



Impact and Evolution of Percentage Mechanism in the CEE

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REGIONAL CONFERENCE

The road to financial sustainability of
civil society organizations

15-16 May 2018, Chisinau

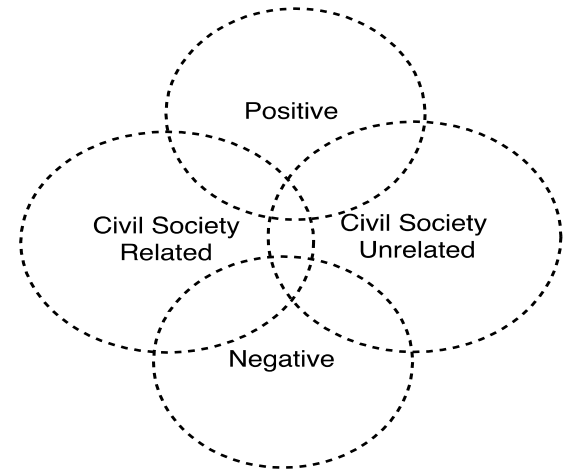
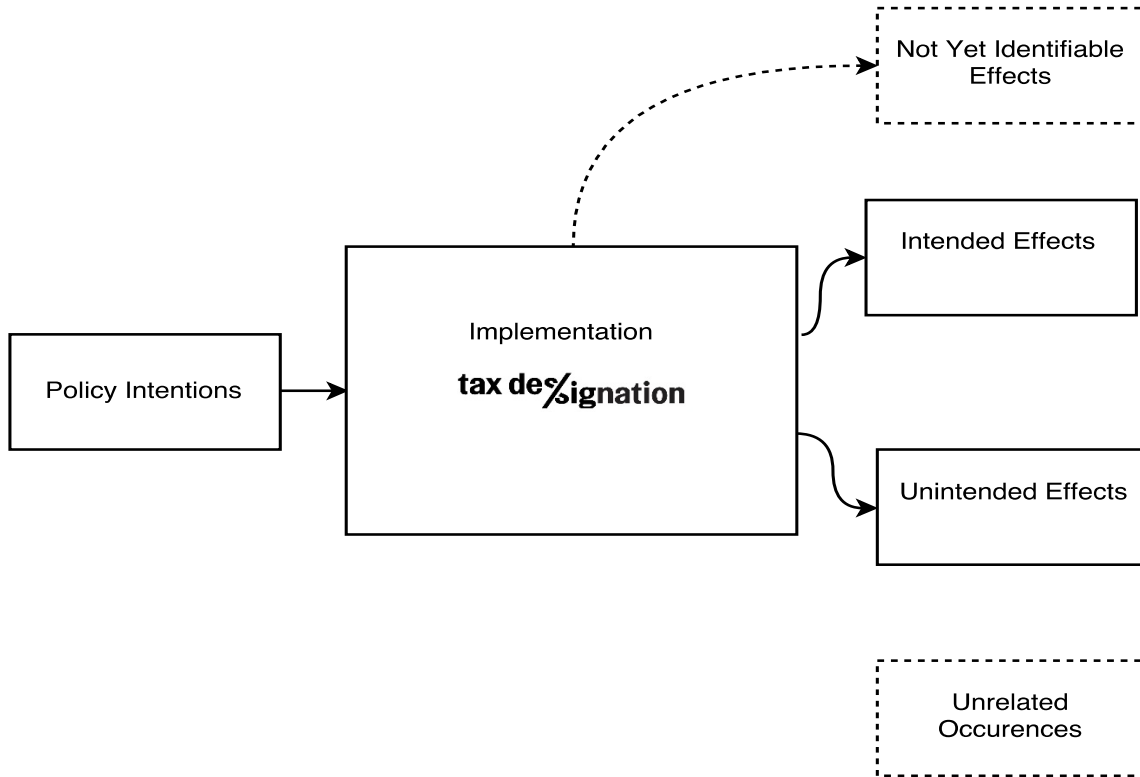
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tax des%ignation



HYPOTHESIS III.

It is believed that besides providing monetary support to public benefit purposes, the system has had numerous, mostly valuable side effects, some of which are in direct relation with the sustainability of public benefit organizations, especially the non-profit sector, and some that reach beyond it.



DIFFERENTIATION of PUBLIC BENEFIT benefit entities from the rest of the NGO sector

The "ROOTEDNESS" of civil society and participation of citizens in NGOs

DECENTRALIZED, flexible and less bureaucratic public funding for NGOs

INCREASED VISIBILITY, transparency and public image of NGOs

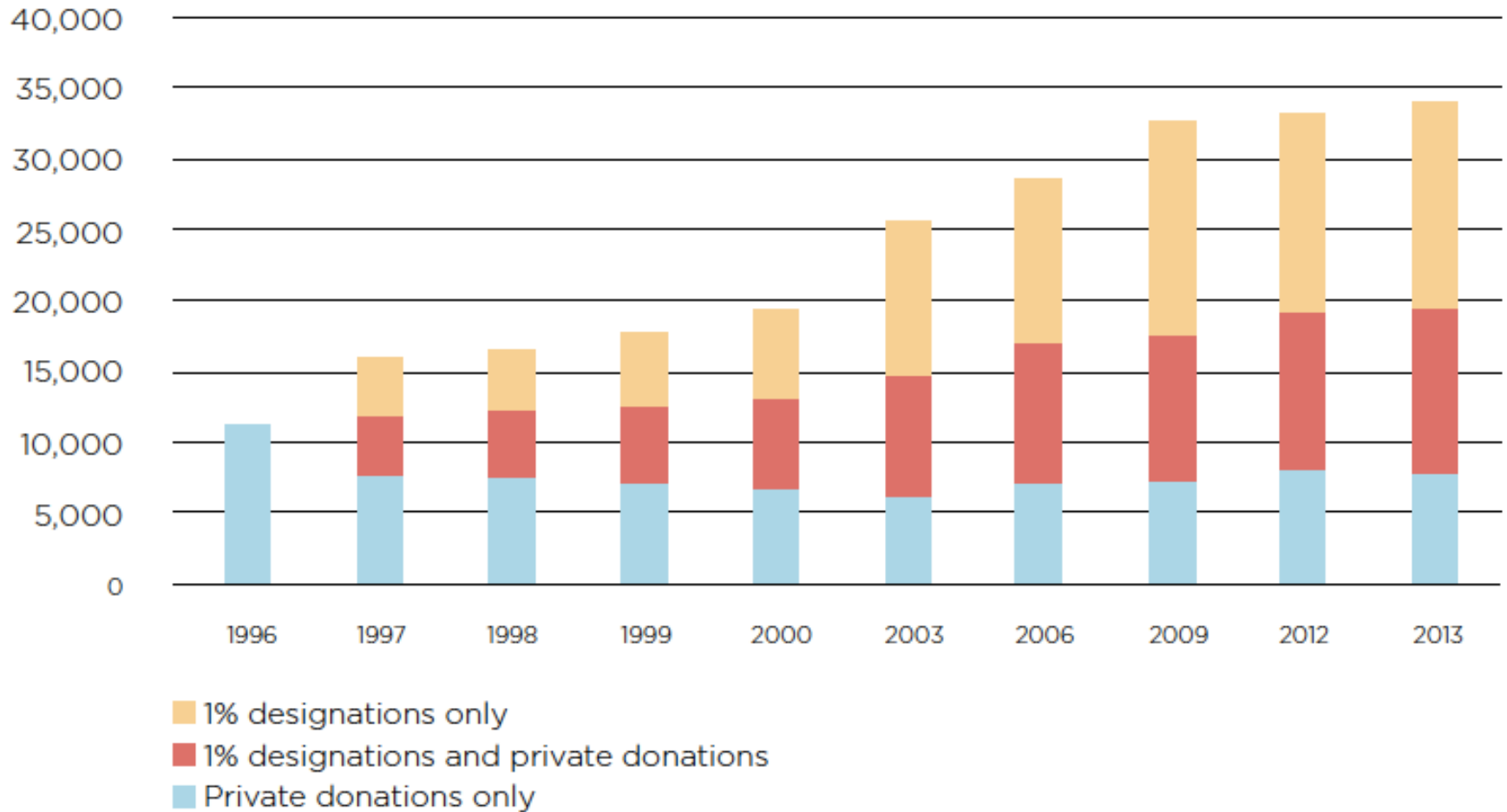
FINANCIAL SOURCING OF NGOS / Replacing the departing external donors

To help society at large to learn and practice modern solidarity („School of philanthropy“)

BENEFITS

IMPACT OF PERCENTAGE MECHANISM

Number of organisations



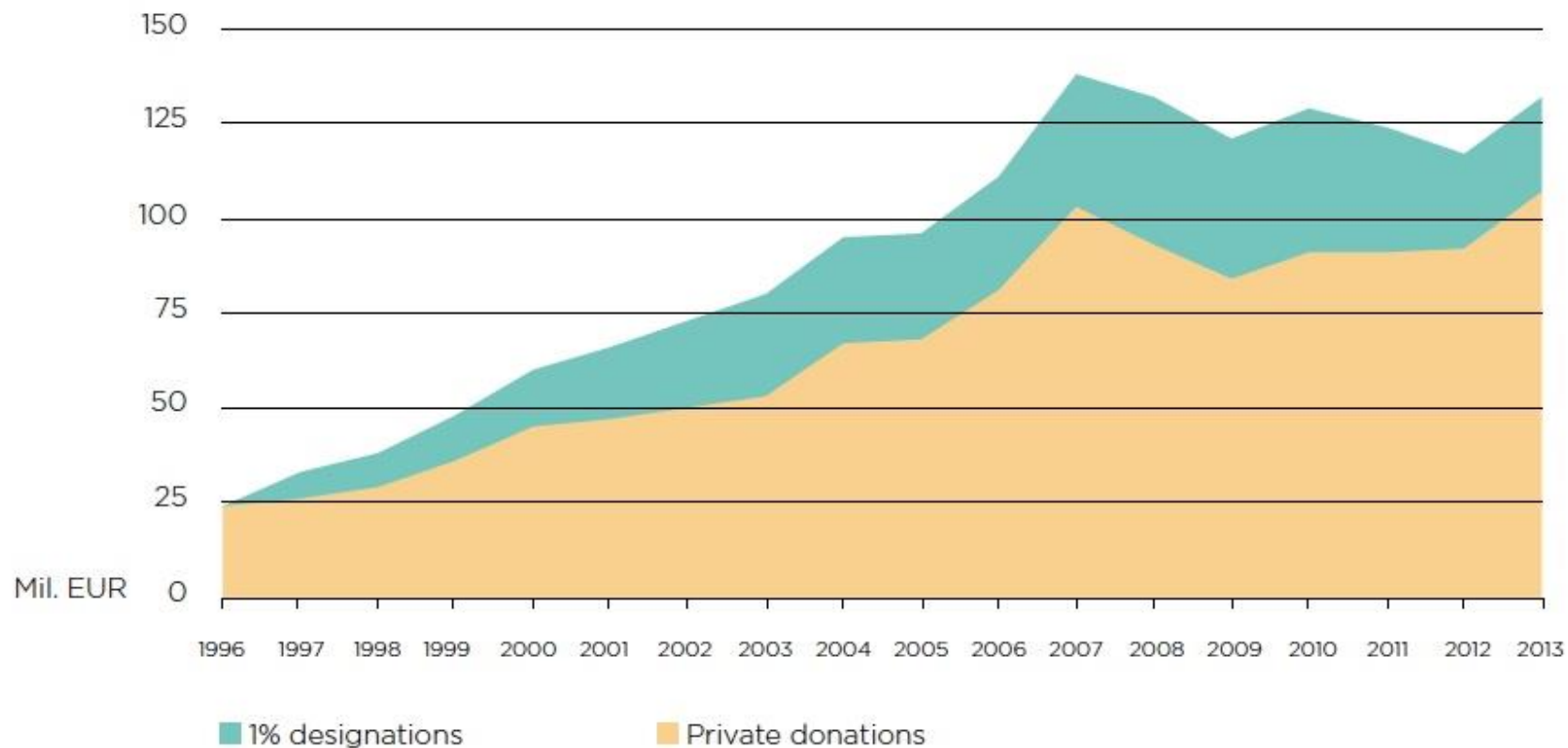


Figure 34:
Growth of 1% designations, individual donations in Hungary, 1996–2013

On a related note, a new kind of NGO seems to be focusing entirely on obtaining 1% designations rather than on the labour-intensive process of attracting donations. It seems particularly inexplicable that such an organisational attitude seems to be spreading when research carried out on private donations shows a very clear, positive, and close link be-

THE FINANCIAL SIGNIFICANCE OF THE PERCENTAGE DESIGNATIONS

To assess whether the percentage designation is a key financial support mechanism for the non-profit sectors, an important point of perspective to take is the proportionate value of the percentage designations in the overall revenue of the non-profit sectors. **The revenue from percentage designation in proportion to the overall revenue of the non-profit sectors in the five CEE countries is around 2% (Figure 4 based on data available around the tenth year of operation of the percentage mechanism). Therefore assuming that the percentage mechanism is one of the most important sources of funding for the non-profit sectors is wrong.**

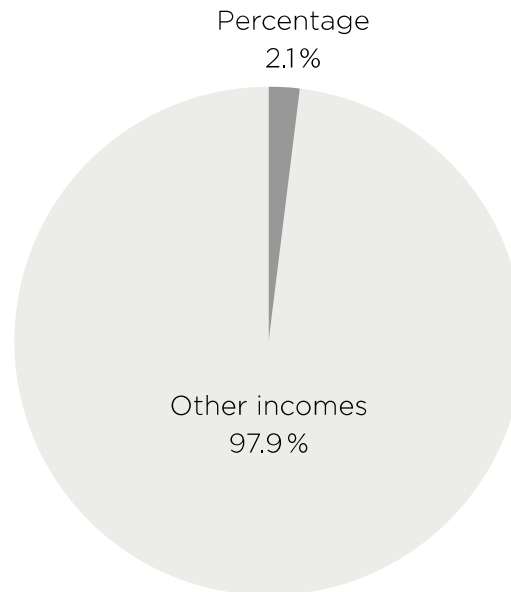


Figure 4:

Share of percentage designations within the total revenues of five CEE countries (based on "Per Phil database" using national data sources)

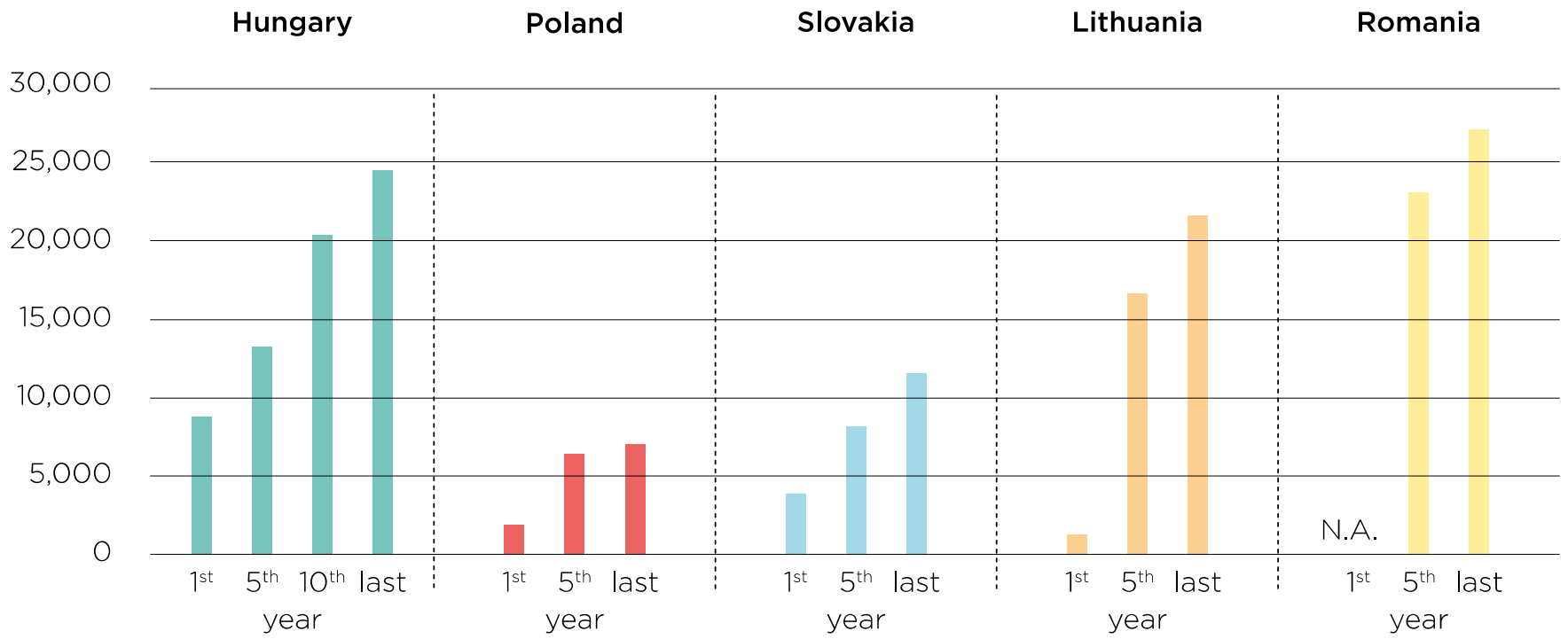


Figure 15:
 Number of beneficiaries of percentage regulations in five countries (based on "Per Phil database" using national data sources)

Revenue Growth

The percentage mechanism is estimated to be a 242 million EUR yearly revenue source in the five CEE countries (*Table 5*). Over the years, the mechanism has provided around 5 billion EUR of support to a variety of beneficiaries in Europe, including Italy¹⁹ (based on the different time periods of functioning of the system).

*Table 5:
Amount of designated
percentage allocations in the
CEE countries of the percent-
age mechanisms in most
recent years (based on “Per
Phil database” using national
data sources)*

Country	Amount of designated percentage (million EUR)
Hungary	22
Poland	120
Slovakia	22
Lithuania	46
Romania	32
“Percentage Club” total	242

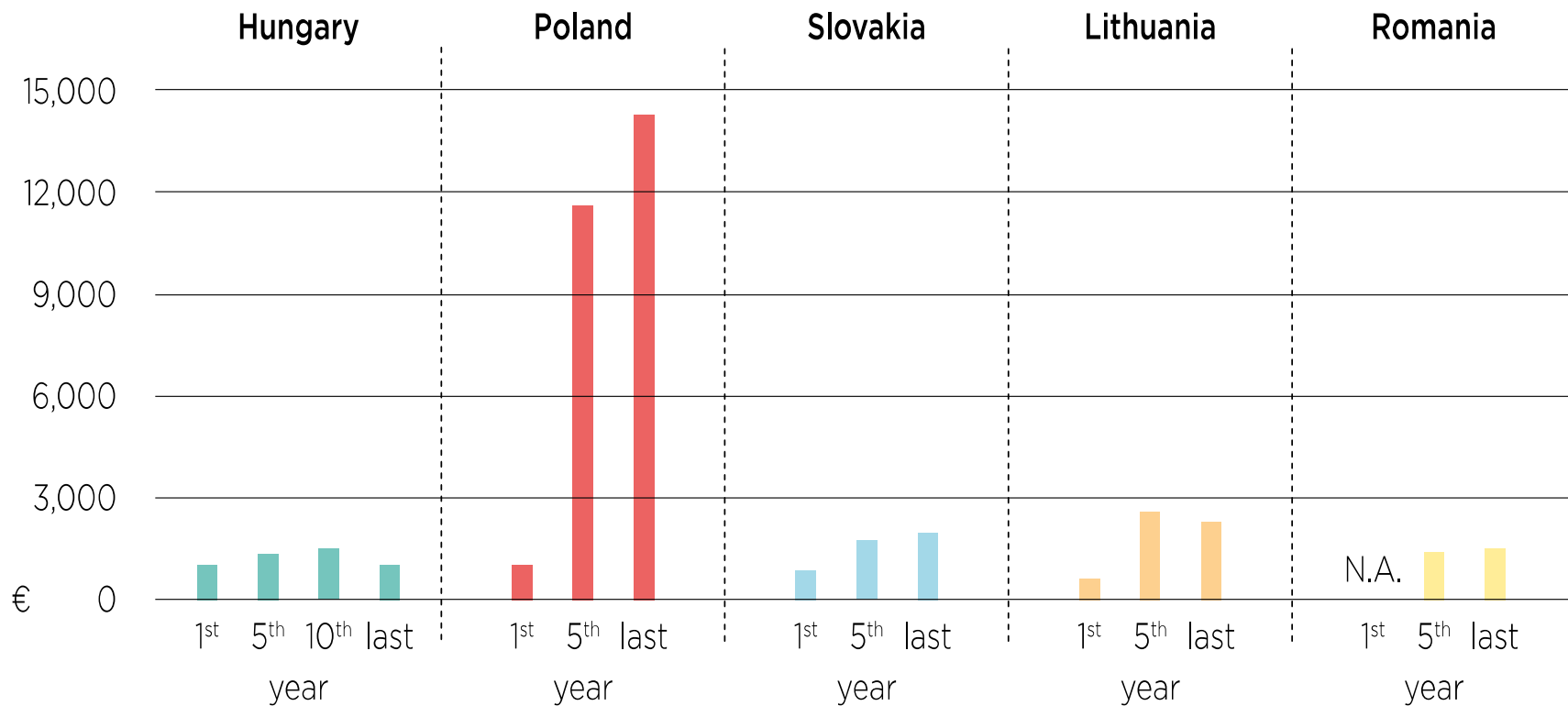


Figure 3:

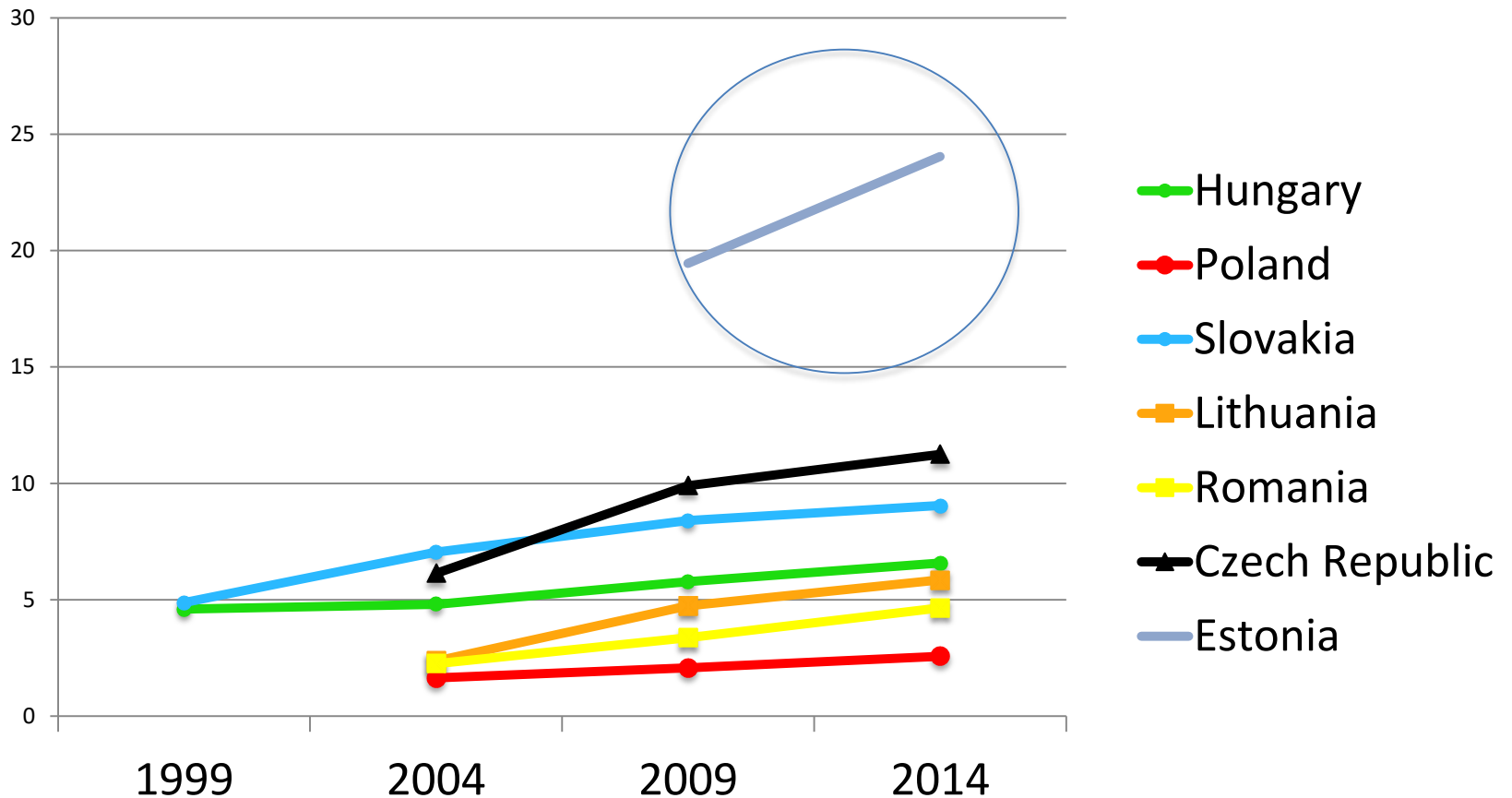
Average amount of percentage designation per beneficiary in the CEE countries of the percentage system (based on “Per Phil database” using national data sources)

Participation of Designators

	Population (<i>millions</i>)	Taxpayers (<i>millions</i>)	Designators (<i>millions</i>)
Hungary	9.9	4.6	1.9
Poland	38.5	24.2	12.0
Slovakia	5.4	1.9	0.6
Lithuania	2.9	1.0	0.5
Romania	20.0	7.6	1.7
“Percentage Club” total	77	40	17

Associational Density

Density of non-profit organizations (Number of NPOs per 1000 inhabitants, Source: Per Phil database).



Volunteering Trends

- stable (Poland)
- slightly increasing (Slovakia, Hungary)
- inconclusive (Lithuania)
- decreasing (Romania)

Source: (OECD Social Indicators 2014), Per Phil database using national data sources) (Zamfir, Mocanu a Maer-Matel 2014).

C.S. Rootedness and Tax Designation?

- Slight growth in rootedness of civil society
- Effect of the percentage tax designation is unclear (compared with Estonia, Czech Republic)

Decentralized + Less Bureaucracy

- Decentralization of decisions as antidote to political bias of centralized public funding i.e. public subsidies
- Flexibility and friendliness to grass-root CSOs compared to institutional (EU, government) grant schemes
- Predictability and smoothness (except for RO)
- Variations in speed (2-3 months SK vs. 6-10 months RO)
- Cost aspect to the operator (state) reported as appropriate

Source: Per Phil database

CSO Visibility & Public Image

Mixed Impact

- Contribution to the CSO sector to emerge from the shadows and increased understanding of role of CSOs
- Partly increased transparency and accountability

But also

- uneven appearance leading to a dominance of major established organizations with popular causes such as charity, animal welfare, or health

Source: Per Phil database

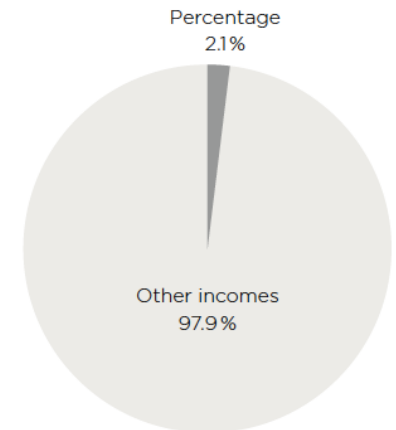
Contribution to CSOs Financial Viability and Sustainability

The Context:

- Departing external funding from the region (2000s)
- Stagnating reforms and unclear public funding policies for CSOs

The Effect:

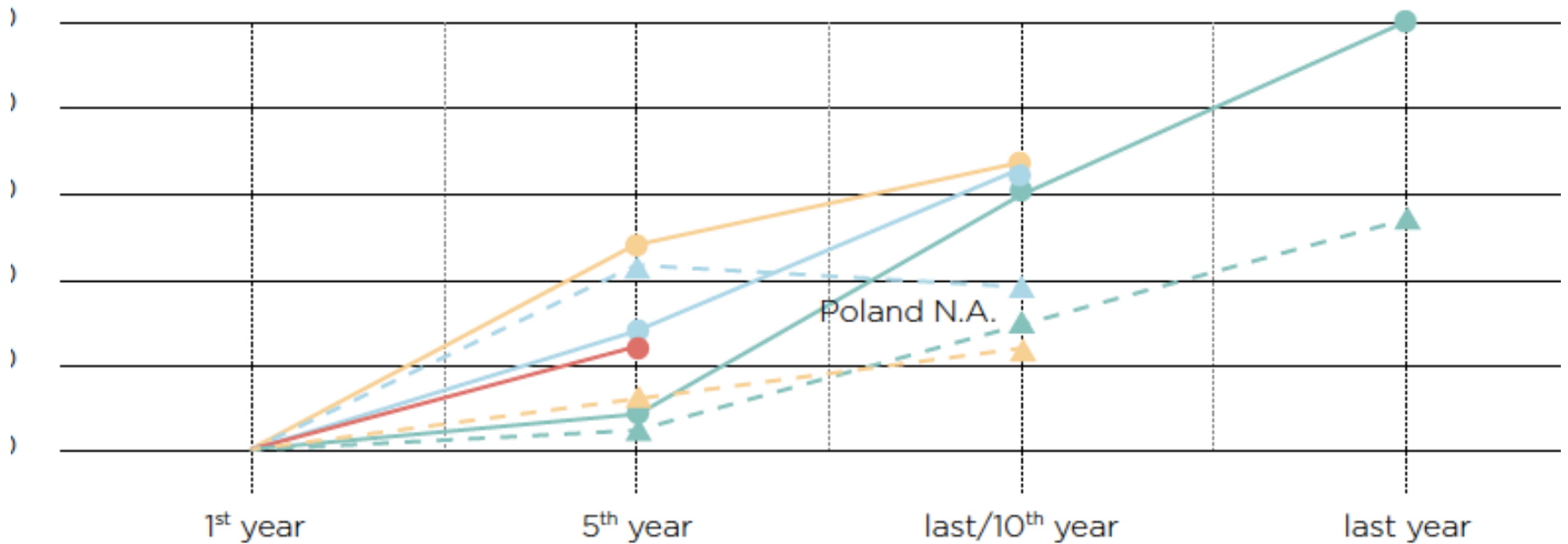
- Increased sustainability of grass-root CSOs activities despite low share on income of CSO sectors



School of Philanthropy

- Probably more of a post-hoc rationalization than a sound policy intention
- Research suggests a contribution to rise of private individual giving in some countries (HU), and not in other countries (PL)
- Tax incentives for giving abolished (except in RO) – discouragement to private giving
- Private philanthropy in the some countries of the region is increasing

Value of Private Donations



● Hungary (indiv.)
▲ Hungary (corp.)

● Poland (indiv.)

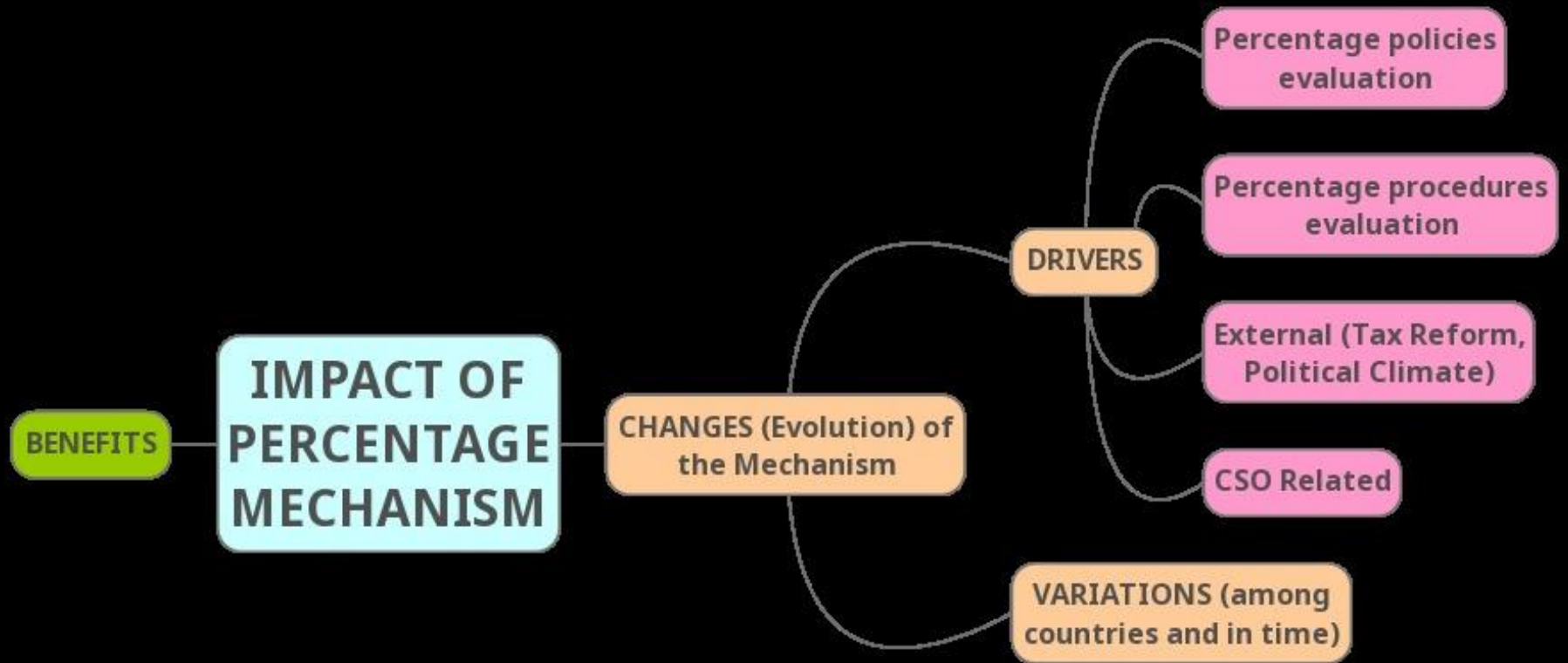
● Slovakia (indiv.)
▲ Slovakia (corp.)

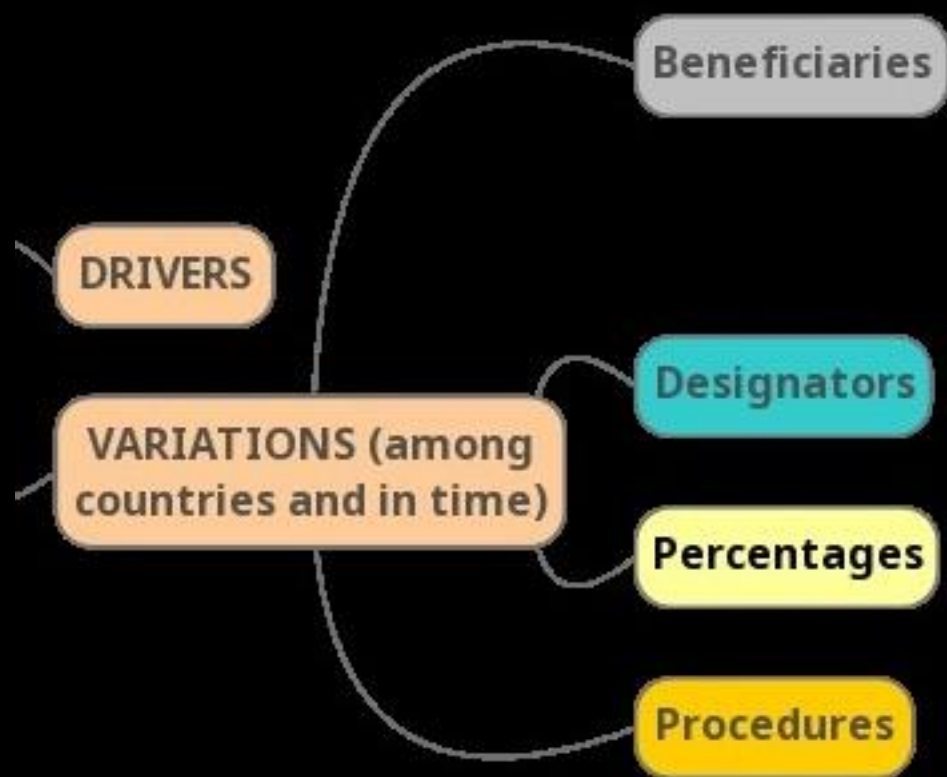
● Lithuania (indiv.)
▲ Lithuania (corp.)

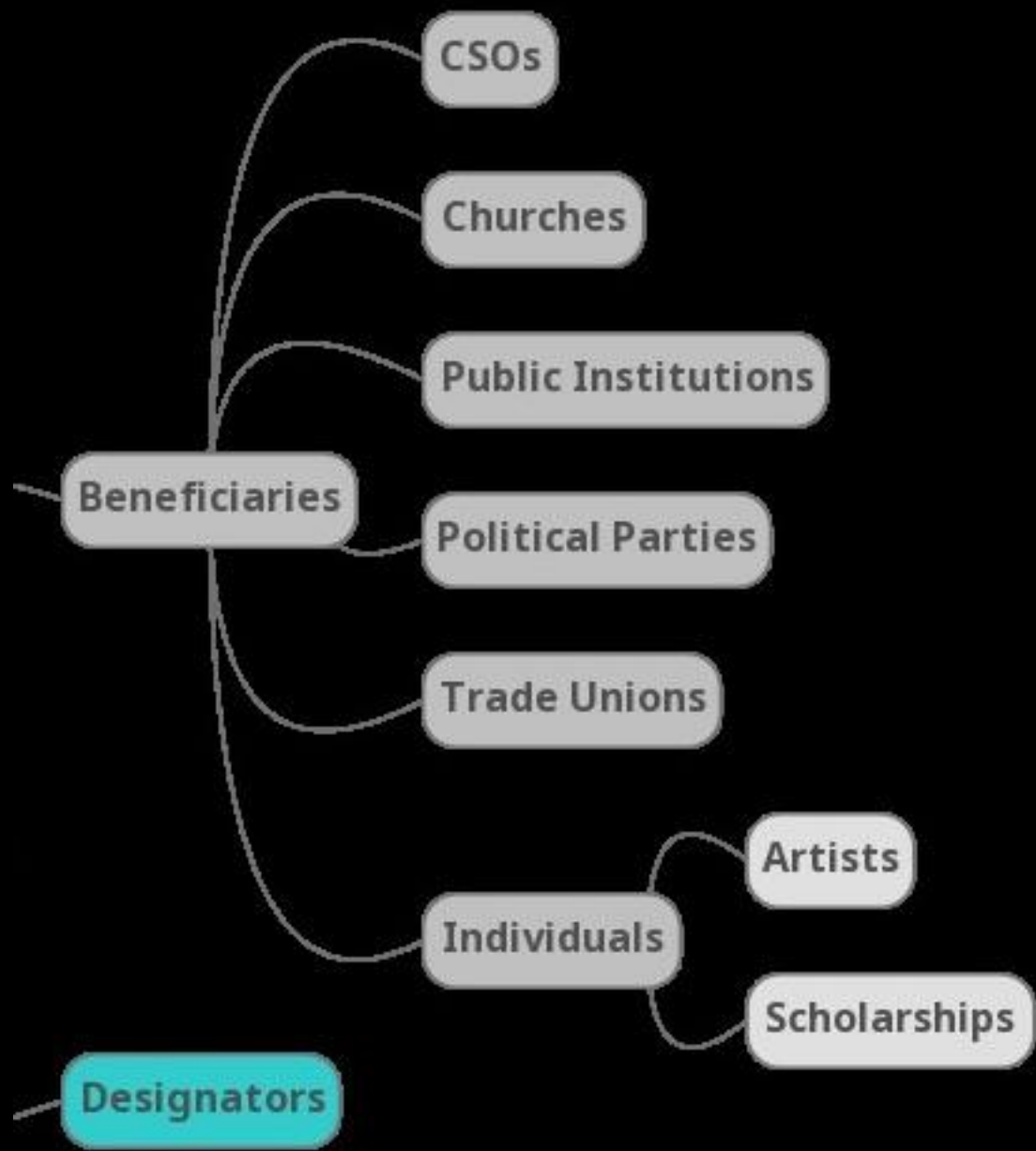
tax designation

Percentage Tax Designation 1996 - 2016

- Modest but distinctive contribution towards the sustainability of the public benefit organizations, especially the CSOs in the “Percentage Club” countries

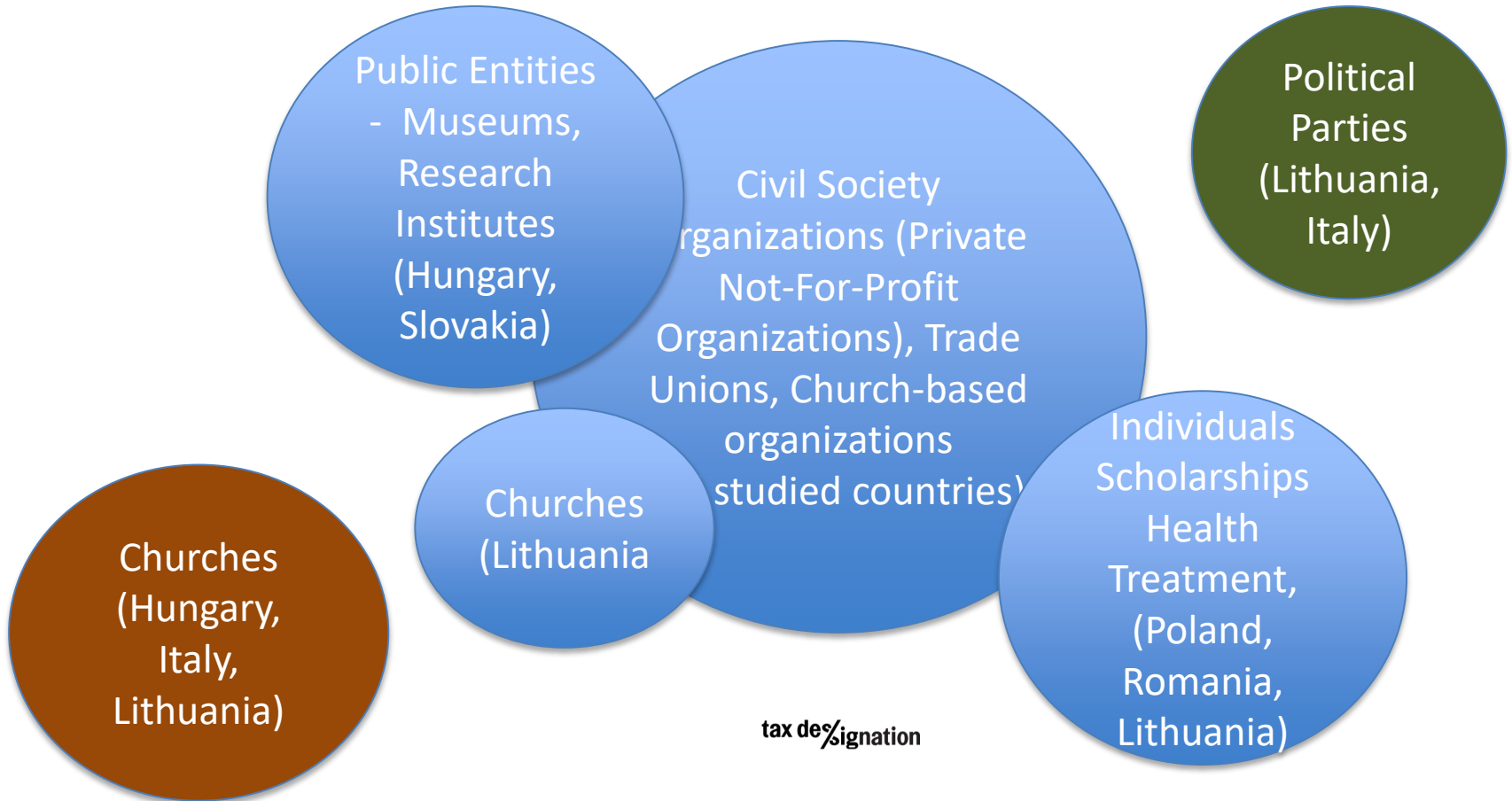






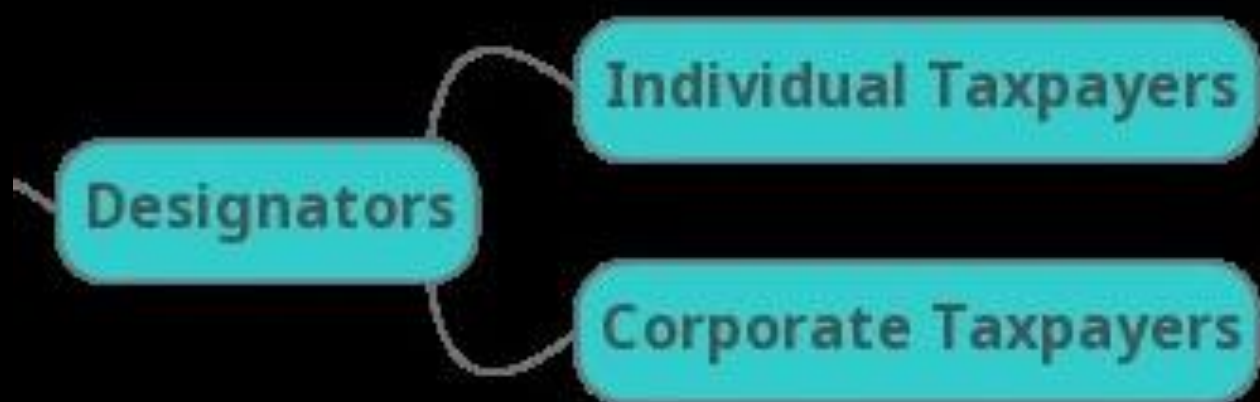
Variations of the Mechanism

BENEFICIARIES



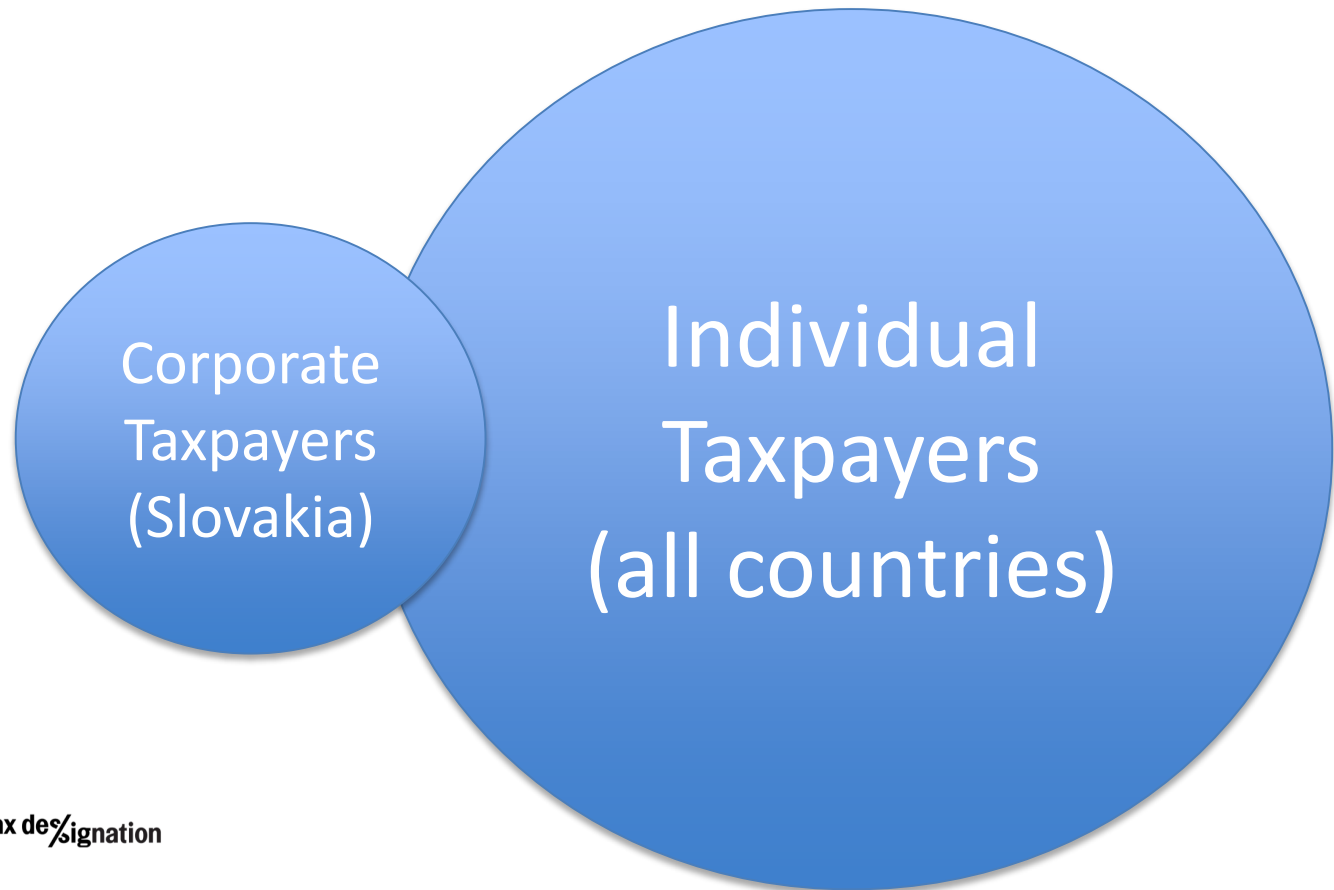
- Church - problem for the modern, post French Revolution European states (Bullain) – separation from the church, yet supporting the church.
- Public Institutions – Hypertrophied during the communism – but how to fund them in free-market conditions? (Hungary)

- CSOs: suppressed by the state during the communism – how to establish free and supportive relationship between the state and CSOs?
- Political parties – how to design a system of financing where political parties are funded and governed in a transparent way and not serve oligarchic interests?



Variations of the Mechanism II

DESIGNATORS



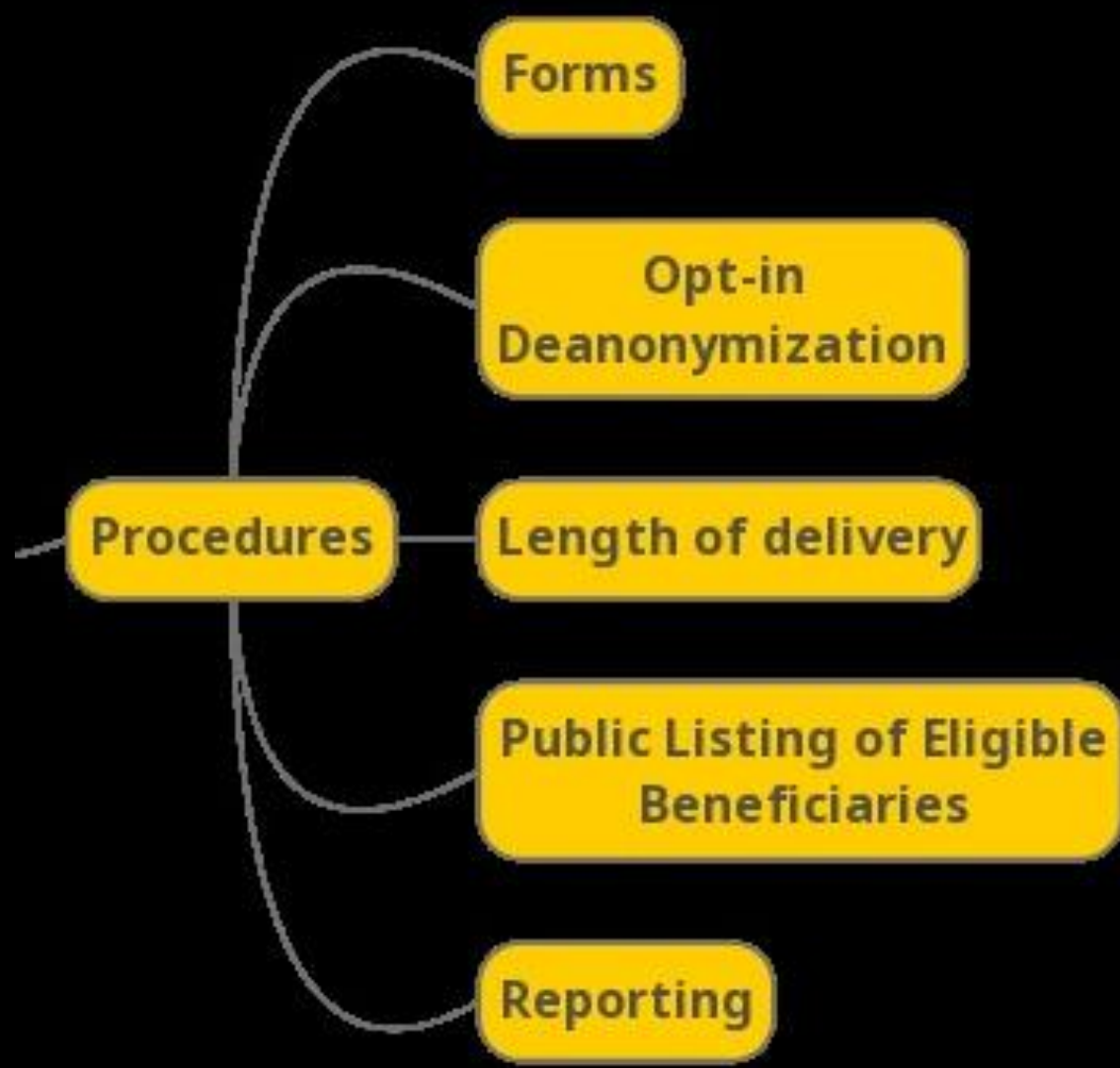
Percentages

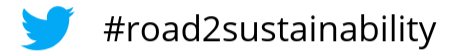
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graph LR; A[Percentages] --- B["0.5%, 0,8%, 1%, 2%, 3%"]; A --- C["Matching private donation"]; A --- D["Matching Volunteer Work"]
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0.5%, 0,8%, 1%, 2%, 3%

**Matching private
donation**

**Matching Volunteer
Work**





Thank you!

The conference is co-organized with the Parliament of the Republic of Moldova.

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