

**FUNDING OF MONGOLIAN ARTS AND CULTURE SECTOR IN A FREE
MARKET ECONOMY
(1990-2014)**

by

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ABSTRACT

During the seventy years of socialism in Mongolia, the state governed arts and culture sector (1921-1990) was established based on the European and Soviet models. The state arts organizations had full funding support with widely available human and material resources and well-established implementing structures. However, despite these advantages, the arts organizations and artists were limited by the socialist ideology, suffered from strong censorship, and restricted exposure to the international exchange platform.

Conversely, Mongolia became a democratic country in the remarkable year in 1990, and made the shift from a government-centered economy to a free market economy. As a result, triplicate transitions of the economic, social and political sectors took place in the last twenty years. Through this transition period, the sector faced new challenges: limited funding and materials, poor human resource management, and poor implementation. Consequently, state organizations were forced to secure support from alternative sources, but due to outdated knowledge and skills, the Soviet-educated management was challenged to secure additional funding and respond to the supply and demand of the market.

Nonetheless, the sector that once fully belonged to the state has now been transferred to non-profits and private ownership and has developed an effective legal system, enjoys freedom of creativity and ideological pluralism, has improved its skills in securing outside funding, has been exposed to a broader international exchange platform, and has become part of the global world.

KEY WORDS

Economic and Social Transformation; Cultural Policy; Funding; Mongolia; Government Control of the Arts

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PART 1. INTRODUCTION, RESEARCH QUESTION AND METHODOLOGY

Chapter 1. Introduction

The establishment of democracy in Mongolia is the central factor in the country's transformation over the past two decades. Democratic freedoms and human rights have become the principles of Mongolians. A free market economy, a free press, and civil society and democracy have been established.

The most essential qualification for the establishment of democracy in Mongolia grants human rights and freedom as the basis of law. The new constitution, adopted in 1992, is based on the principles of human rights and Mongolia legally guarantees its citizens access to information, free expression, free association, and participation in policy making. Citizens now express their opinions through the media and civil society organizations; dozens of newspapers, journals, radio and television stations, and other mass media are operating in Mongolia. The new policy of supporting access to independently-produced information on government entities, public officials, and political parties demonstrates that the development of democracy in Mongolia is based on public participation.

An additional right is artistic freedom, guaranteed for artists and arts and culture organizations. But despite improvements in artistic freedom, many organizations are struggling to survive and have been forced to adjust to the free market economy through re-incorporation, staff reduction, and budget cuts. As in other developing countries, the cultural policy that supports and empowers the sector to operate successfully in the free market economy has not been fully established. Institutional, administrative and

financial issues challenge the sector. The need to develop a sufficient legal enforcement system has been increasingly stressed by the policy makers.

Critical issues include cultural policy principles, the analysis of institutes and needs, administrative structures and management, planning and financing, the organization of resources, legislation, budgeting, public versus private institutions, cultural content in education, cultural independence and decentralization, professional development, institutional infrastructures for meeting cultural needs, the preservation of heritage, and international cultural exchange.

Multi-party administration and pluralism have led to instability in the enforcement of new cultural policy. The Mongolian government has had a number of short-arm institutions on various levels, including the Culture Development Committee, the Ministry of Culture, the Ministry of Enlightenment, and currently the Ministry of Education, Culture and Science. At the ministry level only the Ministry of Culture existed for the last decades but was closed down in 1996. Since then, only departments or committees of arts and culture have existed at the government level.¹ This instability in administrative structure has left the surviving state arts organizations with less attention, resulting in limited funding and material resources, and insufficient human resources to respond to the free market's challenges. Nevertheless, state arts organizations have established various strategies for survival, and these institutions continue to adapt to the new social and economic conditions.

As a free-market society was established in Mongolia, a third sector of non-profit or non-governmental organizations (NGOs) emerged. The boom of NGOs was made

¹ Dolgorsuren Jamiyan, Cultural Policy-Culture and Arts Sector Privatization. Edited by BayarturB.

possible through the support of international foundations (primarily civil society organizations) opening in the mid-1990s. Today the third sector fills gaps in budget and policy implementation and focuses on putting supportive legal systems in place. Compared to state arts organization, NGOs are capable of securing funding from outside resources, but they suffer from mission drift as they pursue funding. At the moment, no studies exist on the impact of the third sector; leaders of the sector are in the process of implementing such a study.

The private arts sector, non-existent prior to the 1990s, has established itself, but a lack of data also pervades this sector. A gray cash economy and legal protection for the business sector enables private arts organizations to stay out of tax offices and the banking system. Hence, analyzing the progress and current state of this sector is difficult. Mongolia is clearly in need of a solid legal system and effective enforcement structure to allow further development of the country's arts and culture. As the mining industry is booming and more private arts funding is becoming available, it is vital to establish corresponding economic and legal structures to encourage diversified contributions to the arts sector. It is critical to study the development of NGOs, private arts organizations, businesses, volunteer organizations, and the integration of state and private arts organizations within the new legal framework, policy, and implementation structure in order to clarify where the sector stands and what policies and strategies should be adopted. This thesis focuses on the transition of state arts organizations and the emergence of NGOs and the private arts sector by investigating major state arts institutions that survived the economic restructuring, former public organizations that adopted NGO

status, and newly established NGOs and private arts organization. Part 1 provides historical background on the establishment of arts and culture sector in Mongolia between 1921 and 1990, the transition period of 1990-2010, and the development of the current legal and funding system of the sector. Part 2 examines the challenges facing state arts organizations and what strategies have been used to overcome these challenges from the transition period to today. Through the study of these institutions, this thesis examines the institutional challenges posed by and strategies responding to past and current social, economic, and legal circumstances.

Research question

From the establishment of the Soviet regime in Mongolia in 1921, government subsidy and censorship determined the organizational nature and aesthetic legitimacy of cultural programming. However, since the democratic revolution in 1990, a majority of arts organizations either closed down or experienced significant funding cuts. As a result, a private arts sector has emerged in Mongolia. Under what political, social, and economic circumstances do these states, non-governmental, and private arts organizations operate? And what are their most significant institutional challenges and strategies in the post-Soviet transition?

Methodology

This research is based on government studies, historical documents, social studies, and data from tax offices, ministries, and state statistical offices, as well as interviews with senior executives and staff of organizations.

At the start of my research, I consulted several government reports and studies to develop a framework. I then conducted 10 in-person and email interviews with heads of state, non-governmental, and private organizations; policy makers; current and former government officials; current and former staff members; and artists. These interviews aimed to discern what challenges the organizations have faced, how the leadership and staff responded to these challenges, and what strategies have been taken to overcome them. For some organizations, including the State Philharmonic and the Ministry of Education, Culture and Science, I was able to interview not only the current head of the organizations but those who served during the Soviet years. In addition to the former officials, I also interviewed managerial staff, performers, and artists. This helped construct an overall organizational picture from both employers' and employees' perspectives, informed by past and the current state cultural policy.

Institutions included in this research are the Ministry of Education, Culture and Science; the Arts Council of Mongolia; Cultural Development Foundation; State Drama Theatre; State Philharmonic Hall; Union of Mongolia Artists; Xanadu Art Gallery; and Tumen Ekh National Song and Dance Ensemble. These organizations represent state, private, and NGO arts organizations of various genres and purposes, some existing during and after the Soviet regime, and others emerging after the 1990s.

Organizations were selected to represent different types of arts organizations, performing, visual, funding and advocacy and service. State-run organizations include the Ministry of Education, Culture and Education, the ministry level bureau for arts and culture policy existing before and after the 1990 revolution and Culture and Arts Development Foundation serving as the funding and monitoring agency, and the State Drama Theater, the State Philharmonic, and the Union of Mongolian Artists, all of which existed under the Soviet Regime and survived the transition to a free market economy. These organizations operated under two different economic and social models and serve as the central institutions of their respective disciplines. As the state-funded organizations are directly affected by the state cultural policy, this thesis focuses on the kinds of institutional challenges under each cultural policy and legal and funding system for state-funded arts and culture organizations, and how organizations have responded to these challenges.

The selection of non-profits was based on representing charity and membership NGOs that made the transition from state-funded organizations, as well as newly established NGOs with structures similar to Western non-profits. Likewise, the private organizations serve as examples of both new arts organizations and formerly state-funded institutions, reestablished under private ownership. The research focuses on types of legal and funding systems enabled by the emergence of these sectors in Mongolia and their relationship with the state, as well as their transition from one organizational structure to another (e.g., former soviet union to non-governmental organization).

As this thesis covers ninety years of history, covering every genre within every business model would prove unwieldy. Therefore, I selected the above organizations with

much attention paid to which institutions best represented their models, and also considered the availability of information about each organization.

In studying the private sector, the film industry is excluded: the breadth of the film industry is so vast that it would merit an entire study. In addition, the film industry is extremely cloistered and analysis would be impossible without access to private business information and government data, which I lack. For these reasons the research focuses on performing, visual, and service arts organizations. Through these organizations, the thesis will examine the transition of the arts and culture from Socialism to a democratic society.

PART 2. THE MONGOLIAN ARTS AND CULTURE SECTOR PRIOR TO THE FREE MARKET ECONOMY AND DURING THE TRANSITION.

Chapter 2. Overview of the Arts and Culture Sector of Mongolia, Prior to 1990

The People's Revolution of 1921 declared the independence from China and established the Mongolian People's Republic as one of the first socialist countries in the world. Establishment of the Mongolian People's Republic brought fundamental change to the nomadic life of the people at time. Because from 1921 to 1940 the nation focused on building infrastructure and creating agricultural co-operatives to ensure scattered nomadic groups were centered. Once the basic infrastructure was in place, the Mongolian People's Revolutionary Party (MPRP) concentrated on creating the foundations for socialism, and establishing material and technical resources for the next two decades.¹

During its last 30 years in power, the MPRP sought to achieve complete socialism in Mongolia by building a solid human resource and infrastructure. As a result, Mongolia developed a planned socialist economy.

One of the challenges of developing a socialist economy with a strong workforce was education and improving the people's understanding of the socialist ideology. Hence, the MPRP developed an education system along with the new culture and art institutions to provide free education, arts, and culture. The main resources of funding to establish such institutions were state capital investments and people's donations of property, herds, and goods. To run the institutions, the state dedicated a significant amount of the national budget and made planned savings per mongo from per tugrik (one per count of a hundred) from state organizations' budgets, two mongo (two cents) per tugrik from for-profit organizations' expenditure, and one day's salary per year from employees and

workers.² This was common practice throughout the Socialist years.

From 1940 forward, the development of culture and education was fully funded by the government. In just twenty years, the sector had established cultural centers in every corner of the country. As a result, Mongolia's economic and cultural material resources were greatly improved.³ The cultural policy of MPRP at that time was to increase access of the working class to the arts and culture, to increase art education, to support the creativity of artists and performers, and to promote socialist ideology. Therefore, the government paid enormous attention to training experts in intellectual fields—science, art, and literature—and enhancing cultural and educational standards.

Implementation was carried out by the Ministry of Culture, which had approximately 40 staff members in departments for culture, film and drama, fine art, and finance and administration.⁴ Under the Ministry, regional offices oversaw the culture centers, museums, cinemas, libraries, and concert halls in each province. Regional meetings for culture-sector workers to exchange ideas took place every three years.

Mr. Tsend-Ayush Tsershid, who served as a Vice Minister of Culture from 1978-1990, stated that the cultural policy focused not only on the arts and culture but on overall advancement. The policy sought to educate the people through the arts. In Tsend-Ayush Tsershid's words, "The leaders knew that empty monologue and posters would not effectively deliver the propaganda of the government, so they used the arts and culture as

Ibid., 12

Ibid., 16

Tsend-Ayush Tsershid, interview

the major tool. The standards developed for arts and were enforced."⁵ During his tenure,

Tsend-Ayush Tsershid led the development of regional arts center and concert hall standards, building a 240-seat auditorium with a museum, cinema, and library in 18 provinces of Mongolia at that time but now the provincial structure has changed to 21 provinces and 329 sub-provinces. Most regional cultural centers were built under this model.⁶

Although the traditional arts, including folk music, dance and song and handcraft were not practiced broadly, they served as a basis for the development of socialist art along with the introduction to world classics and the best works of the Soviet Union through presentation in theatres, cinemas, circuses, and museums. High artistic quality was demanded under the Socialist Realism theme.

Every artistic and cultural product had to be approved by the Ministry of Culture. The major group censoring the works was the Artistic Committee, with twenty arts leaders including composers, writers, and artists. Tsend-Ayush Tsershid recalls,

The twenty members of the committee never censored the art works from a political perspective. I have never seen such criticism during my twelve years at the Ministry. Each discipline had a designated professional committee and each arts institution reviewed by the respective committee. Artistic excellence was the major criterion for these committees including the actors' acting, stage scenery, and level of musicians' playing capacity. Once the artworks, productions, and publication passed the review, the quality of the work improved.⁷

Tsend-Ayush Tsershid describes three layers of monitoring and censorship, which existed. The first level was the professional committee at each arts institution; the second

was the artistic committee at the Ministry of Culture; the last was the MPRP's Central

Committee. At each organization a committee for the specific discipline reviewed the work, but at the Ministry twenty leaders from different arts disciplines reviewed the work from a much broader perspective.⁸ However, at the Central Committee level the criterion was about examining the embodiment of socialist ideology in the work. One thing to note here is that although the censorship overall had to do with Social Realism, until the artwork has reached the Central Committee the reviews were focused on artistic merit rather than the Social Realism. Therefore, it is critical to separate the two different types of critique.

A work could pass the institute and the ministry review but might not pass the Central Committee because its lack of Social Realism. Today, many arts organizations have kept the artistic committee in the institution structure and it serves as the only review for the work. Based on monitoring agencies' evaluations, employees under the Socialist Realism and workers were rewarded with benefits including advanced social welfare and housing. Conversely, poor evaluations could lead to punishment or even exile (e.g., a painting considered to be “modern” led to the artist being exiled to the countryside for 10 years to serve the community and produce Social Realist “work”). On the other hand, a review made by the artistic committee of institutions today serves mostly to nominate the artists for government recognition, not for punishment. During the Soviet years, the Central Committee was the final decision maker and up to 42 percent of the state budget went toward monitoring agencies.⁹ This was reversed after 1990s and a

⁹ Mongolian National Commission for UNESCO “*Cultural policy in the Mongolian People's Republic*” (Paris Imprimerie des Presses Universitaires de France, Vendome 1982) 13

monitoring agency known as the Professional Standard Monitoring Agency exists today

at the national level; the agency has only one staff member that looks after the arts and culture sector.

During soviet regime, most organizations received a five-year income projection and a one-year income plan from the state. State arts organizations were able to cover thirty to fifty percent of expenses through earned revenue, with the state providing the balance. Some organizations (including cinemas, mass media, and publishing houses) operated as for-profit entities on the basis of economic accounting.¹⁰ The practice of planning and subsidizing the budgets of state arts organization enforced during the Soviet regime is still in practice today.

Unionization was another strong structure established during Soviet period and all sectors, including arts and culture, were heavily unionized. The Central Committee had four branches of union organization, each run by its own committee. The capital Ulaanbaatar, two other major cities, and 18 provinces each had their own union councils, with 3,000 sub-provincial committees and more than 7,000 groups under them. By 1984, there were 425,000 trade union members in Mongolia, and 94.7 percent of the workforce was unionized.¹¹ In the arts sector, the Union of Mongolian Artists (UMA), the Union of Mongolian Writers (UMW), and the Union of Mongolian Composers (UMC) were the strongest unions. With their complex structure of enterprises, institutions, and agencies, unions had the power to influence labor conditions and earnings, legislation, social welfare, and benefits including housing and advanced medical services.

¹¹ Unions Exploit.com., “Mongolia—Trade” (1989)

amount of the country's Buddhist culture, but in 1970 the party issued a law called the Protection of Cultural Relics of Mongolian People's Republic. It stated "All items in possession of state, co-operative and non-governmental public organizations, and individual citizens, which represent a valuable product of intellectual and gallant labor by the people, are considered as the cultural heritage and wealth of the nation and are strictly protected by the law of the Mongolian People's Republic." Numerous joint expeditions to discover historical sites were implemented, and individuals assisting in the discovery of cultural heritage sites and objects were rewarded. Strict prohibitions were set against the unauthorized sale or presentation of cultural heritage objects outside of the country.

International exchange was one way to enrich the arts and culture and to encourage innovation in the field. By joining the United Nations in 1961 and UNESCO in 1962, Mongolia not only declared its independence but also improved diplomatic relations with the rest of the world. Because for the period from 1691-1911, Mongolia was ruled under the Manchu, from 1912-1919 became an autonomous state under Russian protection but was again ruled under China from 1919-21. Declaring its independence and joining international conventions assured the end of foreign invasion and the independence of Mongolia. The Ministry of Culture partnered with countries of political, ideological, and educational significance, including the Soviet Union, Bulgaria, Hungary, East Germany, Poland, Czechoslovakia, Romania, and Cuba in disciplines such as arts, literature, science, public education, and mass media. In the 1980s, more than

sixty percent of foreign relations were arts and culture exchange. "Culture Days"

exchange festivals were common among socialist countries around the world; the festival tradition still remains today. Moreover, international exchange was not limited to socialist countries and involved capitalist countries including France, Italy, Finland, Switzerland, Turkey, Japan, and the United Kingdom.

Another common international cultural exchange was between faculty and students for degree and non-degree programs to create an educated national workforce. By the 1960s, more than 1,800 Mongolian engineers, teachers, and doctors were educated abroad; ninety percent of the professionals studied in the Soviet Union. This was an avenue for the introduction of modern technology, science, and arts in to Mongolia.¹⁴

Former Vice Minister of Culture Tsend-Ayush Tsershid was appointed as a delegate to learn the different models of arts universities in Russia: “I spent a month at the Universities of Leningrad and Ulan-Ude to explore the universities’ structure and curriculum, and upon my return the Ministry established the University of Culture and Arts in 1990 based what I had discovered.”¹⁵

The establishment of major universities and schools based on the international experiences of officials’ visit was a hallmark of the era. The founding of the National University of Mongolia in 1942 was the first of many, including the Pedagogical Institute, the Fine Art Institute, and the University of Technology. These universities served as institutes for educating high-level professionals, and the government ensured

¹³ Tsend-Ayush Tsershid, interview

¹⁴ Mongolian National Commission for UNESCO “Cultural policy in the Mongolian People’s Republic” (Paris Imprimerie des Presses Universitaires de France, Vendome 1982), 48 ¹⁵ Tsend-Ayush Tsershid, interview

that education was offered free-of-charge with comfortable dormitories and monthly

student stipends.

According to Ukhnaa Damdinvanchig, a former vocalist and director of the State Philharmonic of Mongolia (1972-2001), students were required to see three classic operas, three classical ballets, and three dramatic plays during their five years of study. Based on the policy of ensuring that young Mongolian citizens were exposed to the world of classical arts. This policy placed arts organizations in high demand:¹⁶ according to Ukhnaa Damdinvanchig, in 1983 the State Philharmonic's symphony orchestra performed 166 times, the jazz orchestra performed 155 times, and the Philharmonic performed 521 times in the capital and throughout the regions (including their pop music group). This means that each ensemble performed 12-16 times a month and the State Philharmonic averaged more than one performance every day.¹⁷ Reaching and educating the public in every corner of the country was a valued policy, and the average citizen in the regional provinces saw ten to twelve arts or culture events in 1989.¹⁸ According to Tsend-Ayush Tsershid, providing arts and culture helped enhance living conditions alongside education and health care initiatives. He recalls directives from leaders during the era: "There are 134,000 young herders in Mongolia, and we need to keep them in regional provinces. The arts and culture can actually do that. As much as we provide good living condition the people will stay there."¹⁹

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Ukhnaa Damdinvanchig, interview in person by the author May 30, 2011
¹⁷ Ibid.

¹⁸

Dolgorsuren J., Sarantuya.N and Sumiya.B *Scientific Foundation of Culture and Arts Policy*. Ulaanbaatar: Sodpress Co.,Ltd, 2003, 21

¹⁹

Tsend-Ayush Tsershid, interview

For seven decades Mongolia built a vast arts and culture network throughout the country.

Although a single head and a single ideology controlled the development of this network, the Socialist period laid strong foundations for the current sector. The era saw the development of infrastructure, the cultivation of human and material resources, and the introduction to classic Western art.

Chapter 3. The Transition of the Arts and Culture Sector from the Collapse of Socialism to a Free Market Economy

The movements towards democracy in the late-1980s in Eastern Europe were mirrored in Mongolia. The MPRP was dismantled in March of 1990 after four months of peaceful public demonstrations and hunger strikes. The Democratic Revolution resulted in economic, social, and political transition to a free market economy. At the same time, the dramatic changes also brought social and economic crises, particularly in sectors dependent upon a planned economy. The Soviet Union-educated workforce's knowledge and skills were outdated and ineffective in the face of the changes that occurred during the transition. In addition, many material and technical resources had become obsolete.

One strategy to overcome the triple crises was to diversify property ownership. Extensive privatization of state organizations took place, expanding a sector that had previously carried only 3.3 percent of the economy.¹ The shift in ideology was visible in the new constitution: "Mongolia shall have an economy based on different forms of property consistent with universal trends of world economic development and its own country's specifics. The law protects the right of ownership and the government permits public and private ownership. The state recognizes all forms of public and private property and shall protect the rights of the owner by law."² The Law on Property was passed and the first tender to transfer a government owned property to private ownership

1. National Statistical Office of Mongolia *Mongolian Statistical Yearbook 1989-2002* (Ulaanbaatar Mongolia 2011) Section 20, Education, Science, Culture and Arts, 346. 346

2. Dolgorsuren Jamiyan, *Cultural Policy-Culture and Arts Sector Privatization*. Edited by Bayartur B. (Ulaanbaatar: Urlakh Erdem Press, 2010) p. 39

took place on June 24, 1991.³ Consequently, a major share of government-owned property, including in the arts and culture sector, was fully transferred to individual ownership.

The movie industry in Mongolia was the first to privatize, but the privatization was unsuccessful, and Mongolia closed its largest movie industry shortly thereafter. The failure resulted from unfamiliarity with self-funding, an economy not yet capable of supporting private arts organization, and a scarcity of resources. Some theaters (including Ard (People) and Urguu (Palace), two of the nation's largest cinemas) were sold for rental use. The government lost their control of the theaters, which were turned into business centers. After a decade of running as different business spaces, the Urguu Cinema finally returned to cinema use in the late 2000s. The Ard Cinema remains a bank today.⁴

Physical property was not the only area in which ownership transfer occurred. Under the new National Constitution, "Intellectual values produced by citizens are the property of their authors and the national wealth of Mongolia,"⁵ and the Intellectual Property Law and Patent Law were passed accordingly in 1993. The Intellectual Property Law entitles authors to the full privileges of ownership to their work, including the right of reproduction. As these rights had been absent during the Soviet regime, work.

³ Law on Intellectual Property and Copyright Article 5 para, 5.1-5.2 Mongolian Legal United Information System <http://legalinfo.mn/insys/list.php?vtype=1&vmenuclick=4> (accessed January 10, 2012)

⁴ Dolgorsuren Jamiyan, *Cultural Policy-Culture and Arts Sector Privatization*. Edited by Bayartur B. (Ulaanbaatar: Urlakh Erdem Press, 2010) p. 38

⁵ Law on Intellectual Property and Copyright Article 7 para, 7.2 Mongolian Legal United Information System <http://legalinfo.mn/insys/list.php?vtype=1&vmenuclick=4> (accessed January 10, 2012)

produced during that era had been automatically considered to be in the public domain and government-owned. With the new laws in place, the ownership of physical and intellectual property transferred into the hands of individuals and state, private, non-profit, and international organizations. Dolgorsuren Jamiyan, the head of the Cultural Studies Department at the University of Culture and Arts, described the transition: “The government-centered economy that planned, distributed, and collected the money was no longer in place, and a new cultural economy emerged in Mongolia.”⁶

As a consequence of governmental restructuring and unsuccessful early privatizations, the first free-market decade was a time of chaos and crisis for arts organizations. In 1992 the Ministry of Culture closed down; it was reestablished in 1996.⁷ Funding was limited, arts administrators had no fundraising experience, and audiences could not afford patronage of arts and culture. Tserensambuu Daramsed, the current director of the State Drama Theater, remembers,

Although we were granted the privilege to create freely, we had to respond to these unfamiliar circumstances with a shrinkage in staff and funding. Our production was no longer based on planning but rather on the free market rule of supply and demand. That was a big challenge for theater institutions operating in Mongolia because we didn’t have a market like the European or other developed countries. On the average of living in Mongolia at that time, it was hard for most people to afford arts and culture.⁸

Arts organizations were not able to pay staff salaries sufficient to meet the cost of living. Employees left either to work for the private sector to trading or buying goods

from China and selling them at local Russian markets.⁹ Ukhnaa Damchinvanchig, former

⁶ Dolgorsuren Jamiyan, interview in person by the author May 24, 2011

⁷ Dolgorsuren Jamiyan, *Cultural Policy-Culture and Arts Sector Privatization*. Edited by Bayartur B. (Ulaanbaatar: Urlakh Erdem Press, 2010) p. 41

⁸ Tserensambuu Daramsed,interview in person by the author May 15, 2011

⁹ Ukhnaa Damdinvanchig, interview

director of the State Philharmonic, states, “We lost ten of our professional musicians, and one of our best violinists, who had studied in the Soviet Union, told me, „Director, as much as I want to stay, I need to feed my children,” and he left his violin, which was property of the state, with tears in his eyes and left to do trading.”¹⁰ Many other arts organizations lost their staff, and many artists left the country to work for international companies. Most state circus performers left the country for Europe and America to work for circus companies there. This not only led to a human resource crisis in the city, but also left the regional centers empty.

With large migrations to the city and Mongolia’s harsh weather conditions, cultural centers in the regions closed down. Dolgorsuren Jamiyan stated, “Those who worked hard to keep the centers would fire up the place in the afternoon and open the center only around five or six o’clock and close them down again after running a single performance.”¹¹ The arts organizations battled a crippling lack of material resources, with musical instruments and theater equipment no longer in usable condition and libraries bringing stacks of books to the city to sell. Many materials were exchanged for goods necessary for short-term survival. The equipment shortage caused most regional music ensembles and theaters to close. Dolgorsuren Jamiyan says of the time, “The government had a warehouse of materials for all the arts organizations in the city back in Socialist years, but it is gone.”¹²

Dolgorsuren Jamiyan, interview

The transition caused a change in the public's perception of arts and cultural policy. Culture was no longer a propaganda tool. Instead, people began to value culture for its own sake. A need emerged for social, political, and economic structures supporting creativity and access to the arts. At the same time, a multi-perspective ideology emerged and was reflected in the development of new cultural policy.

On April 8, 1996, Mongolia passed the State Cultural Policy, and three days later, the Law on Culture, which serves as the main constitution for arts and culture in Mongolia, was passed.¹³ These new statutes defined the arts' role in social and economic development; granted artistic freedom and artists' rights to organize; permitted diverse ownership and funding resources with the goal of using art and culture as a symbol of national security; expanded cultural services; developed the sector's interface with social and economic development; and defined legal rights, administrative structures, social welfare, and property and funding policies.

Although the legal framework was established, its implementation remained unsettled. In the socialist years, a strong legal framework for cultural policy was lacking, but the arts' role as propaganda guaranteed implementation. With democracy and plural values taking socialism's place, enforcement weakened. The Mongolian government has had different governance entities and titles for the arts and culture sector. Examining the titles mentioned previously suggests that leaders struggled to define their priority: education, or culture? This dilemma triggered constant restructuring and diminishing prominence and only department- and committee-level administration has existed since the last Ministry of Culture was dissolved in 1996.

This dilemma is echoed in the operations of state-funded organizations. Batmunkh Norov, director of the Culture and Arts Development Foundation, describes this shift in goals: “Back in the 1990s the government had very little funding to support the arts and culture sector, and they wanted a foundation that takes a little bit of money from the government and then raises more funds from its operations, at the same time raising money from local and international resources to refund the sector. But this changed once the economy improved and the government had more money.” As social structures, economic systems, and societal values shifted, so did arts policy. Dolgorsuren Jamiyan, the head of the Cultural Studies Department at the University of Culture and Arts and a leading cultural policy scholar, remarks, “I see that from 1990 to 2000 was the early transition period for Mongolian cultural policy. The sector was in search of a solution to successfully operate in the free market economy.”

Although the government struggled to define its policy and implementation structures, the legal system enabled the establishment of many international organizations supporting the development of a democratic society. Among them was the Soros Foundation, which came to Mongolia in 1997. The Soros Foundation’s Arts and Culture Program was founded in 1998 to foster pluralism through arts and culture, which is the basic mission of the Open Society Institute. The program provided artists with opportunities to travel to international festivals and brought international artists to Mongolia through its grants. By exposing Mongolian artists and performers to the

Batmunkh Norov, interview in person by the author May 17, 2011

Dolgorsuren Jamiyan, interview

Ariunaa Tserenpil, interview in person by the author May 9, 2011

international contemporary art scene, the program introduced them to modern dance and contemporary arts. And perhaps most importantly, it empowered artists with freedom of expression.

Another major focus of the Soros Arts and Culture program was improving the management of the arts and culture sector. To this end, the program has produced numerous publications on management and has conducted a variety of educational initiatives. One of the biggest achievements of the program was the opening of the Master of Arts and Culture Management option at the University of Culture and Arts of Mongolia, which the Soros Foundation added to an existing undergraduate-level degree.

It responded to the need to retrain current managers and prepare the next generation of leaders to respond to the free-market economy's challenges. With the Soros Foundation and similar organizations (notably the Asia Foundation and World Bank) opening in Mongolia in the 1990s, the foundation was laid for the many non-profits and NGOs serving today as aids to the government's cultural policy.

As the new laws demanded diversified administration, the non-government sector developed. A number of the organizations had existed during the Soviet regime under public institutes known as the Mongolian Youth Association and the Mongolia and China Peace Association.¹⁸ In 1997 Mongolia passed the Non-Governmental Organization law. According to the Democracy Education Center (DEMO), some 650 public, peace and non-government organizations existed before this law passed.²⁰ Article 4, Section 1 of the

Undral Gombodorj, interview in person by the author May 27, 2011

classification, financial sources & fundraising, and taxation of

NGOs http://www.demo.org.mn/en/articledetail_en.php?ID=3 (accessed May 3, 2011)

Gombodorj, Undral Overview of Mongolian NGO Community: Legal environment, types &

Law on NGOs states that “NGO shall mean an organization, which is independent from the state, self governing, non-profit and established voluntarily by citizens or by legal entities other than state agencies (e.g., organizations that exercise legislative, executive, and judicial powers) on the basis of their individual or social interests and opinions.”

Undral Gombodorj, Executive Director of DEMO, said of this law,

It was the first time that the Mongolian government made a big step to support the public sector after the 1990 revolution. The NGO was very simple yet very liberal and was Mongolia-based. It was not something that was simply copied and pasted from other developed countries’ non-profit laws. Rather it was a law that was easy and understandable and had very important democratic provisions that required the non-profit sector to be open and transparent, and yet supported future NGO development in Mongolia.

Undral Gombodorj observes that the 1997 NGO law triggered a boom within the sector in terms of quality and quantity. After the law was enacted, public and peace organizations re-registered and restructured as NGOs. The sector funded more than 90 percent of its international development efforts, and was thus able to sustain itself; this demonstrates that the capacity to secure funding from outside resources had become present in at least part of the social sector.

As more diverse legal entities and administrative structures developed, positive signs could be seen in the economy, and by 2002 the GDP had nearly doubled to 1240.8 billion tugriks²⁴ compared to 1989’s GDP of 664.9 billion (adjusted for inflation).²⁵ On

Undral Gombodorj, interview
National Statistical Office of Mongolia Mongolian Statistical Yearbook 1989-2002 (Ulaanbaatar Mongolia),

average, the GDP increased 2.5-2.9 percent annually from 1997 to 2002, despite natural disasters in 2001 and 2002 causing the loss of 11 million heads of livestock. Taxation reform and improved expenditure management and intergovernmental fiscal relationships resulted in a deficit decrease from 9.1 percent in 1997 to 5.8 percent in 2002. The government budget's revenue in 1990 constituted 50.9 percent of the GDP; by 1999 it had dropped to 28.8 percent.

The economic and social progress led the government to revisit cultural policy and legislation in the early 2000s. With a larger budget and state-funded arts out of severe crisis, the government shifted its focus from merely developing funding systems to protecting and promoting cultural heritage. Many legal statutes, including the Law on Culture and the Intellectual Property Law, were amended, and the government passed new cultural heritage laws including the Preservation and Protection of Culture Heritage Law in 2001 and the National Official Language Law in 2003.

Cultural policy was no longer single-sector; the scope needed to expand to other social sectors and national security to bring arts and culture to the public and encourage artistic creation. Policymakers insisted that in order for the sector to develop successfully in the free market economy, good implementation structures and a solid legal framework must be established. This was made tangible in amendments and administrative adjustments: the government linked arts and cultural activities with the Ministry of Education, Culture, and Science and established the Department of Culture Policy within

the Ministry in 2000. This structure is still in place. The current Department of Arts and Culture has six staff members, and is shorthanded and overworked. The enforcement of law and policy becomes an overwhelming challenge for a single department. Dolgorsuren Jamiyan explains:

The failure of our current system is that we have made „culture“ too broad and that the power of enforcement has weakened. The management structure existing before was supported by government-centered administration, but when culture was redefined alongside education and science, culture lost its power. For example, in regional education and culture offices there are about 30 staff, but only one or two will be responsible for the arts. In the past, we had a whole office devoted to culture—a director and staff that oversaw each of disciplines of the arts. Now, with only two seats in two different department of the office, one is in the education office and one is in the social policy section. One oversees the policy development in the region and one implements different programs the policy. The education board the staff is working for believes that education is not enough, so the arts and culture officer works for the education programs.

In response, the Ministry added the Culture and Arts Committee as a supporting body of the Culture Policy Department in 2009. Theoretically, this structure is ideal for the current need of staff shortage. However there is tension between the Committee and the Department. For almost a decade the Department has overseen policy and has been involved in implementation: “The department won’t hand over the execution and the staff at the department enjoys being part of the programs and international exchanges. It creates tension and conflict between the Department and Committee. It is not a big crisis, but it is something we should consider,” said Dolgorsuren Jamiyan. This interdepartmental conflict has led to ineffective cultural policy enforcement and a negative response to the current administrative structure.

Tserensambuu Daramsed, interview

Dolgorsuren Jamiyan, interview

Compounding the restructuring issues, the transition from single-party to multi-party administration and the consequent political instability has created management problems in the sector. When a new minister is elected, he or she forms his or her own working group; the minister and thus the head of the department changes every two to four years. Intra-party conflict leads left-wing ministers to tend refuse to support the right-wing Vice Minister's agenda. The political power struggle and instability have caused human resource management crises, and there is no consistent policy or implementation in place.

Despite the many challenges, arts organizations and freelance artists who worked hard to find ways to manage themselves in the free market economy have finally settled into a sustainable rhythm. Most significantly, 1989's minimal 3.3-percent private sector share has increased to 57.1 percent in 1996 and a robust 74.5 percent in 2002.³² This indicates the private sector has emerged in the country, but the specifics of this transition remain unknown. The private arts sector is the main source of Mongolia's "gray" cash-based economy. Although there are indications that the cash economy is at least one-third the size of the official economy, it is difficult to quantify its actual size, as the money does not pass through the hands of tax authorities or the banking sector.³³

This lack of transparency stems from the characteristics of the Mongolian economy. In 1995 the Law on Deposits, Loans and Banking Transactions was passed,

³² National Statistical Office of Mongolia Mongolian Statistical Yearbook 1989-2002 (Ulaanbaatar Mongolia 2011), 217

³³ U.S Department of State Bureau of East Asian and Pacific Affairs. Background Note: Mongolia. <http://www.state.gov/r/pa/ei/bn/2779.htm> (accessed December 21, 2011)

allowing Mongolian banks to use non-cash payments such as payment orders and invoices, letters of credit, checks, bills of exchange, and payments cards. The Bills of Exchange Act permitted banks to offer an even wider range of non-cash based services, helping the national stock exchange market grow. However, checks are impractical in Mongolia: only banks may buy, sell, or cash foreign checks, and no checking laws exist. In 2009, the Central Bank Governor approved a Card Clearing Regulation establishing standards for clearing, settlement, and the granting and refusal of licenses for issuing and acquiring cards.³⁴ But it is not common practice for arts audiences to purchase tickets with non-cash payments, leaving the economic impact of private arts productions uncertain and permitting them to avoid taxes and banking systems.

Two decades after the revolution, the administrative structures, funding resources, and ownership within Mongolia's arts and culture sector have finally diversified. In order to reach this stage, the arts and culture sector has gone through financial, human resource, and material crises. Although the challenges are far from over, most arts organizations have found ways to survive the hard times and transition to the free market economy. The government has not yet created a suitable implementation structure for the arts and culture sector, but it established the legal framework and policy that encouraged NGO and international organization development. Dolgorsuren Jamiyan states,

I think this is normal for a country transferring from one type of society to another, because we need this transitional period to figure out where we were and where we are going. The balance between public engagement and government support is challenging. From 2011, the sector will be able to tackle these issues as it develops within a democratic free market economic country.³⁵

 Bank of Mongolia, "Payment system in Mongolia"
<http://www.mongolbank.mn/documents/paymentsystems/paymentsystemeng.pdf> (accessed January 5, 2013) Dolgorsuren Jamiyan, interview

Chapter 4. Development of Legal Framework, Structure and Funding System for the Arts and Culture Sector Post-1990s

Over the last twenty years, the arts and culture legal system has correlated with other social sectors. Its basis is in the Constitution, Civil Law, Tax Law, Labor Law, and Social Security Law of Mongolia, and the 1996 Law on Culture, which have set the specific legal framework. Overall, the legal environment of the sector is a compound system designed to support arts and culture organizations along with artists and the public to organize and participate in cultural activities within the set standards.

Based on the definition of —jurisdiction|| as —a system consisting of agreed willingness of persons participating in social interactions, individuals and their group measurement of rights and freedom, devices to meet various social interests and needs and limits guaranteed by the state authority,||¹ the jurisdiction of arts and cultural activities is —a mechanism to deal with the norms of producing, preserving, protecting, disseminating, utilizing, inheriting, studying and advertising cultural values based on the interests of various social groups.||² The legal environment of Mongolian art and culture can be considered a system comprised of social, political, economic, moral, and foreign relation norms with a structure of four basic levels and internal and external features.³

The laws enact policies, directions, and principles and serve as the foundation for reform, renovations, and privatization in the social sector; state and local property issues; the approval of the list of organizations to be reformed, renovated and privatized; relevant

1. 1 Batjargal D. Case study: —*Legal basis for reforms, innovation and privatization of arts and cultural organizations and its enforcement in rural areas*||,⁴ http://www.opensocietyforum.mn/res_mat/Art%20&%20Culture_final_eng.pdf (May 5, 2011)

provisions by the Ministry of Education, Culture and Science and the State Property Committee; and international conventions, treaties and memoranda.

The laws and acts consist of government programs, orders, and resolutions by the central administrative agency; directives by local governors; and decisions from the heads of arts and culture organizations. The legal environment that exists today determines the policies, social role, principles, authorities, and financial system.⁴ The Labor Law, Social Security, Tax Law, and Law on Culture govern the human resource management of the sector and define social welfare, awards, and labor conditions.

State-funded arts and culture organizations are governed by the Mongolian State Policies on Culture, Law on State and Local Property, State Organization Law and State Funded Organization Administration and Funding Law. The Law on Culture defines the types of arts organizations, including NGO status.⁵ Moreover, the Law on NGO states,

NGOs can use their income only for the attainment of their stated purposes and shall not distribute income in the form of dividends, and NGOs shall not act as financial guarantors or participate in amelioration of any business losses on behalf of any person, economic entity, or other organization. NGOs' assets and finances cannot be used in financial or economic activities for personal gain. NGOs have no right to make contributions to political parties or to candidates in the Parliament and Citizen Representative elections.⁶

Although NGOs in Mongolia do not qualify for tax deduction, as do non-profits in the US, the NGO Law provision is similar to the U.S 501(c)(3) Nondistribution Constraint:

- No part of its net earnings may inure to the benefit of any private individual.

substantial part of the activities of the organization may consist of carrying on propaganda, or otherwise attempting to influence legislation or of participating in any political campaign on behalf of (or in opposition to) any candidate for public office.⁷ In the initial NGO law in 1997, Articles 21 and 22 included a provision for tax deduction to encourage funding for the NGOs, but 1999 amendments removed this provision.⁸

Additionally, Mongolia has passed laws to encourage collaboration between the state and NGOs. This helps to fill some of the gaps left by the Ministry. Among these projects are advocacy training and festivals that the art NGOs organize with matching funding.⁹ The current legal system's encouragement of collaboration has been mutually beneficial.

In 2011 the government passed another collaborative law for business organizations and the state called the Law on Concession.¹⁰ Up to this point, the private arts sector had followed many general laws related to business organization and, under 1997's Law on Social Sector Privatization, the State and Local Property Law; Reform, Renovation and Privatization; and Resolution #65 on approving guidelines on reforms and privatization.¹¹ Dolgorsuren Jamiyan concludes that the legal system and policy

(16:22) OST

<http://www.lexisnexis.com/lawschool/study/understanding/pdf/NonprofitTaxExCh01.pdf> (accessed January 10, 2011)

⁸ Law on Non-Governmental Organization Mongolian Legal United Information System <http://legalinfo.mn/insys/list.php?vtype=1&vmenuclick=4> (accessed May 26, 2011)

Dolgorsuren Jamiyan, interview

¹⁰ Law on Concession, Mongolian Legal United Information System

<http://legalinfo.mn/insys/list.php?vtype=1&vmenuclick=4> (accessed May 26, 2011)

¹¹ Batjargal D. Case study: —*Legal basis for reforms, innovation and privatization of arts and cultural organizations and its enforcement in rural areas*, 4

developed in the past twenty years have been a success, though the implementation structure needs work: —Once we entered the free market economy, the government-centered economy broken down. We had to think about a multi-resource cultural economy that supports public engagement in the arts. The government is not capable and can't be responsible for everything. The government's role is to create circumstances that encourage creativity and public access with good legal support and policy and I think we did.||¹²

Structure

According to Article 12 of Law on Culture, —The arts and culture sector's structure consists of central government organization, administration body and regional units and arts and culture organization.||¹³ The implementation structure corresponds with the legal system: the Minister of Education, Culture, and Science heads the sector's policy, finance is led by the Minister of Finance and the Parliament, and the implementing agency is directed by the Prime Minister.¹⁴ As mentioned in Chapter 2, the Department of Culture and Art Policy existed until 2009, when the Ministry established the Committee of Culture and Arts. On a more local level, each city's Culture and Arts Department oversees activities, and on a regional level, the province's Education and

Culture Office includes arts and culture personnel. Batmunkh Norov, the Director of the

http://www.opensocietyforum.mn/res_mat/Art%20&%20Culture_final_eng.pdf (May 5, 2011)

¹² Dolgorsuren Jamiyan, interview

12. 13 Jargalsaikhan Ts. ed., *Culture and Arts in New Condition* Volume 5 (Ulaanbaatar: Sodpress Co.,Ltd 2007), 8

¹⁴ Batmunkh Norov, interview

Culture and Arts Development Foundation, sees a number of shortcomings in the sector's current structure:

It's very challenging for the Minister to focus on the arts and culture because the education sector includes higher education, secondary education, and elementary education, and it is not physically possible to stay on top of the sector as the Minister of Culture did in the past. However, the Ministers appointed in the past managed to focus at least a bit, but it not enough. It is more of an emergency-case deal where they at least put out the fire. So I don't think funding is an issue as much as the administrative structure.

For example, we could have an arts and culture committee that includes three major organizations that deal with the sector's department, committee, and foundation. Either the Prime Minister or the Vice Minister would head it. Currently, institutions such as the Foundation for the Children and the State Monitoring Agency report directly to the Prime Minister—in the same way, the head of the arts and culture committee would only report to the Prime Minister. That way the committee could oversee the policy, control the money, and execute plans, and it would be more efficient and faster. With the current structure we have different heads, including myself, and we have conflicts of interest, so when it comes to implementing certain programs or projects we don't want to do it because of the personal value and conflict. It is dragging the process back, but if we had a single head that oversees the issue then there wouldn't be such drag.¹⁵

On the other hand, some scholars (including Dolgorsuren Jamiyan) argue that remaining under the education umbrella is advantageous. While some resources might not be signed as for the arts and culture alone, being part of the extensive education ministry allowed the sector to secure a percentage of the allotted funding. From this perspective, it is not about the being part of education, but rather the nature of the entire framework that remains from the pre-revolution, single-headed government structure. Now, with multiple parties and diversified administrative structures, the administration is too weak to enforce policy and laws.¹⁶

State Funding system

The Special State Unit Law and Budgetary Law govern the funding system for the arts and culture sector and the Cultural Development Foundation serves as an additional funding entity. Until 1996 the Ministry of Culture oversaw funding, and today the Ministry of Education, Culture and Science holds that role.¹⁷ Although funding for education has been increasing, arts and culture have seen limited increases. Current policy focuses on human development, leading the government to spend large amounts of money on education; policymakers are still somewhat skeptical of the arts' impact on education and development.

More than 20% of the national budget has gone to education in recent years, but the arts and culture average only 1.6% of the national budget and 0.6% of the GDP. The Ministry of Education, Culture, and Science's budget breaks down to 92% for education, 5% for arts and culture and 3% for science and technology.¹⁸ These ratios imply that the arts sector's current designation is minor, leading to underfunding despite the fact that the Ministry receives a significant portion of the national budget.

The state funding budget for the arts and culture sector is divided into two categories: maintenance and capital. In 2003, state funding was 7.2 billion and in 2009 it was 31.8 billion—an increase of more than fourfold within six years. In 2008, the arts and culture sector paid 14.1 billion for social insurance and an average of 229,100 tugriks per staff member for monthly staff salary. In 2003, arts organizations spent 42.9% of their state funding on salaries and social insurance and 57.1% on goods and services; of

Dolgorsuren Jamiyan, *Cultural Policy-Culture and Arts Sector Privatization*. Edited by Bayartur B. (Ulaanbaatar: Urlakh Erdem Press, 2010), 53

the goods and services budget, they spent 53.3% on building maintenance and rent, 9.9% on public events, 5.8% on production expenses, 4.7% on other maintenance, 3.6% on cultural heritage, 3.1% for publications, 2.8% on furniture and equipment, 1.1% on museum collection purchases, and the rest on all other expenses.¹⁹ This demonstrates that there was essentially no budget for new production and human resource development.

All government-funded organizations' staff salaries were raised in 2007, and the salary and social insurance percentage went up to 47.1%, leaving 52.9% for goods and services. In 2008, 13 percent of the goods and service budget was earmarked for artistic production in response to the lack of such funding in the past, but steep cuts in 2009 reduced the overall goods and services budget by 16.8%, and the ratio of salaries and social insurance to goods and services rose to 70:30.²⁰ In regional areas, the state is the only funding resource, and studies show that in 2006, regional arts and culture organizations attributed 77.6% of their budgets to national funding, 3.3% from regional funding, and the rest from operations.²¹ Clearly, there is minimal local support for the sector. Without continued state funding, the tentatively revived regional culture organizations are in danger of dwindling out of existence again.

Nevertheless, funding resources has diversified overall to include

- ☐☐ National budget
- ☐☐ Regional budget
- ☐☐ Profit from the organization's activity

- ☐☐ Profit from auxiliary activities
- ☐☐ Contributions from local and international resources
- ☐☐ Contributions from NGO, business, citizen initiatives
- ☐☐ Others²²

Other funding resource

In the early 1990s, one strategy for funding diversification was to establish national foundations. The Culture and Arts Development Foundation and Historical and Heritage Presentation Foundation were established in 1995 to raise funding from outside resources and to increase national support for the arts. At that time, the government had limited funding to support the sector, but as the economy improved the foundation's focus shifted to protecting tangible and intangible heritage sites scattered across the country. Before the mission change, the government had tried numerous methods of supporting the sector with no real success, losing large sums of taxpayer money in the process. For instance, the foundation has given loans to arts organizations but had trouble with securing the loan back from the organizations. To prevent inappropriate spending, the government developed new laws and national programs, which specify purpose and designated organizations.²³

In 1998, Resolution #40 united two foundations into the Culture and Arts Foundation, currently operating under the Special Fund Law's Article 15, and the State-Funded

²² Undral Gombodorj, Overview of Mongolian NGO Community: Legal environment, types & classification, financial sources & fundraising, and taxation of NGOs http://www.demo.org.mn/en/articledetail_en.php?ID=3 (accessed May 3, 2011)

²³ Batmunkh Norov, interview

Organization Administration and Funding Law, passed in 2003.²⁴ The Foundation has four staff members and an annual budget averaging between 900 million and 1.6 billion tugriks.²⁶ The Foundation, the Department of Culture and Art Policy, and the Arts and Culture Committee develop funding plans each July, which are reviewed by the Ministry of Finance and Parliament according to the fiscal year calendar law.

The Foundation plans national programs, international exchanges, and heritage preservation. The Department and Committee review all state-funded organizations' plans and budgets. Batmunkh Norov, the director of the Foundation, points out that current law conflicts with the organization's intent: —If we look at our description, we should be able to make profit, but if we look at the laws that we're ruled by then we are not allowed to make profit, so the laws and directions are contradicting each other.||²⁷

Lottery-based fundraising is also prohibited, and auctions contradict the mission and present conflicts of interest: the Foundation purchases the Best Art Work- painting and sculpture; Best Children and Youth Production-children plays and movies; and Best Literature Work - books, novel, textbooks of the year by the State Fund.²⁸ The nature of current programs the Foundation runs and the laws that rule the only existing state funding agency proves that the current legal system does not comply with its implementation system.

B. (Ulaanbaatar: Urlakh Erdem Press, 2010), 51

Batmunkh, interview by the author july 17, 2014

Batmunkh Norov laments, —I wish there were an extra 10 million we received that allowed us to organize different performances abroad and helped us to raise our funds. But everything that comes to our foundation is designated to organizations, programs, and projects so there is no extra money that we have control to spend on such fundraising.||²⁹

The Foundation's view of fundraising seems linked to the idea of earning revenue solely from operations. As the Director describes it, —The State Foundation is an entity that collects taxpayers' money and distributes it to state-funded organizations and national programs. For the country's State Foundation to do fundraising and ask for money is a shame. But for a non-profit organization to do fundraising to help with the gap that the state can't fill is possible.||³⁰ With that policy in mind, the foundation works not only with the state funded organizations but also with NGOs and private arts organizations. The government's collaborative law encourages this collaboration between the state, NGOs, and the private sector to fill the gaps.

As there is no incentive for businesses and individuals to support the arts and the Foundation, the state's role is critical. Recognizing the growth of the private sector, the Ministry of Education, Culture, and Science has conducted surveys on private arts funding. More than 28% of respondents stated that the government should have a tax deduction policy for arts funding and 70% of arts organizations' total costs should be deducted from taxes.³¹

The Director opposes tax deductions: —I don't think a tax incentive

³¹ Dolgorsuren Jamiyan, *Cultural Policy-Culture and Arts Sector Privatization*. Edited by Bayartur B. (Ulaanbaatar: Urlakh Erdem Press, 2010), 32

is good way to support the arts. There are other sectors that serve people's needs, and what about the people who give to them? Are we going to tax-exempt them too? Then everybody wants to be tax exempt and in a way it is encouraging people to stop paying taxes. Especially for arts productions, it is not a good idea because they *do* earn money—so why would you exempt them?³²

In contrast to state organizations, according to a study by UNDP on selected NGOs showed that NGOs raised more than 93.3% of their funding from outside sources and only 6.7% from local sources between 1996 and 2000. By 2005, funding had diversified to 67% from international sources, 13% from mission-related service revenue, and the remainder from donations.³³ Local resources secured altogether more than 20% of NGOs' budget. If the tax deduction provision remained in place, such support could have been even higher.³⁴ Concern with the tax deduction is that Mongolian NGOs lack the transparency of non-profits in the US. Without such an accessible, open information system in place, enforcing the tax deduction would prove difficult. Yet, the NGO sector in Mongolia, not only secures international funding but also serves as grant distributing institutions for local state organizations and NGOs. Within the arts sector, the Arts Council of Mongolia has served as a non-governmental funding resource since 2003. The Council acts as the Open Society Institute's Arts and Culture Program Grant distributor and from 2003-2009 the Council has awarded grants of \$237,109 to 40 artists and arts

³² Batmunkh Norov, interview

³³ Undral Gombodorj, Overview of Mongolian NGO Community: Legal environment, types & classification, financial sources & fundraising, and taxation of NGOs http://www.demo.org.mn/en/articledetail_en.php?ID=3 (accessed May 3, 2011)

organizations including many state funded arts organizations.

NGOs acting as a grant distributor are helping arts organizations to overcome a lack of fundraising skills by conducting a grant writing workshop and mentorship program. The fundraising skills are not the only barrier that the sector has; the language barrier is another challenge that the most arts organizations have today as the international grants are written in English not in Russian. With the NGOs, the Arts Council of Mongolia runs grant writing workshop prior to each grant cycle and provides mentoring for its Open Society Grant Program to consult project development for free of charge. Some 200 arts organizations have been enhanced in their capacity to raise funds.

PART 3. THE ARTS AND CULTURE SECTOR IN THE FREE MARKET ECONOMY

Chapter 5. State Funded Arts and Culture Organizations in the Free Market Economy

The Mongolian arts and culture sector is dominated by state-funded arts organizations serving a critical role in the development of new and traditional arts and culture. The state organizations have undergone a dramatic transition during the last twenty years. Today 36 state theatres, ensembles, circuses, and philharmonic halls; nine national, nine specific field, and 30 rural museums; 340 rural and local culture centers; 1250 libraries; nine art schools; 130 non-profits; and a publishing house exist in Mongolia. Seven thousand people work for these organizations. The state owns and subsidizes 813 organizations including theaters, ensembles, museums and libraries around the country, employing an additional 5800 people. According to a Human Development study commission by the Ministry in 2007, 84% of 36 state theatres, ensembles, circuses, and philharmonic halls' employees; 69.1% of librarians; 80.9% of museum employees; and 53.8% of rural state arts and culture employees had secured degrees in their fields. In 2010, the Ministry budget for arts and culture was 32.9 trillion tugriks (equal to \$27.577 billion) and in 2011 it was 35.3 trillion tugriks (equal to \$29.337 billion.)¹ As discussed in the Part 1, during the Soviet era the arts suffered from strong censorship, being limited to Socialist ideology and having restricted exposure to international exchanges. On the other hand, the state organizations had full funding support along with good human and material resources and well-established

B. (Ulaanbaatar: Urlakh Erdem Press, 2010), 50

implementing structures. The organizational structure was based on European and Soviet arts and culture models and the organization models.

When Mongolia became democratic and adopted its new Constitution in 1992, the state arts and culture organizations faced limited funding, limited materials, poor human resource management, and poor implementation. The supply-and-demand model posed new challenges, made additionally difficult due to outdated knowledge and skills of the Soviet-educated management. State organizations were forced to secure support from alternative sources.

Yet the sector has developed a legal system for the twenty years of transition, enjoys freedom of creativity and ideological pluralism, has improved its skills in securing outside funding, has been exposed to broader international exchange, and thus has become part of the global world. However, cultural policy problems remain and there is lack of an implementation system that corresponds with the legal system. As the sector is moving forward to the next phase of development, Mongolia's arts leaders observe countries around the world that differ in their social and economic systems, geography, and level of development, presenting a wide variety of policy possibilities. They are searching for the structure that will serve the needs of their artistic community, the public, and the nation.

Challenges and Strategies

State organizations fall into three organizational categories: political, special, and service unit. Arts and culture entities belong to the third group. Compared to their socialist counterparts, today's state arts organizations have limited staff, funding, and resources, but their products are no longer bound by censorship. The freedom to create is

a distinct advantage, but operating on a supply-and-demand basis is challenging. With 60% of the population under the age of 35 and with relatively low-income levels, the market is competitive and finite.² Regardless of their views on the issue, state-funded arts organizations have been forced to enter the market due to limited government support.

Securing alternative funding was a common strategy for filling the budget gap. But due to economic ups and downs, lack of fundraising and grant writing skills, and the absence of a philanthropic culture in Mongolia, arts organizations typically have not been able to secure cash funding. Exchanges of services, barter contracts, and sponsorship serve as common alternatives. An arts organization might exchange television or radio advertising for a venue rental or studio performance. As mentioned, philanthropic culture is not well developed in the Mongolia; when a company sponsors the arts, it tends ask for services in exchange. The more established corporations are beginning to support without any return, but this is still rare.³ Mr. Batjargal Balzan, the Director of Marketing Department of State Philharmonic describes the system in action:

For 22-second advertisements three times a day for four days on three channels it costs 1.8 million tugriks, and in exchange we would send a few musicians. Based on the length of their performances, we would calculate the cost. Or a company might rent our hall at cost of 300.000 tugriks for an hour. It's common to exchange goods for a performance. We've bought most of what we have with barter contracts: the carpet was given by two different companies, our big advertisement board was donated by a power plant, and a Chinese mining company donated our computers.”⁴

Bartering contracts exist not only between businesses and arts organizations, but also between arts organizations. State arts organizations receive no support from the

Tserensambuu Daramsed,interview

Batjargal Balzan,interview

government to reach out to the countryside; therefore for regional touring, state arts organizations raise funds from other resources including bartering contracts between the partnering arts organizations. Prior to the 1990s there was a structure supporting regional theater, and to reach regional audiences. With the collapse of Socialism, arts organizations were not able to reach the regions again until the 2000s. Starting from the early 2000s, the state arts organizations became more secure financially and started to send traveling groups to the countryside. Says Tserensambuu Daramsed,

We sent about 30-40 people on tour and to reduce our prices, we conduct short-term training with regional theater staff while we are there as exchange of a rent. It benefit both of regional theater and us. The professional level in the regions is not as high as here in the city, so we try to exchange of knowledge and experience as well as services to help them to enhance their capacity. Also in return we offer our stages for one or two days for the regional theaters so that they can present their work to the city audience.⁵

State arts organizations adopt different strategies to overcome funding strains, but most of these methods do not include direct fundraising. In recent years the sector has begun to increase its ability to secure international funding. But because of the designated funding system and the government's control of budgets, organizations have limited options and cash flow is strictly designated and monitored. Therefore, there is almost no room for an arts organization to use the funding upfront when is needed and recover from the earned revenue later on. This is an issue for the state arts organizations and it is a challenge. The major arts organizations such as the State Drama Theater and State Philharmonic receive an annual budget of 600-750 million tugriks (equal to \$500,000-625,000) and yearly-earned income obligation of 100-150 million tugriks (equal to \$84,000-125,000).⁶ The funding system from 2001-2010 was a seasonal funding system
Tserensambuu Daramsed, interview

and it allowed for the state arts organizations to use some of the maintenance funding for its new productions and recover from the earned income. However, the current funding system has changed to a monthly funding system. As mentioned before, this leaves little room to control the funding and limited funding resources to start a project. What comes in as funding for the month will be spent on the month's costs and strictly monitored.⁷

From the artists or staff's point of view, the monthly average salary of 250,000-350,000 tugriks (equal to \$200-300) paid by the state funding is barely reaching making the average salary in Mongolia. Mrs. Bolormaa Lkhagvasuren explained her opinion as musician as:

It is hard to live with this salary and we have no other choice but finding gigs to live. But it does mean there is a lot gigs that we can find. For example, weddings and different special events are the most common gigs we find. We usually form small groups to perform at the gigs.⁸

On the other hand, from an administrative point of view, management does not prefer their staff to perform gigs on their own but are hesitant to make them stop since the management is aware of the issue. "We actually can't pay them enough to live. So it is challenging!" said Batjargal Balzan.

To overcome the limited funding challenges, state art organizations have begun to establish their own NGOs to fundraise. This only funds the maintenance and administration but not the operation. Therefore, responsibility to fulfills its mission as a professional development and public service organization falls on the organization's back. The State Drama Theater has developed a strategy to establish its own NGO to

Tserensambuu Daramsed, interview

Bolormaa Lkhagvasuren, email message sent to author January 4, 2012

secure more funds and has been serving as an active fundraising entity for many professional activities.

As Tserensambuu Daramsed explains of the State Drama Theater,
 Now people want to see quality work, and they pick and choose from different options they have. So we want to create great work that will attract discerning audiences. In order to do that, we initiated the Holy Muse Award, which we see as equal to the Golden Mask in Russia and the Academy Award in Hollywood. Many theaters are capable of producing good work, and we wanted to give them professional recognition for quality of their productions. We have different award categories and we have specific judging criteria. Juries review the works. This is not only us for us to review the works—the artists themselves want to know if what they are creating is quality and meaningful. And giving them recognition empowers them to create more outstanding works. Our artists initiated the festival and established a non-profit, and they have been successfully raising funds.⁹

Repertoire reform was another common strategy state organizations implemented.

Prior to the 1990s, the canon consisted of classical, traditional, and socialist modern works, but upon entering the market, the organizations updated their programming. Arts organizations adopted more contemporary programming to attract a younger audience and increase their earned revenue. Earned revenue from the contemporary programming helps to fill the budget gaps. Compared to the other genres of programming, the contemporary programming costs less and is flexible in terms of sets and human resources. It also enables the organizations to have control over spending of the revenue. The reason that the contemporary programming is successful is because of the young demographic of Mongolia. Hence demand for contemporary program is much higher. However, as a state funded entity, the state arts organizations struggle to find a balance between fulfilling their role as an institute that develops the art form and educates the audience rather than operating as a pure entertainment company.

Tserensambuu Daramsed, interview

Tserensambuu Daramsed, director of the State Drama Theater, says of programming choices:

Let's say a family from the countryside moved to the capital and they come to see a classical play. Can she or he understand and enjoy? No; it is challenging for them to understand a classical play without prior art education. These people need art education before they come see this. Not many people have been educated in places where good arts education is in place. That's why our contemporary plays are so popular. Older generations would be interested to see classical plays but since the majority of the population is young we produce more contemporary plays. Successful plays cover their costs and earn double. In a way we earn or raise the fund with the contemporary plays and spend on the other genres that don't bring earnings and audiences to us. But we need to produce classical and other non-commercial plays for the purpose of developing the theater world and educating the audience.¹⁰

The State Philharmonic has a similar approach to its programming by adopting more popular music and movie soundtrack concerts. Audiences at these new concerts are young people and the concerts are easily sold out. However, opposed to the State Drama Theater, these commercial concerts cost much more than a regular classical concert for the State Philharmonic. It requires additional funding and there is a staffing issue; all the necessary musicians and singers need to be hired on performance basis. Since there is limited funding for a new production, it requires additional sponsorship and exchange of services. As mentioned before, finding non-cash funding means more additional work for the staff. This leaves limited time for the musicians and staff to work on their regular and other new concerts. Mrs. Bolormaa Lkhagvasuren a cellist at the State Horse Fiddle Ensemble of State Philharmonic, expressed the following opinion as a musician as:

Bartering contract is common exchange of service or money to produce new work. I would say our workload is high and it has to do with the service exchange we make with other service companies. When we go for bartering services, the organization provides transportation but not food and it is not hard for us to rehearse or perform long hours.¹¹

Bolormaa Lkhagvasuren, email message

As many challenges rise to diversify its programming, the State Philharmonic struggles to produce new commercial productions. On the other hand, regular programs that state arts organizations run such as classical and traditional music concerts or plays are less attractive to a young demographic and leads to empty seats. One strategy that the State Philharmonic developed to overcome this challenge was to offer popular music groups and singers gigs that attract the young demographic: the State Philharmonic earns 65-70% of its revenue from local pop music gigs.¹² It works best to their advantage since it allows the permanent musicians to perform the concerts within their working hours and does not require additional staff or equipment. One way or the other, state arts organizations struggle to stay true to their mission to serve the public and develop the sector and function competitively art organization within the supply-demand rule of the free market economy.

Structural reform has been a second major strategy. In 2003 the State Administration Innovation Working Group was established to research models in New Zealand, Australia, and Europe.¹³ Based on the group's recommendations, organizations developed strategy and reformed their structures, the latter primarily by adding marketing departments. This was a crucial step, given that organizations had never before needed to work to attract audiences. In the Soviet era attracting or marketing it's programming was absent since its season was planned by the state and fulfilled by cultural activity obligations for working force.

Rapid development in the media sector allowed policymakers to approve and support marketing expenditures: state arts organizations' marketing budgets of 3 million tugriks (equal to \$2500) in 2001, but in 2011 it had risen to 60-80 million tugriks (equal to \$49,880-66.444).¹⁴ Significantly, the boom of television networks and FM radio stations in recent years directly affected the budget increase and diversified market channels: "Prior to 1990, Mongolia had only one central television network, but now we have more than 20 television and other media outlets. With this new media development after the 1990s, we established marketing and PR departments in 2001 to promote our work and increase our ticket sales,"¹⁵ said Tserensambuu Daramsed.

In recent years, arts organizations have begun using social media marketing, and it appears that the country's young demographic is responding positively. The successful marketing department at the State Philharmonic started a blog in 2009 and adopted a full website with active Facebook and Twitter accounts in 2011. Batjargal Balzan, the department's director, says, "We don't use the old fashioned way of selling through the head of the organization as an obligation; rather, we are using media to really market our ticket and try to capture their interests so that they buy our tickets."¹⁶

Structural reform has been showing a positive impact on the production and the operation of the organizations. However, some but not all arts organizations have strategy and long-term planning in place that takes into account the new structure created within the organization. The planning process does not go beyond the yearly plan that the arts

organizations send to the Ministry of Education, Culture and Science. As mentioned before, the State Drama Theater has developed strategic planning which added a marketing department, but the State Philharmonic has none and only has completed a brief marketing department analysis in 2007 to add the current marketing department. Hence, without taking the newly added structure into the overall strategy and development of the organization, the interrelation of the organization's formal structure and the new one seems vague and inefficient.

Human resource reform is another major strategy among state arts organizations. In order to sustain operations, arts and culture organizations cut positions from the existing socialist structures to respond to the new economy's needs. Because of the limited funding, organizations did not have the authority to add official positions; administrators responded by cutting other expenses to pay crucial staff. Davaasuren Changaa, the director of the State Philharmonic, cites his experience with human resource reform:

When I took the Director position in 2001 none of our three orchestras had the standard number of musicians. The symphony orchestra had 45 approved positions; horse-head fiddle had 28, and 9 for the jazz orchestra. But there is no such thing as an orchestra with 45 musicians. We increased to 53 but since the state had only approved 45 we needed to find a way to pay those eight musicians. So if there were two doormen then we would cut them down to one and if there were 4 facility staff then I would cut down to two staff.¹⁷

As Davaasuren Changaa described, the organizations basically cut from one area to fill another and the strategy not only includes staff cutting but also expense alteration to add needed staff. For example, transportation and meal funding for the musicians would be used to pay for new staff salaries. These cuts affected the staff's lunch benefit, Davaasuren, interview by the author May 12, 2011

which is critical for musicians and dancers who rehearse for long hours. Nevertheless, given the priority to increase the quality of its production, management made such sacrifices to manage and survive the transition. Today many arts organizations have made improvements with human resource reform and the current State Philharmonic positions have significantly increased to 36 for the horse-head fiddle ensemble, 17 for the jazz orchestra, and 72 for the symphony orchestra.

State arts organizations' new strategies relate not only to production, but also to operational planning. Given the instability in the political and administrative structure, many organizations have adopted four-year strategic planning cycles. Parliament members are elected by district for four-year terms, and members elect a chairman and vice chairman who serve four-year terms. A member cannot be removed from his seat until the full four years have been served.¹⁸ By adopting four-year planning cycles, state arts organizations are able to react to each political and administrative shift.

With its new legal system, the government granted artistic freedom and the right to unite to serve cultural needs through NGOs. However, the harsh economic conditions of the transitional period of 1990-2010 resulted in decreased funding for arts and culture, and many state arts organizations struggled to fill the budget gaps and adopt the supply-demand market. There were a number of contributing factors: the organizations lacked experience in external fundraising, the market was insufficient to support the sector, and poor economic conditions prevented audiences from being able to afford many artistic and cultural activities. The legal framework lacks a strong institutional infrastructure that complies with the legal framework and meets the current needs of the sector and thus has

encountered problems enforcing cultural policy. Despite this, arts organizations have developed their own strategies of programming and structural reform, filling budget gaps with alternative funding resources—namely using exchanges of services. These strategies have strengths and weakness and challenge the state arts organizations to find a balance between their mission and financial need.

Chapter 6. Development of Non-Government Organizations

The 1997 NGO law helped Mongolia's NGO sector to flourish.¹ According to the National Registration Office, as of March 1, 2011 there were about 12,000 NGOs registered, including civil society organizations, monasteries, and presses. Of the registered organizations, 8,000 are in the field of education and human rights for women, youth, and children.² Today, 130 arts and culture NGOs exist, with 40 actively operating.³

Article 4, Section 1 of the Law on NGOs states that "NGO shall mean an organization, which is independent from the state, self governing, non-profit and established voluntarily by citizens or by legal entities other than state agencies (e.g., organizations that exercise legislative, executive and judicial powers) on the basis of their individual or social interests and opinions." Article 4 of defines two types of NGOs:

- „Public benefit NGO“ shall mean an NGO operating for the public benefit in the fields of culture, art, education, science, health, sport, nature and environment, community development, human rights, protection of the interests of specific subsets of the population, charity, and other such fields.
- „Mutual benefit NGO“ shall mean an NGO other than a public benefit NGO that operates primarily to serve the legitimate interests of its members.⁴

These definitions are similar to the Internal Revenue Service definitions of 501(c)(3)

¹ Undral Gombodorj,interview

1. ² Undral Gombodorj, Overview of Mongolian NGO Community: Legal environment, types & classification, financial sources & fundraising, and taxation of NGOs http://www.demo.org.mn/en/articledetail_en.php?ID=3 (accessed May 3, 2011)

charitable nonprofits (organized and operated for the benefit of the public) and non-charitable membership nonprofits (organized and operated for the benefit of their members).

The NGO formation right is described as “Any individual or group has the right to form an NGO and request to issue a certificate from the Ministry of Justice. Within 30 days the Ministry issues a certificate. However, if you do not receive any certificate from the Ministry within the 30 days the NGO is automatically recognized and registered by the law.”⁵ In May 2009, the law was amended and the government decided to register all individual legal institutions at one center, the National Registration Office. This amendment has complicated the registration process for NGOs.

Undral Gombodorj described the new registration process as follows:

The office has separate departments responsible for legal institutions including businesses and NGOs. The NGO registration department has three or four staff with poor knowledge about NGOs. This leads to complications and difficulties with registration. Most applications were rejected because of their names, missions, and purpose or by law. If they get rejected someone offers service help—with a fee—to register. It’s almost as though a small business emerged because of this new law complication.⁶

Active NGOs submit reports regularly to National Registration Office as required by law. NGOs registration and reporting were under the Ministry of Justice before 2009, and although there was no pressure or punishment for not submitting their report on time, the reporting rate was higher. The new law obligates timely reporting and stipulates punishments for not meeting this requirement, but reporting has decreased.⁷ This is largely due to the complications of registration and the relationship with the National

Undral Gombodorj, interview

Registration Office.

Compared to other sectors, arts NGOs are characterized as specific, non-public oriented, grassroots, membership-based organizations that lack strong structure and external capacity of fundraising, advocacy and public relation.⁸ These traditional NGOs formed on the model of the Soviet arts unions that served as the MPRP's major supplier of art and talent. The MPRP commissioned everything the unions created. The goal of the unions was to create social realist work in different art forms and to promote their work locally and internationally. The unions had an office in the capital of the country and branches throughout the countryside, and they established many of the arts schools still existing today, including the Fine Art Institute and the University of Culture and Arts.

One of the largest unions to survive the transition was the Union of Mongolian Artists (UMA). In Soviet times, it grew as an institution and opened a handcraft factory, a monumental artwork factory, a publishing house, and a decoration factory. The Union paid taxes at that time, but with a huge number of commissions and productions, it was still left with large amounts of income and many works not submitted to the government, making it the wealthiest of all unions.⁹ But as with any arts organization at the time, the Union was heavily censored.

Most of these organizations closed down during the transition, but the UMA survived, adopting NGO status.¹⁰ Both its wealth and the independent nature of its commission-based visual artists were critical to its survival, as were the properties throughout the country and the Union's four factories. Sosor Ochir, the deputy director of

⁸ Sosor Ochir,interview

the UMA, explains, “The government lost its ability to commission the Union until the early 2000s. We simply changed our status and sold a number of factories to purchase the buildings we now use.”¹¹ Today, the UMA serves 300 members of different ages and experience, providing professional development and supporting artists’ well-being, creativity, and international exchange.¹² Funding sources include membership fees and commercial rental at two major studios and a downtown gallery space.

On the other hand, newly established NGOs, including one of the country’s well-established art NGOs, the Arts Council of Mongolia, have adopted the US non-profit model, and though the organizations do not operate in the same legal system, they have managed to adapt. Many international foundations and international development organizations e.g. Open Society Institute, Asia Foundation and World Bank helped to establish the U.S non-profit model setting goals and mission, hiring consultants, recruiting the board, etc. This NGOs model is based on a model that relies on securing funding from non-governmental resources, which is the main reason that helped these newly established NGOs succeed. Ariunaa Tserenpil, Executive Director of Arts Council of Mongolia, remarks:

When the Soros Foundation decided to leave Mongolia in 2000, they concluded that the basic values of democracy including the human rights, justice, free press and media and rule of law as well as the institutions that will carry out these values were in place. The foundation directed its program staff either to continue working until the foundation shut down completely or to establish its own organization. Consequently, in collaboration with the US Embassy in Mongolia, Soros sent five arts leaders to the US to explore institutional models. Upon returning to Mongolia, we decided to found the Arts Council of Mongolia based on the US non-profit model. Initially we were criticized

¹² Undral Gombodorj, Overview of Mongolian NGO Community: Legal environment, types & classification, financial sources & fundraising, and taxation of NGOs http://www.demo.org.mn/en/articledetail_en.php?ID=3 (accessed May 3, 2011)

because the US has rich economy and completely different social and economic factors. I agree with this, but we did not simply copy the model. The important concept we adopted from the US non-profit is its independence from the government. After the democratic rise in Mongolia, arts and culture had no support whatsoever, so we wanted a model that could sustain itself without depending on the government, but on different resources.¹³

As Ariunaa Tserenpil described, NGOs would not be able to survive with local non-governmental support given the crises which occurred during the first half of the last 20 years. International organizations were not only providing 85% of funding support but also strong administrative and human resource support for the NGOs. With the goal to increase the funding support from international resource, some of NGOs in Mongolia have established a counterpart 501(c)(3) organization in the US. The Arts Council of Mongolia established the Arts Council of Mongolia-US in 2003 to provide American citizens the opportunity to make tax-deductible donations to support Mongolian arts and culture.¹⁴

Within the past decade, local social and economic circumstances have become more supportive and the percentage of international funding source has decreased to 67% of the total funding of NGOs for last decade. The minor local support has increased to 23% of the total NGOs“ budget. Today, NGOs raise funds from membership fees; contributions by individuals and organizations; mission-related activities; borrowed or inherited funds; state funds allocated for project implementation; and funds from international agencies.¹⁵

¹³ Undral Gombodorj, interview

¹⁴ Annual Report 2003, Arts Council of Mongolia
<http://artscouncil.mn/new/images/stories/report/annual%20report%202003%20eng.pdf>
 (accessed March 1, 2012)

The international organizations that helped to establish the NGO sector are still active supporters of the NGOs both with the administrative support and funding, including the Arts Council of Mongolia that receives 10-15% of its administrative cost from the Open Society Institute as an institutional grant.¹⁶ It explains why the NGO sector in Mongolia developed rapidly despite economic and legal circumstances that historically lack a tax deduction and a weak economy. As discussed earlier, the tax deduction provision was included in the 1997 Law on NGO but the 1999 amendment strike the provision. One of the reasons the tax terms were eliminated was because of the economic situation of Mongolia at that time. By 1997, the economy was weak and businesses were struggling. NGOs were just being established and there was no philanthropy culture then. The NGOs did not really make use of the tax provision. As the economy became sustainable, many attempts have been made to re-enter the provision to the current law, but they have not been successful. Undral Gombodorj expressed her opinion about how all the right circumstances to enforce the tax deduction are in place today:

Now that we look at the current economy of Mongolia and the business sector, it is really booming, and it has the capacity to support the non-profit sector. But now we don't have the incentive for these businesses to support NGOs. The business just won't spend money on NGOs without getting something in return. The exchange of services has become an alternative incentive.¹⁷

Challenges and strategies:

One of the main challenges that the NGO sector has today is a lack of incentives to support NGOs. The tax deduction is absent due to the striking of the tax deduction provision in 1999, but also because there is no process to evaluate the NGO sector and no transparent reporting system as GuideStar in the U.S. Without transparent reporting, contributors would not have the necessary information about the organization to decide whether to contribute or not e.g., if taxpayers are not satisfied with the organization they support, then they don't have the access to the information as the contributors in the U.S do.

In addition, NGOs in Mongolia are more advocacy organizations than community-based, and their mission is about demands and crises rather than grassroots and community-based purposes. Therefore, the experts recommend that a new reporting system and the tax deduction provision should have intended to make the people be a major resource for NGOs, and encourage NGOs to be transparent in order to receive their support. Undral Gombodorj said,

There is no system to evaluate what NGOs are doing and at same time, it is hard for NGOs to evaluate themselves and say we are the best too! We can't really tell if an organization is bad or good.”¹⁸

Nevertheless, as both NGOs and business entities are taxpayers, the lack of a tax incentive is not stopping them from collaborate to overcome the challenge with alternative incentives, including exchange of service and marketing benefit. According to Article 5 of the General Tax Law, “domestic and foreign business entities, organizations, and foundations in the territory of Mongolia shall be the taxpayers,”” and according to

Article 3 of the Business Entities & Organizations Income Tax Law “non-government and religious organizations shall be the taxpayers”.”¹⁹ Individuals and legal entities engaged in the import, manufacturing, and sale of goods as well as providing services shall be the payers of a value-added tax. In addition, NGOs and the equivalent are Value Added Tax Payers. This means an NGO must pay the value added tax if it engages in commercial activities generating incomes taxable under the Value Added Tax Law.²⁰

For example, income generated by leasing rooms and apartments falls under the value added taxable income.²¹

The following NGO income sources were tax-exempt: member dues and supporter donations, income generated by publicly-registered public benefit NGOs from activities related to the implementation of their charity purposes, and donations made to publicly-registered public benefit NGOs.²² Tax law provides that only incomes generated from the activities of publicly registered public benefit NGOs related to their stated missions would be tax-exempt. The law does not strictly prohibit NGOs from engaging in commercial activities other than for the implementation of charity purposes.²³ If services such as consulting qualify as an activity conducted for the implementation of charity purposes, the income generated from it shall not be taxed.

Yet, a tax law amendment had challenged the NGO sector in 2008, which required

all legal entities to charge social insurance tax for everyone.²⁴ NGOs hire independent contractors for their operations and have a few full-time staff. In the past, NGOs were free of social tax for independent contractors, but with the amendment this is no longer the case. Since most funding agencies prefer not to support administrative costs, the biggest challenge is paying rent and salaries. Having to pay additional taxes places more burdens on the NGOs. Undral Gombodorj gave an example of the tax burden as:

At DEMO, we don't have a full-time cleaning staff so I hire a cleaning lady on contract bases and it was fine just pay whatever amount we agreed. Now we had to add 11% from our side and the person has to pay 10% of from what they are getting from us. It is increasing our expense by 21% and that is a lot of money.

Despite the many tax burdens, NGOs may earn profits by conducting commercial activities for the purpose of increasing their financial reserves, but earnings may be used only to finance activities fitting within their legally defined missions.²⁵ The provision allows NGOs to sustain themselves from commercial activities e.g., commercial rents, retail and services. Most NGOs uses the provision as a strategy to overcome the financial burdens and if an NGO owns real estate, as does the UMA mentioned earlier, then the commercial rental of its spaces becomes the sole income of the organization. In addition, this is a common strategy for an NGO that does not secure most of its funding from international resources and there is minimal local support that exists for the NGOs.

Yet there are prohibitions that limit the use of its income described as:

“NGOs shall use their income only for the attainment of their stated purposes and shall not distribute income in the form of dividends, and NGOs shall not act as financial guarantors or participate in amelioration of any business losses on behalf of any person, economic entity, or other organization. Assets and finances cannot be used in financial or economic activities for individual gain. NGOs have no right to make contributions to

political parties or to candidates in the Parliament and Citizen Representative elections.”²⁶

Most NGOs are able meet this purpose of use. Even NGOs that secure most of their funding from international resources uses their income from commercial activities for some of their activities, e.g., the Arts Council of Mongolia runs a commercial gallery where it exhibits and sells contemporary artworks by young and established artists. The Council takes a commission of 30% and the artist gets 70% of the total revenue. The Council uses the earned income from the gallery for its own grant program to support Mongolian artists and arts organizations. From 2003-2008, the Council has earned and awarded \$267,506 to 169 arts organizations and individual artists and arts managers.³⁵

Similar to the state funded organizations, a major challenge for the NGOs is to find balance between its mission and financial need. NGOs tend to follow money at the expense of mission. Because compared to the state funded organizations, an NGO has the capacity to secure funding from international resources; it’s easy for NGOs to diverge from its mission as it chases after funding. Undral Gombodorj criticizes the trend:

Let’s say there is an NGO that supports women’s rights, but when the Ministry of Environment announces a funding opportunity, you develop environmental projects to meet the requirements. The same thing happens to Education and Disability project tenders where all the NGOs start to develop curricula. I understand the need for money, but you still need to stick with your mission. You need to be capable in certain areas and be the expert in the sector that you’re in.³⁶

Mission focus is one of the biggest weaknesses for Mongolian NGOs today. The lack of expertise in the field became more visible when the government handed over more responsibilities to the NGOs. The government wanted to delegate certain national

programs to NGOs, but almost no NGOs were capable of implementing the programs. “It is sad—because of lack of financial stability they go from environment projects to education programs. They don’t specialize,”³⁷ says Undral Gombodorj.

Political instability has affected the NGO sector. The sector is struggling to build a strong legal framework and policy. The advocacy groups and policy makers are challenged by the nature of Mongolian government’s instability. Every two to four years, a Minister resigns and a new Minister is selected. It is typical for a new Minister to discard all the former Minister’s orders and projects. In order to pass a new provision or an amendment, it could take up to three different governments to actually pass it. In 2005, NGOs in Mongolia, lead by the DEMO, initiated the Civil Society Day, which celebrates the establishment of civil society in Mongolia. As required by the law, the Working group of the Civil Society Day has sent a request to declare the day to the Prime Minister. However, since the first submission of the request in 2005 three Prime Ministers were elected and resigned. For every new Prime Minister, the Working Group changed the Prime Minister’s name and the date and has constantly submitted the request. Finally in January 2008, parliament passed Civil Society Day as the 51st official national celebration of Mongolia, to be celebrated on January 31.³⁸ The ultimate goal is to have a national advocacy day to promote the sector. The date has been carefully chosen to acknowledge the day that the Law on NGO of Mongolia passed in 1997. Says Undral Gombodorj,

Small NGOs do their own thing but nobody knows and there are no studies to prove what they are really contributing. We can say all our funding is from international

sources, we contribute to the economy by renting and paying taxes and electricity, we provide employment for this many people, we support our mobile service company, and so on. It might be small compared to the business sector but it is something,³⁹

The celebration is based on National Arts Advocacy Day in the US; Undral Gombodorj attended the advocacy training held in Mongolia by Andy Finch, the former Government Affairs Director at Americans for the Arts in 2007. Undral Gombodorj recalls, “During his training he talked about the National Arts Advocacy Day in the US and at that time I dreamed of having this kind of day for the NGO sector. Now we have it.”

Over the past decade, building an effective partnership with the government was one of the strategies to overcome the challenge of dealing with political instability. At the same time, the sector is challenged to build a well-balanced relationship with the government without encouraging direct involvement and control of the state in the sector. Many ideas of partnership between the sector and the NGOs and policy makers have proposed the formation of an Accreditation Commission, a state recognized accredit agency model that exists throughout the world. The Commission could lead to creating infrastructure that exists in the U.S e.g., IRS and GuideStar that certifies the public purpose of the NGO and transparent reporting system. However, given the political and social circumstances that Mongolia has many leaders afraid that establishing an Accreditation Commission could be one-way, to encourage involvement of the government in the sector, because the directors of the Commission will be the Minister of Finance and the entire administration will be government bureaucrats. Instead of helping the sector to stand without government involvement, the recommendation is pushing the

Sector towards the state.

Despite different view of varies possible collaborations, the Civil Society Council was established on February 1, 2008 to support relationships between the government and civil society. The Council was established after the success of passing the Civil Society Day. With the Council the NGO sector aimed to establish an official relationship with the government and to have partnership be legislated. As a result, the government passed #93 Resolutions, stating the relationship between NGOs and the government. The legislation of the partnership has broken barriers and opened many doors to NGOs. Now every year representatives of the NGO sector and state officials meet to discuss burning issues in the NGO sector on Civil Society Day. These meetings help the sector have its voice on national policy level and draw government's attention to the sector. In the past, NGOs tried to work with government offices and were not successful due to the lack of legislative support of the partnership. Today, the sector has the legal support to collaborate with the state. The meeting is one of the three major activities of the Civil Society Day that includes a luncheon and media advocacy campaign. Mrs. Undral Gombodorj initially headed the Council but the demands of the NGO sector are high and for a small NGO like DEMO the load was massive. Therefore, a delegation of responsibility has made to each sector due to lack of support running the Council.

The handover took the form of collaborative councils for each sector within the Ministries. In response to rising awareness and involvement in environmental issues, the first sector was the Environment. The Civil Society Council with the Ministry of

Environment was the first group to be established and has been receiving administrative and funding support. Due to its specific focus on environment the partnership has been working effectively to tackle burning issues of the current environments in Mongolia. However, the Civil Society Council was criticized for receiving a support from the Ministry by the other NGOs for potential control of the government. There is reason for such a criticism and the partnership was challenged to stay independent from the government. Several members of the Council have used their positions to win tenders from the Ministry and restricted the competition to their own organizations. The issue has been resolved and the involved members have been dismissed, but concern remains.

The Civil Society Councils have been formed in other sectors via the Ministry of Labor & Social Welfare and Ministry of Education, Culture, & Science. Social welfare, education, culture encompass almost all the NGOs in Mongolia, and the new Civil Councils are much weaker and less productive. The art NGOs are part of the Civil Council at the Ministry of Education, Culture, & Science and the Arts Council of Mongolia is serving as the main representative of the art NGOs in Mongolia. Although the art NGOs are not receiving as much support as the environment NGOs, the Arts Council of Mongolia is working closely with the Ministry on broader policy including the Master Plan 2009-2020 of the art sector. The council collaborative model efficiency varies depending on the sector and the scope; it is grouping the NGOs into specific areas they serve to provide the benefit of being part of Councils within the Ministries. In a way, it has the potential to help the NGOs overcome the challenge of mission drift and build expertise within the specific area. “I would say the number one challenge now is capacity

and I used to say number one issue is funding but no it is now capacity.” Undral Gombodorj said.

As mentioned before there is lack of a transparent reporting system that encourages contributions and gives access to NGOs profiles. Development of such a reporting system will help the sector to tackle the challenges of building a strong legal and policy framework, transparency and encourage funding support. The Civil Society Council is working on a national study on the NGO sector and has formed a Working Group of 61 members, including 21 state, 36 NGO, and 5 international representatives. Since most of the data is state information the Council is working closely with the government, as well as with international organizations. The study consists of segmentation, profiling, funding analysis etc. As such the newly established NGO sector is uniting to overcome many challenges it is facing and focusing on building a strong legal and policy framework.

Chapter 7. Emergence of Private Arts Organizations

Economic reforms represent an integral part of the democratic development of Mongolia and the practical guarantee for democracy. Building democracy and developing a market economy have proceeded interdependently. The private sector has become the leading player in economic and social development.

In 1989, the private sector's share of the economy was 3.3% and household income was dominated by salary, pension, and state benefit. With its rapid development, the sector now contributes about 80% of the GDP and produces the most national wealth.¹

Besides the mining industry-cooper-coal-gold (contributing 21.8% to the national GDP) and agriculture (16%), other dominant industries are wholesale and retail trade; service, transportation, and storage; and real estate.² However, there is no concrete indication of the private arts sector's scope and how much it contributes to GDP. Data are scarce on the sector's employment levels, productivity, and profitability and the existing data is unreliable.³

Most private arts organizations have headed by business companies, making them hard to analyze: law protects private companies' operations and they are under no obligation to disclose information. As with both the state and NGO sector, political instability causes policy unpredictability and restricts private arts sector growth. The legal framework for registration, enforcing contracts, and foreclosure are ineffective. Labor

¹ Ichirkhorloo Sosorbaram, email data to author June 23, 2011

² National Statistical Office of Mongolia Mongolian Statistical Yearbook 1989-2002 (Ulaanbaatar Mongolia 2011), 217

³. Asian Development Bank. "Private Sector Assessment for Mongolia"

<http://www2.adb.org/Documents/Assessments/Private-Sector/MON/PSA-MON-2009.pdf> (accessed March 5, 2012)

taxes, especially social security taxes are high at 19% of employee salary, causing private arts organizations to avoid taxes by keeping two sets of books and entering cash-based gray economy. The foundation of the private arts sector in Mongolia was laid when the state focused on developing a free market economy and implemented economic reform in early 1990s. This policy led to privatization of state-owned entities. Although it was not successful the privatization of vast movie industry during the 1990s has provided the basis for the private art sector. The privatization of the art sector was accomplished under two types of privatization models: management buyout and property transfer. Although management buyout meant to account and transfer the goodwill (including artists, performers, and repertoire) at monetary value, the privatizations made by the tender committee did not account for goodwill. From 1990-2000 nine arts organizations formerly owned by the state had been privatized, but only one cinema was reestablished. From 2002-2008, other arts organizations were privatized; only one concert venue has remained as a concert hall and operating privately.⁴

Among the professional theaters, the Youth Theater of Mongolia was the first to be privatized; But because of a lack of sufficient analysis, unfair tender process, and political instability led to an enormous scarcity and disrepair of materials and facilities and with an unmet need of over 1.1 billion tugriks⁵ worth of renovations to continue operating, the theater became another example of failed privatization. In the end, it was

⁴ Arts Council of Mongolia. Arts and Culture Event Calendar Jan-Dec, 2008(Ulaanabaatar: Bodi Mur Press 2008)

⁵ Jamiyan, Dolgorsuren. *Cultural Policy-Culture and Arts Sector Privatization*. Edited by Bayartur B. (Ulaanbaatar: Urlakh Erdem Press, 2010), 63

sold to Khan Bank for six billion tugriks.⁶ Most of the privatizations in the past were property transferring, but the major organizations including the National Circus of Mongolia were privatized under management buyout, transferring the property without valuing goodwill assets including repertoire, artists and perfumers⁷

Despite all this, the sector has managed to emerge. Comedy groups were the first successful art groups to emerge as private entities and was able to sustain themselves within the limited market of the weak economy at that time. The success played off the widespread depression during crises in 1990s. People needed affordable and easy entertainment and the comedy groups were able accommodate the need. No prior art education was necessary to be entertained by these groups. While the state-funded organizations were suffering from audience loss, the comedy groups have built their audience base during the 1990s and are still successful today with the young demographic. Initially there were only comedy groups but as they secure more market they have grown into reviving film industry. Tserensambuu Daramsed described the emergence of the private arts sector:

When we transferred to the free market, comedy productions and groups entertained the depressed people at that time. We had no food left in the stores other than salt. In a way, the government threw us into the sea and said, „Well, live or die, it is up to you.“ From 1990 to 2000 we were in crisis. The reason these comedy groups were so popular was due to widespread depression. People needed to forget about stress and on that need the comedy productions elevated their status. They operated as private entities that earned cash like no other. They built their audience through the depression and that audience is still with them. For other organizations it was a dark time, and we lost not only our audience but also our staff.

The second major private art entity that emerged was the traditional song and dance ensembles. As Mongolia is known for its authentic nature, nomadic culture and lifestyle and for being a unique adventure destination for travelers, the tourism sector developed rapidly. The Law on Tourism was passed in 2000, but despite the rapidly changing environment of the sector, no amendments have been made accordingly. The tourism sector is fully privatized and monopolized by small operators, mostly owned by Mongolian business entities. These traditional ensembles were emerged in conjunction with the need to introduce Mongolian nomadic culture to the tourist.

The first traditional song and dance ensemble to target the tourism market was established by the state in 1989, known as Tumen Ekh National Song and Dance Ensemble with the mission to promote the traditional arts. The Tumen Ekh Ensemble belonged to the National Recreational Park administrated by City Government. The Tumen Ekh has been able to cover its expenses and earn additional revenue, and for an arts organization owned by the state, the success of the Ensemble is rare. The growth of the tourism industry has been a large part of the Ensemble's success: according to a survey by the Ministry of Transportation and Tourism in 2004, 51% of respondents cite their main interest for visiting Mongolia as culture and history. The Ensemble is considered a must-see performance for tourists.

Tsetsgee Janchiv, who organized the Ensemble, says of its beginnings:

In 1989 the Tumen Ekh Ensemble was founded, and in 1990 the organization opened to the public. When I joined as the organizer of the Ensemble in November 1990, the Ensemble had only five performers. The ensemble was fairly small so we recruited more members. At that time, the oldest tourist company of Mongolia, Juulchin, was founded, and had a few performers who entertained tourists. From the company we recruited over ten performers to expand the Ensemble. It is interesting—because of the performers we recruited from Juulchin we started to attract tourists. Initially, the Ensemble had no experience and no network of tourist companies, but the connections

that Juulchin had really helped us start to attract tourists. Based on the success we had with the Juulchin tourists we decided to hunt for them. It was my job to find all the different tourist companies—Shur, Tulga, Jinchin—to bring more audiences to the Ensemble.

Based on the Tumen Ekh model, a number of traditional song and dance ensembles were founded, including Moon Stone Ensemble owned by a private entity with investment from Japan. Although the tourism industry is predominately owned by Mongolian investors, Korean, Japanese, Chinese, American and European investors operate a small percentage of the tourism sector.⁸ At the same time, the idea of attracting and performing for tourists spread throughout the art sector, and other state-owned ensembles, including the National Folk Song and Dance Ensemble, started a summer tourism program. As Mrs. Tsetsgee Janchiv described; the ensembles contract with over 600 tour operators and travel agent companies.

In early 1990s, the ensembles used to charge foreigners \$2 and locals 6 tugriks for tourists companies that made contract in advance with the ensemble. Other major resource of revenue was from backpack tourists, video recording and taking photos. In 1998, the Tumen Ekh earned annually more than 35 million tugriks (equal to \$30,000) with a ticket price of \$5. As tourism developed in Mongolia, more professional business partnership events such as the Tourism Expo brought tourist service companies together. At such events, the ensembles perform shortened versions of its new work twice a day to promote their new season.

⁸ Asian Development Bank. “Private Sector Assessment for Mongolia” <http://www2.adb.org/Documents/Assessments/Private-Sector/MON/PSA-MON-2009.pdf> (accessed March 5, 2012)

As the traditional ensembles’ operations are directly tied to the tourism companies, ensembles emerged as an auxiliary entity of a tourism company. An ensemble known as Khatan Ekh Ensemble was established under the Discovery of Mongolia, a tour operating company. Other similarly modeled ensembles have emerged but have a hard time staying in the market. The nature of the tourism business is limited to the active tourist season (May-October) and challenges the ensembles to employ their performers full-time. Hence most of the small ensembles hire their performers from arts schools and state organizations. During the tourist season competition for audience is high and the reputation has been helping more established ensembles like. With its annual income of 120-160 million tugriks (equal to \$90.000-130.000) Tumen Ekh is able to employ its performers 9 months of the year, helping them to sustain the quality of its program.¹⁰

Recently, as has been the case with other many state owned organizations, Tumen Ekh was sold to one of the leading business groups. Given the success within the tourism market one would assume that Tumen Ekh would be sold to a tourism company, but that was not the case. Bodi Group is actively engaged in the rapidly growing fields of banking, financing, property development, real estate, media, and trade and services (Bodi Group owns 13 subsidiary companies and 6 joint ventures and employs over 1400 professionals).¹¹ The 17-year-old corporate giant bought the National Recreational Park of the City in 2005. Batnyagt Baasan, vice director of the Park, recounts the buyout, “In 2005, when Bodi took over the Park from City Government, their focus was not on Tumen Ekh. Rather it was focused on saving the land for the purpose of leisure space.”

¹⁰ Otgonsuren Tumurbaatar interview

¹¹ Bodi Group Cooperation. <http://bodigroup.mn/content/p/whoweare.ourgroup> (accessed January 4,

Since the merge of the Tumen Ekh's administration into the Bodi Group cooperation, clearly there is tension between the management and the ensemble. The lack of sufficient analysis of the ensemble prior to buyout, lack of arts organization standards, valuation of the artistic community, and labor standards for performers contributes to this standoff. Compared to the old structure of the Park, the new system is massive and Tumen Ekh is now part of the Business Development Department and the artistic committee oversees repertoire and performers and office headquarters oversee their human resources, revenue, and expenses. "The greatest challenge is being part of this heavily profit-oriented company that has no knowledge or respect for art. The management individually also has no art education or knowledge of traditional art," says current Artistic Director Otgonsuren Tumurbaatar.

Batnyagt Baasan expresses challenges from the business's standpoint:

To us it is very challenging to work the Ensemble. From a regular business management perspective no one respects nine-to-five working hours. Nobody shows up in the morning and most of the work is about two hours a day when the season starts. Although they say they rehearse for long hours before and even during the season I don't believe them. In my opinion, if I were a performer I would come in the morning to rehearse whatever I sing or dance. In my mind, if I have been singing for 20 years singing from nine to five should be easy. So I usually ask them to follow a regular schedule. They would, „We are not regular office staff, we are performers," and therefore they should not follow a regular schedule.

Tumen Ekh has the potential to ensure that the tourism potential of Mongolia is fully realized and its participation in international travel fairs and advertising in international media and publication could increase global awareness about Mongolia. International hotel chain operators entering the market e.g., Hilton, Shangri-la, Park-Inn hotels are being built within the Park site, Tumen Ekh and Bodi's internal conflict will likely strain the further growth and success of the Ensemble. As mentioned by Bodi, the

initial intention the purchase was not Tumen Ekh and the cooperation's primary business is not in tourism industry. The corporation is planning to enter the tourism business. These factors explain the lack of attention towards the ensemble and Tumen Ekh has been put on the side of the business planning of the corporation. One of the greatest challenges for Tumen Ekh now is being managed by a corporation that has no expertise running a performing arts organization and tourism service but which is affecting its repertoire, salary, and working conditions for the performers.

Another example of private arts organizations are newly established galleries owned by individuals interested in contemporary art collecting. The market is limited; therefore these galleries have subsidiaries to cover their administrative expense. They use the common strategy of exchanging services and goods, implementing barter contracts with the artists and service companies. Most galleries have headed by business companies, making them hard to analyze. Zesee Sodnomtseren, the curator of the privately owned Zanadu Gallery, says:

Our mission is to support young contemporary artists, and because most young artists have no cash available to pay rent we exchange a single artwork for our rent. The exhibition takes a week and we select the artwork. In 2007 we opened a lounge in the gallery space and it helps us to cover some of our administrative costs. We sell artworks from the exhibitions, but of course it is not product and won't sell like regular items, so we need other resources to support ourselves.¹²

The gallery exhibits 30 solo exhibitions and a few more joint ones in a year. Since the establishment in 2006 Zanadu Gallery has had 150 exhibitions.¹³ Although the gallery is able to sell back the work exchanged for rent, often the artwork will not attain the value that the artist claimed. The gallery rents its space, and as other private galleries including

¹² Zesee Sodnomtseren, interview in person by the author

Red Ger, a gallery owned by Arts Council of Mongolia, Zanadu's commission 30% and the artists gets 70%. The amount of revenue from selling artwork is minor. The galleries are seeking to increase income resources through opening a gift shop in the gallery. Nevertheless, the galleries are aiming to have input in the development of the contemporary arts in Mongolia through running artists' studios and grants programs. The Gallery works with young artists and supports them with free gallery space:

We select about eight young artists a year and they would be the resident of a studio for a year and have an exhibition at our gallery once a year. The exchange of artworks serves as payment. We select artists based on works and common interest so that they work together at the studio. The director and I choose the artists.”¹⁴

As state organizations and NGOs, the limited market in Mongolia challenges private art galleries and it leads administrators to seek similar strategy to secure additional resources through sponsorship and bartering contracts to survive.

Currently, there are three major markets: tourism, the under-35 demographic, and the older demographic. Organizations targeting the tourism market seem best able to cover their expense and earn a profit. With the regular Mongolian audience it is challenging to sustain an organization unless its product is commercial enough to appeal to the younger generation; therefore arts organizations tend to seek alternative funding resources.

Chapter 8 :The changing face of cultural policy

In 1967, UNESCO held a conference in Mexico City to discuss cultural policy. One of the outcomes of this meeting was a series of monographs produced over the course of 1970s and early 1980s in which member states of UNESCO ,one by one, discussed what they understood cultural policy to mean , and described the practice of cultural policy in their own country at that time. The resulting collection o reports provides a fascinating insight into how government policy towards culture was interpreted and implemented around the world three or four decades ago.

Overwhelmingly the concern of cultural policy in those days was with the creative arts – how they contribute to a civilized society ,how more people could be introduced to the benefits of artistic consumption , and how the arts content of education system and the media could be improved.The UK report ,for example , discussed the Arts Council of Great Britian ,local authorities and the regional arts association as the vehicles by which cultural policy was delivered ; the BBC and the press were mentioned ,but only in terms of their contribution to producing and repoting on the arts , not in a broader cultural context.Policy towards heritage was also a significant component of the cultural policy agenda for many countries ,especially those in the developing world. The report for Bolivia was typical , it focused on the post-colonial assertion of Bolivia nationalism through its culture ,especially its intangible heritage of language ,music ,ritual and tradition.

The UNESCO series of reports provides a vivid illustration of how greatly the landscape of cultural policy has changed in the intervening years. In particular , the 1970s cultural policy statements contained few if nay references to the economics of culture , beyond an occasional reference to the administratitive means for obtaining and deploying public funds for cultural purposes.

Now , in the opening years of the new millennium ,economics is everywhere ,and the ways in which cultural policy is interpreted and practiced have been transformed .There are many factors that have contributed to this transformation ,but they can be gathered together under two broad headings ,one cultural , one economic.

Firstly ,there has been an expansion in the scope of the term ‘culture’ in its application to cultural policy from a concern solely with the arts and heritage to a broader interpretation of culture as a way of life. Such an anthropological or sociological definition of culture as an expression of shared values and experiences is by no means new, even as a basis in principle for cultural policy ,but putting the principle into practice is relatively recent , and indeed a widening of the ambit of cultural policy to encompass broader issues of social policy , for example ,is still going on. Parallel with this has been a breaking down of the old equation of the arts with high culture although pockets of resistance remain here and there, the distinction in pejorative terms between high and popular culture , or between the high and popular arts ,has now largely disappeared. Instead cultural products and consumption practices are more commonly seen to lie along a spectrum ,whose dimensions can be described using labels such as commercial / non-commercial ,traditional /avant-grade , large- / small- scale , mass /specialized ,majority /minority , and so on. So, as the usage of the term culture has continued to expand beyond its high –art interpretation ,the range of cultural activities of interest to policy has widened , and the coverage of cultural policy has extended from the arts and heritage to include policy towards film , the broadcast and print media, the wider cultural industries such as fashion ,design and architecture ,tourism, urban and regional development ,international trade, diplomacy and more.

The second major cause of the changes in cultural policy that we are witnessing at the present time is the radical transformation of the economic environment in which cultural goods are produced ,distributed and consumed ,brought about by what is loosely referred to as globalization. This term is widely used in the contemporary discourse to identify a series of related trends that can be observed in economic ,social and geopolitical spheres. Essentially , globalization can be defined as three phenomena : the breakdown of barriers to the movement of resources ,especially capital and labour ,between countries and regions ; the emergence of a global marketplace for many commodities ,with increased commercial opportunities for both national and transnational companies ; and the internationalisation of communications ,leading to, among other things, the free transmission of cultural symbols and messages around the world . There

are both technological and economic causes underlying these phenomena ; the digital revolution ,the explosion in computational power available across a wide range of applications ,the growth of the internet and the invention of new devices for communication and data transmission have together provided the technological impetus for globalization ,while its operations have been enabled by a widespread acceptance of neoliberal economic principles as the basis for national and international policy-making.

The effects of these trends on artists, creative workers ,commercial and non-commercial firms producing and distributing cultural products, cultural agencies and institutions , and consumers, have been profound. To begin with ,on the production side new communications technologies have fostered new forms of cultural expression and opened up new avenues for cultural exchange. At the cutting edge, artists working in new media are experimenting with innovative methods for making art and communicating it to consumers ; these developments can be likened to R&D activities in industry ,given that the eventual payoff is uncertain but could be substantial. Manuel Castells has observed that this new technological environment can be described as cultural insofar as its dynamics are dependent on the culture of innovation, on the culture of risk ,on the culture of expectations and ,ultimately ,on the culture of hope in the future..

Furthermore ,new technologies have led to new ways for cultural producers to carry on their business operations, through improved information and marketing services ,more efficient management systems, and so on. For example, museums and galleries are digitising their collections, performing groups are adopting electronic ticketing, newspapers are being made available on-line. At the same time,threats have emerged to traditional modes of cultural production and distribution ,nowhere more evident than in the music industry ,where illegal downloads form the internet continue to affect the revenue streams of performers ,publishers and record companies.

The cultural impacts of globalization have been looked upon with growing concern in many quarters .For example , fears have been widely expressed ,especially in the developing world ,that local forms of cultural expression and the assertion of distinctive national or regional cultural identities will be overwhelmed by the inexorable expansion of the global cultural marketplace. It is true that the adaptation of new

communications technologies means that cultural messages and symbols are being transmitted in volumes and at speeds that have never been witnessed before. In many cases the messages and symbols are associated with consumer products that ,as they penetrate markets more and more widely scattered around the world ,carry with them an inevitable sense of standardization .It is not just the familiar images conveyed by global corporate branding ,but also the more complex cultural content conveyed by television programmes or the songs of popular music performers that contribute to this feeling that we are living in an increasingly homogenized environment.

Nevertheless, the evidence on the cultural impact of globalization is mixed ,particularly because these are dynamic processes that are constantly evolving. If impacts is measured by the observable spread of universally recognized cultural symbols as described above ,certainly some homogenization has occurred .But ,the very threat of external cultural influences may actually sharpen the resolve of particular groups ,be they local communities or nation states ,to assert their own cultural distinctiveness .Indeed , there is little indication that cultural differentiation within or between countries is dying out.The celebration of specific cultural identities through art ,music ,literature ,ritual ,tradition and in many other ways , is clearly alive and well in all parts of the world.

All of these developments have been reflected in one way or another in the financial environment in which cultural production takes place , particularly in the not-for-profit sector.Enterprises such as performing companies and public art galleries are facing greater competition for earned revenue ,and sources of unearned revenue ,such as donations and sponsorship, are harder to come by than they have been in the past. In circumstances where the neoliberal economic agenda of smaller government has taken hold , public budgets for support of culture are shrinking ,without there necessarily being an expansion of private funding to compensate. Artists too are feeling the financial pinch ,with surveys of their economic circumstances generally indicating that real incomes from creative work are static or declining over time.

A further factor that continues to influence the orientation of cultural policy is the changing nature of cultural consumption .Again it is the spread of new communications technologies that lies behind the transformation .New generations of consumers are using

the internet, mobile telephony and digital media in ways that not only expand their range of cultural experience but also transform them from passive recipients of cultural messages into active co-creators of cultural content. The sense of empowerment brought about by these developments and the process of redefining cultural identities that they initiate are likely to continue as significant influences on the content of cultural policy in the future. In regard to more general trends in consumer demand for artistic and cultural goods and services , it is still unclear how factors such as rising real incomes ,increases in leisure time and shifts in consumer tastes will affect demand for both traditional and new forms of cultural product in the years ahead.

What is arts policy today?

Most industrialised countries around the world, and some developing countries as well ,have established policies of providing support for the creative arts in one form or another.In virtually all cases the traditional orientation of arts policy has been towards the importance of artistic production and participation for building a civilized and socially enriched society, and also towards the role of arts in the education of children. In these terms it can be said that arts policy has been based on a concern for the intrinsic or cultural values of the arts.This is not quite an instance of the familiar slogan ‘art for art’s sake` ,although there is an undeniable flavour in some policy pronouncements that the arts need no further justification than their own self-referential importance. Rather, locating arts policy within the domain of the arts ` cultural significance can be taken as an acknowledgement of the historical role of the creative arts ,in all their manifestations ,as an essential ingredient in the evolution of human civilization.The link between this role and policy lies in the recognition that , although artists will always create art spontaneously regardless of their circumstances ,there has generally been a requirement , if sufficient art to serve society`s needs is to be forthcoming for collective intervention of some kind. In the past, such supportive action was taken by princes and potentates ,by churches and royal houses,by merchants and bankers , in short ,by patrons of various kinds with sufficient money and taste to pay for art that could serve their own self-aggrandisement and that might also spread enlightenment and pleasure amongst those around them. Today these philanthropic duties are assumed by arts councils ,ministries of culture , private foundations and generous individuals.

In political terms, when a government enunciates an arts policy built around the cultural importance of the arts in society , it may be interpreted as acting on one or both of two motivations.Firstly, the government may see such actions as according broadly with the desires of its constituency. In other words it may judge that voters will approve of some public expenditure being devoted to arts support, whether such approval derives from the arts , or from some looser ,less formalized agreement amongst the electorate that it is somehow `right` that governments should do such things.Secondly, the government

may take it on itself to assert the appropriateness of spending on the arts from the public purse regardless of whether or not the voters agree; such a case would categorise the arts as what economists label a merit good , and a good or service provided by the public sector irrespective of consumer demand , where the usual operation of consumer sovereignty is set aside in favour of the imposition of the government`s own preferences. Whatever the underlying rationale , a traditional arts based on the cultural value of the arts has generally interpreted its essential mission in terms of the three objectives . Promotion of artistic excellence ,encouragement of work that might not otherwise find a market , and spreading the benefits of artistic consumption and participation as widely as possible in the community. In recent times , as we noted , there has been a shift in the orientation of cultural policy away from the longstanding focus on the arts per se towards a broader agenda. In this process arts policy as a specific component of cultural policy has itself changed .Two sources of this change can be identified.

The first is the general `economization` that has affected cultural policy overall. In regard specially to the arts , process can be traced back at least to the 1980s ,when demonstrating the size of the arts sector as a component of the national economy was seen as a means of asserting the arts importance as an object of government concern. Studeies that purported to show the economic contribution of the arts industries to output and employment in the economy at large , or the local economic impacts of an arts even such as a festival ,were criticized in many instances as methodologically unsound , and invalid as a justification for government support. Nevertheless , as Bruno Frey points out ,such studies continue to find favour with arts advocates determined to appear pragmatic and policy-relevant. The best that can be said of the current state of play in this area is that measuring the economic contribution or impact of the arts ,when competently carried out , is now a a somewhat more sophisticated science than it has been in the past.

Second source of the shift in arts policy has been brought about by wider trends in public sector management. In several countries the concept of public value as promulgated by Mark Moore and his colleagues at Harward University took hold as means of making public- sector service delivery more efficient and more accountable.In the Uk , for example ,cultural institutions such as the BBC undertook major reviews of

their performance calibrated against public –value criteria ,while in the US some state arts agencies assessed the application of public-value processes to their operations.

The obvious question raised for arts policy by the introduction of public value as a yardstick for measuring the effectiveness of government expenditure is ;how can the contribution of artistic activity to the creation of public value be assessed? In the UK , the bureaucratic response was to tie arts funding criteria more closely to those outcomes that could be measured ; numbers of people visiting museums , for example or more indirect indicators such as health or learning outcomes . This trend towards instrumentalism in arts policy brought a strong reaction. At a symposium on valuing Culture held in 2003 , and in a Demos pamphlet published in 2004 ,a vigorous campaign was mounted to reassert the importance of the arts fundamental purposes, a cry that was even echoed at ministerial level. It was argued that although music ensembles , theatre companies art galleries , and so on, may indeed contribute to promoting social social cohesion , alleviating youth unemployment or improving community health,these are not the primary reasons for their existence .Funding that is made dependent on archivement of these sorts of instrumental objectives loses sight of the intrinsic cultural value of art ti people and to society.

Discussion of the purposes of arts policy and how ir should be interpreted in a changing world will doubtless continue . On the one hand, political programists seeking to bring the arts into a broader public policy discourse will be labeled elitist and self-serving.In a rational world neither side should hold sway, rather in this area ,as elsewhere , a sensible way forward would seem to rest on a recognition of the multiple dimensions of artistic experience. The transcendental purposes of art are undeniable , as is the fact that the arts contribute to community life, improve tolerance ,enhance understanding , stimulate creative thinking , provide incomes and employment , and so on. We heve portrayed these various attributes of the arts as expressible in value terms by reference to the dualism in cultural valuation processes .In this context the task of policy-makers can be construed as one of finding the optimal balance between the generation of economic value and cultural value from the arts , and calibrating finding decisions accordingly.

In following two sections we turn to the major avenues by which arts policy is put into effect ; through direct support measures administered by a ministry of culture or a public agency such as an arts council , and indirect support for the arts via the tax system. These avenues are not mutually exclusive , and the administrative arrangements in place in most developed countries contain some elements of both ;for example , in countries such as the UK where national –level arts policy relies primarily on the arts council model ,there are nevertheless tax incentives to encourage private –sector support , whilst in a country like the US where indirect support comprises the principal means for federal arts funding , there are nevertheless state arts councils that administer active arts policies at the sub-national level.

Chapter 9: Direct support

Institutional structures providing direct support for arts vary between countries in terms of the mix and importance of different administrative mechanisms. At one extreme is the straightforward arts or culture ministry that makes funding allocations direct to recipient organizations and individuals , as is the case in a number of European countries . Ultimate decision –making powers in this model lie with relevant government minister. At the other end of the spectrum is the system whereby decision-making responsibilities are transferred to an independent statutory body, usually called an arts council after the original such body established in Great Britain in the 1940s. The so-called arm`s length principle in operation in this situation is intended to guarantee that funding decisions will be free of political influence. The arts council model is in use today in, amongst others England ,Scotland , Wales , Ireland, Canada, Australia and New Zealand . Nevertheless , in most of these countries the central arts ministry generally retains some functions , such as the funding of major public museums and galleries , or the international promotion of the nation`s art.

In this section we consider three aspects of direct arts support in more detail; the objectives of arts funding authorities; the making of allocation decisions; and governance issues.

Objectives

John Maynard Keynes , the inaugural chairman of the Arts Council of Great Britain , proclaimed in a radio broadcast in 1945 announcing the forthcoming establishment of the Council that the organization`s purpose would be:

To create an environment , to breed a spirit , to cultivate an opinion , to offer a stimulus to such purpose that the artist and the public can each sustain and live on the other in that union which has occsially existed in the past at the great ages of a communal civilsed life.

Even since then the mission statements of arts funding agencies the wold over have been replete with references to the cultural impotance of the arts , to creativity , to the striving

for artistic excellence to the need for expanding access to the arts , top the significance of the arts in identity formation , and importantly , to the fundamental role of the individual artist. So, for example , Canada Council for the Arts describes its `ultimate goal` as `a Canadian artistic life that is creative , diverse ,resilient , and profoundly meaningful to Canadians across the country and to the world. In New Zealand , Parliamentary Act for the Arts Council enunciates guiding objectives for the Council that include participation , access ,excellence and innovation , professionalism and advocacy . These sorts of sentiments are summed up by the following statement promulgated by the Scottish Arts in 2007, which declared that the Council's mission to “serve the people of Scotland by fostering arts of excellence through funding, development , research and advocacy . We believe the arts to be the founfation of a confident and cultured society . They challenge and inspire us. They bring beauty , excitement and happiness into our lives.They help us to express our identity as individuals , as communities and as a nation”.

Efficiency can be sought through increased quantity and quality of artistic output , whilst equity relates to how that output is distributed amongst different classes of beneficiaries. Expressed in these terms , the policy objectives can be seen to be congruent with those of the typical not-for-profit firm; a standard model of such a firm assumes utility to be a joint function of output quantity and quality , where utility is to be maximized subject to a break- even financia constraint. If the quality dimension of the objective function is summarized as the drive for the highest artistic standards, and the quantity aspect feeds into the achievement of increased consumption and participation , the policy objective can be reduced to one representing the joint pursuit of excellence and access.

This point was made neatly by the first Chairman of the Australian Council for the Arts Dr H.C Coombs ,who , like Kynes , was an eminent economist of his day with strong artistic sensibilities ; in his statement for the First Annual Report of council , in 1973 , he wrote:

“ The problem facing the Council and the Boards is essentially that of achieving a proper balance in the allocation of effort and resources to the various objectives –

particularly between the promotion of excellence and the widening of participation in and experience of the arts”

These objectives of excellence and access , quality and quantitiy, have remained more or less unchanged to the present day. Yet despite progress ver the years in the fine-tunning of arts policies to changing modes of artistic production and to cultural trends in society generally , fundamental questions still remain as to wheter their achievement or otherwise can be evaluated other than in the most general terms. In this respect the retorocal question `Does the arts Council know what it is doing` ,which was the title of Karen King and Mark Blaug`s 1973 article on the tehn Arts Council of Great Britain , still remains relevant to arts funding authorities everywhere today, more than three decades later. Perhaps the widening scope of cultural policy to which we have drawn attention provides at least partial answer to the question , by opening the way towards a more clearly articulated policy for the crative arts, one which integrates art more fully into the broader concerns of public policy , and which celebrates quite naturally and unashamedly all aspects of the centrality of art in everyday life.

Allocation decisions

Whether arts funding is provided by a government ministry or an arts council , decisions as to the allocation of a given budget amongst competing uses must be made , consistent with stated objectives.An initial question to be answereed is , ` At what point in the value chain sould intervention occur?` If the artistic sequence of events begins with the creative artists at one end and finishes with the consumer at the the other , with a series of value-adding processes along the way , the policy –maker has a choice as to where the injection of support funds will be beneficial. At first glance it may seem obvious that if ,say, the objective of improving artistic quality were paramount ,assistance at the production end of the value chain would be appropriate ,whereas if increasing access were the relevant goal ,support should be directed towards consumers.However, the answer may not be so clear-cut ,since funding provided at one point in the value chain may have beneficial effects upstream or downstream from the point of intervention .For

example ,a policy objective of widening access may be facilitated by support for a theatre company ,if the funding enables ticket prices to be lower than they would otherwise be. Similarly, the theatre company`s grant is likely to flow in the other direction as well , assisting individual artists through the payments to actors , playwrights ,designers , and so on ,which the grant makes possible.

Support directed to artists and arts companies serves both quantity and quality intentions of assistance . Increased quantity of output more novels written ,more plays produced ,more art exhibitions mounted, more music performed – is consistent with the efficiency related objective of correcting for market failure by raising artistic output to a more socially optimal level , whilst quality goals can be pursued through targeted support for work of a particular genre or aspiring to high-level artistic standards.In some circumstances the relationship between quantity and quality could be seen as competitive , in other respects complementary. For example in classic music the more innovative ,experimental or avant-garde is the work supported , the smaller are audiences likely to be ; if the qualitative goal of funding is specified in this instance as the pursuit of innovation, a trade-off is likely to exist between increased quality an increased attendance goals in a funding authority`s multiple –objective decision problem. On the other hand, in exhibiting visual art a public gallery might find that the higher the reputation of the artists shown (presumably implying higher quality standards in at least someone`s estimation) the greater the number of visitors ,suggesting in this case a positive connection between quality and quantity achievement.

Mention of not for –profit firms raises the question that us often asked in relation to public –funding allocations ; `Should for-profit firms in opera ,theatre or dance have access to government grants?` Three points are relevant in answering this question . Firstly , commercial companies in the performing arts are financed by speculative capital that may or may not make a return on the investment involved. It is not the responsibility of governments to provide assistance to speculators who expect to take their chance in a risky marketplace.

Secondly , commercial performing companies are already likely to have received significant benefits from public funding , for example if they are able to make use of

artistic talent that has been trained or has gained experience at public expense. Thirdly, and perhaps most importantly , the not –for profit status of subsidized firms in the performing arts means that they are forbidden under their act of incorporation to distribute any surplus they may make to the firm`a owners.

For- profit companies operate under no such constraint , opening up the possibiliitiy that if a subsidy were paid to such a firm , it could flow directly as profit into the pockets of the firm`s owners or managers.

It is well known that public museums and galleries and theatre companies , symphony orchestras, etc. face perennial problems of financial hardship , with uncertain revenues and inexorably rising costs. To what extent should a funding body take cost pressures into account when making its decisions? For example , performing companies might invoke the well-known problems of productivity lag in the live arts when putting forward their case for funding. This phenomenon was first identified by William Baumol and William Bowen in 1966 and subsequently labeled Buamol`s disease or the cost disease . Essentially , the hypothesis states that labour productivity in the live arts remain static over time – is still takes the same number of workers the same amount of time to perform a Beethoven string quartet today as it did in Beethoven`s day. In a two sector model in which on e sector suffers from this technological disadvantages , wage rises with improved labour productivity .Applying this to live arts ,Baumol and Bowen predicted that performing firms would have to access increasing levels of non-box-office revenue, such as public subsidy , in order to stay in business.

Governance

The arts council model for direct provision of cultural support is based on two principles ,which can be referred to as the arms length and the peer review principle respectively. The arm's length principle requires that the council be set up as an independent body which has the capacity to make its own decisions without reference to any government minister and without influence being imposed on it from any part of the political machinery. The advantage of such an arrangement from the viewpoint of the government is that if the council makes unpopular decisions , or funds projects or activities that some in the community may find obscene or distasteful , the minister can claim that he or she was not responsible and therefore cannot be blamed. Reference is then made to the second principle , peer review , which holds that funding allocations in the arts should be determined by experts – the peers of those being funded – much as we rely on the judgements of experts in making financing decisions in other areas , such as medical research. Thus the provision of public funds to support controversial art is rationalized on the grounds that those in the know regard the work being supported as artistically worthwhile.

Although these two principles have managed to survive more or less unscathed in most arts councils, they came unstuck some years ago , in the United States with outbreak of the so-called `culture wars` over funding decisions of the federally funded national Endowment for the Arts(NEA) . Grants to allegedly obscene or blasphemous projects were subject to sustained criticism from conservative political and social forces , to the point where, in 1990 , the US Congress imposed a requirement on the NEA Chair that funding decisions must take into account general standards of decency and respect for the diverse beliefs and values of the American people. Funding for the Endowment was cut , and its activities have continued to be compromised ever since.

The peer review principle enshrined in the operation of arts councils outside the United States is also a controversial issue. Critics of this principle question whether artists and managers of arts companies who sit on panels to decide upon funding allocations are

actually capable of making independent judgements ,especially when the pool of applicants is relatively small and likely to be known personally to at least some of the judges. Despite the fact that procedures designed to resolve real or potential conflicts of interest are invariably contained in the operating rules of boards , panels and committees, the peer review process is still seen by some to be liable to the phenomenon of regulatory capture, the process whereby beneficiaries of government decisions gain control over the relevant decision-making machinery . In view of this , and in pursuit of a wider and more representative frame of reference for allocation decisions , some arts-funding authorities have sought to dilute the influence of peers on their funding committees through the introduction of independent individuals , for example bureaucrats from non-arts areas , community representatives , corporate executives from the private sector and ,so on.

A final issue of concern under the governance heading relates to the question of public versus private ownership and control of government cultural institutions such as art galleries ,museums , symphony orchestras ,broadcasting organizations , and so on. In recent years there has been an increasing emphasis in most countries economic policy on opening up the economy to market forces and reducing state involvement in economic activity. These trends have been evidenced in a variety of ways , including the breaking up of state-owned monopolies, the transfer of public assets to private ownership ,the introduction of contracting-in and contracting-out into the operations of public business undertakings ,an increased application of user-pays principles by such organisations ,and so on. All of these phenomena , and more , have been loosely gathered together under the heading of privitisation .The question arises as to how these various processes of privatization might affect , if at all, the traditional role of the state towards the arts and culture.

In the first place it can be said that the wholesale transfer of public assets to private ownership has happened , for example , in the transport , telecommunications and energy sectors , has not occurred , and is unlikely to occur , in the case of state-owned cultural institutions, even when they operate effectively as monopolies. The reasons have to do with their cultural purpose. They are not commercial organisations striving for profitability in a competitive marketplace , even though their economic

performance ,measured in terms of their capacity to raise revenue , their cost-effciency , their market effectiveness , and so on., is a matter of concern to the government . Rather , their raison d'etre is their contribution to the cultural life of the community and of the nation.

Nevertheless, in managing their internal operations , such organizations may look to stratigies in use in the private sector to improve the efficiency of their operations and management. For example, outsourcing of some functions may appear an attractive option to reduce costs.If outsourcing has to do with non- cultural aspects of an institution`s function , such as catering services in an art gallery , the move can be judged against normal financial yardsticks. But if the outsourcing relates to cultural processes , quality concerns are likely to be raised.

Indirect support

By using the tax system to encourage private donors to support arts , or to allow exemption from various taxes to eligible artists or arts organizations. The cost to the public purse of such indirect assistance is not observed in the government budget , but is realized in terms of the pulic revenue forgone as a result of reduced tax collections .

In considering private support for the arts , it is important at the outset that we distinguish between sponsorship and philanthropy.

The former is a means by which corporations can gain some exposure for their brand through supplying goods and services at zero or reduced cost to arts organisations , or by providing financial support in exchange for naming rights or for some other form of corporate recognition. Thus a sponsorship deal is a purely commercial transaction ,in which the recipient arts organization gains financial or other benefit and the sponsoring firm enjoys some advertising or marketing advantage. Philantropy , on the other hand , refers to donations in cash or kind that are untied as to their use ; the donor expresses support for the mission of the artist , arts company or organization by giving money , but does not receive anything in return other than a warm inner glow from having contributed to a worthy cause .However , the flow of benefits is not entirely one-way ; apart from the desire to do good , a philanthropist is also likely to be motivated by the prospect of some tax relief flowing from his or her donation.

Another form of philanthropic action is seen in volunteering .Many people donate their time and their skills free of charge to an arts or cultural organization because they are interested in the artform , because they admire the organization , share its goals , and want to help in some way , or simply because they time to spare and want to spend it in doing things they find enjoyable and rewarding .The cost to the individual can be measured in terms of the opportunity cost of the time donated , plus any associated expenses not reimbursed , and the benefit to the recipient organization is enjoyed in the form of reduced expenditure on labour and sometimes in opportunities to access particular skills.

Rationale

There are two grounds on which support for the arts and culture via taxes system can be rationalized .The first is that such a system mobilises private support for the arts , bringing financial resources to the sector that it would not otherwise receive. In other words , a given cost in terms of public support leverages an additional pool of private funds , increasing the total amount of funding available. The second rationale is that decisions as to who and what is subsidized are effectively transferred from bureaucrats and politicians to a much larger number of individuals , who direct their donations to organisations and activities of their choice.

The first of these rationales would appear to be quite straightforward. Although worthy citizens and altruistic foundations might be inclined to support the arts even in the absence of tax incentives ,the provision of such incentives clearly stimulates a larger volume of giving and the tax revenue forgone could be seen as money well spent insofar as it has co-opted the general public into helping finance the achievement of government policy objectives at relatively little cost to Treasury , Moreover , the recipient organization would seem to be better off than they would have been had the equivalent amount n terms of cost to government been provided by a direct grant , without any private contribution.

However , the prospect of private sector involvement in support for the arts raises questions concerning the relationship between public and private financing . In particular , does the existence of some level of direct public support crowd-out or crowd -in private donations? Crowding-out occurs if donors,seeing an increase in public grants to a particular arts organization or to the arts as a whole , reduce their giving accordingly. Such crowding could also occur in the opposite direction , if a government agency were to cut back its funding to a recipient organization because it was doing so well in raising funds from other sources. Crowd-in , on the other hand , occurs when philanthropic donation are attracted specifically to arts organisations that receive funding from a public agency ; such donations may be responding to the seal of approval bestowed on the organization by the recipient of a public grant , or they may be stimulated by a matching-grants provision contained in the public support.

The second rationale for supporting arts via the tax system relates to the decentralization of responsibility for arts-funding decisions – the devolution from government to the people of decisions as to who gets what. There is an obvious ideological justification for favouring a decentralized decision process ; those who generally advocate consumer sovereignty and a reliance on the market in preference to the allocation of resources by government will see virtue in the indirect system for arts support. Such a system , they will argue diversifies not only the range of preferences that are expressed in arts funding allocations , but also opens up a wider range of financial sources for individuals and organisations than is available if there were only a single public-sector provider . On the other hand , the transfer of decision-making power in relation to arts policy from government to private individuals may make the achievement of some aspects of public policy more uncertain. This uncertainty may affect both quality and access dimensions of policy . In the first place , as noted earlier , there may be little public interest in providing philanthropic support for the sort innovative work that is the research and development laboratory for the future artistic growth , and whose encouragement is always an important arts-policy objective. Moreover , access goals may be compromised if arts donors are drawn predominantly from the wealthier income groups –their support will trend to be channeled in directions reflecting their own tastes and may not necessarily serve the needs of the less well-off members of society whose participation access goals seek to achieve.

Mechanisms

Government have at their disposal a range of ways in which the tax system can be used to provide support for artists, arts organizations and consumer of the arts. The deployment of the various means, and their relationship to whether direct arts support might be provided , varies enormously between countries and in some cases , even within a country. Here we simply list the most important mechanism by which policy of indirect support can be delivered , before proceeding in the next section to look at some of the economic aspects. The major tax-related measures in use are the following:

- Tax treatment of not-for-profit organisations. The regulatory environment under which no-for-profit organization are established and operate their business allows them exemptions from income tax and often from other imposition , such as property and sales taxes. These conditions relate to the non-profit sector generally , which includes religious ,educational , health-related ,social welfare and other types of business as well as cultural organisations. Thus the tax concessions involved are not unique to arts policy but benefit a broader spectrum of government interest. Nevertheless , measures may be implemented that are targeted specifically at arts and cultural organisations, such as sales tax exemptions for particular artistic inputs.
- Tax treatment for individual artists. It is possible to provide support for practicing artists through the tax system by allowing them some concessions in income tax rates or exemptions from certain sales taxes ,and recognizing their artistic expences as legitimate deductions in calculating their taxable income. Whilst the latter provision would usually be expected for any business operation, artists sometimes have difficulty in convincing the tax authorities of the seriousness of their purpose. A further complication arises when artists seek to claim business losses from their arts work by offsetting their artistic costs against their non-arts income.
- Tax treatment of charitable donations. As in the case of non-profit regulations ,discussed above , the allowance of a tax deduction for donations to good causes is a policy that extends far beyond the arts and culture. However, such a policy can be tailored towards the arts by specifying the types of danations affected , by identifying categories of eligible recipients , and by manipulating the tax rates involved. Individuals are likely to be particularly affected by marginal tax rates in determining the size of their donations ,as well shall see further below.Corporate philanthropy is also responsive to tax incentives . The means by which a policy of providing tax exemptions for arts donors may be delivered include the allowance of donations as deductions from income before tax or the allowance of

a rebate on tax payable ; the associated decisions that the government must make include how to set the marginal tax rates ,whether to place lower or upper limits on the amounts permitted , and so on.

- Tax treatment on gifts and bequests.Sometimes donations to arts organizations take the form of gifts in kind rather than cash , for example when a collector donates an artwork to gallery. Governments can stimulate such generosity by providing exemptions from income taxes , death duties , inheritance taxes etc. based on the value of the property donated. In some cases such gifts are prompted not so much by generosity as by a desire for a restructuring of a person`s tax obligations when it is inconvenient or impossible to meet these obligations in cash. A particular type of gift may be looked on kindly or otherwise by the tax authorities depending on the circumstances is gifts by artists of their own work; such donations, if accepted , raise difficult questions- should a work be valued at its cost of production or its market price , and if the latter , how is this to be determined?
- Assistance through indirect taxes . Tax related assistance to the arts can be provided through special provisions relating to goods-and-services taxes , value-added taxes or wholesale /retail sales taxes . in other words , to indirect taxes that are applied in one form or another in vitually all jurisdictions. Specific reductions in, or exemptions from, such taxes can be allowed to cultural producers when purchasing inputs or to consumers when they buy artistic goods and services such as books , paintings , theatre tickets, etc. In fact wherever such concessions are applied , both producers and consumers may enjoy the benfits they yield , since the incidence of taxes is shared by both sides of the market depending on the relative price elasticity of supply and demand for a goods and service and also to the possibility of allowing eligible arts businesses full tax-exempt status ,meaning that they can reclaim the tax paid on all of their inputs.

Economic effects

All of the measures discussed above affect prices in one way or another – changing marginal tax rates affects the after-tax price of making a donation, changing value-added tax effects the price of a theatre ticket ,etc. A question of critical importance to the implementation of an arts policy via tax system has to do with how these price effects influence behavior . For example , will the reduction in the price of books that would be expected to follow the removal of VAT lead to an increase in demand? If so, by how much? If marginal rates of tax on income were raised , what would be the effect on the volume of individual philanthropy? The important parameter that describes people`s responsiveness in these circumstances is the price elasticity, the percentage change in the quantity demanded or the amount donated in response to a 1 per cent change in price. We can illustrate the importance of price elasticity by reference to a simple example. Imagine a not-profit theatre company that hopes to receive charitable donations. From a donor`s point of view the crucial question is the after-tax price of the donation. If , for example , the marginal tax rate is 40 cents in the dollar , the cost to the donor of a dollar donation is 60 cents , since evry dollar she donates reduces her tax bill by 40 cents .To put it another way , of every dollar the teathre company receives by this means , 60 cents has been given by the individual donor, and 40 cents has been funded by the government.Now suppose that marginal tax rate increases. This makes donating to the teathre a more attractive prospect because the after-tax price of a dollar donation his fallen , and the individual`s tax saving on a every dollar donated is correspondingly greater. The effects of a fall in the after-tax price of a donation can be described as follows. If x -per cent fall in the after tax price induces a greater than x -per cent increase in the amount donated , the outcome is a win for both the theatre company and the government , whereas the reverse is true if the response is price –inelstic. The break-even point is where an x -per cent fall in the tax price leads to an equivalent x -per cent rise in the donation .

The role of the individual artists

Artistic labour is characterized by three features that combine to set artists apart from other workers in their labour market behavior. The first is that financial rewards to professional artistic practice are generally lower than in other occupations with otherwise similar characteristics (education and training requirements , etc) .thus many artists labour market profiles exhibit multiple job-holding. Typically artists allocate their working time between three types of jobs corresponding to three separate labour markets: the market for their creative work (practice , rehearsle) : the market for other arts-related work such as arts administration or teaching in their artform (especially relevant to visual artists ,instrumental musicians , singers and dancers) and the non-arts labour market .

The second feature of artistic work is the level of variability of artistic earnings , which is generally higher than in comparable occupations , making an individual artist`s attitudes to risk an important determinant of his or her labour market participation. Individuals who are risk averse will be deterred from entry into the artistic work-force but others may be attracted by the prospect of a winner –take –all lottery in which the prize is superstardom. Superstars are artists such as rock musicians and film actors whose incomes are greater than those of their competitors by a much larger differential than marginal productivity theory would suggest.

The third aspect of artistic occupations that distinguishes them from others in the labour force is the role of non-pecuniary motivies in determining artists time allocations. Artists in general do not regard work as a chore where the only purpose is to earn an income. Rather, their commitment to making art means that they have a positive preference for working at their chosen profession , and empirical evidence indicates that they often forgo lucrative alternative employmement on order to spend more time pursuing their creative worker has to choose between preferred but less remunerative work in the arts on the other hand , and better-paid but less-desired non-arts work on the other.The choice is subject

to a minimum-income constraint necessary to prevent starvation , a condition often romantically associated with artists but rarely observed in practice. Such a work preference model of labour supply yields predictions of behavior at variance with usual textbook construct – for example , a wage rise in the non-arts occupation may induce less work in that occupation because it enables more time to be devoted to the arts , a phenomenon akin to the backward –bending supply curve of labour in the conventional model.

Artistic labour markets operate within the larger spheres of the demand for and supply of labour in the economy as a whole. As is well recognized , labour markets across the board in many countries are undergoing radical changes with greater casualization and increased occupational mobility in the workforce. Markets for artistic labour have been caught up in these changes ; Pierre-Michel Meneger points out ,long-term employment in the arts has been replaced by a project based system of production relying on short-term hiring , large parts of business risk are transferred downwards onto the workforce , and artists learn to manage risk and to stay alive through multiple job-holding ,occupational versatility , diversification of job portfolios and occasional income transfers from social security or other sources. Despite manifold deterrents to an artistic career ,an excess supply of artists persists in many countries , attributable in part to the non-pecuniary attraction of work as an artist mentioned above.

In light the above outline of the ways in which artists work , what is the policy interest? The answer lies in the critical , originating and central role that artists play in the creation of artistic work and its transmission to the public , and hence in providing the materials from which arts policy is fashioned. Artists are unique to the production of art; without them no original work would emerge and the central element of arts policy would be lost. If the justification for a policy of public assistance to the arts turns on the generation of public-good benfits from artistic activity , it follows that support for the work of artists as primary source of the activity is warrented as one appropriate policy measure.

How might such support be provided? It is clear from the above discussion , and from empirical evidence from surveys of artists working conditions , that the overwhelming constraints limiting professional art practice across all artforms are availabilty of time and financial return. Thus, measures to support artists have included the following:

- Direct grants to `buy time` or to allow full-time concentration on artistic work
- Commissions for the production of a specific work or works
- Special purpose financial assistance for research , mentorship , travel etc.
- Support for work to be performed , published and so on, to allow new or existing work by an artist to be disseminated to the public
- Income support provided via non-arts channels e.g via the social welfare system , wherby artists may be able to receive unemployment benefits to enable them to remain in artistic practice
- Support for education and traning in the arts.

All of these measures and more are used in varying degrees in different countries. Together they help to sustain many professional artists in practice who would otherwise be unable to continue.

CHAPTER 10

Conclusion

The Democratic Revolution in 1990 transformed Mongolia into a free market economy. In order to shift from a government-centered economy to the free market, Mongolia has made triplicate transitions-economic, social, and political for the past twenty years. As social and economic crises occurred during the transition, social sectors built around a planned economy and working class were shaken. The knowledge and skills of the work force educated in Soviet bloc countries were outdated, leaving it unprepared to respond to the changes occurring during the transition. In addition, the material and technical resources built during 70 years of socialism were no longer usable in the face of new technological advances.

One strategy to overcome the triple crises was creating diverse property ownership. Consequently, ownership of organizations once belonging to the government—including in the arts and culture sector—transferred into the hands of state, private, non-profit, and international organizations, as well as to individuals. The harsh economic conditions of the period resulted in decreased funding for arts and culture, and many state and privatized arts organizations closed down. There were a number of contributing factors: the organizations lacked experience in external fundraising, the market was insufficient to support the sector, and the poor economic conditions prevented audiences from affording many artistic and cultural activities.

To overcome these challenges, Mongolia adjusted its cultural policy to define the arts' role in a much broader scope of social and economic development. With its new legal system, the government granted artistic freedom and the right to unite as NGOs to serve cultural needs. Additionally, it encouraged diverse ownership and funding resources with the goals of using art and culture as a symbol of national security (protecting tangible and intangible heritage), expanding cultural services, and developing

the arts and culture sector's interaction with social and economic development.

However, this solid legal framework lacks a strong implementing structure and thus has encountered problems enforcing cultural policy. Despite this, arts organizations have developed their own strategies of structural reform, filling budget gaps with alternative funding resources namely using exchanges of services.

For the newly emerged non-profit in the last 13 years, there is a need for supportive policy and positive government relations, but also a need to remain independent. Capacity building and specifically gaining expertise in the area they are serving must be key goals for the future. The private sector's plans remain vague. At the moment, it is struggling to find its way in a limited market and seeking ways to deal with conflicts between old and new management, and limited policy and funding support. Informed by these issues, the sector is focusing on building a supportive legal system and securing its market share to enable further development. From state arts organizations to non-profit and private institutions, the strategies are similar: additional alternative support is seen as the key to overcoming challenges and facilitates growth.

Arts organizations seek additional sources of support through sponsorship and barter contracts, regardless of their model. Between targeting tourists and Mongolian audiences, some organizations have been able to cover their costs and earn profits in the free market, but others still struggle to survive. The unusually young population of the country exacerbates the free-market challenge, and most organizations are seeking alternative funding sources.

A multi-source cultural economy that supports public engagement in the arts is needed for the future of the sector. The government can no longer be responsible for everything. Its role is to create circumstances that encourage creativity and public access with good legal support and policy. This includes protecting intangible and tangible heritage, promoting traditional arts, and providing classic arts to the audience, but at the same time legally supporting private and non-profit entities that are capable of establishing well-managed programs.

The majority of interviewees believe that the sector should keep at least 30% of the state arts organizations with the government and release the rest. Because of the youthfulness of the population, there is a limited market for the arts and culture, particularly in the classical and traditional arts. People believe that arts organization should have the authority to have control over some of its spending:

Human resource is the most challenging issue for the arts and culture sector and the sector strongly wants to be able to support the capable staff they need.

describes the current dilemma:

During Soviet times, the sector prepared the executers, not the management and marketing staff. There are good doctors, good teachers, good musicians and dancers but there not good leaders because that's not what they are trained in. They trained solely in their profession. The government puts them in leadership positions because they are good at what they do, but it does not mean that they are good at running a whole organization. We need good leadership in the sector, because this lack has put us in a challenging situation.

A greater focus on arts education is necessary in order to cultivate the audience, and the sector is in great need of capable management. As many interviewees mentioned, young people's knowledge of the arts is poor and limited arts education is offered in school. In addition, no policy created the demand for arts and culture as it once did, so for arts organizations that lack the vital skills to operate in the free market economy; capturing the young audience's interest is a challenge.

As such there are many challenges ahead for the sector and yet many opportunities are up there. It is matter of building a solid infrastructure that corresponds with the current legal framework and policy. In addition, the arts and culture sector needs a policy that supports human and material resources development, arts education, alternative funding support and pleasant working condition. As the 2014 marking the beginning of a new decade, the arts and culture sector is looking forward learn from its lesson from the past two decades and carry their success forward to the future.

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