ALTERNATIVE SOURCES OF FUNDING:

A Guide for the Civil Society Organisations

Prepared by ISAR Ednannia

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Abbreviations

AFS — Alternative funding sources
Bln. — Billion
CDFI — Community development financial institution
CSO — Civil society Organisation
CSR — Corporate social responsibility
EUR — Euro
IB — Impact bond
IE — Impact enterprise
FLC — First loss of capital
FS — Fiscal sponsorship
iNGO — International non-government organisation
MFI — Microfinance institution
MIF — Microfinance investment fund
Mln. — Million
NGO — Non-government organisation
PtP — Philanthropication thru privatisation
Q — Quarter (of a year)
SB — Social bonds
SE — Social entrepreneurship
SDG — Sustainable Development Goal
SII — Social impact investment
OECD — Organisation for Economic Cooperation and Development
UAH — Ukrainian hryvnia
USD — U.S. dollar
USAID — U.S. Agency for International Development
WLB — Women's Livelihood Bond

Summary

For the purposes of this report, by alternative funding sources (hereinafter—AFS) we mean the mechanisms other than traditional grant schemes provided by international development agencies, transnational institutions, or international non-government organisations, crowdfunding, corporate social responsibility, and various types of philanthropy. The mentioned funding mechanisms are sufficiently familiar to Ukrainian CSOs (although this does not suggest that they have mastered these tools). Also, since the mentioned mechanisms have been researched and presented to the public elsewhere, this report will not focus on them or will mention them briefly only if the context requires. In its turn, the AFS is used as an umbrella term to include sources resulting from the civil society interaction with the government or private, e.g., social impact investments, philalthropication thru privatisation, micro financing, or income generating activities of CSOs.

However, by no means this report is extensive, as the topic of financial sustainability for the civil society is constantly being developed by scholars and practitioners. However, we believe that the sources covered by the report may shed light onto the most promising AFSs in Ukraine, situating them in the current state and challenges of the civil society in Ukraine (see **Chapter 1**). In **Chapter 2**, the report covers the social impact investment, a wide umbrella term that may include any investment activities that purposefully touch upon the social impact. **Chapter 3** presents a narrower case of the SII — impact bonds, which are often a tool of a social investor. **Chapter 4** explains the social entrepreneurship and its types, as well as make a distinction between the social enterprise and for-profit subsidiaries that are often established by the CSOs with an aim to make a stream of revenue. **Chapter 5** covers yet another common tool for a social investor to advance the social enterprise — microfinancing — and its potential to enhance the economic situation of the marginalized communities and low-income households. **Chapter 6** explains a seemingly simple solution—fiscal sponsorship—a concept widely known in the world, but not in Ukraine. **Chapter 7** substantially covers philanthropication thru privatization and its possibilities for the establishment of endowments for sustainability of civil society. Finally, Chapter 8 explains how a CSO may utilize internal resources — expertise, facilities, etc.—to generate revenue and fund its statutory activities.

This report is aimed to demonstrate the potential of certain funding sources, describes its peculiarities and potential, as well as challenges that might arise. It should be treated as a guide with some examples of how a certain source is utilized. The report DOES NOT offer instructions on how to set up a social impact fund or write a business plan for a social enterprise—these things would require sufficient capacity in financing, investment management, and in many cases—regulatory frameworks and legislation—and are subjects for capacity building trainings and workshops in the following areas:

- **Monitoring and evaluation**: social impact investment, impact bonds, social entrepreneurship rely on the ability of the CSOs (if they want to raise investments) to demonstrate the results and impact their activities to the potential investors.
- **Operational management and governance**: the CSOs must demonstrate the capacity to manage the funds, regardless of the role — investee, investor,

or the intermediate organisation. The investors must be sure that their funds are properly managed in accordance with the good governance practices and bylaws. As an intermediate, the CSOs must have expertise in the investment environment and understand when to invest, how to invest, and what are the most promising areas of investing.

- **Financial literacy.** The CSOs must understand how the finances work, especially in the investment cycle — calculate the expected financial and social returns, risks, etc. This also requires understanding of the external context, for instance, macroeconomic factors and political climate.

Also, even if the capacities are in place, there must be enabling legal environment or economic environment. For instance, for the PtP to be considered as a source for an endowment, there must be 1) a privatisation process in place; 2) legislation that allows for the endowment to be established and in operation. There also must be clear regulations that allow the CSOs and social investors to enter contractual relations and utilize the impact bonds. As for the social entrepreneurship, there must be a clear legal definition of the concept and regulations, so that CSOs are not puzzled by an ambiguity. This is also true for such a concept as fiscal partnership — although this is common practice in the United States, for Ukraine, it must be understood in the Ukrainian legal environment to minimize the risks of money laundering through the CSOs.

However, despite the described points are challenging, time consuming, and require serious cooperation between the public, private, and civil society sectors, it does not mean that it is impossible. The Ukrainian civil society, despite its challenges, has a long history of successful advocacy and implementation of reforms, as well as it is known for being resilient and building its capacity on its way to the goal.

Chapter 1. Civil Society in Ukraine

1.1. Brief Overview

The Ukrainian civil society has rather long and conflicting history. Although the political and civic participation was strictly regulated by the Communist Party during the Soviet rule, meaning the development of the genuine and open civil society was impossible, Ukrainians still managed to subvert the status quo with the dissident movements, post-Chornobyl environmental movements, and veterans' organisations (Gatskov and Gatskova, 2020; Onuch, 2014).

After Ukraine gain its independence in 1991, the infant civil society had to go through the immense transformation just like all other spheres of its socio-political and economic life. In 1992, the law on civil association had been adopted[1], which legalised the civic associations in the eyes of the state. However, as Gatskov and Gatskova (2020) mention, the relations between the civil society and the state were adversarial. Ukraine was undergoing a transition from being a part of a totalitarian machine to a democratic state, but the top-government officials still executed the authoritarian rule and tried to deplete the civil society of its watchdog functions by diluting the trust of the citizens. Oftentimes, political parties founded CSOs with the sole purpose for them to operate as political platforms for electoral purposes; or corrupt state officials used state-controlled CSOs to channel governmental funding for social services (ibid.) Meanwhile, those few funded by International development agencies were labelled as 'grant-eaters' (Stepanenko, 2006), a narrative well alive and still exploited, along with few others of similar meaning ('*sorosyata*') by opponents of the civil society. This, accompanied by the severe economic stress of the Soviet collapse, was contributing to the social distrust to the CSOs.

Despite the civil society being scatter and rather weak organisationally, Ukraine underwent through two revolutions, and the civil society played a prominent role in each of them. First, the Orange Revolution, also known as Maidan 2004, mobilised the civic activists to oppose the electoral fraud committed by then Prime-Minister Viktor Yanukovych. Tendency to be a part of civil society was prominent on both sides of the conflict: protesters were more likely to participate in religious or political organisations while their counterparts were more likely to be a part of a sports club, trade union, or professional associations (Beissinger, 2013). Although the Orange Revolution resulted in success, and Viktor Yuschenko became a President of Ukraine, the civil society became disengaged with the political matters by taking a back seat rather than actively contributing to the transformation of Ukraine. Hence, the Orange Revolution resulted in wars of political and economic groups. In turn, the general social disenchantment reached peak when Viktor Yanukovych was elected President in 2010.

Yanukovych's administration was the continuation of authoritarian rule and top corruption. The activists faced administrative obstacles to their operations and often were intimidated by the Security Service (SBU) (Gatskov and Gatskova, 2016). The general drift of Ukraine to Russia and sway from its European aspirations, multiplied by the authoritarianism and corruption provoked in Revolution of Dignity of Maidan 2013/4, which in turn resulted in Yanukovych and his administration fleeing the country, leaving the national reserves empty (Gontareva and

1 Currently exists in another edition.

Stepaniuk, 2020). Ukraine lost Crimea due to its annexation by Russia, was under attack of armed Russian proxies in the eastern regions of Donetsk and Luhansk. Ukraine immediately lost capacities that produced 30% of its industrial output and at least 15% of GDP (ibid.). The country entered a severe economic and financial crisis.

Remembering the mistakes of disengagement in the post-Orange Revolution times (Lutsevych, 2017; Onuch, 2014) the Ukrainian civil society — institutionalised organisations and grassroots, the active participants of the Revolution of Dignity — consolidated around the reforms in almost every domain of socio-political life of the country. With the support of international donors, the civil society has become an independent sector flourishing even in those regions that previously did not demonstrate any notable engagement. The public sector also enjoyed the influx of civic activists, business professionals, and journalists—they had become party members and after the parliamentary elections of 2014—members of parliament, or government officials (Lutsevych, 2017).

1.2. Challenges of Ukrainian CSOs

Despite the vibrancy of post-Maidan 2013/14 civil society, it is not without its problems. For the purposes of this report, we will focus on those we see crucial in the context of financial capacity of the CSOs.

CSO Participation

By CSO participation, we mean being actively enrolled or being a member of a civic association / group / organisation. According to the regular "Society of Ukraine" monitoring conducted by Institute of Sociology, more than 80% of Ukrainians do not belong to any social organisations or movements, and this percentage has been rather stable throughout 14 years — the mean value is 84.2%. Gatskov and Gatskova (2020) also identified that men are somewhat more likely to be a member of CSOs than women; young people are more likely to be participants than old people; and

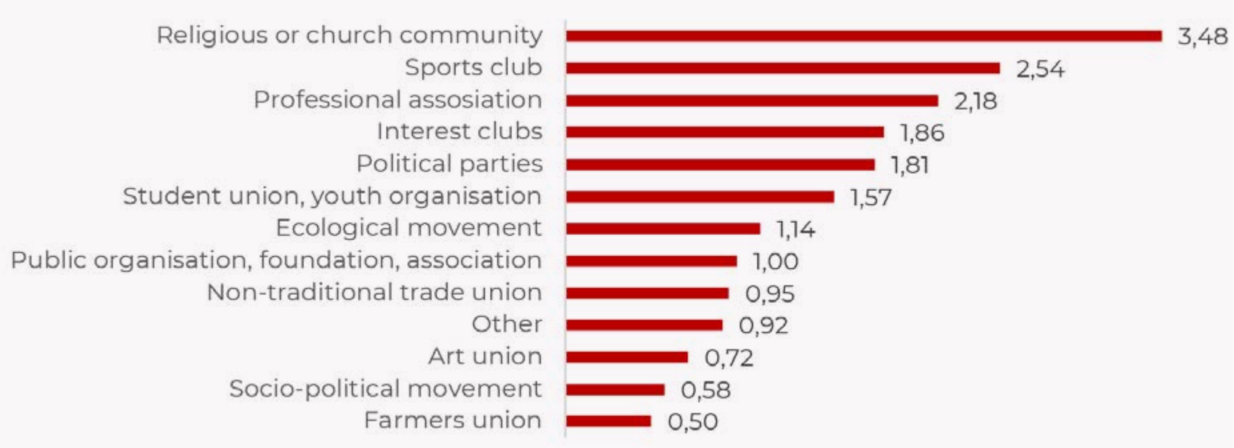

Figure 1 — Belonging to CSOs, mean for 1994-2018, %
(Cited from: Gatskov and Gatskova, 2020)

wealthier and more educated citizens are more likely to join CSOs (ibid.)

These tendencies are supported by the recent poll of Pact/ENGAGE and Democratic Foundations Initiatives: only 4% mentioned they had actively participated in CSO activities while 13% stated they had done so quite rarely (2020).

Researchers consider it to be a signal that the civil society and culture in Ukraine is weaker and more fragile than it seems. As of now, it shows resilience on intense, but short distance runs. Routine and regular engagement, day-to-day operations, institutionalisation, community organising, and fundraising are more tedious tasks and require consistent long-term effort and specific skills.

Trust

Trust is yet another issue facing the civil society (see Figure 2).

As it was mentioned elsewhere in the Chapter, authorities have been known for undermining trust to civil society either by using them to disguise political platforms or labelling those working with international development agencies and transnational organisations as *grant-eaters* and *sorosyata*. Although far from being distrust champions, we see the gradual decline in trust in 2016-2020. The spike of 2021 is an early sign of optimism, as the final numbers will be out in December. Also, as of July 2021, there is not enough evidence to interpret it.

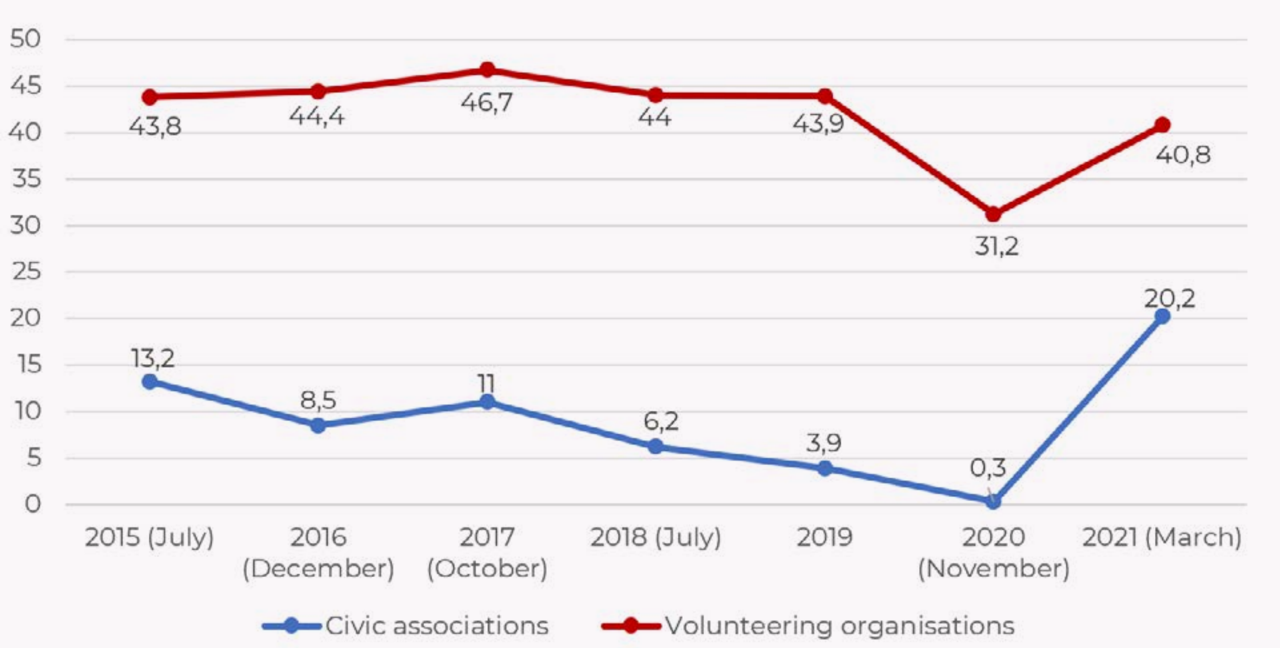

Figure 2 — Trust to civic associations and volunteering organisations, % (DIF, 2015-2016; Razumkov Center, 2017-2021)

The reasons of distrust are vague; however, we may hypothesise. According to the recent study on percentage mechanism conducted by ISAR Ednannia and DIF (2020), 41% of Ukrainians know nothing and have no desire to know anything at all about the civil society activities. On the other hand, 44% know nothing but stated their interest to know more. The awareness of CSO activities positively correlates with the perception of CSOs as drivers of the country's reforms and transformations.

However, there is another troublesome tendency (see Table 1).

What statement describing the work of civil society organisations in Ukraine do you agree with (%)? (ISAR Ednannia and DIF, 2020)

1. Their activities are important and useful for the country as a whole	23,1
2. Their activities are useful and important for certain groups of people to whom they provide assistance	23,1

3. Their activities satisfy only their own interests, such as gaining popularity or satisfying political ambitions	21,5
4. Their activities are mostly useful for foreign countries, not for Ukraine	7,7
5. Difficult to answer	24,5

As we see in Table 1, almost 8% agree the Ukrainian civil society is useful for foreign governments, but not for Ukraine; 21.5% believe that CSOs work only for their own interests. Although there is not enough empirical evidence to be fully confident, there is a possibility that such percentage is connected to the broad libel campaigns against the civil society, circulating the social media, e.g., anonymous Telegram-channels or sanctioned politicians, such as Oleksandr Dubinskiy, who still has a large social media following and is a known opponent of pro-Western civil society.

"Civil Society or NGO-cracy?"

NGO-cracy is a term coined by Orysia Lutsevych (2013), meaning a group of elite and well-funded CSOs using access to "domestic policy-makers and Western donors to influence public policies without having a constituency in society" (ibid., p. 4).

The lack of constituency is a well-known problem of the civil society in Ukraine. The term is used to criticise the CSOs from two positions. First, the CSOs and their members are not elected by democratic majority. Therefore, their privileged access to foreign missions, local policymakers, and power brokers, and agenda setting on behalf of the constituency (i.e., people of Ukraine) that has not delegated the CSOs to do so through elections, may be perceived as illegitimate and ethically problematic. Second, the constituency may be understood as a broader public group that actively supports CSOs and their activities—by participation, donations, etc. Therefore, without such solid support, the CSO will struggle to prove its social value, mobilise financial resources, and if required, people. Also, we may hypothesise that such critique contributes to people seeing CSOs only satisfying their needs (see Table 1).

Macroeconomical and Political Factors

A body of research on civil society provides evidence suggesting that the development of civil society is related to economic conditions and development of political institutions (Gatskov and Gatskova, 2016). For countries like Ukraine that undergo the transition from totalitarian rule to democracy, rule of law is of special importance, as it fosters trust into formal networks while economic well-being and CSO membership are strongly positively related (ibid.). Unfortunately, Ukraine suffers both from weak political institutions, rule of law specifically, as well as has history of economic instability. These factors may translate in twofold way: 1) weak institutions and political elites prone to corruption and/or authoritarian leadership may see strong civil society and its watchdog activities as a threat to a status quo; 2) citizens busy with securing immediate economic needs of their families may see a financial support for CSOs as an unnecessary luxury.

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These factors contribute to the financial instability of the civil society. According to the mentioned study on the percentage mechanism (ISAR Ednannia and DIF, 2020), in 2020, 21% of Ukrainians provided financial or material support to the CSOs in Ukraine. Usually, the donations are up to UAH 500 and more sporadic than regular. Among 54% of the citizens who do not provide any financial assistance, 32% do not do so simply because they are not interested in the CSOs or their activities, and 15% believe CSOs do not work for the benefit of the society. Such attitudes result in weak constituency and subsequently, and obstacles in fundraising.

The main source of the funds for the CSOs are international development organisations and their technical assistance. For instance, by estimations of 2017, the reform-related projects have received around one billion US dollars (Lutsevych, 2017). However, the distribution of these funds is not geographically. As community of civil society development experts have noted (ISO expert interviews), big national CSOs in big cities of Ukraine, especially Kyiv, have more access to the funds because of the proximity to international stakeholders.

Other types of sources (alternative sources) are scarcely known in Ukraine.

Chapter 2. Social Impact Investments

A social impact investment (hereinafter—SII) is a provision of private and public funds to organisations that address social needs and benefit the public, e.g., poverty, housing, environment, etc. (OECD, 2015). The SII utilisation is expected to drive innovation and integrate business practices, for instance market-based solutions, result-based financing, and result-based management. Although the concept is not new, its practical implications have started to unroll only recently due to the growing interest of private and government investors to tackle social issues effectively and sustainably. The interest to the SII has grown due to the growth of the social enterprises and corporate social responsibility (CSR) (see the previous Chapters). The Figure 1 shows the place of the SII in the ecosystem of sustainable business and philanthropy.

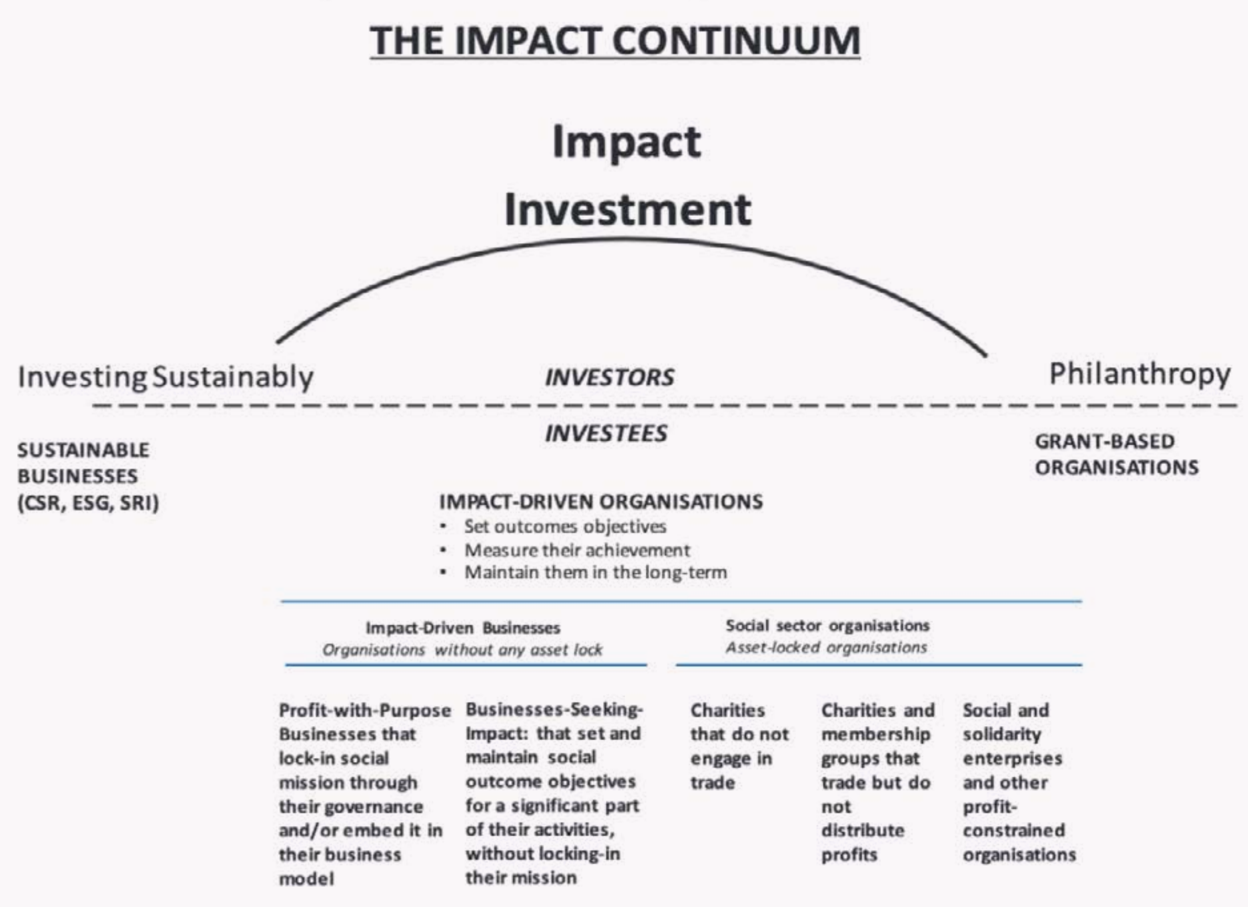

Figure 3 — The Impact Continuum (SIIFT, 2014; cited in OECD 2015)

The core features of the SII are as follows:

- intentionality — an investor must have the intent to generate social or environmental impact through their activities
- investment with return expectations — the impact investments are expected to generate the financial return on capital, or at least, a return of capital
- range of return expectations and asset classes — impact investments generate returns from concessionary to risk-adjusted market rate
- impact measurement — the investor must be committed and abled to measure and report the social and environmental impact of their investment activities.

The rise of SII industry triggered encouraged non-profits, international aid organisations, and governments change their approach to funding the social issue solutions as well. For instance, only in UK, the non-profits caused 38% annual growth in SII, which was also backed by significant government funding through the specialised institutions, e.g., Big Society Capital (Hailey and Salway, 2016).

The OECD proposes the following framework for looking at the SII. Below, we briefly summarise it.

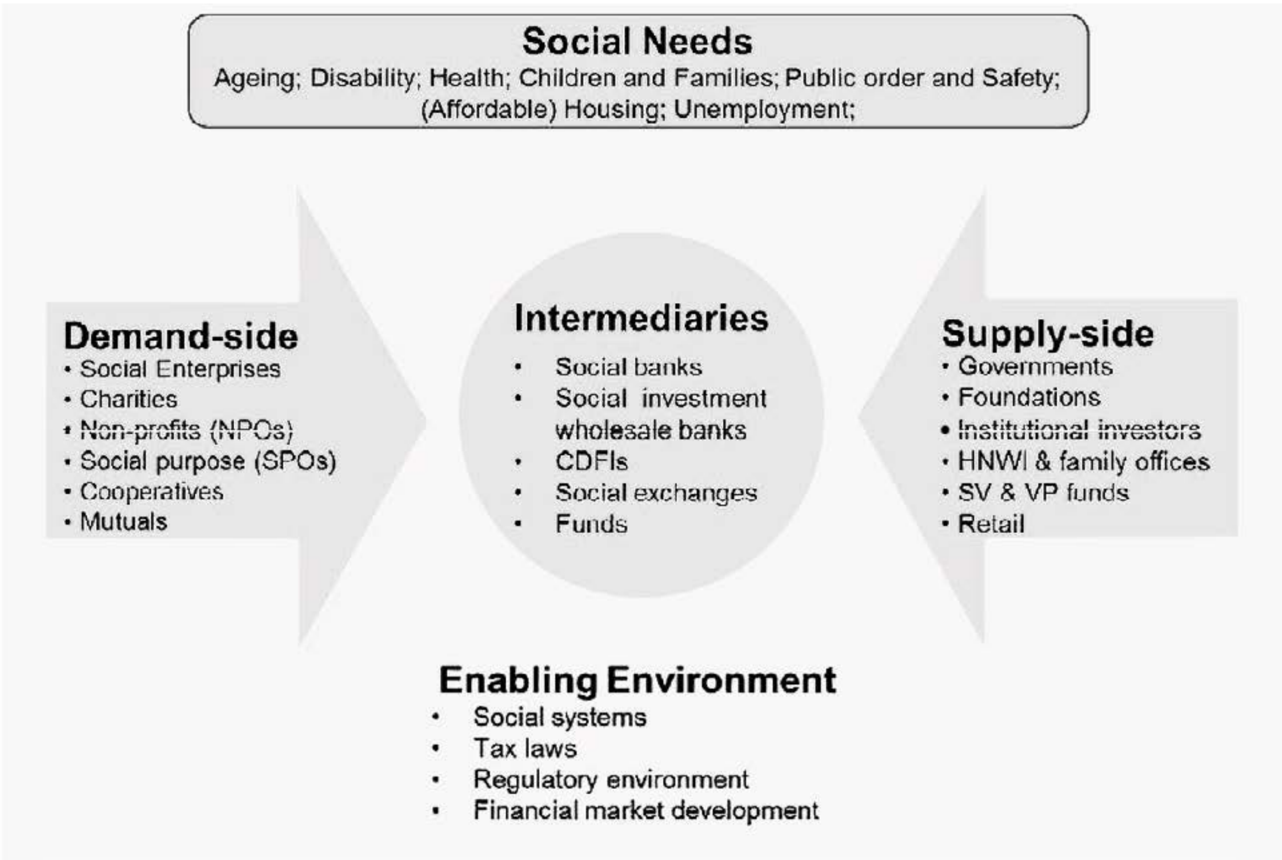

Figure 4 — Social impact investment market framework (OECD, 2015)

The SII works as follows. The investors deploy the funds into a specific foundation or fund that work as intermediaries—impact investment funds (IIFs). The latter invest the funds into a portfolio of enterprises (including the CSOs) that generate the financial AND social / environmental return. The investors are then paid back their principal and a financial return based on the performance of the underlying assets (Sarkisova and Perakis, 2018).

Every SII project starts with the target need it is supposed to address. The demand-side stakeholders are usually looking for the new models to fulfil their mission and deliver social impact. Usually, they are the civil society organisations or mission-driven social projects of various kinds.

The supply side is interested in ways to diversify their investments and pursue the financial goals, while also hitting some social targets as well. Traditionally, private foundations and grant-making organisations have contributed to the development of the SII, providing catalytic capital, seed funding, or grants for new social enterprises and ventures. The financial tools used for building the SII may vary from the direct debt, equity, or guaranties. The government may direct their funds through commissioning social services. The SII is not a tool, exclusively used by the institutionalised agents. In France, there is an example of the community pension fund with a social return element, "Solidarity Funds" or "90/10", where a middle-sized firm (50 employees) contributes to the fund, and 10% of those funds must be invested into the solidarity programmes recognised by the government.

The Intermediaries (commercial banks, investment banks, brokers, financial advisors etc.) link investors and investees, as they provide the platform for the SII market and improve its efficiency; they structure the debts and manage the funds. These agents are of utmost important, as without them, the SII market will have higher transaction costs and complex deal structuring (Freireich and Fulton, 2009). Global Impact Investing Network (GIIN) is an example of a SII intermediary, which builds the infrastructure and works with investors to alleviate poverty and improve environment.

However, despite the capacity of the SII market stakeholders, the SII cannot function without favourable environment, which include:

- Legislation and legal structures or the regulations and requirements for investment, either for-profit or non-profits
- Tax regime — legislation and incentives, for instance, Social Investment Tax Relief in the UK.
- Financial market developments
- Regulation, e.g., for controlling the "rules of the game" and evaluation of the impact
- Data, as the delivery of impact and impact evaluation rely upon the availability of the social and economic data — this is a key differentiator of the SII from other investment strategies.

The absence or malfunction of any of these elements pose significant threats to the development of the SII market.

Although traditionally not all the spheres may be covered by the SII (e.g., agriculture or financial assistance), the actual applicability depends on the beneficiary context and general political economy in each country. For instance, agricultural social investments in the developed economies may have little sense from the point of view of the SII, but if operating in a developing country, the SII may contribute to fighting hunger and malnutrition. Therefore, the applicability of SII should be analysed case by case.

The CSOs and iNGOs may assume various roles within the SII framework. They may be an investor into an impact investment fund; or a donor and provide catalytic grants. The CSOs may also act as recipients and intermediaries — e.g., accept funds from the IIFs or become fund managers. Finally, CSOs of high capacity and professionalism may work with the entrepreneurs to build their capacity — by running accelerating programs or redistributing the catalytic capital (Sarkisova and Perakis, 2018).

Potentially, the SII may become a source of new funds for the CSOs. However, despite a growing interest, the CSO managers and their trustees must build the ***capacity*** to access such funds and operate them in an effective manner. Among other barriers for CSOs to incorporate the SII into their fundraising strategies are due diligence time and costs it takes to make an investment decision, the transaction costs in setting up the SII platform or legal entity, as well as generating impact data to prove the social investors their investments have not been in vain (Hailey and Salway, 2016). Also, the balance between the social and financial delivery on the SII may be difficult to achieve, especially if there are conflicting investment interests at play (Sarkisova and Perakis, 2018). Subsequently, it may result in mission and values being compromised for financial gain. However, just like with the applicability of the SII in a specific country, the risks, pros, and cons of the SII for a particular CSO or iNGO should be weighed against their capacity and context they operate in.

SII Cases

Promprylad.Renovation, Ivano-Frankivsk, Ukraine

The Promprylad.Renovation Projec[2] is a multifunctional urban space that connects different actors from a broad range of activities (e.g., informal education, art and business) on the territory of a revitalized plant in the heart of Ivano-Frankivsk, Ukraine. Anyone - whether an individual or an organization - may become an investor by making an investment of at least US$1,000. All shareholders together constitute the Promprylad Investment Fund which owns 49% of Promprylad LTD and its property. Consequently, 49% of all the revenues generated by the LTD are divided among the shareholders as dividends. The shareholders have a right to resell their shares.

By investing into Promprylad.Renovation, the investors contribute to the following sustainable development goals (SDG):

- quality education (SDG 4)
- decent work and economic growth (SDG 8)
- industry, innovation, and infrastructure (SDG 9)
- reduced inequalities (SDG 10)
- sustainable cities and communities (SDG 11)
- and partnerships for the goals (SDG 17).

At large, the investor does promote the general development in Western Ukraine, particularly by fostering a creative ecosystem in the region, which includes food, agriculture, IT, design, woodworking, film, and green energy clusters.

According to the Social Return on Investment (SROI) evaluation conducted by PACT for the Project (PACT Ukraine, n.a.), the Project is going to be beneficial for four following parties: investors, operators, service consumers and the community. The investors would rather benefit from a satisfaction of making a personal contribution to meaningful and creative initiatives rather than from invested funds. The operators will benefit from working in an innovative and comfortable working environment, as well as from the professional development through innovative ideas and access to

2 https://www.google.com/search?client=safari&rls=en&q=Promprylad.Renovation,+Ivano-Frankivsk,+Ukraine&ie=UTF-8&oe=UTF-8

better life conditions and consistent wages for newly hired personnel. The operators will also gain from improvement of the livelihood of long-term personnel, satisfaction from being able to fulfil their potential, access to activities/classes related to self-fulfilment and wider opportunities for applying for new jobs and designing new projects in the frame of Promprylad. The main outcome for the service consumers will be in satisfaction from using the services and innovations and, to some extent, also in career guidance, and opportunities for professional self-development entrepreneurship.

Finally, the last actor who will benefit from the Project is the community. Salaries will generate new tax revenues and the Promprylad.Renovation Project will also attract foreign expertise and financial flow into the region's economy. On a lesser scale, the Project will also stimulate not only a comeback of Ukrainian citizens working abroad but will also help retain local highly skilled labour force. Finally, the Project might also increase the inflow of new tourists to the city.

As to the monetary value to change, the overall value is estimated to be USD 4.2 mln with the service consumers providing the highest monetary value (USD 2.85 mln), followed by the operators (USD 803,900), the community (USD 436,585) and the investors (USD 191,940).

Although the Project initiators have identified some potential risks (e.g., economic, political, financial/investment, construction, market, and hidden risks), no special risk analysis and assessment has been conducted, and no means or methods of eliminating the risks have been proposed, except for ways of diversifying the income-generating activities.

Sonyachne Misto, Slavutych, Ukraine

The Solar Town[3] is a cooperative solar-power plant located in Northern Ukraine in Slavutych town. The project aims to make money from selling electricity at green tariff by installing solar panels on the municipal rooftops in the town. Anyone can become a co-owner of the power plant by making an investment from UAH 15,000. The new investors and the needed sum (approximately UAH 1.8 mln) have been obtained through an equity crowdfunding platform.

For every EUR 1,000 invested in the cooperative, each shareholder will receive a revenue of EUR 138 (after-tax) per annum.

While being a commercial project, it also aims to generate a social impact. From the financial point of view, the investor cooperative pays taxes to the city budget. As to the social impact, the project will contribute to the following:

- Development of sustainable energy supplies in the town
- Promotion of impact-investment as an attractive business model
- Model franchising: opening of similar cooperative solar power plants
- Facilitation of rebranding and reclassification of the town, which has long been known as a town of nuclear workers' through making investments in renewable energy

The investors get the opportunity to participate in financing municipal projects. The cooperative will direct 5% of the net profits for financing town projects selected by the local community.

Women's Livelihood Bond 2 (WLB 2)

Women's Livelihood Bond 2 (WLB 2) is an impact-investment project, as a part of Women's Livelihood Bond Series[4], launched by Impact Investment Exchange (IIX) which aims to enhance women's

3 https://solartown.com.ua
4 https://iixglobal.com/womens-livelihood-bond-series/

economic activities in rural areas in South and Southeast Asia.

The WLB 2 is based on the success of the WLB 1 in 2017 when the first ever impact investing instrument was created while at the same time being the first financial gender lens instrument on a stock exchange. The Bond mobilizes large-scale private investment and unlocks capital for Impact Enterprises (IEs) and Microfinance Institutions (MFIs). Private investors do profit from first loss capital (FLC) provided by the Rockefeller Foundation and a 50 percent loan portfolio guarantee granted by the United States Agency for International Development (USAID). In addition, supplementary financing to expand the scope of the WLB Series is provided by other project's partners such as ESCAP and UNCDF. In January 2020, IIX successfully closed the WLB 2, a US$12 million debt security that helped to create sustainable livelihoods for more than 250,000 underserved women across South and South-East Asia.

By investing in the WLB 2, the investors contributed to 12 of the 17 UN Sustainable Development Goals (SDG). Approximately 74,000 women and girls from low-income communities were provided with the necessary means to reduce poverty and increase financial inclusion (SDG 1). Thanks to sustainable agriculture practices, nearly 1,600 small rice farms run by females profited from a 20% increase in yield per harvest (SDG 2). Access to low-cost medical services and better nutrition has helped enhance the health of nearly 21,500 women and girls (SDG 3). The same number of young females has profited from professional qualification programs and financial assistance to continue their school education (SDG 4). Almost 30,000 women made a transition from subsistence to sustainable livelihoods, and approximately 22,000 women have enhanced their financial viability by savings and insurance (SDG 5). Improvement of access to water and sanitation were beneficial for nearly 2000 women and allowed them to save about two hours each day (SDG 6). Thanks to access to clean and reliable energy sources, nearly 1800 women and girls could enhance their productivity, saving them up to two hours per day (SDG 7). Women micro-entrepreneurs raised revenues by approximately USD 4.9 mln, resulting in reduced disparities in income distribution with their male counterparts (SDG 8). Among them, nearly 26,300 gained access to affordable loans to expand and sustain their businesses (SDG 10). By accessing motor and housing loans, around 230 women benefited from enhanced mobility and security (SDG 11). In addition, nearly 1900 women farmers were offered affordable inputs and trainings in climate-smart agriculture practices (SDG 13). Finally, the WLB 2 has brought both public and private sector partners together, including three banks, seven law firms, three public bodies, and two United Nations Bodies.

The following connections between investors´ outputs and the project's outcomes is be observed: having provided microcredits for productive purposes to nearly 26,300 women, the investors have contributed to an improved wage-earning capacity estimated at USD 4.4 mln of social value. In comparison, through access to credits for non-productive purposes, nearly 1200 women may increase their ownership of assets for about USD 69,000 of social value and improve their productivity for USD 201,000 respectively. Nearly 21,690 women have gained the ability to make micro-savings and 190 women have received access to micro-insurance, which allowed them to secure their financial resilience at estimated US$ 69,000 of social value. Training workshops for nearly 2700 women have helped them to improve their productivity accounting for USD 201,000 of social value. Lastly, 1776 women farmers have received an enhanced access to the market, which can be measured at USD 2.58 mln in social value.

These are the primary outcomes of the project directly influencing the female beneficiaries and corresponding to the SDGs 1, 5, 8 & 10. All these primary outcomes contributed to the secondary impact level, that is the benefits for the families, communities, and environment. Three types of such an impact can be distinguished:

- the multi-generational impact which was experienced by nearly 22,300 indirect female beneficiaries in form of improved health, nutrition, educational outcomes (SDGs 3 and 4)
- the improved community resilience through providing WASH loans to 1900 female beneficiaries and motor loans to 90 female beneficiaries (SDGs 11 and 6)
- the climate action as expressed in over 75% of rice conforming with the Sustainable Rice Platform Standards, which means efficiency in resource use (e.g., 20% water efficiency) and increased yield by 20% to support climate-smart agriculture (SDGs 2, 7 and 13).

In total, all outcomes of the secondary level foster the tertiary impact level, which is a systemic change (SDGs 5 and 17) in terms of improved gender equality. As of Q2 2020, 29,275 women were directly impacted, and for every dollar invested, USD 3.57 worth of social impact was gained.

The WLB 2 balances Risk-Return-Impact (RRI) components in the following way: investors take advantage of a multi-country (3 countries) and multi-sector (2 sectors) debt security (divided between 6 borrowers). In addition, investors also enjoy benefits from two layers of credit protection: the Rockefeller Foundation which provides a catalytic subordinated debt tranche and the USAID which provides a partial credit guarantee. At the time of publication of the semi-annual impact report Q1-Q2 2020, all interest payments could be paid in full to investors owing to stable returns from entrepreneurship based on real community needs. By investing money in the WLB, the investors therefore contribute to women empowerment in low-income, rural and marginalized communities, and to creation of the positive change in their communities.

Chapter 3: Impact Bonds

An impact bond is a contract among the private investors, donors, and implementing organisations that agree upon a shared social outcome for the activity under the contract. For instance, investors fund social programmes in advance, and implementing organisations (donors, CSOs, etc,), under the bond, remunerate the investors with financial return if and only if evidence shows that the programme under the bond achieves the pre-agreed outcomes. Depending on the profile of the outcome, the bond may be a social, development, or green one. In various countries, these types of bonds are also known as social impact partnerships, pay for success schemes, and social benefit bonds. For the purposes of the report, we will call them 'impact bonds' (IB) collectively.

The mechanism of the SB is similar to result-based contracts. The parties develop an agreement with clearly defined performance indicators and outcomes, and ways to verify results. Also, the contract must have a clause on disbursing payments and when they are due if the agreed results are achieved. The key difference is that the private investors invest the working capital and assume financial risks associated with the investment. If the programme under the IB is successful, the investor is paid a principal and a financial return tied to the level of social outcomes achieved by the programmes.

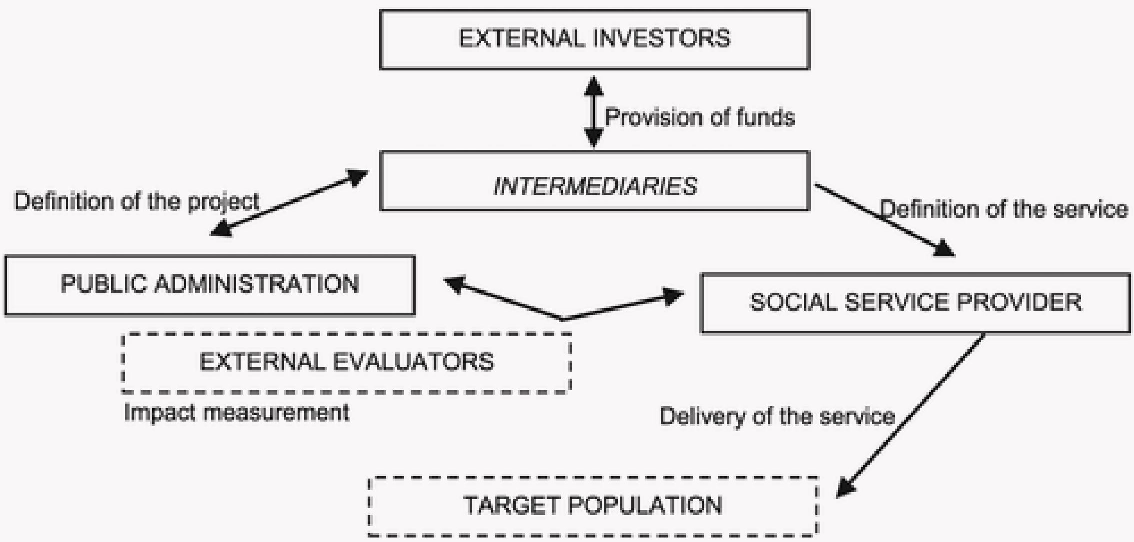

Figure 5 — The Structure of the IB (on the example of the social impact bonds), cited from Del Giudice and Migliavacca, 2019)

The IB exist on the crossroads between the private, the public, and the non-profit sectors, and each sector benefits in its own way:

- The public sector delivers goods and services it may have not had funds to finance or capacity to produce independently
- The non-profit sector receives additional funding and the ability to prolong their work with the target population

- The private sector benefits from investing in socially focused contracts with lower risks, receiving the financial and social returns, and increase in their visibility and social position.

On the downside, the IB involve high transaction costs and the future savings are hypothetical and difficult to support with evidence through the impact measurements Edmiston and Nicholls, 2018; Tan et al., 2019).

The IBs may be direct, intermediated, and managed (OECD, 2016). The direct IB is signed between the outcome payer and a service provider, which is responsible for the implementation and performance. The intermediated IB is signed between the outcome payer and investor or an intermediary. The latter then identifies and contracts an appropriate service provider supports the management and refines the business model. The managed IB is signed between the outcome payer and the prime contractor that is usually an intermediary organisation.

The adoption of the IB is modest. As of 2017, only 107 have been implemented worldwide and less than 1% of assets professionally managed under social investment strategies (USD 22.89 trillion of assets) are managed under impact investing strategies (from Del Giudice and Migliavacca, 2019). According to IB researchers (Bafford, 2012; Fraser et al., 2016), a successful spread of this practice would be possible only if institutional investors, who professionally manage funds and savings—banks, pension funds, insurance companies—would be interested in IBs. These players can provide significant amount of working capital and professionally manage risks. Now, however, their participation is marginal. However, according to Torugsa and Arundel (2017) study, if a local authority participates in addressing the social issue as well, it raises the chances of the participation of institutional investors as well. The participation of the governmental agencies as co-contractors of the bonds along with the institutional investors may exert a closer supervision over the implementation of the programme under the IB. Also, in case of IB, the investors prefer less risky financial tools—debts and, most often, double issuances along with the diversification principle.

As for returns to investors, there is limited data available; according to the report of the Gustaffson-Wright et al. (2017), the maximum returns in impact bonds in low- and middle-income countries are estimated across 8-16%.

There are certain regulatory requirements that the IB stakeholders must consider before adopting the practice of the IBs (OECD, 2016):

1. Legal Environment. For IBs, the government support is of utmost importance. For instance, it may introduce the support for a particular service to be delivered under the IBs by a policy framework or a strategy. Other examples of the government support may include the tax relief for the investors or removing the legal barriers for the social impact investment transactions.
2. The government authorities, if they are the outcome funders, must consider the budget and contracting to be able to spread the funds throughout the fiscal years and to issue success-based payments. Also, the government should examine its capacity to direct funds to intermediaries in a transaction and autonomous for contracting social service providers.
3. Investors must consider the funding opportunities, the procurement procedures, and taxation.
4. If there are intermediaries (for instance, donor organisations), they should concern the residence requirements

and vehicle legal identity. They need to clarify if they must be a specific type of a legal entity and if, for instance, the organisations must adhere to certain residence requirements, such as for all their staff to be local, for example.

5. As for the social service providers (usually, the CSOs), they also should have an appropriate legal entity to provide services under the IBs and be contracted by the intermediaries. The SSPs also must ensure their capacity to act autonomously from the intermediaries.

The evidence of success of the impact bonds is the key element in attracting the investment capital, therefore, the design of bond success indicators takes considerable efforts. The choice of evaluation methodology for impact bonds (and for impact investment in general) depends on the following (Gustaffson-Wright et al., 2017):

- Goals of the IB or the outcomes the funder wants to achieve
- Contextual issues, e.g., data or presence of a control group
- Timelines, budgets, and other constrains on data collection
- Political sensitivities around the intervention or transaction.

In general, the effective IB performance management requires significant capacity in managing the information systems, as well as work planning and forecasting systems, data collection and analysis, performance reports and dashboards.

Despite the benefits of IBs, there are certain limitations that must be considered by the stakeholders before they decide to develop the IB-based programs. The IB are not suitable for small-sized or immediate response programs — the set-up costs will be just too expensive or not timely. Also, the outcomes must be measurable in a meaningful way. The clear definition of outcomes is another challenge for the IB. The right outcomes, especially in the situation of the social complexity, are hard to identify. And finally, the IB are expensive to develop, specifically because they require a high level of commitment and capacity, which may also take significant time to build (Government Outcomes Lab, n.a.).

Impact Bonds Cases

Educate Girls Development Impact Bond, India

The Educate Girls Development Impact Bond is a joint project between Educate Girls (service provider), the Children's Investment Fund Foundation (CIFF) (the outcome payer), the UBS Optimus Foundation (investor), Instiglio (intermediary), and IDinsight (the external impact evaluator). The bond is aimed at improving education for 18,000 children in Rajasthan, India, by linking investor returns to improvements in school enrolment and learning outcomes. The bond also aims to create a proof of concept, showing potential donors and investors how the bonds could contribute to societal gains while also offering financial returns. In 2018, the final year of a three-year pilot project, the bond exceeded enrolment and learning targets—it achieved 116% of the enrolment target and 160% of the learning target. As for the return, the UBS Optimus Foundation recouped its initial funding (USD 270,000), plus a 15% internal rate of return, which equals USD 144,085, from the outcome payer CIFF. The total pay-out will be reinvested into further impactful development programs — EG will receive

32% of the internal rate of return with the rest going to other UBSOF programs (UBS Foundation, 2018).

The London Social Impact Bond, London, UK

The London Social Impact Bond was designed to improve the outcomes of 800+ rough sleepers, identified in London Metropolitan Area. The bond was commissioned by the Greater London Authority and funded by the Department of Communities and Local Government. The actual service providers were two charity organisations, St. Mungos and Thames Reach. The bond was designed to bring in new means of financing the interventions and expected the following outcomes: reduction in numbers seen sleeping rough; sustained moves to settled accommodation; reconnection of foreign nationals to accommodation in their home country; increased employment; reduction in accident and emergency visits. The investors provided the up-front investments for two mentioned providers (Spurling, 2017).

The intervention significantly reduced rough sleeping over two years. Despite the impact bond assessment provided a mixed review, it showed that the intervention had a significant positive impact on the number of people arriving at long-term accommodation one and two years after the start of the programme, with significantly more people arriving at long-term accommodation from the IB cohort than in the comparison group.

Career Impact Bond, USA

The career IB has been launched by the Social Finance, an impact finance and advisory non-profit. The bond enables low-income individuals to access quality job training and credentialing options that can propel them into well-paying middle skills jobs in relatively recession-resistant industries such as information technology and health care.

The model is as follows. The impact investors provide the catalytic capital to training providers, cover the costs and support services for learners. In this way, the students enrolled free of charge. Those who gain an employment after the graduation, repay program costs as a fixed percentage of their income, capped at a set dollar amount and for a defined period. Those who could not secure a job after the training, pay nothing. Also, the investors and training providers share the payments received from the employed students, and therefore, they are incentivised to focus on the students' success (Social Finance, 2020).

Chapter 4. Social Entrepreneurship

The social entrepreneurship is not yet a legal term, but although there is not any agreed definition of a social enterprise, for the purposes of this report, we define the social entrepreneurship as a for-profit entity, explicitly set up to drive both the social/environmental impact while making a profit. This is an enterprise, which may enable an organisation to leverage on business principles to organise and manage a for-profit business that supports the social change. Therefore, the SE is a space where civil society, governments, businesses, and donors can work together to target major policy goals, such as decrease of unemployment and poverty, social cohesion, education etc.

There are three streams of defining the essence of the SE in the scholarly corpus. The first ones see the SE as a socially responsible practice of commercial business (Sagawa & Segal, 2000). The second one sees the SE as means to eliminate social concerns and facilitate the social transformation (Alvord, Brown, & Letts, 2004). The third group refers to the SE as non-profit enterprises in search of alternative funding strategies to create social value (Austin et al., 2006). The latter strategy may also fall under the label of subsidiary profit-making enterprises set by the CSOs. In that case, the CSOs create a purely commercial enterprise to generate funds to implement their programmes and expand the scope of their operations, enhance their capacity, and build infrastructure. The pure SE type is a for-profit entity in principle, while for the subsidiaries, the profit is not a necessary condition (WACSI, 2019). **We do not consider those CSO services / products aimed at supporting the CSO statutory activities financially (i.e., consultancy, commercial event-management, etc.) , to be a social entrepreneurial service if they do not target social or environmental problems.**

The social entrepreneurship stands on the following three components:

1. It identifies a stable but inherently unjust social or economic equilibrium that results in exclusion, marginalisation, or suffering of some part of the population that lack economic or political power to better or transform their situation for their own benefit.
2. It identifies the opportunity in such an equilibrium that allows to create a social value proposition that challenges the hegemonic status quo.
3. It forges a new and stable equilibrium that releases the hidden potential of the targeted group. (Martin and Osberg, 2007).

There are also empirical data showing the negative correlation between the high government activism and involvement into the social issues and social entrepreneurship. The data suggests that the SE is especially stimulated in the context of the institutional void, meaning there is limited government support for the social programs, which in turn, makes the societal needs—social inclusion, inequality, unemployment, environmental pollution, etc.—more prevalent. Therefore, various actors, specifically civil society organisations, are indirectly encouraged to fill the void (Pathak and Muralidharan, 2018).

Nowadays, the establishment of the SE in the form of subsidiaries seems to be a viable financial strategy. The funds, generated by the subsidiary, may be tax exempt if they have been derived from the economic activities, and therefore, support the financial sustainability of the organisations. However, the SE may provoke the compromising the mission of the CSO and switching towards the commercial side of the SE completely, not even relevant to organisations' initial goals. Also, the SE is an enterprise first and 'social' second, meaning its management requires specific knowledge and capacity. Besides that, the host CSO should consider significant transaction costs in terms of management time and resources, strategic drift, and conflict of interest. To share these risks, many CSOs work in entrepreneurial partnerships with established business ventures, when the CSOs facilitate, for instance, corporate social responsibility projects. Another mode results when an official donor strategically collaborates with a business entity to develop a specialist CSOs.

There are several business models of the SE (Seferian, 2020):

1. The Entrepreneur Support. the SE sells business support and development services to the target population, who then sell their products and services they have developed with the assistance of the SE, in the open market.

Example: Grameen Bank, which provides cheap loans with no collateral to Bangladesh farmers. The farmers then invest the funds into their economic activities and their products reach the open market.

2. The Market Intermediary. In this case, the SE acts as an intermediary between the target population's products and services, and the market, helping the former to reach their final customer. For instance, activities like marketing illustrate this type of the model.

Example: Laska Store, located in Kyiv, Ukraine, provides a marketing space for handmade carpets produced by the elderly living in the nursing homes.

3. The Employment. The SE employs the representatives of the target population, usually a marginalised or vulnerable group facing the employment discrimination or having limited employment opportunities.

Examples: (1) Veterano Pizza, Kyiv, Ukraine, employs veterans of the armed conflict, provoked by the Russian aggression in Luhansk and Donetsk regions of Ukraine, who struggle with the integration to the labour market after their time in the military. (2) Horikhovyi Dim, Lviv, Ukraine, a bakery that employs women in need or crises.

4. The Fee for Service. The SE sells its products or services directly to the target group.

5. The Cooperative. The SE is owned and managed by the representatives of the target population. They elect the administrative and managing bodies and share the stakes and responsibilities within the SE.

Example: Team Works Co-op is a SE owned and operated by people using the state mental health and addiction rehabilitation services. It runs a number of business, and in all cases, their employees are people who face mental health challenges.

6. The Market Linkage: The SE directly links the target population's services or products to the open market. Unlike the intermediary model, in this case, the SE does not sell any products / services to the target population.

Example: Glovico.org, a platform that facilitates learning a foreign language by connecting a teacher and a learner online. Now, the platform does not operate, but it is a good example of creating a market space for the target population to realise their potential.

7. The Service Subsidisation, also known as a subsidiary for-profit entity, established by a CSO to cover its statutory operations. Alternatively, the SE may provide a part of their services on the commercial basis, while another part receives the services or products for free.

Example: Oxfam's chain of charity shops that generates revenue to cover the organisation's development programmes.

In Ukraine, there is a growing interest in the social entrepreneurship, however, it is still not a mainstream financial strategy. According to the 2020 report on the social entrepreneurship of Ukraine (EU4Youth, 2020), there are 1000 businesses that label themselves as social ones. However, the CSOs are still hesitant to engage with the SE because of the unclear legislation and tax regulation of the SE activities for a non-profit. Still, there are such initiatives, like the Ukrainian Social Venture Fund[5], which operates as a social impact investment fund (see Chapter 2) and invests into the social entrepreneurial initiatives tackling social or entrepreneurial issues in Ukraine, regardless of their model or legal form (for-profit or non-profit); and builds the entrepreneurs' financial capacities as well. The investors, either individuals or legal entities, put their money into the USVF, and the latter selects the SE investees through the rigorous process.

Horikhovy Dim, Lviv

Horiknovyi Dim[6] (Eng.— "The Walnut House"), founded in 2010, is an employment-based SE in Lviv, Ukraine, that produces bakery products, operates catering and cafe services. 40% of the generated revenue is directed to the Horikhovyi Dim Foundation that provides shelter and employment opportunities for women in need, who lost their home due to domestic violence, orphanhood, human trafficking, or financial fraud.

The shelter can accommodate up to 20 women and their children for the period of 8 months. During this time, the women are provided with psychotherapy and legal consulting, as well as work in the bakery or catering to sustain themselves financially.

Besides the SE, the Foundation is supported by some business players, e.g., Regno Italy UA, one of the biggest importers of alcoholic beverages to Ukraine. The importer donated funds for the shelter reconstruction and promotes the Horikhovyi Dim bakery products among its partners. Such cooperation with the SE is framed as a corporate social responsibility programme.

SEMA, Uganda

SEMA[7] is a not-for-profit enterprise founded in The Netherlands in early 2018 and with a local office (and company limited by guarantee) in Uganda. It provides citizens with a platform where they can share their latest experience with a public institution anonymously and free of charge. The feedback tools include an IoT feedback device, a USSD code, a toll-free line, telephone- and WhatsApp surveys and in-person surveys.

SEMA is part of the **IACC Social Entrepreneurs Initiative** that seeks to empower young activists from across the world who are looking to tackle social problems, boost accountability and integrity and fight corruption on the local and global level. In the case of SEMA, through collecting feedback and data, it will be possible to identify where and how corruption happens, down to the police officer, procedure, and office involved. Crucially, it will be possible to identify offices with the highest reporting rates of corruption. Through gathering hyper-local, specific data on where and how corruption happens, it is possible to contribute to the prevention of corruption or the resolution of pressing justice to take place.

SEMA seeks partnerships within all sectors, including the government, the private, and philanthropic ones. While the government is very slow and unreliable as a customer of SEMA's services, the private sector is reluctant to pay for their

5 http://usv.fund
6 https://home.walnut.house
7 https://talktosema.org/about/

service which may not be lucrative enough. Therefore, part of their funding is still provided by philanthropic organisations. However, the organisation strives to sustain its finances through scaling its social enterprise to locations other than Uganda.

Grameen Bank, Bangladesh

Perhaps one of the most widely known examples of the SE, Grameen Bank[8] was founded in 1983 in Bangladesh. The impact of the bank and the philosophy of its founder, Dr. Muhammad Yunus, were recognised by the Nobel Committee, which awarded Dr. Yunus and the Bank with the Nobel Peace Prize in 2006. Besides the Grameen, Dr. Yunus has contributed to creation of other live social businesses with such corporate partners as Danone, Veolia and BASF. The financial model of the Bank is the Entrepreneur Support Model.

The Grameen Bank, also known as 'the bank of the poor', pioneered the micro financing and micro crediting, believing this strategy was better than charity at combating poverty. The Bank offers credits to undeserved people, e.g., the poor, women, illiterate, and unemployed, thus providing them an opportunity to take initiatives in entrepreneurship or agriculture. The credits are provided on the group lending system and weekly instalments. The loans are long-termed, thus allowing the poor and illiterate to build on their skills to earn an income in each cycle of loans. The women, who traditionally have less access to the financial tools and commercial credits, constituted 94% of the Bank's loans recipients. This group has been specifically targeted, as lending to women has been found to have spill over effects, including economic well-being of their children and general empowerment of the underprivileged segments of society.

The cornerstone of the microcredit, and hence the Grameen Bank loans, is a solidary lending system (Jaffer, 1999). Each borrower must belong to a member group of 3-6 people. Despite group is not required to guarantee for a loan to its members in the case of the Grameen loans, and the repayment responsibility rests solely on the individual borrower, the group oversees the responsible behaviour of its members and makes sure none of them defaults on the payment. Such strategy is encouraged, because the Bank does not extend further credit to a group with a default member. The average loan size is approximately USD 100, and it takes 6-10 long-term loans for a borrower to cross the poverty line (Grameen Bank, 2019).

As of now, the Bank also provides loans for housing, higher education, nursing education, scholarships for the Bank members' children, supervises the spread of mobile technologies in rural areas.

The Bank has rigorous monitoring system and historic data that allow it to analyse its performance and the performance of the target population. 54% of Grameen borrowers have crossed the poverty lines (across 10 indicators[9] set by the Bank). By the end of 2019, the aggregate amount of disbursement of loans reached almost USD 30 bln; while the cumulative amount of savings deposited with the Bank by its members—USD 2.01 bln (Grameen Bank, 2019).

8 https://grameenbank.org
9 https://grameenbank.org/10-indicators/

Chapter 5. Microfinance

A service delivery or humanitarian organisation targeting low-income people living in urban or rural areas may consider microfinance as a funding strategy. As we seen in the example of the Grameen Bank, microfinance is a provision of small loans to low-income and often marginalised individuals with no access to commercial financial services to develop their business initiatives. This model of alternative funding sources may be especially appropriate for the service delivery and humanitarian organisations.

One of the popular models for the micro financing is a microfinance investment fund (MIFs), which are specifically set to invest in microfinance assets; the fund itself is available for the social, commercial, private, or institutional investments. For example, the investors set up the MIF, which then make debt and/or equity investments into a diversified portfolio of microfinance institutions, which in their turn, lend money to micro-entrepreneurs. The MIF then pays the investors their principal and a financial return based on the performance of the underlying assets. Of course, the MIFs are managed by professional fund managers with sophisticated capacities.

CSOs may invest in an MIF and generate a financial return, if doing so does not violate the non-profit status. For the latter, certain legal environment must be in place. If a CSO has proven financial fund managing capacity, it may manage the MIF, raise necessary capital to make investments. Or, alternatively, the CSO may work directly with the MFIs or entrepreneurs to build their capacity to use the micro financing.

Typically, the CSO MFIs are non-profits that have been capitalised by donor grants or concessional loans, but with a sufficient level of financial sustainability to earn a positive net income. The profits then are reinvested into the activities. Another potential capital is borrowing, either on a concessional basis from donors or commercial basis from banks. Still, either case depends on specific country regulations on a non-profit status and clearly, there are a lot of ambiguities surrounding the permissibility of borrowings having a non-profit status in Ukraine. The most popular lending type across the NGO MFI is a solidarity group-lending method (see the Grameen Bank case) - nearly 60% use it.

As of 2016, 94 MFIs managed USD 11 bln assets, 40 MFIs — USD 2 bln. In absolute terms, the market is dominated by the Eastern Europe and Central Asia, and Latin America and the Carrebian as of December 2015 (USD 2.8 bln and USD 2.7 bln respectively), South Asia is the fastest growing market now for the MIF investment (Sarkisova and Perakis, 2018).

Microfinance Cases

Grameen Bank (see SE cases)

Albanian Development Fund (ADF), Albania

The ADF[10] was established in 1992 to combat poverty in the rural areas after the fall of the communist regime. With the help of the French NGOs, UNDP, and the World Bank, it initiated the village-lending scheme in the poor rural areas and established an urban microcredit programme. Both programmes have been spun off as independent non-governmental MFIs, and now the Rural Finance Fund is a network of village-based credits and savings associations, while another one (the Best Foundation) is a non-profit specialising in urban microcredits. The latter has the Open Society Institute as an investor (Foster et al., 2003).

10 https://www.albaniandf.org

Opportunity International (OI), Bulgaria

Established with the financial support of USAID in 1993, OI provides a technical support to a network of nine MFIs in the region — Bulgaria, Poland, North Macedonia, Croatia, Romania, Russia, Albania, Montenegro, and Serbia (ibid.).

CHF Romania and Future for Teenagers in Difficulty (VAAD), Romania

VAAD is a non-profit that processes wood into lumber that hires only young people who grew up in Romania's state-run orphanages, meaning usually the workforce is young and low-qualified. This makes VAAD a high-risk client for a commercial bank.

CHF Romania is an NGO MFI that provided a loan for VAAD. Two loans allowed VAAD to grow from USD 4000 per month and 8 full-time employees to USD 20000 per month and 69 employees. This number of employed youths is significant assistance in the context of a huge unemployment of Hunedoara region in Romania (where VAAD operates).

Now, CHF Romanis is known as VITAS IFN SA[11]. It is one of the key players on the MFI market in Romania, with EUR 15 mln portfolio and 1797 clients, mostly micro- and small enterprises. Among its beneficiaries, 38% are women, and 46% are from rural areas (ibid.).

11 https://www.oikocredit.coop/en/what-we-do/partners/partner-detail/11189/vitas-ifn-sa

Chapter 6. Fiscal Sponsorship

Fiscal sponsorship (FS) is a model where a CSO agrees to provide administrative services and assume legal and financial responsibility for the activities of groups or individuals engaged in work that advances the fiscal sponsor's mission. The sponsorship may cover payrolls, employee benefits, office facilities, publicity, training services (WACSI, 2019). The FS may be especially attractive to an individual or a group of individuals, who are willing to test their charity or civic engagement ideas without organising a non-profit; or if a project is not intended to have a long lifespan. The fiscal sponsorship may also be an effective way to start new non-profits, seeding new social movements, and delivering public services.

In the FS contract relations, one party — a person, group, or business, — advances charitable or other tax-exempt activities with the benefits of another party — a sponsor organisation — which has a tax-exempt status. The donations intended to support a particular project or activity are treated as restricted funds, and the fiscal sponsor decides how to use those funds to advance the project's purpose.

There are several models of FS:

1. Comprehensive or direct model. In this model, the party entering into the agreement transfers all ownership and control of the project to the sponsor. However, the former remains in control for enforcing, amending, terminating, or transferring the agreement to another sponsor. The assets and liabilities of the projects belong to the fiscal sponsor.
2. Pre-approved grant model. In this model, the party entering into the fiscal sponsorship agreement with the sponsor is a sponsor's grantee. In this case, the project is owned by the grantee, not the fiscal sponsor.
3. Independent contractor model. In this model, the relations between the fiscal sponsor and the entrepreneur is as in the project-contract relation. The project's activities are still performed under the roof of the sponsor, but the sponsor is being 'contracted' by the entrepreneur (Anderson and Neely, 2017).

In the following models, the entrepreneur obtains tax-exempt status for their activities through the fiscal sponsor.

4. Group exemption and 5. Supporting organisation models. In these cases, the entrepreneur can directly solicit and obtain donations from other funders.
6. Technical assistance model. Here, the relations are focused on the fiscal sponsor providing technical and administrative assistance for the entrepreneur, e.g., filling tax returns, or bookkeeping and accounting. (Ibid).

However, before providing a FS, the prospect sponsor must think about its administrative fees and understand the nature of the fiscal sponsorship model they are willing to choose. This is especially necessary, as the FP is popular for short-term or time-sensitive projects, which may choose to direct the costs to activities and minimise the administrative fees. The sponsors also must be aware that the models provide different levels of responsibility and control over the project under the FS.

As of now, the fiscal sponsorship is mostly limited to the United States due to the U.S. legal environment that enables the non-profits to benefit from it, which may not be the case in other countries.

Also, there are not enough data to access the effectiveness of this kind of practice.

Fiscal Sponsorship Cases

The West Africa Civil Society Institute (WACSI), Ghana

The WACSI[12] was a fiscal sponsor for the Open Society Foundation's Africa Regional Office, which in turn needed a sponsor to facilitate the activities of the African Court Research Initiative on its way to transformation into the African Center for International Law and Development (ACILD).

As a fiscal agent, the WASCI was responsible for the management and distribution of the funds under the grant. The WASCI prepared financial reports, managed, and tracked disbursements. The WASCI also facilitated payments for research consultants contracted for the project.

Propel Non-Profits, Minnesota USA

Propel Non-Profits[13] is an intermediary organisation that provides capacity building services and access to capital to support CSOs. It is also a federally certified community development financial institution (CDFI).

Propel Non-Profits uses the FS to advance the capacities of smaller organisations or provides management services. For instance, for the Great River Shakespeare Festival, Minnesota, the USA, it provided financial management services and general financial strategy. Partnership for Performance non-profit also received financial advice and financial capacity building services from the Propel Non-profits. Yet another case, Pollen, a non-profit focused on a community building. In its initial years, Pollen used the FS from the Propel Non-profits to grow. Due to the Propel's FS, Pollen, initially being a volunteer-run initiative working evenings and weekends, has turned into an institutionalised CSO. As Pollen received USD 1.5 mln funding from the Bush Foundation, the organisation has come to realise that it must grow quickly into an institution, and this was the moment the team chose the FS to navigate the field of administration and operations.

Propel Non-profits selects projects on certain eligibility basis, for instance, the future partner must operate in Minnesota, USA, and have some experience with the project they offer, among others. The organisation charges a non-refundable fee of USD 100 for an application, USD 300 fee for the offset costs and onboarding, and charges 7% of charitable funds plus USD 100 annual renewal fee on the ongoing basis.

12 https://wacsi.org
13 https://www.propelnonprofits.org

Chapter 7. Philantrhopication thru Privatisation

Another class of potential funds for the civil society activities may come result from philanthropication through privatisation (PtP), a concept coined by Lester M. Salamon. The term "PtP" means channelling all or a portion of the revenue from privatisation transactions into charitable institutions, dedicated to improving the quality of life of citizens, particularly those most directly affected by privatisation. This chapter briefly summarises the key features of the PtP process, outlined in an extensive report by Lester Salamon (2014). See the title of the full report in the reference list.

Philanthropication involves the creation or expansion of a charitable or philanthropic endowment— a pool of assets dedicated to public and social purposes and under the control of a legal entity with a meaningful degree of autonomy from state authorities and any for-profit company. Obviously, the PtP should be discussed only when the privatisation is on the horizon. Otherwise, it is inapplicable.

The key features of this process are:

1. The assets are public or quasi-public, meaning they have been generated from the privatisation of state property in a form of (1) state-owned enterprises; (2) other state-owned assets (e.g., FM radio waves); (3) revenue resulting from a state-owned/controlled activity; (4) debt swaps; 5) quasi-public entities.

The transaction that transfers ownership / control over full or parts of the assets either from the government to a charitable institution, or through a sale or transformation the public/quasi-public asset into a business. Then the portion of the generated revenue is controlled by the charitable institution and used for the social and public benefit. The presence of such permanent assets or a steady stream of revenue is the key distinction of such transactions from the usual privatisation transactions.

2. The transaction is the most crucial part of the PtP, as it defines the nature of the future revenue, its sustainability, and complexity of its management. There are five distinct types of the transactions:
    - Type I: A state-owned business that is sold to an investor or transformed into a for-profit enterprise with the ownership of the assets or the proceeds of their sale transferred in whole or in part to a new or existing foundation.
    - Example: the sale of shares in the formerly state-owned Volkswagen Auto and munitions firm and the transfer of 60 percent of the proceeds into the newly formed Volkswagen Foundation in Germany.
    - Type II: Some other publicly owned asset, such as a building, a cultural institution, or a public utility such as an airport, that is given to a non-profit foundation to manage.
    - Example: the conversion of Italy's public opera companies into foundations with rights in perpetuity to use their existing opera houses free of charge).
    - Type III: A stream of income resulting from government control of some asset that generates special-purpose income that the government commits to share with a charitable foundation
    - Example: the legal commitment of the Belgian National Lottery to devote a portion of its proceeds to the King Baudouin Foundation annually.
    - Type IV: A debt swap, i.e., a foreign

debt forgiveness transaction that requires the beneficiary government to place an equivalent amount of local currency into a charitable institution dedicated to some charitable or public-benefit purpose

- Example: German Government's forgiveness of repayment of the unpaid balance of a "jumbo" loan it made to the government of Poland on condition that Poland pay the equivalent amount in Polish currency into a Foundation for Polish-German Cooperation.
- Type V: A quasi-public or quasi-private organisation, i.e., a non-profit organisation or mutual association that is converted into, or sold to, a for-profit firm with the assets resulting from the sale placed in whole or in part into a charitable endowment.

3. The charitable endowment generated from such transactions are controlled by ***autonomous*** charitable entities, meaning neither the government, nor the business may influence the distribution of the controlled revenue.

The key requirements for such institutions:

1. Independent governance — neither government, nor the privatised company should dominate the boards and other decision-making bodies of the institutions. This must be regulated with the nomination procedures and institutions' by-laws. The primary interest of the board members must be the care and protection of the charitable institution they serve, not the bodies that nominated them.
2. Professional management—a capable management is a must for such institutions, as their operations require, among other professional skills, strategic thinking, and investment expertise.
3. Transparency and accountability—since the institutions must serve the community, they must operate with complete transparency and make all the regulatory documents and reports public. Regular review of the activities and reassessment of the strategies must be a regular procedure to offer the feedback to those who stand to benefit from the institutions' activities.

The PtP has clear benefits for the CSOs, which may take various forms. The establishment of the independent source of funding in the form of the endowment or a sustainable stream of revenue frees the organisations from the sole dependence on external sources. Also, by being rooted in the local indigenous sources, the CSOs may improve their public image, especially in societies which sometimes view civil society as too beholden to external sources.

However, not every privatisation transaction is suitable for the PtP. The environment of such transactions must be as follows:

1. Organisational structure of coherent and explicit nature. The privatisation must be conducted by the **designated official body** with the responsibility for privatisation, professional staffing, establishment of a framework of law to guide the process, and protection of the due process of all participants in carrying it out, including access to the courts in case of conflicts.
2. Open and transparent procedures. The PtP process cannot achieve the benefits it seeks, therefore, without full and complete transparency.

1. Clear public disclosure of the agencies with responsibility for privatisation decisions, the basis on which those decisions will be made, and the timetable

and schedule for those decisions

2. Competitive bidding open to all potential bidders
3. Full disclosure of all details of proposed sales to all potential interested parties, including timetables and criteria for decision; Full disclosure of winning bidders or purchasers and the basis of the resulting decisions; and
4. Clear explanation of proposed uses of funds secured through privatisation transactions.

3. Market conditions or structures that may have a negative impact on the transaction. The transaction must be from the monopoly behaviour of the privatised firms. The regulation of the natural monopolies must be in place, too. The trade and other kinds of barriers that might impede the competition have to be eliminated.
4. "Social package". The clear expectations on social, environmental, investment and other relevant commitments must be outlined and agreed among the transaction stakeholders. Also, there must be clear provisions for channelling all or a share of the resources generated into activities that benefit citizens, preferably through creation of one or more meaningfully autonomous PtP charitable endowments.
5. The PtP is a complex mechanism that requires significant legal and economic prerequisites—the most obvious one is, of course, privatisation process. The identification of other ones, such as types of assets and possible transactions, requires substantial legal and economic analysis

PtP Cases

To date, there have been more than 600 cases of PtP identified. Here, we present just a few of them to demonstrate the range of approaches to the PtP.

Volkswagen Foundation[14]

The Volkswagen Company, located in the Lower Saxony, was established and owned by the Nazi Party of Germany. The resources came through the confiscated funds of the trade unions. During the World War II, the Nazis turned the plant into an armaments factory and benefited from the prisoners' labour. In 1961, the Government of Germany decided to privatise the company for several reasons.

1. General embarrassment. Because of the controversial history of the company, post-Germany government saw this asset an inappropriate one to be owned by the government. Privatisation was a good option to save the asset and return the people of Germany what was once taken from them.
2. The legal dispute over the jurisdiction of the company. The British Military Government responsible for the territory in Germany, where the plant was located, split the difference in deciding which authority should control this enterprise after post-war military occupation ended. As a result, it was placed under the trusteeship of the GFR but under the control and administration of the State of Lower Saxony. Such situation created obstacles for effective management of the plant and its resources. Again, the privatisation seemed to be a viable option to close the dispute.
3. International arena. In the Cold War, the world was in the arms race, which caused a race in sciences, too. The 1957 launch of Sputnik by the Soviet Union uncertified the governments, German included, to invest more into the sciences. The

14 https://www.volkswagenstiftung.de/en/foundation

privatisation of the Volkswagen Company was seen as an opportunity to direct the funds into the scientific development. Therefore, the Volkswagen Foundation was explicitly dedicated to promoting the German science.

Now, the Volkswagen Foundation supports the research, humanities, social sciences, science, and technology in higher education by providing targeted impulses through its funding. The Foundation develops its own funding initiatives with a focus on pioneering future-oriented fields of research.

Currently, the capital and assets of the Foundations are about EUR 3.5 mln. Two main streams of revenue come from the dividends earned from approximately 30 million Volkswagen AG shares held by Lower Saxony with the Foundation as the beneficiary.

Czech Foundation Investment Fund

In the 1990s, the Czech Parliament set aside one percent of shares of all major enterprises privatised during the post-Communist privatisation process. The assets were distributed as endowments to 73 young Czech foundations through the Foundation Investment Fund (FIF or NIF in Czech), thus significantly expanding the capabilities of the Czech Republic's foundation and civil society sectors. The process was overseen by a Ministry of Privatisation, which established a Fund for National Property to manage the process of preparing some 22,000 state-owned enterprises for sale through a combination of vouchers sold to the public and outright sales of enterprises.

The Foundation Investment Fund was established as a share holding company, and the Government of the Czech Republic created a Council for Foundations as its advisory body. While the former institution was presumed to take care of the 1% voucher privatisation portfolio and then distribute the shares or dividends from it to foundations, the latter institution, the Council for Foundations, was assigned the role of looking for foundations to which a contribution should be made (ICNL, 1999). The establishment of the Foundation triggered the massive increase of the CSO number, which applied for the funds, all at the time when the Foundation had neither portfolio, nor strategy.

The creation of this Foundation also was used to improve the prevailing foundation law. The new law defined the legal entities which could receive the privatisation funds. The law defined the notion of a "registered endowment": — the part of the total assets of the foundation which may not be sold, used as a lien, nor wilfully diminished by the actions of the foundation. The law allows only the income generated from the endowment to be used, but this income is fully exempt from corporate income tax (ibid.)

Foundation for Polish-German Cooperation

The Foundation[15] resulted from the German government's forgiveness of the 57% balance due from Poland on a jumbo loan made to the Polish Government in 1975. The main condition of this debt swap was that the Polish Government would pay the remain in Polish Zlotys equivalent into the newly formed foundation, dedicated to the bilateral cooperation of these two states. To date, it has supported more than 16000 common projects that propagate knowledge of Poland and Germany and of the Polish and German languages, scientific cooperation, and artistic and literary projects.

15 https://fwpn.org.pl/en/

Chapter 8. Leveraging on Internal Capacities

In this Chapter, we list financial strategies that might seem quite straightforward. Although the 'seed' capital may be readily available for the CSOs, all the strategies do require business thinking and management.

Although some of the CSOs may see these sources as not viable for many reasons, we do encourage any organisation to consider them for at least a diversification of the funding sources and building an entrepreneurial capacity.

Consultancy Services or Products

Any professional civil society organisation with adequate capacity and expertise may sell its technical expertise to a third party and thus create financial value. Such strategy not only contributes to the financial sustainability of the CSO but advances the organisational visibility and internal capacity. This strategy is also the simplest one, because the simplest 'product' to sell is the experience. Also, if the organisation has niche or unique expertise, it will be a significant advantage.

Similarly, the organisation may put its experience in some sort of a tool or product and charge a fee for access to it.

Asset Building

The asset building strategy includes all the activities related to the leasing of organisational assets or property to a third party for a specific period—office premises, technical equipment, etc. The stream of revenue generated from the lease will provide a regular funding for at least the maintenance of the facilities or equipment and build some sort of a reserve to possibly expand the premises or partly cover the routine operations.

Membership Fees

Some types of CSOs, such as trade unions or rights advocacy groups may charge a fee for membership. This may be treated as a strategic investment into the cause. Although some might see the fee collection as a problem, membership fees may be a tool to hold the organisation leadership accountable towards the members.

Corporate Social Responsibility

Facilitation of CSR programmes of business has potential to become of the most sustainable financial sources for a CSO.

Internal Resources Cases

Dyvovyzhni NGO, Ukraine

Dyvovyzhni (Eng.—'The Wonderful') was an NGO focusing on the civil engagement in Ukraine. The NGO is no longer in operation; however, its experience does provide useful examples on leveraging on internal expertise to raise funds for the NGO operations.

As Dyvovyzhni specialised in civil engagement activities, they sold this expertise to other for-profits and non-profit entities in the form of team buildings for up to 220 people and event management. Besides the fundraising purposes, the goal of these commercial events was to promote socially responsible business practices, which is consistent with the values of democratic participation and inclusion.

Apart from the team building activities, the NGO also provided team building and leadership consultancy services for businesses and non-profits. The organisation also facilitated business's realisation of their corporate social responsibility programmes (Dyvovyzhni, 2018).

Cameroon Debate Association, Cameroon

CDA[16] is a national network of more than 1000 members including civil society

16 https://debatecameroon.org

organizations, educational institutions and clubs, whose mission "is to promote local and national initiatives to disseminate the culture of debate, advocacy and open discussion as a tool for education, information, dialogue, development and democracy."

In 2009-2014, the organisation was highly dependent on core support from Open Society Foundation. But when that support ceased, they had to seek alternative ways of mobilising resources. Initially, they were offering free training on leadership, public speaking, memorizing, parliamentary debate, media communication for secondary and tertiary students in Cameroon. They decided to explore the consultancy model by providing professionally developed trainings in thematic related to debate such as negotiation, debate for advocacy, initiation to political debate (WACSI, 2019).

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