



# Financing cultural practices in South East Europe

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## 1. CONTEXTUAL BASIS AND MAJOR FACTORS INFLUENCING THE MODEL OF CULTURAL FINANCING IN SOUTH EAST EUROPE

### 1.1. State support for culture

After 1989 the governments in South East Europe started to reshape their overall cultural policies so as to decrease the state's direct involvement in arts and culture and increase indirect support through a variety of legislative and other instruments. The model of the state as the main 'owner' of cultural industries is gradually being replaced by the model of the state as the main regulator through its economic and legislative functions. Indirect support for the arts is provided through many legislative initiatives. In some countries, state subsidies proved to be an effective mechanism for distributing part of the national budget among excellent artistic organizations on a competitive basis. Even in such instances, however, there remains the question of criteria. Alternative art forms often suffered from the fact that the state rarely supports contemporary arts, preferring cultural heritage and traditional art forms instead.

The regionalization and decentralization of cultural financing is an important trend, providing better flexibility and management of cultural institutions and activities. In most countries, financing at national level is much higher than at regional and municipal levels. Funds for culture and other alternative instruments are not well spread at regional level. The process of regionalization is connected with a variety of limitations and problems which need to be explored and resolved.

- *Dubrovnik port, which completely collapsed recently, is an example of how political discussions and trading shots can lead to catastrophic outcomes. The town port had been under threat of collapse for many years; the quayside was already badly damaged and stone blocks were beginning to come apart. During all this period, the city government made no serious attempt to prevent the crisis, since local laws stated that everything outside the city walls was the state government's responsibility. Dubrovnik's town museums are either situated in inappropriate locations or in buildings that are rapidly decaying. One part of the very valuable archaeological collection from ancient Egypt was kept in a former prison that received no investment and did not even have an alarm system: unsurprisingly, the collection was recently stolen. The Rector's Palace, which*

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\* This study is part of a series of methodological research on current issues of cultural policy in South East Europe which the *Policies for Culture* programme (managed by European Cultural Foundation, Amsterdam & ECUMEST Association, Bucharest) has been commissioning to various experts of its regional network between 2002 and 2003. The papers aim to identify critical areas and key topics of cultural policy that need to be addressed by research, education and other ways of involvement and support in the region.

*contains an art collection detailing the history of Dubrovnik republic, is rapidly falling apart. It is important to stress that the Ministry of Culture has fulfilled all of its financial obligations towards the city of Dubrovnik: it is the city governance itself which is not doing anything.*

- *The Split festival of new films, one of the few Croatian festivals of international significance, which has taken place in Split for ten years, will either die out or move to Zagreb because of the local government's neglect (only the national Ministry of Culture and a few sponsors finance the festival). If it does move to Zagreb, then once again the capital will have 'stolen' an important cultural event from the province, the main reason for this being a lack of care for culture at local level.*
- *In Moldova, the regionalizing of the state budget has meant that financing at national level was much lower in 2002 than at regional and municipal levels. Although this is a positive trend, there is a lack of skilled people in the regional authorities who could implement new models of managing arts and culture.*

## **1.2. Development of relations between economics, culture and legislation**

In South East Europe over the past 12 years, numerous laws relating to culture have been adopted – laws regarding sponsorship, individual donations, tax-exempt status, and the establishing and functioning of NGOs. However, comprehensive comparative research on cultural legislation since 1990, its implementation and effectiveness, has not been undertaken.

- *In Bulgaria, 10 cultural laws have been adopted in the last 10 years, including laws on: Copyright (1993); Chitalista-Cultural and Community Centres (1996); and the Preservation and Development of Culture (1999). Several other laws are under consideration – on the media, the film and audiovisual industry, and cultural heritage – as well as many important changes in taxation laws, all of which should provide a more stable economic background for culture and the arts. Yet the lack of public debate and consultation, as well as advice on the practical use of the legislation, means that a majority of Bulgaria's cultural managers and artists do not take advantage of this in their practical work.*
- *In Croatia, the Ministry of Culture initiated changes in financial legislation which led to the abolition of value added tax on books. Publishing has blossomed as a result.*
- *In Moldova, on the other hand, the Law on Culture does not regulate any financial matters. A law on Sponsorship does exist, but it has no real practical influence or use. There are no laws to stimulate the music and recording business; and with a limited and undeveloped market, even this cannot be considered a profitable cultural industry.*

New business and market structures in culture started to appear, many of them as small commercial companies, based on enthusiasm rather than sound economics. Still, there are no well-functioning and profitable cultural industries, with the exception of the music and recording business and (to a certain extent) publishing. Cultural tourism is an important, but still largely unexplored means of linking culture and the economy. The significance of culture as a social and economic factor of sustainable development has still to be grasped.

- *An exception to this is the situation in the western part of Croatia-Istria, where there is a significant connection between culture and tourism. Here, the local population has developed rural tourism, small family pensions and restaurants with unique national cuisine. Many cultural events take place there during the summer: film festivals in*

*Motovun and Pula; a dance festival in Sentvicente; the theatre company 'Ulysses' on Brijuni; the theatre summer festival in Pula. At the season's end, when the number of tourists and the takings have been added up, the north Adriatic always appears at the top of the list.*

### 1.3. Development of the third sector in culture and the role of foundations

After 1989, the non-profit sector in South East Europe rapidly became a significant force for change, acting as a supervisor of democratisation, as a restorer of community responsibilities and a 'sense of belonging', and as a vehicle for the expression of public opinion. There are several terms used to describe this sector – non-profit, non-governmental, voluntary, independent, charitable, socio-cultural, third, civil, etc. – none of which fully conveys the sector's complex nature.

With the decrease in state funding of many activities and organizations that were previously fully subsidized, the role of the foundation as one type of NGO in the region has increased in importance. An additional cause of this was the need to achieve a balance between the state and business sectors. There are very few private, corporate or community foundations at national and regional levels; most of such support for culture comes from international foundations and funding agencies. In general, foundations operate in the fields of education, social welfare, health care, support for children, environment, human rights, and minority issues. The foundations that support arts and culture form only a small part of the overall NGO scene.

There is a serious need in many countries for legislative reform to facilitate the establishment and functioning of NGOs – including foundations – and to provide a better framework for their financial and legal flexibility. Much has to be done to improve their image in society, and to establish standards of accountability and credibility.

- *In Moldova, there are a limited number of foundations and other institutions involved in the financing of culture and the arts. As a rule these are established with foreign capital by large international companies. For instance, 'Union Fenosa', a large Spanish company, the owner of Moldova's electricity networks, has established a cultural foundation which supports and develops cultural and artistic activities in the country (inviting foreign artists, supporting tours of local artists abroad etc.).*
- *In Macedonia there are only two foundations that support culture and the arts – the Open Society Institute (the national Soros foundation) and MOBIMAK (the mobile communications operator). The latter still does not have clear criteria for the distribution of funds and selection of grantees. Its grants are awarded mainly in the fields of pop culture and national heritage.*
- *30% of Bulgaria's 5500 officially registered non-profit organizations operate in culture and the arts. The foundations are separated into two groups: those that are very large, with a wide range of activities; and those that are too small – basically grant-seeking rather than grant-giving bodies. The Soros Centre for the Arts was the biggest grant-giving organization in the country supporting contemporary arts in the last few years. Its current transformation into a Soros Centre for Cultural Policy shows the absence of a clear fundraising strategy, which could lead to a dangerous situation with the drastic decrease in the Soros foundations' funding for culture. 'Pro Helvecia', '13 Centuries*

Bulgaria' and 'Values' are also among the leaders in the country in financing cultural organizations and projects.

- During the last two years, the Arts and Culture Network programme of the Open Society Institute (covering 29 countries from Central and Eastern Europe) supported 17 projects in the field of cultural policy in South East Europe, linked directly or indirectly to the development of competence in fundraising and financing culture. They include the following projects:
  - Croatia – 'Redefining Cultural Identities', the Institute for International Relations: improving awareness of the importance of cultural industries from the angle of identities, policy actions and social behaviour;
  - Moldova – Establishment of a Centre for Cultural Policy and Management;
  - Bulgaria – 'Developing Creative Partnership', the Euro-Bulgarian Cultural Centre: interaction between artistic experimentation and entrepreneurial motivation in the regions;
  - Macedonia – 'Legal System in Cultural Tourism', the Ministry of Culture and Macedonian National Committee of ICOMOS: harmonizing the existing legal system with international regulations and standards, regarding protection of fixed and movable cultural treasury;
  - Serbia – 'Theatre Law in Serbia' the National Theatre: better and more flexible management, fundraising and financial methods in the state theatres;
  - Romania – 'Programme for Bilateral Interdisciplinary Training for Artists and Journalists from Romania and Serbia', the West Foundation for Regional and Euro-Regional Journalism: raising journalists' awareness of cultural policy, management and alternative financing.
  
- The Soros Centres for Contemporary Arts began to appear in the 1990s, with the aim of creating, preserving, developing and promoting contemporary arts both locally and internationally. In the first stage, the environment in which the centres operated was characterized by the almost total absence of infrastructure for contemporary arts, limited professional information, the total collapse of the state's centralized funding system, and either unawareness of or hostility towards anything nonconformist or different. Currently, there are 19 former SCCAs of which 6 are in South East Europe (Skopje, Zagreb, Sarajevo, Kishinev, Sofia and Belgrade). In 1999 and 2000, following the restructuring of the Soros foundations' network, the centres started a spin-off process, and were transformed into independent NGOs or into public institutions. This seriously raised the question of their future financial stability and fundraising strategies. The recent assessment of the centres (the full evaluation package is for the internal use of OSI only) shows that in the case of Bosnia, Belgrade and Skopje, the programmes and activities are of a high quality and are publicly recognized, functioning as 'open spaces for interested people'. They are also the only institutions in these countries that tackle social and policy issues in the arts as well as providing support. The centre in Sofia is currently being transformed into a centre for cultural policy and its future is hard to predict. The Centre in Moldova faces a serious threat of closure because of its inefficient management and inability to find support from sources other than Soros. Most of the centres in South East Europe are reported to have undertaken significant fundraising efforts and to have achieved some results. These efforts are occasionally undermined by a very unfavourable climate for arts sponsorship in general and also by legal restrictions. However, some centres (in Serbia and Croatia for example) find ways to cooperate with central and local government and manage to obtain support. It is certainly difficult for all former SCCAs to generate matching funds for their operational budgets. The assessment results reveal that

*the next step for the centres' development would be to learn how to generate funds from the business sector, and how to increase self-generated income (where legally permitted). The centres need more entrepreneurial thinking and better marketing skills. In the future they should play a mediating role, becoming 'meeting points' for contemporary artists, audiences, politicians, business circles, rather than simply promoting contemporary arts. They also need to become more 'cross-cultural', undertaking new initiatives and extending their programmes to the peripheries.*

#### **1.4. Sponsorship**

Sponsorship still constitutes a very small part of overall cultural financing in South East Europe. This is because of the absence of effective tax incentives for sponsors, the fact that the business sector has not been in existence for long, the lack of a traditions of corporate giving, little media coverage and public recognition of the best sponsors, and an unstable economic situation. Sponsorship is based on ad-hoc personal relations rather than long-term marketing strategies. Sponsors prefer the well-established and completed, and are not interested in supporting artistic processes or small cultural organizations and NGOs.

- *According to the Law on Sponsorship in Moldova, enterprises are entitled to allocate up to 7% of their revenue tax-free for sponsorship activities. Income above 7% is taxed. They thus have a motivation for concealing their true income, and are not encouraged to invest money in cultural development. Despite this, sponsorship does happen occasionally, but without media coverage or public announcement.*

#### **1.5. Other innovative methods of financing culture**

The main aims of alternative methods of cultural financing are: to accumulate a variety of funds at national, regional and organizational levels, on a long-term basis; to develop individual and corporate motivation for giving; and to increase the amount of the national economy's wealth spent on culture. Simply transferring the main functions of state financing to other institutions is not a main aim. The following alternative methods in general can be explored in South East Europe:

- Revenues from special lotteries and other games. This approach does not require any increase in tax, but is a special 'voluntary price' which people pay when buying lottery tickets. The economic function of gambling – not to produce but to distribute profit – provides a good reason for using this profit for various social aims – mainly the support of education, sport, culture, social funds etc.
  - *With the exception of Bulgaria, no case studies from South East Europe featured in the latest CIRCLE conference, 'Gambling on Culture' (Rome, November 2002) – the first attempt at a comparative analysis of lotteries-for-culture, their structure, procedures and effects. So it is hard to discover the extent to which these countries use, or intend to use, lotteries for the support of cultural activities and organizations. A small percentage of Bulgaria's lottery money is devoted to culture, but there is no specific regulation that ensures this: a group of local NGOs are lobbying politically to gain support for the idea of an Arts Lottery.*
- Special funds for culture at national and regional levels, which are raised by a variety of methods, e.g. a fixed percentage of privatization deals or of income from tourism.

- *The first attempt in Bulgaria to start up a national fund for culture was in 2000, with a sum less than 300,000 Euros. Although the Fund has the potential to accumulate money through various forms of taxation and other economic methods, 83% of its income comes from the national budget for culture. This is partly due to the cultural industries being underdeveloped and the absence of a stable legislative framework: for example, a percentage of the money raised from music piracy penalties could provide income for the Fund. The documents for establishing the national fund predicted the existence of regional funds for culture, but these have yet to materialize.*
- Employees donating a percentage of their monthly salary to funds for culture (low income means that this option is not exploited in South East Europe).
- Cultural loan funds and debt instruments: these are effective mechanisms for improving business thinking and entrepreneurship in culture, demonstrating that artistic activities can earn money, and not only cost money.
  - *The Cultural Development Loan Fund, created at the Resource Centre, Sofia, in 2001, was the first attempt in South East Europe to encourage entrepreneurship, provide financial incentives for artistic organizations, and help cultural professionals to understand the cultural markets better. During the pilot phase, 10 projects were financed to a total of \$78,300. The following are examples of the loans provided:*
    - a. *The 'Jordan Jovkov' community centre – for computers for the centre's music and arts courses.*
    - b. *ILL Planet-Appeal Foundation – for painting materials to enable a young Bulgarian painter to exhibit.*
    - c. *Bulgarian Cinema Foundation – for computers and equipment for Internet & computer courses, eventually leading to a studio for processing documentaries.*
    - d. *Bulgaria Land of Treasures Foundation – for equipment to enable the quality printing of Bulgarian photographers' work, which will then be sold on the Internet.**The programme's future is uncertain, as the overall fundraising strategy for the Resource Centre is not developed and the major funding comes from the Soros foundation.*

## 2. CROSS-COUNTRY ANALYSIS OF THE CURRENT METHODS AND INSTRUMENTS OF FINANCING CULTURE

***Note: The scope and contents of the comparative research and the training methodology depend of the available budget!***

The aim of such comparative research is to obtain comprehensive information regarding cultural financing and fundraising in South East European countries, at national, regional and organizational levels. The information will then be used as a starting point for the training. The following indicators need to be considered (and analyzed) in the research:

- economic indicators in each country for state financing and alternative support for culture;
- attitudes towards cultural financing in the state, private and non-profit sectors, and the needs for training in financing and fundraising.

### **2.1. Economic indicators for each country at national and regional levels**

- Percentage for culture and the arts from the overall GDP annually in the last 3 years. Is it a fixed percentage or a fluctuating one? The arguments for each.
- Percentage of household expenditure on culture and the arts in the last 3 years.
- Percentages of state financing going to budget, project and capital subsidies.
- Criteria and means of distribution of budget subsidies among cultural organizations.
- Criteria and means of distribution of project subsidies among cultural organizations.
- Other methods of state financing through special funds, e.g. national cultural funds (where these have been established) their mechanism and criteria of distribution.
- Major legislative reforms concerning cultural financing after 1989.
- Distribution of state subsidy at national and regional levels (in percentages).
- Ways to finance culture at regional and municipal levels – from the budget and from alternative sources. Examples.

### **2.2. Indicators for alternative sources of funding**

- Main foundations and their activities in each country.
- Foundations' support for culture as a percentage of the overall cultural budget.
- Main sponsors and their recent sponsorship activities.
- Sponsorship as a percentage of overall cultural funding.
- Other types of alternative funding sources and their share in overall cultural funding.

### **2.3. Attitude of individuals and sponsors toward supporting culture**

- Areas of current support.
- Areas of eventual future support.
- Motivation for cultural philanthropy.
- Reasons for not supporting culture.

### **2.4. Ascertaining the training needs in cultural financing and fundraising.**

- Major problematic areas in cultural financing and fundraising in the country.
- Main training needs in the state, business and third sectors.
- Training topics that have to be developed.
- Target groups that need training.
- Expected outcomes of such training.

### **2.5. Stages and methods of research:**

*Stage 1:* Selection of national experts (one for each country) to write the country reports, based on questionnaires (exploring the indicators above), content analysis of documents and legislation, personal observation and experience.

*Stage 2:* Distribution of questionnaires among selected cultural organizations (state, private and non-profit) and experts in cultural financing from each country.

*Stage 3:* Selection of an international team of trainers who specialize in cultural financing and fundraising.

*Stage 4:* Analysis of the country reports and assessment of training needs, followed by the international team of trainers' outline of the training methodology.

*Stage 5:* Preparation of the training materials and selection of participants.

*Stage 6:* Actual training in cultural financing and fundraising.

*Stage 7:* Feedback and results.

### **3. POSSIBLE PROBLEMATIC AREAS IN FINANCING CULTURE IN SOUTH EAST EUROPE**

*Note: The problematic areas below are hypothetical and may or may not be confirmed by the research. New areas and topics are likely to emerge.*

#### **3.1. General problems**

- Politicians think of culture as marginal and are not interested in developing an effective legislation framework.
- It is unclear to what extent the cultural legislation adopted after 1989 is efficient and helps to improve cultural financing.
- The old-fashioned thinking of cultural administrators inhibits them from gaining new competences in cultural financing and the skills needed to lobby politicians.
- Cultural operations lack sufficient fundraising techniques that are effective in their own economic and cultural contexts.
- The structure of the emerging small business sector is based to a certain extent on crime and corruption. The new generation of businessmen make their profits in an extremely short period, so their far-from-philanthropic outlook is not based on any ethical or aesthetic values.
- There is no ‘regional cultural strategy’ for the Balkans. Though regional networks are well developed in some fields (e.g. performing arts), there are neither cooperative measures regarding policy nor comprehensive comparative analyses of the current financial situation in culture.

#### **3.2. Problematic areas at organizational level**

- The links between the state, business and third sectors are not well developed. Cultural practitioners rarely form national and regional platforms for lobbying politicians.
- There are still very few national and regional foundations supporting cultural activities. Many foundations are officially registered but do not function because of a lack of substantial permanent support.
- Foundations devoted to culture and the arts do not function as consultancy and advisory centres, but in many cases only as grant-giving bodies. They still work more at operational than at policy level.
- There is no research into the real cultural needs of this region – what should be supported where, and why. The majority of international donors provide support for their own aims irrespective of the needs of the country.
- Only a few donors and foundations are willing to support emerging and small artistic organizations; to avoid risk, they prefer to cooperate with well-established institutions with a long history of existence.
- Self-generated income represents a small proportion of the overall budget of cultural organizations. Business ventures based on artistic and cultural activities are rare.
- Culture and the arts are not well linked with other sectors of the entertainment industry, e.g. sport, tourism, etc.
- Support for international cultural mobility is being reduced.
- There is no financial incentive or personal motivation for sponsors and wealthy individuals to invest in culture and support cultural events.

- Cultural managers lack skills in financial management, budgeting and fundraising in their national and local contexts.
- The profiles of cultural manager and cultural fundraiser are not well defined, nor are these occupations recognized in society as specialist professions.
- People are not aware that culture can help overall economic development.
- Specialized statistical instruments and national databases, which could link culture with economic development, are absent.
- Cultural tourism is underdeveloped.

### 3.3. Problematic areas in training

- Politicians and decision-makers do not receive specific training in financial and legislative matters, nor in fundraising . There is no motivation for a ‘public servant’ to attend a course to improve his or her competence or qualifications.
- Ethical funds and corporate philanthropy are not part of the curricula of higher education (in economics, management, business and related fields).
- Fundraising courses for practitioners (in countries where they exist) are not linked with courses for educating business people and wealthy individuals with respect to motivation and trends in philanthropic giving.
- Some seminars on fundraising for NGOs, financed by international foundations and agencies, apply fundraising models that work well in wealthy societies: such an approach does not have any practical impact and is not linked with the country’s particular situation.
- In the majority of South-East European countries, there are no university courses in cultural policy or arts management.
- *The two exceptions are: Serbia, with a substantial academic programme on cultural management at the University of Arts in Belgrade; Bulgaria, where three universities offer such programmes (Economic University, South-West University in Blagoevgrad and Sofia University ‘Kl.Ohrodski’). There is still no higher education in arts management and cultural policy in Moldova, Albania, Romania, Montenegro, Bosnia&Herzegovina, Croatia and Macedonia. In some cases, separate courses on the financing of non-profit organizations or philanthropy feature as part of economics or management courses.*
- The profession of ‘fundraiser’ is not officially recognized by any government documents in South East Europe.
- There is hardly any literature on fundraising and cultural financing which has to do with the specific situation in South East Europe.
- Comparative research on cultural financing and fundraising issues in South East Europe is lacking.

In general, quite a lot of money is spent on training in the region, mainly on general financial management and fundraising, but this is largely ineffective and has no practical links with culture.

## 4. TRAINING AND EDUCATION IN CULTURAL FINANCING AND FUNDRAISING: POSSIBLE DIRECTIONS

There are a number of key areas in which the development of an efficient model of training and education can be pursued:

- Training courses (professional development and retraining) for cultural practitioners;
- Inclusion of cultural financing and fundraising in the curricula of academic programmes;
- Training of trainers programmes;
- On the job training and internships.

#### 4.1. Training of cultural practitioners

*Note: The target groups and topics listed below are hypothetical and may or may not be confirmed by the results of the comparative research on cultural financing.*

##### Possible target groups

###### *Group A:*

- Cultural administrators at national, regional and municipal levels: directors of state cultural organizations.
- Politicians and decision-makers: representatives from the Ministry of Culture, regional authorities and government bodies.

###### *Group B*

- Financial directors and the financial managers of state, private and non-profit cultural organizations.
- Managers of foundations and key NGOs.

###### *Group C:*

- Marketing and PR managers from organizations with major sponsorship potential: banks, insurance companies, corporations.
- Wealthy individuals.
- Cultural journalists and other media representatives.

##### Possible burning topics for training

For all groups:

- Basics of cultural economics.
- State and market mechanisms for supporting culture.
- Legislation framework for cultural financing.
- Cultural tourism.
- Entertainment industry economics.
- Alternative methods of financing culture: lotteries, shares, loans, funds, etc.
- Communication techniques.
- The influence of EU enlargement on the financing of culture.

For group A:

- Strategic planning and thinking with regard to culture.
- Practice of state support for culture: mechanisms, trends, problematic areas.
- Regionalization of culture.
- Working with communities and the third sector.

For group B:

- Lobbying politicians and putting culture on the agenda.
- The role of the third sector and foundations for financing culture.
- Financial management and budgeting. Accounting for managers.
- Project management: project writing, implementation and monitoring.

- Fundraising techniques: proposal writing, cause-related campaigns, sponsorship packages.
- Business in the arts.
- Effective Internet research for fundraising.

For group C:

- Culture, arts and contemporary business practices.
- Basics of cultural investment: short-term and long-term benefits.
- Motivation for individual and corporate giving.
- Project management in culture and the arts.
- Culture as a communication process.

#### Training Methods

- Lectures by a team of Western and East European experts.
- Interactive training: case studies, role playing, games, using multimedia and Internet research.
- Internship: selected groups of people who have passed the training visiting other countries for 3-4 weeks of practical experience within organizations that have good fundraising and financial practices.
- Placement: for 3-4 week periods, selected experts in cultural financing giving help to promising cultural institutions in order to improve fundraising strategy and practice.

#### **4.2. Including cultural financing and fundraising in university curricula**

- In BA and MA courses in Economics, Management, Marketing, Business Studies and related fields. Possible subjects: corporate philanthropy; ethical funds; sponsorship as a part of marketing strategies; cultural economics; economics of the non-profit sector.
- In the BA and MA courses of universities and academies of arts and culture. Possible subjects: Fundraising in Culture; Sponsorship Relations; Cultural Legislation.
- In Ph.D. courses – innovative approaches towards cultural financing and fundraising.
- Encouraging students from the above disciplines to be involved practically in fundraising and to receive academic credits for successful practical work.
- Supporting researchers and authors on cultural financing. ●

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