



THE WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

POLICY BRIEF #21

BETWEEN DEPENDENCY AND SUSTAINABILITY

Cornelia Predoiu*

January 2005

* Cornelia Predoiu has been a leader in the non-profit sector since 1995 and is currently the program coordinator at The Princess Margarita of Romania Foundation.

Overview of the NGO sector in Romania

Fourteen years after democratic changes occurred in Romania and its civil society underwent revival, the country's non-governmental organization (NGO) sector is still in its developmental stage. A large number of NGOs have been established since then, and many of those were founded with the goal of positively influencing society. However, some NGOs were created by individuals who were motivated by financial opportunities arising from the influx of foreign donors. In any case, citizens who are not involved in the third sector know very little about NGOs and what motivates people to participate in them.

The Civil Society Trust, which conducts research in Romania, has compiled the following findings on Romanian non-profits. The study results suggest that the prevalence of certain stereotypes and attitudes creates an environment that is unfavorable for raising community resources.

- The population as a whole, and the business sector in particular, favor and value short-term profit versus long-term gain (the general economic environment and widespread poverty may dictate these feelings).
- Many NGOs, especially the larger, better known ones, are viewed by many citizens as rich and internationally funded. Therefore, many believe these groups should be resource providers rather than resource seekers.
- The role of civil-society organizations is generally not well-known or understood, and thus, there is a certain level of distrust toward these organizations.
- Individuals and the business sector often associate philanthropy and charity with the church, and therefore, religious organizations are the most successful fund-raisers.

Grants from foreign donors continue to be the major source of funding for NGOs, which have failed to make strides toward achieving financial sustainability or promoting their programs and public images. Less than 1% of Romanian employees work in the non-profit sector. The membership base of NGOs also remains low. Only 7% of Romanians are members of NGOs, compared to 41% who belong to condominium associations or 36% to labor unions.

These statistics indicate organizations have little incentive to fund-raise locally or even domestically. Many NGOs have adopted measures to combat grant dependency, but community fund-raising alone is insufficient. This paper examines different forms of fund-raising and various strategies to achieve financial sustainability.

Grants

The Civil Society Trust study found that institutional donors have played a critical role in fostering the creation of the NGO sector in Romania and supporting its development. However, this very close relationship has generated a high level of dependency as well as

approaches that may inhibit further development of particular organizations or the sector. Certain characteristics

of the institutional-donor approach threaten to have a negative impact on the future of the NGO sector:

- Short-term support has led to a "project culture," in which only a few donors offer support for periods longer than one or two years.
- Despite the recent advances and successes of the Romanian Donors Forum, many believe there is significant room for improving cooperation, coordination and information-sharing among institutional donors in Romania.
- Significant gaps exist in the amount of support and program areas being funded.
- Few donors are willing to provide funds to cover developmental costs or institutional support.
- Much of the monitoring and evaluation is highly quantitative and focuses on outputs and results rather than impact.

The democratic changes that occurred in Romania in 1989 attracted the attention of international donors, which helped to develop Romanian civil society and the third sector. Now, many donors are withdrawing from the country, following its stabilization and the numerous improvements that have taken place. NATO and European Union accession serve as indicators for these donors, the largest of which are the United States Agency for Development (USAID) and the European Commission (EC). Although some domestic donors exist, many redistribute foreign funds received from international donors and thus can not be considered purely domestic. So organizations are turning to other initiatives, such as fund-raising campaigns and special events, designed to raise funds from citizens.

Project-proposal funding remains the main source of income for NGOs, accounting for up to 80% of organizational income, but dependency on this type of funding is dangerous. While international donors are downsizing their support in Romania, domestic donors also are feeling the crunch and, subsequently, limiting the number of grants. Romania's "success" in the transition process has created a squeeze for the NGO sector. Competition among NGOs for ever-diminishing sources of funding is becoming increasingly fierce.

Government subsidies

Romania's public institutions have initiated a program in which they grant subsidies for NGOs. However, both the competition and bureaucratic infighting are formidable. The procedures imposed by social-services legislation (law 34/1998) allow NGOs to receive money either from the federal government, if they offer services for many counties, or from the local government, if they provide services at the regional level. Local governments often face budget constraints, so NGOs have to convince officials of a project's purpose and worth. The federal government has dedicated money to the areas of environment, youth development and the social sector.

Sponsorships and donations

Many Romanian NGOs rely on sponsors and donated monies from their own country and abroad. Sponsorships and donations are financial or in-kind from both private institutions and individuals. In the years immediately following the democratic changeover, there was significant interest in the country among foreigners and Romanians living abroad. Many foreign NGOs partnered with domestic Romanian NGOs. Charities from abroad launched campaigns to educate the public about some of Romania's most pressing social needs and initiated fund-raising events and volunteer programs. Citizens from developed countries spent their vacations working in Romanian orphanages, hospitals and community-based programs and activities.

Research on the philanthropic behavior of Romanians, conducted by the Association for Community Relations in 2003, revealed 56% of the respondents had never participated in charitable giving while 26% had donated money during the period of 2001-2002. The results also showed 6% of citizens had given in-kind donations and 12% had donated both money and products. The church received 44% of the individual donations while NGOs received 35%. Citizens also contributed to kindergartens (pre-schools), medical institutions and public authorities.

Businesses displayed slightly different philanthropic behavior. Results showed 61% of the companies surveyed had never made charitable donations, 15% had donated money, 10% had donated products and services and 14% had donated both products and money. Businesses also chose their recipients in a slightly different way. According to the findings, 18.4% of the donations went to NGOs, 17.1% to schools and kindergartens, 16.5% to the church and the remainder to medical institutions, public authorities, companies and government.

In 2003, the Association for Community Relations initiated the People for People Gala, the first event to celebrate business and individual philanthropy and volunteerism. The annual event, which has gained renown and visibility, promotes philanthropy and social action.

The 2003 Civil Society Development Foundation survey, *Needs and Trends of the Nonprofit Sector*, revealed a highly positive correlation between fund-raising and good communication/interaction with stakeholders. The more stakeholders understand and become an integral part of NGO efforts, the more likely they are to make financial contributions. According to Ministry of Finance data, sponsorships and donations accounted for 34.4% of NGO income in 2002.

NGOs have demonstrated that when they are provided with the right incentives, they can attract business investments in social services. However, most NGOs still find it difficult to involve private companies in their activities, thereby missing a valuable opportunity to enhance program effectiveness, financial viability and sustainability.

Marketing and selling products

NGOs try to subsidize or round out their budgets by selling products made by their clientele. The products are often handicrafts made by children, youth or elderly persons in day centers, workshops or residential centers. The products are sold at special markets and events, but generally, sales occur sporadically without a comprehensive business strategy. Many NGOs try to market their products around the holidays and package them as attractive gifts for the families and friends. However, some products lack market appeal and are difficult to sell, so these sales take place at special stands during events sponsored by donors whose stores that provide free space or sponsor fairs.

Selling greeting cards is the most well-developed fund-raising activity. Cards are ordered in advance by companies and individuals or are offered for sale at markets or bazaars in different regions. NGOs also sell directly to sponsors and selected companies that collaborate with them. SOS–Children’s Villages Romania has developed a Web page to handle the sale of different styles of greeting cards.

Fund-raiser mailings

Fund-raising campaigns conducted through mailings are becoming increasingly popular because they require the least effort to reach the most people. Many NGOs also view this venue as the easiest method to communicate with company executives and other influential members of society. Despite the increasing popularity of mailing campaigns, their effectiveness is questionable. Response rates indicate very few people actually respond to the solicitations. Most NGOs fail to follow up on these mailings, so response rates are near zero.

One of the most successful mailing campaigns in Romania was developed by SOS–Children’s Villages Romania, based on methodology from their Austrian counterparts. The campaign organizers work closely with a database company to compile a target list based on criteria that they believe will increase the response rate. Even so, their rate of response has been less than 1% per every 50,000 requests sent.

The Romanian Association for Community Development has adopted the strategy of including a small amount of money in their solicitations, hoping to prompt recipients to send back the original money and a donation. The amount of money included in each request is relatively insignificant — 0.25 euro. The results of this experiment are still pending.

Although instruction on effective fund-raising, including methods to personalize solicitation letters, is available to NGOs, the impact seems to be inconsequential.

Memberships fees and fees for services

A USAID study indicated membership fees are becoming an important fund-raising strategy and now account for 17.9% of total NGO revenues worldwide. In Romania, membership fees have not yet proven viable and remain an insignificant source of funding, except for associations related to professional groups and unions. Many organizations do not feel collecting membership fees is compatible with their missions. Those groups that do collect membership fees have set the level so low, due to citizens' budgetary constraints, that the total amount raised is insignificant.

Charging fees for services is also a sensitive issue. Historically, NGOs have provided services for free, and many groups are reluctant to change this. Further, it is clear many citizens would be hesitant to pay a fee for a service they were used to receiving free of charge. However, development experts and even some NGOs are starting to question this strategy, because the true value of goods and services is not perceived by recipients. In any case, NGOs must make people aware of the fact that donor contributions are decreasing, and they must find other ways to subsidize their programs in order to stay in business.

Finally, the few existing fees charged for services are usually not priced at market value and only partially cover the cost of those services. These fees must be increased incrementally to have the desired outcome.

Corporate social responsibility

Corporate social responsibility (CSR) is a new concept in Romania, encouraged largely by multi-national companies that feel obliged to promote social good. Multinationals that embrace CSR practices have supported related services, public-awareness campaigns and NGO programs. The first of these companies, Canadian Mobifon, launched a payroll-giving project in 1998 whereby the monthly employee contribution was matched by the company. This fund-raising effort proved extremely successful, and from these funds, the company subsequently created the Sirois Foundation, the first corporate foundation in Romania.

Other companies have developed community programs either in collaboration with a local NGO or with support from an overseas foundation. Pfizer Corp. has supported a health-education program for teen-agers in collaboration with the Princess Margarita of Romania Foundation. Pfizer Corp.-Romania contributed half the funds while the other half was provided by the Pfizer Foundation in America.

Partnerships are flourishing in Romania, largely as a result of educational efforts by NGOs. However, multinational firms, not domestic companies, are the primary participants in CSR efforts. Romanian companies tend to prefer more traditional giving once or twice a year rather than participation in a partnership that involves more intensive giving or ongoing collaboration.

NGO-private sector partnerships may increase after January 2005 when the “1% law” became effective. This law allows employees to earmark 1% of their income-tax contributions for a specific NGO. NGOs have been marketing themselves as attractive recipients for this program.

Special campaigns and events

A creative, widely adopted alternative to fund-raising in Romania is the organization of special campaigns and events, including galas, balls, dinners, tele-thons, auctions, marathons, concerts, sale exhibitions and charitable trips.

NGOs have developed their own strategies for conducting these events, some of which have become nationally recognized. For example, “Christmas Trees,” established by Save the Children Association, is an event where Christmas trees are decorated by famous designers using a combination of natural and high-tech materials. The trees are auctioned off during an evening gala attended by business leaders and celebrities. The event is sponsored by many large companies and receives national television coverage. Last year’s proceeds topped 60,000 euros, which were donated for the purchase of books for schools in the rural areas.

The Princess Margarita of Romania Foundation held an auction of products made by children who participate in social programs to raise money for NGOs, which are grantees of the foundation. The products also were sold in a special display at a supermarket.

Some NGOs work with foreign volunteers to organize and conduct fund-raising events. One example of this collaboration is a bike-a-thon started by the Hospice of Hope in Brasov, Romania, in which young people are invited to participate in a cross-country mountain-bike tour, if they are able to raise pledges of 1,500 euros or more. This event gives youth an opportunity to explore their own country while, at the same time, raising money for a worthwhile cause.

Campaigns and special events have grown in popularity since 2002 when television stations started providing free air time for many causes, including the plight of the Roma minority, abused children and women, HIV, disabled citizens and immigrants. Advertising companies have collaborated with the NGOs (often on a pro-bono basis) to create television spots promoting these causes. Many of the promotional spots have received international recognition in advertising contests.

Economic activities

USAID research confirms that 18% of NGO income is generated by commercial activities, many of which are conducted by chambers of commerce and private universities, which are

registered as NGOs. Other examples of commercial endeavors include consultancy services, training, feasibility and marketing studies, and the sale of products made by NGO beneficiaries (e.g., the proceeds from the sale of bread baked by teen-agers or wood products carved by disabled persons help to fund the centers where the teen-agers or disabled people are cared for).

A limited number of NGOs participate in income-generating activities that are truly run in a businesslike manner. In many cases, the commercial activities are closely related to the mission of the NGO and are operated entirely through the non-profit. However, some NGOs have launched unrelated companies and registered them as separate organizations. For example, an NGO called AIDROM has opened a successful mini-hotel in Bucharest that caters to the non-profit sector by providing rooms, meals and conference space for events sponsored by NGOs. The Hospice of Hope has converted its own training center into a for-profit activity by renting out space and providing accommodations.

Other NGOs have opened second-hand clothing stores, rural *pensions*, and care-giving facilities for children and the elderly. Although many of these operations are successful to some degree, they must continue to focus on developing professional skills and adopting strategies utilized by for-profit institutions.

Summary

NGOs in Romania receive funding from a variety of sources, including grants, donations, sponsorships, subscription fees, government subsidies and commercial activities. Grants are the principal funding resource for most NGOs, and the competition is fierce.

For the long term, it is clear Romanian NGOs must improve their fund-raising capabilities and reduce their reliance on grants. Thus far, only 18% of NGOs have adopted some sort of commercial approach to raising funds. This strategy must become more widespread if the sector is to survive and thrive. In addition, NGOs must be more proactive in establishing corporate partnerships based either on contributions alone or on a higher level of collaboration. In this vein, it is important that NGOs educate Romanian companies about the need to participate in philanthropy and socially responsible programs. Commercial sustainability remains a problem, and many donors believe NGOs are not doing enough to develop fee-for-service programs and other commercial activities.

Romania's accession to the European Union will bring new challenges and international competition for NGOs. Fortunately, it also will generate new opportunities for fund-raising and collaboration.

References

Trust for Civil Society, Report of the consultation process in Romania, May-August 2004

USAID, Bureau for Europe and Eurasia, Office of Democracy, Governance and Social Transition, The 2003 NGO Sustainability Index for Central and Eastern Europe and Eurasia, Seventh Edition- June 2004

The Association for Community Relations, Directions of the Philanthropic Behavior in Romania: Individuals and Companies, September 2003

ABOUT THE AUTHOR

CORNELIA PREDOIU, received her BA degree in social work from Bucharest University. She received a USAID scholarship to study nonprofit management and social services at The George Washington University Graduate School of Education. She has been a leader in the non-profit sector since 1995. She managed the Sperante Foundation until 2001. In 2002 she joined The Princess Margarita of Romania Foundation where she is a program coordinator. Her portfolio includes support for NGOs through a grant making program that focuses on institutional development.