

# SPORTS FINANCING IN CROATIA

Tamás Borbély

*Kerpely Kálmán Doctoral School, Hungary*

*Abstract: Sport is a complex social activity that encompasses various areas. Some of these activities come within the category of public needs, which implies that sport is an activity of wider social interest and requires public intervention in its financing. These needs are determined by law and are an integral part of state and local budgets. It is also indisputable that the sport is an activity of exceptional significance for the society and it is equally clear that the investment into sport in Croatia is not proportional to that significance and top scores, which are achieved by the Croatian athletes. Sport can be in a partner relationship with the economy and the promoter of social changes and habits, but in order to become and remain that, general public has to be truthfully interested into sports.*

**Keywords:** sports, financing, Croatia, budget

## SPORT FINANCING AS A WHOLE

Because of its complexity and the width of the functions that sport fulfils the problem of sports financing is “evident in all countries regardless of their level of development (measured by national income per capita or by some other indicator)” (Bartoluci and Škorić, 2009:31), and it requires the involvement of the entire community. This is mostly revealed in sports, or at least some segments of sport, being considered as public goods due to their goals and social functions. The use of these goods and services contributes to the well-being of the individuals and of the entire community. Investments in public goods cannot be entirely left to private initiative since there is a real danger that their production would be below a socially optimal level (Andrijašević, 2004), and market allocation would fail (Petak, 1992:103). The Government of the Republic of Croatia gives rewards for sport results, achieved in international competitions regardless of the type of sport. In this way the entire population can in many ways benefit from the sport success. If this was not the case, society would face with the lack of athletes in most of the sports because only the most popular sporting disciplines could ensure the adequate funds for their athletes. Therefore the primary goal of sport organizations is to ensure that everyone has the same opportunity to take part in sport and physical recreation, equal opportunities and access to sport activities for everyone can be ensured only by public sector support. This support mostly appears in the form of state intervention by means of financing which results „putting sports participation within everyone’s reach” (Nys, 2006:270). From this it is logical that public sources appear as integral part of the financing system.

Sports organizations have many sources of income, including club fees and ticket sales, advertising, sponsorships, TV and media rights, merchandising, public support etc. In general the sources of financing can be classified into two basic groups: budget sources and non budget means. (Table 1.) Non-budget funds includes sponsors, donations, merchandizing, gifts and fees and other resources. In its essence the sport-

financing system in Europe is defined as follows (European Commission, 2007:26): sports organizations have many sources of income, including club fees and ticket sales, advertising and sponsorship, TV and media rights, re-distribution of income within the sports federations, merchandizing, public support, etc. In general the sources of financing can be classified into two basic groups: budget (public) sources and non-budget (specific) means. When sport financing is in question the following can appear as non-budget funds: sponsors, donations, merchandizing, gifts and fees, other resources such as raffles (Šugman, Bednarik and Kolarić, 2002:69-70). As we see, probably mostly because of the 2008 Beijing Olympics the budget expenditure for sport almost doubled according to the previous year and it was 5 times bigger then in 2004. In the following two year period the amount went back to its previous stance. (Table 1.)

On the other hand, public support in sport can take many different forms, such as (European Commission, 2007:27): direct subsidies from public budgets, subsidies from fully or partly state-owned gambling operators, or direct revenues resulting from a licence to provide gambling services, special tax rates, loans with low interest rates, guarantees with low commissions, public financing of sports facilities, acquisition of public municipal facilities by a private club or an institution at a low price, renting of sports facilities by public entities at a low price, payment for the construction or renovation of sports facilities by the local council, public works in private sports facilities, public acquisition of advertising spaces in sports facilities, land sales or donations or an exchange of land for sports facilities. (Dumancic-Siric, Journal of Physical Education and Sports Management, Vol.1(1), March 2014)

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In the Republic of Croatia the problem of sport financing is regulated by the Sports Act in Chapter X - Sport financing, by the provisions of Articles 74 –76. According to the mentioned provision sport is financed from four main incomes:

1. from performing sports business,
2. from membership fees,
3. from games of chance and
4. from budget funds (state and local)

Besides financing sources, which are stated in the Law, significant source are incomes from donations and sponsorships. Making a more significant analysis of sport financing at state level is almost impossible. There are more reasons for it and here are some of the most significant:

- There is no (neither at local nor at state level) central place which would have a
- legal obligation to follow financial business of sports federations or associations. For that reason it is impossible to even estimate how much funds are annually spent on sports.
- Associations are not of interest for the state budget, namely for the tax policy of income collection. That leads to weak tax supervision, absence of financial records, which could be a good outset for assessment of the current situation is sport and for identification of key issues.
- Non-stimulating tax policy leads to the situation that the economic subjects invest only into those clubs or associations from which they can benefit in the form of media presentation of their company. That leads to the fact that the associations are often financed in a non-transparent way, which again leads to a situation in which it is impossible to determine how much the economy at a specific level invests into sport.
- From the four above mentioned sport financing resources according to the Law only the incomes from the games of chance can be followed in their total amount. All other resources (if we want the information at state level) can only be estimated. Adoption of quality resolutions based on defective information and assessments is not a way to recovery of sport in the Republic of Croatia. As a necessity in solving problems of sport financing at all levels in Croatia the issue of forming a unique register of sports clubs–associations, which would include all of the information connected with financial business of sports clubs, is imposed. This, of course, includes at the state level Ministry of Sports, Ministry of Finances, Ministry of Public Administration, Croatian Olympic Committee and other national authorities. At the local level this process is transmitted to counties, cities and boroughs, and to sports associations of cities and counties. In Article 77 of the Sports Act the establishment of informational system in sports is defined. This system should collect and update information on activities of people who perform sports activities, expenditures of funds, planning and constructing sports building and other activities in the area of sports (Dumancic-Siric, *Journal of Physical Education and Sports Management*, Vol.1(1), March 2014).

At end February 2013, there were 16,453 sports associations in the Register of Associations, accounting for 34% of all

associations in the Republic of Croatia. Of this, 2,776 were football clubs. The Associations Act as the general law and the Sports Act as a special law regulate the general issues of the establishment, organisation, legal status, regipation and termination of sports associations and all of their organisational forms. The Sports Act provides that sports clubs for competition can also be established as companies, i.e. that they can be obligatorily or voluntarily transformed from an association into a sport joint stock company, in which case they become subject to the Company Act. Most football clubs in Croatia are civic organisations established in accordance with the Associations Act, whereas only four clubs are sport joint stock companies (HNK Hajduk, HNK Cibalia, NK Istra 1961 and HNK Rijeka), established mainly pursuant to the Sports Act provisions on obligatory transformation. However, participation in the Croatian First Football League contests is not only a sporting but also a commercial activity. While associations operate on the non-profitability principle, generating profit is a basic characteristic of economic activities.

Each professional sports club can choose a legal structure that best suits its business needs. However, regardless of its structure, a club may engage in a commercial activity that is subject to corporate income tax or VAT, which both lie within the competence of the Tax Administration. It is questionable whether a sports club may be for the most part financed from public sources, while at the same time performing economic activities (e.g. sponsorship and advertising, transfers, ticket sale, TV broadcasting, etc.), without violating the principles of market competition and equality and fairness of the terms and conditions of sporting competitions. Conditions should be created for a larger participation of market and self-financing activities in the financing of professional sports. This would also provide a basis for reallocating a portion of public funds to other target groups and sports activities within the local authorities' jurisdictions. This process requires massive efforts from all levels of authority, but also from the society as a whole, aimed primarily at the fight against corruption in sports organisations, match fixing and violence at sports events, in order to encourage the interest of the public, sponsors and private investors in sports (Kulis-Franic, *Financial and Tax Effects of Professional Athlete Transfer*; IFJ newsletter 2014).

Only some sporting activities are financed by public sources through public needs. All other activities are financed by income obtained from other sources, which is defined by Sports Act as was previously explained. It is not possible to identify the origins of funding in sport, i.e. the share of private and public sources. This is mostly due to the insufficiency of statistical data concerning sport. Statistical data concerning sport are collected every 3 years through official standardized forms called ŠPORT-1 (sports associations), ŠPORT-2 (chess associations and bridge clubs), ŠPORT-3 (hunting associations) and ŠPORT-4 (sports and recreation centres). These forms contain questions concerning incomes and expenditure but, according to the Croatian Bureau of Statistics, this data is not published regularly due to the fact that it is unreliable and incomplete. According to the last known data, published in the year 2003, sports associations registered in the system of

competition obtained 24.6% of their resources from various public budgets, and the remaining 75.4% came from private, market sources (Novak, 2006:476). However, in the structure of public funds, one cannot differentiate between funds coming from state or local budgets. (Table 2.) If we take a look at the table we can easily find out the above mentioned Olympic year (2008) brought the biggest expenditure by the state finance in percentage but not in nominal means. While the percentages that are shown at Table 1. are showing decending number and percentages the ones at Table 2 are most likely growing that is because the total amount of the state budget funds are growing almost constantly. Also, there are no additional continuous special reports concerning households' spending on sport. The Croatian Bureau of Statistics annual Household Budget Survey contains some data on household spending on sport. According to the last available HBS data, in the year 2009 Croatian households spent about 6% of their annual budget on recreation and culture. However, only two categories in this group can be considered as expenditure for sport. Sixty four kuna was spent on equipment for sport, camping and open-air recreation (0.08% of their annual budget) and 295 kuna for sporting and recreational activities (0.39% of their annual budget) (CBS, 2010). These data concerning expenditure for sport and recreation alone are insufficient for a detailed analysis since they encompass just one narrow segment of possible expenditure for sport. According to the authors' knowledge, the only detailed research into this topic was done more than 10 years ago (in 1998) in the towns of Zagreb, Rijeka and Osijek. The results of that research showed that households spent on sport about 3,359 kuna per year, which was about 5.2% of their total income. The majority of that money was spent on clothes (34.4%) and footwear (27.1%), fees (12.9%), entrance tickets (10.5%), equipment (9.1%), and gambling (5.9%) (Sever, 1999). It can be seen that spending on equipment (9.1%) and fees (12.9%) is just one (smaller) part of the total household expenditure for sport. (Skoric-Bartoluci-Costunja 2011. Public Financing in Croatian Sports; Institute za Javne Financije)

**Table 1.:** State expenditure for the development of sport, 1998-2010

Year	Amount of expenditure (in million kuna)	% of the total budget
1998	37,6	0,08
1999	57,7	0,11
2000	54,8	0,09
2002	47	0,06
2003	52,1	0,05
2004	53,8	0,05
2005 <sup>b</sup>	70,8	0,07
2006	124,4	0,11
2007	154,9	0,13
2008 <sup>c</sup>	328,5	0,25
2009	198,7	0,15
2010	147,6	0,1

*Source:* Scoric-Bartoluci-Custonja; 2011. Zagreb)

**Table 2:** The amount of sports funds in total budget funds

YEAR	BUDGET	SPORT	%
1994.	46 705 989 kn	4 762 315 kn	10.20
1995.	101 058 085 kn	9 423 451 kn	9.33
1996.	120 060 225 kn	7 797 730 kn	6.50
1997.	162 038 661 kn	15 741 863 kn	9.72
1998.	176 769 570 kn	13 348 519 kn	7.56
1999.	186 307 142 kn	12 491 710 kn	6.71
2000.	241 000 000 kn	12 336 205 kn	5.12
2001.	211 670 900 kn	12 875 100 kn	6.09
2002.	249 184 750 kn	14 984 957 kn	6.02
2003.	291 872 668 kn	17 843 080 kn	6.13
2004.	379 691 320 kn	24 224 000 kn	6.38
2005.	397 326 303 kn	24 947 200 kn	6.28
2006.	447 073 740 kn	35 035 700 kn	7.83
2007.	442 822 180 kn	29 727 800 kn	6.71
2008.	548 658 000 kn	34 580 000 kn	6.30
2009.	560 900 000 kn	40 704 100 kn	7.26
2010.	498 098 300 kn	35 517 000 kn	7.13
2011.	447 334 690 kn	37 363 000 kn	8.35
2012.	494 885 000 kn	38 457 200 kn	7.77

*Source:* Dumancic-Siric Journal of Physical Education and Sports Management March 2014, Vol. 1, No. 1, pp. 21-31

## CONCLUSION

Sport is a complex social activity that encompasses various areas. Some of these activities come within the category of public needs, which implies that sport is an activity of wider social interest and requires public intervention in its financing. These needs are determined by law and are an integral part of state and local budgets. It is also indisputable that the sport is an activity of exceptional significance for the society and it is equally clear that the investment into sport in Croatia is not proportional to that significance and top scores, which are achieved by the Croatian athletes. Sport can be in a partner relationship with the economy and the promoter of social changes and habits, but in order to become and remain that, general public has to be truthfully interested into sports. We are the witnesses of globalization as a world process by admission of Croatia in the European Union and total opening of capital and labor force market. However as economy is slowly getting out of recession, but it is still shaky the budgetary part of sport financing is narrowing. As we

see most of the popular and successful sport organizations of Croatia are having huge amount private money in their budget. Such as Dinamo Zagreb in football (although Croatian state was sued because of giving money to the club), Medvescak Zagreb in Hockey and numerous Croatian waterpolo, handball and basketball teams. Most of them are operating from out of budget finances, some of them are even from foreign money. Professional sport in my opinion will never suffer any damages from the narrowing state finances, it will always find the perfect spot to reach when money is needed. But non-professional athletes will have less and less opportunities to find their way in sport and recreation and to be honest sport in schools will not find too many ways finance their activities. In this case public needs will be hurt. As private money takes over the big clubs the so-called competitive sports or spectator sports will turn the youth to their side. In my opinion there is no other way than a let's say bipolar financing in sports where government gives enough money to the organizations to operate and do their basic tasks and private funds are filling out the gaps that are occurring.

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