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INTERNATIONAL PRACTICES OF NON-STATE FUNDING MECHANISMS FOR CIVIL SOCIETY ORGANIZATIONS

THE CASE OF EU MEMBER STATES

GEORGIAN CIVIL SOCIETY SUSTAINABILITY INITIATIVE (CSSIGE)

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Some of the “non-state mechanisms”, considered by the current document (see sub-section “state mechanisms for indirect state funding”) highlights approaches, that are part of the state policies. Nevertheless, it totally depends on the willingness of individual or corporation to allocate certain part of personal or corporate income for the benefit of civil society. Those mechanisms encourage individual philanthropy and development of other forms of social innovations, and therefore are considered as “state-supported” or “state-encouraged”, but not “direct state” mechanisms.

The presented recommendations reflect the 2017 conditions. The more complete version of the tax-code related recommendations are available in the study „Non-state Funding of Civil Society Organizations in Georgia“ (V. Natsvlishvili, 2019).

CONTENTS

FORMS OF NON-STATE FUNDING FOR CIVIL SOCIETY ORGANIZATIONS

Introduction

Level of development of civil society, degree of involvement in it, cooperation between business and state as well as relevant legal framework are all largely determined by historical and cultural factors of a country, both in negative and positive sense. Post-Soviet Estonia, Hungary, Poland and Slovakia shared the opinion that the state was responsible to provide all services as it was in the socialist past. Therefore, international donors and development agencies had a crucial role in establishing (or restoring) civil society organizations (CSO) in these countries. They provided both financial assistance and new mechanisms for financial sustainability to this sector.

In Central and Eastern European countries, it is more common for nongovernmental organizations (NGO) to work on environmental, development, advocacy, human rights and similar issues rather than to render public services. Conversely, in the countries of Western Europe, non-for-profit organizations (NPO) are more focused on the provision of social welfare services. Consequently, three quarter of NPO employees, on average, work in educational, healthcare and social service organizations. One can also find NGOs operating in the areas of culture, recreation, environment, advocacy and business, but their share in the total NPO employees is much smaller. Therefore, the principle of subsidizing (delegation), a strong tradition of private initiatives and relatively simplified legal regulations for encouraging the sector evolved naturally in Germany and the Netherlands over the centuries. Current mechanisms of CSO funding is a natural outcome of the development and culture of these countries. Moreover, society's perception of NPOs is so natural and simple in Germany and the Netherlands that one cannot often tell them from other organizations. This task, in experts' view, will become more difficult over time as in the past decades the government has increasingly focused its policy on the creation of independent legal entities of public service whereas the NPO sector has become increasingly commercialized.

It is a well-established fact that business drives economic growth while philanthropy stimulates social welfare and protects environment. Over a long period of time business and philanthropy acted independently from one another, but this has been changing in recent years. It is no longer unusual to link "economic" and "social" in developed countries. Moreover, although the donor assistance was of great importance at the nascent stage of CSO development

in Central and Eastern European countries, today, when they are already EU member states, international development institutions are no longer donors of these countries but strategic and investment partners of various scale and form. At the same time, there are talks in Western Europe about reducing state funding to the civil sector. Consequently, in both cases, a greater importance is attached to the use of business strategies by CSOs, on the one hand, and on the other, to creating new mechanisms of private institutional and corporate as well as individual giving,[1] wherein state approaches play a substantial role.

This study discusses models and mechanisms of non-state funding for civil sector. Despite this definition it should be noted that the line between state and non-state mechanisms is often unclear because: a) a legal framework and financial mechanisms defined by the state affect and often determine the behavior of society; b) in European countries, state mechanisms are often used to deliver individual or corporate contribution to civil sector.

This study discusses forms and mechanisms of both corporate and individual giving, good practices in European countries with state approaches playing an important role. Based on available information, the study describes those mechanisms which will be more acceptable for the Georgian society.

Civil society organizations

This study deals with civil organizations and the variety thereof; terms used to denote them (civil society organization - CSO, non-for-profit organizations - NPO or nongovernmental organizations - NGO) depend on the effective legislation of a studied country, namely:

Civil society organizations (CSOs). The primary goal of establishment or/and unification of these organizations is to ensure social welfare. Social welfare covers many areas, including education and philanthropy. Organizations of this type are not prohibited to generate revenues provided that they are used for philanthropic, educational, recreational or other social purposes. Manpower of civil organizations often comprises volunteers, though this does not rule out paid employment. Civil society organizations include *NPOs* and *NGOs,* also (in some cases) *cooperatives* and limited liability companies (Ltd.), depending on the legislation of a studied country.

Non-for-profit organizations (NPOs). These are viewed as SCOs because they are established for public or common benefit and not for personal benefit or gain. Depending on the legislation of a country, NPOs may take on the form or/and status of

1 Private institutional giving implies the creation of various foundations to support civil organizations and other beneficiaries, while corporate giving means a wide range of financial and non-financial support to civil organizations, as well as other forms of strategic partnership and cooperation.

associations, foundations, social welfare and advocacy groups as well as professional associations and religious organizations. In some countries a limited liability company (Ltd.) may also qualify as an NPO if it is created to promote social welfare and uses its profit for the public benefit.

Nongovernmental organizations (NGOs). These are (social) non-profit organizations which are autonomous and operate independently from the state and business on national as well as local or/and international levels. Organizations of this type pursue specific social or political objectives. Independence (autonomy) from the state and business means the independence from the control of the state and business, but does not exclude funding by them.

1. NON-STATE FUNDING MECHANISMS

1.1. Grant

Grant is a specific-purpose means in cash or kind bestowed by a grantor (donor) to a grantee, which is used for specific humanitarian, educational, scientific-research, healthcare, cultural, sports, environmental and social projects as well as for the implementation of programs of state and social significance. A grantor may be a state, a private person or an institution. Given the aims of the study, this report does not focus on grant projects implemented within the scope of international development programs. Nonetheless, it must be noted that today, all EU member states have access to EU structural and investment funds as well as to so-called EEA/Norway grants which are the financial contributions of Norway, Iceland and Liechtenstein towards the reduction of economic and social disparities and the strengthening of bilateral relations in Central and Southern Europe and the Baltic countries. Grant as a mechanism of private institutional giving is widely used by private sector of Europe. Rich funds of Western countries have used classic grant schemes for more than 50 years now. A grant obtained from a private sector is defined as "giving money, goods or services for free." Private sector consists of private corporations, households, community foundations and nongovernmental institutions which serve families and individuals (OECD n/d). In recent years, the private sector funding has grown in importance: private foundations (as well as NGOs and for-profit organizations) fund the development through grant mechanisms. It should also be noted that a grant as donation, which is not intended for gaining monies, is viewed as an "impact strategy" on organization pursuing social mission, not as a lever of sustainable social change. Nevertheless, in developed countries, grants play an important role in assisting the development of CSOs at the initial stage and supporting their financial sustainability (by other alternative means) in future.

Despite the above said, in the setting of economic downturn and reduced state budgets, foundations and individual philanthropists have been testing news financing models which will have a positive social impact and as a result of their investments, will bring financial profit.

1.2. Social innovation as a non-state funding mechanism

Since the beginning of the 21st century NPOs in many developed countries came to realize that they had actually reached the limit of their effectiveness (Quak 2014). Along with the decline in "unconditional" donor funding or state subsidies, European countries started paying more attention to **social innovations** while a large segment of

NPOs started to seek **well-established market** approaches that would enable them to strengthen the impact of social mission.

Stanford Graduate School of Business defined social innovation as “the process of inventing, securing support for, and implementing novel solutions to social needs and problems.” Moreover, social innovation is an approach “dissolving boundaries and brokering a dialogue between the public, private, and nonprofit sectors” (Phills et al 2008). This implies that social innovation is not only an action oriented on social outcome, but the process itself employs social methods. These methods must necessarily include new ideas (products, services and models) that meet social needs and create new social relationships or collaborations (Murray et al 2010). The concept of social innovation is often associated with commercial organizations and their corporate social responsibility. However, social innovation matches more “strategic corporate philanthropy” of corporate social responsibility rather than “sponsorship” or “marketing.” Norbert Kunz, a German social entrepreneur, defined a social innovation as a systematic solution to a social problem (social change) wherein financial sustainability is desired, profit however is not the main aim (Ngo& Kunz 2016).

Social innovation is not a prerogative of an organization of any arrangement or legal status, but requires intensive cooperation between stakeholders, government, business and NPOs. Social innovation can be implemented from various funding sources and in various forms as well as through various tools. Therefore, there is a wide range of cooperation forms, such as: **corporate and venture philanthropy, impact investment, cross-sector partnership, social obligation, corporate volunteering**, et cetera; in additions, institutions such as **social enterprise, nonprofit cooperative**, and others represent a driving force of social innovations.

1.2.1. Cross-sector partnership

Cross-sector partnership is a model of market-based approach whereby NPOs and business (or state bodies) jointly try to solve problems in society.

A strategic cooperation between different organizations - profit, nonprofit, public and private, is becoming an important standard of the 21st century, which is aimed at solving complex social problems that organizations cannot separately address or solve adequately (Van Tulder et al 2016).

Establishment of strategic cross-sector cooperation or partnership is accompanied with some difficulties because potential partners have been financial competitors or political rivals (organizations operating in the same sector, government watchdog organization and government, et cetera) or pursued different aims (nonprofit and profit organizations).

Cross-sector partnership with corporations and the state is a voluntary undertaking, but it is somewhat encouraged for two reasons:

a) Cross-sector cooperation has become important in terms of cooperation with international organizations;

b) Many European countries have changed conditions for public funding – monies earmarked for civil organizations have decreased and governments started to finance cross-sector projects (especially those involving business partners).

1.2.2. Impact investment

So called impact investment, that is "result-oriented investment" is an investment made into companies, organizations, and foundations with the intention to generate a beneficial social or environmental impact alongside a financial return (GIIN, n/d). Impact investing challenges the long-held views that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus only on financial returns. In recent years many European investors of various types (banks, pension funds, social service managers, institutional and family foundations, government investors, development finance institutions and others) have been entering the impact investing market. Impact investors often channel impact investments into sectors such as sustainable agriculture, affordable housing, healthcare, energy, clean technology, financial services for poor, et cetera.

Stakeholders:

Impact investor may be a for-profit organization as well as NPO, and wealthy individual. Impact investments are mainly attracted from banks, pension funds and large and micro finance institutions. Globally known impact investors include foundations such as Bill & Melinda Gates Foundation, Gatsby Charitable Foundation. Impact investing is also carried out by pension funds, endowments, insurance companies, commercial banks, hedge funds and other institutional investors[2] (for example, JP Morgan, South Africa PIC). There are also retail investors that invest capital directly in social enterprises or in impact investment funds (for example, Acumen Fund, Bridges Ventures, Elevar Equity, Ariya Capital) and instruments (e.g. Social Impact Bonds).

Investees may be NPOs (if they can generate profits) as well as for-profit organization (if along with running profitable businesses, they can generate beneficial social and environmental impact). Investees may include social enterprises, microfinance institutions, small and medium-sized enterprises (SMEs), cooperatives, et cetera.

2 Institutional investor is an organization that invests on behalf of organization's members (for example, pension fund, insurance company, et cetera).

There may be **intermediaries** of many types between impact investors and investees, such as link investor or other institution which is adjusted to stakeholder needs. Intermediaries can facilitate the emission of structured financial products and help reduce the costs of impact investment. They can also provide advice on fund management, conduct research, raise funds, perform certification, provide legal aid, determine impact, set up business incubator, et cetera. Intermediaries can be commercial banks, investment banks, independent financial advisors, brokers, dealers, international organizations, consulting firms, et cetera.

Enabling environment is necessary for impact investing, which is ensured by governments and financial institutions. To facilitate impact investing, governments create enabling regulatory environments and provide direct or direct incentives. The cost of capital can be reduced through tax exemptions or/and reliefs, state guarantees and subsidies aligned with government programs and priorities. It is also necessary to enact regulations that ensure the recognition of impact investors, transparency, publicity of information, et cetera.

Beneficiaries of impact investments are all stakeholders that benefit from the investment through improved social and environmental conditions.

1.2.3. Venture capital/investment vs venture philanthropy

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital is a very important source of funding for startup businesses that have a limited operating history and hence, limited access to bank loans or other debt instruments. Usually, it is a risky business for investors, but venture investors have the right to participate in decision making of startup companies (which is often negatively perceived by startup companies). Venture capital may be invested not only in a monetary form, but also in the form of technical or managerial expertise. Venture capital generally comes from rich investors, investment banks and any other financial institutions which set up such partnerships or make investments.

In contrast to the above, venture philanthropy is a form of *investment* made by social venture capitalists or groups of so-called impact investors. This means investing startup capital in profit-oriented social enterprise which generates both profits and positive social impact. The first example of venture philanthropy was seen in mid-1990s in the United States.[3] When entrepreneurs raised the issue of the need for new models of philanthropy, foundations decided to increase the effectiveness of their grants.

3 The term “venture philanthropy” was originally coined by John D. Rockefeller III in 1969, who described it as “an adventurous approach to funding unpopular social causes.” (http://www.socialinnovator.info).

Selection of approaches depends on the aims of venture philanthropy. Since foundations as well as investment firms can be venture philanthropists, both **grant** and **social investments** are practiced. For-profit and non-for-profit venture philanthropists often deploy a **simple venture capital** strategy model to fund nonprofit events, social enterprises, or activities that deliver a high social impact. There are also regionally focused organizations (both for-profit and NPO) that work in a specific region to support the local community/society in their social cause.

In contrast to traditional venture capitalists who focus on financial profit, social venture philanthropists believe "in achieving financial success through social impact to the world" (UNVCA n/d). Both venture capitalists and venture philanthropists support startup, growth and risk-taking companies. To select potential organizations, venture philanthropy funds set criteria. For example, the criteria applied by Venture Philanthropy Partners are: high effectiveness referred to as strong social impact, financial capacity, potential scale of impact, best practice, distinguished approach, et cetera (NVCA n/d). According to various sources, venture philanthropy has its timeframe, ranging from five to seven years, on average, when investees receive financial and non-financial (human capital, capacity building, et cetera) support.

Given the above said, venture philanthropy is one of the best funding models for organizations pursuing social goals (Balbo et al 2010). Among impact investment types, venture philanthropy capital plays an important role in the establishment of social enterprise. It is especially important for testing business and developing a profitable business model at an early stage of undertaking in order to make an organization more attractive for non-philanthropy investors.

1.2.4. Social impact bond

Social impact bond is a multilateral inter-sectoral partnership (also referred to as private-public partnership) to ensure startup funding for social service organizations by private investors (instead of governments). This novel investment model aims at increasing the effectiveness of solutions to social problems. The model enables to test new solutions and if they prove successful, replaces services rendered by the government, thereby improving the quality of service and saving the state budget.

A typical model: the government enters into a contract with the intermediary (or a project sponsor) for the implementation of social/environmental project in exchange for promise to repay depending on social outcomes delivered. The intermediary raises capital for the project from commercial or/and philanthropy investors. Thereafter, the intermediary enters into agreement with a service provider for the

implementation of the project. If the project proves a failure, the government does not repay money to the investor and the investor loses its capital (in full or in part). If the project is successful, the government pays to the intermediary and the investor. Where the project is successful, the government repays the investment to the investor (the initial investment plus rate of return). The success of the model leads to increased amount of beneficiaries, reduced societal problem, profitable investment for the investor and increased capital of NPOs (Good Deed Foundation n/d).

This mechanism is also known as pay for success financing. In contrast to other private-public partnership models, in this particular case: a) funding is provided before rather than after the delivery of the outcome, b) implementers of funded projects report not on the output but the outcome (output vs outcome), g) as opposed to traditional bonds, social impact bonds aim at improving provision of services, not physical infrastructure (for example, services to homeless and inmates, child care, ecosystem conservation, et cetera) (UNDP n/d).

The first social impact bond project was implemented in the United Kingdom in 2010 with the aim to rehabilitate former prisoners and reduce the reoffending rate. The intermediary organization/sponsor, Social Finance, raised around 8 million USD from 17 investors who invested in prisoner reintegration program. The program was focused on meeting primary needs of prisoners and their families, before and after the prisoners' release, including providing healthcare, family assistance, training and employment as well as financial advice. According to the agreement, if this rehabilitation program reduced the rate of reoffending by 7.5%, the Secretary of State for Justice would recompense the investment plus the agreed rate of return (2.5% – 13%). The implementation of the program with the first group of prisoners resulted in the 8.4% decrease in the reoffending rate (Social Finance Limited 2014).

1.2.5. Social enterprise

Social enterprise is defined in Europe as an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. A social enterprise provides goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is distinguished by its transparent management and activity and involves all stakeholders (employees, consumers, beneficiaries) affected by its commercial activities.

1.2.6. Cooperative

As defined by the UN, **cooperative** is an "autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise" (International Labour Organization n/d). Cooperatives are often defined as businesses owned by beneficiaries, which are created for common objectives and around sectoral interests. To join a cooperative, aspiring members purchase shares or donate resources. Normally, cooperatives are run by the majority of shareholders. Cooperatives invest common resources and use returns to redistribute among members and add to the pool of resources for reinvesting. For their diversity (for example, agricultural, consumer, housing, financial service, social and other) cooperatives are recognized as a form of economic growth and sustainable development for people with limited resources, including vulnerable and marginal groups. Regardless of whether a cooperative pursues social aims, it differs from NPO primarily by a group of beneficiaries it targets. In contrast to NPOs, cooperatives acknowledge only their members as beneficiaries and pursue the aim to employ them, serve their needs and increase their income. European countries apply different approaches to financing and legal status of cooperatives when it concerns taxation and public benefit. In many European countries cooperatives may operate as social enterprises and be recognized as public benefit organizations (PBO), and thus be qualified for certain tax reliefs. There are also countries (for example, Slovakia) where organizations having a legal status of cooperative cannot be a public benefit oriented entity and cannot enjoy tax reliefs.

1.2.7. Community foundation

A community foundation is an instrument of civil society to establish an investment and grant making fund primarily dedicated to the social improvement of a given geographic place. The first community foundation was set up in 1914 in the USA. Today, the community foundation business model is increasingly applied throughout the world, including in Europe. According to 2010 data, there were around 2,000 community funds in the world, including 240 in Europe (Wings 2010). Community foundations pool their resources both from public and private donors, as well as philanthropic contributions from representatives of a given community. Nevertheless, a large amount of resources of community foundations come from business companies as donations which is twice as much as the total amount provided by natural persons, charities and governments.

Like many other mechanisms, community foundations need a favorable legal and fiscal environment to develop; the environment in European countries is reasonably favorable, according to the assessment of Wings (2010[4]). Families, individuals, businesses and nonprofit groups establish a foundation on the basis of institution and donate vari-

4 USA and Canada have a highly favorable environment for community foundations.

ous resources for charitable aims. In many European countries donors, upon meeting certain conditions, are eligible to tax reliefs.

An advantage of community foundation as a charity is that it utilizes material resources already available in the community for social benefit. A community foundation makes resources available to the community and controls them. A community foundation usually focuses on engaging citizens, networking within the community and using resources for a cause prioritized by the community. Cooperation of a donor with a community foundation is usually similar to the cooperation of a donor with any other beneficiary. However, community foundations take greater attempts to engage their donors in their activities and to encourage new modes of giving.

Individuals and organizations which establish foundations may recommend giving grant to an NPO in the name of the foundation or anonymously. Moreover, when investing the available money, a donor may choose an investment product.

Along with grant giving schemes, community foundations provide technical assistance, conduct fundraising for programs that communities need and desire, also, spearhead initiatives such as economic development and environmental conservation.

1.2.8. Self-financing

Normally, self-financing of CSOs primarily implies additional economic activities (rendering services, selling goods and services, renting, investing, et cetera) or entrepreneurship (social enterprise, social cooperative) (see relevant sections). Other forms of self-financing in Europe include membership fees (in case of association alone) and a mechanism of raising money on a massive scale, the so-called crowdfunding.

Crowdfunding means raising relatively modest capital from a large group of individuals (and corporations) for starting a new business or carrying out a social mission. This is actually an open call to gather resources such as money, funds, goods and volunteer time. While the basic idea of crowdfunding is not novel and monies have been gathered through actions and charity events, the technological advancement shifted the focus on the use of Internet platforms. According to information brief of the European Parliament, modern crowdfunding is a relatively younger form of financing in Europe and it basically developed between 2006 and 2009. A crowdfunding campaign help raise resources for both for-profit and NPO organizations, The European Parliament distinguishes for main types of crowdfunding: a) donation-based crowdfunding where contributors receive nothing in return (though depending on a project and jurisdiction, may enjoy tax relief); b) rewards-based crowdfunding where individuals receive goods or services in exchange of their

contribution); c) credit-based crowdfunding where contributors to a profit-oriented project receive profit; d) equity crowdfunding where contributors become shareholders in exchange for their contribution. The International Organization of Securities Commissions (IOSCO) refers to the first two categories as “crowd sponsoring” and the latter two as “crowd investing” (Delivorias 2017).

Along with apparent benefits of crowdfunding researchers speak about its drawbacks too, such as spread of financial risks among a larger number of people, a high cost of capital, a “herd mentality” capable of depriving potentially worthier projects of adequate funding, risks for investors from incompetence or fraud on the part of (potential) project owners, et cetera. They also note risks related to the lack or ambiguity of regulations in many countries.

In Europe, crowdfunding is concentrated in a few countries (the Great Britain, Belgium, France, Germany, Italy and the Netherlands); to reduce risks they introduced tailored domestic crowdfunding mechanisms in the form of guidelines in Germany, the Netherlands and Belgium and in the form of regulations in Italy, UK and France.

1.2.9. Volunteering

Volunteering is the principle of donating time and energy to other people and community, which (in contrast to financial reimbursement) is quite an important social responsibility and widely practiced in the EU. According to 2010 data, around 92%-94% adult population of the EU is engaged in volunteering (22%-23%). Voluntary engagement differs by member states depending on the tradition of volunteering and development of the sector. According to national surveys, the level of volunteering is very high in the Netherlands, Austria, Great Britain and Sweden (more than 40% of adult population), rather high in Germany, Estonia, Finland and Latvia (20%-29% of adult population), and relatively low in the rest of the EU (10%-19%) (GHK 2010). Moreover, the last decade saw an increase in volunteering in European countries (especially in new member states); researchers explain this upwards trend by improved public awareness of social and environmental needs, new and bolder state initiatives to promote volunteering, increased number of volunteer organizations and demand for volunteering.

Not many EU member states have national volunteering strategy. Even less have identified aims and relevant indicators. They also lack a common approach to legal framework. By regulatory environments, EU member states may be broken down into three categories: the countries that have a special regulatory framework for volunteering (e.g. Hungary, Poland, Romania, the Czech Republic, Italy); countries that lack special legislation but regulate volunteering by other effective laws (e.g. Estonia, Denmark, Austria, France, Germany, Slovakia); and countries that currently work on legal framework for volunteering (Bulgaria, Slovenia) (GHK 2010).

1.2.10. Corporate volunteering

Corporate volunteering which in the literature is described as “company volunteer programs” or “employee engagement,” refers to the use of a company’s human resources for non-profit purposes, which goes beyond the company’s core business. This relatively new instrument of the Corporate Citizenship (i.e. business with corporate social responsibility), includes on the one hand the employment of employees of a company in various projects of a non-profit nature and on the other hand the promotion of the already existing voluntary commitment of employees (Backhaus-Maul 2004). This model of corporate responsibility is used to develop corporate values and culture, to improve organizational development or train employees for personal development. Besides, companies gain marketing advantages as the reputation of the company increases both among employees and the society. Time donations and experience donations from executives and employees of companies can be very diverse. These may be single actions (e.g. social days) like painting classrooms or repairing playgrounds, which are mostly manual activities; professional assistance both short-term (e.g. providing legal advice, installing web program) and long-term (secondment to or mentoring at NPO organization) which means company manager or employee working pro bono.

2. STATE MECHANISMS OF INDIRECT STATE FUNDING

2.1. Percentage designation

The percentage designation is a special form of indirect state support. Under this mechanism, individual (and in some countries also corporate) taxpayers are given the right to decide how to use a certain percentage of their tax. Bearing in mind that in many European countries each citizen chooses her/himself the target of designation, the mechanism is viewed as a means of individual citizen giving, which is regulated by the state. The mechanism aims at: a) increasing the pool of resources available to nongovernmental sector[5], b) helping develop a philanthropic culture among taxpayers.

This mechanism is applied only in new member states. It was first introduced in Hungary in 1996. Later, Slovenia, Lithuania, Poland, Slovakia and Romania followed suit.[6] In the countries, save Poland, where percentage rate stands at 2%, it is allowed to designate 1% of the tax. In all the listed countries the mechanism can be used by natural persons alone; the exception is Slovakia which amended the law in 2004 to permit tax designations by corporations too (Brighidin 2013).

Under the commonly applied procedure, taxpayers, when filing their tax returns, write the names of organizations they want to assist in a special form. Anonymity of individual taxpayers is protected. Tax authorities transfer the amount after a beneficiary organization proves its entitlement. If taxpayers decide not to transfer the funds to one of these beneficiaries, the funds will go to the state budget and be used as prescribed in the state budget approved by the Parliament.

Skeptics among policy makers as well as NGOs and experts question the effectiveness of percentage mechanism. In their view, this mechanism: a) limits potential group of “donors” to only taxpayers, b) allows the donation of only fixed amount and excludes the increase of nongovernmental share (Hadzi-Miceva 2007). Other drawbacks that have been named include the role of marketing in promoting a company (e.g. a company that succeeds in conducting a better marketing campaign gains more popularity and hence, larger funding) (Bauer 2004); potential reduction of other donation types (taxpayers feel satisfaction/discharge themselves of further responsibility), et cetera. Despite the above challenges, this mechanism

5 In some cases, religious and other organizations too.

6 The concept of percentage mechanism was reviewed and analyzed in Bulgaria, Georgia, Estonia and Macedonia. However, after an in-depth assessment of its possible impact, it was not adopted (Brighidin 2013).

has proven to be a good resource for local and smaller NGOs, because it is easier for them to mobilize local support, although in terms of the actual amount of funds it has a bigger impact on the larger NGOs that advocate popular issues such as children's care or animal shelters. This mechanism also creates competition among organizations, thereby contributing to increased professionalism, better communication and improved image. For example, according to a survey conducted in Hungary, nongovernmental sector acknowledges that the introduction of 1% mechanism significantly affected the mode of their relationship and communication with their constituencies. The mechanism is also seen as the possibility for taxpayers to decide how a certain percentage of their tax money will be spent (decentralizing and de-politicizing the decision making process), as well as a possibility to raise awareness of the civil society importance and to send signals about urgent issues to the government (Hadzi-Miceva 2007).

2.2. Public benefit status

In European countries, the legal framework for NGOs and NPOs permits organizations to be created in various legal forms and to focus on any legitimate aim, including mutual benefit and public benefit. However, in most European countries, the state does not want to provide benefits to nongovernmental organizations. Instead, the state extends benefits to organizations based on their purposes and activities. By providing benefits, the state seeks to promote certain activities oriented on public benefit. Nongovernmental organizations that pursue such activities are often referred to as "charities" and "public benefit organizations."

The need to regulate public benefit is largely acknowledged in Europe, but there is no unique common approach.

Some European countries (e.g. Poland, Hungary, Bosnia, Romania, et cetera), legally define and confer the public benefit status on organizations (public benefit organizations, PBOs). In other countries (e.g. Germany, the Netherlands) this status is not legally recognized but tax legislation lists public benefit activities and defines fiscal privileges for organizations pursuing those activities (Moore et al 2008). There are different approaches too. For example, Estonia defines a status of tax benefit recipient while Slovakia applies percentage mechanism which reduces the tax base where donation is made in favor of NPOs that are on a government list.

Clearly, public benefit (as a status as well as a separate activity) is primarily an issue of fiscal regulation and to promote public benefit activity, the legal framework ties public benefit status/activity with preferential tax treatment or other forms of government support. In exchange for these benefits, PBOs are subjected to additional supervision to ensure that they use their assets for the public good.

Public benefit status (if any) can be conferred on NGOs either directly (within the scope of framework legislation or under separate public benefit legislation) or indirectly (through provisions in various laws that are equivalent of provisions in public benefit legislation). Neither a legal status of organization nor the nature of its economic activity is important for the public benefit nature and activity.

3. CASE STUDIES

Hungary

Civil sector

The civil sector of Hungary consists of classic NGOs (private foundations, associations, federations), nonprofit business companies (so-called nonprofit enterprises), advocacy groups (trade associations, professional organizations) and quasi-NGOs (NGOs established by the government). The latter mainly perform public responsibilities.

The number of nonprofit organizations registered in Hungary was 66,145 in 2009; 87% of them (57,546) were classic CSOs. According to the USAID 2016 sustainability index, the number of CSOs and their employees decreased between 2013 and 2015 (USAID 2017). Based on the data of Hungary's statistical office, there were 62,000 CSOs (including 54,000 of classic type) in 2015 (Statistical Reflections 2017).

Since 1993, Hungary has regularly conducted a statistical monitoring of the sector. That data showed a stable growth of operative organizations, real value of income and employees until 2008. Then, with the occurrence of economic crisis, the growth slowed down (except in employment). In 2012, all the three indicators declined and this downward trend continues to date (USAID 2017, Statistical Reflections 2017).

Status of CSOs

In Hungary, PBO status may be conferred on associations, foundations and nonprofit companies. PBO status was defined in Hungary's 1997 law on nonprofit organizations. *Public benefit* status meant a higher level of transparency and publication of annual reports (OSCE 2010). At that time, virtually any CSO could register and obtain certification for an indefinite time. In 2011, the law was amended to change indefinite certification into initial certification and tie it to public functions for a definite period of time (two-year fiscal term). According to 2011 Civil Code, a court is entitled to suspend the activity, or abolish, a CSO that fails to file mandatory annual financial reports (KSH 2017). Moreover, the same law requires from a grant making organization to find out whether a CSO is an NGO or PBO. Consequently, for practical purposes, a potential grantee must be a) an association, b) a foundation, or c) an NPO and, as noted above, these organizations may have a PBO status.

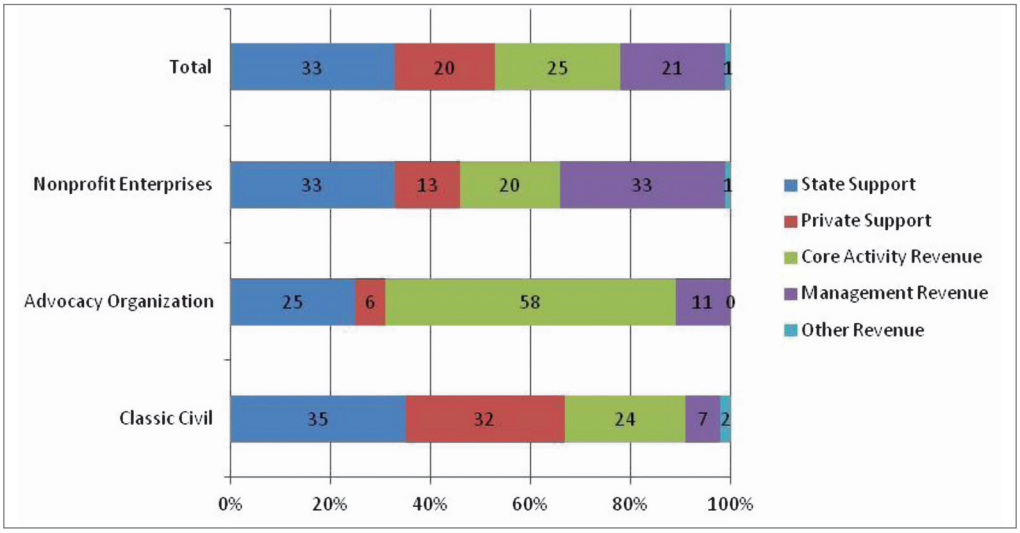
In 2013, some 55% of civil sector organizations had PBO status; by the end of 2015, this indicator fell to 20%.

Financial state

According to Statistical Reflections, in 2015, only 3.9% of CSOs did not perform any financial transaction. Some 91% of CSOs reported turnover, 1.5% reported revenues alone and 3.3% reported only expenditures. The total profit in 2015 made up more than 1,543 billion Hungarian forints (approximately 5 million euros), up by 4.9% as compared to the previous year. The number of organizations having revenues below 500,000 forints (approximately 1,500 euros) dropped from 41% (of total CSOs) to 39% compared to the previous year. Low income was more observable among classic NGOs (KSH 2017).

Hungarian CSOs traditionally receive revenues mainly from the state budget. For example, according to 2015 data, the share of state subsidies in the funding of the sector increased by 4.2%. Among other factors, this increase resulted from qualifying the donations for sports and cultural activities as state assistance (until 2015, such instances were qualified as private donations).

Overall, one third of civil sector revenues (33%) comes from state or municipal budgets. For example, 196 billion forints were allocated to 14,000 CSOs through grant applications in 2015 (KSH 2017). Around 40% of total revenues is generated from own mission-related activities (e.g. advocacy trainings) and auxiliary[7] activities (e.g. renting office space). A membership fee is of symbolic size and is not actually collected (except by trade unions). (See Figure 1: Distribution of NGO revenues, 2015).



(Figure 1) Distribution of NGO revenues, 2015 (Source: KSH 2017).

7 According to KSH, revenue management includes analysis which determines consumer behavior on a micro-market level and optimizes availability of product for maximizing revenue growth.

Economic activity

According to the Tax Code of Hungary, revenues of associations or foundations from economic activities are exempted from corporate income tax (profit tax). Economic activity includes: a) acceptance of donations, b) mission-related activities (including public benefit activities), g) placement of funds into deposits, securities or company shares, d) purchase, use or transfer of real estate property.

As a rule, Hungarian CSOs may engage in any economic activity that does not jeopardize the mission-related activity defined in the governing document of organization. Consequently, an organization may perform any income-generating activity (e.g. investment, trade, et cetera) to finance its own activity. CSOs may engage in economic activity either directly or indirectly, via the company that is established separately. A CSO is regarded as an organization engaged in economic activity if its income from a specific entrepreneurial activity comprises or exceeds 60% of total revenue of the organization. However, the Civil Code sets strict regulations to associations and foundations, which prohibit the establishment of association or foundation for economic (entrepreneurial) activities and allow them to engage only in those economic activities that help achieve organization's goals.

In addition, there is a tax-exempt threshold on income generated from economic activity. Associations, foundations, public foundations and state chambers without PBO status, are exempted from income tax so long as their income form entrepreneurial activities do not exceed 10 million Hungarian forints (approximately 33,000 euros) and 10% of the total income. In case of CSOs which have PBO status, the tax is exempted on 15% of total income of organization (El-Sadany2017). It should be noted that a PBO's income is not taxed if it is generated from public benefit activity provided under contracts with local government or other institutions, where such activities are envisaged in an annual state budget.

The above described differentiation does not apply to nonprofit enterprises and consequently, their economic activity is subject to taxation.

Every organization engaged in economic activity shall pay value added tax, i.e. VAT (the standard rate at 27% while on certain goods and services at 18% or 5%). Nonetheless, there is a list of "public interest activities" which are VAT-exempt if they are provided by public service providers (e.g. budget organizations, associations, civil groups, alliances, chambers, national sports federations, public funds, churches, nonprofit organizations, et cetera) that have obtained PBO status or perform activities within the framework of a social security (or other areas envisaged in the budget) for the benefit of beneficiaries. Furthermore, organizations may be considered as public service providers if they meet the following conditions: 1)

organization is not exclusively profit-oriented, uses its profits to maintain and extend their public benefit activities; 2) executive officers of organizations (including boards of directors) are volunteers; 3) they charge prices for the supply of goods and services in compliance with Act on Price Control Regulations or prices are lower than the market prices on same goods and services. VAT-exempt services include, aong others: healthcare, social services, public education, child and youth protection, day care, psychological assistance, folk art as well as sports-related services.

Property (assets) purchased by PBOs is also exempt from VAT if it is used exclusively for humanitarian, educational and charitable activities causes the EU.

Factors affecting giving

Organizations enjoy certain benefits for charitable donations. Namely, donation to NGOs with PBO status reduces the tax base in the amount of: 1) 20% of the donation if it is given to public benefit activity or PBO; 2) 40% of the donation if it is given on the basis of a long-term contract on PBO assistance;[8] 3) 50% if the donation is made in favor of Hungarian Relief Fund, National Cultural Fund or Damage Mitigation Fund; 4) 50% if the donation is made in favor of higher educational institution, within the framework of grant agreement. To seek benefit, a company must have a relevant tax certificate issued by a beneficiary organization. PBO's donation for public benefit activity is also VAT exempt if the donor has a corresponding certificate from the beneficiary.

Charitable donations by natural persons do not result in extending any tax benefits to natural persons. Traditional fundraising mechanisms are not regulated though the data on them is strictly protected. There are also technical barriers to individual giving, including, among others, the absence of private bank cheques (which is widely practiced in Western Europe). It should be noted that more than 50% of donations made via SMS is used to cover taxes, mobile operator service fees, et cetera.

The *percentage mechanism* is practiced in Hungary, enabling individual taxpayers to designate 1% of their income tax to a specific NGO and another 1% to another institution.[9] Hungary was the first country to introduce the percentage mechanism in 1996, defining it in the Act on the Use of a Specified Portion of Personal Income Tax According to the Designation of the Taxpayer. Two main reasons behind the

8 For example, monetary contribution given on the basis of agreement between a PBO and a donor, according to which the donor shall provide assistance in a current year and provide, at least, once a year, the same or larger amount for, at least, following three years unconditionally.

9 List of potential beneficiaries of 1% includes church and public institutions. Moreover, budget priority objectives are put annually on the list.

introduction of the mechanism were: a) support of Hungarian NGOs from foreign donors was the lowest among Central and Eastern European Countries; b) state funding of NGO sector was overly political in nature (Hadzi-Miceva 2007).

Practice of giving and social innovations

International donors

In contrast to many regional countries, international donors did not establish their representative offices in Hungary. Instead, they chose existing foundations or established Hungarian foundations for re-granting their funds. In 1990s there were 10 such foundations in Hungary, about half of which either closed down or minimized grant-making programs after original donors left the region. Such foundations were mostly used for social innovations, piloting and introducing innovative services, assisting segmented beneficiary groups and building capacity and improving professionalism of civil sector (OSCE 2010). The amount of donations of such private foundations never exceeded 7% of the total revenue of NGO sector. Although these donations helped the nongovernmental sector develop their capacity and establish partnerships with the government and the private sector, current lack of such funding, in researchers' opinion, creates problems in launching startups and providing services (OSCE 2010).

International charity organization NESst continues to operate in Hungary to date; it supports the development of social enterprises through providing grants (also capital investments, credits, grant assistance, technical assistance and advice).

Hungarian civil sector also has access, though with some difficulties, to EEA/NORWAY grants.

Corporate giving and contributions

The past few years have seen a slow but gradual increase in local private grant-making foundations and community foundations in Hungary. Foundations established by individual philanthropists are more focused on modern art and poor children than NGOs; community foundations (the total of five foundations, according to 2017 data) are still encouraged by international donors. Nonetheless, according to 2009 data of the statistical office, the corporate support to the civil sector has increased by 20% since 2007; particularly, the corporate giving made up 52,5 billion forints (more than 187 million euros) and benefitted around 19% of NGOs (12,447 CSO). Moreover, according to 2009 data, local foundations provided 2.1% (23,5 billion forints, which is approximately 84 million euros) of total revenue of the sector, which benefitted more than 26% of NGOs (17,397 NGOs).

The state system of Hungary provides incentives for a long-term support of CSOs, however, the corporate giving mainly targets PR and branding. Nevertheless, one can see best practices of corporate social responsibility such as MagNet Bank Ltd (decentralized decision making) where clients choose themselves which specific organization to finance with 10% of the Bank's annual profit (OSCE 2010).

Overall, according to assessments, the ***social finance*** market in Hungary is very small with just a few impact investors (Jaska 2011). According to DemNet Foundation, a large segment of classical CSOs is focused on project-based grant financing. Most CSOs take short-term (bridge) loans (from so-called savings cooperatives) to secure cash-flow in between grant installments. Consequently, the market for smaller scale capital investments is literally absent (DemNet Foundation n/d). There are three key players in social (outcome-oriented) investment - NESsT, MagNet Bank Ltd., and Microcredit Ltd. Some private funding is available for Hungarian social enterprises. International banks such as Citibank, Raiffeisen and Erste, private equity organizations Hungarian Private Equity, and Venture Capital Association, as well as EEA/Norway NGO Fund provide support to small social economy projects.

According to experts, corporate social responsibility and other mechanisms of social innovations are largely self-regulated in Hungary and mainly linked to the image of corporation. Therefore, experts believe that the rate of corporate giving should be accelerated through raising consumer awareness, which, in turn, will encourage companies to implement responsible activities.

Individual giving and contributions

According to data for 2007-2015 years, about 35% of individual taxpayers apply the percentage mechanism in Hungary. Although the share of income from this mechanism is less than 1% of total civil sector revenue, almost 39% of the sector benefits from this income.

Over the period between 2007 and 2010, revenues of civil sector from individual donations made up, on average, 20.2 billion forints (72.4 million euros) a year, which benefitted more than 13% of NGOs and was six or seven times as many as the income received through the percentage mechanism. Besides, crowdsourcing through Adhat.hu website has been gaining in popularity in the past few years. In 2016, within the frame of a campaign against anti-refugee policy of the government, more than 100,000 USD was collected through this website.

POLAND

Civil sector

According to 2016 statistics, more than 20,000 foundations and 106,000 associations (excluding some 16,000 volunteer fire brigades mainly operating in rural areas) are registered in Poland (Central Statistical Office of Poland, Local Data Bank (BDL) 2017). One fourth of registered organization do not operate; hence, around 90,000 CSOs currently function in the country (USAID 2017, EU-Russia CSF 2016).

According to Klon/Jawor Association survey (Adamiak et al. 2016 cited in EU-Russia CSF 2016, USAID 2017), 45% of CSOs do not have paid staff and solely rely on volunteer work. Around 35% of associations and foundations have only one or two permanent employees (working at least once a week). From a group of CSOs which employ permanent paid staff, a larger number of organizations (20% of all CSOs) employ at least one person on a contractual basis. Some 20% of organizations of total CSOs have permanent paid staff, though at least one employee in these organizations is hired based on a contract. Around 20% of those organizations (which do not have a single permanent employee) hire employees several times a year. The use of volunteer work has become an increasingly stable practice: in 2015, as many as 61% of CSOs benefitted from volunteers. In the past few years, approximately 20% of adult Poles said they engaged “in volunteer and nonpaid work on behalf of their local community, neighbors, village, city or people that need help” in the past 12 months (Adamiak et al. 2016 cited in EU-Russia CSF 2016, USAID 2017). According to the survey, 19%-20% of respondents said they had engaged “in non-paid work for social organizations or informal groups.”

Status of CSOs

The activity of Polish CSOs is mainly regulated by the Constitution of the Republic of Poland adopted in 1997. Nevertheless, subsidiary legislation such as the Law on Public Benefit Activity and Voluntary Work, the Law on Foundations, the Law on Associations, and others largely influence the activity of the sector.

The Law on Associations defines two types of associations: *regular* and *registered associations*. Regular associations are small entities established by a minimum of three people; the founders have to make rules for the association’s activity and submit a request to include the new entity into a register of associations. Since May 2016 regular associations are allowed to finance their activities not only from membership fees but also from external grants (including from public institutions). They cannot perform economic activity, however.

Registered associations are required to be composed of at least seven members and to register in a special court. They are rather formalized with statutory organs, a professional accounting system, legal identity and along with participating in public and private grant programs, the right to conduct economic activity.

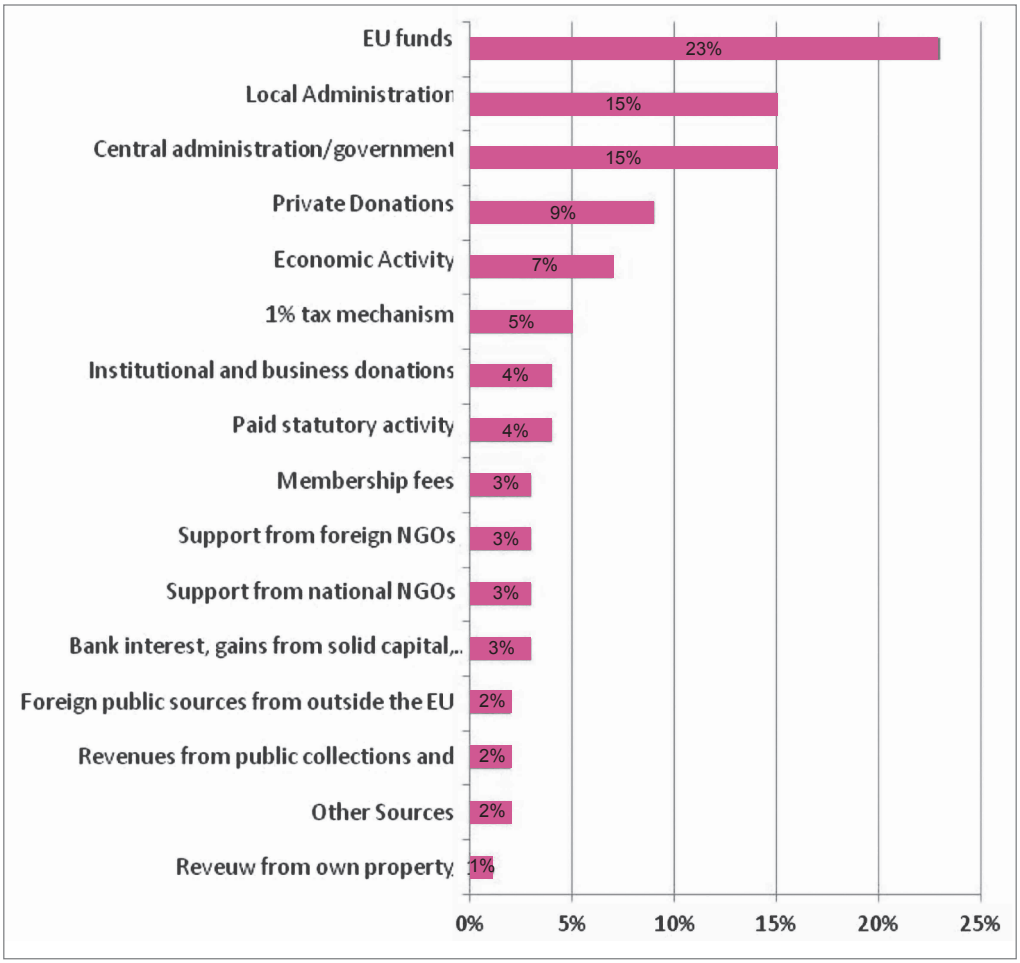
The Law on Foundations, which was adopted in 1984, regulates the modes of operation of foundations, related to raising a specified amount of money to pursue a socially or economically useful aims. Much like registered associations, foundations also operate in formalized manner. Foundations have the right to give grants as well as carry out operational activities, though the majority of Polish CSOs are of operational nature, turning them into rivals to associations. Companies (Ltd and joins stock companies) are also allowed to perform nonprofit activities if such activities are specified in their governing documents. In contrast to companies, partner companies cannot be recognized as nonprofit organizations under the law.

All the above mentioned NGOs may simultaneously obtain the PBO status and enjoy certain tax benefits. Since the PBO status is the only legal form recognized by the tax system and related to charity, this status subjects organizations to the control of local and central administration. A PBO shall channel the entire profit towards public benefit activity. Moreover, any activity (including volunteer work) cannot qualify as public benefit activity if the reimbursement of an employee performing it is three times as high as an average salary of business sector employee (as published by the central statistics office with regard to the previous calendar year) (El-Sadani 2017).

As of March 2017, there were 8,700 Polish CSOs with PBO status (Ministry of Family, Labor, and Social Policy n/d).

Financial state

According to 2016 data, the financing of Polish civil sector comes from a wide range of sources. In particular, 60% of organizations use membership fees, 55% use local administration funds, 45% - private donations, 35% - institutional and business donations, 23% use 1% tax mechanism, 18% - central administration/government and 18% - European Union assistance, et cetera (Klon/Jawor Association 2016). Moreover, the EU assistance and the state funding comprise the largest share of the total income received from various sources by the sector (See, Figure 2).



(Figure 2). Distribution of revenues collected by the Polish NGOs, 2016 (Source: Klon/Jawor Association 2016).

Economic activity

The Tax Code of Poland exempts PBOs from corporate (profit) tax (as well as real estate tax, stamp duty, civil actions tax and court fees) on all income directly related to objectives specified in the governing document.

Associations and foundations who do not/cannot obtain PBO status, are also exempt from corporate taxes if the activities specified in their governing documents relate to fields such as science, education, culture, sports, environmental protection, support of technical infrastructure in rural areas, healthcare, social service and charity as well as religion.

If nonprofit organization is not qualified as association, foundation or PBO or does not operate in any of the abovementioned fields, it shall pay corporate income tax, including on the income received in the form of grants. Consequently, the taxation of grants depends on what they are spent for. Profit tax is not levied on investments in securities, stocks and other financial instruments made by foundations, when investing is carried out by professional investment companies and the obtained profit is used for public benefit activity.

Associations as well as foundations and PBOs have the right to engage in economic activities if such activities are specified in their governing documents; if they are not, foundations established for the protection of environment cannot sell books on this topic or set a fee for a workshop on this issue, or enter into a contract with the government on cleaning up the environment. In both cases, before starting an economic activity, the organization must be registered in the business registry. In theory, an association can be established with a primary goal of performing economic activity, though excessive economic activity makes it impossible for such association to obtain the PBO status (Majdańska 2011, El-Sadani 2017). Profits from economic activity must be used for attaining the organization's objectives.

The Polish legislation also defines payable public benefit activities which are not regarded as economic activities in case of foundations and associations (regardless of PBO status) if such activities are defined in governing documents of organizations. Public benefit activities carried out in exchange for a certain payment may include, for example, the sale of such goods and services that are produced or provided by beneficiaries themselves (e.g. goods produced by persons with disabilities) or sale of goods donated for the benefit of people. Proceeds from payable public benefit activities must be used exclusively for public activity.

Payable public benefit activity is an economic activity if: a) the fee charged for the activity exceeds the costs of providing it, or b) the average monthly salary of a person employed to carry out payable public benefit activity is three times as high as the average salary of private sector employee (as published by the central statistics office with regard to the previous calendar year) (El-Sadani 2017).

Payable public benefit activities are subject to VAT. In general, VAT exemption does not extend to any specific natural person or organization. Nevertheless, certain goods or services (e.g. research and development services, services in the fields of education, healthcare or social provision as well as services rendered by membership-based organizations) are exempted from VAT.

According to the 2016 data of Klon/Jawor Association, approximately 11% of Polish civil sector is engaged in economic activities (sale of products or services). More than half of CSOs charge for their services using the proceeds therefrom

for the activities specified in their governing documents (Klon / Jawor Association n/d, www.ngo.pl n/d). The number of such organizations has increased since 2012 (USAID 2012).

In 2008, social enterprises comprised 5.9% of Poland's employment market[10] (www.ekonomiaspoleczna.pl 2012). The sector consists of wide range of institutions some of which evolved from traditional nongovernmental sector while others are more associated with private sector. At present, approximately 16,000 cooperatives operate in various areas (settlement, healthcare, consumer services, et cetera) in Poland. There are also more than 60 social integration centers (CIS) which employ people from marginalized groups (especially long-term unemployed and homeless people as well as former prisoners). People with physical and mental disabilities are employed in around 60 vocational education centers (ZAZ).

Factors affecting giving

The Polish legislation does not define donation, however the Tax Code grants certain tax benefits to individual as well as corporate donors. In both cases it is possible to reduce the tax base if a recipient company carries out a public benefit activity (defined by the law), regardless of whether it has a PBO status of not.[11] The tax base reduces by 6% for a natural person, and by 10% for a corporation. Recipient organization shall make the information about donation public, including the identity of donor, when the donation exceeds 15,000 Polish zloty (approximately 3,500 euros) or when the total donation during a year exceeds 35,000 zloty (approximately 8,000 euros). Moreover, entrepreneurs may qualify for tax reduction on those expenses which are related to the production or purchase of food products donated to a PBO (for charitable aims of the recipient organization).

Grants are normally VAT exempt provided that they are given for the implementation of nonprofit organization's mission. At the same time, a non-monetary donation by a VAT payer organizations is subject to VAT (exceptions are certain food and products, including those provided by a producer).

The percentage mechanism is applied in Poland since 2003. Consequently, individual taxpayers in Poland has a possibility to give 1% of their income in a fiscal year to a specific CSO.

10 Corresponding indicators in France stand at 8.3%, in the Netherlands at 9.5% and in Ireland at 9% (www.ekonomiaspoleczna.pl 2012).

11 Tax reduction does not apply to donations to natural persons. Also, exceptions include producers and sellers of alcoholic beverages, fuel, tobacco products, electronic equipment and precious metals.

Practice of giving and social innovations

International donors

Alike in other post-Soviet countries, the development of Polish civil sector was supported by international donors. It should be noted too that while in 1990s this support came from the USA, but it sharply declined along with Poland's integration into the EU. With the EU memebrship, the Polish civil sector got access to EU structural funds and development programs (including EEA/Norway Grants) for the development of labor market, human resources, science, culture and other areas (Gasior-Niemiec & Glinski 2006).

Corporate giving and contributions

More than 100 private funds operate in Poland, with the majority of them been established by large corporations. Most of the foundations focus on supporting vulnerable people, as well as on healthcare and education. Some 75% of these foundations give grants to CSOs and other institutions (USAID 2017).

Twenty-six community foundations (with the status of foundation or associations) function in Poland. They mainly work in rural areas and are on various stages of their development. The first community fund, the Academy for the Development of Philanthropy in Poland, was established in 1998 with the support from USAID; its main goal was the cooperation with civic sector, local authorities and private sector (www.ffl.org.pl 2011). Later, a portion of EU structural funds was earmarked for inter-sectoral cooperation and encouraged the development of community foundations (www.ekonomiaspoleczna.pl). Today, the Academy itself encourages the establishment of other community foundations for the support of youth, elderly, persons with disabilities (PWDs), local communities and other groups. Revenues of the organization come from natural persons (charity actions, 1% tax mechanism, commemoration funds) as well as from local and national companies (donations, commemoration funds, corporate grant programs), local government (open grant programs for community foundations), other civil organizations (e.g. grant and scholarship programs of the Academy and Stefan Batory Foundation), government programs and EU foundations. Contributions to several community foundations reach almost 1 million zloty (approximately 238,000 euros). The total contribution of community foundations makes up 6 million zloty (approximately 2,425,000 euros). Grants and scholarships given by these organizations annually exceeds 1.5 million zloty (approximately 500,000 euros).

According to Klon/Jawor Association survey (USAID 2017), interaction between the civil sector and business notably increased between 2013 and 2015. Some 45% of CSOs said that they maintain regular contacts with business. Inter-sectoral

cooperation has also strengthened within the scope of corporate social responsibility (CSR). According to the Ministry of Economy of Poland (National Reform Program 2017), the dynamic development of CSR in Poland has been influenced by the inflow of significant foreign investments to the country. Also, in 2009, the Warsaw Stock Exchange launched the first ever index of socially responsible companies for local businesses.[12]

Organizations such as European Venture Capital Association, Polish organization Valores and others support the development of venture philanthropy. One of success stories of venture philanthropy in Poland is the Siedlisko CSO which runs shelter for elderly people to provide round-the-clock care to elderly suffering from chronic diseases. With the help of venture capital, the organization launched a catering and laundry businesses which employs youth from high risk group and long-term unemployed people and renders service to local companies.

Individual giving and contributions

According to 2015 World Giving Index, 29% of respondents in Poland said they had made charity donations. This indicator was 8% higher on the corresponding indicator in 2014 (USAID 2017). Moreover, in 2014, as many as 12.5 million individuals channeled 557 million zloty (approximately 129.5 million euros) into 8,001 organizations through the 1% tax mechanism. This amount exceeded the sum allocated in the previous fiscal year by 50 million zloty (USAID 2017, USAID 2015).

The majority of associations (60%) collects membership fees, though this amount is very small and does not have any significant effect on the revenues of organizations. By 2014 data, membership fees comprised 3% of total revenue of the sector.

Experts note an increasing popularity of crowdsourcing via Internet platforms. For example, in 2016, the organization Helsinki Foundation for Human Rights collected money for the publication of a guidebook for the protection of whistleblowers. To cover own costs, CSOs have been increasingly applying fundraising too. According to Klon/Jawor Association (Adamiak et al. 2016, cited in USAID 2017), it was used by 11% of the organizations (this indicator trebled within three years). Donations received through fundraising make up around 4% of the total revenue of the sector (Adamiak et al. 2016, cited in USAID 2017). For example, the organization Citizens Network Watchdog Poland raised 13,625 euros in 2015 and 57,500 euros in 2016. Moreover, in 2015-2016, there was an increase in the number of regular donors (from 14 to 100) of organizations as well as revenues from the 1% tax mechanism (from 5,750 euro to 37,500 euro) (Siec Obywatelska Watchdog n/d).

12 To promote the issue in accordance with the EU standard, a group was set up on CSR issues at the Office of Prime Minister.

Slovakia

Civil sector

According to 2016 data of the Ministry of Internal Affairs of Slovakia, 48,079 CSOs are registered in Slovakia. This indicator exceeds the data of the previous year by 3,000. They include 45,310 CSOs, 465 foundations, 536 non-investment funds, 1,647 NPOs providing public benefit service and 121 organizations having international component.

Only a small segment of CSO employees work full time or on a contractual basis. Many people working in the sector are engaged in the activities of organizations as persons registered in the *trade registry*, which means that they are consultants (regardless of held positions and job descriptions which may also include managerial functions). Organizations hire accountants, IT administrators and graphic designers for small remuneration, though such activities are mainly pro bono. According to 2016 World Giving Index, 11% of respondents in Slovakia said that they worked as volunteers (USAID 2017).

Status of CSOs

According to the Law on Associations, an association (združenie) is a membership-based organization created by citizens to pursue common goals. Three citizens are required to found an association and the association's membership may include legal entities. The law allows associations to engage in public benefit activities as well as benefit activities for association members. However, associations are prohibited to take on government or public administration functions.[13]

In Slovakia, a *foundation* (nadácia) is an assets-based organization pursuing one or more public benefit objectives. A foundation established by any legal or natural person must maintain an endowment of at least 6,638 euros, and founders must contribute a minimum of 663 euros to the endowment. The required minimum endowment and minimum endowed contributions must be in the form of monetary funds or real estate. The share of the endowment in excess of 6,638 euros (if any) may be in any other form that can be assigned a monetary value. The property forming the endowment cannot be donated, transferred to a business company, used as a bank guaranty or security of other persons' property. A foundation may also create a trust fund (nadačný fond) for specific beneficiaries (with collected or contributed monetary resources) for a support period.

13 According to the Slovak legislation, the Law on Associations does not apply to political parties and movements; churches and religious organizations; commercial associations and companies established for the purposes of generating profit, also trade unions.

A *non-investment fund* (neinvestičný fond) accumulates assets for publicly beneficial purposes or humanitarian assistance. A governing document of such fund must indicate the types of persons who are eligible to receive benefits from the fund or the geographic region in which benefits will be distributed. Any legal or natural person may establish a non-investment fund with a minimum founder's contribution of at least 66 euros.

According to the Slovak law, an NPO (nezisková organizácia) is a special form of NGO that may be established by legal or natural persons or legal entities as well as a government agency to provide public benefit services. NPOs may not use any profit generated to benefit their founders, members, employees or governing bodies. This type of organization doed not have members.

Legislation does not require from associations to engage, in any form, in public benefit activities whereas public benefit purpose is defined as the goal of establishing foundations, non-investment funds and NPOs.

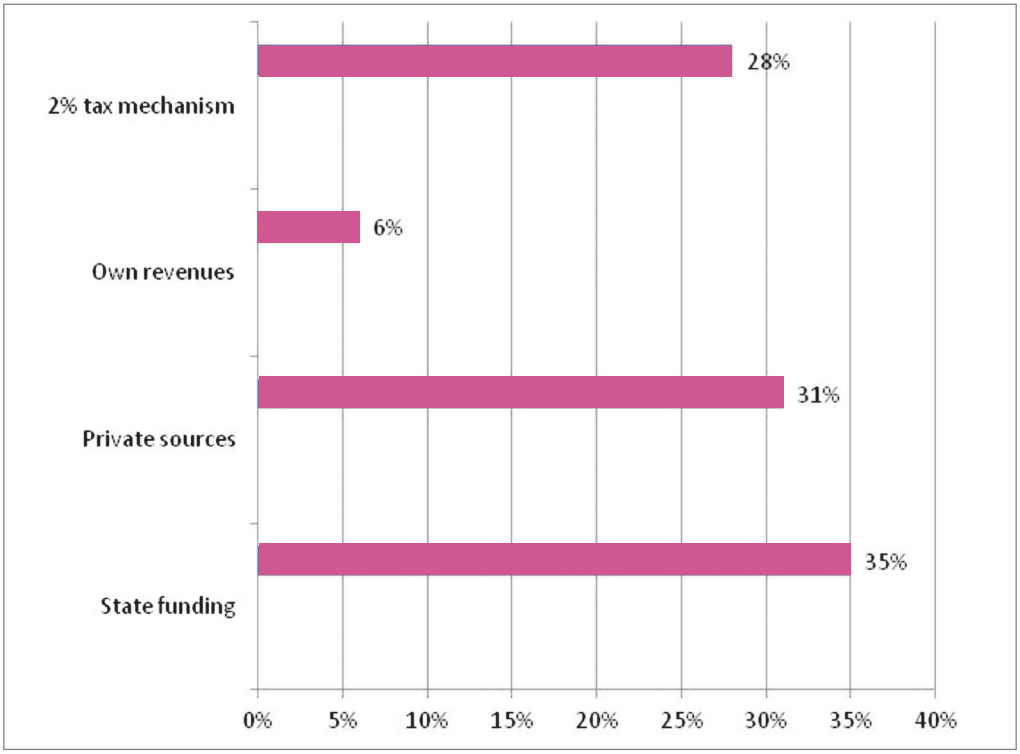
Normally, NGOs cannot be established for economic activities, however, they may engage in such activities to support the objectives defined in their governing documents (with some limitations depending on a legal form).

Foundations, non-investment funds and NPOs providing public services shall submit annual reports to the government. Moreover, public entities are entitled to audit CSOs to examine the spending of income received through 2% tax mechanism and other means (USAID 2017).

Financial state

According to the study "State of Affairs, Trends, Needs and Possibilities for Development of Civil Society in Slovakia", which was conducted by organizations Institute for Public Affairs, Center for Philanthropy, and Partners for Democratic Change Slovakia (PDCS) in 2016, the civil sector of Slovakia gets funding from public and private sources in somewhat equal amounts, also from its own economic activities and membership fees (See, Figure 3). Since 1996, earned income have comprised a substantial share of civil sector revenues (Woleková et al. 2000 cited in Vandor et al 2016). Although the share of such income has been decreasing, its amount in absolute terms remains actually unchanged. Commercialization of the sector is not carried out on a large scale (Svidroňová et al 2016). Public funding has been increasing; for example, in 2012 it stood at 226 million euros. The percentage mechanism is applied by more than 1 million taxpayers, which made up, for example in 2012, 46.7 million euros. Donations and private contributions also play a significant role. According to 2013 data, the total revenue of the civil sector in the form of donations and contributions

made up 201 million euros (95 million from natural persons, 63 million from corporations and 43 million from abroad) (Statistical Office of the Slovak Republic cited in Vandor et al 2016).



(Figure 3) Slovakia: Distribution of NGO revenues, 2013 (Source: Statistical Office of the Slovak Republic).

Economic activity

Associations, foundations, non-investment funds, NPOs and NGOs in Slovakia are exempt from taxation on income from their statutory activities (El-Sadani 2017).

Profit from economic activities of NGOs are taxed (alike normal business) at the rate of 22%. Also, any private property transfer is taxed at 3% of the property value.

As noted above, the sector did not undergo any substantial commercialization in Slovakia. The number of cooperatives remains stable at around 1,500. Social entrepreneurship is largely conditioned by financing instruments offered by the state (through European funding). According to official data of 2008, some 96 social enterprises (half of which are Ltd. and another half – CSOs) are registered under the employment service law for the employment of long-term unemployed and other

labor integration processes (Vandor et al 2016). The law provides strict terms for such activities (percentage of employees, qualified as vulnerable job seekers) and also a requirement to reinvest 30% of revenues from economic activities.

Factors affecting giving

According to Slovakia's legislation, an NGO's income from donations and inheritance is exempt from tax. This includes the income generated from natural and legal persons through percentage mechanism which is at 2% in Slovakia (See below). Moreover, voluntary membership fees paid by members of associations (in an amount not exceeding 5% of the tax base or 66,388 euros, whichever is lower) are recognized as deductible expenditures.

In Slovakia CSOs do not have indirect tax benefits for charity giving or contributions, as they were abolished upon the introduction of 2% tax mechanism. However, the Income Tax Law of Slovakia provides deductions to natural and legal persons for donations to NGOs. The special procedure allows every natural person to allocate part of his/her paid income tax directly to one NGO and allows a legal person to allocate it to more than one NGO. For natural persons, the allocation to an NGO is allowed up to 2% of the paid tax, but it may be increased to 3% if a natural person can prove that he/she has been involved in voluntary work for more than 40 hours during the tax period. According to 2013 data, the 3% tax mechanism was applied by 5,000 natural persons.[14] A legal person can allocate 1.5% of its paid tax for donation. However, this share may be increased up to 2%, if a legal person can prove that it donated to NGOs an amount equal to or more than 0.5% of its paid tax to NGOs during the tax period.

The list of potential recipients include associations, foundations, non-investment funds, NPOs, churches or church-run organizations, the Slovak Red Cross, research and development organizations, or the Slovak Training and Education Development Fund. The beneficiaries of these allocated funds and donations are required to spend the money for the following purposes: a) health care (specifically prevention and rehabilitation of drug-addicted persons); b) the development of physical culture; c) the provision of social services; d) the preservation of cultural values; e) education; f) the protection of human rights; g) the protection of the environment; h) the support of science and research; and i) the organization or mediation of voluntary activities. The NGOs that are allowed to receive donations must appear on a public list available on the Internet, and submit to the financial office the documents on the fulfillment of all of their financial obligations.

14 When the mechanism was introduced (in 2002) the percentage of allocation was set at 1% and the mechanism applied to natural persons alone; in 2003, the percentage increased to 2%. Since 2004, the mechanism has extended to legal persons too. According to 2016 data, more than 1 million taxpayers used the mechanism (Blaščák 2016).

The standard VAT rate is set at 21% in Slovakia. An NGO, like any other legal entity, is required to register as a VAT taxpayer if its gross turnover for the past twelve calendar months exceeds 49,790 euros. Legal entities that do not meet this threshold apply to the Finance Administration, if they wish so, and enter the VAT system to recover input VAT (El-Sadani 2017). At the same time, a reduced VAT rate of 10% is set for specified goods. Provision of services provided free of charge for a voluntary activity is VAT exempt. Moreover, there is a broad range of services that are VAT-exempt, including health and social assistance services, educational services, also services provided to members of associations, political parties, trade unions, and professional chambers as compensation for paid membership fees, et cetera.

Practice of giving and social innovations

International donors

Over the period between 1990 and 2000, foreign donors played an important role in the development of civil society in Slovakia. Donors not only financed the sector but also helped them access other European initiatives. With the accession to the EU, the role of foreign donors decreased. As private funds left the country, the importance of various EU funds increased. Nevertheless, Slovakia's civil sector considers the assistance of EU funds (including structural funds) overly bureaucratic and accessible only for large organizations (Vandor et al 2016). According to USAID study (2017) the civil sector of Slovakia has a limited access to EU structural funds due to administrative barriers set up by the state.

EEA/Norway financial mechanism operated in the past few years, with the civil sector of Slovakia having received 7.4 million euros through it. This mechanism ended in 2015. Bearing in mind bureaucratic procedures, a new round is expected to begin at the end of 2017.

Corporate giving and contributions

In experts' assessment, in the number of *corporate foundations*[15] has notably increased in Slovakia. They largely attribute this dynamism to the percentage mechanism introduced in 2002, which encouraged not only the growth of foundations but also the enhancement of grant activity. Twenty-three corporate foundations were established over the period between 1990 and 2001 while from 2002 to 2007, their number increased to 81. The absolute majority of the foundations was dependent on subsidies of founding corporations (Strečanský 2015, cited in Vandor et al 2016).

15 "Corporate foundation" is not a technical-legal term and is not defined in the legislation of Slovakia. For their names, the majority of Slovakia's corporate foundations uses names of founding corporations.

Grant making independent foundations such as Ekopolis Foundation, Pontis Foundation, Children of Slovakia Foundation, Carpathian Foundation and others try to create a base of resources from various (mainly corporate) sources. These foundations are more accessible for small public organizations. For example, in 2016, within the framework of You Decide and We Help programs, the Tesco Foundation funded 27 community programs. Also, VUB Foundation announced a community grant program "EUR 80,000 for the Community where It Lives" (USAID 2017). In 2014-2015, the corporate allocations to the civil sector comprised 300 million euros.

According to 2015 data, there were 429 foundations, including 11 *community foundations*, registered in the register of foundations. Volunteers comprise the main workforce of community foundations (75%-100%). Community foundations apply marketing instruments to communicate with local population. The main source of funding is the percentage mechanism and the revenues raised through it comprise 25%-29% of the total income of community foundations. Other sources of funding include municipal budgets, donations from natural and legal persons, grants from funds and subsidies from government. Some community foundations also generate income from their equities. Administrative costs of community foundations, normally, comprise 1%-20% of total costs (Poliak 2015). In experts' view, foundations such as Banska Bystrica, Trenčín, Nitra, Bardejov, Pezinok, Liptov and Sabinov play important role in communities where they operate as local philanthropy centers and flexible financiers of local civic activism (Vandor et al 2016).

According to the Finance Ministry of Slovakia (USAID 2017), in 2016, companies designated 59.4 million euros in tax allocations to the civil sector. A corresponding indicator stood at 52.2 million euros in 2014 and at 56.9 million in 2015.

The first venture philanthropy in Slovakia was launched in 2010, when the organization Pontis Foundation, with several partners (the Pro Vida Foundation, the Slovak arm of IT company Dell, financial advisory firm ProRate) decided to address the problem of the high number of children in orphanages in Slovakia. The aim of venture philanthropy fund, established by the partners, is to prevent institutionalization of children and find families for children from orphanages. The venture organization acts through the civil organization Návrat in which monetary means as well as employee time and technical assistance have been invested (Liptakova 2010, 2015). According to Spectator, many corporations such as IT companies, banks, trade networks and telephone operators are currently engaged in venture philanthropy in the areas of education, environmental protection, climate change, support to PWDs and other sectors (The Slovak Spectator n/d).

Individual giving and contributions

In experts' opinion, private giving has significantly grown in Slovakia. Sums collected through various public companies and new private initiatives have been incerasing (Svidroňová, Merickova, Nemec 2016). Crowdsourcing platforms also grow in their number (e.g. public benefit platforms: Dobrakrajina.sk, Dakujeme.sk, Ludialudom.sk and startlab.sk, or the platform of creative activities marmelada.sk). According to 2016 World Giving Platform, 23% of respondents in Slovakia said that they made charity donation in 2015.

As studies show, large and small companies more inetnsively use volunteering and corporate volunteering mechanisms (USAID 2017). For example, Pontis Foundation implements corporate volunteering event Our City, the biggest not only in Slovakia but also in Central Europe. Volunteers for this event participate in various projects across the country to tidy up their cities. In 2016, more than 10,000 volunteers, half of which were corporate volunteers, participated in this event (USAID 2017).

Estonia

Civil sector

According to December 2016 data, the number of registered CSOs in Estonia is 33,763 (31,974 associations and 789 foundations) (USAID 2017). The Estonian legislation also allows the third form of CSOs - civil law partnership which is an informal, unregistered group. In some cases, these organizations are eligible for some small project grants. More than 15,000 of the registered CSOs operate intensively and publish annual reports (Prezi n/d). One third of associations are partnerships while the remaining two third are recognized as *tax incentive beneficiaries*[16] and included in a relevant government list.

A large number of organizations is a characteristic trait of Estonia's nonprofit sector. Organizations have few members and limited finances (ICLN 2008). Approximately 28,000 persons (i.e. 4%-5% of Estonia's workforce) are employed in nonprofit sector; an average salary in the sector is 414 euros (2013) (Hea Kodanik n/d). Only 21% of organizations has hired staff (USAID 2017) whereas the majority of organizations mainly use volunteer work.[17] Nevertheless, Estonia's nonprofit sector is the most sustainable in the region, according to USAID's CSO Sustainability Index (2017).

16 In essence it is similar to PBO status.

17 According to 2014 data, 31% of Estonia's population conduct volunteer work (Prezi n/d).

Network of Estonian Nonprofit Organizations-NENO, an umbrella body for PBOs, operates in Estonia. This largest networking body of NPOs was established upon the initiative of 26 private foundations in 1991.[18] At present, NENO has more than 100 active members from all subsectors, including large associations and small community organizations. Moreover, NENO's information network covers more than 2,000 organizations. In 1998 NENO led the process of drafting the Estonian Civil Society Development Concept (EKAK) which defines mutually beneficial principles and mechanisms of public and civil sectors. Smaller umbrella bodies have been set up by thematic areas.

Status of CSOs

Laws regulating the civil sector, the Foundations Act and the Nonprofit Associations Act, were adopted in 1996 and since then they virtually have not undergone any amendment. These laws define the procedure of establishing both types of organizations; however, the operation of organizations is also affected by the tax legislation such as the Trade Unions Act, the Apartment Associations Act, the Churches and Congregations Act, et cetera.

Nonprofit *association* is a membership based legal entity that may be established by at least two persons.[19] The law does not require any additional determination of founder's powers. The aim and activity of association is not limited by the law. The core activity or objective of the association shall not be the gaining of profits from economic activity. Income must be used for achieving the objectives specified in the articles of association.

In Estonia, a *foundation* is a legal entity which has no members and may be established by one person without making initial capital donation. The law does not set any specific limitations other than the limitation specific to the nonprofit status of foundation. Foundations can be grant-making or operating and they are permitted to carry out activities pursuing both public benefit and private objectives.

According to Estonian legislation, *civil law partnership* is an organizational form not requiring registration or legal identity. This element of the sector is governed by the Law of Obligations Act. This organizational form is usually applied to identify local or "hobby" groups. In some cases, such organizations are eligible for state grants.

Associations or foundations can be established by natural as well as legal persons.

18 Initially it was Estonian Foundations Center (Hadzi-Miceva 2007).

19 To register an association, it is sufficient to identify it on a registration portal of mobile phone companies and pay customs duty via Internet banking. Electronic signatures are applied (Hadzi-Miceva 2007).

The Estonian legislation does not separately define *public benefit status*, however, there is a status of tax incentive beneficiary which is functionally similar to public benefit status. Only those organizations that are entered into the government list are entitled to tax incentives. The Income Tax Act defines criteria according to which organizations can be included in that list. There were around 1,600 organizations included in the list in 2008 (Hadzi-Miceva 2007); this number increased to 2,200 by 2016 (USAID 2017). The decision as to whether an organization can be entered into the list is made by the Tax and Custom Board. However, the law also provides for the establishment of a Committee of Experts, which should provide recommendations to the Tax and Custom Board on every application. The Committee consists of nine representatives of the civil sector.[20]

Financial state

According to surveys, the financial state of the sector has remained unchanged over the years and the majority of CSOs apply various means of funding. A large portion of financing is obtained from local sources or public funding, corporate or individual philanthropy, including own revenues (USAID 2017).

According to 2007 data, almost 3,000 NGOs received 700 million Estonian kroons (approximately 44.3 million euros) from the state budget.[21] According to a report submitted to the Tax and Custom Board, 17 million euros were received as private donations in 2016. Membership fees, although very small, represent a significant source of funding for more than half of CSOs. According to NENO, proper statistics about other sources of income is not available.

According to the law, potential sources of income are: state funding (national and local); donations from local and foreign natural and legal persons; state lottery proceeds; charity events; membership fee; financing from corporate and charity foundations; income from economic activities; international and EU funding mechanisms; service fees, inheritance (Rosenzweigová 2016).

It should also be noted that in terms of institutions, the Estonian civil sector is focused on cooperation with the government and receiving budget monies (both on national and local levels) rather than on corporate foundations. This can be proved by a diverse cooperation between the public and civil sectors; strategic partnership agreements for the implementation of state policy; funding of the civil sector from National Foundation and grant programs of ministries; civil sector trainings and support from regional centers, et cetera.

20 Political parties, business associations and trade unions cannot qualify for this list (USAID 2017).
21 In 2012, according to Interior Ministry data, 109,9 million euros.

Economic activity

Estonia's civil sector is permitted to engage in economic activities defined as "regularly pursued trade or business involving the sale of goods or services." Income from donations, gifts, passive investment, occasional activities (which can generate income, such as fundraising) do not fall under the definition of economic activities and consequently, are exempt from corporate income tax.

Estonian NGOs engaged in economic activities are taxed in a manner similar to business organizations if they are not on a special government list. An organization can be entered into the official list (and consequently be exempted from tax on income from entrepreneurial activity) if: 1) it operates in the public interest; 2) it is charitable, that is, offers goods or services free of charge or makes support payments to the persons belonging in the target group; 3) it does not distribute its assets or income, grant material assistance or monetarily appraisable benefits to its founders, members, members of the management, or persons who have made a donation or to the persons associated with such persons; 4) upon dissolution, it transfers the remaining assets to other organization on the list; 5) its administrative expenses correspond to its articles of association; 6) the remuneration paid by it to the employees does not exceed the amount of remuneration normally paid for similar work in the business sector (Hadzi-Miceva 2007).

Every organization shall register as VAT payer (is not VAT exempt as it provides goods and services) if its annual turnover exceeds 16,000 euros. VAT is not levied on membership fees and services provided by nonprofit associations free of charge to their own members.

Thus, the Estonian legislation does not confer any formal or legal status on social enterprises. According to NENO's information bulletin, a concept of social entrepreneurship is slowly taking roots in Estonia. Associations and foundations represent the main model of social enterprise; however, recently, a hybrid model has been formed whereby a social enterprise exists in two organizational forms – association/foundation for social activities and private Ltd for entrepreneurial activities (EC 2014). Cooperative, according to Estonian law, is a for-profit organization.

According to 2014 data, the number of social enterprises ranged between 300 and 450 in Estonia (EC 2014). According to a survey Social Enterprises in Estonia, which was conducted by a network of NPOs, Statistics Estonia, and a network of Estonian social enterprises in 2014, social enterprises comprise micro-companies throughout the country. In terms of employment, small organizations that do not have full-time employees, but some organizations have 40-50 employees. Normally, a micro-enterprise hires from one to nine employees, however, volunteer work is used more intensively.

Income of 66% of social enterprise originates from business activities. Many social enterprises use national and EU grants for their projects. Some of them collect donations, though one third of the companies has never received any funding or donation (Gurvits et al 2015). One third of social enterprises render services. A large number of these organizations have established good cooperation with public institutions (EC 2014). There are a number of social enterprises that perform entrepreneurial activities which are not directly related to social mission (e.g. an enterprise receives income from property renting and uses it for social objectives). The total revenue statistics is not available, but the income from entrepreneurial activities exceeds 16,000 euros a year[22] (EC 2014). The areas of activity include the provision of following public serviced (including employment): care after elderly, kindergartens, family support, fire service, support of various vulnerable groups and PWDs, environmental protection, culture, sport, et cetera.

Factors affecting giving

Charitable giving in Estonia is regulated by the Income Tax Act adopted in 2003. According to this law, Estonia eliminated profit tax for legal persons, including NGOs (as well as business). Instead of profit tax, organizations pay tax on certain profit distribution (Hadzi-Miceva 2007). Based on this system, legal entities pay tax on the distributions such as: salaries and fringe benefits of natural persons, gifts and charitable contributions, dividends and other distributions as well as "non-entrepreneurial costs". These taxes also apply to NGOs who are subject to the same regulations as organizations not registered in the official list of tax incentive beneficiaries. Certain distributions (donations) to organizations registered in the official list result in tax exemption of donating natural and legal persons (Hadzi-Miceva 2007). Moreover, tax incentives apply only to donations made to NGOs on the official list. Donations by organizations in the official list to any other institutions registered in the same list are also exempt from income tax.

The above said makes it clear that the Estonian tax system is focused not on an organization but on the act of donation for public benefit to a charitable NGO.

The tax base of legal persons (including enterprises) reduces by value of the donation which does not exceed 10% of donor's profits for the previous calendar year or 3% of salaries paid (and similar expenditure) during the same calendar year.

Policy towards non-monetary and monetary donations is similar. The tax derives from a market value of non-monetary donation. Corporate income tax is not charged on donations made to owner of a hospital, a state or local government, a scientific, cultural, educational, sports, law enforcement or social welfare institu-

22 The law requires tax registration if an organization's annual turnover exceeded 16,000 euros (EC 2014).

tion, members of churches[23] or a manager of a protected area. All donations are automatically reflected in donors' corporate income tax return forms (Praxis Center for Policy Studies n/d).

As noted above, there is an incentive for *individual donation* too. A natural person may reduce his/her tax base by the amount of donation which does not exceed 5% of income (or 1,920 euros) in the tax period when the gift or charity contribution has been made. This 5% (but not more than 1,200 euros[24]) also include tax incentives on income from training cost, mortgage interest, et cetera[25].

Practice of giving and social innovations

International donors

Since 1991 the development of Estonia's civil sector was supported by approximately 1,000 development programs of *international donors* (Scandinavian countries, Germany, the EU, the USA). Estonia is the first post-Soviet country which, as early as in 1996, the USAID declared as the first among the Central European and former Soviet Union countries that reintegrated into the global economy; with this Estonia graduated from assistance programs and moved to a new stage of trade and investment partnership with the US (USAID 1996).

Today, EU structural funds are available for Estonia's civil society, though many open grant programs were replaced by purchase mechanisms (USAID 2017). EEA/Norway grant program traditionally funded numerous civil sector initiatives; however, in 2016, none of NGOs received any funding within this mechanism (extension was planned at the end of 2017). Because of this interruption in funding, many Estonian CSOs applied to the National Foundation of Civil Society in 2016.[26]

Corporate giving and contributions

Both *corporate philanthropy* and *corporate foundations* are weakly developed in Estonia (USAID 2015, 2016, 2017). The niche of corporate foundations is somewhat filled by so-called sub-foundations (allfondid) which are established at Es-

23 Much like in case of CSOs, there is a church register registering religious organizations. Tax incentives and other legal benefits apply to only those religious organizations that included in this list.

24 In 2016, CSOs offered the government to raise or abolish the 1,200 euro threshold. Results of negotiations are not known yet.

25 As in case of legal persons, donation is not considered a separate category here either, but rather tax benefits are applied in conjunction with other units.

26 The National Foundation of Civil Society was established in 2008. Its budget comprises 2.5 million euros. In 2016, as many as 115 CSOs received assistance from the National Foundation.

tonia's national culture fund or national education fund. Sub-foundations are not independent legal entities, though they have independent boards and administer grants donated by various private and corporate donors (Lagerspetz 2003).

Long-term strategic relationship between civil sector and business is limited, but many CSOs successfully collect amounts for single charity projects. For example, in 2016, the Human Rights Center collected money from various businesses to provide legal aid to a concrete group of people in protecting their human rights (USAID 2017).

According to experts, a new generation of entrepreneurs and startups have interest as well as resources to contribute for public wellbeing. Alongside them, entrepreneurs of older generation have started to seek avenues of support. They say that in order to develop this component of the sector, civil sector representatives need to learn how to better communicate with business and demonstrate social impact (NENO 2008, USAID 2015, 2016, 2017). Proof of it is a project launched by organizations Good Deed Foundation, Social Enterprise Network and Praxis Centre for Policy Studies in 2014 to develop the first ever model of social impact bonds in Estonia. The initial stage of the project was dedicated to studying internal capacities of the country; this involved the assessment of readiness of Estonia's public sector, investors and nonprofit organizations and the creation of financial model impact, financial and legal framework. The study was conducted but piloting a program requires further preparation and stakeholder engagement (Good Deed Foundation, n/d).

Individual giving and contributions

According to official statistics, charity donation in Estonia is on the rise: from 3.7% of taxpayers having made donations in 2005 to 5.4% in 2009, 12% in 2010, 16% in 2013, 21% in 2014 and 20% in 2015 (World Giving Index 2005-2015, cited in USAID 2015-2017). According to the Tax Board, donations to CSOs made up 31 million euros in 2015. Experts also note the increase in non-material donations mainly expressed in pro bono provision of services and goods by local enterprises.

Volunteering and engagement has also been on the rise in Estonia (including with the support of public institutions and business[27]). According to the 2016 World Giving Index, 13% of respondents said that they made voluntary work; this indicator increased to 19% in 2015 (USAID 2017).

Civil sector crowdfunding is carried out by means of electronic platforms as well as various events. For example, in 2016, as many as 11,693 individuals contributed

27 Voluntary events are often organized by public institutions, while cases of business giving paid leave to employees for the participation in voluntary event have increased.

390,000 euro via Hooandja portal for the implementation of civil society projects (Freedom House 2016). This portal is also used to attract volunteers and nonmonetary contributions.

Germany

Civil Sector

The NPO sector in Germany consists of *associations* (Vereine), *umbrella organizations* (Verbände) and *foundations* (Stiftungen) (Zimmer et al 2014). According to 2016 data, the number of registered associations is around 600,000 and the majority of them operates on a local level (sport clubs, culture centers, day care centers, fire departments, religious associations, environmental organizations, professional associations, et cetera). A small number of organizations have up to 10 employees. The majority of organizations are of medium size (having from 10 to 100 active members and volunteers). Around 30% of organizations employ over 100 active persons. According to 2016 data of Germany's association of foundations, there are approximately 21,000 private foundations in the country (which means that there are 26 foundations, on average, per 100,000 people). These organizations employ 3.6% of active population in total (6.6% with volunteers including) (OSCE 2010, Bertelsmann Stiftung, n/d).

Yet another NPO organizational form is a tax-exempt corporate enterprise (*cooperative* or *limited liability company – GMBH*). Cooperatives gained popularity after the EU put forward a requirement to start cooperatives. The total number of cooperatives is around 5,000. They have up to 20 million members (Zimmer et al 2016, cited in EU-Russia CSF 2016, OSCE 2010). The scope of cooperative activities is wide: banking, farming, handcrafts, retail trade, renewable energy, resettlement and many other areas. Founders of NPOs choose GmbH if they pursue the objective of providing free services.

According to the EU-Russia CSF 2016 research, from 100 German NPOs 57% operates on the national level, 67% on the international level, 29% on the level of one state (Land), 35% on the regional level and 28% on the local level. Moreover, 8% of them work in cities and 6% only in the capital city.[28]

German civil sector enjoys significant state support. This relationship is characterized with the dual presence of financial support and a relatively high degree of political independence (autonomy). The government is committed to support NGOs which assist the government in executing state policies (social services, environ-

28 According to the author, the research is not representative, but clearly reflects the diversity of CSO activities and their distribution across the country.

mental protection or international development). At the same time the civil sector is regarded as having its own autonomy and the state must not dictate the direction of their activities (OSCE 2010, EU-Russia CSF 2016, GHK n/d).

Based on the principle of "subsidiarity," Germany's civil sector is the main provider of basic social services. According to the Federal Social Assistance Act, government agencies are forbidden to establish their own service providers if suitable associations are available or can be established on a local level (OSCE 2010).

This is what led to the "duality" of the German nonprofit sector. One segment of it, oriented on culture, community life, environment, youth is very much "civic", whereas another segment provides social and health services financed by the state and forms an integral part of the welfare state. Consequently, the majority of CSOs work in the area of service provision (social services – 38%, healthcare – 30.6% and education – 11.7%) (Zimmer ed., 1995, cited in OSCE 2010). Service providing CSOs are organized into six major CSO federations (CSO unions), representing the interests of their members.[29] These federations negotiate the financing of the provision of services (in addition to the funding prescribed by the law) with the government on an annual basis.

Status of CSOs

Germany is a federal civil law country with three primary forms of nongovernmental, not-for-profit organizations: formal and informal associations (Verein), formal and informal foundations (Stiftung), and (in some cases) formal and informal corporate enterprises (cooperatives or GmbH). Formal associations, formal foundations and business companies all have legal personality. Informal associations have aspects of legal personality while informal foundations are established as a "gift contract" or as a "trust contract" (El-Sadani 2017).

German NPOs and foundations are generally governed by federal laws and partly by laws of the state (Land). Federal law determines whether an organization is eligible to receive tax benefits, but it is the local tax office that makes the determination.

Pursuant to the Civil Code of Germany, an *association* is a membership organization. Both public benefit and mutual benefit associations are permitted. For that reason, the status "e.V." (eingetragener Verein – formal association) does not reflect the existence of a public benefit organization, nor does it reflect its tax status. Associations are formally established by notary deed. Non-economic associations (nichtwirtschaftliche Vereine / Idealvereine) must not pursue the increase of income as their primary aim. Non-economic associations receive legal status (personality) upon registration at the

29 Five of these are related to the major church denominations, while the sixth one brings together all the secular organizations.

local court. To register, an association must have at least seven members. Once registered, an association may have fewer than seven members, but not fewer than three. In limited cases, a German state (Land) may grant legal personality to an association that primarily conducts business (Wirtschaftlicher Verein – economic association). However, none of the states has done so in recent years (El-Sadani 2017).

A *foundation* (Stiftungen bürgerlichen Rechts – civil law foundation) is a legal entity whose revenues are used to pursue a specific purpose set forth by the founder. A foundation has legal personality which it receives from the competent authority in the state (Land) in which the foundation seeks to be headquartered. Both natural and legal persons may be the founder of a foundation. The law does not require a specific initial amount to form a foundation, but requires that permanent and sustainable promotion of the foundation's purpose must be assured. Accordingly, the competent regional authorities impose various minimum amounts (usually at least 50,000 euros). According to the law, a foundation is established for a certain time period, which should not be shorter than ten years. Foundations are obliged to submit annual reports to the state supervisory authority. It is worth noting that the German word for "foundation" (Stiftung) is not limited to legal foundations. Other legal forms of organizations (associations, stock companies, et cetera) are also allowed to bear the additional name "foundation". Thus, the word "foundation" in the name does not guarantee that an NPO is, in a legal sense, a foundation. For example, one of the biggest German foundations – the Robert Bosch Stiftung – is a limited liability company (GmbH).

As noted above, NPOs may also operate as a corporate enterprise in the form of a) cooperative or b) limited-liability company (GmbH), which is registered and regulated under a special law.

The GmbH is a commercial company which has a legal personality, shareholders and shares; cooperatives are regulated by the same law as other enterprises and consequently, compete with them as well as with one another (DGRV n/d).

In Germany, there is no special legal form for NPOs with a public benefit purpose. Nonetheless, CSOs may enjoy special tax benefits and to this end, the Fiscal Code of Germany (Abgabenordnung, or AO) defines "public benefit" and sets forth what qualifies as a tax-privileged purpose.[30]

The Fiscal Code defines three types of purposes as being tax-privileged: public benefit, charitable, and church-related purposes. An organization pursues public benefit purposes if "its activities aim to support the general public materially, intellectually, or morally." A list of subjects that are regarded as supporting the general public includes the following: science; religion; health care; youth and older persons; arts and culture;

30 Income tax, corporate income tax, commercial tax, VAT and inheritance and gift tax are defined in the various tax codes.

historical preservation; education; environmental protection and many others including tolerance, animal protection and consumer protection. Charitable purposes include support to people in need, either because of their economic situation or because of their physical, psychological, or mental condition while church-related purposes include the support of religious communities. In addition, a tax-exempt organization must not distribute its assets to its members (and other non-beneficiaries) without adequate compensation. Moreover, the Fiscal Code requires that a tax-exempt organization must promote the purpose directly by itself, must support its public benefit purpose *exclusively*. In case of liquidation, the organization's remaining assets must be granted to another tax-exempt organization (El-Sadani 2017).

In Germany, tax benefits also apply to public benefit activity carried out abroad (Bird & Bird 2014).

Financial state

German civil sector, usually, has diverse sources of income. Nonetheless, following from the above mentioned duality, part of organizations are incorporated with the social system of Germany and receive funding from public sources, while another part depends on membership fees and private donations. According to Household Budget data, in 2005, 6.7 billion euros were spent on membership fees (cited in OSCE 2010), 1,5 times the amount as on donations. According to The Global Civil Society Report, the revenues of the civil sector (without considering volunteers) are the following: 64.3% from the government; 3.4% from philanthropy; and 32.3% from income generated by economic activities (including membership fees). According to the same Report, the respective percentage including the value of volunteer work will change to the following: 42.5% from the government; 36.2% from philanthropy; 21.3% from economic activities (including membership fees). The share of civil sector in the GDP is 4% (OSCE 2010).

Economic activity

With regard to the civil sector, Germany's tax system is fully tied to public benefit. Only those NPOs that are directly engaged in public benefit, charitable or church-related activities are exempt from corporate income tax (Köperschaftssteuer), commercial tax (Gewerbesteuer) and gift and inheritance tax (Erbschaft- und Schenkungsteuer).

German NPOs are allowed to engage in economic activities. If the activity is necessary to pursue the organization's statutory purpose and it does not compete with for-profit organizations more than necessary, profits are not taxed. Public benefit activities such as healthcare, education, culture, science and other activities are VAT exempt. Moreover, if an activity of a tax-benefited organization is subject to

VAT and it falls under the organization's statutory purposes, the applicable VAT rate is reduced from 19% to 7%.[31] If a grant to an NPO complements VAT taxable services, the VAT included in the project's expenditure might be recoverable.

Commercial activities which are not necessary to pursue the statutory purposes of the NPO are taxed at ordinary rates if the annual gross income of non-statutory commercial activities exceeds 35,000 euros.

Income generation and engagement in economic activities has never been unusual to the German third sector. In fact, national federations, local cooperatives, housing and other mutual associations form an important part of the third sector (cooperative economy – Gemeinwirtschaft). Also, it is generally accepted that CSOs are sustained based on their earned income and so customers are willing to pay for CSO services offered beyond the basic services that the state sponsors.

There is no specific legislation on or a formal definition of social enterprise in Germany. State-funded service provider organizations as well as cooperatives, commercially active foundations and associations, self-support groups and social mission organizations engaged in commercial activity, i.e. all of those that are not fully dependent on state budget, grants or donations, may be regarded as social enterprises (EC 2014).

Within the framework of the survey conducted by SEFORÏS in 2014,[32] some 107 German social enterprises were surveyed, which employed the total of 7,500 persons and had the total income exceeding 2 million euros. Some 45% of surveyed organizations were formal associations, 32% were GmbH and 23% cooperatives. The primary focus of social enterprises included community development, employment and training (25%), also education and research (22%) and healthcare (15%). As many as 36% of social enterprises operated for more than 20 years. The main source of income of surveyed social enterprises was market sales and public service reimbursement (43%). Other revenues came from grants (29%) and donations (10.5%). Return on investments was mentioned by 6.5% of organizations. Total income of organizations varied. For example, in 2014, 41% of organizations had the profit above 1 million euros, while 27% had less than 80,000 euros.[33]

31 Germany observes the EU rule on VAT compliance. Since 6 January 2017, the EU minimum standard rate of VAT is 15%. The EU member states may set their standard VAT rates, which must exceed 15%. The EU also allows them to set a reduced VAT rate on maximum two goods with the lowest amongst not to be less than 5% (www.vatlive.com, n/d).

32 Social Entrepreneurship as a Force for more Inclusive and Innovative Societies- SEFORÏS is a EU-funded multidisciplinary research program which studies potential of social enterprise in EU countries and beyond (http://www.seforis.eu/).

33 It is unknown whether the study may be generalized, but the data provides an idea about nature and content of social enterprises in Germany.

Factors affecting giving

Germany's legislation allows individual as well as legal persons to deduct contributions to tax-exempt organizations by up to 20% of their respective taxable income from income tax, corporate tax and municipal commercial tax. For corporations, a deduction of up to 0.4% of the sum of the turnover and salaries is an alternative basis for calculating the maximum deduction. Donations exceeding the deductible limits may be carried forward to subsequent fiscal years.

In addition, an individual donor can deduct up to 1,000,000 euros for a donation to the endowment of a foundation.[34] The deduction can be taken in the year of donation or divided over the following nine years (OSCE 2010, El-Sadani 2017).

Practice of giving and social innovations

International donors

The EU structural and investment funds are available for German CSOs that operate in the EU policy field.

Corporate giving and contributions

Corporate giving in Germany is mainly of classical charity nature and is not directly linked to business interests. German corporations are largely engaged in philanthropic activity – from community grants or nonmonetary donations to voluntary programs and technical assistance to civil sector.

Moreover, corporations establish private and public benefit corporate foundations. While in 1996 there were 441 foundations registered in Germany, in 2008 their number reached 16,406. According to various studies, 1,000 new private foundations are registered, on average, per year (OSCE 2010). Germany also has so-called political foundations (associations in their legal form) and each of them is affiliated with a political party along distinct ideological lines. They receive annual budget support from the related political parties to educate the voters about their political programs.[35] These foundations are also involved abroad, working with affiliated parties, trade unions and CSOs.

34 This means essentially public benefit purposes as defined by the German tax law.

35 The legislation provides some limitations on political activities. For example, organizations pursuing tax-privileged purposes must not spend any of their assets for the direct or indirect benefit of political parties (e.g. for campaigning). However, some activities relating to the development of public opinion, general political education and the general support of democratic development are acceptable.

The total assets of all foundations make up 70 billion euros of which 17 billion euros, on average, are spent for charitable purposes, funding social issues 928%), education, science and culture. 2007 data show that small businesses (29.1%) donated up to 5,000 euros, medium and small enterprises (30.5%) donated from 10,000 to 50,000 euros while large enterprises (42.1%) donated from 50,000 to over 100,000 euros (OSCE 2010). The largest donations for charitable purposes are made by Volkswagen Foundation, Robert Bosch Stiftung, Bertelsmann Stiftung, Hans Böckler Foundation and WWF Deutschland (Facts About Germany n/d).

In addition, a new movement of community foundations has evolved. According to 2010 data, there were approximately 230 community foundations in Germany (OSCE 2010), while in 2015, the German Association of Foundations recognized 275 community foundations.

Understanding and introducing *social innovations* both by public and private sectors has been a consistent process in Germany (Ngo & Kunz 2016). For example, in 2015 Ministry for Economic Affairs and Energy published a study which reflects challenges of funding social enterprises; universities offer social innovations and social entrepreneurship training courses; think-tanks and research centers of social studies pay greater attention to studying social innovations. Organizations such as Ashoka and Social Impact (both GmbH) play an important role in the development of social innovations infrastructure: they finance researchers, provide material and technical assistance to social enterprises at an initial stage of their establishment, et cetera. In addition, organizations such as Bon Venture[36] or Social Venture Fund apply a social venture capital model to support the development of social enterprises through financial resources and professional advice.

Individual contributions

Being a welfare state, individual charitable giving is not as widespread in Germany as in Anglo-Saxon countries (e.g. the US - 1.67%; the UK - 0.73% in 2006). Nevertheless, the share of individual giving in the GDP is one of the highest among countries of continental Europe. For example, the data from the Charities Aid Foundation in 2006 show that the national giving level represented 0.22% of GDP in Germany (compared to 0.14% in France and 0.45% in the Netherlands) (cited in OSCE 2010). Giving in the former East Germany represented only 0.12%, while giving in the former Western Germany was at 0.26% of the GDP.

About 35% of the physical taxpayers declared a donation in their income tax returns between 2001 and 2003 (Borgloh 2008). This did not include a church tax (which is a voluntary contribution and taxpayers are assumed to pay it unless they

36 Bon Venture is the first social investment company in Germany, established in 2003. A minimum investment amount comprises 300,000 euros.

refuse to do so). In 2008, natural persons donated 2.8 billion euros to the third sector in Germany.

There are several hundred CSOs in Germany that are large professional fundraising organizations; for example, German Central Institute for Social Issues (DZI) performs a function of mediation between those "in need" and those who can make "giving." Its budget is made up of state subsidies (45%), and earned income (55%). Along with other mediation activities,[37] the organization awards voluntary fundraising certificates to CSOs. In 2008, DZI awarded the certificates to 236 organizations which collected the total of 1.4 million euros.

Approximately 23 million Germans are involved in voluntary work in their free time. Annual estimate of civil obligation is 4.6 million hours (Facts About Germany n/d).

The Netherlands

Civil sector

Given the historical conditions, the civil society of the Netherlands is large, diverse and rather complex. Caring for poor and sick people as well as cultural life were the domain of private (including church) initiatives over the centuries. Since 1950s, along with the development of a welfare state, the government introduced subsidies and benefit system and committed itself to almost fully finance social objectives. Many private organizations received public subsidies and were in fact transformed into semi-governmental institutions (Hoolwerf et al. 2015). At that time, private initiatives were organized by different societal and religious groups, the so-called "pillars."
It is important to understand that, due to the pillar-structure of Dutch society, the government had to equally subsidize all foundations from different pillars. This resulted in a very large nonprofit sector which is considered the largest nonprofit sector in the world (Salomon et al. 2004, cited in EUFORI 2015).

The broadest and oldest term of the sector is "particulier initiatief" (private (non-governmental) initiative, or PI) which refers to groups of citizens joined together in voluntary associations to protect public interests. Another term "maatschappelijk middenveld" (societal midfield) depicts all kinds of organizations between the individual citizen and the state, though today the term is used to denote interest and advocacy organizations, and it focuses on their "vertical" mediating functions between the state and groups of citizens. Yet another term "gesubsidieerde en gepremieerde sector" (subsidized and premium-receiving sector, or g&g-sector)

37 Information on conducted fundraising and used monies (collection and reporting to donors), information support from donors and research, the library, publication and others (www.dzi.de).

refers to organizations that receive government subsidies or premiums from the compulsory national social security and health insurance programs. The term also accommodates large parts of the nonprofit sector since many private organizations receive some form of government subsidies or payments from the social or health care funds. In addition to the local terms, some other "imported" terms are "non-governmental organization" to refer to nonprofit international cooperation and development aid organizations.

The Dutch nonprofit sector consists of foundations and associations. For their part, foundations have a broad meaning. Most of these foundations are financed by the state through revenue from taxation and social insurance and play an important role in providing welfare state services. For example, 97% of residents in homes for the elderly, 75% of pupils in primary and secondary schools and 41% of museum visitors benefit from services of such nonprofit foundations. The second category of foundations is more in line with the international definition of a foundation, which deals with transferring money from private sources to public purposes (Burger et al. 2001; Gouwenberg et al. 2007 cited in EUFORI 2015).

Currently, the Dutch civil sector comprises 35,000 organizations pursuing common interests and 250,000 sport, art, animal protection, recreation, history, gardening and other clubs (The European Magazine 2015). Over 5 million volunteers are active in these areas, which makes up 55% of the adult population. Membership of NGOs is high too. For example, the number of members of environmental NGOs exceeds 4 million while that of sport federations – 5 million.[38]

The Dutch nonprofit sector provides about 660,000 fulltime jobs. Expenditure of the sector amounts to almost 45 billion euros annually. In addition, the nonprofit sector is distinguished for a high level of volunteer engagement. The amount of volunteer time represents the equivalent of over 400,000 fulltime jobs (or 7.5% of total paid employment). Expenditures of nonprofit organizations comprise 15.5% of GDP. The nonprofit sector generates no less than 10.2% of national income (Burger & Dekker 2001, Czutno 2010, EUFORI 2015).

According to the World Giving Index, the Netherlands has been among the top 10 countries by volunteering and charity for many years.[39]

Status of CSOs

According to the Civil Code of the Netherlands, legal forms of nonprofit organization are *association* and *foundation*.

38 The total population of the Netherlands is around 18 million (2017).
39 In 2016 it ranked the 12th.

The *association* is a legal person with members directed towards an objective other than meeting the material needs of its members. An association may pursue both nonprofit and commercial objectives, however, profit must not be distributed among its members. A specific characteristic of the association is that it has (a) own members, (b) persons who are admitted to the association and (c) persons who have a special non-contractual relationship with the association.

There are two types of *association*: the association with limited legal competence (informal association - vereniging met beperkte rechtsbevoegdheid) and the association with full legal competence (vereniging met volledige rechtsbevoegdheid). An *informal association* can be established by at least two persons (natural or legal persons) for a specific purpose (written articles of association is not necessary but there should be agreement on certain organizational rules). The informal association becomes a legal person from the moment of its establishment, but with some limitations (e.g. cannot receive real estate). Another specific feature of informal associations is that the members of the association and its management board are personally liable for the debts of the associations. The rules on the liability of ex-members of the management board are very complicated. A *formal association* is established on the basis of a notarial deed and must be enclosed with detailed articles of association.

In contrast to an association, a foundation has no members. The Civil Code describes a foundation as a legal person established by a legal act, which has no members and realizes objectives set out in its articles of association, with the help of assets used for that purpose (Burger & Dekker 2001). A foundation may be established by one or more persons, based on a notarial deed. A reason of establishing a foundation may also be a public will. It is not required for a foundation to have assets on its establishment. A foundation may have all kinds of objectives except for the objective of benefit to the founders, which is defined (among other details of institutional arrangement) in the articles of association.

The legal persons (except for informal association) shall be registered in the Commercial Register in the region where it has its registered office in order to ensure the provision of relevant data to the public and to creditors.

The Dutch legislation does not restrict economic activities of associations and foundations. To distinguish between different types of charity and to tailor the rules to different types of charitable organizations the Dutch legislations provides for three types of charitable organizations (each with specific aims): *public benefit organization* (PBO) (Algemeen Nut Beogende Instelling (ANBI)), *organization representing social interests* (ORSI) (Sociaal Belang Behartigende Instelling (SBBI)), and *foundation supporting an ORSI* (Steunstichting (SBBI)).

A PBO must be almost entirely dedicated to the “general good” (welfare, culture, education, science and research, protection of environment, healthcare, international development, religion, ideology, care for the young and the elderly, democratic legal order, social housing, a combination of the above aims and financial or other support to a PBO). A particular type of PBO is a cultural PBO (*Culturele ANBI*) which enjoys additional tax benefits. PBO status is awarded to an organization by the Dutch Tax Authorities. To obtain and maintain the PBO status, the organization must meet certain requirements: the organization must not be a cooperative or a company with capital comprising shares; at least 90% of the organization’s efforts must be focused on the general good; the organization cannot retain more assets than reasonably required for the organization’s work; the directors’ remuneration must be restricted to minimum; the organization must have a plan, et cetera. In addition, a PBO must disclose information and its webpage must publish, along with other technical information, financial statements including salaries.

ORSIs are focused on the social interests of a selected group (usually, its members). At the same time, an ORSI must engage in public activities and contribute to “the individual development of its members, the social cohesion of society, and a healthier society.” Such type of organizations include, for example, youth associations, choirs, sports associations, music groups, and so on (Russell 2016). This status is awarded by tax authorities. To obtain and maintain the ORSI status, the organization must meet certain requirements, including, the organization must pursue social interests and activities should reflect the organization’s objective; salaries of employees must be restricted to minimum, et cetera. The charitable organization uses donations or inheritances for its objectives.

The sole purpose of a foundation supporting an ORSI is to provide temporary financial support for an ORSI for the occasion of a jubilee. These charitable organizations can only be a foundation. To maintain the foundation supporting an ORSI status, it must be active in the field of sports or music. These foundations must be established for a maximum of one year to make one-off expenditure and use investment.

Financial state

For years, public funds has constituted the largest share of nonprofit revenues (approximately 55%). Over the period between 2008 and 2012, the public funds decreased to 44%. Half of the public revenues originate directly from government; the other half are made up of third-party payments. These amounts are used for the provision of healthcare and social services (hospitals, nursing homes, family care, homes for elderly, et cetera). Own income or earnings of CSOs make up 38% of total revenue. The largest part of own income is generated from membership

fees and auxiliary economic activities in the majority of CSOs.[40] Private donations comprise around 5% of CSO revenues. According to experts, with the decrease in public funding greater attention has been paid to commercial source of income (Partnerships Resource Centre 2015).

Economic activity

Normally, foundations and associations are exempted from income tax and VAT as long as they do not manage a business/economic activity. Furthermore, the sales of products/services by a charitable organization can, in some cases, be exempted from VAT.

The rate of tax on capital gains applies to charity organizations much like to organizations of other types: 30% tax rate is replaced by 4% rate of fixed annual capital.

The Dutch legislation does not define a social enterprise and therefore, community enterprises, cooperatives and other organizations pursuing social mission and simultaneously, engaged in economic activity operate as association or foundations.

According to 2015 data, there are over 5,000 social enterprises in the Netherlands. Their turnover made up 1.4 billion euros in 2011 and 3.5 billion euros in 2015. Social enterprises are medium sized, though they employ up to 80,000 people in total (McKinsey 2016). They are financed from various sources and along with own capital, receive subsidies and donations which are of special importance for startups. Around 60%-70% of organizations depend on subsidies. Turnover of "independent" enterprises from subsidies and donations is almost 2.5 times higher than that of dependent enterprises. Besides, as investors require return of capital, demand for loans and investments in stocks is higher in social enterprises.

The spectrum of activity of social enterprises is broad: Biosystems (organic farming), cleantech (energy efficiency), economic development (trade), civic engagement, healthcare and wellbeing, education, et cetera. A segment of social enterprises (community enterprises) are more focused on local problems whereas another segment is focused on social problems. The latter category engages in competition with business to a greater degree. Over the five years, the total revenue of social enterprises increased from 2 billion euros (in 2010) to 3.5 billion euros (in 2015).

Factors affecting giving

The Dutch legislation qualifies a gift as usual operational cost. Contribution to public benefit or social benefit organizations which does not qualify as operational cost, is deductible. An annual deduction shall not exceed 50% of profit or 100,000 euros.

40 For example, in case of house for elderly, 93% of own income originates from property renting.

Several tax exemptions apply to charitable organizations that are recognized by the Dutch tax authorities. In particular, PBOs as well as ORSIs do not pay inheritance and gift tax when inheritance and gift received are allocated to the general good; also, under certain conditions, they are eligible for a return of 50% of the tax on energy. There are no specific tax benefits for foundations supporting an ORSI, however, donors' gifts to it are deductible from the taxable corporate income.

Tax benefits are available for companies and individuals if gifts are made to charitable organizations that have been recognized by the Dutch Tax Authority. The benefits available to a donor depend on the type of gift as well as the type of organization.

The Dutch legislation restricts the tax benefits for donors to two specific types of gifts - periodic gifts and ordinary gifts (Russell 2016). Periodic gifts mean a fixed donation for at least five years and they are fully deductible from the taxable income tax. In other cases, the gift is regarded as an ordinary gift which is also deductible from income tax, through a minimum and maximum thresholds are set (minimum 60 euros or minimum 1% and maximum 10% of total income). For cultural PBOs, the maximum amount of donation is set at 25% of income (or maximum 1,250 euros) (Netherlands Income Tax Act 2011).

The gifts to a PBO or an ORSI are deductible from the taxable (corporate) income of donors. For donors of a cultural PBO, specific rules apply for deducting gifts whereby 150% of the gift is deductible from the taxable income for a natural person and 125% of the gift is deductible from the taxable income for legal persons. The gifts of donors of a foundation supporting an ORSI are also deductible from the taxable income; however, since a foundation supporting an ORSI is recognized for a maximum of one year, donors can only deduct gifts under the rules for ordinary gifts.

Volunteers have a legal status in the Netherlands. Aspects of volunteering are partially considered in taxation and social benefit regulations. According to tax rules, volunteers are entitled to tax exempt "pocket money" of maximum 1,500 euros a year (maximum 150 euros a month). Volunteers do not account for the amount within this limit. Above this limit, however, real volunteering costs (e.g. phone costs, travel costs, et cetera) are usually compensated without taxes, though the tax authority requires a detailed account of these costs. If account is missing, the compensation is viewed as revenue and is charged with tax. If a volunteer organization cannot cover volunteering costs, volunteers can mention the incurred costs in their annual tax declarations and (in the light of certain circumstances) enjoy tax reduction at the end of a fiscal year.

Proceeds from the sale of lottery tickets are considered as public money in the Netherlands. Owners are required to allocate 20%-50% of their own income for public benefit.

Practice of giving and social innovations

International donors

EU structural and investment funds are available for the Dutch CSOs that wok in the field of EU policy. Funding can be obtained directly from the European Commission (EC) as well as via structural funds. Annually, the EC allocates over 1 billion euros for the cooperation in development, human rights programs and humanitarian aid (400 million euros). Along with other important fields, 70 million euros are allocated for social assistance and 50 million euros for education within the EU.

Corporate giving and contributions

The Netherlands is among the leaders by donations to NPOs in the EU (Bekkers 2012). Six million euros are given for charity annually (of which 1.5 million euros come from state grants and 4.4 million euros from families, companies and foundations), which makes up 1% of the GDP of the Netherlands. Private foundations account for 75% of total donations to the civil sector (Salmon 2003, cited in Czutno 2010; Bekkers et al 2015).

Private foundations include fundraising funds too. According to the data of Central Bureau of Fundraising (CBF), the total of 3,097 million euros were contributed to CSOs by 516 fundraising foundations in 2013. This information is not complete as many foundations operate anonymously in the Netherlands.

Charitable donations/grants are complemented by numerous organizations and initiatives pursuing different aims, which support the development of economically active CSOs. For example, organizations such as ACE Amsterdam, Oranje Fonds Groeiprogramma, GreenWish, Kirkman Company, Knowmads and others use their resources to provide technical assistance to CSOs. For instance, Social Enterprise NL, a national membership body, represents, connects and supports Dutch social enterprises. Founded by two individuals in 2012, the network of this foundation covers today more than 300 social enterprises from 16 business sectors (restaurant business, IT technologies, processing industry, healthcare and others).[41] Founding partners of the foundation are corporations and foundations

41 Social Enterprise NL qualifies enterprises as social enterprises when enterprises are for a minimum of 50% financially dependent on trade or other forms of value exchange that are not donations or subsidies.

such as PwC, ABN Amro, CMS, Stichting DOEN and Anton Jurgens Fonds (www.social-enterprise.nl n/d).

Alongside traditional philanthropy, philanthropic foundations and traditional financial institutions such as Rabobank, ABN AMRO or Triodos Bank have shown interest towards impact investments that combine social impact with financial gain (GIIN 2016, cited in McKinsey & Co. 2016). According to a survey conducted by Partnerships Resource Centre in 2015, participation of CSOs in inter-sectoral partnership schemes has almost doubled between 2008 and 2012. According to various studies, two third of CSOs are engaged in inter-sectoral cooperation. Some 43% of partnerships is between business and NGOs and focuses on healthcare, poverty reduction and education.

According to public information of corporations and foundations, impact investments tripled from 2010 to 2015 (McKinsey & Co. 2016). Foundations such as SI2 and Social Impact Ventures focus on impact over broader area, though there are specialized foundations too (e.g. SHIFT Invest and Triodos Organic Growth) which make social investment in agricultural and cleantech schemes. For example, in 2013, within the scope of social impact bond initiative, the organizations ABN, AMRO and Start Foundation invested 680,000 euros in Rotterdam's Business Club Initiative to raise the level of youth employment in the city (return/engagement of 17-27 year old youth to/in educational institutions or labor market). In early 2016, more than half of program participants had income and stopped receiving state allowance (started to work in business, returned to schools or started their own business). Success of youth is directly linked to the success of investor as according to an agreement with the Rotterdam municipality, the municipality makes payment to the investor based on saved costs (benefit of reduced unemployment, increased social tax and income tax). The profit reaches 12% annually.

Six permanent and semi-permanent gambling and lottery licensees (mainly having the legal status of foundation) serve charitable aims. Postcode Lottery, Friends Lottery, BankGiro Lottery and others, established over the past 50 years, are the largest fundraisers in the Netherlands and their contributions to nonprofit sector makes up, on average, 11% of total contributions. In 2014, lotteries raised 424 million euros for charitable aims (312 million euros for the protection of nature and environment and the international development; 62.5 million euros for cultural heritage and 50.7 million euros for healthcare and social welfare). Lottery foundations often operate via their local branches and projects, under the motto "Charities Always Win" (The European Magazine 2015).

Individual giving and contributions

According to 2013 data, individual contributions made up 1,994 million euros in the Netherlands (which comprised 45% of total donations and contributions in that year). In the same year, fundraising foundations collected 106 million euros (2%

of total donations and contributions), contribution foundations collected 184 million euros (4%) and 265 million euros (6%) in the form of gifts (Bekkers et al 2013). According to the Central Bureau of Fundraising (CBF), out of 584 registered fundraising foundations 196 report receiving gifts. Bearing in mind that financial reporting on received contributions to the Bureau is not mandatory, the cost of gifts is assumed to be much higher on the account of those organizations who do not report to the Bureau (e.g. nonprofit hospitals, museums and educational institutions).

The data on crowdsourcing platforms would also significantly increase the amount of individual contributions, as out of 510 crowdsourcing platforms in the EU 58 operate in the Netherlands.[42]

Around 30%-40% of Dutch population said that in the past decade they performed volunteering work in NGOs. Sports associations and religious organizations attract the highest amount of volunteers. Volunteers spent an average of 18 hours per month on their volunteer work. Most volunteers perform managerial tasks (26%), do chores (20%), do office work and administration (18%), give advice and training (17%) or offer transportation (14%) (Bekkers et al 2013). According to studies, there is an increased trend of finding volunteers among the adult population who have higher education.

There is also a trend of creating volunteer capacity whereby business companies are willing to provide relevant conditions for volunteers and also support volunteering of their employees both during workhours and in free time.

42 The 2015 data.

CONCLUSION AND RECOMMENDATIONS

Since their inception, a large number of Georgian CSOs heavily depend on grants obtained within the framework of international assistance. This funding was crucial for the development of civil sector at its initial stages. However, it is clear that such assistance cannot continue indefinitely; the future sustainability of the sector as well as assistance provided by it will depend on the recognition of the significance of the sector by Georgian people and government. It is therefore important to establish and develop those mechanisms that will provide financial alternatives to the sector. Moreover, the mechanisms must be tailored to the needs necessary for optimal operation of CSOs and aligned with the capacities offered by cultural context and fiscal environment.

To make strategic and systemic approaches operative, it is important to establish a close cooperation between the government, international donors and CSOs, in which local corporations will gradually engage.

State policy to encourage individual and corporate giving

Although this study looked into non-state funding mechanisms, it revealed that the state policy is central to the establishment and development of non-state mechanisms, even more so, when it concerns post-Soviet countries. Therefore, support of independent grant-making foundations through indirect incentive mechanisms such as tax benefits on donations and economic activities or others is of utmost importance for the development of non-state mechanisms of civil sector funding.

It should also be noted that alongside a policy of adequate incentive mechanisms, countries of West as well as Central and Eastern Europe have detailed and strict regulation of PBOs and conduct an assessment, including a financial one, of public benefit activities.

Hence, Georgia needs to undertake the following measures:

Charitable status vs public benefit activity

Apart for the non-profit (non-commercial) legal status there is a “charity” status in Georgia, which is equivalent to a PBO status. This status allows broadening of financial alternatives of CSOs, but requires the enhancement of accountability to the state. The lack of state and business support to the civil sector, makes a charity status less popular among representatives of the sector. To activate this mechanism it is necessary to: a) improve the tax benefit policy encouraging the giving; b) define “public benefit” of non-civil orga-

nizations and aims qualifying for tax benefits[43] (that would create beneficial taxation conditions not only for donors but also CSOs in the process of generating public benefit[44]). The latter requires a higher level of transparency of civil sector and the treatment of civil and business sectors as equal in terms of financial accountability and tax benefits, which cannot be effective without the improvement of tax benefit policy.[45]

Percentage mechanism

The percentage mechanism has been studied and rejected in Georgia, but that happened many years ago, at the end of 1990s. The state should, with the help of donors, find relevant resources to look into the percentage mechanism again (for instance, using the example of Estonia), taking into account the economic prospects of the country. It is necessary to a) study individual and corporate designation models, b) take into consideration the national and regional context, c) study the percentage mechanism in a general context together with, for example, cultural heritage, social/healthcare assistance and other organizations which are currently financed from quasi-foundations.

Tax benefits

a) To foster the culture of giving, tax benefits should be applied both to legal and natural persons;
b) To encourage giving, it is important to not only raise the percentage rate of tax deduction on income from contributions (which now stands at 8%), but also to differentiate donations (and consequently, benefits) by single and multiple (strategic) assistance (using the example of Hungary[46]), which will encourage strategic philanthropy;

43 "Simplified" German model.

44 Public benefit activities may include, for example, the sale of such goods and services that are produced or provided by beneficiaries themselves (e.g. goods produced by persons with disabilities) or sale of products, which were donated as charity, for the benefit of people. In addition, entrepreneurs may qualify for tax reduction those expenses relate to, for instance, the production/purchase of food products donated to a PBO (for charity aims of the recipient organization). Moreover, a tax such as court fee does not, inter alia, apply to a CSO if a complaint pursues public benefit.

45 For example, in Poland, a nonprofit organization which is not qualified as an association, foundation of PBO or does not operate in any field defined by the state, is required to pay corporate income tax, including on the income originated from grants. Consequently, the issue as to charge income with tax or not will depend on what that income is spent for. Moreover, no activity (including pro bono) can be qualified as a public benefit activity if the reimbursement of an employee performing it is three times as high as an average salary of business sector employee (as published by the central statistics office with regard to the previous calendar year).

46 In Hungary, the tax base is reduced in the amount of: 1) 20% of the donation if it is given to public benefit activity or PBO; 2) 40% of the donation if it is given on the basis of a long-term contract on PBO assistance (e.g., monetary contribution given on the basis of agreement between a PBO and a donor, whereby the donor shall provide assistance in a current year and the same or larger amount at least, once a year, for at least following three years unconditionally); 3) 50% if the donation is made in favor of Hungarian Relief Fund, National Cultural Fund or Damage Mitigation Fund; 4) 50% if the donation is made in favor of higher educational institution, within the framework of grant agreement.

c) To encourage the establishment of corporate and community foundations, investments made by them in securities, shares or other financial instruments (on certain terms) must be exempted from profit tax (using the example of Poland) while the investment for public benefit must be viewed as a public benefit activity;
d) Payable public benefit activities should be defined to prevent public benefit or income generation activities from being regarded as an economic activity (using the example of Poland).

Other state mechanisms

a) To support volunteering the state must continue improving the legislative environment in order to cause the tax system to adequately perceive volunteering efforts (both for public and business organizations);
b) To encourage social innovations and social entrepreneurship training courses should be encouraged in Georgian universities.

The role of international partnership and civil sector

a) Partnership with private foundations and investors should be ensured in development programs to enable financing through direct and indirect international donor schemes:
Direct schemes imply partnership for a civil sector between the implementer of development assistance and a Georgian corporation (or a foundation). Business as a co-author of development program, commits itself to co-finance (social investment, loan, et cetera) social innovations. Indirect scheme may also imply the establishment of “intermediary” firms by a donor for social investment and bond schemes;
Indirect scheme implies funding of a CSO by a donor provided that the CSO secures a local business as a co-financer. In this regard, a great deal of attention should be paid to encouraging the establishment of community foundations;
b) International donors should invite foreign philanthropic organizations/foundations to participate in multi-year development programs, which use investment or loan systems more heavily that grant systems;
c) In order to prevent corporate social responsibility schemes (if any and if developed) from being used only to replace donor grants in Georgia, trainings on and studies on this topic should be enriched with talks and workshops on corporate social investing for both government and business representatives;
d) The civil sector must continue improving its financial expertise, including risk management and long-term financial planning, to create favorable conditions for investment;
e) To ensure sustainability of the sector, mentor partnerships between civil and business sectors should be encouraged and developed in order to activate business models in startups as well as experienced organizations;
f) Operating social enterprises must pay more attention to showcasing success stories of the impact of their activities and seeking new and innovative ways to this end, in order to make this sector more attractive for investors and other stakeholders.

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