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**NEW APPROACHES FOR THE MOBILIZATION
OF LOCAL RESOURCES**

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Background

One of the most pressing questions for development experts is how non-governmental organizations (NGOs) in Central and Eastern Europe can become financially sustainable in coming years, as donor funds become increasingly scarce. Most NGOs in the region remain largely dependent on external financial assistance from foreign donors. This dependency is problematic for two reasons. First, international funding is unstable, and many donors already have redirected their funds to other more needy or politically important regions of the world. Second, existing international-donor funds in the region are often designated for particular projects or programs. Donors quite often dictate how their money can be spent, targeting issues they view as important rather than issues the NGO or community deems most critical.

The donor preference for project-based funding has forced many NGOs to prioritize project activity over organizational growth and sustainability. NGOs are sometimes so desperate in their search for funds that they are willing to veer from their mission in order to meet grant requirements.

Despite their shortcomings, international donors remain essential in Bulgaria because local funding sources remain significantly underdeveloped.

Given these constraints, it is clear the most attractive financial strategy is to diversify sources of income, thus minimizing organizational dependency on any one source. Although there is no simple formula for ideal diversification, maintaining a balance between external and internal resources would be the best way for an NGO to preserve its mission and achieve its goals.

This paper outlines several potential funding sources, some of them specific to Bulgaria, which can help NGOs reduce their dependency on foreign donors. These sources are addressed from a predominantly legal point of view. They include:

- Economic activity within the NGO
- Encouragement and development of philanthropy
- Delivery of public services funded by the federal government
- Use of volunteer labor
- Development of the capacity for EU project management

I. Economic Activity

Numerous Bulgarian NGOs are considering or already have launched strategies to initiate commercial activities. According to Bulgarian NGO law, NGOs (as separate legal entities) may conduct economic activity, provided it complies with specific legal criteria:

- The economic activity must be supplementary, meaning that the volume of the for-profit activity must not exceed the amount of basic non-profit activity.

- The economic activity must be relevant to the basic mission of the NGO, e.g., the business activity must be a means for achieving organizational goals.
- The revenues generated by the economic activity must be reinvested, i.e., used for achieving the objectives set forth in the statutes or the incorporation act of the NGO, as distribution of profit is explicitly prohibited.
- The scope of the economic activity must be defined in the statutes or the incorporation act of the NGO.

Internal obstacles

Many NGO employees lack the business and financial-management skills necessary to run an enterprise effectively.

The best solution for overcoming these internal obstacles is to build the professional capabilities of NGO employees. An assessment of the wide range of fiscal, legal and tax regulations affecting commercial activity is needed to educate and encourage NGOs to launch entrepreneurial ventures. NGOs must document their best practices and outline the advantages of shifting from short-term, project-based funding to long-term, business-oriented organizational development.

External obstacles

Current tax legislation imposes a corporate tax on any profits derived from economic activity. It is often difficult for an NGO to clearly identify which income comes from for-profit activities versus non-profit activities. This can make tax-code compliance extremely confusing.

Another legislative obstacle is related to the provision of services. Although the state is constitutionally obligated to provide certain social services to all citizens, this constitutional requirement is not enforced. Many NGOs provide valuable services in the health-care, social-assistance, educational and cultural sectors, which, in a sense, subsidize the government's duties. However, the state does little to support NGOs financially. Therefore, the state should be obligated to provide some support in return for the services delivered by the third sector.

These external obstacles can be addressed by making amendments to the tax laws that would:

- Stipulate the criteria for determining which NGO income streams are taxable and which are exempt.
- Exempt the income earned by NGOs from commercial activities up to a certain level

II. Encouragement of Philanthropy

According to Bulgarian legislation, public-interest NGOs are the main recipients of tax benefits.

Taxation of corporate donations to NGOs

Current tax legislation allows corporate donations of up to 10% of annual income to be tax exempt if the beneficiaries fall within the categories outlined in the tax law. Public interest NGOs are included in the list.

Corporate donations

- Large companies with annual revenues exceeding 5 million *leva* (approximately 2.5 million euros) are most willing to provide donations.
- Only 6% of companies specifically designate funds for philanthropy.
- Only one-third of corporate donors indicate that associated tax benefits are instrumental in their decision to donate.
- Less than 50% of companies are aware they would qualify for tax benefits if they made charitable contributions.
- Only 42% of companies request an official document from NGOs certifying they have made a donation.

Taxation of individual donations

Citizens who are employed under labor contracts or are self-employed or receiving rental-property income are eligible to deduct up to 10% of their annual income for donations to organizations listed as eligible under the tax code.

Practice of making individual donations

- Individual contributions are influenced mainly by financial status, the size of the requested donation and the designation of the donation.
- Only 15% of individual donors indicate that the opportunity for using tax benefits is their major motivation for making contributions.
- Only 4% of contributors are familiar with the various tax incentives for making donations, and more than 33% of citizens openly express distrust in charitable campaigns.

Donation tax

Donations made to public-interest NGOs are eligible for a 5% donation tax exemption when the donated property is used by the organization for fulfilling its legal mission.

Steps for educating the public

The main barrier to philanthropy is not necessarily a lack of legislation but rather a lack of public understanding of existing laws. This provides NGOs with an opportunity to promote philanthropy by educating the public about the various tax-related benefits of giving. That being said, legislation could be improved, and NGOs should continue to explore and lobby for the introduction of alternative or additional donor incentives (like the 1% law) in Bulgaria.

Initially, it is important to survey and analyze the major motivations for giving. NGOs also must create strategies to convince potential givers that they are worthy recipients of contributions.

The next step should be to adopted strategies for educating donors and raising public awareness about:

- Tax incentives for donations
- Collaboration with the media for the widespread dissemination of information on philanthropy
- Publicizing success stories

III. Delivery of Public Services Paid by the State

Social sphere

Although legislation identifies NGOs as among the most important players in the social sphere and essential for social-services delivery, NGOs are not designated as the most suitable service providers, nor are they guaranteed any contracts through the state.

The lack of sufficient funding for social-service delivery remains a huge problem in Bulgaria. Social services are decentralized, and local governments, which are predominantly responsible for their delivery, lack the capacity to deliver the services effectively themselves, as well as the desire and funding needed to assign this responsibility to other organizations and compensate them accordingly.

Measures

- Encourage municipalities to designate funds for paying NGOs to deliver social services.
- Create models for the collaborative delivery of social services, with joint participation by municipalities and NGOs.
- Suggest and implement best practices in the field of contracting the social-services delivery to NGOs.
- Build the capacity of NGOs to manage the provision of social services.

Health-care sphere

The basic disadvantage of the existing legal framework that regulates the establishment of health-care institutions is its organizational form. NGOs are excluded as a possible legal entity for operating a health-care institution. According to Bulgarian law, health-care institutions must be legally registered as commercial entities or cooperatives, not as NGOs. Thus, NGOs are not eligible to receive federal-government and foreign-assistance funds available for this sphere, despite the prevailing policy among foreign donors to support NGOs as the most appropriate organizations for providing health-care services.

Solutions

For the benefit of the public, the law on health-care institutions must be amended to allow NGOs to operate as health-care institutions. This would bring the following results:

- Bulgarian legislation would comply with the European practices of operating health-care institutions.
- The natural relationship between public-benefit outcomes and activities in the health-care sphere would be enhanced;
- New sources of funding would be established for health-care institutions operating as NGOs, because NGOs have access to donor programs, grants and donations.

Public procurement

Regulations in the area of public procurement offer possibilities for NGOs to become providers of goods and services. However, in practice, NGOs are rarely contracted to execute public procurements. By tradition, assignors (including state agencies and bodies operating with budgetary funds) are more inclined to assign public procurements to business entities than to NGOs. On the other hand, NGOs are not accustomed to viewing this as a potential source of income.

Steps for encouraging NGO public procurement

- NGOs need to be informed about the opportunity to engage in public procurements as a way to generate economic activity.
- NGOs have to be encouraged to apply for public-procurement assignments.
- NGOs must be trained for managing public procurements.
- Assignors, including state agencies and public bodies, must be encouraged to consider NGOs as eligible subjects.

IV. Recruiting Volunteers

Bulgarian legislation fails to define volunteerism in legal terms or to provide any legal mechanism for regulating the performance of voluntary labor. In essence, this practice is not recognized by the law.

Solution

This problem can be overcome through the adoption of legislation that regulates the following:

- The legal status of volunteers and voluntary work
- The requirements for conducting voluntary activity
- The mechanisms for compensating volunteers and reimbursing any expenses they incur
- The rules for protecting the rights of volunteers
- The provision of social benefits, such as health and social insurance, to volunteers

In short, NGOs and the private and public sectors must come together to lobby for an effective law on volunteerism.

V. Preparing for EU Project Management

The expected accession of Bulgaria to the European Union will have a significant impact on the NGO sector. There will be increased funding for NGOs from the EU structural funds in the new EU-member states. This will be accompanied by additional requirements to comply with the high management standards associated with the funding. Bulgarian NGOs must comply with the existing EU requirements for organizational capacity, financial viability, good governance, transparency and accountability of activity.

Steps to prepare NGOs to meet these criteria should be adopted immediately. Program-related training should cover:

- Procedures and rules of the new EU tenders
- Normative acts (national and international) regulating tenders and financing under EU programs in Bulgaria
- Preparation of applications for EU tenders
- Technical and financial management of projects
- Mechanisms for monitoring and evaluating projects
- Technical and financial reporting requirements
- Achievement of high social impact from implementation of projects

Organizational measures must address:

- Building organizational capacity
- Achieving financial viability
- Adopting European practices of good governance
- Transparency and accountability of activity