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CONTENTS

PROLOGUE (Helmut K. Anheier)	7
SESSION I: NON-PROFIT AND PUBLIC SERVICES	
BEBLAVÝ MIROSLAV: Case Study of Impact of Innovations in the Financing of Higher Education in Slovakia	12
DEDOVA MARIYA: Development of Public Cultural Services Management: Study of the Night of Museums	21
DOSTÁL JAKUB, HRŮŽA FILIP: Identifying the Importance of Measuring Monetary Value of Volunteering in the Czech Republic	29
JURČÍK RADEK: Green Procurement of Public Contracts – Introduction and Present Situation	38
KREBS VOJTĚCH, PRŮŠA LADISLAV: Solidarity and Equivalence in Social Systems – Current Problems	49
MERTL JAN: The Sense and Rationality of Non-profit Sector in Social and Health Services	58
MUŽIK ROMAN, SZALAYOVÁ ANGELIKA: Measuring Waiting Times in Slovakia	66
NAVRÁTIL JIŘÍ: Dancing to the Same Tunes? Comparison of Czech and Slovak Citizens' Engagement in Civil Advocacy Twenty Years after the Divorce	75
PAVLÍK MAREK: Sport Clubs and Economic Aspects of their Relations with Municipalities and Sport Federations	83
POSPÍŠIL MIROSLAV, PROUZOVÁ ZUZANA, ŠKARABELOVÁ SIMONA, TŮMOVÁ ALMANI KATEŘINA: Economic Crisis: A Hard Blow or a Challenge for Non-profits?	92
RICHEA MARIA-MAGDALENA: The Nonmonetary Compensation Structure for Volunteer Work in the Non-profit Sector	99
STAŇOVÁ LUDMILA: Power and Politics in the Innovation Process of the Integrated Rescue System in Slovakia	109
STRUK MICHAL: Environmental Protection Expenditure of the Czech Municipalities	116
SVIDROŇOVÁ MÁRIA, VACEKOVÁ GABRIELA: Self-financing of Non-government Organizations versus General Benefit of their Goals	125
ŠPALKOVÁ DAGMAR, ŠPALEK JIŘÍ: Housing Tenure Choice and Housing Expenditures in the Czech Republic	137

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Self-financing of Non-government Organizations versus General Benefit of Their Goals

Svidroňová Mária, Vaceková Gabriela

Abstract

The presented paper deals with the self-financing of non-government organizations and compares the current state and potential of self-financing in Slovakia and Austria. We focus on exploring the self-financing activities of NGOs in the context of maintaining a generally beneficial purpose for which they were based. We draw on the comparable findings of primary research conducted in Slovakia and Austria, showing that self-financing must be understood in a broader context than the "business" of non-government organizations and that it can be in compliance with the general benefit as the primary purpose of organizations founded on a non-profit basis.

Keywords

non-government organizations, non-profit organizations, self-financing, general benefit

Introduction

The scope of non-government organizations (NGOs) is so diverse that it is impossible to find a single term to define these organizations. Therefore many authors (Salamon and Anheier, 1999; Hyánek, 2011; Marček, 2004; Toepler, 2003, etc.¹) in a number of publications prefer a broader description of the characteristics of non-profit organizations. The structural-operational definition by Anheier and Salamon (1999) can be used. According to this definition an NGO should meet five characteristics: institutionalization, independence, non-distribution constraint, self-government, voluntary participation.

The concepts of non-profit and non-government organizations have many names and likewise there are also a number of names for self-financing (Etchart, Davis, 2001, etc.²): gainful occupation, economic activity, enterprise of NGOs, non-profit business, income from NGO's own activities, community business.

NGOs have not yet reached such a level of economic and managerial professionalism to be able to exist solely on sources from self-financing activities. It is not their goal – it would be in contradiction to several principles of their financing (multi-sourcing, non-

¹ There are other authors whose works and publications we studied, for further references see also: Bútorá, 2011; Frič, Goulli, 2001; Haken, 2005; Hansmann, 1996; Kuvíková, 2004; Ondrušek, 1998; Pestoff, 2006; Petřiová, Woleková, 2006; Rektořík, 2001; Rose-Ackerman, 1996; Weisbrod, 1988

² Atkinson, 2003; Etchart, Davis, Messing, 2001; Fukas, Gušťařík, 2005; Ondrušek et al., 1999

distribution constraint). As used by several foreign and domestic authors (Etchart, Davis, 2011; Glaeser, Shleifer, 2001, Hansmann, 1996; Kuvíková, 2004; Majduchová, 2004; Murgaš, 2001, Ondrušek, 1999; Šebo, 2002) the income cannot be used to enrich the owners, managers or members. According to the above named authors the self-financing activities include: membership fees, sale of services and products, the use of intangible and tangible assets, and the use of investment appreciation.

The traditional main financial goal of a company is to maximize its profit. As NGOs are not founded primarily for the purpose of making a profit they pursue as their primary goal the achievement of general benefit. This fundamentally changes their financial policy which usually gives priority to the pursuit of liquidity (Littich 2007).

It is necessary for the basic task of the financing of NGOs in order to fulfill their mission to continuously provide liquidity. What financial sources and in what amounts should be used to meet this task vary and it is upon NGOs' strategic management decisions. One of the curiosities of NGOs is that they usually have a wider range of financing options compared to profit-oriented companies. Appendix 1 provides a structured overview of the most important sources of funding (Schober et al., 2010).

In the paper we want to prove that self-financing is a suitable method of fundraising for NGOs with respect to the benefits and risks that self-financing entails. We explore whether, and to what extent, self-financing has an effect on the general benefit of the goals of NGOs.

According to available data such a paper that deals with the possibilities of achieving generally beneficial goals of NGOs through the use of self-financing activities has not yet been published. This presented paper provides new insight into the studied problem while generating sufficient theoretical and methodological basis for further scientific study and research work in this field.

Material and Methods

The goal of the paper, on the basis of comparable findings of primary research of NGOs conducted in Slovakia and Austria, as well as the best practices of selected NGOs in Slovakia, is to prove that self-financing may be in compliance with the general benefit and purpose of NGOs.

Primary data was obtained by the sociological method of a structured questionnaire. Source data for Austria are the findings of the project "Different sources of funding of non-profit organizations" (Schober et al., 2010) conducted by the Research Centre NPO-Kompetenzzentrum WU Wien. For Slovakia the data are the findings of primary research conducted in the dissertation "Self-financing strategy and sustainability of non-profit organization" that was part of the project "VEGA 1/1001/09 2009-2010: The status of the non-profit, non-governmental sector in building a framework

for the provision of public services (European Perspectives)" solved by a team of authors from the Faculty of Economics, Matej Bel University in Banská Bystrica. This presented paper will be part of the findings of the Masaryk University project „CZ.1.07/2.3.00/30.0009 Employment of Newly Graduated Doctors of Science for Scientific Excellence“.

In order to achieve comparable findings the same methodology in both countries was chosen (Benčo-Vaceková, 2012):

- Selection of relevant NGOs in the database or on the Internet.
- Establishing personal contact with selected NGOs at management level.
- Sending an e-mail with a link to an online-questionnaire to contacts that have been identified in the previous step.
- Sending a reminder after two weeks from the start of questioning.

Based on the representative sample of NGOs in Slovakia (SVK) and Austria (AT) and the best practices of 13 Slovak NGOs we can focus on the self-financing of NGOs in the context of sustaining the general benefit of their goals.

Results and Discussion

The output of the paper is a clear definition of the funding sources of NGOs with focus on the self-financing. We mainly focus on the so-called "quasi-equity" which is subdivided into non-profit and commercial incomes. We point out the difference between self-financing and commercial/business activity of NGOs, and on the basis of relevant and comparable outcome of primary research in SVK and AT we prove that self-financing is not only a business activity in the common market conception. We also want to point out that self-financing may not be inconsistent with the general benefit and purpose of NGOs which leads to fulfilling the goal of this paper.

Sources of funding NGOs

The main division of sources follows the microeconomic division on equity and borrowed capital. The concept of equity is problematic in many NGOs as they do not have any equity in the business or economic meaning. Generally, there is a lack of investors who would provide capital in anticipation of earnings. Classic features of equity are often undertaken by donors, providers of subsidies or members of the organization. To take into account this aspect we use the term "quasi-equity" (Schober et al., 2010).

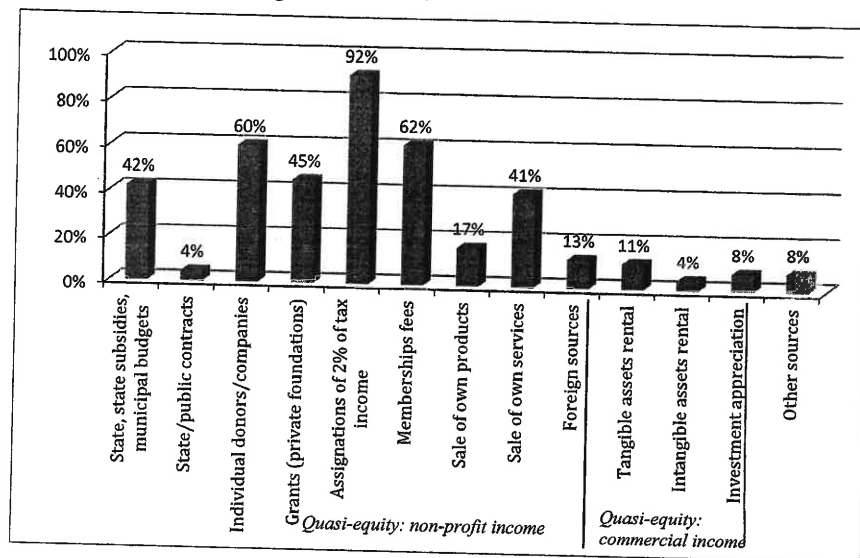
The "quasi-equity" can be divided into typical non-profit incomes and standard commercial incomes. Under typical non-profit incomes (to the left of the image in Appendix 1) we understand incomes primarily related to the main core work and mission of an NGO; these incomes may come from a variety of funders.

Commercial incomes are, on the contrary, incomes from activities non-related to the mission of an NGO. In particular it is income from investment activity or yield of capital (e.g. income from renting its assets). Commercial income also applies to restructuring of assets and include sale of assets and the associated effects of financing, such as the sale of buildings and real estate. Other commercial income is a residual category that includes all the commercial activities carried out by NGOs that are not related to their mission and at the same time cannot be assigned to any of the other commercial income categories.

The borrowed capital can be divided into common bank loans and other subsidized borrowed capital, i.e. loans that are provided by government authorities and designed specifically for NGOs. Government supports NGOs and thus provides this capital also by assumption of guarantees or remission of debts and taxes.

The following charts represent the main sources used in of NGO funding, the outcome is from comparable researches in Austria (266 respondents) and in the Slovak Republic (136 respondents).

Figure 1: Sources of funding of Slovak NGOs



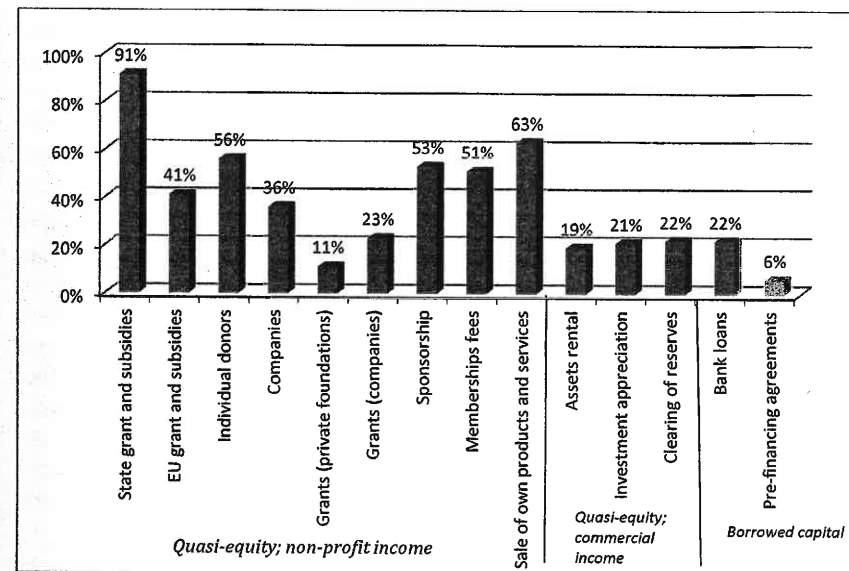
Source: Authors, 2011.

Other sources of funding were not further specified, therefore we cannot assign this point to non-profit or commercial income. The structure of funding is dominated by private and individual sources, also of significance is self-financing and public funding. Foreign sources are represented by foreign foundations that support Slovak

NGOs and as such they can be assigned to non-profit income. None of the respondents stated bank loans or foreign capital which supports the fact that in Slovakia loans for NGOs have yet not been established as a common source.

The funding sources in the Austrian NGOs correspond to the presumed model, i.e. public finance is clearly the most used source. Other frequently used sources are fees for services and products, donations from individuals, sponsorship and membership fees (Figure 2):

Figure 2: Sources of funding of Austrian NGOs



Source: Schoeber et al, 2010.

In both countries non-profit income as a part of quasi equity prevails. For the purpose of achieving the goal of the paper the quasi-equity is essential for us. As the charts show, the non-profit income can be generated from self-financing activities that are not necessarily of a commercial character. We will try to point out the differences resulting from the breakdown of incomes for non-profit and commercial, especially in the context of maintaining a generally beneficial purpose of NGOs in the implementation of self-financing activities.

Self-financing of NGOs

As already mentioned, self-financing of NGOs is not a clearly defined term. In a broader meaning it is defined as any diversification of the funding sources of NGOs. From the narrower point of view self-financing can be understood as a business

or any other economic activities of the NGOs that generate their own income, i.e. self-financing as a method of obtaining internal sources (Kuvíková-Svidroňová, 2010).

Self-financing activities bring financial income and potential profit but the principle of non-distribution constraint still applies and compared to any commercial company it is given in advance how NGOs use this profit. Profitable activities of NGOs (e.g. revenue from sale or rent of assets, revenue from advertising) are subject to income tax. When taxing this type of income it is necessary to take into consideration:

1. Whether the activity is conducted within the mission of the organization, such activity is in accordance to the statutes or the activity fills the purpose for which an NGO was established. This is called core work and it cannot be considered as a business activity. It is not important whether incomes are higher than expenses while conducting core work activities. The goal of NGOs is not gaining a profit but to promote and support the mission and purpose to which they were founded. Even if NGOs gain some profit by performing core work activities in the terms of fulfilling the general benefit, it cannot be called a profit as defined by the law on income tax and is not subject to taxation.

2. Whether the activity is really a "business" - we draw on the definition of business which primary European Union law indirectly describes as every sort of economic activity regardless of its legal form and method of financing. In defining business and functional definition of "economic activity" in the particular case, three components are taken into the consideration: the provision of goods and/or services; taking economic and financial risk of carrying out the economic activities; economic activity must have the potential to generate income from economic activity. NGOs provide services of special character (public services and/or general benefit services). The main feature of these services is they do not bring profit (therefore companies are not interested in providing them and they are provided by the state or NGOs).

If the activity is not a core work activity or it complies with the above-stated definition of business, then we are talking about another form of self-financing which Majduchová (2004) refers to as a commercial activity. To distinct: the term self-financing activities is considered to be those that are associated with the entry of NGOs on the market and that require thinking of the business sector, but these are not business/economic activities in the true sense of the word (they do not meet the above two conditions).

It follows that in order to maintain and fulfill the generally beneficial purpose it is strategically advantageous for NGOs to focus on self-financing activities in accordance with the core work of NGOs and their missions. Therefore, we can say that from the narrower point of view, self-financing is raising funds from sources which we defined in the "quasi-equity" as non-profit income. We explored the range of use of self-financing by NGOs in two research projects conducted in SVK and AT. Concerning the Slovak part the findings are extended by the best practices of selected Slovak NGOs.

Recommendations based on the results of primary research in SVK and AT

The most used source of funding in Austrian NGOs is public sources, used by 91% of respondents participating in the research (Schober et al., 2010). This involves long-term contractual relationships which greatly influence the acquisition of new sources of funding. The question how much effort NGOs have to put in to keep these sources whilst obtaining new financial sources and fulfilling their missions comes to the fore. The need to fulfill the mission and achieve the generally beneficial goals of NGOs must be a priority when doing any activity bringing money in for running NGOs.

A partial aspect of this issue also includes a fixed purpose of sources and the accountability of the source provider. Compared with other sources of funding it can be stated that the highest effort must be made by NGOs when applying for EU funds, state funds and contributions and donations from companies and individuals. This explains the research results which showed a clear desire of NGOs to gain a larger part of the funds through their own activities (Schober et al., 2010). It also confirms the importance of self-financing as it can offer the highest level of independence and freedom in the decision-making process.

We can support the importance and benefits of self-financing with the findings of the part of the Austrian research on funding of NGOs that focused on the freedom of use of financial sources. This shows that the highest purpose-fixed sources provide the lowest freedom to decide about the use of these sources in fulfilling the mission (Schober et al., 2010). The highest influence of source provider was observed in contractual support from the state and the EU (the source provider strictly controls the use of provided money). The lowest influence and control was in the event of income from financial investments and renting assets which are self-financing activities. We can conclude that self-financing has a positive effect on achieving generally beneficial purposes for which NGOs were founded.

Similar results were obtained in research about the funding of NGOs in SVK (Svidroňová, 2012). However, there is an important difference - unlike Austria, the least used sources by NGOs in SVK are state/public contracts (only 2.20%). This suggests that in SVK suitable conditions to provide public services by NGOs are still missing. On the other hand, self-financing in SVK is represented by 25.4% (Svidroňová, 2012) which is higher than the estimation reported in "ideal" diversification of funding sources (Vaceková, 2009). Although the level of this type of financing is a quarter of the total sources of an NGO, the value of 25.4% is still lower than the European average of 36.9% (OECD, 2001).

Due to the evaluation of the impact of self-financing on the generally beneficial goals of NGOs we explored whether respondents considered self-financing activities for commercial deflect attention from the mission and core work of the organization. 68% of NGOs reported no, self-financing is not such an activity. More than 21% of them said no, but had some objections to self-financing (e.g. NGOs should not develop

business activities) or the respondents were not able to decide because they said it depends on other factors e.g. the legal form of an NGO. Less than 11% of organizations believe that self-financing is a commercial activity that distracts from the mission and core work of NGOs. We conclude that NGOs must be able to distinguish between what is a commercial activity and what is an activity that requires a business way of thinking and focus on self-financing in compliance with the mission and core work.

In Appendix 2 we summarize NGOs considered as "best practices". These are the NGOs that have a high self-financing ratio (in some cases almost 100%) in the funding sources. To increase this ratio and to strengthen their sustainability the NGOs used the factors described in Appendix 2. The most common factor for the use of self-financing in the higher range was the expansion of core work and the extension of the portfolio of provided services or by narrowing and specialization in some services so that projects/programs providing specialised services is able to self-finance its operation and that they also contribute to the organization's budget. This factor was followed by staff training and the use of volunteer labour and in some cases also the establishment of cooperation with companies (Svidroňová, 2012). All these factors resulted in the strengthening of the financial stability of the NGOs. Thus we were able to demonstrate that self-financing may not be contrary to the general benefit of NGOs and thus we fulfilled the goal of the presented paper.

Conclusion

The goal of the paper was on the basis of comparable findings of primary research projects of NGOs conducted in Slovakia and Austria, as well as best practices of selected NGOs in Slovakia and to prove that self-financing may be in compliance to the general benefit and purpose of NGOs.

We fulfilled this goal: we confirmed that self-financing is a method used for raising funds and one of the possible ways to gain financial stability, independence and in the end to the long-term sustainability of NGOs.

We have shown that self-financing can be connected to the core work and does not have to be in conflict with the general benefit and purpose of NGOs. The fulfillment of mission of NGOs supported by self-financing activities in accordance with established core work is considered to be an appropriate way which should be undertaken by NGOs in order to achieve financial independence and stability.

The proposals are based on the partial results of primary research and on the experience of Slovak NGOs we drew on 13 best practices. Most of the best practices NGOs have succeeded in increasing the ratio of self-financing by adjusting the portfolio of provided services. Thus they gained sources that can be used by an organization's needs according to its development strategy and not according

to the donor's demands. This increases the degree of independence and allows NGOs to use the sources to create a sustainability strategy.

An outline of the problems and their solutions which we introduced in the presented paper is considered as a suitable basis and starting point for further research in the field of self-financing of NGOs. Since our existing research is from both theoretical and methodological perspectives it is unique in this field in Slovakia and we will try to use it as a competitive advantage and continue to further explore this issue.

Acknowledgements

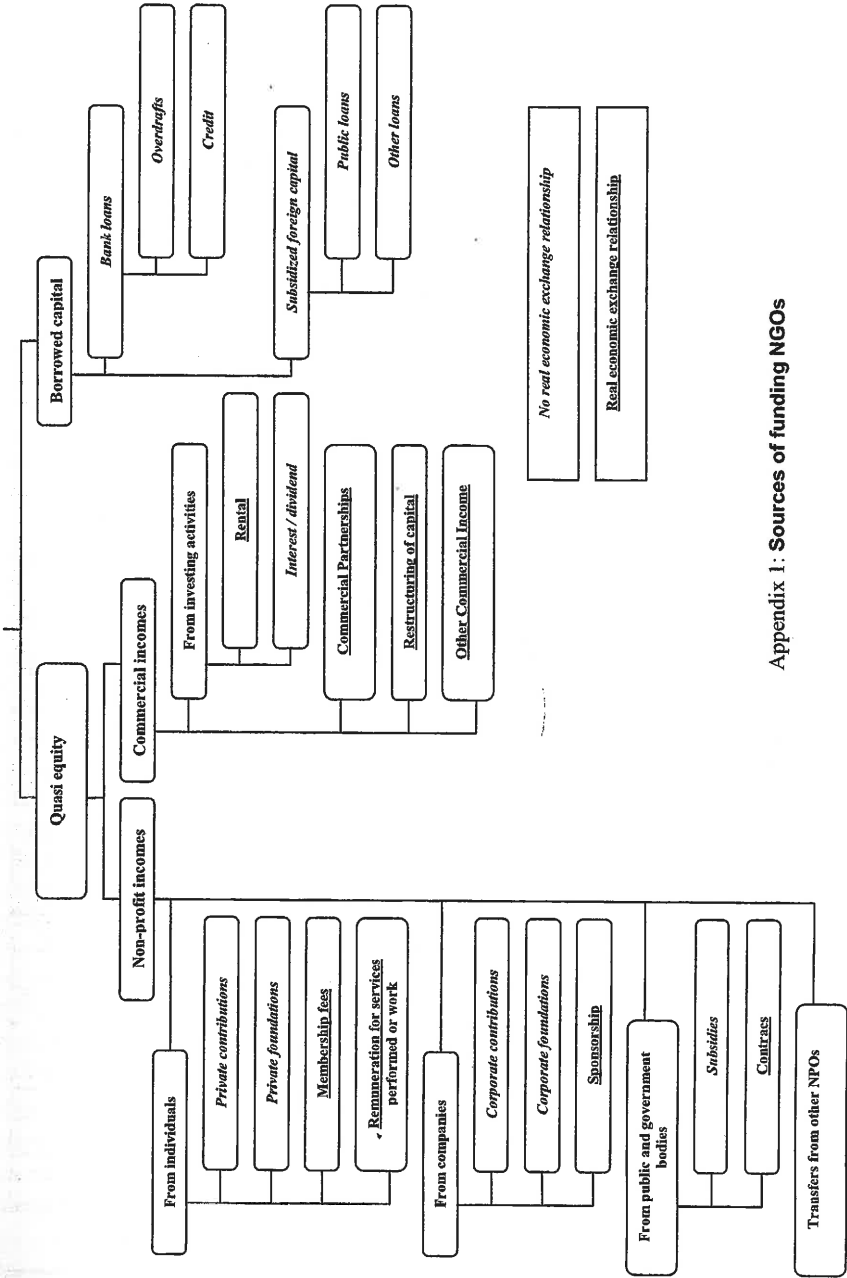
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Appendix 1: Sources of funding NGOs

Appendix 2: "Best practices"

Organisation	Factor	Activities
Orbis institute Slovakia, o.z	Field of activity - extension of services, creation of a program / project.	Incomes from promotion events are used to fund education, leadership programs and workshops.
Outdoor institute	Field of activity - extension of services, creation of a program / project.	Renting and providing attractions such as wall climbing. Organizing wall climbing technique courses.
OZ Jablonka	Field of activity - extension of services, creation of a program / project.	Sale of old varieties of fruit trees and shrubs, organizing seminars and workshops – eco-education, traditional crafts.
Galenospharm	Field of activity - extension of services, creation of a program / project.	Organizing courses.
	Business (commercial) activity.	Business with parking. Incomes from parking fees.
	Networking, cooperation with companies.	Cooperation with several important companies, e.g. Zentiva.
Siet' LetNet	Field of activity – extension of services.	Organizing meetings, selling products.
	Membership fees.	Registration charges, membership fees.
Aliancia Fair-Play	Field of activity - extension of services, creation of a program / project.	Selling products (gifts) and services (organizing trainings for other NGOs).
	Involvement of volunteers.	Involvement of volunteers into self-financing activities.
Kaspian	Field of activity - extension of services, creation of a program / project.	Sale of products (T-shirts with the logo of the organization), ceramic workshop, publishing and sale of publications. Providing advertising space in the skate park.
		Volunteer to map the possibilities of self-financing (how much investment is required, what are revenues), in collaboration with the staff will seek other sources of funding.
	Involvement of volunteers.	
EFFETA	Field of activity - extension of services, creation of a program / project.	Organizing courses of sign language, providing interpreters services, organizing workshops.
Lepší svet n. o.	Field of activity - extension of services, creation of a program / project.	Organizing workshops (ceramics, painting, arranging), cafes and galleries. Sale of paintings and other products of the workshops. Providing advertising agency services, rental of premises, publishing a magazine.
O. z. Pomoc ohrozeným deťom	Cooperation with companies, networking.	Cooperation with Nadácia pre deti Slovenska (co-organization of projects). Cooperation with Philip Morris International ("social marketing/cause related marketing" - Education of police officers to evaluate the risk in domestic violence cases).
Nadácia Pontis (foundation)	Field of activity - extension of services, creation of a program / project.	Organizing conferences, forums and seminars (mainly focused on philanthropy, donations, responsible entrepreneurship).
O. z. Archimera	Field of activity - extension of services, creation of a program / project.	Organizing exhibitions and competitions.

Source: Authors

Housing Tenure Choice and Housing Expenditures in the Czech Republic

Špalková Dagmar, Špalek Jiří

Abstract

The paper examines the potential factors affecting housing tenure choice decision (rent or own) using an econometric model drawing on sample data. Results of the analysis, making use of the investigation of EU-SILC in the CR, testify to the fact that tenure choice is influenced by the factors similar to those in other countries – household income, marital status of the household head and household size (persons/household). On the other hand, the influence of other demographic characteristics of the household head (gender or age) has not been confirmed. The econometric model also made it possible to evaluate potential influence of these factors on housing expenditures of households. The tenure choice decision is significantly influenced not only by the logical influence of household income but also by household size and residence in Prague, particularly in the rented housing sector.

Keywords

housing, tenure, choice, expenditures, determinants

Introduction

One of the key decisions to be made by any household is the choice between owning or renting their home, which is known in specialized literature as *tenure choice*. As for the methods of public sector investigation, it is a very interesting case, since various attitudes and research methods have been applied to this issue. Engaged in *tenure choice* research are not only sociologists or geographers but also economists. They mostly focus on studying the determinants which are relevant for the decision of households to own or rent their housing and on establishing the degree of their influence. A number of authors view *tenure choice* as an independent decision. Nevertheless, a more common opinion has it that the choice of home type is only a part of other decisions households have to make in relation to consumption and investment (Turner, O'Neal, 1986). Thus tenure choice is typically analyzed in connection with household mobility, housing attributes (dwelling characteristics), household attributes or as an element of consumption and investment decisions.

The first researcher to deal with tenure choice in the context of household decisions on *mobility* was Boehm (1981). He applied a working assumption that households decide about their housing and expected mobility simultaneously. In his work he demonstrated a strong interdependence of the two decisions and at the same time he



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Environmental Protection Expenditure of the Czech Municipalities

Michal Struk

Abstract

This paper presents the development of the environmental protection expenditure (EPE) of 205 Czech municipalities with extended powers plus the capital city Prague during the period of 2001-2011. Municipal EPE is divided to the categories based on the CEPA classification. Municipal EPE is analyzed as an aggregated sum of current and capital expenditure. Outcomes are compared with the development of the total municipal expenditure. Through this the paper verifies whether the municipal EPE acts as a luxury good, which is suggested by the environmental Kuznets curve concept. Results prove this only partially. EPE acts as a luxury good in most cases when the total municipal expenditure grows too. But in the cases when the total municipal expenditure decreases, the EPE still grows, which violates the luxury good concept. Nevertheless, this behavior of EPE shows that it has a high priority among the municipal expenditure.

Keywords

EPE, environmental protection, municipal expenditure, CEPA, Czech Republic

Self-financing of Non-government Organizations versus General Benefit of their Goals

Mária Svidroňová, Gabriela Vaceková

Abstract

Presented paper deals with self-financing of non-government organizations and compares the current state and potential of self-financing in Slovakia and Austria. We focus on exploring self-financing activities of NGOs in the context of maintaining a generally beneficial purpose for which they were based. We draw on the comparable outcome of primary research conducted in Slovakia and Austria, showing that self-financing must be understood in a broader context than the "business" of non-government organizations and that it may be in compliance to the general benefit as the primary purpose of organizations founded on non-profit basis.

Keywords

Non-government organizations, non-profit organizations, self-financing, general benefit