

1. NON-GOVERNMENTAL ORGANIZATIONS AFTER 1989

At the outset of democratic reforms in 1989, there was only one foundation in Bulgaria, while non-profit associations were state-controlled entities serving the ends of the regime.¹ The establishment of new non-governmental organizations (NGOs)² in Bulgaria at the beginning of the 1990s and their characteristics reflected the spirit of transition, with its peculiarities and political vicissitudes, as well as the mixing of national legal and political traditions with various foreign models. They followed standards **that had long been recognized in countries of established civil society traditions**. Unlike the former rather limited remit of NGOs, today's organizations have evolved into a "mechanism for guaranteeing the rights and freedoms of citizens, ... a major employer, occupying a significant sector of national economies".³

1.1. THE REGULATORY FRAMEWORK

The 1991 *Constitution of Bulgaria* proclaimed the freedom of association as a fundamental civil right to be exercised by citizens by establishing associations to safeguard their interests. Civil associations may pursue different goals related to education, human rights, trade unions, and others, but are not allowed to pursue political goals or engage in political activities, as the latter are the domain of political parties. The Constitution also prohibits the establishment of organizations whose activities are directed against the sovereignty and territorial integrity of the country and the unity of the nation, toward the incitement of racial, national, ethnic or religious enmity, or toward violations of civil rights and freedoms. Organizations establishing secret or paramilitary structures or resorting to violence in order to reach their goals are also prohibited.

With respect to internal governance, the *Non-Profit Legal Entities Act* (referred to below as the NGO law), allows for two types of non-profits – associations and foundations. As regards their beneficiaries, the law also distinguishes between organizations acting in the private interest of their members or other persons and organizations whose functions and goals are for the public good.⁴ The latter are exhaustively regulated, unlike the former. Public benefit NGOs are held to a much

¹ Further on this period see *Non-Governmental Organizations in Bulgaria*, Center for the Study of Democracy, Sofia, 1997.

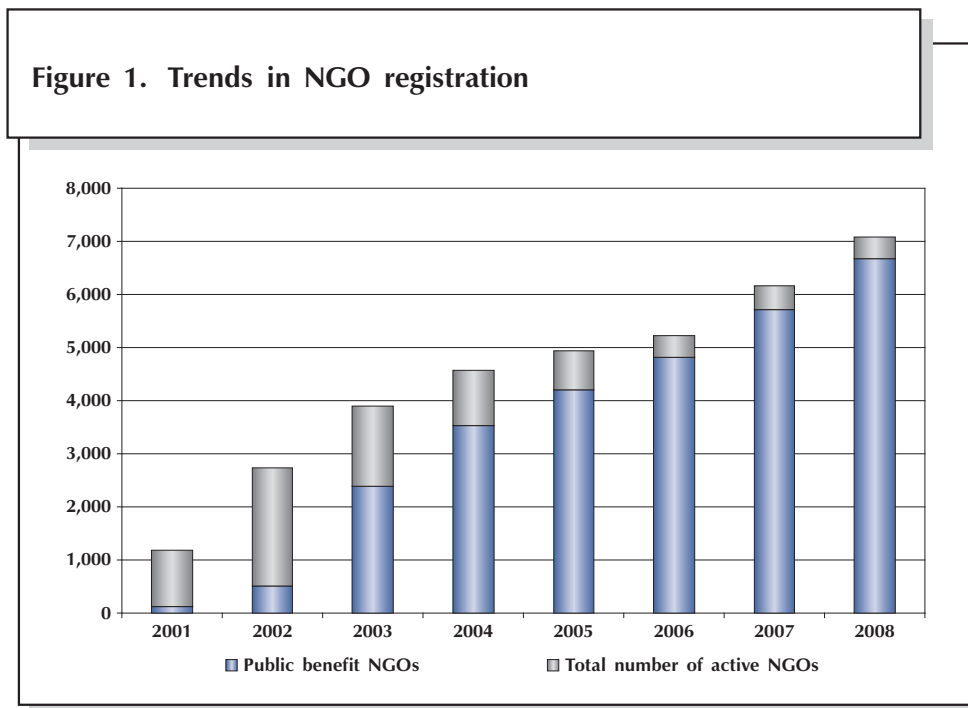
² Since this paper will look into the civic aspects of the work of these institutions, their governance and funding, "non-profit" and "non-governmental" will be considered as coextensive terms. Unless otherwise specified, "NGO" will be used to mean both.

³ *Non-Governmental Organizations in Bulgaria...*, p. 46.

⁴ See the *Non-Profit Legal Entities Act. Questions and Answers*. Bulgarian Center for Not-for-Profit Law, Sofia, 2007, p. 39.

higher standard of accountability, transparency, accounting procedures, auditing, etc. When terminated, their assets are transferred by a court order to an NGO with a similar profile or to the local municipality. In return for these stringent requirements, public benefit NGOs are entitled to receive government or municipal funding for their activities, and their donors could receive certain tax breaks. Once incorporated by the court, a public benefit NGO also needs to enlist in the Central Registry of Non-Profit Legal Entities (hereinafter “the NGO Registry”) administrated by the Ministry of Justice where it submits annual reports.

When the law was enforced in 2001, it was not initially clear how the status of organizations acting in public interest would work; as a result, many organizations opted for registering as acting in private interest. Later on, however, **most non-profit organizations**, except for the community centers (*chitalishte*), **started changing their registration to non-profit legal entities acting in public interest** (see Figure 1 below).



Source: National Statistical Institute and the NGO Registry, 2010

The trend leveled off around 2006 and subsequently, according to the National Statistical Institute (NSI), the share of non-profit organizations acting in public interest has remained rather stable – between 92 and 94 percent. Overall, in August 2010 there were 20% more NGOs of both types compared to 2008. Even assuming that some of these NGOs are inactive and do not submit information to the NSI, it is clear that Bulgarian organizations prefer to be registered as working for the public benefit.

The general preference for the public benefit status has much to do with the structural changes in NGO financing. These became apparent in 2004 – 2006,

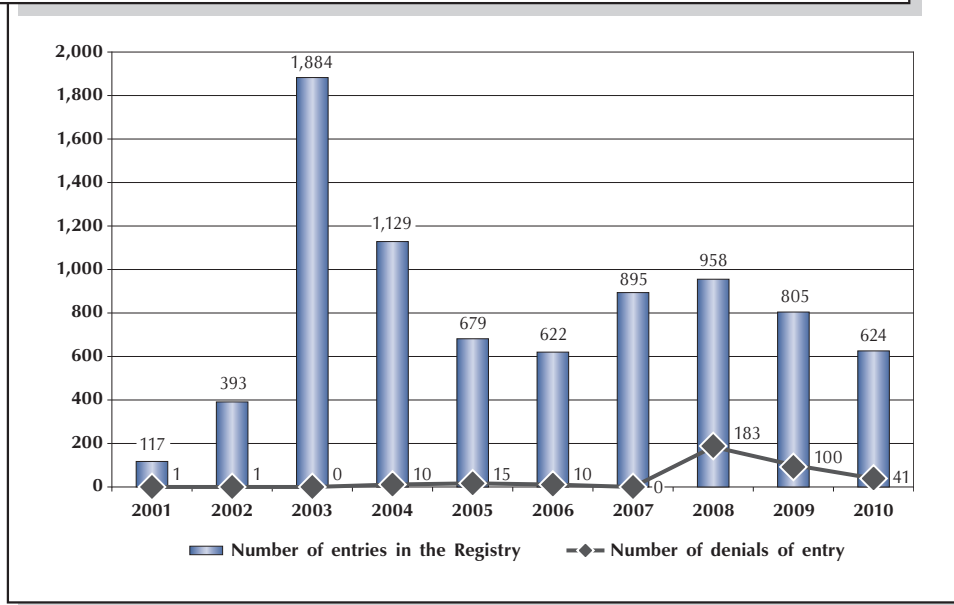
when traditional donors started to withdraw from the third sector leaving the government as the major donor and distributor of funds. As eligibility for government funding requires that the NGO is registered in the public benefit, many opted for it. Nevertheless, there are still some private benefit NGOs – usually small organizations in small municipalities – that reckoned it was not worth spending time and money on a new registration. Some municipalities consider it appropriate to fund them since there is no explicit regulation against it.

A particular problem of the legal regulation of NGOs is the two-step process of registration which public benefit NGOs have to go through – the first judicial, the second administrative. First, the local court considers applications for the establishment of an NGO and, if approved, declares it established as public benefit non-profit organization. Although, the various courts apply quite different criteria in the process, which has imposed unnecessary costs, this has not bucked the general trend towards the public benefit status. Next, the Ministry of Justice registers the same organization in the NGO Registry. There are, however, no clear rules for organizations that were registered in the public interest by the court but were denied a registration by the NGO Registry or were removed from it. There have been a total of 23 such cases since the opening of the Registry, with some being registered later on (e.g. 20 percent of the organizations rejected during the first 6 months of 2009 received a registration within the next year). The total number of denied registrations is 361, with 90 percent of them between 2008 and August 2010; 29 percent of all currently registered were enlisted in that period.

The bulk of the denials could be explained by missed deadlines for re-registration or attempting to register public benefit NGOs that had already been in the Registry. The latest amendment to the NGO law concerning this matter was enacted in September 2006 and extended the registration period by one year, i.e. until the end of September 2007 which accounts for the surge in denials from 2008. Some of the organizations that missed the deadline were forced to register a second non-profit legal entity under a similar name and then merge it with the original organization.

A new reason for denials has emerged during the past year. The law allows non-profit organizations to carry out for-profit business but in a number of cases the Ministry of Justice decided that there had been a **contradiction between the proposed type of commercial activity and the requirements for public benefit status**. For instance, such refusals are given to organizations attempting to bypass the *Higher Education Act*, or organizations attempting to provide services that are typical for a business consultancy. The increase in registration refusals could be explained by the arrival of a new policy team in the Ministry after the 2009 elections, but even more so to by a general disapproval for the commercial operation of NGOs. **This approach, however, is not applied to organizations that have already obtained their registration**, making the playing field much less level. Yet, it is expected that the Ministry of Justice will start applying the above criteria to already registered organizations as well. The latter is likely to cause negative reactions from NGOs that are predominantly involved in commercial activities but hope to receive state funding in the future, thus, insisting on keeping their public benefit status.

Figure 2. Trends in registration denials



Source: Central Registry of non-profit legal entities acting in public interest. Figures for 2010 are for August.

There are three specific types of non-governmental, non-profit institutions that are regulated separately – community centers (*chitalishte*), trade unions, religious institutions, and political parties are separate forms of civil associations. Under the *Labor Code*, for example, trade unions are entitled to defend the rights of workers and represent workers' best interest. Even though the Code provides for the same registration procedures as for non-profit legal entities, trade unions are a separate category which by law has different objectives and responsibilities. For similar reasons political parties are also excluded from the category of non-profit legal entities. According to the *Political Parties Act* they are voluntary associations of Bulgarians having the right to vote, which aid the formation and expression of political will through elections or other democratic means.

Some shortcomings notwithstanding, the legal framework in Bulgaria provided for the rapid growth of NGOs during the years of transition. This has established the backbone of an increasingly robust civil society which was a key factor in overcoming the totalitarian heritage.

1.2. BRIEF HISTORY AND PROFILE OF THE SECTOR

Stages of transition

Four periods can be distinguished in the development of NGOs. **The first one** is the period of establishment and starts at the beginning of 1990. Some of the

currently largest NGOs in Bulgaria were registered in the period from 1990 to 1994 (amongst them are the Open Society Foundation, the Center for the Study of Democracy, the Atlantic Club, the Center for Liberal Strategies, the Institute for Market Economics, the Applied Research and Communications Fund, etc.).

During the **second period** – 1994-1998 – the major international donors launched their programs for supporting Bulgarian NGOs. The number of organizations increased (a CSD survey found roughly 3,000 registered NGOs at the end of 1996⁵), their missions mostly echoing the priorities announced by donors.

The third period was marked by an institutional strengthening of the sector (1998-2005). New foreign donors arrived on the scene, while others (e.g., USAID, the Open Society Foundation) reduced somewhat their funding. That was also the time of emergence of national sources of NGO funding.

The fourth period begins after 2005. As NGOs could now benefit from an array of European Commission programs, bilateral donor programs were gradually wound down and most were discontinued after EU membership in 2007. This was also, however, the time when organized crime and the Russian oligarchs became involved in the NGO sector. It was the beginning of a kind of sector capture whereby politicians and senior civil servants started using non-profits for a variety of shadowy ends (more on this in 2.3. below).

The thematic profile of NGOs in Bulgaria was very much shaped by the factors that influenced their initial development. The majority of the early organizations were set up by scholars – mostly in the humanities. In many cases these were experts of ideological research institutes who, after the collapse of communist party control, utilized their social and political capital by establishing non-profit start-ups with the strategic, financial and technical support of foreign donors, political parties and organizations.⁶ As in other former communist countries, the old quasi-academic institutions that used to supply ideological advice to governments were supplanted by the new kids on the NGO bloc.⁷ This process was driven by the funding shortage suffered by these institutes at the end of the regime, the ambition of the younger generation of researchers to gain independence from compromised superiors, as well as unwillingness of Western partners to cooperate with the old ideological establishment.

Scope of the sector

There are various difficulties in determining the exact size and composition of the third sector in Bulgaria. Some are related to the **discrepancies** between the number of registered NGOs and those which are actually operational, the **lack of public information** about NGO activities, as well as insufficient information about their funding, size, and the use of the grants received. For example, at the end of 2001 there were 15,580 NGOs with a Bulstat registration (incl. 3,800 community

⁵ Bezlov, T. and A. Stoyanov, *Bulgarian Think-Tank Survey: Final Overview Report*, CSD, Sofia, 1997.

⁶ Venedikov Y., *Sotsiologicheskite predizborni prouchvania – mezhdur serioznoto i opasnoto*, Lutch, 1994.

⁷ Struyk, R. *Reconstructive critics – Think Tanks in Post-Soviet Bloc Democracies*, Urban Institute, 1999.

centers), while the Center for the Study of Democracy estimates that only about 1,000 to 2,000 of them remained active in the long run.

At the end of 2007, there were 26,696 non-profit legal entities, of which 22,078 associations, 4,560 foundations, and 58 offices of international non-profit legal entities in the Bulstat registry. This represents a doubled growth compared to 2001. These numbers, however, are misleading. Many NGOs have never performed any activities or have only worked on a single project. According to the NSI, 6,165 NGOs have submitted financial statements for 2007, some of which reporting zero turnover. This means that only about 20 percent of all registered organizations do some work.

Despite the lack of complete and reliable information about the activities of the third sector in Bulgaria, several conclusions follow from the analysis of data from a CSD survey:⁸

- **The increased number of registered NGOs is not indicative of an expansion of this sector** or an increase in its effectiveness. Quite to the contrary, comparing data from separate studies shows that at the end of 2001 the sector was in stagnation with the volume of financial contributions not being able to reach the levels of 1996.
- **The structure of funding** did not change much during the period 1996-2000 and was characterized by the predominance of foreign sources. Even when Bulgarian sources are included (approximately 25 percent of all financial contributions for 2000), most of them are actually funds administered on behalf of foreign donors, especially the European Commission (most of its funding is administered by Bulgarian government agencies).
- It is difficult to estimate the **amount of contributions** because a large part of the donations is received in-kind and another part remains unrecorded. Some organizations have different interpretations of the concept of donation, including a wide range of services and goods.

Types of NGOs

The CSD survey found that by 2002 a considerable variety existed among non-profits as regards their size, type of operation, location and other characteristics. Several distinct groups could, nevertheless, be outlined:

- Group 1 – approximately 20-35 large organizations located mainly in Sofia (organizations with around or over 20 full-time employees are considered large);
- Group 2 – approximately 50-75 mid-sized organizations (with 10 or more full-time employees);
- Group 3 – small organizations (200 to 300 organizations) which are registered mainly in regional centers. Additionally, about 30 to 40 organizations operating in smaller municipalities could be considered a part of this group;
- Group 4 – approximately 600-800 very small organizations, many of which have only one employee working only intermittently.

⁸ *Development of Charities in Bulgaria: Strategic and Steady Partnership with NGOs*, Analyses/Reports, Center for the Study of Democracy, Sofia, 2002.

With respect to their objectives, NGOs could be classified as:

- Organizations with a wide range of civil and professional objectives;
- Organizations with more specific objectives (e.g., support to the economic reform, research of the political system, support to local authorities, work with a specific social group, etc.);
- Organizations with an open affiliation to some of the political parties in Bulgaria.

There are other typologies based on the **nature of employment** of NGOs (permanent and full-time vs. part-time), the **management structure** (set up around a couple of high profile individuals vs. teams of peers), and the **degree of institutionalization of their output**. A study of think tanks in Central and Eastern Europe found a link between these types of organizations and the research methodologies applied by them.⁹

Service and charity

Another large category of NGOs are the ones **providing social services**. The type of these services "...depends on the capacity of the supplying institution, the features of the location, the territory where the company operates, the needs of the target groups."¹⁰ NGOs are mainly involved in supplying social services within the community they belong to, i.e. social services for families or family-like environments. For example, NGOs provide soup kitchens for children and the elderly or for the community in general, day-care centers, centers for social rehabilitation, home assistance services, social mediation, etc. The main recipients of these services are various disadvantaged groups – poor or socially disadvantaged children and families, children and young people with specific needs, homeless children, elderly, lone or sick people, etc.

Often, together with the specific forms of social care, organizations provide other services such as payment of bills, cleaning, basic medical care, house visits, administrative and transportation services, clothes and food for the poor, etc. It is common for these organizations to combine social services with some form of medical care – assistance by nurses or occupational therapists, gynecological checks, psychiatric consultations, sexual education consultations, free anonymous counseling and AIDS tests, as well as testing for other conditions.

In 2003, amendments to the *Social Services Act* for the first time allowed NGOs to provide social services, including services for children under 18, and to apply for funding from the state and municipal budgets through tenders.

Most active among **charity NGOs** are organizations working with vulnerable groups: associations for the disabled or people suffering from various conditions (patient organizations), organizations protecting the rights of various minorities, etc.

⁹ Struyk, R. *Think Tanks: Practical Guidance for Maturing Organizations*, The Urban Institute and LGI / OSI, Budapest, 2002.

¹⁰ Bulgarian Center for Non-Profit Law, *Contracting of Social Services between the State and the NGOs England, Germany, Poland, Hungary, The Czech Republic and the Practices in Bulgaria*, Sofia, 2004, p. 61.

NGOs 2.0

In the past few years, NGOs made good use of **the new communication technologies**. The extensive adoption of IT, especially the fast expansion of internet services, created a new platform for civic initiatives. There have been many instances in which proactive websites have gained sufficient public support for a public cause or persons in need to turn into NGOs or social movements. The web became a tool for civic advocacy and facilitated the emergence of a voice of previously disenfranchised or fragmented communities – something hardly feasible through traditional mass media (some specific initiatives are described in Appendix II).

These developments further motivate the third sector to protect the freedom of information and to organize against any attempts for government control over the Web for supposedly legitimate ends. At the same time, the emergence of online movements and virtual NGOs become an additional challenge to political elites who see it as an impediment to their attempts to enhance control and patronage over this constantly expanding segment of public opinion.

The case of think tanks

The process of inception of NGOs out of the research institutes of the communist period further led to the establishment of a specific kind of NGO – the think tank. NGOs provided the right *modus operandi* for entering the emerging market of policy analysis, advice, creation and even facilitation of its implementation in virtually all Central and Eastern European countries.¹¹

Easy to distinguish, widely recognized, and having notable influence over public opinion, think tanks have largely **modeled themselves on their Western counterparts, mainly in the US**. This is largely attributable to the available funding and advice in the beginning of the 1990s which was dominated by American public and private institutions.

Think tanks are often entrusted with great expectations but also associated with the disenchantment of transition (especially as some think tankers were not averse to crossing into government). Their public profile is mainly driven by the media that finds among them authoritative commentators and competent analysts of current affairs. Having a sway over the minds of the public was indispensable in their main line of business – influencing policy. The international outreach of think tanks was also considerable as they easily found partners among NGOs, governments and other institutions in Europe and the US looking for both independent and reliable expertise in Bulgaria.

Think tanks were also among the first NGOs to emerge after the change of regime in 1989, most of which are still going strong: the Center for the Study of

¹¹ Buldioski, Goran. *Some Musings of Development of Independent Policy Making and Think Tanking in Central and Eastern Europe*, in National Security and Defense, №6, 2007, p. 50, Razumkov Centre.

Democracy, the Center for Economic Development, the Center for Liberal Strategies, the Center for Social Practices, Club Economics 2000, the Institute for Market Economics, and a handful of others.

Box 1. NGOs in the shadow of academic institutes

A peculiar subset of the category of think tanks has sprung up as a byproduct of transition. The founders and members of these NGOs are most often university academics with tenure who create a non-profit organization on the side, as it were, as a source of complementary income or for projects that cannot be done through their employer. These are also often set up as a reaction against mismanagement at the academic institution. The areas of expertise of the NGO and academic institute usually overlap.¹²

Depending on the situation, the NGO could either compete with the academic institute for funding or cooperate when partnership enhances the prospects for success or helps meet the requirements of the donor. In some instances of collaboration members of the NGO team participate in the project in their capacity as employees of the academic organization, while at other times the NGO relies on its informal contacts with colleagues from the academic institution.

Many of the academics utilize their informal contacts with donors, mostly national public funds, which are made possible through their participation in expert committees that assess project proposals and evaluate project implementation within the National Science Fund, the Operational Program Administrative Capacity (OPAC), the Human Resources Development Operational Program, or various ministries. This breeds risks of conflict of interests or of violation of the principles of scientific ethics.

In many cases, such NGOs are used to duplicate existing research projects at the academic institutions by applying for the whole project or parts of it to a separate, usually national grants institution. This leads to double reporting and the double payment of fees.¹³

It is difficult to estimate the number of these NGOs and their turnover as they work ad hoc with prolonged gaps between projects at times.¹⁴ They often have no offices of their own but are registered at the address of the respective academic institution or at the home address of one of their founding members. Staff for administrative work is hired on a project basis or is performed by the administrative staff of the academic institution for extra payment.

¹² This group does not include professional associations or associations of students because these are based on occupation and any person holding the right professional qualification could be their member.

¹³ This type of misuse should not be confused with the programs for national co-financing of projects under the Seventh Framework Program of the EU or financing of additional activities within an existing project – these are usually international comparative projects where additional funding allows the expansion of the analysis of the national aspect of the study.

¹⁴ There is a case of an NGO with 10 full-time staff, 7 of whom teach at the Sofia University, at whose address it is registered, stating on its website that for the period 2008-2009 it has worked on projects worth approximately 150 thousand euro. In a different case, two NGOs, each having between 5 and 10 staff, most of whom also work for two research institutes, have received about a half a million euro for the same period.

Dating back to the same period are some NGOs which follow the German model of party foundations, established to promote the vision of a particular political party. In spite of having significant human – as well as potentially financial – resources, the ex-communist party (later transformed into the Bulgarian Socialist Party) did not succeed in creating an influential foundation similar to, say, the Friedrich Ebert Foundation affiliated with the Social Democratic party in Germany. Other parties established their own non-profits – the Bulgarian Social Democratic Party established the Yanko Sakazov Foundation, while the Democracy Foundation was founded by the center-right Union of Democratic Forces. Both environmental parties at that time – the Green party and Ekoglasnost – also set up their own NGOs. Although most were legally foundations (the status possibly chosen to suggest a charitable nature), in fact they provided research as well as technical and organizational support to the respective party. Thus their influence rarely reached beyond the party circle and their contribution was confined to managing the international contacts and participating in research projects.

The case of chitalishte

Community centers are a specific type of non-profit legal entities. Known in Bulgarian as *chitalishte*, they started to appear in the 19th century as institutions combining the functions of community centers, arts houses, schools, libraries. As with other types of NGOs, there are more registered – 3,474 entries in August 2010 – than actually operational (only 2,895 have submitted reports to the NSI for 2007). Since 1997, there has been a decline among rural *chitalishte* – some are closing down – while they remain active in urban areas.

Table 1. Dynamics of community centers and their membership, 1997-2007

	1997	1998	1999	2000	2005	2007
Community centers (number)	3,646	3,125	3,056	3,027	2,838	2,895
in towns	536	514	510	511	539	548
in villages	3,110	2,611	2,546	2,516	2,299	2,347
Membership (thousands)	219	191	170	170	164	168
in towns	96	86	81	74	68	67
in villages	123	105	89	96	96	101
Average membership	60	61	56	56	58	58
in towns	179	167	159	145	126	122
in villages	40	40	35	38	42	43

Source: NSI annual reports for 2006, 2007, and 2008

Although *chitalishte* are non-profit legal entities, their establishment and operation requires a larger number of founders/members – 50 active persons in villages and 150 in towns. This membership requirement has been particularly problematic in rural areas where they find it difficult to engage a sufficient number of people. Similar shortages have troubled urban *chitalishte* as well. Even when the membership list has reached the required minimum, general assembly meetings are held with hardly a quorum. The Ministry of Culture does not perform the required biannual control over the centers' activity and thus fails to issue dissolution warnings, as instructed by the *Community Centers Act*.

In general, **community centers are less transparent** than public benefit NGOs. The *Community Centers Act* does not even require community centers to be registered as non-profit legal entities acting in public interest in order to become eligible for state or municipal funding. Only seven of the existing *chitalishte* have applied for and obtained such registration. The Community Centers Registry and oversight by the Ministry of Culture has been deemed sufficient to ensure their good governance. Only the statute of a community center is required for registration, and it is not publicly available; there is no requirement for annual activity reports or financial statements; they are to provide an account for their activities only to the local municipality and only for the contributions received from the municipal or the state budget. **This lack of transparency is a serious negligence on behalf of the responsible institutions**, especially taking into account that community centers take up to 40-50 percent of government funding for NGOs (data for 2005 through 2007) while being two to three times fewer in numbers.

Community centers are also treated preferentially in a case of foreclosure. The law stipulates that their assets are not liable in claims except when these stem from employment contracts. When a community center is closed down, the general assembly may distribute the property among its members which is not allowed for public benefit NGOs.

1.3. NGOs AND PHILANTHROPY

After an initial abundance of funding in the early years of transition, in the following decade it started to tighten up. This was not made easier by a shaky economy, imperfect laws and even less perfect enforcement. In this context, public funds had difficulty finding their way to NGO projects and thus the **private donations proved to be the only means for funding**, in particular for charitable organizations. Although deeply rooted in Bulgarian tradition, philanthropy had to struggle against legislative impediments which hampered the crucial role of business for the sector's development and exposed it to pressures from the gray economy.

In the past few years, things have changed and there has been a significant increase of charity campaigns carried out with the assistance of the electronic media which encourage individual donations channeled through organized charities. Broadcast media have become particularly active in this field, raising money for disadvantaged children or people in need of advanced surgery.

The public mostly trusts donation campaigns under the auspices of prominent personalities, especially politicians. These campaigns, however, are not carried out by NGOs but are administered by specially created funds or public councils. Most non-profits find it difficult to compete with the traditional media behemoths for public attention and their causes are thus drowned by what are often effectively PR campaigns by politicians. Many NGOs turn to the internet, instead.

A number of different types of **donations by individuals** can be distinguished:

- The first and most popular type are **single anonymous donations** of several euro, the total number of contributors being relatively small. These are made usually through text messaging – a kind of today's version of the traditional Red Cross boxes – as a result of media calls for donation. Charity events, concerts, exhibitions are also used;
- Another one, to have emerged in the past decade, takes place among certain **peer groups** which are motivated to donate on a regular basis slightly larger amounts (€5-10). These include professional teams that are often motivated by a colleague to support a certain cause;
- The third group, a subset of the second, are **religious communities**. Their members make contributions either during a service (common for protestant denominations) where one may feel obliged to do so, or for a specific cause. Many religious communities have their own non-profit legal entities which administer the donations, carry out the work and report back to the community;
- A separate group consists of **people of comparatively modest means**, including the retired, who donate small sums (€20-30);
- A specific small group are **NGO activists** – members of managing boards and general assemblies, or well paid experts – who donate to the organizations they work for;
- In a very recent development, **foreign citizens** have started donating in the hope that this would speed up the process of acquiring Bulgarian citizenship;
- There are, of course, also **the wealthy** whose donations are usually rare and might include the donation of real estate property.

Poor management and shortages in public healthcare funding have brought about a degenerate kind of philanthropy whereby **patients and their families are pressured into donating** to foundations connected to the respective hospital. It is, in fact, a hidden form of rent-seeking. In a particularly perverse case, €157,000 was donated to fighting cancer as a ransom for the release of a kidnapped person.¹⁵

Another not uncommon type of **“involuntary donation”** is made by parents being asked to give money or goods to their children's nurseries, kindergartens, or schools. Prior to the implementation of an electronic enrollment system in Sofia, donations were a common way to have one's child accepted in a kindergarten.

In the **corporate sector**, possibly because of the economic slump, only 5 percent of the companies have a long term donation strategy.¹⁶ When they donate, businesses

¹⁵ Angel Bonchev Donated €157,000 for Charity. Darik Radio news, 29.07.2008.

¹⁶ *Development of Charities in Bulgaria: Strategic and Steady Partnership with NGOs*, Analyses/Reports, Center for the Study of Democracy, Sofia, 2002.

often do it through a contract for advertising and not as a grant. This, however, could be problematic for NGOs which do not engage in business as they have to report such income as profit to the tax authorities (see 2.4. below for more on that).

NGOs usually associate their greatest expectations with corporate donors. Contributors from this group are mainly mid-sized enterprises whose owners are personally motivated and emotionally involved in certain causes. Donations are also a common practice for large international corporations with offices in Bulgaria. In this, they follow the corporation's overall charity policy.

Most donors tend to support organizations that have a good standing in the community. Generally, the larger the NGO, the more it is expected to demonstrate its professionalism and strict accounting in order to gain the confidence of donors. Donations to small NGOs are sometimes driven mostly by personal contacts and sentiments. Start-ups, however, need to go through a testing period in order to prove their transparency, good financial management, and generally build up an image.

Box 2. Fundraising methods

- During the past 3-4 years fundraising through text messages has gained popularity and a number of businesses specializing in such campaigns have sprung up. This method relies on advertising through broadcast media as it needs to appeal to large numbers of people who donate very small amounts. Some NGOs still raise money through traditional methods – donation boxes, selling of postcards and calendars, charity campaigns, etc. – but at times expenditure on these exceed the revenue.
- Charity concerts, balls, and exhibitions could be successful depending on the location and the demographics of the local community.
- Large successful campaigns have been organized under slogans appealing to popular sentiments. Examples are the campaign of the Bulgarian Red Cross *Don't say No to an orphan asking for bread*, or the Balgarka National Civil Forum under the slogan of *The poor help the poor*. These campaigns hit the right nerve, brought about very good results and strongly influenced society.
- When approaching businesses with grant requests, NGOs with international experience and know-how adopt a very professional approach – they study the company carefully and consider its range of interests and activities before asking for sponsorship. Projects are designed to match the potential donor's fields of interest and discussions are rehearsed in advance. Smaller NGOs rely either on representatives with considerable public standing or on personal contacts. These often prove to be more successful than a number of formal and institutionalized techniques.
- Door-to-door fundraising, because of its potential for fraud and the fees charged by collectors, which on occasions could surpass the overall donations, has a rather negative image and is viewed with suspicion by the public.
- Online marketing is a method that is not currently effective but has potential. The same can be said about fundraising from Bulgarians living abroad who could also be approached online. Another prospective model of fundraising is pay-roll donation – people agreeing to have certain amounts withheld from their regular remuneration.

When funding projects, some donors prefer to cover part of the expenses or directly purchase goods. For most, the donation of money is usually accompanied by clear conditions of use. The two keys to donor trust are transparency and accountability. At any given time donors should be able to receive an account of how money has been spent and how it had helped the cause.

Individual benefactors often seek additional personal involvement in a charity cause, as in the case of helping orphaned children. This allows them to exercise control over the use of the donations, and is based on the notion that the beneficiaries need personal attention and contact as much as they need money.

Table 2. Share of the various sources in NGO funding

Type of Source	%
Foreign donors	58
State	6
Local business	5
Donations	7
Membership fees	11
Service fees	8
Others	5

Source: Regional Stakeholder Consultation Survey by the Civil Society Index Project, 2004

Individuals rarely declare donations in their annual tax forms. One reason is that to be deductible from taxes donations need to be sizable which few can afford. Another is the difficulty in obtaining certifying documents; sometimes, as in the case of text messaging, these cannot be obtained at all.¹⁷ For the 2009 fiscal year, for example, donations by individuals were recognized as tax deductible expense provided they did not exceed 5 percent of the tax base.¹⁸ According to population surveys, approximately half the people in Bulgaria donated money through text messages in 2009.¹⁹ The Bulgarian Donors' Forum estimates that donations by individuals make up about 10 percent of all donations in the country. According to the same research, about 20 percent of NGOs in Bulgaria received donations in 2009. This is probably overestimated by at least 8-10 percentage points, even if only active non-profits are included. The discrepancy is attributable to the fact that some of the contributing companies prefer to record their donations as advertising spending for tax purposes.

¹⁷ Moreover, in these cases VAT is charged on the donation. The same difficulty applied to giving through charity boxes of churches, organizations, etc.

¹⁸ For some specific donations (culture) it is 15% or even 50% (for medical care for children) but altogether deductions from the tax base cannot exceed 65%.

¹⁹ Bulgarian Donors' Forum, *Tendentsii v blagotvoritelnosta prez 2009 godina*, Dnevnik Online, 31.03.2010.

Information about corporate donations provided by the National Revenue Agency (NAR), although possibly incomplete, adds perspective to the results of population surveys. For the period 2007-2009, an average of 720 companies a year have made donations to NGOs, while an average of 490 made to nurseries, kindergartens, high schools, universities, and academies. In 2009, the average size of the donation to a non-profit, according to corporate tax forms, is a little over 13,000 leva (€6,600). The total amount of donations from business enterprises and reported in tax forms is worth about €24 million. Bulgarian Donors' Forum estimates the contributions to various causes and activities at €23 million; approximately €15-16 million of these were donated by Bulgarian businesses.

Although the NGO law allows the state to use various tax, customs, credit and other types of financial relief, these have not been used, especially given the consensus which followed the introduction of the currency board in 1997 that there will be **no specific tax preferences for different categories of legal entities**. A contributing factor for the abstention from financial relief for NGOs is the bad experience of the early 1990s when NGOs abused various tax and customs breaks provided by the government for shadowy business deals.²⁰ Preferential treatment allowed by the special laws does not yet provide opportunities for Bulgarian associations and foundations to receive significant support from businesses and other donors. This puts them in a disadvantageous position even compared to similar organizations in Central and Eastern Europe.²¹

The third sector itself is also a source and channel for donations. NGOs donated €25 million in 2008 which is about 30 percent of donations, including grants. Several types of contributions are included in this amount: **conditional grants** usually provided through offices of international NGOs or Bulgarian NGOs administering civil society development grants; **unconditional grants** are typically administered on behalf of corporate or individual donors intended for social welfare institutions; various types of **scholarships** for students.

Although since the beginning of the 1990s Bulgarian non-profits have acquired a certain amount of experience in grantmaking, there are still a number of **risks related to the transparency and, above all, prevention and disclosure of conflict of interests by members of the managing boards of NGOs acting as donors or grant administrators**. This problem can hardly be solved by legislation, especially when it does not involve public funds. It should be perfectly feasible, however, to strengthen self-regulation in the sector that would lead to greater transparency and conflict of interests prevention. Detailed recommendations to this end are made in Chapter 3 below.

²⁰ Such preferential treatment was introduced in 1990, and was then canceled in 1992. Some organizations took advantage of a preferential customs regime for NGOs and started importing excise goods. Most of the organizations that took advantage of these were in fact commercial enterprises not having received a single grant.

²¹ See *Survey of Tax Laws Affecting NGOs in Central and Eastern Europe*, International Center for Not-for-profit Law, 2001.

Table 3. Donations as reported in annual tax forms

Beneficiary	2007		2008		2009	
	number	thou- sands of levs ²²	number	thou- sands of levs	number	thou- sands of levs
Medical offices and hospitals	333	4,034	187	4,819	386	5,483
Specialized institutions for social services, the Social Assistance Agency and the Social Assistance Fund at the Ministry of Labor and Social Policy	141	354	65	488	137	928
Specialized child care institutions and orphanages	385	1,101	212	2,388	444	1,027
Nurseries, kindergartens, schools, universities or academies	611	2,582	340	15,297	525	2,572
Central government and municipal institutions	886	28,202	572	17,540	895	9,809
Faith organizations	223	847	117	1,405	199	1,589
Enterprises or cooperatives of disabled people and the Agency for the Disabled	97	429	32	154	73	250
Disabled individuals and specialized technical facilities for them	618	5,660	198	3,391	332	2,636
Disaster victims	12	22	3	21	20	59
Bulgarian Red Cross	108	161	23	113	45	137
Low income people	109	1,001	48	217	77	284
Disabled or orphaned children	302	1,594	123	1,763	238	1,339
Cultural institutions or for cultural, educational, or scientific exchanges	202	939	100	662	142	350
Public benefit NGOs (not incl. institutions sponsoring culture)	873	10,490	431	11,375	866	11,530
Student scholarships	87	486	48	867	85	743
Energy Efficiency Fund	2	1	1	1	2	15
UNICEF	18	94	4	105	51	61
Medical Treatment of Children Fund	<i>n.a.</i>	128	19	346	24	106
Sponsorship of arts	26	665	9	276	13	128
Donations of computers and peripheral equipment less than one year old to schools and universities	22	126	9	47	15	280

Source: National Revenue Agency, 2010

²² The Bulgarian lev is exchanged at a fixed rate to the euro at 1.95.