

# **"Mind the Gap": Alternative Financial Instruments for Supporting Culture and Arts in Central and Eastern Europe**

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## **Abstract**

The paper aims at discussing the importance and first steps of implementation of various alternative instruments of cultural financing in a situation of decreasing state support for culture in Central and Eastern Europe. It analyses the procedures and consequences as a result of starting-up of the Cultural Loan Fund in Bulgaria (a recent project of the Open Society Institute). The paper looks also at some general problematic areas and solutions in implementation of alternative financing for culture in the transition countries. The paper's methodology is based on personal experience in implementation of some of these financial instruments, results of interviews and marketing survey, as well as analysis of state documents and internal researches of the Economic and Business Development program of the Open Society Institute. As the research is still in progress, the main findings will be discussed in a year from now.

After 1989 the governments in South-East Europe started to reshape their overall cultural policies in a way of decreasing the state direct involvement in arts and culture and increase the indirect support through variety of legislative and other instruments. The model of the state as a main "owner" of cultural industries, is gradually replacing with the model, where the state is the main regulator through its economic and legislative functions.

Taking into consideration the new global political situation, it is hard to speak about Central and Eastern Europe as a "uniform region", like it was in 90's. Today, we can speak about five distinctive regions:

- EU accession countries, where the main issue is the acceptance of EU criteria and rules, the space of interest for the "new comers";
- Russia and some former Russian Republics, like Ukraine, Moldova, Belarus,
- South-East Europe;
- The Caucasus (Armenia, Georgia and Azerbaijan);
- Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan)

The political differentiation among those regions is of far greater importance than economical diversification and level of development. The issue of multiculturalism is of utmost importance in the last three regions, where crucial questions of borders and territories are only partly solved. The different ethnic and religious background is a potentiality for conflicts and a burden towards development of democratic neighboring relations - this is especially obvious on the Caucasus and the Balkans. The cultural policy instruments and alternative financial tools differ from region to region as well.

The main aim of alternative methods of cultural financing is not to transfer the main functions of the state financing to other institutions, but to accumulate various funds on national, regional or

organizational level on a long-term basis, as well as to develop the individual and corporate motivation for giving. Some of the above countries have already started to implement loan funds and other banking and financial instruments for supporting cultural initiatives and organizations.

The following alternative methods in general can be explored in Eastern and Central Europe:

- Revenues from special lotteries and other games. This approach does not reflect on increasing of taxes, but is a special "voluntary price" which people pay when buying the lottery tickets. The economic function of gambling - not to produce profit, but to distribute profit, provides a good reason that this profit is used for various social aims - mainly for support of sport, culture, education, social funds, etc.
- During the latest CIRCLE conference in Roma "Gambling on Culture" in November 2002 (which was the first attempt for a comparative analysis of lotteries for culture-their structure, procedures and effects) there were no case studies from South-East Europe (with the exception of Bulgaria). So, it is hard to find out to what extent these countries use, or intend to use lotteries or national or regional level for support of cultural activities or organizations.
- Special funds for culture on national and regional level, where the money is accumulated through variety of methods - fixed percentage of every privatization deal, or of tourism incomes, or of building up of new infrastructure in a town.  
\* The first attempt in Bulgaria for starting up a National Fund "Culture" was in the year 2000 with the sum lower than 300 000 EURO. By origin, the Fund has a serious the potential to accumulate sources, coming from variety of taxation and other economic methods, but still 83% of its incomes comes from the national budget for culture.
- Special funds for culture on organizational level where every employee can donate percentage of his salary on a monthly basis for culture. These funds are not known and used in South-East Europe due to the very low incomes of majority employees.
- Cultural loan funds and debt instruments are an effective mechanism, which provokes better business thinking and entrepreneurship activities in culture, proving that artistic activities can earn money, and not only spend money.
- Cultural Development Loan Fund, created at the Resource Center, Sofia in the year 2001, was the first attempt in South-East Europe to encourage entrepreneurship, to provide financial incentives for artistic organizations, to help cultural professionals to better know and understand the cultural markets, to prove that culture not only spends money, but could earn money.. During the pilot phase of the program, 10 projects were financed at the total amount of \$ 78 300. The future of this program is still unpredictable, as the overall fundraising strategy for the Resource Center is not developed and the major funding comes from the Soros foundation.

Few suggestions for better development of the Cultural Loan fund in the future:

- The interest rates should be reduced to consider the economic situation in the country and the small market for cultural products. The fund can even consider working with diversified interest rates depending on the quality of the project and the risk involved.
- A certain proportion of the fund could be put away for "higher-risk" projects - projects with no collateral (or less than the required amount) but submitted by organizations with good reputation.
- An effort should be made to stimulate existing lending schemes for micro-businesses to incorporate in their programs the "cultural businesses" - these will be the publishing houses, film producers etc. who fall within the definition of "cultural industry".
- It should be worthwhile to undertake a nationwide research on the business support services and finances available (or as in Bulgarian case not available) to the cultural sector in its entirety and prepare a report which can be used to spur interest from government in creating such instruments.

Finally, the paper analyzes and summarizes the challenges and problematic aspects in the development and implementation of alternative financial instruments on macroeconomic and organizational level, and looks at various ideas for overcoming the obstacles.