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THE DEVELOPMENT OF THIRD SECTOR IN THE BALTIC STATES: IMPACT OF LEGAL ENVIRONMENT

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Annotation. *This article analyzes the development of the third sector in all three Baltic States in the context of legal environment. The aim of the article is to evaluate the influence of legal environment to the development of third sector. The subject of the analysis – the impact discourses of legal environment on the development of third sector. For the purposes of the analysis, these methods are applied: NGOs Sustainability Index, correlation, and comparative methods. The article is divided into two sections. The first section describes the logic behind NGOs Sustainability Index through enumeration of the component factors and clarification of the relative measures, and attempts to evaluate the development of the legal environment that applies to the third sector. The second section applies correlation for the purposes of determination of the legal environment impact on the development of third sector.*

Keywords: *impact of legal environment, supportive legislation, third sector, non-governmental organizations, correlation, sustainability index.*

Introduction

Many scholars like A. Uhlin, T. Vanhanen, L. Diamond, and others, have offered comparative research while gathering different data and providing interpretation about development of the third sector. However, whereas extensive research on the third sector in Poland, Czech Republic, Slovakia or even Russia helps to establish a sufficient understanding of the relative processes in these countries, the Baltic States as a region and individual countries have been under-explored. Moreover, the relation between development of the third sector and influence of the legal environment has been analyzed even less.

This article analyzes the development of the third sector in all three Baltic States in the context of legal environment. The aim of the article is to evaluate the influence of the legal environment to the development of the third sector. The subject of the analysis is to establish the impact discourses of the legal environment on the development of the third sector. The NGOs Sustainability Index (NSI), an already internationally approved method of empirical observations, performed by USAID's Bureau for Europe and the New Independent States with the NGO Community since 1997, has been chosen for the purposes of the analysis. Correlation is another method used for the purposes of the analysis. Moreover, the comparative method described by E. Oyne, F. Bechhofer and L. Paterson is applied. It can be characterized as a cross-regional and cross-period analysis, i.e. comparison across time and space, combining qualitative and quantitative approaches. From the perspective of comparison across space, the Baltic region provides almost an ideal setting of three countries: Estonia, Latvia, and Lithuania. Regarding a comparison across time, three time periods are chosen for the analysis: 1st period comprises years from 1997 till 2000, 2nd period – from 2001 till 2003, and 3rd period – from 2004 till 2006.

Two groups of variables are used in the analysis. One group is the group of dependent variables: NGO per capita and the NGO index. NGO index is the result of a set of data from a large scale of project of sustainable development of NGOs, conducted by USAID (United States Agency for International Development). NGO per capita is calculated by dividing number of NGOs for a given period by the population in that period. Another group consists of independent variables, determined by NGOs Sustainability Index: index of NGOs legal environment – index combining legal regulations on NGOs showing progressive and supportive environment for NGOs; index of supportive economic legal regulation for NGOs – index of legal framework on economic guidelines; index of NGOs registration – index of supportive registration regulation for NGOs; index of law experts working in NGOs – index of non-profit law experts; index of legal improvement for third sector – index of legal acts progress (present, amendments, problems, remarks).

The variety of independent variables is derived from different primary and secondary sources. Most of the data is taken from surveys taken by Freedom House, Estonian, Latvian and Lithuanian Annual Reports on Statistics from 1997 to 2006, Eurostat, and United Nations Development Program. The research excludes the criteria of rule of law,

because during the analyzed period the rule of law existed in all countries. It is not applicable to evaluation of the analysis, because in quantitative calculations this would be an insignificant misleading variable, having the same meaning during the whole period.

This article is divided into two sections. The first describes the logic behind NGOs Sustainability Index through enumeration of the component factors and clarification of the relative measures, and attempts to evaluate the development of the legal environment that applies to the third sector; and the second section applies correlation for the purposes of determination of the legal environment impact on the development of the third sector.

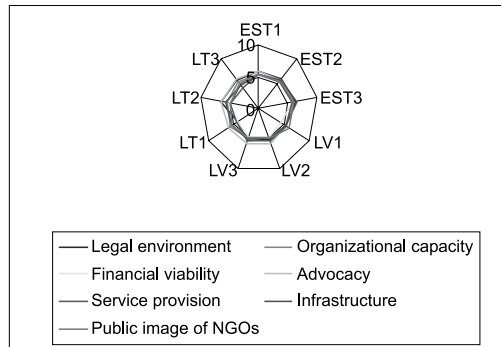
1. Evaluation of ngos' Legal Environment Applying ngos' Sustainability Index

In order to research the development of the third sector, it is necessary to evaluate the professionalism and supportive environment of non-governmental organizations by applying an index of sustainability, more comprehensive in the context of legal environment. However, in this regard, sustainability does not imply the well-known sustainable development concept; it also contains aspects, which are more related to the environmental aspects of the third sector.

The methodology of NGO sustainability index¹² contains five aspects of the NGO sector: Legal environment, Organizational capacity, Service provision, Infrastructure, Financial viability, Advocacy, and Public image of NGOs. This article analyzes the aspect of legal environment. However, considering the empirical data on the third sector, the growing score scale is used, thus the evaluation scale is changed from the one used by USAID. The NGO sustainability index comprises an evaluation scale from 1 to 7 point, where 7 points indicate a very advanced third sector and 1 point indicates a low level of development. It should be acknowledged that third sector is rather decentralized; many contradictory developments may take place simultaneously. Therefore, the NGO sustainability index has a specific point scale and it does not attempt to distinguish between seven steps of development. The characteristics of five aspects are grouped into three basic stages. The least developed stage corresponds 5 to 7 points (Consolidation), the intermediate stage - 3 to 5 points (Mid-transition period), and the most advanced stage - 1 to 3 points (Early transition period) Moreover, NGOs Sustainability Index for the evaluation of non-governmental progress for three periods is adopted, while using the observation results of documentary sources. (See Figure No. 1).

12 *NGO Sustainability Index 1998-2006* [interactive]. United States Agency for International Development: Europe and Eurasia [accessed 2007-12-20]. <http://www.usaid.gov/locations/europe_eurasia/dem-gov/ngoindex/index.htm>.

Figure No. 1. NGO Sustainability Indexes in the Baltic Countries in the First, Second and Third Periods



	EST1	EST2	EST3	LV1	LV2	LV3	LT1	LT2	LT3
Legal environment	6	6,2	6,2	5	5,4	5,6	4	6,4	6
Organizational capacity	5,5	5,4	5,6	5,4	5,1	5	5,5	5,4	5,5
Financial viability	5,2	5,4	5,5	4,5	4,7	4,9	4	5	5,1
Advocacy	6	6	6	5	6	6	6	6,4	6,1
Service provision	5,5	5,5	5,6	5,5	5,5	5,6	4,5	4,6	4,3
Infrastructure	5,5	6	6,3	5	5,2	5,3	5	5,8	4,9
Public image of NGOs	5,5	5,8	5,9	6	5,2	5,1	5	4,7	5,1

Source: Adapted by the Author from United States Agency of International Development¹²

The section does not provide a thorough analysis of all five aspects; it researches only the aspect of legal environment, which will help later in the analysis to integrate it into correlation analysis. The legal environment relates to the legal status of NGOs: the registration; legal rights and conditions regulating NGOs; and the degree of increase and decrease of NGO effectiveness and viability regarding laws and regulations on taxation, procurement, access to information and other issues. The qualification and experience of government officials, NGO representatives, and private lawyers, the legal and regulatory environment for NGOs are also examined.

Analyzing the aspect of legal environment did not seem an easy task, because the available data was not very precise, and in most cases the information necessary for the purposes of evaluation was lacking. In order to solve this problem, the sub-aspects, which could be observed in each Baltic state, could be established to bring the research to common or different qualitative results. The legal framework aspect is analyzed while looking at the following sub-aspects: registration, non-profit law experts, legal framework of economic guidelines, other legal acts, and cooperation among NGOs and state in the context of legal framework. The legal framework promotion has a direct impact

12 *NGO Sustainability Index 1998-2006* [interactive]. United States Agency for International Development: Europe and Eurasia [accessed 2007-12-20]. <http://www.usaid.gov/locations/europe_eurasia/dem-gov/ngoindex/index.htm>.

on the increase of organizational capacities of NGOs, which in this case are observed by reviewing their mission and goals, strategic plans, management skills, staff, technical capacities and e-capacities. Finally, the development results can be traced in all countries (see Figure No. 1). While analyzing Figure 1, it could be noticed that despite the fact that almost in all development aspects the development of NGOs seems to be on a consolidation level, still it must be recognizes that the progress of NGOs have not been so successful, in some cases even disappointing. In consideration of the legal environment, the legislation progress of NGOs has stood on the consolidation stage, where fair competition among NGOs, tax deductions, legal service and materials within legal NGOs framework exist. However, as it is noticed, not much has been improved since period II, and taking this fact into consideration, and also considering that the legal environment has not met the challenges of other sustainability aspects, the progression points declined in Lithuania 0,4 and Latvia by 0,2 points, and remained stable in Estonia.

The changes of the legal framework improved the progress of NGOs service provision. NGOs provide a wide range of goods and services, which meet society priorities. Many NGOs deliver services beyond basic social services in such sectors as economic development, environmental protection or education. Still despite the progress, Lithuania remains in the mid-transition stage, and in the third period it is on the edge of early transition. Estonia and Latvia have improved their progress so far, but only by 0.1 points (see Figure No. 1).

Table No. 1. Analysis of Development of Third Sector considering Legal Environment

	ESTONIA	LATVIA	LITHUANIA	REMARKS
I PERIOD				
Registration	NGO registration in Estonia is relatively uncomplicated. Still for small NGOs it is difficult to register their boards, because all boards' member has to be at notaries at the same time.	The registration process for NGOs is relatively easy, however, registration fees are high and all registration must be done in Riga (capital of Latvia).	Registering an NGO is a straightforward, transparent process throughout the country.	Registration process in the Baltic States is relatively easy, however, it causes administrative problems.
Non-profit law experts	There are a few lawyers in Estonia, who are trained in and familiar with non-profit law. Legal advice is available to NGOs in the capital city and, to a lesser extent, in smaller cities and in counties. Network of Regional NGOs Support Centers provides basic legal assistance for free of charge.	There are some lawyers available in the capital, but very few - regions. The Latvian NGO Information Center provides basic legal advice, however, does not provide specific legal advice to NGOs with specific legal questions or problems.	There are enough lawyers familiar with non-profit law. In larger cities NGOs are generally able to access qualified advice from legal professionals; however, they remain rather expensive for most NGOs.	Baltic States are lack of non-profit law experts or they cannot afford legal service.
Legal framework on economic guidelines	The law does not encourage charity giving – individuals and companies receive very limited tax deductions. NGOs do not have to pay taxes on grants, but do pay all other taxes, including VAT and social taxes on employees. The legislation allows NGOs to earn income from the provision of goods and services.	The granting of tax-exempt status for NGOs is not entirely transparent. Only five organizations have been granted special status. The certification process for tax deductibility must be performed annually and takes months.	NGOs are not subject to taxes on donations, but revenue earned from commercial activity is taxed at the same rate as for-profit entities. Commercial activities of registered public institutions, however, are taxed at a referential rate of 5%.	Tax laws in the Baltic States causes administrative problems

	ESTONIA	LATVIA	LITHUANIA	REMARKS
Legal acts	Law on Nonprofit Associations and Law on Foundations – both set clear guidelines for operation. The Act on Associations, the Act on Foundations and Law on Obligations, other common legal acts.	Law On Public Organizations and Associations (1992) allow NGOs to operate freely.	Law of Associations , Law on Philanthropy are the major legal acts for third sector.	The legal framework in the Baltic States seems to be optimistic to some extent.
NGO and Government in the context of legal framework	The laws preclude state control over NGOs, including government dissolution of NGOs for political or other arbitrary reasons.	NGOs are under state control; however, there are no legal regulations on the relation between government and third sector.	The law protects NGOs from unwanted state interference.	The partnership opportunities between government and third sector in all three Baltic states under the law is rather passive, however, the laws protect NGOs from unwanted state interference.
II PERIOD				
Registration	Legislation allows easy registration of associations, and foundations.	New law facilitates the NGOs registration process and reduces the registration fee.	No progress or problems noticed. This sector remains stable.	Registration process Baltic States is relatively easy, however, it still causes administrative problems.
Non-profit law experts	Lawyers' knowledge of laws related to NGOs outside the capital of Tallinn is weak, it makes difficulties for NGOs to receive legal counsel.	The local legal capacity for the third sector has improved. NGOs Center trains law students to advise NGOs on registration. The NGOs Center also provides basic legal advice on issues relating to registration or drafting statutes, but still does not provide legal advice to NGOs with particular legal questions or problems. Overall, local legal capacity remains weak and few lawyers are interested in working in the third sector.	NGOs are generally able to access qualified advice from legal professionals.	The situation in non-profit law advice systems in Latvia and Estonia has improved, in Lithuania remains the same.
Legal framework on economic guidelines	Accounting of the monthly income tax and social tax declarations are difficult for some organizations, as their financial systems are structured differently. Income tax policy does not encourage donations, making a private contribution to NGOs is a complicated process. Tax deductions for businesses and individuals, who are engaged in charity, are not used to maximum limit, because the procedure and deductions are not motivating. Individuals may deduct income tax on documented gifts and charitable contributions to organizations on the list of Ministry of Finance. Deduction is	Law allows organizations to earn income if it is not "systematic", but does not clarify what this means. Organizations are often reluctant to charge for their services. The process of obtaining tax-exempt status is also problematic. Currently, only three organizations have been granted special status.	Seimas eliminates the profit tax on NGOs commercial activities, passes a new Law on Residents' Profit Taxes. This new law allows individuals to designate 2% of their income taxes to selected NGOs or public institutions that benefit society, reinstates a unique opportunity to deduct twice the amount of their donations.	The NGO fiscal law is progressive yet superficial. Accounting and taxation has proven to be difficult for smaller NGOs that are required to do almost the same amount of work as larger organizations. The tax legal framework seems to be.

	limited to 5 percent of taxable income. Regarding corporate donations, there are two alternatives: either to deduct up to 3 percent of the total remuneration paid to employees in the previous calendar month or deduct up to 10 percent of profit from the previous year as charitable contributions to the NGOs, which in the list of the Ministry of Finance list. The process of getting on the list has been made complicated.		to NGOs from their taxable profits. Income taxes to selected NGOs have not yet yielded any income for NGOs. Personal income taxes do not bring positive results to all NGOs, NGOs resource centers and especially NGOs working in the field of “value spreading”.	non-transparent in Estonia. In Lithuania new taxation do not benefit NGOs working in the field of “value spreading”.
Legal acts (present, amendments, problems, remarks)	The Estonian Civil Society Concept comes into force. Problems with the implementation of some laws appear. For example, it is sometimes difficult to operationalize the management structures required by law.	NGOs and the government have been working to address the problems in the legal environment. A new law on Associations and Foundations has been passed with direct consultation from third sector leaders. The new law simplifies the NGO classification system by creating two major categories of NGOs: foundations and associations. It outlines how the assets of NGOs will be distributed once it ceases to exist. The law permits NGOs to engage in economic activity as long as it is not their primary activity.	Amendments of Law on Residents’ Profit Taxes and Law of Associations are enacted.	Amendments of legal acts have appeared in Latvia and Lithuania, and Estonia is the first one to present the program on civil society concept.
NGO and Government in the context of legal framework	NGOs benefit from fairly favorable legislation that ensures them independence from the state, freedom of speech, and the right to generate revenues. Estonian legislation allows NGOs to gain profit from their actions and participate in government procurement both locally and nationally.	NGOs are protected from undue state interference or control, they are free to express criticism of both the central government and local authorities, and they cannot be dissolved for political reasons.	The law protects NGOs from unwanted state interference.	NGOs are protected from state interference. The partnership between government and NGOs has remained open.
III PERIOD				
Registration	No progress or problems noticed. This sector has remained stable.	New legislation lessens the registration fee for NGOs, and requires two people to create an NGO (before it was 10).	No progress or problems noticed. This sector has remained stable, despite the new amendments in civil law on registration of public and private companies.	The registration system in Estonia and Lithuania has remained the same, and in Latvia it has improved.
Non-profit law experts	NGOs legal services are not available in all rural areas. The regional development center of Enterprise Estonia, an entrepreneurial foundation provides support and training for NGOs,	No progress or problems noticed. This sector has remained stable, except for the fact that new legislation enforces the NGO information centers to work effectively in explaining	No progress or problems noticed. This sector has remained stable	The situation in all three countries has remained stable. The legal assistance has become more needed in Latvia, and it shows the manage

	ESTONIA	LATVIA	LITHUANIA	REMARKS
	also provides some legal assistance. The municipalities do not provide support in a systematic manner, though civil servants are expressing more interest.	the new regulations and their influence to third sector. Many NGOs have started to use legal assistance	No progress or problems noticed. This sector has remained stable	rial improvements within third sector, however, in Estonia the rural area feels lack again of legal experts.
Legal framework on economic guidelines	NGOs are no longer eligible to a VAT refund on European funded projects. The problem appeared that the tax law does not sufficiently differentiate between organizations acting in the public interest and those acting for private interests. Although donations can be made to any organization, up to any amount, tax deductions are still limited. Several minor reforms have been identified to encourage philanthropy; The tax exemption levels have remained low. Government, Business Sector and NGO work on program of improvement on donation system.	Law on Public Benefit comes into force, but the mechanisms for implementing the law have not been created. The new law is designed to create a standard process for determining an organization's tax benefit status. Amendments to the Law on Corporate Income Tax come into effect. The VAT Law is also amended; as a result NGOs have to receive the same tax exemptions as other legal entities that provide social services.	NGOs are no longer refunded the VAT on foreign assistance funds. The personal income tax deduction for charitable contributions to NGOs has not been reinstated. The non-profit accounting rules bring positive changes, however, do not give adequate consideration to the specifics of nonprofit financing, essentially copying business accounting standards.	In the tax framework there are no major changes, only as much as EU membership brought. The minor reforms appear in Lithuania and Estonia, Latvia meets the new positive challenges in tax and VAT legal framework. Latvia and Lithuania start the discussions on motivation system of public (meaning personal) contribution to NGOs.
Legal acts (present, amendments, problems, remarks)	The Estonian Civil Society Development Program comes into force. It has been argued that to treat the self initiated-citizens' associations on the same basis as, for example, associations of business organizations, is unjustified. Furthermore, nonprofit associations and foundations created by the public sector cannot be treated as civic initiative organizations. The main legal amendments concerned the need to regulate voluntary work. NGOs that include volunteers in their activities were dissatisfied that the term "volunteer," lacks the definition The Estonian Law Center's Internet forum, Themis, carried out a survey in the fall of 2004 on laws, which concluded that, existing laws are coherent, but the overall understanding of them needs to be improved.	Law on Associations and Foundations, taxes and VAT come into force	All NGOs are allowed to engage in economic activity, i.e., to sell services and products.	The situation in all countries seems to be stable, nevertheless, the practice shows that Estonian legal framework has to be improved in the context of definition, despite this fact Estonia becomes the first country to adapt Estonian Civil Society Development Program 2004-2006, and Latvia at the end of 2005. Lithuania is the last one to allow NGOs to perform economic activities. In all three countries law reforms should include clearer definitions, regulation of public interest, and new accounting requirements.
NGO and Government in the context of legal framework	Partnership has remained open.	Government institutions have made several attempts to limit the freedom of association in the name of national security and public order. The Parliament passes amendments to the law that regulates	Partnership has remained open, but since the passage of the law on 2 % tax liability, the third sector has not had	The situation has tremendously changed in Latvia, where governmental institution put few amendments. On the whole no progress or problems noticed. This sector has remained stable, still

NGO and Government in the context of legal framework	Partnership has remained open.	assembly, limiting the freedom to demonstrate and organize pickets. The amendments limit the location of demonstrations as well as expand the rights for local governments to prohibit demonstrations or pickets on national holidays. The Law on Public Benefit Status comes into force; it increases the transparency of decisions on public benefit status.	almost any support from government. Still, NGOs are free to criticize the local and national governments and have significant voice in public debate.	contradictions to freedom of NGOs' rights appear.
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Sources: Latvian Law on Associations and Foundations¹², Lithuanian Law on Associations¹³, Estonian Non-Profit Associations Act¹⁴, United States Agency of International Development¹⁵; Internet resources of NGOs information centers in Estonian, Latvia and Lithuania¹⁶; O. Norgaard 1996¹⁷; N. Hood, 1997¹⁸; Estonian Civil Society Development Concept¹⁹; Internet resources of Estonian, Latvian, Lithuanian governments²⁰.

- 3 *Latvian Law on Associations and Foundations* [interactive], [accessed 2007-12-01] <<http://www.lexadin.nl/wlg/legis/nofr/oeur/lxwelat.htm>>.
- 4 *Lithuanian Law on Associations* [interactive], [accessed 2007-12-01] <http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=226938>.
- 5 *Estonian Non-Profit Associations Act* [interactive], [accessed 2007-12-01] <<http://www.legislationline.org/documents/actionpopup/id/5733>>.
- 6 *NGO Sustainability Index 1998-2006* [interactive]. W.: Unites States Agency for International Development: Europe and Eurasia [accessed 2007-12-20]. <http://www.usaid.gov/locations/europe_eurasia/dem-gov/ngo-index/index.htm>.
- 7 *Non-governmental organizations information centers of Lithuania, Latvia, Estonia* [interactive], [accessed 2007-10-12] <<http://www.nisc.lt>>, <<http://www.ngo.ee>>, <<http://www.nvo.lv>>.
- 8 Norgaard, O., Hindsgaul, D. Johannsen, L. *The Baltic States after Independence*, Cheltenham: Edward Elgar Publishing Limited, 1996.
- 9 Hood, N. *Transition In The Baltic States: Micro-Level Studies*. Basingstoke: Macmillan, 1997.
- 10 *Estonian Civil Society Development Concept 2002*, [interactive], [accessed 2008-01-15]. <www.ngo.ee/1030>.
- 11 *Cabinet of Ministers of the Republic of Latvia* [interactive], [accessed 2007-10-12] <<http://www.mk.gov.lv>>, *the Government of the Republic of Lithuania* [interactive], [accessed 2007-10-12]. <<http://www.lrv.lt>>, *the Government of the Republic of Estonia* [interactive], [accessed 2007-10-12]. <<http://www.valitsus.ee/?lang=en>>.

Looking at the progress of development of NGOs legal environment in the Baltic States, a clear improvement can be noticed (see Table No. 1). Moreover, NGOs in the Baltic States have not developed evenly: as regards the legal environment, improvement in one country and stability or decline of progress in another is observed. These facts provide additional support to the above made statements that the development of NGOs is influenced by national or regional political and social trends. There are both differences and similarities between the legal frameworks of the countries concerned.

2. Evaluation of Ngos' Legal Environment Applying Correlation Analysis

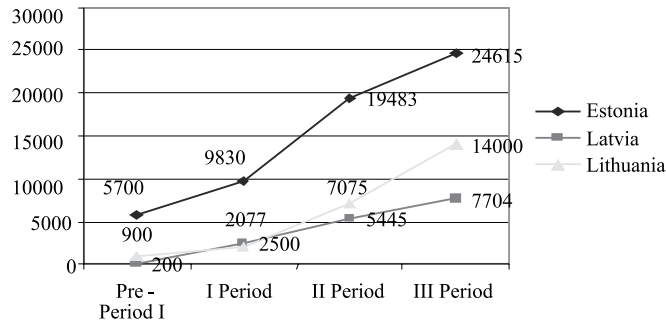
The evaluation of legal environment taking account of the NGOs Sustainability Index helps to define the broader qualitative approach; however, the insight analysis of sub-aspects could help to explore which of them really influence the development of third sector. The following analysis is performed by applying the correlation.

Correlation is defined as a measure of relation between variables. The correlation coefficients as a rule range from -1.00 to +1.00. The value of -1.00 represents a perfect negative correlation, and the value of + 1.00 – a positive correlation. In order to interpret the correlation one should know the significance of the correlation. In this analysis the correlations that have an index of correlation higher than +/- 0,5 have been chosen as most significant. The correlation analysis has been made using SPSS 14.0.

While analyzing the development of NGOs in the Baltic States, it is noticeable that at the beginning of the turning point all countries had undergone rather quantitative developments, but not qualitative. However, only in the second period one may notice that qualitative achievements have become more important to the actors of the third sector. The number of NGOs from the beginning was high, Estonia had around 9830, Latvia 2077 and Lithuania 2500. In the third period the Latvian third sector had enlarged 3 times, Estonian doubled, Lithuanian – increased 5 times. However, it is difficult to say whether these organizations are active enough or whether they are only registered. If the available data is compared with the data of national NGOs information centers, it appears that in Latvia there are around 1000 active NGOs, in Estonia – 4000 and in Lithuania – 2000. The major reason for incorrect numbers is the imperfection of the legal framework, lack of statistical data approval and self-evaluation. From 2004 the evaluation methodology of NGOs has been applied in Estonia, however, it is not public.

The question is how many sub-aspects of legal environment influence the development of the third sector? Were they influential so far? Despite the fact that it is difficult to determine the correct number of existing NGOs, the analysis relies on acknowledged data provided by international and national statistical sources for dependent variable NGO per capita (see Figure 2).

Figure No. 2. The Number of Non-Governmental Organizations



Source: Eurostat¹², National Institutions of Statistics of Estonia, Latvia, Lithuania¹³, NGOs information centers¹⁴.

Seeking to evaluate the influence of legal environment on development of third sector while applying the correlation, it should be stated that the mentioned correlation is a mixture of dependent and independent variables. In the present analysis of major interest is the correlation of two dependent variables: NGO index, NGO per capita, Number of NGOs, which show the development of third sector with independent variables of legal environment: index of NGOs' registration, index of law experts working in NGOs, index of supportive economic legal regulation for NGOs, index of legal improvement for the third sector, index of NGOs' legal environment. The problem addressed further in this article is how to define exactly which of these independent variables influence dependent variables the most. One possible way of doing this is to correlate all the factors, defining the impact (see Table No. 2).

Table No. 2. Correlation of Variables in the Baltic States

<i>Dependent Variables</i>		
<i>Independent Variables</i>	<i>NGO index</i>	<i>NGOs per capita</i>
Registration of NGOs	-0,172001	0,740158
Law experts in NGOs	-0,123617	0,790838
Supportive economic legal regulation	0,3214043	0,9254487
Legal improvement for the third sector	-0,3830932	-0,9254487
Supportive NGOs' legal environment	0,0305976	0,378873

12 Eurostat [interactive]. [accessed 2007-10-22]. <<http://epp.eurostat.ec.europa.eu>>.

13 Annual Reports of Estonian Statistics 1997-2006 [interactive]. Tallinn: Statistics Department of Estonia. [accessed 2007-12-15]. <www.stat.ee>; Annual Reports of Latvian Statistics 1997-2006 [interactive]. Riga: Latvian Central Bureau of Statistics, [accessed 2007-12-15]. <www.csb.gov.lv>; Annual Reports of Lithuanian Statistics 1997-2006 [interactive]. Vilnius: Statistics Department of Lithuania, [accessed 2007-12-15]. <www.stat.gov.lt>.

14 Non-governmental organizations information centers of Lithuania, Latvia, Estonia.

Correlation made by author using data from: Baltic Institute of Social Sciences¹², Unites States Agency for International Development: Europe and Eurasia¹³; World Value Survey¹⁴; Freedom House¹⁵; United Nations Development Programme¹⁶; Eurostat¹⁷; T. Vanhanen 2003¹⁸.

What conclusions can be made on the basis of this mathematical operation? Firstly, it should be mentioned that there are independent variables, which influence NGO index and NGO per capita (dependent variables). This influence, however, is very difficult to interpret, because independent variables represent the outcomes for three different countries, therefore additional comments are necessary (see Table No. 3). The table shows that registration procedure of NGOs, participation of law experts, supportive economic decisions, the improvement of legal regulation affect the number of NGOs in Estonia, Latvia, Lithuania, however, these variables do not affect the quality of the environment of the whole third sector.

Table No. 3. Correlation Analysis of Variables in Estonia, Latvia, and Lithuania

ESTONIA

<i>Variable</i>	<i>NGO per capita</i>	<i>NGO index</i>	<i>Explanations</i>
Registration of NGOs	0,7642653	0,7559289	The easier and less procedurally complicated the NGOs registration is, the stronger is the positive effect on both dependent variables
Supportive economic legal regulation	0,7642653	0,7559289	As the legal system for NGOs on economic issues has become more liberal, it positively affected both dependent variables.
Legal improvement for the third sector	0,1763689	0,1889822	The legal system has improved in the II period, but in the III period it worsened again, and as a result it has no effect on either variable.
Supportive NGOs' legal environment	0,9999177	1	Generally, the legal system has improved, so it has a positive effect on both dependent variables.

12 *Baltic Institute of Social Sciences* [interactive]. [accessed 2007-10-12]. <<http://www.bszi.lv/?lang=en>>.

13 *NGO Sustainability Index 1998-2006*.

14 *World Value Survey* [interactive]. [accessed 2007-10-22]. <<http://www.worldvaluessurvey.org/>>.

15 *Freedom House* [interactive]. [accessed 2007-10-22]. <<http://www.freedomhouse.org/template.cfm?page=1>>.

16 *Human Development Reports 1997-2006* [interactive]. [accessed 2007-11-16]. <www.hdr.undp.org/en>.

17 Eurostat.

18 Vanhanen, T. *Democratization: A Comparative Analysis of 170 Countries*. London: Taylor and Francis Group, 2003.

LATVIA

<i>Variable</i>	<i>NGO per capita</i>	<i>NGO index</i>	<i>Explanations</i>
Registration of NGOs	0,8183918	1	The improvement in registration in III period has a positive effect on both dependent variables.
Law experts in NGOs	0,8183918	1	The improvement in non-profit law sector took place in III period, more experts appeared in this sector and it positively affects both dependent variables.
Supportive economic legal regulation	0,8183918	1	The regulations on financial issues of NGOs have improved and it affects both dependent variables positively.
Legal improvement for the third sector	0,9068666	0,5	The legal improvement in third sector has a positive effect on both dependent variables.
Supportive NGOs' legal environment	0,9960784	0,8660254	The legal improvement in the whole environment of third sector has positive effect on both dependent variables.

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<i>Variable</i>	<i>NGO per capita</i>	<i>NGO index</i>	<i>Explanations</i>
Law experts in NGOs	0,790837966	0,987829161	Improvement brings positive effect on dependent variables.
Supportive economic legal regulation	0,925448684	0,628618557	Improvement of financial legal regulation brings positive effect on dependent variables.
Legal improvement for the third sector	-0,92544868	-0,62861856	Legal improvement decreases, and it brings negative effect on dependent variables.
Supportive NGOs' legal environment	0,378872979	0,777713771	Legal improvement brings positive effect on dependent variables.

Correlation made by author using data from: Baltic Institute of Social Sciences¹², United States Agency for International Development: Europe and Eurasia¹³; World Value Survey¹⁴; Freedom House¹⁵; United Nations Development Programme¹⁶; Eurostat¹⁷; T. Vanhanen 2003¹⁸.

12 Baltic Institute of Social Sciences.

13 *NGO Sustainability Index 1998-2006*.

14 *World Value Survey*.

15 *Freedom House*.

16 *Human Development Reports 1997-2006*.

17 *Eurostat*.

18 Vanhanen, T.

The reduced version of factors of influence seems to be rather representative for both groups. The correlation analysis of all three Baltic countries reveals a number of important issues regarding the development of non-governmental organizations in Estonia, Latvia and Lithuania. Firstly, the data for all three periods shows that the process in question has been developing unevenly; its development is characterized by non-constant progress of the factors of transformation. This evidence is supported not only by independent variables, but also by the results of dependent variables scores by country. Secondly, the relation between independent variables and dependent variables varies in each country. Thirdly, the impact of legal environment is not significant enough or positive in every case of correlation with dependent variables.

While analyzing the impact, a few important observations should be emphasized. The correlation shows that legal improvement has no influence to third sector in Estonia, and has a negative impact in Lithuania. The major reason is non-even improvement of legal regulation of the third sector activities; it decreases in II and III periods in both countries. As a result, none or negative influence is introduced in the regional correlation. However, the overall impression shows that the development of sub-aspects of legal environment has the impact on development of third sector – the quantitative, but not qualitative approach still dominates.

The correlation helped to establish that easier and procedurally less cumbersome process of legal registration of NGOs increases the number of NGOs in the region and each country separately. However, it does not influence the quality of activities of NGOs. Furthermore, an increase in number of law experts in the third sector also increases the number of NGOs. On the other hand, lack of experts affects the development negatively or does not affect it at all.

Conclusions

In this article an attempt has been made to evaluate the development of the third sector. Both qualitative and quantitative methods were applied in analysis of the data. The assessment has been made by applying NGOs Sustainability Index, and correlation analysis. Both of them serve as a reasonable background, despite the fact that the periods taken for the analyses are too broad.

The research showed that the most influence on registration of NGOs have the following sub-aspects of legal environment: supportive economic legal regulation and legal improvement. However, additional means of improvement should be taken into consideration. In order to determine concrete instruments of edification, a separate exploration made in trans-disciplinary approach is needed. However, a few individual assumptions could be made for the whole region:

- Index of supportive registration for NGOs. It is established that the relation could be improved referring to the decrease of bureaucratic regulations, especially in Latvia. Additional factors, such as unified electronic registration procedure, national database might have positive effects on the development.

– *Index of supportive economic legal regulations for NGOs.* It is assumed that the scale of effect could be increased by improving charity regulations and creating separate accounting standards for NGOs.

– *Legal improvement in the third sector.* It is assumed that the scale of effect could be increased if the programs of civil society would be adopted in all three countries, creating the legal environment for more effective participation of civil society in policy-making.

Analyzing the influence of independent variables on the development of third sector in the Baltic States, it should be acknowledged that despite the impact defined; not all of the variables have the same strength of influence. Therefore, dealing with empirical investigation in the Baltic States the second step is regression analysis, which in later research could be used to allow the determination of which independent variables impact the development of third sector in the Baltic States primarily and secondarily.

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TREČIOJO SEKTORIAUS PLĖTRA BALTIJOS ŠALYSE: TEISINĖS APLINKOS ĮTAKA

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Santrauka. Skirtingų šalių mokslininkai: A. Uhlinas, T. Vanhanenas, L. Diamondas ir kiti atlieka lyginamuosius tyrimus, remdamiesi gausiais statistikos duomenimis bei originalių tyrimų rezultatais, ir taip formuluoja išvadas, pabrėždami trečiojo sektoriaus efektyvios plėtros galimybes. Tačiau daugiausia tyrimų apima Lenkiją, Čekiją, Slovakiją, Vengrijos Respubliką ar net Rusijos Federaciją, bet maža jų dalis yra siejama su Baltijos šalimis. Pažymėtina ir tai, kad nėra pakankamai analizuojamos trečiojo sektoriaus ir teisinės aplinkos kūrimo sąsajos.

Straipsnyje yra analizuojama trečiojo sektoriaus plėtra trijose Baltijos šalyse, kuriant teisinę aplinką. Straipsnio tikslas yra ištirti teisinės aplinkos kūrimo įtaką trečiojo sektoriaus plėtrai. Straipsnio objektas – teisinės aplinkos įtakos diskurso kontekstai trečiojo sektoriaus plėtrai. Darbe kompleksiskai taikomi įvairūs metodai: NVO tvarumo indeksas, koreliacija, lyginamasis metodas. Taikant juos išsamiai analizuotos teisinės aplinkos ir trečiojo sektoriaus sąsajos bei nustatyti įtakos veiksniai.

Straipsnis yra suskirstytas į dvi dalis. Pirmojoje dalyje yra aprašomas NVO tvarumo indeksas bei atliekamas teisinės aplinkos įtakos trečiojo sektoriaus plėtrai vertinimas. Antrojoje dalyje yra taikoma koreliacija, leidžianti nustatyti, kurie teisinės aplinkos elementai turi didžiausios įtakos trečiajam sektoriui.

Teorinė ir empirinė diskusijos darbe parodė, kad teisinės aplinkos kūrimas prisideda prie trečiojo sektoriaus plėtros, tačiau įvairiapusis prisidėjimas konstruoja sudėtingą dviejų reiškinių tarpusavio santykį. Viena vertus, teisinės aplinkos atskiri elementai gali turėti teigiamą poveikį, kita vertus, Baltijos šalių regione jie gali sukelti ir neigiamus padarinius.

Reikšminiai žodžiai: *vadyba ir administravimas, teisinė aplinka, trečiasis sektorius, nevyriausybines organizacijos, įtaka, koreliacija, tvarumo indeksas.*

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