



NGO CENTER Civil Society Development Organization

“Experience of Charity By For Profit Organizations in Armenia” Results of Research

Within

“Private For-Profit Sector Involvement in Institutionalization of Social Partnership in Armenia” Project



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Yerevan 2006

“Experience of Charity By For Profit Organizations in Armenia”

Results of Research

The research has been conducted by “NGO Center” Civil Society Development NGO.

Problem Description

Social partnership is not demonstrating itself as a means to philanthropy in Armenia.

Over 15 years of independence, Republic of Armenia has accomplished in principal democratization processes. Certain infrastructure in place guides us to the development of a social, rule of law state.

Philanthropy has traditionally been essential in practicing social justice through engagement of diverse actors. Nowadays, much emphasis is inserted in Armenia on partnership between the state and non-commercial sectors, viewing the latter as a principal vehicle for extending services to vulnerable groups somehow out of reach of respective government structures. Up to date, considerable efforts have been invested to promote the institutionalization of social partnership between the NGO sector and government. Yet, social partnership, according to definition, assumes the involvement of the for profit sector as well: **“Social partnership is a form of collaboration of state, local government, for profit and civil society organizations towards solution of social problems through leveraging of additional resources into social sphere.”** (“Handbook on Social Partnership”, NGO Center).

Charity (the term is often used interchangeably for philanthropy) and philanthropic giving has been key to the Armenian culture historically. Democratic Armenia offers a contemporary framework to mainstream philanthropic activities and institutions aimed at promoting welfare of its citizens. The “Law of the Republic of Armenia on Charity” defines charity as follows: **“Charity is the voluntary, disinterested, and permitted by the law provision (gratuitously or on preferential terms) of material and spiritual assistance (hereof charitable assistance) to physical persons and non-commercial organizations by physical and legal persons, for the accomplishment of goals specified in Article 2 of this law. Monetary and other material means provided to political parties and commercial organizations shall not be considered as Charity.”**(Article 3, Concept of Charity).

Provisions in **Article 23** of the “Republic of Armenia Profit Tax Law” are an incentive to encourage philanthropists and charity doers.

It is worth bringing in another definition of philanthropy: **“Philanthropy is the virtue that ennobles the person, makes him more cultured”** (Dictionary of Social Terms, author Ashot Yesayan, “Bridge of Hope” NGO, 2005).

It is obvious that respective legislation is providing background for exercising philanthropy. We are the witnesses of diverse benevolent initiatives, activities by civil society organizations. Still, the experience of charity performed by the business sector has been scarcely researched and questions arise when attempts are made to generalize and make estimations of what are the main attributes of current culture of giving.

Through this research project the NGO Center tried to reveal the answers to the following issues: **what** constitutes charity performed by for profits, **why** and **how** it manifests, in the anticipation that the solicited information will facilitate a clear vision of the current status of philanthropic experience of for profits and will highlight prospects and feasibility of the institution’s development through social partnership.

Program of Research

Goal: study the experience of corporate philanthropy among Yerevan-based for profits

Research object: Yerevan-based for profits

Research subject: Yerevan-based for profits' experience in charity

Hypothesis: Social partnership mechanisms are not being exercised by for profits as a vehicle for corporate philanthropy

Research objectives:

1. Identify goals for charity by for profits;
2. Identify mechanisms for profits exercise for charity;
3. Identify the role and application of social partnership mechanisms within charity by for profits;
4. Study the mechanisms and principles of beneficiary selection for charity by for profits;
5. Study the nature of charity by for profits;
6. Survey for profits' approaches to regulate charitable activities.

Research Methodology and Target Group Selection:

Information on for profits registered with "Armenian Business Directory and Yellow Pages 2006" database was used to select the object of the research. The selection was done based on the following criteria: **place/venue of operations** and **publicly known**. Random systematic selection has been done.

The research has been conducted anonymously among 50 selected for profits between April-July 2006, via a formal questionnaire. The questionnaire consisted of 19 questions. The composition of the selected group according to their legal status and sphere of activity appears in *Tables1* and 2 respectively.

(Table 1)

Legal Status	
1. Limited Liabilities Company	74%
2. Open Stock Company	2%
3. Closed Stock Company	18%
4. Entrepreneur	2%
5. Industrial Cooperative	4%

The pie chart visualizes the data from Table 1. The largest slice is blue, representing 74% (Limited Liabilities Company). Other slices include yellow (18%), purple (4%), and two small slices (2% each) representing Open Stock Company and Entrepreneur.

(Table 2)

Activity Area	%
Science/research	0%
Food Processing	0%
Sports and Physical Culture	0%
Leisure and entertainment	0%
Construction	4%
Transportation	4%
Import	4%
Information	8%
Culture	8%
Education	8%
Tourism	12%
Healthcare	12%
Production	16%
Business Service	20%
Finance	24%
Trade	60%
Service	68%

Activity Area	%
1	68%
2	60%
3	24%
4	20%
5	16%
6	12%
7	12%
8	8%
9	8%
10	8%
11	4%
12	4%
13	4%
14	0%
15	0%
16	0%
17	0%

I. For Profits Experience in Charity

36 organizations, **72%** of those 50 surveyed, provided a positive response to the question whether they'd ever done charity. Moreover:

- 20 organizations were involved in self-initiated charitable activities;
- 6 organizations participated in charitable activities initiated by others;
- 10 – initiated their own charitable actions, and participated in those initiated by other organizations.

28% of surveyed organizations have never performed charity throughout the time period of their existence. Responses to this question are reflected in *Table 3*.

(Table 3)

<table border="1"><thead><tr><th>Category</th><th>Percentage</th></tr></thead><tbody><tr><td>1</td><td>40%</td></tr><tr><td>2</td><td>12%</td></tr><tr><td>3</td><td>20%</td></tr><tr><td>4</td><td>28%</td></tr></tbody></table>	Category	Percentage	1	40%	2	12%	3	20%	4	28%	1. Performed self-initiated charity	40%
	Category	Percentage										
	1	40%										
	2	12%										
3	20%											
4	28%											
2. Participated in charity initiated by others	12%											
3. Participated in self and other-party initiated charity	20%											
4. Has not performed charity	28%											

It is noteworthy that the majority of organizations (40%) stating, “performed self-initiated charity” meant absence of cooperation with other structures. Data reflected in Table 9 comes to

prove this – 44% of the respondents state that had never cooperated with other structures within the framework of charitable undertakings.

Still, the other two indicators: **“participated in charity initiated by others (12%)”** and **“participated in self and other party initiated charity (20%)”** come to prove that, in principle, partnership could be an acceptable mechanism for charity.

Others not involved in any type of charity tried to support their statement with justifications, though the surveyors have never vocalized the question “Why?”

Justifications were:

- “We are a small organization not yet able to do charity”;
- “We are developing ourselves and cannot allocate resources for charity, though it is in our plans”.

We think that this attitude is an evidence of for profits being viewed by public as potential charity doers. The sense of moral responsibility by a for profit or its leader is not excluded either.

The above mentioned provides grounds to judge that in the majority of cases, for profits have positive disposition towards charity, even though organizational experience is not always a fact.

II. Goals of Charity

Responses of the surveyed for profits to the questions “What is the goal of doing charity” are summarized in **Table 4**. Formulations of the “Goals” are those specified in the “Republic of Armenia Charity Law”. The Table below reads the summarized and shortened versions of those depending on what the respondents stressed in their answers in terms of social group and/or activity area. The respondents had the option to select more than one answer from the multiple choice in the questionnaire.

(Table 4)

	Goal	Frequency	%
1	Assist social and economic risk groups	34	94
2	Assist emergency victims	10	28
3	Support cultural development	17	47
4	Support the preservation of cultural and material values	4	11
5	Support environmental protection	5	14
6	Support implementation of social projects	4	11

The above **Table** reads that the largest portion of resources (94%) is invested to meet the needs of social and economic risk groups. This draws us to the conclusion that for profits are interested in solving social problems. Assistance is provided to especially meet the needs of orphaned children, persons with special needs, victims of armed conflicts, vulnerable families. Types of assistance provided are both monetary and material. Substantial amount of resources goes into cultural development – 47%.

III. Approaches to Regulating Charity

To identify whether for profits’ involvement in charitable activities is of episodic nature or constitutes part of organizational policy, is regular and organized, the NGO Center surveyed:

- a) The frequency of benevolent undertakings (**Table 5**);

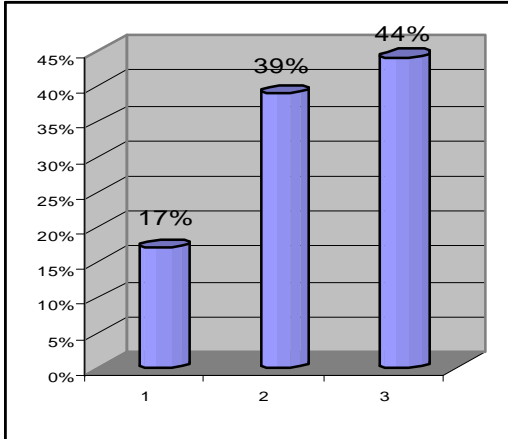
- b) The regularity of benevolent undertakings (**Table 6**);
- c) Beneficiary selection procedures (**Table 7; Diagram 1**);
- d) Cooperation with other parties/structures (**Tables 8; 9**);
- e) Ways of doing charity (**Table 10**).

The table below depicts the results:

a) Frequency of Charitable Initiatives

(Table 5)

		Frequency	%
1	<i>Do not initiate in general, with the exception of rare cases</i>	6	17%
2	<i>Initiate on an as need basis, without any preliminary set schedule/frequency</i>	14	39%
3	<i>Initiate in accordance with the preliminarily set procedure and regularity</i>	16	44 %



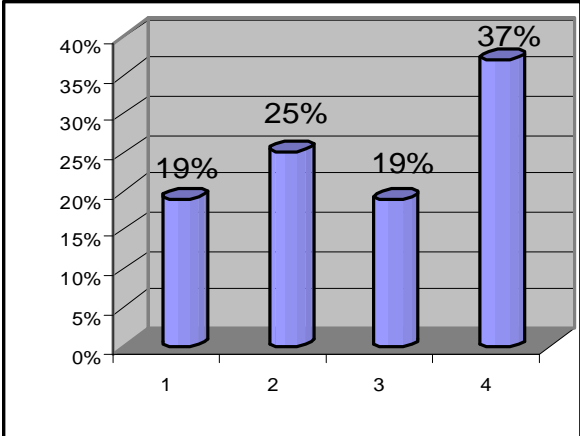
In terms of institutional comprehension of charity, the maximum score **“charity is implemented in accordance with set procedure and regularity”** (44%) is rather promising. Means that for profits have planned approach toward charity. To some extent, these organizations have undertaken social responsibility and, as a rule, work with one and the same target group. As stated by one of the respondents, their company has been regularly supporting two non-governmental organizations throughout years.

b) Regularity of Charitable Initiatives

(Table 6)

Charitable activities are initiated according to the preliminarily set procedure and regularity by 44% of respondents. The regularity of initiatives follows:

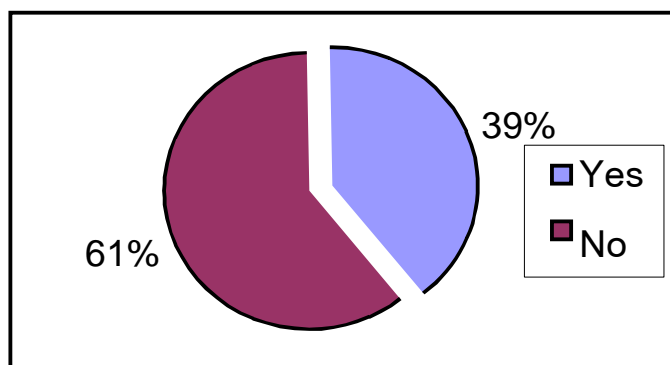
		Frequency	%
1	Once a week	3	19
2	Once a month	4	25
3	Once a quarter	3	19
4	Once-twice a year	6	37
5	Once in several years	0	0
	<i>Total</i>	<i>16</i>	<i>100</i>



It is interesting to note that 44% of respondents reported charity **“according to set procedure and regularity”** (**Table 5**). 37% of them (**Table 6**) do that once-twice a year. Means that charity is a fact in for profits and is performed regularly - at least on a once a year basis.

c) Beneficiary Selection Procedures

(Diagram 1)



1. Beneficiary selection criteria exist. 39%
2. Beneficiary selection criteria do not exist. 61%

Responses provided bare evidence that only 14 for profits (39%) from the total number of 36 involved in charity select beneficiaries in accordance with criteria adopted by their companies. Most often, the criteria are limited

to the definition of beneficiary’s social status and do not reflect fixed mechanisms and steps.

Moreover, none of the respondents demonstrate proactiveness while identification of beneficiaries. Data on types of cooperation reflected in Table 9 supports this statement. Only 6 companies have mentioned, that while cooperating had used other organizations’ databases and only in those cases when the fixed list of beneficiaries had been enclosed to the request for assistance.

It has already been mentioned that the beneficiary group is very specific. From the institutional viewpoint it is a positive indicator.

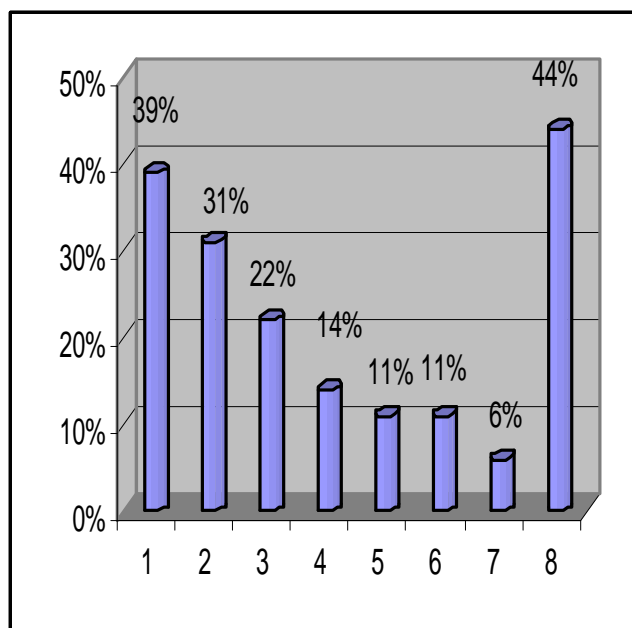
(Table 7)

		Set Criteria of Beneficiary Selection		
Beneficiary Selection Criteria	Frequency %	Legal Entities	Directly Applying Beneficiaries	Vulnerable Groups
Exist	14 / 39	0	36 %	64 %
Do not exist	22 / 61			

d) Cooperation with Other Structures

(Table 8)

	Name	%
1	NGOs, Foundations	39
2	Government owned non-commercial establishments	31
3	State bodies and local self-governance	22
4	Religious organizations	14
5	Authorities (influential, well known persons)	11
6	International organizations	11
7	For-profit structures	6
8	Do not cooperate at all	44



Comparison of the definition of social partnership with the results of this survey provides grounds to state that for profit representatives are not exercising social partnership mechanisms as a vehicle for corporate philanthropy. Even though, 39% of the respondents reported cooperation with non-commercial entities and 22% - with state structures & local self-governance. The problem is that cooperation reported by the respondents has never been three-partite and coordinated.

The conclusion drawn is lack of recognition of the necessity in social partnership by for profits since the prevailing majority of respondents prefer to work with carriers of social problems directly, without any intermediaries.

Note 1: Non-commercial entities are NGOs, Foundations, Unions of Legal Entities

Note 2: government owned non-commercial establishments are schools, kindergartens, medical institutions, libraries, etc.

Note 3: State structures and local self-governance are ministries, National Assembly, regional centers for social protection, marzpetarans, community governors, avagani-s.

Table 9 comprehensively presents information on forms of cooperation, cooperating parties and frequency of charitable initiatives.

Name Types of cooperation		State bodies and local self-governance, government owned non-commercial establishments	NGOs, Foundations	Religious organizations	Authorities (Influential, well known persons)	Other for-profit structures	International organizations	Do not cooperate	
		Frequency							%
		8 22 %	11 31%	15 39 %	5 14 %	4 11 %	2 6%	4 11 %	16 44 %
<u>1</u>	Use databases of the latter for beneficiary selection	<u>1</u>	<u>1</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
<u>2</u>	Partially share costs of event organization	<u>2</u>	<u>4</u>	<u>6</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>0</u>
<u>3</u>	Provide the required financial, material or moral support to organize the action	<u>5</u>	<u>6</u>	<u>6</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>1</u>	<u>0</u>

Table 9

e) Ways of Doing Charity

(Table 10)

		Frequency	%
1	Competitive	0	0
2	Select and fund project proposals	4	11
3	Make contributions to NGOs and Foundations	10	28
4	Make contributions to government owned non-commercial establishments	10	28
5	Directly assist beneficiaries	20	56

Table 10 clearly reads that for profit sector's preference is to provide charitable support directly to the beneficiary: 56% being sure that this is how the assistance gets to the target.

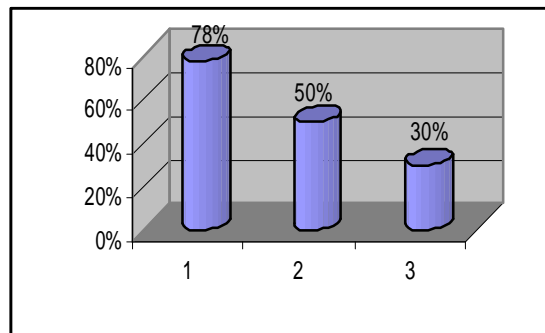
Substantial giving goes to government owned non-commercial establishments, NGOs and Foundations – 28% equally.

None of the surveyed for profits implement charity through competition which is one of social partnership mechanisms. This provides room to think that regulating and managing charity from the perspective of social partnership is not yet within the priorities of for profits.

IV. Types of Charitable Giving

(Table 11)

	Type	Frequency	%
1	Financial aid	28	78
2	Other material assistance	18	50
3	Moral support	11	30

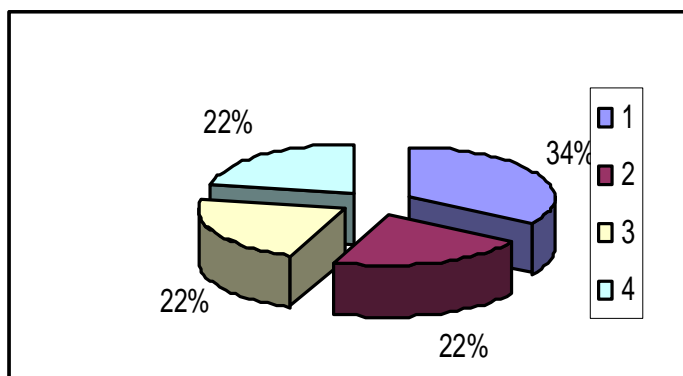


According to the highest indicator (78%), most of charity by for profits is of financial nature, for profits are factually investing into the solution of problems of particular social groups. Moreover, some companies plan their giving on an annual basis.

V. Regulation of Charity: Procedures, Documentation

(Table 12)

	Frequency of documenting charity	Frequency	%
1	Always	12	34
2	Often	8	22
3	Sometimes	8	22
4	Never	8	22



The first two indicators relating to the frequency of documenting charity: “always 34%” and “often – 22%” bear evidence that benevolent initiatives by most of the for profits constitute part of their companies’ policy.

VI. Estimating the Effectiveness of Exercised Mechanisms

It is noteworthy that majority of respondents consider exercised mechanisms “effective” and only 4 companies reported “totally effective”.

Important to mention that none of the surveyed companies mentioned anything about the system to evaluate the effectiveness of charitable initiatives. Means, it is underdeveloped and/or is of no importance. The question was unexpected for most of the respondents. Positive impact on beneficiaries was the only criteria to reflect the effectiveness of the initiative. The mechanism proves effective if the beneficiary is satisfied.

None of the respondents who graded their benevolent activities as “effective” (67%) raised the issue of what changes they see to the existing mechanisms to make those totally effective.

None of the respondents reported its mechanisms as ineffective.

See table 13 for summary results:

(Table 13)

		Frequency	%
1	Totally effective	4	11
2	Effective	24	67
3	Not that effective	3	8
4	Totally effective	0	0
5	Difficult to respond	5	14
	Total	36	100

VII. Legislative Incentives for Charity Doers

Tax benefits to charity doers are spelled out in Chapter 23 of the Republic of Armenia Profit Tax Law.

However, only 6 respondents out of 36 charity doers (17%) were aware of the tax benefit. All 6 companies mentioned that the legislative provision is not enacted and that they have never benefited from it. The reasons mention were: “extremely complicated bureaucracy”, “futile tax benefit, not even worth of any efforts”.

17 of 36 organizations (47%) are sure there are no legislative tax benefits, the remaining 13 organizations found difficult to respond to the question. See **Table 14**.

(Table 14)

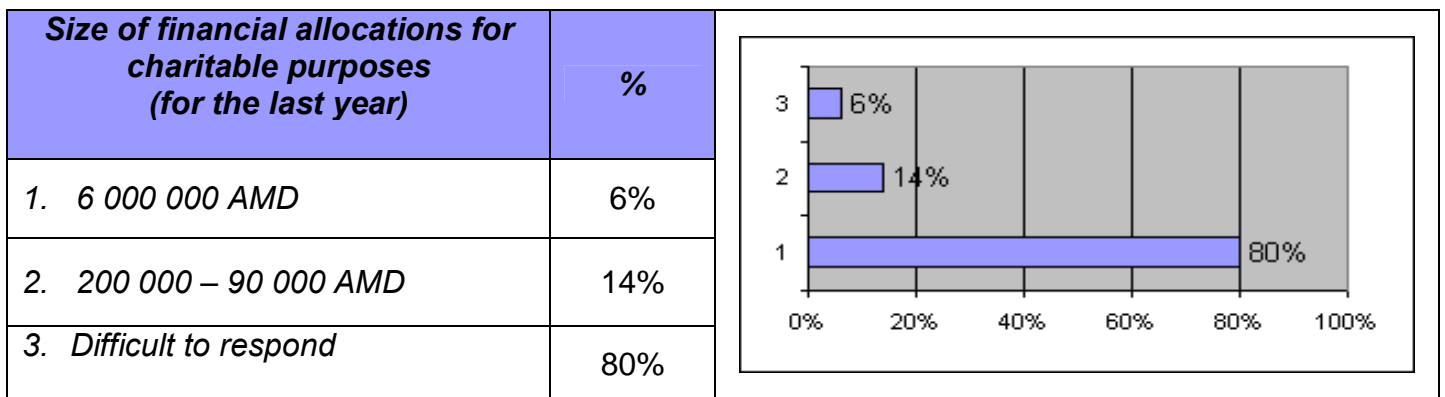
	Frequency	%
Yes	6	17%
No	17	47%
Difficult to respond	13	36%

Majority of respondents (47%) are not only unaware of tax benefits but are sure that they do not exist. Still, according to research results, charitable activities are being regulated (always – by 33% of respondents; often – 22%) (**Table 12**). The estimation is that at least 20 organizations had had to be aware of the tax benefits stipulated by the RoA legislation and had had benefited from those.

In particular, the respondents felt difficult to respond to the question how much they give for charitable purposes. Both could condition this – the wide assortment of types of giving (financial assistance, furniture, food, etc.) and non-systematic regulation of those allocations.

Responses to this question are summarized in Table 15. Though, they do not clearly reflect the real situation, as are quotations and estimations without having any supporting documentation.

(Table 15)

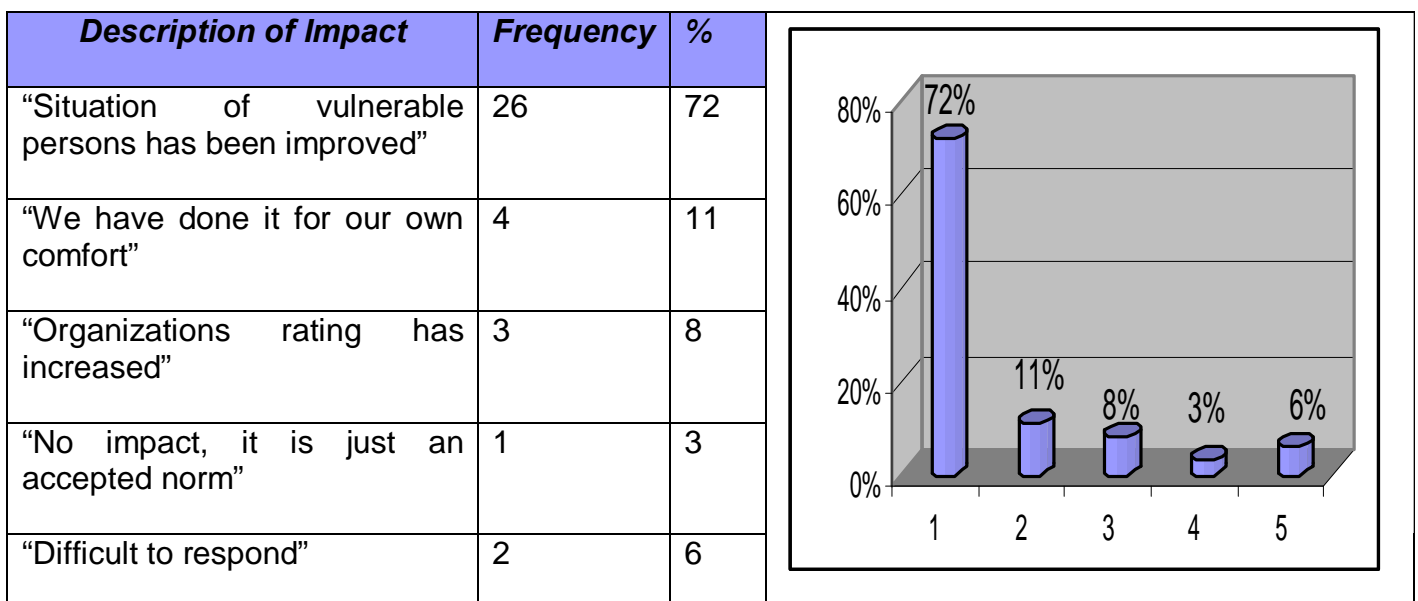


Thus, only 20% of the companies having charitable undertakings mentioned the size of giving for the purpose, even though 33% mentioned that they have regulating mechanisms.

VIII. Impact of Charity on Beneficiary Life

The question “What was the impact of your organization’s charity?” was brought up to identify the impact of charity on beneficiary lives. See Table 16 for results.

(Table 16)



The majority of the respondents emphasized the philanthropic purpose of charity. Only 3 respondents viewed it as a means to increase company's profile.

It was not often easy for the respondents to describe the impact of charity since the question has never been brought up. The first reaction was "positive". Then they tried to comment, bring examples, etc. It is noteworthy, that charity recipients' satisfaction and joy are the only quality standard for the majority of respondents.

"We do not have any expectations from charity except for helping people and easing their sufferings" responses were voiced.

Conclusion

What Constitutes Benevolence performed by For- Profits?

1. More often than not, for profits are of positive disposition towards benevolence.
1. More often than not, for profits practice philanthropy driven by moral incentives.
2. Major portion of philanthropic giving is directed towards solution of cultural and social problems
3. For profits' preference is to work directly with beneficiaries rather than through and with support of intermediary structures.
4. On the whole, charitable actions are regular and constitute part of organization's policy.

How is it Manifested?

- 1.1 Majority of for profits exercise corporate philanthropy and do it either through making a philanthropic giving or through funding project proposals.
- 1.2 On the whole, assistance is provided in the form of financial resources.
- 2.1 Humane goals are the drive for corporate philanthropy rather than an attempt to increase the rating of the organization.
- 2.2 Currently, tax incentives are not a stimulus for corporate philanthropy.
- 3.1 For profits work with specific social and economic risk groups. More often, aid recipients are orphaned children, disabled, and victims of armed conflicts, vulnerable families.
- 3.2 Benevolence in cultural sphere is directed towards preservation of spiritual and material values.
- 4.1 For profits are not pro-active in partner search for their benevolent activities.
- 4.2 Though cooperation between for and non-profits is a fact, the role of for profits in this partnership context is reactive. The latter do charity only in the case of either receiving a request for assistance or a proposal.
- 4.3 For profits' partnership with state structures and local self - governance is of fragmented character.
- 4.4 For profits are not proactive in terms of establishing social partnership relations though they obviously contribute to solution of social problems.
- 4.5 For profits do not evaluate the effectiveness of their charitable endeavor.

- 5.1 Majority of for profits plan benevolent actions at least on an annual basis as they view it as part of their organization's policy.
- 5.2 Majority of for profits regulates their benevolent activities.

Why is it so?

- Benevolence is culturally rooted in Armenia. Throughout centuries, numerous social, educational, cultural problems had been solved thanks to charity doers and benefactors.
- Though steps are being made in the Republic of Armenia to re-vitalize benevolence traditions, still, the efforts of the three sectors of the society: state, private market and civil society, to solve one and the same problem are obviously dispersed. According to one of the for profits: "why should they consider working with non profit organizations if assistance could be directly provided to the beneficiary?"
- In general, for profits are unaware of activities by and roles of non for profits in solving diverse problems. A representative of a for profit organization thinks that non profit organizations should be pro-active and interested in presenting their structure, activities for the businesses to become aware and able to take decisions on establishing partnerships with non profits.
- Majority of for profits refrain from spreading information on company's benevolent actions/projects. A representative of a for profit company stated that public at large are not trusting the benevolence by profit making structures. Public perception is that businesses do that as they pursue either financial interests or are just interested in advertising their companies. Moral interests are not taken into perspective at all.

Suggestions/Recommendations

- Information provision to for profits on the concept and mechanisms of social partnership;
- Information provision to for profits on the activities by non-commercial organizations
- Information provision to for profits on local and international experience of social partnership mechanisms between state and non-commercial structures;
- Promotion of dialogue between commercial, non-commercial entities, state structures and local self governance to identify expectations from the social partnership perspective and outline possible ways for partnership;
- Cultivation of positive disposition and stimulation of targeted benevolence of for profits in the moral and legal platforms;
- Provision of information to public at large on for profits' benevolent projects and the social significance of those.

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