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ALL FOR ONE: THE BULGARIAN FACE OF PAYROLL GIVING

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I. Overview

Payroll giving in Bulgaria started to develop in various forms over the last 5 years. One of the best-organized programs is the Bulgarian Charities Aid Foundation's (BCAF's) More and More payroll-giving project, which is based on small monthly donations authorized by employees and deducted by employers. The deductions are made automatically every month, although givers can change the amount and purpose of their gifts, or stop their participation at any time. Through its flexibility, the More and More project provides various choices to people who wish to contribute.

II. Context

Modern forms of payroll giving were virtually unknown in Bulgaria until 1995. When the concept was finally introduced, older generations of Bulgarians associated it with the now-defunct socialist self-taxation regulation, which was imposed during the 1960s, 1970s and 1980s. Under this regulation, all employees contributed a small amount of their monthly paycheck to support an internal company fund. These "gifts" were not really voluntary, since no written consent was necessary and the deductions were taken directly out of paychecks by the payroll department. Although the deduction was less than 0.1% of each person's income, substantial amounts of money were raised by imposing the self-tax on every worker. The funds were used to support a variety of causes related to employees, their families and, sometimes, communities. Examples of funded projects include the construction and maintenance of recreation centers in the mountains or on the Black Sea coast, as well as the building of kindergartens, sports facilities and libraries.

Bulgaria's older generations had mixed feelings about this method of fund-raising. In the beginning, they believed the money was used for the common good, and reflected their solidarity, even though it was not donated voluntarily. However, they became discontented when the program stopped, and they saw the money disappear and the assets start to deteriorate. This is the point where people started to ask questions about transparency and representation in management, but their protestations were lost amid the general discontent over the collapse of the socialist economy and the rapid destruction of properties.

III. Other fund-raising methods

Collecting money at the workplace proved to be a new concept for companies and employees, as well as for non-profit organizations. Typically, non-profits and other public groups have relied on different methods for raising money. These include charitable events such as concerts, exhibitions and dinners, the sale of small products or souvenirs, and "one-off" donations requested through letters or at meetings. Other fund-raising venues requiring the continuous flow of small sums that are collected regularly have not been well-utilized. Although membership organizations do collect membership fees, they rarely consider them to be a secure source of substantial funding for basic activities. Some

organizations depend on a high volume of small individual donations collected during fund-raising campaigns or street collections.

IV. Favorable conditions

Bulgaria already has many of the prerequisites for the implementation of payroll giving as a fund-raising method. These include the following;

- A tradition of solidarity: in Bulgaria, individual philanthropy is based on strong feelings of solidarity among groups and the community. Thus far, major fund-raising campaigns have relied on collecting up to 70% of total proceeds from individual donors who contribute small sums.
- A strong positive attitude toward giving small amounts: Most Bulgarians do not consider themselves to be rich, so they measure their solidarity, and donations, in very small sums. People are especially willing to donate if they perceive their gift is one of many. Based on that orientation, intellectuals and politicians have made suggestions in the past that small monthly deductions be taken from everybody. Until recently, however, such suggestions were made solely for political or personal gain and failed to provide the infrastructure and administrative organization needed to support such a program.
- A desire for simplicity: People want the donation process to be easy, and authorizing automatic deductions from their paychecks offers a simple solution. Donating cash is still popular because few people use credit cards, mostly out of fear of sharing personal information. Thus, payroll giving provides the automated system most people need in order to become regular givers.
- Absence of legal restrictions: Bulgaria has no specific legal regulations governing payroll giving, but neither does it have any legal obstacles to making such gifts. Given proper authorization, employers can make monthly paycheck deductions for personal bank credits or insurance fees, so this system could be adapted for monthly giving.

V. Negative factors

As a relatively new concept, payroll giving does face some resistance among Bulgarians.

- Lack of public understanding: A voluntary undertaking by masses of people is still difficult for Bulgarians to understand. Although most can see the benefits of “coming together” to support a cause, they still base their participation (especially in programs organized by some authority) on negative emotions, such as the fear of nonconformity with the majority, rather than on positive emotions, such as goodwill and love. More must be done to explain this new approach to Bulgarian community leaders and independent-minded youth.

- Tradition of personal charity: The idea of giving donations regularly to an intermediary who, on everyone's behalf, directs the money to a worthwhile recipient or cause conflicts with Bulgarians' philanthropic tradition of "doing it myself." For centuries, the act of giving has been an intimate exchange between the individual donor and the beneficiary. Imposing an intermediary – someone who collects the money and uses it to improve the services provided to beneficiaries – interferes with long-held tradition. Givers feel isolated from recipients, and it is difficult to explain to them that charitable institutions and organizations are more effective and efficient in providing help to those in need.
- Tradition of giving on a national level: Payroll giving in other countries is strongly connected to philanthropic efforts on the local level where there is a community focus. However, in Bulgaria giving on the national level has proven more successful. Furthermore, Bulgarian community-based organizations generally have fewer skills, including fund-raising abilities, than national groups.
- Need for employer reinforcement: Employers in other countries strongly encourage employee giving, because they view it as an opportunity to boost morale and to share community responsibilities. However, Bulgarians didn't start discussing ways for employees to give time and money until 2003, and in 2004, it was clear that companies need to do more to gain the support and approval of their employees for charitable pursuits.
- Possible legal entanglements: Although there are no legal obstacles to prevent payroll-giving deductions, some legal advisers contend more people will use this approach if employers are legally obliged to make such deductions when employees request them. However, BCAF remains skeptical that establishing a legal obligation will help to advance the payroll-giving model. To the contrary, adopting obligatory measures is more likely to be seen as a burden.

VI. Different models of payroll giving in Bulgaria

Company initiatives

Employees at some companies are accustomed to giving some small donations for charity on payday. They simply place their donations in a box at the cashier's desk. No one is obliged to give, and individuals are free to give different sums in different months. The collected money is used to support a particular project chosen by the employees, usually an orphanage, and one of the staff purchases the needed goods and delivers them personally to the beneficiaries. In rare cases where money is donated to an organization, it goes to an older, well-established group like the Bulgarian Red Cross. In recent years, as the payment of salaries has switched over to electronic transfers into debit cards, this method of giving has grown less popular.

Public administration

In municipalities and ministries, it is very common to mount appeals targeted at the entire staff in the wake of national catastrophes, such as floods, earthquakes or serious accidents. Staff members are assigned to collect voluntary donations for the cause. Although many people contribute, it is usually without much enthusiasm because the motivation to participate rarely filters down from the administrative staff to the general work force.

Another common approach for raising money to support charitable causes is to print postcards for special seasons or celebrations and distribute them among the administrative staff. Unfortunately, the “voluntary” spirit involved in such campaigns is questionable.

As a final example of public-administration models, the Minister of Economy declared in October 2004 that the government had set up a fund to pay for expensive operations on Bulgarian children in the cases when Bulgarian hospitals could not help. Medical procedures involving liver and kidney transplants and leukemia have been the target of public fund-raising campaigns for many years, and these drives have succeeded in securing money to cover the operations performed on approximately 10 children per year. Overriding public solidarity and approval, the Minister announced the new fund would accept individual payroll donations in very minimal amounts and started making arrangements for collection. The fund was established in November 2004 with a start-up sum of EUR 2.5 Mln. provided by the state budget. Donations have been strongly encouraged, and the Bulgarian Parliament has approved special tax incentives for donors in excess of five times the concessions for the other recipients. Organizations already raising money for children’s operations view the government’s actions as state privatization of charitable giving, but they predict there will be little giving. Few voiced their objections, contending the State should not take responsibility for raising donations and that instead an independent organization should be established for that purpose. Some were silenced by their overriding concern that the problem of raising money to pay for children’s operations needed to be solved.

Community foundations

Over the last two years, BCAF has provided four recently established foundations with training on how to recruit payroll givers, based on BCAF’s own practical experience. Although the staffs and boards of these foundations have demonstrated some interest in payroll giving, they have given its development a lower priority than other fund-raising methods. In one or two locations, however, small payroll-giving initiatives have been established where members of local councils donate portions of their monthly pay.

VII. NGO Attitude

There is a low level of interest among NGOs in the payroll-giving method of fund-raising. One reason is that the method is still not very well-known among NGOs, although recently, it has been included in fund-raising training. A second reason relates to Bulgaria’s low level of local-resource mobilization in general. In its report, the Trust for Civil Society in

Central and Eastern Europe¹ noted a poor variety of fund-raising techniques and a low volume of local fund-raising. Although NGOs have begun looking for more local support in the last two or three years – due to grant-makers’ requirements for local contributions, and to decreased U.S. funding for Bulgarian organizations – this is not a high priority. Project funding is still available, and NGOs are focused on developing the skills to design and implement European Union-funded projects rather than to solicit funding from individuals and companies.

Payroll giving is viewed as a method for attracting funding over the long term, but not immediately. Thus, only organizations possessing some capability to ensure the basic funding for their core activities are demonstrating increasing interest toward the payroll-giving model. One example of successful implementation is the Orphan Foundation, which provides stipends for orphans studying in secondary schools and universities during the 2004-2005 school year. Two organizations, which were established to support orphanages in Haskovo and Silistra, recently launched the payroll-giving model to promote regular giving among their occasional donors. Similarly, payroll-giving was started in the municipal administration of the small town of Sapareva Bania, which has 8,000 inhabitants including residents in the surrounding area. Since then, the program has spread to schools and private companies. In 2004, a total of 108 people were giving regularly to a local humanitarian-aid fund.

VIII. Business attitude

Bulgarian businesses are still learning about the payroll-giving method and ways to be socially responsible. Although there are several instances where employers were matching employees’ time contributions before the first payroll-giving project emerged, there is no broad understanding of how matching donated money can serve as an instrument for building both external and internal resources. Fortunately, some business associations, whose mission is to spread the values of corporate social responsibility, have started to talk about the importance of involving employees in charitable activities, as well as developing and respecting human resources in general. The Bulgarian Business Leaders Forum launched the ENGAGE project in Bulgaria in 2003, and the International Business Leaders Forum awarded a company operating in Bulgaria with the ENGAGE prize.

IX. More and More payroll-giving project

In 2001, BCAF started the More and More payroll-giving project, the first professional, organized program of its kind. The first two years served as a test for the model, the support systems and back office, the legal regulations governing the BCAF-giver relationship and the transparency and accountability instruments. It was also a period for establishing promotional and marketing tools, as well as addressing questions raised by

¹ The Trust Program in Bulgaria – Resourcing a Forward-looking Development Agenda for the Third Sector, Report from the consultative process, Trust for Civil Society in Central and Eastern Europe in cooperation with Bulgarian Donors Forum, 2004

employees and employers. In 2004, BCAF successfully approached the first big employers and increased the number of givers.

The achievements of the More and More payroll-giving project include the following;

- It adopted a special trademark name and created visual identity for a product available to many Bulgarians.
- It built special systems and made preparations to provide real services to a great number of givers for the long term while maintaining its quality.
- It developed a special Web site that enables BCAF to stay in daily communication with its givers.
- It provides a permanent system for regular individual giving with many donor choices. The project started with three donor options and now offers 11 to accommodate the increasing number of givers.
- It raises money for the only Bulgarian grant-giving competition for NGO projects that is funded solely through individual gifts.

However, developing More and More is not an easy process, and the project is still in its initial phase. The number of givers is not substantial, and employers are not incorporating the model into their corporate policies. Very few employers are matching the individual gifts of their employees.

X. Payroll-giving tax incentives

Tax incentives are not the leading motivation for giving by individuals. This may explain why the level of “street” giving in Bulgaria, which is not tax efficient, is very high. Only 4% of individuals are aware they have the right to pay less in taxes when they give. Payroll givers, like all individual givers, may deduct up to 10% of their taxable incomes. Starting from 2005, donors to the State Medical Fund will be eligible for 50% tax breaks. These regulations provide an easy application of the tax incentive, which can be done internally by payroll departments, thereby decreasing the taxes paid by individuals on an annual basis. But there are no regulations that govern the application of the tax deduction on a monthly basis.

XI. Recommendations

Below are conclusions and recommendations for the future development of the payroll-giving model in Bulgaria;

- Payroll giving has a future because it satisfies the desire of Bulgarian donors to give easily and to get feedback on their contributions.

- A great deal of work is needed to promote the model. The government can help increase the level of awareness through the promotion of the model although currently the promotion is related to governmental fund-raising.
- NGOs will increase their interest in the model when they observe the larger contributions generated through the grant-giving program. This also will encourage NGOs to become more proactive in recruiting payroll givers and drawing on local resources.
- Business will find the model very supportive of their efforts to develop their work force and to become attractive as employers.
- BCAF and other NGOs should join together in promoting tax incentives so more givers – both payroll givers and one-off givers – take advantage of the existing deductions. New incentives also should be pursued.

ABOUT THE AUTHOR

ELITSA BARAKOVA, born on July 28, 1970 in Sliven, Bulgaria, has worked for BCAF since its establishment in 1995. Initially, she was assigned to the Civil Society Development Foundation, where she provided support to grant managers. Until October 1998, Barakova served as a program coordinator in the Bulgarian Charities Aid Foundation with responsibility for new-business development. She has been a director since 1999.

Barakova is the author or co-author of books and articles on taxation, donations and corporate social responsibility in Bulgaria's NGO sector. As a volunteer, she works for a number of organizations in southeastern Bulgaria, including youth and rural-development groups. Prior to working for BCAF, Barakova spent three years as a managerial secretary and public-relations officer at a company in southeastern Bulgaria. She holds a master's degree in education management and social education from Sofia University.