

**TOWARDS A SUSTAINABLE NGO SECTOR IN EUROPE*****Conclusions and Recommendations from the International Conference „Europe of Engaged Citizens – Resources and Sustainability“***

***Organised by Partnerství, o.p.s. in collaboration with Czech Government Office and Czech Donors Forum in Brno as part of the Czech EU Presidency and on the occasion of the 90<sup>th</sup> anniversary of Masaryk University.***

*Under the auspices of Alexandr Vondra, Deputy Prime Minister for European Affairs and Michael Kocáb, Minister for Human Rights and National Minorities.*

**A total of 120 participants from 17 countries attended the international conference on sustainability of non-profit organizations on May 4-5, 2009 in Brno, Czech Republic. The participants discussed the following topics: impact of the economic crisis on the non-profit sector, the legal and tax environment, cooperation between non-governmental organizations (NGOs) and business, the role of foundations in Europe, financing of the non-profit sector through modern fundraising technologies, and non-profit and social entrepreneurship. Presentations including bios of panellists and conclusions are available on the web pages of the Conference at [www.ngosustainability.eu](http://www.ngosustainability.eu).**

Significance of the Third Sector

The third sector (or non-profit sector) is an essential part of, and essential for, a healthy democratic society. Throughout human history charity, philanthropy and third sector activity has been central to the development of a just and functional social order. Third sector activity enhances all areas of human activity: human rights, social justice, culture, sport, ecology, science and research, health care and education just to name a few.. The third sector provides form and structure for utilization of civic initiatives and intellectual potential as well as promoting social solidarity in many areas in which government is either unable or unwilling to act. The third sector, however, can only benefit society if it is as free, autonomous, strong and economically independent as possible. The sector itself creates 5-7% employment in more developed OECD countries, and has grown faster than other sectors of society during the last 20 years (in some countries by 5% annually). The Barometer of Trust presented at this year's World Economic Forum in Davos showed that non-profit organizations enjoy higher levels of trust in society than financial institutions or governments, who are seen as bearing responsibility for the global economic crisis. The challenge for NGOs now is to maintain that trust and be able to build on it in times of economic instability.

This trust (on the part of both the public and government) is closely linked to the issue of transparency, which was a central theme of discussions during the Conference. It was widely held that there is a need for clear and transparent rules to enable self-regulation of NGOs to function properly, which would allow for a great deal of flexibility and freedom of action to meet the many and varied needs of society, yet providing clear mechanisms (not regulations) for accountability. It was further stressed that in order to thrive, the third sector needs rather liberal models, enabling and empowering legislation to optimise the sectors contribution to society.

Impact of Financial Crisis on NGOs

The audience and panellists agreed that NGOs from the US to Central Europe are facing significant impacts from the financial crisis with steep drops in funding from trusts and foundations and corporations in particular. Government and institutional funding has yet to drop significantly, but is likely to decrease with future budget cuts, while the impact on funding from individuals is less clear.

Despite this difficult environment, there was a clear consensus that the current crisis is an opportunity to rethink the purpose and roles of individual NGOs, consolidate their core values and

beliefs, and explore new ways for delivering services and maintaining other desirable activities in society. The flexible, not bureaucratic, and mission driven NGO sector can play a key role in economic recovery, job creation and contribute to economic resilience.

### EU as a Framework

The participants believe that the European Union is a good framework for exchanges of proven models of NGO development and recommend that the European Commission, European Parliament, and governments and parliaments of member states actively exchange and utilize existing best practices from among EU countries.

Michael Kocáb, Minister for Human Rights and National Minorities of the Czech Republic, promised to raise relevant recommendations from this Conference to the European Council. Similarly, Swedish colleagues invited participants to an NGO Forum that will be held in October during the Swedish EU presidency and will organize a follow up to conclusions from this Conference ([www.ngoforum09.se](http://www.ngoforum09.se)).

### **The Conference recommends to the following sectors:**

#### **Nonprofit Organizations**

To weather the current financial crisis NGOs must focus on mission, be very careful not to over extend themselves, demand Full Costing for provision of services to public administrations, and work to expand their funding base as well as stream line and modernize delivery mechanisms.

Dependency on one source of funding in today's recession is very risky, and hard work must be put in to pursue multiple sources of funding. There is a need for exploring models for broadening the donor base and extending it to include sectors of the public largely untapped so far.

#### *Asset management*

NGOs managing endowments need to professionalize and improve their managerial skills, gain greater financial acumen, and partner with financial experts. Their responsibility over resources generating money to the society is greater than ever.

#### *Strategy for NGOs*

In short, panellists and audience offered a number of recommendations to NGOs for how to respond to the crisis, including:

1. Take the opportunity to broaden your base of support and your constituency;
2. Plan ahead, forecast your future income over the next couple of years and plan accordingly;
3. Build partnerships and constructively engage with government, private corporations and other NGOs;
4. Focus on structural changes, cost-cutting and boosting efficiency;
5. Keep marketing your organization – this is exactly the wrong time to pull back;
6. Push the EU to reform its funding procedures for NGOs.

NGOs are also encouraged to help corporations to define priorities for their activities as part of their corporate social responsibility (CSR) strategies. It is also recommended that NGOs continue to exchange experience on the European level in order to share best practice in NGO management, fundraising and accountability practices. The cross fertilization of ideas from more developed to developing sectors is of immense importance. In addition, NGOs speaking with one voice and one passion enables the third sector to partner more equally with corporations and governments.

#### **Governments of EU Member States**

Governments need to provide NGOs with legal frameworks that remove obstacles to maximising their contributions to society including diversified sources of funding. This is more true than ever in times of crisis. Governments are required to work with NGOs to develop efficient tools as well as

transparent guidance for promoting and enabling legal and tax incentives (such as defining public benefit status and supporting entrepreneurial activities for serving public benefit interests), support self-regulation of the sector and development of new means of resource generation such as use of government matching funds or legislation facilitating easy access for individuals to make small, numerous donations. This could mean enabling individuals or companies to write off and donate 1% or 2% of taxes paid or providing a small check-off on tax forms to make a EUR donation. Sustainability is directly related to multiple funding streams for NGOs and the approach to achieving this will differ from country to country, but every country must have a strategy to make it easy for the general public to support NGOs.

Governments are further encouraged to consider differentiated VAT for several non-profit activities and social enterprises as is the case in some EU countries (e.g. Great Britain).

Creating favourable conditions for charity lotteries where they do not yet exist to provide NGOs with access to sustainable funding is recommended as a step towards more just and transparent distribution of profits from lotteries to charities.

In those EU Member States that do have charity lotteries the Conference recommends that state should not create preferential conditions to other (state) lotteries.

### **European Commission and European Parliament**

The Conference recommends setting a basic framework for harmonization of legislation and standards for NGOs operations at the European level to support transparency and accountability, which are crucial for the sector's further development. Such regulations should come about through a bottom up process from the initiative of NGOs, with the support of national governments. The EU role should be facilitation of processes at the national level.

### *Foundations*

A number of legal definitions of foundations/endowments exists in Europe. As a result, it is impossible to harmonize these and create one standard definition of what a foundation/endowment is. Nevertheless, there was wide agreement at the Conference that there is a need to clarify this status, and to establish minimum guidelines as a means for achieving comparability and transparency. Therefore, the concept of a European Foundation status as a mechanism not for harmonizing regulations in all EU countries but as a means of setting minimum conditions for transparency and in order to enable tax deduction on charitable giving across the EU was supported.

### *Public benefit*

Currently, the key policy question is how to design public benefit status, what is the “minimal standard” and how to balance resulting benefits and obligations. It is the crucial question which will determine whether the NGO sector will achieve greater independence and transparency or become increasingly dependent on the state. It would greatly benefit the NGO sector if the EU allowed NGOs in EU countries to engage in commercial activities and ensured equal treatment within the EU of NGOs delivering public services. Social entrepreneurship delivering publicly beneficial services through market driven activities is another viable concept that is widely spreading and should be broadly supported by the EC.

### *Revision of funding*

Participants agreed that the level of transparency of grant-making processes for NGOs should be, if not revitalised, at least retained and simplified. The European Commission should not concentrate only on direct support to NGOs but indirect support is needed and probably more sustainable. If NGOs lose their independence through growing dependence on state funding mechanisms, they will

lose one of their greatest assets: public trust. EU and national governments are requested to support diversifications of funding of NGOs and explore models for broadening the donor base.

#### *Charity lotteries*

Reliable, long-term funding is crucial for a sustainable civil society, especially in these times of financial turmoil when governmental and corporate funding is being cut back. Several successful private fundraising models already exist in different European Member States, such as the *Charity Lottery*, the *Donors Message Service* and the *Round it Up* model. We therefore recommend the European Commission to provide an optimal legal and tax environment in all Member States to enable NGOs all over the EU to replicate and benefit from these fundraising models.

More than 10 billion Euros could be raised every year if all 27 EU Member States allowed national charity lotteries. For the Charity Lottery model in particular we therefore recommend the following to the European Commission:

1. To allow charity lotteries to be established where they do not yet exist in order to provide NGOs with access to sustainable funding;
2. To ensure that charity lotteries will not be discriminated against in the countries where they do exist, in favour of other (state) lotteries;
3. To recognize charity lotteries as efficient fundraising mechanisms offering the necessary long-term institutional support for NGOs in contributing to the solution of global challenges and to enable NGOs to make use of this type of fundraising tools in all EU Member States;
4. To define the concept of a charity lottery in (future) EU legislation in which the following aspects are taken into account:
  - Private initiative (without governmental interference in the distribution of the funds);
  - Funds are additional to state subsidies;
  - No private profits are made;
  - A minimum of 20% of turnover is directed to charitable organisations (next to prize money and operational costs).

#### *Data and research*

To better understand the role of the third sector in society it is essential to develop a common statistical set of metrics that every country should adopt in assessing the importance of the third sector. Examples of such metrics could include number of employees, amount of revenues, number of NGOs, etc. Then a common set of EU statistics by country can be used annually to be closely examined and analysed and to assess progress and needs.

#### **Corporations and Businesses**

In the context of the global recession, there has been a clear decline in the amount of funding provided by corporate donors across Europe. Participants recommended that corporations should not withdraw from engagement with NGOs, but try to keep their support on the level proportional to their income (e.g. 1%).

There is a need for a more equal partnership with NGOs within CSR schemes regarding corporations in general, but the Conference fully supports all types of activities regarding sponsoring, donations or venture philanthropy.