

# NON-GOVERNMENTAL ORGANIZATIONS – FACTORS FOR LOCAL DEVELOPMENT\*

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## **Abstract**

This article aims at creating a correlation between the non-governmental (non-profit sector) and local development in order to highlight the role that these entities play in this process. The article will particularly emphasize the impact of these actors on the local development of Cluj-Napoca and argues in favor of a paradigm shift concerning how local development policies are currently implemented.

Through this approach we want to propose a paradigm shift with respect to the development policies implemented in local communities for the purposes of capitalizing aspects of quality of life and diversity of services addressed to the population to the detriment of classic indicators of development: paved streets, foreign investment etc.

**Keywords:** non-governmental organizations, local development, public policy actors.

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## **1. Introduction**

Lately, local development represents one of the most common used and debated concepts. The concept's timeliness is obvious both at theoretical level, where numerous studies and articles are published, and also in practice where various activities are included within the sphere of development and many initiatives are designed to support these trends.

It can be seen that these development initiatives are often adaptations of the development models implemented by international financial organizations (European Union, World Bank etc.) and they rarely represent innovative models of development based on the local context.

In this respect, Cluj-Napoca, one of the most developed urban centers in Romania (Development Strategy of Cluj-Napoca, 2006, p. 9), could provide the basis for a model of development that would represent a departure from the classical models on which development policy formulation is based. The essence of a classical local development policy is represented by the support offered for the business sector and promotion of public investments related to municipal infrastructure. The field of local development is changing and, in addition to the aspects considered important in the early stages (such as: the number of foreign investors, the number of jobs created, kilometers of paved road etc.), a series of aspects regarding the quality of life in local communities is also currently considered, such as: the level of services (public and private) available for the population, leisure opportunities, investment in research and innovation etc.

In this regard, in order to illustrate the need for a paradigm shift in local development policies, we consider Cluj-Napoca to be a very good example. We hereby specify at least two categories of actors whose potential is currently under-exploited in this community: universities and non-governmental organizations. The paper, however, will focus on the latter category. The authors strongly support the changes occurring with respect to theoretical approaches regarding the economic and political theories and how they apply to the role NGOs play in society. Politically, we can observe 'the collapse of the reforming and revolutionary left project, with its emphasis on state power. Economically, there is the rise of neo-liberal economics and its emphasis on the retreat of the state and development led by private sector' (Pearce, 1993, p. 223). In this paper we emphasize and bring new evidence regarding Putnam's statement according to which 'social capital and civil society organizations promote economic growth' (Putnam, 1993a;1993b; 1995; 1998; DeFilippis, 2001).

With respect to the associative sector, all existing national reports mention Cluj-Napoca as the second center after Bucharest (FDCS, 2010). It is estimated that there are approximately 5,000 local nongovernmental organizations established within the local community (Development Strategy of Cluj-Napoca, 2006).

## **2. Theoretical framework**

We will focus in this section on theoretical approaches that explain the role of non-governmental organizations in society. From the perspective of our approach of involving also other actors in the process of local development policy, we consider

the theoretical substantiation of the place and role non-governmental organizations play in society to be interesting and relevant. We especially include the following types of organizations in the category of non-governmental organizations: foundations, associations, federations and unions, without excluding, however, trade unions, cooperatives, and credit unions.

Most theories underlying the development/evolution of the nonprofit sector (whether political or economic) try to provide sufficient and clear answers with respect to the role of non-profit organizations in society and to the functions they perform in a society. The two important categories of theories (political and economic ones) that explain the evolution of the non-governmental (non-profit) sector are presented below.

The economic approaches to the emergence, development and consolidation of the non-profit sector in a society are rooted in the concepts promoted by Adam Smith, known as 'the father of modern economics'. In his work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 2001, p. 11), he divides the work process into two distinct and completely different categories: the productive labor and the unproductive labor. According to Smith, productive labor 'adds to the value of the subject upon which it is bestowed' and unproductive labor 'does not add value of the subject'. The non-profit sector was seen by most economists as being outside economic reasons, because it did not seek to obtain profit, but it was a sector that helped toward maintaining economic stability, given the fact that its activity mostly concerns the social sphere. Through the division of labor into productive and unproductive labor, economists try to find a universally valid economic explanation that justifies, almost exhaustively, the importance of the non-profit sector, the reason why this sector emerged as well as the set of distinct features it possesses and that other sectors do not have. A first set of explanations developed in this respect were the theories of failure.

The theories of failure explain the existence or actions of a phenomenon by the failure or insufficiency of another phenomenon. To illustrate this theory, Salamon and Anheier give us a real and sufficient situation in order to understand what failure theories mean (Ott, 2010, p. 181). The market sets the price of houses as a result of the interaction between the offer of houses on the market and the demand for houses, coming from interested persons. Because housing prices are very high and people with modest financial resources cannot afford this comfort, the government and the non-governmental non-profit organizations intervene in the market. Government entities intervene with policy instruments such as subsidies, vouchers or grants. Some non-governmental (non-profit organizations) build houses for prospective occupiers and sell them at lower prices than those of the market.

Therefore, we can see that the presence and actions of non-governmental non-profit organizations on the market is explained by the insufficiency or failure of the market system which fails to meet the demand for houses coming from people of limited means and the failure of the government to alleviate this problem. Non-governmental non-profit organizations operate in the market as other players have failed to meet the needs for low-cost houses in the community or society.

A second set of economic explanations for the emergence of the non-governmental non-profit sector is reflected in the theory of government failure. Public sector failures are often the result of 'inefficient government policies, the government's intervention in its own structures being eminently necessary in order to correct market failures and ensure social welfare' (Platiş, 2003, p. 32). Therefore, failure correction and recovery fall under the government's responsibility, which has an important role because it recovers market failures, redistributes income, provides health and social insurances against risks etc.

An example of government failure refers to the context in which the potential benefits of the necessary intervention are smaller than the full direct and indirect costs, that is the situation in which market failures are not attenuated and the efficient allocation of resources is not obtained through the government's measures.

The dimension of governmental failure theory having been discussed, it is important to clarify the relation between it and the non-profit non-governmental sector. When there is a market failure or insufficiencies, economists turn their attention to the government, or, according to the new trends (Gassler, 1986, p. 136), to non-governmental non-profit organizations in order to respond to the still unaddressed requests by the market instruments. However, when governmental failures occur, economic failures are taken to another level. When the governance fails to satisfactorily respond to a market failure, demands remain unmet. Non-governmental organizations get intensively involved, 'make a step forward', and, through their activity address social needs which neither the public sector nor the market can address, either because of government failures or because of market failures. This theory of governmental failure actively involves the non-profit sector in solving the inefficiencies caused by governmental policies, the non-profit sector being a complementary pillar in addressing social needs and in the provision of public goods and services.

Political approaches on the emergence, development and consolidation of the non-profit sector in society developed after the Second World War, when the importance of this sector was recognized in several directions of action. Political theories on the development of the non-governmental sector are based on concepts such as civil society, civic participation, civic development, solidarism and pluralism.

Through non-governmental non-profit organizations, the community or group of citizens can influence the decisions taken by the local authorities, promoting solidarity and citizenship development in order to solve problems that are found within that community.

Being independent from the governmental institutions and apparatus and addressing individual needs of association, non-governmental organizations are often considered as a 'helping hand' when administrative authorities commit abuses, thus being a powerful instrument that can correct a negative situation. Non-governmental non-profit organizations contribute to ensuring democratic stability when political regimes in a society are at a dead end, they support democratic stability, involve citizens in the development of a civic society within which strong democratic binders are created

in order to withstand different situations that endanger the democracy of a society. The non-profit sector animates the civic spirit of the community, the involvement in community affairs, based on a partnership, the community no longer has expectations of local authorities, but together with associations and foundations solves public interest problems. The community thus self-governs itself, has a high degree of independence in mobilizing resources to solve a problem, being solidary with other communities, thus creating the so-called social capital, very important in the development of any community.

According to political theories, the non-governmental non-profit sector ensures democratic stability and a proper development for the society due to the specific features of this sector. Independence, autonomy and also orientation towards values, public goods and not towards profit are key elements that place the non-profit sector in the position of defender and guarantor of citizens' rights and freedoms when the political regime or economic instability of a society totters and democratic stability is affected.

Likewise, Smith (1988, pp. 2-10) presents a series of new functions of the nonprofit sector:

1. The non-profit sector enables public sector institutions and the business environment to select and institutionalize the most promising innovations.
2. It places emphasis on defining morality and reality, questioning dominant assumptions about what exists, what is good and what should be done in society.
3. It provides activities aimed at the relaxation and recreation of society members. The activity undertaken by this sector has a major impact on the level of social integration in a society.
4. It may emancipate the individuals and widely allows them to express their potential and capacity in the community, in the social environment.
5. It is beneficial for society, given that it provides 'negative feedback' when appropriate.
6. It supports the economic system of society.
7. It represents an important latent resource for all types of goal achievements that consider the interests of society as a whole.

Smith's stated functions make us also think about certain characteristics of the non-profit sector but, however, there is also a wide range of activities undertaken by non-profit organizations together with their assumed responsibilities. They value and accept old ideas, are open to new ideas and are characterized by fairness, given that they give negative feedback when appropriate.

In this context, the idea that non-governmental organizations represent a 'thermometer' of the community is often true, precisely because the role of these organizations in the community is to identify the problem and to solve it. Often, 'NGOs can better and cheaper meet certain needs of the community, than the public sector can do' (Plumb, Androniceanu and Abăluță, 2003, p. 167). Ultimately, this is the result of different managerial practices and volunteering. In most cases, public authorities use the lack of funds as a pretext when they are unable to solve

certain community problems. However, non-governmental organizations use far less resources than public authorities in order to provide certain services. This is because non-governmental organizations use volunteers, unlike public institutions which have to provide a salary for the personnel in charge with addressing those problems. There are also many fields where non-governmental organizations work almost for free, such fields being those of animal protection, environmental protection, education for adults etc.

Analyzing the information presented above, something very important can be observed, namely the fact that non-governmental organizations do not act only for the benefit of citizens, but also for the benefit of public authorities. It can be seen that a number of strategies have been designed for this purpose, primarily aimed to improve and streamline the public administration activity, by 'enforcing institutions, increasing the professional qualifications of personnel, their training and strengthening managerial capacities' (Plumb, Androniceanu and Abăluță, 2003, p. 168). Also, a great part of non-governmental organizations are trying to achieve better collaboration between public authorities and civil society representatives and, why not, their collaboration on specific projects. Increasing the frequency of meetings between organizations and authorities, the latter will be aware of the needs, respectively of the community problems.

In conclusion, non-governmental organizations, through the services they provide, have become 'agents of human change' where their 'product' is a cured patient, a learning child, a young man or woman transformed into adults with personal dignity, a human life completely changed. Therefore, the 'product' or the outcome determined by an organization's objective will always be linked to human transformation (Jura, 2003, p. 16).

### **3. The non-governmental sector in Cluj-Napoca**

The Cluj County in general and the city of Cluj-Napoca in particular, represent an important center of the associative phenomenon. This statement is supported both in terms of the number of non-governmental organizations and in terms of their density. On the other hand, we can also mention the existence of certain informal associative forms in the community area of Cluj-Napoca (civic associations, initiative groups, civic groups etc.), which are not legally constituted and are aimed at solving specific problems.

In the following lines we will focus on the development of the associative sector in Cluj-Napoca in the period from 2004 to 2007 using four distinct dimensions in the analysis:

1. The evolution of the number of active organizations;
2. The main fields of activity of NGOs in Cluj;
3. The evolution of the budgets available to nongovernmental organizations;  
and
4. The number of persons who are employed in these organizations.

All analyses studying the dynamics of non-governmental organizations in the city of Cluj-Napoca reveal a continuous oscillation in the number of newly established NGOs, but in the same time they also highlight a difficulty in determining the number of active NGOs. It can be observed (both at local level and also at national level) that new organizations are registered every year, but at the same time, there are others that are dissolved or simply because of certain problems they fail to undertake their activity and become inactive.

To determine the size of the sector and the number of active non-governmental organizations in Cluj-Napoca, the basis of this analysis was represented by the accounting synthesis documents submitted by non-governmental organizations to the General Directorate of Public Finance (GDPF) Cluj at the end of the 2004-2007 fiscal years. An important factor in the analysis is also represented by the choice of significant samples in the county, respectively 99% of non-governmental organizations that submitted the balance of accounts in the reference years and also the selection of an income sample with a significant share in the financing of NGOs, in this case a number of seven income groups, namely: subscription fees, registration fees, donations, sponsorships, dividends, budgetary resources and grants.

The first aspect analyzed takes into account the evolution in the number of active organizations and establishes the dynamics of the associative sector in Cluj-Napoca in the period under review:

**Table 1:** The NGOs' dynamics in Cluj County

Year	2004	2005	2006	2007
<b>No. of organizations</b>	1499	1499	1542	1243

**Source:** Own calculations based on the data obtained from GDPF Cluj, 2008

Based on this table we can estimate the size of the associative sector in terms of the number of non-governmental organizations registered in Cluj County; in this table there are included both the organizations which undertook an activity represented by the movement of budgetary resources and the organizations that have submitted the balance of accounts without any income. From the analysis and processing of data it can be observed that a percentage of 23% up to 30% of organizations, even if they submitted the balance of accounts, had not recorded any income during the year.

According to the data obtained from the Regional Resource<sup>1</sup> Centre for NGOs Cluj, the distribution of nongovernmental organizations in the city of Cluj-Napoca, on fields of activity, in 2000 looks as follows, indicating that some non-governmental organizations have marked several areas as their scope of activity:

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1 The Regional Resource Centre for NGOs Cluj was founded in 2001 as an initiative of CENTRAS in partnership with several NGOs in Cluj. Currently the center has ceased its activity.

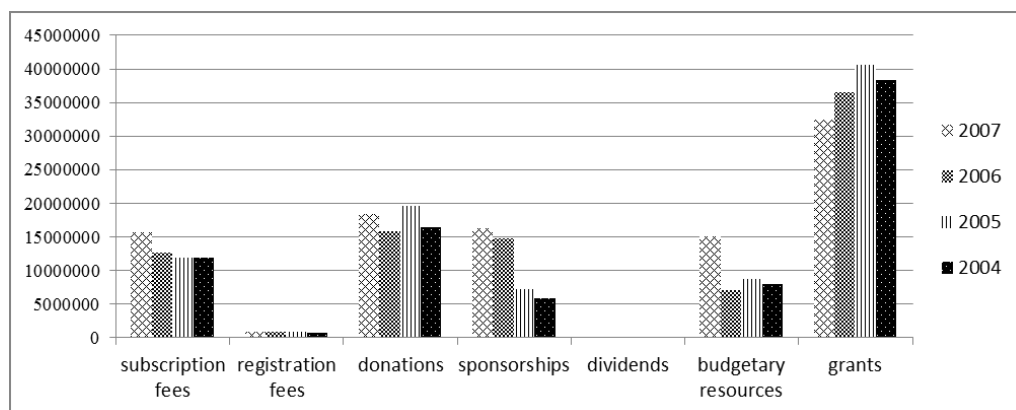
**Table 2:** The distribution of NGOs in Cluj-Napoca according to their field of activity

Scope of activity	Percent
Culture	48%
Education	48%
Social services	32%
Health	26%
Ecology	13%
Economic and social development	14%
Citizens' rights	15%
Philanthropy and volunteering	14%
International cooperation	24%
Professional and business associations	8%
Religion	10%

**Source:** The Regional Resource Centre for NGOs Cluj (2001)

An important influence on the development of the nonprofit sector is also the fact that the city of Cluj-Napoca is a university center, the number of organizations founded by students and teachers, the organizations in the field of education, research and science manifesting a higher level than the indicators characteristic for the sector in general.

From the perspective of the non-governmental organizations' budget we will make an analysis on two levels – the main revenues sources and the budgets of NGOs during the period of 2004-2007, according to data obtained from the balance of accounts prepared for these years and submitted to the General Directorate of Public Finance Cluj.



**Figure 1:** The NGOs' income dynamics in Cluj County for the period of 2004-2007 (in USD)

**Source:** Own calculations based on the data obtained from GDPF Cluj, 2008

As shown in the figure above, the three main funding sources of non-governmental organizations in Cluj-Napoca, in order of size, are grants, donations and sponsorships. In the period of 2004-2007 grants represented the most consistent source of funding for NGOs in Cluj-Napoca and consisted in the allocation of money from certain international and national organizations and institutions for carrying out projects and programs. The main source of funds was and still is the European Union budget, to



which other European sources were added. Currently, with the allocation of structural funds, the European money dedicated to civil society organizations represent a much bigger percentage in the non-governmental organizations' budgets and thus lead to the development and diversification of services provided by them as a viable alternative for a range of services provided by public authorities. With respect to the donations from natural and legal persons, they are important, but their share is correlated and is directly related to taxation, especially for legal persons. Finally, sponsorships are made by legal persons and the amounts of money obtained are most often limited by the tax provisions in force at the time.

**Table 3:** The planning and realization of the annual budget on the main sources of revenue

Income sources	Realized 2004	Planned 2005	Realized 2005	Planned 2006	Realized 2006	Planned 2007	Realized 2007
Subscription fees	26,954,654	26,954,654	26,954,654	27,952,048	34,676,506	25,815,483	35,467,364
Registration fees	1,633,490	1,500,000	2,002,013	1,048,285	1,923,324	1,295,135	1,988,558
Donations	37,162,914	34,092,733	44,290,331	28,941,819	38,011,063	33,403,258	41,808,853
Sponsorships	13,389,546	8,581,406	16,494,460	17,074,178	35,292,373	10,967,373	36,925,162
Dividends	350,829	242,732	423,303	298,831	306,807	214,963	300,562
Budgetary resources	17,989,050	18,228,021	19,977,254	16,029,714	17,549,852	29,459,713	34,249,116
Grants	86,713,539	67,833,477	92,165,215	97,004,930	89,351,824	69,966,208	73,672,355
Total income (RON)	184,194,022	157,433,023	202,307,230	188,349,805	217,111,749	171,122,133	224,411,970

**Source:** Own calculations based on the data obtained from GDPF Cluj, 2008

Analyzing how the budget was realized in the fiscal year of 2005, it can be observed that the realized budget exceeds the planned one, by reference to the fiscal year of 2004 on the one hand and considering the planning made for 2005, on the other hand. In the case of the main source of income, grants, it can be observed an excedent of even 135.87% of the amounts attracted in comparison with those planned. This increase can be explained by identifying new funding sources and development of new programs along the year. Another aspect is linked to the fact that the grants' share in the total revenue for 2005 represented almost 50%, thus proving the importance of this source of funding. On the other hand, the idea that NGOs represent, based on the grants attracted from external sources, an important driver of local economic development since the amounts of money attracted by them are generally spent locally, thus supporting the local economy, can be accredited. The evolution of the shares of the various sources of funding represents a signal of how various other organizations, natural persons or institutions in the country and abroad are interested in supporting the programs and projects initiated by non-governmental organizations in our country.

In the fiscal year 2006, the share of funding sources in the total income changed to some extent, the amount of grants being reduced from 47% in 2004 to 46% in 2005, and in 2006 up to 41.5%. It is remarkable that between the three years (2004-2006)

there was an increase in the share of sponsorships in the total revenues, from 7.27% in 2004 to 16.26% in 2006. This certainly indicates a reorientation of local financiers who, through the amendments brought to the tax law, gain more confidence and are more determined in sponsoring non-profit organizations and a reorientation of foreign financiers to other countries.

We can also observe a good management of the revenues budget planning for 2006, the income plan being exceeded in the presented chapters with significant percentage, but noting that at the sponsorship chapter the exceeded of the planned figures is made at a rate of over 200%, and in the grants chapter the estimated figures are not achieved, the rate of completion being only of 92.11%.

In 2007 the share of revenues sources from grants decreased, while there was a spectacular increase in the budgetary resources category. This can be explained by the growing interest of the local and central authorities in nongovernmental organizations as promoters of local community development through the actions and activities they undertake and through the services they provide locally.

At the same time, some of the largest organizations (according to the budget available) in Romania at the level of the non-governmental sector can be found in Cluj-Napoca. Thus, of the first (largest) 16 organizations according to the budgetary figures available, four are in Cluj-Napoca. It is noted that they are mainly active in the field of education, culture and sports.

**Table 4:** Non-governmental organizations with a revenue of over 10 million RON in 2008

Name of legal person	Total Revenue (Ron)
'Lebanese International School' Foundation	47,672,620
'Iskola Alapitvány' Foundation for School	47,350,705
'Future Romania' Foundation	41,684,049
'Sapientia' Foundation	30,618,734
'Post Privatization' Foundation	23,850,853
'Romanian Angel Appeal' Foundation	20,892,417
'Charity' Foundation	16,986,648
'Dr. Victor Babeş' Foundation	16,407,725
'Dinu Patriciu' Foundation	15,250,554
'Communitas' Foundation	14,261,043
'Football Club CFR Ecomax Cluj' Foundation	14,066,656
'Sera' Romania Foundation	12,129,210
'Center for Economic Development' Foundation	11,704,467
'Junior Focus (British School)' Foundation	11,696,991
'Menachem H. Elias Family' Foundation	11,262,994
'Vodafone Romania' Foundation	10,128,749

**Source:** Ministry of Finance, given their balance sheet submitted by NGOs at 31.12.2008

Based on these data we can observe a polarization trend in the sector as there is a significant percentage of inactive organizations and even in the case of those

which submit their balance of accounts, 30% state that they operate without the use of financial resources. At the same time however, there are also organizations managing budgets of over 10 million euros annually (see in Table 4 for example Iskola Alapítvány Foundation for School).

In the period examined, the conclusion is that a stabilization in the structure of revenues sources is expected for the future, by reducing the share of grants, increasing the share of sponsorships and revenues from the resources of different budgets and a stabilization in the donations' share.

Another dimension of our analysis refers to the proportion of the non-governmental sector with reference to the employers in Cluj-Napoca. Thus, the existing local statistics show that in 2004 there were a total number of 17,929 people employed in non-governmental organizations in Cluj County. 11,126 people of these were employed in carrying out activities without a patrimonial character and 6,803 in patrimonial activities. If we consider that there was a total number of 299,700 employees in Cluj County in 2003 (according to the National Institute of Statistics) it results that approximately 6% of Cluj County employees were employed in an NGO. Even though some changes were observed in the following years with respect to the number of persons employed in the nonprofit environment, the NGO employee share among all employees remained constant.

#### **4. Conclusions**

Although our study focused mainly on the quantitative aspects of the evolution of the non-governmental non-profit sector in Cluj-Napoca, we believe that the need to strengthen the role of NGOs in meeting the needs and interests of the community is also important in terms of extra-financial elements such as:

1. Identification of programs focused on priority needs of the community (community development, health services, social services, environmental protection, public participation, local economic development - especially regarding inter-sectorial relationships, visibility and role of women and children);
2. The increase in the capacity of influencing public policy;
3. The establishment of organizations dealing with public policy;
4. The perception of the double role played by non-governmental organizations as providers of services and as promoters of change; and
5. The development of non-governmental organizations active in the community and open to cooperation within the sector and the stimulation of structures such as: community groups, alliances to promote shared interests, self-help networks and groups.

As shown in our analysis, overall, the operating budgets of the non-governmental sector have increased due to rises in other sources of funding, although grants decreased because at that time there were not very many active lines of financing, that being the period between European programming cycles. At the same time, an increased level of transparency, accountability and credibility to the public should be the basis for

attracting funds from both inside and outside the country. As our analysis revealed, the theoretical model followed is rather asset-based community development approach then needs-based community development approach. From this perspective, we believe that local NGOs represent 'assets' in local development processes (Mathie and Cunningham, 2003).

We believe that the analysis was successful in presenting certain arguments according to which the role of the nongovernmental sector in local development is essential, both in terms of the available budgets and in terms of the position of an important local employer. Therefore, we believe that the development of non-governmental organizations' capacity to attract funding from various sources and place them in local projects identified in accordance with local needs would stimulate not only cohesion but also development processes. To achieve this goal there is a need for an intensive collaboration between the public and non-profit sectors, and also for initiatives taken in the two sectors to stimulate the increased capacity to develop local policies. In addition to the impact on local development, the ability to cooperate is based on habit and practice and it also influences social capital (Fukuyama, 2010).

At the level of the public sector there are necessary initiatives to boost the capacity of local policy making in a participatory manner, to increase the level of transparency and predictability regarding local development and application of similar conditions for all local actors involved. With reference to the latter aspect, we believe that if foreign investors create a number of jobs and, through direct investments (even if they are temporary), receive certain facilities, tax deductions, the same treatment should be applied to local non-governmental organizations which attract substantial financial resources, create jobs and implicitly bring an additional economic development in the community every year.

As with regard to the non-profit sector, a number of recommendations can be made to increase its capacity of intervening in local development policies. We refer here to the development of NGOs' capacity to estimate the impact of their work through their own assessment of the development process, to the formation of needs assessment skills and activities with a strong participatory character, to the accountability for democratic practices and strategic development by the nongovernmental organization leadership, and in particular, to the concentration of efforts on developing a generation of leaders addressing organizational development from an ethical perspective, centered on values and which stimulate strategic thinking and action.

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