

**ROMANIAN PERCENTAGE PHILANTHROPY:  
PERFORMANCE, PRIORITIES AND OPPORTUNITIES FOR  
IMPROVEMENT**

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## AUTHOR'S DECLARATION

I, the undersigned Alicia Krzyczkowski hereby declare that I am the sole author of this thesis. To the best of my knowledge this thesis contains no material previously published by any other person except where due acknowledgement has been made. This thesis contains no material which has been accepted as part of the requirements of any other academic degree or non-degree program, in English or in any other language.

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## **ABSTRACT**

Although Romania's percentage philanthropy system has recently closed its eighth year of implementation, no systematic analysis of its function has yet been conducted. While it may yet be too early to resolve questions of whether this "transition philanthropy" program has achieved its goals, analysis of how the system functions "on the ground" is long overdue. Focusing on how the system works, how key stakeholders navigate this system and to what extent Romania's system contributes to percentage philanthropy's twin goals of developing the NGO sector and nurturing a tradition of individual donation. Drawing on insights from percentage philanthropy experts, this policy analysis provides a reading of the interim results of the percentage philanthropy system in Romania, concluding that the system—though imperfect—works.

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## List of Abbreviations

- ANAF - Agenția Națională de Administrare Fiscală (National Fiscal Administration Agency)
- APD – Asociația Pro Democrația (Pro-Democracy Association)
- APEH – Az Adó- és Pénzügyi Ellenőrzési Hivatal (Hungarian Tax and Financial Control Administration)
- ASG – Agenția pentru Strategii Guvernamentale (Agency for Government Strategy)
- ARC – Asociația pentru Relații Comunitare (Association for Community Relations)
- CS – Civil society
- CSO – Civil society organization
- EC – European Commission
- ECNL – European Center for Not-for-Profit Law
- FDSC - Fundația pentru Dezvoltarea Societății Civile (Civil Society Development Foundation)
- ICNL – International Center for Not-for-Profit Law
- KSH – Központi Statisztikai Hivatal (Hungarian Central Statistical Office)
- NIOK – Nonprofit Információs és Oktató Központ Alapítvány (Nonprofit Information and Training Centre Foundation)
- NKPA – Asociația Părinților “Noi-K” (“Noi-K” Parents’ Association)
- NGO – Non-governmental organization
- OSF – Open Society Foundation Romania
- PNL – Partidul Național Liberal (Liberal Party)
- SC – Salvați Copiii România (Save the Children Romania)
- SzKA - Székelyudvarhelyi Közösségi Alapítvány (Odorheiu Secuiesc Community Foundation)

## Introduction: Inside Romanian Percentage Philanthropy

Throughout the post-socialist states of Central and Eastern Europe (CEE), weak traditions of individual philanthropic donation and a recently re-emerged formal civil society (CSO<sup>1</sup>) sector are just a few of communism's lasting effects. In order to address these perceived deficiencies and support the CSO sector, five post-socialist states (Hungary, Lithuania, Slovakia, Poland and Romania) have created a "percentage philanthropy" program, which allows citizens to re-direct 1-2% of their annual income tax to the CSO of their choice—with "CSO" having a slightly different definition in each country, but most commonly referring to non-governmental organizations (NGOs)<sup>2</sup>. This percentage philanthropy program provides an opportunity for "philanthropy" in the form of income tax "donation" to any registered NGO at no additional cost to the taxpayer. This program has at least two major aims: 1) to provide funding to NGOs, and 2) to nurture a tradition of individual donation.

The "donations" which can be re-directed from income tax can represent a substantial and much-needed source of funding for the CSO sector. While this is true to some extent throughout CEE, it is particularly relevant for Romania. In 2011, "2% funds" re-directed by Romanian taxpayers totaled over €27.8 million (ANAF 2012). In a sector where—as of 2008—*two-thirds*<sup>3</sup> of CSOs had an annual budget of less than €9,000, this is a major source of income (FDSC 2010b, 13). Furthermore, this income is not earmarked for any specific activity, and can thus be used to cover recurring overhead costs. Such un-earmarked funds

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<sup>1</sup> For the purposes of this paper, the term "civil society organization" will be used interchangeably with "non-governmental organization" (NGO). While much academic debate exists about the definition of "civil society," the functionalist approach taken, notably, by Salamon *et al* (2004)—wherein civil society is understood as *formally registered* civil society organizations—will be taken in this study.

<sup>2</sup> Depending on the country, some combination of NGOs, churches and state institutions are eligible to receive percentage philanthropy funds. In Romania, NGOs, churches and educational accounts attached to individual children are eligible recipients. See Romanian 2% Law (in Romanian) (Legea 571/2003).

<sup>3</sup> 66.58% of organizations had an income of  $\geq 40,000$  Romanian lei (RON), which is equal to €8,956 using exchange rates from December 2008, the year from which the relevant research data is taken.

represent a rapidly-disappearing commodity in a country where many international grant-makers pulled out following Romania's 2007 EU accession, and the remaining grants cover mainly project-based costs.

In place since 2005, Romania's "2%" funding scheme participation rates are low in comparison to Hungary and Slovakia. In 2011, seven years<sup>4</sup> after the law's implementation, about 25% of eligible Romanian taxpayers used the program to direct a portion of their income taxes to the organization of their choice, as opposed to about 30% of Hungarian taxpayers by the second year of implementation. However, the proportion of taxpayers participating in the 2% program has risen steadily in each year since its implementation, indicating that—even if imperfect—Romania's system is working. Meanwhile, of the nearly 25,000 organizations accessing "2% funds," some NGO titans attracting over €100,000 and others attracting little or no funds at all. Thus, it is clear that some are better at "making the 2% system work" than others. However, no research on how Romania's 2% mechanism currently functions (or malfunctions) has yet been conducted.

This thesis seeks to address three questions: How does the 2% system work "on the ground" in Romania? How are NGOs and citizens able to navigate this system? Furthermore, does it accomplish its twin goals of developing the NGO sector and fostering philanthropy?

This work is limited in scope to analyzing the current functioning of the Romanian percentage system. While it examines the factors which affect the system's "success," in terms of citizen participation in this program, it does not endeavor to fully address questions of percentage philanthropy's utility as a mechanism for developing the NGO sector or nurturing individual philanthropic giving. Its aim is limited to providing insight into the

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<sup>4</sup> The Romanian "2% program" was first implemented in 2005, wherein citizens could re-direct a portion of their taxes owed for the 2004 tax year. The most recent data available on the number of citizens participating in this program comes from tax year 2010 (re-directed by citizens in spring 2011).

functioning of a percentage system about which no major research has been conducted, with the exception of surveys on citizen awareness of and attitudes towards such (ASG 2006, FDSC 2010a), and a preliminary analysis one year into its existence (Terpe 2006).

The following chapters of this work provide an overview of the extant literature on percentage philanthropy and an analytical framework of the components of a functioning percentage system. The next three chapters examine the role of each of three major stakeholder groups in making the percentage philanthropy system work: the government, citizens and NGOs. Chapters 6 and 7 then present the methodology and findings from case studies of three NGOs with varying levels of success in navigating the 2% system. A final chapter analyzes and draws conclusions about the Romanian percentage system.



# Chapter 1: Literature Review: Percentage Philanthropy in Central and Eastern Europe

This chapter defines the attributes and challenges associated with percentage philanthropy before moving to a discussion of the rationale behind creating this unique and debated form of “philanthropy.” Finally, an overview is given of the finite literature that has been created by and for practitioners interested in implementing such a percentage system.

## 1.1. *What is percentage philanthropy?*

Neither a tax credit nor a personal donation, “percentage philanthropy” occupies the space between a legally-mandated tax payment and a philanthropic gift. This form of “giving” to civil society is best described as a “special form of tax allocation,” wherein citizens can choose to re-direct a percentage of their income tax to a civil society organization, rather than paying the entire sum to the state (Bullain 2004). In the five CEE states with such a mechanism, the exact percentage of income tax which can be “donated” varies between 1% and 2%. However, in all states but Poland, taxpayers needn’t actually re-direct their “percentage donation”; after filling out a form to the relevant tax authority, the respective government transfers the money directly from its own coffers to the recipient organization. In short, a percentage philanthropy “donation”—or re-direction, as it is often called—is money which citizens are obliged to give, but for which they may choose the destination.

As these “donations” stem from legally-mandated tax payments, it is unsurprising that the usage of the terms “donation” and “philanthropy” is debated (see e.g. Bullain 2004). Unlike more traditional forms of philanthropic giving, percentage philanthropy does not involve citizens contributing any funds out of their own pockets. In this way, there is not the element

of “conscious unselfishness” which is presumed to underpin donations made from one’s own wealth (Wyganski 2004, 11). Instead, the state grants citizens the right to control where a portion of their tax money goes, and therein the means with which to support a cause of their choice.

For eligible recipients—NGOs, churches, or even state-supported cultural institutions, depending on the country<sup>5</sup>—this “donation” represents a unique opportunity for funding. Percentage funds are a “stand-alone” program, not derived from state funds already allocated to the NGO sector, but rather part of a separate funding scheme<sup>6</sup>. Furthermore, these funds are a dependable source of income; as long as taxpayers continue to participate in the program, percentage funds will continue to be available each year.

## **1.2. Challenges of percentage philanthropy**

This unique fundraising mechanism brings with it unique challenges. Unlike traditional philanthropic giving, the upper limit of which is dictated by donors’ generosity, the amount of funds from percentage philanthropy is a mathematical function of tax collected. As Hadzi-Miceva highlights, (2008, 43), “the ‘percentage cake’ available to the NGOs has a finite size and cannot be increased.” Likewise, Hazdi-Miceva continues, these funds represent a zero-sum game; “the receipt of a larger portion by one NGO reduces the amount available to others” (*ibid*). Thus, beneficiary organizations are effectively in competition with one another for funds; those wishing to earn more must either 1) more effectively convince existing “percentage donors” to re-direct their 1-2% to the respective NGO, rather than another, or 2) convince those not currently participating in the percentage scheme to do so.

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<sup>5</sup> For example, in Lithuania, where citizens have the option to donate percentage funds to state institutions, this is a popular choice (Porkolab 2012).

<sup>6</sup> This is the case by law. However, in practice, adoption of a percentage mechanism can be accompanied by other legislative actions which effectively take resources away from NGOs, namely cuts in social spending, etc. For a discussion of this topic, see Wyganski (2004, 5-6).

Moreover, the privacy protection measures which are a fundamental part of percentage laws in all countries but Poland—wherein taxpayers directly transfer their 1% to the beneficiary organization—mean that NGOs cannot communicate with their “donors,” or even know who they are. This anonymity means that beneficiary organizations cannot track donation habits, thank donors for their support, or ask for additional contributions—either via the percentage mechanism, or out-of-pocket philanthropic donations; these actions are fundamental to philanthropically-funded organizations (Bell 2010).

### **1.3. Policy rationale**

Although a similar percentage mechanism was created in Spain and Italy to fund churches, the concept of allowing taxpayers to re-direct funds to the *civil society* sector is unique to post-socialist states in Central and Eastern Europe<sup>7</sup>. Pioneered by Hungary in 1996, this form of “quasi-philanthropy” (Wyganski 2004, 10) or “transitional philanthropy” (Wyganski, as attributed in Bullain 2004) has since been adopted in Slovakia (1999), Lithuania (2002), and Poland and Romania (2003), albeit in customized configurations in each state. Although the rationale behind such has varied by country, two central objectives for the creation of percentage mechanisms are common to all: 1) *developing the civil society sector*<sup>8</sup> and 2) *fostering a tradition of individual donation* (Bullain 2004). Both of these objectives target perceived weaknesses in the region following the suppression of organized civil society and philanthropic giving experienced under and in the wake of communism (see e.g. Howard 2003).

Within these objectives, sub-goals are often articulated by those advocating for the percentage system. *Developing the civil society / NGO sector* entails, first and foremost,

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<sup>7</sup> One municipality in Japan also has a percentage system (see Chano 2008).

<sup>8</sup> In this context, “civil society sector” is understood to mean the organizations eligible as beneficiaries; this is most often used interchangeably with “the NGO sector” by most researchers (see e.g. Bullain 2004).

providing much-needed funding for NGOs (Wyganski 2004). Additional components of this “development” goal include raising public awareness of the NGO sector and building NGOs’ skill in communication and outreach (Bullain 2004). For those countries where public reporting on activities conducted with percentage funds is legally required (all countries but Romania), this component also serves to increase professionalism of the NGO sector by boosting transparency and accountability (Bullain 2004).

The second of percentage philanthropy’s twin goals, *fostering a tradition of individual donation*, is less linear. The underlying logic is that the percentage mechanism represents a means by which citizens in less-wealthy countries can have the experience of supporting an NGO without having to part with precious household income (Wyganski 2004, 10). A second implicit rationale here is that citizens who engage with and “support” NGOs via their 1-2%, and will extend this behavior to include out-of-pocket donations (Bullain 2004).

#### **1.4. Research overview**

Of the limited research conducted on percentage philanthropy in the 15 years of this unique mechanism’s existence, the vast majority has been coordinated, compiled or directly funded by Hungary’s Nonprofit Research Group (NIOK) Foundation, for the purpose of providing research for interested policy-makers and NGO sectors on an international scale. Accordingly, much of the extant literature falls, broadly, into two categories. The first, which dominates the field, is largely descriptive, and often consists of single-unit analyses which trace the advent, implementation and results of percentage mechanisms in each of the five relevant CEE countries. However, since Romania had not yet implemented its 2% Law in 2004, the year of the landmark Percentage Philanthropy Study (NIOK), no analysis beyond a narrative of the law’s adoption (Musca 2004) and first year of implementation (Terpe 2006)

exists. Thus, while an account of how the mature percentage philanthropy system works “on the ground” exists for Hungary (e.g. Kuti 2007), Slovakia, (e.g. Gerencser 2007), Lithuania (Ilgius 2006) and Poland (Schimanek 2006), no such analysis exists for Romania.

The second category of percentage philanthropy research—what can be viewed as an emergent second wave of literature—centers upon comparative study of the mechanism in different states, as well as preliminary evaluation of whether percentage philanthropy, in fact, fulfills its twin objectives of developing the civil society sector and fostering a tradition of individual donation. However, to date, this category of research includes only a single longitudinal, comparative study targeting Hungary and Slovakia (Gerencser 2007). Meanwhile, surveys on attitudes about both percentage philanthropy and traditional giving have been conducted in all five percentage philanthropy countries (see, for example Czike 2006, Lampl 2002, ASG 2006). However, these surveys are often one-off “snapshots” of a single point in time, limited in their scope or difficult to compare between countries or over time.

While preliminary data on participation in and attitudes towards percentage philanthropy have been gathered sporadically in all of the five CEE percentage philanthropy countries, such has not yet been systematically analyzed or compared. However, before such cross-country or time series analysis can take place, research must be available for every country on how the percentage system works in practice. This study provides this essential, foundational research for the Romanian case.

## Chapter 2: Analytical framework

As outlined in the introduction, this study aims at mapping how the Romanian percentage philanthropy system works. In order to complete this task, a frame of analysis is required which identifies the components of a “successful”—that is, highly utilized by citizens—percentage system. Based on the extant literature of percentage mechanisms throughout the region, as well as interviews with percentage philanthropy experts Nilda Bullain (ECNL), Marianna Torok (NIOK) and Aniko Porkolab (NIOK), the following six components have been identified as fundamental to facilitating high citizen participation in a percentage philanthropy system. Of these, half (three components) relate to the legal or administrative framework created via the policy-making process, and as such must be executed by policy-makers. The other half (three components), relate to how the system is implemented, and should be viewed as complementary, but no less essential. This second group of components can be executed by the state, civil society organizations, or both.

LEGAL / ADMINISTRATIVE	IMPLEMENTATION / END-USE
USER-FRIENDLINESS	“WHAT IT IS” AWARENESS-RAISING
ADMINISTRATIVE CAPACITY	“HOW YOU USE IT” PROVISION OF INFO FOR PARTICIPATION
TRANSPARENCY	“WHY YOU SHOULD USE IT (AGAIN)” PUBLIC INFORMATION ON USAGE OF FUNDS

The first of the **legal / administrative** components which should be built into state-level policies is that of *user friendliness*. Named by international expert Nilda Bullain (2012) as one of the essential facets of high-performing percentage systems, this component can be further broken down into two concrete elements: a functional percentage systems is *easy to*

*understand* by the layperson and participation *doesn't unduly burden the taxpayer*, either in terms of time or expense.

The second condition for a percentage philanthropy system which facilitates participation is sufficient *administrative capacity* (Bullain 2004; 2012). This element both feeds into the previous component (Bullain 2012) and helps to ensure that the percentage system's implementation phase runs smoothly. Rationally speaking, this administrative capacity entails sufficient staffing and resources to ensure timely processing of paperwork, collection of data, and disbursement of funds to beneficiary organizations. The final necessary legal/administrative component is *transparency*, which is important not only because percentage funds are public funds, but particularly if building a more professional, "developed" NGO sector is one of the rationales behind having created a percentage system (Gerencser 2007); this *transparency* should include, at a minimum, feedback to citizens about the transfer of percentage funds (*ibid*, 9).

In order to bridge the gap between a percentage system's existence and taxpayers actually participating in it, a second category of components are needed. These complementary facets to the legal / administrative framework target **implementation / end use**, and can be thought of as outreach which informs taxpayers *what* the percentage system is, *how* they can participate, and *why / to what end* these percentage funds are used. Although responsibility for these components may fall to the state, civil society organizations, or some combination thereof, experience has shown that such is important both for the percentage system, as a whole (Gerencser 2007), and for individual NGOs hoping to receive percentage "donations" (Torok 2007).

*Awareness-raising* represents an essential element of high citizen participation in a percentage system for self-evident reasons, and remains a part of the landmark Hungarian

program even now, fifteen years into its implementation (Porkolab 2012). A second, closely-related element of this awareness-raising is the *provision of info for participation* for citizens who wish to do so. The final of these components related to the successful implementation of a percentage system is *public information on the usage of funds*. Closely linked to *transparency*, this element ensures that taxpayers can make informed decisions about their percentage “donations,” allows the state to monitor its investment, and may provide a positive feedback loop to encourage repeated participation in the percentage system in subsequent years (Gerencser 2007, 31).



## Chapter 3: Percentage philanthropy performance: The government's role

Given the aforementioned legal / administrative components that experts have established as important for a successful percentage philanthropy program (*user friendliness*, *administrative capacity*, and *transparency*) how does Romania's program match up? In order to answer this question, we must examine how the system works in practice. If the answer is to be found, an investigation of all three "pieces of the puzzle" is in order: that of the government, citizens and NGOs. In this chapter and the two that follow (Chapters 3, 4, and 5), the role of these three stakeholder groups in administering, promoting and utilizing the 2% system are examined, in turn.

### **3.1. Legal framework: Adoption of the 1% (and 2%) laws**

Unlike in fellow percentage philanthropy states Hungary or Poland, the lag time between initial proposal of a percentage mechanism and the law's adoption was nearly negligible. Initiated by opposition party Vice President Mona Musca of the Liberal Party (PNL) in September, 2003, the Romanian "1% Law" was passed less than 4 months thereafter on December 13, 2003 (Musca 2004, 2). So great was the impetus to adopt the percentage mechanism that, rather than penning a separate "percentage law," language enacting the mechanism was added to the Fiscal Code, which had already been scheduled for discussion in late November. However, this impetus was largely at the hands of a single (opposition party) parliamentarian, and had little broad-based support from policy-maker stakeholders, either in the Parliament, or within the Ministry of Finance (Legea 571/2003, Motoc 2012). Within a year, Parliamentarian Musca was able also to increase the percent eligible for taxpayer re-

direction from 1% to 2%, tying Romania with Slovakia and Lithuania as the country with the most generous percentage mechanism in the region<sup>9</sup>.

However, despite the law's generosity, one major element—present in all four other countries with percentage systems—was noticeably absent; a reporting mechanism making the destination, disbursement and usage of 2% funds by NGOs public information. For a law created, in part, to respond to the “low level of trust that the population has in not-for-profit organisations” (Musca 2004, 4), the lack of reporting requirements—either for the government and for NGO receiving funds—means that Romania's 2% system almost completely lacks *transparency*. Citizens have no way to know if their paperwork has been processed, and cannot trace the transfer of funds, which is considered a minimum requirement of a high-functioning percentage system (Gerencser 2007, 9).

### **3.2. Performance: Initial implementation period**

In the wake of speedy adoption, the strain on *administrative capacity* related to putting the law into practice quickly became evident. In 2005, the first year of implementation, hiccups in processing the re-direction of taxpayer funds led to prolonged delays in disbursement to NGOs (up to a year), and even some cases in which directed funds never arrived in NGO accounts<sup>10</sup> (Motoc 2012). In follow-up consultative meetings with policy-makers, NGOs launched highly publicized grievances, which “made for *terrible* press” and created an image of the 2% mechanism as unreliable. In the words of Radu Motoc (2012), a member of the NGO “coalition” involved in the drafting of the 2% Law “what really hurt 2% (participation rates) in those first years were the failed attempts at donating.”

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<sup>9</sup> Hungary modified its 1% Law to allow taxpayers to re-direct an additional 1% to the church of their choice. This “1+1%” mechanism, then, functionally allows taxpayers to donate up to 2% of their income, making it equally generous to programs in Slovakia, Lithuania and Romania, but different in how it divvies up this 2%.

<sup>10</sup> This could have resulted from clerical errors on the part of taxpayers or bureaucrats.

Rates of taxpayer participation in the 2% scheme in these first two years were dismal. Only 2% of eligible taxpayers took advantage of the percentage mechanism in the very first year (Shroff-Mehta 2008). Despite a national awareness-raising campaign undertaken by the Association for Community Relations (ARC) during the second year of implementation (spring 2006: tax year 2005), participation rates remained low, at 8.6% of eligible taxpayers. In comparison, Hungary's long-debated 1% Law took effect in 1997, and by the first year of implementation had participation rates of nearly one-third of eligible taxpayers (Czike 2006).

### **3.3. Performance: Current procedure for re-directing 2%**

In more recent years, the timelines and procedures associated with re-directing funds have remained problematic. On one hand, taxpayers wishing to participate must fill out a relatively simple, stand-alone, one-page form in hard copy (Form 230 or 200, depending on the taxpayer's source of income). Beginning in 2012, this form can even be filled out online, albeit after visiting a notary to verify identification and paying a processing fee (estimated as a €10-15 cost altogether (Gheorghe 2012)) due to the labor-intensive process that occurs after the forms are submitted. However, the lag time between citizens' filing of paperwork (until May 15) to disbursement into recipient accounts usually lasts approximately seven months (until December 30). Given that the vast majority of 230 / 200 Forms are turned in hard copy, this process represents a major state investment in *administrative capacity*, of which Romania has little to spare<sup>11</sup>.

Although parts of this process—particularly the long delay between citizen filing of 2% paperwork and disbursement of these funds to NGOs—can be attributed to a *lack of administrative capacity*, many believe that political motivations also play a role in how the

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<sup>11</sup>Romania's under-developed administrative capacity has been identified by the EU as a weak link in the approval, oversight and disbursement of funds for EU projects (see e.g. Commission (2006). *Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania*. Brussels. COM (2006) 549 final. 26 September 2006).

2% system works. Frequent, seemingly arbitrary changes to the format (but not the content) of the required 230 / 200 Form continue to make the process of re-directing unnecessarily onerous for taxpayers, and have led many within the NGO sector to speculate that the Ministry of Finance is opposed to increased taxpayer participation in the 2% scheme (Nedelcu 2012; Berceanu 2012<sup>12</sup>). As an example, in spring 2010 the forms—including the bottom half, containing data about the recipient NGO—could be typed out on a computer, and forms from an unlimited number of taxpayers could be sent in a single envelope. The following year (spring 2011), the bottom half of forms were to be filled out by hand, and no more than one form was allowed per envelope. In the current year (spring 2012), only forms sent via registered mail<sup>13</sup> are to be accepted. In addition, around February, ANAF changed the layout (but not substance) of the 230 / 200 Form without a formal announcement, rendering “old” forms invalid halfway through the designation period (January – May).

Even under the best of circumstances, the current 2% system remains far from user-friendly; it is *complex* and *lengthy*. What’s more, upon completion of this process, ANAF neither compiles nor publishes information on either 1) how many individual taxpayers re-directed to or 2) what sums were transferred to any given NGO. Furthermore, citizens receive no notification of whether their sum has been transferred, or even if it has been processed; as such, a taxpayer whose form was discarded for any reason has no means of knowing such. This is in direct violation of the principle that percentage systems, at a minimum, allow citizens to track the transfer of funds in order to build citizen trust in the system and in NGOs. For their part, NGOs are not required to disclose how much funding they received, and have

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<sup>12</sup> It should be noted that these interviewees did not express these speculations as their own personal opinions; rather they were cited by interviewees as trends within the NGO sector, as a whole.

<sup>13</sup> Registered mail (*scrisoare recomandată cu confirmare*) requires a signature of confirmation by the recipient; this method is more expensive and requires an additional step for the sender.

no way to track how many—or which—taxpayers “donated” their 2%, rendering the percentage system almost completely opaque.

## **Chapter 4: Percentage Philanthropy Performance:**

### **Citizen Participation**

In order for eligible citizens (taxpayers) to participate in a percentage philanthropy system, a deceptively complex set of pre-conditions must be fulfilled. Citizens must 1) know of the percentage system's existence, 2) be familiar with at least one NGO which they would like to support via this mechanism and 3) be able to execute the re-direction process. In the Romanian case, there are challenges related to each of these conditions.

#### ***4.1. Public awareness of 2%***

The rapid adoption of Romania's 2% law and initial implementation period were accompanied by relatively little public fanfare or concentrated awareness-raising campaigns. Romania's drafting period of the law was "too short to inform the public about the new percentage opportunity" (Musca 2004, 2). As a point of comparison, Hungary had an exceptionally high rate of citizen awareness of the 1% system as a result of a years-long adoption process: in 1994—even 3 years prior to the law's implementation—98% of taxpayers were aware of the percentage mechanism (Vajda 2000). In Romania, no data comparable to Hungary's exists for the period preceding adoption of the 2% law; however, given the speed of the law's passage and lack of awareness-raising campaigns prior to implementation, the numbers can be safely assumed to have been low. According to the most recent representative survey from 2010, conducted five years after the law's implementation, only 48% of Romanian citizens had heard of the 2% mechanism (FDSC 2010a, 8)

#### ***4.2. Public trust in and knowledge of NGOs***

Like elsewhere in Central and Eastern Europe (CEE), communism's legacy in Romania includes lower levels of associative behavior and relatively low levels of trust in both fellow

citizens and the government (see e.g. Howard 2003). However, in Romania, these effects are particularly pronounced, thanks to the nature of the totalitarian regime in power until 1989. Under Nicolae Ceaușescu, the head of state from 1967 on, “no type of independent social activity was tolerated;” such was monitored by secret police (*Securitate*) and punishable with 5-10 years of imprisonment if discovered (Topor 2008, 10). Whereas other states in the region experienced a period of liberalization in the 1980s which began to allow elements of civil society to re-emerge, Ceaușescu’s Romania remained rigidly anti-civil society until its last days.

Unsurprisingly, this decades-long suppression of associational behavior gave Romania a “delayed start” in re-building civil society in the wake of communism. International donors entering the country in the 1990s were met with a near-total absence of civil society organizations—formal or informal—with which to work (Carothers 1996, 19). As such, these foreign donors, themselves, were often the driving force behind the creation of many of the early NGOs (*ibid*). Unlike the “classic path” of civil society organizations’ outgrowth from associational groups, Romania’s civil society is perceived as having developed *from the outside in* (Topor 2008, 8). This can be seen as one major source of Romania’s extremely low levels of trust in the NGO sector.

In addition its “inorganic” emergence, a second major stumbling block in fostering citizen trust and buy-in in the NGO sector came in the wake of legislation meant to aid this citizen trust. After 1992, changes in fiscal regulations meant that NGOs were exempted from paying both value-added tax (VAT), as well as import duties on used cars donated for their organization (Topor 2008, 13). Although the law was aimed at service-providing NGOs, and was meant only to exempt cars over 8 years old, the result was a sharp increase in the number of NGOs registered specifically to gain access to these benefits, and a sizeable influx of late-

model cars into Romania; “in the early 90s, everyone had a small foundation” (Nedelcu 2012). Although this wave of exploitation of NGO status for personal gain subsided, the damage was already done to the burgeoning NGO sector’s reputation. Even today, this episode is oft-referenced as evidence of NGOs’ questionable motivations.

Citizen trust in the NGO sector remains low. The two years in which the Eurobarometer surveyed citizens on their trust in charitable and voluntary organizations (2004/2005), Romania returned the lowest values of all five percentage philanthropy countries, both for the categories of “tend to trust” and “don’t know” (EC 2005). The more nuanced Public Opinion Barometer created by the Open Society Foundation and 2010 FDSC survey reveals even lower levels of trust for all years surveyed (six times between 1998 and 2010). At its peak value, 32% of citizens surveyed had “some” or “a great deal of” trust in NGOs; for all years,  $\geq 50\%$  or more of Romanians had “little” or “no” trust in NGOs (FDSC 2010a, 4). However, trust levels increased in almost every year covered, up from 19% in 1998 to 32% in 2010 (*ibid*).

Equally worrisome to the still-low levels of trust in the NGO sector is the Romanian public’s *lack of awareness* of the NGO sector’s work. When asked to name NGOs which they considered useful, only 1 out of 5 respondents in a large, representative sample of Romanians *could name a single NGO* (FDSC 2010a, 4). 68% had not heard of any NGO, and 11% didn’t consider any NGO to be useful (*ibid*). Although dismal, this percentage actually represents a substantial increase from four years prior, when a Gallup poll found that only 11% of Romanians—or about 1 in 10—had heard of at least one NGO (ASG 2006).



### ***4.3. Execution of the re-direction procedure***

Even for those citizens who both know about the 2% mechanism and wish to utilize such, the complexity and opacity of the designation procedure may act as a barrier to doing so. While the paperwork associated with donating one's 2% is brief and relatively simple to complete, the frequent procedural changes discussed in the previous chapter make the process unpredictable from one tax cycle to the next. Unpredictable changes in the format of the paperwork, itself, or in the procedure associated with submitting this paperwork (see Chapter 2.1.2) means that, by some accounts, "year by year the way to donate (2% funds) is more and more difficult" (Nedelcu 2012). Furthermore, the lack of a formalized feedback loop for citizens who have submitted incomplete or incorrect forms means that those taxpayers making clerical errors lose the chance to "donate." As such, an unknown number of citizens who intend to participate in the 2% scheme each year are not able to successfully navigate the system to do so.

## **Chapter 5: Percentage Philanthropy Performance: The NGO**

### **Sector as Facilitator**

Citing the numerous pitfalls associated with participation in the percentage system, Romanian NGOs have positioned themselves as a bridge between the state and citizens in the usage of the 2% system. By providing information on the system, itself, in addition to asking citizens for their 2%, NGOs have effectively taken on a facilitative role in the percentage system which centers upon complementary, end-user tasks like awareness-raising and provision of user information. It is this proactive, individual-NGO-level campaigning which some credit with the steady increase in citizen participation since the advent of the 2% Law (Gheorghe 2012).

#### ***5.1. The landscape of the NGO sector***

The Romanian NGO sector, like that of countries like the U.S., is highly “lopsided,” with 7% of the NGOs accounting for 82% of the sector’s income (FDSC 2010b, 49). On the ground, this means that the largely reimbursement-based EU Structural and Cohesion Funds are inaccessible to all but the largest NGO. Thus, while the expectation was that EU funds would be able to step into the void as international donors pulled back in anticipation of Romania’s 2007 accession, the reality has failed to live up to these expectations.

.For smaller NGOs, which make up the vast majority of the sector, relatively small amounts of 2% funds are greatly needed, and can make up a substantial portion of their annual budget (Berceanu 2012). Accordingly, the number of NGOs accessing 2% funds has grown steadily in parallel since the percentage system’s adoption. In spring 2011, a whopping 24,891 NGOs, churches and individual children’s educational funds benefited from 2% monies (ANAF 2012, 1). This corresponds to ARC’s Director of Communications’ experience that

“virtually every NGO I know uses (2%) in some way. Some do big campaigns, others do very little, but almost everyone uses it somehow” (Gheorghe 2012).

Via interviews with 13 representatives from the NGO sector, thematic areas emerged around which NGOs have centered their work *via-à-vis* the 2% system. These interviews came both from NGO representatives actively engaged in soliciting 2% funds, as well as from a second tier of organizations whose main role is to support the NGO sector, as a whole (e.g. ARC, FDSC, OSF). Thus, insights into how NGOs navigate the 2% system come from both those organizations “in the trenches” as well as those with a “bird’s eye view.”

Based on these interviews, the NGO sector tends to view its work as centered upon building citizen *awareness of* and *support for* the percentage mechanism, and in compensating for perceived weaknesses in the extant 2% system in order to facilitate taxpayer participation. These activities include 1) *educating citizens about the existence of “2%”,* 2) *building citizen trust in the organization,* 3) *facilitating citizen usage of “2%,”* and 4) *increasing the 2% system’s transparency.*

## **5.2. Raising citizen awareness of the 2% mechanism**

Even in the eighth year of Romania’s 2% system, NGOs continue to name informing citizens about the 2% system’s existence as among their most important activities. “Many people still have not heard of 2%,” explains the coordinator of one NGO’s 2% campaign (Turcu 2012). Just as often, people misunderstand the mechanism as being an additional sum paid not out of the state’s coffers, but out of their own pockets. As such, NGOs emphasize the necessity of creating campaigns which clarify the nature of the percentage system. In the words of ex-Director of Programs for Open Society Foundation Romania (OSF) effective 2% campaigns make it clear to the taxpayer that 2% money is “*your* money that the state obliges

you to give; *you* can decide where 2% of it goes. Don't allow the state to take it; exercise your right" to re-direct 2% (Motoc 2012).

A relatively short 2-year general awareness campaign accompanying the first two years of the percentage laws' implementation was undertaken by the Association for Community Relations (ARC). With USAID as the only funder, and financial support lasting only a single 2-year grant cycle, this campaign was modest in size, but was largely credited with raising participation rates from under 2% in 2005 to 8.6% in 2006 (Shroff-Mehta 2008, 29). However, the campaign focused on encouraging people to donate their 2%, rather than providing concrete information on how to do so (Worman 2012). In this way, the "best practice" of *awareness-raising* was initially briefly accompanies the 2% system's implementation, but the equally-essential objective of *provision of info for participation* was lacking.

In the years following this initial campaign, ARC shifted its focus to more in-depth, but passive, forms of awareness-raising (Gheorghe 2012). Whereas Hungary's NIOK Foundation continued an "extensive" print, TV, radio and web campaign, as well as operating a popular hotline for citizens with questions, Romania's campaign after 2007 were entirely internet-based. Thus, as of the third year of 2%'s existence, the Romanian campaign's target group was effectively limited to those with 1) internet access and 2) sufficient previous knowledge of the mechanism to search for the website<sup>14</sup>. As voiced by numerous interviewees, the continued gaps in taxpayer knowledge of the 2% system and its use have contributed to under-performing rates of participation (e.g. Guna 2012).

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<sup>14</sup> The website [www.doilasuta.ro](http://www.doilasuta.ro), which translates to "2%," the colloquial term for Romania's percentage mechanism, has an intuitive name for those acquainted with the percentage system, but

### **5.3. Building citizen trust**

When it comes to mobilizing citizens to participate in any sort of philanthropy, regional expert Marianna Török asserts that “gaining trust is a must” for NGOs (Torok 2005). This is even truer in Romania, where “there’s a huge credibility issue” for the NGO sector (Nedelcu 2012). This was acknowledged as one of the major rationales behind adoption of the law (Musca 2004, 5), but the lack of reporting requirements attached to the 2% system means that citizens must go on blind faith that that A) money reaches NGOs and B) it is used to support work that the NGO does in support of its mission. As such, many NGOs surveyed have voluntarily engaged in activities to communicate their mission, activities and even financial standing in the hopes of attracting 2% funds. This type of public information on the use of funds can work to partially compensate for the system’s opacity.

Although the 2% Law does not require any reporting of information on what 2% funds are used for, many NGOs utilize providing such information as both a feedback loop to citizens, and an effective marketing method. By providing information on what activities were planned for the current year’s 2% campaign, and the amount and destination of previous years’ 2% funds, NGOs are able to both give citizens a sense of what their donations can concretely accomplish, and showcase their ongoing mission-based work. While this “transparency” can be a false one, given that no verification mechanism for NGO claims exists<sup>15</sup>, no major public instances of NGOs misrepresenting 2% income has yet come to light.

While the majority of NGOs interviewed cited the anonymity of the 2% mechanism as a major impediment to creating lasting links to donors, nearly all had increased their efforts in communication and outreach as a result of campaigning for 2% funds. For those creating “targeted campaigns,” which identify the specific purpose for which 2% funds are to be

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<sup>15</sup> Financial information published in annual reports of larger or international NGOs may be verified by consultancy firms in accordance with international best practices.

allocated, this included an added element of planning activities further in advance than usual, and reporting on such upon completion. For all, this meant explaining their organization's mission—either face-to-face meetings or via media—in a clear, concise way. A particularly salient example is that of Odorheiu Secuiesc Community Foundation (SzKA), which transformed 2% participation rates in their home town of 36,000 from 11% in 2006 to a nation-wide high of 82% in 2011 by focusing on local NGOs' communication and outreach strategies (Csaki 2012, Worman 2012).

Some NGOs have even moved beyond individual action to the local or national level, spreading best practices in building citizen engagement and boosting 2% participation. SzKA, for example, has created an offshoot project called Local Philanthropy Workshop which includes—among ideas for other fund-raising activities—a webpage with examples of successful 2% campaigns in order to share best practices with interested NGOs<sup>16</sup>. Entitled “2% champions,” this website provides a template for NGOs hoping to attract 2% funds by engaging citizens in their mission work. PR Romania, a for-profit firm, has also created a series of articles on creative 2% campaigns to showcase innovative approaches to fundraising with this mechanism<sup>17</sup>. In this way, NGOs who have successfully navigated the 2% system to boost citizen participation are beginning to share their knowledge with others in the sector.

#### ***5.4. Facilitating citizen participation in “2%”***

In the face of a 2% system which is not entirely user-friendly, NGOs have taken a particularly proactive role in easing the burden—in terms of effort and, in some cases, expense—on taxpayers which comes with re-directing their 2%. This takes two main forms; providing taxpayers with the information needed to participate, and by aiding in the process of submitting the necessary paperwork.

<sup>16</sup><http://www.localphilanthropy.szka.org/?cat=14>

<sup>17</sup><http://www.pr-romania.ro/articole/ongpr/1263-2-pentru-aras.html>

In the case of the former, one example of NGO efforts is the creation of databases which make both the sector and the information for re-directing one's 2% more accessible. These databases offer information on the mission and activities, as well as tax code and bank account number of all NGOs wishing to be included. At least four of these databases are currently operating, two of which were compiled by the same NGO, and one of which was specifically created for supporting NGOs via the 2% mechanism<sup>18</sup>. None of these has more than 6,500 NGOs (Civil Society Development Gateway), with many organizations appearing in multiple databases, with the information appearing in more-recently or less-recently updated forms on various websites.

While FDSC's Diana Berceanu (2012) calls the Catalogue of Civil Society ([www.stiriong.ro](http://www.stiriong.ro)) the "largest and most realistic" database of NGOs available<sup>19</sup>, it contains only about 3,000 entries, of an estimated 25,000 "active"<sup>20</sup> NGOs. Like all such projects, only those NGOs sufficiently interested to volunteer their information were included; furthermore, the prohibitive cost of up-keeping such a project (€15,000 for the first round of letters and account creation) means that NGOs registered in the past 2-3 years have not been included (Berceanu 2012). As such, the potential for aiding citizens in choosing a 2% beneficiary from an up-to-date list is limited.

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<sup>18</sup> The Catalogue of Civil Society ([www.stiriong.ro](http://www.stiriong.ro)) and Civil Society Development Gateway (<http://ro-gateway.ro>) were both developed by FDSC, the latter in cooperation with the World Bank. CENTRAS, another well-established NGO, has its own database of over 1,000 entries (<http://www.database.ngo.ro>). Finally, ARC has created a database of over 300 NGOs at a website which provides information a variety of information about the 2% mechanism ([www.doilasuta.ro](http://www.doilasuta.ro))

<sup>19</sup> Due to the extensive resources that went into contacting all 25,000 active NGOs and creating accounts for all respondents.

<sup>20</sup> FDSC defines "active" NGOs as those which have registered a balance sheet with the tax authority in the previous year. These balance sheets are mandatory for all NGOs with economic activity, e.g. income. Additionally, some NGOs which operate without income, e.g. on an entirely voluntary basis, elect to register a balance sheet in order maintain this "active" status in the state's registers. In total, there are close to 70,000 NGOs which have been registered with the Ministry of Justice, which does not remove NGOs from its annals; thus such, likely include a number of now-defunct NGOs. For complete list of registered NGOs, see <http://www.just.ro/MeniuStanga/PersonnelInformation/tabid/91/Default.aspx>

A much more immediate, and widely-practiced, NGO initiative to mitigate the complexity of the 2% system is related to the process of filing one's 2% paperwork. All NGOs interviewed, regardless of size or operating budget, engaged in some form of activity to make the process of submitting paperwork to local tax authorities less burdensome. At its most minimal, this included offering 230 / 200 forms with the recipient organization's information filled in, whether in electronic form for download, or in hard copy form at taxpayers' place of work or home. At the other end of the spectrum, one of the NGOs surveyed (Save the Children) shouldered the cost of sending 4,289 forms individually via registered mail<sup>21</sup> to relieve taxpayers of the cost of doing so themselves. All interviewees also engaged in collecting—or offering to collect—forms from taxpayers in order to ensure that such were turned in to the relevant tax authority by the deadline. Although “not strictly in accordance with either the Fiscal Code or the Data Protection Act, it [submitting forms for taxpayers] is still a massively common practice” in the Romanian NGO sector (Gheorghe 2012).

In regards to feedback on individual 2% donations—e.g. informing citizens of clerical errors in paperwork, confirming submission or announcing NGO receipt of 2% funds—NGOs cannot legally take a more proactive role in this arena. Using citizen contact information provided on their 230 / 200 forms violates the Data Privacy Act. While such contact would allow the NGO to further engage the “supporter” by personally thanking them for their 2% or informing them via direct mail of 2% fund totals and activities, such comes at the cost of disregarding the privacy requirements built into the 2% Law. While the effect of this anonymity requirement—also extant in Hungary, Slovakia and Lithuania's 2% legislation—is unknown, the importance of such donor-beneficiary contact is well-established in the philanthropy literature (see e.g. Bell 2010), and was the major impetus behind Poland's exclusion of the anonymity component in its 2% system (Bullain 2012).

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<sup>21</sup>*scrisoare recomandată cu confirmare de primire*



### ***5.5. Navigating the system***

While elements of some individual Romanian NGOs' campaigns mirror those of more mature percentage philanthropy programs, the absence of a single, centralized organizer in the form of a dominant NGO or—as in current-day Hungary, the government via the National Civil Fund (Porkolab 2012)—is a notable difference. Although the Association for Community Relations (ARC) once fulfilled this role, such is now occupied by a number of larger NGOs creating civil society databases and a wide array of small NGOs campaigning on their own behalves. This fragmentation may partially account for the fact that less than half of the population surveyed was aware of the 2% system (FDSC 2011a, 8).

In their current role, NGOs help to smooth out some of the rough edges of often-changing procedures associated with re-directing one's 2% by acting as a conduit for information between the state and citizen. Others go one step further and help citizens circumvent portions of the user-unfriendly administrative procedures associated with 2% “donation” in an effort to ease the burden of a complex donation process—one which has recently taken on the added burden of additional postage costs to taxpayers. In the vein of transparency, the NGOs choosing to disclose information about their 2% funds see themselves as partially compensating for an otherwise opaque process, as well as motivating taxpayers to re-direct their 2%.

## Chapter 6: Methodology

### **6.1. Research design**

A qualitative approach was used to construct a comparative case study of three organizations which fund-raised using the 2% mechanism in order to better understand how NGOs, and the citizens with whom they interact via 2% campaigns, navigate the 2% system. In order to put the Romanian system in context, interviews have been conducted with international percentage philanthropy experts like Nilda Bullain (European Center for Not-for-Profit Law) and Marianna Torok (NIOK Foundation). From the Romanian sphere, interviews were conducted with key stakeholders involved in both the creation of the 2% Law and with representatives from a diverse group of Romanian NGOs. From these, Save the Children Romania, A.R.T. Fusion Association and Noi-K Parents' Association are presented as case studies of NGOs currently navigating the 2% system. Secondary research included surveys, reports, and NGO publications (e.g. annual reports).

### **6.2. Case study selection**

To ensure some variation in experiences navigating the 2% system and control for bias, the following criteria were used to select cases for in-depth study:

- The NGO had to have solicited 2% funds in at least one year (“have run or attempted to run a 2% campaign”).
- The NGO had to be willing to disclose information about resources invested in and gained from 2% campaigns.
- The NGO had to be willing to disclose strategic planning behind the 2% campaign, including target group and fundraising practices.

- Due to regional variations in citizen trust in the NGO sector, awareness of the 2% scheme, and participation in such, at least one NGO had to be based outside of the capitol city of Bucharest.

Due to the absence of 1) government data or 2) reporting requirements on how much individual NGOs receive in 2% funds, a reputational approach was taken to identifying organizations with varying levels of success in attracting 2% funds. Initial interviews with civil society experts whose organizations monitor and support the NGO sector (ARC, FDSC, OSF) led to the creation of a “short list” of NGOs thought fall into the bottom, middle, and top third of 2% fundraisers (raising 0 to €232, €233 to €1,165, and €1,166 or more, respectively<sup>22</sup>). Relevant reports and NGO publications were consulted to verify this 2% income. Where no such sources existed, interviews were conducted to assess annual 2% income levels. A total of five NGOs with experience in soliciting 2% funds were interviewed. After applying the remaining criteria, three case studies were selected which represented a high-performer, mid-level performer and low-performer in terms of 2% funds attracted.

Interviews targeted those with a direct role in formulating fundraising strategy and/or implementing 2% campaigns within their respective organization, with the organization, itself, choosing the staff member to be interviewed. This method was utilized on the assumption that the respective NGO best knew which staff members were qualified to discuss 2% campaign strategy and implementation. A total of seven semi-structured interviews were conducted with five NGOs from three counties (Bucharest, Teleorman and Harghita) which

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<sup>22</sup> These ranges are based on the results of the representative survey *2011 Barometer of NGO Leaders* regarding the 2010 2% campaign (FDSC 2011a, 39), which revealed levels of 2% funds raised by NGOs. According to this data, 33% of respondents raised 0 - 1,000 RON (0 - €232), 35% raised 1,001 – 5,000 RON (€233 – €1,165) and 27% raised 5,001 RON (€1,166) or more. An additional 5% of respondents selected “don’t know / no response.” All conversions from Romanian currency (RON) are calculated at the exchange rate for 30 December 2010, the date by which the last tranche of 2% funds would have been disbursed into NGO accounts (0.2331432734 Ron/€).

had experience in soliciting 2% funds (running 2% campaigns). An additional six interviews were conducted with international percentage philanthropy experts and stakeholders involved in the 2003 adoption of Romania's 2% Law<sup>23</sup> regarding their knowledge of how the percentage system works, in general.

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<sup>23</sup> International experts in percentage philanthropy included Mariana Török and Anikó Porkolab of NIOK Foundation and Nilda Bullain of the European Center for Not-for-Profit Law. Key stakeholders involved in the passage of the 2% Law included Radu Motoc (OSF), Catalin Gheorghe (ARC) and Diana Berceanu (FDSC), who was not personally involved in the initial passage / implementation of the 2% law, but whose organization was. Nilda Bullain, who is both an international percentage philanthropy expert and was present at consultative meetings during the passage of the Romanian 2% Law, was interviewed in both these capacities.

## Chapter 7: Case studies

In this chapter, the experiences of three NGOs of varying size, scope and geographic region will be examined in order to answer the question “how are NGOs and citizens able to navigate the Romanian 2% system?”

### **7.1. Save the Children Romania (Salvați Copiii România):**

Based in Bucharest with 12 affiliate offices across the country, Save the Children Romania (SC) is the second most well-known<sup>24</sup> NGO in Romania, and consistently among the top 3 earners in the 2% system<sup>25</sup>. SC has run a highly successful 2% campaign in each year since 2006, garnering over €166,000 in 2010. Each year, in the months immediately preceding the May 15 deadline<sup>26</sup> (March-May), it targets a broad general audience with a large-scale multimedia campaign via TV, radio, and print advertisement, plus a direct mail, e-mail and online component (Nedelcu 2012). This costs between €30,000-40,000, plus substantial man-hours for three SC employees and many pro-bono PR and human resources (*ibid*). The 2% funds gained represented about a quarter of the organization’s €4.2 million budget in 2010, the last year for which an annual report has been published (SC 2010, 36). However, the 2% campaign is a high priority for SC because “it’s very visible. Everybody knows us... and this [2% “donation] is the first step to become a Salvați Copiii supporter” (Nedelcu 2012a).

As one of the most well-established NGOs in the country, lack of citizen *trust* in their organization is not a major issue. As such, SC’s 2% campaign efforts center largely around the other three major components which complement a strong legal framework in a percent

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<sup>24</sup> In an open-ended question of a 2010 representative survey, when respondents were asked to name 3 NGOs of which they’d heard and considered to be useful, Save the Children came was named second most-often, after UNICEF (FDSC 2010a, 4).

<sup>25</sup> Among NGOs which publicize their budget, e.g. via annual reports. However, since all major, well-established NGOs do this, it is widely known which the “top earners” from the 2% system are (Motoc 2012; Worman 2012).

<sup>26</sup> Extended to May 25 in 2012.

system: raising *awareness* of the mechanism, as well as very heavily in helping citizens to navigate the *complexity* and *opacity* of the 2% system. The mass media campaign focuses on awareness-raising of the mechanism's "not out-of-pocket" nature and clearly identifies the specific "cause" towards which 2% funds will go: funds raised from the 2012 campaign (entitled "Transform 2% of your tax into 100% life for children") will go towards maternal care and parental support. On the organization's website, not only is the 2% campaign prominently featured, but results from the previous year's campaign—including sums and the specific medical equipment purchased (last year's campaign targeted premature infant care)—is equally visible<sup>27</sup>. This sort of clear, specific target and transparency in how funds are spent is something SC does "not just for 2%," but "in all of our fundraising campaigns" (Nedelcu 2012a).

In order to lessen the user-unfriendliness of the 2% mechanism, Save the Children invests major resources in facilitating the process of filing 230 / 200 Forms. Before and during the campaign, the tax authority (ANAF)'s website is monitored to check for changes to procedure—an action which alerted SC to the February change in the 230 / 200 form which took place, unannounced, this year. This up-to-date form—filled in with relevant SC information— is available for download from SC's website. In addition, Fundraising Department staff members annually visit 40-50 major companies in order to campaign directly to employees, collecting completed forms from all interested employees while there (Nedelcu 2012a). SC also shouldered the substantial cost and effort associated with a procedural change this year which required each individual form to be sent in its own

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<sup>27</sup><http://salvaticopiii.ro/?id2=00040006>

envelope, via registered mail<sup>28</sup>; SC individually submitted all 4,289 taxpayer forms which had been given to them via this laborious, higher-cost method (Nedelcu 2012b).

## **7.2. A.R.T. Fusion Association (Asociația A.R.T. Fusion):**

Now in its seventh year of operations, the Bucharest-based A.R.T. Fusion is an organization devoted to “the process of personal development and competence improvement of children, teenagers and young people by using methods of participative arts” (A.R.T. Fusion 2012). In its first 2% campaign in 2011, this organization raised approximately €330 (1,500 RON), which puts them in the “middle of the pack” of NGOs which campaign for 2% funds (FDSC 2011, 39). Identifying citizen *trust* in NGOs as a barrier to participation in the percentage system, A.R.T. Fusion’s campaign targeted only those already familiar with their organization—family, friends, volunteers, and those involved in previous activities. As a result of this low-budget method, the €330 which A.R.T. Fusion earned from 2% funds in 2011 was nearly pure profit; however, it represented a tiny fraction of their €114,000 budget for the year: less than .3 % (Turcu 2012).

A.R.T Fusion’s 2% efforts did not address the issue of *opacity* in the 2% system, instead focusing almost entirely on building citizen *awareness* and helping citizens navigate the *less-user-friendly* aspects of the system, which require taxpayer knowledge of NGO data, and submitting the form. With their narrowly-defined target group, emphasis was placed on raising *awareness* of the 2% system—which A.R.T. Fusion’s 2% campaign coordinator, herself, only learned of three years ago (*ibid*). The campaign used e-mails, direct mail and links to its website to encourage those who already knew of their organization to download and fill out 230 / 200 forms into which A.R.T. Fusion’s tax ID and account number were already entered. Like all NGOs interviewed in this study, A.R.T. Fusion collects and submits

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<sup>28</sup> Registered mail (*scrisoare recomandată cu confirmare*) requires a signature of confirmation by the recipient; this method is more expensive and requires an additional step for the sender.

2% paperwork (230 / 200 forms) for any supporters who wish, in order to reduce the time and effort involved for them (Turcu 2012). A.R.T Fusion continued this practice this year, but was unaware of changes to the filing procedure which necessitated that forms be sent by registered mail. As such, by regulations, any forms that it turned in this year via regular mail will not be accepted by the tax authority, effectively voiding 2% “donations” attempted by its supporters (*ibid*)<sup>29</sup>.

As stated, in terms of the 2% system’s *opacity*, the NGO does not make efforts to publicize where its 2% funds go; although it intends to publish information to its website upon receiving 2012’s 2% funds, information on last year’s €330 appears only in its (hard copy) annual report (*ibid*). To date, A.R.T. Fusion does not target 2% for a specific initiative or cause, but uses them for the NGO’s general budget.

### **7.3. Noi-K Parents’ Association (Asociația Părinților “Noi-K”):**

Founded in 2006, Noi-K Parents’ Association (NKPA) is a small NGO linked to Constantin Noica High School (*Liceul Teoretic “Constantin Noica”*) in Alexandria, Teleorman County. Although moderately successful in its first years of running a 2% campaign (2007 and 2008, wherein it earned approximately €225 and €560, respectively), it has since become a “low performer,” earning only about €150 in last year’s campaign (Teodorescu 2012), which places it in the bottom one-third of the NGO sector, in terms of 2% income (FDSC 2011, 39). The reason behind this sizeable shift in “success” at attracting 2% monies was a not a change in the 2% system, but a change in leadership within the organization. When the NGO’s former Director—a teacher at Constantin Noica High School—left, she was replaced by a parent with a less hands-on approach (Teodorescu 2012).

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<sup>29</sup> Although the regulation states such, the extent to which this is practiced by individual clerks, tax authority offices, and counties is always in question (Gheorghe 2012).



Under the previous Director, the former (more successful) approach to 2% campaigning targeted all four major end-user components which support a functional percentage system: raising *awareness*, building *trust* in the organization, and minimizing the *complexity* and *opacity* of the system. The Director targeted *awareness-raising* in parents of the over-900 students at the school by organizing approximately 40 teachers to disseminate information about the organization's mission, along with hard copies of 230 / 200 Forms to parents—the majority of which had not heard of the 2% system—at regularly-scheduled parents' meetings (Guna 2012). Later in the year, these same teachers would collect forms via students) and hand-deliver them to the local tax authority, in order to minimize *complexity* of the process for parents (*ibid*).

This 2% fundraising method, which required no expenditures other than the printing of 230 / 200 Forms ( $\approx$ €12), raised substantial funds for the organization: €225 - €560, which represented 25-50% of NKPA's annual budget of up to \$5,000 in the years 2006 and 2007 (Guna 2012). These 2% funds were then put towards highly visible student projects, like a playground art project (Teodorescu 2012). While the organization does not have a website or annual report, amount and usage of the 2% funds were made public at the follow year's parents' meetings in the interest of *transparency* and *trust-building*; "It's difficult to start something, but when we explained to them [parents of our students] what we did with the 2% money, they were interested and glad" (Guna 2012).

However, since the Director of the NGO stepped down in 2010, systematic organization of teachers no longer takes place, and the NGO has become a low-performer in terms of attracting "donations." Some teachers continue to solicit 2% funds from parents, but many fewer teachers than previously, and in an *ad hoc* manner. Now, *awareness* has re-emerged as a barrier to participation, as "many less parents remember or know to send the forms,"

(Guna2012). Additionally, no central organizer now monitors changes in filing procedures or communicates information to teachers on 2% funds from the previous year. The result is a general lack of *awareness* amongst teachers as to what, if any, 2% funds are received, and thus there is no longer *transparency* for parents in how much is raised or how it is spent (Teodorescu 2012). Given the difference in 2% performance for this organization with and without this centralized organizational component, it is reasonable to conclude that the NPKA was playing some role in helping its target group of citizens to navigate—or even to know of—the 2% system.

#### **7.4. Case study conclusions**

These case studies demonstrate the range of tactics and results used by three NGOs to navigate—and help citizens in their target group navigate—the 2% system. The same system, in the hands of three different organizations yielded markedly different results, both in terms of mobilizing citizens to participate, and in terms of beginning to build the sort of professional NGO behavior or bridges to individual philanthropic donations which the law partially intended. While all organizations valued the 2% mechanism as a source of funding, not all received a substantial amount, nor viewed their 2% campaign as an exercise in “asking”—soliciting support from citizens as part of a broader relationship-building effort. Of the three NGOs, only the highly professionalized Save the Children explicitly saw the 2% system as similar to and a part of a broader donation strategy.

In response to the issue of low citizen trust, NGOs of varying size, budget and target group responded very differently. Whereas the well-recognized Save the Children (SC) was able to cast a wide net through a well-financed general campaign, the younger A.R.T. Fusion and NKPA elected to narrow their target group to those already associated with the organization, or, in the case of NKPA, whose loved ones would be direct beneficiaries of

projects undertaken by the organization. However, even in the case of NKPA's small, invested target group, the citizen trust and awareness gained through several years of 2% campaigning withered quickly when proactive communication between NGO and citizens was not maintained.

These cases also demonstrated the vulnerability of NGOs' efforts to changes in the procedures of re-directing funds. In the case of A.R.T. Fusion, concentrated efforts on the utilitarian aspects of awareness-raising and increasing the system's user-friendliness earned them "middle-of-the-road" 2% funds in 2011, but a failure to keep up-to-date on shifting regulations in the system (i.e. the new registered mail requirement) may devastate their earnings for the 2012 cycle. While NKPA was unaffected by this particular procedural change, as they deliver all 230 / 200 forms by hand, the larger SC was forced to make a substantial investment in order to ensure that their efforts to facilitate citizen "donation" were not in vain. In the short term, this will likely diminish the "profit margin" for the organization's 2012 2% earnings. If the procedural requirement of registered mail remains, or is replaced by an even more labor and cost-intensive process, this may force the organization to re-think its ability to facilitate the processing of citizen paperwork, and shift the burden to individual taxpayers.

Though these case studies are limited, lessons may still be taken from the experiences presented therein. Given the diversity of success in "making the 2% system work," it can be reasonably asserted that NGOs can and do play a major role in complementing and compensating for weak aspects of the formal 2% system. However, levels of success in doing so are mixed, and depend upon a range of factors both within and beyond the control of individual NGOs.

## Conclusions

On the ground, the Romanian percentage system can be viewed as an imperfect, but functioning, system. In terms of its legal framework and administrative regulations, major deficits can be identified across all three of the components identified by experts as fundamental to a high-functioning system: transparency, user friendliness, and administrative capacity. Despite these challenges, rates of participation in the Romanian percentage system have climbed steadily during the course of its eight years of implementation, the most recent (spring 2011) “2% season” data showing participation rates of nearly 25% of eligible taxpayers, or 1.6 million people (ANAF 2012). As such, whatever deficiencies in the 2% system exist, they have been proven to be surmountable.

In the field, these continued trends of increased “performance” in Romanian percentage philanthropy are largely attributed to the efforts of the NGO sector (e.g. Gheorghe 2012), which has begun to hone a number of practices that complement or compensate for under-performing aspects of the formal 2% system. These largely center upon awareness-raising, provision of information needed for participation, and publicizing usage of 2% funds. These complementary, end-user-centered practices in Romania largely follow those in countries with a more mature percentage philanthropy system. However, a notable difference in the Romanian case is the lack of a centralized organizer for efforts of this variety. Whereas neighboring Hungary has had an extensive, centrally-coordinated awareness-raising campaign in parallel with their percentage system since the very beginning, (Gerencser 2007), Romanian awareness-raising efforts can largely be characterized as relatively small-scale and increasingly driven by individual NGOs. The relative merits of both a centralized and de-

centralized approach requires further analysis to explore whether a Hungarian-type model would be feasible or desirable in the Romanian context.

There yet remains no clear answer as to whether the percentage system in Romania—or elsewhere in the region—accomplishes its twin goals of developing the NGO sector and fostering philanthropy on an individual level. As seen in the case studies, practices which some Romanian NGOs have adopted in response to the 2% system—more proactive communication and outreach to citizens, self-reporting—can be seen as a clear indication of “development” of the sector beyond the realm of financial gain. However, longitudinal, larger-N studies of the sector would be necessary to determine the depth and range of these behaviors, and their relationship to the growth of the organizations.

In terms of purely financial gain, the steadily-increasing number of 2% beneficiaries indicates that 2% funds are supplying—at a minimum—a plurality of the funding for many of the 25,000 active organizations in the field, albeit in small amounts. While even these small sums are relevant in the Romanian NGO sector, wherein two-thirds of the sector has an annual budget of less than €9,000 (FDSC 2010b, 13), unless participation rates continue to increase, any additional NGOs receiving funding will mean further competition for a piece of the finite percentage philanthropy “pie.” Thus, further exploration is needed of the impact—beyond that of its role as a potential source of income—in percentage philanthropy’s ability to “develop” the NGO sector more broadly, both in terms of diversifying the size and type of organizations entering the field, and in terms of changing the behavior, communication strategy and philanthropic fund-raising prowess of those throughout the sector.

Perhaps the most interesting question yet remaining for percentage philanthropy is whether and how it may foster more traditional forms of giving—to what extent it is, in fact, a

bridge to philanthropic behavior. The attitudes and behaviors of percentage philanthropy “donors” across national lines and over time thus represent an important line of inquiry here. Although practitioner/researchers have recently taken the first foray into exploration of this topic (Gerencser 2007), much additional inquiry is needed to determine whether this unique mechanism actually does what it is intended to do, or whether this “transitional” mechanism, now institutionalized in some countries for a decade and a half, is becoming an institution in and of itself.

Due to the major time and resource restraints of this study, only a small number of cases were explored. A larger-scale study, including interviews with policymakers and a large-N study of citizen experiences with the 2% mechanism would derive a more complete “picture” of how the system works. Though this policy analysis acts as an important first step in a more systematic approach to evaluating the percentage philanthropy mechanism, additional inquiry is needed in order for policy-makers, civil society members and citizens from Romania and beyond to make informed decisions about how a percentage philanthropy system should look in the years to come.

## APPENDIX A: INTERVIEW SUBJECTS

Organization	Title	Name (Family name, given name)	Interview date
A.R.T. Fusion Association	International Projects Coordinator	Turcu, Roxana	1 June 2012
Association for Community Relations (ARC)	Director of Communications	Gheorghe, Cătălin	27 April 2012
Civil Society Development Foundation (FDSC)	Research Coordinator	Berceanu, Diana	23 May 2012
European Center for Not-for-profit Law (ECNL)	Executive Director	Bullain, Nilda	4 June 2012
Noi-K Parents' Association (NKPA)	former Director	Gună, Mariana	7 May 2012
Noi-K Parents' Association (NKPA)	former Council member	Teodorescu, Mădălina	5 May 2012
Nonprofit Information and Training Centre, Hungary (NIOK)	Deputy Director	Porkoláb, Anikó	30 May 2012
Nonprofit Information and Training Centre, Hungary (NIOK)	former Executive Director	Török, Marianna	5 June 2012
Odorheiu Secuiesc Community Foundation (SzKA)	Executive Director	Csáki, Rozália	4 May 2012
Odorheiu Secuiesc Community Foundation (SzKA)	former Executive Director (current Senior Adviser)	Worman, Christopher	30 April 2012
Open Society Foundation Romania (OSF)	former Director of Programs	Motoc, Radu	30 April 2012
Save the Children Romania (SC)	Account Manager - Fundraising Department	Nedelcu, Dana	17 May 2012
SMURD Foundation	Executive Director	Fechete, Tiberiu	30 May 2012

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