhaps not so heavily funded, numerous foreign foundations have supported research and NGO activity in this area. One well-known enterprise is the Regional Environmental Centre (REC) located in Budapest, which after a rocky start in the early 1990s found its role coordinating funding from a variety of sources, including the German Marshall Fund, the Rockefeller Brothers, the Charles Stewart Mott Foundation and a host of smaller foundations with specific agendas aiming to support local NGO development. The Regional Environmental Centre played an important role in harmonization required for EU expansion and in the Environmental Partnership for Central Europe (originally initiated by an OECD task force). Foundations interested in environmental issues tend to cluster together providing joint support for programmes. The REC is an interesting example, bringing together finance from both public and private foundations, and working with a variety of international NGOs.

## **Country profiles**

Due to space constraints the country illustrations below are indicative only of the range of activities and issues rather than a comprehensive review.

### ***Bulgaria***

Bulgaria's foundations receive over 95% of their income from contributions originating from outside the country. They co-exist with associations and cultural centres as the three main types of non-governmental organizations. None are corporate foundations. Statistics on the number of foundations are hard to come by and vary from 250 to 850. Their activities reflect the priorities of the post-communist era with a concentration of foundations funding science, education, research and arts and culture.

While the legal basis of foundations is favourable, strict attention is paid to enforcing the tax regulations after a period of abuse in the early 1990s. Foundations are not prohibited from carrying out business activities and are only obliged to pay taxes on profits. There is some tax incentive for juridical and physical persons wishing to make donations.

### ***The Czech Republic***

The Czech Republic began changing the laws it inherited from Czechoslovakia in 1993. Foundations were required to re-register and some loop-holes evident in the earlier laws were tightened. As in other countries there is still some suspicion concerning foundations. However, the new Republic continued with obligations taken on in 1992 to begin funding Czech foundations with a portion of the proceeds from the privatization programme. In 1999 \$13 million was allocated for distribution to foundations with another \$45 million earmarked for 2000-01. Only about 200 of the 5000 registered

foundations are grant-making foundations. The rest are operational, falling into two categories: foundation funds, which do not require endowments and have no tax benefits; and public benefit corporations that can provide fee charging services.

Foundations fund the activities of numerous NGOs. Despite lack of support from Prime Minister Vaclav Klaus in the mid-1990s, foundation law and NGOs' activities have steadily matured in the second half of the 1990s. Early financial assistance was, as elsewhere, focused on economic reform. Under Klaus, the Czech Republic sought to wean itself off foreign aid much earlier than the other countries of central Europe. Foreign foundations followed the footsteps of the aid agencies and turned their attention elsewhere.

Nonetheless, important educational establishments such as the Centre for Economic Research and Graduate Education (CERGE) affiliated with Charles University in Prague received substantial assistance from foundations. Following the pattern of western higher education CERGE pioneered the idea of uniting teaching and research and presented an alternative model to the existing status quo. The idea of doing so as part of a public institution while retaining enough autonomy to function independently proved highly challenging. Foundations such as Mellon, PCT and Soros with USAID co-financed CERGE and eventually larger sums of Czech public funding provided support as well.

Foundation support has played a large part in providing access to information and training in NGO management. Despite criticism of western approaches, much of the methodology has been adopted to good effect.

### ***Estonia***

Foundation activity in Estonia is limited. There are only 150 foundations – relatively few even for a country as small as Estonia with its population of 1.5 million. While governed by the Foundations Act 1996 a revision of the Commercial Act in 1998 triggered a re-registration process which revealed 50 independent foundations, a few corporate foundations and a majority of government-linked or fundraising foundations. Activities most heavily supported include arts and culture, education and some social welfare and environmental issues.

The most active foundation has been the Open Estonia Foundation, but as EU membership draws closer it will transform itself into a policy about 100 local ones and 30 governmental foundations. Most foundation funding still comes from abroad, the Soros Foundation long being the leading actor, although its role is diminishing. However local foundations are also emerging; for example the largest daily newspaper Lietuvos Rytas has established a foundation.

A large number of foundations concern themselves with the handicapped, the elderly and others who have fallen out of the increasingly fragile social services net. Other foundations support the traditional areas of arts, education, science and sporting activities. While charitable donations to these foundations are tax-free, foundations do

pay a 5% profit tax. Moreover they are not permitted to engage in business activities. These impediments hinder self-sustainability.

### **Poland**

Poland, the largest central European country, has extensive contacts with foundations outside its borders. An interesting example is the influential Foundation in Support of Local Democracy (FSLD), established primarily to work on local government issues. Founded by members of the Lech Walesa Civic Committee, many of whom have held high-level positions in and out of post-communist governments, this body is governed by its Council of Founders which is assisted by the board of management. The Council of Founders is also assisted by a Council of Directors consisting of directors from affiliated regional training centres and colleges of local government and public administration. Quigley describes this 'overlapping jurisdiction without clear lines of authority', observing that:

this structure also suggests a problem common to many independent organizations in Poland and other parts of central Europe. That is, although many of their programmes are quite successful, their organizational structure and administrative arrangements are not very sophisticated. One explanation for this lopsided development is that much of the external assistance was devoted to programme development, and relatively scant attention was paid to governance and management issues.<sup>33</sup>

Much funding for FSLD came from foreign foundations anxious to make an impact. Without a history of open public policy debate, Poland and other countries received considerable assistance in promoting such discussion. This was achieved in part through the establishment of think-tanks. One particularly influential organization is the Centre for Social and Economic Research (CASE) established by Leszek Balcerowicz (currently Poland's Finance Minister) and his wife Ewa.

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<sup>33</sup> Quigley p.49.

In the last ten years, foundations in Poland have spent over \$250 million on what could loosely be described as education. Leaders in the field are Humboldt, and the Bosch Stiftung.

Following these German foundations, the next most active was the Stephan Batory Foundation established by George Soros in 1988. Like other foundations it diversified its sources of financing towards the end of the 1990s. In its 1997 report Batory listed seven foreign donors (apart from Soros) making up 7% of their budget. Thirteen domestic donors were cited as having contributed 3% of the total budget, which was just over \$10 million. Their grant-making programmes amounted to six times the expenditure of their operating programmes.

The trend is moving towards consolidation and reduction of funding from Soros. As the EU accession process gains momentum the Batory Board has narrowed its range of

activities. For the first few years of the new millennium it will prioritize strengthening democratic institutions and values, promoting international cooperation, advancing educational development and supporting culture.

The foundation landscape in Poland also includes a long tradition of foundation-like activities undertaken by the Catholic Church. Since the liberalization of its activities in the 1990s it has resumed a more important role in social services generally.

### **Romania**

Romania is the second largest country within the EU aspirants' group, with a population of over 22 million. It is also a deeply scarred nation living with the legacy of one of the most brutal regimes in south-east Europe. In 1998 8000 registered foundations were accounted for. With a large Hungarian minority in Transylvania a larger than usual proportion of foundation activity is devoted to ethnic and minority issues. The Foundation for an Open Society supported a wide range of programmes until 1997 when, following a promising election, it chose to concentrate on legal reform, public administration, education and public health. A number of initiatives have been spun off to become separate income-generating entities, such as the Internet Centre in Bucharest.

### **Slovakia**

Over 400 foundations are now registered in Slovakia. After a shaky existence under the Meciar government foundations are now playing a more active role in supporting the development of civil society. Education is the most popular area of activity, with 150 foundations set up by schools with healthcare. Culture follows in popularity. A Law on Foundations was passed in 1996 and the re-registering procedures brought greater clarity to the types of organization eligible for foundation status. There are about 30 corporate foundations.

### **Slovenia**

Slovenia has made a remarkable transition with a GDP three times that of the other most developed central European countries. The third sector has made considerable strides with foundations playing a significant role particularly in education, arts, and culture. There are about 60 foundations functioning in Slovenia. Their finances derive primarily from domestic sources, an encouraging development down the road to self-sufficiency.

## **5 Current trends and conclusion**

The role of international foundations in the next ten years is uncertain. These donors are showing less interest than in the heady days of the 1989-90 'revolutions'. Some feel their mission has been accomplished and it is now time for the EU and local foundations to take over the role of funding third sector activities. The attitude of the Mellon Foundation is not atypical:

We are continuing to phase down our grant-making in eastern Europe, largely because many of our original objectives have been accomplished. As

always, there is more to be done, and we do not intend to terminate our support of programmes in eastern Europe in an abrupt fashion; but we do believe that the Foundation must always be ready to re-deploy its resources in response to changing needs and new opportunities. Thus, in 1996 we concentrated our grant making in eastern Europe on sustaining and institutionalising the most promising of the initiatives funded in earlier years (Andrew W. Mellon Foundation, 1996).<sup>34</sup>

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<sup>34</sup> <http://www.mellon.org/organisation/arpr96.html#rn9>.

Nonetheless, it will take many years before the region is wealthy enough to produce enough benefactors to generate a critical mass of 'self-sustainable' local foundations. In the meantime many activities previously funded by western foundations are now seen as the domain of the EU. The PHARE programme has expanded its initiatives from Poland and Hungary to other accession countries. The EU established the separate directorate of DGIA to deal entirely with accession issues. By the end of the 1990s programmes such as Tempus, Socrates, Tacis, Leonardo, Bisto and others all had accession country components. There is recognition that adoption of the Aquis of the Union is likely to be a much longer process than in the case of more recently accepted western Europe member states. This 'double' transition has put a significant financial burden on the accession countries, but one they are choosing to bear. However, the cultural differences are in evidence and can often be a greater barrier between East and West than financial ones. Here foundations have a role to play in helping the people of each country understand that they have choices to make. Many foundations are now working in the policy area, helping officials gain confidence in their mastery of complex issues as they prepare for accession.

While EU funding will increase, a number of western foundations are turning their attention to pressing concerns in the Balkans and other regions of the world. The Charles Mott Foundation has made this explicit in its 1999 report, and at the end of the decade the Soros Foundation was re-examining its activities in south-eastern Europe. Many foundations will collaborate with each other to a far greater degree than in the past.

Increasingly foundations are beginning to recognize their power to exert leverage on state resources. This has been particularly evident in information programmes where foundation initiatives lead to an increase in government commitment to invest in infrastructure, for example providing the possibility of internet connection to schools.

The differences in legislation governing foundations described above is only one part of the story of extensive diversity between the nations. Their legacies may all be of communism, but the forms practised between Romania and Hungary for example were marked by different heritages. The brutalization that occurred in Romania continues to hamper the development of trust and this in turn makes the functioning of civil society difficult. It will take several generations to achieve the realization that democracy is not just about voting, but about maintaining a dynamic if delicate balance between the

myriad forms of social organizations without construing every situation as a zero-sum game. Accountability and transparency in these circumstances is of paramount importance.

However, the relevant laws are changing and becoming more favourable for the establishment of foundations working towards a public good rather than a few individuals' pockets. Issues of corruption are being given far greater attention than in the past. New governance strategies will take longer to achieve transparency and accountability, but here again huge strides are being made.

Engagement with western Europe will set certain procedures in place. For example, with the emphasis on cross-border collaboration most EU programmes require applications to be made by two or more institutions, at least one from an EU member country. This has significantly increased cross-border travel between East and West and has opened up many educational opportunities for young people from central and eastern Europe.

As initial enthusiasm for the transformation of politics and policies in central Europe gave way to pessimism and finally a more balanced sense of realism, donors of all kinds began looking for a *modus operandi* to provide improved results. In the early days relatively few programmes were co-funded by a multiplicity of organizations. Now reformers are looking to ensure maximum 'buy-in' not only in financial terms but also in terms of human commitment. As the new millennium unfolds, foundations are counting on broader consensus building around concepts of 'public good' as a tactic to achieve their aims.

The next ten years will probably be a time when foundations shed their public image as an additional department of the state bureaucracy and develop purposes clearly different from those of government. Working out which functions should be performed by the third sector and which by the state remains one of the main pre occupations of the transition process. As governments come and go different models are tried, and power shifts occur as attempts are made to find an efficient balance.

The foundation landscape in the EU accession countries of central and eastern Europe has undergone a rapid transition during the first ten years since the fall of the communist regimes. Following the lead of foreign foundations, new local foundations of both a private and public nature are beginning to find their niches. As societies become more comfortable with the rise of the third sector, foundations will have an increasing role in funding NGOs, which in turn will have to find ways of ensuring their viability.

Sustainability has become a major issue as NGOs grapple with the implications of funding cuts by initial funders. Foundations are wary of particular sectors becoming excessively dependent on their handouts – a relationship likely to become a focal point for policy-makers over the next decade. Entrepreneurship will no doubt be injected into programmes and projects. Sharing financial responsibility amongst a number of donors

is one option, but increasingly both NGOs and foundations are looking for independent means of income generation through the sale of goods and services as in the West.

The laws that were first hastily drawn up in the heady aftermath of 1989 are undergoing revision and harmonization with standards set by the EU. As that process is completed and economies improve, foundations with ambitious and complex agendas are likely to play a more active role in society even if funding levels decline. Nonetheless, countries should look toward a time when funding no longer comes primarily from the West, and engage in serious discussions about the role of foundations in their societies.

Foundations in central and eastern Europe fulfil a very different function to those of western Europe. While each country can claim evidence of foundation existence of some kind or another before World War II, the very concept was antipathetic to the ideas of communism. Thus there was little immediate tradition to draw upon as new democracies were born. The last ten years have been characterized by a very specific type of foundation working in the transition environment.

Foreign foundations have been the major source of funding for innovative civil society activities. Their agendas were to assist the shift to democracy and market economies, rather than become a replacement of the socialist state. But due to the drastic decline in state budgets, many found themselves taking on quasi-state responsibilities in areas such as arts, culture and education. Toward the end of the 1990s they increasingly turned to law, public policy, minority issues and accession to the EU.

The importance of foundations cannot be underestimated despite the undeniable fact that early efforts were not entirely successful. The 'double transition' from communism to democracy, and from out side to inside the EU has been a double challenge for the accession countries. But as foundations act less as supplements to the state and move towards becoming leaders in innovation and experimentation and providers of funding for seed and demonstration projects, other resources will have to be better utilized for government and non government activities in all areas of social and economic life. The impact of well-trained young people who understand and value the third sector is demonstrated by the rapid growth of NGOs. Further maturation will be necessary early on in the new century; it will remain important to look comparatively at others for models of governance and practice. The role of foundations continues to be an important part of the debate on the role of the state and its relations with its people.

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