

DIVERSITY OF FINANCING SOURCES OF NON-PROFIT ORGANIZATIONS IN ROMANIA AND THE EU – AN OVERVIEW

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Abstract: *Financing is an asset or obstacle to the entity's activity, be it economic or not-for-profit. The impact that funding has on non-profit organizations is closely linked to the specificities arising from service and non-commercial status in society. The main objective of this paper is to present and appreciate diversity in funding non-profit organizations in Romania and the European Union during 2018-2022. In this regard, we are looking at the possibility of funding for NGOs from the European Union. The databases studied are Web of Science – for specialized articles – and Eurostat – for economic data and statistics. For database processing, VOSviewer – for bibliometric analysis – and Excel – for graphs and statistics were used. Making an inventory of the main categories of financial resources available today for Romanian NGOs leads us to conclude that NGOs have access to many funding opportunities. However, specific funding sources are available only to this type of organization.*

Keywords: *financing; non-profit organization; sources; public grants; accounting; corporate social responsibility;*

JEL Classification: L31; M41; D64

1. Introduction

International studies show that one of the conditions for the successful operation of each organization is the source of funding. Non-profit organizations have the role of contributing where there is a need in society but where the state and other institutions do not have enough resources to deal with it. Currently, non-profit organizations face more challenging forms of competition than ever, which inevitably implies the successful management of the difficult task of mastering and applying modern methods of obtaining new financial sources, so that they can ensure the public service offer in a diverse range, corresponding to the needs of society. The most important objective of this research is to identify funding possibilities that are essential in the activities or even existence of these organizations. But questions such as "What is the place of these organizations in the economy?", "What factors – positive or negative – influence the obtaining of funds, grants, sponsorships, donations or other sources of income?" are aspects that incite research.

The basic income of such an organization is known, even if, for Romania, it is still a field at the beginning of the road. We are talking about membership and sympathizer fees, individual donations, targeting from personal income tax or corporate profit tax, and others. But can there be other sources of income or funding for NGOs? Thus, the second objective,

discovering the diversity of funding sources, is an interesting objective, opening possibilities to new horizons to modern tools already practiced by NGOs in the West. An increasingly common concept is that of social enterprises regarded as a component of an organization's financial strategy. Social enterprises act for social purposes or in the general interest of the community, allocate most of the profits made to the social purpose and statutory reserve, apply the principle of social fairness towards employees, and undertake to transfer to one or more individual enterprises the assets remaining after liquidation (Nicolaescu & Bija, 2022). The third objective, comparing the funding level, will be achieved by analyzing the data provided by the research sources, from which the answers that reflect reality will emerge.

Therefore, analyzing the specialized literature and existing studies on this topic, we have established research directions to identify funding possibilities so that in this approach, we aim to identify answers to the following research questions:

RQ1: What are the funding possibilities for NGOs in Romania and the EU?

RQ2: How do we diversify funding sources for NGOs?

RQ3: How involved are local NGOs compared to EU NGOs in obtaining funding?

Therefore, the research design is descriptive, and the approach is qualitative, mainly concerned with the topic on which the research theme is focused. This approach provides a logical way to lay out goals so that others can better understand the rationale for this research.

2. Literature review

In studying the current state of knowledge on the research subject, we resorted to the option of conducting a bibliometric analysis, elaborated according to the sources used, and a content analysis of the most relevant articles and statistical-economic data. The scientific papers studied were accessed through the platform <https://www.e-nformation.ro/> and Web of Science (<https://1710qj5pw-y-https-www-webofscience-com.z-e-nformation.ro/wos/woscc/basic-search>), selected based on keyword combination "financing" and "non-profit organization" or "sources" or "public grants" and "accounting." We obtained 4841 articles published between 2022 and 2023 in Web of Science Categories, Economics and Business Finance. Based on the most relevant 500 scientific papers, in terms of keywords mentioned, a bibliometric analysis was performed using the scientific mapping methodology with the help of VOSviewer (van Eck & Waltman, 2010), a software adapted for the construction and visualization of bibliometric networks.

First, we studied the distribution of the most intensively used keywords to observe and analyze the links between them, taking into account only those proposed by authors in published works, and we set a minimum threshold of 20 simultaneous appearances. We have selected the first four keywords whose connecting force with other keywords is the highest; in other words, their appearance together is the most relevant. For example, a high frequency of simultaneous occurrence in the same work of the keywords "quality of accounting information" and "corporate governance" translates into an increased intensity of the correlation between them from a conceptual point of view. In addition to the main keywords selected, the software also generates others relevant to the researched topic – for example: "donations," "funding," "governance," "IFRS," "innovation," "intellectual capital," "transparency," "venture capital," "volunteering social enterprise," "social finance," "stakeholders," "globalization," "public finance," "performance," "personal finance," so that the map shown in **Figure 1** is a complex one.

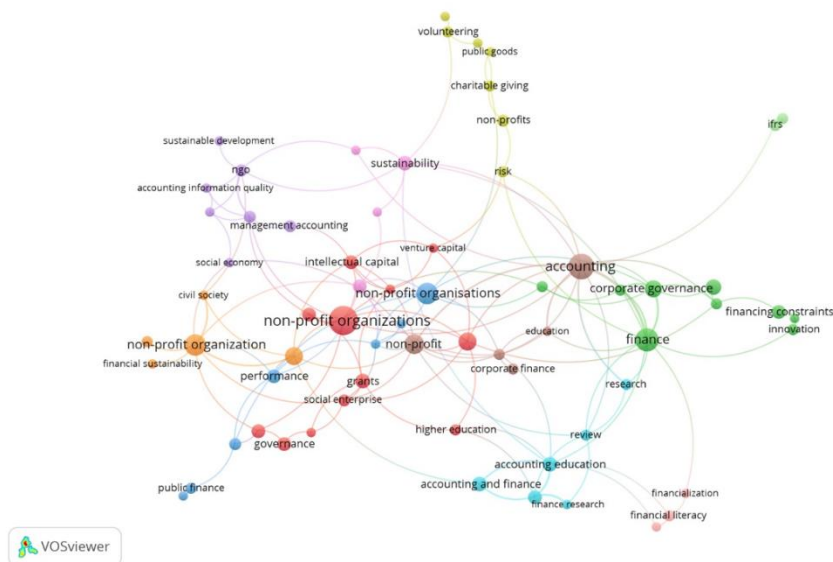


Figure 1: Bibliometric map of keywords

Source: Authors' projection using VOSviewer version 1.6.17 in processing data extracted from the WoS database

The size of the tag and knots correspond to the weight of the article in the research on the specified topic. The thickness of the curves and the distance between the nodes signify the collaboration link between keywords or authors. The colors identify the groups of interest, and the thickness of the lines is in direct proportion to the volume of the works/articles where the linked words appear. The graphical representation reveals 11 differently colored groups, which have in common the links between the authors of studies on the quality of information in the sense of scientific collaboration between them (the groups are formed according to the intensity of the collaboration link). The main groups are connected around the main keywords, such as: "non-profit organization" (red color), "finance" (green color), and "accounting" (brown color). From the bibliometric map, we can observe connection networks built based on citation, bibliographic coupling, co-citation, or co-author relationships to build and visualize co-occurrence networks of important terms extracted from the chosen body of scientific literature.

We examined the collaborative network between authors through the prism of their countries of origin to identify the interest of the scientific world in the quality of information, corresponding to geographical areas. We also noticed links of scientific collaboration between authors in different corners of the world.

The bibliometric analysis conducted in the present study revealed some interesting information: the authors come from almost all continents of the world, and the most prolific country in research on the chosen topic is represented by the USA, closely followed by the People's Republic of China, Australia and the United Kingdom of Great Britain and Northern Ireland, Germany, India, from where relations extend to Singapore, Turkey, Luxembourg, Japan, etc., creating a worldwide-network. We also find relevant studies in our country, collaborating with authors from Germany, Italy, England, or Spain. Many articles have caught our attention among the scientific papers studied, from which we present some essential approaches for our research topic. Petrescu et al. (2020) discuss the non-profit governance model in Romania according to the legislation and practice in the field. The authors researched the budgets of the studied organizations, concluding that it is essential

to mention that the budget of these organizations may not be representative of all Romanian non-profit organizations because out of all the approximately 100,000 NGOs existing at the time of the research, most of them have small budgets, approx. 80% of Romanian non-profit organizations have annual budgets of less than 2,000 euros. The funding sources are achieved through strategic planning, and 90% of the 29 organizations that provided information declared that they had a strategic plan for the next 3-5 years. Torok (2017) draws a parallel between the percentage tax designation system in five Central and Eastern European countries: Hungary, Lithuania, Poland, Romania, and Slovakia. It focused on four areas: the system of designating percentage tax as a policy instrument, its role in financing the non-profit sector, the effects and side effects of this policy, and the evaluation of this instrument. The percentage mechanism was greeted with enthusiasm in the transition phase of post-communist countries. It presented a unique way to provide financial support for the public benefit, largely to non-profit entities. In reality, it functions as a decentralized decision-making mechanism in which state resources, namely certain income tax percentages, are channeled mainly to non-profit organizations based on taxpayers' decisions. However, this source accounts for a small fraction of the total revenues of the non-profit sectors, and as a result, has led to diminished individual private donations due to the missent message, often referred to as "percentage philanthropy," although the resources used are not private. The system continues to work in all countries and is found to be being used in new ways in the region (for political parties and church finances).

Biblu et al. (2013) concluded that the available resources are insufficient for non-profit organizations to cover the assumed organizational burden. Firstly, they can address financing problems through specific methods, but the methods used are not always suitable to pursue their funding objectives; secondly, they often act in a rather emotional, intuitive manner, to the detriment of a systematic planning process, and thirdly, they need some expertise in managing activities effectively and efficiently. However, they identified that NGOs often do not have sufficient internal resources or do not pay enough attention to developing the necessary expertise by training their staff. A scientific article of particular relevance in our research is that of Kuvikova and Vacekova, in which the authors focused on the diversification of financial sources in non-profit organizations, performing a qualitative evaluation of results through primary research of financing non-profit organizations through the sociological method in the form of structured questionnaire. The statistical analysis of the data obtained through the primary research did not remain at the level of examining isolated variables; the authors also focused on comparing the division as well as the relationships between variables through which they used appropriate mathematical and statistical methods of analyzing quantitative data and their elaboration.

From another perspective, Ceptureanu et al. (2017) studied NGO funding, claiming that the economic and financial crisis in Romania hit the non-profit sector hard, as it led to a significant decrease in government spending and cuts in funding programs from companies and two prominent donors to NGOs. This led to an acute need to address sustainability at an organizational level, so the authors developed a model based on literature surveys and interviews of Romanian experts, which allowed them to identify relevant factors for Romanian non-profit sustainability. Three determinants were considered: cognitive competence, social awareness, and financial vulnerability, as well as two types of outcomes: economic and social. The model was tested through empirical research on 103 Romanian NGOs and two sub-samples (non-governmental organizations and community-based organizations), and it was found, using univariate and bivariate analysis, that the three considered determinants are correlated and statistically influence the sustainability of NGOs in Romania. Thus, we were able to study and synthesize various approaches to funding non-profit organizations from the multitude of articles, finding out how extensive the

documentation provided is, thus proving how complex and diversified these funding sources are or can be.

3. Research methodology and tools

In this social-accounting research, we have chosen a combination of methods for a systematic framework, classified according to various criteria, by using the best and most feasible methods to conduct the research while aligning with the purpose and objectives of the research. Thus, depending on the temporal criterion, we chose the longitudinal study method, which involves measuring the evolution of phenomena over time for five years to develop comparative evaluations. Following the reactivity criterion, which concerns the degree of intervention of the researcher on the subject, we used the observational research method, in which the researcher does not intervene at all but observes and studies official, specialized documents.

Depending on the intrinsic characteristics of the method, the research was based on qualitative methods and research, where we rely mainly on the analysis of the meaning of words instead of the meaning of numbers; the qualitative method offers the possibility of a deeper understanding of the research subject and, in this way, the chance of a more complex explanation of it. Depending on the place and role occupied in the research process, the exploited method is the method of information processing and the method of interpreting information. Depending on the purpose of the research, we chose to apply descriptive and explanatory methods and research.

Data collection and analysis went through several phases:

- definition of the information being sought (e.g., studying the legislation in force in Romania)
- determination of search sources (e.g., studying international specialized sites)
- use of the most appropriate search method (e.g., review of research literature to identify, evaluate, and synthesize the existing body of completed and rewarded work produced by researchers, theorists, and practitioners)
- viewing the search results and managing information (e.g., elaboration of bibliometric map, based on published scientific articles, to highlight the relationships between researches)
- communication of the result sought. (e.g., systematization and synthesis of collected information)

Research data and information collected, documented, compiled, or generated helped confirm the credibility of research results. The research data was mostly digital; less was non-digital. Research data were collected from already-published publications, official government, or scientific sources and were not limited in quantity but selected by relevance. We chose several data types, such as legislative documents, reports, statistics, graphs, data from experiments, and digitized archives.

4. Data analysis

Data collected from the Eurostat Database (<https://ec.europa.eu/eurostat/data/database?etrans=ro>) are largely statistical data. In this database, we found information dedicated to non-profit organizations, called "EU funding to developing countries by funding source," which provides essential data on research. The indicator presented shows total official and private EU funding to developing countries. These consist of net Official Development Assistance (ODA) payments, other official flows (OOF), private flows (mainly foreign direct investment, FDI), grants from private agencies and NGOs, and officially supported export credits. The primary objective of this financing is

to promote economic development and welfare in recipient countries and remains the main source of financing development aid. Private flows include direct investment, bonds, export credits, and multilateral private flows. Grants awarded by private agencies and national NGOs consist of funds for development assistance and aid, together with any additional in-kind contributions, including, for example, income from sales of charity Christmas cards or special calls (e.g., for disaster relief). Developing countries are considered to be those on the OECD DAC (Development Assistance Committee) list of aid recipients.

In order to be able to compare the level of funding from the European Union for Romania, the data collected from the Eurostat Database were processed by calculating the average value of total funding granted to EU members by country, respectively the average of these values per year, thus identifying Romania's position. We went through the data for 2018-2022 and found that Romania is, in terms of the amount of funding obtained, in the 18th place out of the 27 member countries, a stable position every year. According to the ranking of countries, Romania ranks in the second third of members, even if at the end of it, but ahead of the Baltic countries, Slovakia, Bulgaria, Croatia, Slovenia, Malta, and Cyprus; the comparative evolution of these funds is shown in **Figure 2**. The graphic processing belongs to https://ec.europa.eu/eurostat/databrowser/view/sdg_17_20, the data source being the Organization for Economic Co-operation and Development (OECD).

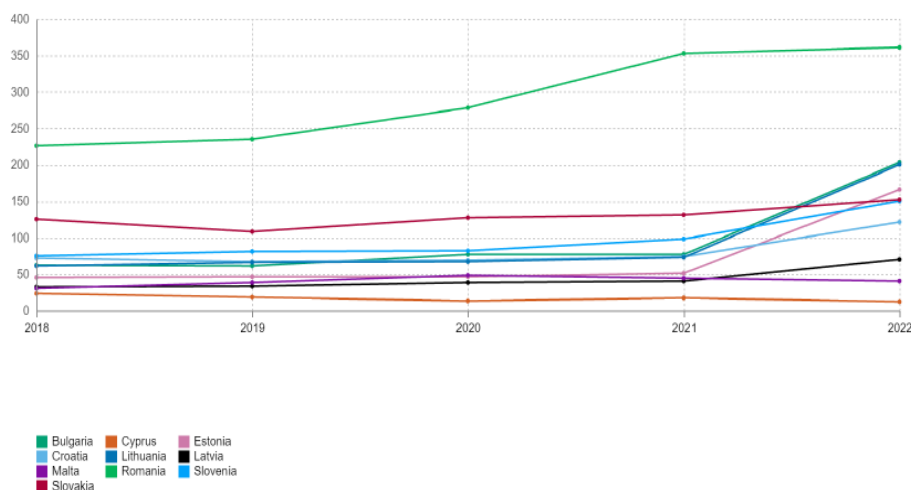


Figure 2. The evolution of Romania's financing compared to that of EU countries in the last third of the classification

Source: https://ec.europa.eu/eurostat/databrowser/view/sdg_17_20

The data presented in **Table 1** indicate the value level of funding obtained and provide factual information, being a flexible tool in the necessary calculations. It includes the amount of funding awarded to each member of the European Union during the researched period so geographical regions, neighboring countries, or old and newer members can be compared. We can see that founding members, such as Belgium, France, the Netherlands, Germany, and Italy, acquire much larger amounts than the countries that joined after 2004, Slovakia, Slovenia, Croatia, Bulgaria, and Romania, which benefit from the more modest amount.

Table 1: Annual EU funding to developing countries by funding source (million euro)

	EU Member State	2022	2021	2020	2019	2018	Country average
1	Belgia	2393	2240	2146	2060	2115	2,190.80
2	Bulgaria	203	77	77	61	62	96.00
3	Cehia	881	310	280	298	290	411.80
4	Danemarca	2427	2464	2387	2403	2331	2,402.40
5	Germania	32785	27442	26513	22606	23303	26,529.80
6	Estonia	166	51	46	46	45	70.80
7	Irlanda	2161	976	871	869	816	1,138.60
8	Grecia	318	288	292	332	250	296.00
9	Spania	3732	2840	2459	2505	2305	2,768.20
10	Franța	16313	14139	14237	11149	11475	13,462.60
11	Croația	121	74	69	67	72	80.60
12	Italia	6177	5303	3878	3922	4454	4,746.80
13	Cipru	12	17	13	18	23	16.60
14	Letonia	70	40	38	33	32	42.60
15	Lituania	200	73	67	66	61	93.40
16	Luxemburg	475	456	421	468	452	454.40
17	Ungaria	339	368	382	286	254	325.80
18	Malta	40	44	48	38	30	40.00
19	Olanda	5798	4452	4794	4905	5121	5,014.00
20	Austria	1673	1262	1182	1146	1048	1,262.20
21	Polonia	3048	821	728	701	678	1,195.20
22	Portugalia	397	378	374	353	346	369.60
23	România	361	353	278	235	226	290.60
24	Slovenia	150	98	82	81	75	97.20
25	Slovacia	152	131	127	108	125	128.60
26	Suedia	5118	5017	5939	5101	5541	5,343.20
27	Finlanda	1448	1266	1150	1068	881	1,162.60
	Media anuală	3,220.67	2,628.89	2,551.04	2,256.48	2,311.52	

Source: https://ec.europa.eu/eurostat/databrowser/view/sdg_17_20/default/table?lang=en
accessed 26 March 2024

The map generated using the same criteria, presented in **Figure 3** only for 2022, highlights the concentration of financing values according to color. According to the attached legend, Romania ranks 18th out of 27.

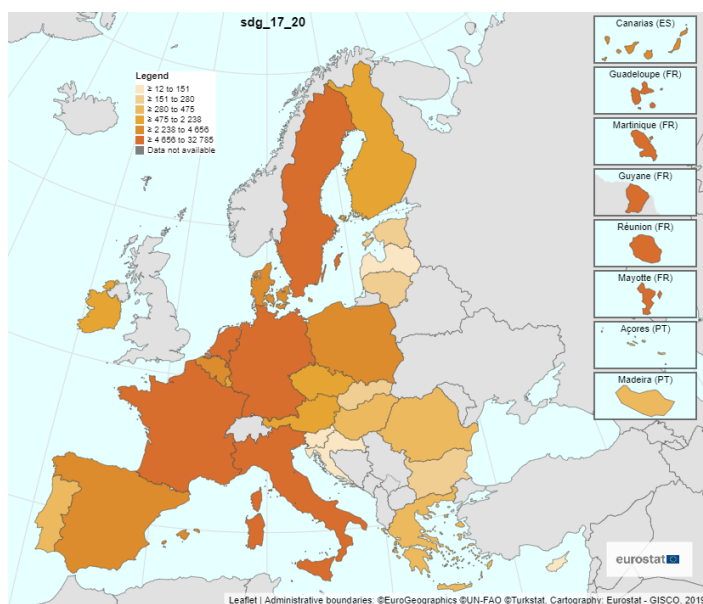


Figure 3: Map of EU funding for member countries

Source: https://ec.europa.eu/eurostat/databrowser/view/sdg_17_20/default/map?lang=en

5. Presentation and interpretation of results

The research identified a series of very varied funding possibilities; besides the well-known ones, many possibilities are known in the EU but less exploited in our country. Among the sources managed by EU Commissions or other EU bodies, several programs in different fields provide funding to non-profit organizations, to name but a few:

- social inclusion, gender equality, and equal opportunities
- culture, audiovisual, and media – supports initiatives in the audiovisual, cultural, and creative sectors
- civic spirit and sense of belonging - aims to protect and promote the rights and values of the Union, supports open, democratic, equal, and inclusive rights-based societies and the rule of law
- research and innovation - both organizations and individuals can apply for funding for research projects in many areas
- development and humanitarian aid - established NGOs can get funding under most thematic or regional programs
- transport, energy, and information and communication technology - finances projects related to energy, transport, and ICT

The answer to the second research question proves the diversity of funding sources for NGOs, which are grouped into two broad categories: public and private. Public funding sources can also be international or national funds, grants, subsidies, or thematic funds, with a multinational scope extended to areas such as education, health, social assistance, or humanitarian aid in case of calamities, war, and others. Private funding sources can be of international or national origin, from other non-profit organizations, own sources, contributions, donations, sponsorships, tax redirections, Norwegian Funds for Local Development and Combating Poverty, community fundraising (street, competitions, auctions, concerts, donation boxes, other fundraising events, SMS donations) or the form of fundraising called peer to peer fundraising, which consists of forming an active network of donors, for example on the occasion of their birthday or the grant provided by Google.

The notion of "Community Fundraising" implies carrying out activities that facilitate donations from individuals, among which many sponsorship activities can be organized, and there are legal ways of financing. Another novelty can be dedicated platforms, through which donations can be organized on the occasion of the birthday of each of those who joined. The grant offered by Google AdWords is another legal source for any NGO that meets the required conditions, i.e., to operate and run humanitarian campaigns following the legislation of the country of origin, to accept and agree to the documentation required at registration, regarding non-discrimination, receipt, and use of the donation and to have a functional website, with a substantial amount of content can apply for this new grant. The third research question was answered by comparing NGOs' funding levels in Romania through EU commissions or grants, noting that Romanian organizations receive far too little funding compared to some EU countries. The causes are the low degree of information, the economic and political circumstances still uncertain in these times, the degree of doubtful confidence regarding the feasibility of projects, and the lack of initiative. Romania ranks lower in the ranking of NGO funding. However, there are hopes that in the near future, these organizations will take advantage of the opportunities that have appeared and are dedicated to them.

5. In conclusion

The purpose of this study focused on the inventory of the main categories of financial resources available today for Romanian NGOs, managing to identify and present as whole accessible funding sources and minimal details about potential problems that could be encountered in the current situation of these organizations. The conclusions regarding the financing of NGOs in relation to the social burden assumed, and their role in covering social needs are:

- while the need for funding is essential, insufficient importance is often given to the financial preparation of the proposed activities;
- NGOs can access specific funding sources that are available only to this type of organization.

In the case of NGOs, such as public institutions or economic entities, the resources available are insufficient to cover the organizational burden undertaken, and the methods used are only sometimes adequate to pursue their funding objectives. Therefore, NGOs often act in a rather emotional, intuitive manner, to the detriment of a systematic planning process, whereas they need expertise in managing activities effectively. However, we have identified that NGOs often do not have sufficient internal resources or do not pay enough attention to developing the necessary expertise by training their staff. The exhaustion or scarcity of current financial sources endangers the existence of non-profit organizations. That is why non-profit organizations are beginning to care about modern techniques and methods of acquiring financial funds. In addition to income from their activity and donations from the entrepreneurial sphere or individual donors, their activity is supported mainly by state grants and community budgets.

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