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The Evolution of the Public Support of Nonprofit Organizations in the Transitional Society

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1. Introduction

In the communist Soviet Union there were formally independent non-profit organizations: creative workers unions (Writers' Union, Artists' Union etc.), the Soviet Foundation of Peace, the Society of Red Cross and Red Half-Moon, the Voluntary Society for Nature Conservation, the Society for the Monuments Preservation, hunters', anglers', and collectors' societies, the associations of disabled persons, etc. They existed as voluntary associations, but all of them were created by authorize of the government, and their activities were under the effective control of the communist party. Most of them were endowed with the enterprises, that provided funds for their maintenance, or were funded from the state budget. The enterprises belonging to such organizations had the large tax benefits.

The crisis of the soviet society and the transition to market economy and democracy created the conditions for the emergence of the independent Third sector and changed the relationships between the government and the nonprofit nongovernmental organizations. The evolution of these relationships could be divided into three periods, that I use to draw the plan of my study.

The first one, which runs from 1986 to 1991, refers to the emergence of the Third sector during the crisis of soviet state and planned economy and covers the period from 1986 to 1991. The legal possibility for citizens to create independent voluntary associations arose. The government supported mainly the old pseudo-voluntary associations wich have existed in soviet society or the new ones created with encouragement of the top officials. The tax exemptions and the budget subsidies were used as the main forms of their support.

The second stage covers the period from the start of market reforms to the beginning of financial stabilization (1992 - 1994). This stage is characterized by the selective governmental support of the nonprofit organizations, created and acting in the interests of officials and clans, who used these organizations to derive benefits. The main forms of support were the tax benefits given mainly on individual base, the leasing of apartments with low rent, and the contracting. The federal authority played still the leading role in public support of nongovernmental organizations (NGOs).

The third stage (since 1995) corresponds to the period of financial and political stabilization, and of economic stagnation. This period is characterized by creation the legal base for the Third sector and for development of public support of non-profit organizations, and by the broadening of the forms of support. The policy of federal authority towards NGOs has been oriented to the cutting down the federal taxation privileges because of chronic budget crisis. The interest of regional and local authorities to the broadening of cooperation with organizations of the Third sector has increased mainly on political reasons. The initiative in introducing the different forms of NGOs' public support has been taken by the regions having respectively more favorable economic situation.

2. Emergence of the Third sector during the crisis of soviet state (1986 - 1991)

2.1. The foundation of new quasi-NGOs and support of their activities.

In 1985 new political government of the Soviet Union announced a policy of "perestroika" (reform) of the political and economic system and all other aspects of national social life. One of element of "perestroika" was the foundation of new nonprofit nongovernmental organizations by the initiative of the central government. There were the Soviet Foundation for Culture (1986), the Soviet Children Foundation (1987), the Soviet Charity and Health Foundation (1987), etc. The missions of these organizations were intended as the additions to the state bodies functions. The mode of their foundation was traditional for the soviet state. The state administrative bodies and the public organizations were the founders of these new organizations. They were created as hierarchical structures with central bodies and with regional branches.

The forms of their support by the government were the same as in case of old pseudo-voluntary associations. The new organizations received the estate for their offices and funds for the start of the work. Some of them, as for example the Soviet Charity and Health Foundation, were endowed with the enterprises (1). The new NGOs were tax exempted. Also the profits directed by the enterprises belonging to them into latters maintenance were tax exempted.

At the same time the government continued to finance the old quasi-governmental organizations. All tax benefits for them were preserved. As the democratic changes were expanding in the society, the ideological control over NGO's activity was weakening.

As a result, the pseudovoluntary associations, in first turn the creative unions, were transforming of organisations for state control over their members into an associations which represents the special collective interests. These interests were connected with the attaining of freedom of their activity from ideological control and at the same time with the conservation of state support.

2.2. The creation of legal possibility for emergence of independent NGO's.

The question about the legal guarantees of the citizens' rights on associations become one of the crucial component of political struggle for the democratic changes in our country. Since the second half of 1989 the principle of state authorization for the creation and registration of voluntary associations was sufficiently weakened (2). The new independent voluntary associations arose.

In 1990 the Law of the USSR "On voluntary associations" was adopted. It created the legal base for emergence of independent NGO's. The adoption of such law should considered itself as a form of

governmental support of the emerging Third sector. Besides, the law declared that the government supported some kind of voluntary associations namely youth and children organizations. As the forms of support, the pecuniary and financial aid, tax benefits, and free or privilege use of apartments of public educational, cultural and sport institution were called. But most part of these measures remained the only declarations.

The adoption of the law was very important for the emergence of the Third sector in Russia. But even formally this law was insufficient as legal basis for non-profit activities because it said neither about organizations established by enterprises no about ones established by a single person. There were two possibilities for charitable foundations, private schools, etc.: to give themselves out to be associations of persons or to be registered as for-profit enterprises.

2.3. The interrelations between the government and the new arising voluntary associations.

One part of the arising voluntary associations became the form of legalization of oppositional political activity and came up again the communist government. Some of associations were created as commercial organizations in disguise. The third part of voluntary associations represented the various nonpolitical civic initiatives. In some cases these organizations had the right for privilege renting of apartments and for privilege communal services. But these support wasn't defined by law and depended from the willingness of authorities. The support was usually rendered to the organizations founded by famous people having good contacts with officials.

As for tax privileges, there were small ones for sponsors. The enterprises transferring resources to social and cultural organizations and for charity purposes reduced the amount of taxed profits by the value of the respective contributions, but not more than by 1 percent of its overall volume.

3. Public support of the Third sector in the condition of deflation (1992-1994)

The first stage covers the period from the dissolution of the Soviet Union in December 1991 and the start of market reform in Russia since January 1992 to the beginning of financial stabilization in 1995.

Political and economic transformations caused decentralization of the state administration, weakening of the government, decreasing of administrative capacity, and long economic recession aggravated by high inflation. In 1994 the gross domestic product reduced by 32 per cent and the prices increased in 785 times compared to 1991 data (3). During this period the government concentrated on the large scale economic and political reforms and didn't give attention to the Third sector as a separate subject of public policy.

The economic crisis reduced the possibility of fund-raising for NGO's. To survive the nonprofit organizations had to conduct their own economic activity. For example the most charity organizations in Moscow not only had the deposits in the banks and bought the securities but also bought the commodities for selling (4). The legislation didn't restricted the economic activities of nonprofit organizations. So commercial and nonprofit sectors in the branches of social and cultural fields were not clearly distinguished. The cover of nonprofit organizations could be used and in many cases was really used by commercial structures in order to avoid taxation. The failures of the legislation caused the large development of pseudo-nonprofit organizations, that were nominally nonprofits but in fact acted as commercial organizations.

3.1 Fiscal policy.

The tax benefits for nonprofits organizations were slightly extended during this period. But as a whole, the fiscal policy poorly stimulated the Third sector's development. The main principle of the fiscal policy was to grant tax benefits on branch affiliation of organizations and the source of their

financing (5). For example, voluntary associations of disabled persons, creative unions, educational and cultural institutions were exempted from tax on profits, value added tax, property tax, etc. Meanwhile the charity organizations providing social services were not exempted from tax on profits and property tax if they carry out economic activity. The public nonprofit organizations financed at the expense of budgetary funds or at the expense of trade unions had more tax privileges than the nongovernmental ones.

Some tax privileges were granted individually to the NGO's headed by well-known artists, writers, etc. For example, the Galina Vishnevskaya Foundation was exempted from the tax on incomes from deposits (4).

The tax benefits to the enterprises transferring resources to social and cultural institutions and for charity purposes were increased. The limit of the tax deductions from the profits by the value of the respective contributions, that was equal 1 percent before 1992, was raised up to 2 percent since 1992, and up to 3 percent since 1993. But these benefits were not quite sensitive for sponsors.

3.2 Support of nonprofits in the private interests of officials.

The support of quasi-NGO's created by the government for the political and ideological goals transformed into the selective support of the NGO's created in the private interests of officials and clans and used by them to derive benefits.

The main forms of support of such organizations were following:

- tax benefits and customs privileges given on individual base;
- assignation of the state property;
- contracting;
- leasing of apartments with low rent;
- privilege communal services.

As a most prominent example of support of pseudo-nonprofits can be mentioned the case with four Foundations granted by individual customs privileges. One of them, the National Foundation for Sports imported duty-free cigarettes, alcohol beverages, and cars and exported raw materials without customs (6). became the biggest importer of alcohol beverages in Russia in 1994.

The contracting with NGO's for participation in the governmental programs arose and developed. But as a rule the contracting was without tender. The rent seeking officials preferred to contract with organizations controlled by them. The funding of public utility programs of NGOs was unregulated and quite stochastic.

The lack of open information doesn't allow to evaluate the scale of the assignation of the state property to the NGO's and the funds transferred to them from the state budget.

As to the Third sector in whole, the state budget wasn't the sensitive source of funding for the independent NGO's. According the published in 1994 data on the fundraising of 94 charity organizations, the share of public funds in their budgets was only 0.2 percent, the share of incomes from economic activity was 43 percent, and the private donations, including foreign grants, accounted the rest (7).

3.3. Support of educational and cultural organizations.

As exemptions to some extent from the usual practice described above, can be mentioned the federal policy in the fields of education and culture.

The federal law "On education", passed in 1992 allowed the creation of nongovernmental educational organizations, set the order of their licensing and obtaining a state accreditation. The nongovernmental educational organizations on obtaining the state accreditation gain the right to become recipients of budgetary financing. The amount of this financing is set on the normatives, determined on per capita basis. That is, the amount of financing shall be proportional to the actual number of students at an educational institution, notwithstanding its status. In 1994 160 out of 447 existing non-state schools were receiving funds from the budget (8).

In 1993, the Ministry of culture of the Russian Federation made an attempt to allocate funds not only for maintenance of public cultural institutions but to introduce the competition of separate projects and programs for federal support. The NGO's participated in tender. Following the Government's decision on 1993 funds for culture, the Ministry of culture opened the competition and selected a number of projects to be funded in 1993. But the Ministry's budget was cut, and financing from the federal became unpredictable. So, all funds went first of all to cover expenses of public institutions. The selection of projects thus lost its meaning.

3.4. The policy of regional authorities.

The federal authority played still the leading role in public support of NGOs. But some regional authorities began to play their own active role in the support of the Third sector. The special administrative body for the policy towards nonprofits was created in Moscow in 1993. In the situation of insufficiency of federal legal base for nonprofit activities, the regional legal acts regulating the foundation, registration and activity of NGO's were adopted in Moscow and Ekaterinbourg in 1994.

4. The interrelations between the government and the Third sector in the condition of chronic budget crisis (1995-1998)

By 1995 the program of mass privatization of state property was realized. The transition to market economy has become irreversible. Since 1995 the government pursued a consecutive monetary policy of macroeconomic stabilization (9). By the end of 1995 the first signs of financial stabilization arose. The inflation decreased from 10.5 percent per month in the first half of 1995 to 3.2 percent in December 1995 (10).

The legal basis for market economy began to take shape. Since January 1997 the Civil Code of the Russian Federation put in force. It has defined generally the legal status of different forms of nonprofit organisations: voluntary associations, funds, institutions, etc. The development of civil legislation and the need for legal regulation of foundation, registration, administration and activity of NGO's stipulated the attention of the state to the Third sector and to the development of legal base for the Third sector on federal and regional levels.

4.1. The creation of the legal basis of the Third sector's functioning

1995 was crucial for development of federal legislation on nonprofit organizations. Three federal laws were adopted: "On Public Associations" (May 1995), "On Charity Activity and Charity Organizations" (July 1995), and "On Nonprofit Organizations" (December 1995). As a result the legal basis for nonprofit activities has taken shape. These stipulated the sharp growth of NGO's. In 1995-1996 the number of voluntary associations, religious organizations and institutions created by them, and foundations increased by 2.2 times. In early 1997 the overall number of nongovernmental nonprofit organizations amounted to 183 thousand.

Table. Number of Organizations by Economic Sectors

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	Number as of 01/01/95	% of result	Number as of 01/01/96	% of result	Number as of 01/01/97	% of result
Overall number of legal entities	1946276	100.0	2249531	100.0	2486558	100.0
For-profit nongovernmental organizations	1348802	69.3	1579064	70.2	1833149	73.7
Governmental for-profit organizations	306982	15.8	328538	14.6	269430	10.8
Governmental nonprofit organizations	188728	9.7	191480	8.5	201022	8.1
Nongovernmental nonprofit organizations	101764	5.2	150449	6.7	182957	7.4
including:						
Public and religious organizations, their institutions	46149	2.4	85824	3.8	103643	4.2
Funds	3549	0.2	4103	0.2	7058	0.3
Consumer associations	44375	2.3	51631	2.3	59791	2.4
Other nonprofit organizations	7691	0.4	8891	0.4	12465	0.5

Source: The State Committee for Statistics of the Russian Federation (Goskomstat Rossii).

The legal acts regulating nonprofit activities and public support to NGO's have been also adopted in many regions since 1996.

4.2. The forms of public support of NGOs according the legislation.

The new federal and regional legislation has envisaged a broader list of possible forms of public support of NGO's, then it was before. There are:

- tax benefits;
- nonfiscal privileges (privilege renting, communal services, etc.);
- contracting;
- support of programs and projects of NGO's in the framework of federal and regional programs;
- subsidies for activity and development of NGO's;
- transfer the state property without compensation;
- credits on preferential terms;
- information, consulting, etc.

The practical use of these forms was very different on federal and regional levels and in regions differed by economic situation.

4.3. Federal policy changes.

The monetary policy of financial stabilization, and the refuse from inflational financing of budget deficit have had as a result the chronic budget crisis. The budgetary revenues have being reduced because of continuing economic recession, development of barter, and the growing skill of economic actors to hide their incomes from taxation. The revenues of consolidated state budget reduced in

1997 by 24 percent in comparison with 1994 data (3, 11).

In search of all possible ways to increase budgetary revenues, the fiscal policy was changed since late 1995. Practically all individual tax benefits were abolished. A number of privileges formerly extended to entrepreneurial activity of NGO's were abolished. In 1993-1995, libraries, museums, philharmonic societies, and theaters received profit tax exemption. Since January 1996 nongovernmental organizations were excluded from their number. Till 1996, tax exemption used to apply to the part of the profit directed by the enterprises belonging to charity funds and creative workers' unions into the latter's maintenance. Since 1996, this privileges was abolished as regards the charity funds but retained for the creative workers' union. Of interest is the selective approach used with implementing this policy. There is a clearly perceptible pattern: the better organized the special interest groups, the more privileges it managed to retain.

This curtailment of taxation privileges was in odds with the evolution of the legislation on nonprofit organizations. The federal laws on nonprofit organizations, that were adopted in 1995, created a legal framework ensuring that non-profit and charitable organizations would be used as facade for commercial companies dealing in tax evasion. The economic activity of nonprofit organizations was restricted. But the financial bodies and the taxation authority find it easier to abolish taxation privileges than to organize control over the operation of nonprofit organizations envisaged by the law. The cost of control over the correct use of taxation privileges is evaluated by officials as more then public benefits from activities of charity organizations.

In late 1996 the new revision of the taxation privileges took place. The profit tax and value added tax exemptions enjoyed by religious associations and the associations of disabled persons, as well as the profit tax privileges granted to the companies set up within these associations and organizations, no longer extends to the profit derived from production and marketing of the goods subject to excise duty, mineral raw materials and minerals.

As to nonfiscal forms of support of NGO's, they have been cutting down on federal level because of budget crisis. The subsidies for activity of NGO's granted mainly to youth and children voluntary associations included in special Federal list. The support of programs and projects of NGO's in the framework of federal programs is very modest because the problems with funding of federal programs from budget.

Since 1992 the government has trayed to save the net of public social and cultural institution and has allocated funds to them at first turn. During two last years there has been a shortage of budget funds even to pay a salary for staff. In 1998 the plans to reduce sharply the net and the staff of federal nonprofit organizations have being discussed. Under these circumstances, the public financial support of NGO's on federal level become problematic.

In 1996 the state relinquished its obligation to budget finance nongovernmental higher educational organizations. According the new edition of the federal law "On education", the right of higher educational NGO's that have passed state accreditation to receive budget funding were abolished.

4.4. Democratic election and governmental support of NGO's

The presidential election in 1996 and the governors elections that have taken place since 1995 in all regions that are the subjects of the Russian Federation have stipulated the attention of federal and especially regional authorities to the Third sector. The departments of public relations were created in the Administration of the President of the Russian Federation and in some regional administrations. These departments are to analyze the public opinion and for this purpose to contact with voluntary associations and other NGO's. They try to play the role of coordinator of regional governmental policy towards the Third sector.

4.5. *The new role of regional and local authorities.*

Since 1996, the initiative in development of legal basis for the Third sector, and in introduction new forms and procedures of support of NGOs have passed from federal authority to regional ones. But this refers to the minor part of regions that have more favorable economic situation and quite stable budgetary revenues.

There are two ways in development of regional and local legislation regulating the forms of public support of NGOs. (12). The first one is the adoption of the legal acts envisaged the set of possible forms of support of some kinds of NGOs. There are for example the regional laws on charitable activity, and on public support of youth and children organizations. These acts define as a rule a broad list of forms of public support. The second way is regulation of separate forms of support. There are for example the acts on regional and local taxation privileges for charity organizations, and on grants for public utility programs.

Let consider the forms of public support of NGOs that are used on regional and local levels.

Regional and local tax privileges. They exist in a lot of regions for associations of disabled people, war veterans, youth associations, charity organizations, etc. There are the privileges on profit, property, and land taxes, on tax for maintenance of public social, cultural, and housing organizations, etc. As a rule, each region uses their own set of taxation privileges.

The certification as a new form of selective support. There is the tendency to introduce the new forms of selective support of NGOs. In 1996, Moscow established the Town Charity Council. It gives the NGOs the status of "charity organization in Moscow". This status gives the organization the right for exemption from municipal taxes, for privilege renting, privilege communal services, etc. By February 1998 only 82 NGOs received such status. Some regions stipulated the taxation privileges for youth and children voluntary associations by including in a special list. Meanwhile the criteria of this including are not clearly defined.

All this innovations are in fact the forms of certification of NGOs, i.e. the public evaluation of their activity for taxation purposes. These innovations can be qualified as a transformation of selective support of NGOs by the officials pursuing their private interests into more open form of selective support. But there is a danger that the certification, being formally more democratic than the traditional bureaucratic decision making, become the means to establish the control over the activity of independent NGOs by the officials in their political and private commercial interests.

The nonfiscal forms of support. The list of such forms used by regional and local authorities includes following:

- allocation of accommodation for renting;
 - leasing of apartments with low rent;
- allocation of plots of land for renting;
- fee for communal services as for public nonprofit institutions, financed from budget;
 - fee for telephone as for citizens (there are different tariffs for private organizations, for public ones, and for citizens);
 - contracting for services in the framework of regional and local programs;
 - grants for programs and projects of NGO's consistent with priorities of public social

policy; there exist grants covered as all cost of the project as a part of it;

- one occasion subsidies for new established NGOs (youth associations, etc.)
- subsidies for activity and development of NGO's that are to cover the separate items of their budgets (expenditures on telephone, preparation and distributing informational materials, training, seminars, etc.;
- use of simplify procedures of license prolongation for the activities are to licensing.

The regional authorities begin to envisage the expenditures for support of NGOs as a special item in regional budgets. For example, Moscow budget on 1998 has the item "Financial support of public utility programs of voluntary associations on competition base", that consists about 440,000 US dollars.

5. Conclusion

The main tendencies of evolution of public support of NGOs in transitional society are following:

- substitution of ideological reasons for support by rent seeking and pragmatic political interests of officials;
- broadening the forms of support;
- strengthening the role of regional and local authorities in broadening the forms of support and in the development of legal basis for the Third sector;
- gradual introducing the elements of democracy into decision making about support;
- strong determination the policy of the support of NGOs by economic situation.

The main obstacles for development of support of NGOs, and therefore for development of the Third sector in whole, are now chronic budget crisis, a shortage of funds for maintenance well developed net of public social institutions, delay with restructurization of this net and with its partial privatization, lack of transparency of public finance, insufficient administrative capacity of governmental bodies dealing with the Third sector, absence of consecutive federal policy towards the Third sector, absence of collective action of NGOs for protection of their interests. The key condition to cope with these obstacles is the political will to promote democratic changes in the society.

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