

# BENEFITS AND RISKS OF SELF-FINANCING OF NGOS – EMPIRICAL EVIDENCE FROM THE CZECH REPUBLIC, SLOVAKIA AND AUSTRIA

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## Introduction

The impulse for processing the presented paper was a scientific research of John Hopkins University in Baltimore (USA) from which the results are studies which compare the inter country non-profit sector, describing the size and power of diverse indicators. The research was carried out in 1995, twenty-two countries participated, among them the Czech Republic, Slovakia and Austria.

These countries were part of the Austro-Hungarian Empire between the years 1867–1918. Even during this period there was a non-profit sector, represented by charities and various voluntary associations and self-help groups or institutions providing social and health services for the poor. After the collapse of the monarchy, the non-profit sector was developed in the successor countries of Austria and Czechoslovakia and later on in countries of Czech Republic and Slovak Republic after they split in 1993. Different political regimes have affected the non-profit sector and its formation in these countries [10], [13].

According to available information such a study, based on primary research and focused on benefits and risks of self-financing of NGOs in these countries, has not yet been published. All so-far published studies remain at a summarizing and descriptive level.

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 (e.g. see Anheier and Salomon, 1997; Bútora, 2011, Frič, Goulli, 2001, Haken, 2005, Hansmann, 1996; Hyánek, 2011;

Kuvíková, 2004; Marček, 2004; Ondrušek, 1998; Pestoff, 2006; Petijová, Woleková, 2006; Rektořík, 2001, Rose-Ackerman, 1996; Toepler, 2003, Weisbrod, 1988 and others) in a number of publications prefer a broader description of the characteristics of non-profit organizations. The structural-operational definition by Anheier and Salamon [7] 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 [2], [4], [6], [11]: 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 (membership fees, sale of services and products, the use of intangible and tangible assets, and the use of investment appreciation). It is not their goal – it would be in contradiction to several principles of their financing (multi-sourcing, non-distribution constraint). In the paper we want to prove that self-financing may be in compliance with the non-distribution constraint of NGOs [17], e.g. it 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 the self-financing has an effect on the non-distribution-constraint of NGOs.

### 1. Research Methodology

The paper provides a new insight into the studied problem while generating an empirical basis for further scientific study and research work in this field. The goal of the paper is to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, Slovakia and Austria.

Primary data was obtained by the sociological method of a structured questionnaire. The data gained in the Czech Republic in 2013 are a 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“. For Slovakia the data are the findings of primary research conducted in 2012 within the dissertation "Self-financing and sustainability strategy 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. Source data for Austria are the findings of the project "Different sources of funding of non-profit organizations" [9] conducted in 2010 by the Research Centre NPO-Kompetenzzentrum WU Wien.

In order to achieve comparable findings the same research steps in the countries were chosen [1]:

- 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 a selected sample of NGOs in the Czech Republic (CZ), Slovakia (SVK) and Austria (AT) we can focus on the self-financing of NGOs in the context of its benefits and risks. For further information about self-financing and sustainability strategy also the best practices of selected Czech and Slovak NGOs can be taken into a consideration (see Svidroňová, 2013 – [15]).

Non-profit organizations can be classified in terms of the founder or proprietor to the government (non-profit state) and non-government (non-profit private) organizations, i.e. NGOs. We focus on NGOs that are represented in the Czech Republic as follows:

- Civic associations (46% of respondents);
- Foundations (6% of respondents);
- Foundation funds (2% of respondents);
- Public benefit organizations (21% of respondents);
- Church or religious associations (25% of respondents).

Due to the fact that in the Czech Republic we started the survey in 2013 and we have just pasted the phase of a pre-research (including the pilot testing) we have answers from 67 respondents (of the surveyed 250 NGOs).

In Slovakia the four main types of organizational-legal form are very similar:

- Civic associations;
- Foundations;
- Non-investment funds;
- Organizations providing public benefit services.

Of the 670 surveyed NGOs we obtained data from 182 respondents, the sample structure is shown in Table 1. It is a final number of respondents, Chi-square test proved the representativeness of our sample at the significance level alpha of 0.05 (p-value of 0.129 > alpha):

**Tab. 1: Sample size in Slovakia**

Legal form	Absolute number	Relative number
Civic association	152	83.52%
Foundations	6	3.30%
Non-investment fund	3	1.65%
Organizations providing public benefit services	17	9.34%
Others (Church associations, Red Cross, etc.)	4	2.20%
Total	182	100.00%

Source: own research, 2012

In Austria (266 respondents) there are the following legal forms of NGOs:

- "Verein" (association),
- "Stiftung" (foundation),
- "gemeinnützige Kapitalgesellschaft" (public benefit organization),
- "Genossenschaft" (cooperative).

Likewise, in the Czech Republic and Slovakia the strongest represented and therefore the dominant legal form is the association [8].

The presented results are very detailed in Slovakia, in the case of the Czech Republic and Austria the results are not so complete and detailed. It is due to a different scope of the surveys and different sample sizes in the selected countries. The surveys themselves were conducted under each country specific circumstances, so the NGOs samples are not comparable in terms of time and size; it was not the aim of our survey. We do not want to make any compliance tests among the countries; we analyse and interpret obtained primary data in order to acquire an empirical knowledge which allows us to formulate several solutions and recommendations for theory and practice in the field of self-financing of NGOs. We have data from two completed surveys (AT and SVK) and one preliminary survey in Czech Republic. Therefore we do not provide the analysis to the same depths in all three selected countries and do not try to interpret the causalities and results of statistical test, which would compare the three different research samples. It is not the scientific goal of the paper, and it would be irrelevant to the surveyed topic.

## 2. Results and Discussion

The output of the paper is defining benefits and risks of self-financing of NGOs with focus on an empirical approach. We point out the difference between self-financing and commercial/business activity of NGOs, and on the basis of relevant outcomes of primary (pre-) research in CZ, SVK and AT we prove that self-financing is not only a business activity in the common market conception. We also want to show that self-financing may not be inconsistent with the non-distribution constraint of NGOs.

## 2.1 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"[9].

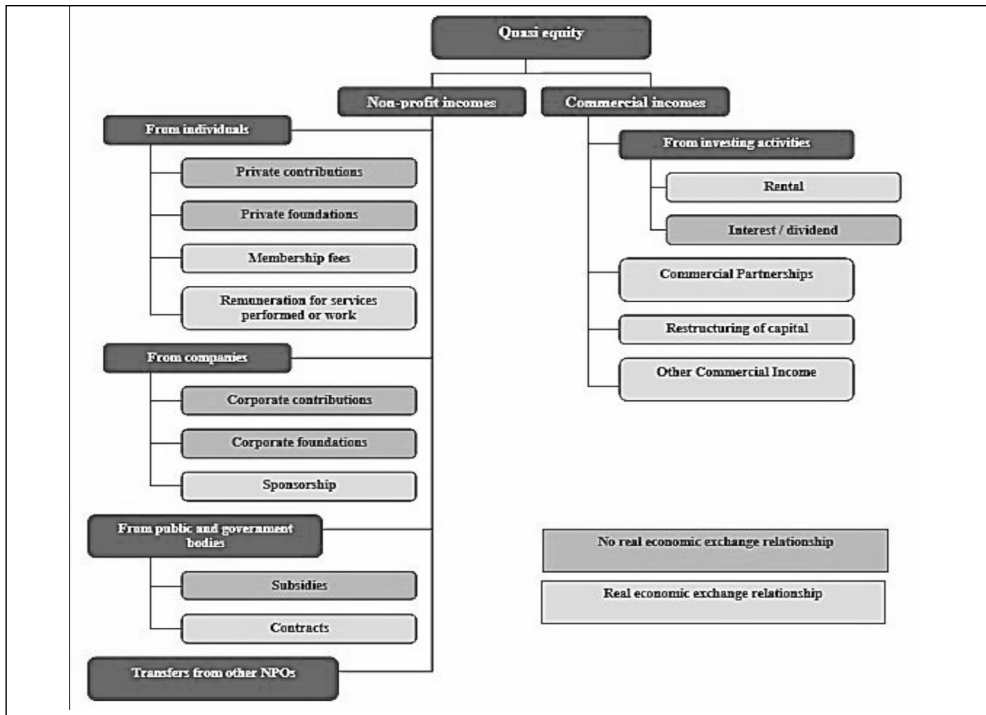
The "quasi-equity" can be divided into typical non-profit incomes and standard commercial incomes. Under typical non-profit incomes [12] we understand incomes primarily related to the main core work and mission of an NGO; these incomes may come from a variety of funders.

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 includes 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 table represents the main sources used in NGO funding, the outcome is from primary research in the Slovak Republic (182 respondents) and in Austria (266 respondents) and from pre-research in the Czech republic (67 respondents).

Fig. 1: Quasi-equity



Source: own processing based on [9]

Tab. 2: Sources of funding of NGOs in Slovakia and Austria

Type of funding	Source of funding	CZ	SVK	AT
Quasi-equity: non-profit income	State, state subsidies, municipal budgets	67%	42%	91%
	State/public contracts	*	4%	n/a
	Individual donors/companies	66%	60%	56%
	Grants (private foundations)	48%	45%	34%
	Assignations of 2% of tax income	n/a	92%	n/a
	Memberships fees	24%	62%	51%
	Sale of own products and services	69%	58%	63%
	Sponsorship	1%	n/a	53%
	Foreign sources, including EU grant and subsidies	22%	13%	41%
Quasi-equity: commercial income	Assets rental	28%	15%	19%
	Investment appreciation	3%	8%	21%
	Clearing of reserves	0%	0%	22%
Borrowed capital	Bank loans	*	0%	22%
	Pre-financing agreements	0%	0%	6%
Other	Other sources	1%	8%	n/a

Source: SVK – own research, 2012; CZ – own research, 2013; AT – [9]

\* Due to the fact in CZ it was a pre-research we do not have completed data for Czech Republic.

In the Czech Republic public funding is widely-spread, closely followed by funding from individual donors and companies. However, of the highest significance is funding from the sale of their own products and services. As other sources, one respondent stated a collection (fund-raising campaign) which could be appointed to a special way of raising funds from individuals and companies for specific purpose.

In Slovakia 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.

In all three 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 table shows, the non-profit income can be generated from self-financing activities that are not necessarily of a commercial character, e.g. sale of own products and services that are in compliance with core work. 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 the non-distribution constraint principle of NGOs in the implementation of self-financing activities.

### 2.2 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 [3].

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 several conditions that differ from country to country. Usually the main activity, the so-called core work of the NGO, is either not subject to taxation at all (SVK), or, up to a given amount of profit from the core work it is exempt from tax and above this amount the profit is subject to taxation (CZ). In Austria the law is even more complicated and the conditions for tax exemption vary from region to region. Generally we can say that tax exemption is a sort of compensation for non-distribution constraint. Weisbrod [17] pointed out that when NGOs cannot decide about the use of their profit, they have tax exemption instead.

If the activity is not a core work activity or it complies with the definition of business as stated by EU regulation, then we are talking about another form of self-financing called 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 [12].

### 2.3 Identification of Benefits and Risks of Self-Financing of NGOs Based on Empirical Findings

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. The benefits and risks of self-financing in this concept can be described as follows (Table 3):

**Tab. 3: Benefits and risks of self-financing**

Benefits	Risks
Increase of income (self-financing as a an additional source of funding)	Divergence of organizational sources
Increase in diversification of funding (increase of NGO's sustainability)	Risk of focusing on business and not on the mission of NGO
Increase in flexibility (income raised by self-financing is not limited by donors' conditions)	Reinvestment of profit into profitable activity, not into core work
Improvement of strategic and long-term planning	Risk of loss or debt
Improvement of financial management and discipline	Loss or damage of NGO's reputation
Positive impression on donors (NGO is able to co-finance a project with its own funds)	Changes in motivations of employees and in demands on staff
Empowerment of board of advisors by using their business and managerial skills for self-financing	Competitive environment of the commercial sector (with self-financing NGO enters the commercial market)
Broadening a portfolio of products and/or services and thus broadening the client base	Distribution of products and services (SNO have limited capacity for servicing the market)
Increase of NGO's self-confidence in case of successful use of self-financing activities	Problem with servicing large target group (in case of growth)

Source: own elaboration, 2013

The goal of the paper is to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, Slovakia and Austria. The Table 3 represents a theoretical approach to the topic without a need of statistical verification. The statistical verifications of primary data are included in the part of the paper, which is devoted to the empirical approach.

We conclude that despite the comparable size of the countries, as well as their shared past in the Austro-Hungarian monarchy, the influence of economic and non-economic factors leads to different development of NGOs and their funding, including the self-financing.

**2.3.1. The Case of the Czech Republic**

The data mapping the self-financing activities in the conditions of the Czech Republic were obtained in some pre-research conducted during the spring of 2013. It generally shows that self-financing is not only a trend of recent years. The most respondents (75–90% in the dependence of the age of the organization) chose some forms of self-financing in the early years of their existence. In general we can conclude that 79% of NGOs that took part in our pre-research raise funds through self-financing.

We asked the respondents to identify the problems (risks) connected to the self-financing of NGOs. They named e.g. business risk; risk of conflict with the organization's mission; the risk of organizational and professional unpreparedness of the NGO for self-financing and the risk of excessive dependence on only one financial source.

Furthermore, we were interested in the views of respondents on the issue of self-financing as a commercial activity. In general, most of the NGOs (ca 75%) expressed their opinion in the sense that it is not an activity distracting from the main mission – this confirms our assumption expressed in the part devoted to the definition of “quasi-equity” (i.e. non-profit incomes vs. commercial incomes).

To confirm the importance and benefits of self-financing of NGOs we proved the tendency of respondents to use self-financing in the future (98% of respondents answered in a positive way). The results of the pre-research confirmed that even if the total volume of other financial sources is in the majority of NGOs greater – especially public and private sources – the self-financing activities are for the majority of NGOs an absolutely essential part of fundraising.

**2.3.2. The Case of Slovakia**

The results were obtained in the research about the funding of NGOs in SVK [14]. The self-financing is used by 87.4% of NGOs in Slovakia. If we look at the distribution of sources within one organization then the least used sources are state/public contracts (only 2.20%). This suggests that in SVK suitable conditions to provide public services by NGOs are still missing. They have to search for other sources and therefore private funding represented by

grants is at a higher rate, as well as membership fees. On the other hand, self-financing within one organization is represented by 25.4% [14] which is higher than the estimation reported in "ideal" diversification of funding sources [16]. 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% [5].

For the Slovak case we bring the evidence that even young NGOs use self-financing (table 4):

**Tab. 4: Use of self-financing by the age of NGOs in Slovakia**

Length of existence	up to 5 years	5–10 years	10–20 years	more than 20 years
Length of use the self-financing				
we do not use self-financing	7	2	12	2
1 year	13	2	1	1
2–5 years	32	11	9	1
more than 5 years	-	26	37	26

Source: own research, 2012

As table 4 shows also organizations less than 5 years old use self-financing. For example, 13 organizations younger than 5 years use the self-financing for one year and 32 such organizations apply self-financing activities for 2–5 years. We can therefore conclude that also young organizations recognize the need to diversify sources and they try to apply self-financing in order to gain financial stability.

Due to the evaluation of the impact of self-financing on the non-distribution constraint 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.

**2.3.3. The Case of Austria**

Austrian NGOs have very strong state support and the use of public funding is very significant. The most used source of funding in Austrian NGOs is public sources, used by 91% of respondents participating in the research [9]. 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 fulfil the mission and keep the non-distribution constraint 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 [9]. 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 is 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 [9]. 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 case 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 and can be in compliance with non-distribution constraint.

## 2.4 Discussion

The experience of NGOs in all three countries clearly indicates the need to use forms of self-financing in the interest of their stability, although in no case this shall be the only way or sole source of income. When raising funds by the shown forms of self-financing, NGOs must reckon with certain risks. These are more numerous, larger and more challenging than those to which profitable companies are exposed (see Table 3).

For each form of self-financing there is a rule that the more the organization diverges from its mission, the greater risk it takes in the case of unsuccessful realization of a business plan.

The entry of NGOs on the standard market (with profitable businesses) brings some problems that are shown together with the calculation of statistical variables reflecting their importance in Tab. 5 below (scalability assessment: 1 = very serious problem, 2 = serious problem, 3 = minor problem, 4 = slight problem, 5 = I cannot judge), and symbols a) to e) referring to problems. The description of the problems is in the text below the table:

**Tab. 5: Problems connected with funding the NGOs by self-financing**

Indicator / Problem	a)	b)	c)	d)	e)
Mean	1.81	2.11	2.34	2.44	0.21
Median	2.00	2.00	2.00	2.00	0.00
Standard deviation	1.143	1.229	1.187	1.168	0.577
Minimum	0	0	0	0	0
Maximum	4	4	4	4	3

Source: [16]

- a) "vulnerability" of the NGOs, if the organization relies on one-sided funding depending on the success of its market activities or other forms of self-financing (average importance  $1.81 \pm 1.143$ ),
  - b) the potential risk that the organization "forgets" its mission and that making a profit becomes a priority (average importance  $2.11 \pm 1.229$ ),
  - c) strong competition from the private sector (average importance  $2.34 \pm 1.187$ ),
  - d) the organization may overestimate their ability and capacity to implement and develop self-financing activities (average importance  $2.44 \pm 1.168$ ),
  - e) among other issues the respondents named limited legal options for self-financing; high risk of abusing the self-financing possibilities; legislative barriers that do not allow any (or very few) business activities to certain types of non-profit organizations (e.g. foundations), unclear explanation of the rules on the funding of NGOs, lack of capital and knowledge, lack of "a culture of support for the third sector" in the form of purchasing its products and services." [16].
- We tested these problems (especially the problem in point b) distracting from the mission), which occurred in 2009 in the Slovak



NGOs, on the case of the Czech NGOs in 2013 and the Slovak NGOs in 2012. Although we cannot provide the same statistical calculation as in Tab. 5 due to a change in response scale (in 2009 a scale 1–5 was used, in later survey respondents answered yes/no/other option), we can conclude that while the problem of the potential risk that the organization "forgets" its mission and that making a profit takes first place was considered serious (importance 2.11) in research in 2009 it has now has lost importance. The vast majority of respondents now think that self-financing does not distract from the core work and mission fulfillment: in Slovakia it was 86% of respondents that thinks self-financing does not distract from the mission and core work, only 11% of NGOs thinks it does, 3% of respondents (4 NGOs) stated that it depends on other factors, e.g. a legal type of a NGO using the self-financing. In the Czech Republic the pre-research showed similar results. 81% of respondents claimed that self-financing does not distract from the mission and core work; on the contrary, the mission and core work of NPOs were supported by self-financing. Only 13% of NGOs thought that self-financing was a pure commercial activity and 6% of respondents could not decide. These results were gained in a pre-research; they will be proved in an upcoming primary research that will be conducted in 2014. Despite the problems associated with self-financing, this method of funding is currently viewed as one of the possible ways to the financial stability and independence of NGOs. Concerning independence, it is understood not only from the point of view of its financial aspects. It is also independence from the environment where the NGO is and when the organization needs to decide the direction of its activities. This independence is directly connected with financial independence [13].

## Conclusion

By exploring the self-financing activities of NGOs in three different countries we tried to bring some empirical evidence showing that the commercial activities of non-profit organizations must be understood in a broader context than a "business" and that the commercialization of non-government organizations can be in compliance with the non-distribution constraint.

Therefore the goal of the paper was to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, Slovakia and Austria. We fulfilled this goal by presenting the partial results of primary research and furthermore we managed to confirm that self-financing is a suitable method used for raising funds and also one of the possible ways to gain financial stability, independence and, in the end, also the long-term sustainability of NGOs.

In the submitted paper we have shown that self-financing of NGOs can be connected to their core work and does not have to be in conflict with the non-distribution constraint. The fulfillment of the mission of NGOs supported by commercial activities in accordance with established core work can be considered as an appropriate way which should be undertaken by NGOs in order to achieve their financial independence and stability. We can conclude that the benefits of self-financing prevail over its risks.

The scope of our survey, which we introduced in the presented paper, could be a suitable basis and a starting point for further scientific activities in the field of the commercialization of NGOs. The empirical findings will be strengthened by a theoretical approach to the explored issue in our forthcoming research.

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## Abstract

**BENEFITS AND RISKS OF SELF-FINANCING OF NGOS – EMPIRICAL EVIDENCE FROM THE CZECH REPUBLIC, SLOVAKIA AND AUSTRIA****Gabriela Vaceková, Mária Svidroňová**

*Self-financing of non-government organizations is a highly discussed topic in the theory and practice of non-government organizations (NGOs). In the presented paper we respond to the current theoretical and practical questions associated with self-financing in the context of an effort to achieve financial independence and thus a long-term stability of NGOs. Our intention is to present and interpret the results of the analysis of primary research of funding the NGOs in the Slovak Republic and Austria and preliminary results of a pilot pre-research in the Czech Republic. Based on the historical development of these countries, especially the development of the non-profit sector within the conditions of every country and on the relevant empirical findings we assess and compare the current extent and potential of self-financing in the selected countries (including the extent of other sources of funding). We point out the benefits and risks connected to the examined issue and try to show that self-financing of NGOs must be understood in a broader context than just a "business" or a commercial activity and that it can be in compliance with the core work. Furthermore we explore the effect of self-financing on the principle of non-distribution-constraint of NGOs and we try to point out that self-financing can be in compliance also with this principle. By presenting these conclusions we fulfil the scientific goal of the paper, which is to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, the Slovak Republic and Austria.*

**Key Words:** Non-government organizations, non-profit organizations, self-financing, non-distribution constraint.

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