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**Domestic Funding of NGOs:  
Opportunities and Prospects**

**by**

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# **Domestic Funding of NGOs: Opportunities and Prospects**

## **INTRODUCTION**

This study, conducted under the auspices of the Belarus Public Policy Fund, presents an analysis of the various sources of domestic fundraising available to Belarusian NGOs. The strategic goal of finding specifically home-grown granting opportunities for non-profit organisations is to ensure the sustainability of both individual organisations and the sector as a whole. Domestic fundraising sources of NGOs have four main advantages; they reinforce ties with target groups; adds up to organisations' financial sustainability; enhance flexibility and prompt reaction to challenges and problems; and enable organisations to stick more clearly to one's mission and tasks. This study provides an overview of current opportunities and presents practical recommendations on further prospects for fundraising<sup>1</sup>.

The considerable popularity of "grey" (underground, illegal) economical techniques must be borne in mind when analysing NGO finances. According to the 2008 NGO Sustainability Index, the number of organisations carrying out partly or fully illegal activities is on the increase.

## **1. CURRENT SITUATION**

### **1.1. Charity by individuals**

Charity by individuals is treated rather liberally by the law, which has not changed for several years. The complexity of the anonymity clause and the requirement to identify the final destination of the donation are some of the peculiarities of local law. The latter can sometimes result in a surplus of funds for a specific need, as NGOs are not entitled to redistribute donated funds.

Charity-raising campaigns are booming and are able to raise thousands of dollars within weeks. This is mainly due to the increased use of the internet by NGOs. Celebrity participation is also used to raise the profile of some charitable campaigns. However high-tech campaigns have not been very effective so far, due to a lack of technical experience. For instance, it was only this year that NGOs gained internet-acquiring opportunities<sup>2</sup>. Donations via payment terminals, ATMs or mobile phones are not popular and rarely promoted. Private donations can also be an important channel for "grey" funds. In complicated financing schemes, dubious funds can be legalised as a donation by some individual.

In kind donations are complicated by unattractive and expensive state registration procedures. Several different techniques in combination enable significantly higher fundraising effectiveness. Charity packages can be used effectively for institutionalizing interaction with large and loyal contributors.

### **1.2. Charitable donations by companies**

Donations by companies are complicated both by the law and by the current financial situation. However, the potential clearly exists for further cooperation. The decree by the President of the Republic of Belarus dated the 1st July 2005 "On sponsorship assignment and usage" is a

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<sup>1</sup> This is an edited paper. The full version in Russian can be found at [http://srodki.org/?page\\_id=198](http://srodki.org/?page_id=198)

<sup>2</sup> More details on internet-acquiring can be found at the round table discussion reports <http://srodki.org/?p=19>

key regulation in this sphere. The decree significantly restricts charity possibilities for legal entities and brings forth strict accountability conditions. State-run enterprises are effectively prevented from making independent charity decisions by the requirement to consult higher authorities, making the decree a serious obstacle for philanthropic assistance by companies. It is often simpler for companies to mask an in kind contribution as a part of marketing activities rather than formal sponsorship; e.g. a company might undertake some project activities free of charge, or purchase necessary materials on own behalf of an NGO. These practices are likely to be encouraged by a recent decision to cancel rate setting for advertisement and marketing researches in 2010.

The so-called Sabbatarians or Subbotniks pose another option for in kind contributions with employees of a company jointly volunteering. However, a written consent of all contributors is needed. Some employees can also be delegated for a temporary internship in an NGO. For instance, an informational campaign might be assisted directly by professional designers of a printing firm, rather than by a donation.

Therefore, regardless of the crisis and overregulation of the sphere, companies indicate readiness to support NGOs. As a rule, they are aware of NGOs' role in a state and are willing to cooperate with various NGOs. The Decree No 300 also makes many companies use their marketing budget to circumvent regulations. When dealing with small businesses, a donation is easier to register as charity by an individual, as the funds derive from net profits anyway.

### **1.3. Sponsorship**

In Russia, sponsorship is defined as a contribution to someone's activities in return for advertisement. In Belarusian legislation, sponsorship is not differentiated from charity. Sponsors are not entitled to set conditions on NGOs, thus do not see them as likely commercial partners. Only companies with foreign capital and management culture have sponsorship as a part of their marketing plans.

Sponsorship can be seen as a viable tool mostly for some specific types of NGOs, like consumer cooperatives or clubs of dog breeders. Organisations with good media exposure can also expect sponsorship. But so far, business companies' assistance to NGOs is charity rather than sponsorship.

### **1.4. Enterprise activities**

Research by the NGO The United Way<sup>3</sup> has estimated that just 35 percent of NGOs were engaged in profit-making activities in 2003, with only 5 percent doing it permanently. It is not common for NGOs to carry out economic activities, with rare exceptions posed by social entrepreneurship (cases of the [Belarusian Association of Assistance to Children and Young People with Disabilities charter in Stolín \(Белорусская ассоциация помощи детям инвалидам \(БЕЛАПДИ\) в Столине\)](#) and [Belarusian Association of Visually Impaired People \(Общественное объединение "Белорусское Товарищество инвалидов по зрению"\)](#)).

Since 2005, most of types of NGOs have been deprived a right to do entrepreneurship. Many organisations were affected by the ban, as many activities – like sponsorship, charity sales or lotteries, scheduled exhibitions, seminars and mass events - though not perceived as business, still are formally considered an economic activity. In some cases organisations can get round the prohibition of economic activities by signing an agency contract, enabling a company to do business on behalf of an NGO. However, in such a case incomes are considered as earnings rather than grants, meaning that they are subject to regular business taxation.

Education services are among the most obvious economic activities available for an NGO. According to the findings of research by The United Way, one in five NGO members is a pedagogue. Lectures or seminars constitute a dominant activity for many organisations, even those who do not identify themselves as educational. However, only very potent NGOs can gain significant profit without the detriment of main goals.

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<sup>3</sup> <http://ngo.by/monitoring/human-resources/b7dff4c4d18d1572.html>

As a conclusion, it is not recommended that NGOs use economic activities for fundraising. Registering a **non-profit institution legal entity** can significantly improve opportunities for doing business, facilitated by law amendments in 2009. This seems to constitute a promising legal form of NGO.

### **1.5. Revenues from events**

Lectures, exhibitions, sports and other events could bring considerable earnings; however, legal practices are unfavorable for making full use of this method. The revenues of this kind might be treated as business – something either banned for most NGOs or at least profit-taxed.

As a part of this research, four relevant ministries were contacted for explanations on the subject. According to the opinion of the Ministry of Justice, revenues from events can be used only for covering event costs.

### **1.6. Membership fees**

A need to levy membership fees is a stimulus for an NGO to maintain relations with members and promote the membership. Even if the members of an NGO are not its main target group (e.g. in a case of a voluntary organisation to assist ill children), still, they should be viewed as an important target group.

It is recommended to levy ad hoc membership fees clearly tied up to tasks raised by an NGO; it would be helpful for a clear demonstration of what they are needed for. An NGO member usually cares for the organisation's goals, which is why accountability and a clear link between fees and organisational achievements are crucial. An opportunity to pay a fee after a deadline should be looked into, as well as some immaterial encouragement for accurate payers.

Sometimes it is handier for membership-based NGOs to register ad hoc membership fees as donations. Other forms of organisations also can "imitate" fees by informal agreements on accepting donations. Alongside financial sustainability, this mechanism is also positive for organisational development.

### **1.7. Volunteers and interns**

Though almost entirely unregulated, volunteering has the potential to grow. The Belarusian Red Cross has been able to involve more than 20,000 volunteers, with more than 5000 on a permanent basis. When asked, volunteers say that a lack of information is the main obstacle to getting involved<sup>4</sup>.

A study in Pinsk by A. Lysiuk indicated that just a third of volunteers are fully satisfied with their experience. It seems organisations fail to motivate them. Internship can also be viewed as an inexpensive human resource. A registered NGO is entitled to accept a trainee from high school or university, if a student is interested. Unregistered initiatives can invite trainees from the European Humanities University (EHU) in Vilnius. Besides the mandatory internship, extra programs can be arranged.

### **1.8. Other ways**

There is a range of legal mechanisms that are already partly in line with the idea of a **public procurement**, i.e. granting governmental funds to NGOs to carry out socially beneficial programmes. NGOs are deprived a right to make use of endowment mechanisms, despite it working in neighboring countries, including Russia. If entitled to economic activities, organisations can imitate the mechanism of a special-purpose capital (endowment) by means

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<sup>4</sup> Волонтерская деятельность в региональном контексте: социологический анализ.» А.И.Лысюк, Брестский государственный университет им. А.С. Пушкина

of investing their own savings. Discounts by private companies cannot be a source of income; however, by enabling saving, they can positively affect NGO's sustainability.

## **2. OPPORTUNITIES AND PROSPECTS**

### **2.1. Other 'Stakeholders'**

„As a rule, advocacy success stories are delivered by effective efforts of single organizations rather than coalitions“<sup>5</sup>. Organisations capable enough to actively promote their interests include major NGOs with extensive membership (GONGOs included), networks and umbrella NGOs, or service organisations aiming specifically at improving legislation and lobbying for NGOs' interests.

The third sector is not the only player in the field of civil society initiatives and interest-lobbying. Governmental institutions can also be stakeholders, though it is difficult to identify those bearing actual influence and power. The President's Administration has taken steps viewed by some as experiments to shape "a controlled opposition and a controlled civil society". Recently, expectations have been rising for significant liberalisation and democratisation developments. However, just as valid are the expectations for further negative measures associated with pre-election campaigns.

Whatever official legislative initiatives come about concerning the third sector, GONGOs are the most likely targets. This is why one should keep their capabilities and interests in mind.

The European Union should be mentioned as the most active foreign stakeholder. It has identified freedom of association and facilitating activities of NGOs among top five priorities. The Eastern Partnership initiative is likely to emerge as the major mechanism of EU-Belarus interaction. As far as our eastern partner in the "Union State" is concerned, the Russian legal framework is generally more liberal towards NGOs, with such important elements as a Public Chamber, mechanism for outlining "socially relevant" NGOs, endowment tools, as well as more opportunities for economic activities.

Western donors of NGOs, as a rule, realize the importance of the financial sustainability and so prefer applications with partnership co-financing or "own contributions" included. Both governmental and non-governmental institutions of the West lend significant support to local NGOs aiming at research, consolidation, and lobbying for NGOs. There is also a role to play for private companies, business unions and associations. Opposition political parties and movements have rather tight ties with NGOs and are well aware of the civil society's problems and needs.

### **2.2. Welcome developments**

There is a range of developments that would be desirable for NGO legal regulation and legal practices in terms of improving the situation of the whole sector as well as some specific spheres.

It appears important to have general regulations on NGO-government relations. In addition, the effective ban on activities of unregistered public initiatives negatively affects the development of grassroots groups. The [Assembly Of Pro-Democratic NGOs Of Belarus](#) is running an informational campaign for abolition of this prohibition. These efforts resulted in the raised profile of the issue in EU and US dialogue with the Belarusian government.

Maintaining an office poses a difficulty for many NGOs. Until recently, the majority of NGOs enjoyed a preferential decreasing coefficient of 0.1 for rent payments. But since 2010, only some privileged NGOs are entitled to this benefit, if included on a register by a co-decision of the Council of Ministers and the President. There is a range of extra factors in NGO financial

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<sup>5</sup> NGO sustainability index 2008

stability, e.g. the prohibition for foreign nationals or the stateless to be a member or a founder of an NGO.

Charity by individuals is legally discouraged both by the demand to specify the final destination of the money and the restricted terms for anonymous donations. The failure to distinguish between charity and sponsorship is an obvious weakness. The potential for sponsorship of NGOs is significant for ensuring financial sustainability.

The economic crisis makes it useful to point out alternative options (discounts, promotions, etc.) for companies to express their social responsibility. Associations of entrepreneurs and the Global Compact initiative could assist in developing such options. Whatever reason lies behind the prohibition for NGOs to engage in economic activities, one cannot assume it is to prevent unequal competition between public and business companies, since NGOs have been deprived nearly all privileges they used to have. Identifying some categories of businesses to be allowable for public institutions would be an option.

If a more inclusive interpretation of allowable income is achieved, revenues from lectures, exhibitions, sports and other events could turn into an important mechanism for fundraising, with the final destination of funds reaching beyond the costs of the event itself.

## **CONCLUSION**

Overall, the paper has shown that the means to achieve domestic funding for Belarusian NGOs exist through a wide range of sources. However there remain significant challenges especially in the legal sphere, yet to be overcome, in order that the sector is able to obtain further funds. The strategic importance of locating and acquiring substantial donations from diverse sources cannot be underestimated. Without funds, there can be no financial sustainability. And without financial sustainability, the third sector in Belarus will not survive.