

NGOs AND PUBLIC FUNDING – CASE OF A TOURISM DESTINATION*

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Abstract

The rise of the civil society and the increasing number, significance and influence of associations in their surroundings call for a need to investigate their role in tourism development.

The purpose of this paper is to determine if the structure of funding associations with city budget resources indicates the importance and role of associations in creating a tourism offer and in increasing the quality of tourism destinations and to determine the level of dependency of associations in a select tourism destination on public funds by means of analysis.

Methodology – For this purpose, Register of Associations' data on number and type of associations that are active in a tourist destination was analysed. Furthermore, City of Opatija's structure of several annual budgets was analysed as well as the reports on revenues and expenditures of associations funded with the City of Opatija's budget.

Findings – The growing economic crisis has caused a decrease in available public funds in all areas, thus also the financing of civil society organizations, which also casts doubt on the associations' survival and future work.

Contribution – The expected contribution of the work is reflected in the overview and systematization of previous research on importance, activities and sources of funding associations. By analysing the budget of the City of Opatija and budgets of various associations the current system of funding associations will be determined and analysed.

Keywords: nonprofit organizations, tourism, funding sources, public grants and donations

INTRODUCTION

The development of civil society measured by the number of NGOs in Croatia, unlike most developed European countries, has assumed significant proportions only in recent times. It was not until the late 1990s that the state has built an appropriate institutional infrastructure to promote the development of civil society. On a national level, these are the Office for Cooperation with NGOs, Council for the Development of Civil Society and the National Foundation for Civil Society Development. Among all forms of non-profit organizations, the most common civil society organizations in Croatia are associations (Bežovan, Ivanović, 2007, p.17). Until 1997, they were established in accordance with the Law on Social Organizations and Citizens' Associations. As an example, 10,844 social organizations and 547 citizens' associations were registered in Croatia in 1985 (Bežovan, 2005, p.99). In 1997, the terms social organization and citizens' association were replaced with the term association by implementing legislative reforms. Then, 21,945 associations were present in the non-profit sector.

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Law on Associations (OG 88/01, 11/02), defines associations as "any form of free and voluntary association of several natural or legal persons, that are, in order to protect its interests or for the promotion of human rights and freedoms, as well as environmental, humanitarian, informational, cultural, national, pro-natalist, educational, social, professional, sports, technical, medical, scientific or other convictions and objectives, without the intention of making a profit, subject to the rules governing the organization and functioning of that form of an organization."

According to the Law on Associations (OG 88/01, 11/02), the property of an association may include membership fees, voluntary contributions and gifts, revenue from its lawful activities, financial subsidies from state budget, local (regional) government units' budgets and funds, its tangible and intangible property, as well as other property rights. Beside activities which are defined by their statute, associations can undertake the commercial activities as well, but only when such activities don't gain profit for its members or a third person. If, while performing its activities, the association makes a profit, it must be used, in accordance with the association's statute, exclusively for the performance and improvement of its activities, which create its statutory goals. Simplified monitoring of the number of associations has been particularly noted after the establishment of the Register of Associations, which helps to easily find the number of associations according to a particular activity, county, status and the like. On 23 November 2015, Croatia had 53,358 registered associations. The marked increase in the number of registered associations, which can be viewed as an indicator of the development of civil society as a whole, points also the fact that its number is higher by as much as 23% when compared to only 7 years earlier (2008).

NGOs have a key role in modernizing the welfare states, building trust, civic virtues and social capital. Cooperation within the local community creates additional capabilities (capacities) to solve problems and improve the quality of life as a result of increasing mutual trust and construction of the so-called social capital, which can be regarded as a measure of capability of the community to identify and solve problems of outstanding issues (Alfirević et al. 2013, p.18).

A series of management problems is immanent through the development of civil society, including the activities of non-profit organizations. Problems that usually stand out are the lack of financial resources and the unsustainability of development, lack of work professionalism, lack of transparency of organizations and their groundlessness in their broader membership, lack of leadership, poor networking and a low level of cooperation between organizations, poor cooperation with the media and underdeveloped role of advocacy (Bežovan, 2005, p.136).

The financial resources necessary for its activities are funded from the following sources: private – donations of economic entities and citizens; public – government grants that are provided by the government, counties, cities and municipalities; membership fees – which render the members of individual organizations; and foreign sources – funds received from international programs aimed at developing civil society (Bežovan, 2005, p.138).

The table 1 shows a portion of the findings of the National Foundation for Civil Society Development research on the sources of funding associations in Croatia in 2011.

Table 1: Funding Sources – Associations in Croatia in 2011

Funding Source	Structure in %
Local and regional government's funding	21
Government bodies' funding	19
Membership fees	15.4
Domestic donor organizations	13
Self-funding	12.5
Business sector donations	8
Citizens' donations	7
Other sources	4

Source: National Foundation for Civil Society: "Assessment of the development of civil society organizations in the Republic of Croatia, 2011", http://zaklada.civilnodrustvo.hr/upload/File/hr/izdavastvo/digitalna_zbirka/procjena_stanja_2011.pdf (20 December 2015)

The table shows that the most common sources of funding associations in Croatia are funds of local and regional government (21%) and funds of state administration (19%), followed by membership fees (15.4%), domestic donor organizations (13%) and self-funding (12.5%) and the lowest proportion are assets of the business sector (8%), citizens (7%) and other sources (4%). Public grants constitute a prevailing source of funding associations (as much as 40%), which makes them dependent on one type of source of funding, reducing their activities and management flexibility, as well as their security level. With the absence of funding from this source, a large part of associations' activities would be seriously compromised.

Research shows that non-profit organizations face a growing problem of reducing the inflow of funds from public grants (Bežovan 2005, p.138; Eikenberry and Kluver 2004, p.136; Froelich, 1999, p.255), and thus there is a need for alternative sources of funding.

1. ASSOCIATIONS AND TOURISM

An increasing number of registered associations impose the need to have their activities more closely examined, and at the same to determine their role in the tourism system. Non-governmental organizations, as an increasingly important part in the tourism industry, and their views were objects of research of only a few authors. The present research is mainly limited to the analysis of the role of associations in promoting the development of local communities through tourism entrepreneurship in third world countries (Simpson, 2008, p.10), and the work in that indicates the need to analyse the role of citizens' associations in tourism is still sparse (Tomljanović, Boranić Živoder, Marušić, 2013, p.83).

Problems in the development of civil society are arguably reflected on the power and importance of its impact on the tourism system setting, where they operate. Through cooperation of the tourism system and the civil sector new possibilities for tourism are present that can deliver positive changes in terms of enriching the offer in destinations, while this possibility in the civil sector is reflected in finding new sources of funding. Tourism has great potential as a source of funding associations in Croatia, considering the fact that Croatia is tourist country where tourism accounts for over 17% of GDP (DZS 2015). In this respect, options are present but are unutilized as can be seen in the examples of the structure of funding associations in tourist destinations.

It is public funding (grants) that constitute the largest portion of associations' revenues and organizational development, as well as the subsistence of a large part of associations is closely linked to funding from public sources (Gronbjerg, 1993, p.117). The reason for the continuing high dependence on state aid is primarily that it is the most accessible form of funding (Froelich, 1999, p.262). In the Croatian non-profit sector, public funds are allocated for the work of non-profit organizations through tenders at the national, county or local level and the regional governments (cities, districts) level. Common rights and obligations between the Government and non-profit organizations as users of grants are stipulated by the Program of cooperation of the Croatian Government and the NGO sector the Republic of Croatia (2000). According to the mentioned agreement, non-profit organizations shall ensure the transparency and the ability to control expenditure of funds by which the state or local government partially or fully fund the programs of the non-profit sector. Furthermore, in cooperation with the Government, they are responsible for the promotion of employment opportunities in the non-profit sector and the development of social economy. On the other hand, the government is responsible for establishing requirements and standards to enable equal access to all forms of assistance for individuals, organizations and citizens' initiatives.

2. ANALYSIS OF THE STRUCTURE OF FUNDING ASSOCIATIONS

Due to its longest history of tourism development in Croatia, the research was conducted in the city area of Opatija. In order to determine the amount of public grants for the activities of associations, as well as the amount of other sources of funding associations, the revenue of those associations was analysed that realise a part of their income through a grant from the budget of the City of Opatija.

Associations that were funded for its regular activities were taken into account, and they are reported in the class 0203 of the budget of the City of Opatija, while associations reported in other classes, namely those that have individual projects, programs, activities and events funded from the budget are not the subject of this research.

According to the Register of Associations data, on 20 December 2015, Opatija had 245 registered associations, 241 associations among them being active. By analysing the budget of the City of Opatija, in the period of 2011 - 2016 a total of four organizations are found to be funded for their regular activities, and these are: Animal Protection

Association 'Lunjo and Maza', Association 'Žmergo', Hunting Club 'Lane' and Mountaineering Club 'Opatija'.

Allocations for the work of associations in this period range between HRK 99,000 to 110,000. In this sense, the level of public of grants through the years is stable, but insufficient because it is just 0.11% of its overall annual city budget. As a tourist destination which has achieved a record of 393,344 tourist arrivals and 1,100,000 overnight stays in 2015 (DZS 2015), Opatija has not yet recognized the importance and benefits that associations can have on the development of tourism. Similarly, by analysing the list of associations that are funded from the budget the City of Opatija, it cannot be determined that the connection of civil society/associations and tourism is being recognised. The environmental association is being funded, which at the national level, however, has an increasing level of recognition and whose activities are of quality, but the potential of other associations that can greatly improve the competitiveness of Opatija as a tourist destination (e.g. KUD 'Zora', Cultural Art Association 'Delta'...), are not taken into account.

The table 2 shows the structure of funding those associations that are funded from the budget of the City of Opatija through regular activities.

Table 2: Revenue structure of associations funded through the budget of the City of Opatija in 2014

DESCRIPTION	Association 'Žmergo'	Animal Protection Association 'Lunjo and Maza'	Hunting Club 'Lane'	Mountaineering Club 'Opatija'
	2014 (%)	2014 (%)	2014 (%)	2014 (%)
Sales of goods and provision of services	3.8	0	20.7	6.0
Membership fees and membership contribution	0	0.1	49.8	22.6
Property income	0.04	0.1	0.03	1.8
Donations	2.6	66.9	2.6	67.9
Grants	93.6	32.9	10.0	1.7
Other revenues	0	0	16.7	0
TOTAL	100	100	100	100

Source: by the author according to data submitted by the associations

The table shows that the proportion of self-funding through the sale of goods and providing services, membership fees and income property is very low. By observing grants, it is evident that they present the largest portion in the case of Association 'Žmergo' (93.6%). By contrast, Association 'Lunjo and Maza' realises most of its funding from donations and grants, while self-earned funding is almost non-existent which makes it entirely dependent on these two sources of funding. The importance of

self-earned funding is recognized by the association Hunting Club 'Lane' which shows the least dependence on grants and donations, and the largest amount of its funds is generated through the revenue from membership fees – as much as 49.8%, and sales of products and provision of services (20.7%). A favourable situation is observed with the Mountaineering Association 'Opatija' as well, which has a very low proportion of revenue from grants. The charity donations provides funds for their activities, which make up the prevailing source of funding (over 60%) but also by revenues from membership fees (over 20%).

Subsistence of associations in relying solely on public donations is questionable in the long term. Series of activities are required in order to give rise to self-earned funding, namely through: membership fees, use of tangible and intangible assets, sale of products and provision of services and investment income (Bokulić et al. 2006). Organizations that have the capacity to generate their own revenues are less dependent on traditional sources of funding, thus increasing their independence in operation (Hodge, Piccolo 2005). Although this potential is very high by means of tourism, it has not yet been recognized by associations in Croatia. Through a symbiosis of tourism and civil sector activities a new, uncharted territory opens up whose effects provide far-reaching benefits for tourism and for the civil sector as a whole (Scott 2012).

CONCLUSION

Continuous increase in the number of registered organizations and their dependence on funds from the public budget question the subsistence of the whole non-profit sector. Although the non-profit sector progresses and the number of associations is increasing, on the other hand, the funds allocated for the work of associations is stagnant or is even decreasing. It can be concluded on the example of associations analysed in the study that grants present a highly significant contribution to total revenue, while revenues from sales of goods and provision of services, as well as membership fees income were at a very low level. Self-funding of non-profit organizations through commercial activities is essential, primarily on the grounds of reducing dependence on other forms of funding, and at the same commercial activities can help attract new members and donors to the organization (Segaland, Weisbrod 1998; Oktenand, Weisbrod 2000). Even if commercial activities of the organization do not realize a satisfactory level of income, in this manner they strengthen its image and visibility. By resorting to funding through commercial activities, non-profit organizations are faced with a way of thinking and acting for which they have not had a need to familiarize themselves with up until now (Dart 2004, p.301).

Although associations make part of their revenue by selling their own products and by providing services, this still takes place at a relatively low level. Their own financial means hold a great potential as a future source of financing and it is necessary to influence an increase of this type of financing. It can be achieved through various types of social entrepreneurship and by connectivity association goals with goals of tourist destination. This particularly refers to associations which conduct activities that contribute to a strengthening of the tourism offer of a certain destination (by organizing various events, selling tickets, selling souvenirs and other products, etc.).

The limitation of the paper is lack of prior research studies on the topic as well as lack of research studies about connection of associations with tourism.

Further research needs to be focused on finding new ways of self-funding of associations. Considering that tourism is a key driver of Croatian economy, it is necessary to determine the role tourism has or could have in activities of associations, as well as the place and role of associations in the tourism system. Space for new research opens itself through finding possible ways of funding activities of associations in the tourism system. In particular, this preferably relates to associations that work in tourism destinations, primarily because the environment in tourism destinations, which is much more sensitive to the appearance of tourism directly or indirectly, is involved in its process.

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