

From NGOs' accountability to social trust. The evidence from CEE countries

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Abstract


Purpose: The paper aims to find a link between the level of NGO accountability and the social trust for non-governmental organisations (NGOs). We will investigate if the accounting regulations and transparency rules for NGOs in particular countries influence the social trust for NGOs. We will follow the process of the creation of accounting law for NGOs in three CEE countries: Lithuania – one of the Baltic states, which is in last place in the World Giving Index ranking, and Poland, and Croatia – the two best post-communist countries in the World Giving Index ranking. We will analyse the change in social trust in these countries in line with the development of legal and accounting rules and norms for NGOs. **Methodology/approach:** The design and methodology approach includes a literature review and comparative analysis. We supported our findings with panel regression analysis. Research limitations include the selection of only a few countries for the analysis and only nine years of observation per country. **Findings:** The results of our research indicate that accounting regulations are of marginal importance for social trust. We conclude that accountability alone does not solve the social trust problems faced by non-profit organisations. Other factors affect social trust, such as lack of institutional mechanisms, lack of an empathic society, and negative media coverage. **Originality/value:** The originality and value of this paper lie in the fact that we explain how NGOs' accountability and revenues influence social trust in NGOs. Furthermore, we refer to CEE countries where – due to their historical heritage – both social trust and transparency were deeply affected.


Keywords: NGOs, post-communist countries, civil trust, NGOs accountability, transparency, control.

Streszczenie

Od rozliczalności organizacji pozarządowych do zaufania społecznego. Doświadczenia z krajów Europy Środkowej i Wschodniej

Cel: Celem artykułu jest ustalenie związku między poziomem odpowiedzialności organizacji pozarządowych a zaufaniem społecznym do nich. Zostanie zbadane, czy przepisy dotyczące rachunkowości i zasady przejrzystości dla organizacji pozarządowych w wybranych krajach mają wpływ na zaufanie społeczne dla organizacji pozarządowych. Opisany zostanie proces tworzenia przepisów o rachunkowości

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dla organizacji pozarządowych w wybranych krajach Europy Środkowej i Wschodniej. Do badań wybrano trzy kraje Europy Środkowej i Wschodniej, są to: Litwa – jeden z krajów bałtyckich, który zajmuje ostatnie miejsce w rankingu World Giving Index, Polska i Chorwacja – dwa najlepsze ze wszystkich krajów postkomunistycznych w rankingu World Giving Index. **Metodyka/podejście:** Dla realizacji celu wykorzystane zostaną następujące metody badawcze: analiza literatury i analiza porównawcza. Wnioski z analizy literaturowej i porównawczej sprawdzono stosując analizę regresji panelowej. Ograniczenia badawcze wynikają z uwzględnienia tylko trzech krajów do analizy i dziewięciu lat obserwacji. **Wyniki:** Rezultaty naszych badań wskazują, że rozwój rachunkowości ma marginalne znaczenie dla zaufania społecznego. Stawiamy wniosek, że wzrost poziomu rozliczalności organizacji nie rozwiązuje problemów związanych z zaufaniem społecznym, z którymi borykają się organizacje *non-profit*. Na zaufanie społeczne wpływają także inne czynniki, takie jak brak mechanizmów instytucjonalnych, brak społeczeństwa empatycznego oraz negatywne relacje w mediach. **Oryginalność/wartość:** Oryginalność i wartość tego opracowania polega na tym, że został wyjaśniony wpływ rozliczalności organizacji pozarządowych na zaufanie społeczne do nich. Co więcej, odwołujemy się do krajów Europy Środkowej i Wschodniej, w których – ze względu na ich historyczne dziedzictwo – zarówno zaufanie społeczne, jak i przejrzystość były poważnie zakłócone.

Słowa kluczowe: organizacje pozarządowe, kraje postkomunistyczne, zaufanie obywatelskie, odpowiedzialność organizacji pozarządowych, przejrzystość, kontrola.

Introduction

The accountability of non-governmental organisations (NGOs) has been the subject of research in many publications, as we will present in section 3. Researchers and international organisations point to the importance of the transparency of activities of non-profit organisations. At the same time, some institutions (Johns Hopkins Comparative Nonprofit Sector Project, National Satellite Accounts, CIVICUS Civil Society Index, USAID CSO Sustainability Index, and the NGO Law Monitor) regularly monitor public trust for these organisations, which may be a factor that determines their development and thus the development of civil society. While conducting the literature review, we asked the following research questions: What is the relationship between accountability and public trust for NGOs? Do higher reporting requirements for NGOs and greater control over them increase public trust and support for NGOs? Is it possible to increase society's involvement in public benefit activities by increasing NGOs' accountability?

To answer the research questions, we used a literature review and comparative analysis. Three CEE countries were selected for the research: Lithuania – the European country which finds itself in last place in the World Giving Index ranking (2017), and Poland and Croatia – the first (the best) among all post-communist countries in the World Giving Index ranking (2018). We used the World Giving Index (global) and the World Giving Index (donating) as measures of social trust. WGI (global) compared to WGI (donating) takes into account not only the willingness to make donations, but also the willingness to help others and spend time volunteering. We supported our findings with panel regression analysis. The research limitations include the selection of only a few countries for the analysis and only nine years of observation per country (2009-2017). The originality and value of this paper lie in the fact that we explain how NGOs' accountability and revenues influence social trust in NGOs. Furthermore, we refer to

CEE countries where – due to their historical heritage – both social trust and transparency have been deeply affected.

Our paper is organised as follows. Firstly, the problem of social trust, its measurement, and the factors that influence it are discussed. Then the issues of accountability and social trust are discussed. In the third section, we analyse the process of change in accounting regulations and control over NGOs in the chosen countries compared to changes in social trust. We conduct a panel regression analysis to find a relationship between social trust in NGOs and the level of accounting regulations. Finally, the discussion and conclusions are presented.

1. Civil trust

Stakeholders of public benefit organisations are primarily donors, the media, and government agencies, which have the greatest interest in NGOs' performance, including financial results (Waniak-Michalak, 2011). Donors may have specific expectations of NGOs. However, their goals are not always consistent with those of the NGOs' managers and employees. Donors donate money, expecting that it will be passed on to the final recipient. The agent (employee, manager) will use his or her code of ethics when intermediating in this transaction. The outcome will depend on the degree of altruism and selfishness of the manager. The risk in this transaction is the absence of an agreement for which the manager could be responsible. The donor has no way of verifying that his funds have been used in accordance with his expectations.

Moreover, the manager may not be fully aware of the donor's requirements. The basis for making a transaction between the agent and the owner (donor) is the trust that the agent will fulfil the owner's expectations. The problem that affects the level of trust in NGOs is information asymmetry and the difficulty in assessing whether the owner's goals have been achieved. In most cases, the owners (donors) may not have specific expectations, and the quality of the effects of NGOs (goods, services, effects of aid) may be difficult to judge. Even publicly available NGO reports may not solve the problem. Therefore, the level of trust will depend not so much on the effects of the NGO's current activities, but on indirect factors such as culture, the opinions of other people, the economic and social situation, and general trust in private institutions.

Sargeant and Lee (2002) even separate trust from confidence. They posit that trust does not result from knowledge, but faith, while confidence is based on knowledge of the subject of assessment. Thus, social trust may, for example, depend on the public's belief that someone controls NGOs, but not on the quality of information disclosed by NGOs.

On the one hand, trust in any organisation can be undermined by embezzlement, low transparency, and corruption (Da Cruz et al., 2016). On the other hand, civil trust may quickly increase as a result of increased government oversight, the existence of watchdog agencies, and the introduction of ethical codes (Cordery, Baskerville, 2010). Civil trust has three benefits for the charity sector: increased public funding, organisational stability, and ongoing independence (Cordery, Baskerville, 2010). Scandals and

accidents harm the organisation in which they occurred and the entire sector (Farwell et al., 2019). Without proper self-regulation of the sector and response to problems, social trust has fallen for all NGOs, affecting the revenues of the whole sector (Cordery, Baskerville, 2010). However, as some cases show, social trust, even in massive scandals, is restorable (Bryce, 2007).

The positive impact of public trust on the value of donations to NGOs has been identified in many publications (Çarkoğlu, Erdem Aytaç, 2017). However, social trust is one of several factors that influence individual giving alongside demographic, economic, and cultural factors (Wiepking, Bekkers, 2012). We also believe that the research on factors that influence individual giving also indirectly concern the factors that influence social trust. Factors such as age, education, and nationality may justify the propensity to give and the level of social trust. Trust in organisations may determine individual giving, but also supporting organisations may indicate high trust in them. Çarkoğlu and Aytaç (2017) showed that trust in people does not determine the level of trust in organisations, and vice versa. This conclusion is all the more surprising because NGOs operate as a result of the cooperation of many people, often neighbours, colleagues, and families. The level of trust in another person should influence trust in social organisations and, thus, individual giving.

As many research papers state, people generally trust NGOs, more than other organisations. However, the level of trust varies across countries and time (Rutley, Stephens, 2017). Some authors claim that general trust in NGOs does not influence charitable giving (Hager, Hedberg 2016) and that the level of civil trust is characterised by low variability over time (O'Neill, 2009).

Researchers point to many factors that affect social trust, one of which is economic status (McDougle, Lam, 2014). Grønbjerg's study (2009) shows that people with lower education levels and lower-income have little trust in NGOs. Therefore, it should be assumed that the best opinion about NGOs will be held by donors and the lowest by people who would be qualified as beneficiaries.

2. Accountability of NGOs

Edwards and Hulme (1996, p. 967) define accountability as “the means by which individuals and organisations report to a recognised authority (or authorities) and are held responsible for their actions.” Schmitz et al. (2011) add the following elements to this definition: performance evaluation, stakeholder engagement, and internal commitment to the organisation's mission.

The social trust discussed in the previous section may depend on the level of accountability of the organisation's activities. Accountability is an important barrier for dishonest people eager to defraud the money entrusted to them by society (Farwell et al., 2019). This accountability can be increased by making information available to the public on social media or on the NGO's website. As Tolbert and Mossberger (2006) indicate, the use of e-technology in disseminating information has a positive impact on

social trust. Publishing information on the Internet and the use of social media by NGOs increase fundraising effectiveness and efficiency (Dyczkowski, 2017). Researchers emphasise that building an image of a trustworthy organisation by disclosing information to a wide audience brings financial benefits to NGOs, and donors can be less sensitive to fluctuations in results of the organisation (Dyczkowski, 2016). However, the extent of the information disclosed may depend on the NGOs' type of support and the scope of their activities (Tremblay-Boire, Prakash, 2015).

Other studies indicate that accountability alone does not bring about a positive change in trust. The statement may result from the belief that the information received is false, especially in societies originating from communist countries. Only if other elements such as free press, access to education, and democratic elections exist can an increase in transparency bring positive effects. Otherwise, it will be treated as an attempt to mislead society, a blackout of information, or a confabulation (Bauhr, Grimes, 2014). According to some researchers, accountability matters (Agyemang et al., 2009).

Therefore, we ask two research questions:

1. What is the relationship between accountability and public trust for NGOs? Do higher reporting requirements for NGOs and greater control over them increase public trust and support for NGOs?
2. Is it possible to increase society's involvement in public benefit activities by increasing NGOs' accountability?

The decline in social trust for NGOs in some countries has resulted in pressure from their governments to increase NGOs' transparency (González-Benito, 2015). This measure was seen as a remedy for the low level of social trust and a factor that could support civil society's development. As a result, there was also a growing interest in this topic among researchers worldwide, with many publications devoted to the problem of NGOs' transparency (Hyndman, McConville, 2016; Liket, Maas, 2015; Sanzo-Pérez et al., 2017). Initially, internal and external factors that influence transparency were explored (Tremblay-Boire, Prakash, 2015), and the quality of information disclosed was also assessed (O.B. Breen, 2013).

Legal acts in many countries regulate the accountability of NGOs. Unfortunately, they often include the information requirements of tax authorities and local government units, which use the information to create their reports and to control NGOs. Unfortunately, these legal acts do not take into account the requirements of other recipients of information, which makes NGOs' reports overloaded, incomprehensible, and useless. An increase in disclosures does not increase public trust for NGOs. Research in Canada revealed that respondents' perceptions of the financial accountability, transparency, and familiarity of charitable non-profits influence the social trust in NGOs. The study shows that it is more important for society that NGOs have reporting obligations and are under control than that they have actual access to the information on NGOs' performance (Farwell et al., 2019).

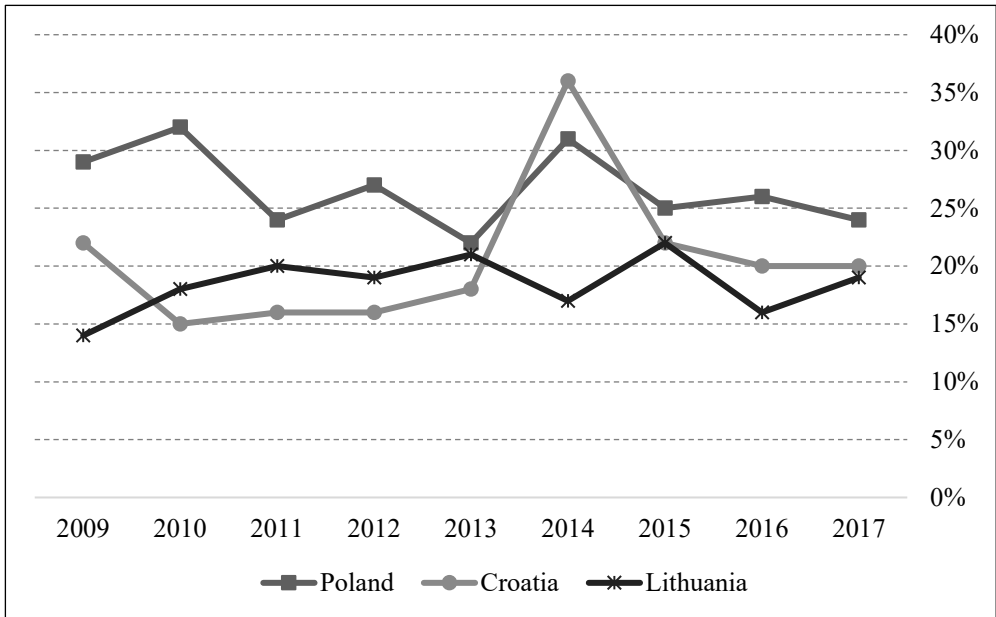
In some countries, organisations that specialise in assessing NGOs have been set up to help society separate the "bad" NGOs from the "good" ones, like Charities Navigator in the USA or the Charity Commission in the UK.

3. Civil trust for NGOs and their accountability

According to the research of the Charities Aid Foundation, social trust for NGOs, measured with the WGI, increased in 2014 in some countries, mainly as a result of natural disasters (e.g. flooding in Croatia) or wars. In Croatia, the floods caused widespread power outages, water shortages, damage to infrastructure, livestock and livelihoods, and displacement. Some people were killed, and, out of the estimated 15,000 people evacuated, more than 7,000 were registered and looked after by the Croatian Red Cross (ReliefWeb, 2014). At that time, people decided to make donations, not for a specific organisation but a particular purpose. It should also be noted that in 2014 and 2015, fundamental legal acts were introduced in Poland and Croatia. Still, their effect would be expected in the following year or later, when new financial statements of NGOs are prepared. In 2015, a further decline in social trust for NGOs can be observed in Poland. During this period, the conservative political party PIS won a majority government, and it started to run a campaign against non-governmental organisations. In the PIS party members' statements, there were allegations of misappropriation of public funds and fraud committed by NGOs. As a result, some citizens have turned against NGOs. One of the reasons for this was the unwillingness of the Polish government to accept refugees. Therefore, it did not want to finance activities aimed at supporting or integrating refugees, supporting human rights, or supporting the rights of different minority groups to equal treatment, among others. This stance awakened an influential institution in Poles: intolerance, which became a tool to fight against NGOs and civil society. Therefore, the civil trust for NGOs in Poland is lower than in 2010, before all of the most critical changes in legal requirements, including accounting rules, for NGOs.

In other countries, the lack of institutional mechanisms (imposed on citizens by the state as a social obligation) resulted in a decline in charity. In Poland, a 1% income tax mechanism was introduced in 2004. Initially, Polish taxpayers had to make their payments to selected non-governmental organisations and then show the donation amount as an item deductible from income tax. It turned out, however, that Poles were not ready to accept such a duty. It was not their business, and it required too much effort. Therefore, a change was introduced in 2007 to the manner in which taxpayers transferred the 1%. From now on, taxpayers only had to indicate in their tax statements to whom they wanted to transfer the money, and it was transferred by the tax authorities. In the following year (2008), this change resulted in a 4 million increase in the number of Polish taxpayers making deductions to a selected charity.

As Chart 1 presents, Lithuania has the lowest level of civil trust. Markšaitytė et al. (2017) point to the link between social trust in Lithuania and its citizens' low level of happiness. Their lack of faith in the possibility of improving their well-being discourages Lithuanians from helping others.

Chart 1. World Giving Index (global), in the years 2010–2017

Source: authors' own elaboration based on data from the Charities Aid Foundation.

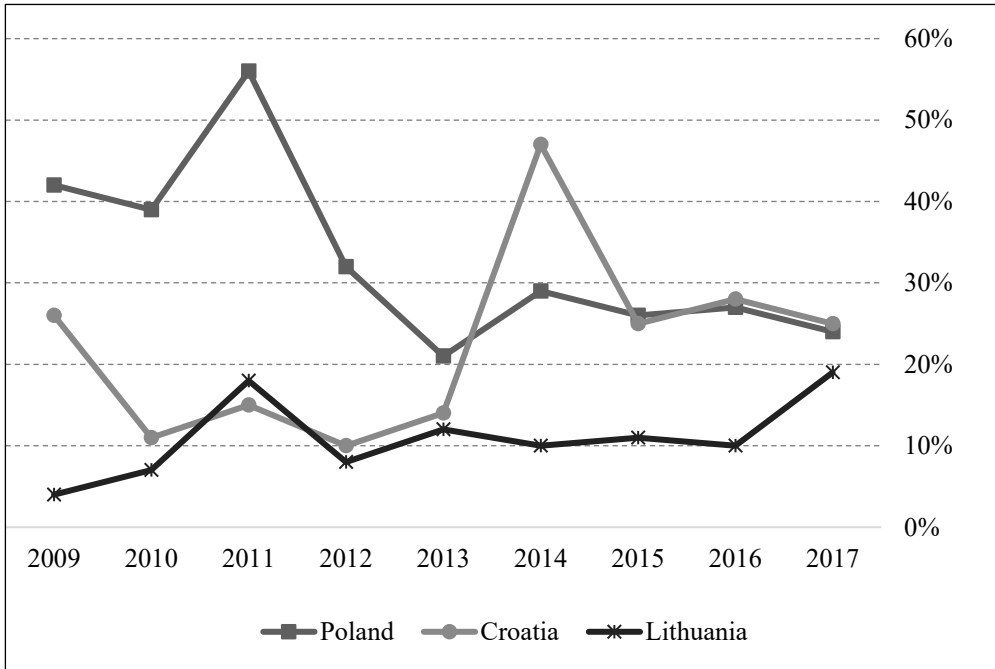
However, it is essential to note that the Lithuanian World Giving Index, despite fluctuations, was higher at the end of the period under investigation than at the beginning (19% in 2017 compared to 14% in 2009). In 2010, there were significant changes in the accounting and control of NGOs, which may have contributed to the increase in the World Giving Index. In particular, accounting rules and forms of financial reporting were adjusted to consider the specific nature of NGO activities. Additionally, in 2010, the Commission for the Coordination of Non-Governmental Organisations Affairs was established. Its main functions were to make proposals on the legislation regulating the activities of non-governmental organisations; the development of cooperation between state, municipal institutions, and non-governmental organisations; and the implementation of measures for the development of non-governmental organisations.

Another significant change regarding the accounting and reporting of NGOs occurred in 2015. The compulsory reporting by NGOs to the Centre of Registers only temporarily increased public trust in them that year, however. In 2016, trust levels started to fall again. The requirement for legislation to submit financial statements to the Centre of Registers did not pose any significant challenges to financially stable NGOs. However, those that operate voluntarily and have no stable income or support have encountered serious problems. Only 28 percent of charities and 35 percent of associations submitted financial statements for 2015 (The NGO Information and Support Centre). Thus, NGOs' unwillingness and inability to provide financial reports revealed

problems with transparency and reduced public trust in them in 2016. And while changing the rules for the accounting and financial reporting of NGOs in 2017 increased the transparency of these organisations, it takes time. Therefore, the problem of low trust in NGOs will not be solved by only increasing their accountability.

In Croatia, in 2014, the World Giving Index was the highest among the analysed developing countries (Chart 1). The Charitable Aid Foundation (CAF) found that the significant increase in cash donations in Croatia in 2014 reflected efforts to raise funds following extensive flooding in the country. The new Law on the Financial Operations and Accountancy of Non-Profit Organisations in Croatia has created a positive environment for non-profit organisations since 2015, characterised by increased publicity, transparency, and control over business operations. A Register of Non-profit Organisations (NPOs) was also introduced. The Register is the central source of financial statements of NPOs available to the public where they can gain an insight into the business of non-profit organisations. Regardless of this significant progress in the accounting system of NPOs in Croatia that happened in 2015, the World giving index for that country in 2016 increased only slightly in public giving compared to the period from 2010 to 2013. However, it is still lower than it was in 2009.

Between 2015 and 2017, there were no large oscillations. The problem of the low level of trust still exists, which leads us to conclude that all the progress made in accounting development in Croatia is not enough to contribute to the increase of the WGI. It can be concluded that other factors also influence overall trust in NGOs. The first national research of the state of philanthropy in Croatia by the Slagalica Foundation was conducted. The Slagalica Foundation (2017) points out that in Croatia, in addition to a low level of trust in society, there is also a lack of awareness of the concept of philanthropy, difficulties in establishing public-private partnerships, and a low level of economic development and civil society. According to their research, 55.3% of the respondents believe that a significant reason for the poor individual giving is the bad financial situation in society. The second reason is that the state and individuals are burdened with other problems because of the economic crisis, lack of confidence, and lack of capacity for an empathic society. According to the individual responses in this national research, three main factors affected the level of individual philanthropy in Croatia: the poor material and financial situation, transparency of actions for the common good and distribution of funds raised, and awareness of actions and their results. Different forms of corporate social responsibility are promoted and implemented in Croatia to improve citizens' economic and social situation. Although the concept of Corporate Social Responsibility is applied more and more widely, it is mostly not strategically thought out, and it does not constitute good practice in the field of business reporting and communication with the public (Slagalica Foundation, 2017). According to the corporate sector responses in this national research, an incentive for higher public spending would be to establish mechanisms to monitor and evaluate the effects of donations on society and the community.

Chart 2. World Giving Index (donating) in the years 2010–2017

Source: authors' own elaboration.

Comparing Charts 1 and 2, it can be concluded that other factors influence overall trust in NGOs than the trust measured by the willingness to donate money. We can also propose that general trust for NGOs does not always lead to greater generosity of donors. Indeed, financial support can be mainly conditioned by economic factors (Habibpour et al., 2018). List and Peysakhovich (2011) found that giving is sensitive to economic factors such as GDP, the S&P index, and consumption expenditures. At the same time, they noticed a negative correlation between the unemployment rate and individual giving.

During the analysed period (i.e., since 2010), GDP and the average salary rate increased every year in Lithuania. And this is reflected in the overall growth trend in the World Giving Index (donating) in Lithuania, from 4% in 2009 to 19% in 2017; however, it does not explain the annual fluctuations. For example, a decrease in the World Charity Index (donating) in 2012 may be due to the collapse of one of Lithuania's commercial bank, which affected a certain part of the population of Lithuania. It is also interesting that although both indices have similar fluctuations, the World Giving Index (global score) is significantly higher than the World Giving Index (donating), except for 2017.

Below, in Table 1, we compare the most significant changes in the WGI, catastrophes, and changes in accounting and the economy.

Table 1. Social trust and factors influencing it in chosen countries (in %)

Year	Country	Change of WGI-global	Change of WGI-donating	Average salary rate	GDP rate	Catastrophes and important incidents	Important accounting regulations
2010	Poland	3	-3	4	3.61	Cold wave, riverine flood, flash flood, and plane crash and riverine flood Flash flood and cold wave	-
	Croatia	-7	-15	-3	-1.47		-
	Lithuania	4	3	13	1.64		+
2011	Poland	-8	17	0	1.6	Cold wave	+
	Croatia	1	4	0	-0.3		+
	Lithuania	2	11	3	6		-
2012	Poland	3	-24	-2	2	Tornado, cold wave, rail accident, riverine flood Cold wave Cold wave	-
	Croatia	1	-5	-3	-2.2		-
	Lithuania	-1	-10	2	3.7		+
2013	Poland	-5	-11	-1	3.8	Extra-tropical storm and cold wave	-
	Croatia	2	4	-1	2.2		-
	Lithuania	2	4	4	2.8		+
2014	Poland	9	8	-7	3.1	Cold wave Flash flood and riverine flood	+
	Croatia	18	33	1	3.5		+
	Lithuania	-4	-2	4	2.6		-
2015	Poland	-6	-3	16	3.8	Severe storm, cold wave Flash flood	+
	Croatia	-14	-22	4	2.3		+
	Lithuania	5	1	6	2.0		+
2016	Poland	1	1	4	2.9	Flood and cold wave	-
	Croatia	-2	3	1	3.2		-
	Lithuania	-6	-1	5	2.3		+
2017	Poland	-2	-3	4	5.1	Derecho** Lightning/Thunderstorms and forest fire	-
	Croatia	0	-3	4	2.6		-
	Lithuania	3	9	5	3.6		-

* Corrected by the inflation rate.

** A vast and prolonged windstorm.

Source: authors' own elaboration based on data of Charity Aid Foundation and EM-DAT, CRED / UCLouvain, Brussels, Belgium – [www.emdat.be](https://public.emdat.be/data) (D. Guha-Sapir) information (<https://public.emdat.be/data>).

The information contained in Table 1 shows that the most significant changes in both the public trust index and changes in the accounting rules of NGOs took place in 2012–2011 and 2014–2015. In 2012, in all analysed countries, citizens' trust, as measured by their willingness to donate, decreased. In Poland it happened despite the fact that for the first time reports of all NGOs with the status of public benefit organisations were made available to the public. Obtaining this status was associated with privileges such as income tax exemption or the possibility to receive a 1% personal income tax deduction. Penalties were threatened for not publishing the report on the indicated government website, e.g., being removed from the list of public benefit organisations.

Despite research showing that Poles are unable and unwilling to use the right to verify these reports that the money they donate will be used as intended, it should be assumed that such a possibility alone might increase donors' trust in NGOs. It did not happen, however.

In Croatia, taxpayers can reduce their taxable incomes by up to 2% by making donations (money or in-kind) to associations for cultural, educational, scientific, health, humanitarian, sports, religious, and other purposes. However, because of the lack of knowledge of the benefits of tax breaks, this benefit is rarely used. Even though the economic crisis in Croatia affected financial support from the business sector and individual giving, in 2012, citizen trust in Croatia did not change. Non-profit organisations worked hard to promote their visibility, and various online platforms that operate based on civic solidarity, cooperation, and the trust of people who network and invest together to support initiatives where they see social value were launched. In 2010, larger non-profit organisations published financial and activity reports on their websites while non-profit organisations received positive media coverage (local media increasingly covered their actions, but the national public broadcaster only provided space for their activities in time slots with the lowest viewership) (USAID, 2013). Therefore, public belief in non-profit activities did not decline.

In Lithuania, the law was also significantly amended in 2012. The law imposed an obligation on NGOs to use the support appropriately, and since then, the donor can be anonymous. The amendments also clarified the management, operation, reorganisation, and termination (or liquidation) of legal entities which bear the legal form of a charity and support foundation (Jatautaitė, Vaidelytė, 2015, p. 5). However, the changes did not positively influence social trust in NGOs.

In 2015, in Poland, an amendment to the Accounting Act that had been issued in 2014 came into force. The changes were beneficial mainly for the organisations themselves, not for the stakeholders. The introduction of the possibility to prepare simplified reports by micro charities reduced their usefulness because the structure of these reports corresponded more to business than philanthropic activity. Therefore, we believe that such changes may have negatively impacted Poles social trust in NGOs.

In 2014, however, not only did the flooding in Croatia occur, but there were also significant changes in the public availability of NGO reports in Croatia and the strengthening of control over NGOs in Croatia. This new Law on Financial Operations

and Accountancy of Non-Profit Organisations introduced some regulations in Croatia. Principles of sound financial management and control were introduced that related to managing responsibility for planning, development, and the realisation of financial plans, accounting, and reporting to ensure the protection of resources from losses, misuse, and financial fraud. The principle of publicity and transparency became the basis of managing the business of a non-profit organisation. Consequently, all non-profit organisations were obliged to publish financial reports through the Registry of non-profit organisations governed by the Ministry of Finance. It also made it mandatory to publish annual audit reports (for all non-profit organisations with a total income above HRK 10 million) and audit insight financial reports for the previous year (for non-profit organisations with a total income above HRK 3 million). The new Law on Associations, which came into force in October 2014, also placed great emphasis on the transparency and publicity of the business of the associations. Such significant accounting regulation changes may have positively affected the public's belief that the funds provided to non-profit organisations would be used properly.

In Poland, there were also further changes in the rules of NGO reporting, but they were mainly beneficial for the organisations themselves and not for the stakeholders. The introduction of the possibility for small charities to prepare simplified technical reports has reduced their usefulness. It was another change after the amendment of the Accounting Act, which resulted in a decrease in the usefulness of the information disclosed by NGOs in Poland. In 2014, the conflict in Ukraine began. Poles and Lithuanians showed solidarity with their neighbours and supported them both spiritually and materially by organising necessary items for people from endangered areas and by donating money to help refugees. Even a significant decrease in the average salary (adjusted for inflation) couldn't stop their generosity. When, finally, in 2015, Poles experienced a substantial increase in wages, social trust for NGOs decreased, as did their willingness to make donations. An even more significant drop in social trust took place in Croatia. One of the reasons for the decline in social trust in Poland is undoubtedly the position of the new Polish government.

In October 2015, parliamentary elections were held in Poland. Five parties entered the Sejm. For the first time since 1989, Law and Justice won an outright majority at the election. This party drew the public's attention to NGOs' low accountability and attacked large NGOs, which had thus far enjoyed great public trust. Poland's society was divided into two camps – those who opposed and those who supported the governmental attack on NGOs. The new ruling party's activities led to changes in how government grants for public benefit organisations were granted and how they were controlled. In 2017, the National Institute of Freedom – Centre of Civil Society Development, which is responsible for distributing grants and information on NGOs, began operating in Poland. This institution decides on the distribution of grants for activities that are the responsibility of the Government and assesses the distribution of local government grants for organisations that implement social welfare tasks. The effects of this institution's activity are not yet known.

The biggest positive changes in the Lithuanian WGI (global score) occurred in 2010 and 2015. In 2011, the WGI (donating) grew the most. It can be argued that the strengthening of the NGO accounting and legal framework (in 2010 and 2015) contributed to the increase in public trust in NGOs. However, this only partially explains the change. It is essential to mention that since 2016, there has been an active discussion in the press about the transparency of NGO activities in Lithuania. In that year, a voluntary register of non-governmental organisations “Atlas of NGOs” was launched. As a result, trust in NGOs in Lithuania increased in 2017, as evidenced by the growth of both indices.

The WGI of Croatian non-profit organisations deteriorated in 2016. The government that came to power reduced funding for the National Foundation for Civil Society Development, and at the same time, government officials labelled non-profit activities as unnecessary (USAID, 2017). Non-profit organisations consider that administrative requirements from the Law on Associations reflect the state's mistrust of the non-profit sector and, in return, they actively criticised the government for its treatment of the sector, creating the perception that Croatian social organizations are political actors (USAID, 2017). The media also fostered this negative perception, which contributed to decreased public trust in non-profit organisations. During 2018 in Croatia, there was only a change in the new Law on Foundations, which makes administrative requirements less demanding. However, the WGI for donating money for 2016 ranked somewhat better than 2015, but in 2017 it showed a slight deterioration. Demographic trends such as emigration influence Croatia, and they may have negatively affected donation giving in 2017. In public debates, civil society is often accused of money laundering and corruption, so this issue in some non-profits reflects a negative image of the sector. Therefore, the calls for increased financial transparency appear to be justified (Bežovan et al., 2019).

In order to explain the impact of the factors identified above on the level of public confidence, we applied panel regression. In the analysis, we used modified information on catastrophes to capture the importance of the tragedy. We used the data on the number of people affected by the disaster in a country in a year divided by the number of inhabitants in millions. We also assigned the changes in accounting regulations to three categories: 1 – increasing the control over NGOs, 2 – increasing their transparency, and 3 – other regulations. This study only supports our earlier conclusions. Due to the small sample size (only three countries in three years), we cannot generalise them. However, these results may be an indication of further research in this area. Below, in Table 2, we present the results of the panel regression analysis. Taking into account that the total number of observations is 27, each regression model includes only one independent variable and a constant.

Table 2. Panel regression analysis results

Variables	(1) Model 1 WGI1	(2) Model 2 WGI2	(3) Model 3 WGId1	(4) Model 4 WGId2	(5) Model 5 WGId3
CT	-0.041*** (0.001)	–	-0.109*** (0.010)	–	–
CAT	–	–	–	–	0.026** (0.004)
GDP	–	0.423* (0.13)	–	0.956** (0.168)	–
Constant	0.301*** (0.004)	0.212*** (0.007)	0.439*** (0.03)	0.207*** (0.022)	0.197** (0.02)
Observations	27	27	27	27	27

CT – country (1 – Lithuania, 2 – Croatia, 3 – Poland)

CAT – log number of victims per millions of populations

GDP – change in GDP per year

WGI – World Giving Index (global)

WGId – World Giving Index (donating)

Robust standard errors in parentheses:

*** $p < 0.01$. ** $p < 0.05$. * $p < 0.1$

The panel regression analysis does not indicate that the level of trust depends on changes in accounting. Thus, this study confirms our results from the comparative analysis. At the same time, we notice a significant correlation between the level of trust and catastrophes. It means that in a threatening situation, people break their reluctance or lack of trust in NGOs by increasing their generosity. Also, as the country's economic situation improves, the generosity of the inhabitants and their willingness to support charitable activities increases.

Conclusions

This study examined the link between the level of NGO accountability and the trust in them. The study follows the process of creating an accounting law for NGOs in three developing countries: Poland, Croatia, and Lithuania. We analysed the change of social trust in these countries in line with the development of legal and accounting rules and norms for NGOs. This study demonstrated that social trust is a complex concept, with the accountability of non-profit being only one of its many parts. We elaborated on several key factors associated with giving donations and social trust in non-profit organisations. The results indicated that the problem of the low level of trust has reappeared,

which leads us to the conclusion that all the progress made in accounting regulation during this period was not enough to increase trust in non-profit organisations. Therefore, we conclude that accountability alone does not solve the social trust problems faced by non-profit organisations. Other factors affect social trust, such as lack of institutional mechanisms, lack of an empathic society, and negative media coverage, among others. We did not analyse these factors in this study, but we intend to focus on them in further research.

This study contributes to a greater understanding of how accounting regulations for non-profit organisations emerge and operate in different organisational contexts, and how institutional contexts impact social trust. Accountability and transparency of the organisation are not only created by mandatory regulations but also by self-regulation of the sector. NGOs in many countries strive to increase the transparency of their activities by publishing the necessary information on websites, on social media, or by creating social responsibility reports. In order to answer the questions about the factors that influence public trust for NGOs, international research would be necessary, taking into account the differences in the background, historical experience, and political conditions.

The results of our research indicate that accounting regulations are of marginal importance for social trust. However, the study did not consider the importance of certain information or regulations for donors. It is one of the limitations of this study. In the next steps, it was necessary to determine which legal regulations regulating the activity and accounting of NGOs are essential for social trust. Also, the study's limitation to the three countries does not allow the results to be generalised to all CEE countries. However, our results may be used as a guide for future research.

However, we have identified the possible impact of disasters and the country's economic situation on public trust. The small sample does not allow us to generalise the results. Still, they indicate the need to explore the importance of economic changes and independent variables (such as natural disasters and other accidents) for the development of NGOs. This may also indicate the need to research the impact of the COVID pandemic on NGOs.

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Appendix 1

Table 4. Issue of Accounting and other legal acts regulating the activity of NGOs in Poland, Croatia and Lithuania in the years 2009–2018

Year	Croatia	Poland	Lithuania
2009	Monitoring the financial data of non-profit organisations as a sector General data on subjects and data relevant for the database of financial reports from the Registry of non-profit organisations become available to the public following the ordinates of the Law on the right to access information (the exception being small non-profit organisations)		
2010			Rules for the Accounting and Financial Reporting of Non-Profit Civil Liability Legal Entities and the Evaluation of the Assets and Services of Political Company Participants
2011		Obligation to publish a financial and activity report on the governmental website	
2012			Amendment to the Law on Charity and Sponsorship Funds
2013			Law on Development of Non-governmental Organisations
2014	The new Law on Associations	NGOs are obliged to fulfil regulations of the Accounting Act as other entities. However, they can prepare simplified financial statements if they do not run a business activity	

cont. tab. 4

Year	Croatia	Poland	Lithuania
2015	<p>The Law on Financial Operations and Accountancy of Non-Profit Organisations came into force</p> <p>Obligation to self-assess financial management and to enforce control</p> <p>Obligation to make plans for large non-profit organisations</p> <p>Obligation to create financial reports</p> <p>All financial reports made public through the Registry of non-profit organisations</p>	<p>Law on public benefit activity and volunteering – full and simplified activity reports. Some NGOs do not have to prepare financial statements</p>	<p>Obligation to submit financial statements to the State Enterprises “Centre of Registers” and “Statistics Lithuania”</p>
2017		<p>Creation of National Institute of Freedom – Centre of Civil Society Development, which is responsible for the distribution of grants and information on NGOs</p>	

Source: authors' own elaboration.

