



CURRENT STATE OF SELF-FINANCING OF PRIVATE NON-PROFIT ORGANIZATIONS IN THE CONDITIONS OF THE SLOVAK REPUBLIC

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Abstract. Ensuring the financial stability of non-profit organizations through financial decision in the structure of financial resources is influenced by many objective and subjective factors. However, a necessary presumption of financial stability is to reduce their dependence on one source of funding or in other words, the independence can be achieved by diversifying of the funding sources. And it is the diversification of financial sources and their acquisition through self-financing that we consider as an appropriate way to achieve financial balance and thus long-term existential security of non-profit organizations. This scientific paper presents the partial results of a research of the current state of self-financing and diversification of financial resources of private non-profit organizations in the Slovak Republic. We analysed the primary data by the relevant scientific methods and procedures (selected mathematical-statistical methods, analysed in SPSS – Statistical Package for the Social Sciences). With the analysis we acquired a knowledge which allows us to formulate several solutions and recommendations for theory and practice. By presenting these conclusions we fulfil a scientific goal of the paper, which is to present partial results of research of current state of funding of private non-profit organizations and interpret the obtained outputs in an economic and social context.

Keywords: non-profit sector, NGOs, financing, diversification of financial sources, self-financing.

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1. Introduction

Funding of non-government organizations (hereinafter referred to as NGOs) in Slovakia and the problems associated with a depletion and/or a loss of current financial resources have encouraged a nationwide discussion with the main subject of diversification of financial resources and searching for new sources of funding. Among the issues are: more systematic and more transparent financing of NGOs from public sources (Izák 2011; Sokolowski 2012), cross-sectoral partnerships, the use of EU funds and funding through self-financing activities. The trend of searching for sustainable financial sources also noted the increased demand for diversification of these sources and extending self-financing activities. Support of non-profit organizations may be important also in the context of reducing effects of the economic crisis (Lungová 2011). In the presented paper we respond to these current theoretical and practical problems associated with the effort to achieve a financial independence of NGOs. Our intention is to present and interpret an analysis of primary outcomes and partial results of a research of funding private non-profit organizations (we identify this term with NGOs) in Slovakia. We will continue in the previous researches conducted at the Economics Faculty of Matej Bel University in Banská Bystrica and confront these outputs with the results of the current research of financing and diversifying sources of funding for private non-profit organizations¹.

2. Goal, material and methodology

The aim of this paper is to present and interpret partial results of a research of the current state of funding of private non-profit organizations with selected mathematical-statistical methods and interpret the obtained outputs in the economic and social context.

The subject of the research is self-financing and diversification of financial sources (funding). The subject is being studied on private non-profit organizations (object of the research).

We use the term “private non-profit organization” as the most accurate to express the fact that it results from the three-sectoral economy as is shown in the following figure (Fig. 1).

Therefore we use the terms private non-profit organizations or nongovernment organizations (NGOs) in this paper to refer to the object of our research.

As private non-profit organizations in Slovakia we can call the following legal forms:

- Civic associations,
- Foundations,
- Non-investment funds,
- Non-profit organizations providing public-benefit services.

These organizations meet all five criteria of Salamon and Anheier’s structural-operational definition (Salamon, Anheier 1997).

¹ The paper was created as a part of a partial results of a research project VEGA 1/1001/09 2009-2010 “Status of non-profit non-governmental sector in building a framework for the provision of public utilities services (European perspective)” and project of University Grant Agency “Possibilities of using controlling tools in the conditions of Slovak non-profit sector”.

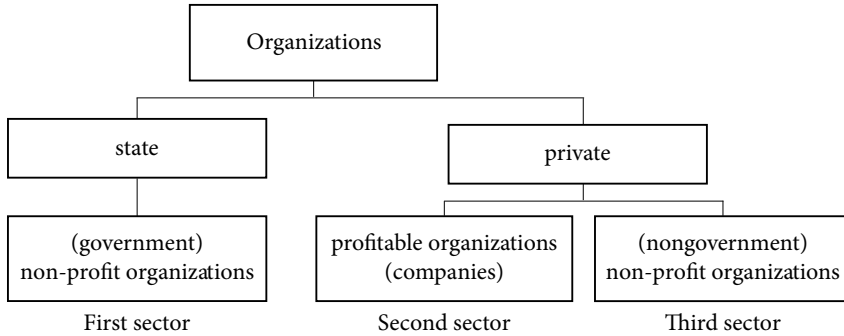


Fig. 1. Segmentation of organizations.

Source: Svidroňová, M. 2011. *Financovanie súkromných neziskových organizácií z verejných a iných zdrojov*, in *Sborník z mezinárodnej konferencie „Veřejná ekonomika a správa 2011“*. Ostrava: VŠB – TU Ostrava, Ekonomická fakulta. ISBN 978-80-248-2465-9

The material for this paper is secondary and primary data from the non-profit sector and non-profit organizations, as well as their sources of funding. Secondary data obtained from literature, professional and scientific journals, articles and Internet resources were subsequently classified and arranged to the thematic groups. Primary data were collected from research in non-profit organizations. These data were obtained with sociological methods by a structured questionnaire.

In order to ensure the validity of the research we consulted the content of the questionnaire and the process of research with a sociologist. We compiled a questionnaire which combines qualitative and quantitative methods of collecting data. In the quantitative part of the questionnaire we investigated the responses to closed questions which were further processed by the SPSS (Statistical Package for the Social Sciences). Answers to open questions were analyzed qualitatively in order to understand the studied problem (Klas 2010).

When choosing a target group of respondents it is important to comply with statistical requirements for a population of sociological research. The scope of the file greatly affects the accuracy of estimation of a parameter's position and dispersion. It means that if we want to get the most accurate and representative results, we have to make enough measurements.

With the questionnaire we approached 500 private non-profit organizations. Given the large number of private non-profit organizations, for selection to our sample we chose the criterion of activeness of a non-profit organization. We assessed the activeness of NGOs according to whether the organization applied for the assignment of 2% of income tax (we based on the assumption that if an organization puts the effort to register for assignment and promotes its activities to gain the 2% of income tax, it is active). Of the 500 approached NGOs, 136 completed the questionnaire with information applicable to our research purposes. The structure of the sample was as follows (Table 1).

The sample in the presented structure reflects the current state of the structure of NGOs in Slovakia, where civic associations constitute the largest group of NGOs. Appropriate structure and scope of the sample were confirmed by statistical significance of the results of tests carried out by selected methods of analysis of qualitative data.

Table 1. Sample size

Legal form	Absolute number	Relative number
Civic association	117	86%
Foundations	4	3%
Non-investment fund	2	1%
Public benefit organizations	9	7%
Others	4	3%
Total	136	100%

Source: own research, 2011

After the data collection we continued with their control, processing and evaluation. Analysis of the data relates to their description, comparison and search for correlations (Myslivec, Skalská 2010; Zavadskas, Turskis 2011). The processing of statistical data was performed by SPSS software system and consulted with experts in the field of statistics.

3. Sources of funding of non-government organizations and their diversification

In various sources we can meet with several classifications of resources of funding non-profit organizations. Based on a synthesis of theoretical knowledge (Belajová 2000; Kuvíková 2004; Majdúchová 2004; Marček 2008; Rehli, Jäger 2011; Vaceková 2009) and in order to achieve a synoptic classification as sources of funding NGOs we consider:

- public sources,
- private and individual sources,
- self-financing (business activities),
- foreign sources.

A particular source can be used in various forms as is shown in the following Table 2.

Table 2. Overview of forms of funding of non-government organizations from various sources

Sources of funding	Forms of funding
Funding from public sources	– state and/or public contracts and subsidies – concluding contracts and agreements
Funding from private and individual sources	– in the form of foundation resources – assignment of 2% of income tax – donations from a business sector – donations from individual donors
Self-financing	– in the form of membership fees – sale of services – sale of products – use or renting of intangible assets – use or renting of tangible assets – appreciation of investments
Funding from foreign sources	– European Union funds direct subsidies

Source: Kuvíková, H.; Vaceková, G. 2009. Diverzifikácia finančných zdrojov v neziskových organizáciách, *E & M Ekonomie a Management* 12(4). Liberec: TU v Liberci. ISSN 1212-3609

The research showed that more than 85% respondents use several sources of financing. A research from 2009 pointed to 95.16% of NGOs using multi-source financing. For private non-profit organizations it is a strategic advantage if they are not dependent on any financial resources. However, almost 15% of NGOs is currently relying just on one source of funding and failing to diversify their income. That means they are at risk of losing 100% cover of their costs in case of failure of the source, which is their only income and their existence is dependent on this source.

We found out that the most common form of financing is represented by the assignation of 2% of income tax. Bearing in mind the fact, that the registration to receive 2% of income tax was a criterion for the selection from the population, this form should have 100% coverage. The research shows that only 91.61% of respondents are using 2% of income tax as a form of financing. The fact that this form does not have 100% representation may be due to a mismatch – a database of registered organizations for the 2% of income tax is from the year 2010 and the research was carried out in 2011. The organizations that registered for the assignation of 2% in 2010 may no longer use this option in 2011. This discrepancy cannot be eliminated as the database is available only for the previous calendar year. We realize the discrepancy, but we can state that it has no effect on the quality of research output and its significance in relation to research output is irrelevant.

Respondents also widely use private sources of funding (Ko *et al.* 2011), either from individuals or from companies (60.14%). Approximately equal representation have grants (45.45%) and public resources in the form of subsidies from the state or municipality (41.96%), while we can see more support at the regional level (Šipikal *et al.* 2010). Foreign sources are used in a much lower rate (12.59%), which confirms our findings that foreign donors have shifted their funds to less developed countries of Eastern Europe and the Balkans, and the Slovak NGOs do not rely on foreign foundations as a major source of financing.

According to information from research, public resources in the form of state / public contracts are used at least (4.2%). This finding is suggesting that in the SR the appropriate conditions to ensure, that public services could be provided by the NGOs in a higher ratio, are still absenting. 25.17% of organizations gave the “other” sources of funding. They either do not specify this option or wrote a specific method of financing, such as sales of services or gifts. However, these forms of financing belong to methods of self-financing which we further examine separately.

In Fig. 2, we see that all forms we have theoretically defined in the first part are represented. In the structure dominate private and individual sources, self-financing and public funding are also strongly represented.

To be able to highlight the importance of the self-financing for NGOs, in addition to the above mentioned number of organizations (in %), we point out the shares of the various forms of funding of NGOs in Slovakia. According to data from the research conducted in 2009 respondents estimated the shares of financial sources of NGOs in the following structure: 39.69% private and individual sources; 21.29% self-financing; 20.19% state funds; 16.79% foreign sources and 2.04% other sources. This is an average percentage diversification of financial sources within an NGO therefore the sum of the shares is 100%, (unlike

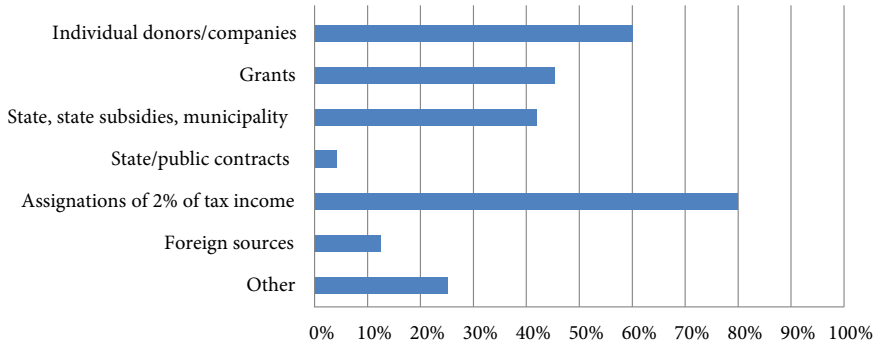


Fig. 2. Forms of financing of private non-profit organizations. Source: own research, 2011

obtaining funds from various sources). Respondents were also asked for an example of an “ideal” diversification of financial sources which was as follows: 32.14% public funds; 26.31% private and individual sources; 21.07% self-financing; 17.96% foreign resources; 2.52% other sources. Thus we obtained an estimated importance of self-financing from the perspective of NGOs (what percentage should self-financing participate in the funding of their activities). Our current research has shown that the self-financing represents 25.17%, which is more than the respondents estimated for “ideal” diversification in 2009. The conformity of the real and the “ideal” diversification of financial sources in 2009 compared to 2012 will be statistically tested in the next stages of our current research.

The structure of sources may be shown as follows (Fig. 3).

Compared to the results of research from 2009, we can conclude a match in the most frequently used forms of financing, which is funding through the assignment of 2% of tax income, membership fees and donations.

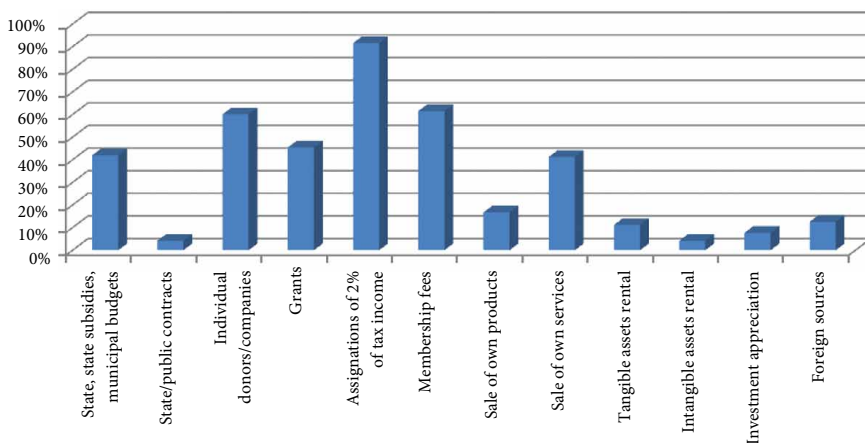


Fig. 3. Sources of financing of private non-profit organizations. Source: own research, 2011

4. Self-financing of private non-profit organizations

Self-financing or business activities of non-profit organizations mean an entrance to the business market with a range of services or products (Kuvíková 2004). A non-profit organization enters the market to exchange the service or product at market price (Kuvíková, Raguseo 2008). It is given, unlike a company, how NGO treats with an income. Self-financing is an important part of the process of ensuring financial stability and independence of a non-profit organization. However, the term “self-financing” is still not clearly defined and in theory exactly described. In a short-term point of view self-financing can be understood as business or other economic activities of the organization, from a wider perspective it means diversifying of the organization's sources. From this aspect we can define self-financing of non-profit organizations as activities designated to create different incomes for the organization, except grant income (Šebo 2002).

The experience of foreign but also of domestic non-profit organizations clearly indicates the need to start using self-financing methods in the interest of their stability (Chahine, Tannir 2010), although in no case this shall be the only way or sole source of income for non-profit organizations. When raising funds by the shown forms of self-financing, a non-profit organization must reckon with certain risks. These are more numerous, larger and more challenging than those to which profitable companies are exposed (Šebová 2007). These include:

- risk of divergence of organizational sources,
- risk of focusing on business and other mission (Brinckerhoff 2011),
- risk of loss or debt (Raguseo, Šebo 2009),
- risk of loss or damage of reputation.

For each form of self-financing there is a rule that the more the organization diverges from its mission, the greater risk it takes in case of unsuccessful realization of a business plan. Among the self-financing activities belong (Kuvíková 2004):

- Membership fees (annual fees from its members gathered for some services or products).
- Sale of services (a fee that non-profit organization receives for a service, price of the services is often subsidized by government or grants because without this support the price of services for major clients of the non-profit organization would be very high).
- Sale of products (production of publications and other products related to the mission of non-profit organization and/or of products unrelated to its mission but this production meets other objectives, such as creation of jobs).
- The use of intangible assets (rental income from own intangible assets, e.g. providing the name of non-profit organization in favour of another product or service; in the form of licenses, patents or copyright).
- The use of tangible assets (income from estate rental or property rental, which is not or little used by an NGO).
- Appreciation of investments (short-term use of temporarily unneeded program funds and their reinvestment, the set up of a reserve fund, endowment development).

The different forms of self-financing have been reported by the respondents as follows (Fig. 4).

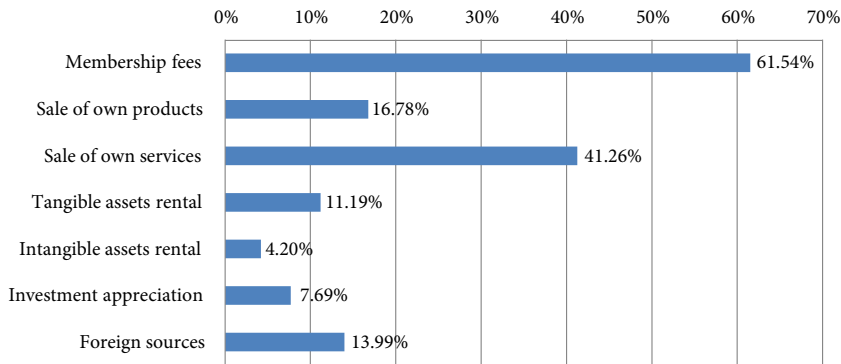


Fig. 4. Forms of self-financing of private non-profit organizations. Source: own research, 2011

Fig. 4 shows that the most represented form of self-financing is membership fees (61.54%) and fees for selling own services (41.26%). Also in research in 2009, the membership fees and income from the sale of services were the most used form of self-financing. The results of the current research reveal that there are currently almost 14% of NGOs which do not use self-financing at all.

Analysis of the research results did not remain only at the investigation of isolated variables; we are interested also in the relations between variables. We investigated whether the use of self-financing is influenced by factors such as the legal form of organization, core work and the length of its existence.

Chi-Square test (Table 3) showed that there is no correlation between the legal form of private non-profit organization and the use of self-financing. This means that the results concerning the application of self-financing is valid for all legal forms and it is not necessary to examine them separately. Indirectly this result builds on the research from 2009, when the sample of 62 respondents showed that there was no relationship between legal form and sources of financing.

Table 3. Dependency test between the use of self-financing and legal form

	Chi-Square Tests		
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.859 ^a	12	.541
Likelihood Ratio	13.430	12	.339
Linear-by-Linear Association	.113	1	.737
N of Valid Cases	136		

Source: own research, 2011

By the core work the NGOs from the sample are represented as follows (Fig. 5).

Most of the surveyed NGOs operates in field of sport (23.78%), culture (19.58%) and education (18.18%). Over 15% of the organizations (15.38%) stated as core work “other”, where they named options as development and humanitarian aid, social protection, defending citizens’ rights and interest activities, spiritual development, work with youth, organization of cultural and social events and use of leisure time.

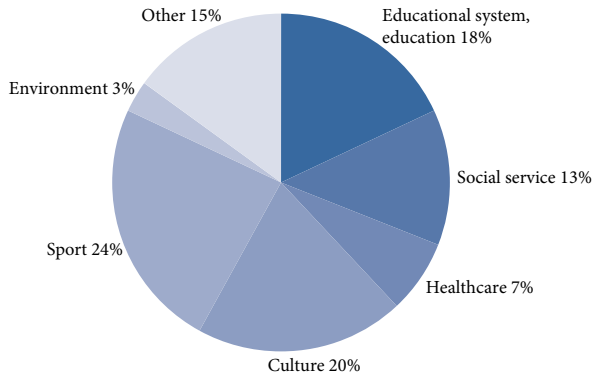


Fig. 5. Main core work of private non-profit organizations. Source: own, research 2011

The relation between core activity and self-financing application we verify with an exact Monte Carlo test, where the value of Cramer’s V coefficient showed a moderate dependence (Table 4). This means that there are differences in the application of self-financing, depending on core work, so it matters in which field the NGO operates, if it wants to use self-financing as a source of income.

Table 4. Correlation analysis between core work of an NGO and applying of self-financing

	Value	Approx. Sig.	Monte Carlo Sig.		
			Sig.	99% Confidence Interval	
				Lower Bound	Upper Bound
Nominal by Phi	.469	.038	.036a	.032	.041
Nominal Cramer’s V	.271	.038	.036a	.032	.041
N of Valid Cases	136				

Source: own research, 2011

As for the top three fields we can say following: 91.43% of NGOs with sport as their core work use self-financing, actually in almost 52% NGOs the self-financing has more than 10% participation on all funding. Only 3.7% of NGOs that have culture as a core work do not use self-financing. Out of the remaining 96.3%, there are nearly 67% of NGOs that use self-financing in more than 10% range. The third field – educational NGOs use self-financing in big ratio too, exactly 88.46% stated they use this source of funding and for almost 36%

it has more than 10% share on total sources. To compare with a field that does not apply self-financing in such extent, we chose NGOs with healthcare as a core work. We can say that 30% of these NGOs are not using self-financing at all and only 10% of them has share of self-financing bigger than 10% on all sources.

The last tested criterion was a length of existence of an NGO (age of organization). Between the organization’s age and length of use of self-financing there is moderate direct correlation as confirmed by the Spearman correlation coefficient (Table 5). This confirms a logical assumption that the organization is older, the longer it applies self-financing activities. The result again indirectly builds on research from 2009, where we found that the “duration of the existence of NGOs and their experience with the operating on the market have an impact on raising funds from concrete sources” (Vaceková 2008).

Table 5. Correlation analysis between the age of an NGO and length of its existence

			OT9	OT5
Spearman’s rho	OT9	Correlation Coefficient	1.000	.418
		Sig. (2-tailed)	.	.000
		N	136	136
	OT5	Correlation Coefficient	.418	1.000
		Sig. (2-tailed)	.000	.
		N	136	136

Source: own research, 2011

We summarize the length of use of self-financing in various organizations depending on the length of their existence in Table 6 because we found as an interesting fact that the organizations that are younger than 5 years are also using self-financing. We therefore conclude that the young organizations recognize the need to diversify sources and try to apply the self-financing as well.

Table 6. Number of organizations according to length of use of self-financing in various organizations and the length of their existence

Length of existence	Up to 5 years	5–10 years	10–20 years	More than 20 years
Length of using of self-financing				
I do not use	4	2	10	2
1 year	9	2	–	1
2–5 years	21	8	7	1
More than 5 years	–	21	30	18

Source: own research, 2011

Entry of private non-profit organizations in the business market brings some problems that are shown together with the calculation of statistical variables reflecting their importance in Table 7 below (scalability assessment: 1 = very serious problem, 2 = serious problem,

3 = minor problem, 4 = slight problem, 5 = I cannot judge), and symbols) to e) description of problems is in the text below the table:

Table 7. Problems connected with financing of the NGOs by business activities (self-financing)

Indicator / Problem	a)	b)	c)	d)	e)
Mean	1.81	2.11	2.34	2.44	0.21
Median	2.00	2.00	2.00	2.00	0.00
Standard deviation	1.143	1.229	1.187	1.168	0.577
Minimum	0	0	0	0	0
Maximum	4	4	4	4	3

Source: Vaceková, G. 2009. Problémy viaczdrojového financovania mimovládnych organizácií, *Ekonomika a Spoločnosť* 10(1). Banská Bystrica: EF UMB. ISSN 1335-7069

- a) a vulnerability of the NGOs, if the organization is relying on one-sided funding depending on success of its market activities or other forms of self-financing (average importance 1.81 ± 1.143),
- b) a potential risk that the organization “forgets” its mission and making a profit will become a priority (average importance 2.11 ± 1.229),
- c) a strong competition from the private sector (average importance 2.34 ± 1.187),
- d) organization may overestimate their ability and capacity to apply and develop self-financing activities (average importance 2.44 ± 1.168),
- e) among other issues the respondents named limited legal options for self-financing; high risk of abusing the self-financing possibilities; legislative barriers that do not allow any (or very few) business activities to certain types of non-profit organizations (e.g. foundations), unclear explanation of the rules on funding of NGOs, lack of capital and knowledge, lack of “a culture of support for the third sector” in the form of purchasing products and services” (Vaceková 2009).

In our current research, participants were asked whether the NGOs consider self-financing activities for commercial, causing distraction from the goal and mission of the organization. More than 86% said no, but 11% of organizations believe that self-financing is a commercial activity that distracts NGOs from their mission and purpose. 2.94% of organizations could not consider this question, because according to them it depends on other factors such as the legal form of organization.

We therefore conclude that the problem of potential risks that the organization “orgets” its mission and making a profit will take a first place that was considered serious (importance 2.11) in research in 2009, now has lost in importance. The vast majority of respondents are now thinking that self-financing does not detract from the core work and mission fulfilment. Despite the problems associated with self-financing, this method of funding is currently viewed as one of possible ways to financial stability and independence of NGOs. Under the independence we do not understand just its financial aspects. Also it is independence from a surrounding of NGO, when organization needs to decide on the direction of its activities. This independence is directly connected with the financial independence.

5. Conclusions

One of the presumptions for the successful functioning of any organization is to secure its funding. In the private non-profit organization are their financial aspects of their existence associated with specific features, which largely result from their service and non-commercial position in society. In addition, non-profit sector in Slovakia after 1989 has passed an interesting development and dynamic changes (Radvanský *et al.* 2010) that are also affecting its financing. After a boom period in the nineties and the subsequent consolidation is very visible a shift from quantitative to qualitative level. The presented results are part of the primary research of self-financing and diversification of funding of private non-profit organizations. The base of our research started in 2010 in a research project VEGA 1/1001/09 2009-2010 “Status of non-profit non-governmental sector in building a framework for the provision of public utilities services (European perspective)”, which was successfully solved by a team of authors of the Economic Faculty of Matej Bel University in Banská Bystrica. The research continues within a project of University Grant Agency “Possibilities of using controlling tools in the conditions of Slovak non-profit sector”. Content of the research is focused on identifying different forms of financing of NGOs, with an emphasis on self-financing, which unlike traditional sources of funding brings the highest degree of independence – with self-financing there is no requirement for presentation of results to donors. Also, donors are not willing to pay 100% of the cost of a particular project and it is always necessary to seek additional resources for covering the financial needs. This is automatically eliminated by self-financing. We therefore conclude that the higher rate of self-financing, the higher degree of independence of the organization. We point to the fact that the NGOs operating in the Slovak Republic diversify their sources and positively deal with a possibility to use self-financing activities. We see self-financing as one of possible ways to the financial stability, independence and in the end a way to a long-term sustainability of private non-profit organization.

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