

Financial Resources of NGOs

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Abstract

Due to the low funding levels registered in recent years in the NGO sector in Romania, many NGOs have faced a number of difficulties, some of them have ceased to carry on business.

Financial position of the governmental sector is poor, especially for large organizations that are strictly dependent on foreign funds. For the good functioning of NGOs activity, it is requiring a constant concern for financial fundraising. The article aims to present the diversity of financial resources of NGOs.

Keywords

Financial funds, funding, donor, project

JEL Codes: M29

Introduction

The current situation of the nongovernmental sector can be described as unstable, strictly dependent on grants for specific projects, fact constituting a rare opportunity for most organizations. It should be mentioned that such projects present a limited potential for continuity.

At the situation described above there are exceptions, which are represented by a very reduced number of organizations with foreign partners or long-term donors, situation which offers the necessary means to balance the resources for substantial periods of time. These discrepancies have as the effect the difficulties on long-term planning, on the improving of services and on the organizational development for any organization being in such a situation.

Types of NGOs' funding

The fundraising methods are varied, and between these the most used in Romania are as follows:

- The application form;
- The direct request;
- The donations;
- The sponsorship;
- The public funds;
- The income from own activities;
- The members fees;
- The 2 % campaign;
- The inheritances.

The most widely used financial instrument in Romania is *the application*. In order to prepare an application for funding it must carry on the following stages:

1. The identification of the subject for which it is requiring funding;

2. The plan of activities and budget;
3. The identification of the funding resources;
4. The preparation of the application form itself.

The application form is that document which requires money to solve a problem that has been identified by the organization; it seeks to fulfill predetermined objectives for a limited period of time and which involves some costs. It may have several components, a cover letter to accompany the application, the presentation of the organization, the project summary, the purpose and the objectives established, the evaluation methods, the project budget, the project sustainability, and the necessary enclosures.

The direct request is a letter to a potential donor, who may be natural or legal person. In the letter it should reveal the reason for requesting financial support and what is the amount. Also, it should be identified a target group to whom have to be sent the letters, whose profile matches the purpose of the project that the organization wants to carry out. These can be customized and it is preferred to be sent in large numbers because it is the possibility that not everyone can read them.

The donation¹ is an unilateral contract to be signed in original (logged at public notary), by which one party, called the donor, sends ownership of an asset to other party, called the donee, in irreversible way without waiting from the latter any counterservice.

In practical activity, the acquiring donations faces a number of difficulties, even if it is one of the main sources of funding of NGOs. These difficulties are due, on one hand, to some restrictive regulations of the law, on the other hand, to a certain lack of experience from the part of NGOs in to make known the projects and the needs.

Both foundations and other non governmental organizations that need funding must address in order to receive donations, above all to the foundations. Currently, foundations supporting NGO projects are especially foreign foundations, precisely because the Romanian ones are in the paradoxical situation set out above. The regulations regarding foundations specialized in fundraising, as are mentioned in Government Ordinance no. 26/2000, it is hoping that will lead to solving this problem. Therefore, the most frequent donors are not individuals, who usually contribute to support NGOs activities by certain special forms of donation, especially public collection to which I refer below. Between donors are not companies because they do not receive any financial incentives from the contract of donation concluded, so they prefer a kind of contract of sponsorship able to give them such facilities. So, a NGO can receive donations in the country or abroad.

Donations received from the country – Most papers referring to the ways of fundraising stresses the importance of local support in development of projects of NGOs. Even potential foreign donors are interested to know that the project they intend to support is encouraged also by donations from the country. Therefore, it is not to be neglected the possibilities to obtain funds or material goods by donations received from the country.

Donations received from abroad – Supporting activities of a non governmental organization may be not only internal, but external. However, the receipt of foreign donations implies more precautions.

A form of donation is public collection about which in Romanian legislation is not a specific regulation. It consist in issuing a call to the public to contribute to the development of a non-profit activity. This fundraising method do not match any action, so for this reason the actions taken must solve as general possible and the utility of the problem to be understood as soon as possible by the general public. For this purpose, often are implied artistic and cultural figures, because their presence can guarantee of worthiness, thus is shattered public reluctance. Therefore, organizing shows for fundraising is in fact a modern variant of public collection. Even though these shows are televised or not, they are modern and, in the same time, efficient fundraising instrument, consisting both in amounts obtained as ticket price,

¹ *** Consilier, Organizații Non-Profit, Rentrop&Straton, Grup de Editură și Consultanță în afaceri, 2000

and those donated by the public on this occasion. For the amounts obtained from the proceeds of the shows organized for humanitarian purposes it is a relief for performance tax. Public collection has many advantages, among which may be mentioned simplicity, amounts not to be recorded in authentic contract, as in the case of a donation, public collection being considered handy gifts, which is concluded by simply handing the donated amount or asset. The public collect implies the existence of appreciable initial funds. To be successful such an action it is necessary to take into account several factors such as the welfare of the public, its civic level and the measure in which the public feels involved in the initial project.

The sponsorship is the donation by a legal or a natural person, who is actively involved in community in which he develops his activity, of money or material assets to another person or institution for humanitarian or altruistic purpose. In the case when the sponsorship is based on disposal of material goods, these will be evaluated through sponsorship contract valued at the time of their submission to the beneficiary. In other words, the sponsorship is a contract by which two people agree on the transfer of ownership of material assets or financial means in order to sustain some non-profit activities, which are carried out by one part, called the beneficiary of the sponsorship.

The beneficiaries of sponsorship include: every non-profit legal person who carries or will carry out an activity in the:

a) cultural, artistic, educational, scientific, humanitarian, religious, sports, protection of human rights, healthcare, social services, environmental protection, economic, social and community development, representing the professional associations, and also in maintenance, restoration, preservation and in enhancement of monuments and historical sites.

b) public institutions engaged in activities defined in point a), any person whose activity in the areas referred in point a) is recognized by a legal non-profit organization or a public institution operating in the domain in which the sponsorship is requested.

Foundations can not conduct business, they just operating from the contributions of the founding members, money obtained from leasing land they own or leasing building from their property.

Sponsorship contract is not the contract of donation or advertising contract.

In the case when are not drawn sufficient resources from the private sector or the large public, it is necessary to rely on public funds. The main ways of involvement in supporting the new non-profit sector from the part of government in Romania are²:

1. *direct funding through grants from the state budget.*

In their turn, this frequent type of support was realized:

- by own competition programs developed by ministries;
- at request, by allocations from the budget of ministries.

European Union countries support by programs the funding of NGOs, the latter having just designed to take some of the government functions, solving problems that can not be solved by the executive.

Foundations retain private character, even they receive state subsidies, which may be granted to non-governmental organizations according to the proposed goal, under legal conditions of funding programs and in conformity with afferent contracts of funding programs and of projects initiated and carried out.

The article 38 of Government Ordinance no. 26/2002, provides that there is a class of non-governmental organizations which have the right to receive public services, as the privileged right at resources from the the state budget and local budgets, i.e. associations and foundations recognized as being of public utility. According to article 38 of Government Ordinance no. 26/2002, an association or foundation can be recognized by the Government

² Plumb, I., Androniceanu, A., (2003), *Managementul serviciilor publice*, Editura ASE, București

as public utility if the following conditions are met:

- a. operating in a general or community interest, if any;
- b. operates for at least three years and made a part of the objectives set;
- c. submit a report showing previous significant activity by carrying out programs or specific projects to its goal, being accompanied by balance sheets and income and expenditure budgets for the last three years;
- d. do not record decreases in the value of the assets each year of the original property.

Both the Romanian Government and foreign donors prefer concluding financing contracts, on the base of a program, regardless of the field, with NGOs than with economical agents, this fact representing a very important advantage of making an association in the form of NGOs. Financing contracts are concluded but only on the base of detailed programs, which are conditioned as follows:

- a. to be of interest, addressing vital issues of the day;
- b. to be real (the financing are concluded more often based on a concrete and limited program than one on a large scale);
- c. to be of interest for financier (the program is realized in collaboration with the ministry of finance and the contract is more likely if the program matches with the strategic policy objectives of the ministry);
- d. to be feasible (the feasibility is inversely proportional to the magnitude of the project and the strength and prestige of the NGO proposing the project).

2. the governmental mediation by instituting at national level of the international funding programs of the non-profit sector.

May be mentioned here external programs from funds of some international public organizations, having as object also Romanian non-profit organizations (e.g. PHARE, USAID, Know How Fund, SAPARD).

3. the direct material support provided by the local authorities

In this regard, a number of NGOs have prevailed of humanitarian missions to seek cooperation of municipalities in obtaining tax incentives to enable their activity. Thus, municipalities, prefectures or decentralized services of administration, depending on skills may provide some facilities to non-governmental organizations, such as: offices, reductions or exemptions of rent paying, some equipments (installation of telephones, furniture), lands to build (for orphanages, hospitals, places for worship), free building permits etc.

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The reality of our country shows that the sponsorship represents a main and viable way to support NGOs. This is proven by the fact that till now these organizations were and are supported through sponsorship by businesses from our country and from abroad, according to the law.

The revenues from its own activities – NGOs can carry out certain economic activities, and revenues thus obtained have merely incidental character to their funding resources. The fact remains that they are organized in the manner prescribed by law for such activities (e.g. in the form of companies organized under the Law no. 31/1990, as amended) and are taxed accordingly.

Economic activities – The NGOs are characterized, above all, by their non-profit activity, in the sense that the activities they have never aimed a profit distributed as dividends. NGOs seek, by definition, the development of general or community interest and even when they are constituted in the advantage of their members, have as objectives the fulfilment of their par excellence non-patrimonial interests.

From this point of view, the Law no. 21/1994 was extremely restrictive. Only associations, not and foundations, had the right to conduct business and only incidental in relation with the main non-profit activity. Therefore, many NGOs have faced financial problems because donations and sponsorships (especially in the conditions of a non-encouraging sponsorship law), could not be always sufficient to achieve the objectives.

In practice it could often meet situations in which the court accords juridical personality even to some foundations proposing since incorporation carrying out such activities, even if according to the law, the foundations had not the right to do business. Even and the tax laws started to admit indirectly that both categories of legal entities may conduct business. But the doctrines keep on insisting on the rule of law still in force.

In this contradictory context entered into force the Government Ordinance no. 26/2000 concerning associations and foundations, published in Official Gazette no. 39 of 31 January 2000, which regulate explicitly and unitary this issue. According to this ordinance both associations and foundations may conduct economic activities in two forms:

a) The direct economic activities

These activities can be deployed only with accessory character and only if they are closely related with the primary purpose of the legal person (article 48 of the Government Ordinance no. 26/2000). These economic activities are organized into units without legal personality and the obtained profit from conducting of these activities will be used to develop and equip these units, either to achieve the main objectives for which the association or the foundation was established. This profit will never be distributed to the members of the association, to the founders or to the board members.

Regarding the profit tax, the Government Ordinance no. 76/1994, as amended, also provides, at present, only one exemption. So, are exempted from profit tax payment "economic units without juridical personality of blind organizations, of disabled persons organizations or of persons with disabilities organizations".

Other economic units established as non-profit organizations are not exempted from income tax, being repealed the provision after the entry in force of the Government Emergency Ordinance no. 217/1999 under which associations and foundations are profit tax exempted if they use at least 80% of the revenue to achieve the main purpose for which they were established.

b) Companies

According to article 47 of the Government Ordinance no. 26/2000, associations and foundations may establish companies. To this purpose, they may be associated with other natural or legal persons, including non-profit legal entities.

The establishment of the companies should be only a form of obtaining the income needed to run the non-profit organization. As a result, Government Ordinance no. 26/2000 provides that the dividends obtained by associations or foundations in activities of such companies, if are not reinvested in the same companies, are used compulsorily for the achievement of the purpose of the association or foundations.

If an NGO is associated in the frame of a company, it will be obliged to pay tax on dividends, even if they use these dividends to achieve its non-profit objectives. If in the case of direct economic activities, the law requires the condition that they have accessory character and they are in close relation with the main purpose of the legal entity; in the case of the activities organized under the form of companies such a condition is not more imposed.

The law does not distinguish between different forms of organizing of companies set up by associations or foundations. It follows that it is permitted to set up any forms provided by the Law no. 31/1990, as amended (public limited company, limited partnership, limited partnership with shares, general partnership, limited liability company). Not being imposed also the condition of associating in order to set up a company, it results that it is possible the setting up of a limited liability company whose sole shareholder is the non-profit organization.

The Government Ordinance no. 26/2000 is not applied to trade unions, political parties and religious units. The regime and the conditions of carrying out economic activities by trade unions, political parties and religious units are regulated by special laws. It is also considered that they can not engage any direct economic activities or organized as companies, specialized foundations in fundraising. The solution results from the regulation of these types of foundations as having this exclusive purpose, under the penalty of dissolution, to carry out the activity of fundraising. But, in the strict sense of the term, obtaining incomes from economic activities does not represent "fundraising".

Membership fees represent another source of funding NGOs. Membership fees are amounts that each member pays annually to support the organization. The obligation to pay is provided in statute of non-profit organization as follows:

-*The amount of the fee*, the law stipulates clearly how much is the maximum amount of contributions that can be claimed to members as in the case of article 34, paragraph 3 of the Law no. 27/1996, which provides that the amount of contributions paid a year of a person can not exceed 50 minimum salaries in the country. The national minimum salary is taken into account as that existing at the date of January 1 of that year;

-*The mode of payment*, may be designated a person in charge of collecting contributions payable by the members, but can be predict and obligation of paying in a account of non-profit organization;

-*The terms of payment*, the fees can be paid monthly, but may be established other terms (e.g. annually);

-*Sanction*, it may be fixed delay increases or progressive disciplinary sanctions (verbal warning, written warning), going till the dismissal from the organization. It is recommended that these sanctions to be set right in the statute in order to not give rising of litigations or tensions between members. It is recommended setting an equal amount of contributions for all members of NGO, but may be provided some advantages for founders.

A peculiarity in this matter is related to the foundations. In their case, the associative element is insignificant. The foundations are not characterized, unlike associations, by associations of several persons with common non-patrimonial purpose, but is characterized by the existence of a patrimony allocated to a non-patrimony purpose, which is administrated by one or more persons.

Therefore, the Government Ordinance no. 26/2000 excludes contributes from the income sources of the foundations.

The campaign 2% is the new form of financing available to the Romanian organizations, this provision offering the possibility to the taxpayers to direct a part of their income tax to a non governmental organization issued as a result of the Government Ordinance no. 26/2000. Thus for sponsoring a NGO, the taxpayers submit to the financial authority of his residence the form 230 and the taxpayers who obtain in addition to salary other incomes, they must complete the form 200.

Inheritances-The successions do not represent regular, but incidental fund sources. In the case of testamentary foundations, they are the main source of the patrimony of the foundation, which is constituted even by the testator to the destination of the respective non-patrimony purpose.

The inheritances can be:

-universal, case in which the NGO obtains the full set of rights and obligations belonged to the testator;

- with universal title, case in which the NGO obtains a fraction of the patrimony of the testator;

- with particular title, case in which NGO obtains one or more assets that were owned by the testator.

Conclusions

Fundraising activities are strictly necessary for running activities of an organization. These activities do not involve only request for funds, but also an offer of opportunities addressed to the partners.

The important elements to be considered in fundraising are:

- the written plan with purposes and objectives;
- the request of a donation;
- a diversity of fund sources;
- the allocation of time for fundraising;
- the allocation of money for fundraising;
- the commitment of members and board to fundraising activities;
- the professional approach of funding under the rules of marketing.

The diversity of funding gives the autonomy and also financial stability.

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