

**MARKET MECHANISMS OF FINANCING CULTURE IN
ACCESSION COUNTRIES**

Final Research Paper

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MARKET MECHANISMS OF FINANCING CULTURE IN ACCESSION COUNTRIES

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PREVIEW

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 restructuring 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 heard 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.

I wish to thank everybody who took part in the research: experts, researchers, managers, art producers, artists, and contributed to it with advice, attitude and data.

INTRODUCTION

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,² 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 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** (*Attachment 1*). 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;

² “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

- 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 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.

Basic concepts

Terminology discord is a problem at both national and international level. Merging of definitions into one another and the lack of clear distinction turns out to be a serious impediment to the quantitative analysis of the phenomenon, and to the correct

comparative analysis in international communication. Therefore, the strict definition of terms is of crucial importance for research. To begin with, definitions can be classified into “classical”, i.e., of common use and socio-historical background, and “working”, i.e., as a part of the legislation of a country.³

The largest range of meanings is implied in the term of **philanthropy** (philantropia, Greek – love for human beings). Generally it means an action of good will for public benefit; the effect is usually planned, consciously sought for, and just a momentary impulse. The emphasis is on the social element of support.

Charity is an element of philanthropy and can have variants: 1) purposeful for a particular event; 2) accidental occasion; 3) of additional character, while being an expression of sympathy or habit rather than a planned action like philanthropy.⁴ That is why philanthropy needs a higher level of motivation and organization of the process. Charity can be both institutional and individual.

The Bulgarian word “мecenатство” is of Latin origin, and comes from the name of Guy Julius Macenas /70-8 B.C./ a Roman poet, statesman and patron of arts and science. It implies personal attitude, to arts in particular. The term is applied to people with taste for arts, wealthy enough, and generous, so that they can help people of art and organizations. They can be regarded as predecessors of contemporary well-educated and well-to-do public. The support can be in cash, in kind, or in favour of education, for instance, etc. More rarely, the term can be used for organizations as well.

In most European languages the word **patronage** is commonly used (Lat., patronus; through French – patronage) in the sense of protection and support. In Bulgarian the word “patron” is used in front of the name of a famous and highly respected person as condescendingly patronizing an event or organization. The term does not necessarily imply donation.

Donation/donorship (Lat., dono – to give). The word is used for gratuitous voluntary giving away financial means, service, or other kind of estate. The donor does not expect anything in return, or if he receives anything at all, it is much less than the value

³ Some ideas of definitions of sponsorship have recently been put up, as valid and obligatory on European (supra-national) level for all member countries. The stimulating of the process on a pan-European level is an argument for such a decision.

⁴ Nilda Bullain – Percentage philanthropy and law, 2004, in www.onepercent.hu

of the donation, and most often is of symbolic value as a matter of prestige and reputation. A donor can be a person or an organization – a company, a foundation.

Sponsorship (also used as “commercial sponsorship” to remove all doubt that it is a kind of business deal) means a deal between a business organization and a cultural organization, which can have any status as goals and kind of ownership. Therefore, this relationship 1) is not gratuitous, 2) the repayment in terms of value can be equal or bigger than the thing given, and 3) as a form it is a part of the sponsor organization – basis of the promotional or communication company strategy.

PART ONE

THE PHENOMENON OF CULTURE FINANCING, OR, BETWEEN THE TEMPLE AND THE BARN⁵

1.FINANCING CULTURE – NATURE

1.1 Alternative, Market and Quasi-market Sources of Financing

For the last few years in specialized literature there came into common use terms such as “alternative financing” and “alternative resources” respectively, “market financing” and respectively, “market resources”, while there is not a clear distinction between the two terms. They are not synonymous, so for the purposes of a correct economical analysis their nature and content must be outlined.

The alternative financing of culture is each financing of cultural activities, which is not included in the direct budget subsidy from the State Budget of a country (the subsidy can be for support, a project or a capital one). So the term of alternative financing has the largest range of meanings. It includes both the market and the quasi-market financing of culture.

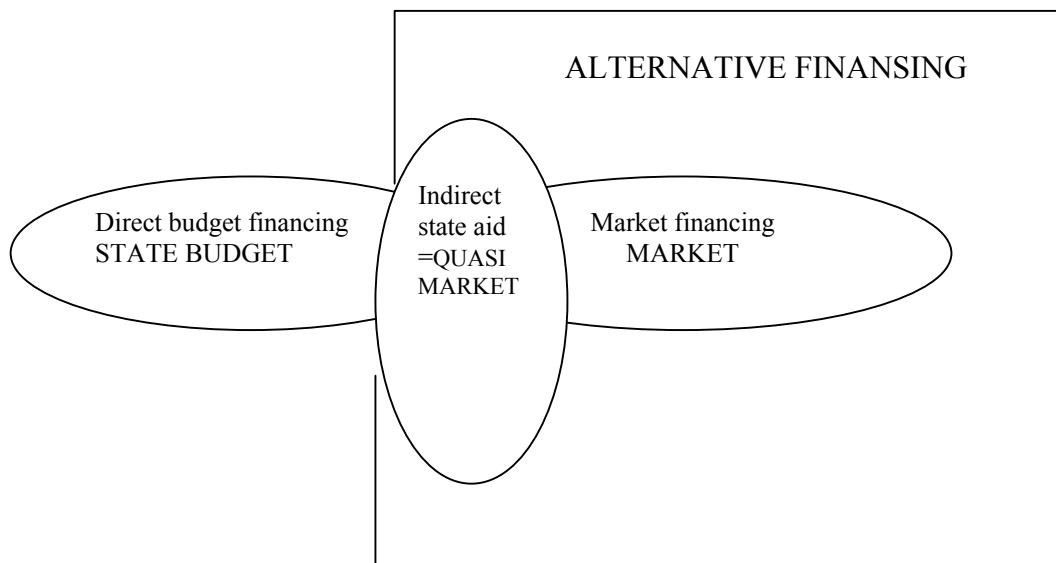
The market financing reflects the logic of the market forces and is manifested in private enterprise. The sources are private means exclusively, which have been turned around the market before pouring into a cultural institution or the creative work of an author. There can be two levels of private enterprise:

⁵ The subtitle of this part is taken from an interview of the famous Bulgarian medievalist and archeologist Prof. Kazimir Konstantinov: “Panorama”, BNT, 7/11/2003, <http://www.bnt.bg/shows/Panorama/111103rc10.htm>

- 1) The influence of the state policy on motivation cannot be ruled out from the classical forms of charity, sponsorship in particular, having in mind that culture is more than often a quasi-market and would not pay back investments at a high profit. In this case, as is with art lotteries for example, a purposeful cultural policy (as a tax discount motivation or strategy for national culture) would be synergic along with market forces.
- 2) Another level of market financing reflects market interests mainly: banking of culture in all forms, funds and stock; private loans and investment funds, various mechanisms of venture charity. Nevertheless, the social value of investment still holds a priority.

Between the market financing and the direct budget financing there forms the quasi-market financing of culture, i.e., a pseudo, not actually a market one. The quasi-market financing is an indirect form of public support through mechanisms of the exchequer (various forms of tax discount mainly). Such sums turn around the market, and essentially come from public taxes and income deliberately given away by the budget.

Figure 1 Alternative, market and quasi-market financing



1.2.Financing of culture between the state and the market, or in the search of a balance between cost and value

For the purposes of economical analysis culture can be regarded as subdivided in three major sectors: 1) drama and art; 2) culture industry; 3) entertainment industry (Attachment 2). The subdivision is arbitrary, the major criterion being the ability of sectors to function. Their chances for survival at the open market are tentative, thus to a large degree being a factor to determine the public financial engagement.

Technologically, art matter, scenic arts in particular, are predetermined as poor sale, and they would be an uncompleted market if not for the support from the state. This is invariably true for the ownership of organizations. Scenic arts are implicitly mixed products for the public, their cost being in conformity with the public tax administration. They would not be able to cover expenses from ticket sale or any other income of their own. So, outer anticipated income is vital to them (budget subsidies, project grants, sponsorship, donations), while their share varies with different forms of financing.

Matters stand differently with culture industries: book publishing, music recording, movies production, electronic media, etc. They do not come close to the classic market subject in terms of income, expenses and rate of profit. Yet, there are variables here resulting from:

- The nature of the product, which has invariably a positive public effect, but as being financed it can have the characteristics of both public (Europe), and private product (the USA). With culture industries the state is delegated an open choice and supports the ones oriented to manifestations such as of pride of national identity and values of education and instruction. Book publishing and movie industry are amongst factors most commonly recognized to build up national culture capital and for this reason being supported by the state in various ways.
- Market capacity is a decisive factor for a possible economy from the scale. That is the reason why countries with large markets of culture industries have more instruments for their financing. With smaller markets and closed language opportunities these industries (e.g., movie production) are of representative functions rather than commercial ones.

- Entertainment industries (music and show business, multimedia, amusement parks) are completely commercial.

As patterns vary, culture has a different role and function as an object of financing yet an economic, social and aesthetic phenomenon. Its importance to social development is highly conditioned by institutional environment, where it belongs. Institutional environment shapes the social attitude towards the “obligations” of the state and the market.

Indirect /out side/ positive effects of culture products are a sound reason for the public subsidizing of the sector. When means come from the market, though, they are drawn by:

- The capability of culture as an ingredient of the marketing and promotional strategy of an organization. In this case the aesthetic value of the culture product is perceived as a factor of an additional, marginal value.
- Culture is a factor for regional and local enterprise through the opening of more jobs and motivating local producers. To society these economic effects resound into the feeling of social identity as well.
- So, culture is decisive for social cohesion and a positive public image for the sponsor.

The extent to which cultural organizations are equal to the expectations of society is crucial to the market interest in the sector and, respectively, to the spreading of alternative financing⁶

The economizing⁷ of the culture product at a micro level could run regularly and could even be planned as a strategy of business companies, if helped by the state policy. This sector is mainly quasi-market, so the involvement of private capital is a matter of a purposeful policy manifested in the financial aspect of national culture strategy. At it's

⁶ This market interest is in the marketing potential of culture products rather than in their aesthetic value.

⁷ The economic effect is only one aspect of culture products and service. At present the economic aspect gives rise to more negativism rather than being of benefit at microeconomic level, and this fact impedes the use of its advantages.

very best, the point is this process to be run not at the expense of the quality of culture produce.

Culture is yet to be “discovered” by business. In circumstances of a dominant quasi-market it is the state to “uncover” culture as a comparative advantage still unused at both national and organizational levels. In a period of a market transition the state can achieve this goal through a set of quasi-market tools. Impediments to this process could possibly be:

- *Immature market relationships, i.e. incomplete institutional frame (lacking in market institutions, or institutions not backed up by legal grounds, thus remaining empty administrative forms).*
- *The social and cultural environment as a result from the historical background, reflected in tradition, value system and manner of thinking.*

1.2 Public attitudes – a form of an institutional blockage?

The spreading of market and quasi-market sources of culture financing proved to be a slow and difficult process for the countries in Central and East Europe (CEE). Apart from the lack of free investments and the drastic income differentiation, there came into being restrictive factors such as:

- For the last few decades’ culture held a special position as the one and only factor of culture capital. Thus being almost worshipped, the significance of culture has been exaggerated: “Unlike in western countries, culture traditionally enjoys a different treatment. Not more benevolent, just a different one. In West Europe culture is an integrate aspect of life, whereas in the East it happens to be regarded as its essence. Culture has an increasingly greater part as a symbol of national pride and identity, so political power must consider its crucial importance.”⁸ The drastic decrease of public financing, and of culture industries in particular, gave growth to a crisis not only of

⁸ P. Inkei, Cultural Sponsorship in East and Central Europe. Public Hearing on Cultural Sponsorship. European Parliament, Brussels, 2003

economical but also of social and value aspects: “The totalitarian state used to generously support all arts, as it generously used them to its benefit. Nowadays mechanisms of democracy seem to unfold off culture’s ways, thus leaving culture to a sort of autonomy.”⁹

So, in the quest of a new identity between worship and propaganda, yet threatened by the stagnation of marginality: this is the discrepancy in terms of institutional context, a discrepancy which was to be overcome by the countries in East and Central Europe during the last fifteen years.

The expectations that the state would give way to the market turned out to be wrong, to business of national importance in particular, can also be regarded as an institutional barrier. These expectations have resulted from the public attitude to the role of the market.

The odd point about this attitude is the theory behind it as the result from two positions, going to extremes from a philosophical point of view¹⁰. On the one hand, there is the attitude of economics of welfare, closer to European ways, namely: 1) culture as produce noteworthy in terms of public well-being (this attitude results from the special role of culture in CEE countries as mentioned above). On the other hand, 2) there is the popular economic principle of the market sparing no free space upon public withdrawal, thus being effected by market patterns of no institutional aspect and devoid of natural characteristics.

Obviously, with the lack of a market at work, real business interests cannot be expected, yet this is not a reason to diminish the high expectations from business in countries in a period of transition. This statement has been empirically proved by the study here presented.

⁹ Znepolski, *Cultural Policies in the Age of Globalization*, in “Cultural Policy and Legislation”. Soros Centre of Cultural Policies, Sofia, 2003 /in Bulgarian/.

¹⁰ Neo-caseyanism and neo-liberalism are two possible models running in CEE countries. The reasonable choice of each country has created national hybrid strategies. Going to extremities, the second model has found its way in the policy of the ICF. The question of great importance for the sector of culture, and still unanswered, is: to what extent the Currency Board principles delimit the quality of products and services in the public sector? And does delimitation depend on the status quo and the subsequent dynamics of the institutional transition in each particular country: Bulgaria, Estonia, Lithuania.

SQUARE 1

State, market, and culture: expectations and attitudes

“Would national culture survive at the free market without financial support of the state?” 75% of the interviewees answer firmly in the negative, and 20% believe that culture industries (movie making, music records, book publishing and audio vision) can survive on their own. However, most interviewees comment that the survivors would be the most commercialized amongst culture industries: “Culture at a very low level, unpretentious, just like a weed not fussy about environment. This kind of culture needs not particular attention because it is easily made, without special preparation and effort. A little craft and enterprise are quite enough, and each petty entrepreneur quickly learns these skills.” 5% of the interviewees firmly believe that art will survive without the support of the state, and the solid ground of their opinion is based on the fact that these people are creators themselves, and to create art they do not need to be a part of an organization; they are professionals in art or gallery business.

“In your opinion, how should the state support arts?”

The vast majority (50 – 60% of the interviewees) are all for a regulative state policy through indirect financing and legal basis. It has long been proved that culture is dependent on public financing, and it will depend on like ever before. The influx of alternative sources does not relieve the state from obligations, yet it changes the form of its being in charge. Alternative sources give the state particular opportunities to develop from dictatorship to regulation, not through the bitter experience on the spur of the moment and oncoming change but through a thorough strategy of problem solution.

The request for protectionist quotas is correlated with the surveyed representatives of culture industries, movie making in particular. There is nothing new in such protectionism, it is a European practice to decrease the influence of American films. In Bulgaria there are legally agreed and signed quotas for the broadcasting of European and

national productions on public television channels. These quotas are not stuck to, as the text in conditional mood.

“The sector of culture creates under 1% of the GNP of a country. In this condition the lobbying for culture should look for other advantages of the sector. In your opinion, what are they?”

Thus posed, the question is meant to sound out the public opinion on the role of the culture. Striking dynamics towards a more pragmatic and economized evaluation of the sector is noted.

To 71% of the surveyed, the best culture lobbying is through the highlighting of its importance as a factor of regional development. The social aspect of culture produce and the economic effect induced are appreciated as the top-lobbying factor; the importance of outer effects is second ranking (66%). The least number, 29% of the surveyed, adhere to pure culture capital as a factor for political attention. In brief, to rank the priorities of the sector: social pragmatism, pride of national identity, culture values.

Attitudes towards national business: empirical conclusion

The surveyed rank the extent of market maturity as an important factor for the development of alternative financial mechanisms. Running parallel to the indirect negative evaluation of market development, there are certain expectations for national business to take culture under auspices. Such is the predominant attitude of the surveyed, yet despite the recognition of tax discount motivation, the latter is considered not to be enough for business as a stimulus for active market behaviour. As an institution, the market is obviously disconnected from the mechanisms of its own realization; this discrepancy is not to be seen, however, with the attitude towards the state culture policy, which firmly delineates the role, the functions and the mechanism of public regulation.

The survey shows a penchant – at the level of expertise, if you will, for business awareness of culture despite the non-motivational environment for such behaviour.

Correlation analysis shows the absence of a similar attitude with the interviewees from culture industries. Their evaluation of the national market and economy is closer to reality.

Theoretical presumptions and hypotheses are empirically proved by the survey:

- *The role of the state in the transformation of culture policy goals, from dictatorship changes into regulating through the building up of a proper economical background and legislation;*
- *Culture continues to be a symbol of values, yet there is a growing tendency to a new powerful attitude (noted at an expertise level in particular) towards a more pragmatic approach to the sector;*
- *Despite the immaturity of market relationships, there are high expectations about business in charge of culture as a manifestation of established traditions and values.*

2. ARCHITECTURE OF FINANCING: BASIC ELEMENTS

Two major patterns of culture financing have been discerned for the last decade: the Anglo-Saxon and the Continental. These terms are commonly used in practice. If we are to use theoretical definitions, these terms bear the characteristics of the market model of culture organization, and of the mixed macro model respectively.

While the former is typical for the UK and the USA, the latter prevails in European countries. The differences between them are based on several major criteria:

- the functions of culture and its importance to social development;
- the role of the state for the support of the sector;
- the form and extent of public participation in the market, regarded as a financial source.

A new development is marked by the “emergency markets” of the countries in East and Central Europe, and their search for national strategy of development, which definitely shows preference for the mixed macro model of art financing and management.

The two models (the Anglo-Saxon and the Continental) are claimed to come closer to each other, yet observation shows rather copying of particular organization forms and financial tools of various potential capacity and efficiency, for the differences in the institutional, and therefore, the values environment.

2.1 The three macroeconomic models and the resulting approaches to the financing of arts and culture

The symbiosis between state regulation and market principles leads to the existence of “the three macroeconomic models in the development of culture organizations”. The first one is based on the assumption of state support for arts and culture, the second one relies on market principles, and the third one combines mixed financing of arts.

Their characteristics are strongly modified by reality, so that the three models can vary and merge into one another, while each national pattern remains one of a kind as a combination of sources, forms, extent and priorities in financing. The level of institutional maturity on the national market has a strong impact on the modification of the three basic models.

The level and manner of state support are determined by the actual public choice.¹¹ An important feature of the public choice in arts is the significance acknowledged to the national culture tradition, how old the tradition is, and the extent to which the national market of culture has been developed.

Variables are also caused by the fact that the market of culture is not a homogenous structure (apart from the above mentioned arbitrary classification into a market of arts, a market of culture industries and a market of entertainment industries); these sub-sectors are highly fragmented for the complete differentiation of culture produce.

The three major macro models give rise to three basic approaches to financing, already commented above: the budget, the quasi-market and market ones. The last two ones are also known under the joint name of alternative sources because they offer non-budget options for the financing of arts and culture.

An important condition for the rise and spread of alternative financing is the removal of institutional barriers; in other words, alternative methods have a potential capacity if they based on the right legislation with working mechanisms. Another important condition for the growth of alternative financing is to be seen as an additional rather than a substitution resource. This is important for two reasons: 1) in the Continental model alternative financing does not offer much, and 2) for the risk of negative public attitudes and the apprehension of the state budget withdrawal.

“The generating of income at low expenses and little influence on the normal economic efficiency” is yet another factor for the success of alternative financing.

¹¹ Direct voting for the civil choice of public and mixed products consumption. Thus the offer of these products is based on the public choice of the average voter, political decisions, and particular administrative and bureaucratic procedures.

The methods (methodos, in Greek: manner of research; contents and consistency of scientific research)¹² of the realization of these approaches are as follows: direct budget financing, fiscal and market ones. Each of them reflects the genesis of a particular policy, enterprise or choice, thus defining the source of means, the beneficiary and the criteria for apportionment.

A mechanism chosen narrows down the number of particular ways of income generating.¹³ In the architecture of financing the instrument is the smallest element, it is the particular form in which an organization or an individual are subsidized.

¹² Большая советская энциклопедия, 16т.,с. 478, М., 1974.

¹³ In monetary form, in kind or like service.

PART TWO

MECHANISMS AND INSTRUMENTS FOR ARTS AND CULTURE ALTERNATIVE FINANCING

1. ALTERNATIVE FINANCING: ITS STATE AND THE BASIC TENDENCIES IN “A TIMES OF EMPTY SAFE”

Each form of alternative financing is a reflection of its time. What is the new contribution of the last fifteen years – the last decade of the 20th century and the beginning of 21st?

2.1. The three levels of alternative financing

Generating of additional non-budget financing has undoubtedly three levels: international (global), national, and regional/local. The new element here is the global level, which recently has increasingly been gaining influence. The need of a global approach came from the scarcity of state financing and the uncertainty of means for projects, which makes planning and organizational strategy in culture organizations unpredictable. Reaching for global approach has been given rise at both European level (the Seminar on sponsorship and patronage in Madrid, 2002), and over continental level (the Conference of the World Bank on solid development and mechanisms of culture, 2001).

At the European level, alternative financing is a part of the public budget. For beneficiaries at the national level it is an alternative source, and in the form of special culture programmes, the grandest of which was “Culture 2000”. Additional means have

been generated, indirect though; to Bulgaria, e.g., it comes via joint programmes, and is meant for public needs apart from culture ones. According to the statistics of the Council, the means for culture co-operation is equal to 0.03% of the EC budget. Indirect means via non-specialized funds come to 0.7% of the total annual budget of EC¹⁴.

For the moment being, organizational alternative financing at the World Bank is not pecuniary; it is mainly in means for training, research, specialized Internet access, building up of operation teams for the management and support of alternative financing.

Most of the enterprise mentioned above is still at a project level, yet there is a motion to the building up of: 1) a common international terminology for users to avail of comparative analyses and statistics as a whole, not of fragmentary data; 2) legislation in the venue of culture recommendable for the EC countries; 3) new mechanisms of co-operation to stimulate international financing of culture.

2.2.New components within alternative financing in Europe and the USA

In both Europe and the USA we have been through times of public restriction on the financing of culture. In most European countries, the effort to avoid budget deficiency lead to the delimiting of means for the public sector. During the 1990s in the USA, however, public financing of culture was drastically decreased (17% - 60%, according to each state).

During this period there came the rise of “the venture philanthropy”. Philanthropy at risk first rose in the USA, and later found its various manifestations in Europe, not as widespread, though. This new form was a response to the necessity of innovational methods and tools of marketing, such as the e-philanthropy: charity through the Internet, managed by a particular agency.

¹⁴ The information is from an interview with Vivian Ridding, Commissioner of the EC Committee for Youth, Sports and Culture. The 0,7% include structural funds to which Bulgaria is not admitted yet.

In the USA this period was noted for a remarkable increase of both individual donation and from public foundations. Individual sponsorship is still at the top as quantity of sums given away./Table 1 / There is a marked tendency for bigger individual sponsors to donate through foundations of their own, and their number comes up to 75% of the richest Americans.

Table 1 Philanthropy in the USA according to the source of financing
/for 2000, in % and billion \$/

Source		
Individual donors	83 %	168 bn.
Foundations	12 %	24,5 bn.
Corporative body, Corporate Foundations included	5 %	11 bn

Source: Nina Cobb – The new philanthropy and the impact on financing art and culture, in The journal of Arts Management, Law and Society, vol. 32/3, 2002.

Most researchers explain this apogee in the economical growth from 1990s with reference to the boom at the stock exchange as resulting from new technologies. Spare capital was available to stimulate philanthropic penchant, and moreover, “these new Medici”¹⁵ introduced into charity new investment forms. The relative share of total culture financing from philanthropy amounts to 6% - 8%. /Table 2/

Philanthropy sources are mostly attracted to the venue of education, public health care, and social problems at a regional level, and above all, to sports.

During this period a lot of agencies started up, mostly as funds to manage sponsorship, training and information availability, access to marketing and communication strategies of culture organizations looking for alternative financing. The thriving of such agencies is indicative for the importance of the management of sponsorship, as thus the efficiency of the money spent and the trust of the sponsors are ensured.

¹⁵ From the title of Paul Shervish’s famous book on philanthropy in USA

In conclusion, this is a boom in the development of the market tools for the financing of culture, as a result from the economic upswing during this period¹⁶. In 1999 its fall came to be felt, and once again this proves the significance of thriving economics to sponsorship.

Table 2 Philanthropy in the USA /in billion \$/

Year	1990	1995	2000
Income from private sector	101,4	124	203,5*
Out of it for culture	7,9	10	11,5

Source: Nina Cobb – The new philanthropy and the impact on financing art and culture, in The journal of Arts management, Law and Society, vol. 32/3, 2002.

* Out of this ¼ come from sponsorship.

In European countries, during the last fifteen years alternative financing did not mark such a progress; anyway, this period marked the beginning of new alternative forms.

The art lottery became popular, crossed the borders of the Scandinavian countries (where it has traditionally been developed), and turned out to be a great success in the UK, Italy and Ireland.

Many countries decreased VAT on culture produce and service, which made the latter more competitive (this decision was made in response to the EC appeal for a decrease and alignment of VAT as an indirect tax, if possible).

There came into being bank investment funds as related to culture and arts (Italy). “Banking of culture” was established – development of credit and investment funds for the support of culture industries, encroachment of various credit tools (Great Britain).

¹⁶ During this period no additional fisc stimuli of importance have been presented. However, after the recession from 11/09 alternative funds also came to a decrease.

The principle of funding marked a significant growth, most often on the basis of mixed capital, and mainly in audio vision produce (France, Germany – well developed at a regional level, too).

The tendency of corporative philanthropy to be leading, as a form has not changed. Support in kind has also increased, “particularly in countries, where the price of the stock in kind can be subtracted from corporate profit before taxation¹⁷”.

Sponsorship is observed to be preferred to donation as a more commercial approach in a competition environment.

With alternative financing it is hard to rely on more exact numbers, because each country has got its own definitions of sponsorship and donation. This impedes the monitoring of traditional statistics. The figure of 1 076,27 Euro has been commonly quoted as sponsorship for culture financing. Table 3 shows comparative data on some European countries, the former being arbitrary for the reasons mentioned above.

Table 3 Sponsorship for culture in Europe *

Country	Cultural sponsorship in million Euro	GNP in million Euro	Population /in thousand /	Cultural sponsorships in % of GNP	GNP per capita	Cultural sponsorship per capita in Euro	Public financing of culture in Euro
Belgium	54,30	235,6	10226	0,0230%	23 038,03	5,31	377,1 mln.
Italy	205,70	1108,9	57078	0,0185%	19 428,15	3,60	2,86 bln.
Austria	35,84	196,7	8092	0,0182%	24 309,64	4,43	1,17 bln.
Great	226,08	1369,2	59501	0,0165%	23 011,41	3,80	1,6 bln.

¹⁷ *New and Alternative Mechanisms for Financing the Arts*, Art Council of England. London, 1997;* The data is for 1999 year.

Britain							
Germany	304,51	1975,0	82087	0,0154%	24 060,12	3,71	7,11 bln.
Ireland	12,20	89,1	3745	0,0137%	23 793,85	3,26	189,6 mln.
France	183,00	1355,6	58623	0,0135%	23 123,81	3,12	13,28 bln.
Sweden	24,04	227,8	8858	0,0106%	25 716,12	2,71	600 mln
Spain	59,70	565,7	39626	0,0106%	14 276,68	1,51	1,9 bln.

Source: Colin Tweedy-OECD and Natalie Sauvent – CEREC special report, 1999.

Sector preferences for alternative financing in Europe and the USA do not differ much. Yet, there are national peculiarities, e.g. for countries of old cultural and historical tradition it is only natural to invest larger sums for culture. Performance arts usually suffer from the Baumol problem, and being constantly short of funds, they tend to be active in the demand (and benefit) of alternative financing.

For a culture organization the amount of alternative financing as a percentage of the total income can vary. With different kinds of art the amount is highly influenced by national priorities, tradition, and budget financing. There is not summarized data on Europe. In comparison, data on scenic arts in the USA and Bulgaria from the late 1990s show that the income from sponsorship per cent of total organization income amounts to 8% in the average for Bulgaria, and 4 times as much – for the USA.

2. QUASI-MARKET MECHANISMS AND TOOLS: ROLE, POTENTIAL, AND EFFICIENCY

The quasi-market mechanisms are essentially fiscal, and are manifested in the following **forms**:

1. **Tax discount.** A contributor/sponsor can benefit from the discount of their taxable income at a sum, equal to the value given away.
2. **Tax credit.** A contributor/sponsor can reduce their taxes through the sum given away.
3. **Earmarked taxation¹⁸** on special produce and service. Additional target taxation on the price of:
 - culture goods and service;
 - goods and service related to culture: tourism, entertainment service, unyielding products and service (gambling, alcohol, etc.)
4. **Tax discount, or discount of the profit.** Percentage is discounted of: an obligatory indirect taxation from before (on culture produce and service, most often of commercial value and high turnover), this discount directed thereafter to a specialized fund for the support of more culture produce and service; percentage discount of the total net profit, e.g., the art lottery.

The instruments of fiscal mechanisms are as follows:

- Funds collected under the Law of Copyright;
- Expenses discounted of taxation (separate level) for authors, under the Gross Income Tax Law;
- Relieved customs duty and visa regime for the sector;
- Loan funds financed by the Third Sector and/or by the budget.

- **Tax credit or tax discount of corporate taxation on the profit for corporate contributors and/or sponsors;**
- **Tax credit or tax discount of corporate taxation on Gross Income Tax for individual contributors or sponsors.**

These tools result from the state regulative policy in the sector. Financial indirect sources can come from business (discount of corporate taxation), and individuals. In other words, means can be drawn from the market/the private sector, and via tax motivation can be directed to culture. These tools have a hidden function of re-distribution. The benefit comes from contributors' and sponsors' donations in various forms: in cash, in kind, or in favour. The tools are meant to enhance the quality and quantity of culture produce. They are directly addressed at business engaged in culture produce/service, organizations or individuals; though indirectly, they are stimuli to the producer, too, because the greater the culture produce is, the larger is the gate to business opportunities. Moreover, these tools are a factor for an uncharged income, which is to bring a higher profit to the agent of culture produce. The transfer of means from the private sector to the sector of culture creates a great beneficial effect; as a whole, this should be a drive to a positive public attitude to these instruments.

- **VAT at a discount or a zero rate**

VAT has a powerful fish function, and through the introduction of more than one stake it can also acquire a function stimulating the consumption of goods.

Tax-free deals “are not taxed... the producer can not have a discount of the tax paid on purchase,... i.e., the price of the service remains the same, and this will not lead to a subsequent distortion of prices.¹⁹”

¹⁸ Somewhere the earmarked taxes are known as hypothecated taxes.

¹⁹ B. Petkov, *VAT*, in “Public Sector Economics”, ed. Manliev. Sofia, 1998

Such a situation is not stimulating for the sector because it would not increase the demand of the culture produce: the price remains the same, yet this approach is economically neutral.

A zero tax stake means that the producer discounts the tax from the price, but is not taxed, either. This approach reduces the price and stimulates the demand of the produce. It also gives better competitive positions to a producer in the sector. Such a situation is not economically neutral, yet on comparison between the reduction of economic efficiency, and the stimulation to higher positive prices of produce/service (i.e., public culture capital has been increased), the economic reduction turns out to be lower than the public benefit in result.

A zero or a reduced stake of VAT as a fiscal tool is beneficial to: 1) producers – culture produce is increased, and 2) consumers – they have a greater access for the lower prices; 3) moreover, the society gains benefit, too, because outer effects are stimulated: national pride, educational qualifications, etc.

• **Earmarking taxation at a national or regional level is most often imposed on:**

1.the price of culture good/service, directed through a fund for the creating of more culture produce/service;

2.the price of produce/service related to culture, e.g., tourism;

3.the price of non-elastic goods with high tax income, e.g., gambling.

Earmarked taxation is also a reflection of the public state administration and tool in the state policy in the sector. Earmarked taxes are imposed upon legislation at a national or regional level. The source of income here involves individual private resources directed to the stimulation of culture goods and service, most often through a fund.

This way of means collecting is fast, relatively cheap, and re-directs to culture a great additional amount of money. Earmarking taxation has largely been applied in the USA (the second variant), as a form of means collection at a state level, and a response to the drastic reduction of central budgeting. Europeans apply the first variant mostly, as

they traditionally tax the tickets for the cinema and videocassettes to re-direct these means to a specialized fund at a regional level. Thus, benefit remains where it comes from, and so does the risk of eventual reduction of economic efficiency. Of course, this does not change the fact that the efficiency of a production is devoid on behalf of another one. A point should be made here: the matter concerns culture produce, where merely economic criteria are only a part of the possible projection of the product or service.

From economical point of view, target taxation is far from neutrality; as being efficient for the large scale of charging and easy collection; it, however, leads to a great drainage of funds from the sector of a product additionally taxed, that is, there follows a re-distribution of income between separate producers, though not through competition but rather through central or regional regulative policy.

These negative effects can be reduced, provided:

- The products taxed and stimulated are a part of a production line, although they may be of different profitability. For example, let us take movie making and movie distribution.
- The benefit is for both the producers of the stimulated culture product, and its users (production grows up, so does its accessibility for the increase of offer and for the opportunity of lower prices, if at the change of situation economy has been realized at the level expected).
- The principles of fisc decentralization and fisc equivalence must be kept, that is, they should be at the same level (both regional and local), and the loss and profit of target taxation must be realized. That is why, projects on the imposing of earmarked taxations shall be realized upon a local referendum on the matter.

These instruments are fiscal in character, indirect as a manner of attraction of funds (unlike direct budgeting), and are the quintessence of the regulative state policy. Despite of being a part of the quasi-approach, taxation stimuli turn actually into a basis for the rise and development of market insruments: donation and sponsorship.

The instruments of fiscal mechanisms influence the apportionment of public and private resources, and their application must be carefully considered so that it will not

unbalance of the market at the moment. If this, however, is inevitable, the benefit gained by the public and individuals must be greater than the loss inflicted.

The choice here is between efficiency and justice, and it is hard to be economically neutral, moreover, a great part of the benefits from the additional culture products and service cannot be measured in pecuniary terms – the classical economic criteria do not include the multitude of positive outer effects.

Obviously, the role of public choice here is of great importance, and it will further enhance the importance of lobbying and the influential groups in the sector.

3. MARKET MECHANISMS AND INSTRUMENTS: ROLE, POTENTIAL, AND EFFICIENCY

The market mechanisms and instruments reflect the private, market enterprise, and the natural demand of the market forces. To a certain degree they are also influenced by the support for a particular product of emblematic cultural and social value, and in turn pays back by awarding the contributor or sponsor with public image and prestige.

The concrete market tools can take the following **forms**:

1.Sponsorship: corporations or specialized funds; various forms – in cash, in kind, etc.

2.Donations according to the source:

- **Individual (classical form, on pay roll, etc.), affinity cards, inheritance;**
- **Foundations;**
- **Corporate.**

No matter if the decision of sponsorship is made by an individual or an organization, it clearly shows the synergy between the market forces and the state policy in the sector, the policy being expressed through the building up of a stimulating institutional background: legislative and fiscal.

That is why it can be said that these two financial instruments are of market character, though they reflect the quasi-market state policy in culture, being essentially regulative.

There is some disagreement on power of the influence of taxation stimuli on market mechanisms. Out of practice it is evident that the role of these stimuli should not be exaggerated, because they are not the first to give the impulse of a philanthropic decision; they would rather take the form of a subsequent reward. A new survey carried out by Independent Sector in USA shows that taxation stimuli influence not the decision of “shall I donate”, but the question of “how much shall I donate”. For individuals such a

decision is primarily based on motivation of philanthropic character, whereas corporations regard contribution and sponsorship as a reflection of the economical growth and profit of a particular organization.²⁰ Once more, this statement asserts the synergy between the state cultural policy and the market interests. This synergy reaches at its best upon the institutional building up of the right efficiently functioning market environment.

The source of funds here can be corporate capital, or capital from individuals, redirected to the sector of culture. The funds can be in cash or in kind.

In sponsorship, the so-called affinity cards are a rarity as an example of a purely market mechanism. Affinity cards redirect funds from both individual and corporate sources. They are an enterprise of banking, to which the state has not got even an indirect concern (provided that national policy in culture also adds up to the emblematic value of a culture product).

<ul style="list-style-type: none">• Funds from specialized lotteries, or other games of chance

Fiscal benefit to the state is made possible through the regulation and legalization of gambling. This is usually in unison with direct taxation.

Games based on money (no matter if lay-down, or lotteries), do not produce wealth, they just transfer it. This economic function of gambling, through the distribution of profit gives the opportunity of looking for direct public benefit and the making up of extra value. Causes considered to be the right ones are culture and sport; education ranks more rarely, then there come innovation and public funds.

This is a purely market approach: public funds grow, while this income is no longer a kind of taxed price – people (by buying tickets, and through the market) financially support the right cause. Income increases without an increase of taxation; moreover, there is an opportunity for a greater and more solid financial support, as compared to sponsorship.

²⁰ www.onepercent.hu - NIOK and ECNL, 2004

Some researchers, however, assume that this way of target diversion of percentage of the profit is actually a form of target taxation, or charge. Anyway, it is not the unyielding attribute of the products in this sector, which allows target taxation. Yet, there is some consideration of moral character here, which will be discussed in Part III.

- **Various forms of market instruments of organization and ownership (funds, projects and programmes, partnership):**
 - 1.Risk investment funds;**
 - 2.Specialized bank funds;**
 - 3.Stock on public sale;**
 - 4.Loan instruments: guarantee of creditability; micro crediting; loans backed up by social evaluation systems;**
 - 5.Crediting funded by business and the Third Sector.**

These market instruments are a new form of arts financing. In Europe they are commonly known as “banking of culture”, in USA – as the largely meaningful notion of “risk philanthropy”. These tools came into being as a result from the increasingly growing free capital in USA, and in Europe to a certain extent they resulted as a reflection of similar developments, and basically under the pressure of the culture sector in search for more additional financial sources.

These are actually the most liberal financial instruments, which at their best reflect private enterprise and market ways. Having in mind the sector they are meant for, these investments could be considered as of social implication.

They are mainly used by culture industries and in culture infrastructure as well. Most of them are in the form of investments, but the conditions under which they are received, are relieved. In USA, however, subsequent control is the same as on corporate management.

In European context these financial instruments are means to²¹:

- building up of an environment for a long term growth of culture industries;
- giving an opportunity for the development of enterprise in culture organizations;
- building up of new models of partnership with the business sector;
- the achievement of a long term growth, while avoiding the uncertainty of project funds and budget financing;
- business recognition and acknowledgment of the non-financial aspect of investment return in culture;
- giving an opportunity for growth and economizing at the extent of culture industries.

Market tools are a factor for the apportionment and the re-distribution of public resources, although in private capital only, and mainly based on the market forces and interests. In this aspect they are economically neutral, the funds appear to be extra for the sector, and they stimulate culture produce. The level of market tools development is determined by the maturity of the market system, and to a large extent their efficiency depends on the transparency and management of these additional funds.

SQUARE 2

Alternative tools of financing (market, quasi-market). Evaluation of their potential capacity. Empirical information.

“How would you estimate the potential for accumulation of additional financial resources of listed below alternative instruments for financing?”

When it comes to the potential and not to the realization of particular financial tools, recipients are generally optimistic. Some of the tools in question are only known as paragons from practice abroad, and these tools rank first (art lotteries, target taxation). Another group of tools applied in Bulgaria, Hungary and Lithuania (preferential VAT,

²¹ Lidia Varbanova, *The Existing Financial Instruments for the Cultural Sector*, (unpublished review). OSI, Budapest, 2000

mixed funds, credit funds) already known for their hidden or apparent disadvantages, have also been favorably ranked, yet Table 4 shows their inferior position.

The lowest ranking percentage of “excellent” and “very good” is assessed for tools unfamiliar or slightly familiar as mechanisms: affinity cards, private guarantee funds, credit mechanisms and stock. Another reason to be ranked low is the fact, that all these are purely market tools, which need a well-developed financial market and free capital looking for a public aspect in investment, as well as a firm national business. It is obvious that indirectly the interviewees consider these factors to be absent or still undeveloped.

PART THREE

BULGARIAN CULTURE AND ITS FINANCIAL ALTERNATIVES

1. BULGARIAN CULTURE – ATTEMPTS AND CONSEQUENCES OF THE TRANSITION PERIOD.

The creation of market and democratic institutions is part of the transition matrix – market, democracy, civil society, European Union, NATO. Where is the place of culture in this matrix? There are many possible aspects of the answer. From the point of view of the aims of this part of the study, it is interesting to analyse **the culture as part of the public economy.**

Products and services produced in the cultural sector are mainly mixed goods, and consequently, the market is actually quasi-market. The private sector is of symbolic size and is related mainly to cultural industries but even there, due to the small national market and the closed language community, the revenues are limited.²² Happy exceptions, confirming the rule, can be found only among the most commercially oriented producers. They are mainly in the audio-recording business (pop folk), the qualities and aesthetic value of the products being disputable.

Culture is a sector, which can not be organized on the basis of the free entrepreneurship – there are interests and goals which can not be reached by the market. Exposed to the influence of free market forces, the sector generates a number of defects – the market is transformed into an incomplete one, the access of people to cultural products is limited, and an informational asymmetry is emerging.

²² According to GEOPOLI LTD Film Production Company the returns in the film industry can not exceed 10% of investments

*The specificity of the product and production defines the natural place of culture as part of the public sector. There are expectations for the public policy to correct the failures of the market – has this been successful in the last 15 years? And aren't these failures a logical subsequence of the public policy in the sector? What are they? What is their nature? Is the free market capable of correcting them? Is alternative financing an instrument for correction? **Is it a regulatory instrument (part of the state cultural policy) or a market instrument?** These are part of the questions considered in this section.*

After 1989 the main goal of the Bulgarian cultural policy is **the transformation of the centralized state financing into a mixed model of management and market rules**. In a global aspect this direction of development conforms with the growing liberalism of the European economies, and market and third sector presence in the contemporary model of cultural management.

It is typically for Bulgaria that this drastic transformation in culture is carried out within a **negative macroeconomic environment** (production decline, reduced demand, increasing unemployment, high inflation) and a lack of consistent state policy. In spite of the demonstrated will to reforms they have been performed slowly, partially, and very often without succession and overall vision. The absence of a national strategy for the Transition (in all sectors of national life) brought about a high social price for people.

In the first stage of the Transition (1990-1993) the beginning of the institutional and legislative framework of the change was laid – the new Constitution (1991), the liberation of prices, the beginning of restitution, the Competition Protection Act. These changes sharply liberated the market and demonstrated the supremacy of private property and free market forces. However, demonstration differs from realization; the majority of economists consider this period as one of political rhetoric and creation of quasi-market conditions; actually, privatization hadn't started yet and there were no adequately functioning market institutions. The chaotic state of events in this period was characteristic not only for Bulgaria but for all Central and Eastern European countries in transition.

While, for countries like Hungary, the second period (1994-1997) marked the beginning of a stabilization process and creation of market conditions for an institutional change (i.e. the public policy might already control the changes), for Bulgaria the decline continued to deepen. Additional problems and mistrust in the financial system appeared in relation with the expanding bank crisis – the growing inflation, transformed into a galloping one at the end of the period, disrupted the household budgets and devaluated the savings. In parallel to privatization which supported the development of market relations, the unemployment increased too – a reflection of the economic structure transformation.

The third stage began with the introduction of Currency Board (1997) and continues to present. The Currency Board stabilized the economy, financial sector and business climate, stopped the three-digit inflation, launched the beginning of the economic growth but it didn't bring a rise of income of people and improvement of the quality of life.

The Gross Domestic Product has still not reached the level of 1989, and the reduction of the real income, again compared to 1989, is 56.8%. The income differentiation has reached a worrying level – 35% of the population is under the poverty limit.²³ The high unemployment, which is of structural character, doesn't give big hopes for a fast social status change for these people.

This “recovering” liberalism brought a number of controversies and **disbalances in the Bulgarian transition, which affected the public sector**, culture included.

By 1989 public expenditure exceeded 60% of GDP, today it is almost 20% less. Its dynamics is not successive and one can hardly find a kind of economic strategy in it; it is rather a reflection of the existing possibilities for income as well as a reflection of specific political decisions. The payment of interests represents a considerable part of the public expenditure, which further diminishes their real amount and, according to some authors, it is not more than 20-21%.²⁴ The increase of expenditure after 1998 is rather a recovering, after their collapse in 1996-1997.

²³ CIA – World book, 2002.

²⁴ Lilly Yotova – “Public Sector on the Conditions of a Fiscal Restriction” – in “Economic and Institutional Change at the Transition to Really Functioning Market Economy”, Univ. Publ. House “Stopanstvo”, National Conference, 2001, Sofia.

In the period of transition, **public expenditure for culture** sharply diminishes as well. Obviously based on a remanent principle, the main items being cost support of institutions and salaries, it can not even follow the level of the public expenditure - a lack of logical interrelation is noticed. *It is one more proof of absence of a strategy the formation both for general public expenditure and for sectoral one but it is also a reflection of the difficult market reforms.*

The public policy in the sector of culture may correct the market failures both through regulations and direct interference; in both cases the state budget is considered an important resource. The drastic reduction of budgetary funds (they are still less than the ones in 1989) brought about a loss of cultural capital – the production of cultural goods and services was reduced; on the other hand, the impoverishment of population also restricted their access to cultural institutions (Table 4). The household expenditures have still not reached the level of 1990; the growth trend noticed below is rather a reflection of the increased prices of cultural goods and services. Capital expenditure in the sector is low, which leads to a declination of the extensively developed cultural infrastructure during the period of socialism and active decapitalization of the sector.

Table 4. Expenditure for culture in the period 1990-2003

Indicator	1990	1997	2000	2001	2002	2003	2004¹
Public expenditure for culture - % of the State Budget	1.84	0.87	1.6	1.6	1.6	1.5	1.3
Public expenditure for culture (consolidated SB), %GDP / BGN	1.09	0.44	0.6	0.7 196.3	0.6 198.9	0.6 206.5	0.6 226.8
Expenditure for recreation, cultural leisure and education – per household, %	4.6	2.1	3.6	3.5	3.6	3.9	n.a.
Expenditure for recreation, cultural leisure and education – per person, %		1.8	3.2	3.2	3.3	3.3	n.a.
Capital expenditure - % of the total public expenditure for culture ²				7.3	5.8	4.6	4.5
Inflation, %	50.6	578.6	11.4	7.4	5.8	2.5	4.0

Source: NSI, State Budget 1990-2004, Council of Europe/ERICarts, “Cultural policies of Europe: a compendium of basic facts and trends”, 2003 – <http://culturalpolicies.net>; 1/ Prognosis

For the period 1990-2000, the recession of demand and offer in the sector of culture may be demonstrated with the following data²⁵:

- The number of theatre performances is reduced 3 times; the demand of performing arts is reduced by 45%;
- The number of cinemas is reduced almost 6 times, while the number of spectators is reduced nearly 3 times;
- The number of libraries is 24.3% less, and the readers are being reduced by 37.3%, while the library collections have suffered a shortage of 21.4%;
- The number of visitors in museums is 10% less, and the cultural clubs (chitalishta) have been reduced by 30%, their visitors being five times less;
- The only growth has been reported for radio- and TV stations – the former ones are increased by number over 2 times, and the latter ones – 8.6 times.

The limited financial resources for conducting the public policy in the sector is only part of the problem. Its solution was sought through steps for changing the management structure and financing of the sector, i.e. pro-market solutions of the critical situation were sought. Some of them were successful even with the present financial stagnation but others were doomed to failure not only because of insufficient funds but rather due to lack of strategy, partnership (horizontal, vertical at management level with business and civil sector), legislation and fragmentation of actions.

With the introduction of the Currency Board (1997) the state budget became the most significant macroeconomic instrument. This measure affirmed the desired conservative behavior of the economic subjects. The number of the first-level administrative disposer of budgetary subsidies in the national economy was diminished (from 150 to 33 in 1999). This restrictive behavior affected culture as well. Furthermore, a number of limitations emerged in searching alternative approaches for financing arts and culture – *the number of extra-budgetary accounts and funds were diminished, and the government imposed a negative attitude towards the fund principle of financing. The taxation policy, based on an unified attitude to tax subjects, didn't allow preferences for*

²⁵ Data from “The Social and Cultural Sphere in Numbers”, Sofia, 2002; Alternatives Journal– The reform in the Social and Cultural Sphere: between Reality and Anticipations-an Attempt for a Statistical Portrait,

culture, even though some taxation preferences for culture are innate for an EU accession country.²⁶

Setting culture as a state priority as well as the pursuit for alternative financial mechanisms was demonstrated in various governmental programmes (1997-Unified Democratic Forces; 2001-National Movement Simeon the Second). But these declarations were combined with *a lack of continuity between the different governments – neither a national cultural strategy was created, nor resources were allocated for realization of the programme goals promised*. Therefore, the reform being conducted in the sector was not clear and was not widely recognized.

In spite of the existing limiting conditions, the state began to step aside of its role of owner (in cultural industries) and to develop its regulatory functions through legislative and economic mechanisms – the aim was to create conditions for cultural entrepreneurship. The state support was directed to subsidizing the product rather than maintenance of structures.

The majority of specific acts providing the legal framework of the transition and emphasizing culture as a specific subject in the economic life of the country emerged in the second half of 1990s and underwent amendments later. Much earlier, at the beginning of 1990s, the film production and book publishing stopped to be financed by the Budget and the state monopoly in these fields was removed. Thus, the liberalization of the sector brought about a sharp and mechanistic withdrawal of the state support from the cultural industries. In the conditions of lacking- /or non-matured market relations/ and not built institutional framework, models, that are adequate for countries with developed market economies and working cultural market, were imposed through administrative acts.

The market economy building in Bulgaria was recognized only in 2002 by the EU but ten years ago the state refused to protect the cultural industries, although no specific market- and legal instruments existed at that time; this situation brought about a crisis in the sector.

The national **film industry** was mostly affected: 2-3 feature films represented the overall yearly production, compared to more than 20 films in 1980s. Practically, our

Sofia, 2002 as well as a data base of Geopoli Film Production Company.

²⁶ There is an indicative attitude to VAT, where the EU recommendation is for an unified 15% value, and there are appeals for zero- or preferential value in the sector of culture.

strong cinematographic school lost its national presence²⁷. For three years, from 1990 to 1993, 80% of the employees in the sector have been discharged. The recently launched privatization was split into individual components. The film production became private after 1994, while the film distribution remained state-owned – the privatization of cinemas was carried out in the period 1997-2001. The legal framework of the sector has been amended several times but in parts. For example, the automatic subsidizing of co-productions was introduced in 1994, and abrogated for the period 1995-1997.

Almost at the same time, **book publishing** companies were registered as commercial objects, on a self-supporting basis. In the first ten years of transition the circulation in book publishing sector was reduced 4 times²⁸.

The reform in the **performing arts** started with the theatre sector (1994), while the music performing arts experienced changes in 1997-1998. The central financing from the Budget was replaced by a “mixed financing” (in partnership with municipalities). The role of municipalities is still not legislatively secured. Their voluntary participation in financing is a factor of financial instability. In order to reduce the fixed- and administrative costs, new institutional forms emerged – “open stages” for theatres, and “opera-philharmonic societies” after merging of symphonic orchestras and opera houses. This last merger didn’t bring about economy of scale, on the contrary, the performing quality of the merged orchestras even lowered.

During the whole period of transformation of the cultural policy, the main changes have been performed in the direction of liberalization and decentralization, although the results have frequently been inconclusive and controversial. The reasons for this may be sought in the lack of political will and continuity. Other limiting factors are the non-maturity of the market environment and the lack of civil lobbying and pressure groups – no public understanding has been developed for the culture as a factor of sustainable development. These institutional barriers began to diminish only at the end of 1990s.

Despite the above limitations, important steps have been undertaken with respect to the **model of management and financing of the sector:**

²⁷ Bulgarian cinema has been awarded 587 international prizes by 1989, one third of them at western festivals. Each year Bulgaria has participated with 2-3 films of category “A” at international festivals.

²⁸ Statistical information from the project “Support for art and culture periodicals”, Soros Art Centre, Sofia, 2000.

- Establishment of **national centres of arts** at the Ministry of Culture started after 1991: National Book Centre (1991), National Film Centre, National Theatre Centre (1993), National Centre for Music and Dance (1993), National Centre for Museums, Galleries and Visual Arts. The initial idea was to introduce the modern management model, of the “arm-length” type. Actually, the centres are independent legal entities but funded from the Budget and are second-level disposers of budgetary credit at the Ministry of Culture.
- The Centres introduced **project subsidies**. These are again budgetary funds but distributed on a competition basis (i.e. this is a target subsidy), and aimed at the creation of a specific cultural product – performance, exhibition, book. All applying organisations are of equal opportunities, no matter what their type of ownership is.
- At the same time the first **private organizations in the field of culture and arts** appeared. Part of them is market-oriented, i.e. they form the market sector of arts in Bulgaria, and are registered as commercial companies; these are mainly organizations from the cultural industries – film production, audio recording, publishing, electronic media. In the field of performing arts, private sector is dominated by theatres. These are 10 drama and 5 puppet theatres, which operate permanently.²⁹ Most often, the form of registration is a non-profit civil organization. All private organizations are allowed to apply for project subsidies from the National Centres but not for subsidies for operation.
- **The National Culture Fund** (2000) is the first and so far the only attempt for raising financial resources for culture through a public fund.
- A new alternative form of financing the sector appeared in this period – the **Loan Fund** (2001). This market-oriented type of supporting the culture is quite new and is not frequently met in the European countries. The aim is granting loans under preferential conditions. This initiative has been realized by the Resource Centre foundation following a project of the Arts and Culture Network Program, OSI, Budapest.

²⁹ According to the register of the National Theatre Centre (which is voluntary and hence, incomplete) there are over 120 private theatre formations of different organizational type.

- The declared intention to **decentralization** has been pursued with a different success in the past period. An important achievement is the **mixed financing and the establishment of advisory councils on cultural issues at the municipalities**. During the last years the establishment of **municipal cultural funds** has started but still there are quite a few of them. A solution of the restricting financial situation at the municipalities could be the creation of a new legitimacy of culture – not only as a resource-consuming sector but also as a basis for development of cultural tourism and local enterprise. Another alternative for the municipalities could be searching of instruments giving more freedom in the determination of local taxes and fees.

2. SEARCHING ALTERNATIVE FINANCING – SOURCES, LIMITATIONS, OPPORTUNITIES

2.1. Bulgarian steps to alternative financing. Achievements in the sector of culture and arts.

Attention to alternative financing in Bulgaria was firmly demonstrated only after the first half of 1990s but visible results were observed in the last five years. The explanation of this time lag is a multi-factor one – diminishing state support of many activities in the public sector, institutional maturity of the civil society and market, interrupted traditions, overall impoverishment of people, lack of managers and experts, lack of partnership between the state, business and third sector. The rate of impact of these factors has been assessed in the development through empirical sociological research /ESI/.

The positive steps in alternative financing may be classified, as follows:

- *New elements in tax legislation with respect to donations and sponsorship.*
 - Amendment in the Law on Corporate Taxation (2002), which already allows the donated/sponsored amount not to be up to 5% but up to 10% of the financial income (of the donator) before taxation. Why the legislator fixed 10% and not 15% as it has been in the draft, can not be explained in a logical way.
 - 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 20% to 15%.

Given the expected continuing reduction of the corporate tax to 15% (now it is 19.5%), this upper limit of taxation is again unwisely chosen.

- The possibility for donations by individuals of up to 10% of their personal income (Law on Taxation of Income of Physical Persons, Art.20, para 6) (2002) is a significant achievement. Donations should be directed to organizations – (legal entities operating on a non-profit basis), and

registered in the Central Register, or legal entities which are not businessmen, for charity, social, nature-protecting, health, scientific-research, educational, cultural and sports purposes. Donators could be self-employed persons, free lancers, persons having their income from rent and lease, and persons getting their payment under labour agreements or those equal to them. Persons paying patent tax for their labour activity are denied the opportunity of donating. Here again, there is no logical explanation of this exclusion.

- The Law on Legal Entities Operating on a Non-profit Basis was passed in 2000. It regulates the way of establishing and functioning of civil organizations, which operated by that time according to the Persons and Family Act.

- *Appearance of new agents, first of all international organizations from the third sector, working for a development of philanthropic environment through lobbying, education, organizational capacity building at local and regional level. The result is the formation of a fast-developing niche “donation projects at local level”.*
 - The methodological assistance and the complementing funds are the basic instruments for establishing non-profit organizations, operating as charity ones.
 - Among organizations stimulating donations are: Bulgarian Charities Aid Foundation, Counterpart, 3Net, Bulgarian Centre of Non-economic Law, Open Society Institute, Generous Heart foundation, many public funds at local level, the majority of them being established with the assistance of the above-mentioned organizations.

- *Establishing new, more diverse alternative forms*
 - **Setting up Community Funds (Foundations)**³⁰

³⁰ A distinction shall be drawn between these Municipal Funds and the state budgetary funds, which are defined in the Structure of the State Budget Act: “Fund” is a financial and legal form for regulating the extra-budgetary income and expenditure of the government bodies and the budgetary organisations and their relations with the state budget in connection with tasks of national scope”. Chapter 7, Article 45,

The so-called Community Foundation is a successful model in the USA and a number of European countries. It identifies the local priorities in co-operation with the NSO and the Municipalities, provides funds from the municipal budget and a wide circle of local and other donators. This is a mechanism for mobilising a certain community, so that it identifies its problems and raises funds for their solving. Such Community Funds have been established in Chepelare, Gabrovo and Blagoevgrad, Stara Zagora, Berkovitz, Pazardzhik and Tutrakan. They have been registered as *foundations for the public benefit*. The setting up of Community Funds in these municipalities has been supported by “Counterpart International – Bulgaria” – an American Non-government Organisation, funded by the USAID (The US Agency for International Development), which is implementing a “Pilot Programme for Community Funds and Social Enterprises”. “Counterpart” provides methodological, technical and financial support, training for the management and exchange of experience with similar organisations in other countries. The organisation provides the same amount as the one collected by the community and one-third of the funds, donated by the municipality.

➤ **Setting up of Community “Culture” Funds**

These funds have been legally set up in compliance with the Protection and Development of Culture Act, Article 36, paragraph 1 (year 2000). The Municipal Council has the powers to initiate the Community “Culture” Fund and to adopt Rules on its Work. Up to now well known is a similar fund in Shoumen. The mechanism for raising funds for the Fund make it effectively non-operational and the municipalities get focused on the legal alternative of the foundation.

➤ **Loan Funds of Third-Sector Organisations**

For the culture sector the “Loans for Non-government Organisations” of the “Resource Centre” Foundation has become famous.

➤ **Programmes for Micro-crediting**

The Report of the Council of Europe on the creative industries in Bulgaria identifies over 50 different business programmes for support by private banks,

paragraph 1 “Extra-budgetary funds are all funds, collected and spent by the virtue of a law by the state bodies and the budgetary organisations, without being included in the State Budget”.

public agencies and NGOs. Regardless of the favourable conclusion that all of them are suitable as a form of funding cultural industries³¹, 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 the state is crucial. In the world practice the state is at least a guarantor, if not a co-funding subject.

➤ **Donation by payroll**

This is a mechanism for individual donation. The member of staff declares what percentage of his/her income he/she would like to donate every month and this is written down in the payroll. The donation by payroll is an old and widespread form of individual donation, and it has very small operational costs. According to the Bulgarian legislation this type of donation provides an opportunity for tax relief of up to 10% of the income.

➤ **Income from the State Lottery**

Pursuant to the Gambling Act (2000) the net annual profit from the Lottery shall be divided in equal shares among the culture, education, healthcare and social care sectors.

Up to this period it is difficult to establish the amount of the funds, allocated to culture, because they have not been targeted to the state budget, as the case is now. It has been reallocated together with the other tax revenues.

• *First National Donation Campaigns*

- Annual “Generous Heart” Campaign (up to now with social trend)
- National campaign “The Bulgarian Christmas”³², again with social direction.
- The initiative “More and More” of “Bulgarian Charities Aid Foundation” Foundation for the development of the donations by payroll.

All these campaigns rely mainly on the individual donors, although the share of the participating firms is not small. The issue of particular importance is that they help the development of the donor culture of the Bulgarians. The media

³¹ According to the information, provided by SIELA, there are 37 000 companies, registered as “cultural industries”. Most of them are small or micro companies.

³² Two million BGN raised with the help of the media.

echo that ensuring transparency, and building attitudes are very important for the result.

- *Setting up of the “Bulgarian Donators’ Forum”*

This national donators’ community is a good sign for the search for common ways of the third sector for lobbying in the direction of philanthropy in Bulgaria. A Code of Ethics with main values “integrity, transparency, quality” has been developed³³.

- *Starting a debate about the donations, for the time being only by political parties.*
- *First investigations and analyses of the phenomenon, mainly empirical.*
- *Special training in “Sponsorship and Patronage” at university level.*

The alternative funding of culture and arts was developing much more slowly and with much more difficulties during this period. The achievements in the sector are poorer compared to the achieved national level both in terms of the qualitative indicators and in terms of the innovation forms of funding.

2.2. Fiscal mechanisms

The fiscal mechanisms are utilized slightly. Some of them have been signed in a legislative manner, /for example concerning the accumulation of the resources for National fund “Culture ”/, but more often – 1/there is no administrative mechanism for their application, or 2/the bodies, liable to taxation, do not fulfill their obligations.

³³ In the form of an association the following are involved here: “Open Society” Foundation – Sofia, “Kral Boduen” Foundation, Foundation for the Reform of the Local Government, “Interethnic Initiative for Human Rights” Foundation, “Bulgarian Charities Aid Foundation”, “Partners – Bulgaria” Foundation, Workshop for Civil Initiative, “Alavida” – United Kingdom, “Eureka” Foundation, International Foundation “St. St. Kiril and Methodius”, “Open Society” Club – Rousse, “Open Society” Club – Varna.

Value added tax

According to the Bulgarian legislation³⁴, the following items are exempt from the value added tax: 1/ *the supply of cultural values, where the recipient or the supplier is a museum, an art gallery, a library, financed by the state or by the municipal budget;* and 2/ *the sale of entrance tickets for circus, musical and musical – stage spectacles and concerts, with the exception of the bars, shows and erotic spectacles;* a museum, art galleries, libraries and theatres; architectural, historical, archeological, ethnographic and museum reserves and complexes.

The following issues are quite distinctive:

- an unequal position in regard to the kind of property, not a separation by the product offered;
- tax free goods and services, not a diminishing of the value added tax /, i.e. the final price of the product is not changed, which means that the market balance has been preserved. Is this the aim in this situation? We should not forget that we are dealing with products and services of a double nature – a market one and a social cultural one. The lower taxation rate means a lower price as well, and a bigger market. The strongest point of the reduced rate is that the tax turns in a "mechanism for financial support of the cultural products' clients" in an automatic manner³⁵.
- neglected of the possibility for lower taxation rates for the cultural industries' products. The impossibility for profit of the cultural industries on small markets and limited language communities has already been discussed in this text. This has transformed the direct state support of specific cultural industries into a traditional European practice a long time ago.

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

³⁴ Law on VAT, Chapter 8, article 52, /1/, /2/.

³⁵ The text in brackets is the part of the priorities, which had been outlined but had not been implemented in section "Culture" of the Program of the government of the Republic of Bulgaria. <http://www.government.bg>

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. That is why, today, twelve European countries stimulate the publishing of books and the production of varied types of music by means of lower value added tax rates and other type of taxation reductions.

The European legislation by Directive six of the Council of Europe / 1977 / appeals for harmonization of the legislation, especially of the turnover taxes. An annex, made in 1992 appeals for a common value added tax system with a standard taxation of between 5 and 15 %. The European taxation in the sphere of culture varies in an extremely wide specter, but most of the new member countries have applied lower taxation rates to its book publishing industry.

Another approach that has widely applied in European Union is the value added tax percentage levy on the film show and its directing to specialized funds for movie production.

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.

Revenues from copyrights

The intellectual rights on cultural products and services, i.e., the interrelations between authors, consumers – private/ public ones the subject of a legislative interest since the middle of the 19th century. The technological progress has turned the legislation of this sphere into a dynamic area. The degree of development of the different national markets and technologies leads to the establishment of normative frames with considerable differences, for the different countries.

In this respect Bulgaria is not an exception – The Copyright Law has been approved in 1993 and during the last few years had been modified and added five times. A number of new subjects have entered this field of interests since 1989 – the organizations for the protection of the collective copyrights, as for example – the Associations for collective management of the copyrights like ”Isa-Art”, ”Filmautour””Theatreauthor”, the Association for collective management of the rights of the producers of sound records ”Profon” etc

Table 5 The income from copyrights as an alternative source, 2001.

/financing generated by copyrights in a number of selected European countries/

	Denmark	France	Germany	Holland	Sweden	Great Britain	Finland	Bulgaria
Total sum, mln. euro	16,66	22,25	9,45	12,2	12,2	12,2	2,4	0,01
Population, mln.	5,3	58,9	82,2	15,7	8,9	58,7	5,2	7,9
Sum per capita in euro	3,7	0,38	0,12	0,77	1,37	0,21	0,50	0,0013

Source: 1/ La lettre d’information, Ministere de la culture et de la communication, No. 82, 2001, Paris; 2/ Wiesand A. “Culture Industries development A summary of research finding and European experiences”, ZfKf, 2003. Additional information from Finland; 3/ Additional information in regard to Bulgaria – Ministry of finances, ** Draft budget 2002.

The resources, collected according to the Law on **copyrights** in Bulgaria are symbolic, especially in comparison with the other European countries – Table 5. *The amount of the incomes* is only one of the outlining problems. *The size of collection and the distribution* of these funds also provoke tense interrelations of intensive character. Responsibility for the rate of collection bears the Associations for collective management of copyrights. Although some advance has been recorded within their scope of activity, a

lot more has to be done in this respect. There is a mechanism, but there is no implementation, and the issue ought to be solved by court rulings.

Labor legislation

The creators of cultural goods and services can decrease our taxable income, with 50%. If their products of art have been created for a period exceeding one year, they are entitled to distribute the payment obtained over a period up to four years. This is a market way for stimulation of the supply party.

There had not been a developed specific labor legislation for the creators in Bulgaria, during the analyzed period, and no alternative financing forms appeared in view of supporting them. In this way the “Effect of the echo” is being left out, which otherwise might have contributed for the establishment of a new legitimacy of the culture – as an instrument for the development of the social cohesion. Annual prizes in the different sub-sectors appeared in the last few years, especially in the area of performing arts. The prize fund is more symbolic like monetary sum, but is of importance as symbol of artistic recognition.

Neglected opportunities

The variety of the support, the consideration of every artistic form, institution and level is one of the conditions for the effectiveness of the financing and development of the potential of every mechanism. The possibility to “regionalized”³⁶ the indirect instruments for alternative financing is still neglected. In spite of the existing ideas and projects,³⁷ the implementation of **earmarked taxes** on a local or on a regional level has not been introduced yet.

The numerous ideas for the establishment of “Bulgarian film“ Fund, filed up mainly with earmarked taxes /according to the European model/ also weren’t realized. On

³⁶ To be differentiated on regional bases.

³⁷ There are several propositions for other forms of financing... “Shumensko pivo”, as well as some other businessmen, offer minimal tax levy on every piece of sold product, which should be transferred on the account of municipal Culture fund; in regard to tax levy from tickets sale and visits of municipal cultural institutes, after an approval on the part of the municipal council”. – Zingarov Ivan, “Municipal fund – “Culture” – town of Shumen or history of the obstacles and their overriding”, a workshop “Possibilities for alternative financing and lobbying of the organizations in the sphere of culture”, C, 2003.

the opposite, in spite of the validity of the proposals, those ideas met the disapproval of the Ministry of finances and the cinema and video distribution lobby.

Once again, at the municipality level, another possibility for supporting the local arts by stimulation of the home market, or the so called “**1% rule**” /widely spread in Europe/ was missed. 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. In view of raising the quality of these artistic products in Germany, the resources raised by the “rule 1% are allocated in fund “Arts and public sphere “³⁸.

2.3. Donation and sponsorship

Individual donors (non juridical persons)

The individual donors have a very slight representation in the sphere of culture and arts. Most frequently, the donations *are in kind* , and most frequently those donations are work of art and books for library funds. Most frequently, the donors in these situations do not benefit from the tax reduction due, because a market evaluation of the donation is required for that aim. This evaluation, means time and expense- as for example, the expense for the evaluation of a painting that would amount to 3 – 5 % of its value. Another type of individual donation, which has long traditions in Bulgarian history is the practice of famous *Bulgarians* , who donate *scholarships* and support young talents.

“*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 Bulgaria³⁹ 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,

³⁸ Wiesand A. “Culture Industries development A summary of research finding and European experiences”, ZfKf, 2003.

³⁹ Initiative of Bulgarian Charities Aid Foundation – The donative sum has triplicated by foundation.

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.

Corporate donation / sponsorship

Corporate donation/ sponsorship has been defined in the Bulgarian legislation in three laws. But when the possible tax reductions have to be defined, the definition of the Law on corporate taxation is to be used: “*Sponsorship* is a deal, in which the sponsored person perform or does not perform actions, which are not property equivalent from the given grant from the sponsor.” In the case when the sponsored person is obliged to provide a consideration – an equivalent advertisement, the rules for a commercial deal, (in conformity with article 286 of the Commercial law), have to be applied “

In this case, if the donated/sponsored person doesn't perform opposite-equivalent actions and there is no commercial deal negotiated (advertisement, marketing), this act is a sponsorship/donation, which will receive a taxation stimulus.

The tax stimulus means – reducing of the financial result (before taxation) with the total donated sum / 100% /. *The donor/sponsor has to observe the following legislation requirements in order to receive that stimulus:*

-
1. The donated sum/sponsorship should not exceed 10% of the financial result before taxation;
 2. The donation/ sponsorship should be on account of the capital reserves /i.e. there should be a fund available/ or on account of the owner;
 3. The donation/ sponsorship should not be in favor those who make the donation or are in charge of it.
 4. The sum is accepted as donation only if it has been directed towards the beneficiaries, defined in the Law on corporate taxation, Article 3 /for the cultural sector those recipients are – cultural institutes, juridical bodies with cultural aims, but this excludes dealers, cultural memorials, juridical bodies with a non-profit aim, municipalities.

5. A priori, it is accepted that the donor/sponsor has a positive financial result.

In the case, some of these requirements are not met, the donor/sponsor has to pay a 15% tax on the sum and the donation is accounted as an expense. In the case only the first requirement is not observed, only that part of the sum, which exceed those 10% is to be taxed with 15%.

In the case when there are opposite equivalent actions on the part of the beneficiary then this is a **commercial sponsorship**, i.e., a commercial deal – in these conditions– the sponsored sum is to be accounted as an expense and will be taxed with 15% taxation. In the case the parties have been value added tax registered /VAT/ the sum will be levied with a value added tax – 20 %. So that the **corporate donation and sponsorship** merge into one another in the Bulgarian legislation – the moment of separation is the equivalency of the opposite actions of the beneficiary. A sum is not to be considered as a donation, in the case when the opposite-actions of the beneficiary are equivalent to what has been donated, or there is a deal agreement present. Table 6 illustrates the variants of the taxation levy:

A/ without any donation – as a comparison basis;

B/ a donation when one of the terms has broken, and the sum is accounted as an expense;

C/ donation when all terms have been observed, which enable a 100% reduction from the taxable income.

D/ a case of commercial sponsorship; The latest situation turns out as an quite unfavorable one.

Table 6 Tax stimulus for corporate donation/sponsorship with variants of levy

Levy variants	A/ no donation	B/ Donation/Sponsorship of 1000 units, but not from the capital reserves	C/ Donation/Sponsorship of 1000 units - all terms observing	D/Sponsorship as a commercial deal/ taxed with VAT/
Rate of taxation				
1. Incomes	100 000	100 000	100 000	100 000
2. Expenditures	80 000	80 000	80 000	80 000
3. Donation/Sponsorship accounted as expenditure	0	1000	0	1000
4. Tax on the Donation/Sponsorship – 15%	0	<u>150</u>	0	<u>150</u>
5. VAT on the sponsorship in terms of a commercial deal – 20%	0	0	0	<u>200</u>
6. Total expenditures 2+3+4+5	80 000	81 150	80 000	81 350
7. Financial result before the transformation / 1 – 6 /	20 000	18 850	20 000	18 650
8. Donations/Sponsorship, meeting the requirements / in view of approving 100% and the diminishing the taxed profit by means of them/	0	0	1000	0
9. Profit before taxation	20 000	18 850	19 000	18 650
10. Profit tax – 19,5%	<u>3 800</u>	<u>3675,75</u>	<u>3705</u>	<u>3636,75</u>
11. Total tax obligation / 10 + 4 + 5/	<u>3 800</u>	3825,75	3705	3986,75
12. Taxation relief	0	74,25 / 3900 – 3825,75/	195 / 3900 – 3705/	- 86 / 3900 – 3986,75/

According to an idea from <http://abbulgaria.org>

The national researches of “Bulgarian charities aid foundation” /1999, 2000, 2003 years/ show that the corporate donation/sponsorship becomes a widespread practice in Bulgaria, lately.⁴⁰ The number of the donor company increases – from 60% during 2001, to 81% of the companies inquired in 2003. The support of the culture and sports is ranked second after the social philanthropy. A leading motif for donation in Bulgaria still remains humanity, especially on the part of the smaller companies. The prevailing moral motivation of the benefactors can be detected in:

- A/ the low taxation stimulus,
- B/ the mass absence of a company donor fund,
- C/ the lack of knowledge in regard to the legal preferences,
- D/ absence of a marketing strategy, where sponsorship is a part of the promotional approach of the company.

Following this direction of consideration, we should not be surprised by the fact that half of the donors have not made an attempt to present donation documents at the tax offices. The big companies, which are stronger and more stable from a financial point of view, are more disposed to making a donation/sponsorship, mostly as a part of their advertisement and marketing strategy. Most frequently, they are part of those 6 % of the companies, inquired, who have established company sponsorship funds. Performance in the open air are preferred /in view of sponsors due to attendance of great many people/, as well as some of the cultural industries. The aim is to present oneself /company logo, advertisement/. A good example is the specialized cultural program of Post bank – “Art contract”.⁴¹ In 46% of the cases the support is in kind . This possibility has been actively implemented on the part of the smaller companies, which do not possess a special fund for sponsorship in their budget, and they most frequently donate directly their product.

⁴⁰ <http://www.bgblago.com/?9> The statistical data into the paragraph is from the last research. It has been conducted – October/November 2003.

⁴¹ <http://artcontact.postbank.bg/>

The aid of the Third sector

The aid of the third sector can be done by non government organizations /NGO/, foundations, friendly circles, lobbies, assisting associations. This activity can be quite divergent in terms of its form, - financial support, support in kind or services – educational, administrative, informational ones. The officially recognized financing organizations from the third sector amount to 45 – they are mainly of branches of international organizations.⁴² Amongst the Bulgarian organizations with a wide range of support the foundations are outlined – “13 veka Bulgaria” / 13teen century Bulgaria /, “Sv.Sv. Kiril and Methodii“, “Tzenosti”.

The resources from the third sector for the period 1996 – 2000 are 1,69% /\$10,8 mln/ of the public cultural expenses.⁴³ During these years, the financial support of the bigger non-government organizations is quite strong, as for example – the “Open society” Institute, which has a specialized arts center – “Soros”⁴⁴ and “Pro Helvetzia”. During the last years the direct financing of cultural projects on the part of these organizations gradually decreases, and their support is being directed towards researches and analysis of the cultural policy and strategy. The numerous civil associations, which support a specific type of art on a professional principle also play an important role in the development of the civil society. They offer the lobbying and legislative aid. A good example for that is the Bulgarian cinema, which is very well organized in relation to professional interests – the Association of the film producers, the Association of the camera men, the Association of the movie artists, the Association of the directors, etc.

⁴² According to a research and publications of the “Soros” Arts center”, 2001.

⁴³ Council of Europe/ERICarts, “Cultural policies of Europe: a compendium of data basic facts and trends”, 2003, - <http://culturalpolicies.net>: Cultural policy of Bulgaria.

⁴⁴ Today the name is changed to “Center for cultural policies”.

2.4. Funds for arts and culture supporting

The fund principle of resources raising /funding/ is of major importance amongst the alternative financing instruments. In most of the social spheres, this principle has no real competition in regard to the size of raised money. The funds stimulate the production of goods, which are most often have mixed nature, and posses numerous positive external effects. This effects market can not to evaluate and restricted budget can't finance.

The funding system, such as we know it today, emerges at the end of the 19th century, as a part of Bismarck' laws. Its tasks were primarily in the sphere of the social insurance

Today, the funds accumulate resources from various sources – social, private, mixed ones. Their management, their aims and the distribution of the resources can also be of an highly differentiated.

The specifics of the funding manner of collecting resources /for the public and the mixed funds/ are as follows:

- The funding has target trend.
- The resources are being collected and spent by virtue of the law /this is valid for the public and the mixed funds, but not for the private ones/.
- This fund resources has excluded of the State budget, and in the case of the public fund, they are most frequently under the form of an extra budget account, /which is at the disposal of the fund./
- The funding of activities, for which the budget is insufficient, is being guaranteed. These types of funds are supplementary. Their aim is to prevent the emergence of an incomplete market. They are specific for the provision of goods, whose secondary/indirect effects are an integral part of the public welfare and of the quality of life.

If you has to synthesized the positive and the negative results of the funding –
The positive effects are mainly reflection of the balance between the economical and the

social efficiency of funding, while the negative ones express the possible losses of economic efficiency and the appearance of non- market defects.

With the introduction of the Currency board, more precisely after 1999, started the optimization of the budget structure, and special attention was paid to the manner of management of the budget resources. The strive towards the increasing of the collection of the incomes and the low budget deficit initiated the tendency for the decreasing of the extra budget accounts.

The first public fund in the sphere of culture was established in 2000, - the **National Cultural Fund /NFK /** and it has been normatively regulated by means of the Law for the protection and development of the culture /1999/ and is under the patronage of the Ministry of Culture.

The activity of the **National Cultural Fund** has passed through a lot of limiting changes. In contradiction to Law for the protection and development of the culture, but in implementation of the Law for the State Budget 2000, the Fund has transformed from first level disposer of budgetary resources into second level disposer. This was a reflection of the elimination of almost all extra budget accounts during the period. This procedure immediately limited fund power and flexibility. During the first year of its existence, the National Cultural Fund managed the total sum of 300 00 euro.

The main obstacle for the optimal existence of the National Cultural Fund is the absence of real collection of most of the taxes. That is the main reason why, now-a-days, the basic source for its existence still are the limited budget resources /200 000 euro for 2004/. Its own incomes with market origin are less than 15 % .

Neglected opportunities

Concerning the funding there was neglected opportunities in several directions: 1/ No partnership between the private investors and the state or the municipality had been sought – a practice, which is widespread in a lot of European countries. 2/ Specialized funds in accordance with the type of arts / cultural industries were not established – for example “Bulgarian film fund“ or “Bulgarian book fund“ etc. In

spite of the fact , that a similar approach is one of the basic models for the financing of the European cultural industries. 3 / As a result of the bad financial state of the municipalities and the obvious low level of financial independence, there is not a slight idea available in regard to the regionalization of the funding in the sphere of culture. In this case, the fact, that only the town of Shumen has established a Municipal fund “Culture” indicates, that the form proposed in the Law on the protection and development of the culture/ is not functioning.

2.5. Art Lottery

A special art lottery still does not exist in Bulgaria despite the declared intentions of the political authorities. Even not enough, there are some insignificant incomes to the cultural sector from the Bulgarian state lottery. Bulgaria is amongst the few European countries with a liberal gambling law (2000) according to which gambling is not only a state business. After its introduction the neat annual income from the lottery is equally distributed between the culture, the education, the health and the social sectors. The size of the resources allocated for culture can not be easily defined because they were not purposely allocated to the state budget as it is now, but redistributed together with the other budget incomes. In the last two years the Ministry of Finances distributes the lottery resources after the request of the Ministry of Culture – mainly for operational costs.

At present, according the information provided by CIRCLE⁴⁵, there exist national lotteries distributing resources for culture in the following countries: Bulgaria, Denmark, Estonia, Finland, Greece, Ireland, Italy, Norway, Slovakia, Croatia and in Poland, Sweden, Great Britain, Switzerland (at the level of cantons). Outside Europe: in Israel, New Zealand, and South Africa, Canada at provincial level and in Australia and USA at states’ level.

The establishment of the art lottery raises some fears like resistance from the other traditional forms of gambling due to expectations for withdrawal of money as well as uncertainty about the diminution of the state support in case of stabilization and growth of the lottery incomes.

⁴⁵ European network for cultural policy and researches

We should say that in the different countries the incomes from the lottery as a percentage of the budget quota for culture are varying in range Table 7. In many cases together with the recourses from the lottery the earnings include incomes from the slot machines, roulettes, sports gambling, lotto, toto, bingo, and other games of chance (Finland, Netherlands, Slovakia, Canada).

Table 6 Incomes from the lottery as a percentage of the budget expenditures for culture⁴⁶ for 2000

Country	%
Finland	71,4
Great Britain	38,0
Italy	35,0
Norway	23,6
Denmark	16,8
Netherlands	9,4
Estonia	6,9
Slovakia	4,73
Germany	2,0
Bulgaria	0,05

Source: Gambling on culture: State lotteries as a source of funding for culture, arts and heritage, CIRCLE Roundtable, Rome, 2002

The management of these recourses is different: mostly public national lottery operators exercise it, but in some countries (like the UK) the management is in the prerogatives of private companies. In Bulgaria the responsible institution is the state company “State Financial and Material Lottery”, which was registered under the Trade Act.

The particular distribution of the recourses for the concrete “good causes” is implemented by existing or specially established state agencies as well as by third-sector

⁴⁶ The cultural sector in some of the countries often includes expenditures for tourism, sport and the youth because one is the ministry that administers these activities.

organizations. Two are the main ways for the money to go to the cultural sector: 1/ the incomes from the lottery for culture is mixed with the total budget incomes where after is allocated to the cultural sector (this is the current situation in Bulgaria) or 2/ the lottery income is set aside and managed by a specialized agency. In Europe both approaches are equally performed. The comparative analyses show that the less the number of distributing agencies the better the transparency of the financial mechanism lottery/culture, the incomes' accumulation and the detachment of the recourses from the state⁴⁷.

Which are the criteria for distribution of the recourses within the cultural sector? Here we have again a great variety that in the best cases is legitimated by the legislation, integrated in the concrete national cultural strategy, and seeking for an optimal economic and social effect.

Table 8 Distribution of the incomes from the lottery by types of expenditures in sector “Culture” / in percentage for 2000/.

Country	Financing of projects	Turnover expenditures	Capital projects
Estonia	80	0	20
Finland	0	80	0
Italy	0	0	100
Slovakia	0	50	50
Bulgaria	0	100	0
Great Britain	16	0	84

Source: Gambling on culture: State lottery as a source of funding for culture, arts and heritage, circle ROUNDABLE, Rome, 2002.

Once again, common tendencies are absent, but it can be seen that the clearly differentiated aims are an important condition for the transparency of this financial mechanism. Also the fact should be noted that countries with a well developed cultural tourism / Italy, Great Britain/ prefer to invest resources from the lottery in image capital

⁴⁷ These proposals are based on the comparison of the lotteries in Ireland and in Great Britain as the last is more transparent because of these criteria (in M. Schuster - Hypotheses on Hypothecation: The Use of Dedicated State Lotteries to Fund the Arts and Culture, presentation at CIRCLE conference, Rome, 2002).

projects, for which the financing is extremely difficult. In regard to this Italy is a very good example., where the annual resources from the Lotto are anticipated to 155 millions euro. The amount has distributed according to a three year plan /2001 – 2003/ for conservation, restoration and similar activities.

The fiscal benefit for the state becomes possible by the regulation and the legalization of the sector. Normally, this is combined with the increase with the direct taxes.

The hazard games, both gambling and lotteries do not produce goods or money but transfer them. This economic function of the hazard helps to find social benefits by distribution of profits. The “good causes” are mostly culture and sports, occasionally education, innovations and social funds.

This approach is clearly marketing approach: the public recourses increase while the incomes are no more an aspect of the taxation price, and the people who have bought tickets support financially the good cause by means of the market. The incomes increase without increase of the taxation, and in comparison with the sponsorship a possibility for a stable and larger financial support appears.

2.6. Banking of the culture

These purely market instruments / loan and investment funds, loan instruments, shares / for alternative financing are almost absent in Bulgaria. There had been a lot of ideas, which unfortunately had not been implemented, which can join the theme “Neglected opportunities“:

- Bulgaria has not used of the financing of projects for business incubators, which was an opportunity for the providing of an infrastructure for a lot of small and medium companies in the creative industries.
- The idea for the establishment of corporate foundation has not yet found a legislative way. This would give the chance for arising of private and mixed funds, and of guarantee and investment funds, varied in terms of ownership.

The same is the direction of the theoretical arguments of Al. Rubinstein: the state operator is traditionally ineffective due to the expectations for political and administrative rent (according the theory for the public choice). His idea can be

The reasons for this non-realized options can be wanted in 1/ the absence of a political will in view to stimulating of the pro-market financing of the sector, and 2/ in the non-established partnerships between the business and the state in the direction of the alternative financing.

At the end of 2001, in Bulgaria, was started a project for “**A Loan fund for the development of arts and culture**”, from which loans were to be granted to the NGOs, functioning in the sphere of arts, culture and education. The requirements for the aid were the activities to be a part of the “creative industries”.

In the world practice most frequently the loan is granted with preferences – a low interest rate or without interest at all, or a extended payment term. Often, in the loan scheme is included guarantee fund as well, (state or from the third sector). This fund ensures at least a part of loan returning. The aim is financing of projects and activities for which the banks would not grant credit, due to the venture character of the projects and the low rate of return in the cultural sector. This type of financing is extremely suitable for the cultural industries, which can return the loan by developing their main activity. In the case with the performing arts and the museums, this type of loans should be take for development an additional profitable activity –for example , a shop in the museum, an Internet coffee shop in the theatre, a specialized book shop in the opera. *The aim is to reach a level of stability for the organizations in a long term period, to develop the social and cultural capital of the nation, to create an entrepreneur way of thinking in the sector.*

The loan fund in Bulgaria was initiated of the Program “Arts and culture”, “Open society”-Budapest, and has established in Bulgaria by “Resource center” foundation. This type of project was the first for Southeastern Europe. Ten projects have been supported during the pilot phase of the project with a total value of 78 300 \$. This result indicates a low level of initiative of the foundation. The interest rate of the loans granted was the same as the interest rate in the bank sector, which additionally troubled the project. Today, there is not an awareness and advertisement for the initiative. In spite of the declining opportunities of the project, an Empirical social research - which had been

disputed as the real market behavior will be a result of the national market or quasi – market surroundings.

implemented indicates, that quite a high percentage of the inquired persons, would utilize this type of loan. It's a prove for the *“re-orientation in the thinking in regard to the instruments for the financing of the cultural organizations”*.

SQUARE 3

Efficiency of the existing alternative instruments. Basic problems in the process of alternative fundraising. Empirical aspect.

The most massive evaluation regarding the efficiency⁴⁸ of the existing alternative mechanisms /in Bulgaria/ is the poor grade. Over 55% of the inquired had given this evaluation and it affects almost all alternative instruments listed. /Q 4 – Application 1/

There is expectancy to the opportunity of attracting additional resources for culture in regard to:

- The sponsorship in kind – 62% of the inquired evaluate its efficiency as: “good ” and “satisfactory”
- The donation from a foundation – 57% of the inquired evaluate it as good and satisfactory.
- The untaxed with VAT tickets /for the state and municipal museums, galleries, theatres/ – 34 % of the inquired evaluate it as good and satisfactory.
- The funds for the supporting of culture – here, 31 % of the inquired people, evaluate it as good and satisfactory.

Almost the half of the inquired has no information to can evaluate the efficiency of the lottery and the loan funds in Bulgaria. That is why, definitely **“The lack of information and communication” is the basic problem in the search for alternative financial resources** – that is the evaluation of 34 % of the inquired. /Q 14/. The people inquired have evaluated the lack of free resources and the strong competition from other sectors with an equal weight – 17 %. It is obvious that not only the lack of free financing

⁴⁸“Efficiency” in this case, as far as the listed instruments attract an additional income for culture and increase the production in this sector.

resources in the country, but also the inability to manage the process of alternative financing is an obstacle. This conclusion has been confirmed by over 32 % of the people, asked, who had given a free answer under the theme “**other**”. They have indicated as the basic problems of the search for alternative resources;

- Lack of sufficiently qualified specialists;
- Lack of an environment for alternative financing, not the lack of more money.

The analysis supported also by the results of the empirical research shows a low level of development of the alternative financing of the culture in Bulgaria. 1/ The classical instruments are mainly used – sponsorship /mainly in kind/, the individual donation is not well developed, the donation by payroll is not applied, the funding is very limited /one public fund, with limited market incomes/. 2/ The purely marketing financial instruments or so called “banking of culture” are at an rudimental phase – There is one loan fund – a pilot one with decreasing functions.

These conclusions confirm the hypothesis set, related to the limitations on the market financial mechanisms, resulting from the inflexible fiscal system and the undeveloped stock-exchange instruments.

The immature market environment is native limitation for the “banking of the culture”. But, besides these objective reasons, there are a lot of problems and failures that can be accepted as “non market defects”. The non market defects here, are an expression of the way of managing the process of the alternative financing as far as a part of the alternative instruments are regulative, and such reflect on the public choice. In this way the process takes the negative specifics of the management and of the of the public sector finance – without any strategy, with residual and scare characteristics.

The alternative financial mechanisms have a complex, dual nature – they are a regulative instrument, as far as they are a part of the state cultural policy, but they also have a market character, due to the fact that they are also a reflection of the private initiative and capital. In view of utilizing the synergy of this double nature a unitive environment should be created.

In this environment has to be created not just a partnership between state, business and the Third sector, in this common space has to be create united management of the alternative financing by common strategy.

PART FOURTH

ALTERNATIVE FINANCING - A PRODUCT OF THE INTERACTION OF THREE FORCES. COMPARATIVE ASPECTS

The transition in Bulgarian culture turned out to be an uneven and a contradictory one. The radical changes that had occurred confirmed the fact that the decisions in the sphere of culture a complex political economic process of interaction between the state, the civil society and the market. The good results achieved, are a product of:

- 1/ The level maturity of these three subjects of the cultural – political process and
- 2/ the recognition of the uniqueness of the cultural capital, worth a market and a social value as well, and possessing the specific features of the institutional element.

That is why, an important aspect of the analysis in this part is the culture and the institutional changes which have or have not occurred. The basic issue is to what extent the institutional level of maturity of the three basic subjects of the national cultural policy – *the state, the market and the civil society* define the development of the alternative financing in that sphere. The aim is a/ analysis the barriers for the entering and b/ efficiency of the market and quasi market financing mechanism, and c/ to make a comparative analysis in this aspect.

1. COMPARATIVE ASPECTS OF THE ALTERNATIVE FINANCING – BULGARIA, HUNGARY, LITHUANIA. ACHIEVEMENTS, TRENDS, CHALLENGES.
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Bulgaria, Hungary and Latvia belong to the category of the small European countries. This pre-defines – small markets and difficult, almost impossible economies of

scale for cultural industries. In this specific case there is an extra limitation – the three countries are closed linguistic society – an important barrier for the mass distribution of a part of their cultural products and services. An important sign in this aspect is the common political priority – the integration with the European Union.

These similar specifics are a good basis for a comparative analysis, from which the common tendencies and differences in the alternative financing will be outlined. The final aim is to define the factors – stimulus/barriers for the applying of new mechanisms for financing of culture.

1.1. Common tendencies in the reform in the cultural sphere

In spite of the historic pre-defined differences between the three countries , there are also a lot of common tendencies during the process **of the reform of their cultural sectors.**

- The nineties years, is a period of multiple re-structuring of the management of the sector.

The frequent change of competencies ends in Hungary in 1998.

-The Ministry for National and Cultural Heritage undertakes the responsibility for the: cultural heritage, the monuments, the libraries, performing arts, the national cultural institutes / 32 in number / , the state policy within the audio-visual sector, the cultural activities related to the Hungarians living abroad.

About Lithuania this is also a period, during which the basic authority centers in the sphere of culture are being formed – the Ministry of culture has been transformed several times⁴⁹ The Educational, Science and Culture Committee has been established at the parliament. Here, same as in Hungary, the cultural heritage is in the center of the

⁴⁹ /1/ The basic information in this part in relation to the cultural policy of Lithuania is from “Lithuania – Cultural policies in Europe; a compendium of basic facts and trends”, council of Europe/ERICarts, 2002.

attention - in 1994, the State Commission for Cultural Heritage Protection has been established.

In Lithuania, the strive to accountancy and transparency in the actions within the sector is impressive – 1 / Annual report of the minister of culture before the Parliamentary commission; 2/ An “Action plan – section Culture” to every Government program. The discussion of the long-term aims and tasks of the Lithuania culture starts at the end of the nineties - the final document is ready in 2001 and is called “”Principles of the Lithuanian cultural policy””. The strive towards the establishment of clear aims and strategy prove the importance of culture for the national self-conscience.⁵⁰

- The “arm’s length principle” has been raised as the main approach for management and financing of the national culture.

In Hungary, the establishment of supporting agencies of this type starts in the beginning of the 90ties. They accept the form of public foundations and function mainly in the sphere of the cultural industries. They grant subsidies on a project principal for the creation of films and books. These are – the Foundation of the Hungarian Motion Picture, Motion Picture Public Foundation. Especially interesting is the activity of the Hungarian fond for translations, which aims at supporting the publishing of Hungarian literature abroad. The responsibility towards the destiny of the Hungarians living abroad is one of the basic principles of the contemporary Hungarian cultural policy. The National Cultural Fund plays a very important role in the financing of the culture in Hungary.

During the 90ties, Lithuania also establishes its cultural institutions, functioning at an arm’s length principle - Lithuanian Culture and Arts Council, /1991/, Collegium of Cultural Self - government, /1993/ Etc.

- *The decentralization is other common trend.*

In Hungary a decentralization peak has been reached, which leads to a reverse process during the last few years.

- *Establishment of a Legal frame of the culture sector*

⁵⁰ On March 11, 1990 Lithuania is the first Soviet republic, which declares independence. This proclamation is accepted in September 1991.

In view of the financing of the culture in Hungary, two laws of major importance have been passed – 1/ “Law for the National Cultural Fund” /1993/, according to which 1% of the price of every cultural goods and service is directed to the fund as a revenue. This law functions for ten years already, and the sum collected grows every year. The sum anticipate for 2003 is 29 million Euro⁵¹ 2/ “1% Law”, /1996/, according to which, every tax payer can direct 1% of the due tax towards a non government organization. The cultural organizations are amongst the beneficiaries of these donations⁵², and the cultural lobby is the initiator for the passing of the law.

There two laws dedicated to the preservation of the cultural heritage, and Hungarian specifics is the Law for the language, which limits the utilization of foreign language expressions , especially in the sphere of the commercial advertisement. *The protection of the national cultural production continues with the cinema, television and radio quotas for Hungarian and European films and programs: between 15 – 30% Hungarian programs for the radio stations; between 20 and 51% Hungarian programs for the broadcasting respectively for the private and public TV channels; 70% quota for the European programs on the public TVs channels! Minimum 6% of the income of the TV advertisements are directed to the establishment of a national film production.*

The number of the newly passed laws in regard to the cultural heritage /archives, libraries, museums, cultural monuments/ - amount to the number of 6, for the period 1994 – 2002, which indicates that the protection of the cultural traditions and the national history and identity is the most important priority of the Lithuanian cultural policy. Amongst the former socialist countries, Lithuania is the first country with the specialized law for the donations / 1993 /, which had been amended and supplemented in 2000 – Law of Charity and Aid.

- The Laws create a soundness and an environment for the reform, but the ”Laws do nor create wealth“. *The crisis in the process of financing culture is also a part of the transition period.*

⁵¹ <http://www.budobs.org/grant-hun02.htm>

⁵² 32 national and cultural institutes and another 365 libraries, museums and cultural organizations.

The crisis in the Hungarian system for financing is a short one. It encompasses a period since 1994 – 1998, and the recovering is a comparatively fast one and exceeded the basic period /1990/ with 30 to almost 50%. During the whole decade a level of investment expenditures, is retained. /Table 9/. If we make a comparison with the capital investments in Bulgaria during this period, the difference achieved to 6 times for the Hungarian financing.

Table 9: Development of cultural expenditure in the central budget between 1991-2001

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Percentage of cultural expenditure in central budget, %	1,11	1,60	1,46	1,09	1,11	0,96	1,14	1,40	1,62	1,88	1,66
Percentage of cultural expenditure related to GDP, %	0,41	0,57	0,52	0,41	0,38	0,29	0,34	0,39	0,50	0,55	0,55
Real value of cultural expenditure (1991 = 100)	100	132,5	120,9	97,3	91,2	68,5	84,1	98,9	130,9	149,3	136,6
Central cultural expenditure, USD million	137,8	212,6	204,0	170,8	171,6	131,2	155,7	182,4	239,8	252,5	246,3
Central cultural expenditure per capita, USD	13,3	20,6	19,8	16,6	16,8	12,8	15,3	18,0	23,8	25,1	24,2
Share of investment and reconstruction in cultural expenditure, %	16,0	22,1	20,0	20,9	23,0	29,8	35,5	31,0	31,8	39,6	30,9

Source: 1/ <http://www.budobs.org/budgethun.htm> 2/“Hungary – Cultural policies in Europe: a compendium of basic facts and trends”, Council of Europe/ERICarts, 2002,

The expenses for culture have decreased in Lithuania during the period 1999-2001. This unfavorable situation is a reflection of the economic crisis, which has encompassed Russia at that time. The resources for culture, as a share of the State budget are relatively high, according to the report of the Council of Europe for the cultural policy of Lithuania, and they overpass 2% during the last few years.

The public expenses for culture for the last years in Bulgaria, Hungary and Lithuania, as a share of the State budget and the Gross domestic product are relatively close, but in comparison with the absolute value /for example Bulgaria – Hungary/ the differences are amounting to over three times – Table 10. This distance increases concerning the achievements in the sphere of the alternative financing.

Table 10. Comparative aspects: cultural financing – Bulgaria, Hungary, Lithuania.

Aspects	Bulgaria	Hungary	Lithuania
Levels of cultural management and financial share by the public cost for culture /%-2002 year/	Center - 56,2 Regions – without direct share Municipalities - 43,8	Center N.A. Regions Municipalities	Center 56,3 Regions – without direct share Municipalities 43,7
Public expenditure for culture:			
<ul style="list-style-type: none"> • Part of Gov. Budget /%, \$ in mln/ • Part of GDP % • Per capita in euro 	<ul style="list-style-type: none"> • 1,8%=. \$126 • 0,7 • 14,8 /2004г/* 	<ul style="list-style-type: none"> • 1,6%= \$ 400 • 0,55 • 35,7 /2004г./* 	<ul style="list-style-type: none"> • over 2%=. \$ 88,5 • 0,7 • 27,5 /2002г./
Investment expenditure for culture /% of the public one/	5 /2002г./	30,9 /2001г./	-

Source: Council of Europe/ERICarts, “Cultural policies of Europe: a compendium of basic facts and trends”, 2003, - <http://culturalpolicies.net>; National statistics of the countries, * Prognosis data

National specifics have been noted during the process of studying the common tendencies of the transition. These specifications introduced some basic differences between Bulgaria and the other two countries.

- *Cultural institutions that really worked at an arms length principle – the Hungarian National Cultural Fund is the best example in this direction.*
- *Working legislation in the cultural area – It manages to collecting incomes for culture directly from the market or by the fisc – the ”Law for the National Cultural Fund”, the “1% Law“ – Hungary , the “2% Law” – Lithuania etc.*
- *Subsequent and clear protection policy of the national cultural production – by quotas in the case of the electronic media /Hungary/ and raising the priority level of the national cultural heritage of any type /Hungary, Lithuania/.*

This approach is not a rejection of the “small countries” toward the global tendencies. Just the opposite, both countries have a clear direction of development, as a

*part of the European union, but also possess a clearly declared **national policy** protection and development of the national cultural identity.*

1.2. Achievements of the alternative financing in Hungary and Lithuania

The mechanisms of the fisc in the alternative financing of the culture in Hungary and Lithuania are used in a flexible and focused manner, and there are clear results of that:

- *Value added tax.*

The maximal rate of the value added tax in Hungary is 25%, but there are two more differentiated levels – 15% and 5%. In this way, there are *three approaches* concerning the cultural goods and services: 1/ 25% value added tax for the music records; 2/ 15% rate – for the periodical press, the tickets for performing arts and the tickets for the cinemas; the production of the traditional crafts , the film production, renting of vide cassettes. 3/ 5% value added tax for books and textbooks / till the end of 2003 is 12% /.

In Lithuania the minimal value added tax's rate is 18%, and there once again a taxation exception has been made – the tax rate for the books and the periodic press is 5% /until then the book publishing business was with value added tax excluded, which means, that the price had remained unchanged, which is economically neutrally, but doesn't stimulate the sector./

In both countries a taxation rate of 5% is a relatively new step /since 2003/ and is a reflection of the EU requirements for a harmonization of the value added tax and lower taxation rates for the cultural goods and services. The selection of the subsector – book publishing – is a classic one. Only four countries in Europe levy this sector with the maximal size of the value added tax, and Bulgaria is amongst them.⁵³

- *The levy of empty cassettes and any type of reproduction form /in the form of earmarked taxes /.*

⁵³ Denmark, Sweden, Ukraine, the information is from – Rouet Fr., VAT and Book policy: impact and issues, council of Europe Publishing, 1999, p.17.

Earmarked taxes are a part of the policy in regard to the copyrights. In Hungary it is in effect since 1994. The companies for the protection of the copyrights collect the revenues. For 2002 the sum amounts to 760 000 euro.

- *Earmarked tax*

The system of the earmarked taxes , as an alternative financing instrument is well developed in both countries. The earmarked taxes are imposed on a national level and are collected really.

The data in regard to Hungary indicate constantly growing revenues, coming from the taxation of all cultural products and services with a tax of 1%. The sum is gone to the National Cultural Fund, which distributes it on a project principle.

Resources of 29 million euro are expected for the 2003./ the rate of increasing is almost two times for the last 4 years /.⁵⁴In view of avoiding the negative aspects of the earmarked taxes, the Hungarians have chosen a mode of taxation, which is close to the type “closed cycle”, i.e cultural products and services are taxed and the resources collected are again directed for creating of cultural products and services. Besides, also for the aims of the Fund, the culture – related consumer electronic goods /television sets, copy machines and toner, floppy discs and the computer monitors etc./, are being levied, as well as the guns – toys. The last one with a special tax of 20%/.

In Lithuania, the National fund for the support of culture and sports collects revenues again by earmarked taxes In this case the principle for the taxation of non-elastic goods, on which there are high taxation rates has been chosen /under the form of an exise duty on alcohol and tobacco/. The sum, which has been mentioned in the literature, exceeds 1,8 million euro for the 2001.

The Lithuanian utilizes the earmarked taxes for the stimulation of the national film production. According to their Film law / 2002/ the income generated from the show of commercial movies should be directed to the production and distribution of national films.

⁵⁴ <http://www.budobs.org/grant-hun02.htm>

The funds are a part of the cultural reality both in Hungary and in Lithuania, but they are not the most strongly expressed form of alternative financing. Both countries have national cultural funds. These funds play an important role as an institutional form of collecting of target fiscal resources for the culture and their distribution by a competitive, project principle. A fund for the supporting of the media exists in Lithuania as well.

The focused state policy towards the establishment of partnerships with the aim of the development of new sources for alternative financing is outlined through:

- The Hungarian specialized **program in the** sphere of the publishing of the type of the **loan fund** –the aim is crediting, but with a smaller interest rate. The program is managed jointly and is based on the **partnership** between the Ministry of cultural heritage / participates with 50% of the capital / and a private bank, selected by auction.
- A specialized Program, which is the annual priority of the Hungarian cultural fund, aiming at the supporting of the Hungarian projects/organizations on EU Program “Culture 2000”. The lack of free financial resources is a problem of all cultural organizations, but is especially characteristic for the countries in transition. This program offers a national solution of the problem, and plans to provide 20% for the Hungarian projects, which have won and present leader – organizations and 10% for the Hungarian projects of the organizations – co-organizers.
- In Lithuania the strive for harmonization and implementation of the European cultural programs has found an expression in the establishment of a public agency “Informative antenna” /1998/. It aims at the support of the integration of the Lithuanian film industry and the European film production.

The listed programs and government incentives should be accepted as first attempts for the establishment of partnerships and the resulting aim, which is directed on a higher level - the management of the process of alternative financing, and for the harmonization with the European possibilities and programs in culture.

The specialized legislation is a part of the focused state policy for the establishment of alternative financing sources. This is the base for the realization of all the incentives and partnerships, although, in regard to the conclusion of a Lithuanian investigation of the corporate sponsorship the “Laws do not create wealth”. That is so, but the analysis shows that they can to re-distribute this wealth, to create permanent trends, which can grow into good traditions. Similar examples are presented to us by the “**1% Law** /1996/ in Hungary and the “2% law” /2002/, in effect since 2004 in Lithuania.⁵⁵

This legal instrument enables every citizen, paying taxes, to divert 1 % of his income tax /from the previous year/ to a given non-governmental organization which implements an activity in benefit of the community. Usually, on the basis of a list or a preliminary drawn up register /. The implementation of the law in Hungary has been done under the strong influence of the parliamentary lobby, and the formation of the final political decision is a result of several years of efforts. The example of Hungary turned out to be contamination one and similar laws were passed during the last few years in Poland, Slovakia, Romania and Lithuania.

From a fiscal point of view, this a form of transfer from the state budget. But at the same time it is a very specific form of transfer – the decision is an individual one, while the administration is just the mere performer of the wish of the tax payer. In this situation every individual actually executes a donation, while the state in this case is deprived from its classic role of distribution of the incomes – the decision is taken on a micro level, but the transfer and the process retain their fiscal nature.

The process is a transparent one, which enables the creation of mote trust and partnership between the state, the third sector and the citizens. The recipients / beneficiaries /the different NGOs/ non-government organizations /, **amongst which a big**

⁵⁵ In present analysis have been used materials, researches and data about the “1% Law” from the same name Hungarian page - <http://www.onepercent.hu/> and more strictly - 1/The percentage system in Central and Eastern Europe– implications for civil society and public philanthropy by *Kuba Wygnański* 2/ Percentage Philanthropy by *Marianna Török*, 3/ Percentage philanthropy and law by *Nilda Bullain*, 4/ The impact of 1% Laws in Hungary and Slovakia– a comparative overview by *Zsuzsanna Mészárosné Lampl and Károly Tóth*.

number of cultural organizations in Hungary, have the freedom to utilize the sums received in accordance with their own needs. The possibility of receiving of these resources stimulates the activity of the organizations – they are seeking for a way to present their activity in a better manner, in view of being noticed by the tax payer, and this is a part of the development of the organizational marketing. The organizational environment is being developed with an increasing competition and in order to receive funds, your activity should be more efficient.

This is the fear of a part of the philanthropic circles, that the donation by means of the “1% Law” will divert and will gradually suffocate the classic charity, i.e the wish for the individual donation. The observation of the situation in Hungary shows that, for the time being these apprehensions are not confirmed. And the amount of the classic **individual donations** /excluding the percentage law/ has not be a considerable amount, even before the introduction of this new legislation.

As for example, in Lithuania the amount of the individual donations is hardly 13% of the total philanthropy⁵⁶, although, that Lithuania has the oldest specialized law /amongst the countries in eastern and Central Europe/, related to the philanthropy /since 1993/.

About the **corporate sponsorship** in Lithuania - the pre-tax corporate profit is deducted with 200% of the value of the donated sum. There is only one condition in regard to the donation/sponsorship – the sum should not exceed 40% of taxable profit of the company donor/sponsor. /For Bulgaria the sum should not exceed 10%/.

The possibilities for corporate sponsorship/donation are more flexible in Hungary. Here once again, the legislation doesn't differentiate clearly between the donation and the sponsorship, but on the other hand it there is a differentiated approach for the taxation stimulation, which depends on the following: 1/ what type of organization is the recipient/beneficient / and 2/ is there a iterance of the donation to the next year.

The pre-tax corporate profit is rededuced with 100 or 150% of the value of the donated sum, depending with the nature of the organization. i.e whether the organization

⁵⁶ Useful information for the Lithuanian “2% Law” - <http://www.onepercent.hu/>, as well as from at the Lithuanian philanthropic portal -- www.labdara-para.lt.

is a ordinary NGO or a NGO, which is in public benefit /the differences are in accordance with the juridical status, on the grounds of the Hungarian legislation/. The taxation stimulus for the donor can grow with another 20% /120% and 170% respectively/, in the case the donation is a herance one for a time period of 4 years. The donations for persons, state and municipal institutions are not tax relief, except in the cases when the beneficiaries doesn't utilize the formula, that "they are working in the public benefit". The total decreasing after the donation can not exceed 25% of the taxable profit.

Concerning the **individual sponsorship** in Hungary – 35% of the value of the income tax can be deduced if:

- The recipient is an organization with a Non profit status.
- The total reduction after the donation is not more than 30% of the annual tax due. Here an non standard combination of tax credit and tax discount can be observed. On one hand the reduction of the taxable income with the possible 35% is a discount, but limitation – the total reduction which should not exceed 30% of the tax burden is a tax credit.
- In this case again, if there is a donation available, which is prolonged for a 4 year period at least, another 5% bonus are obtained, i.e. / 35 +5%/⁵⁷.

The basic conclusions after the analysis of the achievements in the alternative financing in Hungary and Lithuania are:

- *Predominantly using of quasi market mechanisms by fiscal instruments.*
- *Flexible applying of the fiscal instruments . The aproach is differentiated /e.g. three levels of VAT/, that enables the focusing and respectively the efficiency of the mechanism.*
- *The implementation and the development of the earmarked tax system /taxation of cultural goods and services, culture related consumer electronic goods, related to the cultural consumption, of the alcohol and of the tobacco / indicates, that an important public choice between the efficiency and the equality has been made at macro level.*

⁵⁷ The data for the sponsorship and donation in Hungary are from the page of the Budapest observatory for the financing of culture in Eastern Europe – <http://www.budobs.org>

At first sight, the choice is in favor of the equality, due to the expected dis-balancing of the market system, as a result of the implementation of the earmarked taxes. But 1/ this is a clear manifestation for the role of the culture in the life of these two societies, 2/ this is also the most direct political and economical evaluation of the role of the culture as a creator of values, measurable not only by the market. 3/ about the earmarked taxes, the rule to tax highly elastic goods or goods that are a part of a production chain has been observed.

- *The National cultural funds - are fed on a market principle.*
- *Purposeful state policy, directed towards the establishment of specialized programs for 1/ the management of the process, 2/ sought partnerships.*
- *The beginning of the process of seeking of market decisions again by means of partnership / For example the leasing program for the book publishing /.*
- *A clear and transparent state policy in the sphere of culture – an annual accountability at the parliament, action programs, which operate the process of the implementation of the government programs and decisions. /Lithuania/.*
- *A well developed public sector, lobbying for the implementation of a specific legislation /e.g. the percentage laws/.*

The alternative financing of the culture in Lithuania and especially in Hungary has been developed on a higher level than the level we have reached in Bulgaria.

The differentiated approach to the various financial instruments, the purposeful implementation of mechanisms, which could disbalance the market, the political will for seeking of new financial sources – these are the basic characteristics of the process of alternative financing in Hungary and Lithuania.

2. THE CULTURAL POLICY – AN INTERACTION BETWEEN THREE FORCES.

The transition in the former European countries turned out to be a common challenge, but the final results are not similar. Although the initial start was in the same direction and the social economic conditions were almost equal, the comparative analysis of the achievements now a days shows quite considerable differences – in the forms of the reforms and in the achievements as well.

The cultural sector is nor an exclusion. The reforms in the social cultural sphere, even with some delay, reflect the common macro tendencies of the national transition.

“Hungary has a typical Eastern European social structure, but ”Western “ kind of transition / the transition to capitalism during the 19th century – add. B.T./.... After the suppression of the revolution, /”Hungarian events “, 1956 – add.B.T./ began to melt away in the early 60s.Up to 1989, similar to other areas of life, a rather protacted process of revision was in progress. And the most gradual transition at entire Communist block had taken place... After the political turn of 1989 – 1990 the shaping of the cultural policy was based on two main sources: the national traditions from before Communism and modern Western examples”.⁵⁸

We can accept this summary as a basis for the different scenarios of reforms, which had run in the three countries. In this spirit is also the evaluation of a lot of political experts and economists – “*The differences between the separate countries lays in the pre history, and that is why it is to be found in the specific imag at the end. The return is made towards different status quo .*”⁵⁹

The starting hypothesis in this direction is , that factors / a barrier or a stimulus, depending on the specific national situation / for the development of alternative financing are:

⁵⁸ “”Hungary – Cultural policies in Europe: a compendium of basic facts and trends”, Council of Europe/ERICarts, 2002.

⁵⁹ Станчев Красен - “Началото на стопанските реформи в България” в. “Капитал”, бр. 2003, из рубрика “Анатомия на прехода”.

- The level of maturity of the **market structures** and institutions;
 - The level of formation of the **civil society** – the efficiency of the public opinion as a cultural and political mechanism.
 - The awareness level of the importance of **culture, as a social economic factor** for the stable development. The awareness is expressed through the **political will** for the development of the sector.
-

In view of the conformation of this hypothesis , two approaches have been used, and the aim is reaching a compatibility between the quantitative and quality analysis:

1/ comparison between the three countries by international indices, evaluating the level of development of the market and the civil society.

2/ analysis of the empirical information from the expert research, which has been carried in the three countries about financing.

2.1. Market structures and civil society – a level of formation. Comparative international indices.

The analysis until now indicates, that the alternative financing mechanisms have a complex nature – they are an instrument of the state cultural policy, but are resources with a market character as well, because they are a also a reflection of the private incentive and capital. That is why, the optimal environment for the alternative financing instruments is the partnership between state, business and Third sector.

Every contemporary national cultural policy is a result of the influence of these three basic forces. That is why, the level of their institutional maturity defines the level of the development of the alternative financing as well.

The role of the **third sector** during the last 10 years was crucial for the new cultural policy directions because of the following:

- It operates as a bridge between the other two sectors - the state and the private one;
 - It creates cross-links between various cultural forms and organizations;
-

- It brings the arts outside the buildings;
- It provides and facilitates free spaces for an open public dialogue.

At the beginning of 1990 the non-profit sector started to flourish very rapidly. The civil society gradually took up its place in the 90s, taking part in the whole legislative process, and influencing the social and economic changes in the country. Non-profit and not-governmental organizations grew up significantly in number and constantly diversify their activities. The latest statistics⁶⁰ show that there are around 5500 officially recognized associations, foundations and networks. About 30% of the non-profits work in the field of culture, cultural heritage and arts.

About 35% of the NGOs are actually working and permanently existing. The participation of the not-for-profits in the political dialogue became sensible and significant, and started giving results not before the recent years. Despite of the multitude of the sector, actually the political communication was missing and there were not organized attempts for lobbying. Apparently the civil society in Bulgaria in the field of culture started indicating maturity quite late. A step forward in the civil society's participation in the decision making process was the establishment in 2002 of the National Civil Forum "Culture" (a strong coalition of about 60 organizations).

But, the partnership between the state and the third sector has not been expressed by means of a common program or strategy in the field of culture.

In Hungary there are about 50 000 non-government organizations registered. A prove that the third sector is an instrument of the public policy is the "presence of a law, which stimulates the private philanthropy by taxation motivation" – the "1% Law". While the fact, that the cultural organizations are amongst the recipients of resources according to that law indicates that culture is a part of the strategy for the development of the civil society.

The number of non-government organizations in *Lithuania* is about 12 000, and ¼ of them are not active. The viability of the sector can be evaluated by the active and successful lobbying for the approval of the Lithuanian "2% Law".

⁶⁰ Provided by the Union of Bulgarian Foundations and Associations

The level of formation of the civil society – an international index

The international index widely used for the evaluation of the level of development of the non-government organizations in the different countries is called “NGO sustainability index”. The index utilizes a 7 grade system, and with 7 is marked the lowest level of development, while 1 is an indicator for a very advanced non government sector. The evaluated indicators are – a legal environment, a organizational capacity, a financial viability, an advocacy, a service providing, a infra structure,a public image – table 11.

Table 11. NGO sustainability index

Indicator	Bulgaria	Hungary	Lithuania
legal environment	2,0	1,4	1,6
organizational capacity	4,5	2,7	2,9
financial viability	3,8	3,0	2,9
advocacy	2,5	3,5	1,8
service providing	2,8	2,3	3,8
infra structure	2,5	2,5	2,3
public image	3,5	3,0	3,8
Total	3,1	2,6	2,7

Source: USAID – NGO Sustainability Index - 2002,
http://www.usaid.gov/locations/europe_eurasia/.

Hungary has the best total result, and the difference between Hungary and Bulgaria is half a point. The problematic areas for Bulgaria are the organizational capacity and the financial viability –in Bulgaria there is still one basic source for the financing of the sector are external donors. The solution to this problem is the acceptance of the Bulgarian variant of the “1% Law”. The development of the sector can not be evaluated in a synonymous manner – very often, the sector is the generator of ideas and

national discussions, but in a very few cases the sector is a part of their implementation. From this point of view the efficiency of the sector is under question.

The level of maturity of the market structures and institutions

In spite of the recognition of the European Union /2002/, that Bulgaria is a country with a functioning market economy, the basic economic indices are lower than the values of the countries, which are in a process of accession /including Hungary and Lithuania/ – *table 12*. As for example the gross domestic product is four times smaller in comparison with those of Hungary, which has almost the same dimensions.

Table 12. Comparative economic social indicators – Bulgaria, Hungary, Lithuania

ASPECT	BULGARIA	HUNGARY	LITHUANIA
GDP /euro mln./	17 594	73 267	16 142
GDP per capita /in standard of purchasing power - SPP/	6 760	13 600	9 400
GDP per capita /average EC=100/	25	57	39
GDP by sectors %	Agriculture 14 Industry..... 29 Service .58	4 34 62	8 31 61
Average monthly salary / euro	145	541	310
Average price of the Work hour / euro³	1,35	3,83	2,7
Unemployment %	13,7	5,9	11,3
Population under the poverty line %	35 /2000 year./	9 /1993/	N.A.
Annual inflation %	2,4	4,7	-1,3

Source: 1/The data are from – <http://wiiw.ac.at>, Eurostat, “CIA – World book fact 2002”, as well as from national sources. The information is for 2003, with the exception of the specially marked indices

2/ For 2002 3/ The information is for 2003. For the European Union /15/ - 23 Euro per hour.

4/ Average for the period of the 80ties.

As a result, a significant divergence about the income, the labor productivity and the population, living beyond the poverty level can be noted. Bulgaria is beginning to outline as a country with a strong income differentiation and a low living standard – factors, which represent anti stimulus for any type of philanthropic activity.

In spite of the good macro economic results, after 1988, the European bank for reconstruction and development /EBRD/ evaluates the *transition in Bulgaria, as a still un-implemented one in regard to the market institutions*. In its annual reports for the transition, in the part where a comparative analysis has been drawn up for the period of reform, Bulgaria has a lower“ general indicator for the transition” in comparison with Lithuania and Hungary – *table 13*

Table 13 Indicators for the transition – comparative analysis between Bulgaria, Lithuania and Hungary

INDEX	BULGARIA	HUNGARY	LITHUANIA
General indicator for the transition¹	3,1	3,75	3,5
Small privatization	4-	4+	4+
Price liberalization	4+	4	4+
Foreign trade and currency system	4+	4+	4+
Large privatization	4-	4	4-
Management of the ownership and re-structuring of the enterprises	2+	3+	3
Competition policy	2+	3	3
Bank reform	3+	4	3
Stock markets and non banking financial institutions	2+	4-	3
Infrastructure reforms	3-	4-	3-

Source: 1/ Index of the European bank for reconstruction and development /EBRD/ -annually published in the “Report for the Transition”. Varies from “1” - lack of progress or a small progress/ to “4+” - level, similar to achieved by the advanced economics. The index is formed like sum of indicators that showed the achieved progress. The data are from the “Report for the transition”, 2002.

“As can be seen from the table, the reforms from the first phase, i.e the price, commercial liberalization, together with the privatization have been almost completed towards the middle of 2002. Now Bulgaria should move towards a stable implementation of the second phase reforms, which are directed towards the **building of the institutions**. In this category is the policy in the field of the competition, the re-structuring of the real sector, the infrastructure reform and the development of the banking and non banking financial institutions.”⁶¹

The level of development of the market relations is reflected on the **material welfare of the nation** – an important factor for the development of the alternative financing. Here, most frequently as a synthetic index for the analysis of the welfare is used the “Index of the human development “- *table 14*. It includes indices from three areas – 1/ material provision, 2/ continuance of life, 3/ access and level of knowledge, which are basic in the concept for sustainability development. A some research propose it as the **basis for a comparative analysis in relation to the social price of the transition** – “taking into consideration the close starting positions and almost identical aims for the achievement of a national and a regional level, the difference in the dynamics of the indices for human development would reflect the differences in the efficiency of the public decisions’s implementation of the”⁶²

⁶¹ “Report of the transition “, page 21, EBRD

⁶² Dimitrova Elisaveta – ”Index of the human development - a possible optimizing criteria in building of the public welfare” in the Materials from the Scientific Jubilee conference, YNWE, 2003, “Economy“ Publishing house.

**Table 14. Index of the human development – comparison : Bulgaria, Hungary,
Lithuania**

Indicator	BULGARIA	HUNGARY	LITHUANIA
Index of the human development	0,795	0,841	0,824

Source: Human Development Report 2003, PNUD, NY, Oxford, 2003.

The data in the table show that amongst the three countries Bulgaria pays the highest social price for the transition. According to the logic of the analysis it is a reflection of the lower degree of development of the market institutions.

Interaction with the private sector,

The search and the establishment of partnerships and common strategies is an indication for:

- 1/ **the social responsibility and maturity of the national business**
- 2/ awareness of the importance of culture as a social economic factor not from business, but of **state, which by its political will should be a engine for fruitful reforms in sector** as well.

The partnership between the three basic subjects of the cultural policy – state, business and civil society is a guarantee for the realization of the reforms in culture. State forms this partnership by three different mechanisms:⁶³

-
- 1/ development of social strategies and programs for partnership.
 - 2/ development of a stimulating legislation for sponsorship and donation.
 - 3/ alteration of the legal status of the cultural organizations, /e.g. in form of foundations/, which will help them to be more flexible in the search for alternative financing.

⁶³ Cliché D., Mitchell R., Wiessand A., Creative Europe. On Governance and management of Artistic Creativity in Europe , ERICarts report., Novi sad, 2002.

The countries, which are in the center of the present research, are in a period of building of an environment for partnership⁶⁴. *But even during the period of establishment of the environment, there is exists a different level of readiness. We can accept this different level of readiness as a reflection of the specific national conditions, and more precisely – the level of maturity of market and third sector in the different countries.*

The comparison between the three countries by generalized economic and social indices, as well as by an international indices evaluating the level of development of the market and the civil society show a delay of Bulgaria in relation to the maturity of the market relations and the civil institutions.

In this way, the three basic subjects of the cultural policy – state, business and third sector are not sterling creators of partnerships and strategies for the development of culture in Bulgaria. Their immaturity both as an economical and a public subject is a barrier for the establishment of a stimulating environment for the development of the alternative financing.

⁶⁴ This is also the evaluation of most of the Western investigators of the problem.

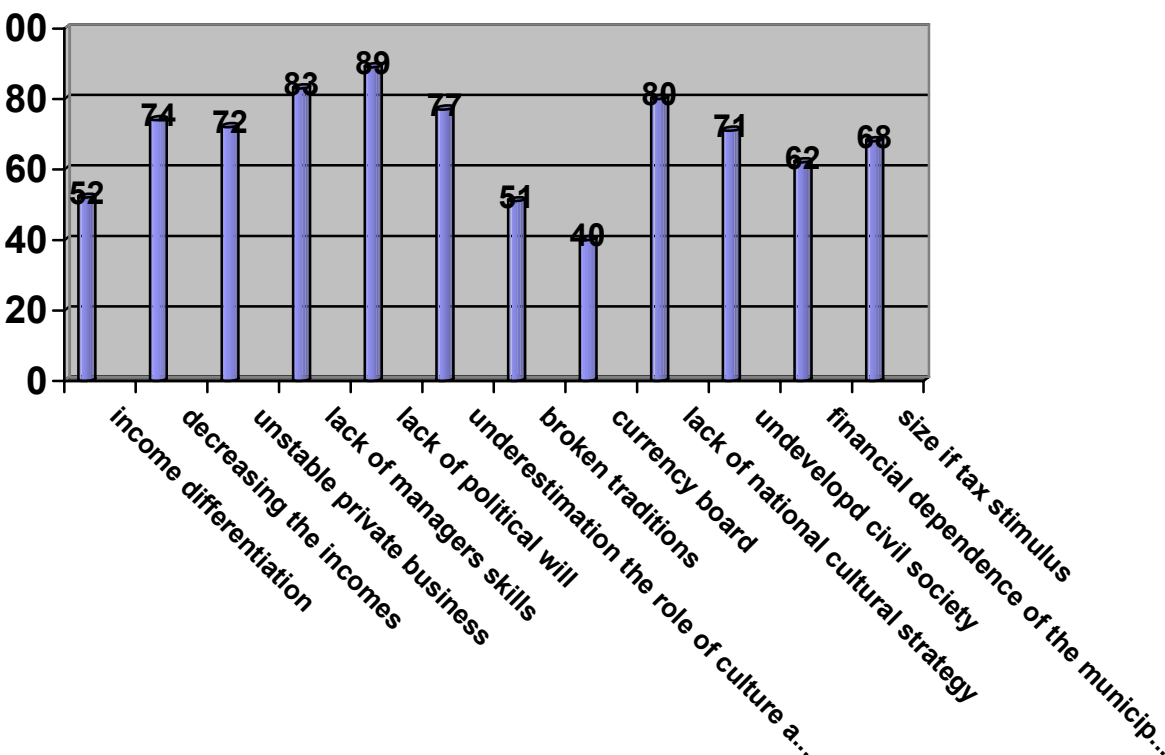
2.2. Barriers for the development of the alternative financing – empirical aspect.

The conducted research /unrepresentative, with expert character/ has confirmed the significance of market, civil society and the political will as key factors for the development of the alternative financing.

The analysis of the data obtained enabled to define a group of indicators, influencing this process: size of the incomes and the income differentiation, the development of fundraising managing skills, the role of culture, as a factor for the national identity and development, the existence or the lack of a national cultural strategy, the presence of a specialize legislation.

The interviewed people, besides the identification of the factors influencing the alternative financing, evaluated their strength as restrictive factors of the process - *figure 2.*

Figure 2 – Basic factors, influencing the process of the alternative financing of culture. Evaluation of their force as limiting factors of the process.



From the figure above we can see that the factors – barriers can be divided into 3 basic groups.

The first group has of three factors, and each of these factors has been evaluated with more than 80% by interviewed, as limiting factors in the process of the alternative financing. The following barriers are the strongest ones in the opinion of the inquired – **1/** the lack of a political will, **2/** the lack of special managing skills, **3/** the lack of a national cultural strategy. This classification is a bit different from the one expected – factors are being mixed on a macro level – the “political will” and factors on a micro organizational level – “the managing skills”. The third factor - the “lack of a cultural strategy” is a result of the lack of proved political will and can be accepted as a controlling question, which confirms the sincerity of the answers. The experts, who had been interviewed stake on the priority of the political process as a stimulus/barrier for the alternative financing, i.q. In their opinion, the instruments of the alternative financing have a dominantly regulative nature and they are an expression of the political will and decision.

The second group of factors had been evaluated like barriers from over 70% of inquired are: **4/** underestimating of culture as a factor for development. **5/** the decreasing of the incomes, **6/** the underdeveloped civil society, **7/** the unstable private business/market. The limiting factors with an institutional nature – market and civil society require the longest period of time for changing and their transformation in mature subjects of the process of the alternative financing. One of the few national differences, stated in the evaluations of the experts from the three countries, is that the experts, who had been interviewed from Lithuania and Hungary, give a much lower rating of the role of the incomes as a limiting factor of the alternative financing. This conclusion is a reflection of the better social welfare in these countries.

The third group of factors has been evaluated as limiting factors by over 40% to 60% of the persons, who had been interviewed. According to the divergence made, these are the factors, which have the weakest limiting influence. Here are – **8/** the tax stimulus, **9/** the limited financial independence of the municipalities. **10/** the broken traditions and

11/ the foreign currency board. It would be logical if we make a connection between the limiting influence of the foreign currency board, rated last with the political will, which had been ranked first. The strong fiscal discipline and centralization of the resources, imposed by the board is a limiting factor as far as there is no political will for changes and this is being justified by the requirements of the board. The evaluation of the tax stimulus /as a part of the factors, creating an environment, as an award, not as a leading stimulus/ , in this case is not much different than the opinion of the most of the people, inquired in regard to this matter all over the world.

During the whole period of transformation of the cultural policy, the basic changes are in the direction of the liberalization and de-centralization, although, most often the results are of an incomplete and contradictious. The reasons for that can be sought in the lack of a political will and sequence. Other limiting factors are - the immature market environment and the lack of a civil lobbying and “pressure groups” – a public awareness about the culture as a factor for sustainability development had not been created. These institutional barriers have been confirmed also by the results of the empirical research.

In Bulgaria, the lack of a declared strategy for the development of the public sector, and culture particularly, indicates, that the withdrawal of the state from the financing of the public and mixed goods and services is just happen., i.e. it is not being planned. State has been changing its functions from ownership ones to regulative ones, *but without the preliminarily creation of environment – a market and a social – cultural one*, which would obstruct the dis-balance of the cultural production and consumption.

That is why, the newly established financial and management structures are not in position to start efficiently functioning.

An important reason for the non realized reformer intentions is the fact, that *there is no re-definition of the mission of state and of market within the sphere of culture, and no space has been made for the third sector as a partner in the process of creating of an environment for the planned changes.*

The creating of a partnership environment is the way to stimulate the complex, dual nature of the alternative financing.

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APPENDIX

ATTACHMENT 1

QUESTIONNAIRE

ALTERNATIVE MECHANISMS OF FINANCING CULTURE IN ACCESSION COUNTRIES

Please, ticket off with "X" or underline the answer you have chosen.

1/ Do you think that national culture and in particular - arts, should survive in the free market without financial support of the state /direct or indirect/?

A/yes.

B/yes, but only cultural industries /publishers, sound recording, cinema and audio-vision/.

C/no, even for industries we have small market which make their self-support impossible.

D/no

E/others.....

2/In your opinion, what is the role of the state for supporting the arts?

.....
.....

3/In your opinion, how the state have to support the arts? / don't include more than three answers/

A/using a direct financial support by the budget.

B/using an indirect financing – tax stimulants to the sponsors, relieve of some taxes for the creators.

C/to regulate this sector creating a legal framework.

D/to develop new alternative methods for financing such as an art lottery, specialized loan and investment funds.

E/to define priority sectors and aims for the culture by creating a cultural strategy.

F/to underline the importance of culture for our national identity.

G/by protective cultural policy, e.g. protective quota for national arts – movie show, electronics media.

H/others.....

4/How would you evaluate the efficiency¹ of the currently existing alternative mechanisms of financing culture in your country?

	Excellent	Very good	Good	Satisfactory	Non-satisfactory	Can't estimate
A/Sponsorship	1/					
1/monetary 2/in kind	2/					
B/Donation from	1/					
1/business 2/foundation 3/individuals	2/					
	3/					
C/Lottery un/specialized						
D/Art activity non-taxable with VAT						
E/Transfer a per cent of copy rights						
F/Funds for supporting culture:	1/					
1/State /e.g. National Fund Culture/ 2/Mixed/partnership 3/Private	2/					
	3/					
G/Specialized loan and investment funds, ensured by:	1/					
1/the third sector 2/business sector	2/					

1. Efficiency – in this case, as far as the listed instruments attract an additional income for culture and increase the production in this sector.

5/Do you think that the higher tax stimulus would get to the increasing the moneys from sponsorship and donation?

A/yes, to a large extend

B/yes, but in little extent, because.....

C/no, because.....

D/can't estimate

E/something else.....

6/What do you think – as far as the listed factors below restrict the development of the alternative financing in your country? Please, evaluate the strength of their influence:

	Strong restriction	Restriction	Weak restriction	It's not a restriction	Can't estimate	This factor is't specific to my country
A/increasing income differentiation among the population						
B/a drastic decreasing the income of the population						
C/not strong enough and stable business sector						
D/not enough developed manager skills for fundraising						
E/lack of proven political will for development of new alternative financial instruments						
F/underestimation the role of culture as a factor for national identity and development						
G/broken traditions						
H/establishing the regime of currency board						
I/lack of national cultural strategy						
J/civil society in the stage of development						
K/a low degree of financial independence at the municipality level						
L/the size of the existing tax inducements						
M/others.....						

7/Please, evaluate the importance of the listed factors below for the development of the alternative financial mechanisms:

	Greatest Importance	Great importance	Middle importance	Little importance	No importance	Can't estimate
A/the of the specialized legislation						
B/the presence of an indirect legislation /e.g. the low of VAT/						

C/the presence of mechanisms for applying the legislation – orders, statutes;						
D/the maturity of the civil society						
E/the market maturity						

8/In your opinion, how the regime of currency board influences over the possibilities for the development of new alternative mechanisms for financing? /this question concerning only the peoples from Lithuania and Bulgaria. /

A/ Negatively, because of the restrictions for creating funds out of the budget.

B/Restrictively, because of the imperatively strong fiscal discipline and strong centralizing resources.

C/Neutrally

D/I can't estimate

E/Others.....

9/If you consider that VAT should be differentiated or abolished this decision which cultural goods and services should obtain?

A/The whole sector of the culture independently of the state of the organization property

B/Cultural industries

C/Book-publishing

D/Printing media

E/I don't think that VAT should be reduced or obliterated.

F/I can't estimate

G/other.....

10/What do you think – which kind of new mechanisms for alternative financing should be developed in your country? Why?

.....

11/How would you estimate the potential for accumulation of additional financial resources of listed below alternative instruments for financing?

/the most part of them are not developed in the East and Central Europe, they are famous only like “good examples”/

	Excellent	Very good	Good	Satisfactory	Weak	Can't estimate
a/ Lottery specialized, so called art lottery, art Toto						

	Excellent	Very good	Good	Satisfactory	Weak	Can't estimate
b/Introducing differential rate of VAT						
c/Separation per cent from the price of the cinema tickets, video cassettes and direct them to a specialized fund.						
d/Put on an additional per cent to the tourist services and direct this extra money to the arts / via establishing a regional funds/						
e/ Funds for supporting the culture: 1/State 2/Mixed/partnership 3/Private	1/					
	2/					
	3/					
f/ Specialized loan and investment funds, ensured of: 1/the third sector 2/banks	1/					
	2/					
g/Donor credit carts /so-called affinity credit cart/						
h/Private subsidized investment and guarantee funds /supported by debt instruments, shares, micro credits, loans/						

12/In your opinion, what is the proportion between the state and the private financing in sector “culture” in your country?

.....

13/In your opinion what is the basic problem for seeking of alternative financial resources?

- A/a lack of free resources
- B/a lack of information and communication
- C/a strong competition with other sectors /sport, education/
- D/others.....

14/Do you think that the accession of your country to EU will stimulate the development of new alternative mechanism for financing?

- A/yes, because of the expectations of EU in this point
- B/yes, but mainly in cultural industries
- C/no
- D/I can't estimate
- E/others.....

15/In your opinion, what are the main obstacles to cultural organizations in your country for more actively absorption of the resources from European programs /directly and indirectly/ for culture? /more than one answer is possible/

- A/obscure rules for candidates
- B/difficult finding of international partners
- C/still not having a good practice in writing projects
- D/not well developed partnerships between NGO and art organization
- E/a difficult procedure to candidate
- F/unsuitable system for financing the project /e.g. "Culture 2000" – 50%:50% - at the beginning and in the end of the project/
- G/I can't estimate
- H/others.....

16/The sector of culture creates under 1% of the BNP of a country. In this condition the lobbying for culture should look for other advantages of the sector. In your opinion, what are they? /more than one answer is possible/

- A/the external effect creating by the sector which are the market cannot include – a national pride, educational qualification, creativeness, traditions
- B/the culture as factor of national unity and social cohesion
- C/culture as factor of regional and local development via its indirect effects /cultural tourism, factor for a local entrepreneurship
- D/culture and arts are creators of a pure cultural capital and they should't been consider out of their nature
- E/I can't estimate
- F /other.....

You are:

1. Art manager
2. Creator
3. Researcher
4. Lecturer
5. Expert/consultant
6. Businessman

7. Represent of the third sector
8. Others.....

Kindly thank you for your patient and responsiveness!

ATTACHMENT 2

Cultural activities – an object of financing

The subdividing is arbitrary. The aim is visualization of the relationships “State-Culture-Market” – financial point of view, i.e. the cultural activities are regarded as an object of financing. The figure is not overall due to national specifics in cultural financing – a rate and a form of the state/market influence; the property forms of cultural organizations; etc.

