

Iryna Y. Tkachuk¹

CITIZENS PARTICIPATION IN FINANCING ACTIVITIES AND DEVELOPMENT OF NGOs IN UKRAINE

The article grounds the importance of public participation in NGOs activities. Two forms of it are defined. Revenues from these forms of public participation in NGOs activities during 2009–2013 are analyzed. The necessity of reforming the current tax legislation and improving the percentage philanthropy mechanism in Ukraine is justified. The method of determining benefits from percentage mechanism application in Ukraine is proposed.

Keywords: civil society; NGO; charity; percentage philanthropy.

Ірина Я. Ткачук

УЧАСТЬ НАСЕЛЕННЯ У ФІНАНСУВАННІ ДІЯЛЬНОСТІ ТА РОЗВИТКУ ГРОМАДСЬКИХ ОРГАНІЗАЦІЙ В УКРАЇНІ

У статті обґрунтовано важливість участі населення у діяльності громадських організацій. Визначено дві її форми: членство та благодійність на їх користь, проаналізовано надходження від цих форм участі протягом 2009–2013 років. Обґрунтовано необхідність реформування чинного податкового законодавства та запровадження механізму відсоткової філантропії в Україні, запропоновано метод визначення вигоди від нього для громадських організацій України у вартісному показнику.

Ключові слова: громадянське суспільство; громадські організації; благодійність; відсоткова філантропія.

Форм. 2. Рис. 2. Табл. 1. Літ. 17.

Ирина Я. Ткачук

УЧАСТИЕ НАСЕЛЕНИЯ В ФИНАНСИРОВАНИИ ДЕЯТЕЛЬНОСТИ И РАЗВИТИИ ОБЩЕСТВЕННЫХ ОРГАНИЗАЦИЙ УКРАИНЫ

В статье обоснована важность участия населения в деятельности общественных организаций. Определены две ее формы: членство и благотворительность в их пользу, проанализированы поступления от этих форм участия в течение 2009–2013 годов. Обоснована необходимость реформирования действующего налогового законодательства и внедрения механизма процентной филантропии в Украине, предложен метод определения выгоды от него для общественных организаций Украины в стоимостном показателе.

Ключевые слова: гражданское общество; общественные организации; благотворительность; процентная филантропия.

Introduction. Historically, population that is most interested in effective operation of the state, can't directly control it. Therefore, there are two ways for it to participate in social and economic policies formation and socioeconomic problems solving. The first way is to delegate their will to authorized persons through participation in elections. The second way is to participate in the network of civil society organizations, aimed at mediation between the people and the state. But the first way doesn't provide continuous public participation in solving these problems, and is limited by dates of elections. At the same time the second way is characterized by constancy, and hence greater adaptability and flexibility. But the most effective public participation in the formation of a balanced social and economic policy can be achieved with a

¹ Yuriy Fedkovych Chernivtsi National University, Ukraine.

combination of these two ways: first, population votes for representatives to a government at elections, and subsequently cooperates and/or opposes the government by participating in the network of civil society organizations, especially NGOs as their largest institutional unit.

Public participation in NGOs activity is realized in two ways: direct participation (membership) or indirectly (charity in favor of NGO).

It should be noted that effective NGO activity requires financial resources involvement and often a lot, so funds that NGOs can draw from population is an important source of activity and development of public organizations, which allows diversifying the source base, thus providing greater independence of NGOs from the state and international donors.

Literature review. The issues of activity and development of NGOs (including the funding problems) were given much attention by famous foreign scientists. Such scientists as R. Sullivan (2013), B. Rousan (2005), K. Boas (2012) investigated the process of NGOs financial base formation in connection with financial sustainability.

However, despite the mentioned contribution of scientists into the study of NGOs activity, the role of population in NGOs budgeting was not investigated in full.

The purpose of this article is to determine the role of population in the process of NGOs financing in Ukraine and to give proposals on its strengthening.

Key research findings. Today to speak about serious receipts from membership fees to NGOs budgets is impossible because of the restriction that current tax legislation creates. According to the Tax Code of Ukraine (TCU) there is clearly defined list of NGOs, membership fees of which shall not be taxed with profit tax (Tax Code of Ukraine, 02.12.2010, #2755-VI).

If NGO is not included to this list, it can't rely on exemption from income tax. This situation causes a large number of NGO "wriggle" and documented execute participation fees as charitable assistance from individuals.

Payment of membership fees by individuals is not stimulated either, that is TCU does not envisage paid membership fees to tax relief on personal income tax.

Thus, portion of participation fees in the structure of NGOs incomes in Ukraine in the period of 2009–2013 was approximately constant and within [13.32%:14.44%] (Figure 1).

But in the absolute figures incomes from membership fees were not so constant (Table 1).

As we see, nominal revenues from membership fees during 2009–2013 were not constant. Neither its scale, nor direction of changes was regular. But despite the reduction of membership fees in 2013, its increase during 2009–2012 led to the total increase in the absolute value by 58.45%. But quantity of membership fees per 1 member during the same period reduced by 10.13%, which was caused by reducing of incomes in 2009, 2010 and 2013.

The information on NGOs incomes from membership fees during 2009–2013 in the prices of 2008 reveals that the overall proportions remain. But the indicator of dues increasing is less rapid (in comparison with the same indicator in nominal prices), at the same time decreasing of membership fees per 1 member in the prices of 2008 is double (in comparison with the same indicator in nominal prices).

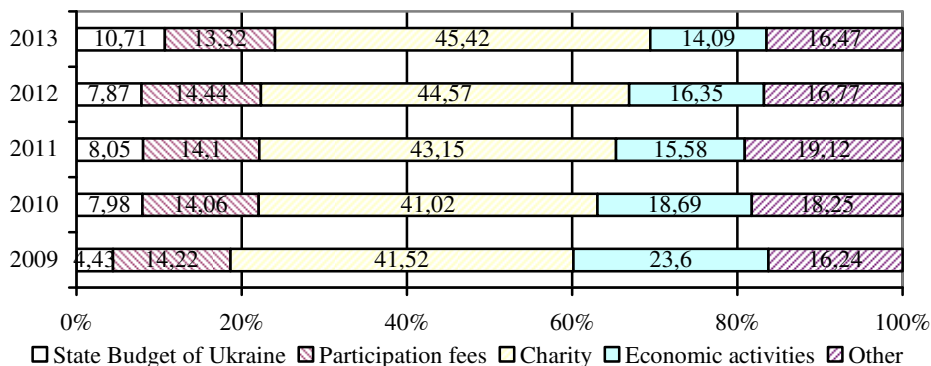


Figure 1. The structure of Ukrainian NGOs source of incomes in the period of 2009–2013, author's elaboration according to (State Statistics Service of Ukraine, 2009–2013)

Table 1. Analysis of NGOs income from membership fees during 2009–2013

Indicator	2009	2010	Deviation, %	2011	Deviation, %	2012	Deviation, %	2013	Deviation, %	Total Deviation	
										UAH	%
Membership fees, mln UAH	315.54	388.68	23.18	475.31	22.29	533.64	12.27	499.96	-6.28	184.42	58.45
Membership fee per 1 member, UAH	15.69	12.9	-17.78	12.67	-1.78	14.72	16.18	14.1	-4.21	-1.59	-10.13
Index of inflation (progressive total)	1.123	1.225	-	1.281	-	1.278	-	1.284	-	-	-
Membership fees (prices of 2008), mln UAH	280.98	317.29	12.92	374.05	17.89	417.56	11.63	389.38	-6.75	108.4	38.58
Membership fee per 1 member (prices of 2008), UAH	13.98	10.53	-24.68	9.89	-6.08	11.52	16.48	10.98	-4.69	-3	-21.46

Source: Author elaboration according to (State Statistics Service of Ukraine, 2009–2013, Financial Portal Minfin, 2015).

Sociological studies (Coordinator of OSCE in Ukraine, 2011) and the scarcity of the membership dues per 1 member indicate that such contributions don't play a significant role in NGOs budget formation. These dues rather allow management control members, and members — feel the commonality of interests and views.

As for charity from individuals in Ukraine, it should be noted that it's beginning to develop, but hasn't got a conscious nature yet, but rather is the result of NGOs being active in fundraising. Rapid development of political life in Ukraine is the reason for population charity activation too. Thus, there are a lot of ongoing projects organized by NGOs that are oriented on supporting Ukrainian army, settlers from the annexed Crimea, war zone etc.

There are a lot of reasons that explain the passivity of population in charity. The main of them are low incomes, lack of funds for immediate needs, absence of "wealthy conscious citizen as phenomena" (Vasylenko and Zelinskyi, 2002), perception of NGO such as "formed to satisfy founders needs or ambitions, or even cheating the state and tax evasion" (COUNTERPART, 2001). Wealthy citizens often engage in charity to support their own image through campaigns of promoting their business or earning political dividends. They often establish foundations that bear their name (good examples are the Victor Pinchuk Foundation, the Klitschko Brothers Foundation, the Firtash Foundation).

As a result, during 2009–2013 funds received from individuals were scarce. Graphically, the dynamics of income is shown in Figure 2.

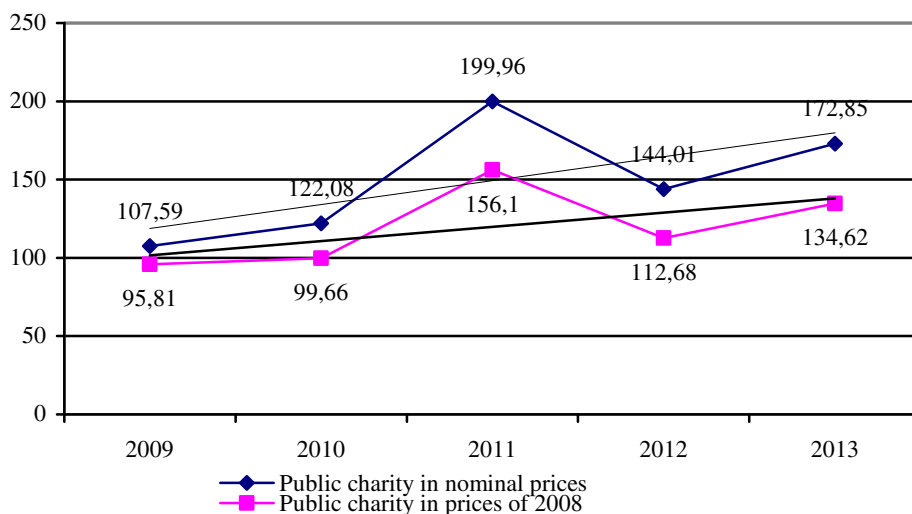


Figure 2. **Individual charity to NGO during 2009–2013, mln UAH,**
author's elaboration according to (State Statistics Service of Ukraine, 2009–2013)

Figure 2 demonstrates, that despite the difference in volumes of individuals charity in nominal prices and individuals charity in prices of 2008, trend lines are almost parallel and show strong upward trends, indicating that the culture of philanthropy among Ukrainian population is emerging. But we can't speak about the existence of a developed benefactors market in Ukraine yet.

It should be noted, that under the conditions of a burst of patriotic sentiment among the population generated by complex political situation, the amount of revenues from individuals to NGO (which is realized by a significant number of measures to support immigrants from the annexed areas and the zone of military operations) can be significantly increased, but it is necessary to hold a series of bold reforms.

First of all, current tax legislation needs to be reformed. To "lead out of the shadow" significant amounts of membership fees the list of NGOs, membership fees of which shall not be taxed with profit tax, has to be expanded. And to increase the population active tax incentives for the public have to be implemented (for example, envisaging paid membership fees to tax relief on personal income tax). The possibility should be considered of increasing the maximum amount of taxable income

attributable to such relief from the existing 4% (Tax Code of Ukraine, 02.12.2010, #2755-VI). Such action will stimulate the public to engage in charity for NGOs.

However, today one of the most important steps is the implementation of such an unconventional for Ukraine method of NGOs financial support as percentage philanthropy.

This method provides an opportunity for taxpayers to divert a certain percentage of personal tax paid for social needs, such as the activities of civil society organizations engaged in addressing social needs. This is accomplished by directing the mentioned percentage to that civil society organization that is solving social problems (Ecumenical Social Week, 2012).

The first law establishing such a mechanism was adopted in Hungary in 1996. It allows taxpayers transfer 1% of paid taxes in favor of civil society organizations on their choice. Hungarian example was followed by Slovakia (2001) and Lithuania (2002), later – by Poland and Romania (2003). These countries approved similar legislation.

In favor of percentage philanthropy, a series of round tables, workshops and seminars were conducted, but so far all of this was ignored of those in power. However, we must understand the benefits in cost meter, which its implementation can bring for Ukrainian NGOs.

Obviously, with full involvement of public in charity benefit received from transfer tax (calculated in value terms) can be calculated by the following formula:

$$P = \frac{T \times i}{100\%}, \quad (1)$$

where P – benefits derived from tax transfer calculated in value terms; T – the amount of income tax that is planned to be paid in a future period; i – the tax rate that is redirected.

But reality shows that even in developed countries (not to mention Ukraine), one can't expect absolute public participation in the activities of the third sector. It is therefore necessary to elaborate an approach that will take into account this factor in process of calculating the benefits obtained from tax transfer. For this purpose formula (1) should be adjusted by the factor of civic engagement.

In the world practice, there are a lot of approaches to the determination of the activity of civil society (this indicator is included in a wider concept of civil society development). For this purpose experts calculate the total number of publications in print media, citizen participation in discussions of socially important issues at conferences, symposia, round tables (including online ones), the amount of held rallies, demonstrations etc., and the number of people who took part in it.

These approaches are not good for our investigation, because they don't meet the parameters of a representative sample: don't reflect the situation on the entire territory of Ukraine and its total population. Therefore, to calculate the benefits of tax transfer it is appropriate to use an indicator that reflects the social activity of all viable population in Ukraine. An indicator of turnout at elections would be meeting our requirements the best way. This indicator shows not only public interest in internal affairs but the desire and the ability to influence on it. Moreover, the indicator of the president election attendance is better for using, because presidential elections are held by the majority principle and characterized with more voting activity, which

means that voters believe in their ability to affect change in the state when it comes to the choice of a specific candidate (percentage philanthropy also provides the choice of a particular NGO, to which tax is transferring).

Thus, the formula (1) after adjusting for the above figure would be written as:

$$P' = \frac{T \times i \times a \times w}{100\%}, \quad (2)$$

where P' – benefits derived from tax transfer calculated in value terms; T – the amount of income tax planned to be paid in the forecasted period; i – the tax rate that is redirected; a – the share of all voters who appeared on the last presidential election; w – the share of working voters in the total number of voters who appeared on the last presidential election.

After performing simple mathematical calculations, we can calculate the benefit to NGOs that they could get from tax transfer in 2014.

Percentage philanthropy model used in developed countries provides forwarding for NGOs 1–2% of paid income. In 2010 the Verkhovna Rada of Ukraine registered a bill that would provide an opportunity for Ukrainian citizens that pay personal income tax to transfer paid tax (to transfer a part of it in favor of certain non-profit organizations). Under this bill, predicted to divert 2% of paid income by the citizens of Ukraine, so we will do our calculations according to this particular number. The Law "On the State Budget of Ukraine for 2014" planned to get into State Budget 7,960,000 ths UAH (Law Ukraine, 16.01.2014, #719-VII), the turnout in the presidential election in 2014 was 52.67% (0.5267) (Central Election Commission, 2014) share of working voters in the total number of voters who appeared on the presidential election of 2010 was 0.541 (Balakireva, 2010) (Calculation of working voters in the total number of voters who appeared on the presidential election is usually performed in the second round of elections, which is why in the elections of 2014 it was not intended, so in our investigation we use the rate as of 2010).

Thus, according to the formula (1) in 2014 in the case of full involvement of taxpayers to charity the following benefits could be obtained:

$$P = \frac{7,960,000 \times 2}{100} = 159,200 \text{ ths UAH.}$$

However, this is an optimistic version of events, which are idealized. So we'll calculate the possible benefits by the formula (2), since this option is more realistic.

$$P' = \frac{7,960,000 \times 2 \times 0.5267 \times 0.541}{100} = 45,363.196 \text{ ths UAH.}$$

Obviously, the implementation of the percentage philanthropy mechanism will bring significant benefits for public organizations. It is not only additional financial resources, because within all country this amount is not high. But it is good opportunity to create market environment for NGOs existing, which means more money for those NGOs that provide quality and useful services, truly protect the interests of the population.

Conclusions. Because of the specific services that NGOs provide, the state, business and population are interested in their effective activity. However, this activity requires the involvement of significant financial resources, an acute shortage of which exists in Ukrainian NGO. The problem is not only in a small volume of funds received

from all sources of financing, but also in the structure of funding sources, because a large proportion of funds from non-residential philanthropists and the State creates a number of problems. Dependence on donors, significant level of bureaucracy during the funding process, non-transparent and discriminatory public funding are the main of them. Therefore, today in the conditions of surge of patriotism it is important to activate people in their desire to help NGO.

The best method that would largely solve such problems is the method of percentage philanthropy. According to performed calculations, just in 2014, in case of it use Ukrainian NGOs could engage over 45 mln UAH of additional financial resources. Therefore, the adoption of the law (without which this method is not possible) will provide the stability for many NGO in Ukraine. Such financial stability will encourage continued activity that, in turn, will talk about the responsibility to the community by NGOs and their obligations. At the same time responsibility to the community will encourage the growth of confidence in local authorities, which in turn will lead to new funding opportunities.

References:

- Податковий кодекс України від 02.12.2010 №2755-VI // zakon.rada.gov.ua.
 Про Державний бюджет України: Закон України від 16.01.2014 №719-VII // zakon.rada.gov.ua.
Балакірева О.М. Особливості електоральної поведінки виборців під час президентських виборів, 2010 // www.ukr-socium.org.ua.
Василенко Л., Зелінський С. Фінансове забезпечення діяльності й розвитку громадських організацій // Фінанси України. – 2002. – №8. – С. 33–39.
 Відсоткова філантропія як механізм державної підтримки неприбуткових організацій // Екуменічний соціальний тиждень // esweek.org.ua.
 Громадські організації в Україні у 2009 році: Стат. бюлетень / Державна служба статистики України. – К., 2010. – 155 с.
 Громадські організації в Україні у 2010 році: Стат. бюлетень / Державна служба статистики України. – К., 2011. – 157 с.
 Громадські організації в Україні у 2011 році: Стат. бюлетень / Державна служба статистики України. – К., 2012. – 157 с.
 Громадські організації в Україні у 2012 році: Стат. бюлетень / Державна служба статистики України. – К., 2013. – 152 с.
 Громадські організації в Україні у 2013 році: Стат. бюлетень / Державна служба статистики України. – К., 2014. – 152 с.
 Дослідження існуючого досвіду та законодавства України у сфері фінансування громадських організацій органами державної влади, органами місцевого самоврядування та приватним сектором // Координатор ОБСЄ в Україні // www.osce.org.
 Індекс інфляції (Україна) // Финансовый портал Минфин // index.minfin.com.ua.
 Про результати позачергових виборів Президента України 25 травня 2014 року: Повідомлення Центральної виборчої комісії // zakon.rada.gov.ua.
 Стан та динаміка розвитку неурядових організацій України. 2002–2006 роки / Підготовлено Творчим Центром Каунтерпарт. – К.: Макрос, 2006. – 160 с.
Boas, K. (2012). NGO Self Financing: Benefits and what is involved // www.thesustainablengo.org.
Rousan, B. (2005). Business for Nonprofits // www.allianceonline.org.
Sullivan, R. (2013). Financial sustainability: why NGOs are failing to engage investors // www.theguardian.com.

Стаття надійшла до редакції 22.01.2015.