

EFFICIENCY OF STATE-OWNED ENTERPRISES IN THE FIELD OF PERFORMING ARTS

Strategic brief

2025

DOI 10.70719/respol.2025.72



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Introduction

This strategic brief has been developed within the [RES-POL](#) (Rapid Expert Support for Culture and Media Policies in Ukraine) project implemented by the “**Center for Regional Development**”, a public union of the **Economic Development Agency** [PPV](#), funded by the **European Union**.

The RES-POL project aims to enhance the functional capacity of the [Ministry of Culture and Strategic Communications](#) and its agencies (Ukrainian Book Institute, Ukrainian Cultural Fund, State Agency of Ukraine for Arts and Art Education, as well as the Ukrainian Institute of National Memory)

The RES-POL project duration is from January 2024 to June 2025.

The RES-POL project focuses on four sectors (**Arts and Culture, Cultural Heritage, Creative Industries, and Media**) and over 20 sub-sectors (industries and artistic activities). RES-POL separately addresses **10 key issues** and challenges of cultural sector (competitive wages, efficiency of state-funded institutions in the field of culture, financing of creative industries, financing models of cultural services, communities and cultural heritage, EU integration and cultural policy, etc.).

The project **methodology** aims:

- To identify essential policy issues in sectors and subsectors and describe them in policy briefs and baseline reports;
- To analyze 10 policy issues of cultural development the project focuses on and describe them in baseline reports;
- To develop and describe policy proposals on the essential sectoral issues and essential issues of cultural development in strategic briefs;
- To develop sectoral strategies and operational programs for the sectors the project focuses on and roadmaps for their implementation;
- To develop amendments to several legal acts and / or concepts of pilot projects to implement the policies elaborated within the project;
- To analyze European experience in policy planning and implementation, evaluate some cultural policies in Ukraine, and assess the institutional capacity of the agencies within the Ministry of Culture and Strategic Communications.

The RES-POL project actively engages stakeholders at all policy development stages. The information on project achievements can be found on the [RES-POL Facebook](#) page.

This strategic brief refers to **policy issue 7. Efficiency of state-owned enterprises in the field of culture.**

Executive summary

This strategic brief aims to summarise the research on the organisational, operational, governance, and business models of state-owned enterprises in the field of culture and identify ways to increase their performance efficiency and impact. The main research study are as follows:

- How to measure and evaluate the efficiency of state-owned cultural enterprises? What organisational, managerial, operational, and business models can increase their efficiency?
- What are the optimal minimum and maximum levels of public funding for state-owned enterprises in the field of culture?

The study included an analysis of relevant practices in European countries and elaboration of recommendations for improving the operating models of cultural institutions in the field of performing arts.

The methodology for preparing the baseline report involved the use of multi-instrumental methods combining desk study and qualitative data collection. The desk study included an analysis of available documents, legislation, activity reports, and financial statements of cultural institutions in the performing arts sector, as well as an analysis of relevant budget programmes and reports of ministries of culture in different countries. Publications on the efficiency of the performing arts sector in the EU, as well as regulatory documents, legislation, and reports of institutions in individual EU countries were also analysed.

Primary qualitative data was collected through interviews with stakeholders and focus group discussions. The principles of involving experts in interviews and focus group discussions were as follows: experts from different stakeholder groups were involved – representatives of the MCSC, heads of state and municipal enterprises in the field of performing arts, performing arts actors, and representatives of the independent sector.

An analysis of the external environment was conducted to identify the main political, economic, social, technological, legal, and environmental factors affecting performing arts. Based on the results of the expert interviews, problems were identified and “white spots” (issues outside the scope of the experts’ attention) were analysed. These issues were analysed taking into account the business models and activities of the institutions represented by the experts.

The problem of economic efficiency of state-owned non-profit entities in the performing arts sector is of high importance in European countries, as budget funding accounts for a significant share of these enterprises' expenditures. Traditionally, this is due to limited opportunities for increasing labour productivity, on the one hand, and the need to attract qualified personnel in highly competitive markets, on the other hand. Since state-owned enterprises in the performing arts sector are responsible for implementing the state cultural policy, including the creation of a public good (or cultural and other public goods) and ensuring the availability of this good, they have limited opportunities to increase revenues from their core activity by raising ticket prices to an economically justified level.

This study focuses on the models of support for the performing arts sector used in Ukraine and European countries (EU and the UK), as well as approaches to assessing the performance of institutions in terms of economic efficiency and compliance with the strategic goals of the state in the field of culture.

1. General context

The problem of economic efficiency of state-owned non-profit institutions in the performing arts sector is of high importance in European countries, as budget funding accounts for a significant share of these enterprises' expenditures. Traditionally, this is due to limited opportunities for increasing labour productivity, on the one hand, and the need to attract qualified personnel in highly competitive markets, on the other hand. Since state-owned enterprises in the performing arts sector are responsible for implementing the state cultural policy, including the creation of a public good (or cultural and other public goods) ensuring the availability of this good, they have limited opportunities to increase revenues from their core business by raising ticket prices to an economically justified level.

As in Ukraine, in the EU countries, the functioning of state-owned performing arts enterprises is supported through various forms of public funding. These forms include subsidies, grants, and subventions from budgets at various administrative levels, both in either institutional or project funding support. Budgetary support for performing arts is a common practice with a well-established tradition. The eligibility criteria and mechanisms for such support vary across countries, as support differs from country to country, as do the criteria for assessing the efficiency of such support.

State-owned enterprises in performing arts are structured across distinct subsectors, including theatre, art (national and state theatres), circus art (state circuses, the State Circus Company, the Directorate of Travelling Circus Troupes), music groups and concert organisations (choirs, ensembles, philharmonic societies). Each type of SOE has its own operating models related to the specifics of its activities, the availability of material and technical resources, and staffing.

From the resource point of view, the analysed cultural institutions of the performing arts sector are based on the three main operating models:

1. Full cycle (theatres, the National Circus of Ukraine): stationary repertoire institutions with their own premises and permanent creative staff. Combination of artistic and operational organisations.
2. Resource model (National Philharmonic of Ukraine, Lviv State Circus): institutions that provide services for the organisation and support of activities, “venues” or “operating organisations”.

3. Creative model (art groups, the State Circus Company, the Directorate of Travelling Circuses, private theatres): establishments the main resource of which is creative personnel, without their own stage facilities. They perform at rented venues.

Each of the models is faced with both specific and general problems affecting the results of activity and sustainability of the operational model.

Currently, state-owned performing arts institutions operate in the context of reduced public funding and existing restrictions in the operational, financial, organisational and legal spheres. Insufficient funding for development expenditures problems with outdated material and technical facilities, shortage of personnel in certain categories, uncompetitive salaries, legislative uncertainty of organisational and legal forms, their compliance with tax status, and other basic legal issues are the problems most often raised by industry actors. Some of these problems require the management of institutions to use a kind of bypass tools to work in the background of existing restrictions - legal tools to level them (such as establishing NGOs and charitable foundations at the institution, attracting in-kind support from sponsors and patrons, using non-material incentives such as honorary titles or overloading specialists in positions they were not meant for to selectively raise salaries, enrolling specialists in positions that do not correspond to their qualifications, etc.). This situation has been observed not only in recent years and is not the result of wartime challenges, but rather reflects the established practices of several decades.

While the managerial capacity of the institution's management and the ability to form partnerships is the main factor in the sustainability of the institution's operational model, some issues remain unaddressed that are important for ensuring such sustainability, including the creation of an ecosystem for cooperation between industry participants of different ownership and establishing horizontal connections, fundraising and audience development.

This strategic brief provides an overview of the main challenges on the way to the sustainability of state-owned performing arts institutions and recommended policies to address them. The recommended policies take into account the existing limitations in the capacity of the Ministry of Culture and Strategic Communications to significantly influence the amount of budget support for institutions and do not contain proposals that require fundamental legislative changes.

2. Policies regarding the efficiency of state-owned enterprises in the field of culture

2.1 Inefficient operational models

Currently, state-owned performing arts institutions exist in the context of reduced public funding and existing restrictions in the operational, financial, organisational and legal spheres. Insufficient funding of development expenditures, problems with outdated material and technical facilities, shortage of staff in certain categories, uncompetitive salaries, legislative uncertainty of organisational and legal forms, their compliance with tax status, and other basic legal issues are problems that reduce the sustainability of the operational models of all state-owned and municipal performing arts institutions in Ukraine. In these conditions, the key to the sustainability of the institution's operational model is the administrative capacity of the management, its adjustability, and capacity to form sustainable partnerships.

Quite common among institutions with an unstable and potentially unsustainable operational model is the rent-based approach, which relies on leveraging the institution's past achievements of the institution, its brand, and repertoire without developing products or expanding audiences. The main threat of this model is the gradual decline in audience interest in the institution, reduced attendance, possible degradation, and loss of sustainability of the institution.

Institutions that use the rent model will gradually increase their dependence on public funding and transfer operational management functions to the MCSC as a governing body. This model is also characterised by viewing the state, represented by the MCSC, as a customer, organiser, promoter, and holder of the institution.

Automatic prolongation of expired contracts with managers of ineffective enterprises and failure to hold competitions to fill managerial positions does not allow for the attraction of effective managers and renewal of management approaches that could contribute to the sustainability of the institution.

2.1.1 Recommended policies

1. Competitive selection of the chief executive

Another distinct factor that undermines the operations of cultural institutions is the suspension of legislative norms for the duration of the martial law regime in Ukraine. For example, the Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine on the Introduction of a Contractual Form of Work in the Field of Culture and a Competitive Procedure for Appointing Heads of State-Owned and Municipal Cultural Institutions” introduced a competitive procedure for appointing chief executives of state-owned and municipal institutions. For the duration of the martial law regime, the mandatory application of the competitive procedure was suspended, the selection procedure ceased to be transparent, managers are appointed by the decision of the governing body on a temporary basis, until the end of the martial law or up to 12 months after, and managers whose contracts have expired often receive contract extensions without a competitive procedure. This practice reduces the ability of institutions to attract the best manager, ensure management renewal, generational change, and implement positive changes.

It is recommended to return to the practice of competitive appointment of chief executives of institutions whose contracts have expired.

2. Transfer to municipal ownership

Some state-owned enterprises have inefficient operational models in terms of maintaining sustainable operations in the face of reduced funding. For state-owned institutions that perform infrastructural functions (e.g., institutions with no troupe, such as state circuses) or operate exclusively in the local market (institutions that do not tour the Ukrainian market), it is possible to consider transferring them from state to municipal ownership.

3. Consolidation of administrative and technical functions with the creation of operating entities

To improve the efficiency of functioning, it is necessary to consider merging institutions of the same form of ownership on a geographical basis. Each institution that is part of such an association retains a certain degree of creative autonomy and creative team, while administrative and maintenance functions lie with the management company (for a holding company) or one of the institutions (for an association in which all institutions are part of the same legal entity). Experience shows that decisions on such a merger

should be made individually, taking into account all potential benefits and risks. The advantages of this approach lies in the possibility of saving resources by preventing duplication of functions, as well as the possibility of involving technical staff in a wider range of duties, with a respective increase in salaries to competitive levels.

As the condition of the buildings of the performing arts institutions in many cases is a cause for concern, and the de facto moratorium on capital expenditures makes it impossible to change the situation in the short term, for the sake of increasing the opportunities for raising funds to improve the material and technical condition of buildings, it is necessary to consider the possibility of creating separate operating organisations (including as separate units of merged institutions, if such a merger takes place).

To assess the needs for renovation expenditures, it is necessary to conduct an assessment of the premises of performing arts institutions and assess the degree of their deterioration. This will provide an opportunity to assess the overall needs for renovation expenditures and prioritise them, as well as identify opportunities to attract funding from existing or future state (such as the Great Restoration) and international programmes (such as the post-war reconstruction programmes of Ukraine) and private initiatives.

4. Reducing the role of extraction mechanisms

The use of extractive institutions (tour organisers, ticket operators, etc.), the prohibition of independent ticket sales, and the use of minimum fee rates by national bands lead to a decrease in the economic efficiency of institutions. To improve the economic efficiency of venues, it is necessary to consider lifting restrictions on such commercial activities as ticket sales.

The merged institutions should sell tickets independently, without the involvement of extraction institutions.

To increase the sustainability of the operational model, it is also necessary to remove bureaucratic obstacles that prevent the institutions from improving their administrative capacity and do not allow them to attract the specialists in promotion, marketing, and communications with the respective qualifications.

| Expected effect of the recommended policies:

1. improved quality of managing state-owned cultural institutions;
2. increased efficiency of state budget use in the background of budget deficit;
3. increased sustainability of the operational model of institutions.

2.2 Organizational model

As far as legal organizational forms are concerned, state-owned and communal cultural institutions in Ukraine are established as enterprises and organizations (institutions). Each of the forms is characterized by some peculiarities:

- Enterprises are established for commercial activity and profit-gaining;
- Institutions (organizations) are established for the sake of creating public good.

The status of an enterprise for state-owned and municipal cultural institutions that receive budgetary funding does not correspond to the goals of creating public good and the operational model of these institutions which does not prioritise commercial activities and profit. Instead, the status of a non-profit institution (organisation) is more in line with the goals and objectives of state-owned or municipal cultural institutions.

The analysis of the organisational and legal forms of state-owned cultural institutions in the performing arts sector demonstrates the lack of a unified approach: 16 out of them have the organizational legal form of a state-owned enterprise (SOE), 15 - of a state (government) organisation (SO). Among municipal institutions, performing arts institutions have the legal form of communal enterprises (CEs) or communal cultural institutions (CCIs). The organizational legal form of an “institution” (“organisation”) qualifies it for inclusion in the Register of non-profit institutions and organisations based on non-profitability as a “budgetary institution”. Although Article 8 of the Law of Ukraine “On Theatres and Theatrical Activity” stipulates that the main activity of a theatre is not intended to generate profit, while only one national theatre, which has the organizational legal form of a state-owned enterprise, has the status of a non-profit one.

2.2.1 Recommended policies

- 1. Re-registration of state-owned performing arts institutions in a form that does not contradict their status as institutions mandated to produce public goods.**

The Ministry of Culture and Strategic Communications as a governing body should initiate re-registration of cultural institutions of the performing arts sector of state ownership that have a permanent troupe (creative team), carry out permanent activities related to public performances, and the main activity for which is Economic Activity Type (KVED) 90.01 Theatre and concert activities in the organizational legal form of state organisations, which will better correspond to their function of creating public good.

- 2. Granting a non-profit status to institutions**

A clause on non-profit status should be added to the charters of institutions registered as state organisations. Such a clause corresponds to the actual situation of institutions that have an extremely low level of self-financing and depend on the state budget support.

- 3. Carrying out commercial activity to ensure the core activity funding**

In order to prevent the loss of the non-profit status for institutions that carry out commercial activities to increase the level of self-financing, the MCSC as a governing body should initiate changes in the charters of state-owned institutions regarding adding a clause stating that they are entitled to carry out commercial activities, provided that the income from such commercial activities is used to carry out core activities, which will allow them to generate additional income without losing their non-profit status.

The charters of institutions should be brought in conformity with the activities and capacity of each individual institution.

Expected effect of the recommended policies:

1. increased economic efficiency of institutions.

2.3 The role of supervisory bodies

According to the 'Regulation on the Supervisory Board of a national cultural Institution under the jurisdiction of the Ministry of Culture of Ukraine', supervisory boards should be established as advisory bodies of the MCSC to ensure the functioning of the institution and to monitor its activities. The functions of such boards include providing advisory support to institutions, formulating recommendations for institutions and the ministry, facilitating the search for additional sources of funding, and monitoring compliance with legal requirements. Given the advisory nature and limited competencies of the supervisory boards of national cultural institutions, such boards have not become an effective instrument of corporate governance of state-owned institutions. In violation of this currently applicable provision, reports of supervisory boards of cultural institutions in the performing arts sector are not published on the website of the MCSC, and only some institutions publish the information on their personnel and activities.

A much more important role is played by the MCSC as an authorised management body the functions of which include the establishment, reorganisation, and liquidation of the institution, appointment and dismissal of the head, approval of financial plans, and performance of control functions.

The head of the institution is accountable to the authorised body as a representative of the state and is appointed by it within a competitive selection process. The authorised management body concludes and terminates the contract with the head of the institution.

In general, the current administration system of state cultural institutions in the performing arts sector does not contribute to the improvement of their operational and financial results and does not ensure transparency of their activities and reporting. Independent supervisory boards are either not established at all or perform purely advisory functions, having no influence on the appointment and dismissal of managers, strategic decision-making, or fundraising. The direct administrative influence of the authorised management body and the suspension of transparent competitions for the position of the head of the institution contradict the reform of corporate governance of state-owned enterprises and do not contribute to the development of cultural institutions in the performing arts sector.

2.3.1 Recommended policy

| 1. Corporate governance reform for state-owned cultural institutions

To enhance transparency and openness of management processes, as well as to ensure the sustainability of the operational activities of cultural institutions in the performing arts sector, it is necessary to initiate changes to the “Regulation on the Supervisory Board of a National Cultural Institution under the Ministry of Culture of Ukraine” to expand the functions and powers of supervisory boards.

A supervisory board is a partner that can help reinforce the strengths and mitigate the threats to the institution’s activities. The powers of supervisory boards should be expanded in line with the powers of supervisory boards of state-owned enterprises in other sectors of the economy and should include strategic planning (approval of strategic directions of institutions), financial oversight (approval of budgets and control of financial results) as well as support in fundraising and fundraising activities.

Supervisory boards should actively involve representatives of the public in their composition: members of relevant creative unions, theatre and music experts, representatives of local NGOs and unions, and local self-government. This will strengthen the role of direct local audiences who are consumers of the cultural product of this institution.

| Expected effect of the recommended policies:

- 1.** increased efficiency of institutional management;
- 2.** engagement of a wider audience in the assessment of the efficiency of the institution as well as in support provision from non-public sources.

2.4 The eco-system of state institutions functioning

There are several issues that require further regulation at the level of Ukrainian legislation. These are both specific acts that would regulate the legal relations in performing arts, and broader, conceptual legislation. The above issues include:

- conceptual definition of the notion “cultural product”;

- legislation regulating the activity of circuses;
- legislation regulating the relations in the field of sponsorship and patronage (so far, the norms of the tax legislation contain some prohibitions on the inclusion of non-target costs, like sponsorship costs, in gross company costs).

In addition, the copyright protection is an important element from the point of view of the ecosystem of public cultural institutions. In Ukraine, there are several registers which contain information about copyrights and their owners. The main one is the State Register of Certificates of Copyright Registration in a Work. This register contains the data on the state registration of copyright in works and provides information based on this data. However, there is no unified register that would include data on all right holders. This results from the following factors:

- Inheritance of rights: Copyright in music is transferred to the composer's heirs. This can be a complicated process, especially if there are many heirs or if there is no clear will.
- Distribution of rights: If a composer has worked in collaboration with other musicians or lyricists, the rights may be divided among several people. This can make it difficult to determine who is entitled to use the piece of work.
- Collective rights management organisations (CRMOs): In some cases, copyrights may be transferred to collective rights management organisations that collect royalties and distribute them between the rights holders. This can simplify the process, but it can also create additional bureaucratic hurdles.
- Lack of registration: If a composer has not properly registered his or her works, it can make it difficult to find the rights holders and prove the rights to the music.

The absence of public information about the rights holders of a particular piece limits the possibilities of its performance by cultural institutions and leads to restrictions in the creation of a high-quality national Ukrainian cultural product based on works by classical and popular contemporary Ukrainian authors.

2.4.1 Recommended policy

1. Legislative definition of the notion “cultural product”

The MCSC, as an executive authority implementing the policy in the field of culture, shall

initiate amending the Law of Ukraine “On Culture” regarding changes in the definitions of the notions “cultural product” and “national cultural product”.

2. Legislative framework for the activity of circuses

The MCSC, as an executive authority implementing the policy in the field of culture, shall initiate adoption of the Law “On Circuses and Circus Activity” which, similar to the provisions of the Law “On Theatres and Theatrical Activity” shall define that circus activity does not aim at profit-gaining.

3. Legislative regulation of the relations in the field of sponsorship and patronage

In order to expand the range of opportunities for attracting non-state funding, the MCSC should initiate the adoption of a law on sponsorship and patronage, with appropriate tax incentives and regulations to enable sponsorship and patronage activities.

It is necessary to allow including sponsorship costs to gross company costs by law.

4. Enhancing the Regulatory Framework for Copyright

The MCSC, as an executive authority implementing the policy in the field of culture, shall initiate an establishment of the unified register of copyright holders.

Also, the MCSC should consider the issue of establishing the national heritage fund that would accumulate national achievements in the field of intangible cultural heritage, particularly musical heritage. This fund may work as an organization in charge of collective copyright management, performing the functions of representing tangible rights of the heirs / legal successors (royalty reimbursement) and regulating the relationship between such heirs / legal successors and cultural institutions as to the performance of the works acknowledged as national heritage.

Expected effect of the recommended policies:

1. regulation of legal relations in the field of performing arts
2. defining non-financial criteria for receiving state support for the creation of a national cultural product
3. improving the quality of management for institutions by fixing problematic issues
4. attracting additional sources of funding

2.5 Current efficiency indicators

2.5.1 Ukrainian practices

The MCSC normally applies standard theatre performance efficiency criteria (the number of performances (events) held, the number of new productions (events) and premieres, the number of visitors at performances (events), the average occupancy of the audience hall, the number of cultural and artistic events held on tours, festivals, trips, including abroad, gender and inclusion indicators, etc.) For concert organisations, circuses, and artistic groups, the criteria are based on the number of performances (concerts) and the number of spectators.

In accordance with the Order of the Cabinet of Ministers of Ukraine of 3 March 2020 No. 212-r “On Conducting Reviews of State Budget Expenditures in Certain Areas in 2020” and in order to improve the efficiency of the implementation of state policy in the field of culture, a review of state budget expenditures in the field of culture in terms of financial support for national theatres was conducted in 2020, and a review of state budget expenditures in the field of culture in terms of financial support provided to national artistic groups, concert organisations and their management, national and state circus organizations was conducted in 2021. Based on the review of expenditures, it was proposed to establish criteria for determining the amount of funding, as well as the specific share of each of these criteria. However, in the context of the full-scale military aggression of the Russian Federation the application of unified criteria has been suspended due to the unequal conditions of institutions in different cities of Ukraine, as the activities of some institutions have been significantly reduced due to the security situation. Therefore, the process of developing and implementing a formula for allocating expenditures from the general fund of the state budget to provide financial support to national theatres, national artistic groups, concert organisations and their management, national and state circus organisations has been suspended, and the amount of such support for the period of martial law is determined with due account of the needs of these institutions to maintain their business activities and financial viability.

2.5.2 European practices

The analysis of European practices is based on a review of the reporting indicators of European theatres and concert organisations as well as the conditions of their funding. The effectiveness of state-owned theatres and concert organisations is assessed in terms of their public role and the objectives of the state policy in the field of culture. Given that

these institutions are not organisations aimed at generating a direct economic effect (profit that the state as a founder could receive as dividends), but rather organisations that create a mixed public good, the practice of performance assessment consists in distinguishing between several groups of indicators:

1. Operational indicators: quantitative indicators of the institution's activities - the number of performances, productions, premieres, occupancy rates at paid events, rooms at paid events,
2. Financial indicators: the amount of state subsidies per visitor, per performance, per 1 thousand of the city population,
3. Strategic indicators: indicators of audience development and involvement – the number of events for children, youth, students, free master classes, lectures, indicators of interaction with the audience,
4. "Product" indicators: indicators related to the national cultural product – the percentage of national authors, the number of original productions, the number of performance productions by contemporary authors.

2.5.3 Recommended policy

1. Introduce a system for assessing institutional efficiency across distinct functional domains

The proposed approaches to the performance indicator system are based on the correspondence of these indicators to the strategic goals and objectives of a specific cultural institution. Performance indicators must meet the SMART criteria – be specific, measurable, assigned to a specific performer, realistic, and limited in time. This means that the indicators must be:

- Specific – understandable, unambiguous, non-abstract, taking into account the requirements and limitations and the expected impact of goal attainment on the future activities of the institution;
- Measurable – allowing assessment of the progress in goal attainment;
- Assigned to a specific performer – functionally clear, the ones that can be delegated within the organizational structure of the institution;
- Realistic – taking into account resource availability and time constraints;

- Time-bound – designed to be achieved within a clearly defined period.

Performance indicators must correspond to the goals and objectives of the state cultural policy in the relevant field.

The approach is based on the following principles:

1. The principle of interaction (instead of a command-and-administrative vertical).
2. The principle of diversity and redundancy (assessment based on a set of criteria).
3. The principle of dynamism (for assessing the process of achieving the result).

The assessment is based on the following functional areas, which at this stage of system development are of greatest importance:

1. Financial component (income and expenses)
2. Resource management (labor and material resources)
3. Main activity (creation of a product for the provision of cultural services)
4. Product and audience development

At the moment, some of these indicators can be applied while determining the amount of state support, some – to monitor the dynamics of institutions (establishments), and some - for functional benchmarking of institutions.

The system of indicators and their threshold values must be fixed in the contract signed with the head of the institution.

| Expected effect of the recommended policies:

1. improved quality of institutional management

3. Models for supporting the performing arts sector

3.1 State support of the performing arts sector in Ukraine

Article 4 of the Law of Ukraine “On Theaters and Theatrical Activity” defines the right of citizens to publicly accessible theatrical art. Such public accessibility is ensured through budget financing of **state and municipal** theaters, their preferential taxation and providing loans, as well as provision of necessary assistance, benefits, and guarantees to certain categories of citizens for them to exercise their right to publicly accessible theatrical art. Article 6 of the Law contains a norm on support provision to amateur theatrical groups. Thus, the norms of the Law contain legal conflicts and are discriminatory in relation to theaters of other (including non-state) forms of ownership.

Budget finance is implemented under subparagraph “a”, paragraph 10, part one, Article 87 of the Budget Code of Ukraine, which provides for support of state cultural and educational programs (in terms of state support for national theaters, art groups and their directorates, concert, national and state circus organizations of state ownership). The list of objects of such support is determined by the Resolution of the Cabinet of Ministers of Ukraine “On Approval of the List of Cultural and Art Institutions Supported or Provided with Financial Support from the State Budget, the List of Activities in the Field of Culture and Art, Expenditures for Which Are Made from the State Budget, and the List of Additional Forms of State Support for Cinematography” No. 1157 of November 16, 2001, as amended. The current list includes 31 legal entities of state ownership that operate in the field of performing arts.

Financial support is provided under the budget programs “Financial Support for National Theaters” and “Financial Support for National Art Groups, Concert Organizations and Their Directorates, National and State Circus Organizations”, under the Procedure approved by the Resolution of the Cabinet of Ministers of Ukraine “On Approval of the Procedure for the Use of Funds Allocated in the State Budget to the Ministry of Culture and Strategic Communications for Certain Budget Programs” No. 247 of March 9, 2011, as amended. This procedure determines the maximum levels of financial support for institutions depending on their type and the availability of buildings (structures, premises) for public display of works of art.

The goal of state policy is to support competitive innovative approaches in the field of culture, creative industries, and the development of human potential as well as the formation of a holistic Ukrainian-language cultural and information space.

The purpose of budget programs is to meet the aesthetic needs of the population, to ensure availability of cultural services, and broad opportunities for creating a high-quality cultural product.

The task of budget programs is to preserve the network of national institutions:

- Budget program 3801110, Financial support for national theaters: Task 1. Preservation of the network of national theaters.
- Budget program 3801120, Financial support for national art groups, concert organizations and their management, national and state circus organizations: Task 1. Preservation of the network of national art groups, concert organizations and their management, national and state circus organizations.

Financing – starting with the needs for labor remuneration with accruals, payment of utility bills, and fire protection services (protected items, for consumption expenses), while no development expenses are financed. The scope of financial support is reduced if the state enterprise improves financial indicators of its performance. There is no task of promoting development, efficiency, creating an ecosystem for the development of the non-state sector.

3.1.1 Recommended policy

1. Review of the funding scope

It is recommended to move to a differentiated approach to determining the level of support for institutions. The level of support should correspond to a level sufficient for the institution to carry out its activities, taking into account the goals and objectives of the state cultural policy.

Given the unsatisfactory material and technical condition of institutions, it is advisable to prioritize institutions in terms of their capacity and needs to improve the material and technical base in order to determine the amount of budget support.

For institutions that rather perform the function of intangible cultural heritage preservation and have sporadic, irregular public speaking activities (see the Baseline Report), it is advisable to consider reviewing the amount of funding and their role in the implementation of the state cultural policy, including in terms of their main statutory activities.

| 2. Transfer to the contracting funding system

It is recommended to initiate a transition to a contractual system of funding institutions, when a contract is concluded between the institution, on the one hand, and the management body that provides state budget support (namely, the MCSC), on the other hand, in which target indicators of the institution's efficiency and the amount of state funding would be determined.

The fixed amount of state budget support should cover protected items (part of the payroll and municipal costs), and the variable part should be provided for the implementation of the state cultural policy and depend on the achievement of target indicators, since that will serve as an incentive to improve the level of implementation of target indicators.

| Expected effect of the recommended policies:

- 1.** increased efficiency of the financial support in the background of budget deficit

4. Creation and support of the ecosystem of performing arts based on state-owned institutions

In addition to the performing function, state performing arts institutions should become the basis for the performing arts ecosystem, combining the functions of cultural service centres and infrastructure for the industry, viz.

1. Ensure high professional level

State institutions, especially those with national status, should be the basis for attracting the best creative and artistic personnel, their professional development, and ensuring the continuity of the best traditions of the industry through mentoring and training.

2. Ensure accessibility of cultural services

Satisfaction of the aesthetic needs of the population, accessibility of cultural services and broad opportunities for creating a quality cultural product, which are the objectives of budget programmes for financial support of national theatres and national artistic groups, concert organisations and their management, national and state circus organisations, should be ensured at the expense of the institutions receiving such support. This can be ensured through regular, ongoing activities (physical accessibility of services) and a flexible pricing policy (financial accessibility).

3. Audience development

Audience development, involvement of different categories of viewers, children and youth, and provision of conditions for aesthetic and artistic development constitute the tasks of the state cultural policy implemented through state-owned institutions.

4. Partnership platform

State-owned institutions should be a platform for partnership and artistic activity for independent, experimental, and amateur groups of different forms of ownership.

The role of supervisory boards should be strengthened along with public involvement in strategy development and strengthening of the institution's partnership with stakeholders.

| Expected effect of the recommended policies:

1. creation of an effective ecosystem that promotes the development of performing arts and artistic expression.

Disclaimer

This strategic brief has been developed with due account of the following limitations:

1. Strategic recommendations have been developed for the Ministry of Culture and Strategic Communications as a governing body for state-owned institutions and take into account the limited capacity of the MCSC in legislative activities, since it is limited by the functions of the executive body in the field of culture and strategic communications.
2. The recommendations take into account the limited financial capacity of budgets at all levels.



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The research is being conducted as part of the RES-POL (Rapid Expert Support for Culture and Media Policies in Ukraine) cultural policy development project.

The project is being implemented by the PPV Economic Development Agency in partnership with the Ministry of Culture and Strategic Communications of Ukraine, with the support of a grant from the European Commission.