

Financing of Romanian Non-governmental Organizations

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ABSTRACT

Non-governmental organizations (NGOs) have become increasingly important in the last decade for the Romanian society. They raise public awareness for human rights, promote development of democracy and seek to improve the well-being of communities by being increasingly engaging in various development, educational, social or health projects. Unfortunately, many NGOs has to cope with significant financing problems since competition for resources amplified and some of the traditional donors cut or reduced support. This paper analyze financing issues in NGOs, based on a quantitative analysis, using a structured questionnaire. Since it is one of the very few studies covering Romania, the scope of the paper was to provide for those involved or interested in NGO sector new data concerning, for instance, sources of revenue or destination of resources, enabling NGOs executives to build financial sustainable organizations.

KEYWORDS: NGO, financing, Romania

JEL CLASSIFICATION: M11, M16

1. INTRODUCTION

As the government's roles and responsibilities slowly change in terms of specific social needs fulfillment, the non-governmental sector in Romania, Europe, U.S. and other parts of the democratic world is becoming increasingly more relevant for citizens and society. This relevance translates into an increased complexity of the activities of NGOs, and a confusion about overlapping roles of these organizations with the business and government sectors, leading in some cases to an "identity crisis".

Financial sustainability is one of the primary concerns for NGOs, as they are primarily funded by fluctuating donations, government support, and fundraising efforts. Considering that most NGOs rely on volunteers or hired employees with minimal experience, managing financial resources is a difficult task for many non-profits. Relying on outside sources is one of the largest adversaries encountered by NGOs not only initially, but in the long term as well.

Due to their vulnerabilities, any economic and financial crisis may have significant negative effects on NGOs. The last crisis have long lasting effects on them, since they were among the hardest hit, since on the one hand, it led to a drop in public spending at the government level and at the level of the budgets of companies and hence lower income, which reduced most financing sources for non-governmental sector, while on the other hand, the crisis has

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amplified problems in society and gave rise to new target groups requiring support from NGOs. This determined a large number of non-governmental organizations to reconsider their financial strategy, seeking diversification and better use of funding sources. Unfortunately, many others did not manage to survive and disappeared. A study conducted in 2009 shows that more than half of organizations surveyed reported a decrease in revenue from October 2008 - February 2009 compared to the same period previous year. Furthermore, 8% of organizations had reached a critical point, closure becoming imminent due to lack of financial support (McLean & Brouwer, 2009).

The crisis has tested the relevance and actual capacity of NGOs and many of them had to reorganize and become more efficient or face dissolution. There were many instances when NGOs relied on certain financial resources, like grants from donors, were forced to close when they could not find viable alternatives to cessation of those financial flows. As the effects of the crisis are disappearing, Romanian NGOs has to cope with a new challenge, an increasing competition for financial resources. For instance, for European Economic Area Funding programs 8 times more projects were submitted than available funds. Similar cases were registered for other financing programs such as Erasmus + program from European Commission, Romania – Switzerland Partnership Scheme, private corporations programs like “Țara lui Andrei” and many others, where competition for winning the grants is fierce. Not only Romania faces the problem of competition and competitiveness of NGOs, similar situations occur in other countries, but in recent years has become increasingly significant (Sassu, 2014).

2. LITERATURE REVIEW

Financial management in non-profit sector emphasize long-term organizational growth of NGOs. Greenlee & Trussel (2001), Keating et al. (2005) or Silva & Burger (2015) considers it in their works. Weikart, et al. (2013) emphasize 3 liquidity indicators: current ratio, working capital ratio, and quick ratio. Others, like Coe (2011) use similar liquidity measures and add others, like days of cash on hand. Zietlow et al. (2007) expand the list of liquidity measures and add the cash ratio, the cash reserve ratio, and the asset ratio. According to Weikart et al. (2013), each of these ratios can be used to determine the extent to which a NGO need not to worry about its cash flow. Zietlow et al. (2007) elaborate on the purpose for multiple liquidity measures when they propose that each ratio gives a slightly different perspective on the spendable funds of the organization.

Growing competition puts a large number of NGOs in a position to reconsider their dependence on traditional sources of funding and to accept that the chances of getting a grant decreased significantly and will further reduce as new organizations emerge. This led to situations where NGOs tried to get any sort of funding so applied to any available program in order to increase their chances that at least a minimum number of projects receive funding. However, all this pressure factors causes very different and in some cases dangerous effects on NGOs:

- a) **The effect of "crowding out"** (Kingma, 1995), by which a single funding source tends to eliminate others or to reduce considerably their share in the total income of the organization. Typically occurs in the case of government sources and grants, for many reasons, ranging from "comfort" offered by the safety and stability of financing to compliance with the rules determined by government funding.

- b) **The effect of "crowding in"** (Andreoni & Payne, 2011), which assumes that a source of funding such as a government grant, instead of generating a "crowding out" effect form a leverage and helps the NGO to increase capacity to attract other financing providers easier.
- c) **Alienation from the fundamental mission of the organization** (known as "goal displacement" or "mission misalignment") that may arise from NGO need to adapt its activities to what can be funded by various fundraising programs, even if the new mission and targets do not meet the real needs of the community;
- d) **The effect of "creaming"** (Boris & Odendahl, 1990), a variation of point c), whereby the activities of organizations are turning to areas that can attract easier financing (for example, if an NGO notes that the programs targeting Roma population receive grants much easier it can move towards this target group due to financing interests and not because of the actual concerns or needs of that community).

Funding is and has always been a critical process for any organization in any sector of the economy survival of organizations meaning, according to the theory of dependence on resources, the ability of the organization to procure and maintain resources (Froelich, 1999). Given the particularities of nonprofit organizations, they have always led a struggle for access to scarce resources, given that few have truly independent sources of income such as business do, to ensure a constant and sufficient financial influx. NGOs are forced to weigh several factors when choosing their sources of funding: legitimacy, independence, correlation with their mission, sustainability, financial sustainability, and many others. All this leads to greater difficulty for NGOs in obtaining the necessary funds compared to companies. A study by Grønbjerg and Clerkin in 2003 analyzed the most important challenges facing non-governmental organizations. Among them, "securing funding" ranked first for most of them (Grønbjerg & Clerkin, 2003).

Many NGOs today are wondering how they can most effectively ensure sustainability, long-term survival, the continuation of programs and hence fulfill their mission. With this objective in mind, it has been found the occurrence of two trends in the sector:

- a) **Diversification of funding sources** by creating an optimal mix to minimize risks and maximize revenues;
- b) **Focus on a single main source of funding** to ensure long-term viability of the organization. We have in mind, for example, medium to long term cooperation with the state (local, regional or national authorities) through provision of social services, partnerships with one or more corporations who can finance NGO or focusing on private sources and donations.

Financing of non-profit sector proves therefore a major challenge for organizations working in this field, which deserves further study for identifying solutions to a number of questions: "What are the main sources of funding for NGOs? What are the advantages, disadvantages and challenges for every funding source? ", " What factors are considered when selecting sources of funding?", "Diversification of funding sources is preferable to concentration?" and many others.

Sources of funding of non-governmental sector

NGOs can benefit from a particularly wide and diverse range of funding sources. The large number of them determines the need for a rigorous classification, and today there are several well-known typologies in the literature. Some researchers classify funding sources of NGOs

in three broad categories: government funding, private contributions, commercial revenue (Froelich, 1999). In turn, this may have several sub-types. Another classification identifies the following main sources of funding: donations, sponsorships, grants foundations, events charity, fees for services, grants and government contracts, social entrepreneurship or business income, contributions (Kearns, Bell, Deem, & McShane, 2014).

Table 1.1: Typologies of main funding sources for NGOs

Froelich typology	Kearns typology
Government funding	Donations
	Sponsorships
	Grants
Private contributions	Charity events
	Fees for services
	Government grants and contracts
Commercial revenue	Social entrepreneurship
	Income from commercial activities

Sources: Froelich, K. A. (1999). Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations. *Nonprofit and Voluntary Sector Quarterly* (28), 246-268.

Kearns, K. P., Bell, D., Deem, B., & McShane, L. (2014). How Nonprofit Leaders Evaluate Funding Sources: An Exploratory Study of Nonprofit Leaders. *Nonprofit and Voluntary Sector Quarterly* (43), 121-144

We consider that Frohlich typology enables a better analysis for NGOs funding.

3. NGOs FINANCING IN ROMANIA

There are no consistent studies on Romanian NGO sector financing. NGO Leaders Barometer, a study of Civil Society Development Foundation (CSDF) have drawn a few conclusions relevant to the sector:

- a) Almost 60% of NGOs consider that the financial resources available are not sufficient while less than 10% of NGOs considered them sufficient. The situation is dramatic compared to 2010 when only 48% of organizations considered they lacked resources;
- b) Nearly 40% of NGOs have annual budgets of less than 10,000 euros, and 75% of NGOs have annual income below 100,000 euro.
- c) 4% of NGOs amass 80% of the revenues of the whole non-governmental sector, an indicative of severe concentration;
- d) concerning sources of financing, they were public funds (30%), structural/European funds (11%), membership fees, individual donations, sponsorships and international grants (each 11%), individual donations (2% program) (9%), economic activities (5%);
- e) 44% of Romanian NGOs are benefiting from public funding, either EU funds or from local or national authorities;
- f) more than 60% of non-governmental organizations in Romania have employees, while the rest are operating exclusively with volunteers or on a voluntary basis. The proportion has remained relatively constant over time.

In terms of tax regime, NGOs are exempted from income tax and profit for a large range of revenue and commercial activity for up to 15,000 euros per year. In terms of individual donations, every Romanian citizen has the choice to direct 2% from their income to a NGO without additional cost. This feature allows non-governmental organizations to operate with

greater flexibility and independence, and provide an incentive for civic involvement. According to the report "Romania 2010: The nongovernmental sector" by Civil Society Development Foundation, about 12-15% of the employed population redirect 2% of their tax rate toward NGOs, increasing from year to year and there is the expectation that it will be capped at 30% after the example of other countries where this program was applied. However, current regulations are increasingly more bureaucratic and require more effort to redirect submission forms, maintaining clear records or reporting (FDSC, 2015).

4. RESEARCH

4.1. Research administration

To analyze in detail funding situation for NGO sector in Romania a quantitative research using a questionnaire was conducted. The only similar studies in Romania belong to the Foundation for Civil Society Development, since 2008 when "NGO Leaders Barometer" is published every year. This study addresses the NGO sector in general, including the financial aspects. However, we considered more in-depth exploration of the financial side of NGOs, for which we launched with the support of the Young Initiative Association the study "Financial sustainability of the nonprofit sector in Romania".

The study was conducted in October and November, 2016 using an online questionnaire based on Google Apps, Google Drive module. In 2016 the total number of NGOs in Romania registered at the Ministry of Justice (i.e. legal persons) was 86,356 organizations (NGOs according to the National Register, updated on 26 May 2016), of which:

- a) Associations – 67,327 (77.96%);
- b) Foundations – 18,008 (20.85%);
- c) Federations – 1,021 (11.8%). Trade unions and employers associations were excluded from this number which, although NGOs have a different mission than associations, foundations and federations.

140 organizations were contacted throughout Romania randomly, using various databases of active NGOs. Of these, 46 responded to the questionnaire, i.e. 32.85% of the organizations contacted. Compared to the total population, the sample is representative in terms of a confidence interval of 14.43% and a confidence level of 95%. All respondents represent a non-governmental legal entity performing activities in Romania. Respondents are mainly associations, as follows:

- a) Associations - 38 (83%);
- b) Foundations - 5 (11%);
- c) Federations - 3 (7%).

The percentages of sample organizations are similar to the share of these types of organizations in the total population, which increases the relevance of the study for the non-governmental sector.

The majority of respondent organizations originate in urban areas (85%), only 15% are based in rural areas. Of these, 59% operate in Bucharest, the capital city. Data accuracy is enhanced due to the positions of people who filled the questionnaire: 91% of them hold a leading position (President, Vice President, Executive Director, Board Member, Coordinator, and Manager) and 8% position execution (one economist, one assistant, one volunteer). One respondent position was not specified.

4.2. Findings

One topic of our research covered situation of employees. We were interested to determine the number of full-time and part-time employees. From the analysis more than half of the NGOs in Romania have no employees at all. Moreover, very few employees are involved in daily operations, only 9% of the sampled NGOs employing more than 10 people. The fact that only 28% of NGOs employ from 3 to 10 employees and 39% between 1 and 10 indicates a lack of financial resources to allow development by relying on employees. Part-time employees are scarce in NGOs, only 33% of the sample using this form. Even so, Romanian NGOs do not employ more than 5 part-time employees, with very few exceptions.

Regarding the number of volunteers working for NGOs, we recorded a strong involvement of volunteers. 96% of all surveyed NGOs have at least one volunteer. A balance between NGOs working with small number of volunteers (up to 25 volunteers, 48%) and those intensively using this resource (more than 25 volunteers, 48%) was registered.

Regarding the availability of financial resources of NGO in relation to its needs, we recorded a high discrepancy between the financing needs and availability of financial resources. 50% of surveyed NGOs have significant problems in covering their financial needs, 37% have an average capacity while only 13% were satisfied with the availability of financial resources. A majority of NGOs is not satisfied with the level of financial resources available *and* current funding opportunities.

Concerning the value of their budget in the last fiscal year, Romanian NGOs operate mainly small budgets, nearly half of the sample managing under 10,000 euros annually, 37% of them between 10,000 - 250,000 € per year while only 13% had budgets of over 250,000 euros. Acquiring financial resources is a real problem for Romanian NGOs, hence a source for fierce competition between NGOs.

Related with previous question, we were interested to determine if they have accessed grants in the last 3 years. 71% of Romanian NGOs applied and accessed grants from the main funding programs available, the most accessed of all being Youth in Action (21%) and LLP (11%) managed by ANPCDEFP Romania, and EEA Grants (17%) managed by FDSC. Only 11% have accessed structural and cohesion funds offered by the European Union, indicating either a low degree of relevance and trust of these programs among beneficiaries, or a lack of financial capability to cover the co-financing. Still, 29% of respondents did not access any funding program in the last 3 years at all, a situation caused either by the ineligibility of the beneficiary, lack of information or lack of administrative and financial capability.

Concerning the 3 main difficulties in terms of financing, it was relatively difficult to highlight a dominant one, with a balanced range of answers. However, the most common option was linked to continuity, the second was assuring appropriate human resources while the third involved covering administrative expenses. Most needs of the Romanian NGO sector are about basic survival and less focused on organizational development. They have problems in covering basic expenses like wages, premises, utilities, other current expenses. If we apply the principle of Maslow's pyramid model in organizational context, the NGO sector is still largely at the base of the pyramid.

Concerning the existence of a strategy for developing / diversifying sources of funding for the next 3 years, less than half of respondents have such a strategy. Moreover, 30% of NGOs aim to develop such a strategy in the future, while 17% have no such plans. It is worth mentioning that 7% of respondents admit lack of expertise / knowledge, which means that a small part of the NGO sector wants to strategically plan their financial sources, but need support from dedicated resource centers.

Regarding a ranking of funding sources for the next 2-3 years, from data collected we could not identify a priority. We noted that European grants and sponsorships ranked on top while providing additional services ranked last. We notice a trend towards gaining funds from reliable sources that do not require significant efforts and major risks.

Concerning organizational sustainability, a deep optimism of Romanian NGOs was recorded, despite the major difficulties encountered. Thus, 68% of NGOs are very confident or confident that they will survive for the next three years, while 32% have moderate doubts. Optimism regarding organizational survival is a positive sign, in conjunction with the clear intention of the sector to grow and to find alternative funding sources.

A major topic was the share of various categories of income / funding sources in the annual budget of Romanian NGOs.

- a) *Individual donations*. Donations from individuals represent a very important source of funding for only 16% of surveyed NGOs. We note that in Romania NGOs fail to attract considerable funding from individuals, which forced them to look to other sources of income. There is however a very small number of organizations who focus on a donation-based funding model, with over 50% of revenues provided by individual donations. For most of Romanian NGOs donations are occasional.
- b) *Sponsorships*. Sponsorships represent a very important source of funding for the NGO sector in Romania, for 39% of organizations these provides more than a quarter of their yearly budget. This indicates a relatively active presence of the business sector in the financing of NGOs, especially from large corporations that run Corporate Social Responsibility (CSR) programs.
- c) *2% Programme*. Revenue from 2% facility have a very small share in the budgets of Romanian NGOs, 78% of whom achieved less than 5% of revenues this way. Basically revenues from 2% program has a complementary role since it is no priority for NGOs due to bureaucratic obstacles and lack of sustainability and predictability.
- d) *National grants*. National grants are a rarity in Romania, the state has a very weak involvement in supporting non-profit sector. Thus, 85% of organizations did not benefit at all from such funding. They exist, although not significant, but bureaucratic barriers, relevance to the actual activities and suspicions of corruption make them unattractive for most NGOs.
- e) *European or International Grants*. Almost 40% of Romanian NGOs receive international funding, much more attractive and easier to obtain than national ones. However, there are a significant part of organizations that fails to attract such funds or lack of capacity inadequacy of funding priorities or lack relevance for the organization.
- f) *Subsidies*. Like national grants, subsidies are rarely registered in financing non-profit sector in Romania. They are more common in NGOs involved in social assistance, but even so, very few organizations receive them.
- g) *Provision of services*. Providing services to third parties represents a small fraction of a typical Romanian NGO budget, only 39% of respondents relying on such

income. Even though the percentage seems significant, most NGOs do not currently rely on provision of services as a continuous and reliable source of funding.

- h) *Economic activities*. Social entrepreneurship and, in general, economic activity is also not a priority for the NGO sector in Romania. This revenue source, increasingly important at international level, is a rarity in Romania, only 17% of surveyed NGOs using it. In this case, the income is low, occasional and most likely is based on sale of handmade products on a small scale, according to our survey.
- i) i) *Membership fees*. Almost a quarter of NGOs surveyed request their members a fee, although this is rarely a primary source of funding. A notable exception are the federations and umbrella NGOs, which charge higher fees to their members in exchange for specific services, making these contributions a considerable part of their budget.

Finally, we were interested in various types of expenditures share in the annual budget of Romanian NGOs.

- a) *Administrative expenditures*. Administrative expenses occupy a high share in the annual budget. If in the USA the ideal situation is to keep these below a level of 7-8%, in Romania 58% of surveyed SMEs exceeds this level. Corroborating with small budgets, we argue that smaller budget NGOs have a higher share of administrative costs, while for larger budget NGOs the situation is the other way around. Covering these expenses is a priority of NGOs surveyed, being one of their greatest difficulties.
- b) *Human Resources related expenditures*. Since the non-profit sector in Romania employs a few people, it is normal that human resources costs are reduced. These expenditures, unfortunately, take various, hidden forms, such as covering the expenses of volunteers, thus justifying the percentage of employees who did not (52%) and those who do not have human resource costs (37%).
- c) *Training, teambuilding*. According to our research, 52% of Romanian NGOs are investing in human resource training, which is an encouraging sign. Furthermore, it should be noted that NGOs often benefit from free training opportunities, not always necessary to allocate a budget for this. The fact that 48% of NGOs have no spending most likely means that their volunteers do not receive any training, even if they have no employees.
- d) *National and international mobility programs*. This category of expenditure does not have a significant share in the budgets of NGOs, which is natural given that much of the mobility is provided by external financing. However, there are some co-financing rates that can put pressure on the NGOs budgets.
- e) *Promotion, PR, marketing*. Expenditures related to promoting the image and services of NGOs are relatively low, 73% of organizations allocating less than 5% annually in this direction. Lack of funding for such activities leads to reduced visibility of the NGO sector and increased difficulties for NGOs in diversification of their funding sources.
- f) *Fundraising*. Although half of the organizations do not record fundraising costs it is worth mentioning that still there are half of NGOs that understand that fundraising cannot be done without cost. We interpret this as a sign of maturity of the NGO sector, but there is huge growth potential in this direction.
- g) *Current activities, projects*. Naturally, the highest share in NGOs budgets are expenses related to various projects' implementation. However we consider troublesome that 51% of organizations have a share of less than a quarter of their total budget allocated to projects and current activities.

4. CONCLUSIONS

From the study emerge a number of strengths and weaknesses characterizing the NGO sector in Romania in terms of financial sustainability.

Strengths:

- Involvement of a large number of volunteers in activities carried out by NGOs, which reflects a solid growth potential of this sector in the coming years;
- Availability of a significant financial influx from other governments and international institutions for social development of Romania, through grant and other financing programs;
- Existence of a strong competition at the sectoral level to attract the necessary resources, given that they are both rare and necessary for NGOs survival. This competition may lead to a better quality of projects undertaken by NGOs, which are practically "forced" to innovate;
- Optimism of most of NGOs leaders in terms of sustainability of their organizations;
- Significant awareness to actual external funding opportunities, which enables Romanian NGOs to better rank them among their priorities;
- The positive trend of strengthening business collaboration between the private sector and non-profit organizations through sponsorships and Corporate Social Responsibility activities;
- The existence of a strategic approach seeking recovery and / or financial innovation for approximately half of the NGO sector, plus a significant percentage of organizations that wish to undertake strategies, but lack know-how.

Weaknesses:

- Poor involvement of employees (partly reflected by small number of part or full time employees) in NGO activities, due to many NGOs poor financial situation, raising sustainability concerns. NGOs cannot rely only on volunteers due to responsibility concerns, especially for state funded or European Union funded projects and grants;
- Underfunding of the nonprofit sector, with a very limited support from the State and other social and economic actors (with some exceptions regarding sponsorships).
- Most NGOs has small budgets, half of them having incomes under 10,000 euros annually. This, coupled with existence of small number of large organizations lead to an increasingly trend of sector domination by these organizations.
- Low investment in promoting the image and fundraising activities of the NGOs, which led to poor public information, a distorted image of the NGO sector and additional funding problems.
- Lack of resources lead to the underdevelopment of the sector. Many NGOs experienced serious difficulties in renting operational headquarters, in covering all expenses or in hiring and retention of experienced experts.

As for managerial implications, managers of Romanian NGOs could benefit from the above findings in their efforts of strengthening their organizations. Their efforts should be directed to build organizational capacity by emphasizing financial vulnerabilities and discovering new sources for financial resources, along with improvement of financial management within NGOs.

Needless to say, our approach can be improved, especially since it resulted from an empirical study. We also assume some research limitations, among we have to mention: (1) the small sample; (2) low answer rate of the questionnaire; (3) lack of additional studies on Romanian NGOs, which may, or not, further validate our results.

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