

The Governance Structures of Community Foundations – Country Report RUSSIA

Legal and fiscal environment

Foundations are one of the many types of non-profit organisations allowed by Russian legislation. Most legally registered foundations call themselves charitable foundations and are created for the public good.

Legal requirements for establishing a foundation are very general. Foundation founders (a founder can be an individual or a group of individuals, or other organisations) are requested to bring some sort of initial capital to the foundation. However, it is not stated in the law that such capital should be of a certain size or be given under certain conditions. It is also generally stated that a foundation could have a board but board members do not bear any personal responsibility over the foundation and are not liable in regard to its finances.

Current legal requirements for foundations give practically everybody the possibility to establish a foundation. However, over the past ten years such generous legislation brought many problems as far as the development of foundations in Russia is concerned.

There are two types of foundations allowed by Russian legislation: a “charitable foundation” and a so called “public foundation”. There is not much difference between them in terms of ways of being established and governance.

Foundations are not asked to pay taxes on their income if this income comes in the form of charitable donations or grants and is distributed in accordance with a foundation’s purpose. However, if a foundation has an endowment the interest on the endowment is taxed as it is considered as a commercial kind of profit, even if it is distributed in grants by the foundation. This particular fiscal regulation is one of the obstacles that slow down the development of endowed foundations in Russia. If a foundation is engaged in any kind of commercial activities it is also expected to pay taxes accordingly, as any other company would be.

Community foundations are not mentioned separately in the law and are thus governed by the same laws that apply to Russian foundations in general. There were a number of efforts to write a draft “Law on Foundations” where this situation could be looked at in more detail, but this work has not yet been finished.

To learn more about the situation of foundations in Russia please check the document [“Foundations in Russia’s Non-profit Sector”](#) where more is said about the legal and fiscal framework of Russian foundations and further information is given on the role played by foundations in Russian life and their potential for future development.

Community foundations in Russia

The basic principles of community foundations in Russia are the same as everywhere else in the world: community foundations are created for the benefit of a local community; they provide services to local donors in managing their funds; they aim at establishing endowments and they give grants to local projects.

The community foundation model in Russia has several elements which play an important role in its successful adaptation to the Russian environment and that make community foundations realistic to organise. These elements are the following:

Starting with grantmaking programme first and then creating an endowment

Russia’s difficult economic situation results in the lack of wealthy donors and the general instability of the banking system do not create a good environment for establishing endowments for community foundations. Moreover, the concept of endowment is still almost unknown to the Russian public and finds more suspicion than interest. Inefficient, non-

transparent and sometimes criminal policies of some charitable foundations created large public distrust towards foundations in general.

That is why the first community foundations in Russia start their activities by establishing a grantmaking programme and then in the course of two/three years move to creating an endowment. The experience of the Togliatti Foundation showed that the two grant competitions organised in their first year of operations generated significant trust and support from the public and the business community. The foundation proved right from the start that it was created for the benefit of the community, with an open and transparent grantmaking process and with the capacity to manage substantial funding resources. As a result of such policy in the second year some of the local donors took themselves the initiative to create an endowment to ensure the foundation's stability and sustainability.

Governance structure: the "one-third principle"

One of the most serious problems in creating community foundations in Russia is in setting up their governance structures. Democratic decision-making procedures and governance structures are almost unknown to Russian regions, boards have never existed before.

Therefore, CAF-Russia suggested the "one-third principle" when creating governance structures for community foundations. It states that one third of the seats both on a board and on a grants committee should be filled by local authorities representatives, one-third by donors and or the business sector and one-third by representatives of the general public (some of them could represent large and well-established NGOs which will not apply normally for foundation grants and others could be just individuals respected in the community). The "one-third principle" promotes the balance between the interests of the business community, local government and the general public and does not allow one party to take over the foundation's decision-making process.

Competition in funds' distribution

Another important element is competition in distributing funds. Again, competitive distribution of charitable funds was practically unknown in Russia until recently. Most local donors and the government distributed funds based on the subjective judgement of individual decision-makers. There were no clear guidelines for decision-making, the general public could not understand why this or that NGO was supported by local authorities or why a company supported shelters in one year and theatres the other.

Competing for grants provides NGOs with equal opportunities in obtaining funding, it takes away from individual donors the responsibility for deciding on, and in particular for refusing, funding and explains to the general public why this or that project is supported. Grant competitions became popular not only in relation to community foundations but also among the business community as a way to conduct their philanthropy programmes.

Governance structure

As it was mentioned above, the governance structure of community foundations is based on the so called "one-third principle": a third of the members are representatives from local government, a third are representatives from local donors (mainly from the business sector) and a third are representatives from civil society in general (ordinary citizens).

The highest authority of a community foundation is the **Council of Founders** or **Council of Donors**. These are the people who give money to the foundation. The council decides on the establishment of the foundation, appoints its first **Board** and its first **Grants Committee**. However, both the board and the grants committee are appointed along the lines of the "one-third principle".

Board responsibilities

The board (also known as "advisory board") approves the foundation's strategy, annual plans and reports, as well as the foundation's annual budget. It also approves the foundation's investment strategy for endowment building if an endowment is created. The board approves the appointment of the foundation's executive director.

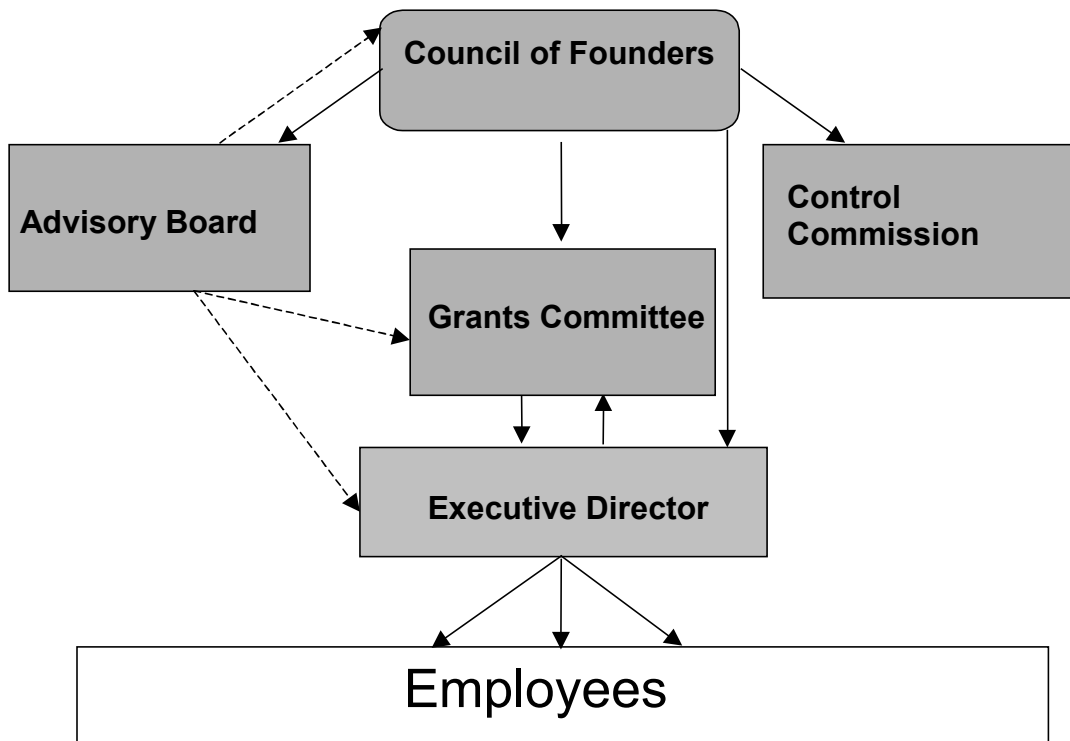
Grants committee responsibilities

The grants committee reviews applications for grants for the foundation's general grants competition (unrestricted funds) and approves funding for particular projects. It also gives final approval for grants to be made from "donor advised funds" and "field of interest funds".

All structures mentioned above comprehend representatives of the local community. Council, board and grants committee members receive no pay whatsoever for their services to the community foundation.

The Executive Director is a paid employee. He or she is appointed by the board but the appointment ought also to be approved by the council of founders (or council of donors). An Executive Director undertakes the day-to-day management of a foundation, hires and fires other employees, deals with banks, provides consultation to applicants and grantees, and fundraises for the foundation.

Community Foundation's Governance Structure



For further information on the governance structures of Russian community foundations, please check the sample document ["Statutes of the Moscow Community Foundation"](#), where more details are given about governing bodies and their responsibilities.