



**BABEŞ-BOLYAI UNIVERSITY OF CLUJ-NAPOCA**

**FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION**

**DOCTORAL SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION**

Ph.D. THESIS ABSTRACT

*DEVELOPMENT NON-GOVERNMENTAL ORGANISATION CONTRIBUTIONS TO THE  
MARKET ECONOMY MECHANISMS STIMULATION*

SCIENTIFIC COORDINATOR:  
PROF. MIHAELA LUŢAŞ, PH.D.

PHD CANDIDATE:  
VALENTIN FILIP

CLUJ – NAPOCA  
2020

Key Words: development NGOs, development economics, entrepreneurship, market, social economy.

## Table of contents of the full thesis

Introduction.....	5
Literature review.....	10
Methodology.....	33
Objectives.....	37
Chapter I. – Conceptual framework .....	38
I.1. Development economics.....	38
I.2. Development Non-Governmental Organisations .....	82
I.3. Interdisciplinary perspectives .....	104
Chapter II. Development Non-Governmental Organisations (DNGOs) and the interactions with the private sector.....	125
II.1. The partnership approach based on interdependence and mutual support.....	125
II. 2. The divergent approach regarding market failures .....	136
Chapter III. Hybrid economics initiatives - funding and functioning principles.....	144
III.1. Venture philanthropy.....	145
III.2. Impact investment.....	151
III.3. Social Economy.....	162
Chapter IV. Development Non-Governmental Organisation contributions to the market economy mechanisms stimulation in Romania .....	166
IV.1. Case studies .....	170
IV.2. Perspectives from DNGOs coordinators .....	183
IV.3. Recurring elements in case studies and interviews .....	221
Conclusion.....	243
Bibliography.....	247
Annexes:.....	260

*Those unfamiliar with economics, nonprofit organizations, or both may wonder what one subject has to do with the other. Economics does not, of course, provide the reader with everything he or she ought to know but it does provide insight on virtually every problem relating to the role, behavior, management, and regulation of the nonprofit sector. In turn, economics has become a richer discipline for confronting the special challenges posed by the analysis of nonprofit organizations.”<sup>1</sup>*

The overlapping identity of Non-Governmental Development Organizations (DNGOs) and the private entities, but especially the actions of DNGOs to stimulate market economy mechanisms are aspects determined both by internal factors of the organizations concerned and by external factors. This process, viewed from the perspective of development economics, acquires a clearer, articulated meaning: DNGOs recognize the power that market economy mechanisms have in generating social and environmental change and they are using it to achieve their own social, community, and economic goals. The new economic institutional architecture, acknowledging the need to build an inclusive and sustainable society, gives way to NGOs, confirming the need to mediate macroeconomic tensions between the manifestations of liberalism and social democracy, but especially the microeconomic need to develop new, innovative business models that are socially inclusive and environmentally sustainable. Addressing social and environmental challenges, supporting small and medium-sized enterprises through support services, or migrating from a non-profit, non-entrepreneurial area to a business owner status, has generated several changes among DNGOs, with structural changes throughout the sector. The implications are obvious on the development NGOs, further named DNGOs, that have an executive role, transparently communicated, of generating economic well-being. Their motivation is to generate profits that can be invested in their programs. Furthermore, their

---

<sup>1</sup> Steinberg, R. Economic Theories of NonProfit Organisations, in *The Non-Profit Sector, A research Handbook*, Second Edition, Ed. Walter W. Powell and Richard Steinberg, Yale University Press, 2006, p 117

motivation is also related to their goal to contribute to a broader systemic socio-economic change.

Economy, which studies the satisfaction of human wants in a context of scarcity of resources, has recognized that the nature of these wants is changing as the economic progress encompasses an increasing percentage of society.

The need for reaching a balance between economic, social, and environmental perspectives is becoming a growing concern, influencing the reason why the baker and the butcher presented by Adam Smith as motivated exclusively by profits, being affected by social and environmental imbalances, are also becoming concerned about their contribution to their community and to which they belong. The law of "invisible hand" and of the individual interest that generates collective well-being is not contested but only improved by the perspective of approaching a "via media" between "homo oeconomicus" and "homo virtuosus".

On this "via media,, (the middle course) I will attempt to build a perspective that avoids extremes, but still does not lack courage and innovation, one that takes into account the relativism of the postulates in the social sciences but simultaneously builds a delimited identity on the conceptual area regarding the role of non-governmental organizations in stimulating the mechanisms of the market economy, through programs aimed to stimulate entrepreneurship and by using this approach in alleviating economic development inequalities.

In this particular conceptual framework, "via media" refers to the balance between presenting the DNGOs as overly important actors of economic development and progress and ignoring their contributions.

At the same time, the present thesis has a meta-theoretical approach, attempting to represent a useful landmark for researches in development economics and DNGOs that have a propensity for multi and transdisciplinary approaches, but also for practitioners (DNGOs employees) for their daily work. The conceptual field is attractive in terms of predisposition to innovation, a large volume of contributions, and its interdisciplinary character. On the one hand, DNGOs facing the market imbalances determined either by the private sector either influenced by the public sector, received different recognitions, each of them in an antagonistic manner either with the private sector, hence the name „non-profit" or "not for profit" or the name „non-governmental", thus leaving room for a dissipated identity, expressed in contrast with another sector, rather than in an independent manner.

The impact studies on their contribution to the economic development and the improvement of the living conditions of the beneficiaries of the development programs, combined the quantitative indicators with the qualitative assessments, thus determining an open debate of the usefulness and opportunity of these interventions.

Based on the current analysis carried out in the last part of the thesis, but also on the perspectives of other relevant authors (as mentioned in the literature review), I conclude that the private sector had a significant contribution, comparable to the contribution of public sector to the development and consolidation of the third sector, including DNGOs. The private, corporate sector contributed by developing their own private foundations (entities part of the third sector) that are representing their philanthropic extensions, by investing with impact in different economic sectors and by offering sponsorships out of pure altruistic motivations or stimulated by tax benefits.

The current thesis is approaching the reversed flow of the above mentioned interaction, starting from the premise that NGOs (with a focus on DNGOs) are contributing to the functioning of the market economy mechanisms, especially in market areas where start-up-ing and achieving economic viability poses additional challenges. The development of a dynamic market economy where the supply and demand mechanisms are working and determining along the way all the positive social implications, is the ultimate goal, taking into consideration the unavailability of sustainable economic, social and environmental operational models in development economics.

The motivation behind selecting the theme is rooted in the working experiences I had as an employee of an NGO, that can be defined as a development NGO. During my activity, multiple questions have arisen regarding the appropriateness of using market economy mechanisms as a means of achieving social goals, finding myself in difficulty of understanding the holistic implications of our work. I experienced the role of facilitator, consultant and initiator of social and collaborative enterprises that today are having an important contribution to rural development, using exclusively the market economy mechanisms.

From this perspective I observed that more and more NGOs are working to reduce from their portfolio the projects that require limited interventions, in terms of time and resources, and are investing their efforts in long term entrepreneurial initiatives, supporting or being directly involved in private enterprises. This tendency raised an important question for me, that had a

direct connection with my work but also opened up new directions for study regarding the determining factors of economic development. The interference with the market economy mechanisms has always been part of the identity of the non-governmental, or sometimes more explicitly named "non-profit organizations". The projects and programs implemented always took into account the market as a source of sustainability.

From the methodological point of view, the interviews with the specialist had a contribution to the effort to confirm the theory with the help of practice, or better said (given the evolution of the research area) to build the theory with the help of practice. Concurrently we must underline the macro-perspective on the general knowledge regarding DNGOs in the context of development economics: practice - finding the recurrent elements - conclusions - developing the theory.

The relevant bibliography is based on the work of researchers in the field of development economics but also on the papers published, as case studies or scientific articles that are reflecting the experiences of practitioners in different contexts - from the micro-economic perspective that the microinterventions in rural communities in developing countries brought to the macroeconomic perspectives that the international financial system or international institutions offered to the field. Although in many fields (such as technology, medicine etc) it is argued that the theoretical knowledge preceded the practice, a debate that has always been a constant, more than anywhere, in the field of development economics and the interventions of nongovernmental organizations, the practice, sometimes with positive results, sometimes not, led to the issuance of the main current theoretical postulates.

The thesis hypothesizes that non-governmental organizations, given the structural transformation they are facing, are becoming relevant actors of market economy. This posture of "relevant actor" is given by both 1) the role of facilitators of market economy mechanisms and by 2) the role of precursors of social innovations strictly correlated with the market economy. NGOs are becoming actors in the market economy, but especially in the segment of the economy that addresses individuals, groups or even states that are deprived of the numerous advantages that a functional market economy brings.

## Literature review

The intersections of the two research spheres, on the one hand, development economics and on the other hand DNGOs in their economic role, are partial at a first sight. However taking into consideration the current identity transformations of the DNGOs together with the innovation needed to address new development challenges, as will be confirmed in the next sections, new interferences appear that open new debates. I will review below several important works that are supporting the affirmations made in the thesis, with the constant objective to select from the impressive volume of scientific papers on development economics, the ones that are evaluating these interactions.

From the relevance and timeliness of scientific content's point of view, the development of methodological and scientifically valuable opinions on the role of development-oriented executive NGOs (known in English as "development of NGOs") is difficult and at risk against the background of generalization, difficulty in clearly drawing boundaries on the functions of these actors and the limited existence of clear measurement indicators. The role of these players in the development economy remains to be defined in the light of their changing functions. In the fundamental paper in the field of the economy of Development: The "Economic Development" developed by Michael P. Todaro and Stephen C. Smith, the authors, recognize the important role played by NGOs (non-profit organizations) in the economic development process. The construction of a vigorous economic society with the two sectors, both public and private, may overlap, in their view, with the attempt to build a two-foot seat.

From the point of view of the relevance and timeliness of scientific content, the development of methodological and scientifically valuable opinions on the role of development-oriented executive NGOs (known in English as "development of NGOs") is difficult and at risk against the background of generalization, difficulty in clearly drawing boundaries on the functions of these actors and the limited existence of clear measurement indicators. The role of these players in the development economics remains to be defined in the light of their changing functions. In the fundamental paper in the field of the economy of Development: The "Economic Development" developed by Michael P. Todaro and Stephen C. Smith, the authors, recognize the important role played by NGOs (non-profit organizations) in the process of economic development. The construction of a vigorous economic society in the two sectors,

both public and private, may overlap, in their view, with the attempt to build a two-foot seat. "Non-profit organizations have in many cases been involved, providing financial and technical assistance in developing countries".<sup>2</sup>The two authors state one of the reasons why this type of actor is economically important: "Since their existence (NGO) is built on trust contrary to coercion (public actors) or individual interest (private actors), they are able to achieve efficient and socially acceptable allocations of common goods and services at relatively low transaction costs"<sup>3</sup>. According to the same authors, these actors can directly contribute to poverty reduction and to the construction of a fair social and economic system through the following aspects<sup>4</sup>:

- 1) innovation (in the design and implementation of efficient programs and projects);
- 2) flexibility (the programs implemented by NGOs are not as sensitive to the external environment as those implemented by public actors. These programs are also adaptable to local needs, while maintaining the comparison, as they are not rigid with the pilot project implemented);
- 3) having specialized, constantly updated technical knowledge. (In most cases NGO staff are specialized with expertise from various fields relevant to economic development programs. More than public but less private actors, NGOs bring together dynamism and professional specialization;
- 4) provision of relevant public goods at local level. (in many cases goods and services such as non-formal education, access to information technology, legal advice in different relevant fields and the organization of the community for effective dialog with public actors is a kind of services that are not economically attractive – thus avoided by private actors and, at the same time, it is rare to prioritize public actors stuck in bureaucratic processes. However, these services and goods meet the real (sometimes unconscious) needs of the socio-economic marginalized population;
- 5) contribution (development and implementation) to local resource management. (NGOs have a major role to play in developing and implementing programs to protect common local resources such as natural reserves, lakes, forests, etc.);

---

<sup>2</sup>Todaro, Michael, P., Stephen C. Smith, *Economic Development*, XIth Edition, Boston, Pearson Education, 2012, p. 539.

<sup>3</sup> idem 542.

<sup>4</sup> Ibid., pp. 541-544.



- 6) developing a positive image based on trust and credibility. In most cases NGOs enjoy greater trust from citizens compared to public institutions. The same proportion is maintained for donors (foundations, corporations);
- 7) representation and support –advocacy-. The trust that NGOs enjoy in most cases legitimizes their role in representing and supporting the causes of the target groups or the message.

Michael Edwards, proposes a new focus in analyzing the role of economic development-oriented NGOs<sup>5</sup>. The author proposes to avoid generalizing the analysis, focusing it horizontally, which would result in many statements including words such as "depends", "sometimes", "if", "can".

To the detriment of this approach, Edwards raises the question: "have these NGOs acted effectively at critical times today?" Following this approach, Kenneth L. Leonard, part of the Department of Economics of the University of Colombia, proposes a relevant case study in its Article published in the International Review of Law and Economics no. 22: When both states and markets fail: "Asymmetric information and the role of NGOs in African health care."<sup>6</sup>

The author presents an example of a market failure coupled with the immobility of public actors. He said that the "free market miracle" did not take action in the case of the African health system against the background of asymmetric information about it. Although there is a desire to buy pharmaceutical products from the market, this phenomenon has not led to the emergence of suppliers. This vacuum has been partly covered by NGOs who have assumed the role of repairing a market failure with devastating socio-economic effects. Similar conclusions can be found in the work of the same author as the traditional African bodies and outputs-quota contracts in health care.<sup>7</sup>

The debate on the role of NGOs in restoring market failures, a direction which is very relevant to this work, is also being revisited by opinions which question the effectiveness of these structures in achieving the development goals they are taking on or being given over (a recurring aspect also emerged from interviews that can be summarized as the difference between

---

<sup>5</sup>David Hulme, Michael Edwards (ed.), *NGOs, States and Donors: Too close for comfort?*, Hampshire, Palgrave Macmillan, 2013.

<sup>6</sup>Leonard Kenneth L. *When both states and markets fail: metric information and the role of NGOs in African health care*, International review of Law and Economics no. 22. 2002.

<sup>7</sup>Leonard Kenneth L, *African traditional hears and income-contingent contracts in health care*, Columbia University working Paper,2000.

aspiration and materialization). Lucio Baccaro, in the paper: "Civil society, NGOs, and decent work policies: Sorting out the results"<sup>8</sup>, says there is less evidence that would support cost-efficiency, innovation and the impact of these structures compared to government organizations than evidence that would support the opposite. The author supports his opinion by emphasizing that in most cases of success it was more of an "internal working philosophy" and an administrative capacity development given by the management style, and it was not possible to identify the universal matrix that can be taken over.

There are three perspectives to understand the topic of the place of the DNGOs in the literature on economic development:

I. Identifying and conceptual isolating development NGOs (DNGOs). This includes the work that debates the role and extent of the debate and the economic development policy.

II. The structural changes of the company that convert to the timeliness of the presentation of the ODGSs as contributors to economic development and progress. In this category, work will be presented which is a tangential argument for the timeliness of the debate.

III. The use of market economy mechanisms by NGOs in an effort to provide an alternative to development. Fundamentally, this section brings together work combining the recognition of the role of these entities with a selection of market economy events that are not attached to the acerb capitalism, but rather to an manifestation of economic liberalism that brings together values such as altruism, care for social and environmental impact, Community activity, prosperity.

The identity transformation of NGOs, and especially their segmentation according to their missions, have given rise to the theoretical concern for defining and conceptual players active in the development economy, in addition to the clearly recognized contribution of private firms and public actors. The work followed approximately (determined but also determined by) the historical development of these entities, which enjoyed a wealth of confidence and recognition in the first part of their development role (early 70), they have been on a downward slope for about 3 decades, reaching a phase of moderate recognition but also of reinventing, whose chronological placement can be counted before, after and during the economic crisis of 2008 to 2011. The same sinuous trace, it shows and the related bibliography. On a general

---

<sup>8</sup>Lucio Baccaro, *Civil society, NGOs, and decent work policies: Sorting out the issues*, decent work Research Program, <https://www.ilo.org/inst/lang--en/index.htm> (see 02.04.2016)

level, the first work on the role of NGOs in development is characterized by an over-optimistic approach based on isolated economic and social outcomes, with a major impact in terms of visibility, but which has created high expectations of scale and multiplier.

Development economists rushed to extract from those experiences recommendations for broad policies, but also suggestions for other similar entities to take and build on those results. The evolution of the global economy toward increasing competitiveness but also toward greater inter-determination (economic globalization) widening gaps between developed and developing countries has overshadowed the recognition results of these organizations, however insignificant in the face of systemic needs for change. Afterwards, the moderate contribution was identified and the impact defined, leaving aside the scale of the impact and considering only its existence or non-existence.

*Gourevitch D, Lake D, Stein J.* draw attention to the role of NGOs in the global context<sup>9</sup> and to the capacity of the international environment to verify, evaluate and audit their actions.

If in the case of public institutions the activity assessment is determined by clear systems of mutual control (between state institutions and between all these and the population) and in the case of companies the legislation is very clear on fundamental aspects (liability, gain, loss), the situation is different for non-governmental actors, they operate in a less constrained environment that legitimizes their actions.

The authors are asking fundamental questions: *Can we be sure that the services provided by NGOs in the social sphere comply with a number of qualitative standards? Are the funds intended to combat poverty used by NGOs effectively for this purpose? are humanitarian organizations constrained by elements other than their own internal principles?*

The paper thus makes an effort to establish the credibility of NGOs in the context of their activities in various fields, from micro-financing to emergency assistance and development. This is how authors manage to identify these players and, even more generally (there are, of course, particular national situations) a number of constraints which can lead to qualitative and quantitative verification of their activities.

---

<sup>9</sup>Gourevitch D, Lake D, Stein J. Gross Stein (eds) *the creation of transnational NGOs: When virtue is not enough*, Cambridge, Cambridge University press, 2012

## Methodology

The methodological construction of the work is based on two central pillars:

1) reading and interpreting the literature.

This component will aim to draw an objective perspective on the work of non-governmental development organizations both from the perspective of dominant economic theories and from the work of practitioners on this subject.

The work will draw on the pros and cons that support the development of the DNGO sector in combination with the neoliberal and alternative development theories through programs that support the catalyzing of the market economy, especially those concerning the activity of small and medium-sized enterprises. I will look at the tools used by these actors.

The structure of the work follows this perspective:

- the first chapter is devoted to defining concepts and their correlation in the context of the proposed theme and thus to defining the reference area.
- The second chapter deals with the definition of DNGOs and the reporting of areas of interaction with the private sector relevant to the sector of the development economy.
- The third chapter addresses hybrid economic areas between social and economic areas, with the aim of highlighting common elements bringing together SMEs and DNGOs. This identity-based approach is an important argument for the NGO sector's increasing contribution to stimulating market economy mechanisms;
- The fourth chapter highlights the activity and development of the DNGOs in Romania and their choice to combine the neo-liberal approach in the proposed interventions. Complementary to the data analysis, a case study and interviews with decision-makers from NGOs active in economic development at national level will be used. The interview with them covered three main strands:
  - a) Determining how their organizations support SMEs;
  - b) internal structural changes driven by a shift toward stimulating market economy mechanisms;
  - c) framing the concession for using private sector instruments to achieve the goals.

- the last part issues conclusions on the current and future impact of the neo-liberalization of the non-governmental sector.

The development economics and, above all, the non-governmental sector, with all areas of interference between them, are undergoing rapid transformation, many of the old postulated being today, in the context of accelerated globalization with all its implications, if not totally obsolete at least more contestable than they were at the time of their launch. The sources of information are multiplying, with the volume of relevant information increasing, bringing pressure to selection and ranking.

### **The objectives**

The objectives of the thesis are as follows:

- 1) Identifying the contributions of non-governmental development organizations (DNGOs) to the empirical sphere of the development economy;
- 2) The presentation of concepts that work at the intersection between the operating principles of the DNGOs, the economy of development and the stimulation of the development of small and medium-sized enterprises;
- 3) Determining how the DNGOs choose to meet their targets by using market economy mechanisms for those active in Romania.

The objectives of the work are converging to the main assumption: DNGOs are increasingly contributing to economic development by opting to materialize this by stimulating market economy mechanisms.

## **Chapter I. Conceptual approaches**

### **I.1. Development economics**

The DNGOs place in the development economics is being in the process of being validated. However, we can say that this branch of the economy has also evolved from a monovalent perspective, strictly linked to the concept of economic growth, to a multivalent one that includes socio-economic development, sustainable development and economic progress. In these new discovered and confirmed perspectives, the DNGOs are finding one place.

Development economics is a branch of economic science that addresses the causes of underdevelopment and the drivers of economic development, possibly to be achieved by the

work of individuals, companies, governments, non-governmental entities<sup>10</sup>. [Development in its various forms is a term frequently used as an adjective, e.g.: developed state, developed community, and less as a noun, it is value-laden, and can be interpreted differently depending on the context, reference, limits of the understanding of the receiver, to list only a part of the factors. In the case of this work the meaning is exclusively economic, defining a level (developed or underdeveloped) of well-being held by a person, region and state. Social values, in the context of the subject of the work are implicit but secondary to the economic ones, in some extent to which even within this discipline, economy is by a small margin leading the social sphere.

Economists' concern to penetrate the depth of the factors that determine the evolution of society, seen in all its facets, has been a constant challenge in the face of the dynamics of historical change. The successions of political regimes and the maturing of the debate on dominant economic doctrines have increased the interest in quantifying and focusing on elements that have generated a more advanced society.

Under this imperative, the concepts of growth, development and economic progress have emerged, with each of them drawing attention, alongside the elements already identified and scientifically validated, to new areas of interest. Economic growth, through its essentially quantitative indicators, proposes a first level of assessment. The level of a gross domestic product per capita, an absolute sum, expressed in terms of economic vocabulary most of the times in dollars, was a significant conclusion on the average economic well-being of a person. The distribution of income once passed through the filter of the Gini coefficient, moves the purely quantitative debate to new elements related to fairness, participation, opportunity. This new perspective has given rise to the concept of economic development, which introduces two new major areas of interest: Environmental sustainability and the social inclusion of the economy. This type of assessment has been rapidly stimulated and embraced by international institutions, concerned with economic inequalities and the global environmental crisis. While the two assessment levels concerned both quantitative economic indicators and economic, social and environmental indicators, the concept of economic progress adds not only a new set of elements under assessment but also a global perspective on aggregate welfare. The three concepts co-exist and complement each other, providing a rich conceptual framework that also

---

<sup>10</sup>Barry Baker, *World Development: en essential text*, new International publication, 2011. P.6.

incorporates the development economics and the contribution of non-state and non-private executive actors, the DNGOs.

Economic growth is a quantitative improvement due to a higher rate of goods and services in a given country than demographic growth. This phenomenon is measured by well-known economic indicators such as gross domestic product, gross national product or per capita national income.

The drivers of growth can be divided into two categories: A) economic factors, including: Natural resources, human capital, openness of the economy, technological advance, and foreign direct investment, and b) non-economic factors such as socio-political factors.<sup>11</sup>

## **I.2. Executive (Development) non-governmental organizations**

This sub-chapter defines DNGOs, outlines in the context of the thesis but also highlights the recurrent elements that bring DNGOs as an operational structure to entities organized for profit and outlines the instruments by which the former decide to achieve their aim of contributing to socio-economic development by supporting the private sector (3), especially SMEs.

Non-governmental development organizations (DNGOs) are a category of the third sector which through their objectives and activities contribute primarily to the economic development of the areas in which they operate. The DNGOs retain most of the characteristics of traditional NGOs in their identity.

We define non-governmental organizations as those entities “that are organized for a public purpose, are able to make decisions autonomously and do not distribute the profits of the associates”<sup>12</sup>. They are “independant of the public and private sectors, although in some situations they may be close to both”<sup>13</sup>

The relevant theoretical work that contributes to the strengthening of the term “non-governmental development organizations” is found in several areas of research: political science, economics, anthropology, sociology and tangential and other social sciences.

---

<sup>11</sup>Mihaela Lutas, Ioana Sorina Mihut, *Economic growth: Chalanges, opportunities and main Veterinants, in interdisciplinary Management Research VIII, Faculty of Economics in Osijek – Croatia, pp. 467-477.*

<sup>12</sup>(SEE ALSO THE FOLLOWING INFORMATION Boris, C.E. Steuerle, *Scpe and dimensions of the non-profit sector* in W.W. Paustin, Stinberg R. (2005) (Ed), *the non-profit sector, A Research Handbook, second Edition, Yale University press, 2006 p. 66.*

<sup>13</sup>Idem.

Development NGOs (ONGD) are among those providing services, distinguishing themselves from entrepreneurship and avoiding repetitive service provision such as social assistance provision.

### I.3. Correlation between primary concepts

Why and how can DNGOs use market economy mechanisms for their new roles in the economic context? Is support for entrepreneurship and identity changes identified in the previous chapters really systemic phenomena? Do they agree with alternative development theories so that we can anticipate that they will persist?

By matching the two detailed perspectives in the extensive work (Lewis and Kanji<sup>14</sup> versus Korten<sup>15</sup>), I believe that an overlap between the following perspectives and then the identification in each area of the preconditions that led to the option of today's DNGOs to use market economy mechanisms (MEP), is a solid foundation for the claim that there are overlaps between the general concepts of the work\*:

Lewis perspective, D. Kanji		Korten D perspective		Perspective of using the MEP
Theory	Role of NGO	Period	Role of NGO	
Institutionalism (key author: E.A. Brett, 1993)	NGOs are one of the three main institutional sectors. They can have comparative advantages over the other two sectors (private and public) in the provision of services.	First (assistance and well-being)	Executive (Doer)	I. Interventions aimed at resolving pressing situations. Support for the private sector was secondary.

<sup>14</sup> David Lewis, Kanji, N, *non-Governmental organizations and Development*, Routedclear, new York, 2009.

<sup>15</sup> David Korten, *getting to the 21st century: Voluntary Action and the Global Agenda*, W. Hartford, Kumarian press, 1990.



Neoliberalism (key author: J. Sachs, 2004)	NGOs are flexible agents of democratization and cost-effective services.	Second (Community development)	The mobilizer	II. The interventions were planned and the solutions generated were intended to be self-sustainable
Alternative Development (key author: J. Clark, 1991)	NGOs are important players in terms of proximity to the poor and in terms of their ability to contest the main, top-down paradigms of economic development.	Third (developing sustainable systems)	Catalytic actor	III) The interventions were linked to the local market and included connecting vulnerable groups with the market.
Post-development (key author: A. Escobar, 1995)	NGOs are agents of modernization, destroying local cultures and economies. Only local social movements set up efficient entities to resist such a process.	Fourth (People's movement)	Activist / educator	IV Differences arise between traditional market prospects, NGO positioning and civil society needs.

**Figure1 DNGOs and economy of development (author perspective)**

**Chapter II. Non-governmental development organizations (DNGOs) and interference with the private sector**

The position of the non-profit sector in the broad sense of the sector relative to the private sector can be classified in two categories (each detailed below):

- 1) A partnership approach based on a relationship of interdependence and mutual support;
- 2) Divergent, critical approach.

This work focuses on the first category, by highlighting interactions, mutual influences and concern for common elements. The approach of presenting DNGOs as challenging actors in capital, in particular, in relation to corporations, is out of the economic sphere, rather in the political sciences, and I will therefore place a narrow section on which to describe this relationship.

### **The partnership approach, based on a relationship of interdependence and mutual support**

In view of the above, it is clear that private sector support actions should be among the preferred instruments for achieving the goal of socio-economic development. The DNGOs perceive small and medium-sized enterprises, in a predominant way, as a means of achieving the socio-economic development goals they have undertaken. How we can find this type of support can be linked to:

- I.* facilitating access to finance for entrepreneurs through different instruments;
- II.* improve the skills in business administration to increase efficiency (referring to the transversal skills specific to business management);
- III.* the development of pilot companies with the aim of creating two types of market effects: generation of demand (value chain interventions) or generation of supply;
- IV.* supporting producers' cooperatives (associative structures) or similar entities as an internal governance structure.

### **Chapter III. Hybrid economic initiatives – from financing to the operation**

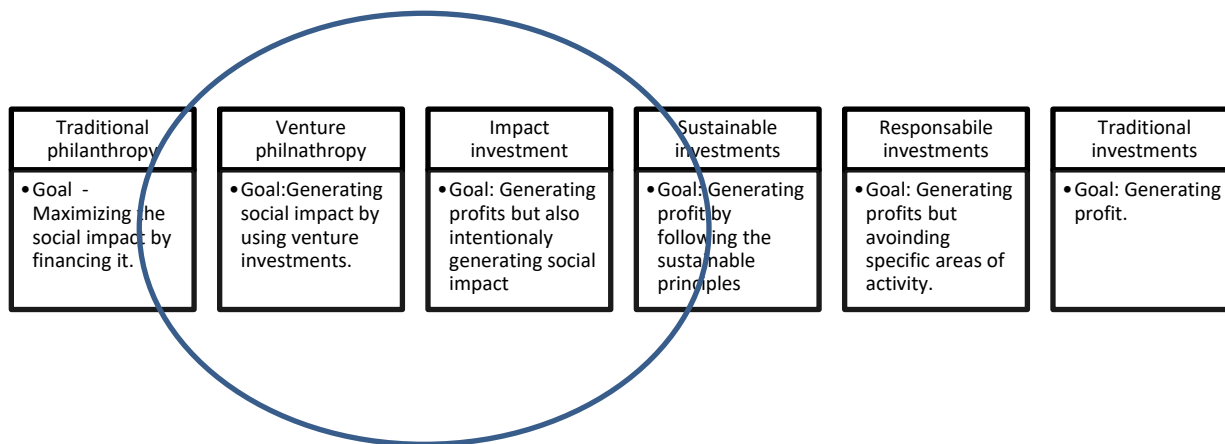
Since the emergence of the non-profit sector, as we know it today, there have been overlaps between its operating principles and those of the market economy. The management of the firm was a source of imitation for NGOs, especially in terms of financial management, human resources management, but more recently also the management of funding sources. Recently, their evolution has led to a mutual exchange of practices, but beyond these, and to a mutual exchange of operating principles.

Therefore, several types of overlapping areas appear in society. Those managing the most resources generate a significant social impact, but are also recognized by public policies, through the development of dedicated programs, are particularly a) the social economy (the social enterprise sector), b) impact investment and c) collaborative economy.

We will treat them in the following, from the point of view of their relevance to the subject. Relevance is defined as how these forms of economic manifestation reflect the contribution of the non-profit sector to the optimization and adaptation of the for-profit sector to society. This mutual influence is involved in the operational flow of a company or NGO at different stages and processes, and is sometimes more visible in the way resources are attracted and managed, or in internal governance.

In terms of the types of impact investments, specific to the DNGOs, and the set of principles that they bring on the initiatives supported, we can identify the area of proximity between NGOs and the private sector. At the extreme point is traditional investments made through various financial instruments, which are aimed exclusively at generating profit. There are responsible investments that avoid areas of activity considered dangerous, such as the arms and cigarette industries, but which do not include intent, and generate impact in the social sphere without deliberately being involved. In practice, social impact is a type of unplanned positive externality.

The next category is sustainable investment, which is geared toward companies with clear governance principles on social and environmental impacts. Between these three categories and the philanthropy area are impact investments, replacing the passive "do not harm" principle with the "will-based" principle of having a positive social and environmental impact". On the other hand, we have types of investment such as venture philanthropic which offer various, highly risky financial instruments for impact enterprises (social, environmental), social development organizations, including for DNGOs. On this axis of investments at the opposite side of traditional investments are traditional non-reimbursable grants. In Romania, specific terminology uses a term borrowed from English – "grants" (grants) which can be translated into traditional subsidy or, when private, philanthropy.



**Figure2 Figure 1 types of investments in terms of purpose (economic and social)**

Source: Author adaptation based on: Clark, Cathy, Jed Emerson, Ben Thornley, The impact investor: Lessons in leadership and Strategy for collaborative capitalism, San Francisco, Jossey-Bass, 2015.

Internal governance and management rules that distinguish NGOs from profit-oriented entities (such as profit-driven rather than profit-making) and further, environmental or social impact investments are determined from the funding phase. I have chosen to realize this classification, because it gives a clear view of the primacy of one of the two elements: Profit and/or impact (social or environmental). As we move our attention from right (traditional investments) to left (traditional philanthropy) we can see a shift of focus on the element of the intention, from profit to social or environmental impact.

The social economy is the area of activity where market economy mechanisms are used primarily to generate social impact and only in secondary form to generate profit. The latter is a desideratum, determined by the intention to reinvest in expanding activity, but it is a means and not a goal per se. The concept is reflected in various business models organized within different legal frameworks.

In Romania, the Social Economy Act (Law 219/2015) defines social enterprise as: "entities which are not part of the public system but which contribute to the well-being of the community by increasing employment among vulnerable groups". With the regulation and the emergence of European funding, the concept has grown rapidly.

## **Chapter IV. The contribution of non-governmental organizations to stimulating market economy mechanisms in Romania**

At the level of the first half of 2020, the national Register of associations and foundations centralized 97.926 associations and 20.017 foundations<sup>16</sup>. The evolution of the sector over the last 30 years has been very dynamic, with 1.173 associations or 31 foundations in 1990. Every ten years, the increases were as follows: 16.670 associations and 13.179 foundations in 2000 and 47.942 associations and 15.967 foundations in 2010.<sup>17</sup>

Distribution by area is difficult to achieve, with most of them working in several areas, and it is difficult to determine which one is the main one. Despite these limitations, the Civil Society Development Foundation carried out a study<sup>18</sup> which consolidated the information provided by the Ministry of Justice and the results of an internal study and reached the following conclusions: 6% of the entities were active in the field of economic development. This percentage is small compared to 21% active in the social field, but exceeds areas such as civic 4%, religious, 5% and environmental 3%.

### **IV.1. Case studies**

The three case studies each provide three main conclusions on the economic role of the DNGOs:

- 1) The first case study presents the view of the DNGO as a project manager and a provider of business consultancy and tutoring services with a strong social dimension. This is the project of the Civitas Foundation for Civil Society - Cluj Subsidiary (Civitas Foundation) aimed to support the Lunca Somesului Mic Agricultural Cooperative, entitled "Promotion of entrepreneurship in society through cooperation"
- 2) The second case study, the development of CoopNet, captures the same DNGO, Civitas Foundation for Civil society – Cluj Subsidiary, as a multiplier of best practices, developing and providing a training program for the start-up of agricultural cooperatives, based on the experience of the project presented in the first case study.

---

<sup>16</sup>Ministry of Justice, NGO national Register <http://www.just.ro/registrul-national-ong/> (accessed 21.07.2020)

<sup>17</sup> Foundation for Civil society Development, Romania, 2017, non-governmental sector profi, tendentiint, challenges, co-ord. Mircea Kivu, Bucharest, 2017, p 20 <http://www.fdsc.ro/library/files/romania-2017.pdf> (accessed on 21.07.2020)

<sup>18</sup>Civil society Development Foundation, InfoGraph 2017 [http://www.fdsc.ro/library/files/infografice\\_ro\\_2017\\_raport.pdf](http://www.fdsc.ro/library/files/infografice_ro_2017_raport.pdf) (see 21.07.2020)

- 3) The third case study, the development of the “Green Node” (Nod Verde) food hub presents the Civitas Foundation, in the capacity of the owner and administrator of the business, the responsibility for achieving the financial sustainability of the business being the direct and exclusive responsibility of the studied DNGO.

The three case studies present the direct contributions of a Cluj-Napoca DNGO, active in the field of rural development, to development and progress (understood in terms of the definition at the beginning of the thesis), of the area in which it operates. The evolution of the organization between the implementation of the first project, started in 2012 and the management of the company Civitas Food Hub, legally registered in 2017, which was in its third operational year, contributes to the basis of the central hypothesis of the thesis on the contribution of the DNGOs, which is increasingly visible and relevant, to economic development, by stimulating market economy mechanisms favorable to small and medium-sized enterprises. The analysis of the three case studies was carried out by going through internal documents (business plan, activity reports, etc.) but also by direct observation, as I took the position of project manager in each project.

Interviews were aimed at people involved in the management of non-governmental organizations active in economic development projects. The professional profile of each respondent includes both direct work experience in the private environment and project coordination experience in the third sector.

The twelve individual interviews were conducted face-to-face, over the phone, using online and written communication applications on e-mail, in some cases there were additions to the information, made on e-mail for more precise answers.

The questions were opened, the interview being semi-structured, where the interviewer raised some relevant examples or new relevant research paths, spontaneously requesting additional information.

In line with the objective of the work, the questions were to obtain information on three distinct sections:

- 1) the perspective of the DNGO as an active actor in stimulating market mechanisms, which aims to: how the NGO in which the person interviewed contributes to fostering the development of small and medium-sized enterprises (social or non-social) and improving the

legal regulations governing their activity? (Types of services provided for SMEs, financing, projects, lobbying and advocacy.)

2) The perspective of internal, deliberate and inertial changes in the objectives and working arrangements of the organization concerned, with a view to adapting to the implementation of projects and the provision of services to favor revenue-generating economic activities;

3) A perspective on the role of DNGOs in mediating between neoliberalism (fostering the development of a free, partly regulated market that enables access to prosperity for all) and alternative development theories (which favor participation, capacity and equality for vulnerable groups).

Interviews reveal a number of recurring elements that revolve around the central argument, the closeness of the work of non-governmental organizations active in the field of economic development to the private sector, both through internal operating principles and through the focus of developed programs to stimulate market economy mechanisms. The recurrent elements have been structured into seven core themes interconnecting internal motivations, driven by developed strategies, and external motivations, driven by relevant factors in the context in which these entities operate, integrating them into the micro-economic context of liberalism:

1) Diversification of funding sources – market economy instruments option;

In all interviews, the issue of financial sustainability of all types of NGOs, regardless of their field of activity, including those active in the field of economic development, is a recurring one. The traditional approach based on public and private funding based on specific project development and in some cases also based on private individual donations puts ongoing pressure on the operational work of NGOs. Projects financed by national or European public funds have short implementation duration of up to 3 years, and their implementation involves the employment of fixed-term staff and then the termination of employment contracts immediately after the project is completed.

2) Offering services to markets that are in difficulty in paying them, with the aim of promoting economic development;

Depending on several economic factors, some markets, although they have the potential for development, have an anemic dynamic and thus attract few investors. Of the many factors

determining this underdevelopment, we can list: poor human resources training in both sector-specific skills and enterprise management skills in the sector, poor purchasing power in local markets, low capacity to compete with products from advanced markets and the list can continue. Factors that obstruct a business's ability to develop and thus the market itself can be divided into exogenous factors (reference market, relevant regulation, competitive context) and endogenous factors (own production or supply capacity, innovation capacity, market understanding and approach, etc.). In fostering the increase of capacity to address endogenous factors, the effort is often geared toward training, interaction with experts in the field, working with actors in the value chain to better understand needs, mentoring from persons who combine experience with expertise and other types of activities that can be framed under the greater umbrella of educational activities. In this area of SME needs, NGOs have also emerged and developed the provision of services to increase operational capacity.

3) Increasing the capacity of small and medium-sized enterprises for development;

The presence of NGOs as enablers for the development of social enterprises is not surprising given the identity and operational principles of the two forms of organization. Beyond this level, however, the presence of NGOs as development facilitators is also found in the area of small and medium-sized enterprises without an explicit social mission to employ people from vulnerable groups or to provide products or services which by their nature have a social impact. The market area where many of the initiatives of the organizations represented by the experts interviewed are is that of start-ups with start-ups either owned by young people or those owned by an entrepreneur in the first market experience.

4) Addressing market externalities – the non-profit proposals for a sustainable profit sector;

Market differentiators between executive NGOs carrying out projects to stimulate market economy mechanisms with the aim of fostering economic development and business consultancy firms, which offer various services to support the increase of operational capacity (management consultancy, training, human resources management consultancy, the consultancy in attracting reimbursable and non-reimbursable funds) is also given by the attention on the management of market externalities. Encouraging positive externalities and reducing negative externalities is a constant concern for respondents. The “demonstration effect” is very important in this respect.

5) Catalyzing innovation;



Catalyzing market innovations is a recurring element of the work of the DNGOs, coordinated by the experts interviewed. Market innovations are defined as new practices, processes, methods of organizing economic activity to increase company's income, lower costs and thus foster profitability. Beyond catalyzing process or product innovation, DNGOs, including those interviewed, are currently undergoing a process of innovation in management, best reflected in this imitation of private sector practices and adaptation to their specificities. Management innovation is defined as adopting new practices, processes or structures that substantially change the way the management effort is made to achieve the goals of the organization. For entities surveyed, management innovations in terms of taking on and adapting business approaches are hampered by a number of factors such as: the complex structure of the organization chart and lax policies of human resources, the lack of financial resources, the ambiguity in the formulation of the organization's purpose and objectives, the interconnectivity with a range of stakeholders with different expectations and perceptions – beneficiaries, partners, funders. Despite these factors that hinder the transition, we note a number of common practices such as: A) participation of the management team in training sessions in areas such as financial management, business plan development, product and service marketing; b) formulating strategy, purpose and objectives in a manner similar to the private sector; c) taking management practices from hybrid market areas such as the micro-finance sector; D) the development of private entities that carry forward the mission elements but also aim to generate alternative sources of income; E) assessment of NGOs' performance also in financial terms, adding to beneficiaries' needs analyzes cost-benefit and cost-effectiveness of impact investments.

6) Increasing legitimacy and accountability;

Similar to public institutions the need for legitimacy and accountability has been manifested both internally in the DNGOs sector and as an expectation from outside by both funders and beneficiaries. For DNGOs combining the executive involvement of beneficiaries in areas of activity with advocacy activities (lobbying and advocacy), assuming the first role strengthens the legitimacy of the second. Moreover, the professional authority of the trainers or consultants proposed by the DNGOs was higher, given their practical experience.

7) To determine a positive, long-term socio-economic societal change.

The responses from experts from participating organizations to the interviews often provide many elements on their contribution to the better of society within the proposed

strategies. This change for the better is based on the broad sense of the expression of two dominant components: Economic growth and social welfare. Tracking and responding to business dynamics, transform projects into interventions based on natural inertia, on a “good” desired by each and not on the “good” imposed. The supply and demand mechanism regulates this development dynamic, providing both an opportunity and an obligation for change.

## Conclusions

The increasing recognition as relevant actors of the development economy by DNGOs is strictly linked to their ability to integrate private sector elements into the operating principles and to contribute to a framework for their development.

Market orientation is driving a series of internal changes, which are also needed to be able to play a role in the wider development economics area. First, organizational performance and taking-up of private sector practices are becoming increasingly common concerns among DNGOs<sup>19</sup>. Secondly, we are seeing a redefinition of how to achieve the social, economic or environmental mission that proposes a new set of instruments, but also a new neoliberal rhetoric in which the beneficiaries become consumers, activists are becoming entrepreneurs and donors become investors.<sup>20</sup> The change of the operational model, which we may call in some cases the "business model", implies a careful analysis of financial resources, fund-raising policies and the relationship with the beneficiaries. The optimization of these processes, modeled on private companies, includes perspectives on strategy, structure, current systems, team skills, organizational culture and values.

The need for this transition, even for a part of the NGOs, those directly involved in economic development, is given by empirical experience, which points to the need for long-term, economically sustainable interventions and to redefine social and sustainable development and economic growth. In seeking their identity, the DNGOs find meaning in this contribution to the functioning of the mechanisms of the economy and, in some cases, even in direct involvement as economic actors.

---

<sup>19</sup>Florentine Maier, Mchel Meyer, Martin Steinbereinthner, *non-profit organizations coming Business-like*, Sage Publications, non-profit and revenue sector Qartley, 2014

<https://journals.sagepub.com/doi/abs/10.1177/0899764014561796?journalCode=nvsb> (see 17.07.2019)

<sup>20</sup>As of 1.

This paper presents the concept of the development economy and defines building blocks of the framework for action of the DNGOs. Furthermore supporting the affirmation that DNGOs contribute to the stimulation of the market economy mechanisms, we have the interaction with the private sector and the way it influence the working mode of the DNGOs. The third chapter presents 3 concepts that are representative of the overlap between the non-profit (non-governmental organizations) and the private environment, organized for heritage purposes, to highlight how the former contributes to the development and modeling of the second. The fourth chapter presents by combining the case study, questionnaires and interviews a qualitative perspective on the contribution of the DNGOS to stimulating market economy mechanisms either by providing services to SMEs or by taking a direct role as a partner in the business.

The content of the chapters contributes to the achievement of the objectives of the thesis by identifying the contributions of non-governmental development organizations (DNGOs) to the empirical sphere of the development economy in the first and second chapters by presenting concepts which operate at the junction of the operational principles of the DNGOs, the development economics and the stimulation of the development of small and medium-sized enterprises in the third and finally at

Determine how ODGSs choose to achieve their objectives by using market economy mechanisms (MEP) in Romania, through case studies, questionnaires and interviews conducted.

From the perspective of economic doctrines the topic is found at the intersection of economic liberalism and social democracy. However, it is clear that the macroeconomic influence of the DNGOs is relatively low, with their contribution materializing at the micro-economic level. The DNGOs develop or support business models where social and environmental responsibility becomes increasingly important and are part of the assessment of the entity's performance.

The literature is fragmented in research related to the identity-based approach between the DNGOs and the private sector, but also in research into the contribution of the former to economic development is determined by the subjectivity of studies within the sector, which underlines the positive effect of this development, using both qualitative and quantitative methods. At the same time, studies highlighting the lack of such proximity and the negligible effect in the economy are mainly addressing qualitative methods, challenging the veracity of

activity reports or quantitative studies. From an economic perspective, studies on the contribution of DNGOs to stimulating market economy mechanisms are rather tangential.

The present paper has several topics that can be the subject of future works. I will just list three of them: 1) there is an urgent need to conceptualize the professionalization of NGOs in the development of specific management and management skills. This transformation is difficult for staff and experiences and conclusions from other work can contribute to the process. Impact investment is a very popular financial instrument in the west. In emerging economies, but also in countries with a relatively young history of capitalism, it is clear that the issue will become increasingly important. On the other hand, mediation between the capital market and social or environmental initiatives is a difficult step, including in the west. Research in this direction could help to understand, implement and evaluate these instruments; 3) practices to facilitate and assist start-ups operating in difficult markets or managed by individuals from vulnerable groups are a set of information useful to future government interventions, investments or projects implemented by other NGOs. Defining them within the conceptual limits of the micro-economy can generate valuable material.

Finally, this research has helped me to better understand the reasoning of my daily work. By going through literature on the topic of the development economy I have better understood the complexity of the existing socio-economic challenges, the importance of each individual's small contributions to mitigate them and the role of individual responsibility as part of the larger fabric of change for the better, from the socio-economic point of view of the communities we live in. By going through the literature on the work of NGOs, with focus on NGOs, we have discovered the identity heterogeneity of the sector that abounds in initiatives with economic vocation, difficult to identify under the general magnifying glass of the economy but visible at a closer assessment.

### **Selective bibliography:**

1. Banerjee, Abhijit H., Esther Duflo, *Poor Economics*, London, Penguin Books, 2011
2. Baker, Barry, *World Development: an essential text*, Oxford, New Internationalist, 2011
3. Bebbington, Anthony, Samuel Hickey, Diana C. Mitlin (ed.), *Can NGOs Make a Difference?*, Londra, Zen Books, 2007

4. Christensen, Clayton, M, Efosa Ojomo, Karen Dillon, The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty, București, Publica, 2020
5. Clark, Cathy, Jed Emerson, ben Thornley, The impact investor: lessons in Leadership and Strategy for Collaborative Capitalism, San Francisco, Jossey-Bass, 2015
6. Easterly, William, The Tyranny of experts, New York, Basic Books, 2013
7. Cohen, Jessica, William Easterly, Ed. What Works in Development?: Thinking Big and Thinking Small, Brookings Institution Press, 2009.
8. Gourevitch D., Lake D, Stein J.Gross Stein (eds)The Credibility of Transnational NGOs: When Virtue is Not Enough, Cambridge, Cambridge University Press, 2012
9. Hilhorst, D. The Real World of NGOs: Discourses, Diversity and Development, London , Zed Books, 2003
10. Hulme, David, Michael Edwards (ed.), NGOs, States and Donors: Too Close for Comfort?, Hampshire, Palgrave Macmillan, 2013
11. James E. Austin, The Collaboration Challenge: How Nonprofits and Businesses Succeed Through Strategic Alliances, New-York, Jossey-Bass; 1 edition, 2000.
12. Keohane , Georgia Levenson Social Entrepreneurship for the 21st Century: Innovation Across the Nonprofit, Private, and Public Sectors, New York, McGraw-Hill Education; 1 edition, 2013.
13. Korten, D. Getting to the 21st Century: Voluntary Action and the Global Agenda, W. Hartford, Kumarian Press, 1990.
14. Lewis, David, Nazneen Kanji, Non-Governmental Organisations and Development, Oxford, Routledge, 2009
15. Lewis D., Wallace T., în New Roles and Relevance, Development NGOs and the Challenge of Change, London, Kumarian Press, 2000.
16. Lin, Justin Yifu, The quest for prosperity: how developing economies can take off, Princeton, Princeton University Press, 2012
17. Meier, Gerald M., Joseph Stiglitz, Ed Frontiers of Development Economics, New York, Oxford University Press and the World Bank, 2000
18. Moyo, Dambisa, How the West was Lost, London, Penguing Books, 2012
19. Popescu, Gheorghe, The Evolution of Economic Thinking, Third Edition, Romanian Academy Publishing House, Cluj-Napoca, 2004

20. Powell, Walter W, Richard Steinberg (ed.), The Non-profit Sector, A Research Handbook, Second Edition, New Heaven, Yale University Press, 2006
21. Rondinelli, Dennis, A. John M. Heffron, Leadership for Development: what globalization demands of leaders fighting, Sterling, Kumarian Press, 2009
22. Rostow, Walt Whitman, The Stages of Economic Growth, a Non-Comunist Manifesto, Third Edition, New York, Cambridge University Press, 1990.
23. Sachs, Jeffrey, The Price of Civilisation, London, Vintage, 2012
24. Samuelson Paul, William D. Nordhaus, Economics, Nineteenth Edition, McGraw-Hill Irwin, 2010.
25. Schumpeter, Joseph, A. Can Capitalism Survive?, București, Publica, 2011
26. Sen, Amartya, Development as Freedom, Oxford, Oxford University Press, 1999
27. Stiglitz, Joseph, E. The Price of Inequality: How Today's Divided Society Endangers our Future, București, Publica, 2013
28. Todaro, Michael, P., Stephen C. Smith, Economic Development, Boston, Pearson Education, 2012
29. Yazniji M., Doh. J , NGOs and Corporations: Conflict and Collaboration, Cambridge, Cambridge University Press; 1 edition 2010
30. Yunus, Mohammad, Karl Weber, Building Social Business, București, Curtea Veche, 2010