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Enterprise and  
Self-sustainability  
Team (NESsT)**

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Bioterra:

# Restructuring to Ensure Continued Growth of Self-financing Activities

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**ROMANIA  
CIVIL SOCIETY  
STRENGTHENING  
PROGRAM**



Developed in cooperation with Bioterra.



[www.bioterra.org.ro](http://www.bioterra.org.ro)



- 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” when these strategies are carefully assessed and planned to significantly strengthen the financial sustainability and the mission impact of the CSO.

## Executive Summary

Bioterra, the Association of Organic Farmers of Romania, 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.

Self-financing activities<sup>1</sup> have long been a part of Bioterra’s funding mix. Early on, the leadership of the organization 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 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 comes from 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 Bioterra’s membership is growing somewhat slowly (about 20 new members are added each year), they represent a core group that is committed to Bioterra and has a stake in its future 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 online 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.

## Section A: Organization Background

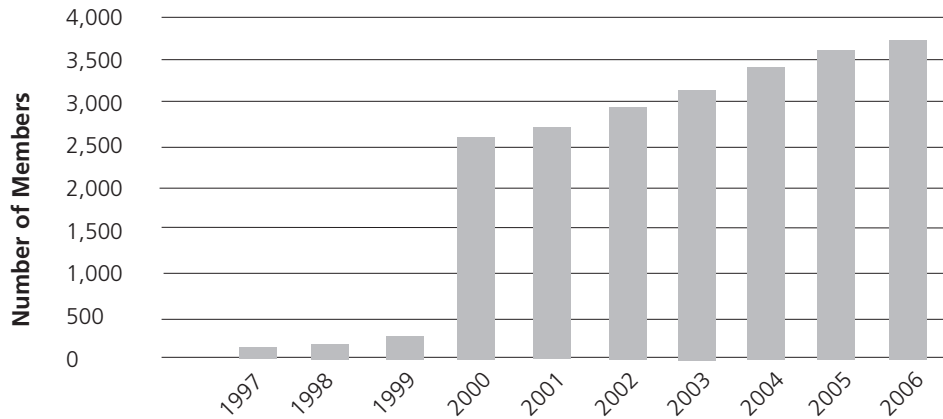
### A.1. Mission and History

Bioterra, the Association of Organic Farmers of Romania, is a nonprofit organization whose mission is to promote organic farming and food production in Romania. In support of its mission, the organization provides training and support for small farmers who want to cultivate and produce organic agricultural products. Bioterra is based in Luna de Sus, County Cluj, in eastern Transylvania.



Bioterra was created in 1997 by 26 enthusiastic founding members. The organization is open to all those who are adopters of organic agriculture and livestock production: farmers, traders and consumers throughout Romania. Since its founding, the organization has grown steadily, and at present there are more than 3,700 active members (who regularly pay membership fees) who together have about 32,000 hectares of land in agricultural production and about 17,000 livestock. The members of the association are agricultural producers owning small and medium holdings and some larger farms (up to 2,000 hectares) from all regions of the country, as well as trainers, educators, consumers and other stakeholders with an interest in the benefits of organic agriculture.

**Bioterra Paid Membership 1997-2006**



Since its founding, the organization has grown steadily, and at present there are more than 3,700 active members (who regularly pay membership fees) who together have about 32,000 hectares of land in agricultural production and about 17,000 livestock.

When Bioterra started its activities, interest in organic farming in Romania was not very strong and the level of organic production was low. As a result, the organization struggled to cover operating costs. It wasn't until 2002 that the organization was able to hire its first permanent staff member, the executive director. Until then, all of the work of the organization had been performed on a voluntary basis.

Every year, Bioterra participates in important agricultural and livestock events and exhibitions organized in Romania, including AGRARIA (Cluj-Napoca), Expoagroutil (Constanta), Indagra (Bucharest), as well as exhibitions and fairs in other countries. The organization has forged international ties and is a member of the International Federation of Organic Agriculture Movements (IFOAM) and the Avalon Network. Bioterra has developed relationships with similar associations in many countries, including Germany, Switzerland, Russia, Poland, Lithuania, Macedonia, Hungary and Armenia, in order to share information and experiences and develop joint projects.

Since 1997, Bioterra has brought organic farming experts annually from Switzerland to teach seminars in over 50 locations throughout Romania, with attendance reaching around 2,500 people. Bioterra also acts as a facilitator for farmers wishing to gain work experience on organic farms abroad. Each year



about 10 farmers (including young people) work for a short time on organic farms in Austria, Germany and Switzerland, enabling them to acquire knowledge and practical skills in organic agriculture. So far, approximately 500 people have taken part in Bioterra's training program both abroad and in Romania.

In 1999, with the support of foreign partners, Bioterra helped establish standards for organic production and introduced monitoring systems to ensure organic standards are followed. These have been recognized by IFOAM as the official standards for organic production in the country. In 2004 ECOINSPECT Srl, the first Romanian consulting firm to introduce mechanisms for organic inspection and certification, was set up under Bioterra's auspices.

Soon after it was founded, Bioterra published a handbook for organic agriculture, which included both general and specific rules for producing, processing, labelling and selling organic products. This guide has been revised, updated and published annually. Bioterra has been publishing *Bioterra* magazine, which is distributed throughout the country in both Romanian and Hungarian, since 1997. *Bioterra* is the only magazine in Romania exclusively dedicated to organic agriculture. Bioterra has produced a number of other publications, including books and brochures which provide information on organic technologies for plant culture and livestock-raising, as well as a guide to the Romanian legal framework and regulations for organic agriculture. These information materials are distributed and sold all over Romania as part of its educational and awareness-raising program. In 2005, Bioterra edited and published five books on topics related to organic production.

Bioterra organizes farmers markets for the sale of organic products in the Transylvania region, as well as workshops for farmers, exhibitions, roundtables and seminars on the health benefits of organic products for the general public. Bioterra has expanded its activities throughout the country by establishing "branches" in each region. Although the branches are set up as independent legal entities rather than as satellite offices of Bioterra, they are essentially sister organizations, founded and operated by Bioterra members and following the same mission and policies as Bioterra itself.

Bioterra's participation in events related to organic agriculture and best practices at both the national and international levels has contributed to an increased understanding of the importance of organic production in Romania. Bioterra had one of its best years in 2006, adding 180 new members. The total land area owned by new members who joined in 2006 was 13,629 hectares. There was also an increase in the number of members who regularly pay an annual fee to the organization, although that percentage of total membership is still fairly small. The organization also saw a significant increase in the number of subscriptions to *Bioterra* magazine.

## **A.2. Programs and Activities**

Bioterra furthers its mission through two primary activities: providing educational



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programs for members and potential members and raising awareness about the benefits of organic agriculture.

The educational programs include courses, seminars, workshops and roundtables organized in various regions of the country to inform and educate members, potential members and the public about the principles of organic agriculture and the proper techniques and methods for organic production. With the "Organic Farming Methods for Controlling Farm Waste and Compost" project, Bioterra, in collaboration with the Department for Environment Food and Rural Affairs (DEFRA), conducted a series of seminars in 12 towns and villages. These seminars included a wide range of technical topics relating to organic farming and products. Bioterra's educational programs also include field visits to demonstration farms, both in Romania and abroad, where participants can acquire practical knowledge. Under the auspices of its educational programs, between 2003 and 2006 Bioterra held more than 250 seminars in which more than 4,000 farmers participated.

In September 2006, Bioterra, along with the Organic Farmers Association of Romania, received financial support from the European Union's PHARE<sup>2</sup> program for the project "Workforce Occupation Through the Advancement of Organic Agriculture." The project's objective is to adopt and implement EU standards related to the organic sector, as well as to facilitate socioeconomic development and job creation in the field. The publication and distribution by the organization of *Bioterra* magazine, and of booklets containing relevant guidelines and information, are important elements of this project.



Bioterra raises awareness of the benefits of organic production, representing its producer members by organizing trade fairs and markets for organic products that bring together producers and consumers and facilitating dissemination of information to potential buyers. Another purpose of these activities is to market the organic products. The primary beneficiaries are Bioterra members and potential members as well as those consumers who wish to purchase organic products and do not know where and how to find them. In addition, Bioterra lobbies for public policies that promote organic agriculture, including subsidies from the Ministry of Agriculture for organic farming and production.

### A.3. Staff and Financial Information

Although Bioterra has been operating a number of programs with a high level of activity, the organization has had to manage with a small staff. At the beginning Bioterra was just able to cover its costs and much of its work was performed on a voluntary basis by founders and members. In 2002, the organization hired its first

2 PHARE is the European Union's pre-accession fund for countries that have applied to join the EU.

Bioterra's educational programs include field visits to demonstration farms in Romania and abroad, where participants can acquire practical knowledge.



- 3 The exchange rate on December 31, 2005 was used to calculate 2005 euro and dollar equivalents; the exchange rate on December 31, 2006 was used to calculate 2006 equivalents; and the exchange rate on June 30, 2007 was used to calculate 2007 equivalents.

paid staff member. Since 2004, Bioterra has maintained a permanent staff of four full-time employees and one part-time employee. The small number of employees is still perceived as a challenge for the organization, but Bioterra considers that with volunteer support (since 2005 one volunteer has been working on regular basis) they have been able to carry out the organization's programs and ongoing operations.

Over the last three years Bioterra's financial situation has been quite stable, with total income remaining more or less steady at RON 364,288 (US\$ 116,620) (98,460 euros) in 2005 and RON 357,152 (US\$ 138,220) (104,710 euros) in 2006<sup>3</sup>, without major changes in the percentages of income attributable to different sources. Approximately two-thirds of the organization's income comes from grant sources and the remaining one-third comes from self-financing.

### Sources of Income (% of Total Budget)

Funding Source	2007 (projected)	2006	2005
Foreign/int'l sources	31%	32%	32%
Foundation grants (local/national)	35%	35%	30 %
<b>Subtotal donations</b>	66%	67%	62%
<u>Self-financing</u>			
Membership dues	4%	5%	3%
Fees for service(s) including government or private contracts	22%	20%	25%
Product sales (publications)	8%	8%	10%
<b>Subtotal self-financing</b>	34%	33%	38%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
		<b>RON 357,152</b>	<b>RON 364,289</b>
		<b>US\$ 138,220</b>	<b>US\$ 116,620</b>
		<b>104,710 euros</b>	<b>98,460 euros</b>

Bioterra projects that its self financing activities will provide 34% of total income in 2007. Self-financing income will be comprised of service fees (22% of total income, 65.5% of self-financing), publication sales (8% of total income, 23% of self-financing) and membership dues (4% of total income, 11.5% of self-financing).

Bioterra views its financial position as satisfactory at present. In 2006, Bioterra signed a 41,845-euro contract with PHARE to conduct an organic agriculture project that includes 10 seminars throughout the country (thus far, four of the seminars have been held, with a total of 125 participants). This revenue will be



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reflected largely in 2007 and will increase the percentage of grant funding. However, Bioterra does not expect grant funding to increase substantially, as important non-European institutions such as USAID and Soros Foundation (which used to provide Bioterra with annual grants of US\$ 15,000) have started to withdraw their funding from the country in response to Romania's integration into the EU. Over the last few years the portion of the budget spent on program activities has remained constant at around 70%. The remaining 30% of the budget is spent on administrative expenses, including core operational expenditures. The main items in this category are wages and salaries (37%) and expenditures for office rent, building maintenance and equipment including depreciation (about 35%).

The organization has enough funding to support its main activities and manages to cover its administrative expenses mainly with funding from a Swiss donor, Crisliche Ostmission. At the same time, the organization faces the challenge of covering its core operational expenses into the future, as most donors' funding strategies tend to be oriented toward programs or projects rather than ongoing operating support.

## Section B: Self-financing

### B.1. Self-financing Activities

Bioterra started self-financing activities for both financial and mission-related reasons. In the first years after the organization was founded, all of its major financial resources came from international donors and grants from various national foundations. The difficulty of ensuring ongoing funding for implementing programs while at the same time supporting organizational development served as the motivation for Bioterra to seek different ways in which it could generate a steady stream of untied revenues. Bioterra's leadership also believed that self-financing could be used in a more focused way to promote the gradual development of mission activities: that is by increasing its revenues, the organization could expand its geographic presence by opening new branches and as a result increase the number of people interested in organic farming and products, and support a growing number of farmers converting to organic production.

Fees for Services: The majority of Bioterra's self-financing income (20% of total income in 2006) comes from consultancy services related to organic farming, including training in production methods and advice on maintaining separate accounting systems for organic production. The target customers are farmers who want to start or have already started organic farming, and who pay fees for the services provided by Bioterra. At present Bioterra supplies consulting services to 30 organic farms, and this number is likely to continue to grow in the future. To provide these services, Bioterra works with a number of qualified local and international specialists in the field and in partnership with organic farming organizations from abroad and other nonprofit organizations.

Small fees are also paid by farmers who go abroad for work experience and those

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Bioterra's leadership believed that self-financing could be used to promote the gradual development of mission activities: that is by increasing its revenues, the organization could expand its geographic presence by opening new branches and increase the number of people interested in organic farming and products, thereby supporting a growing number of farmers engaged in organic production.



Bioterra published eight books and brochures in 2004 and 2005 related to organic agriculture and the legislative framework for organic production in Romania. These publications have since been reissued and the organization now charges for them, earning untied revenues.

who attend organic demonstration plots to cover the cost of Bioterra's work in organizing these programs. However, they only represent a minor portion of self-financing income.

**Publications:** The second important element in Bioterra's self-financing (8% of total income in 2006) comes from the sale of specialized reference books and brochures on organic production and products and the quarterly *Bioterra* magazine which the organization publishes and distributes throughout the country, with the support of the National Agency for Agricultural Consultancy and the County Office for Agricultural Consultancy.

In 2004 and 2005 Bioterra, with financial support from different programs, published eight books and informative brochures related to organic agriculture and the current legislative framework for organic production in Romania. Initially these publications were distributed to participants in workshops and seminars at no charge. Bioterra then obtained the copyright for these publications. They were republished in 2005 and 2006 and the organization now charges for them. Given that the costs of writing and editing these publications were covered by earlier grants, the organization has been able to generate untied revenues from these sales. Romania's accession to the European Union means that further new editions of these books, as well as additional publications that address the EU organic farming legislation and regulations, will be needed.

**Membership Dues:** Membership dues are a third source of self-financing for Bioterra and represented about 5% of total income in 2006. There is a RON 20 (US\$ 8) registration fee and a RON 16 (US\$ 6.50) annual fee, and benefits include priority access to Bioterra programs, resources and events. Membership is increasing at a fairly steady rate. In 2006, the number of new members added was more than double the number added the previous year. Nevertheless, membership dues remain a volatile and comparatively small source of income.

## **B.2. Self-financing Start-up**

The idea of developing self-financing activities came to Bioterra more or less naturally. Bioterra identified the need to supplement its program funding from donors with self-generated resources early in its development. Although the organization had been quite successful in obtaining outside funding for projects, historically Bioterra's income has barely been enough to cover operational costs. As awareness of the benefits of organic production has increased and organic products have become more popular among farmers and consumers, the demand for Bioterra's services has grown. But not all of the resources necessary to scale up to meet demand have been forthcoming from donors. The organization's founders realized that a greater degree of self-financing was an essential means for furthering Bioterra's mission and could make the organization more effective and sustainable by generating more income to cover organizational development and increased staffing and administrative costs.

Bioterra's consulting services and publishing activities have been a part of its programs from the beginning of the organization and initially they were entirely



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donor funded, with DEFRA sponsoring of a number of publications. *Bioterra* magazine was first sold in 1997 and sale of publications began in 2002. Bioterra's consulting activities arose because it became evident that there was a growing need among farmers for technical information and that they would be willing to pay for access to the information through consulting services.

Initially, Bioterra did not set precise goals for its self-financing activities. The organization's goal was simply to generate income to partially cover its administrative costs. The initial financial investment in development of self-financing activities is not quantifiable since no distinction was made between the respective costs of selling services and products on the one hand, and general mission activities on the other hand. However, part of the increase in staffing costs from 2004, when three permanent staff were taken on, is certainly attributable to the growth of self-financing activities.

Due to the nature of the self-financing activities, Bioterra's initial investment in this area was relatively small. The founders supplied both financial and material support, such as a car and office furniture. Bioterra also benefited from considerable in-kind contributions from external consultants, professionals dedicated to sustainable, organic agriculture who wanted to support the organization, primarily to develop the operational plan and budget. The planning ensured that total expenses would not exceed total income. The self-financing activities have developed over time as opportunities arise, and because they have grown along with the organization's programs overall, Bioterra's existing staff has until now been able to manage those activities.



Bioterra has benefitted from considerable in-kind contributions from external professionals dedicated to sustainable, organic agriculture who have supported the organization by training farmers.

### **B.3. Self-financing Management**

Bioterra's self-financing activities are part of the nonprofit organization and are managed by existing staff. So far, no additional staff has been hired specifically for this purpose. The organization has a board of directors whose members include



- 4 Some of these organizations include:
- 1) AGRIECO: an association of academics who conduct research in sustainable agriculture;
  - 2) Agroecologia: a professional organization of people working in rural development and organic agriculture;
  - 3) ARAD: an organization that promotes sustainable development and healthy and efficient agriculture; and
  - 4) ECO rural: an organization that supports sustainable rural development and organic agriculture.

academics and specialists with knowledge and expertise in agriculture and related fields, and who are very committed to the principles of organic agriculture. For its consulting services, Bioterra utilizes the services of 11 external specialists.

There were initially two reasons for adopting this type of structure, in which the self-financing activities were integrated in the nonprofit organization, rather than established as a separate commercial (for-profit) entity. First, the self-financing activities were closely related to Bioterra's mission, and according to Romanian law, the organization was not required to establish a separate entity. Second, staff members felt that since the self-financing activities were small in scale, they could be managed by existing staff. Ultimately, using the same structure as the nonprofit organization was a way to save organizational resources. Although the organization's staff members and directors are mostly specialists in agriculture and related areas, with limited experience on the business side, they have relied on a common-sense approach and in-kind planning assistance from supporters to develop their income-generating activities, rather than seek out specialists with for-profit business experience.

Bioterra promotes its activities mainly through participation at events, conferences and exhibitions both in Romania and abroad. In 2006, Bioterra's representatives participated in the following events: the annual meeting of Byokultura Egyesulet (Hungary); the BioFach International Ecology Fair in Nuremberg, Germany; the Agraria International Fair in Cluj-Napoca, Romania; the Avalon International Conference in Prague, Czech Republic; the IndAgra International Exhibition in Romania; the Eco Life International Ecologic Fair in Romania; and a conference in Romania on "The Opportunities of Organic Agriculture in the European Union" with the participation of Romanian political leaders and government officials. In addition to participating in events, *Bioterra* magazine helps to promote the organization's activities throughout the sector and the country.

With regard to competition, there are similar nonprofit organizations<sup>4</sup> in Romania working on organic agriculture development and promotion of organic food and products. However, because the organic market is still incipient and awareness of the benefits of organic production and consumption is limited, Bioterra views these organizations not as competitors but as collaborators and partners both in terms of programs and self-financing, since they share a common overall mission of promoting and developing organic and environmental agriculture and consumption of healthy food by consumers. They also work together in promoting the government's adoption of enabling legislation for the organic sector.

#### **B.4. Prospective Self-financing Strategies**

Due to the growth of Bioterra's activities in recent years – including increased demand for its consulting services, feedback received at exhibitions, workshops, conferences and farmers markets, growth in membership, increased circulation of *Bioterra* magazine and rising sales of other publications – Bioterra believes that



there is still unfulfilled demand for services relating to development of organic agricultural production and that it should be possible to expand and diversify its self-financing activities. The organization has identified the following potential business opportunities (but has yet to decide which of these it will pursue, given the need for targeted market research):

1. Increasing the number of publications, including publishing *Bioterra* magazine more frequently, to address growing interest in organic agriculture and food products. Romania's accession to the European Union means that new editions of its technical publications will be needed to provide information on the requirements of EU legislation and organic farming regulations.

2. Sale of organic products. Because Bioterra is registered as a nonprofit organization whose main activity, as described in its by-laws, is to promote and support development of organic agriculture in Romania, the organization is legally prohibited from selling organic products. Thus the organization has, until now, been prohibited from exploiting a potentially significant source of income (see Section D on Legal Aspects below). In order to provide a marketplace for these products, the Bioterra website will be revamped to incorporate a CRM database for members and stakeholders. The website will integrate online commerce with a virtual market that brings together organic producers and consumers, and will generate revenues through fees charged to sellers to promote their organic products on Bioterra's website.

3. Agritourism services. A section dedicated to agritourism will also be added to the website. The site will promote local service providers in agritourism such as farmers who offer visits to organic farms and homeowners offering accommodations in rural areas. Bioterra will charge agritourism providers a fee for this service.

4. Increasing the volume of consulting services to address growth in the number of organic farms and the more stringent requirements of the legal and regulatory framework as it is aligned with EU legislation relating to organic quality standards, production and accounting systems.

5. European Union funds. As an EU member since January 2007, Romania is eligible for European structural funds<sup>5</sup>, some of which are destined for organic agriculture. Bioterra and Ministry of Agriculture representatives participated in a recent seminar in Germany on methodologies for accessing these funds. New Bioterra consultancy services will therefore include assistance to farmers for development of projects suitable for EU structural funding as well as for meeting new accounting requirements.

5 Structural funds are allocated by the EU to support poorer regions of Europe.

Bioterra believes that there is still unfulfilled demand for services relating to development of organic agricultural production and that it should be possible to expand and diversify its self-financing activities.





## Section C: Management Challenges

The main obstacle faced by Bioterra today is the need to increase capacity to manage its programs, including self-financing activities. The number of permanent employees has not grown in the last three years, as financial constraints have not allowed for additional hiring. Bioterra staff members are highly motivated and committed to the organization's mission. Nevertheless, as Bioterra's activity have increased and diversified, there is growing pressure on the team to perform more tasks and an increase in staff is needed to manage the growth in activity.

The major challenge the organization faces in expanding self-financing activities are the lack of experience among existing staff in business management,

particularly marketing and market research, financial management and business planning. Bioterra recognizes that it needs to bring in new staff members who have such expertise to develop its income-earning activities, and that these new employees should be professionals who are also motivated by the organization's mission.

The present organizational structure, whereby income-generating activities are operated from within the nonprofit organization by Bioterra staff, has clearly become inadequate. There is increasing concern that this structure could hinder the continued growth of the organization and the development of its self-financing activities. Bioterra's leadership believes that the creation of a separate entity for that purpose will enable self-financing activities to be carried out in a more professional, business-like manner.



The establishment of a separate entity for Bioterra's self-financing activities would enable its staff members to concentrate on promoting and teaching organic agriculture, livestock-raising and organic production.

A clear separation between Bioterra's mission-related programs and its self-financing activities would have a number of advantages. The nonprofit organization would be able to concentrate its staff resources, experience and expertise, gained over a 10-year period, on its primary mission objectives of promoting and teaching organic agriculture, livestock-raising and organic production. The new Societate cu Raspundere Limitata (limited liability company, or SRL) would be a commercial entity staffed by people with relevant knowledge and experience including financial planning, accounting, marketing and sales.

Further, the SRL would facilitate compliance with Romanian law, which prohibits activities that are not stipulated in an organization's bylaws. Through the SRL and as part of the website mentioned above, Bioterra would be able to earn income from self-financing activities that would otherwise not be permitted. Bioterra's self-financing revenue is already significant in relation to its operating budget and is projected to reach more than RON 100,000 (31,200 euros) in 2007,



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a level above the income-tax exemption threshold (see Legal Aspects section below). With new products and services, Bioterra's net income from self-financing is likely to grow even more.

The legal structure they have chosen is an SRL, which will enable Bioterra to stay focused on its mission. At the same time, the social enterprise will generate revenues to:

- provide resources for organizational development;
- ensure Bioterra's sustainability and the continuity of its programs;
- increase Bioterra's capacity to provide advice, training and technical consultancy to more farmers;
- strengthen the organization's capacity to publicize, promote and raise the profile of organic farming and products.

Another major challenge for Bioterra is the need to expand the market for its products and services. The organization has worked hard to overcome traditional attitudes about agricultural practices and policies in Romania. For more than 50 years under the previous political regime, most agricultural production in Romania was based exclusively on intensive methods employed in state-run farms. To obtain high levels of agricultural output, chemical fertilizers were used on a large scale, with complete disregard for both the health of the population and environmental issues. After the crumbling of the former regime, the idea of intensive agriculture remained popular, but at the same time, information about organic farming and its benefits became more widely available. Also, as the state returned previously appropriated lands to individual farmers, production on a smaller scale began to partially replace large-scale, intensive agriculture. Smaller farmers formed agricultural associations, seeking to increase their efficiency. Because many of these farmers, not to mention government agricultural officials, regarded organic and environmentally friendly agricultural methods as outmoded and obsolete, Bioterra has faced a difficult challenge in helping them to understand the benefits. In fact, in many cases organic crop and livestock production are not as efficient as conventional agriculture in terms of output per hectare, so organic producers have to charge higher prices to ensure profitability and to reflect the higher quality of their goods. In Romania, where the population's purchasing power has remained low in the years after the revolution, it has been difficult to offset smaller production volumes by charging higher prices.

To overcome these attitudes and practices, Bioterra has worked to educate farmers, consumers and politicians about the benefits of organic agriculture and product processing for the health of the population and the protection of the environment. It has raised awareness about the meaning of organic farming among all stakeholders. One of its key activities is lobbying the government, particularly the Ministry of Agriculture and parliament, to adopt legislation and new regulations to create a more enabling environment for the development of the organic sector.

Bioterra has faced a difficult challenge in helping farmers understand the benefits of organic methods. In fact, in many cases organic crop and livestock production are not as efficient as conventional agriculture in terms of output per hectare, so organic producers have to charge higher prices to ensure profitability and to reflect the higher quality of their goods.



## Section D: Legal Aspects

Bioterra is registered as a nonprofit organization under Government Ordinance 26/2000 and, as a result, is exempt from the payment of several kinds of taxes. Those exceptions included the value added tax (19%) until the end of 2006 when the law was changed and nonprofit organizations lost this benefit. Bioterra continues to be exempt from income tax, as long as the revenue generated by self-financing activities remains under the limit stipulated by the law (15,000 euros or US\$ 11,132 in 2007). However, Bioterra is subject to an employment tax and due to the nature of its agriculture-related activities, must also pay for licenses and approvals required by the Ministries of Agriculture and Labor.

Another set of laws affecting Bioterra's activities is related to organic agriculture itself, including ordinances 34/2000 and 38/2002 on Ecological Food Products and a set of laws regulating inspection, quality control and certification of ecological crops and products. Although most of these regulations are recent (since 2000), they are currently under review and changes are expected as the EU integration imposes a realignment of Romania's regulatory framework.

The social enterprise that Bioterra plans to set up as a limited liability company will be governed by laws affecting commercial companies and subject to taxes applying to Romanian businesses, including income taxes, which at present are charged at a flat rate of 16%. This tax rate would have applied in any case since Bioterra's self-financing income is projected to surpass the threshold for tax exemption in the near future. Thus, Bioterra will have to begin paying a significant rate of income tax, despite the fact that its self-financing is comprised of mission-related activities.

Bioterra considers that at present, legislation that applies to its self-financing activities is clear and readily accessible, although this was not the case when it began those activities. Many reforms have been made to the legal framework over the past few years and more changes are expected in the near future.

## Section E: Effects of Self-financing

Self-financing constitutes a substantial proportion of Bioterra's gross annual income, reaching 33% in 2006, and was as high as 38% in 2005, when grant income decreased from prior years. The organization does not track profits made on any of its three self-financing activities. In 2006, fee income, mainly derived from consultancies, provided around 60% of the total gross income originating from self-financing, with about 25% coming from sale of publications, and about 15% from membership dues. While demand for all of Bioterra's services appears to be increasing, it appears that fees earned from consultancies to farmers have the highest potential to generate a profit. Other services – facilitating work experience abroad and arranging sessions at demonstration plots – have been provided to farmers within projects/programs on a subsidized basis, and most farmers are unlikely to be willing or able to pay the higher prices which would make such services profitable. They will continue to be run by Bioterra, while

Bioterra's self-financing income is projected to surpass the threshold for tax exemption in the near future. Thus, Bioterra will soon begin paying a significant rate of income tax (16%), despite the fact that its self-financing is comprised of mission-related activities.



other self-financing activities will be shifted to the new SRL.

In large part due to the revenues generated by self-financing activities, Bioterra currently enjoys a relatively stable financial position. These revenues have helped cover the operational expenses of the organization and assisted with the continuity and development of its donor-funded programs. Based on this experience, the organization is also now considering launching several self-financing activities which will allow it to further diversify its funding sources and generate new revenue streams.

**Self-financing Income as % of Total Income**

	2007 (est.)	2006	2005
Membership dues	4%	5%	3%
Fees for service(s)	22%	20%	25%
Publication sales	8%	8%	10%
<b>Subtotal self-financing</b>	<b>34%</b>	<b>33%</b>	<b>38%</b>

Mission Impact

Bioterra began its current self-financing activities in its early years. Given that the activities are mission-related and provided at a cost within financial reach of its beneficiaries, they have helped to expand its mission impact. Further, by securing enough funds from self-financing activities to cover most operational expenses, Bioterra has been able to develop related programs and activities. The orientation of the present staff appears to have remained focused on the mission objectives.

At present, Bioterra operates in a developing market with an increasing demand for knowledge and expertise in organic agriculture and farming. The mission-related self-financing activities have contributed to consolidating Bioterra's reputation and raising its visibility. This has influenced the organizational culture, motivating staff as well as stakeholders and providing support for the future development of the social enterprise.

Impact on Organizational Development and Sustainability

The management and staff of Bioterra have gained enough experience over time to allow them to run a relatively low level of self-financing activities. The organization has also occasionally had access to low-cost or free business and financial planning advice from outside consultants, as was the case during the start-up of its self-financing activities. However, the organization's staff does not have the specialized management, financial and planning capacity either to increase its present activities or to diversify into additional ones. It is hoped that once an SRL staffed by professionals with business expertise begins to manage the self-financing activities, such in-house expertise will benefit the organization overall.

Through self-financing, the organization has gained support for its cause and new



stakeholders and members who are committed to its mission. The reaction of donors to Bioterra's self-financing activities has been encouraging, since they recognize that these activities are mission-related and that the mission objective would be more difficult to achieve without them. Bioterra has developed several partnerships as a result of its self-financing activities, including with the National Agency for Agricultural Services and with the University for Agricultural and Veterinarian Sciences. There are a number of other organizations (national and international) as well as donors who have expressed interest in Bioterra's activities and in developing future partnerships.

The social enterprise is also expected to enable Bioterra to get access to further funding from the EU structural funds for organic agriculture.

## Section F: Conclusions and Lessons Learned

Bioterra has reached a turning point in its self-financing activities. As it seeks to grow and diversify its services and products, the organization has seen that its existing staff is less able to handle the growing volume of self-financing activities. The leadership recognizes the need to hire staff with business skills who can also respond to new opportunities. Bioterra plans to hire these professionals as part of the new SRL which it will wholly own. Present management not only recognizes the need for the SRL to ensure long term organizational sustainability, but is also enthusiastic about developing a social enterprise.

Further, Bioterra realizes that it will need to plan well if it is to both diversify and increase the volume of self-financing activities. The organization is planning to initiate several new activities, where a good understanding of the market and competition is essential. Business plans for both existing and future activities will need to be developed, including guidelines specifying how the profits generated by the SRL will go to support the organization's mission-related activities.

At the same time Bioterra will need to establish and maintain a strong organizational link with the SRL, since the experience and expertise of the organization itself will be key components for self-financing success. The employees of the SRL should be not only business specialists, but also committed to Bioterra mission, to ensure that the organization's objectives are not lost in the pursuit of commercial aims. Clear parameters for the SRL's activities should be established to avoid compromising the organization's mission. Activities and attitudes that could pose a threat to Bioterra's mission should be identified and mitigating strategies developed early on. These threats could include:

- focusing too much on activities directed towards larger enterprises with a greater ability to pay, leading the organization to neglect the interests of smaller farmers;
- a perception on the part of existing donors, partners, in-kind consultants and even members that the income-generating activities of the SRL are more important than fulfilling Bioterra's mission of promoting and expanding organic production practices, particularly as the SRL expands. This could lead to less support for Bioterra;

The employees of the SRL should be not only business specialists, but also committed to Bioterra mission, to ensure that the organization's objectives are not lost in the pursuit of commercial aims.



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- given the somewhat unclear and changing regulatory environment for self-financing, the organization could become more susceptible to misperceptions among the general public regarding its income-generating activities as well as unfavorable legislation regulating these activities.

But the landscape for Bioterra's expansion of self-financing activities is a positive one overall. Rapid growth of the market for organic products is already evident in Western Europe, and there appears to be growing interest in organic production among Romanian farmers and consumers. Farming in Romania is done at relatively low cost compared to other parts of Europe, and the country is therefore well placed to supply foreign markets in addition to the domestic market. Bioterra's long history in this growing sector should help to ensure the commercial success of its social enterprise, which in turn should increase its mission impact.