

# THE NONPROFIT SECTOR IN THE CZECH REPUBLIC\*

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## Abstract

In an attempt to extend Salamon, Anheier, and Associates' (1999) study I analyze the evolution and scope of the Czech nonprofit sector after 1995. Data limitations do not allow an exact extension. The available data suggest that with respect to expenditures, full-time employment and the number of nonprofit institutions the Czech nonprofit sector is still growing, although at a decreasing rate. I also pay attention to the evolution of Czech nonprofit law and argue that the slow evolution of legal regulations and weak enforcement of existing law slowed down the growth of the Czech nonprofit sector. Too little emphasis on accountability and transparency of nonprofit entities negatively affects trustworthiness of the nonprofit sector.

*Keywords: Czech Republic, nonprofit sector, evolution*

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\*I would like to thank my supervisor Andreas Ortmann for his helpful comments.

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# 1 Introduction

The nonprofit sector has gained economic, social, and political importance and attracted almost universally growing attention over the last two decades. The nonprofit sector comprises entities that are not run for profit and that aim to provide publicly beneficial services. It is also called third sector since it complements government and market in the provision of services especially in health, education, and social fields. Other alternative names of the sector reflect its further distinguishing characteristics: voluntary (employing volunteers), civil (dealing with the problems of the civil society), or independent (from the state). These terms will be used as synonyms in this paper.

In the Czech Republic the nonprofit sector started to re-emerge after the fall of the Communist regime in 1989. Although the Czech nonprofit sector was quickly growing, it lags behind nonprofit sectors in developed countries as regards size and economic and social importance. Its short history is not the only reason for it. Governments in 1990s kept control over traditional nonprofit fields, health and education. The majority of nonprofit entities in the Czech Republic is thus active in the culture, sport and recreation domain<sup>1</sup>. Governments, especially in the early 1990s, did not consider the nonprofit sector to be necessary. This translated in an unwillingness to solve the problems of the sector and the slow evolution of a legal and regulatory framework

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<sup>1</sup>This pattern is common in transition countries such as Slovakia, Hungary, and Romania but is not typical in western countries where health and educational organizations clearly dominate the nonprofit sector (Salamon, Anheier, and Associates 1999).

for nonprofit entities. The incomplete legislation and weak enforcement of existing law created opportunities for for-profits in disguise<sup>2</sup>. This kind of organizations is not a specialty of the Czech nonprofit sector. More developed nonprofit sectors, e.g. the U.S. one, also face similar attempts to exploit the nonprofit status (Hansmann 2000, Ortmann and Schlesinger 2003). The emerging Czech nonprofit sector, however, was more vulnerable to such attempts that have had a detrimental effect on its trustworthiness.

Up to date the two most extensive quantitative studies of the Czech nonprofit sector are Fric and Goulli (2001) and Salamon et al. (1999). Fric and Goulli analyze the evolution of the Czech nonprofit sector since 1989. Salamon et al. provide a summary of these findings focusing on size, structure, and philanthropy and compare nonprofit sectors in 22 countries. Both studies are based on data from 1995. Thus, they focus only on the first five years of the Czech nonprofit sector. In the second half of the 1990s, new nonprofit legal forms were introduced and necessary adjustments to already existing regulations were made. The second half of the 1990s thus represents an important period of crystallization of the sector.

In the present paper I aim to study the evolution of the Czech nonprofit sector in the second half of the 1990s. I focus on nonprofit entities that exist under the Czech law, their numbers and growth rates across years, scope and source

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<sup>2</sup>The term 'for-profits in disguise' was introduced by Weisbrod to represent profit-motivated entrepreneurs who want to exploit tax and regulatory breaks bestowed on nonprofits. In section 2 I discuss breaks given to Czech nonprofit entities.

of revenues as well as employment in the nonprofit sector, volunteerism, and donations. In addition, I pay attention to legal and regulatory changes and to impact these changes have had on the evolution of the Czech nonprofit sector.

The structure of the paper is as follows: in the second section I characterize basic features of the nonprofit sector and compare the international classification to the Czech classification of nonprofit entities. In the third section I briefly summarize the history of the Czech nonprofit sector and its re-emergence in the 1989. In this section I also describe various institutional forms of nonprofits existing under the Czech law. In the fourth section, I evaluate the evolution of the Czech nonprofit sector with respect to its scope, workforce, volunteerism, and donations. I summarize changes in the legislation and regulations of nonprofit entities and discuss the impact of these policy changes on the evolution of the nonprofit sector in the Czech Republic.

## **2 Definition and international classification of the nonprofit sector**

The nonprofit sector refers to entities that are, by the choice of their organizational form, not run for profit. Despite a widespread misperception, these

organizations can earn profits<sup>3</sup>. However, the non-distribution constraint and its sidekick, the reasonable compensation constraint, restrain managers of nonprofits from distributing profits among themselves.

Other key characteristics of nonprofit organizations include their independence from the government, their employment of volunteer labor, their financing of activities from donations, their exemption from paying certain taxes, and certain regulatory breaks bestowed on them. Tax and regulatory breaks are provided by the state as a *quid pro quo*. Legislators, and the public, expect nonprofits to return the favor to the public in one way or another.

The nonprofit sector is a hodge-podge of various institutional forms<sup>4</sup>. The heterogeneity of nonprofit entities is, moreover, present also in the focus of their activities. The international classification of the nonprofit organizations (Salamon and Anheier 1996) defines 12 fields for these entities.

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International classification	
1. Culture	7. Civic and advocacy
2. Education and research	8. Philanthropy
3. Health	9. International
4. Social services	10. Religious congregations
5. Environment	11. Business and professional, unions
6. Development	12. Other

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<sup>3</sup>Thus, a more descriptive label for these entities would be not-for-profit. Here I follow the established convention of calling not-for-profits, nonprofits.

<sup>4</sup>I will focus only on the entities that are defined by Czech law. Their description can be found in Section 2.

Although the Czech classification of “non-producing activities” recognizes a smaller number of categories it can be mapped into the international classification. The Czech classification, for instance, reports education and research activities separately as opposed to the international classification. Activities of churches and their facilities, on the other hand, are not reported as a separate category in the Czech classification. Since churches provide educational, health, and social services, their activities are already included with activities of other non-governmental nonprofit organizations in corresponding fields.

The more important point, however, is that the Czech Statistical Office gathers and categorizes data on nonprofit entities with respect to their legal form rather than the field of activity (see the section four for a more detailed description of nonprofit data). This categorization significantly complicates an international comparison.

## **3 The Czech nonprofit sector**

### **3.1 History**

The history of the Czech nonprofit sector is rich with periods when the sector flourished and periods when civic activities were restricted or banned. Its evolution dates to the middle ages and culminated in the period of the first Czechoslovak Republic (1918-1939). Apart from associations focused on national interests, nonprofits concentrated on the three traditional fields:

health, education, and social services<sup>5</sup>. So, the character of the sector was very similar to modern nonprofit sectors of western countries. The following regimes shifted the main focus of the Czech nonprofit sector toward culture, sport, and recreation. This pattern is common for Eastern and Central European countries but represents an anomaly in the world-wide context.

The shift started under the German occupation in 1939 when many nonprofits were banned and others were reorganized in order to serve state purposes. After World War II nonprofits renewed their activities. Many organizations, however, became influenced by political parties and the further evolution of the nonprofit sector was blocked by the Communist regime (1948). The activities of churches were restricted to worship and education. The possessions of churches as well as of associations were confiscated. Associations were unified into the "voluntary organization" called National Front that was a roof institution for unions, political and voluntary organizations. The membership in the National Front was considered to be the expression of the loyalty to the state (Fric and Goulli, 2001).

The state patronized the provision of education, health and social care. These services were provided by budgetary and subsidiary organizations that created the so-called state nonprofit sector. The political pressure of the state slowly faded in the 1960's. Citizens became more active in public affairs and several nonprofit organizations were re-activated. The 'normalization period'

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<sup>5</sup>For the more detailed history of the Czech nonprofit sector see Fric and Goulli (2001). A brief summary can be also found in Salamon et al. (1999).



(after the military invasion of Warsaw pact countries) returned the nonprofit sector to the conditions before 1960s. Civic activities started to awake in 1980s. Environmental, and some educational and scientific activities were tolerated by the communist regime. Other civic organizations worked informally and their activities culminated in the 1989 revolution (Salamon et al., 1999).

The re-emergence of the Czech nonprofit sector, however, started in full only in the 1990's after the abolishment of the Communist legacy. The fast increase in the number of nonprofit entities (see a table in section 4), however, was not accompanied by sufficient changes in the legal regulation of the sector. In the following section I take a close look at the (evolution of) Czech nonprofit legislation.

## **3.2 Legislation**

In Czech law, similarly to some other countries, there is no 'roof' act that would apply to all types of nonprofit organizations. In fact, the Czech law does not even define the term 'nonprofit organization'. The relevant tax act defines organizations such as citizens' associations including trade unions, political parties, churches and religious communities, foundations, budgetary and subsidiary organizations as entities that are not established for business purposes.

These organizations are exempted from paying taxes on certain types of income such as governmental subsidies, donations, membership fees, and contributions from foundations. Nonprofit entities can, in addition, decrease their tax base by 30% up to three million CZK. In case of 30% being less than 100 000CZK a nonprofit entity can deduct this amount in full.

The registration and legal activities of nonprofit institutions are ruled by specialized acts. The following sections are focused on nonprofit forms in the Czech Republic, namely foundations and foundation funds, churches and their purpose-specific facilities, citizens' associations, public benefit corporations, and budgetary and subsidiary organizations.

### **3.2.1 Foundations and foundation funds**

In the early 1990s the foundations were first regulated by the Business Code (1990) and then by Civil Code (1991). These regulations were, however, very liberal and incomplete. The tax-exempt status and other regulatory breaks of the nonprofit status under a weak enforcement of law attracted profit-motivated entrepreneurs.

Fric and Goulli (2001) argue that profit-motivated entrepreneurs opted for the foundation form in order to receive money from the Foundation Investment Fund<sup>6</sup> and in order to receive money that would be taxed otherwise.

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<sup>6</sup>The Foundation Investment Fund was created to support activities of the nonprofit sector. It received 1% of returns from the privatization. The amount was divided by the Council for Non-governmental Nonprofit Organizations (CNNO) among foundations. In

Such speculative motives are illustrated by the rapid increase in the number of foundations in the Czech Republic. Before 1989 there was only one foundation (which was not active.) Until 1998 their number had grown to over 5000 registered foundations. In 1998 the separate act on foundations and foundation funds came into effect. The new act distinguished between granting nonprofits with and without endowment<sup>7</sup> and brought more restrictions on these two institutional forms. With stricter rules, the number of foundations decreased to 55 in less than a year (in Nov 1998). The steep decrease is striking even under the assumption that some foundations have possibly been transformed into foundation funds or public benefit organizations. It is, therefore, natural to conjecture that the stricter regulation applied to foundations eliminated for-profits in disguise from the sector and thus contributed directly to a higher transparency and indirectly to a higher trustworthiness of foundations.

The act on foundations and foundation funds from the year 1998 was perceived as too restrictive and limiting opportunities to raise financial resources needed for granting activities and services of other private nonprofit organizations. The act was amended four years later and currently, foundations and foundation funds are regulated by the Act No. 210/2002 Coll. Both types are defined to be property associations established to provide publicly

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the first round, in 1998, 500 million CZK were distributed among 38 foundations. In the second round, in 2001, above 849 million CZK were distributed among 62 foundations.

<sup>7</sup>Foundations and funds may be considered legal forms parallel to U.S. operating foundations with or without a fixed endowment (Pajas, 2002).

beneficial services such as preservation of human rights, environment, cultural heritage and traditions, the development of research, education, and sport.

To serve their purpose, foundations use returns on their registered endowment and other property. The registered endowment has to be at least 500 000 CZK. Foundations are restricted from performing business activities except renting real estate, organizing cultural, educational, and sport events. Foundations can use modern investment tools. They are allowed to buy for their portfolio bonds, certificates, and other securities from any capital market in a country that is a member of the OECD. In addition, foundations are allowed to establish a public benefit corporation<sup>8</sup>. Foundations use double-entry book keeping. Annual reports and an audit on the annual base are required<sup>9</sup>. Foundations are, similarly to other nonprofit entities, tax-exempted from paying taxes on certain types of income. Foundations are, moreover, fully exempted from paying tax on returns of the registered endowment.

Foundation funds, in contrast, can use all their assets for their publicly beneficial activities. The initial deposit has to be paid but its minimal amount is

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<sup>8</sup>Public benefit corporations are allowed to engage in commercial activities. Public benefit organizations are, moreover, allowed to establish a branch abroad (foundations are not), what is crucial for foundations with an international base such as People in Need Foundation.

<sup>9</sup>Although both, foundations and foundation funds, are required to publish annual reports, in reality only 54% of foundations and 30% of foundation funds does so (Center for Nonprofit Sector Research 2004)

not prescribed by the law. Similarly to foundations, foundation funds are prohibited to engage in business activities except renting real estate, organizing cultural, educational, and sport events. Foundation funds use single-entry book keeping (double-entry if their income and expenditures make up for more than 3 mill. CZK.) Annual reports are required (audit only in case foundation fund's property or the sum of income and expenditures exceed 3 mill. CZK.)

### **3.2.2 Citizens' associations**

The Act No. 83/1990 Coll., on associations of citizens relates to citizens' associations and trade unions (excluding churches and political parties). These organizations are based on membership and "are used to provide their members, clients of general public with certain services or achieve their goals" (CHC 2000). Citizens' associations are not required to make any initial deposit. They are allowed to engage in business activities. Business activities, however, may not be the main goal of the institution.

Up to date this is the least restrictive and, maybe not coincidentally, the most often used legal form in the Czech nonprofit sector. As regards shares of particular legal forms citizens' associations represented 88% of the Czech nonprofit sector in 2002. According to some estimates, however, about one third of these entities is not active (NGO Sustainability Index 2002).

### 3.2.3 Public benefit organizations

A new form of nonprofit organization - Public Benefit Organizations (PBO)<sup>10</sup> - has been defined by the Act No. 208/2002 Coll. These organizations are private entities established to provide publicly beneficial services, such as education and health care, that represent their source of income. To finance their activities PBOs use deposits of founders, presents and bequests, funds of the PBO, and they can also ask for subsidies from the state and municipalities' budget. Their profits can be used only to improve quality or to widen the spectrum of services<sup>11</sup>. PBOs, moreover, are allowed to perform commercial activities under the condition that commercial activities ensure more effective use of PBO's property and do not, at the same time, worsen quality and accessibility of publicly beneficial services. Public benefit corporations are obliged to publish annual reports on their activities, so they are exposed directly to the independent public control<sup>12</sup>.

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<sup>10</sup>From the U.S. view, these organizations correspond to foundations without foundation endowment or to nonprofit corporations without membership (Fric and Goulli, 2001).

<sup>11</sup>This organizational form, thus, represents Weisbrod's argument for the existence of nonprofits.

<sup>12</sup>Although Pajas (2002) argues that due to amendments done in 2002, PBOs, foundations, and foundation funds represent "the most transparent part of the [Czech] not-for-profit sector", it is questionable whether the control and enforcement of law is sufficient to restrict the abuse of the nonprofit status.

### **3.2.4 Churches and religious communities**

In the Czech Republic churches are not separated from the state that supports them financially. Purpose-specific facilities of churches are ruled by the Act No. 3/2002 Coll. on freedom of faith and the position of churches and religious communities. Act No. 161/1992 Coll., on the registration of churches and religious communities, rules the registration of these institutions. Czech Helsinki Committee (CHC) 2000 argues that the Czech legislation supports “the well-established large and influential churches and is directed against new spiritual movements and small religious communities.” This is due to the rules for registration that require the submission of 500 signatures for Christian churches that are members of the World Council of Churches and 10000 signatures for others. The rule forces smaller entities to register under the form of citizens’ association although they perform religious activities. There, however, exist several religious communities that are not approved by the state but these institutions do not receive state support (Fric and Goulli 2001). Churches and religious communities are allowed to provide education and other social services.

### **3.2.5 Budgetary and subsidiary organizations**

A large group of nonprofit organizations is represented by budgetary and subsidiary organizations. These entities are financed by the state or municipalities. The legal regulation is provided by Act No. 576/1990 Coll. and Act

No. 205/1991 Coll. The preferential position of these entities as regards state subsidies is often criticized (Fric et al. 2000, Potucek et al. 2001). The Public Benefit Organizations Act was expected to transform a portion of these institutions into non-governmental legal institutions but these expectations have not been fulfilled (CHC 2000). Acts amendments 218/2000, 250/2000, and 129/2000 "shall have substantial influence on the future decentralization of the subsidy policy" (CHC 2000, pp.63).

### **3.2.6 Other nonprofit entities**

Act No. 424/1991 Coll. regulates associating in political parties and political movements. Act No. 513/1991 Coll. regulates also corporations and cooperatives that are considered to be business entities but that can be established also for other than business purposes, e.g. private schools. In such case they are considered to be nonprofit institutions. Separate acts regulate activities of professional organizations, legal entities such as the Czech Academy of Sciences, the Czech Television, and the State Fund of the Culture in the Czech Republic.

## **3.3 Changes in law and regulation of nonprofit entities**

Transition economies in the Central Europe are known to struggle with incomplete legislation and the weak enforcement of existing law. This is especially so for the Czech Republic, which for years has been sliding in Trans-



parency International (TI) rankings, from 5.4 in 1996 down to 3.9 in 2003 (CERGE-EI 2004). TI states that although “the Czech Republic is rather one of the countries where media provides information about latent ubiquitous corruption, the central power is not able to demonstrate its authority and to enforce the law” (TI 2001). It is an obvious (and in the light of the nonprofit sector’s role in western economies, important) question of interest how the slow evolution of nonprofit law and weak enforcement impact the Czech nonprofit sector. One suggestive example of how the nonprofit form attracted for-profits in disguise was discussed in the section on foundations and foundation funds.

In the following table I summarize the evolution of the law related to the Czech nonprofit sector. We can see that a majority of legal regulations was made in 1990 and 1991 as a part of democratization process. The key acts for the existence of the nonprofit sector were the Act on citizens’ associations, the Act on freedom of faith and the position of churches, and the Act on associating in political parties. Further necessary adjustments to the existing law, however, were postponed until 1997 (on foundations and foundation funds) and 2002 (on freedom of faith and the position of churches) or are still waiting to be made (on citizens’ associations.)

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1990	Act on citizens' associations No. 83/1990 Coll. Act on budgetary and subsidiary organizations No. 567/1990 Coll.
1991	Act on corporations and cooperatives No. 513/1991 Coll. Act on budgetary and subsidiary organizations No. 205/1991 Coll. Act on freedom of faith and the position of churches and religious communities No. 308/1991 Coll. Act on associating in political parties and political movements No. 424/1991 Coll. Act on book-keeping No. 563/1991 Coll.(paragraph 9)
1992	Act on the registration of churches and religious communities No. 161/1992 Coll. Act on income tax No. 586/1992 Coll.
1995	Act on public benefit corporations No. 248/1995 Coll.
1997	Act on foundations and foundation funds No. 227/1997 Coll.
1998	500 million CZK from the Foundation Investment Fund distributed among 38 foundations (CHC 2000)
2000	218/2000 amendment of acts on budgetary and subsidiary organizations (567/1990 and 205/1991)
2001	(Dec)the remnant from the FIF (849 323 000CZK) distributed among 64 foundations
2002	Act on freedom of faith and the position of churches and religious communities No. 3/2002 Coll. Act on voluntary service No. 198/2002 Coll. Act on public benefit corporations No. 208/2002 Coll. Act on foundations and foundation funds No. 210/2002 Coll.

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Source: ASPI and ICN

## 4 Data Analysis

In this section I analyze data documenting the evolution of the Czech non-profit sector since 1995. The analysis is based on data sets available from the Czech Statistical Office (CSO). There are several limitations of these

data sets. First, the CSO reports nonprofit institutions under several different groups of institutions. In the CSO classification the majority of nonprofit institutions is included in the sector 'Nonprofit Institutions Serving Households'(NISH). This sector covers citizens' associations, political parties, churches and their facilities, foundations and foundation funds, cooperatives, and some educational and health facilities of churches. The sector 'Non-financial Enterprises' also includes some nonprofit entities such as interest associations of cooperatives and of natural persons serving market producers. Interest associations of natural persons serving financial institutions are incorporated in the sector of 'Supplementary Financial Institutions'. Second, the CSO provides only aggregate data. A more detailed economic analysis is thus not presently possible.

For the period 1996-2000 I use data from the National accounts that report expenditures and capital investments for NISH<sup>13</sup>. The number of employees is taken from labor statistics (CSO). For the years 1999-2001 more detailed data sets on nonprofit institutions<sup>14</sup> and Public Benefit Organizations are available (CSO 2000, 2001, 2002). Data on nonprofit institutions for the year 2002 (CSO 2003), although available, are not incorporated in my analysis. The CSO applied a different sampling method thus, the data set is not comparable to data from previous years.

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<sup>13</sup>Salamon and Anheier's analysis included, in addition, budgetary and subsidiary organizations.

<sup>14</sup>Nonprofit institutions in 2000 and 2001 incorporated over 77,000 NISH, about 400 institutions from the sector of 'Nonfinancial Enterprises' and 9 organizations from the sector of 'Supplementary financial institutions.'

## 4.1 Scope of the sector

To assess the scope of the nonprofit sector Salamon et al. (1999) focus on expenditures<sup>15</sup> of the sector. In 1995 the Czech nonprofit sector had expenditures of \$ 800 million which represented 1.6 % of GDP (Salamon et al. 1999). Looking only at expenditures of Nonprofit Institutions Serving Households (NISH), the nonprofit sector had expenditures of 14,537 mil. CZK, comprising 1.1% of GDP in 1995.

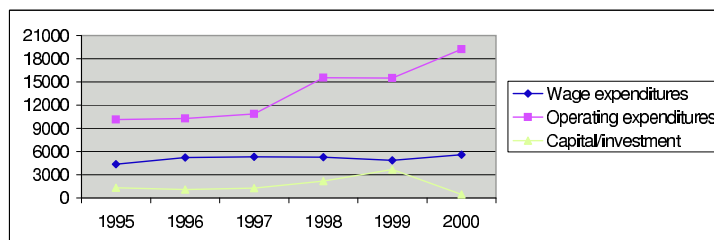


Figure 1: Expenditures

With a slight decrease in 1999 being an exception expenditures were steadily growing to 24,856<sup>16</sup> mil. CZK, representing 1.4% of GDP. This growth was mainly driven by operating expenditures that doubled during those six years; the increase in wages was smaller. Operating expenditures include intermediate consumption and depreciation of tangible and intangible property. Operating expenditures, thus, represent the general operation costs of an

<sup>15</sup>Expenditures in their analysis include salaries, fringe benefits, and other personal costs; purchases of non-capital goods, supplies, and services; and any fees and charges paid. The list of incorporated measure excludes capital expenditures. Their expenditures are equivalent to sum of, what I call here, wage expenditures and operating expenditures.

<sup>16</sup>Reported data for the years 1996-2000 are inflation-adjusted. I used deflator published by CSO (2004).

organization.

Extending the analysis of Salamon et al. (1999) I also look at capital expenditures. Capital expenditures include acquisition of tangible and intangible investments. These expenditures are expected to be important in early stages of nonprofit sector evolution. Capital expenditures were, indeed, growing from 1,102 mil. CZK in 1996 to 3,690 mil. CZK in 1999. The increase is especially apparent in 1998 and 1999. The significant increase was probably a consequence of the new act on foundations and foundation funds that requires higher level of foundation endowment<sup>17</sup>. The distribution of 500 mil. CZK from the Foundation Investment Fund among 38 foundations in 1998 also contributed to the upward shift. In 2000, however, capital expenditures were only 454 mil. CZK, which represents less than half of 1996 capital investments. This decrease, if is continued, suggests that the first years of the NS evolution were more capital intensive in order to create a solid base for nonprofit activities. After the initial period the increase in total expenditures reflects growth of operating expenditures. Capital expenditures, however, accounted for less than 10% of total expenditures in the years 1995-2000 with an exception of 1999 (15%). The structure of expenditures is depicted in Figure 2.

In 1995-1999 operating expenditures represented more than 60% of total expenditures. In 2000, this percentage increased to 76%. It is not obvious

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<sup>17</sup>In 1998 only 55 foundations were able to (re)register. In 1999 additional 217 foundations completed the (re)registration.

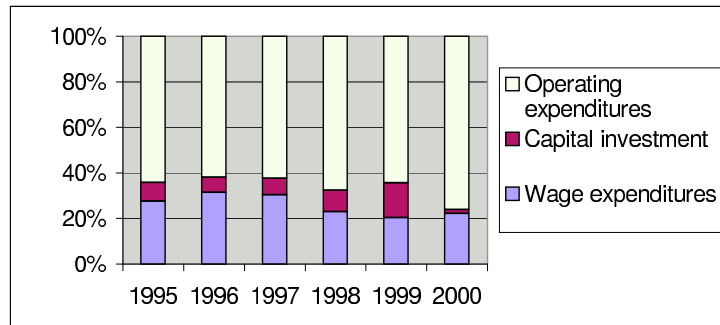


Figure 2: Structure of Expenditures

from the available data what caused this jump.

## 4.2 Structure of the sector according to legal forms

Salamon et al. (1999) expected market saturation. The numbers of non-profit institutions across their legal forms, however, suggest that the Czech nonprofit sector is still growing although at a decreasing rate (Table 1).

Year	Total	Founds	F.Funds	Citizens' A.	PBO(1)	Churches(2)
1995	31067	4 253	-	26 814	-	-
1996	32200	4 392	-	27 807	1	-
1997	35587	5 238	-	30 297	52	-
1998	36301	55	71	36 046	129	-
1999	39599	272	695	38 072	560	-
2000	44043	282	735	42 302	557	167
2001	49052	299	784	47101	701	167
2002	55835	330	825	49108	762	4810
2003	57964	346	856	50 972	849	4941

(1) Public Benefit Organization

(2) Purpose specific facilities of churches; source Foundation VIA reports

Source: ICN (CSO, Albertina)

In 1991 the growth rate was 141% and until 1996 it was steadily declining toward 3.7%. Due to a significant increase in the number of foundations and citizens' associations the growth went again up in 1997 (10.5%) but was followed by abrupt decrease to 2%. It was a consequence of the new act on foundations and foundation funds that became effective in 1998 and reduced the number of foundations by 98% <sup>18</sup>. This decline was not compensated, notwithstanding even with a significant increase in the number of citizens' associations. After 1998 the Czech nonprofit sector started to grow faster again as more foundations were able to (re)register, the growth within new legal forms - foundation fund and PBO - became more significant, and citizens' associations followed steady growth. The positive trend is apparent until the end of 2002. In 2003 the growth slowed down.

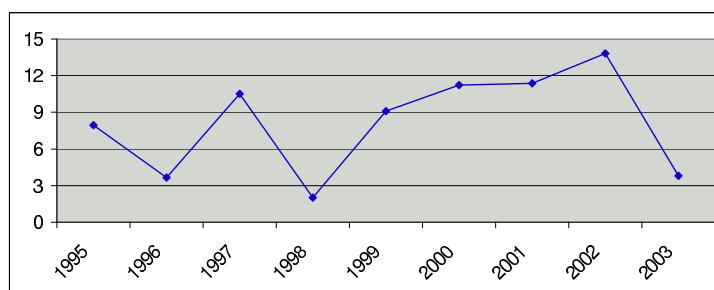


Figure 3: Growth rate

These numbers, however, have to be considered with caution as they probably overestimate the scope of the Czech nonprofit sector. According to CSO

<sup>18</sup>The foundation example was discussed in the Section 3.2.1.

estimates about one third of nonprofit units is not active. For instance, in 1998 there was 73,760 nonprofit institutions (without PBOs) in the statistical register, while only 56,956 were active (CSO 1998).<sup>19</sup>

### 4.3 Employment, volunteerism

In 1995 the Czech nonprofit sector was employing 74 200 full-time equivalent (FTE) paid workers. This represented 1.7% of all nonagricultural workers or 3.4% of service employment in the country (Salamon et al. 1999). The number of employees of NISH is less than half of the estimate in Salamon et al., 30,274<sup>20</sup> (CSO). This number was growing until 1998, when it reached its maximum (Fig. 4), then followed a decreasing trend and in 2000 was only slightly above the 1995 level. Thus, the employment in NISH increased by 3% during 1995-2000 period. These employment numbers are very low when compared to the number of active organizations in the sector (e.g. in 1998 56,956 active units). One explanation is that statistical surveys include only about 60% of total employment in the Czech economy<sup>21</sup> (Fric and Goulli 2001).

Volunteerism is much less common than in developed countries. The reluc-

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<sup>19</sup>The nonprofit sector, on the other hand, exceeds the limit of legal definition and incorporates also other legal entities and natural persons that are not established for business purposes.

<sup>20</sup>This number, moreover, does not represent FTE employees, which would be even lower. The translation to FTE is not done in my study since I do not have data on average number of hours worked by these employees.

<sup>21</sup>For a discussion on what is missing see Fric and Goulli (pp.155-156,2001).



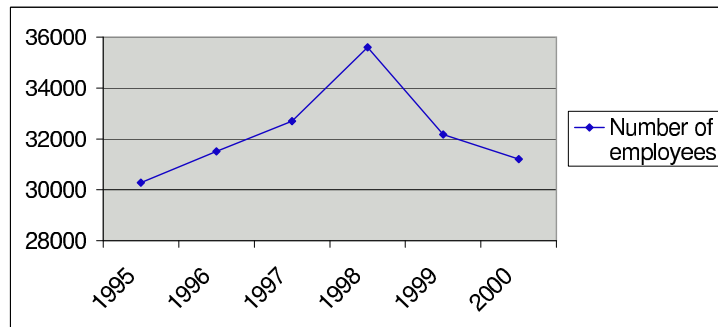


Figure 4: Number of employees

tance to volunteer comes from the communist era when the 'voluntary' work was considered to be the (demonstration of) loyalty to the regime. Only 8% citizens performed voluntary activities in 1999 (Fric 2000). 68% of questioned volunteers, however, donate labor regularly at least once per month. The voluntary work is performed mostly in entities focusing on social services (37%), sport and recreation (17%), and health (15%)<sup>22</sup>.

Act No. 198/2002 Coll., on voluntary service finally defines the term 'voluntary activity' and specifies requirements for volunteers and nonprofit entities that organize them. For instance, health insurance of volunteers is paid by the state while voluntary work is performed. Volunteer work is also counted as previous employment in the case of unemployed volunteers. The evolution of volunteerism in the Czech Republic advanced also with nonprofit entities that concentrate on educating volunteers, matching demand and supply of

<sup>22</sup>Data on private nonprofit institutions of 2000 suggest the same ranking of fields among volunteers: social services (71%), culture, sport and recreation (28%), health (1%), and education (0.3%). These numbers do not cover volunteerism in subsidiary organizations and therefore underestimate volunteerism in health and education.

voluntary work (see e.g. their common project on [www.dobrovolnik.cz](http://www.dobrovolnik.cz)).

Data on private nonprofit institutions and PBOs for the 1999-2001 period (CSO), indeed, report increasing numbers of volunteers. While in 2000 there was about 190 thousands of volunteers (in PBOs plus private nonprofit institutions), in 2001 the number reached nearly 220 thousands. These numbers overestimate the volunteer input since they are not translated to FTE due to the data limitations.

#### **4.4 Financing**

To finance its activities, the nonprofit sector uses several sources of revenue: revenue from its own activities (fees and charges), public sources, and philanthropy (donations and volunteerism). Salamon et al. (1999) categorize the Czech nonprofit sector as 'fee income dominant', meaning that the majority of revenues (47%) comes from activities of nonprofit entities, while the public sector contributes 39%, and philanthropy accounts for 14% of revenues. The Czech nonprofit sector was according to CHC (2000) even less dependent on public budgets in 1998. CHC (2000) reports only 30% of revenues coming from public budgets, then 47% from activities of nonprofit entities, and 21% from philanthropy.

The share of philanthropy reported by Salamon et al. (1999), 14%, is not low when compared to philanthropy in western countries such as the U.S. (13%),

U.K. (9%), or Germany (4%) (Salamon et al., 1999). One has, however, to take into account that their study relies on data from 1995. At that time the Czech nonprofit sector was receiving rich donations from western countries. Western sources started to dry up after 1997 and by 2002 the foreign financial support had decreased by about 25% (NGO Sustainability Index 2002). Had this decrease any effect on the nonprofit sector's independence from the state? Was the sector sufficiently mature to compensate foreign donations by sources from own activities and/or from local donors and volunteers? We do not know answers yet since we are constrained by the presently available data. For the time being these have to remain questions for further research<sup>23</sup>.

Donations and volunteerism, in addition to commercial activities, are two important inputs that help the nonprofit sector to maintain its independence from state support. Educating volunteers and donors is especially important in post-communist countries. After decades when the state was the main

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<sup>23</sup>There are studies on public sources, e.g. the Centre for Nonprofit Sector Research (2003) analyzed financing nonprofits from selected public sources. In the years 1999-2001 CSO in surveys for private nonprofit institutions distinguishes between operating subsidies from state budget, municipalities, and other operating subsidies for institutions with double-entry book-keeping. Also financial contributions from individuals are reported. According to my computations based on this data set the structure of revenues was as follows: in 1999 70% represented fees and charges, 24% from public sources, and 6% philanthropy; in 2000 the corresponding numbers were 79%, 19%, and 2%; for the 2001 the numbers were 70%, 21%, and 9%. The contribution of philanthropy is underestimated since data on hours worked by volunteers are not available, thus are not able to compute the imputed value of volunteer labor. In any case numbers for philanthropy are significantly lower than those reported by Salamon et al. (1999): 14% without and 30% with volunteers. The difference is most probably caused by the fact that I exclude private nonprofit institutions with single-entry book-keeping and subsidiary organizations. I expect especially subsidiary organizations (educational and health institutions) to receive a high fraction of revenues from public sources and more donations.

and the unique provider of social care people became used to relying on state care in return for their tax payments. The survey “Donations and Volunteerism in CR” (Fric, 2000), indeed, reveals that 41% respondents think that it is not necessary to contribute to nonprofits if they pay taxes and 79% respondents think that contributions are not needed if the state would be more responsible. Despite such opinions, individuals contribute financially and through volunteer work. We discussed volunteerism in more detail in the section 4.3. In this section we focus on donations.

Individual donations, as mentioned above, are influenced by the fact that people still demand social services from the state. Based on Fric (2000), the percentage of individual donors in the Czech Republic did not exceed 16% in the first half of 1990s. The abrupt increase in donations was drawn by the floods in 1997 when the ratio of donors almost doubled (29%.) After 1997, donations have been slowly and steadily decreasing. In 1999, 24% of people contributed financially and 28% provided a non-monetary donation. Financial donations are mostly targeted to fields of charity, health, and social services. Non-monetary donations are usually directed to health, international activities, and culture and arts (Fric, 2000).

Donations followed a decreasing trend. Another peak in contributions, however, can be expected in the 2002 data because of reactions to the disastrous floods the Czech Republic faced again.

Although individuals are becoming used to donate, corporate giving is not

sufficiently developed (CHC 2000). Firms often prefer sponsoring to donating since costs related to sponsoring can be deducted from the taxable income. This source of income is, unfortunately, not accessible to all types of nonprofit entities. Favored are sport clubs and big nonprofits that can organize film and music festivals (Potucek et al. 2001).

Tax-advantages of donors in the Czech Republic are regulated by the Act No. 586/1992 Coll. on income tax. Legal entities that contribute at least 2,000CZK can deduct their donation with the upper limit 5% of their tax base. Natural persons donating at least 1,000CZK or 2% of their tax base can deduct their donation from their income tax base; the maximal deduction is 5% of the tax base.

## **5 Data accessibility and quality and trustworthiness of the nonprofit sector**

In the previous section, I argued that data limitations do not allow to make a more detailed economic analysis of the Czech nonprofit sector. Thus the proper evaluation of its progress made from the year 1995 and comparison to nonprofit sectors in developed countries is not possible.

Low data accessibility and quality, however, have negative impact also on the nonprofit sector's trustworthiness. Nonprofit entities depend on the support of the general public, corporations, and the state. To ensure a stream of

donations and fees from the public and grants and contracts from state agencies the nonprofit entities need to provide information about their projects, sources of income, costs of fundraising, property, board members, etc. In short, they need to show that they warrant investments and that they make a good use of donations and grants.

In the U.S., for instance, such information is available to the general public through Form 990 (Return of Organizations Exempt From Income Tax). Form 990 has to be filled on an annual basis and reports from the past three years have to be accessible. Donors or volunteers thus can get a lot of information about the filer's activities and financial conditions<sup>24</sup>.

In the Czech Republic, data sets for private nonprofit institutions (1999-2001) available from the CSO contain most of the information included in Form 990. The CSO, however, offers only aggregates based on data gathered through a selective survey<sup>25</sup> Individual data, in the Czech Republic, ought to be provided through annual reports by foundations, foundation funds, and public benefit organizations. As was already mentioned, only 54% of foundations and 30% of foundation funds, indeed, publishes their annual reports (Center for Nonprofit Sector Research 2004). In addition, published

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<sup>24</sup>Form 990 of many nonprofits is accessible also through Guide Star ([www.guidestar.org](http://www.guidestar.org)). Guide Star is a national database of nonprofit organizations and serves as a rich source of information for nonprofit entities, donors, and grantmaking agencies.

<sup>25</sup>For instance, in 1998 questionnaires were sent to 6,589 nonprofit entities, out of which 2,844 returned questionnaires. Aggregate indicators were estimated for the sample of active entities, 56,956 (the whole sample included 73,760 entities.).

annual reports many times lack necessary information. Ministries and courts, that register nonprofit entities, have also some information on nonprofits but these data are not easily accessible to the general public. The public trust in nonprofit entities, therefore, can not be based on the information about nonprofits' financial and nonfinancial performance. The general public simply does not have the relevant information.

An alternative way how to build trustworthiness of the nonprofit sector might be a certification system. Certification was, for instance, successfully introduced in the Netherlands (Bekkers 2003) and other European countries (Guet 2002), and in Maryland (Maryland Association of Nonprofit Organizations 1998).

## **6 Conclusions and suggestions for further research**

In the present paper I have analyzed the evolution of the Czech nonprofit sector after 1995. Although an exact extension of previous studies of the Czech nonprofit sector (Fric and Goulli 2001 and Salamon et al. 1999) is not possible due to data limitations, it is possible to describe basic trends in the evolution of the sector.

With respect to expenditures, full-time employment and the number of nonprofit institutions the Czech nonprofit sector is still growing although at a

decreasing rate. Major capital investments were made in the 1998-1999. After 1997 foreign financial sources started to dry up. Questions for further research, therefore, are whether investments made are sufficient for continuing activities of the sector and whether the sector is mature enough to compensate foreign financial inflows by donations from domestic sources or its own activities, i.e. whether it is self-sustained.

In the Czech private nonprofit sector the fields of culture, sport, and recreation are still dominant. The transformation of budgetary and subsidiary organizations, when completed, will shift the sector's focus toward traditional nonprofit fields, health, education, and social services.

Regarding legal regulations, a long awaited amendment of the Act on citizens' associations would contribute to higher transparency and therefore positive image of the Czech nonprofit sector. Additional measures, such as certification, might ultimately be more effective.



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