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Culture Funding Policies in Transitional Societies

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Executive summary

During the 1990s, financial conditions of the majority of Ukrainian cultural institutions deteriorated dramatically, while the social status and the incomes of cultural sector workers became remarkably lower. Public subsidies to cultural organizations have been plummeting in 1993-1998. The amounts increased in 1999-2001, but they have been declining both as a share of Ukraine's GNP and as a share of national budget.

Cultural participation fell dramatically in the 1990s, so did the number of public libraries, cinemas and houses of culture. Ukrainians buy much less books and newspapers, less often visit cinemas, theaters and museums than twenty or even ten years ago. The state's financial support to non-public cultural organizations and to cultural industries is negligible. Ukraine's public cultural sector virtually avoided privatization.

Actual funding policy

The actual policy of culture funding in Ukraine consists of: financial maintenance (full or partial) of public cultural/artistic institutions from public budgets; public funding of major cultural actions of «national importance»; some tax benefits to non-profit organizations (including some, but not all types of public cultural organizations), to charities and corporate arts donors; limited protectionism of some cultural industries (book publishing); routine subsidies to mainstream artistic associations but virtual absence of institutionalized public financial support to private cultural organizations and NGOs; finally, underdeveloped competitive mechanisms of cultural project funding.

There are several shortcomings in the existing practice of public subsidizing of culture: the instability of the structure of cultural expenditure in the National budget, its disproportionate character, lack of clear priorities, the marginal role of project-oriented funding schemes; the periodical budget underfunding of culture which has become almost a rule through the 1990s (actual public subsidies around 70% of the planned level).

Subsidies to public theaters, museums, libraries, houses of culture are usually big enough only to cover maintenance of buildings and employee payment. Museums routinely lack money for research and new acquisitions, libraries buy very few new publications; cultural centers can usually hire only one or two half-time employees.

Earned income has become a crucial source of income not only for theaters and performing arts, but even for libraries and museums whose earning capacity has been traditionally low. Efforts to earn more (hereby compensating the insufficiency of subsidies) are in many aspects impeded by inadequate state policy, especially when it comes to tax incentives.

Administration

Since 1991, the institutional network of cultural administration underwent little reform. Cultural sector is administered on the national level by several government agencies (Ministry of culture and arts, Ministry of information policy, National Council for broadcasting etc), with rather little coordination between them. Ministry of culture and the arts, although declared to be the main government agency for cultural policy, is in fact in charge of state-owned cultural institutions. Its influence local cultural administration is rather weak. It seems that Ministry of Finance is a more powerful actor in regional cultural policy, because it defines the recommended levels of culture funding in the regions.

In the early 1990's, the majority of public cultural organizations were transferred to regional and local ownership and, parallel to this, funding of these became a responsibility of regional and local budgets. However, this process was not supported by much-needed increase in budget revenues of the regions. As a result of this, the decentralization in culture brought about financial deterioration of many public cultural institutions. However, a proper reform of budgeting system could bring new life into this strategy.

Legislation

Ukrainian culture-related legislation can be assessed as deeply heterogeneous, incomplete and lacking conceptual integrity. Comparing our legislation to that of neighboring Poland or Russia, we can conclude that our law is perhaps the least culture-friendly: it provides little tax relief for earning by cultural organizations; it offers weak incentives for private donors to culture; there is no specific law on non-profit organizations. Legal protectionism for cultural industries in Ukraine is also the least developed among the three countries.

Proposed policy changes

The analysis of the actual situation in Ukrainian cultural sector shows that the State spends too little on culture; it can and must spend remarkably more. In other words, a substantial increase in public expenditure for culture is needed.

The existing schemes of public funding in cultural sector are inefficient and ineffective; they can and must be improved. Financial priorities on all levels of public cultural administration should be reconsidered.

The system of program budgeting, as prescribed by the acting Budget Code of Ukraine, also needs serious corrections with regards of cultural expenditure.

Introduction of combined funding schemes: from public budgets, from private donations and earned funds from provided cultural services is needed for all types of cultural organizations. Also, competition-based schemes of funding should be developed.

However, subsidies from public budgets, even substantially increased, will be still insufficient for sustainable development of Ukrainian culture; hence a need for the following reforms:

- introduction of basic network of public cultural organizations, alongside désétatisation of the rest;
- improvement of the legislation regulating earning and private patronage in cultural sector, so as to make it more encouraging and supportive;
- introduction of protectionist legislation for Ukrainian cultural industries (music, film, publishing).

1. Issue description

1.1. The situation of cultural sector in Ukraine

As a result of Soviet ‘civilizing’ cultural policy, a massive public cultural infrastructure was created in Ukraine, totally administered and funded by Soviet party-state. On the other hand, this infrastructure was weaker than, for instance, those of neighboring Soviet Russia or ‘socialist’ Poland.

After the fall of the USSR, the process of the build-up of independent Ukrainian nation-state has began, and a Renaissance of Ukrainian national culture has been expected. However, with ideological freedom and market reforms, something rather surprising has been happening, namely: expansion of Russophone cultural industries, now mostly private. Traditional (that is, pre-electronic) cultural practices were shrinking in the ‘90s, print runs of newspapers and magazines, as well as domestic film production have been plummeting.

During the 1990s, financial conditions of the majority of Ukrainian cultural institutions have deteriorated dramatically, while the social status and the incomes of Ukrainian artists (and other professionals in cultural sector as well) became remarkably lower than, for instance, during Gorbachev’s “perestroika” period.

Cultural participation (at least in public cultural sector) fell dramatically in the 1990s, so did the number of libraries, cinemas and ‘houses of culture’ (local cultural organizations which have been founded from local budgets). Today,

Ukrainians buy much less books and newspapers, less often visit cinemas, theaters and museums than twenty or even ten years ago (although a slight increase has been noticed in recent couple of years).

Many critics believe that the state is the first to be blamed, because of its inadequate and inert cultural policy (or even absence of a sensible and articulated cultural policy at all). More moderate observers also point at some 'objective' reasons for the culture's difficult situation: first, the ongoing post-communist transformation of cultural practices in a society now much more open and free than before; second, dramatic decline in people's incomes (Ukraine's GDP fell by more than a half in 1991-97). An average Ukrainian simply does not have enough money for theaters, cinemas, new books and non-pirated CDs and videos, not to mention personal computers.

There are other factors blamed for a sorry plight of Ukrainian cultural sector: for instance, the rapidly increasing flow of mass-cultural imports from the West and from Russia. As a result, Ukrainian cultural markets and electronic media are dominated by Russian books, American films, Russian and Western pop-music. Some critics argue that this poses a threat to Ukrainian cultural development and, in the long run, to Ukrainian national identity.

On the other hand, a great number of vibrant non-state cultural industries evolved in Ukraine during the '90s which resulted in radical change of the ratio between public and private sectors in culture, especially in popular and mass culture industries. However, the state's financial support to non-public cultural organizations, to show-business and music industry is negligible.

In our analysis we will, first, try to demarcate economic and financial aspects of the current cultural situation in Ukraine, then analyze in detail both the financial situation of cultural sector and the existing policies, so as to find out whether these policies really address the existing problems. If they do, we will try to measure how effective and efficient they are in practice, and if something does not work, how can it be fixed. If certain problems are not addressed, we will attempt to propose some new policies to deal with such problems.

1.2. Current policy of public funding of culture

There are three major elements in the policy of culture funding:

- policy of financing of cultural organizations;
- policy on cultural industries and market of cultural goods and services;
- policy on arts sponsorship and charitable activities in cultural sector.

Actual policy of culture funding in Ukraine consists, basically, in the following:

- a) the policy of financial maintenance (full or partial) of public cultural/artistic institutions from the state budget or from local budgets (depending on subordination);
- b) the policy of budget financing of major cultural actions of «national importance» and, respectively, budget financing of important local cultural actions from local budgets;
- c) the policy of the state's permanent financial support to mainstream artistic associations (National creative unions).
- d) certain tax benefits to non-profit organizations, including some (but not all) types of public cultural organizations;
- e) state protectionism (rather limited) of some domestic cultural industries (specifically, book publishing);
- f) certain tax benefits to charities and corporate arts donors;
- g) virtual absence of institutionalized public financial support to private cultural organizations;
- h) underdeveloped competitive mechanisms of culture funding (contests for grants, scholarships etc.).

This rather complicated configuration of current cultural policy in Ukraine is a result of both Soviet and post-Soviet developments; of preservation of some key elements of Soviet culture funding policy as well as introduction of some new elements in the '90s (tax incentives to non-profit organizations). The main reason for the preservation of the «Soviet» mechanisms of culture funding is the need to keep the vast network of subsidized public cultural organizations (museums, libraries, theatres, houses of culture etc).

Before we turn to detailed examination of the existing trends in culture funding, we have to study the legal and institutional background. Specifically, the following aspects should be discussed:

- the system of cultural administration (including existing schemes of funding);
- general principles of cultural policy and culture-related legislation;
- main stockholders in cultural policy issues.

1.2.1. Cultural administration

The system of cultural administration in Soviet Ukraine or, rather, in the USSR as a whole (that is, Ministry of Culture, other culture-related State departments in charge of the press or of radio & TV) was virtually unfit for independent policy making for the simple reason that it wasn't meant for this. The Communist Party was the only political decision-maker.

After 1991, political situation changed dramatically, but the institutional network of cultural administration underwent little reform. In contemporary Ukraine, cultural sector in broader meaning is administered on the national level by several government agencies (Ministry of culture and arts, State Committee of information policy, television and radio; State Committee for youth policy, sports and tourism; National Council for television and radio broadcasting). Most of them are coordinated by Vice Prime Minister of Ukraine for Humanitarian Affairs, and each of them (and some other government bodies) have budget expenses for culture and arts.

The Ministry of culture and the arts of Ukraine, although declared to be the main government agency for cultural policy, is in fact in charge of public cultural sector in narrow meaning (music and performing arts, plastic arts, film, libraries, cultural heritage, artistic education). The Ministry funds and controls nearly 130 state-owned cultural organizations and has some recommendational power over all other public cultural organizations. These organizations (over 45 thousand of theaters, museums, libraries, cinemas, artistic schools, community cultural centers, or 'houses of culture') are administered and funded by local government bodies.

Regional government agencies (Oblast Administrations, Raion Administrations) and local Councils have Directorates for culture or Departments for culture in their structure to take care of local public cultural organizations and cultural activities.

Financial responsibilities of the Ministry of culture and of local cultural administrations are rather different. The Ministry's care focuses on National cultural organizations (theaters, opera houses, museums etc), artistic colleges and circuses. It also dedicates nearly 40% of its expenses to performing arts, festivals, exhibitions of national importance. On the other hand, local authorities fund most of public libraries, theaters and museums which are under local subordination.

The influence of the Ministry of Culture on local cultural administration is rather weak. It seems that the Ministry of Finance is a more powerful actor in regional (local) cultural policy, because it defines the recommended levels of culture funding in Oblast budgets. Since late 1980s, several thousand independent cultural organizations have been developing in Ukraine (theaters, publishing houses, musical groups, recording studios, art galleries, etc.). However, public agencies in charge of cultural sector don't feel obliged to help them, financially in particular. The only funding scheme designed for non-public artistic organizations or individuals that exists in Ukraine today is the President's grants for younger artists.

1.2.2. Culture-related legislation

Ukrainian culture-related legislation can be assessed as deeply heterogeneous, incomplete and lacking conceptual integrity. The reasons for such assessment are that, first, while there has been a number of recently approved modern and liberally looking culture-related bills, too many aspects of daily activities of public cultural institutions (especially funding) still has been regulated by old by-laws (so-called 'normative documents') inherited from the USSR; second, many new developments of post-communist cultural life (for instance, private artistic organizations and cultural NGOs) are still not supported by appropriate legal base (state support to independent cultural organizations is never mentioned in Ukrainian culture-related bills); third, the ineffectiveness and numerous internal

contradictions present in some culture-related bills can be understood as a result of confusing mix of different ideologies and values underlying them: modern democracy and market liberalism coexist with XIX-century-style nation-building ideas; state paternalism coexists with laissez-faire approach to cultural industries, not to mention some elements of multiculturalism coexisting with ethnocentric notion of Ukrainian nation.

Comparing Ukrainian culture-related legislation to that of neighboring post-Communist countries, such as Poland or Russia, we can conclude that Ukrainian law is perhaps the least culture-friendly: it provides very little tax relief for earning by cultural organizations; it offers very weak incentives for private donors to culture and the arts.

Ukraine also lacks a specific law on non-profit organizations while in Poland and Russia such laws have been acting for quite a while.

Legal protectionism for cultural industries in Ukraine is also the least developed among the three countries, despite the fact that the share of domestic cultural goods in Ukraine is the lowest among the three countries.

1.2.3. Stockholders in cultural policy

Once we take a look at the positions of major political forces in Ukraine on cultural issues, it is not difficult to come to the conclusion that there is no broad consensus on basic principles and concrete mechanism of public cultural policy. Still worse, cultural policy issues seem to be of marginal importance for all of them.

Major political groups in Ukraine (usually divided into: the left, the national democrats, the liberal reformers, and the ‘centrists’ a.k.a. ‘the party of power’) tend to treat cultural issues as a sometimes useful means of achieving more important political goals, particularly those related to nation-building or identity-shaping, or to geopolitical issues (relations with Russia and the West). This results in rather weak initiative of Ukrainian Parliament in culture-related issues.

Regional and local authorities and regional elites seldom take an active role in cultural policy issues of national scale (save for the issue of the status and the use of the Russian language in Ukraine).

On the other hand, the groups that can be called ‘industrial lobbies’ (those representing book industry, film industry, musical industry and show-business in Ukraine) tend to be much more active in policy making process. These industrial lobbies usually represent their initiatives as serving best interests of Ukrainian economy and society as a whole, although this is not necessarily so, as public discussions on book publishing policy has shown.

The interests of industrial lobbies and of major groups in cultural/artistic community are represented by several NGO’s, including the mainstream (National) artistic unions and the newer ones, like the Association of Ukrainian book publishers. However, these groups are still much less powerful than government bodies in promoting the interests of cultural sector.

1.2.4. Current trends in culture funding

a) Direct budget subsidies

Public subsidies to cultural organizations still remain the major source of their income in Ukraine, which makes its public cultural sector very vulnerable in times of budget difficulties.

As financial statistics show, public funding of culture in Ukraine plummeted in 1993-1998, and although the nominal amount increased in 1999-2001, it has been declining both as a share of Ukraine’s GNP and as a share of State budget.

Although Ukraine's per capita GDP has been almost 75% of that of Russia, Ukraine's public cultural expenses per capita (approx. \$ 1,8 in 2002) remain disproportionately lower than those of Russia (\$5). Poland's public cultural expenses per capita are almost 10 times higher than ours.

Alongside the apparently insufficient amount of public financial support to cultural sector, there are several shortcomings in the existing practice of public subsidizing of culture: the instability of the structure of cultural expenditure in the National budget, its disproportionate character, lack of clear priorities, the marginal role of project-oriented (effect-led) funding schemes. But the most depressing effects have been caused arguably by periodical budget underperformance which has become almost a rule through the 1990s. The level of actual subsidies from national budget tended to be around 70% of the planned level. Still worse, this underfunding is not spread over all major items more or less equally; it usually differs remarkably for different groups of organizations which can be interpreted as the use of underfunding as a kind of policy tool. The introduction of the new Budget Code (2001) supposed to assure transition to the (arguably more effective) system of program-budgeting, in fact brought about no change for better in cultural sector.

The very wording of corresponding articles of the Budget Code apparently signifies a controversial compromise between the explicitly stated principle of program budgeting and the still valid principle of permanent financial support to the existing network of public cultural organizations.

Although the Budget Code speaks about cultural/artistic «programs» as the grounds of funding, it in fact obliges the State and local authorities to fund existing public cultural organizations (even those which may seem to be commercial enterprises, like circuses or some musical organizations). On the other hand, it effectively prohibits to finance from State budget those independent cultural organizations which are not included in the «Inventory» approved by the Government. This results in the situation when an independent cultural organization can get some funds from the state only if it takes part in a major state-sponsored cultural event.

All this brings us to the conclusion of the necessity of at least two important changes in culture funding on the national level: first, a remarkable increase (even by 50% or even more) of the amount of state subsidy to culture is needed; second, program budgeting principles need adaptation to the peculiarities of cultural sector.

b) Funding through targeted programs

Alongside direct subsidies to public cultural organizations, the scheme of funding through targeted programs is used in Ukraine.

There are four main reasons for the use of targeted programs as cultural policy tool:

- first, targeted programs serve as a means of making the Government's work more effect-oriented and evaluable (comparing to routine subsidizing of public organizations);
- second, with the routine one year budgeting spin, targeted programs (for a period of 3, 5 or more years) can serve as a means of planning and accomplishing something which can not be achieved in one year period;
- third, national-scale targeted programs usually combine national, regional, local funding and non-public resources, which cannot be achieved by routine subsidizing schemes;
- fourth, specific targeted programs seem to be indispensable if there is a large-scale problem which cannot be solved in a routine way, that is, if much more than usual amount of public resources is needed to cope with it.

However, when one looks at culture-related programs in the broader context of target programming in public budgeting in Ukraine, one easily sees their marginal place among the state's priorities; while there are 18 culture-related programs out of 182, their share in total funding is only 0,4% and in total budget funding it is only 0,27%.

Lack of general rules on composition, contents and certification of targeted programs, clearly visible in the contents and the legal status of the existing culture-related targeted programs, further undermines their efficiency and effectiveness.

c) Funding from regional and local budgets

Local administration's financial priorities in public cultural sector are libraries (19-20%), museums (8-10%), theaters (10-12%) and local cultural centers, or 'houses of culture' (23-24%).

The data on actual public cultural expenditure in Ukraine's regions not only show that we are much poorer than Poland in this regard, but also illustrate the relevance and effectiveness of the government's policy in this sphere. Budget subsidies to local public theaters, museums, libraries, houses of culture are usually big enough only to cover maintenance of buildings and employee payment. Museums routinely lack money for research and new acquisitions, libraries buy very few new publications, and community cultural centers are perhaps in the most desperate situation especially in poorer regions: many of them can hire only one or two half-time employees, not to mention repairs or purchase of new equipment.

In such situation, the state is expected to encourage regional and local administration bodies to increase their cultural expenditure. However, this is not the case in Ukraine.

When we compare actual per capita spending in each region to budget funding norms recommended by the Ministry of Finance of Ukraine, we can see that actual funding is usually remarkably higher (for city of Kyiv, almost 5 times higher) than the level recommended from above. This brings us to the pessimistic conclusion that the recommended budget funding norms promoted by the Ministry of Finance are insufficient and unrealistic and, in the long run, the Ministry of Finance's regional cultural policy embodied in the "recommended norms" is counterproductive.

This is why it is highly recommended that the process of determining amounts of transfers from national budget to regional budgets (which is a function of the Ministry of Finance and strongly depends on available budget resources) be separated from calculation of regional needs in public funds for cultural sector. As a means of improving the efficiency of public funding of culture in the regions, the introduction of basic network of public cultural institutions is recommended, whereby the institutions not included in this network shall be désétatised.

d) Earned income & donations

Although budget funding remains the main source of income for public cultural organizations, earned income is also very important for many of them.

Statistics show how vital earned income is for public artistic organizations in Ukraine. Let's take the theaters. Although it was planned for 2000 that they would get 6/7 of their revenues from state budget and earn only 1/7, in fact they earned almost 1/3, while state subsidies were lower than planned and covered only 2/3 of their expenses instead of 6/7.

With remarkable underfunding from state budget to state-owned cultural institutions in Ukraine in 2001 and 2002, earned income has become a crucial source of income even for libraries and museums whose earning capacity has been traditionally low.

The comparison of the growth in public subsidies to the growth in earned income can bring us to the suggestion that essential increase in subsidies generates bigger earnings, due to improvement in quality and variety of shows. However, this hypothetical dependence is not proportional: too small increase in subsidies does not produce quality change and, therefore, does not induce increase in box office; on the other hand, when the increase in subsidies is too big, it is difficult to use it properly, which results in disproportionately low or even zero increase in earnings. Of course, this hypothesis does not take into account such important factors as financial capacities of theatrical audiences in different cities.

The amount of public subsidy is usually adequate only to cover employee payments and expenses for maintenance of buildings. Expenses for core activities (new theater shows, new exhibitions etc.) are usually covered from earned income. In some cases, part of earned income is also spent on heating, electricity and routine repairs.

What are possible ways of improvement of the financial situation of public cultural organizations? The most obvious way is increase in budget subsidies. This is what Ukrainian cultural managers have been constantly demanding (but without much success). The second way is to assure increase in earned income, either from core activities, or from other sources (lease of premises, merchandizing, advertising services etc.). The statistics show that this way has been extensively used by public cultural organizations in Ukraine, and with remarkable success. However, the goal of maximizing earned income (especially from non-related activities) to some extent contradicts the mission of the subsidized artistic organizations, which is more about cultural public service than about money earning.

Another obvious way to increase incomes is to introduce special reduced or zero rate of VAT for cultural services. Finally, there are several ways to make the use of earned and subsidized costs more effective and efficient. For instance, extensive use of individual contracts in hiring artistic personnel would not only save some money, but bring about remarkable increase in artistic quality.

Summarizing, the efforts to earn more (hereby compensating the insufficiency of public subsidies) are in many aspects impeded by inadequate state policy, especially when it comes to tax incentives for cultural organizations and arts donors.

e) Indirect financing and cultural protectionism

Beside public subsidies and earnings, there are other potentially important sources of income, that is charitable donations and private/corporate sponsorship, which also need more favorable legal environment.

Financial statistics of different types of cultural organizations in Ukraine show that, first, amount of officially declared charitable donations are very low; second, there are signs that cultural organizations tend to hide the real amounts of incomes obtained from sponsorship and private donations. The reasons for this are insufficient tax incentives for both donors and recipients.

The issue of protectionism toward domestic cultural goods and services has been widely discussed for a few years in Ukraine. The reasons usually given for aggressive introducing of such policy include the crisis in Ukrainian cultural industries, the dominance of imported [popular] cultural produce (films, books, music) in Ukrainian markets, and, quite importantly, the successful protectionist policies in Russia. Estimated share of Ukrainian books in our market is 7-9 %; the share of Ukrainian music and films is even smaller. However, tax exemption of domestic cultural produce covers only book publishing so far. It seems highly reasonable to introduce similar measures also for film and musical productions.

2. Policy considerations

2.1. Policy problem

Summarizing all said before, we can describe the policy problem we have to deal with as financial deterioration of cultural sector in contemporary Ukraine, which resulted in lower cultural participation, lower quality of many cultural services, and in retarded development of modern cultural industries.

The main reasons for this deterioration are: insufficient funding, by which we mean unsatisfactory level of all major sources of funding (public subsidies, earned income, private charitable donations); as well as virtual lack of investments in cultural industries and insufficient level of indirect financing through tax relieves and exemptions.

Since public subsidies from state and local budget remain the main source of income for cultural sector in Ukraine, the problems of budgeting for culture are of key importance.

Public budget funding in Ukraine is not only insufficient, but also inefficient and, for the most part, effect-blind. The existing schemes of budget funding are obsolete and inflexible, the newer ones are often poorly designed, lacking transparency and equity.

As for other sources of income for cultural sector, the State's policy is either unfriendly (numerous constraints on earning and spending for public cultural organizations) or ineffective (tax benefits and direct investments are too small, non-profit status is difficult to obtain, etc).

The general problem of culture funding can be divided into a number of sub-problems; each of them caused by a set of more or less intertwined factors.

For instance, insufficiency of budget subsidies to cultural sector is caused by general budget crisis in Ukraine, imperfect mechanisms of budgeting as well as by so-called «residual approach» to cultural needs. Effects of these factors may overlap (unfriendly taxation causes both low earned income and insufficient charitable donations), which means that, by eliminating these causes we can remove obstacles for more than one source of financing.

Structurization of the policy problem is presented in Chart 1.

Chart 1.

Structuring financial problems of cultural sector

Problem: Economic/financial deterioration of cultural organizations.

Causes of the problem:

1. Relative decrease in budget subsidies to culture and their efficiency

- 1.1. General budget crisis in Ukraine
- 1.2. Imperfect budgeting system
- 1.3. Low priority of cultural needs for the Government
- 1.4. No clear priorities in culture funding

2. Difficulties in increasing earned income

- 2.1. Decreasing income of the population, lower demand for cultural goods/services
- 2.2. The rise of competing forms of leisure and of cultural imports
- 2.3. Unfriendly taxation, administrative constraints

3. Insufficient private/corporate sponsorship and donations

- 3.1. Unfriendly taxation, lack of incentives for donors
- 3.2. Lack of philanthropic traditions
- 3.3. Lack of fundraising skills among cultural managers

2.2. Strategic policy alternatives

2.2.1. Re-nationalization (re-centralization)

This alternative means remarkable increase in State intervention in cultural sector as a remedy for its miserable financial situation. In its mildest form, such an approach would mean sheer increase in public expenditure for culture; in more radical versions, it can be accompanied by restored administrative control over important cultural institutions.

A *raison d'être* for this strategy is the disillusionment with market reforms in cultural sector, shared by many, and the belief that nothing can replace the State as major donor for culture. It seems natural for many that the state, as the major agent of the public interest, not only funds cultural organizations, but also controls them so that taxpayers' money are spent "properly".

The demand of radical increase in budget expenditure for culture raised by the majority of cultural community in Ukraine, with its public cultural expenses of \$2 per capita per year, is well grounded but hard to achieve in the nearest future.

With regards of the increase in administrative involvement of the State (re-centralization), situation looks different.

In Ukraine, unlike Russia, such trends are rather sporadic and inconsistent. Several regional cultural organizations has applied for the status of National cultural institutions, because funding from State budget looks more reliable to them. However, financial capabilities of the State are quite limited, and culture doesn't belong to the Government's top policy priorities. This makes the option of re-nationalization not very feasible both economically and politically here. Neither it looks very efficient, because routine budget funding of state-owned cultural organizations tends to be inflexible, effect-blind and discourages fundraising activities. In other words, a reform of mechanisms of budget funding can be more efficient and effective than mere increase in the amount of funds not accompanied by such reform.

2.2.2. Decentralization

In terms of financing, this policy strategy means a major shift of financial responsibilities in cultural sector from national to regional and local budgets. This strategy has been tried in many East European countries. However, it became obvious quite soon that decentralization has its financial and political limits, and the preservation of both the network of national cultural institutions and of remarkable amount of state funding for culture are still indispensable.

In Ukraine in the early 1990's, the majority of public cultural organizations was transferred to regional and local ownership and, parallel to this, the funding of these became a responsibility of regional and local budgets. However, this process was not supported by much-needed increase in budget revenues of the regions. As a result of this, the decentralization of cultural and funding policy in Ukraine brought about financial deterioration of many cultural institutions.

However, a proper reform of budgeting system could bring new life into this strategy. The actual policies of culture funding in many regions (where much more money has been given to cultural sector than the national government recommends) seem to confirm this optimism.

2.2.3. Désétatisation

Unlike Poland and Russia where cultural industries (book publishing, film, music and show business) have been predominantly privatized during the 1990s, Ukraine's public cultural sector virtually avoided privatization.

This does not mean of course that there is no private book publishing or private show business in Ukraine; on the contrary, private sector dominates these industries, but it came along with negligible state support.

The problem of privatization (désétatisation) can be articulated as follows:

- What extent and form can désétatisation take to be helpful in solving financial problems of the cultural sector without damaging the "public interests"?

The following answer is proposed here:

1) "Classical" privatization (as a sell-out of assets to private investors) would almost certainly fail, because cultural assets are unattractive to big investors, while those willing to invest in culture usually don't have enough money for big purchases.

2) Désétatisation of those cultural organizations which will not be placed among "basic public cultural institutions" (therefore subsidies to them will become problematic) can be effective as a means of assuring them better conditions for earning and fundraising.

In legal terms, the désétatisation can mean transformation of formerly public institutions into non-profit NGOs. However, under contemporary circumstances, this can be counter-productive if désétatized organizations lose all public funding they previously got. The continuity (at least partial) of public financial support, therefore, is a precondition for effective désétatisation.

3) The rise of a strong and sustainable third sector in Ukrainian culture (the ultimate goal of the désétatisation) is hardly possible without a more culture-friendly tax system. It would be a very useful (if not very original) idea for Ukraine to imitate Polish or Russian tax systems: in both countries the majority of cultural organizations and activities are tax-exempt.

2.2.4 "Leaving the things as they are"

This strategy presupposes no radical changes in the existing policy of cultural funding.

In positive terms, this inert strategy has been articulated as a policy of “preservation of the existing network of public cultural organizations”.

This policy also means that no big increase in the amounts of public funding should be expected. At the first glance, this strategy would not bring big changes in the cultural sector.

However, this conclusion is too optimistic and superficial, because, after the decade or under-funding and inflation, the majority of public cultural venues (which are formally preserved by the state’s policy) is in bad shape; modern technical equipment can hardly be found there, and every other library or house of culture has enough funds only for one part-time employee.

This means that lack of policy changes can easily make the process of decay in provincial cultural organizations irreversible.

However, the “residual approach” to cultural sector makes the “leave things as they are” strategy preferable for the government.

2.2.5. Preferable policy alternative

We can summarize this review of possible policy options by concluding that neither of them, taken separately, can cure financial problems of Ukrainian culture, but there are certain elements in each of the strategies which can be effectively applied without contradicting each other.

Having political will, the state can achieve certain increase in budget financing (or, if sheer increase in the amount of funds does not look feasible, can make funding more efficient and effective by using modern, more diverse and sophisticated schemes of funding). It can also focus on creating favorable conditions for cultural organizations to earn more by themselves (by providing tax incentives and lifting many of the existing administrative constraints on earning for subsidized cultural institutions). These two options are not alternatives to each other, they can easily be combined. However, tax incentives mean revenue losses for the budget, and the traditionally-thinking Ukrainian government will perhaps prefer the first option in its moderate form, that is, a modest increase in budget subsidies to culture. It is hard to believe that this will radically change the situation for better.

As for the problem of the lack of clear priorities in culture funding, an introduction of explicit funding priorities can also be politically dangerous: those employed in those public cultural organizations which will fall into «low priority» bracket (and this can mean more than 100,000 people) will of course protest angrily.

The perspective of increasing charitable donations to culture must not be overlooked, too, since grants from Western charities remain a major source of income for many cultural NGOs. This goal can be achieved by increasing tax incentives and by promoting public/private partnership in cultural sector.

An important reason for insufficient earned income and negligible private donations to many cultural organizations, both public and private, is the lack of modern managerial and fundraising skills among Ukrainian cultural workers. Public cultural administrations can help them by organizing free-of charge training courses, workshops etc.

3. Policy recommendations

A. Improvement of funding schemes

1) A substantial increase in general public expenditure for culture is needed. Comparisons with Russia, where public cultural infrastructure and economic situation are similar to Ukraine, demonstrate that under our circumstances, the reasonable level of public cultural expenses per capita can be estimated as \$4-5, that is public expenditure for culture in Ukraine can be increased at least twice.

2) Financial priorities on all levels of public cultural administration should be reconsidered. In particular,

- funding of grand-scale actions “of national importance” can perhaps get considerably less attention than it gets now; instead, more funds should go to libraries, museums, filmmaking.
- the unrealistic goal of preserving all existing public cultural institutions, especially in small towns and villages with low budget potential, should be transformed into the task of keeping a basic network of important institutions, while the rest can be désétatized.
- in public subsidies to cultural organizations, more money should be dedicated to core cultural activities, not only to salaries and keeping of buildings.

3) The practice of “recommended levels” of per capita cultural funding applied now by the Ministry of Finance should be radically reformed because of its counter-productivity. A more relevant scheme of direct financial transfers (subsidies) to regional budgets can be introduced.

B. Legislation improvements and new funding schemes

1) The system of program budgeting, as prescribed by the acting Budget Code of Ukraine, needs serious corrections with regards of cultural expenditure. The program budgeting approach can be used for defining budget subsidies to such artistic institutions as theaters, operas, musical ensembles, film production teams; while the (improved) scheme of routine maintenance funding seems to be more adequate for libraries, museums, cultural centers.

2) With insufficient budget funding, a set of culture-friendly changes in taxation regulations seems to be necessary:

- the regulations for non-profit organizations should be made more adequate (today, NGO’s are in fact made non-eligible for any business activities, even directly arts-related);
- a combined funding: from public budgets, from private donations and earned funds from cultural services, should be made legally permissible and practically accessible for all types of cultural organizations, because today, privatized cultural institutions have little chance to survive without public financial support.

3) More diverse schemes of public funding should be developed alongside the existing ones, which under Ukrainian circumstances means the following:

- development of competition-based schemes of funding (grant-giving) of cultural projects; for which all cultural actors should be made eligible;
- further development of the producer oriented funding scheme of film and theater productions;
- improvement of the already existing scheme of President’s Grants for prominent artists; these grants should be at least made VAT-exempt.

C. Institutional changes and policy capacity

1) The Government’s policy capacity in cultural sphere should be increased: information supply improved, inter-sectoral policy cooperation strengthened, systemic sectoral research carried out.

2) Quality of budget-making and of budget performance on the national level, with regards of cultural expenditure, needs radical improvement, so as to get rid of underfunding and lack of budget discipline.

However, this problem is a part of the broader issue of quality of budgeting in Ukraine, and hardly can be solved for cultural sector alone.

3) Subsidies from public budgets, even when increased, will be still insufficient for sustainable development of Ukrainian culture; hence a need for the introduction of basic network of public cultural organizations, alongside désétatisation of the rest.

4) Désétatisation (especially on local level) in the form of transformation of public cultural institutions into NGOs should be started, with continued financial support from local budgets to désétatized organizations.

D. Cultural protectionism

1) More active protectionist policies are necessary for such Ukrainian cultural industries as film making, book publishing, music recording. Under contemporary market conditions in Ukraine, only protectionist measures can save these industries from decay and pretty marginal position. The forms of cultural protectionism can be as follows:

- tax relieves for cultural content-producers;
- public commissioning of work of art and cultural services;
- tax incentives for investments in Ukrainian cultural industries.

4. Communication Plan

4.1. Communication Analysis

a) Public environment

The demands for substantial increase in public subsidies to culture have been raised by Ukrainian cultural/artistic community again and again since early 1990s. These demands have often been accompanied by demands for tax exemptions for public cultural organizations since mid-1990s. Ukrainian third sector organizations, on the other hand, have long been appealing for passing a special law on not-for-profit organizations, including cultural and artistic ones. There have been also periodical demands for bigger tax incentives for private and corporate donors and sponsors. However, all these debates didn't draw much attention from the general public.

Culture-related industrial lobbies (NGOs and activist groups representing interests of Ukrainian culture industries), worried by the dominance of foreign products in Ukrainian cultural markets, have been promoting protectionist tax regulations for domestic cultural products as early as since 1995, since Russia successfully introduced tax exemptions for its book publishing.

However, virtually all Ukrainian governments during this period have been rather unimpressed by these demands and debates (save, perhaps, for the bill supporting Ukrainian book publishing passed in 2002-2005). Government officials used to respond to all such demands that, first, there is not enough budget money for increase in subsidies to culture; second, that new tax exemptions will only aggravate the budget crisis in Ukraine; third, that the national economy and the society have more important problems than insufficient funding of cultural sector.

On the other hand, a set of rather firm convictions and stereotypes have been shaped within the cultural/artistic community during this period, specifically:

- that a radical increase in budget subsidies to cultural sector is the only means to overcome financial difficulties of Ukrainian culture;
- that the existing public cultural infrastructure must be preserved;
- that the désétatisation/privatization brings no good for culture, but is inevitably harmful.

The popularity of these (mis-)convictions helps one to explain why there has been such lukewarm interest of culture-related public to the discussion on the draft Law on Culture published two years ago, or to the long-lasting debate on legal regulations on non-for-profit activities: all these policy proposals contain no guarantees of increase in public subsidies.

On the other hand, the attitude to protectionist regulations among the cultural industries, the media community, and even among broader Ukrainian public, has been much more interested and active. Specifically, the debate on the Bill on State support to Ukrainian book publishing (2002) has managed to stir up public opinion, engage political elites and, in the long run, helped the promoters of the Bill to overcome the resistance of the Ministry of Finance and even the President's veto attempt.

This makes it possible to conclude that proposed changes in state policies on culture funding can be made quite attractive to political elites, the government and the broader public, if we manage to properly put them into broader framework of the existing policies of support to domestic produce, of European integration and of national identity shaping through culture.

4.2. Communication Tactics

a) Target audiences

Policy-making in cultural sector involves not only cultural administration (on the national, regional and local level) and representatives of cultural community, but also major government institutions (the President, the Cabinet of Ministers), as well as the Parliament with its major political groups.

Interests and demands of mass consumers of cultural goods and services should be taken into account as well.

When we take a look at the positions of major political forces in Ukraine on cultural issues, it is not difficult to come to the conclusion that the absence of broad consensus on basic principles and concrete mechanisms of public cultural policy is not accidental:

Each of the major political forces tends to treat cultural issues as a means of achieving “more important” political goals, particularly those related to nation-building or identity-shaping.

For the national democrats, the usual point is that the state has not been firm and persistent enough in serving interests of national culture: the state didn't provide enough money for Ukrainian film production and book publishing; the government fell short of enforcing the Law on Ukrainian language and the Law on Broadcasting.

The left-wing parties (Communists and their smaller allies) traditionally raise a number of cultural issues in their political programs, too. The most important among them are the role and status of Russian language and the Western pop cultural invasion which allegedly corrupts our people and undermines national values.

The groups that can be called ‘industrial lobbies’ (those representing the book industry, the film industry, the musical industry and the show business in Ukraine) tend to be much more active in cultural policy making.

The interests of industrial lobbies and of different groups in cultural/artistic community are represented by several NGO's, including the mainstream (national) artistic unions and the newer ones, like the Association of Ukrainian book publishers. However, these groups are still less powerful than government bodies in promoting their interests.

Still, the government (Cabinet of Ministers of Ukraine and some of its departments, specifically the Ministry of Finance) and the cultural/artistic community (especially those employed in public cultural sector) will be the most important and hard communication partners in the process of promoting the proposed policy changes: first, because it will be quite difficult to convince the government to increase public subsidies to cultural sector substantially; second, because broader désétatisation in public cultural sector will be a hard thing to swallow for those employed in it, and third, it will be impossible to introduce the proposed policies without support of these partners.

b) Policy positioning

The proposed policies can be easily interpreted as an element of the broader policy of Ukraine's movement toward European Community, as put forward in President L.Kuchma's address The European Choice of Ukraine. This positioning looks especially natural when one turns to such policy measures as the introduction of NPO-favourable legislation, bigger decentralization of culture funding and désétatisation of certain parts of public cultural infrastructure.

On the other hand, protectionist measures aimed at supporting Ukrainian cultural industries (or, more specifically, Ukrainian content-producers) fit quite well into the policies of support of domestic producers of goods and services promoted by many political and industrial groups in Ukraine.

c) Objectives

The main objectives to be achieved by proposed communication tactics are:

- to convince the government that subsidies to cultural sector in public budgets must and can be substantially increased;
- to convince the Parliament that the proposed legal changes (the Basic Law for Culture, the NPO bill, amendments for the Budget Code and the Tax Code) are necessary and urgent;
- to convince the cultural/artistic community that the introduction of the basic network of public cultural organizations (accompanied by désétatisation of the rest) is inevitable and that its positive results will outweigh its negative consequences;
- to undermine the existing misperceptions of culture funding issues described above.

d) Main messages to be communicated

1. The State spends too little on culture; it can and must spend remarkably more.
2. The existing schemes of public funding in cultural sector are inefficient/ineffective; they can and must be improved.
3. Subsidies from public budgets, even when increased, will be still insufficient for sustainable development of

Ukrainian culture; hence a need for the following reforms:

- introduction of basic network of public cultural organizations, alongside désétatisation of the rest;
- improvement of legislation regulating earning and private patronage in cultural sector;
- protectionism for Ukrainian cultural industries.

e) Concrete communication measures

- publication and dissemination of the Research Paper and the Policy Paper;
- presentation of the policy proposals in different forae (academic seminars, media presentations, the Advisory Council of the Parliamentary Committee for Culture, National artistic unions);
- lobbying Parliamentary Committee for Culture for organization of Parliamentary hearings on cultural policy reform