FINANCIAL SUSTAINABILITY OF THE THIRD SECTOR

INTERNATIONAL EXPERIENCE

RASHEED TI-JO RESEARCH SERIES: THIRD SECTOR
Rasheed (Transparency International-Jordan) was established at the end of 2013, as a non-for-profit civil society organization, through a group of activists working in the field of anti-corruption. Rasheed (Transparency International-Jordan) commenced work in Amman at the beginning of April 2014, and it represents the only official contact group of Transparency International in Jordan.

Rasheed (Transparency International-Jordan) aims to reinforce the involvement of the Jordanian citizen in anti-corruption activities, protect public, private and local governance institutions against corruption, enhance the efficiency and independence of control agencies specialized in the area of anti-corruption, strengthen the integrity of the legislative and judicial authorities, and reinforce the performance of Rasheed (Transparency International-Jordan) towards achieving its mission and vision.
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Introduction

In order for a non-profit organization to work stably and reliably, a stable source of financing for a long period of time is needed. Finding one large, ongoing, reliable source of funding is currently very difficult. Therefore, a non-profit organization must raise funds, attract and create financial sources, conduct financial planning and combine various financial sources.

Currently, the main tools to support non-profit organizations are volunteering, crowdsourcing and crowdfunding, the essence of which is financing and non-financial support (transfer of knowledge, contacts) of socially significant tasks by people donating resources to projects. Crowdfunding brings together money, while crowdsourcing brings together volunteer work to achieve a common goal. This source of financing is now popular in Europe. As a rule, cultural projects are financed in this way. The experience of cooperation between NGOs and state bodies, including direct financial support for the third sector by the state, is also not far behind along with the commonly used practice of as well as creating endowments.

Volunteering

Volunteerism is widespread in many countries around the world, for instance in France 19% of the population is involved, in Germany – 34%, in the United States – almost 56%, in Japan – 26%. The increasing significance of this phenomenon is also evidenced by the fact that the UN General Assembly proclaimed 2001 the International Year of Volunteers. The main objectives of this were raising the level of recognition of volunteer activity, assistance and support for it, promotion, creation of a dissemination network and exchange of information about it. The condition for the accomplishment of the tasks set is the cooperation of such sectors of society as public organizations, the state, and individuals (Kalynychenko, 2008).

In modern democratic states, the political elite pay great attention to supporting the third sector of the economy and volunteer movement. Traditionally, specialists engaged in the non-profit sector and participating in volunteer activities have special respect.

In some states such activities are enshrined in the legislation. Thus, for instance, in 2009 in the United States Serve America Act was adopted, in which it is noted that work in the third sector has played an important role throughout the history of the United States, and the participation of Americans in such forms of social activity as charity and social welfare is “the pearl of the country's national tradition” (Kalynychenko, 2008).
Thus, for instance, the First Lady of the United States of America from 2009 to 2017, Michelle Obama, is Executive Director of the Public Allies Chicago Program, which trains hundreds of executives for nonprofits. Another example is German Federal Chancellor Angela Merkel, who is a volunteer for the Weisser Ring Movement, which provides assistance to victims of crime. Meanwhile, in the UK, members of the royal family work in a number of socially oriented non-profit organizations and oversee some of them. For example, Prince William patronizes about two dozen public organizations.

The very idea of volunteering or internships is that the intern gets new skills and abilities, gets acquainted with the structure and work style of the organization. But the trainees do not just learn from experience, they share their ideas, views, experience, and as a result their contribution to the organization’s work is very valuable. It is important to find common ground in which cooperation will be most useful and enjoyable for everyone.

Volunteering is based on voluntary without remuneration. Consequently, the motives for volunteering are not material incentives, but social, charitable and spiritual interests.

Any system of labor relations is based on certain incentive mechanisms. In volunteering in the absence of material incentives, the issue of stimulation methods becomes relevant. The experience of number of countries allows identifying a number of methods, among which the most common are (Varpaeva, 2011, 12):

1. Practical methods – providing volunteers with the opportunity to participate in various programs on a free or preferential basis, gaining experience, additional knowledge and work skills, etc.;
2. Information methods – ensuring the access of volunteers to information sources and materials, such as library systems, research and development, new technologies, etc.;
3. Privileged methods – providing volunteers with the opportunity to visit events held by a non-profit organization for free, discounts on its services, etc.

Volunteers offer valuable services to organizations. Although the services of volunteers are not being paid for, it is important that management of these programs be efficient and effective. Even though volunteering can be cost effective, it is not entirely cost free. If managed effectively and efficiently, it requires an infrastructure at all levels that will allow for training and appropriate placement of volunteers. Governments may contribute by supporting such infrastructure and if the government is better informed about the people who volunteer, it is likely to become more aware about the effects of its policy legislation it introduces both internally and external (Bhiri, Ngwenya, 2014).
It enables to create a stable and cohesive society: by bringing people together to act for the benefit of their community, volunteering establishes bonds of trust and encourages collaboration and partnership. Volunteering also enables creation of social capital – networks of relations between people and institutions in a society, together with associated norms of behavior, trust, cooperation that enable the society to function effectively.

Attracting volunteers from the community for whose benefit third sector works also helps the organization maintain a closer relationship with the community. In addition, volunteers bring ideas and new perspectives on the problems faced by the organization. Volunteers can be involved in campaigning, collecting donations, crowdsourcing, social and administrative work, counseling; they can also assist in office work or transport, etc.

In the UK, the volunteer movement has strong support from the government, which is recognized as an important element of social policy. This was especially evident in the 1980s, when the unemployment rate increased, and politicians, like society as a whole, began to consider volunteer work as a partial solution to this problem.

In Germany, unlike the Anglo-American tradition, terms “volunteer” and “volunteerism” are rare. However, the terms “work” and “activities on a public basis” (one that is not paid) are often used. The second term covers the traditional definition of volunteer work: it is voluntary and free. The professionalization of social work has shifted the emphasis in the social sphere from the voluntary movement to the social unions formed by individual non-governmental organizations.

**Crowdsourcing and Crowdfunding**

One of the most pressing issues in the implementation of project activities in the social sphere is the attraction of financial resources – both state and sponsor. Using various innovative Internet marketing technologies can successfully solve the financing problem. Therefore, the most promising tools for promoting projects include crowdsourcing and crowdfunding, as forms of modern social activity that allow real independence from external financial or administrative resources.

Crowdsourcing is a technology of using the energy and resources of different people or their groups to achieve a common goal. Crowdsourcing can be seen as mobilizing the intellectual resources of society to solve the serious tasks facing the state, business, politics and science. That is why crowdsourcing is effective in the social sphere.
A separate kind of crowdsourcing is crowdfunding – voluntary collective financing or collective participation in the project (usually via the Internet). It is gaining popularity in the field of non-profit cultural and social projects, and is also developing in the field of financing startups and individual local business ideas (Volodina, 2017). However, it should be mentioned that crowdfunding for a permanent NGO is either a temporary solution or an additional way to find a new audience.

These technologies can help advertise a nonprofit organization, attract new volunteers, gather additional information, help fundraising and hold campaigns. This is a great way to get help from the community and get people involved in a project.

It should be also mentioned that crowdfunding is not the same as fundraising, so these two terms are not to be replaced by each other. These are the general differences between them:

<table>
<thead>
<tr>
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<th>Crowdfunding</th>
<th>Fundraising</th>
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<tbody>
<tr>
<td><strong>Source</strong></td>
<td>Only private individuals (usually small donations from big number of people)</td>
<td>Private individuals, public funds, funds of commercial companies or funds (in case of private individuals – either single large contributions or many small ones)</td>
</tr>
<tr>
<td><strong>Aims</strong></td>
<td>Both non-profit and commercial</td>
<td>Non-profit only</td>
</tr>
<tr>
<td><strong>Channel and method of collecting resources</strong></td>
<td>Mainly Internet, social networks and media</td>
<td>Participation in competitions, negotiations, fundraising boxes, events, etc. along with the usage of Internet, social networks and media</td>
</tr>
<tr>
<td><strong>Donors benefits</strong></td>
<td>In some cases may require part/copy of the product (or service) for personal use</td>
<td>Only gratitude and/or report, may not require part of the product (or service) for personal use</td>
</tr>
<tr>
<td><strong>Constancy</strong></td>
<td>Usually a one-time campaign that ends as soon as the required amount is collected</td>
<td>Can be implemented in the form of separate actions, campaigns as well as a building-up of the permanent system for resource mobilization that helps the organization to exist and act. Donors can be attracted both once and become permanent</td>
</tr>
</tbody>
</table>
Crowdsourcing is commonly used nowadays by a variety of institutions both non-profit and commercial. Thus, one of the examples of the usage of this technique is a small experimental project launched by NASA in 2000: it was aiming at outsourcing the task of measuring craters in the image of Mars. This task was set for a virtual crowd of volunteers, and within 4 weeks, there were over 800 participants and 90,000 recorded craters. Volunteers completed the task clearly and without errors, as other employees or contractors would do, but the job was done within significantly smaller time frames (due to the huge number of participants), and they did it for free.

In the area of environment protection, for instance, various maps can serve as another example of the use of crowdsourcing in the implementation of environmental projects, in the preparation of which all interested citizens participate, marking on these maps the places of environmental violations (unauthorized landfills, places of discharge of untreated sewage, places of damage or destruction of forests, etc.), protected natural objects, habitats of rare species of flora and fauna, posting information about the state of a particular environmental object. Also, the crowdsourcing method can be applied in solving any local environmental problems, and each of the community members can act as both “customer” and expert.

**Endowments**

In foreign countries, one of the most popular instruments for financing the activities of NPOs is the formation of an endowment (resource or target capital). In the USA, endowment funds have existed for more than 350 years. The largest funds in the world are endowments of Harvard ($30 billion), Stanford ($19 billion), Yale ($19 billion), and Princeton ($17 billion).

An NPO endowment is formed as a result of the transfer of funds or property to the ownership of the NPO by the founder / other person, which should subsequently be used to achieve the goals of creating the organization. Such a target capital of an NPO is a part of its property, formed through donations made by donors in the form of funds to a separate bank account specially opened for this purpose, owned by a non-profit organization, which is subsequently transferred to trust management of the management company for income. And the scope of the endowment can vary: education and science, health, culture, physical education and sports (with the exception of professional sports), art, social assistance and support, environmental protection and the provision of free legal aid to citizens and their legal education (Grishchenko, 2014).

Legislation of many countries of the world stimulates the creation of endowment capital, which is a source of income that goes to finance the activities of the third sector, since NPOs that have formed endowment capital receive a stable and long-term source
of financing for their activities. The capital itself is not used, but is managed by third parties.

Thus, for instance, in Russia since 2006 there have been a number of laws regulating the creation of the endowment of organizations within the third sector. The legislation defines that it is possible to form the endowment (or target capital) only at the expense of donated funds, and to replenish the already formed target capital it is possible at the expense of securities and real estate. Endowment capital is considered formed if:

- Its size is equal to or exceeds 3 million rubles (around $50,000), which is the minimum statutory amount of target capital;
- There is created a council on the use of target capital;
- Endowment is transferred to the trust management company.

States` Collaboration and Financial Assistance

State participation in the financing of non-profit organizations (NPOs) is the norm for international practice. In most countries, public authorities provide financial assistance to the third sector. This is done either directly or through the use of intermediaries from among special organizations or NPOs themselves. Leading positions in the volume of assistance provided by NPOs are occupied by economically developed countries. At the same time, the share of private support for NPOs as well as their own resources is noticeably inferior to the contribution from the states. According to an aggregate estimate, in developed countries state funding of NPOs makes up 48% of their income. In developing countries, this figure is double less - 22%. Income from activities, including membership fees, in developed countries is 35%, in developing countries - 61%. Donations from commercial entities, citizens and foreign sources in developed and developing countries account for around 17% of NPO income [CSDF, 2013, 9].

Governments, as a rule, seek to work closely with the non-profit sector to address social issues, as they are more capable than government agencies of providing social services to the population, as they are more aware of their needs and more responsive to the new needs of society. Moreover, in order to carry out their social projects and programs, NPOs are able to attract, in addition to state funds, additional resources in the form of grants, contributions, private donations, volunteer work, or even profits from their own economic activities. It is more difficult for administrative authorities to respond promptly to people's needs through bureaucracy. In addition, NPOs can patch up a "market gap" in a timely manner, when it turns out that the state is unable to meet a certain public need due to lack of funds, and the commercial sector is not interested in it, because of low profitability. This is why third sector around the world is recognized
as very valuable both in the formulation of government policies in the social sphere and in the immediate solution of social problems of communities.

Thus, the international experience of financing NPOs converges on a common denominator, which is represented by the financial support of these institutions by the state. For the realization of the production function of the third sector in the framework of public-private partnership, the state uses various instruments, like:

<table>
<thead>
<tr>
<th>Activities</th>
<th>Government instruments</th>
<th>Characteristics of the instruments</th>
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<tbody>
<tr>
<td>Legal regulation</td>
<td>Public debate and consultation, the right to organize interest groups</td>
<td>Promoting the development of civil society and public accountability of government institutions</td>
</tr>
<tr>
<td>Public accountability</td>
<td>Rules and regulatory framework (registration and reporting of NPOs, audit and accounting requirements)</td>
<td>The rules are aimed at assisting the development of NPOs, but at the same time at eradicating corruption and promoting rational discipline, eliminating restrictive laws and procedures</td>
</tr>
<tr>
<td>Tax incentive</td>
<td>Tax incentives for NPOs and donors</td>
<td>Tax policy aimed at providing incentives for NPOs, a profile of state development that is consistent with priorities. Provided of charity and volunteering.</td>
</tr>
<tr>
<td>Cooperation</td>
<td>Using NPOs as partners in the implementation of programs and projects. NPOs act as experimental platforms for empirical testing of innovative technologies in social work for subsequent replication by state institutions</td>
<td>Articulation of the needs of the beneficiaries to the authorities. Providing information to beneficiaries.</td>
</tr>
<tr>
<td>Participation in the decision-making process and promotion of information</td>
<td>Work in committees, assistance in public consultations and outreach activities.</td>
<td>Building a communication channel with the public through NPOs.</td>
</tr>
<tr>
<td>Coordination</td>
<td>Coordination committees (NPOs and the state). Training of NPO specialists.</td>
<td>The government encourages the activities of NPOs, but does not dominate it.</td>
</tr>
</tbody>
</table>
The estimated share of state financing in the income of non-governmental organizations is the following (Grinshchenko, 2014):

- in Western Europe, Canada, Israel - 54%;
- in Eastern Europe - 42%;
- in Anglo-Saxon countries - 36%;
- in Scandinavian countries - 35%;
- in developed countries of Asia - 34%;
- in Latin America - 19%.

The practices of foreign countries demonstrate the variation of institutions, directions and instruments for the implementation of support, the etymology of which is determined by national traditions and the conditions of the socio-economic development of the state, which provides grounds for highlighting foreign models of financial support for the third sector.

In international practice, government support for the non-profit sector is carried out in the forms of:

- the provision of subsidies for operating activities;
- receiving grant support for specific programs;
- payment for services provided to authorities on a contractual basis;
- financing the execution of functionality delegated from the state to NPOs (within the framework of agreements concluded between authorities and NPOs);
- providing tax incentives for specific NPOs;
- other income

Thus, although, NPOs can receive funding from a variety of sources: in the form of entrance or membership fees, from public authorities, donations, etc., as well as from clients (for example, students) in the form of payment for the services provided, but world experience shows that the effective and efficient development of the non-profit
sector in modern conditions is impossible without the active participation and support of the state.

Thus, for instance, in the United States percentage of the public support is significantly overcoming other types of financing. The following table provides details on the revenue structure of National Council of YMKAS of the USA registered in Chicago for 2018 as an example:

<table>
<thead>
<tr>
<th>Income type</th>
<th>In numbers</th>
<th>In percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Public Support</td>
<td>114,594,173</td>
<td>95,22</td>
</tr>
<tr>
<td>1.1. Gifts, grants, contributions, and membership fees received.</td>
<td>31,542,023</td>
<td>27,52</td>
</tr>
<tr>
<td>1.2. Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization’s tax-exempt purpose</td>
<td>83,052,150</td>
<td>72,48</td>
</tr>
<tr>
<td>2. Total Non-Public support</td>
<td>5,740,705</td>
<td>4,78</td>
</tr>
<tr>
<td>2.1. Gross income from interest, dividends, payments received on securities loans, rents, royalties, and income from similar sources</td>
<td>4,249,175</td>
<td>74,02</td>
</tr>
<tr>
<td>2.2. Other income (not including gain or loss from the sale of capital assets)</td>
<td>1,491,530</td>
<td>25,98</td>
</tr>
</tbody>
</table>

*Information and data is received from the Form 990 For the Year Ended December 31, 2018.*

**Best Practices of Governments Support and Cooperation**

**USA**

In the United States, government funding of the non-profit sector is carried out through specialized ministries (education, health, social protection), focused on solving social problems. The standards for the provision of financing for non-profit organizations are unified for all departments and are set in the code of best practices
for financing non-profit organizations. The direction of financial support to NPOs is actively used through such instruments as grants, government contracts, and tax incentives. A feature in the implementation of financial support to NPOs is the use of a complex financial mechanism – voucher – which means reimbursement of the cost of services by third parties. In the USA, the state also contributes to the creation of donor and NPO platforms, and the “operators” of the sites are NPOs (Kulkova, 2014, 29).

**Estonia**

The support system for the third sector in Estonia is based on the principle of a clear separation of funding sources for specific programs and the development of infrastructure for NPOs. So, financing of specialized programs is assigned to specialized ministries and funds under them. The main state body in Estonia responsible for building public-state partnerships on the part of the state is the Ministry of the Interior, whose functions include financing regional development programs for NPOs, as well as participating in the development and monitoring of programs.

In 2007, standardization was carried out, transparency of the criteria for obtaining support was achieved within the framework of the adoption of the Code of Best Practices for Financing NPOs. Among the financial support instruments, a standard set is used: targeted grants, state contracts, tax incentives for NPOs and donors – when financing a certified list of NPOs.

In 2008, the National Civil Society Fund was established to finance training and develop the infrastructure of NPOs. The information platform for NPOs and dialogue with the state is the Network of Estonian Nonprofit Organizations (NENO), which was created in 1991. The strategy for the development of NPOs in Estonia is institutionalized as part of the concept of civil society development, which was first adopted by the Estonian Parliament in 2002 upon the initiation of NENO and Ministry of the Interior (OGP, 2019).

The concept of development of civil society in Estonia is aimed at building all forms of intersectional social partnership, taking into account interactions between all stakeholders (government, business, NGOs, CSOs, population), which is reflected in the indicative planning of the development of civil society. Thus, in Estonia, with the dominant position of NPOs, a decentralized financing model for the third sector has been formed with clear guidelines for development and interactions in the “State – NPO – Population” system as part of indicative planning.

**Croatia**

In Croatia, decentralized support for NPOs operates through specialized ministries. In 2007, standardization was carried out, transparency of the criteria for obtaining support was achieved, within the framework of which the Code of Best Practices for Financing NPOs was adopted and an online database of NPOs-recipients
Financial Sustainability of the Third Sector: International Experience

of state funding was created. The State Office for Interaction with NPOs has been assigned the functions of monitoring existing state programs and developing promising ones. The country has a “mandatory” set of financial instruments: targeted grants, government contracts, tax incentives for NPOs and donors.

A national plan for the development of civil society is being formed, various institutions have been created to develop interactions between the government and third sector: a National Fund for the Development of Civil Society, which works with regional funds; Council on the Development of Civil Society, serving as a platform for dialogue between NPOs and the state (Vidacak, 2010).

Conclusion

The analysis of the international experience shows that the activities of non-profit organizations are mostly based on public support, and therefore it is necessary to open up new ways of interacting with target audiences. Non-profit organizations should use the wide range of informational opportunities that new media provide: social networks and platforms, services, blogs, etc. The indisputable advantage of these channels is the globality, responsiveness and interactivity of communication. In addition, media give a non-profit organization a chance to build an emotional connection, which is very effective in resolving the issue of creating a favorable image and involving target audiences in social and project activities.

Third sector financing institutions are gradually acquiring functions that correspond to the characteristics of these organizations:

- Orienting NPOs for the targeted use of funds;
- Increasing the effectiveness of the interaction of NPOs with state and municipal authorities;
- Stimulating the development of NPOs in the direction of expanding their statutory activities.

Assessing current trends in the development of tools for promoting non-profit projects on the Internet, the following trends can be noted:

- Increasing the overall significance of the use of digital tools in promoting non-profit projects;
- The use of specialized crowdfunding and crowdsourcing platforms;
- The widespread use of social networks that allow quickly distributing content, and giving the opportunity to share and evaluate, and also help to target the audience;
- Creation of interesting content for the audience, as well as creative and unusual ways for donor support.
International experience also shows that volunteers are a significant source for the non-profit sector both human and financial. Although, they are saving organizations financial resources, but they are also important because:

- Public support in the form of volunteering enhances the image of the organization;
- With the involvement of volunteers, the circle of communication of the organization increases;
- New intellectual resources are being attracted;
- Public attention is drawn to the problems being solved by the organization;
- The number of people involved in the activities of the organization is increasing.

The possibility of choosing a source of financing for NPOs is very conditional, since it largely depends on the legal form, organization status and legislation of a particular country. And the possibility of the formation of endowment capital – part of the property of a nonprofit organization formed through donations, transferred to the trust company of the management company for income generation – falls under these conditions. It is worth noting that this method of accumulating financial resources is gaining demand in world practice, as it enables NPOs to use it to close funding holes. Most often it is used to pay salaries to employees, pay utility bills, provide office material, as well as co-finance some programs and projects, funding activities and inventions, etc.

If an NPO has the legal right to engage in profitable activities, this income can be placed in the endowment capital for its subsequent preservation and increase. It is also worth noting that in world practice, some non-profit organizations, with incomplete use of donor funds for the implementation of the project, can transfer the remainder of the funds to such target capital.

The income from the endowment should be used in accordance with the financial plan of the non-profit organization and the purposes stipulated by the charter, donation agreement or will, or in cases provided for by the decision of the board on the use of endowment, in accordance with the law.

The choice of the source of financing for the activities of non-profit organizations, in addition to determining the conditions for its receipt, is associated with the problem of finding a criterion for the effectiveness of this choice. An explicit criterion for assessing effectiveness is obtaining the full amount of financial resources, implicit – the conditions of the donor that accompany the receipt of funds.
Sources


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