



Social Enterprise In Romania



Key findings from NESsT's research and activities in Romania

Ana Negrila,
NESsT
Bucharest, June 13



NESsT mission

NESsT works to solve **critical social problems** in emerging market countries by developing and supporting **social enterprises** that strengthen civil society organizations' **financial sustainability** and maximize their **social impact**.



NESsT Initiatives

1

NESsT Venture Fund

Philanthropic investment funds supporting social enterprise portfolios in emerging markets.

2

NESsT “University”

Promoting accountability, innovation, leadership and professionalism in the field

3

NESsT Consulting

Providing professional services in social enterprise development

4

NESsT Marketplace

A global on-line shopping directory of social enterprise products & services



No. of non-profit organizations registered in Romania

Type of Nonprofit Organization	Number Registered
Associations	30260
Foundations	15429
Federations	573
Unions	585
Foreign legal entities	11
Total	46858

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



Funding sources (1)

Funding source	Total Revenues %
Donations and national/local grants	22.2
Other non profit income (advertising, VAT reimbursement, asset sales, etc.)	17.8
Economic activities	15.8
Membership dues, financial contributions and in-kind donations from supporters	15.1
Foreign grants	10.8
Corporate donations	6.9
Investments	5.0
Government grants	4.1
Revenues from shares held	2.2

Presentation, Ancuta Vamesu, World Learning



Funding sources (2)

NESsT research:

- an analysis of the funding mix of a sample of 121 NGOs that provided financial information on the "All for one and one percent for all" (unulasuta.ro) website.
- 98 reported their funding percentage mix for the year 2006 according to the following category breakdown: The result for these 98 NGOs was the following:
 - Grants: 33.9%
 - Corporate sponsorships: 24.6%
 - Individual donations: 22.3%
 - Membership dues: 5.1%
 - Self-financing: 7.8%
 - Other: 6.3%



CSOs Sustainability

For all organizations, sustainability is a major challenge and the sector is now facing a shift in funding patterns driven by three main factors.

1. EU accession:
 - less foreign donors for Romanian CSO sector.
 - advocacy organizations that were traditionally funded, in large part, by foreign donors, and other organizations in a similar situation.
 - shift EU Phare to Structural Funds.
 - focus on training and employment models as opposed to social services.
2. Government support:
 - government contracting and accreditation of social service providers has been increasing in the past few years
 - slow to both contracting out more services and to increasing the level of payments for these services.
3. 1%-2% law: this law allows individual taxpayers to allocate a percentage of their tax income to an eligible non-profit organization.



Funding Strategies

- **Foreign sources, grants**
 - 1989 – democratic changes attracted attention of international donors
 - Still a major source of funding for non-governmental organizations in Romania (assistance programs of the U.S. government and the European Union).
 - Presently, a decreasing trend
 - Creates a high level of dependency
- **Government sources** (\$17 million to Romanian NGOs in 2006 - CSDF)
 - Law 350/2005 - granting more transparent
 - both state and nonprofit organizations more accountable.
 - the central government (services for many counties)
 - local government (services within the county)
- **Individual donations**
 - small and insufficient 1%-2% law is spurring an ascending trend in this type of funding.
- **Sponsorships**
- **Economic activities**



CSOs and Economic Activities Development in Romania

- The extent of economic activities is not well documented (18-30% [\[1\]](#) of total NGO income)
- Examples of economic activities:
 - **consultancy services**,
 - **training**
 - **sale of products** made by NGO beneficiaries (e.g. wood products carved by disabled people help to fund the centers where the teenagers or disabled people are cared for).
 - Charging **fees for services** is a sensitive issue
 - A very limited number of NGOs participate in **business activities** that are truly run in a businesslike manner.
 - **Membership fees** (according to NESsT classification) – insignificant source

In many cases, the commercial activities are closely related to the mission of the CSO and are operated entirely through the non-profit org.

CSOs have launched unrelated companies and registered them as separate organizations

[1] See studies from WDI, Johns Hopkins, and Mott.
[2] AIDRom – Asociația Ecumenică a Bisericilor (Ecumenical Church Foundation)



Overview of Social Enterprise in Romania

NESsT's focus: social enterprises (SE) owned or run by CSOs

- There are over 45 000 CSOs at present - estimated that less than 50% are active

CSOs Motivation – support mission, financial sustainability and diversification of the funding mix, covering core costs, organizational development, independence

- Range of fields of activity, target groups

Environmental, social services, education and research, law and advocacy, health, culture, community development

- Social enterprise is still a rare practice



Donors and CSOs Support Organizations

- **DONORS and CSOs** support organizations believe that they should support CSO sustainability efforts.
- Donors are supporting efforts that focus on overall sustainability - strategic planning fundraising, governance, legal and regulatory environment by both training and funding
- CSO support orgs provide training in sustainability in these same areas--strategic planning, program development, fundraising
- Both donors and CSOs support orgs believe that a lot more should and could be done in this area.
- There is need for concerted support actions - it might not happen in the immediate future.

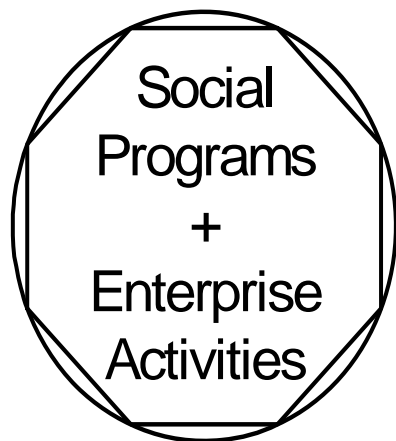
CONCERNS

- whether economic activities could cause orgs to spend less time and resources on their mission.

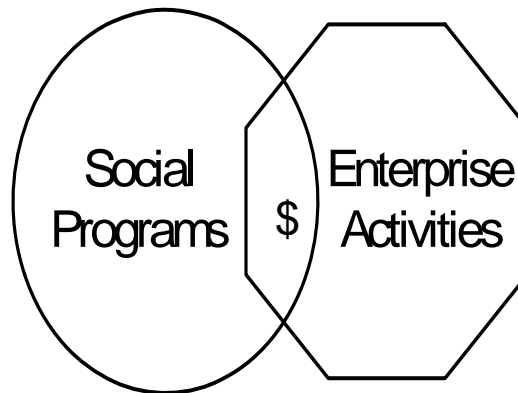


Social Enterprise Archetypes

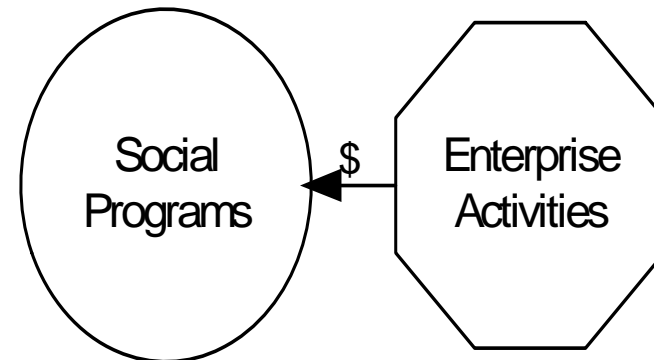
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Integrated



Complementary



Source: Alter, Kim, *Social Enterprise Typography*. The Inter-American Development Bank, Washington, DC, 2003.



Romanian Legal Environment for CSOs and SEs

- According to Romanian law there are
 - 3 types of CSOs: associations, foundations, and federations
 - All commonly referred to as "non-profit organizations" in Romanian legislation
- CSOs in Romania are regulated by the:
 - Government Ordinance on Associations and Foundations, GO 26/2000, adopted in January 2000, further modified and put into law in 2005 by the Law on Associations and Foundations (No. 246/2005).
 - The Law specifies that an association should be composed of three bodies:
 - the general assembly
 - the board of directors
 - the censor.
- The Romanian legal framework explicitly permits CSO commercial activities as long as they are mission related.
- CSOs wishing to engage in non-mission related commercial activities have to set up a separate, for-profit entity.
- There is a limited profits tax benefit for CSOs
- CSOs are due for VAT, which is not reimbursable, and must pay customs duties
- CSOs must file financial reports (balance sheet, etc)



Summary of Romanian Tax Treatment

	Depends on Structure of Economic Activity		
	Is activity Mission-related?	Direct Economic Activity	Separate Commercial Company
Company profits tax	Yes	Taxed on profit above certain level – at 16%	At 16% on all profits
	No	Separate for-profit company must be set up.	At 16% on all profits
VAT	On all purchases	VAT to be paid at standard national rate –same as for-profit companies	
Customs duties	On all imports	At standard customs tariff rates	



Legal framework for social enterprise - limitations

- Fiscal advantages for CSO/non-profit/public benefit organizations are limited.
- In Romanian legislation the concepts of public benefit organization and mission-related activities are not well-defined and leaves room for interpretation.
- More precise legislation would provide a more enabling environment for the civil sector.
- There is little involvement from CSOs in policy-making and legislative process.



Legal Framework – recommendations

- Introduce a uniform and clear concept of public benefit organization, specifying criteria, rights and obligations
- Further clarify the concept of mission-related activities
- Increase CSO involvement in the legal drafting process.
- Introduce fiscal benefits to promote SE development



Further Obstacles to Social Enterprise Development in Romania

- Lack of awareness of SE strategies and relevant legal regulations
- Lack of skills
- Lack of capacity
- Lack of financing for start-ups
- Lack of supporting environment and infrastructure: including public, private and civil sector



Addressing these obstacles: NESsT in Romania

- Legal guide - for CSOs, donors, businesses, etc.
- Survey and Case studies
- NESsT Venture Fund: capacity-building + investment
- Business planning and management skills, tools and experience
- Building relationship with business sector, seminars, social enterprise manual



SE models in Romania

Case study - Motivation Romania Foundation

- **Motivation Romania Foundation** - a non-governmental organization (NGO) – set up in 1995
- **Mission:** to create sustainable programs that increase the quality of life for people with disabilities of all ages in Romania
- **Financing:** wheelchair production workshop, originally completely donor-funded, has developed into a social enterprise expected to provide 20% of total revenues
- **Model:** - Separate economic entity - SC Motivation SRL
 - a third party payment system
 - That allows MRF - to fulfill its mission
 - to generate self-financing income for the nonprofit organization
- **Mission impact:** in 2006 Motivation employed 45 full-time paid staff (a 60% increase over 2004) and served 927 beneficiaries (a 112% increase over 2004).
 - The organization currently employs 74 full-time staff, of which 17 are wheelchair users.



MRF Sustainability

- Financial sustainability
 - Present - approximately 20% of its total income from self-financing revenues.
 - 2006 strategic planning process showed the need to develop new self-financing activities through SC Motivation SRL.
 - Planning process included:
 - evaluation of the legislative environment
 - community needs
 - strengths of the organization.
 - According to the plan MRF is now launching
 - Consultancy –employers of people with disabilities
 - Training
 - Printing shop and physiotherapy and medical rehabilitation
- Key success factors: -
 - undertaking thorough business planning
 - seeking advice from individuals and organizations with business expertise
 - including members and beneficiaries of the nonprofit organization in the self-financing activity and seeking their input in marketing these activities
 - ensuring transparency between nonprofit and for profit operations
 - including business and nonprofit partners in the development of the self-financing activity



Thank you for your attention!

Ana Negrila

Enterprise Development Manager for Romania

anegrila@nesst.org

www.nesst.org