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NEW PRACTICES IN RAISING DOMESTIC FUNDS BY CSOS IN EUROPE¹

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1. INTRODUCTION

Many civil society organizations (CSOs) in Europe are increasingly focusing on new mechanisms and methods to raise funds from domestic sources. Domestic sources available to CSOs may include: direct state financing (grants, contracts, and subsidies); indirect state support mechanisms (percentage mechanism, lotteries) and private domestic sources (donations and other forms of funding by individuals, corporations and non-state entities).

This paper focuses on opportunities to enhance CSOs' financial sustainability by raising funds from private domestic sources and through indirect state support mechanisms.

The paper pays particular focus on new fundraising methods from private entities and individuals and shares CEE case examples, such as crowd-funding, sms and donor message service, and committed or regular online donations.

Fundraising will be defined as organized collection of funds from the non-state sector (legal entities and individuals) for pursuing the organization's mission or a specific activity.

In addition, the paper discusses mechanisms of indirect state support², such as proceeds from lotteries and games of chance, and percentage mechanism

Further on, it includes an overview of ways to promote fundraising from domestic resources and possible models of legal regulation based on European examples. Finally, conclusions and recommendations are drawn based on reviewed examples.

¹ This paper was prepared by European Center for Not-for-Profit Law (ECNL) on demand of the Legal Transformation Center and Assembly of Pro-Democratic NGOs of Belarus. The European Center for Not-for-Profit Law is a leading European resource and research center in the field of civil society law, based in Budapest. It aims to promote an enabling legal and fiscal environment for civil society in Europe and convey European experiences to other parts of the world.

² For information on direct state financing, see ECNL's paper on *European practices in public funding of non-governmental organizations*. The paper is available in Russian here: <http://www.lawtrend.org/wp-content/uploads/2014/05/Evropskie-Praktiki-Gosudarstvennoj-Podderzhki-Nepravitelstvennyh-Organizatsij.pdf>



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2. METHODS OF RAISING DOMESTIC FUNDS

Typically, fundraising implies making an appeal to private donors for a monetary contribution to raise funds for certain cause or overall mission of the organization. Based on the ways of communication with the potential donors, the following methods of fundraising can be distinguished:

- **Traditional methods of fundraising**, which usually involve direct communication with the potential donor through traditional communication channels - direct mailing, street or face-to-face fundraising, call ins, advertisement on TV or billboards;
- **New methods of fundraising**, when new technologies, such as Internet, mobile phones, electronic payment options, are used for fundraising purposes – crowdfunding platforms, sms donations, electronic donations;

For the purpose of this paper we review the new methods, which are emerging practices in fundraising applied by CSOs in CEE. Particular focus is given to benefits and problematic issues of each method, as well as an example case to illustrate how the specific fundraising method is implemented in practice.

In addition, we describe the indirect state support mechanisms, their benefits and potential issues for consideration, as well as practice of application based on case examples.

3. NEW METHODS OF FUNDRAISING

1) Crowdfunding and fundraising platforms

Crowdfunding³ is a method of financing that directly connects donors with a specific initiative suggested by a company, a public institution, a CSO or an individual. It is usually carried out through an open call on Internet. While calls for funds to the public are not new, the phenomenon of using the Internet to directly connect with supporters emerged recently. Its peculiarity is related to the specifics of accessibility to online communication and wider spread of online payment systems. As the result, crowd-funding contributions range from very small amounts to larger sums. Donors are oftentimes anonymous, making it difficult for the beneficiary to track the origin of donation and develop the permanent donors' database.

Crowdfunding can take many forms, from simple donations or rewards-based schemes to pre-sales, peer-to-peer lending and others. CSOs are traditionally involved in simple donations scheme, when the contribution is requested for carrying out a certain campaign. The European Commission Directorate General Internal Markets and Services recently carried out a

³ This section and further case examples are provided based on ECNL's paper on *Communication as a tool in fundraising for civil oversight: Central and Eastern European Initiatives* (2014, under publication)



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public consultation⁴ on crowd-funding in EU. The findings are important for understanding the rationale and opportunities this method of fundraising gives to CSOs.

The submitted opinions reflected on the general benefits of crowd-funding as providing:

- Reduced dependence on traditional sources of funding (pointed out by 75% of respondents);
- access for philanthropic, social, cultural, innovative and ecological projects to finances;
- citizens' engagement and community building;
- participation to innovation;
- democratization of finance, and empowering donors so that they can finance the projects they choose, with transparency provided towards donors;
- promotion of financial education;
- decentralization of finance and less bureaucracy in absence of traditional financial intermediaries.

Another advantage of this fundraising method is an opportunity to carry out idea testing with the public. It shows whether the public is ready to support certain cause or project, provides more flexible funds in terms of spending lines and can bring additional support, e.g. crowd-sourcing⁵ in terms of final product. It can also help to cultivate the donors' database for the beneficiary organization, if the contributor agrees to share their identification details.

At the same time among the main concerns expressed by the regulator on the potential risks of crowd-funding and possible need for introducing soft law regulation were:

- risk of fraud or misuse of the money by the recipient;
- possibility of misleading advertising by promoters or crowd-funding platforms;
- and treatment of incoming payments, e.g. whether reclaimable contributions are returned if the campaign was not successful.

Crowdfunding happens through fundraising platforms. Fundraising platforms are webpages created to facilitate connection and the procedure of monetary transaction between the potential beneficiary and

⁴ See the summary of submitted opinions to EC public consultation for crowd-funding:

http://ec.europa.eu/internal_market/consultations/2013/crowdfunding/docs/summary-of-responses_en.pdf

⁵ Crowd-sourcing is raising online ideas, services, content from a larger pool of contributors, e.g. creating disaster response maps, where people contribute with information, reporting mechanisms on inconsistency in provision of social services or misconducts, bribes by public officials.



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donors. They can be international online resources open for various beneficiaries, e.g. Causes.com, Kickstarter.com, Crowdrise.com, DonateNow/Network for good, or be specifically developed for national beneficiaries, such as Darujme.sk in Slovakia, Darujme.cz in Czech Republic, Dobroczynosc.com in Poland. At the moment there are 200+ fundraising internet platforms in EU. The national fundraising platforms are better connectors between CSOs and citizens, whose cause they represent, provide access to online payment systems oftentimes free of charge or at small cost and also strive to assure certain level of accountability for beneficiary organizations through introducing eligibility criteria and reporting requirements.

Case example: Transparency International Lithuania

In 2013 Transparency International Lithuania used the crowd-funding platform www.aukok.lt for running a fundraising initiative titled *Let's help voters to prepare for parliamentary elections responsibly*. Through this endeavor TI Lithuania managed to raise approximately €2,700 (90% of the necessary funds) for further developing the existing webpage on oversight of Lithuanian parliament activities ManoSeimas.lt. The webpage received an update in the run up to the parliamentary elections with detailed information on members of the parliament, their voting and gave an opportunity to run a test on what candidate can provide best representation of the voters' interests. Upon completion of the project a short report was uploaded at the project's profile page on www.aukok.lt. The donors of the project could choose to feature their names (19 contributors) or appear as anonymous donors (16 contributors). In case of another fundraising initiative through the same platform in support of human rights film festival TI Lithuania made a considerably lower return of less than €500.

2) Other forms of raising funds with new technology

Beyond fundraising platforms, there are other forms of collecting money with help of new technologies, such as sms donations or donor message service (DMS) and committed or regular online donations. These forms of contributions are often facilitated by the negotiated arrangement with the mobile operator or the bank for the lower or no cost of transaction.

The benefits of this fundraising method include:

- easy access for potential donors;
- user friendly payment alternatives for the donors;
- facilitated access for beneficiary organizations.

Possible negative issues of this type of fundraising method are:

- cost of transaction imposed by the mobile operators or banks and deducted from the donation amount;



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- taxation of received income by the state;
- making use of received funds by the beneficiary is not always public. However, this is different in case of DMS and direct debit, as there are eligibility requirements the organization must comply with.

A. SMS donations and donor message service (DMS). SMS donations are used for small financial contributions via text messaging by mobile phone to a specifically allocated number in support of a certain cause or CSO. The amount of donation is usually permanent and is automatically deducted from the phone credit by the mobile operator. As a matter of good practice, such donations are VAT exempted, e.g. Czech Republic, Slovakia. In some cases sms donations are facilitated by an operating organization and benefit several CSOs, this form of sms donations is known as donor message service. Under DMS the operating organization may choose to set specific standards for participating CSOs, such as duration of previous operation, acquiring registration for public collection under the national law, report on use of the received contribution by submitting periodic financial and activity reports. These requirements serve as a safeguard against fraud and ensure the donors that their money will be spent transparently.

Case example: DMS in Czech Republic

The Czech Donors' Forum in cooperation with the Association of Mobile Networks established a platform for donor message service called Donor SMS.⁶ The service facilitates sms donations to charitable projects in Czech Republic, provides advertising platform for the CSO projects, promotes ethical principles among beneficiaries and imposes sanctions on non-compliance. All projects are subject to approval by the DMS board, which consists of mobile operators and CSOs. After a project has been registered based on the Czech Law on Public Collections and approved by the DMS board, it is assigned a title code and its short description is posted online at the webpage <http://www.darcovkasms.cz/>. To make a contribution the donor must send a sms to an assigned mobile phone number with the title code of organization. An amount of 30 Czech korunas (approximately €1) is automatically withdrawn from the mobile phone account. There is also an option of committing to yearly support to a specific organization, when the same amount of €1 euro will be withdrawn automatically from the mobile phone account on a monthly basis. Out of 30 korunas, 28.5 korunas are allocated to the beneficiary. The mobile service operators provide their service free of charge. Results of fundraising can be viewed online: <http://www.darcovkasms.cz/seznam-projektu/uzavrene-projekty.html> Based on completed campaigns, the total amount of donations varies from a couple of hundreds euro (e.g. Centrum pro život Center for Leisure by a regional unit of Red Cross) to several hundred thousand (e.g. Srdce pro děti Heart for Children by organization Life for Children).

⁶ Information about the service, current and completed projects is available at: <http://www.darcovkasms.cz/>



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B. Committed or regular online donations. Committed donations by using bank cards or other online payment systems, such as Paypal, is a relatively new form of regular contributions to a specific organization. Its potential is not fully explored in Central and Eastern Europe, though there are attempts to introduce it some countries, e.g. Czech Republic, Slovakia. There are two major types of committed payments available for donors: standing orders and direct debit. Standing order is a regular, usually monthly, contribution with the amount pre-set by the donor. Standing orders give the advantage of a steady and predictable income to the beneficiary organization. It also establishes longer-term relationship between the donor and the beneficiary. Direct debit is a pre-approved instruction of the donor to their bank to allow the beneficiary organization to request a certain needed amount. This type of committed payment is applied in countries as Australia, Germany, Ireland and United Kingdom. In case of direct debit the beneficiary organization needs to meet more rigorous eligibility requirements through certification, which involves checks for integrity, financial health and administrative capacity.

Case example: Transparency International Slovakia

Transparency International Slovakia advertises options for committed small donations, which can be given through monthly support at the amounts of €5, €10, €15 or your own amount. The payment is organized through a Slovak fundraising platform www.darujme.sk, developed by Center for Philanthropy and hosted by an online charitable portal Ludia Ludom. Upon registration the platform provides a free-of-charge combination of financial payment donations to CSOs. The donation is attributed directly to the beneficiary organization's bank account. Joining *Transparency club* is another option of continuous support to the organization. It is a membership based support mechanism, which offers benefits to the club members, such as updates on activities and invitation to events. Membership is open both to individuals and legal entities. The options for individuals membership contributions include: regular, monthly contributions of €5, €20 or own amount; and one off payments of €75, €300 or own amount. The legal entities are subject to annual payments of €1,000 for regular membership or €5,000 for VIP membership.

4. INDIRECT STATE SUPPORT MECHANISMS

1) Proceeds from lotteries and games of chance

One of the alternative ways of supporting CSOs is obtaining financing through lottery proceeds and other games of chance⁷. This mechanism is applied in various countries – from China to Croatia – and can take different forms.

⁷ This section is developed based on the article by Katerina Hadzi-Miceva-Evans Lottery Proceeds as a Tool for Support of Good Causes and Civil Society Organizations: A Fate or a Planned Concept? The article is available in English here: http://www.ecnl.org/research/journal/vol12iss4/art_5.htm



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The differentiation lies within models for distribution of lottery proceeds for good causes on the basis of who decides on allocation. The distribution of received funds can be carried out by:

- A state or government body (e.g., Croatia, Denmark, Finland, Sweden). The level and areas of support are determined by law and/or decided each year by the government.
- Entities distinct from the government or lottery operator (e.g., National Foundation for Civil Society Development in Croatia, UK, South Africa, New Zealand). The areas and level of support may be decided in law or by the government, but decisions on individual grants are made by an independent body (albeit one that may include some government representation).
- The lottery operators (e.g., Croatia, Czech Republic, Romania, Serbia, Slovenia). They decide on the level and type of support mainly as part of their corporate social responsibility programs. However, in France, the operators who obtain a license have to participate in the financing of grassroots sport through a progressive taxation on stakes.
- Distribution prescribed by law. Occasionally, as in Macedonia, the decision on who will be the beneficiary of the lottery proceeds is not made by a certain body but is prescribed by law.

Lotteries are used as fundraising tools⁸ by CSOs in Germany, Ireland, the Netherlands, Spain, Sweden, the UK, Uzbekistan, and, most recently, Slovakia. They may either be used to raise funds for the CSO itself or for other causes. The lotteries may be one-off incidental events at a fundraising event, or ongoing stand-alone activities designed to raise funds over a longer period of time. These ongoing lotteries, sometimes known as “charity” or “society lotteries,” often exist parallel to state lotteries.

General characteristics of charity lotteries are:

- The main aim is fundraising for CSOs or disadvantaged groups or support of own activities;
- They donate a part of their income to the beneficiaries;
- They make no profits;
- Their funds are allocated and distributed by an independent body;
- They provide funds for the organizations as such (institutional support), but some also support projects or disadvantaged groups directly;
- They operate with a license from the government; and
- They tend to supplement and not substitute for public or state support.

⁸ For other types of financing for CSOs through lotteries and games of chance, see examples from the article Lottery Proceeds as a Tool for Support of Good Causes and Civil Society Organizations: A Fate or a Planned Concept?



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The benefits of financing CSOs from lottery proceeds are in availability of new, non-budgetary pool of finances for CSOs and possibility for targeted support to certain causes as identified by the state as in need of additional support.

The possible negative issues are related to:

- ethics of using the gamble mechanism to raise funds for CSOs;
- no real connection with the audiences, i.e. gamblers do not buy tickets to contribute to charity;
- high competition with other games of chance and possible other beneficiaries, in case the lottery does not benefit CSOs exclusively or establishes a percentage share for them;
- in case government decides on the priorities for the lottery, the possibility of “politicized” choice of beneficiary cause or CSOs.

Case example: Postcode lottery Netherlands

Postcode Lottery model was developed by Novamedia, a marketing agency. It currently operates the Dutch National Postcode Lottery, Sponsor BiCSO Lottery, BankGiro Lottery (all in the Netherlands), the Swedish Postcode Lottery, and the UK People’s Postcode Lottery. Novamedia receives a fixed percentage from the proceeds. The Postcode Lottery is a postcode-based subscription lottery (the ticket number is composed of the player’s postcode and a three-digit number). The ticket is sold on a subscription basis paid by direct debit so the player enters all the draws for the month; prizes are split among tickets, rather than players. Postcode Lotteries support only a limited number of CSOs (e.g., five in Scotland, eight in England, twenty-seven in Sweden, seventy-five in the Netherlands). These lotteries provide multi-year funding support and cultivate relationships with the media to raise awareness about the CSOs supported and the work they do, as well as promote winners. In the Netherlands about 2,5 million people are subscribed to the Postcode lottery. Out of each subscription 50% of proceeds are given to charity beneficiaries, which is about 80 CSOs. In 2013 the distributed amount was 302 mln euro.⁹

2) Percentage designation mechanism

Percentage designation mechanism is an innovative form of indirect state support to CSOs. It originated in Hungary and is applied in some countries of CEE - Romania, Slovakia, Poland, Slovenia and Lithuania. The concept of percentage mechanism was reviewed, but not adopted upon in-depth assessment of its possible impact in Bulgaria, Estonia and Macedonia. The percentage mechanism is currently being developed in Moldova.

⁹ See article on Good Money Gala, the yearly award ceremony: <http://www.postcodeloterij.nl/goede-doelen/goed-geld-gala-2014.htm>



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This financing mechanism gives an opportunity for the taxpayers to allocate 1% (in case of Slovakia it is up to 2% or up to 3%, if the taxpayer volunteered for at least 40 hours during the tax year) of their annual income tax to a selected CSO or other beneficiaries. The eligible taxpayers to participate in designation can be individuals (Hungary, Poland) or legal entities and individuals (Slovakia, Moldova).

The percentage mechanism gives an additional incentive for CSOs to develop and run promotional communication and fundraising campaigns to attract these resources. The campaigns are usually limited in time, as they target potential donors over the time of tax report submissions. Some CSOs spend considerable budgets for running advertisement campaigns in media and with help of new technologies.

Percentage designation can serve as a good instrument for additional source of income for CSOs, however, cannot replace traditional financial incentives for non-profit organizations. Ideally, it is supposed to nurture philanthropic thinking of contributors, as contributors need to look more into CSO causes and organizations themselves before allocating their percentage contribution. Undoubtedly, percentage mechanism helps to create better links between the CSOs and general public, who learn about CSOs' activities and become more aware of their causes during the CSO promotional campaigns to attract percentage designations.

On a less bright side, there is a limited pool of potential donors, usually up to 40% of taxpayers, who contribute to beneficiary CSOs. Once a certain level of contributions has been reached, the economic plateau of the model is established, so that the contributions to the sector are not significantly increasing. The number of contributions does not grow significantly afterwards making it "a set size of a cake" for all eligible beneficiaries. Moreover, the taxpayers seem to "favour" certain charitable causes, such as child cancer, animal welfare and hospital foundations, which already enjoy government support for their activities and also attract donations. More importantly, the main challenge for all beneficiary CSOs is that there is no reliable way of receiving information on the contributed donors due to data protection laws, so there is no possibility for a follow up after the donation and retaining the relationships with the donors.

Percentage mechanism is rarely regarded as a core source of income for a CSO, neither it is stable or reliable. For example, after the flat income tax was introduced in Hungary, some CSOs experienced considerable decline in 1% collections compared to previous results, as their donors' tax burden was eased. Moreover, in Lithuania and Slovakia upon introducing the percentage law the government decided to abolish tax benefits for donations to CSOs that obviously had impact on overall financial sustainability of the sector.

With the new source of funding the competition between CSOs and other eligible beneficiaries increases. For example, in Slovakia, Lithuania, Poland religious organizations can benefit from the same allocation, though they have to comply with the same eligibility requirements as CSOs. In Poland individuals in need can also be direct beneficiaries of the percentage support.



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Case example: Hungarian Civil Liberties Union TASZ

Hungarian Civil Liberties Union TASZ is a non-profit human rights watchdog NGO established in Hungary in 1994. TASZ aims to promote the case of fundamental rights and principles laid down by the Constitution of the Republic of Hungary and by international conventions. Generally, it has the goal of building and strengthening civil society and the rule of law in Hungary and in the CEE region. It is primarily supported by private donors, due to its mission of public authorities' oversight, TASZ does not apply for any direct state financing. However, it involves in fundraising for and collects 1% designation each year. TASZ is known for its appealing 1% advertisement cartoon videos, which are only shared online. The videos¹⁰ shortly and in a humorous way describe the mission of organization and why it needs taxpayers' percentage designations, e.g. the unrestricted funds received through 1% mechanism are used to cover litigation and other costs, which are not typically covered by private donors. TASZ also undertakes targeted 1% reach out to taxpayers with high donation potential, i.e. employees with higher income. As the result, TASZ collected approximately €26,800 in percentage designations in the year 2012. However, due to the change in the income tax rate, when a lower income rate was introduced for people with higher income, the most recent amount of percentage designations for the years of 2013 and 2014 was approximately €19,000.

5. ASPECTS OF FUNDRAISING REGULATIONS

Statutory and self-regulations on fundraising tackle various aspects of fundraising activities. Whereas self-regulation may set self-promoted standards on fundraising, which CSOs voluntarily adhere to, statutory regulations may encourage philanthropy and private giving through law, establish new mechanisms for support of the CSO sector and create a conducive legal environment for development of philanthropy. Both statutory and self-regulations may set guarantees for transparency and accountability of the overall fundraising process and cost-effective utilization of the funds received.

As stated in the recommendations of the World Giving Index 2013¹¹, governments around the world should:

- make sure not-for-profit organisations are regulated in a fair, consistent and open way;
- make it easy for people to give and offer incentives for giving where possible;
- promote civil society as an independent voice in public life and respect the right of not-for-profit organisations to campaign;

¹⁰ TASZ 1% webpage: <http://tasz.hu/1-szazalek>

¹¹ World Giving Index 2013: https://www.cafonline.org/PDF/WorldGivingIndex2013_1374AWEB.pdf



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- ensure not-for-profit organisations are transparent and inform the public about their work;
- encourage charitable giving as nations develop their economies, taking advantage of the world's growing middle classes

The following types of regulation address sector's involvement in fundraising activities¹²:

1. **Self-regulation:** Self-regulation implies commitment to publicly proclaimed standards of good practice, transparency and accountability of fundraising. It may take various forms, such as joining a national or international fundraising association, adopting code of ethics, participating in certification schemes. For instance, the European Fundraising Association (EFA) is a regional association of fundraising platforms and organizations in Europe. It consists of 22 members representing 18 European countries. EFA carries out a certification scheme for excellence in fundraising training by national fundraising organizations. It adheres to the Statement of ethical principles in fundraising¹³.
2. **Framework laws and regulations on CSOs:** Some countries, such as United Kingdom, Ireland or Hungary regulate fundraising activities under framework laws for CSOs. These laws cover all activities (benefits and obligations) relative to the charitable CSOs and are not specifically fundraising laws. Therefore, they include general provisions on registration, internal governance, but also monitoring, transparency and accountability requirements even, if not exclusively from a fundraising perspective.
3. **Fundraising and money collection laws:** Other countries, like Slovakia and Finland, regulate money collection/fundraising activities in separate laws, regardless of what organizational form is conducting the fundraising activity. They allow almost any types of legal entities, sometimes even private corporations, to be organizers of a public collection. These laws rather focus on other formal requirements related to fundraising and on the facilitation of different forms of fundraising activities. In addition to this, they oftentimes include provisions on fundraising permits/notifications and monitoring of money collections and utilization of the funds raised. This is the case of Finnish Money Collection Act (2006), Czech Law on Public Collections (2001).
4. **Supplementary legal acts and regulations:** In order to supplement or further specify general laws regulating fundraising, governments or other state authorities with might adopt additional regulations. These are for example governmental or ministerial decrees, local regulations applying only to determined areas.

¹² This categories are proposed in the ICNL/ECNL paper Comparative Research on Regulatory Framework of Fundraising (2014, under publication)

¹³ International Statement of ethical principles in fundraising, available here:

<http://www.afpnet.org/Ethics/IntlArticleDetail.cfm?ItemNumber=3681>



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5. **Other related laws and regulations:** Besides the explicit fundraising and public collection laws, there are several other regulations important to the understanding of the complete legal aspects of fundraising. These laws regulate further aspects not included in the fundraising and public collection laws and give details on how specific obligations must be conducted.

Accounting and bookkeeping laws: the most common complementary laws are those regulating financial procedures and formalities concerning presentation of results and annual reports.

Tax laws: other important laws that indirectly have an impact on fundraising by tax benefits for CSOs and donors. Almost all the countries reflect the philanthropic giving in tax laws by introducing tax credit or tax deductions for both corporate and individual donors.

Laws regulating brand building, marketing and competition: Under certain circumstances, these laws can have an impact on fundraising as well.

Data protection laws: Many CSOs keep information about their donors in databases therefore data protection laws shall be taken into consideration, too. In France, the database of donors has to respect the Law on Informatics and Liberties, which among other things stipulates that persons included in the database must be able to modify or erase their personal information.

Bank laws: Laws regulating banking procedures and transactions.

Some fundraising methods can enable additional laws:

Licensing laws: Event fundraising can be subject to several regulations, including local licensing laws, and others, e.g. alcohol licensing (if required), food safety and consumer protection. For example in France, for fundraising by selling goods, the goods must have a distinct mark, which is issued for the period of 3 years by the Ministry of Public Health.

Internet and consumer protection laws: Online fundraising and broadcast and telephone fundraising must comply with internet laws and consumer protection (distance selling) laws.

Laws on games of chance: Lotteries, bingo and raffles and other gaming activities may be subject to specific laws and regulations on games of chance.

Child protection laws: Fundraising that involves children is subject to child protection laws.

Money laundering and terrorist financing laws.



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6. PROMOTING FUNDRAISING FROM DOMESTIC RESOURCES

The role of the state in promotion and support to fundraising and private philanthropy is crucial for domestic resources mobilization by CSOs. The challenge with fundraising from private sources is not only in attracting donors, but also what are the incentives for the donors' contributions beyond "feeling good about the cause", whether the process of donation is simple and inexpensive, how the state recognizes improved philanthropic environment in the country. This is especially important for the countries with absent or weak tradition of philanthropic giving, as it is the case of many countries in CEE.

The state support for emerging philanthropy environment can be manifested by:

- i. **Introducing tax incentives for donors.** Indirect state support of philanthropy by awarding tax benefits after donations serves as an important tool for CSOs to attract private funding and encourage donors to engage in philanthropic giving. Tax deduction and tax credit are the main forms of tax benefits available for donors. Tax deduction allows the donors to deduct the amount donated from their tax base and is applied in Moldova, Bulgaria, Poland, and Hungary. It may apply either to corporate entities, or physical individuals, or to both. Tax credit, or reducing the amount of tax owed to the state, is applied in Macedonia, France.
- ii. **Ensuring favorable tax treatment of the raised funds.** In addition, the received funds may be exempted from regular income and value added tax. This measure not only encourages CSOs to undertake fundraising activities, but also can "make life easier" for CSOs to account for received contributions;
- iii. **Providing direct public financing to encourage raising funds from private sources.** This form of support is less common, but can serve as an additional incentive for the CSOs to undertake fundraising from private sources. For instance, each year the Hungarian National Civil Fund, which is an independently registered body for development of the financial sustainability of the CSO sector, receives a one-to-one match from the state budget based on the amount raised from percentage designation. The received funding is then allocated by NCF for operational grants to CSOs, which can apply to NCF operational funds.

The initiatives to facilitate development of private philanthropy in CEE are often led by CSOs themselves and can take several routes:

- Lobbying with national governments to institute policy and legislative changes that lead to improved conditions for philanthropy, e.g. Czech Association for Easy Giving;
- Creating innovative mechanisms to generate private support from individuals and the corporate sector, such as pooling funds and resources through creating an intermediary fundraising platform, e.g. DMS by Czech Donors' Forum in cooperation with the Association of Mobile Networks ;



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- Boosting CSOs capacity to mobilize private philanthropic resources from companies, foundations, individuals and sources of income generation by providing fundraising expertise and training, e.g. Slovak-Czech Fundraising Conference by Slovak Fundraising Center.

7. CONCLUSIONS ON RAISING DOMESTIC FUNDS IN CEE

In general, CSOs in CEE countries have untapped potential for raising additional funds from domestic resources. Few CSO competitors engage in regular fundraising activities and with a growing number of potential contributors in the middle income class fundraising can become an additional source of income for the sector. Some CSOs already use this potential, and are able to build a network of individual supporters and keep them regularly informed and involved, e.g. TASZ in Hungary.

Fundraising activities cannot substitute direct financing by public funds or donor organizations. Income received through fundraising supplements organizations financial portfolio, but cannot replace traditional forms of funding. Raising funds from domestic sources is increasingly practiced by CSOs in CEE, though still viewed with certain skepticism and caution.

There is a wide variety of available innovative methods for fundraising. Based on experiences of European countries, options for institutionalized mechanisms in support of fundraising activities may include traditional and new methods of fundraising, such as sms/dms fundraising, crowdfunding. In addition, there are state mechanisms for indirect support, such as lottery proceeds and percentage mechanism.

There are inexpensive and easily accessible communication channels and methods of contribution for beneficiary CSOs and donors. With spread of Internet and mobile technology use, there is a better opportunity to promote organization causes through promotion campaigns in social media, participating in fundraising platforms, building up and opening activities to the constituencies through establishing membership schemes.

Supportive legal environment regulating philanthropy and implementation of the laws in practice are important for promotion and enhancement of philanthropic giving. Laws regulating fundraising activities, tax laws introducing incentives for donors and lifting the burden of taxation from CSOs and other related laws in support of enabling legal framework for philanthropy have significant importance in development of philanthropic giving.

In order to demonstrate the best practice and cost-effectiveness of their activities CSOs are encouraged to report on their fundraising activities and utilization of the funds raised. Transparency and accountability requirements for CSOs can be regulated by both statutory and self-regulations. CSOs are encouraged to comply with non-compulsory self-regulations with higher level of transparency requirements in order to demonstrate the best practice and increase the confidence of donors.



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RECOMMENDED FURTHER READINGS AND RESOURCES

Readings:

Andresen K., McKee A., Rovner M., Homer Simpson for Nonprofits: The truth about how people really think & what it means for promoting your cause:

http://learn.networkforgood.org/Resources_911Archive_homersimpsonfornonprofits_resources_ebook.html

Andresen K., McKee A., Rovner M., Lisa Simpson for Nonprofits: What science can teach you about fundraising, marketing and making social change:

http://learn.networkforgood.org/Resources_911Archive_LisaSimpson_resources_ebook.html

Beckett C., Fenyo A., (2012) Connecting to the World, Communicating For Change: Media and agency in the new networked public sphere: <http://www.ibt.org.uk/documents/reports/connecting-to-the-world.pdf>

CAF, World Giving Index 2013: A global view of giving trends

https://www.cafonline.org/PDF/WorldGivingIndex2013_1374AWEB.pdf

Mihalik J. (ed.) (2012) Hearts and Money Beyond Borders: Fundraising from individuals for development and relief:

http://www.cpf.sk/files/files/HEARTS_AND_MONEY_BEYOND_BORDERS_PDCS_2012_PDF_version_complete.pdf

Other Resources:

Free online fundraising resources for CSOs: www.fundraising123.org

Comprehensive collection of fundraising materials from around the world: www.sofii.org

Materials of the Fourth Slovak-Czech Fundraising Conference (2013):

<http://www.fundraising.sk/en/conferences/4-sk-cz-conference>

Network for Good's fundraising insights and resources: http://www1.networkforgood.org/fundraising-insights/nonprofits_list