

The role of community foundations in local development – Slovak experience

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Abstract. *The issue of local development is nowadays very relevant. According to the customary perception in the post-socialistic countries, local development should be ensured primarily by municipalities. Over time, under the influence of various factors, there is a change of paradigm. One of the alternative initiators and implementers of development processes at a local level is the community foundation. The aim of this study is to evaluate the benefits of community foundations in the field of local development. Furthermore, there are discussed the advantages and disadvantages of community foundations. The study provides empirical findings of own research in the field of community foundations within Slovakia. Data was obtained primarily from the questionnaire survey, as well as from own analysis of annual reports and financial statements of community foundations, existing in Slovakia.*

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JEL Classification: H41, L31.

REL Classification: 13G.

Introduction

In time of economic crisis it is necessary to municipalities and to their inhabitants to provide at least the performance of the necessary task, which are obligated to municipalities by the law, and whose purpose is to provide basic living conditions in the municipality. The main task of municipality is to provide the care of overall development of its territory and the needs of its inhabitants. This contains the obligation of municipality to implement development activities. According to the fact that municipalities often deal with the question of how to survive or they have to take care of the transferred competence, which are being transferred in excessive numbers from state, the other subjects have to take over the implementation of these development activities. One of them is community foundations.

1. A brief description of the problem

When we want to talk about *local development*, we need to realise that development could be perceived in many meanings. For example the social meaning, economic meaning, environmental meaning, political meaning etc. All of these meanings have, at last one common feature. Ramukumba et al. (2012, p. 8) say about it. As they stated, local development is “seeking innovative growth options”. The most common form of the local development known in society is the concept of Local economic development.

Blakely and Leigh say that economic development cannot be reduced to economic growth. They define three elements of economic development (2010, pp. 75-76):

1. Economic development establishes a minimum standard of living for all and increases the standard over time.
2. Economic development reduces inequality.
3. Economic development promotes and encourages sustainable resource use and production.

According to this definition it could be said, that local economic development is realised when the community identifies basic standard they accept for living in the area, they permanently increase its volume or its quality that leads into the sustainable development of community.

Local economic development (LED) is the concept that has been developed by many theorists. There are many definitions of what the Local economic development is. At this place we should use couple of definitions that show that LED concept and Good Governance concept are strongly interconnected.

The World Bank (2003, p. 1) defines LED as “the process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all.”

Cunningham and Meyer-Stamer (2005, p. 9) state that “LED is only rarely a mandatory role of government”. According to the definition of LED of Trousdale (2005, p. 8), this role includes:

- Participation of the subject from all sectors that run their activities in particular municipality
- Stimulation of local commercial activity
- Creating a resilient and sustainable economy

Metaxas (2002, p. 4) says that LED is “the main common conclusion is the existence of a competitive tendency between community’s goals and enterprises’ objectives”.

At this place it is necessary to give a brief definition of *community foundation*. Community foundation is specific by the fact that it is founded by the private-law act, however it performs its competences in the area, regulated mainly by the public-law norms. Definition of community foundation is not simple. We may define it as “targeted association of assets, performing its activities on exactly specified area, to exactly specified group of people, normally residents of the territory” (Poliak, 2011a, p. 50).

It is possible to define exact differences between community foundation and foundation in general.

Table 1. *Differences between community foundation and foundation in general in Slovakia*

Factor	Community foundation	Foundation (general)
<i>Legal regulation</i>	Act No.34/2002 Coll. on foundations and on change of Civil code as amended	Act No.34/2002 Coll. on foundations and on change of Civil code as amended
<i>Number</i>	11 (2.56%)	429 (100%)
<i>Founder</i>	Combination of subjects	Mainly individuals or law persons
<i>Purpose of organization</i>	Municipal development (predominately social)	Philanthropy in the broad sense
<i>Method of financing activities</i>	Predominately from the share of individual income tax according to §50 of Act No.595/2003 Coll. on income tax as amended	Multisource fundraising

Source: Own processing.

Community foundation is not different from foundation in general, according to its form and legal regulation. Due to the specialization in municipal development, the whole number of 429 foundations in Slovakia, which have been reported in the Register of foundation, maintenance of which is in competence of Ministry of Interior of Slovak republic, contains only 11 (2.56% of whole number) community foundations.

Due to fact that community foundation may be understood as an additional source of financing the development of municipality, respectively development of region, or the territory in general, the progress of which affects positively the budget of municipality and potential negative progress of it management has no impact on municipality, it may be said that there is a relatively significant effort of keeping community foundations by municipalities, on which territory these organizations perform their activities.

Table 2. *Founders of community foundations in Slovakia*

Region and number of community foundations	Founder
Bratislava region – 2	
Community foundation Bratislava	Individuals
REVIA – Little Carpathian community foundation	Individuals
Trenčín region – 1	
The foundation of Trenčín	Non-formal association of Trenčín
Nitra region – 2	
Community foundation of Nitra	Community initiative of Nitra, c.a. Town Nitra
Community foundation Šafa	Town Šafa
Žilina region – 1	
Community foundation Liptov	Development fund of Liptov, NGO
Banská Bystrica region – 1	
Community foundation Healthy town	Foundation Healthy town Banská Bystrica
Prešov region – 4	
Community foundation Bardejov	Town Bardejov
Community foundation of town Humenné	Town Humenné
Community foundation Blue Torysa	Civic association NGO People and water
Community foundation Veľký Šariš	Town Veľký Šariš
Slovakia - 11	

Source: Processing based on data from Ministry of Interior of Slovak republic.

Easterling (2011, p. 81) states some functions of community foundations:

- 1) publicizing issues that need more public and political attention;
- 2) drawing together various stakeholders to develop new solutions;
- 3) creating a new organization focused on a critical local issue;
- 4) developing, testing, and disseminating innovative program models;
- 5) advocating for changes in public policy and social norms;
- 6) encouraging people and organizations to adopt new practices; and
- 7) building the capacity of individuals, organizations, and communities.

According to the implementation of these functions in practice of Slovak republic we can identify some *advantages of community foundations* that may be stated following:

- 1) *Community foundation is a private-law organization* – Compared to the extra-budgetary monetary funds that can be founded by municipalities according to the Act No.523/2004 Coll. on budgetary rules of public administration as amended or Act No.583/2004 Coll. on budgetary rules of territorial self-government as amended, are community foundations regulated primarily by the norms of private law, through what they may fulfil provision of article 2 section 3 of Constitution of Slovak republic No.460/1992 Coll. as amended, which regulates discretion of all persons that are not the state organs. After extension of this provision of §1 section 2 of Act No.71/1967 Coll. on administrative procedure as amended it is clear that municipality in area of decision-making about use of community foundations resources, is not as limited as in case of its own budget, or extra-budgetary monetary funds.
- 2) *Community foundations is able to identify preferences of resident more precisely* – In favour of community foundations speaks mainly their detachment from the public policy at any level. It is fully true in case of community foundations, founded by private persons. In case of community foundations, founder of which is municipality, respectively town, there is obvious certain, however often negligible, connection to the government. Residents are more opened and they trust community foundations more than they trust the “politicking” of their own representatives.
- 3) *Community foundation may access the unequal residents by unequal manner* – The essence is certain degree of “discrimination” of majority population, which is not acceptable in public sector. Activities of community foundation may protect interests either the whole spectre of territorial residents, or of its part. For example community foundation may protect interests of the environment and environmental groups in municipality, or to protect interests of socially excluded residents of municipality but, on the contrary, it may try to develop culture in municipality, to renovate historical buildings, to repair the local communications, sidewalks, riverbeds, from which benefit all residents or visitors of the municipality.
- 4) *Community foundation is, in certain degree, the accelerator of cooperation between public and private sector in municipality* – By performance of its activities it necessarily touches both organs of municipality and mainly local enterprises, which use to support financially community foundations, within their presentation of corporate social government. Community foundation can ensure implementation of certain projects, on which cooperate all sectors in municipality.
- 5) *Community foundation is able, in certain degree, to prevent outflow of finance from territory of municipality* – This benefit is associated primarily to the

institute of share of paid income tax, of which use may decide a taxpayer. Community foundation can, by some marketing activities, ensure that considerable amount of these resources will be donated to them and they will not flow into the state budget.

- 6) *Community foundation finances activities of which financing is not in abilities or priorities of municipality, or of which financing municipality refuses.*

It is possible to identify some ***disadvantages of community foundations***.

- 1) *Community foundation has basically not ensured a stable income flows* – It all depends on fundraising and on the ability of its financial management. Some community foundations were donated by securities, possibly realty, from which they have current revenue, possibly of which sale they may gain certain capital revenue. Community foundations, the founder of which is town, obtain certain annual amount of finance from its budget. According to the fact that community foundation has character of which purpose is not entrepreneurial activity and is not linked to the public income flows, the progress of revenue is unstable.
- 2) *Community foundation may be perceived by part of the population with mistrust* – This negative perception may be determined mainly by some negative aspects of nongovernmental organizations on national level. This mistrust also appears in case of elected representatives of municipality.
- 3) *High initial investments on foundation of community foundation* – According to §3 section 2 of Act No.34/2002 Coll. on foundations and on change of Civil code as amended there is an obligation to make a property deposit in minimum value of 6638 Euro. In case of individuals, it is mostly impossible for him to obtain such high amount. This is the reason why in Slovakia there is such a small number of community foundations and why only towns, from the subjects of public administration, can afford to found it.

2. Methodology

Material for processing of this study was obtained by the questionnaire research between existing community foundations in Slovakia. The questionnaire contained 29 questions and it was divided into three basic pillars:

- a) activities of community foundation;
- b) relationship of community foundation to its surrounding;
- c) community foundation finance.

According to the fact that the questionnaire was completed and returned only from four of eleven existing community foundations, the results, presented in the next part of text, will have character of more less qualitative, not quantitative research.

3. Results and discussion

The range of territory, covered by activities of community foundation, is more or less expressed in its name. As it may be seen in Table 2, community foundations usually identify themselves directly with town on which territory they operate. It may be said that from the view of territorial specialization there are two types of community foundations:

- 1) Community foundations focused on municipality, in which they have their residence.
- 2) Community foundations focused on municipalities of particular micro-region.

Outweigh those, which specialize on specific town. The second type of community foundations has in their name the name of micro-region, as e.g. Community foundation Liptov, or Community foundation Blue Torysa. An exception on Slovakia is Community foundation Healthy town, which was established by Foundation Healthy town Banská Bystrica, however it performs its activities on territories of town twins Zvolen and Banská Bystrica.

The main form of activities of community foundations is mainly providing of addressed grants from budget of community foundation. Community foundation therefore fulfils mainly redistribution function. Community foundations in area of providing grants work the same as the others foundations. Grant applications are submitted by authorized persons, either a) based on published call of community foundation, or b) based on the existing foundation fund. In both cases the purpose of use of resources, which has the applicant to fulfil, in case of obtaining the grant, is known in advance. Many community foundations use grants as a tool to avoid the pollution of town, when the community foundation declare the competition for a particular amount of resources, under the condition of beautifying of apartment building, houses, or residence, branch of enterprise, of which assessment is done after the expiration of stated time. Grants are provided also based on individually submitted projects, from which has to be clear a benefit for particular community. *The secondary activities* are e.g. providing a social care, supporting the education, protection of environment on defined territory.

The focus of community foundations uses to be general. It may be explained by the specialization of community foundations in supporting of overall, not the particular area of municipal development.

Relation of community foundation to its surroundings may be understood in four dimensions:

- 1) *Relation of community foundation to residents.*
- 2) *Relation of community foundation to the others non-profit organizations.*
- 3) *Relation of community foundation to private enterprises and to individuals – entrepreneurs.*
- 4) *Relation of community foundation to the municipality, on territory of which it performs its activities.*

Ad 1) Stated relation may be assessed from the view of donors and volunteers. Volunteers create basic source for personal substrate of community foundations. They create from 75% to 100% of persons, involved in the running of community foundation and the interest in the performance of volunteerism has a steadily growing trend. The other the main problems, associated with residents, is their mistrust in abilities of community foundations, alternatively lack of interest of residents, in position of donors, in particular themes of the municipal development (e.g. poverty, the Roma issue). Community foundations mostly use some marketing tools to communicate with residents as potential receivers of grants, or as potential donors. They use primarily their websites, annual reports, special brochure about community foundation and its activities, public events and press releases. Those were the classic methods of communication. Community foundations try to adapt to current conditions in the computerization, and nowadays they communicate also through media and social networks as Facebook. Some community foundations do not use any of stated methods.

Ad 2) In case of non-profit organization there is mainly the relationship, which may be expressed as the relation between donor and receiver of grant. Community foundation supports other NGO's by financing their activities, focused on development of municipality. The foundations, performing their activities on national level, support community foundations through grants.

Ad 3) Enterprises are movers of local economic development. Vast majority of community foundations in Slovakia cooperate with local enterprises. The form of this cooperation is mainly direct financial support, gifts, volunteering, and administration of grant programs and implementation of common projects. This cooperation is performed both in institutionalized and non-formal dimensions. Some enterprises organize volunteering days of their employees, during which they work on one of community foundation's activity. Many of enterprises regularly donate particular amount of finance. Interesting fact is that community foundations cooperate in the long term with more than one enterprise. Enterprises can create their own foundation fund, which is administrated by community foundation and about which use, that is consistent with the fundamental purpose of community foundation, decides directly enterprise. Enterprises donate community foundations despite the current economic crisis.

Ad 4) Cooperation with municipalities, or town, on which territory the community foundation operates, is the most important part of their activities. They mainly cooperate in area of social care, sport and culture, environment protection, education and economic development.

Main benefits from this cooperation are defined as obtaining confidence, financial support, volunteers, expert advices, information, space and advertisement. They

realise that the cooperation with municipality is “the brand” of credibility of community foundation. Community foundations stated that they perceive no negative aspects from performed cooperation.

For potential areas of inter-sector cooperation are suggested mainly improvement of the entrepreneurial environment in towns, improvement of use of available resources of municipalities and thus use of the development potential of municipality, propagation of participation of inhabitants in solving local problems, protection of environment.

Community foundations use to participate in creation of Program of Economic and Social Development of municipality (PESD), which is obligatory created by every municipality in Slovakia. All community foundations that responded to the questionnaire, participated on it. They do not participate in creation of any other plans or development documents as the community plan of social services of municipality, territorial plan of municipality, marketing plan of municipality or budget of municipality. According to the fact that community foundations are interested in participation in creation of these stated documents, it would be well to consider whether municipalities should not use this option.

According to the formal structure of municipality, we can say, that some towns include community foundations into it. Some of community foundations are included in particular commissions of town council. Also towns, on which territory has the community foundation its residence, are often represented in organs of foundation. This representation is performed through elected representatives and employees of town. Elected representatives are mainly members of the community foundation’s board, employees are members of board of supervisors and advisor board of community foundation. We can say that community foundations may be understood both as the municipal policy maker and taker. It is in accordance with ideas stated by Daun-Barnett – Wangelin – Lamm (2012) or Daun-Barnett – Lamm (2012).

Community foundations complain on insufficient financial reserve, slightly bad communication and mistrust of elected representatives of municipalities, but they recognize that the financial support of community foundation is regular. The others municipalities, except of towns, which founded the foundation, do not financially support it. It is necessary to mention that central government uses to support community foundations through grants. These grants are used for covering activities of community foundation, with accordance to the orientation of the Government.

Basic source of financing community foundations is a proportion of paid income tax. Its share on total revenue of community foundation is in interval of 25-95%. Smaller community foundations are more dependent on this source. The next one

is flow from budget of town. Additional sources are gifts from individuals and law persons, grants from national-wide foundations and subsidies from the Government. Some of community foundations are financed also by revenue from capital assets. There are also some exceptions, when particular community foundation is financed by the town, on which territory it performs its activities. In this case the share of this revenue on total revenue of community foundation is approximately 50 to 75%.

According to current global economic crisis, the majority of community foundations stated that they work with a smaller volume of resources. It is due to decrease of state revenue of individual income tax, decreased demand for products of local enterprises and implementation of restrictive fiscal policy of the Government. Households are nowadays trying to save the money, so the volume of their donations to activities of the third, non-profit sector, has decreased. This has a negative impact on managing the community foundations.

Proportion of administrative expenditure on total expenditure of community foundations are moving in the interval of 10 to 20%. Administrative expenditure contain rental fees, phone charges, charges for postage, cost of material, labour costs and possible propagation costs. The rest expenditure contains provided grants and coverage of performance of community foundation's activities, which is consistent with their mission.

As it was stated, community foundations provide grants to particular applicants. For community foundations it is necessary to measure the *effectiveness of granted resources*. Measurement of effectiveness in nongovernmental sector is almost impossible. Theory knows only indirect methods of measurement of effectiveness of NGO's activities. Community foundations in Slovakia measure effectiveness of provided grants following:

- Monitoring of supported projects.
- Monitoring of fulfilment the budget of community foundation.
- Audit by auditor.
- Assessment of transversal and final reports from recipients of grants.

It is clear that community foundations have tendency to connect the effectiveness measurement with implementation of control of use of provided contributions. In this area it would be good if community foundation would verify the ability of applicant to fulfil the aim of project, due to the implementation he calls for support. This step would eliminate a possible problem with ineffective management of community foundation's resources.

The *vision of development of community foundation* is usually stated in its annual report. It was also the last question of questionnaire. Respondents stated their vision as follows:

- Institutional stabilization and more intensive communication with active local NGOs, non-formal groups and municipality.
- To be a stable partner for donors and for active people and organizations that want to improve the quality of life and environment.
- Further development of support of local activities of citizens in each sphere.
- Development of communication tools, cooperation with small enterprises.

From each vision it is clear that community foundations want to improve their co-operational ability.

Conclusions

This study has fulfilled its aim, stated at the beginning. It proved that community foundations have a not negligible significance in the field of local development. This significance may be defined in following areas:

- 1) Community foundations ensure providing particular public goods – They provide it by themselves or by financially supporting the other subjects of which task is to ensure these goods.
- 2) Community foundations fill a gap in the local market.
- 3) Community foundations ensure participation of residents in decision-making about a significant questions of building the municipality, or about determining the direction of the municipal policy.
- 4) Community foundations ensure a broad mutual cooperation of subjects, living, working, producing or trading on territory of municipality.
- 5) Community foundations act as a catalyst in the field of cooperation of enterprises and municipalities.
- 6) Community foundations support the development of local philanthropy.
- 7) Community foundations ensure a transparent and a direct provision of financial support there, where its use will ensure the greatest possible benefit for the municipality, and its residents.
- 8) Community foundations are highly profitable for the municipality – From own calculations it is evident that the annual investment of town in the community foundation shows in average approximately a three to four-fold return on investment in conditions of Slovakia.
- 9) Community foundations, founded by towns, mean no additional risk and they do not affect the town's budget in any way, besides the potential annual financial support.

According to stated it is clear that community foundations have a great potential to be the leader of local development. The practice in Slovakia shows that better conditions for performing their activities have those community foundations, of which founder is a town. Given the defined benefits it remains only the question of why towns do not

found these organizations. During the economic crisis is for enterprises a matter of survival to innovate and to find an additional source of financing. It appears that for Slovak municipalities does not apply such an analogy.

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