

Czech Donors Forum



A case study of an association of grantmakers that evolved from a foreign donor's initiative to an independent association of indigenous foundations.

I *Organizational Profile*

The Czech Donors Forum (CDF) was registered as a not-for-profit, membership-led civic association in July 1997. It was set up by two of its members who submitted the registration documents. It is governed by a seven-member Executive Committee, elected by the membership for a two-year period. At the end of 2002, the CDF had 30 members, all private foundations.

The support for the work of the CDF comes from grants, membership fees, and income generated by providing services and sponsorship.

The principal focus of the association is to provide support and services to foundations, to promote philanthropy and to cultivate the culture of giving. The CDF acts as a platform for the exchange of information and ideas, works to reach consensus on common issues and enters into active partnership with the government and lawmakers on issues of policy.

The CDF achieves its goals by working with external partners and individual experts in various fields (law, taxes, investment, media). Its full-time staff of five can thus expand its capacity. The external partners participate as members of working groups; each working group has a specific task, time-line and leader. The CDF Secretariat executes the day-to-day work, while the working groups steer the whole process. All external partners work on a pro-bono basis.

The members of the CDF are grantmaking foundations. Czech law recognizes foundations only as a general class, even though some foundations were established by corporations, some by private individuals, and yet others by groups of individuals who have come together to develop community foundations. There were 338 registered foundations in the Czech Republic as of July 2002. The total amount of their endowment was approximately US \$ 81 million. Of these, no more than 80 organizations were developing the capacity to

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serve as real foundations and fewer than 40 fulfilled the role of a foundation in a meaningful way. The CDF has as members the majority of these “functioning” (e.g., grant-making) foundations. Together, the members represent close to 60 percent of the endowments registered in the country and more than 75 percent of the yearly giving by private foundations. CDF member foundations are active in fields across the spectrum (education, culture, social and health issues, protection of the environment and of human rights, community development and civil society development). The CDF plans in the future to include both non-endowed funds (pass-through funds) and corporate donors in its membership.

CDF members have developed their own Code of Ethics, which sets out the principles of ethical behavior for foundations beyond the requirements of the law. All members of the CDF have signed the Code and adhere to its rules. The membership base has grown very slowly and gradually due to the fact that most existing foundations are inactive. The CDF’s membership criteria are simple and designed to ensure that potential members are grantmakers. The criteria require that a foundation has distributed at least US\$8,000 to at least five different entities per year. In addition, a foundation must sign the Code of Ethics and act according to its rules.

According to the Czech law for civic associations like CDF, associations must be membership-led organizations in which the members themselves constitute the highest body. Members elect an Executive Committee to oversee the organization and the Committee, in turn, selects a Director. The whole membership makes decisions regarding the criteria for membership and the overall program of the association. The Executive Committee makes decisions on budgetary issues and closely oversees the CDF’s program. The Director’s responsibilities are established by the Executive Committee.

The whole membership meets twice a year to address legal and administrative issues of the association. The Executive Committee meets every two months. Besides these formal meetings, the members meet every two months to address issues common to all and work on various committees (membership committee, special events committee, committee preparing the review of the foundation law and the tax regulations, etc.)

CDF’s total annual budget for 2003 is estimated to be between US \$ 170,000-\$180,000. CDF provides regular services and programs for the donor community as well as development projects that are based on the actual or long-term needs of the sector. It seeks funding from domestic and foreign donors. Approximately one-third of the total budget is covered by general support grants from foreign as well as indigenous foundations. These grants are usually for a two to three year period. Foreign funding for infrastructure organizations in the Czech Republic is slowly decreasing although it still covers most of CDF’s annual budget.

Domestic funding has increased but progress is slow. Domestic funding comes from member grantmaking foundations, membership dues (up to 7%), income generated from the provision of services and consultations, and corporate sponsorships of certain events provided by local and international businesses. CDF’s future fundraising strategy is focused on increasing income from domestic foundations (both dues and grants) and from its own activities.

The Evolution of the Association

The CDF gradually emerged from ad hoc meetings of foreign donors in the Czech Republic at the end of 1995. The initial purpose of the meetings was to share information about each other’s programs, to address issues and concerns and to talk about needs in the Czech society. The meetings were informative but, initially, the partners were cautious about revealing their own priorities and areas of focus.

The most important organizations promoting the donor cooperation were the Charles Stewart Mott Foundation, USAID, the Canada Cooperation Fund and the British Know-How Fund.

After these initial meetings, the donors realized that in order to create a common agenda, some minimal coordination was necessary. A coordinator was hired and the Mott Foundation hosted the meetings. The donors focused on developing a climate for philanthropy, in general, and on supporting the development of corporate philanthropy, in particular. This focal point of their work together became a project, *The Development of Corporate Philanthropy Project*, initially supported by USAID.

The Development of Corporate Philanthropy Project

became a central focus for the next two and one-half years, 1996-98. The project had two main parts. First, the members realized that more information about the climate for corporate philanthropy and about current practices in this area was needed. The first step was to conduct a study of 80 selected companies, including all the main industries and services, medium and large companies, Prague-based and regional, state and private, and Czech and foreign companies. The study was conducted through personal interviews and the outcomes were published. The study provided the CDF members with a better understanding of what was needed for further developments in the area of corporate community involvement.

The second part of the project was the development by the CDF of a seminar series that covered all aspects of corporate giving, such as financial and legal issues, communication strategies, sponsorship versus giving, improved knowledge of NGOs as potential recipients or partners, etc. The seminars were prepared with the assistance of legal and PR experts. Top managers from those companies that had valid corporate giving programs were engaged as speakers. The seminars were focused strictly on the companies' needs for setting up a good base for corporate giving programs.

In sum, the project consisted of survey research and dissemination of its findings, discussion seminars and special events, and work with the media to raise public awareness of corporate giving and identify examples of good practices in the Czech Republic.

The CDF managed this project for two and one-half years. It was then put on hold in 1999 due to the limited capacity of the CDF, which had to fully focus on the needs of emerging, new Czech foundations in response to the foundation law that was changed the year before. During the project's duration, the CDF organized two national conferences on corporate giving, together with chambers of commerce and the Prince of Wales Business Leaders Forum; published several articles on corporate giving; and

performed a follow-up study to determine what progress had been made as a result of the project. The follow-up study revealed some positive developments which were unfortunately stunted by the introduction of a new tax regulation. That regulation severely controlled the corporate giving of any company that had the state as a majority owner. Corporate giving was also slowed by the generally worsening economic situation in the country.

In the beginning, the CDF did not consider company giving programs as potential members because the companies' needs were so markedly different from other donor programs. The CDF planned to eventually offer membership to companies, but only as it developed further capacity in this area. Instead, the CDF concentrated on the few emerging corporate foundations, two of which became important CDF members.

The outcome of *The Development of Corporate Philanthropy Project* was the publication and dissemination of two reports, which enhanced awareness about this issue both within corporations and with the public, created a heightened exposure of NGOs to the corporate world and improved the visibility of foundations as entities that cultivate and support the whole environment for philanthropy.

During the first year of informal meetings, the CDF members aimed to include all the foreign donors and those Czech foundations that were decidedly grantmaking (in this case, re-granting foundations). In 1997, the group had 12 dedicated participants and discussions began regarding whether to register as a formal association or continue to work as an informal group. The participants were, at that time, a mixture of foreign government programs of assistance, Czech re-granting foundations and the largest indigenous foundations, whose assets were of mixed origin. The foreign donors promoted heavily the idea of a formally registered and strong association. The Czech foundations, on the other hand, expressed deep concerns about being overshadowed or controlled by the association. They also did not see the need to add yet another formal structure to the NGO network.



The discussions leading to registration were difficult. Several members felt that the informal network fulfilled their needs sufficiently and that there was no need to establish yet another organization. Others felt that the establishment of a formal organization was a demonstration of a long-term commitment to donor cooperation and it gave the platform legitimacy.

The final motivating argument for registration was to ensure that the network would indeed be truly neutral and independent (not attached to any one existing organization) and that as a registered organization, it could seek its own financial support. After much debate, the group finally agreed to register the CDF as a not-for-profit membership association.

In 1997, when the CDF was registered, its existence was known only to foreign assistance programs and a few key NGOs. The foundation sector was in formation after a new foundation law was passed early that year. The foundation law attempted to differentiate the functions of a grantmaker from other nonprofit organizations. Foundations, as donors, were beginning to emerge in 1998. By re-registering as foundations they took upon themselves the responsibilities of developing assets, building endowments and making grants, even if such capacities were to be built over time.

The registration was accompanied by establishing an office, hiring a Director, developing membership criteria, and establishing a formal model of governance. Although the Czech law does not require the association to have a Board of Directors, an audit or to publish an Annual Report, the CDF decided to adopt the much more rigorous rules in all aspects of its functioning than other associations and to be fully transparent.

II *Issues and Challenges of a Developing Association*

Finding Funds

Czech foundations were established without funds—an anomaly in the post-communist countries. Foundations were, therefore, indistinguishable from other NGOs. All nonprofit organizations were fundraising to support their own projects, often going after the same sources of support.

Foundations make up about one percent of all nonprofit organizations registered in the country. The largest grantmakers are either re-granting foundations (distributing grants from a source outside of the country) or have been endowed at the onset from government sources. For example, the government-funded Endowment for the Arts fell apart after 1989. In the confusion of the times, the funds were transferred to a foundation with the purpose of supporting the arts, thus transferring the state funds to the not-for-profit sector. Today the majority of the foundations in the Czech Republic focus on health and social issues. Very few have programs to support civil society, community development, human rights or the environment.

Foundation assets are divided into *registered endowments*. The value of the endowment is registered at a court and the foundation, by law, can decrease its value but in strictly defined situations; it can always be increased. The registered endowment is considered untouchable; thus the foundation can use only the proceeds which are tax-exempt and so-called *other assets* (any assets that are not a part of the registered endowment). Other assets can be used in any way the foundation wishes and the proceeds are taxable; however, every NGO (i.e., foundation) in the country has many tax exemptions. As of May 2002, the combined assets of the registered endowments were approximately US \$84 million. Foundations can obtain resources from individuals and legal entities (in the form of gifts), public collections and benefit events, other foundations, foreign sources, their own activities (provided they do not conflict with the foundation's mission and they are in accord with the purpose set by the law), income from their investments and bequests.

Czech foundations have received a great boost from the government through a one-time process which lasted nine years and required building political support and reaching consensus within the foundation community. The process began in 1991 when the Czech government decided to

allocate one percent of its revenue from the privatization of large state-owned companies to foundations as a form of compensation for the assets which were confiscated by the state after 1948. The government put this money aside into a so-called Foundation Investment Fund (FIF), but due to the lack of political support, the FIF was not distributed to foundations at the onset. After waiting for a more favorable political climate, several foundation leaders began a process of lobbying for the release of FIF funds to foundations. Finally, the selection process for distributing the funds began in 1999 and was completed in 2002. Seventy-three foundations received a boost to their endowments (totaling US \$70 million so far).

Gaining Legal Status

The status of foundations was not precisely defined until the passing of the law on foundations in 1997. This law states that foundations are associations of assets expressly established for the achievement of socially beneficial aims. Foundations must register with a minimal endowment (US \$16,000) and must work to continue to increase the endowment. The foundation Board is responsible for administering the assets, directing the foundation's activity, issuing statute, electing new Board members, appointing the Director, approving the budget, making decisions about the allocation of grants and overseeing the endowment.

A majority of the re-registered¹ foundations cannot generate enough resources and do not fully understand their roles and their opportunities for further development. They are, therefore, becoming inactive organizations. These foundations function on a voluntary basis without paid employees. At least one third of the foundations serve only the founding institution (e.g., a hospital, school, library, etc.) and do not practice open grantmaking.

In this environment, the CDF concentrated on recruiting as members those foundations that were firmly on the path of developing as donors and providing support and education to the whole foundation community in order to support further development of organized philanthropy.

¹Before the passing of the foundation law in 1997, there were close to 5,000 foundations registered in the Czech Republic. These were foundations in name only because they had no assets and had to do fundraising for projects like other NGOs. After the new law was passed, all existing foundations had to either re-register as foundations or be liquidated and become another type of not-for-profit organization. After the re-registration process, there remained fewer than 200 foundations in 1999. Since then, the number is slowly but steadily increasing.

Educating the Public

The renewal of organized philanthropy based on authentic and democratic roots began to take place only after political changes in 1989. Private philanthropy is still in the process of regaining its lost legitimacy and it will take time to fully regain its status as a socially recognized activity that is completely trusted and honored. In terms of giving, the population responds well to natural disasters, children in need and massive fundraising drives. It is still not customary, however, to give individual gifts to foundations.

Philanthropy is understood only as charity and charity is viewed as a temporary substitute for unsatisfactory government care. The motivation for both individual and corporate giving has an ad hoc character. It is not necessarily based on traditional moral principles and is often characterized by case-by-case decisionmaking. Individual donors often become discouraged by the lack of recognition and feedback from the recipients.

According to research done in 2000, more than three quarters of the Czech population claim that philanthropy would not be needed if the state behaved more responsibly. In this area, foundations themselves, and the CDF, must do a great deal of work to raise awareness and improve understanding. Thirty percent of the public view foundations with mistrust. People make assumptions about foundations stealing money and hiding irregular practices under the umbrella of philanthropy. Ironically, the more successful a



foundation becomes in building its endowment, increasing its grantmaking program and becoming more visible, the more this success is viewed with suspicion.

For these reasons, the CDF embarked on a program of promoting foundation activities to the public through media. The aim of the program is to promote foundations and their publicly beneficial work and to obtain public support.

Serving the Whole Donor Community

Because of the urgent needs of the foundation sector and its own small membership, the CDF has made a decision to provide services for the whole donor community and to position its members as leaders in this effort.

The CDF provides services to donors and also initiates and manages processes of change. It cooperates with various partners (government, parliament, experts in the financial sector, lawyers, tax advisors and auditors, other organizations in the not-for-profit sector, and media) to achieve its aims. Its main functions are to inform, educate, support, work on consensus building and generally cultivate the donor environment. As the only membership association that focuses on the whole foundation sector, and not only on its membership, the CDF also aims to act as an example of neutrality and good practice.

The CDF organizes regular meetings of members that focus on facilitating mutual exchange of information about their respective programs, needs in particular areas and grantmaking strategies.

The CDF also holds Affinity Group meetings for all donors supporting various areas (social, health, community development and environment protection, education, human rights, children and family, culture and cultural monuments protection). These meetings serve as a platform for all kind of donors (state, corporate, foreign, foundations) to discuss major problems and developments in every area and to cooperate in supporting systemic changes.

III *The CDF's Programs*

The CDF has developed a number of programs and products to carry out its principal goals and objectives, which include:

- Creating a joint platform for the defense and promotion of the interests and needs of organized philanthropy;

- Initiating processes which will lead to better conditions for the development of philanthropy, both individual and institutionalized;
- Raising public awareness about the foundation sector and about giving in general;
- Developing cooperation between donors; and
- Cultivating and supporting organized philanthropy and foundations, in particular.

Services

Training Seminars: The CDF holds workshops and seminars on the following topics: Financial Management, Taxes, Audit; Board of Trustees and Issues of Governance; Communication with the Public and Annual Reports; Effective Grantmaking; Generating Financial Resources; and The Role of the Foundation in the Community. Each topic is offered at least once a year.

Foundation Database: The CDF administers and regularly updates a database of all registered foundations in the country. The database serves research and communication purposes.

Consultancy: The CDF provides consultations through its own employees and hires lawyers and financial management experts to provide consultations as required.

Analyses and Interpretations: The CDF provides analyses for various institutions on the donor community and interpretations on questions related to the legal and tax environment for philanthropy.

Public Policy

The CDF initiated and led a process to review the foundation law and proposed changes which allow foundations more advantageous investment possibilities.

The proposal was approved by the government and passed through the Parliament for final approval. The CDF also led a process which resulted in establishing a pooled fund for foundations. The pooled investment fund is operating independently, managing foundation endowments in a professional way.

Currently the CDF is initiating a process of analyzing the tax legislation in the country to examine its impact on the development of philanthropy. The CDF also proposes possible legal models for enabling legal environment.

Directory of CDF Members: The Directory has been compiled and disseminated to member foundations and government offices. The Directory contains detailed information on the most effective donor strategies and programs, including changes of priorities and focus and complete lists of recipients. Members use this Directory as a consultation tool and it fosters donor cooperation in specific areas.

Financial Institutions

The CDF regularly cooperates with all banks and financial companies providing special products for foundations. The CDF reviews the products, provides relevant information on the foundations' needs and stimulates new products favorable for giving.

Media

The CDF has formed a working group of media representatives, communication experts and public relations professionals to help develop a strategy for effective promotion of foundations, their roles and activities. The aim of this program is to raise the level of public trust in foundations and in philanthropy in general.

Newsletter: The CDF publishes a quarterly newsletter that is disseminated to all foundations in the country, as well as to lawmakers, government officials and other partners. The newsletter contains information relevant to foundations, a calendar of events, announcements, opinion-editorial pieces and member profiles.

Research and Publications: The CDF conducts ongoing research on foundation development and operations and generally publishes two publications per year, the most recent of which is the *Directory of Foundations in the Czech Republic*.

National Conference and Other Events: The CDF organizes an annual conference for foundations—a two-day event with key speakers, workshops, discussion groups and a social event. Other events are organized each year, including receptions to raise awareness about corporate involvement

IV *Guidelines and Lessons Learned*

- ▶ In the early stages of development, create a meaningful agenda for informal meetings and find common issues on which to concentrate. The project that the CDF adopted at the early stages of its existence served well to focus the members around an important issue and served also to set the style of functioning of the CDF (e.g. working together on larger issues and initiating change, rather than just providing services).

In a small association, it is particularly important to focus on “outside” issues and to develop a broader program that goes beyond the needs of its members. Otherwise the association can become “ingrown” and too narrowly focused, serving only a small constituency and lacking authority in the field.

- ▶ Provide a safe environment for the meetings in which all members are equal partners. Work for the complete independence of the association right from the beginning (e.g., not tied to any one donor). The secretariat must remain neutral and helpful so that no member is more prominent than others. Avoid “politicking” behind the scenes.
- ▶ Work toward an image of an organization that is inclusive.
- ▶ Develop membership criteria that establish minimal expectations.
- ▶ Work on issues of ethics at an early stage and revisit the issues periodically. If you create a Code of Ethics, make adherence to this code one of the requirements for membership.



- Do not push too early for taking a position on public issues or taking on a role of policing the foundation community. It takes a long time before members feel ready and justified to monitor the environment, name the problems and address them publicly.
- Concentrate on a specific overriding issue. Try to steer away from individual agendas, rivalries and competition for resources that may cloud the agenda.
- Consider providing services for foundations free of charge during the first years of association. This is a way for the association to become known to foundations and develop a good track record before charging for services.
- Do not force issues. The members ultimately will follow the route of necessary development, but typically the association is several steps ahead. Build consensus patiently and make sure that you have the members close behind you.
- Involve the members. Actively promote the idea of “belonging.” Spend time with individual members if necessary through face-to-face consultations. Communicate and cooperate with the rest of the sector; make bridges between donors and recipients.

Lessons Learned in the Transition from an Informal Initiative to a Registered Organization

- Recognize that the founding members may not all have the same goals and aspirations for the establishment of the association. Some will want to keep the association purely service-oriented. Others will expect it to fix the environment in which they operate and to be a strong partner with the government on their behalf. Some will want to make the association all-inclusive; others will want to have strict membership criteria and include only those that demonstrate best practice. The CDF dealt with this challenge by persuading its members to set up the broader model and by revisiting the goals and criteria for membership on a yearly basis. The members also approve the annual plan of activities and the priorities for each calendar year. This gives the members the assurance that their concerns are reexamined on a regular basis and that the association moves ahead by general consensus.
- Harmonizing the needs and aspirations of the members with the aspirations of the donors that support the association is a big challenge. These two are often not one and the same, as is the case in most donor

associations. In the case of the CDF, some of its members give the association grants, but the CDF has also had to seek outside support from the very beginning because the small membership cannot sustain it through membership fees and occasional grants.

When external donors are involved in setting up the association, problems of “ownership” may arise. It is crucial that all potential members feel equal in the ongoing discussions. It is up to the sensitivity and correctness of the secretariat of the association to lead and balance the discussions, prepare agendas for the meetings with everybody’s input, place the meetings at a local organization’s premises and/or rotate the meetings if there is not a permanent neutral meeting place established.

- Be sensitive to language problems that are likely to arise. During its whole first year, the CDF held meetings in English, which discouraged some of the Czech members and lessened their input into debates. With the increase in the number of indigenous members and the decrease of foreign funding in general (some foreign programs left the country), the CDF gradually returned to Czech as its working language. That, in turn, discouraged the foreign participants from attending meetings. The secretariat reached a compromise that was not completely satisfactory. An agenda is sent to the foreign participants in English beforehand in order to inquire about which points are of particular interest to them and spend time in some preliminary discussion. Interpretation is provided during the meeting and an excerpt from the minutes is translated and sent to the foreign donors after each meeting.
- External donors may need some extra meetings among themselves to examine their ongoing or exit strategies. The association should proactively organize such meetings and bring other interested partners into these discussions.

Lessons Learned in the Later Stages of Development

- Keep the members committed to the agenda; keep them involved in working groups and committees.
- Secure buy-in to the overall program of the association by all members. Some members may prefer that the association play only a passive role of providing services and may need to be persuaded of the association's larger role as initiator of processes of change.
- Create a strong and committed governance structure.
- Provide strong and clear leadership, yet be sensitive to members' needs and try not to leave members behind. Lead from behind.

In a country with a relatively small foundation community which is in the stage of developing its identity, it makes sense for the association to work for the whole donor community and not limit its services and support only to its members. In this way, the small membership starts to act as a model for good practice and works on behalf of the whole foundation community. In doing so, members tend to improve their own practices.

- Diversify financial resources. Reexamine the structure of membership fees and start to push toward differentiating the fees. Solicit grants to the association from members. Provide services for fees (to non-members). Reexamine the whole structure of support and find new in-country sources of financial support.
- Keep the secretariat of the association small (lean and mean); avoid becoming administratively heavy. The CDF solved this problem by involving both members and non-members, as well as various experts from other sectors and fields, in working groups.

- Find an effective way of promoting regular communication with members, the whole foundation community and the public.
- Position the association within the not-for-profit sector itself. The association must do its share of work on behalf of the whole sector by participating in events and conferences. The problem that may develop is that the member foundations begin to rely on the association in this area so completely that they themselves become more distanced from all-sector issues.
- Inform all association staff about issues pertaining to giving and organized philanthropy. Ensure that staff have good people skills.
- Continually aim to enlarge membership.
- Look for signs of discomfort in the foundation community caused by feelings of being threatened by the association or lack of inclusion. Work with organizations individually, communicate often and include them actively in your programs.
- Broadening the program of the association to include the entire foundation community results in relatively few special services being offered exclusively to members. The fees charged for events, publications, seminars, conferences, etc., are so low in order to make participation possible to small, undeveloped organizations that the waiver of these fees for members is not considered to be particularly motivating. In the case of the CDF, the members are, in effect, driving the national foundation agenda. So while they don't receive many special services, they constitute the leadership in the development of organized philanthropy. Members also understand that cultivating the environment in which foundations operate is important for their own functioning. It raises public awareness and it raises their own profiles

