

Real Activity of Civic Associations in the Czech Republic and their Financing

Pavína Haltofová, Edita Rácková

Silesian University in Opava
School of Business Administration in Karviná
Univerzitní nám. 1934/3
Karviná, 733 40
Czech Republic
e-mail: haltofova@opf.slu.cz

Abstract

In the Czech Republic new non-profit nongovernmental organizations (NGOs) were established and replaced the previous centrally-controlled state organizations since 1989. The paper deals with one type of them, civic associations (further abbreviated: c. a.). In year 2013 there were over 100 thousands in the Czech Republic. The South Moravia district was chosen for this research. According to the data from the Czech company register and Czech statistical office there were 8763 civic associations in the year 2012. The aims of this paper were firstly research of current activity of the c. a., because it is suspected that many of them are existing without any activity, because there is a lack of legislation which would force them to officially cancel an organisation and secondly investigate from their annual reports portfolio of their financial sources in sample of 36 c. a. which had their annual report from year 2011 available on webpage. Analysis of their activity was made by questionnaire on sample of 451 c. a., which had available e-mail addresses. According the contacts only 5.14 % seem to be active c. a. 66 % from 140 answered respondents work on a volunteer basis.

Keywords: NGO, The South Moravian Region, financial sources

JEL codes: H81, L31

1 Introduction

Nonprofit sector is developing within the last two hundred years in the Czech Republic, but in 1989 new nonprofit nongovernmental organizations (NGOs) were established and replaced the previous centrally-controlled state organizations. Only last twenty four years the people working in these organisations are motivated to financial independency. It means to diversify portfolio of financial sources to substitute possible lack of public finances or others.

Nongovernmental non-profit organisations (NGOs) have an important place in the society of the 21st century. A partial definition of the non-profit organisations can be found in Act No. 586/1992 Coll. income tax. These organisations are legal entities, which are not established for profit.

NGOs are founded to change and make a better running society, which is not without any problems. State and its organs are not able to run to satisfy all demands of inhabitants in all aspects of their life.

Activities of civic associations (c. a.) have two forms of benefits. The first form is in providing services directly to the public (e.g. ecological organisations – members of NGO has no direct benefit from their activities, only gratifying feeling). The second form is in providing services for members, so they have benefit and it brings profit for society too (decrease of alcoholism, which first helps to the person and afterwards leads to a better and safer environment. (Rektořík 2010)

The forms of civic associations are established pursuant to Act No. 83/1990 Coll., on the Association of Citizens, as amended; are mainly sport, ecologic, hobby or other kind of organisations, but as well as organisations provide social and health services. Some of them are financially supported by law, together with their own financial sources, especially sports organisations which are supported from public resources, based on Act No. 115/2001 Sb. On Sports' Support. "Physical education and sport organisations are financed from 60 % from their own financial resources, which are mainly generated from their economic activities and this fact can be the main cause of their financial stability in case of unfavourable conditions." (Haltofová, Fiala 2010)

According to the information given by people from NGOs, they are founded for three reasons. One executive director of a big company said, that every year they have to found three new civic associations to get money from public budget. Another one said that he does not know why his customers could not use purpose founded civic associations for their “tax optimization”. And third reason is clear from reaction of man from one foundation, who was shocked by future requirements for publishing his earnings. (Mrázek 2013)

These could be reasons why there are so many civic associations founded every year and their number is permanently rising up in the Czech Republic. They are founded by private purpose which is often financial profit for individuals and easy way to allocate public finance to them without any demands for their activity given by a law.

2 Aim and hypothesis

The aim of the paper is to analyse activity of civic associations, the research in the first place is quantitative. Their number is increasing since 1989 to almost 100 thousands nowadays, therefore only one region from the fourteen in the Czech Republic was chosen for the research, the South Moravian Region. The Czech legislative does not include any tools to cause official end of c. a. They can only formally exist without any activity and it is background for a hypothesis. With expectation of a new Civil code and its request for changing name and other appropriateness of c. a., a decrease of registered NGOs could be expected in the future after year 2014.

In addition a portfolio of financial sources of NGOs will be researched. It is based on hypothesis that active organisations are mostly running thanks of public support or their own revenues.

3 Methodology

The methodology consists of several phases. The first phase includes establishing of a database of civic associations in the South Moravian Region. Each record consists of a name, an address and e-mail contact.

In the next step the NGOs were contacted and a questionnaire was sent to them.

In the second phase their financial data from annual reports were analysed and availability of information was recorded.

3.1 Questionnaire

Considering the number of NGOs in the Czech Republic, only one region for that research was chosen. Questionnaire was sent only to the NGOs with accessible contact. It includes questions for active and inactive NGO too, consisting of 9 close questions, 2 half closed and 2 open questions all aimed at their activities for active c. a. and reasons of inactivity for the rest of NGOs. Qualitative research tries to discover behaviour of people, its motivation and reasons. It is deeper cognition and it can be suitable supplement of quantitative research.

Queries were related to the activity of NGOs at all, in their willingness to extent their organisation or membership, their area of non-profit activity, staff, publicity activities, financing.

On the web page of the Czech Statistical Office 8,763 civic associations were registered in the South Moravian Region in the end of 2012. For quantitative research it would be ideal, if it is possibility to ask all of them. Questionnaire was sent only to the NGOs with available contacts. The other organisations are inactive in some point of view.

Minimum of respondents for qualitative research could be calculated according equation used by Kozel (2006):

$$n \geq \frac{z^2 \times p \times q}{\Delta^2} \quad (1)$$

n = minimum number of respondents

p, q = respondents familiar to the NGO problematic (if we do not know, then 50:50)

z = subjectively set coefficient of reliability (if $z = 1$, then reliability is 68.3 %, if $z = 2$ or 3, reliability is 95.4 % or 99.7 %)

Δ = subjectively set max. error

$$n \geq \frac{2^2 * 0.5 * 0.5}{0.1^2}$$

Fundamental prediction is that not all of respondents know answers to the queries. Therefore variables p is 0.5, than variables q must be 0.5 too. Then if the maximum error is set 10 %:

$$n \geq 100 \text{ respondents.}$$

Suitable number of respondents is calculated in table 1.

Table 1: Number of Respondents

| Maximum error (%) | Min. number of respondents | Maximum error (%) | Min. number of respondents |
|-------------------|----------------------------|-------------------|----------------------------|
| 10 | 100 | 5 | 400 |
| 9 | 124 | 4 | 625 |
| 8 | 157 | 3 | 1,112 |
| 7 | 205 | 2 | 2,500 |
| 6 | 278 | 1 | 10,000 |

Source: Calculation with equation (1)

The fact that the second biggest city of the Czech Republic is in the South Moravian Region was taken into consideration, because an activity of NGOs could be related to their seat and activity could be higher in big cities.

3.2 Analysis of Annual Reports

The NGOs from the database were analysed, if their annual reports respectively financial data are publicly available. Financial sources of NGOs were further analysed.

4 Results

From the all 8,763 registered civic associations in the South Moravian Region only of 451 e-mail contacts were available. 273 civic associations were from Brno and the other 178 from the rest of the South Moravian Region. The questionnaire was sent to all 451 organisations. Only 140 c. a. answered, what is 31.04 %. Return of questionnaires was in Brno and rest of region similar, 31.87 % in Brno and 29.78 % in the rest of South Moravian Region.

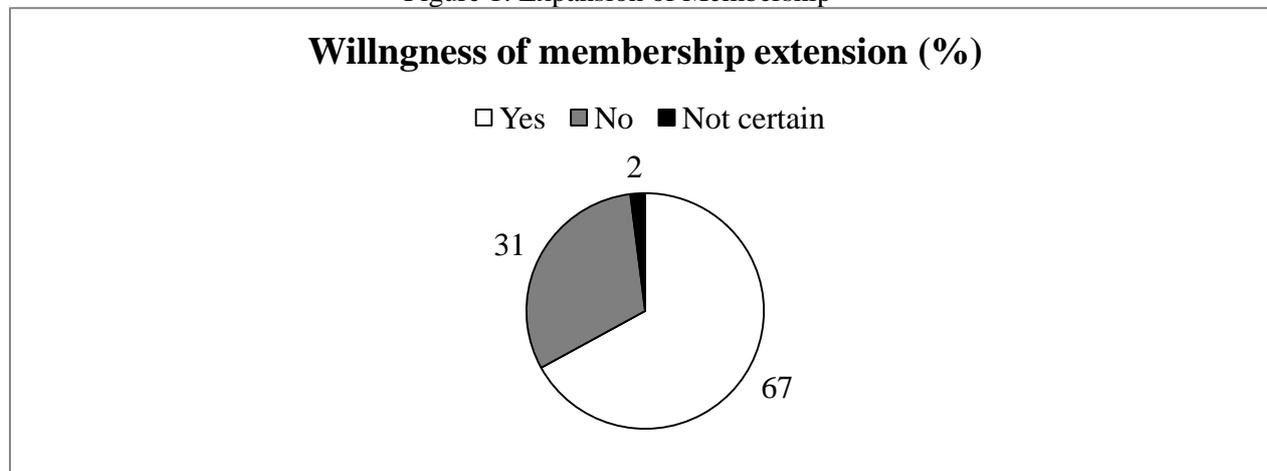
In prospect of the availability of e-mail contacts it is possible to estimate, that only small percentage of civic associations could be really active in their activity. It would be only 5.14 % of all of them. Taking into account the questionnaire return activity would only be 1.6 % in the South Moravian Region.

According to number of questionnaires return the results has maximum error of 9 % for qualitative research. All answered organisations are active in their existence. No reply indicated a formal existence of c. a., or any reason of their inactivity. That is way there is not any answer describing the reasons for finish or inactivity of NGOs. There is no clear border between active and inactive NGO in case that existence is based only on seldom meeting of members and they did not present its organisation or permanently work.

All organisations instead of one are working on their publicity. Almost all of the respondents, 93 % have regular meetings to control aims and evaluate their activities. Some of the rest solve problems without regular meeting through e-mails, what can save time and one NGO wrote that they have no space where they could meet.

More than two thirds of respondents try to expand their membership. One third remains static. (Fig. 1).

Figure 1: Expansion of Membership



Source: Questionnaire

Willingness of general extension of c. a. in their activities, funds, etc. has similar results; 79 % gave positive answer and 20 % negative one. 1 % of them do not have any opinion.

NGOs in followed characteristics took part in the questionnaire (Tab. 2). Most of the NGOs are run on voluntaries base and only 44 % have only employees or both, employees as well as voluntaries, what is in a larger extend in Brno than in the rest of the region.

Table 2: Staff of NGOs

| Staff of NGO | Brno | | Rest of the Region | | Total | | Average | Max. | Min. |
|---------------------------|------|-----|--------------------|-----|-------|-----|---------|-------|------|
| | Abs. | % | Abs. | % | Abs. | % | | | |
| Voluntaries | 53 | 61 | 39 | 74 | 93 | 66 | 20 | 160 | 2 |
| Employees | 12 | 14 | 7 | 13 | 18 | 13 | 6 | 25-30 | 1 |
| Employees and voluntaries | 22 | 25 | 7 | 13 | 29 | 21 | 6+18 | 22+70 | 1 |
| Total | 87 | 100 | 53 | 100 | 140 | 100 | | | |

Source: Questionnaire

In average the NGOs have six employees. Higher amount of employees was noted in sport organisations or organisations which provide social and health services. An average number of voluntaries was twenty. Maximum was 160 (Fig. 2).

An average number of members was 204. The maximum of members has organisation Czech dance organisation with 10,140. Minimum number was 3, which is the limit for bounding a civic association. 40 % of responded NGOs are members of bigger organisation.

4.1 Financing of NGOs

Organisations use mostly membership fees, public endowments and money from their own business for their activities. Foundations and endowment funds supported researched NGOs with the lowest sum. A few of NGOs do not use any sources. They run for free for their members or clients too. According to the average use all of financial resources are used with the same ratio.

Membership fees are the most frequent source, but almost all of sources in table below are used often, depending on their frequency of use (Tab. 3).

Table 3: Frequency of Use of Financial Sources

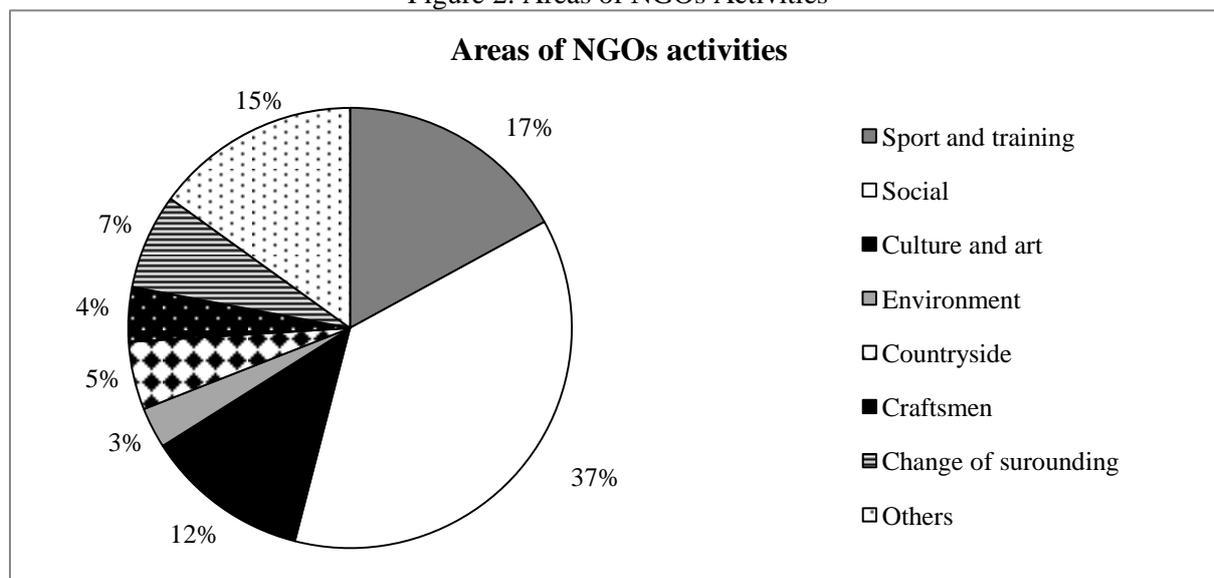
| Financial sources | Frequency of use (%) |
|--|----------------------|
| Gifts from individuals | 14.82 |
| Support from companies | 17.43 |
| Public endowments | 18.57 |
| European union funds | 6.31 |
| Support of foundations and endowment funds | 5.34 |
| Own business | 17.57 |
| Membership fees | 19.30 |
| None | 0.65 |

Sources: Questionnaire

4.2 Areas of interest of NGOs

In the following graph the structure of respondents' interest area is shown. The most frequent civic associations work in social services, more than one third. It includes mostly work with children, ill or disabled people. Sport and training organisations are the second most frequent, then non-identified organisations, cultural and art associations (Fig. 2).

Figure 2: Areas of NGOs Activities



Source: Questionnaire

4.3 Analysis of web pages

Web pages from NGOs from the database were analysed. In case of 484 civic associations the presence of web pages was investigated. Only 362 of them have one and only 36 of them have available an annual report. Financial data from their annual reports were further analysed. Other 84 organisations have information about their donors or sponsors. Researched civic associations use mostly public and state support. It is related to the fact, that more than half of them are organisations provided social care, sports and training NGOs which are supported by state including support according to some law.

Tab. 4: Financial Sources of Researched NGOs

| Financial source | Relative share (%) |
|--|--------------------|
| Revenues from own business | 32.3 |
| Public, state endowments | 61.2 |
| Payments from health insurance companies | 5.2 |
| Gifts | 1.4 |

Source: Web pages of researched c. a.

Tab. 5: Structure of state and public endowments

| Supplier | Share (%) |
|--|-----------|
| State budget, ministry | 40.6 |
| Employment office | 5.1 |
| Town budget | 33.3 |
| Region budget | 19.6 |
| The State Environmental Fund of the Czech Republic | 1.4 |

Source: Web pages of researched c. a.

5 Conclusion and discussion

Number of civic associations is increasing since year 1990 up to 100 thousands nowadays. The question about their real activity was arisen. The questionnaire was made on a sample of civic associations in one region of the Czech Republic. Firstly a database of NGOs was created including their e-mail contacts. From all 8,763 registered civic associations only of 451 c. a. were available the e-mail contacts. Questionnaire included queries about their activity and financing were sent. Only 140 of c. a. replied which equals 31.04 %.

All replied respondents are active NGOs and mostly provide sport or social services. No inactive organisation participated on that research. More than half of them, 66 %, is run only by voluntaries. Organisations are financed from membership fees, public and state endowments and revenues from their own business activity.

The first hypothesis was not possible to confirm, because any inactive civic association took part in the questionnaire. It is only possible to suppose that they exist only formally, but not actively, or they did not need any financial sources for their activity, but they need to be legal person for any other reason. According to the results only 5.14 % of civic association are active using some financial sources and do some activities.

Significant parts of researched civic associations provide social services. It is expected that soon they will transform to the legal entity of Public Benefit Organisation till the end of year 2013 or with beginning of validity of the new Civic Code they will transform to the "Registered Institutions". That could cause a decline of number of civic associations, after 1st of January they will be only "Associations" or "Registered associations". The previous law will be out of validity.

The second hypothesis that the organisations use mostly public and own financial sources was confirmed. From the questionnaire the frequency of these two financial sources was the highest together with membership fees, what was expected. From the 36 researched annual reports about 61.2 % are financed by public and stat endowments. About 32.3 % are revenues from their own business activities, what means mostly selling goods or services.

References

Czech Republic: *Zákon č. 83/1990 Sb. o sdružování občanů.* (Act no. 83/1990 Coll. of Act citizens)

Czech Republic: *Zákon č. 115/2001 Sb. o podpoře sportu.* (Act No. 115/2001 Sb. On Sports' Support)

HALTOFOVÁ P., FIALA R. (2010). Financial Resources Structure Differentiation of the Sport NGOs in the Czech Republic as a Determinant of their Stability . In: STAVÁREK, D., VODOVÁ, P. *Structural and Regional Impacts of Financial Crises. Proceedings of 12th International Conference on Finance and Banking*. Karviná : Silesian University, pp. 89-97. ISBN 978-80-7248-592-5.

KOZEL, R. et al. (2006). *Moderní marketingový výzkum*. Praha : Grada publishing a.s. ISBN 80-247-0966-X.

MRÁZEK, A. (2013). Jsou pořádek a transparentnot vůbec pro nás? *Svět neziskovek*, no. 10, pp. 24. [onlin], [cit.: 2013-15-10] Available> <http://www.neziskovky.cz/sdata/SN_10_2013_web_558.pdf>

REKTOŘÍK, J. (2010). *Organizace neziskového sektoru: základy ekonomiky, teorie a řízení*. Praha : Ekopress. ISBN 978-80-86929-54-5.