

Nonprofit organizations: in what extent is internet being used to (re)connect stakeholders and organizations?

An empirical study in Portuguese Foundations

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Abstract

Statistics reveal nonprofit organizations as the major employers and the major sources of employment growth in countries throughout the world.

Although sources of financial support show different weights, it is a fact that donors and other stakeholders are becoming more interested in obtaining information about the efficiency and the effectiveness resources application.

This research measures the extent in what NPO Foundations are disclosing on internet the information pointed out by literature as legally mandatory and as relevant for the stakeholders.

Based on data collection from 86 IPSS Portuguese Foundations' website, a bivariate analysis was undertaken and the main relevant statistics were presented.

This paper brings an important overview about transparency status and communication between NPO and its stakeholders.

The relevant observations of this study allowed us on identifying, firstly, the deficit on application of the legislation and, secondly, the low level of practices performed by IPSS Foundations in order to disclose relevant information for the stakeholders like: strategy, communication tools and other financial and non-financial information.

Keywords: Nonprofit Organizations, Foundations, Transparency, Legislation, Website

1. Introduction

The nonprofit sector has gained a huge visibility in times of crisis. Governments are investing more and more financial resources in Nonprofit Organizations (NPO) so they can deal with social problems when they are more expressive, due to the closeness and social knowledge NPO have in the community at large.

Since NPO are becoming more and more important in economy, the search for financial and non financial information about nonprofit sector is dramatically increasing, but unfortunately the legislation does not always keep the pace.

The Portuguese regulation about preparation and disclosure of information by NPO is diffuse. Conversely, the most comprehensive research conducted so far about Portuguese Nonprofit Sector identifies the need to reinforce the legal framework regarding NPO (Franco *et al.*, 2005).

Solid legislation is not available for nonprofit sector. Since there is not a piece of law requiring managers to prepare and disclose information addressed to the stakeholders, they are not supported to legally claim for information. Although the lack of legislation, NPO can implement processes and meet stakeholders' needs by their own rules.

Although in general there is a lack of legislation, in the particular field of Foundations, Portuguese Government has already issued legislation in order to implement disclosure practices by Portuguese Foundations. This research aims to contribute for the knowledge regarding the state of transparency and communication between NPO and its stakeholders.

The research findings are based on data collected from 86 Portuguese IPSS (Private Institutions of Social Solidarity) Foundations and, more extensively, from 61 Portuguese IPSS Foundations' official website. A bivariate analysis will be performed and the main relevant statistics will be presented in order to achieve the specific objectives of the research, which are (i) the degree measurement to which internet is influencing communication practices of the Portuguese IPSS Foundations; (ii) the exam to the level to which the Portuguese Foundations fulfill mandatory disclosures; and, (iii) the evaluation of the level to which the Portuguese Foundations disclose non-mandatory information.

This study provides an important overview about the state of transparency and communication between NPO and its stakeholders.

This paper includes four sections, including this introduction. The section two will explore the recent numbers about nonprofit sectors and will try to identify the relevant information that emerges from the literature review. In the section three, the empirical study takes shape. At the end of this research, is section four where the discussion of results and main conclusions are presented.

2. NPO's sector: its most relevant financial and non financial information

Nonprofit sector's organizations may experiment various formats depending on the different country where they are established. Despite this diversity, and above all, the weight that NPO represent in economy is gradually growing.

The 2013 report, from the John Hopkins Institute for Policy Studies (Salamon, Sokolowski, Haddock & Tice, 2013), conducted in 16 countries, reveals NPO as major employers and major sources of employment growth in countries throughout the world (10 percent or more of the total workforce). The nonprofit sector accounts for an average of 4.5 percent of the GDP. In terms of sources of revenue, philanthropy keeps representing a small slice of the global resources (23%), government comes next, and the top one are fees from services provided (43%), among others.

Based on the definition of Salamon & Anheier (1992), the nonprofit sector is described as being composed by organizations characterized by volunteering and which do not operate in an effort to build revenue, according to five separate dimensions: formally constituted; nongovernmental on basic structure; self-governing; non-profit-distributing; and, voluntary to some meaningful extent.

In Portugal, there are identified several non-for-profit and Non-Governmental Organizations (NGO) which constitute the Portuguese Nonprofit Sector, among which: Associations, Foundations, Organizations for Development, Museums, Mutuality and Cooperatives (Franco *et al.*, 2005). Initially, when drafting the statutes of the organization, the identification of the organization's mission is an act that clearly defines the reason for the existence and activity of the organization (Decree-Law No. 119/83 February 25th, 1983). Since the NPO is constituted, throughout its history, its activity follows values and is guided by a vision for society. The governance model of Portuguese NPO is based on independent boards, which are responsible for execute and audit the account and tax issues, in order to ensure that both legal and statutory obligations are met.

Although these organizations are identified, in Portugal, there is not a consistent definition for NGO, or even exist a public list discriminating which organizations are part of these sector.

Comparing with the numbers above mentioned from the John Hopkins Institute for Policy Studies, in Portugal, the nonprofit workforce represents a lower value of the total workforce in economy (5.5 percent) and the economy presence is not so high (2.8 percent of GDP considering workforce and 3.8 percent of GDP considering volunteering), but it is still significant (Conta Satélite da Economia Social, 2013).

Since there is a restriction on defining the universe of NPO acting in Portugal, this study will focus on the public data base of NPO which are assigned with IPSS status. According to the "*Estatutos das IPSS*" (*Statutes of IPSS*), approved by Decree-Law No 119/83 of February 25th, 1983, these institutions are defined as "non-profit, by the initiative of

individual people, in order to give a collective expression of solidarity and justice between people". This legislation emphasizes the difference between NPO and the First Sector (State), explaining that these NPO are not managed by Government. Related to the objectives pursued by the IPSS, the main social aims are mentioned on some acting areas like: " children, young people and family support; supporting social and community integration; protection of citizens in old age; health protection; education and training; solving housing problems of people".

Under the IPSS status, the NPO are able to celebrate long term cooperation agreements with Government. Since 1992, the Legislative Order 75/92 issued by the Portuguese Government established the requirements that should be fulfilled by IPSS in order to celebrate cooperation and management agreements with the Government. This is meant to be recognized as the social role performed by NPO IPSS and, additionally, a commitment to the financial support for certain periods to the social activities developed by NPO IPSS (Legislative Order No 75/92 of May 20th, 1992).

Based on the up to date list, there are more than 5,000 NPO IPSS in Portugal, focused on various social goals. Foundations are NPO with a specific goal under the social sector: to fund projects. These NPO have a huge representativeness on Portuguese Social Sector (Dopico & Carvalho, 2006). Foundations are nonprofit organizations provided with a sufficient and irrevocably heritage, which is applied in order to achieve a social goal (Law No 24/2012 of July 9th, 2012).

On accountability legal obligations, the Portuguese NPO adopted the normalization accounting in 2011. In general, the NPO exceeding an annual sales volume of 150,000 Euros are required to prepare the Financial Statements, in addition to the statutory obligations (Decree-Law No 36-A/2011 of March 9th, 2011). The Legal Audit Report (LAR) is required in the same terms as it is for companies in general.

Additionally, Foundations are one of the NPO that are under specific legislation. The Portuguese fundamental law for Foundations was approved in 2012 by the Law No 24/2012 of July 9th, 2012. The input was notable in terms of transparency because Foundations are now required to display on their website the following information/documents:

- Copy of the initial acts recognizing the foundation;
- Updated version of the statutes;
- Identification of the founders;
- Updated information about the governing bodies, as well as the start and end date of the mandate;
- Reports and accounts and opinions of the supervisory board concerning the last three years;
- "Annual Report and Accounts" and "Report and opinion of the Board of Tax Auditors" (RBTA) for the last three years;
- Annual Activity Report for the last three years;
- "Legal Audit Report", when required.

Additionally, the Public Foundations are required to disclose on the website the amount of public funds received in the last three years by the State.

This fundamental law came as a result of the Government's order to conduct a mandatory audit in these NPO. A recent example was the census undertaken in 2012, mandatory for all Portuguese Foundations, justified with the need of evaluating the sustainability of this niche of NPO (Law No. 1/2012 of January 3rd, 2012).

Following this census, the Portuguese Government issued a report about Portuguese Foundations, based on the information provided by 558 Foundations. This report aimed to classify Portuguese Foundations based on an evaluation model composed by three criteria: pertinence/relevance, effectiveness/efficiency and sustainability, with a weight of 20%, 30% and 50%, respectively (Portuguese Government, 2012).

This evaluation report of Portuguese Foundations has an important topic about transparency and accountability. The input is the information provided on the Foundation's official website. This information allowed summarizing the responses provided by the IPSS and non-IPSS Foundations about (i) the existence of an official website, and about (ii) the extent to which statutory/legal financial and non-financial documents are displayed on the website.

The conclusions provided in the report indicate that non-IPSS Foundations state they are more present on the internet (57,3%) than IPSS Foundations are (36,9%). Additionally, the number of documents disclosed by non-IPSS and IPSS Foundations are sorted by type of statutory/legal financial and non-financial documents. The information about Governing bodies is identified as the one more often disclosed, followed by Statutes and internal regulations. Although Government has given this important step on evaluating NPO, the report is based in limited information.

Firstly, the data were made available by the information provided by Foundations, and not by testing on the Foundation's website. Secondly, the analysis was limited to part of the NPO because the response rate of the census was not 100%. Regarding to reliability, it is important to note that, even if the documents are uploaded on website, the documents can't be available to download by the users. At this point, it is important to test it in order to validate if information is really available for consulting purposes.

Additionally, there is no report about the analysis allowing to understand deeply the organizations' profile, which could reveal NPO's similar characteristic according to the level of disclosure of information/documentation on website. According to the information defined as relevant to be collected on this census, we noticed that the

identification, mission and values are the basis of the strategic and operational actuation of NPO, not being considered as relevant information for stakeholders for this study.

Although the shortcomings contained on this consulting report, this census undertaken by the Portuguese Government is an important demonstration that stakeholders, as Portuguese State in this case, are asking for more and more easily accessible information about the NPO activity in general and about performance particularly.

However, although the Government hasn't yet started asking for transparency on nonprofit sector, the pressure to obtain general information and performance information about NPO is a reality from long time ago, by the funders.

The development of a Donor Bill of Rights (2013), presented by *Association of Fundraising Professionals* from Canada, provided an important contribution on definition of duties of NPO. Regarding the application of resources, the NPO have the duty to inform donors about the way the organization intends to use donated resources. Additionally, this intent should be followed by NPO capacity to use donations effectively for the announced purposes. Regarding legal obligations, the access to the organization's financial statements is a right covered by the Bill of Rights (2013).

Since NPO are becoming more and more important in economy, searching for financial and non-financial information about nonprofit sector increases. Public in general is more and more concerned about the way the resources they made available are spent. The Booking Institution reports a decrease of confidence based on survey where 60 percent of respondents states that NPO waste money (Light, 2003).

Nonprofit organizations should be more and more concerned on providing higher standards of accountability and transparency, by communicating with their stakeholders about financial and social accountability (Waters, 2007).

The incentives for NPO work on their relationship with funders, who provide money and time, are increasingly evident. In Portugal, since 2002, individual tax payer can allocate 0,5 percent of the annual income tax to a NPO of their choice, according to Law no 16/2001 from 22nd June, 2001. Additionally, since 2014, individual tax payer can donate their VAT benefit to a NPO of their choice. In this option, the amount can reach 250 euros.

At the moment of the donation, the choice for one NPO will be based on the information available about the organizations acting in the Sector and historical relationship between the potential donor and the organization.

This contact and image can be created by developing a communication strategy involving different kinds of publications which may include: annual report, agency newsletter, general brochure, and letterhead and business card (Neal, 2001: 49).

Regarding communication, the internet may play an important role. The creation of a website by NPO will provide a mean of i) not only providing information for visitors, ii) but also to collect e-mail addresses for future communication and to make available feedback forms, among others (Waters, 2007). In summary, NPO can cultivate relationship with stakeholders, by one side, making available relevant publications and, by another side, incorporating two-way communication strategies into their websites or social networks.

3. Empirical study: goal, methodology and results

In section 3, the goal of this study is presented and the objectives defined. Additionally, the details of research design and methodology are presented.

This study aims to measure the extent to which Portuguese IPSS Foundations disclose the legal mandatory documents, the one related to the purpose of constitution and related to communication, on its internet website.

In this sense, when exploring the communication practices of a set of nonprofit organizations acting in Portugal, this study addresses the following research question: in what extent internet is being used to reconnect stakeholder and organization?

In order to answer to that question, the following specific objectives are formulated:

- To measure the degree to which internet is influencing Portuguese Foundations' communication practices;
- To examine the level to which the Portuguese Foundations fulfill mandatory disclosures;
- To examine the level to which the Portuguese Foundations disclose non-mandatory information.

Since this study is focused on Portuguese Foundations and Social Sector, the sample is composed by Foundations under IPSS statute. In Portugal, the census from 2012 reported 168 IPSS Foundations analysed (Government of Portugal, 2012). These organizations counted with 9.086 employees and 550 volunteers. In 47 of these Foundations, the public funds represented more than 50% of revenue.

Based on the list of 168 IPSS Foundations, the data collection was made through a web search engine, in order to identify if the IPSS Foundations had an available website. Google Web Search was the web search engine used for this research because it is considered the largest web search engine and, so, the information about Foundations, if available, could be more probably found.

Due to the restricted research scheduling and resources, a confidence level of 99% and a maximum margin of error of 10% were defined. Randomly, 86 from the 168 organizations were selected (51,19%).

On a second step, and since the Foundation's website was identified, we collected evidences of the disclosure of the mandatory and non-mandatory information / documents on the official website. Following the indicators previously identified on literature as relevant for measuring: communication; the purpose of the entity; and the disclosure of legal mandatory information, we have described on Table 1 the information / document used for each scope.

Table 1

Foundation's website: research topics

Information / Document	Scope
Email	Communication
Language	
Identification	Purpose
History	
Mission, Vision and Values	
Governing bodies	Mandatory documents
Statutes	
Annual Report and Accounts	
Report and opinion of the Board of Tax Auditors	
Legal Audit Report	

It is important to note that only the information/documents downloaded successfully were considered as available. Although the legal mandatory documents for the last three years are required to be displayed, in this study the NPO which displayed the most recent documents (2013 up to date) is considered valid. This option may prevent any case of missing documents related to Foundations started operating last year.

The initial research for Foundation's website was successful for 61 of the 86 entities, which means that most, but not all, of the organizations are available on the internet (70,59%). The Cross Table 2 summarizes the output regarding the displaying of information on website, in what concerns to the identification, history, governing bodies, statutes and mission, vision and values.

Table 2

Foundation's website : Identification, History, Governing bodies, Statutes, Mission, Vission and Values

	Identification (n)	History (n)	Governing bodies (n)	Statutes (n)	Mission, Vision and Values (n)
Identification	54	50	37	32	46
History	50	51	36	32	45
Governing bodies	37	36	41	33	37
Statutes	32	32	33	35	33
Mission, Vision and Values	46	45	37	33	47

The information about IPSS Foundations is frequently provided by the following sequence: identification, history, mission, vision and values and governing bodies. The Foundation's statutes are not available so frequently. There was only 35 Foundations (57,38%) displaying it on website.

The information about Foundation's identification and history are the most usually disclosed together (around 50 entities).

In a global analysis, and considering two groups of information – the first including identification, history, mission, vision and values; and the second including the information about governing bodies and Foundation's statutes – we find that 45 IPSS Foundations (73,77%) displayed all of the information/documents included in the first legally non-mandatory informational group on website. But with regards to Foundation's website additionally include the mandatory information about governing bodies and Foundation's statutes, we find that less than half (49,18%) disclose it.

At the linguistic level, results show that only four Foundations bet on the promotion of the project internationally, because it was possible to display the information in other language on only four websites, being able three different options in two of them (Table 3).

Table 3

Foundation's website : number of languages

	n	% with website
1	57	93,44%
2	2	3,28%
3	2	3,28%

This research involved also the analysis of the disclosure of financial information, specifically the annual accounts and audit reports. Since the preparation of both documents – “Annual Report and Accounts” and “Legal Audit Report” or “Report and opinion of the Board of Tax Auditors” – is a legal/statutory requirement for Foundations, it was expected that all organizations disclosed the documents on the official website. Since part of the organizations do not have website to display it, the analysis focused on those which has website on internet. The table 4 shows an individual analysis of the level of disclosure of the documents.

Table 4

Foundation's website : Annual Report and Accounts & Legal Audit Report		
	<i>n</i>	<i>% with website</i>
Annual Report and Accounts	30	49,18%
Report and opinion of the Board of Tax Auditors	28	45,90%
Legal Audit Report	10	16,39%

Less than half of the IPSS Foundations (49,18%) disclose the Annual Report and Accounts on the official website. Although this fact, on 8 IPSS Foundations' (26,67%) websites the reports available for download did not refer to the most recent year (2013, at the time of data collection).

The external reliability obtained by disclosing the certified annual accounts (by an External Auditor or by the Board of Tax Auditors) is almost always achieved for those NPO displaying the Annual Report and Accounts. The results show that just one of the Annual Report is not followed by that certification (Table 5).

Table 5

Foundation's website : Annual Report and Accounts & Legal Audit Report		
	<i>n</i>	<i>% with website</i>
Annual Report and Accounts & LAR/RBTA	29	47,54%

Finally, the interaction dimension that became on web 2.0 is not being explored by all NPO. The Table 6 summarizes the number of organizations which made their email available on internet, either with or without website.

Table 6

Foundation's website : email address			
	<i>n</i>	<i>% with website</i>	<i>% total sample</i>
Available	0	95,08%	75,58%
Not available	0	4,92%	24,42%

The email contact were available in not all of the Foundation's websites (95,08%). Additionally, we find out that there are Foundations with no website in the internet that, even so, make available their email address in other websites so stakeholders can contact them by internet, which represent 75,58% of the 86 Foundations.

4. Discussion and conclusions

This section presents a brief overview of the research conducted: it presents the conclusions from the literature review, describes the results from the empirical research and discusses the conclusions considering the objectives defined to answer to the research question. Furthermore, it synthesizes the contribution to knowledge associated with the topic of nonprofit sector practices and the implications of this research are outlined. Additionally, the opportunities for further research are highlighted and the limitations of the research carried out are identified.

This study explores the communication practices of a set of nonprofit organizations acting in Portugal. The research question addressed was: in what extent internet is being used to reconnect stakeholder and organization?

The overall goal of this study was to explore the communication practices of a set of nonprofit organizations acting in Portugal in order to reveal in what extent internet is being used to reconnect stakeholder and organization. Therefore, the literature review allowed to explore the characterization of the universe of Portuguese NPO (specifically the Foundations under the IPSS status), their legal obligations and the themes of communication/transparency and funders rights.

As a result, gaps in the existing knowledge about the matter were discovered. Firstly, there were identified limitations concerning the influence of internet on Portuguese Foundations' communication practices. In this topic, the literature was found to be weak or null in empirical studies concerning the level of implementation of an official website. Secondly, and since all Foundations are required to fulfill mandatory disclosures on the website, the level to which these obligations concern to was a gap identified on literature. Finally, from the literature review the need to study the transparency practices applied by NPO was investigated, in what concerns to the disclosure of non-mandatory information revealed by literature as relevant for funders and for communication purposes.

Therefore, three objectives were defined, regarding internet usage, disclosure of mandatory and of non-mandatory information/documents.

Based on data collected from 86 Portuguese IPSS Foundations and, more extensively, from 61 Portuguese IPSS Foundations' official website, a bivariate analysis was undertaken and the main relevant statistics were presented.

Firstly, the results showed that almost one third of the Portuguese Foundations was found to be offline, since in these cases any official website was found to be available to be accessed on internet. Regarding to the first research objective, the internet is influencing Portuguese Foundations' communication practices but with an expression not entirely as it was expected. The legislation is not being applied by all of the Foundations that are required to do so.

Additionally, the results reveal that communication practices are weak in terms of linguistic options and that one in every four IPSS Foundations is not possible to identify an email address on internet able to allow stakeholders to communicate with the organization.

In what concerns to the second objective, the conclusions are similar, because results show that less than half of the IPSS Foundations doesn't present the mandatory disclosure of information. In this field, the audit reports are the less disclosed on website.

Finally, regarding the third objective, the non-mandatory information (selected for this study) is found to be most frequently disclosed when comparing to the mandatory information. The information about IPSS Foundations is frequently provided by the following sequence: identification, history, mission, vision and values, and governing bodies. The Foundation's statutes are not available so frequently. There was only 35 Foundations (57,38%) displaying it on the website.

As intended, this paper brings an important overview about the state of transparency and communication between NPO and its stakeholders. The relevant findings of this study allowed identifying, firstly, a deficit on application of the legislation and, secondly, the low level of practices performed by IPSS Foundations in order to disclose relevant information for stakeholders regarding: strategy, communication tools and other financial and non-financial information.

This study guides scholars and practitioners on theoretical and managerial field. Academically, this study fills the gap on statistical analysis of data collected from Portuguese NPO's online communication tools. This study highlight warning signs that should be explored in further research, because it is necessary to identify what factors are pointed out by NPO that may be affecting their ability to disclose on website the relevant information for stakeholders.

The main contribution to practitioners is related to the Foundation's legal and IT officers that are called to improve their validation systems in order to accomplish the mandatory disclosures. Moreover, since NPO may diversify their financial sources, the investment in communication tools represent a way to disclose their activity in order to obtain visibility among new and private funders, other than State.

In the same sense, this study may affect the control systems currently in use by Government. Although there was a large set of data collected from IPSS Foundations' websites, in order to achieve a greater representativeness of Foundations, it is necessary to collect data from the rest of IPSS Foundations. Since this study is focused on Foundations under the IPSS status, further studies based on non-IPSS Foundations could bring an important input for the procedures followed by Foundations to access to the IPSS status, which are determined by Government.

Thus, it is expected that this and further research attain the ultimate goal of promoting a more conscious and efficient social sector, where organizations have references of good practice and donors have available information about NPO performance which they tend or intend to support.

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Legislation

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Decree-Law No 36-A/2011 of March 9th, 2011; Government approves the Accounting Normalization System for micro companies and Nonprofit Organizations.

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