

PERCENTAGE PHILANTHROPY PROJECT

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**The percentage designation system:
a survey of successful percentage mobilisers
in Hungary and Slovakia**

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Background

Percentage systems allow taxpayers to allocate a certain percentage of their tax to a recipient, or recipients, of their choice. The system was first introduced in Hungary, then in Slovakia, and later in several other countries in Central and Eastern Europe.¹

Since 1997, individual taxpayers in Hungary have been allowed to designate 1% of the income tax paid the previous year to non-governmental organisations (NGOs) pursuing public benefit activities.² In Slovakia, individual taxpayers made similar 1% designations in 2002 and 2003. In 2004, however, the percentage was increased to 2% and the system was extended to include business taxpayers. Whereas the system in Slovakia limits the choice of recipients to those that are certified as eligible and listed in an official register (containing between 4,000 and 7,000 NGOs depending on the year), there is no comparable list in Hungary and some 30,000 NGOs may compete for percentage designations. It should also be noted that in Slovakia business taxpayers may divide their percentage designations among several recipients, while individuals - as in Hungary - may only select one recipient each year.

The introduction of the percentage system was widely welcomed by NGOs and has provided many of them with an additional source of funding. In terms of the total amount received, percentage designations represent only a minor proportion of the NGO sector's total income.

Some organisations have been very successful in attracting large amounts of percentage designations. However, there was little data on the reasons for their fund-raising success, or on how percentage designations have affected the financial situation, human resources and sustainability of these 'successful percentage mobilisers'. A further question was whether the new links formed between NGOs and taxpayers through the percentage system have stimulated higher levels of giving in a region where philanthropic traditions are still rather weak.

¹ For more information on percentage systems, detailed descriptions of how they work and the range of recipients in different countries, see www.onepercent.hu.

² In Hungary, a further 1% of personal income tax may be designated to a church/other recognised religion or a special target area specified in the state budget.

This paper explores how the percentage system has affected organisations that have been particularly successful in attracting percentage designations. Rather than outline individual case studies, statistical data is presented for a group of forty recipient organisations.

Research aims and methodology

The key questions examined in this paper stemmed from discussions with NGO leaders, decision makers, policy makers, researchers, donors and those who have played an active role in percentage systems since their inception.³ The discussions focused on identifying a framework for conducting research aimed at testing certain hypotheses about the effects of percentage systems on NGOs. The central hypothesis was that successful percentage mobilisation was primarily due to the recipients' communications strategies.

The survey was designed to examine whether successful organisations themselves agreed with this hypothesis and also to look at changes they experienced as a result of their participation in the percentage system. The main areas covered included:

- *the key factors that have made organisations 'successful percentage mobilisers'*
- *the extent to which the organisations have become financially stronger since starting to receive percentage funds*
- *whether the level of private giving to the organisations has increased*
- *the extent to which the percentage system has made the organisations sustainable and whether they could survive if the system ended*
- *the kind of changes organisations have experienced in their work*
- *whether the organisations have experienced major changes in their human resources*
- *whether the social base or outreach of the organisations has widened*
- *the extent to which the organisations have changed their communications strategies*

As regards the scope of the survey, it was agreed that it should involve at least forty organisations in two countries. While it was clear that twenty organisations in each country

³ In addition to these discussions, the author of this paper took the lead in designing the research plan and selecting the organisations in Hungary for this project. Major input was also received from Éva Kuti and Balázs Gerencsér (Hungary) as well as Myrtil Nagy, who helped select the sample and with coordination and interviews in Slovakia. Besides those conducted by the author, interviews were undertaken by a team of people who deserve special thanks for their work: Dömötör Emőke, Fűri Ildikó, Góra Sarolta, Keceli Ágnes, Kovács Krisztina, Lelovics Andrea, Prékop Ivett, Szabó Helga, Takács Attila, Végh Katalin. Additional thanks go to Ferenc Hegyes and Geyza Mészáros for their technical support.

could not be considered a representative sample, it was felt a survey of two similar groups of organisations in different countries would offer a relatively realistic picture and help identify common developments. Hungary and Slovakia were selected as they had the longest experience of operating percentage systems. Despite the differences between the two percentage systems, the research methodology was designed to highlight common trends and features among recipient organisations.

The basic selection criterion was that an organisation had to be successful in mobilising percentage designations from *individual taxpayers*.⁴ For the purposes of the research, an organisation was considered successful if:

- at national level, the organisation attracted some of the largest amounts of percentage designations
- at local level or in its own field, the organisation was known to outperform peer organisations, even though the amount it received from percentage designations was not necessarily one of the highest in the country.

Two main factors were considered when drawing up the list of organisations to be interviewed. Firstly, the group of organisations was based on the lists of the most successful recipients published by the two national tax authorities. The second factor was word-of-mouth recommendations concerning local organisations. Some account was also taken of the need to have a reasonable geographical spread and thematic balance.⁵ The selected group (Table 1) comprised organisations active in the fields of health (11), education, culture or religion (12), social welfare (8), environmental protection and animal welfare (6) and other fields (3).⁶

One-hour interviews were held between November 2006 and February 2007 with NGO representatives who had a good overview of the activities of their organisation (for example, board members, chairs, executive directors). In some cases, several people participated in the interviews in order to provide all the requested information. Although the interviews, took the form of generally pleasant, informative conversations, they were structured around a common questionnaire, tried to be as objective as possible, and were based on data whenever this was

⁴ To keep research results between the two countries comparable, organisations in Slovakia were selected that have been especially successful in attracting the percentages of individual taxpayers rather than from businesses.

⁵ For the purposes of this research, neither the recipients' length of experience of participating in the percentage system nor their legal form (association, foundation, etc) was considered relevant.

⁶ Certain organisations were involved in several related areas of activity, but were classified according to their primary activity.

available. In the area of financial information, organisations were asked to be as precise as possible but were not asked to provide copies of their financial accounts.⁷

The findings from the two countries are presented and discussed together and differences are only highlighted when they are considered to be significant. Some of the findings are illustrated in figures with a selection of quotations from the interviews provided in italics in separate boxes.⁸

Table 1
Organisations interviewed

Name of organisation	Name of organisation in English ⁹	Location
A gyermekkórház betegeiért Alapítvány	For the Patients of the Children's Hospital	Pécs, Hungary
A rák ellen, az emberért, a holnapért Társadalmi Alapítvány	"Against Cancer, For Humanity, For Tomorrow!" Foundation	Budapest, Hungary
Állatokat Védjük Együtt Alapítvány	Protect the Animals Together Foundation	Eger, Hungary
Bogács Zalaegerszegi Állatvédő Egyesület	Bogács Animal Protection Association in Zalaegerszeg	Zalaegerszeg, Hungary
Csemadok Dunaszerdahelyi Területi Választmánya	Social and Cultural Association of Hungarians in Slovakia, District Committee	Dunajská Streda, Slovakia
Dobry pastier n.o.	Good Shepherd Fund	Jelka, Slovakia
Élettér Egyesület	Lifespan Association	Nagykanizsa, Hungary
Fond Doroty Kanthovej	Fund of Dorothy Kantha	Komárno, Slovakia
Fond podpory	Support Fund	Šamorín, Slovakia
Gyermekétkeztetési Alapítvány	Children's Catering Foundation	Budapest, Hungary
Gyermekrák Alapítvány	Children's Cancer Foundation	Budapest, Hungary
Hádzanársky klub Slovan Duslo Šaľa	Handball Club Slovan Duslo Šaľa	Šaľa, Slovakia
Ispita Alapítvány	Ispita Foundation	Zalaegerszeg, Hungary
Kárpátaljai Ferences Misszió Alapítvány	Franciscan Mission Foundation for Transcarpathia	Budapest, Hungary
Komorný folklórny súbor Szóttés Kamara Néptáncgyűttes	Szóttés Folkdance Chamber Ensemble	Bratislava, Slovakia
Komunitná nadácia Bratislava	Bratislava Community Foundation	Bratislava, Slovakia
Kultúrne združenie Štúrovo a okolie	Cultural Association of Štúrovo District	Štúrovo (Párkány), Slovakia
Liga proti rakovine	League Against Cancer	Bratislava, Slovakia
Magyar Hospice Alapítvány	Hungarian Hospice Foundation	Budapest, Hungary
Magyar Katolikus Rádió Alapítvány	Hungarian Catholic Radio Foundation	Eger, Hungary
Magyar Madártani És Természetvédelmi Egyesület	Hungarian Ornithological and Nature Conservation Society	Budapest, Hungary
Menhely Alapítvány	Shelter Foundation	Budapest, Hungary

⁷ Exchange rates of HUF 250 and SKK 35 to the euro and HUF 7 to SKK 1 are used throughout.

⁸ These quotations are not attributed to any particular individual or organisation as the aim of this research was to elicit as honest opinions as possible and present general views and trends.

⁹ When no official translation was available, a working version was used for the purpose of this work.

Name of organisation	Name of organisation in English	Location
Misina Természet- és Állatvédő Egyesület	Misina Nature and Animal Protection Association	Pécs- Somogy, Hungary
Nadácia Pro Ratio	Pro Ratio Foundation	Šamorín, Slovakia
Nezábudka - Združenie na pomoc rodinám so zdravotne postihnutými deťmi	Nezábudka - Association for Helping Families with Handicapped Children	Tureň, Slovakia
Občianske združenie Fundament	Fundament NGO	Rimaszombat, Slovakia
Občianske združenie Návrat	Civic Association Navrat	Bratislava, Slovakia
Občianske združenie pre Bôrku	Civic Association for Bôrka	Bôrka (Barka), Slovakia
Palánta Gyermekorvosi Rendelő Alapítvány	Plant Foundation of the Children's Clinic	Budapest, Hungary
Petőfi Sándor Evangélikus Gimnázium Oktatási és Nevelési Alapítvány	Petőfi Sándor Lutheran Secondary School's Educational Foundation	Bonyhád, Hungary
Piros Orr Bohócdoktorok Alapítvány	Red Nose Clown Doctors Foundation	Budapest, Hungary
Školská rada pri ZŠ s vyučovacím jazykom maďarským Petra Pázmány	School Council of the Peter Pazmany Elementary School	Šaľa, Slovakia
Sloboda zvierat	Freedom for Animals	Bratislava, Slovakia
Sote Ii.Sz. Gyermekgyógyászati Klinika Játszóház Alapítvány Onko-Haematológia	"Play House" Foundation	Budapest, Hungary
Spoločnosť priateľov detí z detských domovov Úsmev ako dar (rövidítve: Úsmev ako dar)	Association of Friends of Children from Úsmev ako dar Orphanage	Bratislava, Slovakia
"Szemem Fénye" Beteg Gyermekekét Alapítvány	"Light of My Eyes" Foundation for Sick Children	Pécs, Hungary
Tilos Kulturális Alapítvány	Tilos Cultural Foundation	Budapest, Hungary
Združenie maďarských rodičov na Slovensku	Association of Hungarian Parents in Slovakia	Komárno, Slovakia
Združenie na pomoc ľuďom s mentálnym postihnutím v Dunajskej Strede	Association for Help to Handicapped People in Dunajska Streda	Dunajska Streda, Slovakia
Združenie rodičov a sympatizantov školy	Association of the Parents and the Friends of the School	Veľké Kapušany, Slovakia

Types of organisation that are successful percentage mobilisers

The NGOs that are most successful in obtaining percentage designations tend to operate in the fields of health care, social welfare, education and culture and animal welfare. The same fields also attract most private donations in the two countries. In Hungary, the two top recipients of percentage designations in 2006 were the *Children's Cancer Foundation*, which received EUR 1,329,817, and the *Rex Dog Shelter Foundation*, which received EUR 473,228 (Table 2). In Slovakia, similar organisations topped the list of largest recipients of percentage designations in 2003, for example, the *League Against Cancer*, *Fund of Comenius University*,

Association for Child Oncology in Kosice, Slovak Council of Parents' Associations, Freedom for Animals etc.

Since the percentage system in Slovakia was expanded to include businesses, foundations set up by companies have featured prominently among the top recipients. According to some commentators, several companies allocate their percentage designations to their own foundations and encourage their employees to do the same. In 2006, the *Slovak Gas Company (SPP) Foundation* was the top recipient with EUR 3,004,431 (Table 2).

Table 2
Top recipients of percentage designations in Hungary and Slovakia in 2006

Name of organisation¹⁰	Amount (euros)
Nadacia SPP (Slovak Gas Company SPP Foundation), Slovakia	3 004 431
Gyermekrák Alapítvány (Children's Cancer Foundation), Hungary	1 655 312
Stredoeurópska nadácia (Central European Foundation), Slovakia	1 213 866
Konto Orange, n.f. (Orange, Konto Orange, n.f.), Slovakia	696 817
Nadácia U. S. Steel Kosice (U.S. Kosice Steelworks Foundation), Slovakia	627 245
REX Kutyaotthon Alapítvány (Rex Dog Shelter Foundation), Hungary	473 228
Nadácia Pontis (Pontis Foundation), Slovakia	450 796
Nadácia VÚB (VUB, General Credit Bank Foundation), Slovakia	444 179
Nadácia Slovenskej sporiteľne (Slovak Savings Bank Foundation), Slovakia	418 248
Liga proti rakovine SR (League Against Cancer), Slovakia	410 918
Gyermekétkeztetési Alapítvány (Children's Catering Foundation), Hungary	367 462
Za Zdrave Zdravotníctvo (For Healthy Health Care), Slovakia	347 357
Heim Pál Gyermekkorház Fejlesztéséért Alapítvány (Foundation for the Development of the Heim Pál Children's Hospital), Hungary	341 511
Együtt a Leukémiás Gyermekéért Alapítvány (Together for the Children with Leukemia Foundation), Hungary	293 371
Združenie pre podporu ortopédie a rehabilitácie (Association for Support of Orthopaedics and Rehabilitation), Slovakia	282 164
Dévai Szent Ferenc Alapítvány (St. Francis of Déva Foundation), Hungary	270 069
Združenie na pomoc detskej onkológii (Association for Support of Children's Oncology), Slovakia	252 522
SOS Gyermekfalu Magyarországi Egyesülete (Hungarian Association of SOS Children's Villages), Hungary	251 574
Magyar Rákellenes Liga (Hungarian League Against Cancer), Hungary	250 835
Együtt a daganatos Gyermekéért Alapítvány (Together for the Children with Cancer Foundation), Hungary	243 661
Nadácia ZSNP a Slovalco (ZSNP and Slovalco, Aluminium Factories Foundation), Slovakia	238 289
Plaieon n.o. (Fund Plamienok, Hospice for Children), Slovakia	231 826
Slovenská rada rodičovských združení (Slovak Council of Parents' Associations), Slovakia	216 763
A rák ellen, az emberért, a honapért társadalmi Alapítvány ("Against Cancer, for Humanity, for Tomorrow!" Foundation), Hungary	213 988
Sanus, nádácia preventívnej medicíny (SANUS, Foundation of Preventative Medicine), Slovakia	198 061

¹⁰ In-house English translation in some cases

Name of organisation	Amount (euros)
Nadácia Tatra Banky (Tatra Bank Foundation), Slovakia	193 779
Republiková únia zamestnávateľov (Nationwide Union of Employers), Slovakia	191 745

However, success should not be measured solely in terms of winning impressive amounts of percentage designations. In Hungary, for example, it is often the case that, even if the amounts involved are quite small percentage designations are the only source of income for small organisations. Another factor is that some organisations prefer income from percentage designations to grants as it comes with fewer strings attached and can therefore be used for any purpose in line with the mission of the organisation. For other organisations, the amount of money received is less important than the amount of public goodwill generated through percentage designations, especially if it comes from a large number of individuals. And finally, some organisations feel that, the enhanced public profile and outreach they achieve through effective communications strategies, are more important than the actual amount they receive from percentage designations.

Interviews: Key success factors in percentage mobilisation

An important aim of the research was to see how the forty organisations ranked possible factors that could make an organisation a successful percentage mobiliser. From a list of 12 possible factors, the organisations were asked to select the three they considered to be the most important as regards their own and other organisations' success in attracting percentage designations.

The 12 possible factors were:

- *attractive field of activity/popular cause*
- *high level of respect for the organisation in its field of activity*
- *good communications*
- *a committed leader*
- *outstanding human resources (employees, volunteers)*
- *a charismatic figure linked to the organisation*
- *membership, community base or network of potential designators*
- *organisational flexibility*
- *success-orientated organisation*

- *good relationships with companies and/or accountants*
- *good image*
- *substantial resources available before percentage mobilisation*

Interviewees were free to add other factors they felt were important.

Overall, the responses of organisations in both countries show that the most important factor is communications and that the next most important factors are: the field of activity in which the organisation is engaged and the respect with which the organisation is held in its field of activity (Figure 1).

Figure 1
Weight given to twelve possible success factors in attracting percentage designations

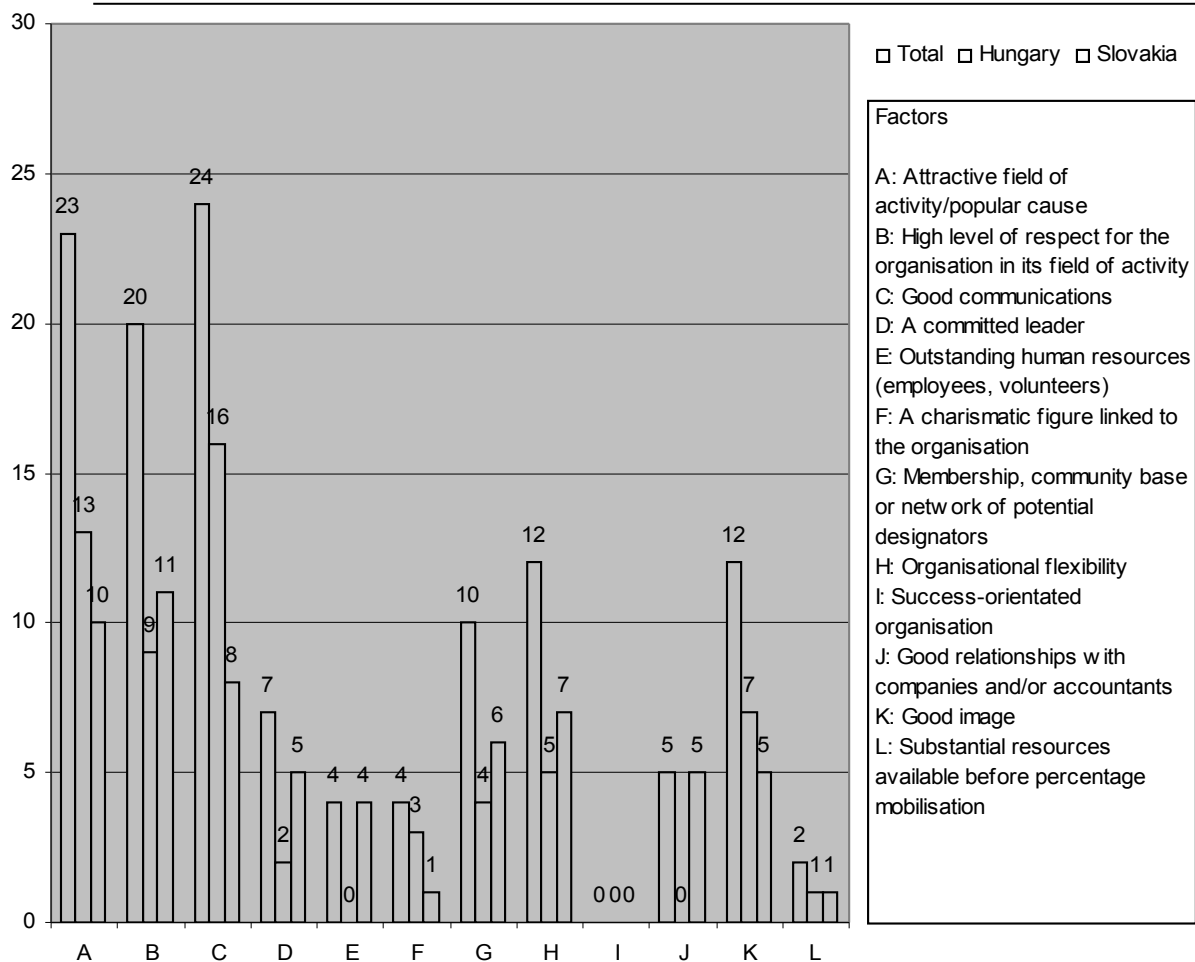


Figure 1 shows that the most important success factor for organisations in Hungary was good communications, while in Slovakia this factor came third. By contrast, being an organisation

respected in its field was the most important success factor in Slovakia, but only came third in Hungary. These differences are not especially surprising and are probably due to the way the percentage system operates in each country.

In Slovakia, organisations may feel that attracting the attention of a few companies is more cost-effective than striving to obtain the much smaller percentage designations of thousands of individuals. In Hungary, where the sole focus is on securing the percentage designations of individual taxpayers, organisations see communications as the most important tool in reaching a wide target audience. Hungarian taxpayers, faced with a choice of some 30,000 (mostly unfamiliar) organisations, are more likely to respond to campaigns that make a direct appeal and save them the time and effort of having to find a worthwhile recipient. In Slovakia, individual taxpayers have a more limited choice of recipients and perhaps stand more chance than their Hungarian counterparts of making a better-informed decision. While the choice presented to taxpayers in Slovakia is still fairly wide, it seems that an organisation's reputation carries more weight in a smaller playing field.

Another noteworthy difference (Table 2) is that, in Slovakia, many of the most successful recipients are grant-making organisations that pass money on to selected projects rather than spend it themselves and thus their reputation may be an important factor in giving taxpayers confidence that the amounts they designate are going to reach worthwhile causes.

Although it might have been anticipated that organisational attributes such as being success-driven would be seen as important factors, in fact neither this nor flexibility nor human resource capacity was given much importance.

Most organisations admitted that when they first decided to try and raise percentage funds their approach was not very ambitious and their initial efforts were not based on detailed cost-benefit analyses.

"We had no idea what would be feasible."

"The aim was simply to make use of the opportunity."

"The basic aim was to get moral and financial support."

The organisations have reached certain milestones in terms of their success in mobilising percentage support and, more generally, their development as effective organisations. For nine of the forty organisations, the most important indication of their success was that they have been able to sustain their work; while other organisations pointed to specific events or services.

“We would like to be able to continue our work at its current level of quality.”

“We aim to sustain our current support and the trust of our donors.”

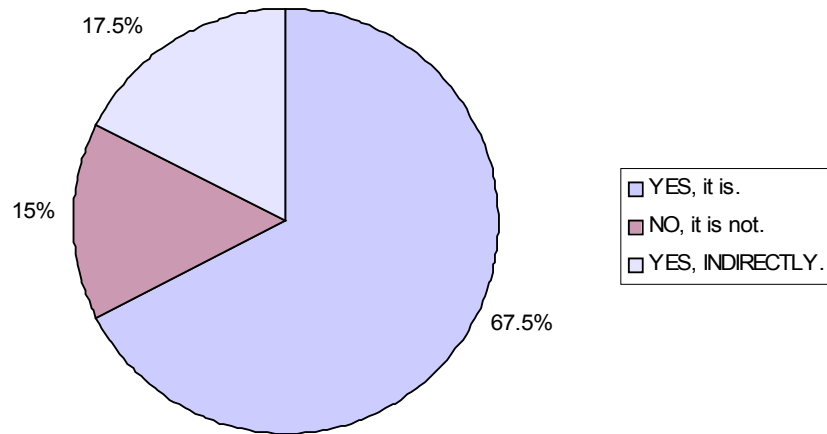
“The most important success we have had was during the flood disaster when we were able to channel aid to thousands of families in need and rebuild hundreds of homes.”

“Our major success is that our expertise has been used in the preparation of the law on families ... from being a charity, we have grown into a professional organisation providing real expertise and training.”

Organisations in both countries saw 2004 as a generally successful year. In Slovakia, 2003 was regarded by organisations as their best year so far as this was the year when they could start feeling the effects of the newly-established percentage system. For the Hungarian organisations, 2006 - the year when the effects of the National Civil Fund began to be felt - was considered to be their most successful year.¹¹ Not surprisingly, almost all of the organisations in the survey were of the opinion that their success was related to the percentage system (Figure 2).

¹¹ The Hungarian Parliament enacted Act No. 50 permitting the National Civil Fund to disburse an amount of financial support from the central budget to NGOs through a grant application mechanism equal to the amount attracted by the whole NGO sector from 1% allocations. The aim of the Fund is to strengthen the operation of civil society organisations. The first call for grant applications appeared in May 2004 and 6 billion HUF (approximately 24 million Euro) was granted to the successful applicants. See http://www.nca.hu/?page=webtext/show&wte_code=english. According to many observers, the Fund has not only brought additional financial resources to the sector but, because of its well-publicised open decision-making structure, has improved the general environment in which NGOs operate.

Figure 2
Organisations' answers to the question:
"Is your success related to the percentage system?"



Organisational resources

Exploring the changes in the resources of successful percentage mobilisers formed a central part of the survey. As organisational resources are often spread widely, overlap and affect several different areas of activity, the following sections aim to present information about the surveyed organisations in four broad areas:

- financial resources
- human resources
- social capital as a resource
- communications resources.

Financial resources

The organisations were asked about the effects of the percentage system on their financial situation, in particular on:

- financial growth
- amount of revenue from percentage designations and future projections
- changes in the level of private giving
- sustainability.

In general, more than half of the organisations said their improved financial situation was one of the most visible ways in which the percentage system had affected them. However, several organisations pointed out that the benefits of the percentage system had not only been financial:

“...by in-kind donations, such as services or advertising space in the metro.” (a Hungarian respondent)

“...in the level of reinforcement of our public profile, much more intensive communications, the growing number of non-financial supporters around us, and that we are being trusted.”

In order to give an indication of the extent of financial growth experienced, the organisations were asked to compare themselves in financial terms to other organisations in their country currently and when they first started receiving percentage designations. When they first

became recipients, more than half of the NGOs surveyed placed themselves among those organisations with very limited budgets, whereas at the time of the survey, fewer than a quarter of them still ranked themselves in that group. While only one organisation described itself as having one of the largest budgets in the country when it started receiving percentage funds, six organisations now put themselves in this category. In Hungary, where the percentage system has been functioning for longer, the upgrading was much more noticeable - only one of the organisations still saw itself as being in the very limited budget category, although ten said they were in that category initially (Figure 3).

Figure 3
Assessment of financial growth since receiving percentage designations

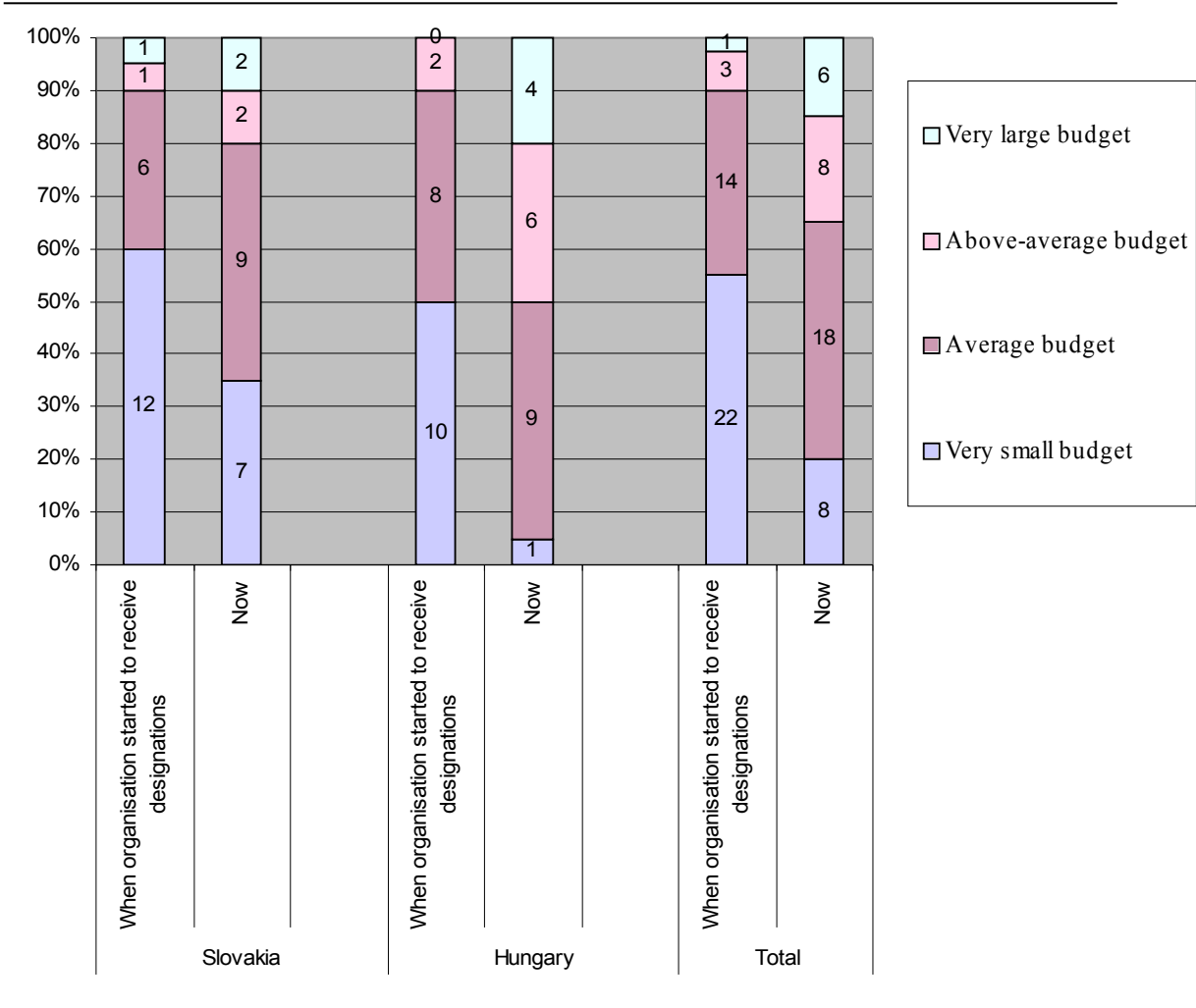


Figure 3 shows that the percentage system has assisted the financial development of organisations with different financial backgrounds, and has significantly improved the situation of a number of organisations that started from a very weak financial position. This

finding corresponds to the fact that only one organisation in each country thought that having substantial resources before starting percentage fund-raising was an important factor in its success (Figure 1).

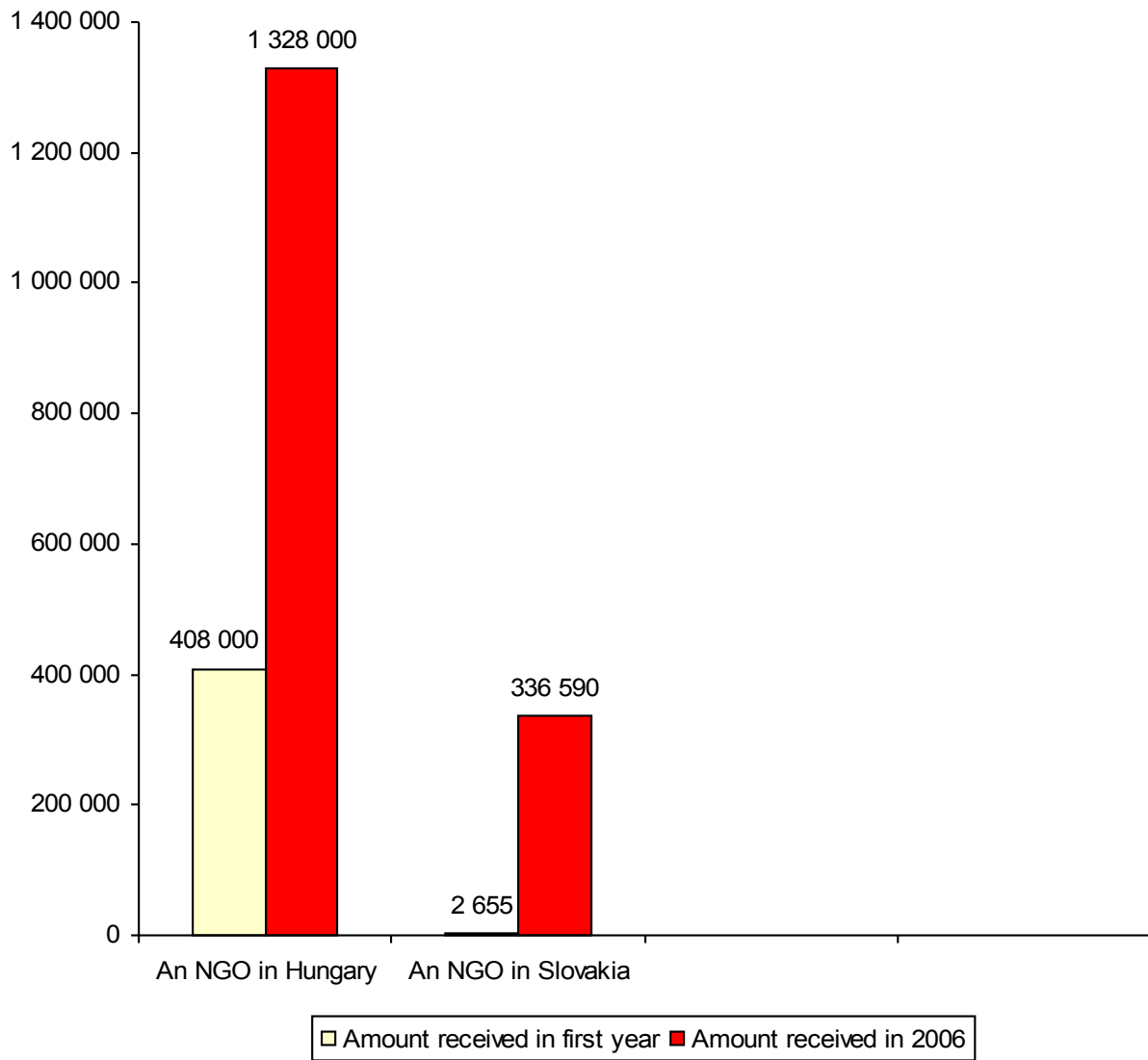
The vast majority of organisations in the survey said their revenue from percentage designations had increased. In their first year as recipients¹², the average amount received overall was EUR 20,003 (EUR 31,394 for the Hungarian organisations and EUR 8,613 for the Slovak ones). The average amount received in the year prior to the survey was EUR 101,320 (EUR 142,641 for the Hungarian organisations and EUR 60,000 for the Slovak ones), a five-fold increase compared to their first year.

The most dramatic growth in revenue was achieved by an organisation in Slovakia which received 127 times more from percentage designations in 2006 than in its first year. The best-performing Hungarian organisation managed to triple the amount it received (see Figure 4).

¹² The first year when organisations received designations varied.

Figure 4

The largest increase in annual income from percentage designations (EUR)



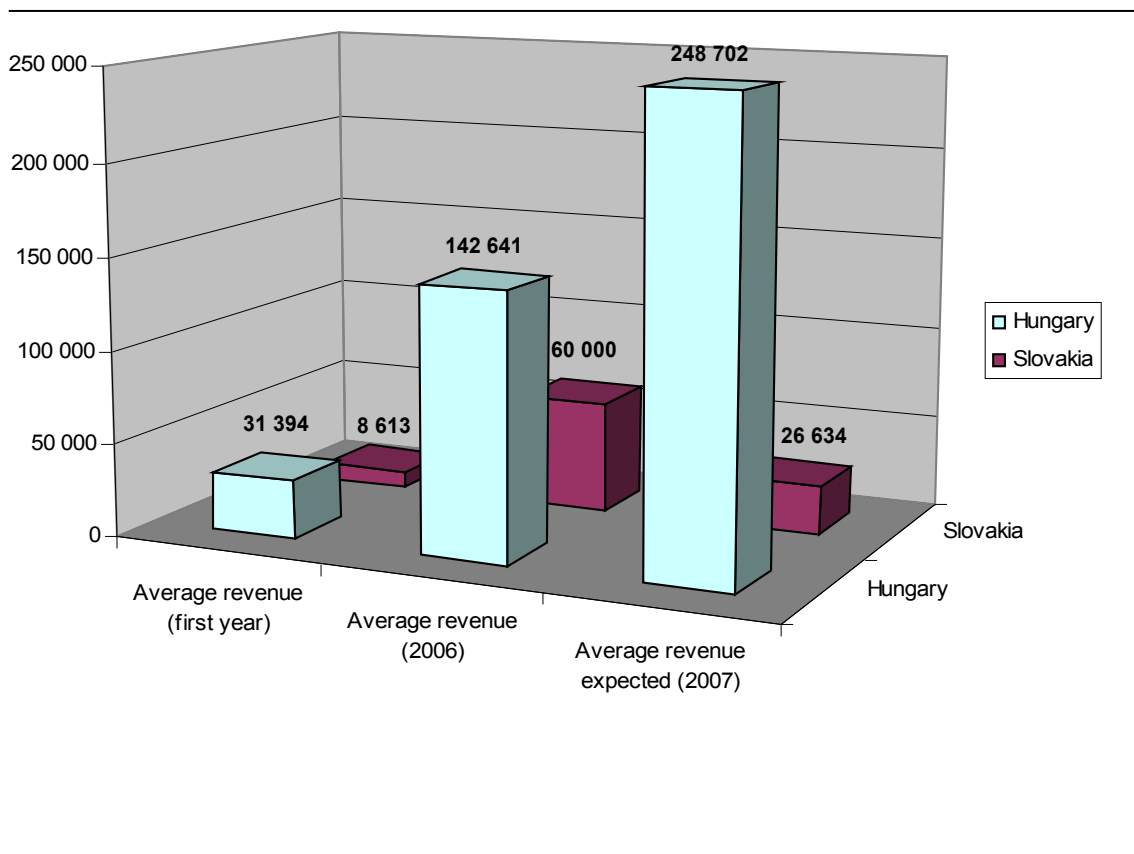
The fact that this group of relatively young organisations with limited experience in managing change and large budgets have coped with the influx of large amounts of funds within a short period is an encouraging sign of growing institutional strength and financial maturity in parts of the NGO sector in post-communist countries.

The rapid growth in revenue experienced by some organisations in Slovakia is partly due to the fact that the percentage that could be designated was raised from 1% to 2% and also to the fact that the system was expanded to allow businesses to make designations. In both countries, some organisations have reaped impressive financial rewards from their substantial

communications efforts to attract designations. Only a few of the organisations reported a drop in their income from percentage designations and this was usually caused by a reduction in available organisational resources, social capital or the burning-out of personnel.

When asked to predict their future success in attracting percentage designations, organisations in Hungary were generally optimistic and expected revenue to double in the coming year (Figure 5). In Slovakia, however, organisations were much more cautious and expected their revenue from percentage designations to fall. This however may have been a temporary phenomenon as the survey was carried out at a time when the Slovak government was considering abolishing the percentage system.¹³

Figure 5
Growth in average revenue from percentage designations and projected revenue (EUR)

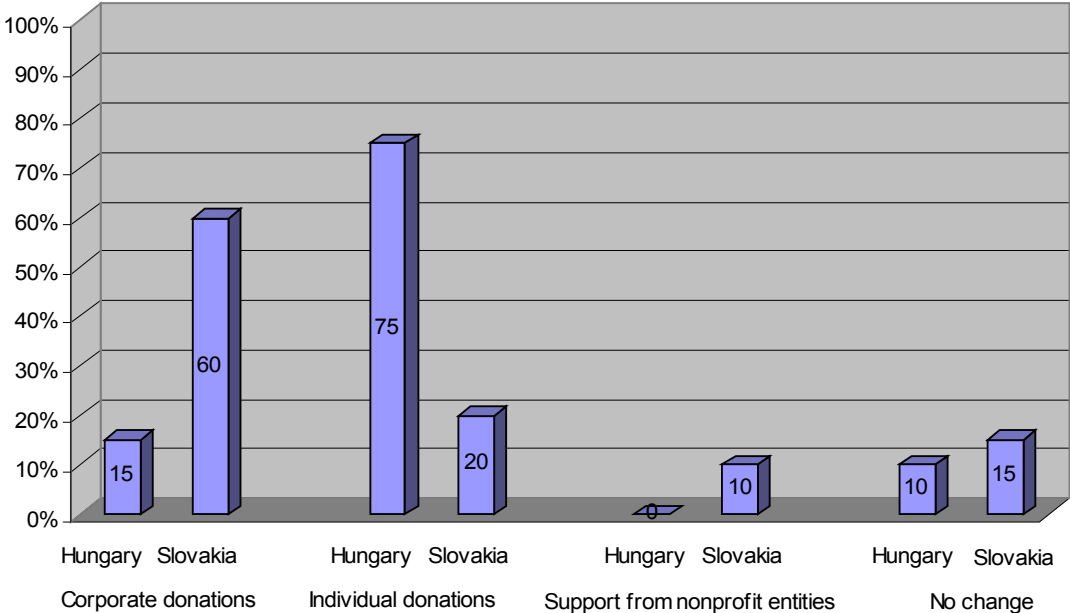


¹³ The main elements of the system were retained but some changes were made: the minimum amount that could be designated by individual taxpayers was increased and the fields of eligible activity were reduced.

Where the legislative environment is stable, organisations view the percentage system as a reliable source of funding and believe that the energy invested in attracting percentage designations will bring a predictable level of benefits. Earlier, the organisations had found it very difficult to gauge their potential market and revenue. The organisations’ increased ability to predict their income from percentage designations through improved market analysis and fund-raising know-how are important new skills they have learnt through the percentage system and have become an integral part of their organisational planning.

As regards income from private giving, Hungarian organisations reported a large growth in individual donations while organisations in Slovakia noted a big increase in corporate donations. 60% of respondents in Slovakia (but only 15% of those in Hungary) said that corporate donations had increased more than private donations by individuals over the last 3-4 years. By contrast, 75% of the Hungarian organisations (and 20% of those in Slovakia) felt that private donations from individuals had increased more than corporate donations (Figure 6).

Figure 6
Fastest increasing source of revenue from private giving in past 3-4 years



The different main sources of increased private giving in Hungary and Slovakia probably reflect differences between the percentage systems in the two countries and reinforce the view that there is a strong link between percentage designations and increased private giving.

One reason for the much lower increase in private donations from individuals in Slovakia could be the fact that the percentage system was introduced five years later than in Hungary, thus allowing a shorter span of time for organisations to develop links with individual taxpayers. Furthermore, the lure of attracting large sums of a small number of companies may have influenced the campaigning tactics of NGOs in Slovakia and led to the rise in corporate donations. What is clear is that the percentage system has prompted organisations to publicise themselves and the designation option and to cultivate links with particular target groups of donors. Private donations from these groups may have increased as a knock-on effect of the tactics used by organisations to elicit percentage designations. The responses of the organisations in Hungary and Slovakia suggest that the percentage system, at least among organisations successful in attracting percentage designations, seems to have a positive effect on private giving. The survey responses also confirm the results of a public opinion survey in Hungary that showed that the percentage system has had no ‘crowding out’ effect on other donations.¹⁴

Only three of the forty organisations surveyed believed that the percentage system has had a negative effect on private giving. One possible opinion was that some potential donors might not have made financial donations because they felt they had already made a ‘donation’ via their percentage designations. One Slovakian organisation reported that its revenues from private donations had dropped after the decision was taken by the government to keep the percentage system but end tax breaks on donations.

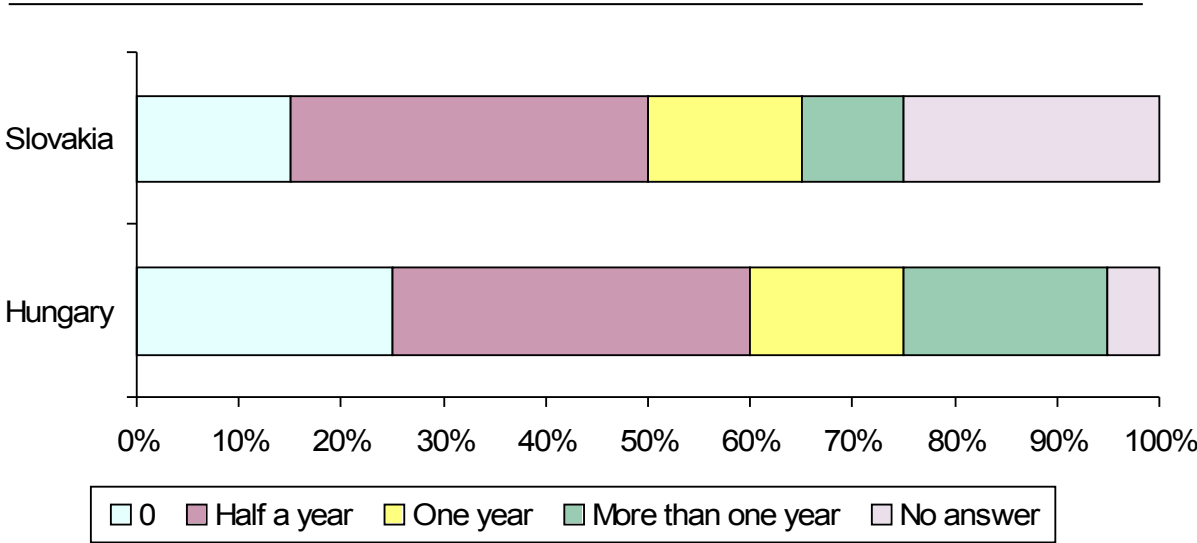
A majority of the organisations in both countries (70%) believed that they would be able to continue in operation without the percentage system, a finding which should reduce fears that recipients might have become too dependent on percentage designations. However, it cannot be generally claimed that organisations that are successful in attracting percentage designations would still be viable without the percentage mechanism. There is some difference between the two countries and among various organisations: for example,

¹⁴ Klára Czike - Éva Kuti, in *Önkéntesség, jótékonyág, társadalmi integráció*, Nonprofit Kutatócsoport és Önkéntes Központ Alapítvány, Budapest, 2006

Hungarian organisations seem to depend more heavily on percentage designations – 40% of them said they they could not exist without them. Looking at the findings in both countries, it is clear that the organisations whose revenue from designations makes up more than half of their total revenue are more likely to feel that they would be unable to survive without these funds. This means that many organisations not only rely heavily on percentage designations but depend on them for their very existence. However, it should be borne in mind that the organisations in this survey were chosen specifically because they had done exceptionally well out of the percentage system, and that their dependence on percentage designations may well be greater than that of other - less successful - recipients of percentage funds or the NGO sector as a whole.

As attracting more revenue does not necessarily mean increased financial stability, the longer-term financial future of the organisations was also assessed. In the event of all external support ceasing, 25% of the organisations in Hungary and 15% in Slovakia said they would have to stop working more or less immediately and as many as 40% of the organisations in both countries said they had reserves for only half a year. It is alarming that, in a group of ‘successful’ organisations, less than half of them had sufficient reserves to survive longer than six months (Figure 7).

Figure 7
Length of time operations could survive if external support ceased



Although the survey confirmed the assumption that the participating organisations had become financially stronger since starting to receive percentage funds, this had not ensured their long-term financial stability. Due to insufficient reserves and their heavy reliance on external funding, most of the organisations are not able to plan ahead. It is worrying to discover that a group of organisations that are in a relatively strong financial position in terms of their revenue do not feel financially stable and have not built up adequate reserves. As no data is available regarding the reserves of the NGO sector as a whole, there is no way of knowing how this finding compares to the average in the sector, but it seems reasonable to suppose that worse-off organisations would be even less able to survive if external funding dried up. Recent changes in Hungary allow organisations to use revenue from percentage designations to build up reserves. Once the effects of this change start to kick in, it may well be that the longer-term financial stability of the Hungarian organisations in this survey - and of other parts in the sector - will improve, thus providing some inspiration to those seeking solutions to the chronic problem of NGO instability in Central Europe.

Human resources

This section examines the human resources (HR) of organisations that are successful percentage mobilisers in three areas:

- full-time employees
- leadership
- specialised staff.

The assumptions in this area were that there would be a close link between the organisations' success in attracting percentage designations and the organisations' human resources, and that the organisations would have experienced major human resources development due to the resulting influx of funds.

During the interviews, a picture of a very committed team of professional people in each organisation emerged. However, having exceptional human resources was not identified by the organisations as one of the most important factors in their percentage fund-raising success (Figure 1). Either these organisations take the quality of their human resources for granted or

the link between human resources and successful percentage fund-raising really is rather tenuous.

A lack of paid employees is a general feature of the NGO sector in Central Europe, but it was expected that these financially-successful organisations might employ a reasonable number of full-time staff.¹⁵ In the event, the survey showed that only four organisations (all of them in Hungary) employed more than thirty people. Most of the organisations tend to work with only a very limited number of full-time paid employees (between one to four people). 40% of the organisations (eight in Slovakia and eight in Hungary) have no full-time paid employees at all.

Most of the organisations could, in principle, easily afford to employ more people. However, the survey found that participation in the percentage system has had hardly any effect on organisations' general HR policies. While it may be unfair to expect the percentage system to solve a problem that is endemic among NGOs, it is very disappointing to discover that those organisations that have the best opportunity to use the percentage system to enhance their human resources are failing to do so.

A more generous interpretation of the results would be to congratulate the organisations on achieving so much with so few full-time personnel. With this in mind, it could then be assumed that the key human resource factor is having a committed leader. Based on their own descriptions of themselves (see box below), all of the interviewees showed a high level of commitment.

<p><i>“committed”, “hard-working”, “target-oriented”, “democratic”, “enthusiastic”, “unstoppable”, “a strong personality”, “a real leader”, “honest”, “accountable”, “Saint John the Miraculous!”</i></p>

However, very few organisations said that committed leadership was the key to success in attracting designations or listed this as one of the most important factors (Figure 1). While it is again hard to judge if the leadership asset, like the perception of quality of human resources, is taken for granted, it could indeed be that leaders do not play an important role in

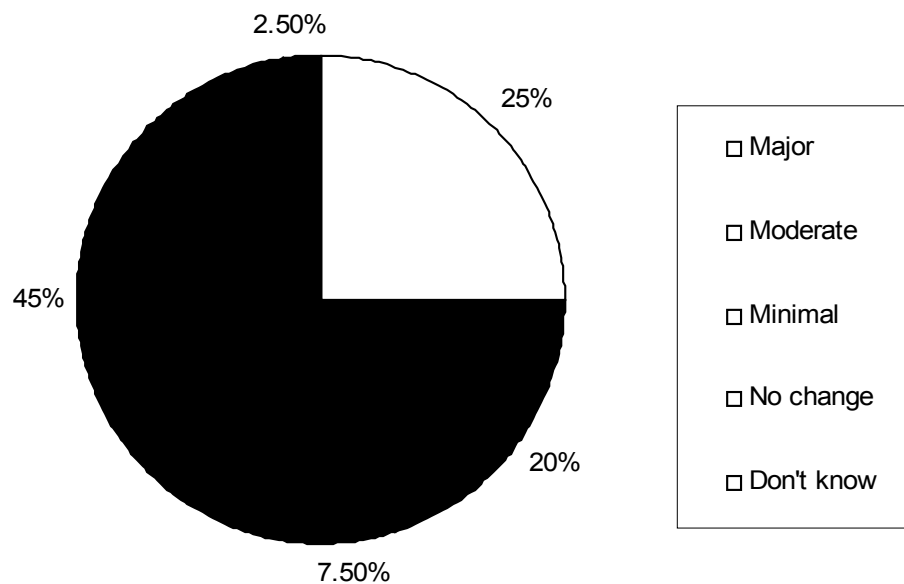
¹⁵ Due to this assumption, the research did not examine the alternative forms of employment in the surveyed organisations.

terms of the level of percentage designations obtained. It could also simply be that they are being too modest!

The two human resource areas where organisations felt they had made some limited progress were fund-raising and communications. Not surprisingly, these are the key areas on which their success depends. In 2006, 14 of the 40 organisations had in-house fund-raisers and staff who dealt with communications activities, while 7 organisations used external consultants. This level of specialised staff is far higher than the estimated average in the two countries, but is still surprisingly small given the large amounts the organisations raise through percentage designations. One reason for not making more investment in HR in this area may be that organisations generally prefer to spend money on their actual operations. As mentioned previously, they also lack the sort of stable financial framework needed to invest in more staff.

Based on the collected data and interviews, it is hard to judge if there is a cause-and-effect link between the success of an organisation in attracting percentage designations and its human resource development. Although 45% of the organisations believed that their human resources have experienced a major or moderate level of development because of the percentage system, a similar proportion saw no such link (Figure 8).

Figure 8
Level of human resources development as a result of the percentage system



To sum up, the organisations in this survey did not consider human resources to be one of the most important factors in attracting percentage designations. There was a substantial level of personnel development in the organisations surveyed, but this was concentrated in the areas of fund-raising and communications.

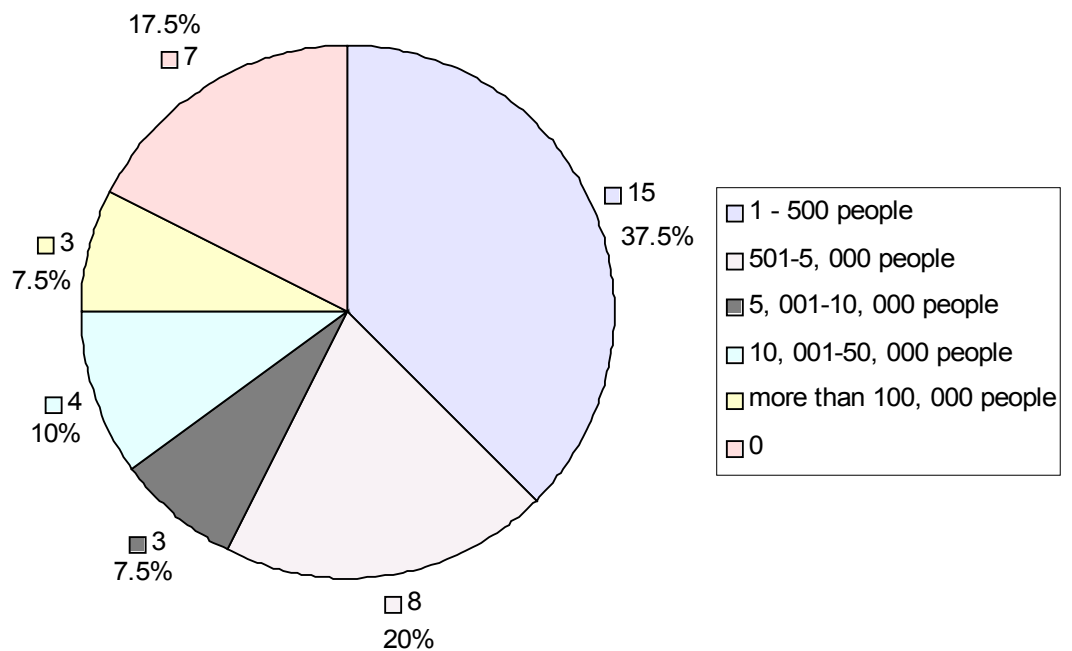
Social capital as a resource

The 'social capital' of organisations, that is their membership or community base, was examined as part of the survey in order to see whether this has any effect on fund-raising success. The assumption was that close links to the local community or a large group of clients or members would provide organisations with a large pool of potential designators.

The survey revealed that more than two-thirds of the organisations thought that there was a large group of people on whose financial or non-financial support they could depend: the

average numbers were 49,024 in Slovakia and 21,603 in Hungary. The actual numbers ranged from zero (five organisations in Slovakia and two in Hungary) to the 900,000 mentioned by one organisation in Slovakia (Figure 9).

Figure 9
Number of financial or non-financial supporters



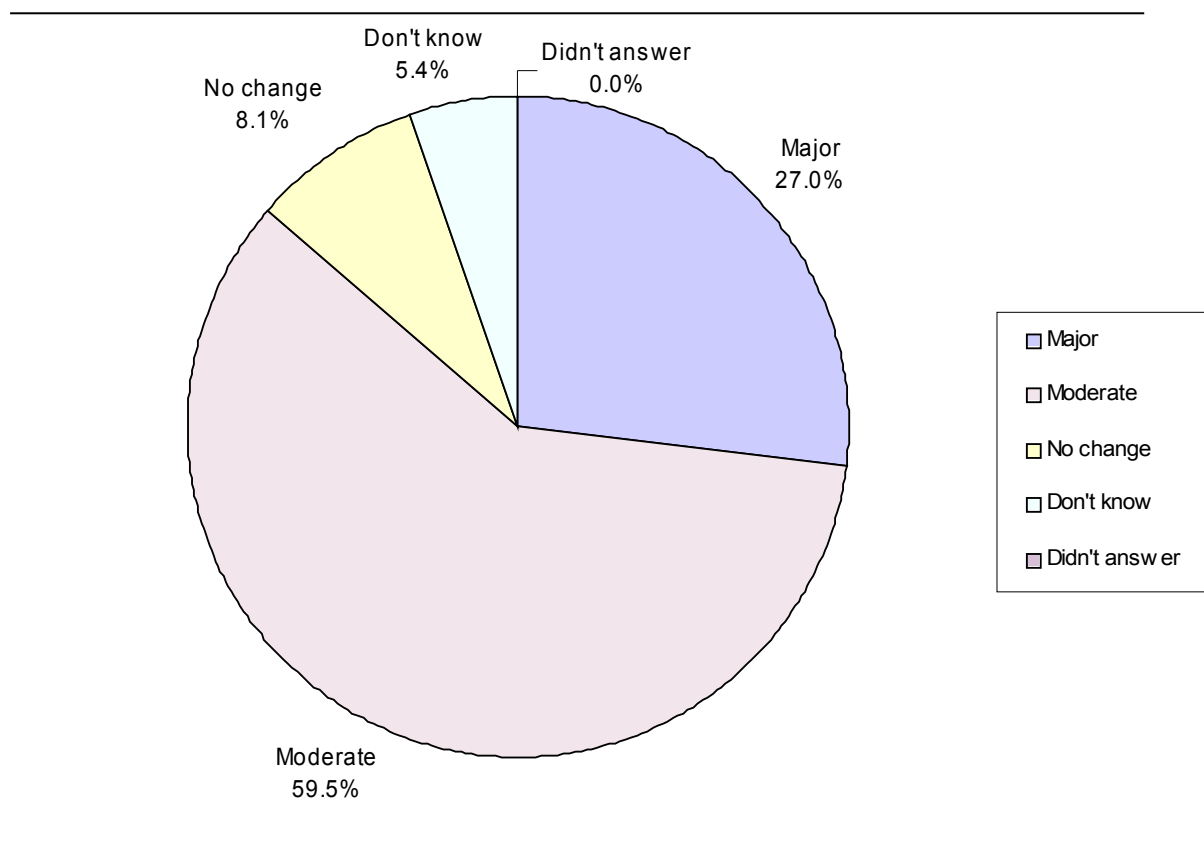
For around half of the organisations, their supporters were either direct beneficiaries of their services (e.g. they had been treated at a hospital supported by a foundation) or indirect beneficiaries (e.g. parents and grandparents of children attending a school with a foundation). In three cases, the supporters were the members of the organisation. The remaining organisations thought that their pool of supporters had no direct connection to the organisation, but simply appreciated the organisation’s work (e.g. clean air is important to them) or they simply ‘just know about it’ and want to support it.

“The younger generation is using our services, but is not really interested in our mission or activities. They are more like consumers than participators”.

To sum up, the people on whose financial or non-financial help organisations could rely were almost equally divided between those who had some kind of personal link to the organisation and those who did not.

A very positive and promising effect of the percentage system is the growth in the size and enthusiasm of the social base of 80% of the organisations surveyed (Figure 10).

Figure 10
Effect of the percentage system on the growth and enthusiasm of financial and non-financial supporters



Besides making their own percentage designation, the people who make up an organisation's social base can also act as multipliers by reaching out to new sources of both financial and other types of support. Indeed, most of the organisations in the survey believed that their

supporters encourage other people to use the designation option to help the organisation concerned.

“They communicate our good mission to others and help our donor pool grow.”

“They send the percentage declaration sheet to others.”

“They spread the word about us, and encourage others to give to us.”

“They give their percentage designations to us and use their connections to provide additional help.”

Some interviewees pointed out that it was hard to answer questions on the profile of their supporters because percentage designations are confidential in Hungary and Slovakia. On a practical level, organisations dislike anonymity because it prevents them establishing direct links with their percentage designators, and therefore hinders the development of further fund-raising efforts with this target group.

Half of the organisations said they had good connections with company directors, accountants, and company finance personnel who serve as major multipliers. These organisations can generally count on 78 people on average (while there are organisations that rely on as many as 5,000 individuals) as part of their fund-raising tactics.

Personal networks are ranked as the most important social factor in successful fund-raising campaigns for percentage designations. Many organisations said that had made a conscious effort to broaden their network and social base, especially in order to become more successful in attracting percentage designations. Some organisations have found that without making any particular effort, their social base has grown due to the publicity generated by their success. This has led to more people offering to help in ways other than making percentage designations.

However, many organisations expressed concern about the possible abuse of personal relationships to win percentage designations. While this is only a minor concern among Hungarian organisations, Slovakian organisations regard this kind of abuse as a more tangible threat to the percentage system. It is suspected that some organisations have been set up purely to attract large amounts of designations, rather than to serve the public good. These organisations are seen as using their position to mobilise support from a large number of

individual taxpayers (e.g an accountancy firm or a major company dealing with the tax returns of thousands of people could set up an organisation to receive their clients' and/or employees percentage designations). Another major concern in Slovakia is that several companies have set up foundations to receive their own tax designations.

The support of organisations' board members was rarely mentioned in the interviews. Their role was mostly visible in those organisations that had no paid staff and board members did the work. This was not viewed as volunteer work but as something the organisations took for granted.

The work of volunteers was not directly examined in the research. Nevertheless, there was evidence that the organisations saw the work of volunteers (e.g. helping with publicity) as an important factor in their campaigns to win percentage designations. A couple of organisations highlighted the fact that new volunteers had approached them as a result of their percentage campaigns.

The interviews confirmed the view that having solid social capital tends to contribute to the organisations' success in attracting percentage designations. However, there is no general rule and it cannot be said that only organisations with a broad membership and/or other forms of community base can be successful: for some organisations it was a significant factor, while for others it was irrelevant.

Nevertheless, the efforts made by the organisations to win financial support via the percentage system have also helped them in their efforts to strengthen their community bases. Many organisations reported that the percentage system has extended the sense of belonging to their organisation to a much wider circle of people.

“The point is that we have learnt to emphasise the feeling of belonging to our community and this can attract new people. It takes a lot of cultivating, though.”

Communications resources

“The keys to success: the issue addressed by the organisation.....and the level of recognition of the organisation among the public. This is what we put into action during the campaign period.”

The above quotation contains the essence of the majority of the interviews conducted: that the popular appeal of the organisation’s purpose and its public relations (PR) skills and techniques are the key elements of its communications resources. These are factors that organisations also ranked highly when explaining their success in fund-raising for percentage designations (see Figure 1).

An organisation’s name is considered important as it conveys the issue that the organisation seeks to address. In Hungary the most successful recipients of percentage designations have the following names: the *Children’s Cancer Foundation*, *Children’s Catering Foundation*, and *Foundation for the Development of the Heim Pál Children’s Hospital*. In Slovakia, excluding foundations set up by companies, the top recipients are called the *Central European Foundation*, *Pontis Foundation* and *League Against Cancer*.

“The name of our foundation comes from the Latin word for ‘bridge’ and expresses our purpose: to connect the different sectors of Slovak society with one another and to link sources of financial support with those who need it.”

The names of some organisations have already become valued brands. The branding of the organisations is also established by the use of logos and, in the case of half of those interviewed, the use of celebrities, respected figures, or an individual who is the ‘face’ of the organisation.

The image the organisations present is important (only one organisation said it was not) and almost all of them make a conscious effort to maintain or improve their image (37 of the forty organisations).

“We are associated with the school, so the school’s image has become ours too. Luckily, it is a very positive one.”

“A recent poll we conducted showed our name penetration has reached 86%, which did not come as a surprise.”

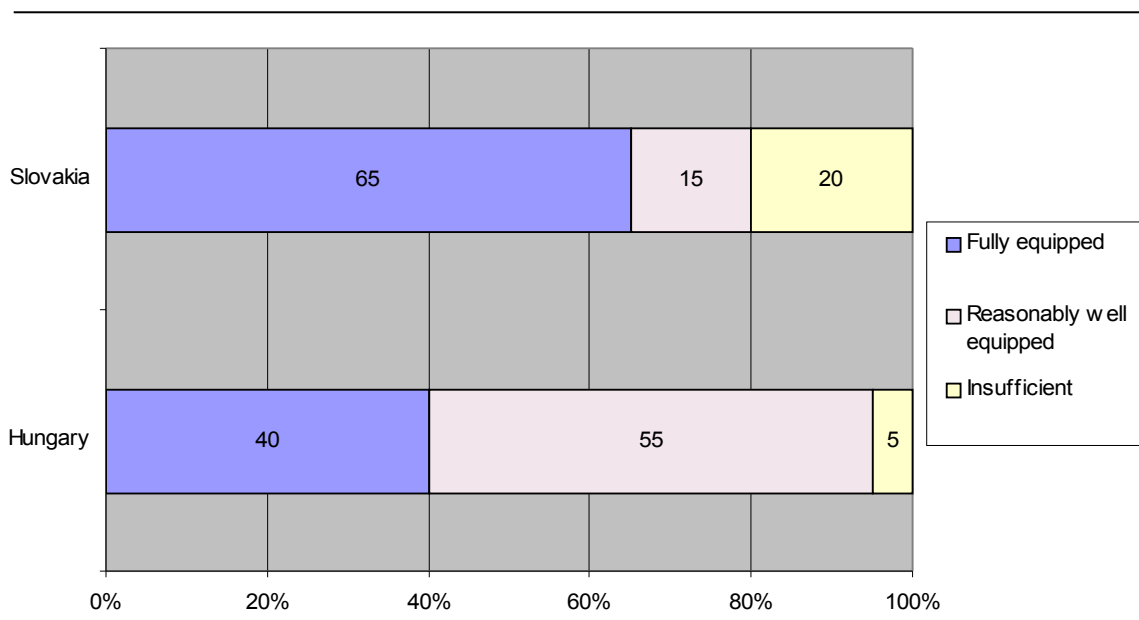
“Because of our well-known Christmas concert we are known as the ‘concert organization ... and this is why our name is so familiar. There is no other way we could have become so well-known.”

“We present a deliberately stingy look; this is why we have a simple image, one-colour print letterhead, and an office that is way out of the centre.”

Most (24) of the 40 organisations believed that their image had become better or much better as a result of the percentage system (while nine of the organisations believed that it had not changed, and seven did not know or did not answer). Most of the organisations said that their work is more highly regarded as a result of the percentage system.

Most of the organisations (95% in Hungary and 80% in Slovakia) stated that they were fully or quite well supplied with the equipment needed for their communications activities (see Figure 11). In addition, almost half of those interviewed employed a specialist in this area. The organisations also believed that their PR expertise has developed as a result of their fund-raising efforts for percentage designations.

Figure 11
Availability of equipment for communications activities



In addition to organising a large-scale campaign in the two months before the tax deadline, most of the organisations implement a communications strategy throughout the year. Organisations use different techniques in their percentage fund-raising campaigns depending on the target donors, the cause, social capital and available resources.

Organisations now use some publicity material (such as leaflets, TV ads, radio spots, billboard posters) that were not necessarily used when they first started appealing for percentage designations. The publicity material has become increasingly sophisticated.

“ In 2000 we were unique in running a professional campaign with a professional advertising agency, but that’s not the case any more.”

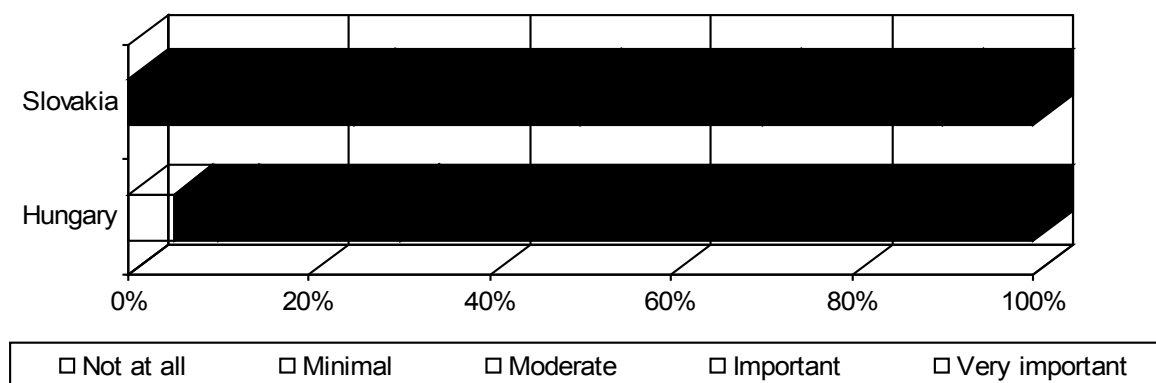
“Our campaign mix is very varied as we have developed it by borrowing a lot of ideas and tools from others.”

“The organisation collects percentage funds from its social base, and hardly ever turns to an unknown, wider audience. Nevertheless, we achieve 30% growth each year.”

The survey found that most (27 of the 40) organisations prefer to stick to the same message from one year to the next, but a few organisations decide to change or vary their message each year and target different audiences. Some of the messages are targeted at a smaller segment of the organisation’s social base and portray a feeling of need, a desire for greater social cohesion or a sense of belonging to a certain community, which will be strengthened by giving a tax designation to the organisation in question. Other organisations try a different approach: appealing to the sympathy, intellect or geographical location of potential percentage designators.

Different organisations use different methods to get the 1% or 2% message across: some rely on word-of-mouth and flyers, while others use more sophisticated methods such as publishing their own newspaper, broadcasting from their own radio station, and organising special events. Many of the organisations use the mainstream media, especially in Hungary, possibly because there are more potential recipients than in Slovakia and therefore a greater need to reach as wide an audience as possible (Figure 12).

Figure 12
Importance of the media in campaigns appealing for percentage designations



The amount that organisations are willing or able to spend in their percentage fundraising campaigns varies. Most campaign resources come from a mixed basket that includes items that are paid for and items received free, as well as the time of paid employees and unpaid volunteers. Unfortunately, only 15 organisations in Hungary and 13 organisations in Slovakia were able or willing to answer the question regarding their campaign costs. Although the following cost-benefit calculations do not provide a complete picture, they nonetheless give food for thought.

As Table 3 shows, any cost-benefit comparison between the two countries in recent years is hampered by the fact that the benefits have been much higher in Slovakia since 2004: the rate is 2% instead of 1% and businesses allocate huge sums as tax designations. For example, the cost-benefit ratio of the 13 Slovak organisations in their most recent campaign was ten times higher than that of their 15 Hungarian counterparts. A more realistic comparison might be obtained by comparing cost-benefit figures for 2002-2003, when the Slovak percentage system was fundamentally the same as the Hungarian one (individual taxpayers only; 1% designations). Based on the answers to questions about their very first campaign, and if the organisations had had to cover all the costs involved, the average costs of the 13 organisations in Slovakia would have been EUR 22,765, whereas the average costs of the 15 organisations in Hungary would have been EUR 257,920, eleven times more than the Slovak figure. On the benefits side, the Slovak organisations received an average of EUR 169,540, while the Hungarian organisations got an average of EUR 542,940. Despite the fact that this was their first year of running fund-raising campaigns for designations, the Slovak organisations' cost-

benefit ratio (based on the estimated total cost of their campaigns) was three times higher than the Hungarian one. In terms of the actual amount spent, the difference is even greater: the cost-benefit ratio in Slovakia was five times higher than in Hungary. (The average actual amounts spent by the organisations that answered this question were EUR 137,757 in Hungary and EUR 9,150 in Slovakia.)

Table 3
Cost-benefit ratio of campaign spending

	Hungary	Slovakia
<i>Based on estimated total cost of campaign (if all campaign items had been paid for</i>		
First campaign	2.11	7.44
Last campaign	2.44	26.63
<i>Based on actual amount spent on campaign</i>		
First campaign	3.94	18.53
Last campaign	4.70	45.36

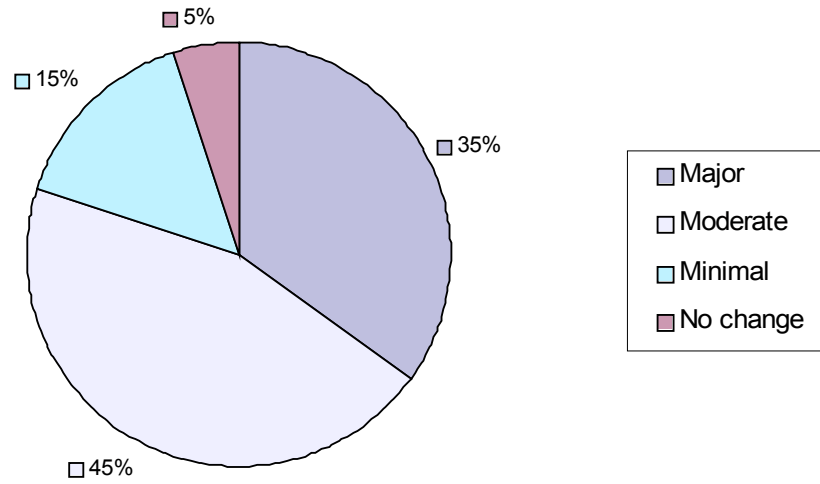
While the group of surveyed organisations in Hungary and Slovakia cannot be considered representative of the wider NGO sector (indeed, due to the success of their campaigns they are very positive examples of NGOs that have benefited greatly from percentage designations), and bearing in mind that the results of this comparison need to be treated with caution, it is still interesting to consider why there is such a striking difference between the cost-benefit ratios in the two countries. Assuming that salaries are more or less the same in the two countries, one reason could be that only a limited number of NGOs in Slovakia are eligible for tax designations and therefore the total revenue is divided among a smaller group of beneficiaries. There are five times as many potential recipients in Hungary as in Slovakia and each recipient thus gets a thinner slice of the cake. Another reason may be that organisations in Hungary overestimate the effectiveness of (costly) communications work in comparison to other possible (and cheaper) options. If true, this suggests that by focusing on more expensive communications methods, Hungarian organisations may not necessarily be making the best choice in terms of cost-effectiveness. This study was not designed to examine this question in detail and the differences it revealed between organisations’ cost-benefit ratios could serve as a thought-provoking starting point for further research and debate.

It is clear that, in both countries, organisations’ expenditure on their most recent campaign was more cost-effective than in their first campaigns. This is no doubt due to lessons learned and experience gained from running campaigns each year.

It should be borne in mind that most NGOs in the post-communist countries of Central Europe are still relatively young (with, at most, 18 years' experience), so it is understandable that communications is a new area for them. Before their involvement in the percentage system, most NGOs in the region had no structured communications strategy and they had to invest heavily in this area. The investments made by the surveyed organisations seem to have been worthwhile. Both in terms of attracting percentage designations and for other purposes, most of the organisations (90%) believe their communications activities are now successful.

Communications is the main area where organisations feel they have experienced real progress: 32 of the 40 organisations (80%) said there has been either major or moderate levels of development in their communications skills as a result of their efforts to exploit the fund-raising opportunity provided by the percentage system (Figure 13).

Figure 13
Degree of change in communications skills as a result of the percentage system
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Summary of main findings and concluding remarks

The purpose of this paper is to present the results of a survey of a group of organisations that attract large amounts of percentage designations, identify the main reasons for this success and consider how the percentage system has affected these organisations' financial situation, human resources, social capital and communications resources.

The research was conducted in Hungary and Slovakia, the countries where percentage systems have operated for the longest period, and involved interviews with forty organisations (twenty in each country).

Despite the limited number of interviews conducted, the data and assessments provided by this key group of organisations confirmed many of the hypotheses about the effects of the percentage system. As expected, the most important factor in successful percentage fundraising is an organisation's communications activities. This is followed by an organisation's field of activity and how well-respected its work is.

Given their success in attracting percentage designations, it was not surprising that almost all of the surveyed organisations believe that their success is related to the percentage system, and that the effects of the percentage system are especially visible in their improved financial situation. Several of the organisations now put themselves in the group of NGOs with the biggest budgets in their country although this was not the case when they first started receiving percentage designations. Most of the organisations have not only received increasing amounts of percentage revenue, but have also achieved this growth very rapidly. In parallel, the organisations have mostly succeeded in developing the change management skills required to cope with this rapid growth in revenue.

Encouragingly, a significant number of the organisations have also experienced an increase in private donations: mostly from businesses in Slovakia and mainly from individuals in Hungary. It seems that private donations from these groups may have increased as a knock-on effect of the tactics used by organisations to elicit percentage designations. At least among organisations successful in attracting percentage designations, the percentage system seems to have a positive effect on private giving.

Many of the organisations surveyed rely heavily on revenue from percentage designations, and in some cases totally depend on this source of funding for their survival. However, this particular finding may be specific to this group of organisations as they have raised exceptionally large amounts of revenue from designations. A more worrying finding is that most of the organisations surveyed do not feel financially secure and lack sufficient reserves to allow them to remain in operation if external funding dried up.

Where the legislative environment is stable, the organisations view the percentage system as a reliable source of revenue and are able to assume that the energy invested will bring a predictable return. The organisations' increased ability to predict potential percentage income through improved market analysis and fund-raising know-how is a skill they have developed as a result of the percentage system and has become an integral part of their organisational planning.

It is in the areas of fund-raising and communications where most staff increases have occurred in the organisations studied. The organisations in the sample are not only well-equipped with staff and equipment for their communications activities (almost half employ a PR specialist), but most of them indicated that their communications expertise has developed because of their fund-raising efforts for percentage designations. The publicity methods used have become increasingly sophisticated, and the percentage campaigns run by the organisations have become more cost-effective. Given that almost all the organisations believe that their communications work is a successful part of their operations, their investment in this area has brought significant returns.

Many of the organisations in the survey said they have made conscious efforts to broaden their social base in order to win greater amounts of percentage designations. Some organisations have found that the publicity generated by their participation in the percentage system has encouraged more people to offer their help in ways other than just making designations. According to many of the organisations, the percentage system has increased not only the number of supporters but also their sense of belonging to the organisation.

The findings of this research project present a generally positive picture of the effects of the percentage system. However, some of the findings may be specific to this group of very successful organisations (and other similar organisations) and be less applicable to typical

recipients of percentage designations or the NGO sector as a whole. Nevertheless, as this paper shows, the percentage system provides organisations with many benefits, not just financial ones, and does alter the landscape in which NGOs operate. The study also found that the percentage system cannot, on its own, solve all the problems facing the NGO sector in transitional countries, such as the lack of long-term financial security, sustainability, and human resources.

It is hoped that this paper can be used for educational and training purposes as well as in preparing policy decisions both in those countries that already have a percentage designation system and those that are considering adopting such a mechanism. It is also hoped that the findings presented in this research will generate further discussion of, and research into, the percentage system and its effects.