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The 2022 Global Philanthropy Environment Index Bulgaria

Expert: Luben Panov

Institutional Affiliation: Bulgarian Center for Not-For-Profit Law (BCNL)

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QUICK FACTS

Legal forms of philanthropic organizations included in the law: Association, Foundation, Community Center (*Chitalishte*)

Five main social issues addressed by these organizations: Arts and Culture, Early Childhood Education through High School, Environment, Youth and Family, Social Services

Average time established by law to register a philanthropic organization: 0-30 days

Average cost for registering a philanthropic organization: USD 50

Government levels primarily regulating the incorporation of philanthropic organizations: Central/Federal Government

Philanthropic Environment Scores:

Year	Ease of Operating a PO	Tax Incentives	Cross-Border Philanthropic Flows	Political Environment	Economic Environment	Socio-Cultural Environment	Overall Score
2022 GPEI	3.83	3.75	4.25	3.50	3.00	3.00	3.56
2018 GPEI	4.00	3.75	4.25	3.75	N.A.	3.00	3.75

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

Key Findings

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.

Question One: To what extent can individuals form and incorporate the organizations defined?

Score: 4.0

The Bulgarian Constitution guarantees freedom of association, and the Law on Legal Entities with Nonprofit Purposes (CSO Law) provides that both Bulgarian and foreign legal entities and individuals with legal capacity can found a civil society organization (CSO) (so minors under 18 years of age and persons under guardianship cannot). The traditional forms are associations and foundations. There is no requirement for minimum capital to establish either of the two forms (although for foundations there is a requirement to provide some capital to pursue the objectives).

Since January 1, 2018, the registration of CSOs takes place in the Registry Agency (where companies are registered). By law, registration takes up to three days and can also happen electronically/online. All existing CSOs could transfer their registration from the courts (where registration took place before 2018) to the new registration authority. At the end of 2020, this deadline was extended until the end of 2022. The main problem with the new registration authority is the limited time provided to CSOs to correct their documents in case of deficiencies and the high number of refusals by the agency. In case of refusal of registration, the founders can appeal to the court. But in many cases, CSOs prefer to re-submit their revised documents and eventually get registered instead of appealing, because it is faster.

The grounds for refusal are clearly listed in the law, but the registration officials have started to interpret the law restrictively in some cases; for example, even though the law does not prohibit online general assemblies (especially during the pandemic), they refuse such assemblies because of the lack of specific legal provision allowing it. The establishment of CSOs is not costly and likely to deter applicants. Registration of a legal entity is not mandatory, and people can associate without forming a legal entity.

Question Two: To what extent are POs free to operate without excessive government interference?

Score: 3.5

The law allows both associations and foundations to have a flexible structure. There is a minimum structure required by law for associations: a general assembly of all members and a management board or manager. For foundations, the structure is even more lenient, and only public benefit foundations are required to have two bodies: a collective governance body and a management body. The only limitations, other than the ones prescribed by the Constitution, are in specific areas. For example, hospitals or banks cannot be CSOs. There is no limitation on the communications of CSOs both nationally and internationally. There is no limitation on Internet access or the use of various

social media. The new Law on Measures Against Money Laundering (adopted in 2018) has listed NGOs as obliged entities, and even though they have special exceptions compared to the usual requirements, there are still additional burdens for them. Among others, CSOs with annual turnover above BGN 20,000 (USD 12,573) have to adopt internal regulations against money laundering and carry out an individual risk assessment for money laundering and terrorist financing. CSOs are also required to declare their beneficial owners, which creates problems for them as they do not have those. In addition, a number of CSOs have been complaining about the difficulty to open bank accounts in some banks because CSOs are considered high risk. There are cases of negative rhetoric against CSOs, including by high-ranking state officials. There have also been several proposed restrictive amendments to different laws that attempted to limit CSO funding (e.g., proposals for changes in the Judicial Systems Act to limit the funding sources of magistrates' associations) as well as a proposal that CSOs receiving foreign funding should undergo a special registration and submit reports. Both big and small organizations are required to submit the same reports to the National Statistical Institute.

Question Three: To what extent is there government discretion in shutting down POs?

Score: 4.0

CSOs can be terminated voluntarily, based on a decision of their highest body. They can be dissolved involuntarily in specific cases. These cases are described quite generally—for violation of the Constitution, the laws, or good morals/manners. Even though the reasons are general, there have been no reported cases of problematic termination. In 2019, prior to the local elections, there was a request by one of the political parties to close down the Bulgarian Helsinki Committee (one of the oldest and biggest human rights organizations in Bulgaria) for acting unconstitutionally. The Prosecutor General denied the request. The law requires that in case of involuntary termination, CSOs should be given up to six months to eliminate the reason for termination. The only exception to this rule is based on the adoption of the Law for Countering Terrorism, adopted in December 2016, through which another reason for termination of a CSO was added—if the CSO is included in the list of individuals and entities against which there is a criminal procedure for terrorism and financing terrorism, among others, or if there is data that the CSO engages in activities supporting terrorism. These rationales for termination might be too broad, but there have been no such cases yet. In this case, the Chief Prosecutor can request the termination of the CSO, and no period for rectification of the violation is given. In all cases, the decision for termination is made by a court.

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question Four: To what extent is the tax system favorable to making charitable donations?

Score: 3.5

Both corporate and individual donors receive tax deductions for making donations to eligible CSOs (registered as public benefit organizations). There are, however, limits to these tax deductions—up to 10 percent of the positive financial result for companies (article 31, paragraph 1, point 14 of the

Corporate Income Tax Law) and up to 5 percent of the annual income for individuals (article 22, paragraph 1, point k of the Personal Income Tax Law). Moreover, the law provides various limits depending on the type of the donation and its recipient, which creates different incentives for donating. For example, donations for culture have a limit of up to 15 percent, while donations to the state for medical treatment of children or assisted reproduction have a limit of up to 50 percent. This puts CSOs in a disadvantaged position. The tax incentives are declared with the annual tax declaration, and the procedure is not too complicated, although it is necessary to get documents that prove that the recipient of the donation is a qualifying entity. If the donor works under a labor contract, the donations could be made through the employer, in which case there is no need to file a tax declaration to obtain the tax benefit. With regard to donations in kind, individuals need to show what is the market value of the donation in order to be able to deduct it, which might be a bit more complicated. In kind donations also face a problem with regard to value added tax (VAT, as companies cannot deduct the VAT for donations made. The only exception was introduced in 2016 and relates to donation of food. There are a number of practical problems and limitations with regard to this process; still, it is an important breakthrough. An important practical problem for donations is the impossibility for pledges—promises to make donations in the future. This leads to practical obstacles, e.g., CSOs cannot enter into agreements with donors through which they will be receiving donations in the future or will be receiving one donation in several tranches.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

Score: 4.0

CSOs do not pay tax on the income from donations. In addition to the corporate tax, there is also a local tax (paid to the municipality) for donations, but public benefit CSOs are exempt from this tax when they receive or make a donation. In 2015, confusion arose around whether CSOs were obliged to declare the donations they receive to the tax authorities (regardless of the fact that they are exempt from taxes). In order to clarify this, an amendment to the Local Taxes and Fees Law was made to ensure they are exempt from the declaration requirement as well. Public benefit CSOs are exempt from the tax on inheritance (bequests). Moreover, tax is paid only on inheritance exceeding BGN 250,000 (approximately USD 157,000). CSOs are not exempt from property, except for a special form of CSOs (community centers) and the Bulgarian Red Cross.

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

Score: 4.0

There are no limitations on making donations abroad. With regard to bank transfers, there are no special limitations to donations either. The standard bank fees apply for such transfers. With regard to the possibility to use tax benefits for donations abroad, foreign entities based in the European Union (EU) or the European Economic Area can benefit from the same tax exemptions as local

entities. According to the Local Taxes and Fees Law, the status of the recipients of the donation should be “identical or similar persons established in another Member State of the European Union or in a State which is a Contracting Party to the Agreement on the European Economic Area. In such cases, exemption shall be contingent upon the presentation by the person of an official document, attesting the status or the capacity in which the said person acquires the property, which is issued or certified by the competent authority of the relevant State, as well as the legalized translation of the said document into the Bulgarian language.” Similar provisions exist with regard to the exemption from corporate income tax and individual income tax.

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

Score: 4.5

In general, the tax treatment of the recipient of the donation does not change if the donation comes from abroad. The import of goods by charitable and philanthropic organizations that have been received without payment are VAT-exempt. In 2020, the government decided to exempt medical equipment related to the fight against COVID-19 from VAT and customs dues. There is no procedure for approval or notification to receive donations from abroad. There is, however, a requirement related to the regulation of money laundering and fight against terrorism financing. According to the Law on the Measures Against Money Laundering, CSOs that receive funding (including donations) exceeding BGN 30,000 (approximately USD 18,900) or that have regular interaction with certain partners need to identify their donor/partner. This applies to all payments, not just the ones from abroad.

IV. Political Environment

The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.

Question Eight: To what extent is the political environment favorable for philanthropy?

Score: 3.5

The period between 2018 to 2020 was marked with tension between government and CSOs. There were open attacks against CSOs, and there were a number of high-level political figures who made public statements blaming CSOs for acting against the interests of the state or questioning their legitimacy to take part in public debate. An expression of this negative wave has been the proposal of draft laws that aimed to restrict CSOs. In 2018 and 2019, the CSO Sustainability Index marked a sharp decrease in the score of the public image category. The amendments to the CSO law that entered into force on January 1, 2018 were expected to guarantee the adoption of regular Strategies for CSO Support, ensure funds are provided from the national budget for CSO projects, and establish the Civil Society Development Council (CSDC). Eventually, after several years delay, elections for the CSDC were held in May 2020. Still, the government has not made the decision to confirm the elections of CSO members. The lowest score of the CSO Sustainability Index for Bulgaria is for financial viability. The main sources of funding continue to be foreign donors. During the pandemic, the amount of donations increased, but a major part targeted hospitals and covered mainly COVID-19-related issues. There are organizations which are trying to engage in fundraising from individuals,

but this is still not the key source of funding for the majority of CSOs. State funding for CSOs is limited, and a large part of it is provided without a competition to a few traditional organizations, such as the Bulgarian Red Cross and the Union of the Blind People.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

Score: 3.5

There has been no substantial change in government policies towards philanthropy since the 2018 report. The government creates unequal conditions for donations in different areas; for example, donations in the area of culture receive bigger tax incentives than donations in the social area. In addition, the government promotes philanthropy to itself; there are special (and much higher) tax benefits for donations to healthcare-related state funds or donations to municipalities, and state-owned companies also receive tax benefits. One of the biggest donation campaigns, Bulgarian Christmas, is coordinated by the President. During the COVID-19 pandemic, the Ministry of Healthcare launched a donation campaign to collect money for medical equipment despite the fact that its budget is more than BGN 600 million (approximately USD 377.2 million). State funding is limited, and the majority goes to youth and sports, as well as to organizations for people with disabilities. State funding is also provided for the contracting of social services, which in most cases are contracted to CSOs. However, there was an attempt to stop the coming into force of the new Law on Social Services. The Law was even argued before the Constitutional Court, but the complaint was turned down (one of the main arguments used was that the contracting of social services to CSOs contradicts the state obligation to provide services to the people in need).

V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

Score: 3.0

There was a developed tradition of philanthropy in Bulgaria before 1944, when the country began its socialist development. All foundation assets at that time were nationalized, and the private initiative was terminated. All needs were supposed to be satisfied by the government. There were few CSOs, which dealt mostly with social issues. After 1989, the development of civil society started again. However, 30 years have not been enough to re-build the culture of philanthropy. Additional obstacles include the fact that Bulgaria is the poorest EU member state, and a large part of the population lives under the poverty level. Moreover, there is still insufficient private wealth accumulated.

VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

Score: 3.0

Donations from individuals are scarce. According to the World Giving Index 2019, only 16 percent of Bulgarians have donated to CSOs in the previous 10 years. Similarly, only 5 percent volunteer for CSOs. A Bulgarian Donors' Forum research from 2019 shows that the most popular methods for

donating continue to be text messages and collection boxes. However, in 2019, there was a notable increase of online donations. The results of a survey conducted in June 2020 by the Alpha Research sociological agency show that attitude towards CSOs has improved in 2020. There is an increase in the trust in CSOs—from 24.7 percent in 2018 to 31.3 percent in 2020. At the same time, lack of trust decreased from 23.7 percent in 2018 to 17.7 percent in 2020. In the last years, there have been several cases of media attacks against CSOs. Publications questioned CSO motives for carrying out activities and started the debate whether they protect national interests if they receive foreign funding. A common name was given to most such organizations—“sorosoids.” A positive development brought by COVID-19 is the fact that TV stations started providing information about donations. Previously, names of corporate donors were never mentioned on TV, but during the first wave of the pandemic a part of the news on TV was devoted to the donations made, and the names of donors were announced. At the end of 2020, probably the biggest crowdfunding platform in Bulgaria (HelpKarma) was part of a big scandal. The organization was accused of using a substantial part of the donations received for administrative costs; it did not have clear rules for transparency of how donations were used, and there were cases of conflict of interests in spending the money. There were fears that this may lead to decrease in giving overall, but these fears did not materialize.

VII. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

The CSO sector in Bulgaria is still developing. One of the biggest problems for organizations is financial sustainability. Most of the organizations have been recently established (in the last 30 years), and there are very few which can be considered stable institutions. The traditional mechanism for funding has been through project funding (predominantly by international donors). With the accession to the EU, a number of private foreign donors have decided to leave the country. The EU has become a major donor, but its funding is different both in terms of procedures and in terms of objectives (e.g., more focused on services than human rights and democracy). The biggest donor supporting CSO capacity building and sustainability is the America for Bulgaria Foundation. While there have been a series of biased negative attacks on CSOs in media and by politicians, the pandemic has shown the special value of CSOs. The attacks initially targeted environmental or human rights and watchdog organizations but later went on to attack children’s rights organizations and social service providers, and the effect spilled to the whole CSO sector. However, in 2020, the narrative changed, and the focus shifted to the important added value of CSOs, who were among the first to provide help to groups in need. In terms of philanthropy, this is still a largely underdeveloped area in Bulgaria because of the lack of trust and traditions but also skills and awareness among CSOs. The primary target and source of donations for CSOs in Bulgaria is companies. In terms of individual giving, the donations by individuals are increasing, and 2020 has seen a large increase because of COVID-19. Still, CSOs need to work hard to ensure they build a loyal core of supporters. In 2019, a group of 12 leading CSOs united their efforts to organize a campaign to promote giving to CSOs. The campaign, called Bulgaria Gives, was organized in March 2019 and attracted more than 120 CSOs who joined with their individual causes.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. The scandal with the crowdfunding platform HelpKarma has led to a lot of debates about how fundraising should be regulated as well as what should be the reporting and transparency requirements for organizations collecting funds. As a result, several members of the parliament attempted to introduce funding for the creation of a state-established giving platform “give.bg” in the State Budget Law. Thanks to the criticisms by the Bulgarian Donors’ Forum and other CSOs, the proposal was withdrawn.
2. The attacks against CSOs and the attempts to introduce restrictive proposals in the CSO law that would have obliged organizations receiving funding above EUR 500 (USD 615) from abroad to register in a special register and be subject to additional reporting. This attempt was criticized also in the EU report on the Rule of Law for Bulgaria. The proposal was not withdrawn, but it did not move forward, and with the election of the new Parliament, it will be off its agenda unless it is reintroduced.
3. The COVID-19 pandemic has been a real shock for CSOs and has negatively affected a number of organizations who had to change their operation mode. The campaign Bulgaria Gives campaign was cancelled in 2020 because of the pandemic. On the other hand, COVID-19 also helped CSOs to show their importance and engage actively in responding to the crisis

Future development trends in the philanthropic landscape

- The role of CSOs: After a wave of attacks, the COVID-19 pandemic has opened the chance for CSOs to re-gain part of the lost trust. It is important to see to what extent CSOs will use this opportunity to increase their outreach to people and continue to be responsive to their needs, or if they will close in their project implementation activities, caring more about their donors than their beneficiaries. CSOs have to learn to talk to people and attract supporters, which will create both financial opportunities (donations) and possibilities to influence the policy process (because they will represent broader audiences). The last years have seen a growth of nationalistic, religious, and conservative CSOs, which have received support from populist politicians, and this has led to an increase in attempts to restrict civic freedoms, position human rights against traditional values, and use social media to pressure human rights defenders or minority organizations.
- Growth of online giving: There has been a growth in online donations, and in general, online activities have sharply increased because of COVID-19. It is important to see whether CSOs will be able to maintain their online presence and capitalize on this trend to attract more online donations. Moreover, new technologies create new possibilities, including donations in bitcoins and other electronic technologies and the use of artificial intelligence in fundraising, among others.
- The impact of disinformation and populism: The recent wave of disinformation makes it very easy to spread fake news, including about CSOs or the ideas they fight for. It is, therefore, very important how society will respond to this wave and how CSOs will adapt to fighting disinformation and countering the attacks on them.

Three key recommendations to improve the environment for philanthropy

- The first recommendation relates to the government attitude and policies towards CSOs. The government needs to clearly show that CSOs are an important partner. It needs to publicly express support for their existence and operation. Measures should be taken to implement the 2018 CSO law amendments—the establishment of the Civil Society Development Council, the creation of a competition-based funding mechanism, and the adoption of a strategy to support civil society development are among the key measures. In addition, state officials should not engage in negative rhetoric against CSOs.
- The second recommendation is similar to the one from the 2018 report—it relates to the promotion and visibility of the work that CSOs engage in. They need to improve their skills with regard to storytelling, showing the impact of what they do and engaging more people in their activities—as volunteers, donors, members, or simply supporters.
- As there have been no measures supporting the regulatory environment for philanthropy, the 2018 recommendation is still in force—every measure attempting to simplify donations or promoting giving should be supported. Possible examples include the regulation of the possibility for donation pledges (the promise to make a donation in the future); the need not to create unfair conditions by providing better tax exemptions for donations to state institutions or through state-organized fundraising campaigns; and the possibility to stimulate the establishment of endowments.

VIII. Philanthropic Response to COVID-19

These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

CSOs were among the main actors in collecting donations to address the COVID-19 pandemic. They were also on the frontline in terms of adapting their activities and providing services to the groups most in need. The range of services they provided is very wide, from consultations and information about the virus to bringing food to people that needed it.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

Many CSOs had to move their activities online, which created problems for some organizations, especially those that provide services in person. However, many organizations managed to adapt. For example, there were cases of organizations promoting outdoor sports that started online sport classes, and a social enterprise of people with psychiatric problems started sewing face masks.

Impact of COVID-19 on the philanthropic environment

The pandemic forced CSOs to cancel their initial plans and to quickly adapt. A large portion of fundraising campaigns focused on COVID-19, which was a blow to other causes. On the other hand, at the end of 2020, organizations reported that the amount of giving did not go down (as initially expected because of the large donations directed to COVID-19). The positive effects of the pandemic are that giving and CSOs became more visible (announced on the news) and more trusted.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

The country expert expects that the situation will slowly return to normal. However, hopefully, the increase in online giving will be maintained.

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