

Philanthropy and Corporate Social Responsibility in Central & Eastern Europe

 **CZECH REPUBLIC**



Introduction

Sustainable development requires **cooperation, evidence-based decision-making, and a supportive environment**. Being aware of how much more needs to be done, creating the best possible conditions for corporate and individual donors to grow and sustain their engagement is essential today, perhaps more than ever before.

There is **enormous philanthropic potential in the CEE region**. The survey "[Philanthropy in Central & Eastern Europe](#)" conducted in 2020 in the Czech Republic, Slovakia, Poland, and Hungary clearly indicates that two out of three individual donors (65%) want to increase their philanthropic giving. Moreover, companies are starting to operate in a responsible and sustainable manner, motivated by increasingly conscious employees, investors, and consumers. As many as 39% of Czechs are already willing to pay more for products and services offered by socially responsible brands.

One thing is certain – **individuals and businesses have more and more resources and willingness** to effectively support nonprofit organizations and public administration in tackling the most pressing social and environmental challenges. Making it easier for them is in the best interest of us all. It is so little and so much at the same time.

The report for the Czech Republic we are presenting to you today is a part of a larger study which is being conducted in 11 countries of Central & Eastern Europe. Our goal is to identify barriers and potential incentives for individual and corporate donors and to recommend changes. We hope to provide key Czech actors and decision makers with a powerful tool that will enable them to **strengthen their impact ecosystem** and facilitate more informed, intentional, and impactful giving.

Methodology

IDIs (individual in-depth interviews), January to April 2022

In the initial phase, we mapped the Czech ecosystem to identify key players representing various environments and opinions. Experts from 16 carefully chosen organizations – mostly umbrella organizations for family businesses, corporate foundations and nonprofits, academic institutions, and national and international organizations supporting social engagement in the

Czech Rep. and in the region – were invited to participate in individual in-depth interviews, carried out online according to a structured scenario. The report was prepared after a thorough analysis of the gathered opinions and perspectives, taking into account the voices of organizations working on the ground, who represent and support over tens of thousands of private and social entities in total. You can find their list below.

Participants

Ashoka
Association of Social Responsibility
AMSP
AVPO CR
CEZ Group
Coalition for Easy Giving
Czech Invest
EY

Frank Bold
Glopolis
Google
Lidl Czech Republic
Prague University of Economics and Business
Silke Horakova
The Via Foundation
Vodafone

Country Profile

The Czech Republic is characterized by **a well-developed social ecosystem**, so the country is often presented as a role model for the CEE region. "Philanthropy in Central & Eastern Europe 2020" research indicated that this is where average donations were highest in terms of value, as compared to Poland, Slovakia, and Hungary.

Recent years have seen the importance of social responsibility grow significantly in the Czech Republic. **More and more people are aware of and interested in this issue.** A series of major crises (COVID-19, tornado in Moravia, war in Ukraine) has convinced Czechs that mutual support and assistance is crucial. The social sector and the public administration should **nurture the accumulated social capital** and cultivate the willingness of citizens to act. Not only in times of crisis.

The increase in engagement applies in particular to the **growing group of so-called mid-level donors**, i.e. among individuals donating annually between EUR 400 and 1,000. It is also noticeable in the corporate sector. New EU regulations and legislative requirements are also having a significant impact, motivating companies to take action here and now. As a result, ESG strategies and ESG teams are emerging in major companies. There is still plenty to be done in this area, but many valuable **initiatives that are already taking place deserve appreciation.**

The development of the ecosystem is also very much influenced by social organizations. The Czech Republic is characterized by **high fragmentation of social sector**, which can sometimes lead to excessive competition for donor attention. At the same time, the large number of organizations has its perks, as it facilitates the exchange of ideas and the emergence of working groups. In the coming years, their collaboration should become standard practice.

A key area that concerns all stakeholders is the **legal and tax environment.** Both businesses and the general public see it as complicated. Entrepreneurs often do not know how to proceed in accordance with the law, which entails additional costs associated with, e.g., procuring professional advisory services. With the level of motivation still being quite low, this discourages many companies (especially SMEs that lack in-house advisors) from undertaking socially responsible activities.

Special attention should be paid to the area of **tax reliefs.** Under the current law, the maximum amount of all tax-deductible donations is 10% of the tax base for corporate income tax payers and 15% of the tax base for personal income tax payers. Due to the COVID-19 pandemic, this deduction limit has been temporarily raised to 30% for tax periods 2020 through 2023. The question what to do next remains open – is the 30% limit worth keeping?

Unlike several other countries in the CEE region, the Czech Republic has **no mechanism for redistributing tax proceeds** to social purpose organizations in accordance with the taxpayer's preferences. Interestingly, many organizations in the Czech Republic have considerable doubts whether such a mechanism would work. Potential concerns include excessive competition for funds, reduced motivation to donate from one's own funds, and limitation of other government programs such as grants and subsidies.

Notwithstanding, the main point is that **strong social capital has been developed in the Czech Republic.** Maintaining it, while creating a simple and effective legal environment, seems to be key for developing donor engagement and mobilizing private resources for social purposes. It is our hope that the recommendations on the following pages, prepared in collaboration with organizations that are shaping the Czech impact ecosystem, will be helpful in establishing priorities and directing further action.

Postulates & recommendations concerning “soft” actions

More stakeholder collaboration

The complex challenges we confront today and will continue to face in the near future (climate change, energy insecurity, etc.) cannot be solved by a limited group of actors or in a limited scope of thematic areas. The problems are interlinked and involve different levels of society. Exchanging ideas and connecting people around impact is what is needed but lacking. There is a lack of reliable and consistent data sources. Data from tax returns is incomplete, and so is the data on public collections.

Recommendation:

Share best practices, initiate intra- and cross-sector cooperation. Create a space to exchange perspectives, promote collaboration and collect reliable data. A single, comprehensive, universal and accessible source of knowledge will help facilitate collaboration and prioritize actions.

More education and training

Moving from crisis giving to regular giving is a matter of education. Despite the growing interest in this subject among individuals and businesses (especially the boards), not enough high quality education and training opportunities are being offered. There is a constant shortage of experienced practitioners in businesses, nonprofits, and consulting agencies. The lack of such knowledge in organizations results in inadequate support for decision makers.

Recommendation:

Conducting educational activities related to social involvement at all possible levels. Training for companies, nonprofits, and public institutions. Providing soft skills education on topics such as working with different actors and opinions.

Combining social and business goals

Companies are at different levels of development when it comes to ESG/CSR strategies and the teams responsible for them. In many cases, their ability to act is limited by a shortage of resources and people. Despite the rising importance of ESG and the growing role of Chief Sustainability Officers, many companies continue to treat social goals independently of their business goals. In most cases, they have separate strategies for each. Strategic approaches to solving social problems are still missing, and activities are undertaken mostly as reactions to crises.

Recommendation:

There should be greater emphasis on systemic approaches in businesses. Businesses should be encouraged to adopt approaches based on impact calculations and qualitative measures of success. ESG/CSR teams should be strengthened.

Focus on mid-level donors & the younger generation

The segment of mid-level donors (defined as those donating from EUR 400 to EUR 1,000 per year) is growing the fastest due to the increasing wealth of the society, the growing awareness, and the need to make a positive impact. The young generation expects a high level of social involvement and feels the urge to act. As employees, they engage in volunteering and look for volunteering programs in their companies. As owners of companies, they put more emphasis on social responsibility and ESG. As customers, they more often expect responsible activities from the brands they use. This creates a potential.

Recommendation:

Pay attention to these groups; explore their motivations, needs, and challenges and address them. Create tools and campaigns in line with their way of thinking and acting. Continuously increasing the involvement of this segment is crucial to popularizing social engagement.

Funding social issues: room for improvement

There is a slowly developing trend among bigger donors towards longer-term and less dispersed engagement, but the number of funding opportunities for systemic issues is still insufficient. Companies decide to create comprehensive ESG strategies because it is required when acquiring green and social bonds or participating in tenders. Although impact investors prefer impact over return, some return is still needed. In the public sector, grantmaking is not treated as an investment. Nonprofits do not diversify their sources of income in order to reduce the risk of operation.

Recommendation:

Moving from short-term projects to long-term, strategy-driven actions. Introducing soft criteria to evaluate initiatives in the grantmaking process and benefits for tenderers who support social and environmental causes. Long-term funding of social sector actors must be created.

Promote good practices and positive narration

Businesses often publicize their socially responsible activities, whereas individuals are more likely to keep their engagement anonymous, especially when it comes to large sums. Representatives of the older generation (also among business owners) are not always convinced that the subject of social responsibility is noteworthy.

Recommendation:

Promote role models among businesses and their leaders as well as individuals. Good practices should be used to grow the engagement.

Tax and legal postulates & recommendations

Creating a supportive environment by public administration

Both businesses and the general public see legal and tax environment as quite complicated. Establishing a supportive (or at least not obstructive) regulatory environment for the social engagement of all actors is crucial. Without it, building strategic commitment becomes difficult, because following regulations takes too much time and energy.

Recommendation:

Simplifying the law, creating incentives, and providing explanations for the more complex regulations are necessary for stakeholders to easily interpret the rules, so that the law does not hinder them from increasing their giving.

Tax relief for donors

The current tax breaks for donors (10% of the tax base for corporate income tax payers and 15% of the tax base for personal income tax payers) are not a sufficient incentive for individuals and corporations to start donating, but they certainly encourage donors to be more active and contribute larger sums. Arguments have been raised for maintaining the currently raised tax relief limit (30%) and deducting donations directly from the tax, not from the tax base (the current mechanism is not clear to the general public).

Recommendation:

A financial analysis is needed to verify whether the introduction of the increased tax relief limit has contributed to an increase in donations; if so, maintaining it and making it the new normal should be considered. The mechanism should also be further simplified.

VAT and in-kind donations

Companies providing support in the form of material gifts (in-kind donations of goods) must generally, with one exception, pay VAT on the supplied goods. Many try to mitigate the VAT burden by not registering the donations at all or by applying artificially reduced or even fictitious pricing (e.g. EUR 1 per donated computer). Some companies are not even aware of the VAT obligation, and they withdraw their support after finding out about it from NGOs.

Recommendation:

There is a need to create more exceptions to the general rule, preferably in line with the state's social and environmental strategy. At present the only relevant VAT exemption pertains to the supply of goods to recognized humanitarian and charitable organizations that subsequently export the goods outside the EU (e.g., to Ukraine) as part of their humanitarian, charitable, or educational activity.

VAT and pro bono services

Similarly to in-kind donations, pro bono services also require the payment of VAT. The arguments used by the tax administration in this regard include that the regulations must be consistent with the law of the European Union. However, the EU law appears to allow for national derogations in this respect, and experience from other markets (PL) shows that the practice can indeed differ.

Recommendation:

There is a need to modify Czech law to allow for VAT-advantageous treatment of pro bono services and to spread education and knowledge on how pro bono services can be provided in the most VAT-efficient manner.

Public Collections

Many organizations find the Czech regulations regarding public collections to be complicated, bureaucratic, and ambiguous. For these reasons, they are often reluctant to organize and carry out public collections. The rules for online fundraising, which is governed by the same law as public collections, are also far from being clear. This has been pointed out as an area for potential improvement.

Recommendation:

In the short term, the already existing public collection platforms can be used by third parties. A long-term solution would be to introduce legislative modifications aiming to strike a new balance between protecting the general public against fraudulent collections and serving legitimate social interests by simplifying, de-bureaucratizing, and encouraging giving.

Employee volunteering

A number of problematic issues were raised by employers in regards to the volunteering activity performed by employees. It has been pointed out that the relevant legal framework is insufficient and in need of adjustment.

Recommendation:

Legislative modifications are necessary to create new opportunities for employees to volunteer within and not only outside the employment relationship. For example, volunteering activity could be considered as performance of work under the employment contract upon meeting certain conditions (such as an agreement between the employer and the employee).

Social enterprise

For entrepreneurs, the establishment and running of a social enterprise is a complex, time consuming, and complicated procedure. Social enterprises may take various legal forms; they can be either nonprofits (such as associations, publicly beneficial companies, foundations, or endowment funds) or for-profit organizations (such as limited liability companies or co-operatives). It should be noted that being classified as a social enterprise does not in itself bring any tax or other legal advantages. Consequently, entrepreneurs do not view it as particularly advantageous or beneficial.

Recommendation:

Promote more extensive use of the social enterprise by granting it tax reliefs similar to those currently in existence for the category of publicly beneficial taxpayers.

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Thank you.