

PERCENTAGE DESIGNATION AS PART OF A CULTURE PHILANTHROPY

PERCENTAGE PHILANTHROPY PROJECT (SUPPORTED BY THE SASAKAWA PEACE FOUNDATION)

Nonprofit Information and Training Centre (NIOK) Foundation

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September 2007

The NIOK Foundation conducted an international research as a part of, in the fourth phase of its Percentage Philanthropy Project. The aim of our research was to measure the effect of percentage designation on the NGO sector and the culture of philanthropy in two countries (Slovakia and Hungary).

The key element of percentage designation systems is that taxpayers can allocate a certain percentage of their previous year's tax to one of the purposes to be selected or to a organisation or organisations of their choice.

A number of internationally-recognised researchers familiar with percentage philanthropy were invited to write individuals reports: György Bódi, Éva Kuti, Marček Eduard, Zsuzsanna Lampl, Marianna Török. The project was also supported by, among others, Milan Andrejkovic and Jana Kadlečova. The research was co-ordinated by Balázs Gerencsér, Anikó Porkoláb and Judit Oprics of NIOK, while as expert reader István Sebestény assisted the formation of the analyses.

Further information on this project in English is available online at www.onepercent.hu

The main conclusion:

Systems of percentage designation assist the general development of philanthropy in many respects, but provide substantial funding only for a well-definable, smaller part of the NGO sector. Therefore they are unlikely to ever be more than a supplementary possibility to improve philanthropy, to support the NGOs.

The detailed explanatory findings are the following:

A WORKING AND DEVELOPING SYSTEM? – POSITIVE RECEPTION AND DEVELOPMENT

In the last decade more and more countries and local councils have adopted the mechanism of percentage philanthropy. Since its introduction percentage philanthropy was followed with great interest by all the participants in both countries. All the evidence suggest that, in both Hungary and Slovakia, year after year an increasing number of participants make a growing proportion of tax available for designation and reception.

This new and unique form of philanthropy was immediately accepted after its implementation and since then (in Hungary since the tax year of 1997 and in Slovakia since the tax year of 2002) the number of donors has shown a distinctive rise, so now almost half of all tax payers make use of this option. The number of organisations receiving percentage designations presented an even more significant increase. In addition, the sum of money given to the sector by means of percentage designations also grew considerably. Taking into consideration the present situation it can be stated that the number of tax designations can be further increased by addressing other individual taxpayers, so the volume of the allocated money can grow at the level of both the sector and individual organisations.

In other words, percentage designation has been positively received and, although it has played an increasingly important role in NGO funding, its social role has only increased to a small extent.

DOES IT WORK AS A TYPE OF STATE SUBSIDISATION OR AS A FORM OF PHILANTHROPY - PERCENTAGE DESIGNATION AS A FORM OF PHILANTHROPY

Percentage designation operates similarly, according to similar principles to other forms of donation, and the whole of philanthropy, despite being a form of state funding that is distributed independently of political wills, according to the taxpayers' decisions. A well discussed issue of percentage designation is that it differs from the other forms of philanthropy in that it does not require any financial or other sacrifice, and furthermore as a part of taxation, it is arguably not entirely voluntary. In spite of this it is still able to assist the development of philanthropy as a whole in the concerned societies.

Percentage designators act as donors. The supporting findings are the following:

- People who are more active in percentage designation are more active in donation generally, and vice versa: good donors are good percentage designators.
- The same educational, social and demographic factors (sex, age, marital status, size of household, place of living) determine percentage designation and philanthropic behaviour in general.
- The stronger an individual's social network and connections with NGOs are, the more likely he becomes a donor, the same was experienced in relation to percentage philanthropy.
- The characteristics of collecting information for the decisions of percentage designation and of other forms of giving are similar. Although the main information source is the electronic media, personal information channels are more effective in connection with percentage designations.

NGOs collecting percentage designations conduct this activity as a kind of fundraising. The supporting findings are the following:

- NGOs that are already focused on fund-raising are better placed to attract percentage designations, than those that are not.
- The beneficiary circles of percentage philanthropy and of the whole of philanthropy changed into the same direction in the previous years (in Hungary); there has been a move towards increased altruism.
- The effect of centralisation (the capital-centred nature) is typical of both areas.

IS THE CROWDING-OUT EFFECT AT WORK, NAMELY DOES IT REDUCE WILLINGNESS TO DONATE OR LESSEN INCOMES COMING FROM DONATION AT THE LEVELS OF ORGANIZATIONS AND THE SECTOR? – PERCENTAGE DESIGNATION IS ACCOMPANIED BY THE DEVELOPMENT OF PRIVATE PHILANTHROPY

There is no evidence of the "crowding-out" effect predicted by many experts. Percentage designations have not replaced other forms of donation, nor have they hampered their growth. Percentage philanthropy has not eclipsed individual or business donations, nor has it diminished their weight and importance. Although revenue from percentage designations has grown, personal and corporate donations are still significantly more important sources of NGO funding.

The crowding out effect can be influential in one respect: on the part of political decision makers percentage philanthropy can be accompanied by neglecting or withdrawing other allowances, supports, and measures to stimulate donation. There are concrete examples in both countries of reductions in tax incentives for charitable donations following the introduction of percentage designations.

POLITICAL CHARACTERISTICS, PERCENTAGE PHILANTHROPY AS A POLITICAL TOOL

Percentage philanthropy provides the governments of both countries with a fiscal solution with a fairly predictable cost. The introduction of a percentage designation system and the admittance of a few pressure groups into the system can be popular with both beneficiaries and taxpayers.

The percentage designation systems of Central and Eastern European countries are fundamentally alike in that their main aims are to strengthen the culture of giving, support the fledgling NGO sector and help establish the behavioral patterns required for the development of social cohesion. Notwithstanding, political decision makers did not primarily see the introduction of the system as a means to improve, support, and promote philanthropy culture. To be exact, our data and analyses confirm the often discussed problem that in neither of the countries it can be detected that the development of on the one hand the system and culture of philanthropy, on the other the NGO sector appear in political thinking and in the public and specialised politics, and is accompanied by completely thought-out concept, political will and strategy.

FURTHER CHARACTERISTICS ON THE NONPROFIT SIDE I. – THE RECIPIENT NGOs HAVE UNIQUE CHARACTERISTICS

The success of a given organisation is determined by its capacities and efforts, however, clear distinctions can be made between more and less successful types of organisations according to their certain characteristics.

The most important aspects that determine the success of a certain civil organisation in fund-raising are: its effective marketing and PR activity, how attractive the NGO's field of activity is or how popular the cause it promotes is among taxpayers, and the good reputation of the NGO in its own field. Success in attracting percentage designations, in turn, has a positive effect on the NGO's fund-raising ability and helps it become more professional, improve its utilization of human resources and increase its social support.

The main types of organisations successful at fund-raising can be identified, so organisations operating in the fields of health care and education (moreover, animal rescue in Hungary, and in Slovakia working by large companies) have much greater chance of attracting percentage designations than other groups of organisations sharing many similar characteristics but operating in different fields. Foundations that have more developed institutional background, that were founded partly in order to attract donations and that work largely in fields favoured by the percentage legislation are able to collect a consistently much larger proportion of percentage designations than associations lacking these characteristics. Furthermore, organisations based in the capital city and those with average or modest incomes, stand better chance of collecting tax designations, than organisations based in villages or towns, or with very large or very small incomes.

FURTHER CHARACTERISTICS ON THE NONPROFIT SIDE II. – THE ROLE OF THE INCOME COMING FROM PERCENTAGE DESIGNATIONS IS LIMITED, IT IS ONLY AN ADDITIONAL SYSTEM IN THE FINANCING OF THE SECTOR

Percentage philanthropy realising the primary objective of the decision-makers in the time of its introduction creates an additional, alternative income for the NGO sector. This income is free on the one hand from either state or political interference, and the other hand is based on the disposition of the population, and its utilisation can be to some extent monitor by the community, therefore it has an exceptionally significant position among the incomes of the NGO sector.

In both Hungary and in Slovakia the NGO sector is still underdeveloped in many respects and would benefit from major improvements in many areas. One of these obvious areas is the

issue of financing, the lack of well-established culture of giving. The growth in the number of NGOs taking part in percentage designations shows that the sector is increasingly aware of the possibility of using this alternative source of income to help maintain itself. Nevertheless, there are several signs indicating that NGOs have to make serious efforts for effective participation.

What can hold back NGOs is if their circle of activities is not attractive for the taxpayers, so they compete for percentage designations without much chance.

The role of percentage philanthropy in the operation and financing of the NGO sector is a matter of debate. On the one hand, it does not give every organisation equal opportunities to supplement their sources and incomes. On the other hand although, it does not represent a large part of sector's total income, it also opens up a source for organisations working in certain areas and in certain geographical locations that can become the main source of income for them. Accordingly, individual organisations have different attitudes to the importance of percentage philanthropy.

FURTHER CHARACTERISTICS ON THE NONPROFIT SIDE III. – THE SIGNIFICANCE OF COMMUNICATION AND ITS SUPPORTING AND LIMITING INFLUENCE

The percentage fund-raising civil campaigns mutually strengthen each other, in spite of the serious competition. As this is a certain period of a year when the work of NGOs are heavily publicised and the majority of people get to know about the existence of the sector. Percentage campaigns direct the attention to the sector more effectively than the individual campaigns to raise awareness and collect donations.

Well-informed taxpayers are of vital importance for the selection of beneficiaries and the effective functioning of a percentage designation system. Although the main sources of information in both countries are TV and radio, information gained through personal contacts is also important for effective participation in percentage philanthropy. Direct contact with NGOs will encourage people to give money to good causes and, in particular, to designate part of their tax to an NGO.