

## **Chapter VII**

### **OVERVIEW**

#### **Percentage philanthropy: an overview**

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## Percentage philanthropy: an overview

Hungary was the first country to introduce a law that allows taxpayers to allocate 1% of their personal income tax to charitable purposes. Several countries in Central and Eastern Europe – Slovakia, Lithuania, Poland and Romania – have followed the Hungarian percentage model, hoping to be able to generate more resources for their NGO sector through this novel mechanism.

The Nonprofit Information and Training Centre (NIOK) Foundation in Hungary initiated the Percentage Philanthropy Project with the aim of exploring the growing international trend in developing the percentage laws, examining the processes involved and the different forms the laws have taken in each country. Given the continuing high level of interest in such laws, a further role of the project is providing critical feedback to countries that have now introduced percentage laws as well as offering a resource for new countries interested in developing such laws.

The first phase of the project took place between April 2003 and March 2004 with the participation of NGOs, academics, politicians, researchers, ministry officials and donor organisations from over 20 countries. The project's first three major outputs were an English-language website ([www.onepercent.hu](http://www.onepercent.hu)) devoted to providing information on percentage laws; an international conference held on 19-20 January 2004 with over 120 participants to discuss the findings of *Percentage Philanthropy*, a study (and the third output) presenting the accumulated experience of developing percentage laws in the five countries.<sup>1</sup>

In most of the countries, the percentage laws are at an early stage of development or still undergoing adjustment. Nevertheless, it has proved timely, worthwhile and enriching to:

- examine the policy considerations behind such laws
- analyse the processes involved from the point of view of the different groups of actors involved, especially NGOs
- raise awareness of both the positive and negative aspects of having percentage laws
- critically assess what this new form of percentage giving means
- consider the wider implications of percentage laws for developing and supporting civil society
- stimulate thinking and debate on how to develop philanthropy in the region
- present the percentage model as just one tool available for building wider strategies for NGO sector development in Central and Eastern Europe.

The key ideas, commentary and questions that emerged in the course of the Percentage Philanthropy Project's first phase are presented here in the form of:

- a summary of all the papers that appear in *Percentage Philanthropy*
- the key inputs made by participants at the Percentage Philanthropy Conference on 19-20 January 2004

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<sup>1</sup> The main donor of this project is the Sasakawa Peace Foundation. The Percentage Philanthropy Conference (19-20 January 2004) was also supported by the East-East program: Partnership Beyond Borders through Soros Foundation-Hungary; the Hungarian Prime Minister's Office (MEH) and Orpheus Network of the European Foundation Centre.

- recommendations formulated by NIOK Foundation regarding further steps to be explored and acted upon.

## OVERVIEW OF CHAPTER I: THE ORIGINS AND IMPLICATIONS OF PERCENTAGE LAWS

### Summary of the papers

*Marianna Török* in her *Introduction* outlines the rapid spread of the percentage laws from Hungary to Slovakia, Lithuania, Poland and most recently, in December 2003, Romania. The former communist countries that have adopted percentage laws share many common characteristics and face multiple challenges. She summaries the main arguments for and against the unique laws that allow individual taxpayers to allocate a portion of their previous year's income tax to an entitled beneficiary. Besides the fact that they offer a new method of providing revenues to the NGO sector, the percentage laws also develop NGOs' outreach and visibility. While some see the new system as a "school" for educating the public about giving, others worry about its possible negative effect on developing genuine philanthropy. As the percentage system is still at an experimental stage, it is, in her view, too early to give a verdict about the long term gains and losses, but this study makes a substantial contribution to increasing understanding of the processes and issues involved.

*Tamás Bauer* was one of the politicians who initiated Hungary's 1% Law. In his paper, *Hungary's 1% Law – why?* he explains that the main aims of the new 1% scheme were to de-politicise funding and increase the independence of churches and NGOs from the state by allowing people, not politicians, to decide which institutions they wish to support with a portion of their tax. For him, the measure is a temporary one until the time when economic and social conditions permit wider private giving. The various compromises made to satisfy different interests meant that the original intentions of the 1% scheme could not be fully realised. Nevertheless, despite these setbacks, the instrument has served to support the development of many local civic initiatives and also provides a useful indication of the level of public support for certain types of institutions.

*Jakub Wygnański*, the author of *The percentage system in Central and Eastern Europe – implications for civil society and public philanthropy*, is in favour of percentage laws but nevertheless expresses concern about the current rush to adopt this form of legislation in the region. He believes that NGOs are so desperate in their search for resources that they are failing to consider the possible wider negative implications of "percentage philanthropy". For example, he questions whether percentage laws, whereby taxpayers simply redirect their tax, can be called a form of philanthropy at all and worries that the percentage system could even hinder the development of public philanthropy in the longer term. Asking why governments are so keen to accept percentage laws, he notes that perhaps it is because the overall impact on NGO sector revenues is rather small and the measure acts as an inexpensive public relations exercise for the state. In addition, the percentage system can be used by governments as a smoke screen for budgetary cuts or reductions in other forms of support to the NGO sector.

## Key inputs from the Conference's Opening Session

*Facilitator: Miklós Marschall*

*Panellists: Marianna Török, Pavol Demeš, György Bódi, Jakub Wygnański*<sup>2</sup>

The first session of the conference introduced:

- developments in Hungary linked to the 1% scheme
- the funding environment in which percentage laws have emerged and operate in Central and Eastern Europe
- the possible gains and losses linked to the percentage system
- the percentage system as a step to developing wider civil society development strategies.

**Developments in Hungary linked to the 1% scheme:** *György Bódi*, Head of the Department for NGO Relations in the Hungarian Prime Minister's Office reviewed the seven years' experience of the 1% scheme in Hungary, changes to its future operation, the aims of the Hungarian government's "civil strategy" and the introduction of a new National Civil Fund linked to the 1% scheme.<sup>3</sup> The number of taxpayers' designations in Hungary have increased from 29% in 1997 to 33.4% in 2003. It is impossible to fully explain why no more than one third of taxpayers take part in the scheme. The number of beneficiary organisations has increased from 15,000 to 22,000 out of the 47,000 NGOs registered in Hungary (though there is always a debate as to how many registered organisations are really active). Over the years the total sum designated by taxpayers has also increased from 2 billion forints to 6.1 billion forints in 2003, an increase which exceeds the rate of inflation and, as it exceeds one third of the total 1% income tax allocation available, the figure also shows that it is higher earners who tend to use the 1% opportunity. If every taxpayer used the 1% option then potentially 16 billion forints (over 65 million euros) per annum could be generated for Hungarian NGOs.

The NGO sector has long argued for access to the undesignated 1% funds, a debate which led to the creation of Hungary's National Civil Fund in 2003. This has a doubly motivating effect: whatever amount taxpayers designate to NGOs through the 1% scheme, the government makes to same amount available for distribution to NGOs through the National Civil Fund, therefore doubling resources available to the NGO sector. This effort is, said *György Bódi*, part of the Hungarian government's programme which recognises civil society as an equal partner as well as the government's responsibility to provide more funding for NGOs.

There are also other state funding sources available to NGOs in Hungary via ministry tenders and the contracting of public services. The development of indirect state support is just as important. Allowances are available to taxpayers to encourage donations, but these are not sufficiently motivating to make a noticeable impact on the level of giving. Hungarian NGOs would benefit greatly if they were eligible for VAT reimbursement. There is still more work to be done in Hungary to provide NGOs with greater financial stability. At the same time, it is important to maintain NGOs' social capital and not simply replace it with cash capital.

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<sup>2</sup> Charts presented by György Bódi during his presentation are available under Conference on [www.onepercent.hu](http://www.onepercent.hu).

<sup>3</sup> György Bódi is also the author of several articles and publications on Hungary's 1% scheme.

**The funding environment in which percentage laws have emerged and operate in Central and Eastern Europe:** *Pavol Demeš* reminded the audience that this region is a mosaic of countries at various stages in the European integration process. He stated that the more successful a country's transformation, the more diverse it is, the better its infrastructure and the greater the range of local donors. EU funding is a sizeable source but it is often channelled through governments and connected to the tasks of enlargement rather than civil society issues. Domestic grant-making in Central and Eastern Europe is developing, but the major source is state not private money. Forms of indirect state support available to NGOs include tax deductions and percentage laws as well as other programmes such as the Czech post-privatisation endowment scheme. Although such models are limited in number, they are vital for the sector's development.

**The possible gains and losses linked to the percentage system:** In a discussion on this central theme it was noted that given their wide range of effects, the percentage laws are much more than just a tax scheme. The argument was made that, given the weakness of the culture of philanthropy in this region, percentage laws replace nothing with something; despite their shortcomings, the laws are better than nothing. Panellists expressed warnings against "mixing" the key long-term aim of developing philanthropy and the percentage system. The amount of income that is generated through percentage mechanisms is only the short term aim, while the longer term one is that genuine philanthropy should develop in the region not only to secure resources but also to give independence and public support to NGOs. It was also emphasised that the percentage system should not be introduced "in exchange" for other funding tools.

**The percentage system as a step to developing wider civil society development strategies:** It was underlined that the percentage system cannot be the only tool and many other parallel support schemes to develop the NGO sector are needed. It was felt that it is crucial for countries in the region to have their own civil society development policies where funding is only one element of a wider strategy.

## **OVERVIEW OF CHAPTERS II AND IV: PERCENTAGE LAWS EXPLAINED / HOW PERCENTAGE LAWS WORK IN PRACTICE**

### **Summary of the papers**

*Nilda Bullain* of the *European Center for Not-for-Profit Law* in a paper, entitled *Percentage philanthropy and law*, defines percentage laws, their legal nature and the terminology involved. The percentage laws in Central and Eastern Europe, based on models for funding churches in some Western European countries, represent a radical shift in focus to NGOs as beneficiaries. The percentage system is neither a tax deduction nor a tax credit because the taxpayer does not pay less tax; it is a form of tax allocation that provides indirect government support to eligible beneficiaries. As such, percentage philanthropy does not meet the full classical definition of philanthropy, but it shares some of its characteristics. The paper explores the multi-functional nature of the percentage laws. The possible policy rationales – "taxation self-determination", "civil society development", "development of a philanthropic culture" and "government outsourcing" – are examined as well as the extent to which they are achieved. The different legal provisions and administrative requirements for the percentage mechanisms preferred in Hungary, Slovakia, Lithuania and Poland are compared

and analysed from the point of view of taxpayers, NGOs and tax authorities. The different percentage law models in the various countries have both advantages and disadvantages.

In his paper, *How Hungary's 1% Law is applied*, **Gábor Pósch** explains that the related administrative procedures for taxpayers, the tax authority and NGOs reflect the fact that the portion of designated tax is viewed as part of income tax and as a form of state support. In addition, the procedures are designed to protect the anonymity of the taxpayer. As a result, it takes the tax authority around eight months to check tax returns, process taxpayers' designations requests, verify NGOs' eligibility and transfer the designated amounts to beneficiaries. Due to many criticisms by NGOs and administrative difficulties encountered, especially in the first year of operation, there have been a number of operational changes to Hungary's 1% scheme. However, the basic designation procedure, based on a very simple form completed by the taxpayer, has remained unchanged.

**Arpád Lőrincz** and **Peter Haňdiak** explain in *Slovakia's system of 1% tax allocation* that the Slovak system was designed to protect the taxpayer's anonymity, win political and public trust in the percentage philosophy and ensure transparency in the use of the money allocated by taxpayers to NGOs. As in Hungary, individuals taxpayers can only designate to a single NGO beneficiary, but companies which join the system in 2004 can make designations to several NGO beneficiaries. The Slovak system, which operated at the 1% level in 2002 and 2003 but increased to 2% from 2004 onwards, begins with a registration phase for potential beneficiaries. It is public notaries – for whose services NGOs pay a fee – who check NGOs' eligibility, a procedure which speeds up the processing of tax designation forms by the Slovak tax offices and is also cheaper for the state. However, this different administrative approach does not mean that the Slovak system is without its problems and a number of changes to help simplify procedures are being introduced.

**Vaidotas Ilgius** is the author of *How Lithuania's 2% Law works*. The new designation possibility that starts operating in 2004, requires taxpayers to provide detailed data in the designation forms about their choice of beneficiaries. This burden may deter some taxpayers, especially in view of the new wider annual tax declaration system also being introduced. Beneficiaries not only include NGOs such as foundations and associations but churches and trade unions as well as public institutions e.g. hospitals, schools and libraries. Taxpayers may instruct the tax authority to transfer up to 2% of their tax to any number of beneficiaries. As in Slovakia and Hungary, Lithuanian beneficiaries will not know the names of the taxpayers who support them with their designations.

**Igor Goliński** in his contribution, *Poland's 1% system*, notes that taxpayers have to make a substantial effort if they wish to use the Polish percentage option, namely by going to a bank or post office and arranging the transfer themselves of up to 1% of tax to one or more beneficiaries, and then reporting the transaction to the tax authority in their annual tax return. If the tax authority finds that the 1% transfer represents an additional amount to the annual tax owed by a taxpayer, then a refund will be made within three months. While these requirements may impact negatively on taxpayers' interest, they also mean that the recipient NGO will know the identity of its 1% donors. The Polish system, which applies from the start of 2004, is only likely to become fully operational in 2005 once NGOs have registered specifically as public benefit organisations, the status necessary to receive the 1% transfers.

## Key inputs from the Conference's Legislation/Technical Workings Session

*Facilitator: Deborah Moss*

*Panellists: Nilda Bullain, Gábor Pósch, Arpád Lőrincz, Vaidotas Ilgius<sup>4</sup>*

The following issues were discussed at this session:

- the percentage system and philanthropy
- the policy rationales of the percentage laws
- political and economic risks
- administrative difficulties
- transparency issues
- the different percentage models – which is best?

**The percentage system and philanthropy:** It was suggested that percentage laws could be called “transitional philanthropy”, not a perfect form of philanthropy but a home-grown one that meets the present conditions in Central and Eastern Europe. Through percentage laws, the state is making it possible for people to act in a philanthropic way and the processes involved do seem to raise philanthropic activity. What percentage laws can do, it was proposed, is provide food for thought and trigger new thinking: an example mentioned was Albania where ministry officials are fascinated by the potential of such laws to educate the public that taxation is a good thing and promote self-determination. However, a warning was issued: if percentage laws are a form of transitional philanthropy, the period of “transition” has to stop at some point. The view was expressed that the laws give a “buzz to philanthropy” but, at the same time, cannot be expected to solve every problem. The percentage scheme could, it was felt, serve a useful purpose for a 10-15 year period while real philanthropy develops in the region.

**The policy rationales of the percentage laws:** It was also underlined that it is important to understand the intent of such laws and their policy rationale. Where the main policy rationale of percentage laws appears to be tax self-determination and civil society development, the impact seems to be strong. In terms of developing a philanthropic culture, the impact is possibly less strong but perhaps the laws can act as a first step to getting people thinking in a philanthropic manner. Finally as a form of government outsourcing, which help decentralise and de-politicise government support, the impact is partial. The different rationales behind the laws can also work against each other.

**Political and economic risks:** In some countries percentage laws have been used as a trade off or exchange for existing state support such as the cancellation of tax allowances on donations in Lithuania and Slovakia, which, all panellists agreed, is a worrying feature. It was noted that in Hungary tax deductions for donations and government grants and service contracts have been maintained, and in addition, the presence of Hungary's 1% scheme has led to the new National Civil Fund which will increase overall NGO revenues from the state budget in 2004. The panel emphasised that when considering percentage laws NGOs need to make sure politicians understand that existing support should not be cut. It is important not to confuse the percentage system, tax credits and tax deductions which are three different things.

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<sup>4</sup> Charts used by Nilda Bullain and Arpád Lőrincz during their presentations are available under Conference on [www.onepercent.hu](http://www.onepercent.hu).

Several panellists also noted that a downturn in the economy, economic reforms or price increases could affect the percentage system – in terms of public participation, the level of revenues generated for the NGO sector or political commitment to its future operation. A further threat to the system's smooth operation can be political changes that result in changes in the state administration.

**Administrative difficulties:** All panellists noted that each country had experienced – or was likely to experience – administrative problems in the start-up of their percentage schemes. There is a need to monitor implementation closely, make changes and build on experience.

**Transparency issues:** On the question of transparency, it was agreed there are some deficiencies in the case of Hungary: the public announcements NGOs have to make on how they used the 1% money do not always ensure that the taxpayers are informed on the use of their designated sums. Given the lack of specific reporting requirements in Lithuania, it will be difficult to know whether an NGO uses the transferred money in the way its says and whether the money is used in line with the organisation's stated public benefit mission.

Despite the extra burden and costs placed on NGOs, in Slovakia's case it was felt important to gain public trust by checking eligibility issues up front and to ensure transparency in the use of transferred money by requiring NGOs to report on how the 1% money was used. By comparison, a failing in the Hungarian system's design is that NGOs' eligibility is only checked after the taxpayers make their designations. This means that taxpayers may mistakenly designate their 1% amount of tax to an ineligible NGO or an NGO may decide not to accept the designated 1% support.

**The different percentage models – which is best?** It was noted that the Hungarian model and experience has been studied in Slovakia and Lithuania, but different models emerged in these countries. It is not possible to say which system is better; the systems differ according to the local circumstances.

In all the countries there are administrative tensions between the three groups involved: taxpayers, the tax authority and NGOs. What is clear is that the easier the procedure for the taxpayer, the more likely it is that the percentage option will be used. By far the easiest procedure for the taxpayer is in Hungary (where the numbers of taxpayers that designate each year is steadily growing), but there is a greater administrative burden on the Hungarian tax authority. In Slovakia tax office faces less of a burden because of the involvement of public notaries in pre-screening NGOs' eligibility. In Poland the whole burden has been placed on the taxpayer who has to arrange the transfer of up to 1% of tax to the selected beneficiary directly. It may prove this level of burden is too great and public participation will be low in the first years of the system's operation in Poland.

In relation to the range of eligible beneficiaries, it was felt that Lithuania's 2% system is the most liberal. Including public institutions as well as NGOs as beneficiaries in Lithuania helped win public and government support but their inclusion weakens the chances of increasing NGO revenues and the scheme's overall impact. (It was added that this more inclusive, broader approach also ended an attempt by Lithuanian MPs who wanted to limit beneficiaries by having a fixed list.)

The taxpayers' anonymity, protected in Hungary, Slovakia and Lithuania, was felt by some to be a negative feature of the percentage systems. This aspect limits the development of a direct relationship between the NGO and donor, something the Polish system seeks to promote.

## OVERVIEW OF CHAPTER III: THE PROCESS OF DEVELOPING PERCENTAGE LAWS

### Summary of the papers

*Balázs Gerencsér* writing in *From Hungary's 1% Law to a National Civil Fund*, recalls that Hungarian NGOs were not involved in developing Hungary's percentage law adopted in 1996. NGOs' complaints about the initial administrative requirements and their lobbying efforts over the years led to some improvements in the 1% scheme's operation. A major development, linked to the 1% scheme, were the proposals made in 2002 by the newly elected government in its "civil strategy", including the creation of a new central fund to support certain NGOs' core operating costs. NGOs' negotiations with the government on the procedures for operating the National Civil Fund, in which NGOs are to play an active part, resulted in some positive outcomes, but also revealed weaknesses in the NGO sector's ability to represent its interests collectively in a unified and co-ordinated way.

*Arpád Lőrincz*, the author of *Slovakia's system of 1% tax allocation* recounts that the 1% proposal emerged from a working group on NGO sector legislation set up in the framework of the Stupava Conference. The political process leading to the adoption of a 1% system (for individual taxpayers) lasted a full parliamentary cycle (1998-2002), involved difficult negotiations with the Ministry of Finance and depended on winning the support of parties on both the left and right. The "1% from companies" was a counter-proposal by politicians as an alternative to a separate NGO proposal for a Slovak endowment from privatisation proceeds (based on the Czech model). In 2003, NGOs faced a hard battle to save the percentage system and tax allowances on donations which the government wished to abolish as part of its radical fiscal reforms. The eventual compromise reached involved raising the percentage of tax (allocated by individuals and companies) from 1% to 2% in exchange for the loss of traditional tax deductions on donations.

*Vaidatos Ilgius* in *Lobbying for a 2% Law in Lithuania* notes that, following his study visit to Hungary, it took three years' concentrated work to introduce the Lithuanian percentage law. A coalition of about 100 national and regional NGOs was involved in the campaign and much effort went into researching, presenting and explaining the facts about the NGO sector and the expected benefits of the percentage scheme. Upcoming elections proved to be a good opportunity to present this new, innovative policy idea. In a climate of political uncertainty and counter-proposals by the government (the 2% Law was accepted in exchange for traditional tax deductions on donations), it was necessary to lobby on many levels, prepare counter-arguments, win cross-party support as well as muster public and media support.

In *How the 1% system was developed in Poland* the different consultative phases within the NGO sector and with political parties, the government and parliament are discussed by *Igor Goliński*. Timed around parliamentary elections, the 1% initiative was closely linked to a wider campaign conducted by Polish NGOs over several years to develop a more comprehensive legal framework for the NGO sector's activities. The process, notable for the

involvement of NGOs at all stages, contributed to developing channels for state-NGO sector dialogue and raising public awareness of NGO activities.

*The Romanian experience* by *Mona Musca and Horia Paul Terpe* highlights the extremely speedy process that led to Romania's 1% Law in December 2003. Interestingly, this successful initiative, that took less than six months to achieve, was launched by a political party in opposition. The process involved close co-operation with Romanian NGOs and the diplomatic community. The approach of a general election was a major factor in winning political support from the Minister of Finance and other political parties for the percentage measure, though at the lower level of 1% instead of the 2% level initially proposed.

### **Key inputs from the Conference's Advocacy Session**

*Facilitator: Laurie M Naumann*

*Panellists: Vaidotas Ilgius, Arpád Lőrincz, Mona Musca/Horia Paul Terpe, Tamás Bauer, Balázs Gerencsér*<sup>5</sup>

In this session the factors – both positive and negative – linked to the advocacy process in developing percentage laws in the various countries were discussed including:

- launching percentage law initiatives
- designing flexible, targeted lobbying strategies
- winning political support and defending NGO interests
- passing a percentage law: victory or defeat?

**Launching percentage law initiatives:** In several countries NGO coalitions or NGO-led initiatives have succeeded in putting the percentage issue on the political agenda, but it was noted that NGOs in Hungary had not been closely involved in developing the 1% Law and in Romania NGO-led percentage initiatives prior to 2003 had failed. Several of the panellists noted that the onset of elections often offered an opportunity to present the percentage system as a new policy idea. In Romania it had proved difficult for the government to say “No” to Romanian NGOs in the run-up to a general election. It was felt that the political instability and constantly changing governments in Lithuania had been as much an opportunity as an obstacle.

**Designing flexible, targeted lobbying strategies:** Mostly it was felt the campaigns – whether NGO-led or initiated by politicians – had to be ready to adjust to changing circumstances, involve a wide range of players, understand and present the “who gains” arguments and target the key players in the state administration as part of the lobbying process. NGOs have played a leading role in lobbying efforts and/or provided strong support to a political initiative. In Romania a NGO telephone and letter campaign to MPs helped get the measure through. In Lithuania a conference targeted the fifteen key politicians and officials. It was underlined that background research and lobbying effectively takes time and money which may require support from donors. In Lithuania, it was important to show public support in general for the idea and to provide well-produced information on time: making this extra effort to present the facts and produce convincing arguments helped make the claims for more resources more “catchy” and “sexy”.

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<sup>5</sup> Charts used by Arpád Lőrincz and Mona Musca/Horia Paul Terpe during their presentations can be found under Conference on [www.onepercent.hu](http://www.onepercent.hu).

**Winning political support and defending NGO interests:** The experience in the different countries showed that politicians of different political shades have supported the percentage idea. Being able to attract all-party support was often crucial to the eventual success of a percentage proposal. Having one or more well-informed, determined politicians on board to either initiate or steer the issue through parliament or to assist in negotiations with the government was judged to be immensely helpful. NGOs need to be in a position to work with key government institutions such as the Ministry of Finance (which one conference participant described as “an institution that is usually fortress-like and impenetrable”). In Slovakia it helped to set up an expert group of legal and financial experts to negotiate legislative changes affecting NGOs with the government.

In Slovakia NGOs had to work to amend the version of the percentage mechanism first adopted, making it more favourable to NGO requirements, and at a later stage defend the percentage system in the face of government plans to abolish it.

**Passing a percentage law: victory or defeat?** In contrast to those who saw the adoption of percentage laws in their countries as a “victory”, *Tamás Bauer* argued that Hungary’s 1% Law represented a “defeat”. The purpose of the 1% Law was to help the third sector, in particular associations, to be independent of the state. However, a series of compromises, including widening of the scheme’s beneficiaries to include almost all forms of NGOs, undermined the original concept and limited its impact. For example, the inclusion of foundations means that scheme is “misused” to substitute what the state should finance directly. The local school and hospital foundations set up in Hungary receive the bulk of 1% funds to help cover their operating costs. In other words, the 1% scheme’s message actually is: the state is failing, let people do it. Many participants agreed that the issues the 1% scheme raises are simply an indication of the general funding shortages suffered by public services.

It was generally felt that the experience of several countries in developing percentages laws shows that successive governments have had few substantial programmes to develop the NGO sector. Similarly, in some countries, NGOs, despite the presence of many platforms, have no long-term plan either regarding tax laws or other laws affecting the sector.

The feeling was expressed that in some countries it is expected that the percentage system will solve the different competing problems of NGOs’ political dependence and the lack of public trust and resources, but it is still not clear how the percentage measure on its own can achieve such wide-ranging objectives. Many agreed with the idea that the percentage system is an important interim measure and, in the meantime, politicians need to do more to encourage traditional donations.

## OVERVIEW OF CHAPTER V: CAMPAIGNING AND COMMUNICATION METHODS

### Summary of the papers

*The challenge of 1% campaign management in Hungary* by *Balázs Gerencsér* analyses the experience of NIOK's 1% campaign – to encourage as many taxpayers as possible to use their 1% designation option to support NGOs – as it has developed over seven years and the possible future changes. Key challenges remain finding sponsors for NIOK's public-awareness campaign and convincing more than the current one third of taxpayers to designate their tax. A wide range of separate 1% campaigns are now run by individual NGOs in Hungary for their specific causes. Both the number of NGO beneficiaries and competition for 1% income are steadily increasing. NGO campaigns vary enormously in size and quality. Small local campaigns using simple methods based on contacts in the local community can be very effective. Only a limited (but growing number) of NGOs are able to run national campaigns using sophisticated techniques which can secure a high media presence and result in considerable 1% income. Other actors involved in the success or otherwise of 1% campaigns include volunteers and supporters, the media, PR and marketing agencies, the Hungarian tax authority, taxpayers, accountants and pay-roll staff.

In *Promoting a 1% philosophy in Slovakia*, efforts to inform the public about the purpose of the 1% mechanism, maximising its use and assisting NGOs, are described by *Jana Kadlecová*. The “1% for better life” campaign, organised by the First Slovak Non-Profit Service Centre and the Forum Information Centre, started in the autumn of 2002. The main elements included a media campaign and services to NGOs through a regional network. The focus of the campaign and its tools have changed in response to the results achieved over the first two years. Increasingly the campaign wishes to concentrate its activities on a number of specific needs including specialised services, providing training and helping NGOs to run their own campaigns.

*Artur Ptak* in *Preparing a 1% campaign strategy for Poland* outlines the plans of the Academy for the Development of Philanthropy in Poland to help implement Poland's new 1% system adopted in the spring of 2003. The Academy foresees a partnership approach – it is envisaged that a Board of Partners will be set up to develop the campaign's content, build on previous campaign-awareness initiatives, and utilise know-how from existing networks and the business and government sectors. Polls have indicated strong public interest in the new system but it remains to be seen how the procedures foreseen will affect taxpayers' participation. As in other countries, it is expected that smaller NGOs with a strong local profile and large, well-known NGOs working in areas popular with the public will win most 1% transfer from taxpayers.

## Key inputs from the Conference's Campaigning and Communication Session

*Facilitator: Artur Ptak*

*Panellists: Jana Kadlecová, Balázs Gerencsér, Vaidotas Ilgius<sup>6</sup>*

Key issues that emerged in this session were:

- requirements for organising sector-wide information campaigns
- the range of available campaign tools in the face of financial constraints
- how to develop a campaign that is fair to all NGOs
- potential risks and public trust issues
- confidence in the designation procedures.

**Requirements for organising sector-wide information campaigns:** it was felt that an NGO (or a consortium of NGOs) with the right background is well placed to run a 1% (or 2%) campaign to raise general public awareness, maximise the use of the tax designation possibility and assist NGOs. In addition to knowing the NGO sector well and possibly having regional partners, the NGO organiser/s should have a fund-raising capacity, partners in the media and PR (to obtain free-of-charge or discount services/advertising space), and access to tax and legal experts. An important requirement is that the campaign organisation or consortium does not intend to be a 1% beneficiary and that the campaign's focus is on supporting NGOs and their activities, not the organisers.

**The range of campaign tools in the face of financial constraints:** Campaign costs are kept as low as possible. Finding donors/sponsors for the campaigns is an on-going challenge that seems to be becoming increasingly difficult in all the countries. Despite the financial constraints faced, the main 1% sector-wide campaigns have been pioneering examples in their countries in terms of their professionalism and range of PR tools. An important tool in Hungary and Slovakia is having publicly available databases of potential NGO beneficiaries (which, in addition, has also increased knowledge about the active NGOs in the sector).

**How to develop a campaign that is fair to all NGOs:** A difficult challenge, especially in the first years of a campaign, is to explain to the public not only what the 1% option is and the tax procedures involved, but also what an NGO is. At the same time it is important not to favour issues such as children and animals at the expense of other NGOs. The Slovak campaign's TV spot, for example, did decide to highlight some areas more attractive to taxpayers – not least because it was difficult to find a format that covered all 7 areas of the eligible activities. The Slovak organisers tried to solve this dilemma by linking the main advertisements to other campaigns tools such as the website and a toll-free “green” telephone line.

Those NGOs which are active in supplying information to the campaign website/database do benefit from more exposure in the main campaign. In Slovakia there was also co-operation with the local media to publish details of local NGOs on the list of potential beneficiaries active in that local area. Some agreements were made with certain media organs to the effect that only the main campaign would be broadcast, not the campaigns of individual NGOs

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<sup>6</sup> Charts used by Jana Kadlecová and Balázs Gerencsér during their presentations can be found under Conference on [www.onepercent.hu](http://www.onepercent.hu).

campaigning for themselves. Those employers that were interested received the whole list of potential beneficiaries to put on their company intranet systems.

In Hungary, NIOK's campaign has tried not to show any definite picture but has focused instead on figures (like "1"), signs and the phrase "giving". No one image is shown that might favour one specific area of NGO activity. People who call NIOK's telephone service usually have no idea which organisation to select and want to be told a tax number. Those answering at NIOK are trained that all NGOs are equal and not to suggest any specific organisation. Instead the campaign team member tries to find out what the caller's interests are. This neutral approach is also in line with NIOK's agreement with the tax authority in return for which it helps distribute NIOK's campaign information. Tax office officials have telephoned to check the advice NIOK provides to callers is neutral!

**Potential risks and public trust issues:** It was emphasised that interested new countries should be aware that there is a risk of abuse in relation to the percentage system. So far there has not been any abuse in Slovakia though organisers were aware of the potential risk posed especially when the main goal of the campaign was to gain public trust in the 1% mechanism. A lack of public trust in NGOs does not appear to be the main factor for not allocating tax. It was felt that Slovak NGOs which received 1% funds should say thank you more publicly or publicise how they used the money received – it is normal for NGOs to provide donors with reports so they should follow this practice with taxpayers. Despite the anonymity requirement, NGOs could do much more to communicate on the use of the 1% money, not least as they know the geographic location of their 1% supporters from the transfer received from the relevant local Slovak tax office.

**Confidence in the designation procedures:** Panellists felt that because of data protection rules, a weak point of the percentage mechanism is its anonymity as this prevents oversight over tax office procedures. Only 5% of Slovaks questioned on this issue say they do not trust the tax office. The same issue is also true for Hungary – some NGOs are very mistrustful of the tax authority. However, the procedures involved are well regulated and tax officials would appear to have little interest in not processing designation forms. It was added that the lack of direct feedback by NGOs on the use of the 1% money, due to taxpayers' anonymity, prevent real development of NGO-taxpayer relationships. A solution proposed would be for designating taxpayers to indicate to the tax authority (ticking a box on the designation form) if they wish their name to be released to the NGO concerned.

## OVERVIEW OF CHAPTER VI: ASSESSMENT

### Summary of the paper

*The impact of 1% Laws in Hungary and Slovakia – a comparative overview by Zsuzsanna Mészárosné Lampl and Károly Tóth* is the first attempt to compare research findings in the two countries. The Slovak authors confirm that, despite differences in the two countries' size and percentage systems as well as some difficulties in comparing data, the more recent Slovak surveys are consistent with earlier Hungarian research findings. A key element in the percentage system in both countries is that it involves the conscious choice of a taxpayer. In this respect it can be an instrument for educating citizens, something very relevant in Central and Eastern Europe. The main motivation for taxpayers in using the 1% option appears to be philanthropic: the desire to help. Taxpayers tend to favour NGOs with which they have some sort of personal or local link. Often areas are supported where the greatest need is perceived

greatest: in both countries health and education are the top areas, but sport is also a popular area in Slovakia. The main reason why taxpayers did not designate a portion of their tax is because they simply forgot or did not have time. While there is a limited degree of distrust of the state and NGOs in both countries, this does not appear to be the major reason for not using the percentage option.

## Key inputs from the Conference's Assessment Session

*Facilitator: Marianna Török*

*Panellists: Zsuzsanna Mészárosné Lampl, Károly Tóth, István Sebestény<sup>7</sup>*

Issues dealt with in this concluding session included:

- the possible link between the percentage system and other giving
- direct and indirect effects of Hungary's 1% system
- explanations for differences in Hungary and Slovakia's experience
- future research needs.

**The possible link between the percentage system and other giving:** In an effort to respond to questions raised in earlier sessions at the conference, *István Sebestény* provided an overview of Hungarian data regarding 1% designations and giving in Hungary. Central Statistical Office data shows that private donations in Hungary are growing slightly; the 1% scheme does not appear to have a "crowding out effect" either on donations or state funding. While it might be possible that the percentage system could have a possible negative effect on philanthropy, it also needs to be considered that those who never gave before now designate 1% of their tax and might give in future – but this possible outcome is not yet known.

**Direct and indirect effects of Hungary's 1% system:** NGOs in Hungary receive vastly varying amounts from the 1% scheme from something like 200 forints (less than one euro) to 150 million forints (500,000 euros). Hungary's experience reveals a number of secondary effects of the 1% scheme: it is certain that after the 1% scheme started many dormant NGOs revived and were supported locally (maybe only low amounts are transferred but these are essential in a village where local resources are scarce). In addition, many NGOs have become much more visible and some have been very successful at raising money through the 1% scheme. Finally, the 1% scheme plays a role in plugging gaps in public funding (people use the 1% option as a way of addressing shortcomings in state support).

**Explanations for differences in Hungary and Slovakia's experience:** It was noted that Slovakia's registration system (for which NGOs have to pay) was clearly good business for notaries, but it helped define eligible NGOs at an early stage and stopped taxpayers wasting their designations as happens in Hungary. Hungary's initial procedure (which has now been simplified) of asking NGOs to produce certificates was also costly for NGOs. Perhaps the Slovak registration system has an effect on the taxpayers' choice or perhaps it motivates NGOs to work harder – in Hungary some NGOs just wait for designations. Perhaps in Slovakia the registration system attracts more NGOs active in health and education as they

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<sup>7</sup> The charts presented by Zsuzsanna Lampl and István Sebestény can be found under Conference on [www.onepercent.hu](http://www.onepercent.hu).

know they stand more chance of success. Sport may feature more highly in Slovakia as it is excluded in Hungary's 1% scheme.

What is clear in both countries is that it is more educated people in towns that tend to designate. While the fact that one third of taxpayers makes use of the 1% option could be regarded as satisfactory, it is a problem that this proportion is not really growing.

**Future research needs:** It was felt it would now be timely and important to repeat the major research conducted in 1999/2000 by Ágnes Vajda and Éva Kuti on the effects of Hungary's 1% Law's in order to see what trends are now emerging. There are no real data about the precise motivation of taxpayers. Other key questions to explore would be how many taxpayers have become more motivated to give in addition to using the 1% option and whether the 1% scheme has an effect on wider giving. Such research would be expensive and is something that, at the moment, the Hungarian Central Statistical Office does not consider a research priority.

Examining the full social impact of the percentage laws would involve investigating the social capital and community value these laws generate, and the trust between various groups in society. The social effects of the percentage laws in Hungary and Slovakia are impossible to fully assess as data are incomplete and many actors are involved (employers, taxpayers, notaries, the media etc. in addition to the tax authority). It was recommended that research needs should be considered when planning percentage laws. The comparison of existing data in Slovakia and Hungary in *Percentage Philanthropy* is a good start and it would be helpful to see further international co-operation in analysing the results of the growing number of similar percentage laws benefitting the NGO sector.

## RECOMMENDATIONS AND NEXT STEPS

Based on the issues debated and the ideas raised in the first phase of the Percentage Philanthropy Project (April 2003-March 2004), the Nonprofit and Information Centre (NIOK) Foundation has drawn up a set of recommendations regarding further steps to be explored and acted upon by civil society organisations, funders, researchers and policy makers in Central and Eastern Europe.

In the next stage of the Percentage Philanthropy Project (2004/2005), NIOK will carry out a number of activities in close collaboration with a wide group of experts. Joint efforts will include:

- facilitating further discussion about percentage giving
- using the project website ([www.onepercent.hu](http://www.onepercent.hu)) as a clearing house for information on the evolving percentage systems in different countries
- working with several countries to assist in framing their related policies.

In addition to on-going activities linked to the Percentage Philanthropy Project, NIOK would be happy to join forces with different groups and organisations to examine ways to act upon the recommendations listed below.

### ***On percentage laws***

1. There is a need to continue exchanging information between local partners and the countries with percentage law schemes by monitoring and reviewing developments on a regular basis.
2. Research should be undertaken to assess the relationship between percentage giving and private giving in countries where such laws exist.
3. Research is also needed to examine the relationship between percentage giving and state support in countries where such laws exist.
4. Countries interested initiating in percentage law schemes should build their development strategies on available know how.

### ***On philanthropy development***

5. The role of intermediary institutions, incentives and campaigns that encourage philanthropy development should be examined and the experience shared among resource dry countries in the region.
6. Comparative analysis at a policy level on the legal framework should be developed as a tool for developing efficient systems and promoting private giving.

### ***On wider support strategies for NGO sector development***

7. Information on a variety of tax efficient giving mechanisms and other strategies that support NGOs, besides percentage schemes, should be collected and widely disseminated.
8. More cross-country policy level exchange of information is needed regarding NGO sector development issues in general.
9. Peer support for leading NGO activists is needed in the post-communist countries that are developing independent sectors.

### ***On state-NGO sector relations***

10. In each country related legal regulations should be supportive of NGO sector transparency, visibility and sustainability.
11. National policies on state-NGO sector relations should be compared and the results be used as a tool for advocating new approaches in dialogue, policy development and co-operation between NGOs, the state, local government and other public bodies.