

<https://doi.org/10.7251/EMC2402609J>

Datum prijema rada: 1. april 2024.

Submission Date: April 1, 2024

Datum prihvatanja rada: 15. decembar 2024.

Acceptance Date: December 15, 2024

UDK: 341.215.2:316.334.2/.3

Časopis za ekonomiju i tržišne komunikacije
Economy and Market Communication Review

Godina/Vol. XIV • Br./No. II

str./pp. 609-625

PREGLEDNI NAUČNI RAD / OVERVIEW SCIENTIFIC PAPER

TRANSPARENCY OF FINANCING OF THE NON-PROFIT ORGANIZATIONS IN THE REPUBLIC OF SRPSKA

Miloš Jokić

Assistant Minister for Project Coordination and Development, Ministry of Spatial Planning, Civil Engineering and Ecology of the Republic of Srpska, milosjokicbl@gmail.com; ORCID ID: 0009-0006-7089-9981

Vesna Novaković

Associate Professor, Pan-European university Apeiron, Banja Luka, Republic of Srpska, Bosnia and Herzegovina, vesna.p.novakovic@apeiron-edu.eu; ORCID ID: 0000-0002-9495-7940

Mirjana Milovanović

Assistant Professor, Banja Luka College, Banja Luka, Republic of Srpska, Bosnia and Herzegovina, mirjana.milovanovic@blc.edu.ba; ORCID ID: 000-0003-3746-5517

Abstract: *This paper examines the transparency of financing of the non-profit organizations. This subject is regulated by legal and by-laws that define the conditions and criteria that non-profit organizations, should fulfill and satisfy in order to gain allocated funds. However, the question arises of the transparency of the financing of these organizations, whether the allocation procedure is followed by reports on the intended use of funds, whether there is a clearly visible public interest that is financed by budget funds. Therefore, this research was prepared in order to provide an answer and collect data on the method of allocation and the amount of financial amounts of public funds that were available to non-profit organizations for the period 2021-2022. The subject of analysis of this paper includes the legal framework for financing non-governmental organizations in the Republic of Srpska, and the goal is to determine to what extent the legal regulation affects the achievement of transparency in the financing of non-profit organizations. In accordance with the above, the following hypotheses are tested: H1: The legal framework for financing non-profit organizations in the Republika Srpska provides an adequate basis for achieving transparency regarding the collection and spending of funds by non-profit organizations. H2: Inadequate application of legal regulations and the absence of appropriate by-laws affect the achievement of a low level of transparency in the financing of non-profit organizations in the Republic of Srpska.*

The considerations that we give through the conclusion of the paper will give us an answer to the set research problem and confirm or deny the truth of the set hypothesis.

Keywords: *management, financial management and contror, management control, public finance*

JEL classification: *D81, G18, G38, H20, H50, H70, H79, J28, K49, P43.*

INTRODUCTION

Every democratic society should encourage the development of the non-governmental sector, i.e. civil society. The reason for that is that the continuous development of society cannot be ensured if there is no dialogue and cooperation between the executive and legislative authorities with representatives of civil society. The non-governmental sector includes a wide range of organizations including all non-governmental, non-profit, independent organizations through which individuals or legal entities organized to achieve common goals and ideals. Goals can be political, cultural, religious, ecological, social, economic, as well as goals related to health, socially neglected categories and the like. In many resolutions and conventions, the United Nations recognizes the role of the civil sector in promoting the development of society, protection of the environment and human rights, democracy and good governance. This sector includes a large number of people who are committed to these goals. In Bosnia and Herzegovina, the civil sector faces numerous problems that threaten its development. Some of these problems are common to all organizations, and they relate to successful functioning, building reputation and attracting funds for the realization of their projects.

In order to encourage the work of non-profit organizations in Republic of Srpska, significant financial sums were allocated annually from public funds, budgets at the entity level and budgets of local communities for co-financing the projects of non-profit organizations. The financing of non-profit organizations is regulated by legal and by-laws that define the conditions and criteria that non-profit organizations should fulfill and satisfy in order to be allocated funds. However, the question arises of the transparency of the financing of these organizations, whether the allocation procedure is followed by reports on the intended use of funds, whether there is a clearly visible public interest that is financed by budget funds. Therefore, this research was prepared in order to provide an answer and collect data on the method of allocation and the amount of financial amounts of public funds that were available to non-profit organizations for the period 2021-2022. The subject of analysis of this paper includes the legal framework for financing non-governmental organizations in the Republic of Srpska, and the goal is to determine to what extent the legal regulation affects the achievement of transparency in the financing of non-profit organizations. In accordance with the above, the following hypotheses are tested:

H1: The legal framework for financing non-profit organizations in the Republika Srpska provides an adequate basis for achieving transparency regarding the collection and spending of funds by non-profit organizations.

H2: Inadequate application of legal regulations and the absence of appropriate by-laws affect the achievement of a low level of transparency in the financing of non-profit organizations in the Republic of Srpska.

DEFINITION AND CONCEPT OF NON-PROFIT ORGANIZATION

In the middle of the twentieth century, a more significant development of the non-governmental sector took place. Although volunteerism and the development of social awareness of citizens existed throughout history, non-profit organizations (hereinafter referred to as NGOs) in today's context, especially at the international level, have been developing for the last two centuries.

The term non-governmental organization "NGO" appears for the first time in

the United Nations, and then the Council of Europe and other multilateral and bilateral organizations use it. In the last twenty years, the use of the term NGO has become common in many countries on all continents. There are different approaches in defining the non-governmental sector, i.e. NGOs, and through the literature, we are faced with the challenge of analyzing the phenomenon of non-governmental organizations. One of the reasons for this is that NGOs are a diverse group of organizations that defy generalisation, as we range from small informal groups to large formal agencies. Non-profit organizations play different roles and take different forms within societies. For example, despite the fact that non-profit organizations are neither governed by the government, nor driven by a profit motive, there are still certain non-profit organizations that receive large amounts of government funding and others that seek to generate profit. (Lewis, 2010). The first appearance of the term non-governmental organization dates back to the forties of the last century. (María Olivo, 2007) This term was first found in an official document of the United States in Pamphlet no. 3 of 1942 in the Education and National Defense series published by the Federal Security Agency of the United States Office of Education, entitled "Non-Governmental Sources of Information on National Defense." Pamphlet no. 2 of the same series examined government sources of information. These documents are proof that for the first time in official American publications a terminological distinction is made between governmental and non-governmental organizations. (María Olivo, 2007) The term "non-governmental organization" began to be used with the establishment of the United Nations in 1945. The United Nations High Commission for Refugees (UNHCR) has set the following criteria for defining an NGO: that it is non-profit, non-commercial, non-governmental, legally registered, and that it agrees with universal humanitarian values and practices. Other international agencies look for additional characteristics, the most important of which is that the NGO has capacity, which means that it knows how to make a plan and has the resources to implement it, and that it is ready to be responsible for its activities. (UNDP, 2006) The prevalence of the term "Non-Governmental Organization" and the wide range of organizations it covers creates confusion and makes any socio-political, economic or administrative study of this term difficult.

The non-profit sector consists of individuals and organizations that help society become a community of responsible individuals oriented towards personal/family progress, but also the progress of the community to which they belong. Korten defined three generations of volunteer development actions (Korten, 2010):

1. The first generation includes a typical development NGO that focuses on aid and social welfare and provides services directly to beneficiaries. Examples are distributing food, building shelters and providing health care.
2. The second generation includes NGOs that are oriented towards small actions of local development and involve building the capacity of local communities to meet their needs through local actions, relying on their own capacities.
3. Korten calls the third generation "sustainable system development". In this phase, NGOs try to promote changes in policies and institutions at the local, national and international levels. They go beyond their role of providing operational services, and move to the role of catalyst. NGOs are starting to develop from NGOs for humanitarian aid to NGOs for development.

LEGAL FRAMEWORK FOR THE FUNCTIONING OF NON-GOVERNMENTAL ORGANIZATIONS

The legal environment that enables the activity of civil society organizations and the participation of citizens is recognized as one of the main pillars of a functional democracy. This is based on the fact that the Constitution of Bosnia and Herzegovina includes the right to association as one of the main human rights and freedoms that are guaranteed. The legal basis for the establishment, registration and work of non-governmental organizations is determined by the Constitution, which provides for the freedom of association with others in the Catalog of Rights (Article 2 point 3). It is, therefore, the constitutional right of all physical and legal persons, including foreign citizens under certain conditions, on the territory of Bosnia and Herzegovina. (UNDP, 2014)

This right is embedded in the political conditions for the EU accession process. Due to the political and administrative fragmentation of Bosnia and Herzegovina, the right to association is also regulated in two ways, at the state and entity level. The law at the state level was adopted in 2001. The valid legal framework for the work of NGOs in BiH consists of harmonized state and entity laws on associations and foundations, which in the period 2001-2002. were adopted by the competent legislative bodies, and they were the subject of certain changes and additions in the later period. These are the valid Law on Associations and Foundations of Bosnia and Herzegovina (Official Gazette of BiH No. 32/01, 42/03, 63/08 and 76/11) Law on Associations and Foundations of the Federation of BiH (Official Gazette of FBiH No. 45/ 02) Law on Associations and Foundations of the Republic of Srpska (Official Gazette of RS No. 52/01, 42/05). These laws regulate in a very similar way the issue of establishing associations and foundations, the registration procedure with competent institutions (acquiring the status of a legal entity), mandatory association bodies and association acts, property, and termination of work and penal provisions. Law on the budget system of the Republic of Srpska (“Official Gazette of the Republic of Srpska” no. 121/12, 51/14, 103/15, 15/16), Law on the implementation of the budget of the Republic of Srpska for a specific calendar year, by-laws enacted by individual budgets users such as the Rulebook on the selection procedure and the method of co-financing programs and projects in culture, the Rulebook on special criteria and the procedure for distributing funds from games of chance and the like. Precisely by analyzing the provisions of these laws and legal solutions in the following, we will confirm or refute the set hypotheses.

Legislation at all levels (Ministry of justice, 2023) stipulates that registration is voluntary. On the other hand, if the association is not registered, it cannot acquire the status of a legal entity. The basic prerequisite for acquiring the status is the association of at least three persons who are citizens of Bosnia and Herzegovina or have a residence in it, or are legal entities from Bosnia and Herzegovina, or registered in Bosnia and Herzegovina, or a combination thereof, can establish an association (i.e. a legal entity run by members) of citizens, with the fact that the law (Ministry of Justice Republika Srpska, 2023) in Republika Srpska did not introduce restrictions on citizenship or place of business. A foundation (ie a legal entity without membership managed by a board) can be established by one or more natural or legal persons, regardless of their citizenship or place of business.

It is important to point out that civil society organizations, ie non-profit organizations, can only be registered as “associations” or “foundations” - this represents the

only possible legal option for them to obtain legal subjectivity and to engage in legal business.

After the agreement on the formation of the association has been reached between the future members of the association, the founders and members hold their founding assembly. In this process, the association establishes its own bodies, namely the assembly and the board of directors, or appoints a person authorized to represent the association if there is no board of directors. In addition to the appointment of the management body, the association adopts the founding act (decision on establishment) and the statute of the association, which are legally binding acts for every association. Therefore, an association cannot exist without a statute and a founding decision. The content of these documents is prescribed by law. With the date of registration in the register maintained by the competent authority, the association acquires the status of a legal entity. This means that on the day of registration, the association becomes the holder of rights and obligations in accordance with its goals and activities. Actions taken in the period between the establishment and registration of the association can create obligations only for those persons who took those actions. For such previous actions that bind the association in some respect, the ratification of the highest governing bodies is required when the association is established. However, in order to be able to act in legal transactions, the registration procedure is only the first step in the process.

Depending on the decision on the place of carrying out their activities, the founders of the association independently decide in which register they will perform registration, i.e. entry. There are cantonal registers at the cantonal ministries of justice. There is also the Register of the Federation of Bosnia and Herzegovina at the Ministry of Justice of the Federation of Bosnia and Herzegovina and the Register of the Republic of Srpska that is kept at the Ministry of Local Administration and Self-Government. In Brčko District of BiH we have the Register, and one Register at the Ministry of Justice of Bosnia and Herzegovina. Therefore, if the association operates exclusively on the territory of one canton in the Federation of Bosnia and Herzegovina, it is sufficient to register with the competent cantonal Ministry of Justice, and if the association operates on the territory of two or more cantons, the registration should be carried out with the Ministry of Justice of the Federation of Bosnia and Herzegovina. (Ministry of Justice FBiH, 2002). If the headquarters of the association is in a municipality in Republika Srpska, registration can be done in the basic court in the seat of the district court in whose territory the association has its headquarters (although the single Register is kept in the Ministry of Administration and Local Self-Government to which the courts forward the data). Regardless of which entity it is registered in, the association operates freely in the territory of another entity without further administrative conditions, unless its activities would be in conflict with the law. The current law in Bosnia and Herzegovina stipulates that then the data from the decision on the registration of an association registered in the Republic of Srpska is transferred to the register of associations of the Federation of Bosnia and Herzegovina, while this obligation is not foreseen by the regulation in the Republic of Srpska. The founders can also register the association at the state level, and it then has the freedom to operate in the entire territory of Bosnia and Herzegovina, regardless of where the headquarters of the association or foundation is located. We conclude that, in principle, there are no legal obstacles to the registration and operation of the association, regardless of

where its founders decide to register, and that this right of choice is entrusted to the founders themselves.

If all legal requirements are met, the association is issued a permit for registration in the register of associations or foundations.

This permit, in the form of an administrative act of “decision”, is issued and delivered by the authority that performed the registration (ministry/court), and it contains:

- date of entry,
- registration number under which registration was made,
- name, abbreviated name and name in a foreign language (if any) and address of the association,
- association mark (if any),
- goals and activities for which the association was founded,
- names and addresses of persons authorized for representation and representation.

In order to facilitate the process and better communication with the parties, some ministries have made available forms, including the prescribed “request for registration” and other attachments, with detailed instructions for filling out these forms. Thus, this information can be found on the website of the state Ministry of Justice of Bosnia and Herzegovina (Ministry of justice, 2023) for those interested in registration at the state level, as well as the Ministry of Justice of the Federation of Bosnia and Herzegovina (Federalno ministarstvo pravde, 2023) For those interested in registration at the FBiH level. In the Republika Srpska, the registration process takes place in basic courts located in the area of the seat of the district court. Given that, there are five district courts (Banja Luka, Bijeljina, Doboj, East Sarajevo, and Trebinje); registration is done in one of the basic courts in the mentioned municipalities, according to the criterion of geographical affiliation (proximity) in relation to the headquarters of the organization. If all the documents prescribed by the law have been properly submitted, the court will issue a decision on the registration of the founder of the association within 30 days from the date of receipt of the documents, which will make the association a legal entity.

The practice of the Basic Court in Banja Luka is that the parties personally come to get the decision, while a copy of the decision is also delivered to the Ministry of Administration and Local Self-Government of the Republic of Srpska in Banja Luka through an official channel. The Ministry further informs the party, i.e. of the founder that it was registered in the register of associations and foundations managed by the ministry.

If the association makes changes and additions to the statutes related to the activity and goals of the association, name, address, then members of the administrative bodies (including persons authorized to represent), that change must be registered with the competent Ministry of Justice (in the FBiH or in the state). , that is, the court in the Republic of Srpska. In both cases, the ministry (in FBiH and BiH) or the court issues a certificate of receipt of the request for entry in the register, or of the receipt of the request for modification or deletion of data in the register to the requester. What needs to be emphasized is that the EU’s policy on civil society is based on the Guidelines for

the support of the European Union to civil society in countries undergoing enlargement (European Commission, 2022). The guidelines contain a series of goals, results and indicators that have been developed for EU support to civil society. Also, it is necessary to take into consideration the recommendations given through the 2022 Mapping Study of non-governmental organizations in BiH, (EUROPEAN COMMISSION, 2022) such as:

- the content and implementation of relevant legislation related to NGOs (especially the harmonization of laws and by-laws - e.g. the Rulebook on maintaining the register of NGOs) and determining the legal obligation to (a) maintain accurate online databases of existing NGOs as well as (b) establishing working status of an NGO, as a basis for initiating the procedure for the termination of an NGO (similar to the article of the Law on the Obligation to Hold the Annual Assembly of an NGO).
- Also, in terms of the content of the relevant laws, there is a need to clarify the potential conflict of various laws regarding the possibility of NGOs to perform economic activities. Given that this segment has great potential for the sustainability of civil actors in Bosnia and Herzegovina, e.g. The Law on Consumer Protection in Bosnia and Herzegovina restricts the economic activity of non-governmental organizations active in the field of consumer protection, while the Law on Associations and Foundations of Bosnia and Herzegovina stipulates that an Association or a foundation may perform economic activity only if the main purpose of such activities is the achievement of goals established by the statute, and also the Association or foundations can perform unrelated economic activities (economic activities that are not directly related to the realization of the basic statutory goals of associations and foundations) only through a specially established legal entity.
- existing financial legislation relevant to NGOs, which would provide a modern foundation for NGOs in performing their financial affairs and reporting. The chart of accounts as well as the forms of financial reports should be fully adapted to the work of NGOs and the needs of establishing a database to support the development of the civil sector.
- transparent allocation of public funds to civil society organizations on the basis of tenders. The current estimated participation of 34.4% of public funds in the total revenues of NGOs in BiH is far below the EU average (58%).
- effective use of the existing (and drafting of new) Agreements on the cooperation of public institutions with civil society organizations, considering that the partnership of these two sectors is essential for achieving the desired improvements in terms of upcoming reforms in BiH, but also for the further development of civil society.

FINANCING OF NON-PROFIT ORGANIZATIONS

When we look at the definition of an association, it is stated that, unlike a company, the purpose of the establishment is not to make a profit, that is, to make a profit. (UNDP, 2014) The founders, members of the association, members of the manage-

ment bodies, responsible persons, workers or donors are not allowed to directly or indirectly gain profit or other material benefit from the activities of the association. This does not apply to compensation for work or reimbursement of expenses to those persons in connection with the realization of the legal goals and activities of the association that are regulated by the statute. Article 35 of the Law on Associations and Foundations of the Republic of Srpska defines that the property of an association or foundation consists of:

- voluntary contributions and gifts that have monetary value,
- financial resources from budget grants and taxes,
- subsidies and contracts with natural and legal persons,
- income from interest,
- dividends,
- profits from capital,
- rents,
- royalties and similar sources of passive income,
- income acquired through the achievement of goals and activities of the association or foundation;
- Membership fee.

When it comes to the association, and other income generated by the legal use of the organization's assets and funds. Article 35 of the Law on Associations and Foundations of the Federation of Bosnia and Herzegovina (Ministry of Justice FBiH, 2002) defines: "Income of associations and foundations may include the following:

- membership fee in the case of an association;
- voluntary contributions and gifts from public institutions, natural and legal persons, both foreign and domestic, in cash, services or property of any kind;
- state subsidies or contracts with the state, public institutions, natural and legal persons, both domestic and foreign;
- income from interest, dividends, capital gains, rents, royalties and similar sources of passive income;
- Income earned through the achievement of goals and activities of the association or foundation, as determined by the statute."

Those revenues can be used for the activities of the organization, as well as for the purchase of equipment, furniture and other technical means for work. A registered association or foundation is obliged to keep properly business books, in accordance with accounting principles, and to prepare financial reports in accordance with the requirements set forth in applicable laws. Their authorized body determined by statute and law, as well as competent authorities performs supervision over the legality and intended use and disposal of association and foundation funds.

In accordance with the legal provisions, we distinguish between different sources of financing the work of non-governmental organizations. Some of them are sponsorship, donations, grants, procurement, compensation to non-profit organizations for services provided by them, public budgets (state, entity, cantonal and municipal budgets).

Most often, funds received from donors are used for institutional support and for the implementation of programs. If funds are received from local self-government

units, they can be intended for the implementation of project activities, then organizations can be allocated some space for use, so that this support is not expressed directly through the inflow of money, but as support in kind, etc.(UNDP , 2014)

In the previous period, especially after the war, non-profit organizations on the territory of Bosnia and Herzegovina were financed by international, foreign institutions and organizations. However, as time passes, the possibility of attracting foreign donors decreases, so the goal would be non-governmental organization should have to be self - sustainability , te provision of living funds through the self-financing . U according to with goals associations that is purpose establishment non-profit organizations, which is defined through the statute, the same, can perform related economic activity. That is one from the Find on self-financing. Such activities they have to to be related goals established in statute, a gain se not shares between has a founder and members is already investing further in statutory activities .

U according to s provisions of the law about tax on the gain in both entities, as-associations and foundations not I am paying tax on the gain accomplished like the result performance related economic activities. The income must be directed to the further work and development of the NGO. The only limitation is that the profitable activity must be in accordance with the organizational goals for which the NGO was registered and that these activities are in accordance with the applicable legal regulations in BiH, as well as that the income is directed exclusively to the activity of the organization in accordance with the statute.

Non-profit organizations are required to submit annual financial reports and reports to the appropriate institution, namely the Financial and Information Agency of Bosnia and Herzegovina, the Financial and Information Agency of the Federation of Bosnia and Herzegovina or the Agency for Mediation, Financial and Information Services of the Republic of Srpska. In addition to the law on associations and foundations, the operations of civil society organizations are affected by other laws in Bosnia and Herzegovina, especially the Law on Value Added Tax of Bosnia and Herzegovina and the Laws on Accounting and Auditing of the Republic of Srpska and the Federation of Bosnia and Herzegovina.

The content of the Law on Value Added Tax of Bosnia and Herzegovina leaves room for different interpretations of the tax liability regarding grant support received by non-profit organizations. Despite the fact that non-profit organizations implement their projects and programs in order to realize their organizational goals as non-profit legal entities, the positions of the BiH Indirect Taxation Administration, regarding the taxation of grants and donations to civil society organizations, are such that the burden of proof is on the payer of indirect taxes. The actual situation, after reviewing by inspectors in each non-governmental organization can only be determined in the control procedure. In this process, the authorized official (inspector) independently determines the facts and circumstances based on which he applies the regulations and, based on his conviction, decides which facts will be taken as evidence of the assessment of the legality of each act. Consequently, there have been cases where inspectors act differently in the same legal matters, which creates legal uncertainty that can call into question the functioning of civil society organizations, and even the survival of the non-governmental sector.

The relevant legal solutions that we have mentioned, that is, the provisions of those laws, directly affect the financing of non-governmental sector organizations.

Although they have the same names, the Laws on Accounting and Auditing of the Republic of Srpska and the Federation of BiH establish different bases for non-profit organizations in performing financial management and bookkeeping. If they are based in FBiH, non-profit organizations will keep their financial records according to the Chart of Accounts created only for associations and other non-profit organizations. There is no special chart of accounts for non-profit organizations in the Republic of Srpska and they apply the chart of accounts created for profit-making companies, as well as forms (eg balance sheet and income statement, cash flow form, etc.).

The operation of non-governmental organizations is defined by a series of aforementioned legal solutions. However, there are still no detailed data on the sources of financing of non-governmental organizations in terms of sources of financing. We group funding sources into:

1. Domestic sources of financing: budgets of local self-government units, cantonal or entity levels of government, state level, then public and private companies and individual donations,
2. International funding sources: EU funds, other governments, corporate, private/government foundations, etc.

One of the detailed analyzes of the financing of non-governmental organizations that examines the financing of NGOs from domestic, public budgets is the analysis “Transparency of financing of non-governmental organizations in Bosnia and Herzegovina from public budgets”. (Martić, 2023). As the analysis showed, what characterizes the financing of the non-governmental sector from public budgets is insufficient transparency as well as the impossibility of determining the common and public interest. Common and public interest should be the decisive criterion when allocating public money to the non-governmental sector. Data show that the funds allocated to non-profit organizations from the budgets of local self-government units, the budgets of cantons in the Federation of BiH, the budgets of ministries at the level of Republika Srpska and the Federation of BiH, and the budgets of joint institutions at the level of BiH amount to over one hundred million convertible marks. (Centar za istraživačko novinarstvo, 2023). The sources used for data collection were the auditor’s reports on the conducted financial audit for 2021 and 2022. In the previous two years, more than 47 million convertible marks were allocated to non-profit organizations from the budget of the Republic of Srpska. It should be noted here that the budget funds that are realized in the form of transfers to non-profit organizations are many times higher because, in addition to non-governmental organizations, they also include transfers to public institutions and other non-profit business entities

When it comes to the purpose of financing, it is mainly about budget funds that are allocated to non-profit organizations on three different bases: a) as (grant) grants for financing their ongoing (regular) activities, b) as grant funds for the implementation of certain projects, and c) as grant funds for the organization of certain manifestations and events.

Table 1: Overview of the financing of non-profit (and non-governmental) organizations from the Budget of the Republic of Srpska for 2021 and 2022

Name of the institution	2021 year	2022 year
Ministry of Family, Youth and Sports	7,761,252	14,971,436
Grants to organizations and associations in the field of sports, youth and family	7,668,052	14,833,418
Grants to organizations and associations for family affirmation	72,400	124,018
Capital grants to youth organizations and associations	20,800	14,000
Ministry of Labor and Veterans' Disability Protection	2,039,271	2,800,895
Current grants for the construction and maintenance of monuments, memorials and military cemeteries - public invitation	683,371	557,395
Current grants to non-profit organizations - public call	450,000	950,000
Current grants to public interest associations - no invitations	700,500	850,500
Funding of projects and programs in accordance with According to the Law on games of chance - public invitation	205,400	443,000
Ministry of Education and Culture	1,939,444	2,081,422
Current grants to organizations and associations in the field of culture	639,200	1,201,422
Grants for national minorities	30,000	30,000
Grant for public interest associations	31,000	100,000
Grant for the Society of Members of Matica Srpska u Republic of Srpska	24,000	24,000
Grant funds for film development	700,000	
Funding of projects in accordance with the Law on Games of Chance	515,244	726,000
Ministry of Health and Social Protection	3,074,899	3,199,399
Grants to humanitarian organizations and associations	770,000	709,337
Grants to organizations and associations in the field of education, scientific research, culture and information	30,000	30,000
Grants to organizations i associations in accordance with the Law on Games of Chance	1,983,399	2,195,598
Grants to non-profit entities of public interest	291,500	264,464
Ministry of Administration and Local Self-Government of the RS	4,087,000.00	4,071,300
Current grants to political organizations	3,670,000	3,670,000
Current grants to foundations and citizen associations	50,000	70,000
Current grants to public interest associations	80,000	80,000
Current grants to charitable and humanitarian societies	257,000	251,300
Current grants to other associations	30,000	
General Secretariat of the Government of the RS	757.301	908.100
Grants to humanitarian organizations and associations	7,000	37,000
Grants to sports and youth organizations and associations	148,000	158,000
Grants to ethnic and religious organizations and associations	187.301	47,000

Grants to organizations i associations for family affirmation, and protection of the rights of women, children, refugees and displaced persons, combatants and persons with disabilities	87,400	110,600
Grants to organizations and associations in the field of health and social protection, environmental protection and communal activities	43,000	86,000
Grants to organizations and associations in the field of education, scientific research, culture and information	109,000	222,500
Grants to organizations and associations in the field of economic and economic development	2,000	27,000
Other current grants to non-financial entities in the field of education, scientific research, culture, information, health, social protection, environmental protection and communal activities	173,600	220,000
IN TOTAL	19,659,167	28,032,552

Source: https://gsr-rs.org/wp-content/uploads/2023/10/RG001-23_Cyr.pdf

As a practical representation of the allocation of funds to non-profit organizations, we present the procedure for the distribution of funds Current grants to organizations and associations in the field of culture within the budget beneficiary Ministry of Education and Culture. For the year 2022, the value assigned to non-profit organizations was 1,201,422 convertible marks. The Rulebook on the selection procedure and the method of co-financing programs and projects in culture (“ Official Gazette of the Republic of Srpska” number: 8/20) defines the forms of support, as well as the criteria that must be respected when selecting projects and programs of non-profit organizations for funding.

However, there is no obligation on the part of the competent authorities to control each granted grant, i.e. transferred funds in terms of purpose, efficiency, effectiveness and satisfaction of the public interest by non-profit organizations through implemented projects. The rulebook defines that contracts on the co-financing of projects are concluded with the beneficiaries, whereby the beneficiary of the grant is obliged to use the funds exclusively for the approved purposes in the realization of the project in accordance with the contract and submit a report on the intended expenditure of the grant funds. The audit report established that a certain number of users of grant funds did not submit a report on the intended expenditure of grant funds, which is in contradiction with the aforementioned Rulebook and the Law on the Budget System

When it comes to current grants to non-profit organizations of the Ministry of Labor, Veterans, and Disability Protection in 2022, they were reported for 3.209.180 BAM, the audit report stated that grant funds to associations and foundations for co-financing programs and projects were approved to beneficiaries whose applications do not include necessary attachments. For example, part of the necessary documentation prescribed by the Rulebook on the criteria and procedure for awarding grant funds to associations of public interest, other associations and foundations. The situation is the same with funds based on grants to associations of public interest that are approved to users whose applications do not contain the necessary attachments, that is, part of the evidence prescribed by the Rulebook on the criteria and procedure for awarding grant funds to associations of public interest, other associations and foundations. The find-

ings of the Supreme Audit Office of the Republic of Srpska Public Sector indicate that the distribution of funds from games of chance, the allocation of grant funds through a public call was also not done in accordance with the Rulebook on special criteria and the procedure for the distribution of funds from games of chance. Because the beneficiaries who were granted funds with the application were not submitted part of the evidence prescribed by Article 9 of the Rulebook on special criteria and procedure for the distribution of funds from games of chance.

For a more complete insight into the financing of non-profit organizations from the budget of Republic of Srpska, it should be noted that every year a number of non-profit organizations are also financed from budget reserve funds. This practice has been present for a long period. According to the decisions of the President of the Government of the Republic of Srpska on the distribution of funds from the budget reserve, grants are awarded in accordance with the laws on the execution of the budget of the Republic of Srpska years.

Thus, according to Article 14 of the Law on the Execution of the Budget of the Republic of Srpska for 2022,(Novakovic, Aleksic, & Milovanovic., 2022) it is defined that the distribution of budget reserve funds is carried out in accordance with the Law on the Budget System. Exceptionally during the fiscal year, for urgent and unforeseen expenditures and projects that are not included in the budget, distribution can be made by the Prime Minister, in the amount of up to 1,000,000 BAM. When looking at the structure of grants awarded to non-profit organizations from budget reserve funds, one can notice significant financing of sports clubs and organizations in this way. At the same time, the part of the total allocations to non-profit organizations from budget reserves, the dominant part is the participation of football clubs (e.g. more than 3.5 million KM in 2019). Nothing that no information is available to the public about the purpose of these allocations, nor are there reports on the use of funds, which leaves room for numerous guesses and questions about possible misuse of those funds.

The legal framework that defines the financing of non-governmental organizations clearly laid the foundations for the financing of non-profit organizations, ensured transparency, and defined the criteria for awarding grants within the budget positions of relevant institutions. This clearly confirms the hypothesis H1 defined at the beginning of the paper.

However, the aforementioned examples confirm the second hypothesis, because the absence of appropriate by-laws affects the achievement of a low level of transparency in the financing of non-profit organizations in the Republic of Srpska.

When looking at the budgets of local communities, the level of non-transparency is extremely pronounced. Through the audit reports, it was stated that the practice is to allocate funds to non-profit organizations at the request of the user and without a public call, and where a public call is carried out, there is often a lack of clear and measurable criteria for scoring received applications, and decisions on funding are made on the basis of subjective assessments of commission members.(Supreme audit office of the Republic of Srpska public sector, 2024). In addition, the most significant part of financial resources for non-profit organizations is realized through budget items grants, that is, current transfers to non-profit organizations, then through items of capital grants/transfers and from budget reserve funds. The amounts that are allocated in the name of grants and current transfers for the financing of non-profit organizations

are in the millions in larger municipalities. For the illustration, in Banja Luka, as part of the realized grants, in 2020, 2.6 million BAM were transferred to:

- sports and youth organizations,
- organizations and associations for family affirmation
- protection of the rights of women, children, refugees and displaced persons, combatants and persons with disabilities 0.8 million KM,
- Organizations and associations in the field of health and social protection of the environment and communal services 0.7 million KM.

Furthermore, in the audit report for the City of Prijedor from 2021, it is stated that The City allocated part of the grant funds based on the mayor's decisions within the budget approved positions and for defined purposes, without announcing a public call for their allocation (to public kitchens and certain social humanitarian associations, religious institutions, partly sports organizations, non-profit entities in the country, etc.). Furthermore it was without defined rules and criteria for the distribution of grants in certain areas, according to Article 60 of the Law on the Budget System of the Republic of Srpska. Certain users of the funds did not submit reports on the expenditure of the received funds, which is not in accordance with Article 11 of the Decision on the Execution of the City Budget.”(Supreme audit office of the Republic of Srpska public sector, 2024).

In order to increase the transparency of the work of non-profit organizations, the Government of the Republic of Srpska has proposed a Draft Law on a special register and transparency of the work of non-profit organizations in the Republic of Srpska. That law intends to establish a special register for non-profit organizations operating in the Republic of Srpska, which receive donations from foreign sources. The positive impact of donations from abroad is that they helped non-profit organizations to survive and that donors recognized that the NGO sector can contribute a lot to the development of the country.

The Law on the Special Register and Publicity of the Work of Non-Profit Organizations of the Republic of Srpska can contribute to the transparency of financing of non-governmental organizations from foreign sources. The reason for the adoption of this law, the circumstances that until now have not been regulated by a special law in the field of publicity of the work of non-profit organizations. Namely, their political activities, publication of financial statements, keeping business books, as well as supervision of the legality of work and other provisions on the work of non-profit organizations. The Law on Associations and Foundations of the Republika Srpska regulated issues of establishment, registration procedure, internal organization and termination of work, with the fact that it did not regulate the area of publicity of the work.

Article 1 of the subject law prescribes the establishment of a special Register of non-profit organizations established in the Republic of Srpska that financially or otherwise helps foreign subjects as agents of foreign influence.

This law regulates the conditions and manner of ensuring the publicity of the work and prescribes other issues related to the work of these organizations. In terms of this law, a foreign subject is understood as the government, executive body of another country or a foreign political party, a natural person who does not have the citizenship of Bosnia and Herzegovina and resides in Bosnia and Herzegovina or a legal entity

or a group of legal entities that is organized according to the regulations of another country or that has its headquarters in another country. Government of another country means the executive authority of every country except Bosnia and Herzegovina, and foreign political party means any political party registered under the regulations of another country. Furthermore, the law defines that the Ministry of Justice maintains the Register of Non-Profit Organizations. The non-profit organization is obliged to submit to the Ministry of Justice a half-yearly and annual financial report with an indication of the payer of the funds, information on the amount of funds transferred, the type and amount of compensation and income expressed in money or other value, as well as a report on the expenditure of funds. The Ministry of Justice submits the financial report to the Tax Administration for the purpose of inspection supervision. In the previous period, the positions available to the public from non-governmental organizations financed by foreign donors were to impose additional bureaucratic obstacles, complicate activities, and threaten the freedom of association and work of non-governmental organizations. The assumptions are that, through the registry in question, the public and transparency of the financing of non-governmental organizations from international sources would be further facilitated. However, only after the adoption of by-laws that will more clearly prescribe the procedural procedures that non-profit organizations are obliged to carry out, we will be able to assess the impact of the law in question on the transparency of the financing of non-governmental organizations.

CONCLUSION

Based on the collected and processed data from the audit reports, it is evident that on an annual level significant funds are allocated from the budget of the Republic of Srpska for the financing of non-profit organizations. Namely in 2021, 19.659.167 convertible marks were allocated, and in 2022, 28.032.552 convertible marks were allocated, whereby: the Ministry of Family, Youth and Sports, the Ministry of Administration and Local Self-Government, the Ministry of Labor and Veterans, Disability Protection stand out as the most significant budget beneficiaries according to the amount of allocated funds. Funds, which are awarded as non-refundable non-profit organizations, are most often used to finance their current and regular activities, as grant funds for the realization of certain projects and as grant funds for the organization of certain manifestations and events. Sports clubs and organizations, veterans' associations and associations in the field of culture and information lead the way in terms of participation in financing.

The analysis showed that the legal framework clearly set and defined the rules of conduct in relation to the rules and procedures for allocating funds to non-profit organizations. However, in practice, it happens that the institutions that allocate funds do not comply with the legal provisions in question, because funds are allocated to non-profit organizations upon request, without conducting a tender procedure and announcing a public call. The allocation of funds to non-profit organizations is accompanied by low transparency and the absence of basic information about the purpose of the funds, the activities carried out, the results achieved and the expenditure itself. That is, the users of the funds do not submit reports on the expenditure of the received funds.

Based on all of the above, we can conclude that both hypotheses have been confirmed. In the Republika Srpska, the legal framework for financing non-profit organi-

zations provides an adequate basis for achieving transparency regarding the collection and spending of funds by non-profit organizations. However, the inadequate application of legal regulations and the absence of appropriate by-laws affect the achievement of a low level of transparency in the financing of non-profit organizations in the Republic of Srpska.

Also, we can conclude that there is a clearly defined legal regulation, that is, the legal framework has set norms of behavior regarding the allocation of public financial resources to non-profit organizations. However, the lack evident is the application of those legal solutions in practice. Although the allocation of financial resources to non-profit organizations is carried out through a public call, there is still a lack of transparency in terms of the purpose and effects of the allocated funds. The recommendation that is imposed is to introduce a system of previous controls regarding the assessment of the capabilities of non-governmental organizations (acquisition of necessary equipment, expertise of personnel engaged in the implementation of project activities, etc.) in order to further reduce the risk of misuse of allocated funds. From the aspect of control activities, both local and entity, the authorities should continuously monitor the realized effects of allocated funds in relation to the objectives of public calls, according to which non-profit organizations were allocated funds.

The aforementioned measures would additionally affect the transparency, efficiency and effectiveness of spending public funds allocated to non-profit organizations.

Please note that in the Republic of Srpska, in order to increase the transparency of the work of non-governmental organizations, the Law on the Special Register and the Publicity of the Work of Non-Profit Organizations was adopted, but we will be able to see the effects of its application only after the adoption of by-laws and the passage of a certain period of time.

Based on all the above, we give recommendations for future research, which would focus the research on the research of the financing system of civil society organizations in the countries of the Western Balkans. In this way, we would have comparative data for the Republic of Srpska, Bosnia and Herzegovina and neighboring countries.

LITERATURE

- Centar za istraživačko novinarstvo. (2023). *CIN*. Retrieved October 25, 2023, from Centar za istraživačko novinarstvo: <https://cin.ba/uncontrolled-spending-of-budget-money-for-non-governmental-organizations/>
- European Commission. (2022). *EU-Guidelines-for-Support-to-Civil-Society-in-the-Enlargement-region-2021-2027-1*. sKOPJE: TASCO.
- EUROPEAN COMMISSION. (2022). *MAPPING STUDY OF CSOS IN BOSNIA AND HERZEGOVINA*.
- European Commission . (2016). *Report of the European Commission on Bosnia and Herzegovina for 2016* . sarajevo: European Commission .
- European Commission. (2016). *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Bosnia and Herzegovina 2016* . Brussels: European Commission.
- Federalno ministarstvo pravde. (2023). *Federalno ministarstvo pravde*. Retrieved november 13, 2023, from <https://www.fmp.gov.ba/sr/>

- Korten, D. C. (2010). Getting to the 21st Century: Voluntary Action and the Global Agenda.
- Lewis, D. (2010). Nongovernmental Organizations, Definition and History. 10.1007/978-0-387-93996-4_3. .
- María Olivo, U. (2007). EVOLUTION ON THE TERM NON GOVERNMENTAL ORGANIZATION (NGO). *Revista Venezolana de Análisis de Coyuntura* , 97-121.
- Martić, M. (2023). *Transparency of financing of non-governmental organizations in Bosnia and Herzegovina from public budgets*. Banja Luka: Gea - Center for Research and Studies.
- Ministry of Justice BiH. (2011). Law on Associations and Foundations of Bosnia and Herzegovina (Official Gazette of BiH No. 32/01, 42/03, 63/08 and 76/11). Sarajevo.
- Ministry of Justice FBiH. (2002). Law on Associations and Foundations of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina No. 45/02). Sarajevo.
- Ministry of justice. (2023). *Ministry of justice*. Retrieved december 12, 2023, from <http://www.mpr.gov.ba/>
- Ministry of Justice Republika Srpska. (2023). Law on Associations and Foundations of the Republic of Srpska (Official Gazette of the RS No. 52/01, 42/05). Banja Luka.
- Novakovic, V., Aleksic, M., & M. M. (2022). OWN REVENUES IN THE PUBLIC SECTOR. *Časopis za ekonomiju i tržišne komunikacije/ Economy and Market Communication Review* , 126-135.
- Supreme audit office of the Republic of Srpska public sector. (2024). *Supreme audit office of the Republic of Srpska public sector*. Retrieved january 5, 2024, from <https://gsr-rs.org/revizija/godisnji-izvjestaji/>
- UNDP . (2014). *Handbook for non-governmental organizations in Bosnia and Herzegovina*.
- UNDP. (2006). *How NGOs work, a practical guide*. UNDP.

