Philanthropy in the context of the economic crisis

Survey results

This survey was carried out with the financial support from
Matra Programme of the Royal Netherlands Embassy

Ambassade van het
Koninkrijk der Nederlanden

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Introduction

The present survey was carried out by joint effort of four partners – Zircon Research Group, PricewaterhouseCoopers, Donors Forum and CAF Russia. We were united by a concern about the future of philanthropy in Russia during this recession and the need for objective information about the actual state of affairs. The information that would turn everyone's anxiety into a constructive discussion on cooperation aimed at alleviating the consequences of the crisis and finding new solutions.

The survey included interviews with non-profit organisations (NPOs), corporations and private foundations and concentrated on three basic questions: how the crisis has already affected the stakeholders of the charitable sector; what expectations the organisations have regarding the crisis development and how they formulate strategic responses to these expectations; what needs associated with antirecessionary strategies for philanthropy the key players in the sector have to address between themselves as well as with external stakeholders (including the state). The survey results do not pretend to be entirely representative due to its methodology and natural resource limitations. In fact, only the most active and involved organizations responded to our questionnaires, which means that the negative effects revealed by the survey are probably underestimated, while the positive ones may be overly optimistic. However, the picture obtained within the survey reflects the basic trends of the sector, which have been confirmed by the experts who took part in the discussion panel on the quantitative research results.

Overall, donor organisations turned out to be less prepared to work in the crisis compared to NPOs. Foundations and corporate charitable programmes were established in favourable economic conditions for the long-term, they never before had to consider survival strategies, optimization of expenses or additional fundraising. The process of adaptating to the new environment and searching for new approaches is just beginning for donor organisations.

Unlike them, most NPOs have constantly worked with limited resources, without guaranteed future income, often based on pure enthusiasm. Therefore, although the present recession will be testing to most NPOs , previous experience of “development on the verge of survival” will enable NPOs to find quick, practical and effective solutions to overcome the recession.

It is obvious for all respondents (and not only for them) that the crisis will not be over soon, so they expect ongoing changes in the environment and as well as their strategy. It would be great if other interested organisations could maintain the tradition of this survey and take the “temperature” of the sector periodically. We would also like the results obtained within the survey to become a catalyst for a constructive discussion with the legislators about the urgent need in changes of the legal framework for charitable activities – right now this kind of reform could play the crucial part in the support of the sector.

I would like to conclude by saying “thank you” to our respondents – 440 NPOs, 36 corporations, 11 private foundations, and all the experts who took part in the discussion of the quantitative research results, for their contribution to the survey, along with the Matra Programme of the Royal Netherlands Embassy for the financial support of the project.

With best antirecessionary regards,

Maria Chertok, Director, CAF Russia

General Overview of the Survey

The "Philanthropy in the context of the economic crisis" survey was carried out between April and May 2009 with the support of the Royal Netherlands Embassy in Russia. The survey was organised by CAF Russia, Zircon Research Group, PricewaterhouseCoopers, and Donors Forum.

The objective of the survey was to obtain the information necessary to analyze the current state of the non-profit and philanthropic sectors in Russia.

Survey participants:

- NPOs providing social services to population
- Corporations involved in philanthropic activities
- Donor organisations active in Russia

Overall, 440 NPOs, 36 corporations and 11 donor organizations took part in the survey.

Analysis included:

- Assessment of the current situation.
- Perception of the recession, evaluation of the changes that have taken place over the last few months.
- Expectations regarding future progression of the crisis in Russia and its impact on the sector.
- The strategies used by the key sector stakeholders; NPOs, corporations and donor organisations.
- The organisational and strategic changes these stakeholders will undertake during the economic crisis i.e. changes in the governance structure, areas of activity, etc..
- Support and assistance in implementation of anti-recessionary strategies needed by these key stakeholders including concrete actions they expect from the other key stakeholders (other NPOs, government, business leaders, employees, private and international foundations, citizens)

The survey was conducted through a quantitative approach. NPOs and companies were invited by e-mail and questioned through an on-line panel. Foundations received and returned questionnaires by e-mail. The invitation went to NPOs that are on the database of the Public Chamber (those who had applied for government grants in the previous three years) plus CAF grantees – which is a fair reflection of the sector (4134 of which 440 responded).

The companies involved were those that had taken part in the PWC and Donors Forum Corporate Philanthropy competitions and those that had worked with CAF Russia. These are thought to be the most philanthropically active companies in Russia (200 companies, of which 36 responded to the survey). Foundations were all private foundations which are known to CAF and the Donors Forum (30 foundations of which 11 responded). The agency which conducted the research – Zircon research group –carried out the NPOs survey themselves, while companies and foundations were interviewed by PWC and the Donors Forum directly.

The total sample size was 487.

The full report is available in Russian at:
http://cafrussia.ru/files/blocks/Research_CAF_full.pdf

For more information and comments, please contact:

- Kirill Ezhov, Head of Communications, CAF Russia, Kezhov@cafrussia.ru
- Igor Zadorin, Director, ZIRCON Research Group, zadorin@zircon.ru
- Natalya Kaminarskaya, Executive Secretary, Donors Forum, nkamin@donorsforum.ru
- Anastasiya Shevchenko, Junior Manager, PricewaterhouseCoopers, anastasia.shevchenko@ru.pwc.com.

Philanthropy in the context of the economic crisis

Survey results

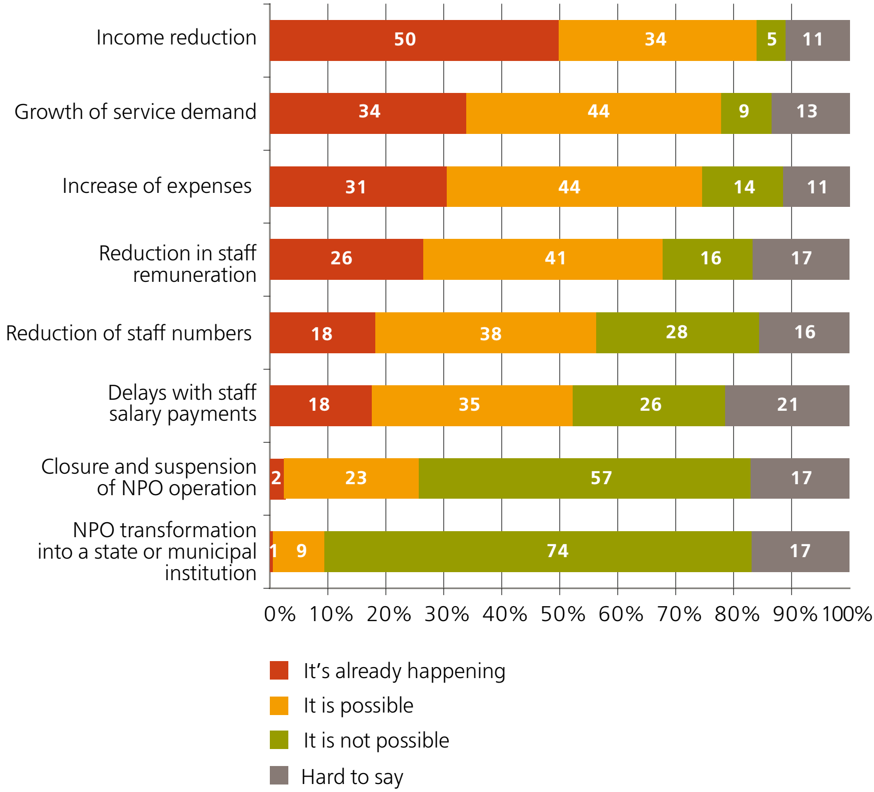
Non-profit organisations: tighten their belts and get on with work

- NPOs appear to be more or less prepared for crisis. They have succeeded in diversifying sources of income or were seriously considering diversifying (according to Zircon[1], only about 40% of NPOs had one domineering source of funding – government, corporate donations or grants; others received funding from different sources). They are building their strategies around those areas of work that can raise funds. They see the state as their major source of income in times of crisis. Unlike corporations, NPOs do not intend to downsize their staff and whenever possible are willing to invest in staff training and professional growth. Also, NPOs are prepared to adapt their programs to attract private donations and engage volunteers.

- Amid considerable reduction of funding (noted by 61% of respondents, with 52% indicating reduction by over 25% and 84% expecting further cuts) the overwhelming majority of NPOs intend to continue their activity and develop further. Nevertheless, 23% of NPOs consider closure of their organisation likely and 9% consider likely the transformation into a state or municipal institution. *(Figure 1)*

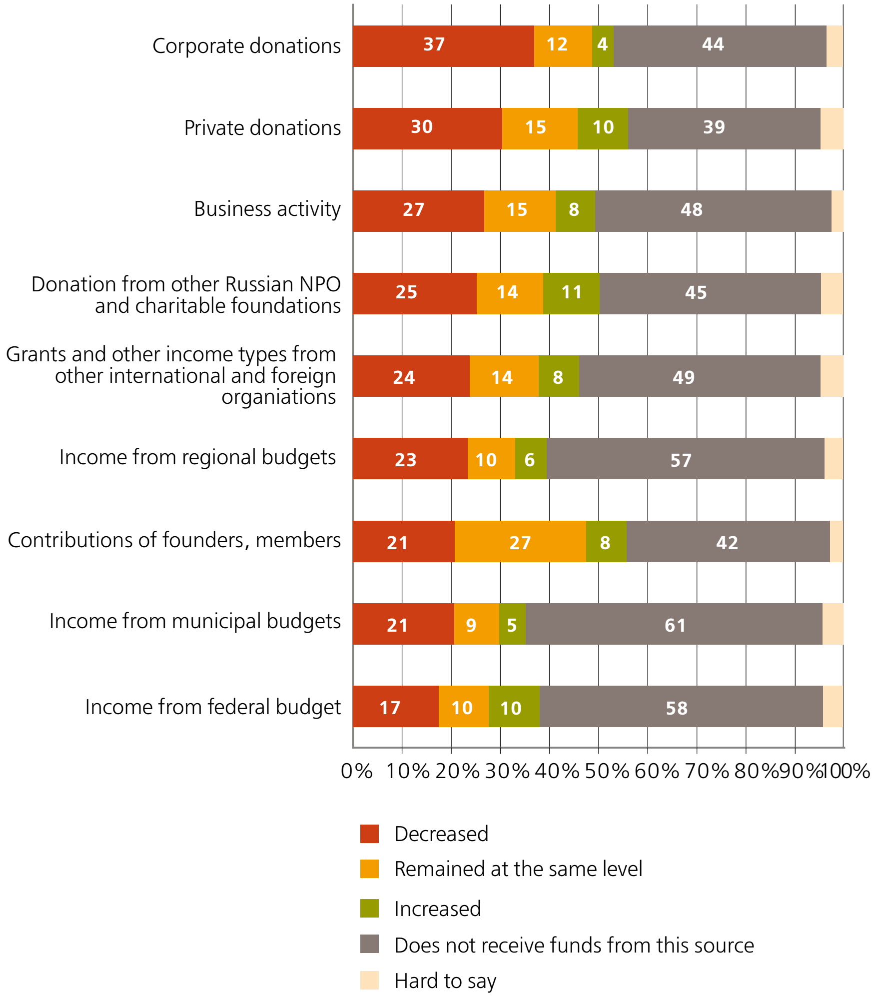
[1] See report "Development dynamics and current state of affairs of the NPO sector in Russia"// Analytical overview #3, Zircon, February 2009 www.zircon.ru/upload/File/russian/publication/4/090206.pdf

Figure 1. What is the likelihood of the following developments taking place in your non-profit organization next year?



- NPOs view corporate donations as most susceptible to the crisis (65% of NPOs that receive or used to receive funds from this source note the reduction). They are followed by regional and municipal budgets (reduction noted by 54% and 52% of respondents respectively) and income from entrepreneurial activity (noted by 52%). Funding from federal budget and contributions of founders, members appeared most stable: over 50% of respondents indicate that they either remained at the same level or even increased. *(Figure 2)*

Figure 2. How has diversified income of your organization changed over the last half year?

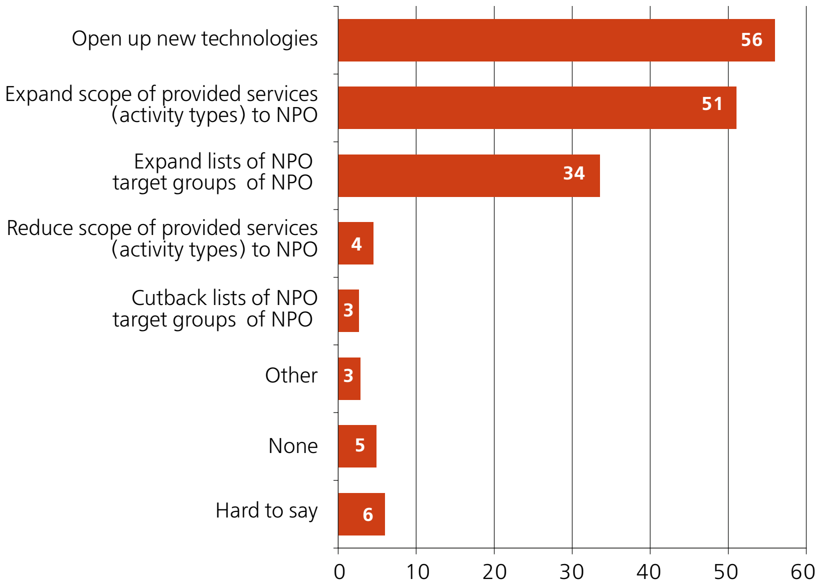


- Whilst overall funding is has dropped, 59% (*) of NPOs acknowledge a growth in demand for their services . This trend is in keeping with the strategy of a great number of organisations looking to develop their

* This and other figures marked with (*) throughout the text refer to those charts which are included in the full version of the report only. It is available at <http://cafrussia.ru/files/blocks/Research_CAF_full.pdf>

service delivery capacity (51% of NPOs intend to expand their scope of services, and 34% - to expand client lists. – *Figure 3*). Part of NPOs acknowledge that they view the development of their service delivery capacity as a source of financial sustainability: organisations intend to increase volume (19%*), raise prices (5%*) or expand scope of marketed services (22%*).

Figure 3. What are the first steps that your organisation is going to undertake to promote itself on the market, in the segment it holds?



- Both NPOs and companies anticipate an increased demand for consultation on rights and interests protection (social and economic rights foremost), professional training, job placement, small business development. At the same time, programmes aimed at improving quality of life (such as environmental protection, leisure, etc.) are of lower priority to NPOs. However, they are of mid-importance to companies.

United Kingdom

The interim survey of 260 large charities by the Association of Chief Executive Officers of Voluntary Organisations shows that investments have fallen from 269 million pounds to 235 million pounds in the past 12 months. Demand for services is up 18 per cent as the voluntary sector has to support families reeling from unemployment, but 50 per cent of charities claim that they cannot meet these demands.

Source: ACEVO 2008, http://business.timesonline.co.uk/tol/business/industry_sectors/public_sector/article5372778.ece

- A considerable number of NPOs we interviewed demonstrated that their strategies focused on "innovation", improvement of performance particularly through marketed services, raising private donations, launching new fundraising technologies. However, both innovation-focused organisations and more conservative-minded organisations equally understood the necessity to optimize planning systems along with budgeting and expenditure control.

United Kingdom

Charities are reacting in a number of ways. Nearly a third of charities (29 per cent) have made staff redundancies. Over half (56 per cent) have limited staff pay increases. Fundraising activity has been ramped up in 77 per cent of charities. Meanwhile, 63 per cent have increased grant applications.

Source: CAF 2008, http://www.cafonline.org/default.aspx?page=16118

- Despite the overall energetic attitudes of NPOs, their responses clearly reveal an appeal to other participants in the sector (government, companies and foundations), primarily for financial support. 66%*

of NPOs consider increase in government support (such as grants and subsidies) and 59%* – development of state and municipal tender system as most important. Additional tax and other benefits, simplifying registration and reporting system, as well as special PR and NPO activity promotion efforts are viewed as high priority tasks by only 34, 20, and 11% respectively. As for enquiries to companies, first and second on the priority list come requests for material assistance, what saves or generates financial resources: providing NPOs with office premises, equipment, etc. free of charge (68%*), purchasing NPO produced goods or services (49%*). Voluntary or pro bono qualified assistance is listed in third place as a priority (30%*). This can be easily justified and appears rational: cash is the most critical resource in crisis. Along with realistic assessment of fundraising opportunities applications for state funding are being developed.

Needs for legal resource (provision of tax and other benefits, eliminating administrative barriers) shows less because the number of organisations that can actually use it effectively (established players) are smaller. More so, the majority of NPOs are not very clear on how to apply non-financial resources most effectively to best further development.

"I think we should not expect much of the state and budget funding at this time. The state has to sort out drastic consequences of the crisis and it just can't help all NPOs. On the contrary, we will try to increase private donations, introduce marketed services for business, and find new donors in other countries".

Elena Topoleva,
Director, Agency for Social Information

Donors – corporates: there's still hope

- The economic crisis is hitting corporate donors the hardest. Many companies have decreased their charitable budgets (13 out of 36 respondents, 7 – by over 25%), some of them still do not have approved budgets (7) *(Figure 4, 5)* or have even ceased philanthropic activity altogether (often that was given as a reason when companies refused to take part in the survey).

Figure 4. How has crises changed your corporate charitable budget?

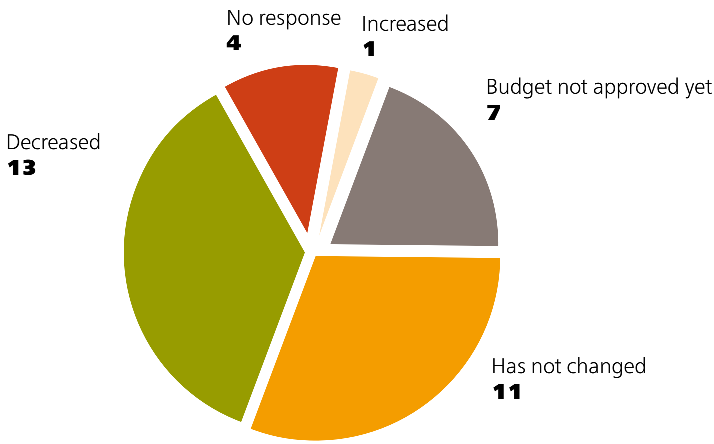
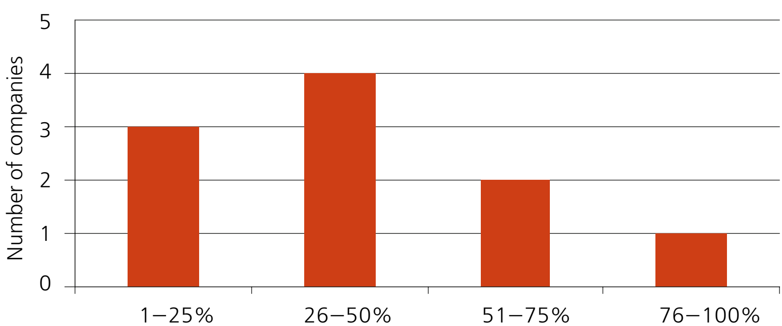


Figure 5. Charitable budget reduction



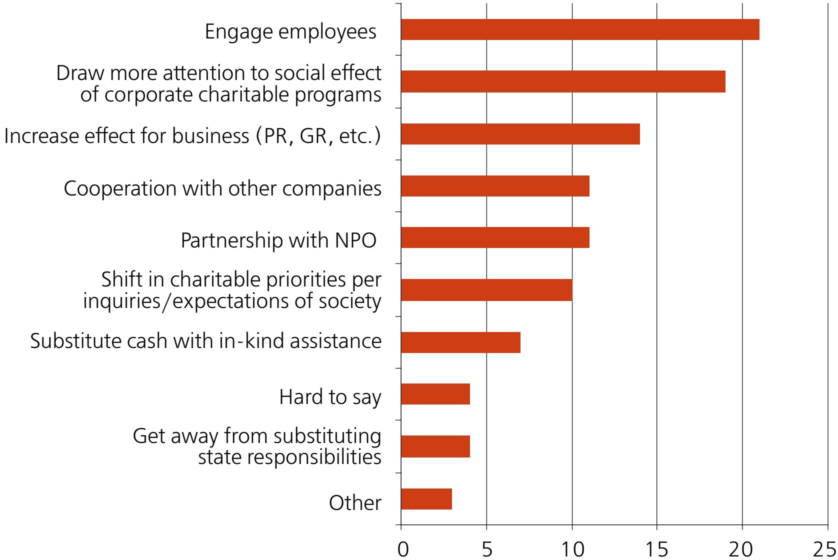
"I think the result is remarkable – the fact that this survey supports results of many other company surveys – that philanthropic expenses shrink only by a quarter (according to other sources – a third). It means that 70–75% of expenses remain. Speaking in general terms, I would have expected much more radical reductions in given circumstances. It would be fair to say that social investments and community level involvement still constitute a priority for companies, and they are fully aware of the need to maintain their efforts in this sphere".

Elena Feoktistova,
Head, Center for Corporate Social Responsibility and Non-Financial Reporting, Russian Union of Industrialists and Entrepreneurs

- Nevertheless, a significant number of interviewed companies have plans to continue their charitable programs. The majority of interviewed companies consider philanthropic engagement in crisis as an opportunity to demonstrate business sustainability and to strengthen their corporate image. Some are willing to extend additional support to NPOs as they understand that they are going through trying times in crisis.

- Companies consider engaging their own employees in philanthropic programs a high priority anti-crisis measure. Among steps planned by corporates they name drawing attention to the social effect of corporate charitable programs, closer look at how their philanthropy impacts the bottom-line, co-operation with other companies and NPOs, and shifting philanthropic priorities. Getting away from substituting state responsibilities and shifting from cash to in-kind donations are least popular. *(Figure 6)*

Figure 6. How does your company plan to handle philanthropic activity in the context of crisis?



"On the one hand, the survey revealed that companies do understand: philanthropy is a means to demonstrate business sustainability, and it's a positive point. Everyone got to thinking about the efficiency, and that's also good. However, on the other hand, there's a spoon of tar in this barrel of honey: only a third of companies are engaged in partnership with NPO that administer corporate projects; companies in fact do not expect a shift towards more outsourcing of their philanthropic initiatives. I think this is ABC of corporate management: if they need to cutback costs and save, then they start to outsource certain activities as much as possible. But they do not outsource, every time they rely on their own initiative, own capacity and do not realize that professional involvement may increase efficiency, which is quite surprising in its own right".

Tatiana Rybakova,
General Director, Center for Learning Corporate Citizenship

- Companies consider tax incentives of corporate philanthropic activity as well as open state support as the most popular means of fighting the crisis.

Donors – private foundations: the importance of timely action

- The survey and a round-table discussion afterwards revealed that foundations were not so ready to face challenges presented to them by the economic crisis. There were blunt refusals to answer the questionnaire, controversial plans of respondents, as well as significant discrepancies between what they envision should be done in principle and what they in fact intend to do.

- The majority of institutional donors claim they will not change their philanthropic priorities, volume of philanthropic funding or geography of their activity. At the same time they note their budget cutbacks, at least in administration costs. They do not exclude the likelihood of further reduction of programme expenses, and some organisations speak of a possibility of closure.

USA

About half (48%) of the foundations report 10% budget cuts in 2009. At the same time about one third (38%) intend to either maintain or increase the value of their grantmaking.

92% foundations have focused their grantmaking on families, the economically disadvantaged and others affected by the economy.

Most foundations are taking actions to reduce or contain their own operating costs by implementing hiring or salary freezes, cutting travel budgets, or reducing or eliminating conference attendance.

Source: Council on Foundations 2009, http://www.cofinteract.org/economy/index.php/2009/05/06/foundations-respond-to-the-needs-of-families-even-as-their-assets-decline/

- Foundations hold that funding priorities should focus on the support of sustainable development of recipient organisations and general support of their core activity. However, none of the foundations interviewed provide the aforementioned support. Taking into consideration the fact that, as the survey shows, foundations do not intend to change their priorities, it seems that foundations will limit themselves to internal operational changes unrelated to program priorities.

USA

American foundations have been responding to the economic crisis in a range of ways... positive responses have included offering emergency lines of credit, including low or zero interest loans, and crisis funding; switching from restricted to unrestricted funding to allow recipients maximum flexibility; contacting client groups early to see if grants might be needed earlier than anticipated; providing frequent and transparent communication with those receiving funds; and increasing the amount being spent.

Source: Alliance, № 14, June 2009, p. 23//
www.alliancemagazine.org

- Similarly to companies, foundations almost unanimously opt for tax incentives as an incentive for philanthropy development in the times of economic downturn. Second in order of relevance for foundations is the opportunity to invite professional services in the sphere of program development, management and evaluation, professional training of specialists. Perhaps in future the improved professionalism of foundations will make up for cutting activity amounts.

Urgent cross-cutting issues affecting NPOs, companies and foundations

- Performance improvement (as well as intensifying work in general) is key for both NPOs and donors. 56% of NPOs have plans to master new work technologies, 39% to launch employee qualifications improvement, 62% to optimize financial planning, 53% to optimize processes and work technologies. At the same time only a small proportion of organisations are looking into downsizing staff (9%) and cutting back salaries (14%). Companies are going to increase programme efficiency too (50%). At the same time foundations support the idea of giving grants that target performance improvement of grant recipients, and this is also exactly what NPOs want (63%). However, it should be noted that preliminary discussions revealed significant differences in understanding of the concept "effective" and approaches to measuring it by different players of the sector.

- Volunteerism is an important theme both for NPOs and companies. 34% of NPOs remark that there is a flux of volunteers, for 49% engaging volunteers is part of their anti-crisis strategy (first choice against other measures in HR). At the same time the demand for volunteerism and for companies' pro-bono assistance was not highlighted by any NPO as their number one priority (30% have it in the third place), while for companies employee engagement is their number one priority among other efforts for changing charitable activity during the economic crisis.

"The question is whether NPOs in remote regions are at all aware of the existing opportunity of pro-bono professional assistance? When we started to provide free of charge legal services to NPOs even in Moscow many of them asked "Is this really going to be free? We don't owe you anything?" This is why in the minds of many NPOs volunteerism means a visit to an orphanage to paint a fence. Most likely they are not aware of other forms of voluntary support".

Tatiana Pesotskaya,
Social Projects Manager Clifford Chance

United Kingdom

Charities found the offer of unrestricted funding the most desirable yet it was the form of support that they felt companies were least willing to offer... Charities also felt that companies were most willing to offer unskilled volunteering time. However, whilst over 40% of charities valued this support as very or extremely important to them, it was the offering charities valued least.

Source: CAF 2009, "Helping Companies Helping Charities"
http://www.cafonline.org/Default.aspx?page=17418

- Finally, all three interviewed audiences were unanimous in acknowledging the effect that the state can have on philanthropy development in the crisis period. Only 3% believe that the state should ease its control over NPOs (interviews were conducted before the recent amendments to the NGO Law were introduced and the *Concept Paper on Philanthropy and Volunteering development* was approved by the Government), only 10 % expect favourable improvements in the legislation. At the same time, 59% would welcome tendering for state and municipal contracts, 34% would welcome improved tax legislation, 20% – simplification of registration and reporting systems. Among philanthropy development incentives companies and foundations both give first and second place respectively to tax stimulation and open public support of the state.

"It's peculiar that NPOs think that state is going to heighten control over them in hard times and they think that's bad. But at the same time 50% of managers view the President, Government, and regional authorities as capable of making NPOs' lives easier, which is, of course good. This does not add up properly. The state is clearly giving more attention and providing funds to philanthropy in Russia, but that's not going to save all. I personally think that NPOs need to come together, learn from each other, and help each other independently".

Irina Menshenina,
Director for Marketing and Fundraising, Downside UP

- One of the positive results of the survey is the fact that representatives of all three sectors understand similarly what should be done to overcome the crisis: first, tax benefits to carry out philanthropic activity, then comes public support, dissemination of the information on best-practice and increased transparency of recipient organizations.

Singapore

Singapore raised the percentage that donors can deduct from their taxes from 200% to 250% as part of the city-state's efforts to become a hub for non-profits in South-East Asia.

Source: Alliance, № 14, June 2009, p. 22// www.alliancemagazine.org

Questions for the future

- It is necessary to initiate the discussion within the Russian donor community of strategies for new forms of NPO funding that would support NPOs' institutional development or their core activity on a regular basis. Up until now the majority of Russian private foundations have tended to limit their support to project funding rather than investing in institutional development of the sector or helping NPOs to sustain their services to people. Companies have extensive experience in general support of recipient organisations however this applies mainly to state social institutions like orphanages. The raise of interest in evaluation of programme effectiveness which was reveled by the survey could provide impetus for search of new funding approaches in this context.

- With regards to volunteerism, special efforts should be taken to bring relationships between NPOs and companies into balance and to reach a better understanding and agreement of interests between the parties. NPOs are unanimously stating that working with volunteers requires additional resources for training, mentoring, and provision of feedback. Companies that consider corporate volunteerism development are not always aware of this fact. Besides, not all NPOs are in principle focused on volunteers, although they might use some qualified assistance in developing their activities that companies could provide pro-bono.

- Now that demand has grown for services, such as economic rights and interest protection, as well as professional retraining, job placement, and small business development, it seems reasonable to ask: does the existing Third Sector have the appropriate capacity to satisfy demand? The existing structure of the Third Sector is not geared towards the mentioned areas and it is not quite clear whether creating new NPOs with new types of activities would be more effective than redirecting existing ones to provide these new types of services. Also, it is unclear who can become the driving force of that process.

- Should state funding of NPOs increase and the desired tax benefits be introduced apparently state control will remain pretty strong (and likely heighten too). Nevertheless, changes in state policy hold the greatest potential for further growth and development of the sector, as well as increased activity volumes in the context of reduction of services provided by the state and growing social needs of the population. Focus on innovation and performance improvement that is shared by NPOs and the donor community should ensure optimal results of resources freed from taxes. Sector stakeholders (including NPO coalitions and donors) should continue their dialogue with the state that could take them to the accomplishment of that scenario.

The survey was organized by

CAF Russia (www.cafrussia.ru) offers support to those involved in philanthropic activities. Wherever we work, our goal is to make the most out of charitable giving. We achieve this by joining the interests of all parties involved in philanthropic activities based on the needs of the countries we work in.

ZIRCON™ Research Group (www.zircon.ru) is one of the oldest independent private companies in Russia specializing in sociological and marketing surveys, political and management consulting, and publishing. ZIRCON Research Group was initiated as a creative team by the head of the Group Igor Zadorin in June 1989.

PricewaterhouseCoopers (www.pwc.com) offers audit services, services in the field of business consulting, taxation and law to various companies. Our services are aimed at increasing the clients' business valuation, as well as its value for the society as a whole. Over 155 000 PwC employees in 153 countries use their knowledge, rich experience and creativity to develop practical advice and solutions that discover new outlooks for the business.

Donors Forum (www.donorsforum.ru) is a coalition of the largest Russian and international charitable (donor) organizations working in Russia, including private, public and corporate foundations, companies, embassy programmes, etc.

Branch office of Charities Aid Foundation in Russia (CAF Russia)
The Russian Federation, 125009, Moscow,
Tverskaya Str., 24/2, building 1, entrance 3, floor 5
T: +7 (495) 792 59 29 F: +7 (495) 792 59 86
E: cafrussia@ cafrussia.ru W: www. cafrussia.ru, www.cafonline.org

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