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## **Community development foundations as a tool for local development financing under the conditions of budget deficit**

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*In this article a foreign experience of community development foundations is analyzed in order to use this financing tool for local development in Ukraine. Definitions of community development foundation, its functions, structure and sources of financial resources are considered. The difficulties of creation of community development foundations and prospects for their functioning both in Ukraine and in the world are analyzed.*

**Keywords:** *community development foundation, local development, grant, endowment.*

**General overview of the problem.** In different countries the mechanisms used by the representatives of local communities for implementation of local development practices and charity are constantly being transformed and complicated. Communities create new types of organizational associations, participate actively in managing activity, combine and accumulate financial and other resources. Members of local communities analyze their own needs, increase the awareness about them in the society, upgrade the programs which are directed on solving them, formation of community leaders and intensification of civil society institutions.

International experience in socio-economic development of local communities demonstrates that nowadays one of the most effective forms of community organization at the local level is community development foundation.

The use of community foundations in terms of budget deficit is especially urgent. This is the exactly situation in Ukraine, where local budgets are often barely enough to keep the local authorities.

Community development foundations are applied tool for financial management. It is used by international organizations that deal with local socio-economic development. Table 1 shows the most widespread definitions of "community development foundation", accepted by organizations involved in the development of community foundations (European Network of Community Foundations, the World Bank and Worldwide Initiatives for Grantmaker Support (WINGS), and also the definitions accepted at governmental level of separate countries.

**Table 1. Definitions of community development foundations (based on [3])**

Organization or country	Definition
USA	Community foundation is a non-profit, autonomous, irreligious, charitable organization that is supported by the community and exempted from the taxation. Its long-term purpose is to form permanent funds, established by separate donors in order to achieve their charitable purposes and for common weal of residents of particular geographical area, which is mostly less in size than one state.
Canada	Community foundation is a charitable organization that mainly focuses on the accumulation of endowment, which is aimed to solve long-term problems and meet the current needs of the community.

Australia	Community foundation is an independent, charitable organization that operates at the particular geographical area and with some period of time forms the endowment by the donations from many donors in the community. It provides services to community and its donors, gives grants and plays the role of a leader and partner in community in order to meet a wide range of needs at their territory.
European Network of Community Foundations	Community foundation is a local organization-grantmaker which operates at a particular geographic area and provides services to the residents of the community (grantees).
World Bank	Community foundation is a local organization that mobilizes local donations with the purpose to support community development projects through giving grants.
Worldwide Initiatives for Grantmaker Support (WINGS)	Community foundation is an independent, unprofitable, charitable organization that operates at a particular geographic area and with some period of time creates own capital (endowment) from the donations of local donors.

Among the studies of scholars devoted to the analysis of the origin and functioning of community development foundations, in our opinion the works of O. Vinnikov [2], V. Karpenko [5], P. Hull [15] and B. Tsyriulnikova [13] should be mentioned.

**The aim of this article** is to sum up the experience of the functioning of community development foundations in the world and prove the feasibility of using this tool for financing local development in the countries where the territorial communities live in conditions of local budget deficit.

**Main idea.** The first development foundation of the local community (community foundation) was found in Cleveland (USA) in 1914 [12, 10], when a

local banker Frederick H. Goff established first organization in order to systematize the use of charitable resources and to meet the needs of the community. As a representative of banking area, he made an important conclusion that the needs of the community residents are constantly changing and grant foundations of that days that were created from the inheritance of patrons with rigid invariable purposes, lost their effectiveness with changes of the prior problems of the community. At the same time, Frederick H. Goff noticed that banking institutions and large enterprises give a significant number of small grants from their own funds and it was uncomfortable to manage and monitor their results.

Thus, a new type of grant foundations needed a built-in mechanism in order to correct the purposes and increase the managing effectiveness. According to Frederick H. Goff such mechanisms had to be: representative bodies of foundation that included various community members; regular monitoring and updating of community needs; competitive selection of the projects.

Based on these conclusions Frederick H. Goff established the first foundation of the local community in Cleveland, trust fund of which is over a billion dollars now [12, 12].

Since then, this social technology has become widespread in the world. Nowadays, over thousand foundations exist in more than hundred countries and prove the effectiveness and versatility of this form of local charity [16].

Especially rapid dissemination of community development foundations has been acquired in recent decades. Thus, from 2000 to 2010 their number in the world increased by 86% [16]. In Ukraine, the community development foundations began to appear in the late 90-es of XX century [10, 7].

Tendency of dissemination of number of community development foundations can be explained by number of factors, including the following: flexible organizational model and multifunctionality; availability of international organizations and programs that support the development of local communities; global trend to strengthen civil society institutions [14]. General premise of community development foundations is a transformation from perception of local

community as an abstract "municipal formation" to more systematic understanding of the local community, which has hidden resources and unites the residents with the goal to improve their human environment.

As any form of local charity, local community development foundations create the mechanisms of mutual assistance in community by using present conditions. Altruistic inclination to help each other, according to number of studies of behavioral economics refers to the natural inclinations which are observed in all cultures. However, the organizational forms, based on such inclination are different in all cultures.

Gradually the practice of using of local community development foundations diverges from the traditions of the developed countries of Western Europe and North America that focus on the requirements of donors and affects by the traditions of developing countries [15]. Local self-organization and charity become much more flexible. Most innovative practices are formulated and tested in countries of Asia, Africa and Latin America. In these countries community development foundations solve the problems which are not appropriate for developed countries and are not apologist of previously established specific concepts of self-organization of local communities [12, 13].

Distribution of community development foundations both in Ukraine and in the whole world has led to clarification of clear factors of this form of charity. The reasons for this were popular models of community development foundation and its dissociation from the adjacent practice of local charity. As the factors of the foundation are not standardized and closely related to the legislation, the state of public activity and established practice of charity, it is necessary to specify only the basic characteristics of community foundations, the presence of which is mandatory and appear in most definitions.

The definitions of community development foundations listed in Table 1 have common elements that characterize the obligatory characteristics of community foundations. The most important of them are considered further.

The first feature is connection of community foundation with a specific geographic area. It means that all programs supported by the foundation are carried out at the particular territory (housing estate, city, district or region). In this case the term "community" is considered in the sense of community that is formed by geographic criteria, rather than religious, political, cultural or any other feature [12, 18].

The second feature is endowment (goal-oriented capital). Accordingly, an important goal of the foundation is to create, accumulate and develop the assets that can be used to meet the needs of the community. The endowment is the result of the received financial or other material resources given to community development foundation under the condition not to be spent during a specified period of time (or never be spent at all) [4]. This is made in order to use the foundation resources during a long period of time but not to spend immediately. The resources of endowment are usually the donations of local businessmen, individuals, governmental institutions or in some cases are formed by the foundations if those are involved in business activity. Herewith, the formation of endowment is a long lasting process that occurs in close connection with the development foundation.

The third feature is the reallocation of financial resources in accordance with the grant procedure. Foundations of local community development make great efforts to encourage other partners for actions. Most definitions emphasizes that the achievement of the foundation purposes mainly occurs not through the implementation of its own operational programs but through the grants giving to public organizations, initiative groups or individuals on implementations of the projects that were previously selected in the contest [1, 10]. In some definitions it is also pointed out that among the activities of foundation one is to provide services to business structures by themselves or by third-party organizations: administration of charitable programs, development of charity strategy, development of social partnership and promotion of charitable programs [10, 15].

The fourth common feature of the foundation development is that the compulsory result of its activity is assistance in solving the local problems. Most

definitions indicate that all aspects of the principal foundation activity (cooperation with governmental representatives, business and community, monitoring of community problems, training for staff, formation of the endowment and giving grants) are aimed to strengthen the community and meet the needs of its members [1, 6].

Thus, the community development foundations are non-governmental charitable organizations that exist at a particular territory and operate the endowment. The forms of their activity are giving of grants to grantees and providing of services to its donors and the main results of their activity are solving of the socially important local problems and improvement of the life quality.

The main functions of community development foundations can be divided into the following: formation of foundations and subsequent allocation of grants, the philanthropy and charity development and leadership in local charity [1, 9]. Consider them in details:

1. Attraction of financial resources and community members and establishing of procedures for granting the initiative groups and community members is the most important operational activities of the community development foundation. Coordination of these two processes provides the opportunities for foundation with determination the most urgent problems of the society and their subsequent solution. Active members of foundation determine the prior social issues and grantees by interviewing of the community and by the decisions which are made by the expert bodies of foundation.

2. Community development foundations are the organizations which initiate the development of a wide range of charity practices and philanthropy at the local level. Community development foundations work on involving the public community residents to large charitable activities and attraction of community members' resources. Having relevant information about the needs of the community members, the foundations not only work with grantees, but also form potential donors and encourage them to allocate the finances for projects that the community need.

3. Community foundations are social institutions with leadership characteristics. Systematic activity in selected areas, monitoring the project results, transparency and accountability to the community representatives delegate authorities to community development foundations. It leads to the fact that these organizations are full-valued participants of the social dialogue with local authorities and self- government.

Community development foundation is established as a public organization, and may contain different units [12, 21]. The bodies that may be part of the organizational structure of the foundation are characterized further.

Board of Founders is the highest governing body of the community development foundation, which has the right to make and approve decisions related to long-term plans of the organization's functioning. It usually consists of one representative from each organizations or individuals who is the founder. Board of Founders operates in cooperation with another body - Board of Trustees, delegates some responsibilities to it. Authority is set empirically and may vary.

Board of Trustees is the strategic executive board of community development foundation. Its main functions are to control the foundation activity, follow the legal requirements, use the endowment feasibly and effectively and to develop the long-term strategic programs for foundation development and present them to the Board of Founders.

Except functional differences, the Board of Trustees differs from the Board of Founders because its meetings occurs more often, which means that the Board of Trustees members should pay much more attention to the issues of organization development. This should be taken into account because usually the Board of Trustees members are the heads of government, businesses and influential local community organizations who have other responsibilities.

Managing Board is a permanent executive body the main function of which is to allocate the financial resources for implementation of programs and grant projects of the community. Among the other functions there are: approval of plan for administrative expenses of organization, regular preparation of report, forming of



foundation units, determination of their functions and staff. The Managing Board may include a wide range of people, in particular the representatives of the organizations-founders, benefactors, local authorities and social experts.

Other units of community development foundation are controlling and auditing committee, and (in the case of large scale activities and an extensive foundation activity) committees which work in areas that are usually defined as used tools of the foundation. As the instruments of community development foundations are rather various, it is worth to figure out only the most widespread [10, 17; 12, 13-14]:

1. The total grant fund, which is formed by large number of donations from private, business and budgetary sources. The financial resources of the general grant funds are used to support a wide set of innovative and socially important priority projects of local community organization. General funds generate different donations in a single pool which then allow to distribute the resources for selected areas.

2. Thematic grant foundations, which are formed by community development foundation to solve the selected problem. Usually these are cultural local events or urgent for the local community environmental or public welfare problems. The peculiarity of these projects is the awareness of citizens and their repetition.

3. Personalized foundations of private benefactors or corporations. These foundations can be established to form the image of the company or to eternalize the benefactor or family.

4. Scholarship programs or program for covering tuition fees for students at educational institutions. Donors of such programs are the enterprises which have lack of qualified personnel in certain specialties.

5. Donations programs which are raised by the enterprises. Firstly, the donations can be raised from the consumers of local enterprises goods who are informed that the profits from sales (or its part) will be directed at charity. Secondly, the donations may be raised from employees of the enterprise who transfer the part of the salary for the implementation of programs selected by the employees. In such

cases the funds are raised for certain public non-profit institutions that provide social services or help certain social categories of the community. Community development foundation in both cases performs the limited mediatory functions, which include administration of costs, monitoring the effectiveness of their use, data collection and report preparation.

The exact structure of the units is defined during the foundation formation and includes several stages [13].

At the first stage an initiative group of interested people is formed, the main task of which is to understand the concept of the foundation and its promotion among business, government and civil representatives. At this stage the meetings with representatives of existing foundations take place and during the consultations the proposals on the structure and activities of the foundations are specified.

The second stage includes the development of the foundation regulations and involvement of local organizations that will become founders of the foundations. As such organizations it is reasonable to involve business associations, commercial enterprises and most experienced non-profit organization. The founders cannot be the state authorities.

Later, during the registration the Board of Founders is formed from the representatives of the organizations- founders as well as government bodies – the Board of Trustees and Managing Board of the foundation. The two last boards may include the representatives of local authorities and community, who are not the founders of the foundation.

At the third stage the foreground tasks of the local territory are determined. With this purpose the studies are carried out that accurately determine the community needs. It allows to make the foundation activities clear for population and facilitate the receiving of funds from local donors.

The fourth stage provides the arrangements of competitive procedures for allocation of grants. For selected purposes the funds from various sources are involved and then an open project competition is held. Transparent competitive procedure and media coverage allows to create a positive image in the community,

get the trust of donors and increase the competition among projects for getting grants.

The last fifth stage of the foundation establishment is preparation of a report that is presented to all interested parties and the general public. It should be mentioned that during all these stages the foundations face a number of specific obstacles.

Firstly, the difficulties appear with the establishment of the foundation structure and recruitment. It is necessary to conduct initial negotiations with possible contributors of the foundation and to study the situation in the local community in order not to feel the counteraction and lack of interest later. As the community development foundation is created with long-term purpose, it is necessary to pay attention to employees who represent it and fulfil the appropriate functions. On the positions of administrators are always invited those who have management experience in non-profit organizations or managers of businesses or government institutions. According to the foundation officers, there is lack of employees experienced in the development, selection, monitoring of grant projects in many areas, so it is common practice to hire interested people, who undergo specialized training then [13].

Secondly, an obstacle which all newly formed local development foundations have to overcome is attraction of financing for the first grant competitions and initial administration activities.

Thirdly, from the initial stage of the functioning, the foundation should avoid outside influence and control from the government or businesses that provided support while establishing the foundation, as the neutral position of the foundation in the region depends on it, as well as neutral decisions during competition and further independence.

Significant obstacles for stable community development foundations, especially at the initial stage of their existence is non-established culture of charity and local self-organization as well as low level of the confidence of citizens in non-profit organizations. As a result of this the part of private financial donations in the

CIS (Commonwealth of Independent States) countries is less than 10% [6]. Additionally, the media is able to maintain the confidence to community foundations by providing accurate information about their activities.

For example, social organizations in Poland that can get from the population 1% tax on physical person incomes began to form various types of media to promote their activity. Community organizations which are connected with media receive more money. It also increases the transparency of community organizations activities.

The state in its turn is able to stimulate the cultural development of charity by setting the standards that support the charity and financing of local development projects in the form of taxes and other benefits.

In Poland, the taxation office advertises the ability of citizens to participate in the expenditure of their taxes. Since, to use this possibility it is necessary to fill in a tax declaration and to select the appropriate community organization from the list. It increases the number of people who fill the declaration, as it has to be done only by authorities.

Community development foundations which include managing units of representatives of all leading sectors in society are able to support all social and labor resources of community members and volunteers, administrative resources of governmental bodies and businesses, financing resources of donors. However, the most typical and reliable source of funds for projects implementation of community development foundation is endowment- an established untouchable fund given to the community foundation by the donors or saved by the foundation during its activities. The endowment itself is not spent, but only invested with the aim to receive the income, which in its turn is used to provide statutory activity of the foundation [4].

It is necessary to point out that the term "endowment" is mentioned in the Taxation Code of Ukraine (Article 170.7.5, the Taxation Code of Ukraine, 2011) and means "the amount of funds or bank stock which are paid by the benefactor to the bank or non-bank financial institution, so the acquirer of charity receives the

right to use the interest or dividends accrued on this endowment. "The endowment may be heterogeneous by the structure and consist of funds deposited at the accounts in financial institutions, bank rolls, fixed assets, etc. Taking into account the structure of the endowment, the income from it can be obtained in the form of interest, dividends, rents, etc. [2].

Availability of endowment provides guaranteed financial incomes for community development foundation and determines its financial stability and independence. In Ukraine, endowments are usually presented in the form of deposit accounts in foreign currency, as this is the least risky and relatively reliable way to make profit on capital. However, in domestic conditions it is not easy to establish untouchable specialized fund, but organizations that plan to provide sustainability of the existence and development, should gradually establish it. But, community development foundations usually face to prolonged formation of endowment. To make the saved income from the endowment capable to cover the annual expenses of community development foundation, its amount should be at least several tens of thousands USD. Accumulation of such funds in Ukraine requires a long period of time [9].

Sources of endowment formation of community development foundations are sufficiently branched and their diversification is a constant task of foundation. In Europe the foundations activity depends largely on the support of businesses, but in North America, a major source of funding is private individuals. [8].

As about Ukraine, according to a study of V. Karpenko [5] in 2008 the domestic community development foundations raised funds from the following sources: 81.5%– donations of individuals, 72.7%– donations of commercial establishments; 45.5%– grant funds of international organizations; 18.2% - grants of local organizations and local budget.

As to the sources for the funds formation it is necessary to refer to the survey [6], the results of which indicate that among the most effective methods of forming the endowment in Ukraine the leaders of community development foundation mention the following: 1) grants from international organizations (85% of

respondents); 2) funds of domestic foundations or organizations (68% of respondents); 3) governmental grants (33% of respondents). These results show not only the priorities of the foundations but also the financial capacity of the donors, clarity and transparency of the procedure of funds allocation.

Also among the widespread but less effective ways of raising funds in this study the traditional methods of fundraising were mentioned: appeal letter, personal meetings and negotiations, calls to sponsors, boxes for donations, charity auctions, cultural events etc. Another feature of the endowment formation in the abovementioned study is low use of such kinds of independent business activity of community development foundations as their own commercial or social enterprises and dissemination of their own periodicals in Ukraine.

**Conclusions.** Current worldwide trends of dissemination of the community development foundations confirm that in recent decades they have become not just an element of social activity in many countries, but the factor that influence on the formation of a global community.

This can be considered as an exaggeration, taking into account that fact that foundations are the local organizations that connect local activists and organizations and solve the problems within a clearly defined territory. However, taking into account the increasing number of community development foundations, their correlations and widespread in the world, community development foundations become the organizations that allow to solve the global issues locally and share the experience lessons gathered from different parts of the world. Foundations unite their activities in order to find solutions for local or global problems jointly.

"Think globally - act locally" this is the motto of the Club of Rome, an independent expert group for assessment of the long-term consequences of the problems and prospects of development of mankind. Community development foundations are guided by this motto in practice.

As a proof of this there are some cases when the donors initiate the funding of local projects that are the part of international programs or are involved in projects in other countries. These practices are being observed during the companies aimed

at solving of global problems such as poverty prevention, the consequences of environmental or natural disasters.

It means that currently the community development foundations of separate organizations which were involved in local philanthropy, has transformed into a powerful global network that creates charity infrastructure, based on the use of horizontal interactions between local communities in different countries and cultures.

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