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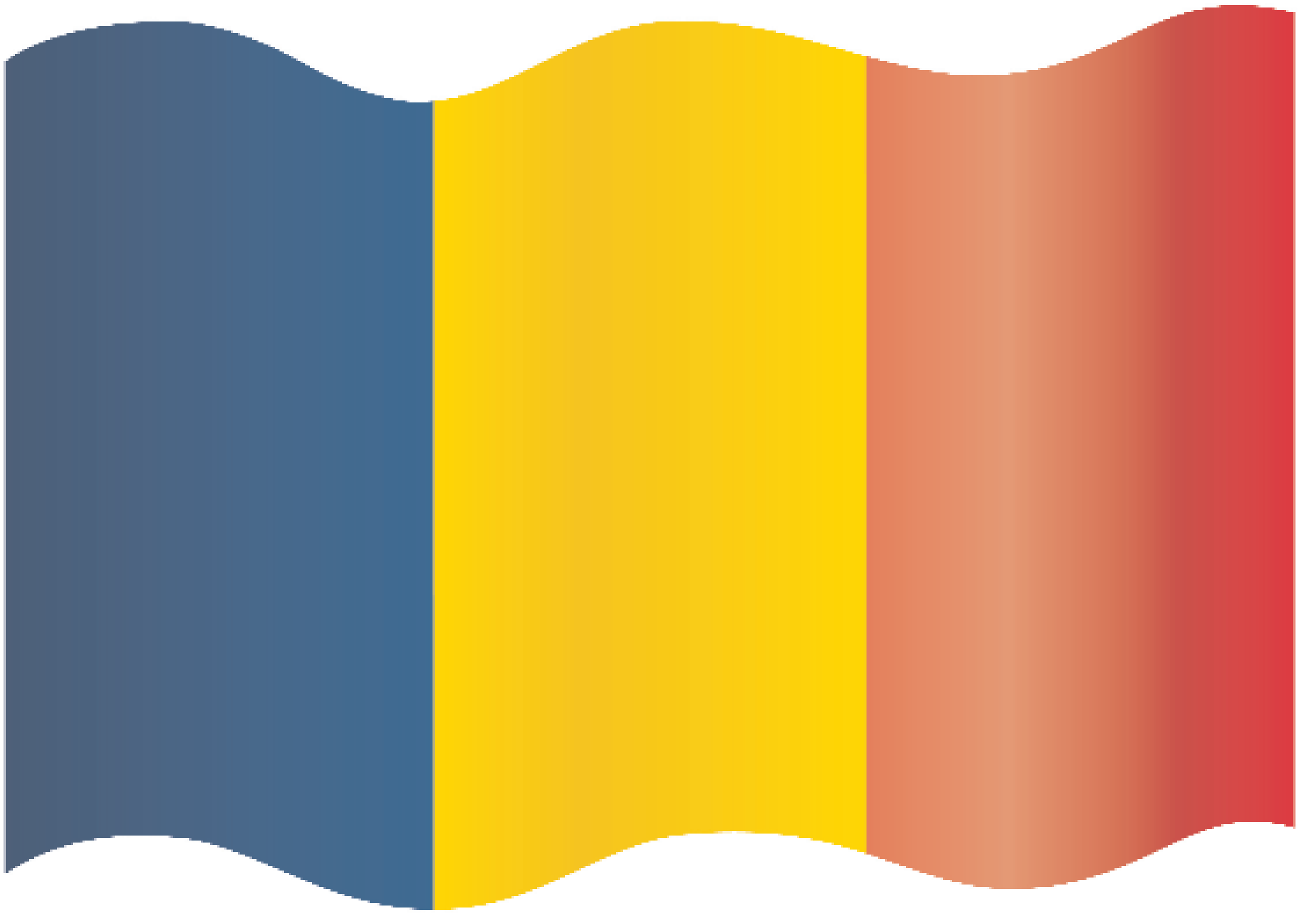

Self-financing Among Civil Society Organizations in Romania: A National Assessment

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I. Introduction

This report presents the findings of research on the Romanian civil society sector carried out from March to June 2007 by NESsT in order to gain an insight into the sector, in particular attitudes toward and practice of self-financing[1]. The report summarizes the main finding from interviews with civil society organization[2] (CSO) representatives contacted during the process, donor questionnaires filled out by major international donors operating in Romania, as well as the findings of desk research on the Romanian civil society sector.

Section 2 explains the research methodology used for this report. Section 3 briefly presents an overview of the nonprofit sector in Romania, including its funding. Section 4 summarizes interviews with eight CSO representatives on their self-financing activities. Section 5 provides an analysis of Romanian CSO self-financing activities, primarily based on the eight interviews analyzed in Section 4. Section 6 summarizes interviews and questionnaires conducted with seven donors operating in the country. Section 7 summarizes interviews and questionnaires from CSO support organizations and their views on the use of CSO self-financing. Finally, Section 8 summarizes the legal and regulatory environment for CSO self-financing activities in Romania.

This research would not have been possible without the generous cooperation of some 70 CSO representatives, legal experts and donor representatives who have offered their time and comments for the development of this report.

[1] NESsT uses the term "self-financing" to refer to diverse strategies used by civil society organizations to generate their own revenues (sale of products, service fees, use of hard or soft assets, and dividends or investment income). NESsT uses the term "social enterprise" to refer to self-financing activities that are designed by a CSO to significantly strengthen its financial sustainability and mission impact.

[2] CSOs are non-governmental organizations (NGOs), nonprofit organizations (NPOs), community groups, volunteer associations, and other legal entities distinct from both the governmental and business sectors that advance a collective or public good. Included in the category of CSOs are any of the formally registered nonprofit, non-state organizations or community-based associations and groups that fall outside the sphere of the government and business sectors. NESsT uses the term in this assessment interchangeably with that of NGOs.

II. Research Methodology

The purpose of this research was to gain insight into the Romanian civil society sector, in particular its practice and attitude toward self-financing. The research encompassed five main elements, all with the objective of better understanding Romania's civil society sector and its self-financing. The first element consisted of desk research on the history of the civil society sector in Romania; statistics about and areas of activities of the sector; infrastructure and support mechanisms used by the sector; funding strategies and trends; and the legal and regulatory framework for CSOs.

The other four elements consisted of primary research on CSOs and their self-financing strategies; CSO support organizations and their attitudes toward self-financing; donors and their support (or lack thereof) for self-financing; and interviews with Romanian legal experts on the legal and regulatory environment for CSO self-financing.

Romanian CSOs were surveyed using a combination of research methodologies. NESsT partnered with World Learning for International Development to widely distribute a questionnaire asking CSOs for basic information about their mission, fields of activities, staff levels, and funding. CSOs were identified from World Learning's and NESsT's networks, websites such as Unulasuta.ro, and the World Learning/OECD conference on social enterprise.[3] As a result of this process, a list of more than 200 CSOs was compiled.

A total of 54 CSOs replied to the research questionnaire. Of this number, 15 stated that they engaged in no self-financing activities, while 39 responded that they indeed engaged in some form of self-financing.

The second round of research encompassed those CSOs that indicated that they were practicing some form of self-financing. This research was carried out through personal interviews with representatives of these CSOs. The interviews were in-depth and carried out on the basis of a highly structured questionnaire previously developed by NESsT and used for this type of research in other countries. A total of 11 interviews were conducted.[4] Following the completion of the interview process, four CSOs were selected and their self-financing experience described in full-length case studies.[5]

A survey of CSO support organizations' attitudes and practices about self-financing was included in the research. Eight CSO support organizations were contacted, including national federations, local/regional

[3] Held in Bucharest on June 13, 2007.

[4] The following CSOs were interviewed: Asociatia Bioagricultorilor din Romania (Bioterra); Asociatia Ecumenica a Bisericirol; Asociatia Esperando; Asociatia Femeilor din Romania; Asociatia Handicapatilor Fizic Satu Mare; Asociatia Regionala de Educare a Adultilor Suceava; Fundatia Children on the Edge; Fundatia Pentru Voi; Fundatia Ruhama; Institutul Roman pentru Actiune, Instruire si Cercetare in Domeniul Pacii (PATRIR); and Motivation Romania Foundation.

[5] The self-financing activities of the following CSOs were described in full length case studies: Bioterra, Fundatia Ruhama, Motivation Romania Foundation and PATRIR.

resource centers, and local/international organizations. These organizations were asked to complete a questionnaire, designed by NESsT, regarding the role of CSO support organizations in supporting the financial sustainability of Romanian CSOs. Five organizations submitted a completed questionnaire and were interviewed for this research: CENTRAS (the Assistance Center for Nongovernmental Organizations), CREST (Resource Center for NGOs), Foundation PACT, the National Organization of People with Handicaps of Romania (ONPHR by its Romanian acronym), and CRONO (Resource Centre for Nonprofit Organisations in Oltenia).

The questionnaire asked CSO support organizations about:
- their role in assisting CSOs in Romania to diversify their funding base;
- existing programs contributing to CSO sustainability;
- current support for CSO self-financing activities;
- their views on the use of CSO self-financing activities to generate income;
- implications of commercial activities for CSOs and the nonprofit sector;
- their role and attitude in providing capacity-building support and start-up financing for CSO entrepreneurial activities.

The fourth element of the primary research focused on donors. Fourteen major international donors in Romania, including private foundations, international and domestic NGOs, were asked in an email to fill out a brief questionnaire, designed by NESsT, regarding the role of donors in supporting the financial sustainability of Romanian CSOs. Seven donors responded to the questionnaire: Carpatica Oradea, The Co-operating Netherlands Foundations for Central and Eastern Europe (CNFCEE), the Romanian Environmental Partnership Foundation, the Romania Fund for Social Development, the Trust for Civil Society, United Way, and World Learning.

The questionnaire looked at the following issues:
- the role of donors in assisting CSOs in Romania to diversify their funding base;
- respondent organization’s support for programs focusing on CSO sustainability;
- respondent organization’s ability to balance long-term financial sustainability of a CSO with creating donor dependence;
- respondent organization’s attitude toward the use of income-generating commercial activities by CSOs;
- implications of commercial activities for CSOs and the nonprofit sector;
- donor support for self-financing activities in Romania;
- respondent organization’s previous support of CSO commercial

activities;
- role and attitude of respondent organization toward providing capacity-building support and start-up financing for NGO entrepreneurial activities.

The final piece of primary research was related to the legal and regulatory environment for CSO self-financing. NESsT interviewed two experts[6] from the Civil Society Development Foundation about the general regulations that apply to CSOs; regulations that apply to CSO self-financing (including taxes, processes, etc.); pending changes in regulations; and their assessment of the current framework and potential for improvements. This research, together with in-depth secondary research conducted by NESsT staff, was compiled and published in 2007 in a guide to the Legal and Regulatory Framework for CSO Self-financing in Romania. The guide was published in partnership with the European Center for Nonprofit Law.

[6] Simona Constantinescu and Octavian Rusu.

III. Overview of the Romanian Nonprofit Sector

A. Background

Since 1989, Romania has witnessed rapid growth in the number of officially registered nonprofit organizations. Prior to the fall of communism few independent organizations existed, but by 1996 about 12,000 were registered[7] under the Law for Legal Persons (Associations and Foundations) of 1924. This growth was an expression of the newly acquired freedom to associate and was fueled by the availability of foreign funds in post-communist Eastern Europe. By 2006, with a new Law on Associations and Foundations, more than 45,000 organizations were officially registered in three major categories: associations, foundations, and federations. Associations compose the vast majority (65%) of organizations registered and represent the most typical form of nonprofit structure found in Romania, followed by foundations (33%).[8]

While 45,000 nonprofit organizations exist today, the actual number of active organizations that fit the traditional profile of working for the public good (i.e., promoting the well-being of society at large) is lower. Of the 30,260 associations registered, more than 900 are mutual associations, hundreds others are homeowner associations, and many others are sports associations. Private schools and universities are also registered as nonprofit organizations. Although Romanian legislation recognizes associations and foundations promoting the well-being of society at large under a special public benefit status, it is difficult to use this status as a benchmark for the number of organizations that promote the public good since fewer than 100 organizations have registered under this status.[9]

Number of Nonprofit Organizations Registered in Romania

Type of Nonprofit Organization	Number Registered
Associations	30,260
Foundations	15,429
Federations	573
Foreign legal entities	11
Total	46,273

Source: National Registry of Associations and Foundations, October 7, 2006

It is estimated that fewer than half of all nonprofit organizations are active, which is defined as maintaining regular operations and activi-

[7] Saulean, Daniel and Carmen Epure, *Defining the Nonprofit Sector: Romania,* Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project, no. 32, edited by Lester M. Salamon and Helmut K. Anheier. Baltimore: The Johns Hopkins Institute for Policy Studies, 1998; 3.

[8] To establish an association, three or more founders are required. For a foundation, one or more founders are required and an endowment of at least 100 times the yearly national minimum wage (approximately 40,000 lei).

[9] It is important to recognize that some CSOs, such as associations of stamp collectors or chess players, may not pursue public benefit goals. These organizations are still considered CSOs and generally the same regulations apply, but this country assessment only addresses those CSOs that pursue public benefit purposes.

ties. This estimate is based on the number of organizations that submitted financial information in the form of a balance sheet to the Ministry of Finance. In 2002, the last year for which these data are available, 17,373 organizations submitted balance sheets of a total of 38,826 registered that year.[10]

In terms of geographic scope, many organizations (around 40%) operate at the local level, usually within the county where they are located. About 20% work at a regional level (i.e., in more than one county) and 20% have inter-regional operations. Only about 10% of all nonprofit organizations work nationally, while another 10% have international reach. In addition, approximately two-thirds are estimated to operate in urban areas, with 15% operating in Bucharest alone.[11]

From the 1989 revolution to European Union (EU) accession in January 2007, CSOs in Romania played an important role in establishing and defending human rights, promoting free and fair elections, and furthering government accountability (for example, through the Coalition for a Clean Parliament in the 2004 elections).[12] With EU accession, it is expected that CSOs' activities will change given new national priorities and a changed funding environment (see Section III C 1 below). By far, the area where most Romanian nonprofit organizations work is social services provision. It is estimated that 25% of all registered organizations are social service providers, and in 2006, 824 were accredited by the Ministry of Labor, Family and Equal Opportunities to receive state support.[13] Other important fields of activity are education, culture and health.

B. Funding Strategies

According to 2002 data provided by the Ministry of Finance, the CSO sector generated total revenues of more than 400 million euros that year, representing 1.2% of the Romanian economy.[14] The breakdown of revenues by funding sources was the following in 2002:[15]

Funding Source	Revenues (millions of euros)	% Revenues
Donations and national/local grants	93.2	22.2
Economic activities	66.2	15.8
Membership dues, contributions and in-kind donations	63.3	15.1
Foreign grants	45.5	10.8
Corporate donations	28.8	6.9
Investments (interest and dividends)	21.2	5.1
Government grants	17.4	4.1
Other nonprofit income (ownership in other businesses, advertising, VAT reimbursement, asset sales, etc.)	84.1	20.0
Total	**399.6**	**100%**

[10] See Appendix 1 for a breakdown by county of CSOs that submitted balance sheets.

[11] Dakova, Vera, Bianca Dreossi, Jenny Hyatt and Anca Socolovschi. "Review of the Romanian Nonprofit Sector: Strengthening Donor Strategies," The Charles Stewart Mott Foundation, September 2000, p. 14.

[12] Presentation, Ancuta Vamesu, World Learning.

[13] *2006 NGO Sustainability Index for Central and Eastern Europe*, United States Agency for International Development (USAID), May 2007.

[14] GDP data taken from http://econstats.com/weo/C131V019.htm.

[15] Ancuta Vamesu, World Learning, June 2007.

In the table above, the first category (donations and national/local grants) consists mostly of foreign sources, including European Union PHARE[16] funds managed through Romanian ministries and local organizations (e.g., the Civil Society Development Foundation), and non-EU foreign funding re-granted through local organizations (e.g., the Soros Foundation).[17] Hence, in 2002 the total percent of foreign funding was much higher than the 10.8% reported under foreign grants.

The table shows that 15.8% of NGO revenues are derived from economic or self-financing activities. However, under the "Other nonprofit income" category, several sources could be considered self-financing, such as asset sales and ownership in other businesses. Furthermore, the Ministry of Finance data contain all categories of nonprofit organizations (including professional associations, sports clubs, schools and universities, etc.). Hence NESsT conducted two additional analyses to estimate, specifically, the proportion of self-financing income generated by Romanian nonprofit organizations pursuing a public benefit.

The first analysis covered financial data of organizations that registered with the "All for one and one percent for all" (unulasuta.ro) website.[18] Financial data were extracted for 121 organizations working in a variety of fields including advocacy, art, culture, economic development, education, health and social services. Of these 121 organizations, 96 reported their funding percentage mix for the year 2006, according to the following category breakdown: grants, corporate sponsorships, membership dues, individual donations, self-financing, and other. Of these 96 organizations, two-thirds conducted some type of self-financing, albeit some at very low levels (for example, 13 organizations reported self-financing income representing less than 1% of their total budget). The average percentage that self-financing contributed to overall income for all 96 organizations was 7.45%.

A second analysis was done on 54 questionnaires that CSOs completed and which contained the percentages of income received from foreign/international sources, public sources (local/national), individual donations (local/national), foundation grants (local/national), corporate grants (local/national), in-kind donations, and various self-financing categories (membership dues, fees for service, product sales, use of soft assets such as licensing and use of hard assets such as rental of facilities, and dividends from investments). Thirty-four of 54 organizations reported some level of self-financing income, and the average percentage of income contributed by self-financing for all 54 organizations was 12.5%.

The three data sets analyzed for this country assessment (Ministry of Finance, Unulasuta.ro, and questionnaires completed for this assess ment) thus provide a range of self-financing income generated by

[16] PHARE stands for Pologne, Hongrie Assistance à la Reconstruction Economique.

[17] Ancuta Vamesu, World Learning, June 2007.

[18] The campaign "All for one and one percent for all" was initiated to assist taxpayers, employers and non-government organizations to apply the new 1% provision of the Fiscal Code.

Romanian CSOs between 7.45% and 16%.

C. Funding Trends

Sustainability is a major challenge for many Romanian CSOs. In general, local philanthropy remains undeveloped while international funds, the traditional funding pillar of the sector since 1989, is undergoing significant changes. Several factors are now affecting the sector's financing (self-financing trends are analyzed in Section V).

1. European Union Accession

The immediate consequence of EU accession has been the withdrawal of traditional foreign donors (foundations, large international NGOs) from Romania. Most organizations will be affected by the withdrawal of foreign donors, and some, such as advocacy organizations – which are particularly dependent on foreign funds and do not have a large base of support nationally – are expected to face challenges in finding new sources of funding since the EU does not support such activities. Another new development brought by EU accession is the shift in funding from EU PHARE to Structural Funds. This shift will affect the type of funding that organizations may receive since Structural Funds focus on employment models as opposed to social services. This will leave fewer financial resources for some traditional CSO programs but will offer an opportunity for the development of social enterprises, especially through access to funds that cover consultancy costs.[19] The Romanian government's Sectoral Operational Programme Human Resources Development 2007 – 2013[20] plans to support, under Priority Axis 6: Promoting Social Inclusion, key areas of intervention in the development of the social economy. The program will support entities such as NGOs, social cooperatives, mutual associations, and other charity and voluntary organizations to provide a flexible and sustainable tool that can help communities to achieve their own objectives, such as:

- stimulating job creation and skills development;
- enhancing community capacity for social supports;
- supporting economic growth and neighborhood revitalization;
- protecting the environment;
- mobilizing disadvantaged groups.

Priority Axis 6 is expected to receive 644 million euros in funding over the period 2007-2013. However, the delay in the implementation of the Structural Funds in Romanian has left many organizations still waiting for these funding opportunities to become available.

[19] Freedom House, Nations in Transit 2007, Romania.

[20] The Sectoral Operational Programme Human Resources Development is the government's main strategy to access EU Structural Funds (specifically, the European Social Fund) for the development of human resources through education, training and employment.

2. Government Support

The procedures designed by social services legislation (Law No. 34/1998) allow CSOs to receive money either from the central government if they offer services for more than one county, or from the local government if they provide services at the county or regional level. The central government has dedicated funds to the areas of environment, youth development, health care and social services. Generally, funding procedures for central and local government sources suffer from a lack of clear and transparent systems. Nevertheless, in 2005 the passage of Law 350/2005 on the allocation of public grants to nonprofit organizations helped to make the granting process more transparent and hold both state and nonprofit organizations more accountable.

According to a study by the Civil Society Development Foundation, government granted approximately 15 million euros to Romanian CSOs in 2006. Around 800 CSOs benefited from these funds, although most of the funds (two-thirds approximately) were disbursed by the Ministry of Labor, Family, and Equal Opportunities and its agencies to 14 CSOs.

The breakdown of government funding by ministry is the following:[21]

Financing Institution	Total Amount (millions of euros)	Number of CSOs
Ministry of Labor, Family and Equal Opportunities	12.4	102
National Youth Agency	0.8	500
Department of Inter-ethnic Relations	0.7	94
National Administration of Cultural Fund	0.5	31
Agency for Governmental Strategies	0.3	11
Administration of Environment Fund	0.3	20
Others: Ministry of Defense, National Association of Consumer Protection, Ministry of Foreign Affairs	0.1	3
Total	**15.1**	**761**

An important source of support from the Romanian government at the local level is non-financial. Many CSOs request the collaboration of municipalities in obtaining facilities to enable them to carry out their activities. Common forms of in-kind support include rent discounts or exemptions, office space, equipment (e.g., telephone lines, office furniture), land and land tax exemptions, and no-cost construction licenses.[22]

[21] *Report on the Situation of Direct Governmental Financing for NGOs in Romania*, Abstract, Civil Society Development Foundation.

[22] Saulean and Epure, 19.

In recent years, government contracting and the accreditation of social service providers have been increasing. For example, in one area of Bihor County, four years ago only one organization was accredited as a social service provider and today 24 such organizations exist.[23] Nevertheless, and despite advocacy efforts by many CSOs, the goverment has been slow to contract out more services and to increase the level of payments for these services. It also remains unclear whether government will continue to contract out social services at all or if it intends to develop its own social services.

3. 2% Law

The 2% law allows individual taxpayers to donate 2% of their income tax to an eligible nonprofit organization. Reviewing results from the first two years of the law's implementation (it was implemented in 2005 and originally allowed 1% of taxpayers' income tax to be donated), this law demonstrates a strong funding potential for Romanian organizations. From 2005 to 2006, the amount of giving to nonprofits under the new law doubled, both in terms of the amount donated to nonprofit organizations and the number of taxpayers who donated. Since 2004, the new law has raised more than 5 million euros from 8.6% of all taxpayers.[24] However, at this point the average funding amount that each organization receives remains insignificant, a fact unlikely to change in the near future due to the average income earned in the country.[25] Over the long term, as incomes rise and more people participate in the program, the law provides genuine potential for developing local philanthropy.

4. Corporate Support

In Romania, corporate philanthropy remains under-developed. Almost two-thirds of businesses do not contribute to charitable giving, and those that do tend to distribute their giving among CSOs, schools and kindergartens, the church, and other institutions (e.g., medical institutions).[26] Nevertheless, corporate social responsibility (CSR) programs are increasing, particularly among multinational companies (CSR is still quite limited among domestic companies). The increase in CSR programs mirrors the increase in foreign direct investment to Romania, and the Ministry of Labor, Family, and Equal Opportunities has established a CSR office to respond to this trend.[27] Nevertheless, for many CSOs located outside of Bucharest, CSR is effectively non-existent since companies tend to focus on visible projects close to the capital.

[23] Fundatia Ruhama, interview, June 2006.

[24] *Report on the Situation of Direct Governmental Financing for NGOs in Romania*, Civil Society Development Foundation, 2007.

[25] Freedom House, Nations in Transit 2007, Romania.

[26] Association for Community Relations, http://www.arcromania.ro/mambo/

[27] *Report on the Situation of Direct Governmental Financing for NGOs in Romania*, Civil Society Development Foundation, 2007.

IV. Summary of CSO Interviews

A. Association of Organic Farmers of Romania (Bioterra)

1. Background

Bioterra, the Association of Organic Farmers of Romania (Asociatia Bioagricultorilor din Romania Bioterra), is a pioneering membership organization whose mission is to promote organic agricultural and livestock production among Romanian farmers and encourage consumers to choose organic products. The focus of Bioterra's programs is education: education of farmers in organic methods and education of consumers about the health and environmental benefits of eating organic foods. Since its founding in 1997, Bioterra has grown steadily and made significant progress toward its goals, including playing a major role in the establishment of organic standards and monitoring methods in Romania.

2. Self-financing Activities

Self-financing activities have long been a part of Bioterra's funding mix. Early on, the leadership realized that dependence on mostly foreign foundations for support was insufficient, since this would not sustain its operational costs nor its program development goals, and it began to diversify its activities to include those that would generate income for the organization. The most significant of these activities is consulting to farmers who are currently using organic methods as well as those who would like to begin to farm organically. Consulting services are provided by Bioterra staff as well as outside consultants hired by the organization and the income that is generated represents about 20% of the organizational budget. Another 8% of the overall budget is produced by the sale of publications, including a magazine, books and brochures about organic farming and livestock-raising, as well as related legal issues. Finally, the organization also receives income in the form of membership dues, which represent about 5% of overall income. Although the number of members is growing somewhat slowly (about 20 per year), they represent a core group that is committed to Bioterra and has a stake in its future sustainability.

3. Financial Sustainability

Bioterra is now at a turning point in its development. With a staff of just four employees, the organization has thus far been able to manage the growth of its programs, including self-financing activities. But if the organization is to capitalize on the potential to add new products and services in the e-commerce and agritourism areas, it will need to form a separate, commercial entity managed by business professionals with sales, marketing, operations and financial management experience. Such a proposition brings with it multiple challenges for Bioterra, including the need to ensure that the for-profit entity and its managers maintain a strong commitment to the mission of the organization.

B. Women's Association of Romania

1. Background

The Women's Association of Romania (Asociatia Femeilor din Romania - AFR) is a nonprofit organization established in 1990. The mission of the organization is to promote the equality of women in Romania. It was the first women's organization founded after the 1989 revolution, and its purpose is to bring together women to raise awareness about their responsibilities to participate in economic, socio-political and cultural activities, and to promote their rights. The ultimate goal is to achieve and develop women's ability to take responsibility for making positive changes in their lives and in society.

2. Self-financing Activities

For the first 10 years of its operations, AFR was 100% self-financed. The organization developed activities based on voluntary work and without outside funding. Self-financing income came from two sources: performances and trainings.

AFR organized theater and musical performances on issues related to women, such as domestic violence or gender relations. The performances were put together with the help of AFR's President, Liliana Pagu, who managed a music theater group. Artists from Ms. Pagu's theater performed on a volunteer basis, and AFR received income from ticket sales.

As AFR's membership grew, its members expressed interest in learning English, so AFR organized and began to sell English training courses to its members for a fee. Based on the success of these courses, further trainings were developed in the areas of management, marketing, and communications. The majority of participants were AFR members, but some trainings were also organized on demand for NGOs. AFR hired expert trainers to conduct all the sessions.

In addition to revenues, both performances and trainings provided an effective channel for AFR to do outreach to its membership and to recruit new members.

In 2000, after several years of organizing performances, the interest and motivation of the artists from Liliana Pagu's theater group declined and fewer performances were organized. To make up for the loss of income, AFR instituted membership fees. Fees were not paid on a yearly basis, but rather based on the activities in which members participated. Also that same year, AFR began seeking grants to supplement its income, thereby diversifying its funding sources.

Although AFR has more than 9,500 members, only about 500 actively participate in projects and pay membership fees. AFR designs and develops projects at the beginning of each year and members decide whether to participate in them and, if so, they pay contribution fees of 25 euros per project. At any one time, approximately 70 members are participating in AFR projects.

One example of a membership service is AFR's initiative on adult education. The organization participates in international exchange programs. Members travel outside Romania to learn about women's programs and to share their experiences. International exchange visits are partly covered through grants, so members contribute, on average, 60 euros to make up the difference. In 2006, six international exchanges were organized for groups of up to 10 people.

AFR also organizes symposia and seminars on different issues relating to women and civil society. For these events, AFR charges around 15 euros per participant. In 2006, AFR organized four events, with between 20 and 30 participants attending each.

Along with these initiatives, AFR continues to conduct trainings. In 2006, it organized one training each month, for groups of 10 to 12 participants, and charged between 10 and 20 euros per participant.

3. Financial Sustainability

While the self-financing activities (trainings, membership fees and events) do not generate a surplus for the organization, they complement and fully fund some of the organization's initiatives. Thus self-financing is instrumental to AFR's financial sustainability. In fact, AFR believes that self-financing income is more easily generated than grant income, since the organization is not familiar with the donor environment and has limited capacity for fundraising activities such as writing grant proposals.

C. Association of People with Physical Handicaps Satu Mare (AHFSM)

1. Background

The Association of People with Physical Handicaps Satu Mare (Asociatia Handicapatilor Fizic Satu Mare, or AHFSM by its Romanian acronym) is a Romanian nonprofit organization founded in 1990 and registered under the Government Ordinance on Associations and Foundations, No. 26/2000. AHFSM's mission is to link people with disabilities and society, and for society to get to know people with disabilities, understand them, accept them and integrate them. AHFSM's programs include: providing psychological, professional and legal counseling; providing employment counseling and placement; organizing professional and skills development trainings; and operating a People with Disabilities Club to develop capacities and aptitudes and to organize occupational and free-time activities.

2. Self-financing Activities

AHFSM currently generates self-financing revenues from two sources: membership dues and product sales. Membership dues are paid based on organizational needs. For example, AHFSM asks members to contribute small dues to cover operational expenses such as member transportation in adapted vehicles, wheelchairs and wheelchair accessories, and other similar expenses. In 2006 the organization generated 4% of its budget (approximately 1,080 euros) from membership dues.

AHFSM also sells products made by its beneficiaries who participate in the People with Disabilities Club. These products include handbags, candles, pictures, postcards, jewelry, flower arrangements, and small gifts for different occasions such as holidays. Products are sold at events organized by AHFSM or other institutions. In 2006, AHFSM sold about 1,500 products generating 17% of the organization's budget (approximately 4,500 euros).

Although in 2006 the organization derived more than 20% of its budget from self-financing, AHFSM's leadership does not view the organization as managing a permanent commercial activity. Both self-financing activities are conducted in an informal and unplanned manner. Moreover, the membership dues AHFSM collects are more closely related to fundraising or cost reimbursement than to self-financing.

In 2006, the organization's Board of Directors decided to explore ways to increase self-financing income. This decision resulted from a funding environment in which it became more difficult to cover expenses for the organization's social programs, in particular infrastructure and salaries.

To assist with the development of self-financing activities, AHFSM contacted the federation National Organization of Handicapped People of Romania (ONPHR), of which it is a member organization. ONPHR assists members' efforts to develop self-financing activities through consulting services. With ONPHR's help, AHFM made the following three decisions:

- Abandon gift sales: The Romanian marketplace is flooded with imported products (mostly from China, Vietnam, and other Asian countries) that are very inexpensive and against which it is difficult to compete.

- Establish a candle-making workshop: This activity could be implemented with a small start-up budget because the required equipment is not expensive, and it would also provide an opportunity to employ persons with disabilities. In the county of Satu Mare only a few small manufacturers occasionally produce candles for special events, so the organization felt there was a potential market need.

- Establish a furniture workshop: This activity requires substantial investments in equipment since every year new technologies appear, but the work could be done both by persons with disabilities alongside those without disabilities (though people with disabilities could only work on certain phases of the production process). For this activity, AHFSM could also rely on the expertise of one member from its Board of Directors who has experience in this industry.

3. Financial Sustainability

To increase its financial sustainability AHFSM plans to continue the social enterprise development process and launch social enterprises in 2008. The organization has recently obtained new space which could be used for the two workshops. Because the furniture workshop requires significant financial resources, AHFSM intends to focus on the candle-making workshop first by developing a feasibility study for it. If the feasibility study demonstrates potential, the organization will develop a business plan to start implementation in early 2008.

D. The Regional Association for Adult Education Suceava (AREAS)

1. Background

The mission of AREAS (Asociatia Regionala de Educare a Adultilor Suceava) is to promote best practices in adult education and profes sional development in order to contribute to the sustainable development of communities throughout northern and northeastern Romania. AREAS's main program provides skills-building classes for adults. Currently the organization provides three classes: writing and management of EU projects, for organizations seeking EU funds for their activities; CSO management, which provides training in fundraising and human resources management; and tourism, which targets local tourism service providers (hotels, restaurants, tour organizers, and others).

2. Self-financing Activities

While the CSO management and tourism classes are provided to participants free of charge, AREAS charges participants for the course on writing and management of EU projects. The organization derives around 10% of its total income from participant fees.
The EU projects course mostly targets county schools, small and medium enterprises, and cultural centers. Schools and cultural centers (whose mission is to develop local culture in their communities) view EU funds as an opportunity to supplement inadequate public funds, to pay salaries, improve their infrastructure, and develop new programs. Small and medium enterprises take this course because EU programs provide many possibilities to obtain grants for infrastructure, equipment, technology, human resource development, among others.

The EU projects course is EU certified and AREAS is the regional service provider for three counties in Romania's northeast. As regional service provider, AREAS can issue certificates to class participants and the certificates are recognized by the EU certification central office in Vienna. The classes have three modules, and each module is priced differently (80 euros for Communication and Team Work, 80 euros for Negotiation, and 120 euros for Project Management). Most of the module price goes toward covering the cost of the certificate (AREAS pays the EU for each certificate delivered), and the organization makes a small profit of approximately 5% on each certificate (after paying for teacher fees, teaching materials and other expenses). This profit provides unrestricted income for the organization.

3. Financial Sustainability

AREAS believes there is potential to provide additional EU-certified classes in Suceava county. Qualifications of local service workers (in a variety of sectors) are low and there are few adult training providers. Furthermore, the new EU Structural Funds offer new opportunities for human resources training (including, for example, language classes).

AREAS is also considering launching additional self-financing activities. The first one is the training of local social workers with Romanian government funds channeled through town halls to train residents as social workers to provide services to families, the homeless, and other groups. AREAS is considering obtaining certification in social services training. The second activity is to sell products made by people with mental health problems in sheltered workshops, including ceramics and decorative flowers.

E. Ruhama Foundation

1. Background

The mission of Ruhama Foundation (Fundatia Ruhama) is to provide a better life to individuals, families and communities who are in some way disadvantaged, marginalized or vulnerable. The organization operates in the city of Oradea, in Bihor County, which is in northwest Romania on the border with Hungary. Ruhama manages three programs: 1) community-driven development programs, which focus specifically on Roma communities; 2) social and health services, which provide a series of accredited home care services for the elderly, disabled, and sick; and 3) professional training, which includes accredited trainings in elderly home care, child care, social work, proposal grant-writing, and training of trainers.

2. Self-financing Activities

Ruhama was originally founded as a community development organization targeting Roma communities. In 2002, the organization started identifying and developing self-financing activities when it became apparent that it would continue to face difficulties in funding its core community development programs. The organization is currently managing two self-financing activities: social services and professional trainings.

Social services include home care activities for the elderly, disabled, and medical patients. Elderly home care provides information on elders' rights, participation in cultural services (concerts, exhibitions, and other events), volunteer opportunities that enable the elderly to stay active in the community, and social-medical provision (personal hygiene, physical therapy, etc.). Home care and recovery for people with disabilities includes similar services to those provided in elderly home care, including facilitation of access to social services, monitoring physiological measurements, kineto-therapy, administering prescribed medication and other services. Home medical care is provided to beneficiaries of the abovementioned services (for the elderly and disabled) who need it after a hospital stay. Medical services include

physiological check-ups (temperature, breathing, pulse, etc.) and more complex medical support such as medicine administration.
Under the elderly home care services, beneficiary clients contribute toward the cost of the services they receive (their contributions depend on their income levels and other criteria). Income from beneficiaries is complemented by payments from the Ministry of Labor, Family and Equal Opportunities, which certifies elderly home care services. Ruhama also receives yearly payments from the same Ministry for its provision of services to the disabled. For this program, beneficiaries do not contribute financially for the services they receive. With regard to medical home care, Ruhama receives payments from the Ministry of Health (as a social service provider) and reimbursements from the County's Department of Health Insurance. Since beneficiaries are insured, they only pay for the services indirectly through their monthly insurance contributions.

The second self-financing activity is professional training. Ruhama conducts trainings certified by the National Council for Adult Professional Training. All trainings target people who work with social service providers, mostly CSOs and public authorities, and people with an interest in working in this field. The objective of the training is to certify social service providers, a requirement under EU laws. Ruhama offers five types of trainings: elderly home care, child care, social work (targeted at people who have no experience in the field), training of trainers (for people working or intending to work in the adult education and professional training sector), and proposal grant-writing targeted at CSOs and public authorities who need to learn about EU funds and how to design and develop proposals. Social service courses (elderly care, child care, and social work) last several months and take place during weekends. Between 360 and 1,080 hours of training are provided, encompassing both theory and practical work. Training of trainers and grant-writing courses are shorter, lasting one day to a few weeks. All participants in the Ruhama trainings pay to attend the sessions.

3. Financial Sustainability

Ruhama's self-financing activities have played an important role in reshaping the organization: they contributed to its growth and to diversifying services beyond community development. Nevertheless, Ruhama still faces sustainability challenges. Social services, though now serving 85 beneficiaries, do not yet break even and Ruhama does not expect this activity to provide any financial surplus. Social services provision has turned out to be much more expensive than anticipated, and payments from clients and the state are lower than expected. Professional training has generated a financial surplus, but Ruhama is now looking to diversify the types of trainings it offers and target new clients in order to differentiate itself from competing CSOs.

[29] The concept of conflict transformation is based on an understanding of conflict as a ongoing and constantly changing process that cannot be quickly controlled or resolved. Developed by theorists such as John Paul Lederach, professor of international peacebuilding at the University of Notre Dame in the United States, conflict transformation is said to occur by bringing about change in human perceptions and systemic characteristics underlying conflict.

F. Peace Action, Training and Research Institute of Romania (PATRIR)

1. Background

PATRIR was established as the first peace institute in Romania, with the mission to promote peacebuilding and constructive conflict transformation[29] to prevent violence nationally and internationally. PATRIR organizes its activities around four fields of intervention: 1) activities for peacebuilding and conflict transformation; 2) training for peacebuilding and conflict transformation; 3) peace education; and 4) gender equality to enhance the role of women. Since its founding in 2001, PATRIR has gained recognition by organizing campaigns, participating in peace support operations, and forging alliances with academic and non-academic institutions.

2. Self-financing Activities

Self-financing has been among PATRIR's core initiatives from its beginning, as the organization was originally set up as a training institute. The self-financing activities were facilitated by staff members who had previous experience in income generation in their fields of expertise. PATRIR's leadership also believed that an organization independent from donor funding would be more likely to become sustainable over the long term. The most significant self-financing activity PATRIR engages in is the renting out of meeting space and equipment for conferences and trainings to private sector firms and civil society organizations. The income generated from this activity represents about 11% of the organization's total annual income. PATRIR also derives fees from three types of services: 1) training programs, which include seminars and workshops that help participants develop and improve their knowledge and skills in peace work, constructive conflict transformation and conflict management; 2) university-level online courses, which enable students to obtain formal qualifications in the field of peacebuilding; and 3) international consultancies in peace processes, carried out in areas of conflict all over the world. Combined, the income from these services represents more than 18% of total income.

3. Financial Sustainability

PATRIR is now focusing on strengthening and expanding its self-financing activities. The organization faces the challenge of covering its growing operational costs, which are more easily paid for through untied revenues generated from self-financing. For this, the organization needs to ensure that staff is appropriately trained in marketing, promotion, and project implementation so that financial targets are met in a timely fashion. PATRIR will also need to consolidate its management performance systems to track the progress of its self-financing activities and make informed decisions about how to manage and expand them.

G. Motivation Romania Foundation

1. Background

Motivation Romania Foundation (Motivation Romania Foundation) is a non-governmental organization established in 1995 whose mission is to create sustainable programs that increase the quality of life for people with disabilities of all ages in Romania. Motivation Romania accomplishes its mission by providing social support to people with mobility disabilities and helping them integrate into society. Specifically, their programs include: providing personalized wheelchairs and peer-group training; employment services; helping to deinstitutionalize children with severe physical disabilities; and lobbying and advocacy.

2. Self-financing Activities

Motivation Romania established its wheelchair production workshop to address the need for quality, personalized wheelchairs and to provide a viable alternative to inadequate, second-hand, imported wheelchairs. The sheltered workshop[29] produces custom-made and personalized mobility equipment (the first produced in Romania) that include active-style wheelchairs, sports wheelchairs, and special seating equipment for children with cerebral palsy. The workshop also provides a complete training for and by wheelchair users on how to re-integrate into society and lead independent lives.

During its first few years of operation, Motivation Romania provided its wheelchairs free of charge and funded all of its work through national and international donations and grants. This model was necessary because wheelchair users could not afford the expensive equipment. In 2001, legislative changes liberalized the disability equipment market and enabled sheltered workshops to become eligible for reimbursements from the National Health Insurance Company (NHIC). One of the reimbursement eligibility requirements was to register the sheltered workshop as a separate, for-profit company, so Motivation Romania established SC Motivation SRL, a limited liability company.

SC Motivation SRL's model follows that of a third-party payment system. As certified producer and supplier of medical equipment, the company is reimbursed for the wheelchairs it delivers to end users. This model allows Motivation Romania to accomplish its mission of providing support to people with disabilities while generating self-

[29] To be classified as a sheltered workshop, at least two-thirds of employees must be people with disabilities. Sheltered workshops receive state subsidies for the people with disabilities they employ.

financing income for the nonprofit organization.

In 2004, with the help of a USAID grant, Motivation established the Regional Wheelchair Production and Training Center, a complete wheelchair production, prescription, distribution and training center. The new facility increased monthly production capacity from 20 wheelchairs to 60 and was later certified for management and manufacturing quality under ISO standards. The Regional Center supported the building of two wheelchair assembly units in the Republic of Moldova and in Bosnia-Herzegovina to expand Motivation Romania's operations in the region. The Regional Center is helping to replicate Motivation Romania's model by supplying wheelchair parts for assembly in these countries and by training technicians and physiotherapists from these countries to evaluate and prescribe personalized wheelchairs.

3. Financial Sustainability

Motivation Romania's financial sustainability strategy is to increase total self-financing income from 15% (the amount reached in 2006) to 20% of its total income. To achieve this target, the organization determined during its 2006 strategic planning process that it needs to develop new self-financing activities through SC Motivation SRL. After evaluating the legislative environment, community needs, and strengths of the organization, Motivation Romania is now launching several new activities including consulting services to employers of people with disabilities, a printing workshop, and outpatient physiotherapy and medical rehabilitation services. In 2007, Motivation Romania will also expand its wheelchair production capacity by establishing two new sheltered workshops.

H. Pentru Voi Foundation

1. Background

Pentru Voi Foundation (Fundatia Pentru Voi) is a nonprofit organization established in 1996 in the city of Timisoara, Romania. Pentru Voi's mission is to improve the quality of life of persons with intellectual disabilities and their families. Pentru Voi was founded as a direct response to the lack of community services by parents who did not want to see their children with intellectual disabilities sent to state institutions.

Pentru Voi carries out its mission through four programs: 1) community services, which help to integrate people with intellectual disabilities through sheltered workshop activities (gardening, bakery and copy center), supported employment, supervised housing in apartments and group homes, and access to social services, summer camps, monthly events, and more; 2) a resource center, which provides training, organizes events (seminars and conferences), and publishes materials for the developmental disability field; 3) self-advocacy, which supports 80 beneficiaries to advocate on behalf of other persons with intellectual disabilities; 4) lobbying and advocacy campaigns for equal rights and opportunities for people with intellectual disabilities.

2. Self-financing Activities

Pentru Voi runs several self-financing activities, the majority of which are carried out under the Community Services' program. Under this program beneficiaries take part in various workshop activities. The first activity, a sheltered workshop, is a bakery employing three people (including two beneficiaries). The bakery makes and sells two types of bread rolls (salty and chocolate) for sale at local schools.

When Pentru Voi launched the bakery in 2004, it quickly succeeded in contracting more than half of its production to one long-term client: the cafeteria for city hall workers. However, after a few months, the cafeteria was closed because of problems with its contracting procedures with some suppliers. Pentru Voi's bakery was forced to reduce production, which resulted in financial losses. Pentru Voi believes this problem could have been anticipated if it had been aware of the danger of reliance on one customer, even if this customer appears stable and committed to purchasing from the organization.

As Pentru Voi searched for new customers, it realized the quality of its bread was lower than that of comparable products, due to the use of a second-hand oven the organization purchased at the start-up of its activities. Lower-quality bread kept sales low, so the bakery reoriented production towards chocolate and salty rolls. Quality improved because the oven was in fact designed for baking pastries and not for bread as the staff members had believed when purchasing the oven. The rolls allowed the bakery to gain new customers, mainly from local schools. Today the bakery is able to generate enough revenues to cover direct costs of production (i.e., materials and supplies, salaries of the two beneficiaries employed), but it does not cover the baker's salary, which is subsidized by the city of Timisoara. In 2007, Pentru Voi expects the bakery to generate enough revenues to acquire new equipment and to hire more beneficiaries and provide them with full-time employment.

In addition to the bakery, Pentru Voi runs other self-financing activities employing beneficiaries. These include a copy center providing services to the community (general public and local businesses) such as photocopying, typing, brochure design and printing (this workshop has exhibited the fastest growth among Pentru Voi's self-financing activities in the past few months); a workshop to package products for shipping for local businesses; a handicrafts workshop producing gift bags, gypsum figurines, candles and greeting cards; a tailor workshop that makes, mends, and alters clothes; and a small carpentry workshop making wooden products, mainly small furniture items used in Pentru Voi's supervised housing or manufactured for the general public.

Moreover, Pentru Voi conducts other self-financing activities that do not employ beneficiaries. For example, Pentru Voi organizes events (conferences and seminars) for which it charges participant fees. The organization also sells the materials it publishes under its Resource Center program. And it rents out some of its hard assets, including offices for meetings and trainings and buses for transportation.

Pentru Voi began its self-financing activities to provide meaningful occupation for its beneficiaries. These activities then developed into the idea of selling the products made by beneficiaries so they could earn some income. At this point the organization would like to cover the operational costs of its self-financing activities (raw materials, electricity, etc.), and to potentially generate a surplus in the future.

2. Financial Sustainability

Going forward, Pentru Voi plans to further develop its self-financing activities by taking advantage of the law on sheltered workshops (protective units), which was approved in December 2006. Under the law, companies employing more than 50 people must employ a certain number of persons with disabilities or contract out, for the same amount of money, services or products from protected units. In May 2007, Pentru Voi established its protective unit, which was recognized by the National Authority for Persons with Handicaps. Five users from the copy center currently work in the protective unit. Recently, one large company, active in the auto market, outsourced one of its production operations to the protected unit, and Pentru Voi expects to employ at least 10 part-time users through this contract.

Though not yet profitable, self-financing has had a major impact on Pentru Voi's mission. It provides job opportunities and significant income to beneficiaries who would have none or very little otherwise, and it illustrates concretely that inclusion of beneficiaries through productive activities is not only a concept but also a reality. This has reinforced staff members' commitment to Pentru Voi's values and mission.

V. Analysis of CSO Research and Interviews

The organizations included in our research cited two main reasons for conducting self-financing activities.

- *To increase sustainability*. CSOs face a challenging funding environment in which it is difficult to pay for operational costs or to expand or develop new programs.
- *To strengthen the organization's mission impact*. For example, in the disability field CSOs often start self-financing activities to provide employment and income opportunities for beneficiaries.

A. Types of Self-financing Activities

Self-financing centers around two main categories: product sales and fees for service. Few organizations use hard assets, soft assets, or investment dividends to generate income. Some organizations charge membership fees, but these are not well-developed: they usually target a limited number of members (i.e., the most active ones) and membership dues are collected on an as-needed basis (for example, to cover unexpected operational costs or for participation in projects). None of the organizations interviewed have developed membership as a full self-financing service where a regular product or service is provided.

Fees for service often focus on training and consultancy. In most cases, trainings are certified or accredited, either nationally or internationally (at the EU level). In the training field, which largely targets CSOs and public authorities, competition among CSO providers is important, and some have had to diversify their training courses to remain competitive. Furthermore, for some organizations trainings may not be sustainable over the long term because the number of potential customers can be limited. Despite these challenges, CSOs believe trainings continue to represent the most important self-financing prospect: with EU membership, EU structural funds will focus on human resources training and development, creating funding opportunities. EU structural funds represent fundraising opportunities rather than self-financing, but several CSOs mentioned they had started providing training courses as a self-financing initiative prior to membership in order to be positioned as competitive, qualified training providers when EU funds become available.

Product sales are common in the field of disabilities, where many organizations conduct self-financing activities. They use protected workshops to provide useful/productive activities for their beneficiar ies, and to generate income for them and for the organization. In most cases, beneficiaries make arts and crafts (e.g., handbags, holiday cards, candles) sometimes with the assistance of volunteers. Organizations in the disability field face certain difficulties in selling these products because of stiff competition in the marketplace (particularly from Asian products), so organizations have had to revert to using non-traditional distribution channels – fairs, selling from their own offices, for example – to market in nearby communities. Many organizations plan to take advantage of Law 448/2006 on the rights of people with disabilities to conduct new self-financing activities. This law represents a large opportunity for consultancies (i.e., adapting office environments to the needs of people with disabilities), product outsourcing (e.g., an auto manufacturer outsources the assembly of parts to a protected workshop), and other types of services such as gardening and cleaning.

Other types of product sales include publications, such as books, brochures, and magazines. One organization (Bioterra) uses publications as an income generation method. The publications were first developed under grants and then distributed for free at workshops, seminars, and events. Later Bioterra started selling the books, from which it now generates untied revenues from the sales. Given the number of CSOs that publish their work in the form of manuals, magazines, papers, etc., this is a strategy that could replicated if the publications are specialized enough to find a market (such as organic farming in the case of Bioterra).

The rental of hard assets (equipment, facilities, etc.) is not generally used among Romanian CSOs. Generally, organizations do not generate more than 2-3% of their total income from renting out hard assets. One exception is PATRIR (Peace Action Training and Research Institute of Romania), which generates close to 11% from this self-financing activity. Because PATRIR is a training institute, it benefits from having a training room that provides all training facilities and can accommodate up to 30 participants. This has allowed the organization to rent out the facilities to CSOs and, in particular, many private sector companies. PATRIR is an exception in its use of hard assets to generate significant self-financing income, as very few CSOs have the necessary space or equipment (in terms of quantity or quality) to do so.

B. Relation to CSO Mission and Financial impact

Self-financing is generally related to the mission of the organization and used to strengthen existing programs or develop new ones. In cases where self-financing is not mission-related, organizations have difficulties managing the activity because they are unfamiliar with the market and its operations. Also, staff members tend to be less interested in working on non-mission-related self-financing activities and to lose interest over time. One organization overcame this challenge by hiring dedicated staff to work on a non-mission-related self-financing activity.

Despite the fairly widespread use of self-financing, in the majority of cases self-financing remains a marginal activity (with a few exceptions). The CSOs included in our research tend to operate self-financing on an irregular basis, with no steady resources, staff, or management dedicated to it. Self-financing is seldom managed as a full program central to the organization's overall strategy.

In most cases, self-financing only generates low levels of income. For the organizations interviewed, self-financing ranges from generating very low levels of surplus income ('profit'), breaking even, and recovering some costs. While this often falls short of organizations' expectations, the mission benefits are often substantial enough to justify the continuation of the self-financing activity. For example, in the case of one organization, self-financing was begun as a program targeting a new beneficiary group. The activity is close to breaking even, enabling the implementation of a new service at relatively low cost for the organization.

C. Planning and Business Skills

Self-financing is usually implemented with little or no prior planning. Organizations often do not set goals for their self-financing: hence revenue/client targets are vague (or non-existent) and social goals also missing. CSOs rarely develop feasibility studies or business plans so self-financing is launched without much market research or analysis. In several cases, the lack of business planning resulted in self-financing not meeting the organization's expectations in terms of revenues because potential challenges were not properly identified. Lack of business planning is directly responsible for most of the self-financing activities being unable to generate surplus income for the CSO. Some of the self-financing activities that are not meeting expectations could have been ruled out fairly easily had the organizations developed feasibility studies before initiating them. Also, the allocation of both financial and human resources toward these ends could have been avoided. This demonstrates the need for more business planning (even basic market research/analysis) among Romanian CSOs seeking to start a self-financing activity.

Lack of planning is often due to a lack of business skills. Staff members of the organizations interviewed generally did not have prior business skills or experience, which limited the type of market research and analysis they could do. Compensating for this lack of business knowledge by obtaining outside support in the form of consultants is often not an option: there are very few consultants specializing on CSO self-financing working in Romania, and for-profit consultants are too expensive for the majority of CSOs.

The lack of business expertise is also difficult to compensate for by hiring qualified staff. All organizations spoke about the necessity of attracting qualified self-financing managers but few have the resources to do so. Instead, self-financing is managed by internal staff with little or no prior business expertise and with the help of volunteers. Usually internal staff members take on self-financing in addition to their other roles inside the organization, causing difficulties in terms of workload and time management, and also resulting in a lack of staff expertise needed to manage the self-financing activity.

Hence many organizations view CSO business planning training, which is still largely inexistent,[30] as a key ingredient for the success of their activity. CSOs need to be better equipped to assess markets and avoid launching self-financing activities that do not have financial potential or are difficult to manage. Several organizations also believe training in general business practices (in particular in marketing) would help make their self-financing more successful.

D. Self-financing Start-up

With regard to funding, CSOs often launch their self-financing activities with little outside financial support. Organizations tend to rely on internal funds to cover the self-financing's start-up costs (e.g., for necessary equipment and materials). In some cases, CSOs were successful in writing proposals to directly finance the launch of the activity. In other cases, a self-financing proposal was included in a larger grant proposal. In one case, probably representing an exception, one organization was able to secure a zero-interest loan to cover the operational needs of the self-financing activity (this organization, Motivation Foundation, had a long track record of successfully managing its self-financing activity, which probably helped in securing the loan).

E. Impacts of Self-financing

Despite the challenges, all CSOs interviewed mentioned that self-financing had had positive effects on their organization. These benefits included:

[30] A few organizations provide business planning training, or are starting to do so. Examples include: Foundation PACT, Romania Fund for Social Development, National Organization of People with Handicap of Romania, and NESsT.

- Mission impact: as mentioned above, the mission benefits of self-financing are important to all CSOs interviewed. In the disability field, self-financing is an integration tool providing income and an activity for beneficiaries. For social service providers (which represent an important number of CSOs), self-financing enables them to expand programs to serve additional beneficiaries, to provide new services (e.g., an organization provides home care services and then launches a medical home care service), or to reach new target groups.

- "Customer" orientation: self-financing helps align the organization's programs with end-user needs and put in place feedback loop systems. Often the lessons learned from selling in the marketplace and meeting customer needs are brought back to the mission programs.

- Better donor relationships: for some organizations, self-financing has helped attract new donors or increase the commitment from current ones. New donors are attracted to organizations that present sustainability strategies or can point to achievements in this domain. For example, self-financing activities are used for public relations or to support fundraising activities. Furthermore, CSOs implementing successful self-financing activities gain confidence and skills in developing partnerships – e.g., they need partners to help sell their products – and this new expertise can improve relations with donors, who are also seen as partners.

- Organizational culture: CSOs can become more "competitive", in a positive way: they become more focused on quality, prices, and delivery of their products/services. For organizations competing directly with for-profit companies, this transformation can be important. Furthermore, CSOs cited improvement in their entrepreneurial orientation. There is an increased openness and active search for new ideas and processes, both for mission programs and self-financing.

VI. Analysis of Donor Perspectives

All donors interviewed believe they have a role to play in assisting CSOs to diversify their funding base. However, most acknowledge that very few donors do so at the present. To increase CSO sustainability a shift must take place from traditional program grants to support for organizational development. This should include general training programs and capacity-building assistance for the development and implementation of fundraising strategies. Other ideas include supporting CSOs financially to increase their sustainability, by allowing them to deliver cost recovery services or to use a greater proportion of their grant funding to fundraise. Another idea is to expand the practice explored and implemented several years ago by the Open Society Foundation and the Charles Stewart Mott Foundation of providing incentives to CSOs to diversify their funding base through challenge grants or matching grant structures.

Most donors implement programs that have, to varying degrees, some organizational sustainability components for their grantees. These range from comprehensive support including grants, training, and technical assistance, to more limited needs-based, pro-bono consulting. Sustainability initiatives that target CSO organizational development focus on governance, strategic planning, human resources, fundraising, etc. One donor provides general purpose grants for innovative sustainability projects (e.g., building a reserve fund) and some initiatives also target CSO collaboration as a way to increase sustainability.

Donors have a range of strategies for helping their CSO grantees avoid dependence on grants and contributing to their sustainability. Donors that have clear exit strategies (e.g., to cease funding altogether by a certain date) clearly communicate this timeline to grantees to avoid creating long-term expectations. Others focus on project sustainability, either by requiring that the project increase overall organizational sustainability or become viable over the long term. Some donors said that they insist on knowing about an organization's strategy and vision for sustainability before considering long-term support. One donor provides grants to organizations that already have a broad funding base to avoid creating dependence. Another supports regulatory changes that would generate a favorable environment and foster opportunities for diversifying CSO funding. This includes, for example, promoting legal changes to encourage/promote social services contracting.

All of the donors interviewed support, and some even encourage, the use of economic/commercial activities by CSOs. Donors believe CSO self-financing increases financial stability by providing long-term sources of revenues, increases independence by diversifying funding sources, and improves management skills. One donor cited the connections with the private sector that self-financing could create. Nevertheless, most are concerned that economic activities could also cause organizations to devote less time and resources to their mission, particularly if self-financing is not successful or well-managed and diverts mission resources in response. One donor believes organizations should not conduct non-mission-related activities since this would certainly cause them to lose focus on their mission. In response, some donors cited careful business planning and strong governance as a way to avoid these pitfalls.

Another concern donors express has to do with the potential for self-financing activities to have a negative impact on an organization. The general impression in Romania is that a not-for-profit entity should not sell, charge, or "make money", so education of the public is needed to increase understanding of the benefits of self-financing. Some donors also are concerned about the use of self-financing among CSOs working on particular issues. An example might be a watchdog CSO whose development of self-financing may cause conflicts of interest.

Donors interviewed cited two broad types of support they believed they should provide to enhance CSO self-financing activities. The first is capacity-building and consulting services to increase business skills and develop business plans. Some donors already do this by asking CSOs to develop business plans for their economic activities and organizing trainings on this topic. Nevertheless, donors say CSOs still don't have the necessary business skills to write business plans or implement economic activities, and that their efforts are hampered by the lack of consultants providing these services specifically for CSOs. Moreover, several donors feel their grantees or constituency groups – usually small and informal organizations – are not ready for rigorous business plan training. But they all agree that for larger, more developed organizations, this kind of process is necessary.

The second type of support is providing start-up funds to assist with the initial implementation of a self-financing activity. Some donors provide grants to help start self-financing activities, such as retrofitting buildings or procuring equipment, and in most cases they tend to invest in activities that involve CSO beneficiaries. All donors also said they would welcome the opportunity to work with other donors in co-funding self-financing efforts, however, they also say they are not well-positioned to do so at the moment. One of the donors is leaving Romania, and most are either waiting for additional funding from the EU or are just getting started, so substantial progress in this area is not likely in the short term.

One interviewee also said that donors have a role to play in promoting partnerships between CSOs and government or for-profit companies, including facilitating contracts and promoting legislative changes to encourage social services contracting by local, county and central governments.

VII. Analysis of CSO Support Organization Perspectives

Overall, CSO support organizations believe they should support CSO sustainability efforts. All expressed the opinion that trainings should be an integral part of increasing sustainability. The topics they suggest range from strategic planning and program development to fundraising. Another important aspect of an adequate sustainability effort is assisting CSOs to obtain access to new sources of funding. Several support organizations train or provide information on how to obtain public and EU funds, and some new platforms (e.g., www.donatiionline.ro, www.unulasuta.ro) promote or facilitate individual donations. Furthermore, corporate donations and CSR programs are seen as a potential source of income for CSOs, and some support organizations believe they should "facilitate dialogue between CSOs and the business sector." Improving CSO public image is also described as a necessary condition to increase sustainability, and several organizations work to increase transparency and accountability, and to promote civil society in general.

Few support organizations have programs that directly support CSO self-financing activities. Foundation PACT supports the development of community enterprises in six communities of Oltenia and Muntenia through training, consultancy, and small start-up grants. ONPHR provides its member organizations with consultancy in income-generation. The consultancy is provided free of charge or on a fee basis, which is used to finance ONPHR. One full-time staff member is dedicated to this project. Other support organizations provide information about self-financing, but they do not provide a comprehensive set of support services.

All support organizations view the use of self-financing activities as beneficial. Some benefits cited include generation of income, opportunities for organizational development, greater focus on beneficiary needs, and a more competitive orientation, particularly with regard to social services.

Nevertheless, some drawbacks are also mentioned. In most cases, CSOs have limited business skills and experience, which makes the planning and implementation of self-financing difficult and risky. CSOs that cannot properly identify markets, set prices, and conduct marketing efforts will face challenges. Even if CSOs have or are able to acquire business skills, self-financing takes time and resources to generate a surplus for the organization, so it is not an easy task. Whether self-financing is successful or not, CSOs risk being diverted from their mission for a variety of reasons (e.g., time and resources are diverted away from the mission, the self-financing activity overshadows the organization, etc.). As a result, CSO support organizations believe training CSOs in income-generation is important, and that organizations' boards of directors and senior management teams should have a strategy in place for self-financing. One support organization also emphasizes risk mitigation to avoid endangering the CSO mission.

Support organizations agree that providing long-term capacity-building support for the development of self-financing activities is important for CSO sustainability. Some organizations (CENTRAS, CRONO) have plans to directly support such programs over the next few years, but several organizations also acknowledge that many organizations (especially rural, community-based organizations) are not ready for intensive capacity-building support. None of the support organizations plans to provide financial support for self-financing in the future.

VIII. Summary of the Legal and Regulatory Environment for Self-financing

Part of NESsT's research on the state of CSO self-financing in Romania included the development of a guide to *The Legal and Regulatory Framework for CSO Self-Financing in Romania*. This guide was developed in partnership with the European Center for Nonprofit Law (ECNL) and can be downloaded at www.nesst.org.

The purpose of the legal guide is twofold: 1) to outline key laws, regulations and procedures governing the use of self-financing by CSOs in Romania; and 2) to assess the relevant laws governing CSO self-financing in Romania, to evaluate their practical effects and to identify areas where the law might be improved.

A. General Regulations for CSOs

CSOs in Romania are regulated by the Government Ordinance on Associations and Foundations, GO 26/2000, adopted in January 2000, and further modified and put into law in 2005 by the Law on Associations and Foundations (No. 246/2005). According to Romanian law there are three types of CSOs: associations, foundations, and federations. These three types of organizations are commonly referred to as "nonprofit organizations" in Romanian legislation, though some laws also use "nongovernmental organizations" or "civil society organizations".

B. CSOs and Commercial Activities

The Romanian legal framework explicitly permits CSO commercial activities as long as they are mission-related and "if they have accessory character". This latter clause can be interpreted as specifying that the CSO is established and operated primarily for not-for-profit purposes and that self-financing would not be the principal activity of the organization. As a result, it can lead to varying interpretations, both on the side of government authorities as well as by CSOs, regarding the amount/proportion of revenues a CSO can generate from self-financing activities and still retain its not-for-profit nature.

Associations and foundations can engage in non-mission-related activities by setting up separate, commercial companies, but the law is vague about what constitutes mission and non-mission-related economic activities. Dividends obtained from the activities of commercial companies, unless reinvested in the same commercial companies, shall only be used for advancing the mission of the association or foundation. There is no limit on the amount of income a CSO can generate from commercial activities, either directly or through a commercial company. Although, in fact, the "accessory character" requirement of the legislation does imply limitations.

C. Tax Treatment of CSO Commercial Activities

CSO commercial activities conducted directly by the CSO – and hence mission-related – are exempt from profit tax up to a certain income threshold. Above this level, the CSO must a pay a profit tax of 16% that is the same paid by commercial companies. The income threshold is 15,000 euros earned from economic activities in one fiscal year, but not more than 10% of the organization's total tax-exempted income. For CSO commercial activities conducted through a separate, for-profit entity – necessary if the commercial activity is not related to the mission – the CSO must pay the profit tax of 16% on all profits earned by the commercial activity (regardless of income levels).

For CSO nonprofit (i.e., non-commercial) activities, CSOs are considered final users/beneficiaries and they are not reimbursed for the VAT paid on goods, supplies or services. Since January 2007, new regulations apply on the reimbursement of VAT on purchases made from international grants. While previously CSOs were eligible for VAT reimbursements on these purchases, this is no longer the case. An Emergency Government Ordinance issued in February 2007 apparently clarified this situation by establishing that the Romanian government would reimburse VAT on EU pre-accession funds (EGO 11/2007), but it remains unclear how fiscal authorities should apply this provision and why non-EU foreign funds are not covered by the Government Ordinance. Negotiations are now pending between the Ministry of Finance and CSOs to resolve this issue.

With regard to CSO commercial activities, they are subject to the same VAT as that applying to commercial companies. The basic VAT rate paid on all goods and services sold is 19%, and a reduced rate of 9% applies to certain products and services. CSO commercial activities (and commercial companies) whose annual revenues are below 35,000 euros are exempted from VAT. Current regulations allow VAT exemptions on some CSO "operations of public interest", including but not limited to goods and/or services closely related to assistance and/or social protection; services related to children and youth protection; authorized providers of vocational training; services provided only to members of an organization; and services related to fundraising. For these opertions of public interest and others listed in the Fiscal Code, VAT is paid on the purchase of goods and services but not charged on their delivery.

The Romanian legal framework includes a number of other taxes including those on dividends, buildings, land, shows, and imported goods. A number of local fees also apply, such as those on means of transportation (cars, etc.), certificates issued by local authorities, advertising, and hotel accommodations.

D. Interpreting and Critiquing the Romanian Legal and Regulatory Framework

The Romanian legal framework for CSO self-financing is clear, yet it does not promote the development of these activities. The law specifically allows CSO commercial activities, but applicable laws and regulations mirror those of for-profit companies, leaving CSOs with few preferential tax treatments. This lack of fiscal incentives does not encourage CSOs to develop economic activities – and sometimes even discourages them from doing so – and does not contribute to the strengthening of civil society. Romanian CSOs would benefit from a legal and regulatory system that would treat a for-profit company differently from, for example, a CSO selling products made by marginalized people who would not otherwise find appropriate jobs in the marketplace.

Specifically, the tax and regulatory system would benefit from the following reforms:

1. Allowing CSOs to directly engage in non-mission-related commercial activities. Since the current legislation allows both mission- and non-mission-related CSO commercial activities, regulations should be simplified to allow CSOs to engage directly in either type of activity without having to set up separate entities.
2. Clarifying the "accessory character" clause in the legislation to eliminate interpretations. Or, consider removing this clause for mission-related activities since, by definition, they advance the mission of the organization both directly and by generating revenues destined to support the mission.
3. Reforming the taxation regime for CSO commercial activities. The Romanian legal system should eliminate – or at the very least increase – the revenue threshold at which CSOs start paying the profit tax, which would contribute to CSO financial sustainability.
4. Expanding VAT exemptions on CSO commercial activities. The Romanian regulatory system should provide additional VAT exemptions on CSO commercial activities beyond those already accorded for social assistance/protection and protection of children and youth services, including those providing services to

low-income communities in economic development, education, environmental protection, health, and human rights.

5. Clarifying public benefit status and its benefits. The legal framework should clearly identify public benefit organizations as those providing a benefit to the public at large and not to their members only. Furthermore, the public benefit status should be promoted through tax incentives in the areas of the profit tax and VAT and potentially local taxes.
6. Relying on increased CSO awareness to modify the legal framework. The increasing and improving perception of CSOs among the general public provides an opportunity to reform the legal framework, as the public is better able to understand the positive impact CSOs have in the community.

IX. Conclusion

Self-financing in Romania is practiced by an important and growing number of CSOs. Nevertheless, self-financing can still be considered at a nascent stage in terms of impact on the sector, organizations, and their overall sustainability.

Experiences of CSOs for which self-financing is an integral part of their operations bringing significant benefits remain limited. As the Romanian funding environment continues to change, with non-EU funders departing and EU funding emerging, it is critical that CSOs position themselves to sell products and services and to generate revenues to supplement their fundraising. Furthermore, EU structural funds provide opportunities for CSOs to fund the start-up costs of self-financing activities related to training and employment models, and Romanian government contracting of social services also provides opportunities for the development of services.

It is important that CSOs develop self-financing activities in a professional manner and that some of these self-financing activities become full-fledged social enterprises providing significant financial and social impact.

CSOs should put emphasis on social enterprise planning to avoid the deviation of resources or missions towards enterprise models that do not bring significant returns. Assisting CSOs in the development of social enterprises requires the emergence of a support system, both from CSO support organizations and donors. Ideally, national donors will support self-financing on a long-term basis, and new organizations/programs will begin providing training, capacity building, and funding for social enterprises.

Finally, CSO self-financing would benefit from greater public support, both from the government and the general public. The legal and regulatory environment should be reformed to promote the use of self-financing, and the public should be educated on the positive aspects of self-financing to avoid misperceptions.

Appendix: NGOs Submitting Balance Sheets for Fiscal Year 2002, By County

County	Number of NGOs
ALBA	228
ARAD	487
ARGES	297
BACAU	302
BIHOR	748
BISTRITA-NASAUD	1,058
BOTOSANI	213
BRASOV	611
BUZAU	170
CARAS-SEVERIN	205
CLUJ	1,357
CONSTANTA	406
COVASNA	348
DIMBOVITA	432
DOLJ	459
GALATI	241
GORJ	175
HARGHITA	736
HUNEDOARA	308
IALOMITA	140
IASI	674
ILFOV	108
MARAMURES	526
MEHEDINTI	98
MURES	546
NEAMT	310
OLT	148
PRAHOVA	941
SATU MARE	292
SALAJ	126
SIBIU	924

County	No. of NGOs
SUCEAVA	891
TELEORMAN	74
TIMIS	639
TULCEA	110
VASLUI	137
VILCEA	794
VRANCEA	143
BUCURESTI[31]	823
CALARASI	81
GIURGIU	67
TOTAL	**17,373**

[31] Only for districts 2 & 5. Extrapolating to all six districts it is estimated that approximalety 2,500 organizations are active in Bucharest.