



**THE WILLIAM DAVIDSON INSTITUTE**  
AT THE UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

**POLICY BRIEF #24**

**CHANGING NOT-FOR-PROFIT MENTALITY:  
CASE OF UKRAINIAN NGOS**

Oleksander Sydorenko\*

January 2005

\* Oleksander Sydorenko is the director of the Consortium for Enhancement of Ukrainian Management Education (CEUME) and the director of the Innovation and Development Center (IDC).

## **Overview**

This policy brief examines the different activities undertaken by a Ukrainian local non-governmental organization (NGO) to become less dependent on donors' support and to introduce "for fee" services.

### **I. Ukrainian NGO Sector: Background**

In the early 1990s, the Ukrainian "third sector" was in the early stages of self-definition and development, and trying to gain a better understanding of the concept of an NGO. Though NGOs existed in the former Soviet Union, they were based on different principles. After Ukraine proclaimed its independence, the Verhovna Rada (parliament) adopted new legislation in 1991 requiring the use of democratic principles in the establishment of future NGOs. This law, "About People's Associations," was quite progressive for its time. It reflected not only current political realities in the country, but also current political understanding of the NGO concept.

People gradually realized that to ensure development of a civil society in Ukraine, it was necessary to foster organizations other than people's associations (civic organizations). Consequently, legislation was adopted over the last several years to cover charitable organizations, credit associations, religious organizations, self-governing organizations and organizations of local self-governance.

New tax legislation, which also was enacted, recognized existing NGOs in Ukraine and granted them certain tax exemptions. A crucial provision of the legislation limited the collection of non-profit charter funds to charitable donations, passive income and revenues generated by enterprises set up by non-profits. This requirement significantly shaped the mission of the Innovation and Development Center (IDC).

In the early years of Ukraine's independence, foreign donors focused on supporting the development of democracy through funding NGOs and their activities. Noted philanthropist George Soros was the first international donor to come to Ukraine in the late 1980s and introduce his financial support programs. He jointly founded the International Renaissance Foundation with several Ukrainian organizations and started supporting NGOs through grants, with mixed success. In the beginning, the Foundation's funding was often misused. Recipient organizations submitted proposals for projects that were bogus, and proposed program activities they never intended to pursue. Often, grants were only used for purchasing equipment such as computers, printers, fax machines, etc. rather than for implementing activities described by grant application.

The next stage of support was mass funding for NGO activities in the form of international technical support from organizations, such as Counterpart International, the Eurasia Foundation and the U.S.-Ukraine Foundation. These organizations funded training programs and distributed information for NGOs.

As a result of Ukraine's legislative changes and the increase in funding opportunities, the nation's NGO sector has grown rapidly. Every year, 4,000 to 5,000 new NGOs and charitable organizations are now registered in Ukraine. Most of these organizations are created with the hope of obtaining funding for their activities through grants or charitable donations. NGOs also expect that their charitable status will enable them to resolve the social problems of the people who participate in their organizations. All too often, however, these groups of veterans, disabled people or people with particular illnesses must soon face the fact that registration does not guarantee funding. Not all organizations receive grants, and most of these newly chartered NGOs do not survive. The procedure for terminating an organization is far more complicated than the procedure for registering one. Consequently, though over 50,000 NGOs and charitable organizations formally exist in Ukraine, while only 10% of them actually function.

## **II. Innovation and Development Center: Destroying Stereotypes of NGOs**

The Innovation and Development Center was founded in 1998 as a civic organization. IDC's mission is two-fold: to support the development of the NGO and charitable-organization sector and to introduce new teaching methods into Ukraine's universities. This dual focus has proven to be strategically advantageous. When there are few donor organizations, it is more difficult for an NGO with a single program focus to obtain grants on a continuing basis. However, an NGO with multiple programs can attract funding for different programs from the same donor, and if one program activity fails to attract grant money, the other ones may succeed. This diversification of risk allows an NGO to maintain continuity in staffing levels and to conduct at least some of the program activities that failed to attract grant funding.

The goal of each IDC project has been to encourage NGOs to produce services in exchange for fees. The motivating principle is that IDC, or any organization, cannot subsist on grants forever, so it is necessary to develop a consumer market that covers some production expenses. While this strategy can ensure the stability and sustainability of the organization, it has prompted IDC to deviate from the traditional concept of the grantor-grantee relationship. For instance, if a donor's goal is to publish a certain number of copies of a book, there is no guarantee that consumers (NGOs and charitable organizations) will consider the book a necessity or express demand for it. Conceivably, 1,000 copies of a book could be published and then thrown away because demand is lacking, and the donor would be satisfied because the books were published. IDC has adopted a different approach: If an organization pays for publishing a book (even though it does not cover all the publishing costs), this adds value to the book. For that reason, IDC has adopted the motto: There are no free lunches.

NGOs and charitable organizations have been the primary consumers of IDC's informational products. IDC has published magazines and books on practical topics, such as accounting, public relations and fund-raising, and has conducted non-profit research. IDC was fortunate that a Charles Stewart Mott Foundation grant it received had fewer bureaucratic restrictions than normal and allowed more program creativity. Each project submitted to foundations by the IDC has involved partial funding from other sources, specifically funds generated by the NGOs and charitable organizations themselves. (In contrast, when other organizations with a similar submission approach refer to "other funding," it generally means "other foundation funding.")

IDC's objective not only has been to obtain grant funding but also to make consumer organizations actually pay for the services provided, including books, magazines and Internet resources. In essence, IDC has been selling its publications. At a point when this "for fee" activity reached an all-time high, IDC was accused in the press of selling products to other organizations that were published at grantors' expense. Explanations of IDC's guiding principle mollified some critics, but many organizations and, to some extent, the donor community continued to view IDC in a negative light. Most of donors wanted their funds to be "clear" and used for creating and disseminating products for free. Consequently, the number of donors supporting the principles adopted by IDC decreased, but this did not dampen IDC's enthusiasm.

To use the "for fee" concept successfully, it was important to find a way to attract consumer organizations. Initially, books published in 1999 and 2000 were sent only to organizations that agreed to cover mailing expenses. IDC required organizations interested in receiving its publications to send: funds to cover "postage and handling" (equal to 3 times mailing cost), as opposed to an amount sufficient only to cover postage cost. This not only enabled IDC to save money on mailing expenses, but also helped to fund the project, as stipulated by the grant. It also reinforced trust in the organization because IDC received no cash through the transaction and had no opportunity to spend it improperly. Moreover, consumer organizations grew accustomed to paying for IDC publications.

An organization that requested a free publication but did not send postage still received a copy free of charge. The copy was accompanied by a letter explaining that IDC was able to send them the publication because another organization in the same city (identified in the letter) had sent enough postage to cover the mailing expenses for both organizations. The letter also stated that IDC would search for funds to prepare and publish new books, but only with the expectation and understanding that consumer organizations would find funds to cover the mailing expenses. IDC encouraged consumer organizations to ask the nearest commercial firm for financial help in covering postal costs. The letter stated: "We are sure that the company will not decline your request. It will be your first experience in fund-raising activities and will open the doors of the company for you."

This self-perpetuating funding technique proved to be effective, and during the first years, IDC spent almost no money on mailing expenses. This allowed IDC to send out thousands of advertising materials and information about new publications, and to expand its consumer base.

The next challenge was to reach a stable funding level for IDC. Since legislation limited the sources of revenue available to NGOs, IDC opted to establish two "clubs" of financial supporters. To become a supporter, an organization transferred a certain sum of money to IDC's bank account as a charitable contribution. In return, the organization received either a year's subscription to Crossroad magazine, a specialized publication for NGOs and charitable organizations, or a set of practical books, in addition to the magazine.

Funds received through this club approach enabled IDC to start publishing without grant assistance. IDC published Bookkeeper at NGO, a specialized magazine about accounting at non-profit organizations, a weekly information digest called Third Sector and supplementary

materials to Crossroad magazine. The periodicals were well-received by leaders of NGOs, charitable organizations and donor foundations.

Although more than 25,000 NGO and charitable organizations were registered in Ukraine at this point and most of them received IDC information and advertising materials, only 300 organizations opted to join IDC's "clubs" and receive its publications. Most of the 300 groups that joined the clubs had never received any training in NGO management, so the methodological materials IDC published on topics such as bookkeeping, public relations, lobbying and fund-raising were useful to them. Very few of the IDC supporters were receiving grants, so representatives of these organizations usually explained that grant budgets contained no funds allocated for buying books and they lacked any other sources of revenue.

### **III. Cross-sector partnerships**

IDC also successfully established cooperative partnerships with businesses and local authorities, a program goal achieved through funding support from the Charles Stewart Mott Foundation. Though this goal was mentioned in the grant proposal, its implementation was not specified.

#### ***Local Authorities***

IDC had created a database of NGOs and charitable organizations in Ukraine, and its publishing portfolio included a directory of rights-protection organizations. IDC received a proposal from the state administration of Kyiv city to publish jointly a directory of the city's NGOs and charitable organizations. This proposal was perfectly aligned with IDC's program. Since then, three editions of the directory have been published, along with two directories of Kyiv's national cultural associations. Another directory of Kyiv's religious communities is currently being prepared for publication. The preparation and publication of all the directories was funded by the state administration of Kyiv city.

The release of the first directory created another opportunity to cooperate further with the city's state administration. IDC proposed the creation of a new annual holiday, Kyiv NGO Day. IDC obtained funding for the inaugural event from the U.S. Peace Corps and Bank Austria Creditanstalt. Kyiv's state administration limited its participation to an administrative role in the first year. The success of the first Kyiv NGO Day stirred a great deal of interest among NGOs and political circles in Ukraine. This warm reception made it possible to include the holiday in the list of traditional annual events, thus securing funding for future years from the local budget.

The same strategies were used by IDC when it inaugurated another annual celebration — a festival of national traditions, known as "Folklorama." IDC involved Kyiv's national cultural associations in planning the event and secured funding from Philip Morris Ukraine. Subsequent "Folkloramas," including organizational work conducted by IDC, were sponsored by Kyiv's state administration. Beginning with the first "Folklorama," IDC provided small grants to the national cultural associations that participated in preparing and conducting the event as a payment for their services.

### ***Businesses***

Successful cooperation with the Ukrainian business sector was another goal established under the first Charles Stewart Mott grant. The grant required IDC to conduct surveys and lobbying campaigns to assess the willingness of businesses to provide corporate sponsorship and support for NGOs and charitable organizations. Despite the fact companies frequently received funding requests, the idea of corporate sponsorship was not very familiar to the Ukrainian business sector in 1999.

Previous contacts between businesses and NGOs/charitable organizations had yielded disappointing results, and the business community was reluctant to extend any cooperation. This standoff was the result of a “language” barrier stemming from the fact that NGOs speak the language of grant proposals with donors. When NGOs asked business organizations for support, they were generally refused because the business sector speaks a different language — the language of numbers — and has different expectations from a partnership with NGOs. Through a survey and presentation of program activities, IDC convinced many companies that professional, responsible work standards were possible within an NGO.

In addition to fostering company involvement through the sponsorship of small events, IDC established a long-term relationship with Philip Morris Ukraine. For five years, IDC has administered different corporate charitable programs. These include important annual events such as “With Good and Respect,” which funds meals for 12,000 disabled pensioners each year, and an aid program for Ukrainian hospital hematological departments, which funds treatment for children suffering from cancer and blood-system diseases caused by the Chernobyl tragedy. Philip Morris Ukraine has channeled \$3 million through IDC for the development and implementation of these charitable programs in Ukraine.

With the company funding the administration costs of the programs, IDC’s overhead fluctuates between 2% and 10% of the budget, which enables the organization to accumulate funds for program development and self-maintenance. Funds accumulated for several years have been deposited in banking accounts, and now the interest is used to help cover the organization’s current expenditures.

### **IV. Criticisms**

Many NGOs in Ukraine consider their work to be exceptional and altruistic, and therefore, they expect everybody – the government and the business community — to help support them. As a result of this rather self-righteous attitude, NGOs take offense at what they perceive as a government and society that do not recognize their idealism nor provide financial assistance or a proper legal framework.

NGOs can be better served if they examine their own motives and actions rather than blaming society. Many NGOs are inefficient because of internal shortfalls, such as a lack of organizational structure and managerial skills, a fear of transparency in conducting activities and a passive approach to obtaining financial resources. (NGOs are afraid to “beg for money” from a society that has not known a tradition of philanthropy for more than 70 years.)

Donor organizations also must share the blame, because they do not have a clear strategy behind their funding of the "third sector." They could have helped to transform NGOs and charitable organizations into professionally operated organizations. Instead, donor groups provide support for project implementation while ignoring their potential role in organizational development. Most of them do not conduct preliminary evaluations of recipient organizations or monitor how their funding is used. Consequently, donors are partially responsible for fostering a sector of "grant-consuming" organizations that are willing to apply for work that will yield any kind of tender.

Numerous projects aimed at developing the non-profit-sector infrastructure — such as Eurasia Foundation's and the Charles Stewart Mott Foundation's support for a network of resource centers serving non-profit organizations) have proven to be ineffective. The two foundations did not succeed in developing a network of organizations, and most of the grant recipients (resource centers) have disappeared.

IDC has attempted to change the way NGOs operate by promoting the principle of fee-based services. Most organizations have come to realize the expediency of this approach. Increasingly, there is evidence of this acceptance in grant proposals where NGOs declare their desire to attend seminars or to purchase books about providing fee-based services, even if they have not yet secured the funding to implement what they may learn. Meanwhile, some donors are prejudiced against NGOs providing fee-based services. They are particularly reluctant to introduce even the smallest registration fees for magazine subscriptions or participation in conferences.

IDC has proven it is possible to establish partnerships with businesses – for program or event sponsorship, or the administration of a corporate charitable program – but only when clear justification for its purpose can be provided. It is necessary to convince businesses that they need to participate and to guarantee that funding will be managed in a clear, transparent way. Establishing trustworthy relationships also requires conducting open tenders with the participation of donors at all stages of organizing and holding that tender, as well as open auditing and publishing of financial reports.

In order to be successful and self-sustaining, Ukrainian NGOs need to change the way they think of themselves and their missions, and alter their attitudes about how they fit into civil society. Interacting and working cooperatively with businesses will help NGOs improve their attitudes and gain a better understanding of the ultimate lesson of survival in the third sector: If an organization wants to become a successful non-profit, it must observe the rules and practices of real business. Rather than simply following others, it must find its own market niche and supply a unique product.

## ABOUT THE AUTHOR

**OLEKSANDER SYDORENKO** is the director of the Consortium for Enhancement of Ukrainian Management Education (CEUME) and the director of the Innovation and Development Center (IDC). These nonprofit organizations oversee training activities and a civic and international charitable fund. Sydorenko has 10 years of international-program-development experience in strengthening the Ukrainian non-profit sector and promoting the use of the case-study method, as well as other innovative techniques, in the Ukrainian educational system. His skills encompass program development and management, press and public relations, training design and public education.

Sydorenko also has extensive experience in fund-raising. Since 1998, he has raised over \$4 million to fund charitable activities and operate the IDC. Under his management, the IDC has grown into one of Ukraine's leading NGOs. Through IDC and CEUME, he has successfully promoted the widespread acceptance over the past five years of the case-study method as an educational tool, which is now used in more than 90 universities throughout Ukraine. He also has developed a Case Study Clearinghouse with more than 100 Ukrainian cases addressing the local business environment. In 1999, he established the business journal Synergy. Through the IDC, Sydorenko has worked very closely with the non-profit sector. He has established two magazines, Bookkeeper at NGO and Crossroads, which address issues affecting Ukraine's non-profits: To strengthen the third sector, he has developed practical training courses, published training materials, and promoted partnership opportunities for NGO management. He is a widely published author, both nationally and internationally, who has published in books and journals not only in Ukraine, but also in Canada, Russia and Australia. In 1990, he won the Republican Premium of Mykola Ostrovsky prize in literature and journalism for the best book published in Ukraine for the year.