

**BULGARIAN CULTURE AND ITS FINANCIAL  
ALTERNATIVES**

**FINAL POLICY PAPER**

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## **PRELIMINARY NOTES**

The last two decades have been characteristic for a growing liberalization and globalization of economics, as well as for rapid technological development, so these imply reconsideration of the role and the functions of the state as far as the sector of culture is concerned, and the increase of the sources of financing. The influx of market principles and the Third Sector change the range and the strategy of culture policy.

In times of restrictive budgeting there is a general tendency to reduction of direct budget expenditure and a search for alternative financing of culture and arts.

As the marked model of financing and the mixed one come closer to each other, the goal is to establish a more realistic connection between the income and the expenditure of subsidized organizations, and moreover, to avoid the emergence of "uncompleted" markets of art forms at high fixed expenses.

In Europe, the so-called "emerging markets" included, in Central and East European countries these processes led to a marked interest in indirect support and regulative methods. Such pro-market methods based mainly on taxation relief and legislative regulation

The withdrawal of the state without building up of a stimulating economic environment led to the waste of culture capital, in other words, it led to a loss of public welfare.

The high necessity of financial stability motivated the establishing of currency boards in Bulgaria, Lithuania and Estonia. The regulative functions of state budgeting gained more importance to become the top macroeconomic instrument.

These radical changes in the macroeconomic and social environment led to the re-structuring of the model of culture products and service; there came into being new structures of management and production. The model of financing, however, turned out to be conservative, and did not build up an environment beneficial to the influx of private capital to the sector. The reasons are a lot, and must be analyzed in institutional aspect; which is more, special attention must be paid to the fact that the products and service are of mixed character, and a lot of them are offered at the quasi-market.

In these circumstances there emerged a high necessity of alternative financing of culture as the top priority in the search of new sources.

The study of methods of alternative financing turned out to be a hard research. At times it was even venturous for the lack of long consistent observation, data and complete analyses. Discrepancies in terminology and fragmentation of statistic data might lead to a cliché manner of thinking and resentment to the subject matter.

## **Methodology**

The methodology of the present research is interdisciplinary. This broader scale is inevitable, since it must be found out where the cause of alternative culture financing belongs: to culture, politics or economics. Is there an uniting paradigm – awareness of common needs, to be met in response by sources (real and potential), or are we still lingering on under the pressure of storming oncoming changes and chance.

The countries chosen for the research are Bulgaria, Hungary and Lithuania. They belong to the category of small European

countries with limited markets, hard economy of scale in culture industries, and closed linguistic society. Bulgaria and Lithuania have also priorities in common: building up of market economics, the establishment of democracy and EC integration. These characteristics present a solid basis of comparison. "The good practices" are outlined as model. As a method of research hereby, the model enables a comparative analysis based not on penury but on achievements and search for positive experience. Then, by all means analysis must be made on both stimulating and restrictive factors in each particular national environment, to avoid possible profanity, inconsistency and inefficient hybridization at the application of the model.

The logic of the research requires an analysis on the institutional aspect,<sup>2</sup> too – the national policy towards changes is influenced by norms and factors historically conditioned: social, cultural and ethno-psychological. These factors have built up the institutional environment (and not necessarily the formal one) as canonizing: the role of the state, the importance of culture, the public responsibilities of business, the fisc as stimulus and punishment.

For the purposes of the qualitative and quantitative identification of alternative financing mechanisms analyses have been carried out on numerous studies, documents, reports, statistic data from various organizations: national, international, public and non-governmental ones; political programmes, culture strategies related to the problem. Special attention has been paid to macroeconomic factors, legislation background and the established

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<sup>2</sup> "The transformation from centralized state economics to market economics is extremely complicated, and the necessity of institutional changes (political and economical) is imposed... the complexity arises from the fact, that the system of ideas and values formed on the basis of previous experience, fails to help economic agents to solve new problems. So, the dependence on "the route chosen" is an important factor restrictive of our ability to change the situation to the better in a short-term plan." Douglas North, "Economics", 3/2003, p. 91

model of policymaking, as related to the opportunities of alternative financing.

Valuable information (of quality character) for the analysis was presented through the sociological survey carried out in January 2004. In character, the survey is expertise, non-representative. 140 experts in culture were involved, from Bulgaria, Hungary and Lithuania: research workers, managers of public, private and non-governmental culture organizations, consultants, art producers, state administrators in charge of sub-sector financing. These recipients were interviewed on the basis of a **direct individual questionnaire**. Through this empirical instrument, quality information was made available to prove the initial **hypotheses**:

- The role of the state in the transformation of cultural policy goals changes from dictatorship to regulative functions: building up of the right economic environment and legislation, while direct state support must not go down under a particular level of public agreement;
  - The immaturity of the market as an institutional system is an impediment to the development of alternative financing mechanisms; this is also one of the reasons for the economic inefficiency of market structures built up in an administrative way, thus leading to the waste of culture capital, and therefore, to waste of public welfare; market financial tools are more dynamic, providing: 1) the availability of a flexible fiscal system and well-developed fund mechanisms; 2) culture is regarded not merely as a factor for the creation of purely culture capital, but also as a factor of regional and local development, and a part of the marketing strategy of an organization;
  - Partnership in the private sector depends on: free investments, responsibilities of national capital to society, building up of a “media echo”, operator agencies, i.e., creating an environment of
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alternative financing first, and then comes the influence of taxation stimuli and their amount.

- The integration of the country to EC will indirectly stimulate the process of alternative financing through the stimulation of market processes, and through the mechanisms of regional development; to a much lesser extent alternative financing will be stimulated through direct granting of culture projects – EC does not have a general cultural policy, it aims at “cultural co-operation”.
- The currency board is a limiting factor for the development of the cultural sector depending on - the level and the consecutive dynamics of the institutional transition in the country, the enlightened political will in regard to the position and the role of culture in the life of the country. The level of the imposed limitations in regard to culture, connected in a declarative manner to the presence of a Foreign currency board is the most direct political and economic evaluation of the role of culture as a creator of values, measurable not only by market.

## RECOMMENDATIONS

The expert evaluation regarding the **leading role of the political process as a stimulus/barrier for the alternative financing** indicates that the present condition is not necessarily and that it is an issue of social --political priority.

**I.** The availability of a POLITICAL WILL for changes in culture has several **levels** of proceeding and many **directions**:

**1/ Creation of an Environment, where the instruments of the alternative financing will be effective, by:**

A/ **A legal frame** with material and moral stimulus. Its effective applications require a/ a good incorporation with the taxation policy and b/ the establishment of a media effect.

B/ Development of a **strategy, programs, plans** for action on the three levels – a/ national, cultural strategy, b/ sector program for alternative financing, c/ organizational marketing plans regarding the promotion of the cultural products.

C/ The building of Supporting structures, i.e. **mediatory organizations** /"operators"/, which are to create/support the connection between the demand and the supply of free finances by managing the process – education, establishment of an information environment, provision of a marketing and of a communication

strategy of the cultural organizations, seeking for alternative funds. The development of such kind organizations will secure the effective using of the finances, and this also means the confidence of the donors and the sponsors.

D/ Disclosing and building of a **new legitimacy of culture** not only like creator of a cultural capital, but also as a creator of:

- values as – national pride and identity, which are not measured and established by market,
- a factor for the local and regional development – which can be evaluated by using and introducing a satellite balance for the culture sector;
- the comparatively advantage in the sphere of the cultural tourism and cultural heritage.

**2/ The establishment of partnerships. Accountability and transparency of the activity which will raise the efficiency of the public institutions.**

**A/ National assembly and more precisely the Cultural Commission by:**

- An establishment of **partnership** with Third sector. It has includes “informational – consultation – active participation” at the forthcoming legislation changes.
- A public announcement and organizing of **hearings during the discussion of themes, reflecting a conflict of interests in the sector.** Publishing of the National assembly’s web page not only the agenda of the meeting held, but also the taken final decision.



- An establishing and using of a wide basis of **experts and consultants** with an approved potential and a prestige. They will be on disposal in terms of a “brain trust” in view of the assistance in solving of specific clauses – an inter-disciplinary scope of legal advisors, financial specialists, cultural experts etc.
- **A public debating** on draft laws and subsequent analyzing of the effects of the accepted legal acts by monitoring in cooperation with the third sector.

### **B/The Ministry of culture by:**

- An annually **accountability at the parliament** on the part of the minister of culture, /as the person heading the political cabinet and the bearer of the political will of the ruling political force/:
- **A program for action, which operates** the process of the applying of the concrete Government program in the sphere of culture and particularly of the financing of the culture;
- An annually **public report** concerning to the above-mentioned document, published on the web page of the ministry.
- The establishment of **partnerships:**
  - ⇒ **Horizontal** with the other ministries and more precisely with the ministry of finances, the ministry of economy, the ministry of education. The partnership should not be base on a simplified monetary approach, according to which the “culture is a sector, that only consumes finances”, but on the fact<sup>3</sup> that culture is a sector overflowing finances and stimulating the regional economy and the national cultural tourism.

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<sup>3</sup> A Fact protected by means of the sanitary balance, sector analyses and “media echo”.

⇒ **Vertical** – between different (in regard to rank, level and functions) governing organizations in the sector, united by the common cause for the developing of the alternative financing.

⇒ With **Third sector**, which should include all the three stages, required for the effective partnership – “information – consultation active participation”.

⇒ With **business** by participation in common programs, funds organizations for alternative financing. Important condition is – the ministry of culture has to accept the role of a **guarantor** /financial or by other type of resources/ in these contacts.

### **C/ The civil society and more precisely the NGO in culture:**

- **Building up a capacity** for alternative financing of culture **partnership** in the sphere of:
  - ⇒ The human resources – education, research and rendering of experts and consultants.
  - ⇒ An informational resources – Establishing of an Internet portal with resources to the alternative financing /by cooperation with the business and the state/.
  - ⇒ The ensuring of services in the sphere of the alternative financing by organizing of operative mediatory organizations.
- **Monitoring and evaluation** of the obtained in the sphere of culture according to specific directions.
- Stimulating the development of the donors’ culture by **a public dialogue and debates** – among the donors and amongst the favored recipients.

II. The undevelopment of the alternative financing is not a natural defect of the cultural goods and services but it is actually a reflection of the **INSTITUTIONAL IMMATURITY** of market and civil society. The adequate legislative changes, the increase of the

prosperity of the nation and the awareness of the institutional role of culture for the development of the society, are a part of the *means for the overcoming of the limiting factors of an institutional type.*

### **1. A stimulation of the alternative financing by a law initiatives:**

A/ The **VAT** is a mass instrument for indirect support at the European cultural production and an absolutely neglected approach in relation to the Bulgarian cultural goods and services.

The reduction of the taxation rates is a way for encouraging the national production. The stimulation of the cultural industries of the small nations is a more a symbol of national identity, a cultural prestige, an evidence of the cultural presence and professionalism, than a wish for market hegemony. As far as the Europeans are concerned, the strive for a cultural identity on the continent and an opposition to the invasion of the American cultural industry, especially in the sphere of the music and the cinema is not a reason of least importance.

It has to use the possibility for lower taxation rates for the Bulgarian cultural industries' products. The diminishing of the value added tax would be a good response to Directive #6 of the EC.

B/ An amendment in the **Law on Corporate taxation** which would enable **the sum donated/ sponsored** not to make up to 10 % of the financial result / of the donor / before taxation, but at least 15 %. Why the legislator has chosen this 10 % can not be logically discussed all the more, that the fact that the European practice is familiar with a number of higher possibilities.

C/ Again in the same Law, the **reduction of the donor's tax** (in case of violating some of the donation conditions when the sum is treated as an expenditure) from 15% to 10%. Given the expected continuing reduction of the corporate tax to 15% (now it is 19.5%), the upper limit of 15% is unwisely chosen.

D/ Again in the Law on Corporate taxation, the stimulation of the donors, when the **donation / sponsorship is continuing during the time** and covers a period longer than 1 ½ year.

E/ The considering of the implementation of the so called **"Percentage law"** with an inclusion of the cultural organizations within the scope of the receivers – this will stimulate the development of the donor practice.

F/ Creating the legal opportunity for the establishment of **cooperative foundations**. This would enable the starting of private and combined funds, as well as the setting up of guarantee and investment funds with a variety of forms of ownership.

## **2. New alternative instruments that can stimulate the financial flow to culture:**

### **A/Fiscal – quasi market methods:**

- "Regionalization" of the indirect instruments for alternative financing by the implementation of **earmarked taxes** on a local/regional level.
- At the municipality level, another possibility for supporting the local arts by stimulation of the home market, or the so called **"1%**

**rule**". This rule, authorized in a legislative manner on the part of the municipality creates an obligations amongst the building entrepreneurs that 1 % of the budget of every municipal construction project should be spared for artistic components in/on the building. This type of financing /by law mechanism/ add some over money to the regional cultural budget.

### **B/Market methods:**

- **"The donation by payroll"** which is very popular in the world and is option for the persons, receiving incomes, resulting from labor legal interrelations is still an opportunity, which has *not been utilized* on behalf of the Bulgarian culture. The initiative existing in Bulgaria<sup>4</sup> gives the right of the donor to chose and to indicate a cause, which attract and other people. The funds can be also directed to a municipal fund as well, working in that same direction. That is a very popular practice for collecting money for the so called municipal foundations in Europe and in the United States.
- Concerning the **funding** there are future opportunities in several directions:
  - ⇒ Partnership between the private investors and state or the municipality – a practice, which is widespread in a lot of European countries.
  - ⇒ Specialized funds in accordance with the type of arts, for example "Bulgarian film fund" or "Bulgarian book fund" etc. /similar approach is one of the basic models for the financing of the European cultural industries/.
  - ⇒ Utilization of the opportunity for the establishment of municipal foundations and more precisely their variety "public nominal fund", which would stimulate the donorship on municipal level.
- An Establishment a **special art lottery/toto**;

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<sup>4</sup> Initiative of Bulgarian Charities Aid Foundation – The donative sum has triplicated by foundation.

- **Programs for Micro-crediting** are suitable as a form of funding cultural industries, up to now there are no such initiatives. The bank conservatism and the demand for low-risk profits are only some of the reasons; the role of state is crucial. In the world practice state is at least a guarantor, if not a co-funding subject.

**3. A Development of specific manager skills for attracting of an alternative resources.**

**4. A development of the communication strategy stimulating and encouraging the creative innovations in the sphere of culture. It has support the process of reaching to the donor, and after that regulating of the accidental donation in a traditional and aware activity.**

A/ By a "media echo", the prestige of the donation to increase and to receive a public recognition.

B/ Cultivation of the philanthropy tradition on a national level by establishing of a favorable media environment, informational awareness and popularization of good examples.

C/ By media – a national consolidation for good cause; development of the arts philanthropy, become culture sufficiently competitive to sports or the social problems. This is an question of the National *cultural strategy and cultural policy*.

D/ A media campaigns, which are to “discovery” the direct and indirect positive effects of arts – educational, heritage, social.

**5. Development of the researchs, studies and analyses in the sphere of the financing of culture, building of a data base with comparative information and good examples from the other European countries. Expanding of the scope of the statistic indicators, amongst the observed object and amongst the used indices as well.**

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