Up-to-date information on trends and developments in Japan's civil society

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New Fundraising Initiatives Seek to Bolster Growth of Nonprofit Sector

NUMEROUS FUNDING CHALLENGES facing the growing nonprofit sector in Japan are prompting efforts to identify new and diverse ways of mobilizing resources. This issue of Civil Society Monitor outlines some of the deeply rooted funding issues, which stem from a combination of factors including a lack of professional fundraising personnel within nonprofit corporations (NPOs), a history of weak individual and corporate giving, and a longstanding trend of limited funding from foundations. These issues have grown increasingly pronounced as the size and breadth of the sector have expanded rapidly over the past decade.

Japan's nonprofit sector comprises several categories of nonprofit organizations, including public interest corporations (numbering about 26,000), social welfare corporations (about 18,000), religious corporations (about 180,000), and mutual benefit nonprofit organizations (approximately 500). "Specified nonprofit corporations" or "NPOs" (*NPO hojin*), established by the 1998 Law to Promote Specified Nonprofit Activities (NPO Law), represent one of the newer categories of nonprofits in Japan and numbered over 16,000 as of the end of March 2004. In light of the fact that the incorporation system for NPOs only began in December 1998, this figure reflects a remarkable growth rate. In the past year alone, NPOs were incorporated at a rate of approximately 500 organizations per month. In addition to these established categories, there are numerous citizens' groups in Japan that have not yet obtained incorporated status.

While the nonprofit sector is clearly burgeoning, the flow of financial resources into the sector has not matched its growth rate, leaving many nonprofit organizations, particularly the newly incorporated NPOs, in dire need of funding for their operations and activities.

Many of these new NPOs are small-scale grassroots organizations with limited budgets and personnel. A 2003 survey by the Research Institute of Economy, Trade and Industry (RIETI) on the state of NPO operations in Japan showed that the average overall budget of NPOs was ¥15.3 million (about $127,500) in 2003. Approximately half of all NPOs were operating with budgets of less than ¥5 million (about $41,700). Their budgetary constraints inevitably affect staff capacity. While 82 percent of the surveyed organizations reported having administrative staff, only 40 percent of that total were full-time salaried staff and the average staff number within that category was 1.3. These statistics vividly illustrate the under-funded status of NPOs.

In response to the urgent need for financial resources, several new kinds of initiatives are emerging that are aimed at encouraging private funding sources, particularly individual donors, to embrace the practice of donating to NPOs. This issue highlights one notable movement involving funding intermediaries that operate at the local level to promote a citizen-to-citizen flow of funds for NPO activities in their specific region or municipality. These intermediaries represent a promising model for mobilizing funds and providing critical support for the growing number of nonprofits in Japan struggling to carry out effective programs in their communities.

INSIDE. . .

Weak Funding Environment Sparks Local-Level Efforts to Support NPOs

NPOs in Japan generally have not been able to rely on private contributions as revenue and instead have relied on other sources, such as service fees, membership income, and government subsidies. This trend, however, is proving to be unsustainable, as evidenced by the weak financial situation of many NPOs. There is a clear need to diversify and bolster their funding base. Specifically, civil society leaders see a particular need to focus efforts on reversing the weak funding trends exhibited by individual, corporate, and foundation sources as a crucial step toward the sound development of the sector. This effort has become all the more vital as government support toward NPOs has grown noticeably, raising concerns about over-reliance on the government and the consequences for the sector's independence. As one important development, new initiatives are attempting to address these funding issues by encouraging various nongovernmental sources to provide crucial aid to grassroots NPOs in communities around Japan.

FUNDING ENVIRONMENT

Individual and Corporate Giving

Statistics indicate that there is little difference between Japan and the United States with respect to the proportion of households that make charitable contributions–77 percent in Japan[1] versus 89 percent in the United States[2]. Rather, the main discrepancy lies in the level of giving. A survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications showed that average annual Japanese household contributions in 2000 totaled ¥3,200 ($27), as compared with $1,620 per U.S. household in 2000 according to an Independent Sector survey.

In terms of corporate giving, although comprehensive statistics are not available in Japan, a 2002 survey by the National Tax Administration Agency showed that the level of corporate giving has remained relatively stable for the past decade, with a slight downwards trend. Corporate contributions from a field of 2.5 million companies in Japan in 2002 totaled ¥509.2 billion ($4.24 billion). This figure, however, does not strictly represent funds for charitable purposes. It is not clear exactly what portion was allocated to NPOs, as the survey did not include a separate category for them, but the fact that only 13 percent of the total was allocated to the category of public interest corporations and other incorporated public-serving entities provides some indication of the limited nature of funding from corporations. The remainining 87 percent represents mainly contributions to the central and local governments and political donations.

What accounts for the marked discrepancy in the level of private funding and the need for this support among Japanese NPOs? Many point to the weak tradition of charitable giving in Japan as the root of the problem. On a fundamental level, NPOs in Japan are operating in a sociopolitical environment in which individuals rely on government protection and services and therefore have little incentive for personal giving. People pay taxes on the assumption that the government will provide the necessary services for their well being. As public doubts about the efficiency of the government have been rising in recent years, however, NPOs have been making efforts to enhance their role in society and gain increased public trust.

Others question whether a weak culture of giving is the main factor, citing examples of organizations with strong records of fundraising success, such as some large Japanese NGOs that operate internationally and an NPO involved in aiding orphans that has managed to raise about ¥2 billion annually through sidewalk solicitations, even despite its lack of tax deductibility status. Rather, they argue that the problem lies in circumstances such as the fact that the majority of NPOs lack the capacity to employ development professionals to actively conduct fundraising activities. This inevitably has led to issues such as insufficient fundraising efforts and inadequate responses to potential funders' need for information about why they should donate funds and how those funds would be used. To help address this situation, training programs are being organized for NPO staff to increase their focus on fundraising efforts.

Limitations on tax deductibility also have posed a major obstacle. The initial 2001 tax bill addressing the issue of tax deductibility for NPOs had several shortcomings that constrained many organizations from becoming eligible for tax-deductible status, namely overly strict eligibility requirements and prohibitively cumbersome application paperwork. In fact, only 22 NPOs (0.14 percent of total NPOs) had been granted eligibility as of March 2004. One cause for optimism is the fact that the tax bill was recently amended to relax some of the requirements for tax deductibility, helped in part by the lobbying efforts of NPO leaders (see *Civil Society Monitor*, Issue 8). Efforts to address these and other fundraising obstacles are continuing in the hopes of increasing the motivation of potential funders to seek out funding targets among NPOs.

Foundation Giving

Historically, foundation support for NPOs has been weak. The sector itself is small (there are only about 1,000 foundations in Japan) and their overall grantmaking level has been limited by economic factors such as declining interest rates. Despite their growing activity in society, NPOs in particular have been negatively affected by a longstanding tradition among foundations of focusing grantmaking on programs such as scholarly and scientific research and individual scholarships. The Japan Foundation Center's 2003 statistics confirmed this firmly established trend, showing that only about 23 percent of the approximately 1,500 grant programs administered by surveyed foundations were for projects unrelated to research and development, such as cultural, welfare, and other grassroots programs.

There are signs of gradual change in this trend, however, as evidenced by such new

[1] Economic Planning Agency (Japan), 2000

[2] Independent Sector, 2000

initiatives as the Committee on Foundation Support for NPOs, launched by leaders from civil society and the grantmaking community. Since its inception in 2002, the committee has been holding annual workshops to reevaluate grantmaking approaches to NPOs and civil society organizations. Another important development is the publication in March 2004 of a separate volume of the *Foundation Directory* (an annual publication of the Japan Foundation Center) that is focused specifically on funding for NPOs and grassroots civil society organizations. This publication reflects a long-awaited change in the mindset of grantmaking foundations toward NPOs and hopefully will facilitate NPOs' access to these foundations.

NEW FUNDING MECHANISMS

Several other optimistic signs point to the possibility of improvement in the financial situation of NPOs in Japan, including the emergence of diverse alternative funding mechanisms. One example is a new alternative lending scheme called "NPO banks." These "banks" are operated by credit unions and financial intermediaries and serve the many NPOs that have difficulty obtaining loans from regular banks. Other examples include Internet-based fundraising sites that allow visitors to make donations with a simple click of the mouse; credit cards that allow members to donate a certain percentage of the charged amount to a particular NPO; and funds created by local governments to support local NPO activities. A particularly noteworthy new movement to support NPOs has been developing at the grassroots level: community-based funding intermediaries.

The Emergence of Community-Based Funding Intermediaries

Community-based funding intermediaries serve as a mechanism for promoting a citizen-to-citizen flow of funds. Specifically, they dedicate their efforts to raising funds from individuals, corporations, and other nongovernmental sources with the goal of allocating them to NPOs. Although there are numerous examples of large-scale funding intermediaries that operate on a national level, it is only recently that intermediaries have begun to emerge that operate on a local or community level and provide focused support to grassroots NPOs within their respective communities. Local civil society leaders and NPO support centers around the country have started to take the initiative in addressing their own rising need for financial resources by launching such funding intermediaries. Several successful cases have emerged that are offering an important pillar of support for the growing array of local NPO activities.

One such intermediary, the Children's Fund of Kanagawa was established through the initiative of local civil society leaders, normally the recipients of funding, rather than through the efforts of donors, as is the case with most intermediaries. Although one might think it would be more efficient for each of the individual organizations to conduct their fundraising efforts individually, banding together as a coalition of organizations all focused on the same issues has enabled them to work collectively to gain the trust of their community and thus attract potential funders to their field as a whole.

The emerging community-based funding intermediaries in Japan illustrate the significant potential of local efforts to support the continuous growth of the nonprofit sector. In order to grow even more effective in their role of raising and distributing funds, however, it is crucial that these intermediaries make a conscientious effort to tap into a variety of funding sources and to continue building up their grantmaking expertise. While there are several factors such as the issue of tax deductibility that still need to be addressed, these local funds represent an important development in the fundraising environment for grassroots organizations and are helping to raise the profile of NPO activities within their communities.

The Children's Fund of Kanagawa

The Children's Fund of Kanagawa is an intermediary created by five NPOs and NPO support organizations in Kanagawa prefecture that are engaged in issues related to children, such as the empowerment of children and youths and child-rearing support. Kanagawa is adjacent to Tokyo and has numerous NPOs addressing children's issues. Using funds raised from individuals, companies, and other private sources in the prefecture, this fund aims to support regional NPOs active in this field. Since its creation a year and a half ago, it has succeeded in raising ¥4.5 million (approximately $42,000) from companies, local shops, individuals, and other sources, and officially launched its grantmaking operations in 2004.

Minmin (Citizen-to-Citizen) Fund

Launched in July 2003, the Minmin Fund is an intermediary operated by the Sendai Miyagi NPO Center, located in Sendai, the central city of Japan's northeast region. The fund raises donations—both financial and material—from private sources including corporations, individuals, and organizations, and allocates them to various NPOs within Miyagi prefecture. During the two years from its start-up phase to the present, the Minmin Fund has developed into an important funding source in the region, allocating approximately ¥5 million (about $41,700) and supplying various used goods—150 personal computers and 1,400 items of office furniture and equipment—to approximately 200 organizations in Miyagi prefecture.

Interim Report on Public Interest Corporation Reforms Stirs Further Debate

by Hideko Katsumata, *Managing Director & Executive Secretary, JCIE; Member, Advisory Council on Public Interest Corporation Reforms*

As reported in Issue 8, the Japanese government's proposal to reform the legal framework for public interest corporations in Japan has been met with mixed reaction within the nonprofit sector, primarily due to certain items with potentially negative implications not just for public interest corporations but for the sector as a whole. Since announcing its initial scheme in the summer of 2002, the government has held discussions on the reforms with advisory councils consisting of scholars and practitioners and working groups of legal experts with the goal of drafting concrete reform guidelines and passing a bill by the end of FY2005.

On March 31, 2004, the government released an interim report on the nine rounds of reform discussions that had been held up to that point, listing up an agenda of items for consideration in drafting the reform guidelines. This report has received criticism from various quarters of the nonprofit sector for several reasons, including the sparseness of information on the substance of the discussions and the lack of major departures from the original guidelines passed last June. More importantly, it contains two new items that are again fueling concerns about the potential negative impact of the proposed reforms on the sector.

The first point concerns the treatment of surplus assets. The report states that, upon dissolution, an organization shall not be prohibited from distributing its surplus assets among its members based on a resolution by the members. This principle goes against the fundamental nature of nonprofits and is raising concerns that the proposed new category of nonprofit corporations will be treated more as mutual benefit corporations, which are allowed to distribute their surplus assets, and therefore be more susceptible to taxation.

The second point concerns the system of awarding favorable treatment to a nonprofit corporation based on an assessment of whether it is contributing to the public interest and to society. Two options were discussed in the council meetings as possible methods of making this evaluation: 1) use the Civil Code to officially create a neutral third-party public institution to make the judgment, or 2) treat "public interest" status solely as a means of obtaining preferential tax treatment and therefore designate an institution such as the National Tax Agency to make the judgment. Despite the fact that the majority of the council members are in favor of the first option, the report gives equal weight to the second option. These two points have led to protests from the nonprofit sector concerning what appears to be an inclination toward a policy of regarding nonprofit corporations as taxable in principle.

On April 28, the advisory council on the public interest corporation system met for the first time since the report was issued and confirmed that the purpose of the report ultimately was to provide an agenda of issues for consideration rather than serve as a guideline for their recommendations. In addition, the council agreed to continue its discussions with a focus on the first option for determining "public interest" status based on the majority opinion of the parties concerned.

This author shares the opinion of some advisory council members and other parties concerned, that, building on its progress thus far, the council should focus on the following perspectives in its deliberations:

1) If the government's fundamental stance is that the nonprofit sector is useful and necessary for the revitalization of society, a concrete policy for supporting the sector's activities should be proposed.

2) A clear definition of "nonprofit corporation" should be provided in the context of the new nonprofit corporation system.

3) If mutual benefit corporations are to be included within the new nonprofit corporation framework, a clear boundary should be set to demarcate them from nonprofit corporations that do not distribute profits or surplus revenues.

4) The government secretariat of the advisory council is hesitant to have the council discuss tax matters, as the Tax Commission (viewed to be the most influential among government advisory boards) is deemed to have sole authority in all matters pertaining to the tax system. However, if the government is to encourage nonprofit activities that contribute to the revitalization of society, tax exemption for nonprofit corporations should be viewed as a matter of course. As such, any favorable treatment or support policy should go beyond simply awarding corporate-tax exemption. The advisory council should propose to the Tax Commission a desirable framework for tax treatment within the public interest corporation system.

The advisory council is expected to present its viewpoints to the Tax Commission this summer. It is hoped that the government ultimately will proceed to build a fully enabling environment for the nonprofit sector, but at this stage, the outcome remains unclear.

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