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THE BAROMETER OF THE ACCESS TO FINANCING OF SOCIAL ECONOMY ENTERPRISES FROM ROMANIA

December 2021

The research report assesses the ecosystem for financing social enterprises from Romania and identifies solutions to current issues regarding the access to financing.



THE BAROMETER OF THE ACCESS TO FINANCING OF SOCIAL ECONOMY ENTERPRISES FROM ROMANIA

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Context

This research report has been developed within the AFIN – Romanian Alternative FINancing Institution Dedicated to Social Enterprises VP/2019/015/0035 project, financed by the European Commission and implemented during January 2021 – June 2022 by “Alături de Voi” Romania Foundation (ADV), in partnership with Patria Credit IFN SA and the European Federation of Ethical and Alternative Banks and Financiers.


Through the research developed, the partners on the project documented the need in Romania for a financing instrument dedicated to the social economy sector. The information obtained is included in the business plan to develop AFIN IFN S.A. – ***the first alternative financing institution with Romanian capital, dedicated exclusively to crediting the social economy sector.***

FIN IFN S.A. is an instrument available for social entrepreneurs who either want to invest or to benefit of financing. Details available on www.afin.org.ro

The goal of AFIN IFN S.A. is to grant loans to juridical entities who are developing activities with social impact, that is entities with social economy, with or without social mark, including but not limited to social enterprises, cooperatives and NGOs, hereafter individually called „**entity with social impact**” in order to support and develop social economy through financing sustainable projects contributing to the consolidation of communities and the integration through entrepreneurship of groups at risk.

For further information about the social economy, we recommend the following documents elaborated by ADV Romania in 2021:

1. [*The Barometer of Public Socially Responsible Procurement*](#)
2. [*The Cross-border Magazine in Social Economy, first edition*](#)
3. [*The Barometer of Social Economy in Romania, 2021*](#)



The AFIN project is complementary to three other European projects that ADV Romania is implementing until 2023 through which will be created over 50 social enterprises in Romania, the Republic of Moldova and Ukraine. At the same time, the project is ensuring synergies with actions of the European Commission for economic recovery and development of social economy, including the European Action Plan for Social Economy.

It is estimated that the social economy in Europe represents 2,8 million entities and social enterprises, ensuring over 13,6 million paid workplaces, meaning 6,3% of the active population.

We thank very much all those who contributed to the questionnaire and attended the focus groups within the project with the goal of gathering information for the hereby report.

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Conceptual and policies framework

A significant percentage of Europe's economy is meant for obtaining profit for other persons than the investors or the owners. Known as the "social economy", it includes cooperatives, mutual societies, not-for-profit associations, foundations and social enterprises. The social economy operates a large number of commercial activities, offers a wide range of products and services in the European single market and generates millions of jobs. Social enterprises are also the engine of social innovation.

They create and maintain quality workplaces, contribute to social inclusion and integration on the labor market of groups at risk and ensure equal chances for all, stimulating economic and industrial sustainable growth, promoting active involvement of citizens in our societies and play an important part in European social protection systems, invigorating rural areas and depleted regions of Europe.

The size of the social economy is important - there are 2.8 million social economy enterprises in Europe, representing 10% of all EU enterprises. More than 13.6 million people - about 6.3% of EU employees - work in social economy entities.

They have different legal forms and objectives, from agriculture and banking to ensuring workplaces and being sheltered workshops.

The main objective of traditional social economy enterprises is to serve associate members and not to obtain a return on investment, as traditional capital companies do. Members shall act in accordance with the principle of solidarity and reciprocity and shall run their business according to the "*one man, one vote*" principle.

Social enterprises represent an important and under development group of enterprises in the social economy. Their main objective is to have a social or environmental impact to the general interest of others.

When policy makers work to improve Europe's business environment, they need to ensure that the specificity of these businesses, such as ethos, work style, corporate governance, specific accounting methods, asset lock-in, profit-keeping, special "social" objectives are taken into account.

Social economy has existed in Romania for a very long time, the Law of Social Economy number 219 from 2015 only offered an official recognition to the sector. Social economy entities

- cooperatives,
- agricultural companies and cooperatives,
- mutual societies,
- associations & foundations (are enterprises only the entrepreneurial associations and foundations obtaining a significant percentage of their income from economic activities – for instance, over 50% of the total annual income).

To these were added through the Law of the social economy the *commercial companies* certified as **social enterprises**, which by their statute undertake to respect the criteria established by law, respect them in practice and report on them in *annual social reports*.

The hereby report will refer to:

- **social economy enterprises** – enterprises (organizations whose income is mainly from economic activities) respecting the *principles of social economy*

The principles of social economy, according to art. 4 of the Law on Social Economy, refer to:

1. **the social mission** – priority to the individual and to social objectives, rather than to increasing profit; the biggest percentage of the financial profit is allocated for reaching objectives of general interest, the interests of a community or the non-patrimonial general interest of the members.¹
2. **Collective and voluntary character** – collective solidarity and responsibility; voluntary and free specificity of the association into organizational forms specific to the field of social economy;
3. **Public interest goals** – convergence between the interests of associated members and the general interest and / or the interests of a collectivity;
4. **The democratic and participatory character of management mechanisms** – democratic control of members on the activities developed; participatory management – with the involvement of the most important key factor – workers, customers.
5. **Distinct juridical personality,**
6. **Autonomous management, independent from public authorities.**

- **Social enterprises** – social economy entities which, through their statute, vow to respect *criteria* set by legislation, respect such criteria in their daily activities and report on them in *annual social reports*, certified or not by administrative recognition of the County's Employment Agency.

Criteria of a social enterprise

1. **Social mission** – acting for a social goal and / or in the general interest of the community;
2. **Not-for-profit character, both with respect to the profit and to asset-lock liquidation**
 - Allocate at least 90% of the profit made to the social goal and / or to a statutory reserve;
 - Will forward the belongings following a liquidation to one or several social enterprises (in case the social enterprise is not certified, it can be possible to transfer the belongings to another social economy enterprise) - *asset-lock*²
 - Applies the principle of social equity for its employees, ensuring fair payroll, which can not surpass the ratio of 1 to 8.

¹ The patrimony of the cooperative society consists of the divisible part and the indivisible part. Cooperative members allocate from the net profit of the entity the amounts necessary to achieve the following goals: growth of the entity, rewarding the members in accordance to the participation in the cooperative society activity or supporting other activities approved by the cooperating members.

² Idem

Types of enterprises with values close to those of the social economy can also be found in the circular and collaborative economy, many social enterprises promoting sustainable and green development and solidarity.

The circular economy has emerged in the broader context of sustainable development initiatives that address environmental needs and function as a loop in a given territory, producing goods and services while lowering consumption and waste of raw materials and non-renewable energy. According to the Communication on the Commission on the Circular Economy Action Plan: "SMEs, including social enterprises, will be key contributors to the circular economy". In Romania there are social enterprises that have been pioneers in the circular economy and continue to be leaders in the field. Romania could benefit even more from the innovative capacity of social enterprises in the development of the circular economy if adequate support and

assistance were available for this type of entities. Starting from the experience of green business models of some successful enterprises such as *Ateliere fără frontiere* - DEE and mesh recycling, organic farm that reuses organic waste, *Viitor Plus Atelierul de pânză* - paper recycling. It is time to support economic activities - green social enterprises - that can make a substantial contribution to the environmental goal of transition to a circular economy through reusing products, through the development of "product as a service" business models and circular value chains, in order to keep products, components and materials at their highest level of utility and value for as long as possible.

The collaborative economy also generates considerable interest among people and businesses. The emergence of online platforms has greatly facilitated the sharing and exchange of services between people. This collaborative economy requires new forms of social relations. It contributes to combating the physical, economic and social isolation of rural areas, which makes it particularly interesting for social enterprises. In this context, social entrepreneurs have the potential to launch a large number of important initiatives in this field due to their deep territorial roots and their ability to strengthen social ties.

Collaborative social enterprises have the advantage that they make this type of economic practice, the collaborative economy to benefit as many as possible, including disadvantaged groups. Social enterprises need assistance to master complex digitization tools such as online platforms.

Moreover, any alienation or transfer of the use of tangible assets own by the cooperative society, can be done only with payment, with the approval of the general assembly.

From the gross profit of the cooperative societies, at least 5% is directed every year for establishing the legal reserve, until it reaches at least one fifth of the share capital. If the legal reserve, after its establishment, has been reduced for any reason, it will be filled in accordingly.

Following a decision of the general assembly, the assets remaining after the payment of amounts due to creditors and the transfer of the divisible part to members are transferred to another cooperative society, as mentioned in the articles of incorporation of the entity. In the absence of a decision of the general meeting, the remaining assets are assigned by the competent court and by irrevocable court decision, to a cooperative society of the same form, from the locality where the company's headquarters are located or from the nearest locality *).

The context of European policies favoring social economy

The European Commission approved on December 9th, 2021, the Action Plan for Social Economy. This document will increase social investment, support social economy actors and start-ups, expansion, innovation and job creation.

In order to prepare the action plan, citizens and interested parties have been invited throughout 2021 to express their opinions on the so-called roadmap of the action plan.

Social economy includes a variety of enterprises, organizations and legal forms, such as not-for-profit associations, cooperatives, mutual societies, foundations and social enterprises. They share the characteristic of systematically putting people first, reinvesting most of the profit back in the organization or in a social cause and having a participatory form

of government.

Such entities play an important role in job creation, job integration and inclusive and sustainable growth. Social enterprises operate in a wide variety of economic sectors, such as social services, health care, social housing, energy for the most vulnerable, recycling, retail, tourism and hospitality.

Given the field's potential to address societal challenges and contribute to economic growth, the European Union has launched a large number of actions to support the development of social enterprises and the social economy. Such initiatives include the 2011 Social Business Initiative (SBI) and the 2016 Start-up and Scale-up initiative.

More recently, several initiatives of the European Commission promoted the potential of the social economy:

- A social and strong Europe for fair transitions
- Action plan for the circular economy
- SMEs strategy
- Renovation wave
- Recovery plan - the new generation of the European Union
- Africa Strategy
- Youth Employment Support Initiative
- Integration and inclusion action plan
- European Competence Agenda
- EU strategic framework for the Roma population
- Economic and investment plan for the Western Balkans
- Renewed partnership with the Southern neighborhood - A new agenda for the Mediterranean region

The guarantee instrument for the social economy offered by the European Commission through the EaSI program is very useful in financing social enterprises, but at the moment it is too little used in Romania, particularly in the case of mature Social Enterprises.



I. The financing needs of social economy enterprises from Romania

Methodology

The report is based on official statistical information, on the results of a query applied among social economy enterprises – the Barometer of Social Economy³ and on the information collected during the seminar addressing social enterprises from April 2021 developed within the AFIN project.

The Barometer of Social Economy 2021 is an online query conducted by the “Alaturi de Voi” Romania Foundation (ADV) during March 29 to April 7, 2021 through the European Commission's survey platform www.eusurvey.eu.

The study covered authorized entities, namely Work Integration Social Enterprises, Social Enterprises, but also entities that are de facto part of the social economy without being accredited as social enterprises or as work integration social enterprises - Associations and foundations with economic activity, Cooperatives and Mutual Aid Entities. Authorized units for people with disabilities have also been included, as entities having the same mission statement as work integration social enterprises - integration on the labor market of a disadvantaged group of workers, namely people with disabilities. Entities included in the National Register of Social Enterprises in Romania, the Register of

Authorized Protected Units were contacted. For the mutual aid entities, the survey was distributed by the National Union of Mutual Aid Entities of Employees in Romania and for agricultural cooperatives by the National Union of Agricultural Cooperatives. We wish to thank them all for their availability to share information.

The survey was answered by 195 representatives of social economy enterprises from among the main types of enterprises addressed, in all legal forms and from all areas of the country. The barometer was developed within the ACCELERATOR OF SOCIAL ENTERPRISES project co-financed from the European Social Fund through the Human Capital Operational Program 2014-2020 Contract no: POCU / 449/4/16/127384, Beneficiary: “Alaturi de Voi” Romania Foundation having www.fonduri-structurale.ro as partner on the project.

For the hereby report, the authors analyzed for the first time the replies received from social enterprises to the questions from section 5 on the query regarding Financing, mainly with respect to:

- Sources of financing used for establishing and / or developing the activities of your enterprise in the past 3 years
- Information about financing sources / instruments that the enterprise aims at – that the enterprise aims at accessing in the future
- The need for investment loans, for equities
- Warranting capacity
- Their needs for financial assistance / consultancy for elaborating the loan / financing documents.

In addition, the authors analyzed the replies to question number 12. *Fixed assets of the enterprise – your enterprise owns ...* from section 2 *Social / Entrepreneurial Characteristics*.

In order to assess the possible market, through the study were also updated information about the number of enterprises according to types, activity rates, assets and incomes.

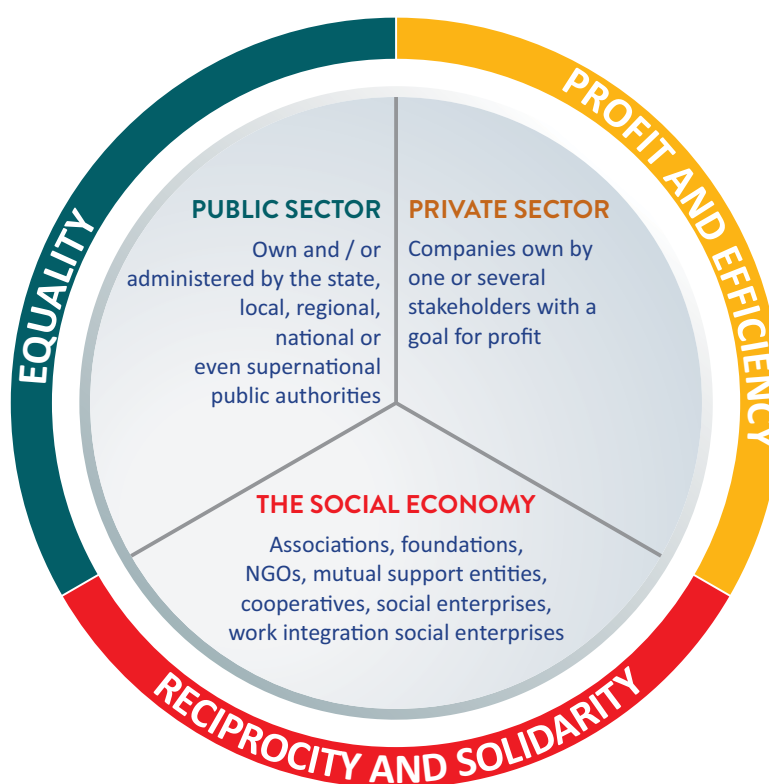
³ The Barometer of Social Economy – Annual research report on social economy, 2021, “Alaturi de Voi” Romania Foundation

1 Legal types of social economy enterprises from Romania⁴

In terms of the legal forms of organizations in Romania, the social economy includes associations, foundations, cooperatives, mutual aid entities, companies owned by social economy organizations, as well as the new forms of organization of the social economy covered by the Law on Social Economy – the social enterprise and the work integration social enterprise.

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Figure 1 The 3 sectors – for-profit public and private, the social economy and the values they follow



Associations and foundations (also known under the general name of NGOs) are private, formal, voluntary and autonomous organizations established in accordance to the Ordinance number 26 from 2000. They develop activities of general interest or to the interest of a

local community or, if such is the case, to the personal and un-patrimonial interest of their members. Associations and foundation can develop any type of *adjacent direct economic activities*, deeply connected to their mission statement.

⁴ The Atlas of Social Economy, 2014 – the Social Economy Institute – The Foundation for the Civil Society Development

According to the national classification of accounts

- Associations and foundations in which more than 50% of the production costs are covered by sales are considered as market producers and are classified as non-financial companies; *in the case in which*
- Associations and foundations have less than 50% of the production costs covered by sales, they are considered as non-market producers and are classified as entities without a patrimonial goal serving population households.

When it comes to associations, there are of several types, each governed by specific legislation:

Agricultural companies and other forms of association in agriculture - established and operating under the Law 36 of 1991. The agricultural company is a private entity, with variable capital and an unlimited and variable number of associates, having as object the agricultural exploitation of land, tools, animals and other means brought into the society, as well as making

investments of agricultural interest. According to the law, the agricultural company "has no commercial character" (art. 5). Moreover, the agricultural companies respect cooperative principles on the participation of members in the decision-making process, the law specifying that "each associate has only one vote, whatever the value of the shares they hold" (art. 62).

Employee associations known as "Employee Shareholder Program" (ESP) were formed in the process of selling companies to employees organized in associations, in the context of the MEBO (Management Employee Buyout - 1993 to 2000). Through the Law no. 77/1994 regarding the associations of employees and the management of companies being privatized, through other legislation regulating the privatization process, in our country started the process of selling the enterprises to the employees organized in associations.

The associations were set up in order to acquire and use in the name and for these persons, shares of companies with majority state capital, in order for these entities to be privatized, within a company being allowed to be established only one such association. The association could be made up of employees, former employees and retired individuals having worked in that company, the company's management, agricultural producers, individuals in contractual relations, suppliers or beneficiaries of the agro-industrial company that is being privatized. The associations were involved in what has been called the "Employee Shareholders Program" - ESP. They are to some extent the equivalent of workers' cooperatives, existing in Romania in the form of craft cooperatives.

Communities / joint properties are types of organizations known as commons in many European countries, which manage common resources, such as forests, pastures, fishing grounds, lakes, springs, etc. These organizations were re-established in Romania in accordance with Law no. 400/2002 in the context of restitution of agricultural and forestry pastures to former owners, since it was necessary to have a specific type of organization for the administration of agricultural fields and pastures. The main advantages of the re-establishment of communities / joint properties were the provision of jobs, access to the services offered by the organization, benefits in the procurement of wood material, benefits in the concession of forests. Currently, such associations of forest owners are found under different forms: associative forms of joint properties (in Transylvania), communities of moșneni (in Moldova, Muntenia and Oltenia), communities of razeși, forest rangers, urban associations (in Banat), forest associative groups (Translator's note – there is no equivalent English term for the Romanian words used in the document).

Homeowners' associations are legal forms of organization and representation of the common interests of condominium owners, recognized by law. Homeowners' associations are established, organized and operating according to the Law number 230/2007 and the Governmental Decision 1588/2007 for the approval of the methodological norms of the law mentioned before. A condominium or a building / block of flats means a real estate consisting of apartments and / or commercial spaces and spaces shared by all the owners, distributed in accordance to individual properties and which can not be separated.

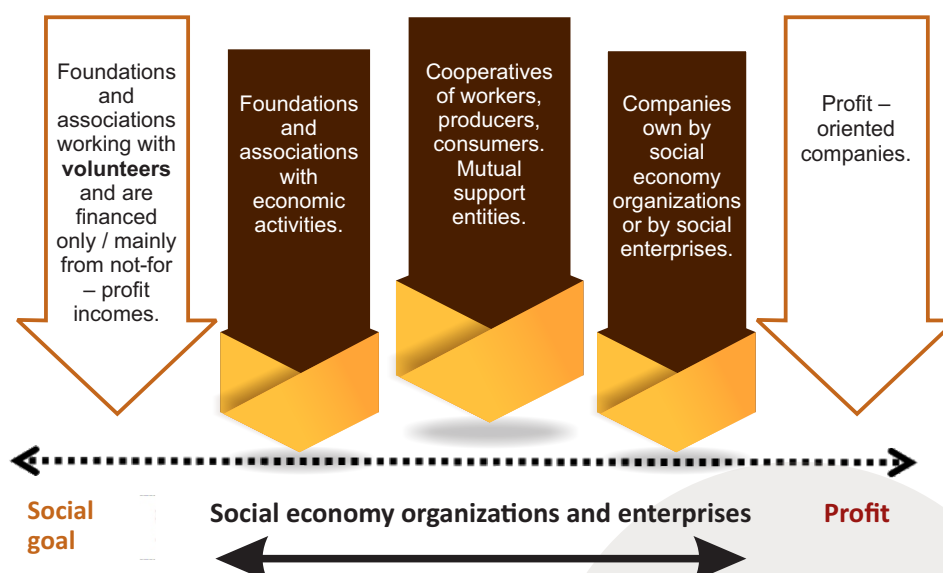
By court order, homeowners' associations can become not – for - profit legal entities. Not – for - profit means that the resulting income (bank interests, rentals of spaces or of other shared property, profits obtained from other activities, sponsorships, grants, non-reimbursable financing, penalties, etc.) are used only to improve or repair the common property, for the development of the condominium, for the payment of active members, for investments for the purposes of the association, etc., depending on the decisions of the general assembly of the owners, members of the association. The associations can opt for single - entry or for double-entry accounting, the entities with economic activity having to manage double-entry accounting and to submit the balance sheet according to the legal provisions. The Atlas of the Social Economy 2014 analyzed only homeowners' associations that submitted a balance sheet being included in the REGIS Register of the National Institute of Statistics, for others information was not sufficient to be analyzed.

Cooperatives are associations of people who aim at fulfilling common goals of members, whether they are economic, social or cultural. They are jointly owned and democratically controlled by members, in accordance with cooperative principles. Cooperatives currently take various forms and operate in all sectors of the economy. Generally, a cooperative is set up by a group of people who share a common need, whether they are *consumers, producers or workers*. In Romania, the most common forms of cooperatives are craft, consumer, agricultural and credit cooperatives. The most common are *first - degree cooperatives*, but there are also *second-degree cooperatives* and cooperative unions. Cooperatives generate revenues from sales of products and services on the market, therefore they fall into the market sub-sector of the social economy.

Mutual Aid Entities (in Romanian CAR) fall into two broader categories: Employee Mutual Aid Entities (in Romanian CARS, established under the Law 122/1996) and Retirement Mutual Aid Entities (in Romanian CARP, established under the Law 540/2002). CAR can be considered as belonging to the category of mutual savings companies or credit unions, having the main role of gathering funds from members into a "social fund" and providing members with advantageous loans (sometimes also offering support in special situations - funeral expenses, etc.), thus contributing to the European objective of preventing social exclusion.

CAR belong to the category of non-banking financial institutions and are registered in the Register of non-banking financial institutions of the National Bank of Romania, together with pawnshops and other non-patrimonial entities in this field. They are not credit institutions.

Figure 2 Social descriptions of enterprises according to their legal status



Social economy business groups are more and more frequently established at European level and may consist of one or more social economy organizations. At European level, a social economy business group is a social economy organization, an enterprise or coalition of companies that leads and controls the decision-making processes in the group and benefits from its activities, regardless of the legal form it has. In the European Union there are such social economy groups in agriculture and food, industry, distribution and retail, welfare services and other activities. In Romania, we considered that social economy business groups are in the form of companies owned by social economy organizations.

Tabel **1** Legislation specific to the Social Economy – legal status

Social economy entities - legal status	Specific legislation
Cooperative companies <i>With cooperative sub-types with specific legislation</i>	The law 1/2005 on organizing and functioning of the cooperation, republished
Loan cooperatives	The emergency governmental ordinance number 99/2006 on loan institutions and on adequacy of capital, approved with modifications and updates through the Law number 227/2007
Agricultural cooperatives	The law of agricultural cooperation number 566 /2004
Agricultural companies	The law number 36/1991 on agricultural companies and other ways of association in agriculture
Associations and foundations - NGO <i>With all sub-types</i>	The Governmental Ordinance number 26/2000 on associations and foundations, approved with changes and updates through the Law number 246/2005
Employees mutual aid entities	The Law number 122/1996 on the juridical status of employees' mutual aid entities and their unions
Retirees mutual aid entities	The Law number 540/2002 on retirees' mutual aid entities
Homeowners' associations	The Law number 230/2007 on the establishment, administration and functioning of homeowners' associations
Communities / joint properties	Art. 95 - Associative forms of forest owners, the Forest Code, the Law number 46/ 2008
Other not-for-profit organizations (associations and foundations) with economic activities	The Governmental Ordinance number 26/2000 on associations and foundations, approved with changes and updates through the Law number 246/2005
Commercial entities certified as social enterprises	The law number 219/2015 on the social economy The law number 31/1990 on commercial entities

2

Dynamics of social economy enterprises from Romania – short presentation⁵

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During this chapter we will provide a short presentation of the main information on social economy from Romania. A detailed presentation can be found in the **Social Economy Barometer – Annual Research Report on the Social Economy 2021** - "Alături de Voi" Romania Foundation (ADV România).

Associations and foundations represent the largest number of entities of the social economy in Romania, in numbers (87% of active organizations), this sector being the most important when we discuss income, fixed assets or employees. Over 90% of the social economy entities belonging to the associative world, the non-governmental sector, were created after 1990, while cooperatives are, in most cases, the heirs of significant assets accumulated before 1990. Therefore, we can see the dynamics and freshness of the non-governmental sector, relatively new, a true incubator of social innovation in Romania. The number of social economy organizations is growing every year, especially through the registration of a large number of associations and foundations.

Dynamics of NGOs

We analyzed the evolution of active NGOs, with economic activities and according to income and assets.

We had in mind information from the most recent Report of the Foundation for the Civil Society Development (*Romania 2017. The Non-governmental sector – Characteristics, profile, challenges in 2015*), as well as the only official available information of the *National Institute of Statistics. The Tempo Database* with respect to organizations of private administration. We used the information both to check information and to find more information put together after the year 2015.



Number of organizations, the period 2012-2019

The National Institute of Statistics is analyzing in their statistics the *enterprises of organizations of private administration* – category comprising non-governmental organizations without patrimonial goal. This category includes associations and foundations, unions, political parties, organizations of religious nature, established according to the Governmental Ordinance number 26/2000, the Law number 62/2011, the Law number 14/2003 and the Law number 489/2006.

⁵ The Atlas of Social Economy, 2014 – The Institute of Social Economy – The Foundation for the Civil Society Development

Tabel 2 Number of private organizations – SUB-TYPES OF NGOS 2012-2019 – Classification of the National Institute of Statistics

Organizations of private administration, according to types of organizations - only NGOs								
Type of the private administration	2012	2013	2014	2015	2016	2017	2018	2019
Foundations	17,442	17,588	17,718	17,836	17,885	17,724	17,791	17,800
Cultural associations	35,980	39,480	42,847	46,301	49,106	51,038	53,064	55,502
Sports associations / clubs	9,807	10,566	11,246	11,876	12,573	13,366	14,218	14,943
Commons	3,120	3,172	3,218	3,249	3,256	3,206	3,201	3,177
Mutual aid entities	5,781	5,808	5,833	5,856	5,755	5,593	5,564	5,458
Other organizations	8,168	8,996	9,708	10,534	11,147	7,585	8,097	8,302
Tenants / owners associations ¹	51,658	52,777	53,851	54,939	56,011	56,987	58,316	59,773

Source – the National Institute of Statistics, Tempo database, processed by the author

Tabel 3 Organizations of private administration and the average number of employees

Indicators	Years				
	2015	2016	2017	2018	2019
Number of entities ⁶	127,356	195,394	195,564	201,045	206,135
Average number of employees	121,426	147,569	164,731	159,535	165,674

Source – the National Institute of Statistics, Tempo database, processed by the author

According to the Report of the Foundation for the Civil Society Development entitled Romania 2017. The Non-governmental sector – Characteristics, profile, challenges, in 2015 in

the National Register of NGOs were included 88.651 NGOs of which 70.194 associations (including mutual aid entities), 16.613 foundations, 1.195 federations and 649 unions.



Activity rate – active NGOs

According to the Report of the Foundation for the Civil Society Development entitled Romania 2017. The Non-governmental sector – Characteristics, profile, challenges, in 2015 NGOs had a total activity rate (calculated as the percentage between the number of organizations having submitted annual financial situations and the total number of non-governmental organizations registered in the National Register of NGOs) of 48,2%, compared to commercial entities who registered in the same year an activity rate of 32,4%.



Actives and income, types of organizations

⁶ Also include entities of private administration, other than NGOs – parties, unions, etc.

Tabel **4** Income, employees, fixed assets of NGOs, of which CAR and CARP

2015	Income (thousands of lei)	Employees	Fixed assets (Thousands lei)
Total NGOs	11.291.064	99.774	8.176.057
<i>CARP</i>	218.606	2.450	1.032.020
<i>CARS</i>	401.048	3.498	3.931.460
Total CARs	619.654	5.948	4.963.480

Source - Report of the Foundation for the Civil Society Development entitled *Romania 2017*.

The Non-governmental sector - Characteristics, profile, challenges

As can be seen, the greatest percentage of fixed assets in the sector is concentrated with mutual aid entities, especially with employees' mutual aid entities, totaling 60,7% of fixed assets of the sector.

The total incomes of NGOs for 2015 have been approximately 11,2 billion lei, a constant growth compared to the period 2010-2015, 3.381 organizations achieving 82% of the total incomes registered in the sector.

Tabel **5** NGOs according to amounts of total incomes (% of the total number of organizations)

Range of total incomes of the organization per 2015	NGOs according to amounts of total incomes (% of the total number of organizations)
0 lei	24%
1 - 10.000 lei	23%
10.001 - 40.000 lei	17.8%
40.001 - 200.000 lei	19.7%
Peste 200.000 lei	15.4%

Source - Report of the Foundation for the Civil Society Development entitled *Romania 2017*.

The Non-governmental sector - Characteristics, profile, challenges

Economic activity of the not-for-profit organizations

According to the same source, during 2011 - 2015 the number of not-for-profit organizations developing economic activities has increased, with a slight decrease in 2015. Over 5,000 NGOs were developing economic activities with incomes registered in their annual financial situations, being considered enterprises according to European regulations. In the same year, 27% of NGOs developed economic activities.

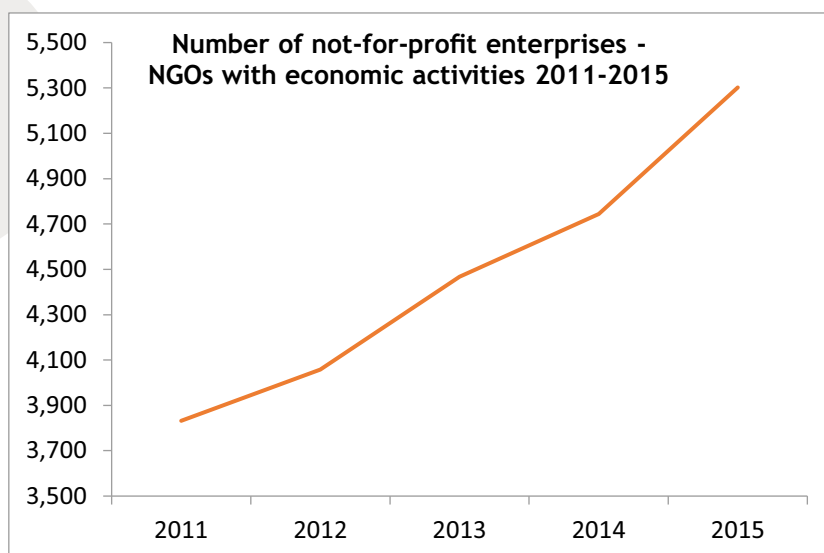
Tabel 6 Number of enterprises from among NGOs with different legal status, 2011-2015

	2011	2012	2013	2014	2015
Associations	3,284	3,477	3,821	4,075	4,587
Foundations	502	531	546	564	603
Unions and federations	46	50	101	105	112
Total Number of enterprises from among NGOs with different legal status	3,832	4,058	4,468	4,744	5,302

Source - Report of the Foundation for the Civil Society Development entitled *Romania 2017*.

The Non-governmental sector – Characteristics, profile, challenges

Figure 3 Number of NGOs with economic activities 2011-2015



Source - Report of the Foundation for the Civil Society Development entitled *Romania 2017*.

The Non-governmental sector – Characteristics, profile, challenges, processed by the author

7 Tabel 7 Employees in associations and foundations with and without economic activities, 2009 – 2015

Employees / year	2009	2010	2011	2012	2013	2014	2015
Total number of employees	48.633	60.947	69.907	76.902	83.844	92.430	99.774
Employees in economic activities	10.549	12.561	15.038	16.097	11.272	12.469	13.117

Source - Report of the Foundation for the Civil Society Development entitled *Romania 2017. The Non-governmental sector - Characteristics, profile, challenges*

The same report states that at the end of 2015 the total patrimony of NGOs from Romania was approximately 16,7 billion lei, of which 8,1 billion lei in fixed assets and 8,6 billion lei in current assets. The report states a high concentration of fixed assets: 63.4% of the organizations did not have fixed assets, while 16.5% had fixed assets in values ranging from 1 – 10.000 lei. On the other hand, 6.7% of NGOs had fixed assets of over 200.000 lei each.

Dynamics of the cooperative sector

The cooperative sector registers a decrease, both with respect to the number of enterprises and to the number of workplaces, the only field which has positive dynamics being the sector of agricultural cooperatives.

8 Tabel 8 Enterprises with another legal status - cooperatives, partnerships, associations - Romania 2010-2017 – number of employees and employment

Year	2010	2011	2012	2013	2014	2015	2016	2017
Active enterprises - number	3,554	3,212	2,991	2,966	2,768	2,581	2,508	2,581
Newly established enterprises - number	51	23	29	51	31	81	63	69
Closed enterprises - number	194	152	151	5,878	191	183	240	237
Average number of persons employed	47,061	45,014	46,290	47,294	44,933	44,491	44,080	42,373

Source - Eurostat Business demography - processed by the author

When it comes to the financial and financial banking services offered by credit unions / cooperative banks and mutual aid entities, the decrease in the number of organizations is mainly due to a consolidation strategy through mergers of organizations. This reduces the number of organizations, but strengthens their assets and organizational capacity to operate in a market with increasing operating regulations and creditworthiness. The number of craft and consumer cooperatives tends to remain the same.

Unfortunately, official statistics do not allow the study of social enterprises registered as companies in order to be able to detect those belonging to the social economy.

Companies owned by social economy entities and which according to CIRIEC belong to the social economy can be found in the statistics on companies.

According to the National Institute of Statistics / Eurostat, an active enterprise is an entity that, from an economic point of view, is active during the observation period, respectively realizes goods or services, records expenses and draws the balance sheet.



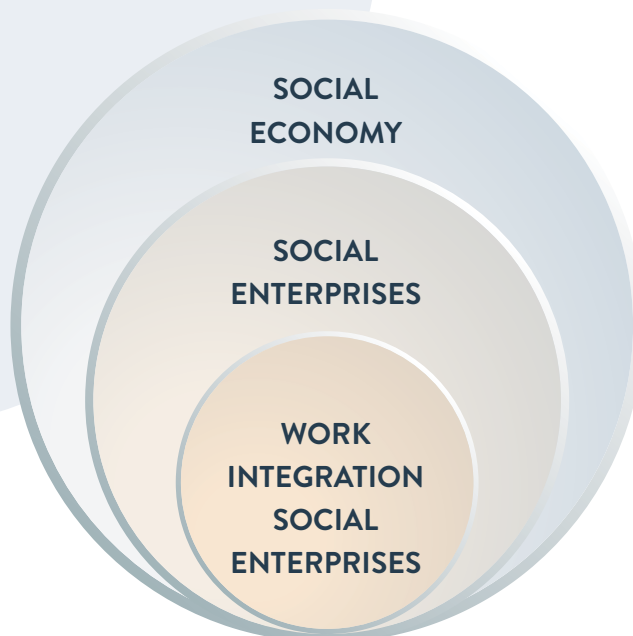
Social economy enterprises can choose to be certified according to the article 8 of the Law on Social Economy if they accomplish at the same time the following criteria:

1. Develops activities with social goal and / or in the general interest of the community;
2. Allocates at least 90% of the profit made to the social goal and the statutory reserve;
3. Undertakes to transmit the goods remaining after liquidation to one or several social enterprises;
4. Applies the principle of social equity to its employees, ensuring fair salary levels, between which there can be no differences exceeding the ratio of 1 to 8.

The certificate is issued by the County Employment Agency to the social enterprises which through the articles of incorporation and other functioning documents pledges to respect the criteria mentioned above.

Figura 4 Social enterprises and work integration social enterprises according to the Law on Social Economy

Întreprinderi sociale și întreprinderi sociale de inserție
Legea economiei sociale



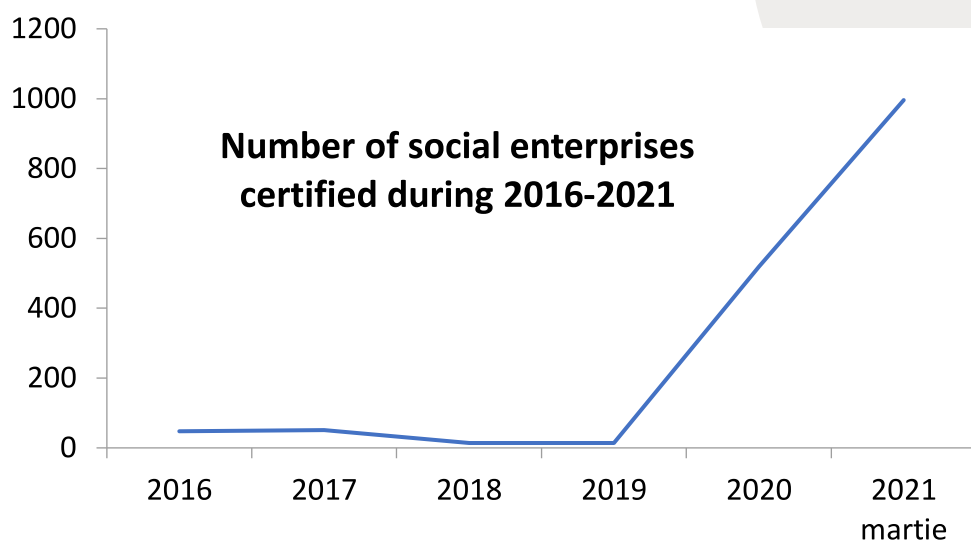
In Romania, until March 2021, 1642 entities had been certified as social enterprises. Table 9 presents the rate of certifications as social enterprises.

Tabel 9 . Number of social enterprises certified in Romania throughout 2016-2021

Year	Number of social enterprises newly certified each year	Number of work integration social enterprises certified each year
2016	48	2
2017	51	7
2018	14	4
2019	14	3
2020	519	12
2021 - March	996	17

Source - the Register of Social Enterprises certified by the National Employment Agency, March 2021

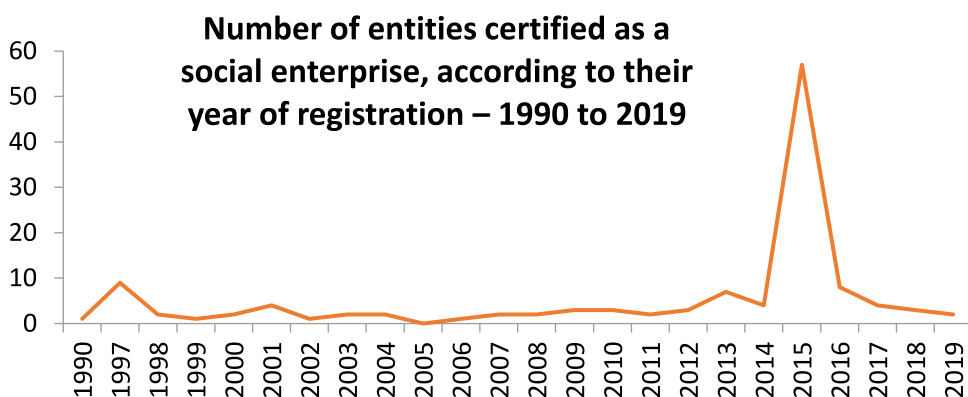
Figura 5 Number of social enterprises certified during 2016-2021



Source - the Register of Social Enterprises certified by the National Employment Agency, March 2021

Many legal entities that became certified as enterprises developed activities prior to the passing of the law - 49 of them were established before 2015. It is also important to note there is a high number of companies created during 2020-2021, most likely with POCU funding, which had as a condition the certification as a social enterprise.

Figura 6 Number of entities certified as a social enterprise, according to their year of registration - 1990 to 2019



Source - the Register of Social Enterprises certified by the National Employment Agency, March 2020

As can be seen, the highest number of social enterprises are certified in the years when European financing is available – increases in the numbers of certifications are registered in 2015 and during 2020-2021. We may say that the certification of enterprises is in tight connection to European financing, this being its only practical functioning, as we will see below.

For this reason, and because European funding has been granted only for start-ups and not for the development of social enterprises, it is often considered that social enterprises are newly created entities for this purpose and with this form of enterprise. This perception is completely wrong as the law only offers recognition to companies with this character, they can participate in bidding procedures and respect in practice both the values and the principles of the social economy and the operating criteria included in the law, at the same time opting not to request / obtain a certificate from the County Agency for Employment.

As can be seen in Figure 7, a number of 19 enterprises registered during 1990-2015, before the passing of the law, chose to become certified starting with 2016, after the law was adopted. 2016 was the first year in which the certification was possible and 19 is a very small number if we consider the number of organizations meeting the criteria of the law, if we consider, for example, the high number of associations and foundations with economic activity.

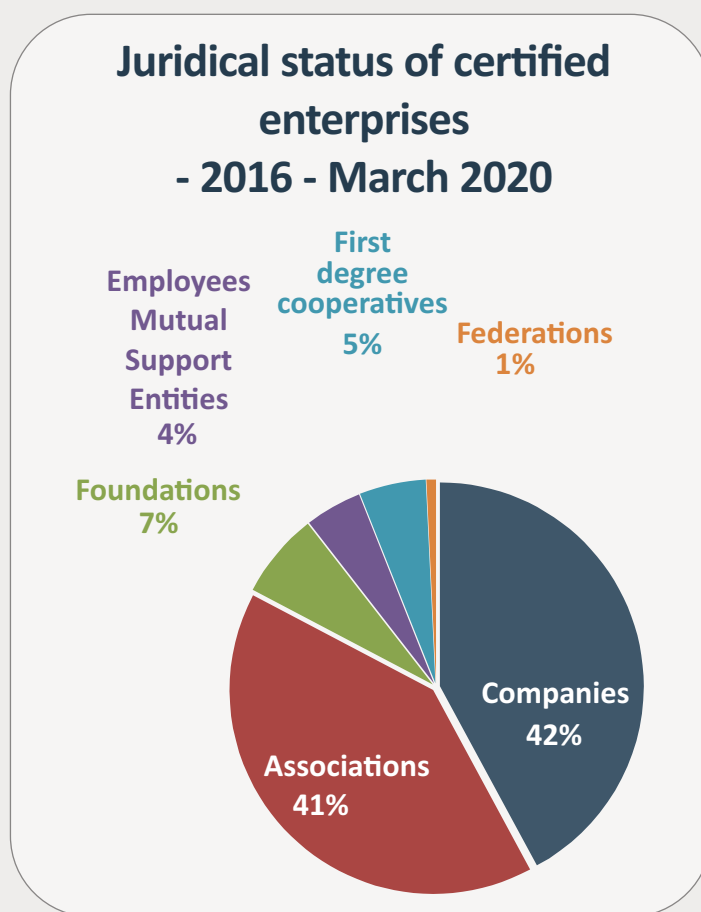


Juridical status of certified enterprises

Certified social enterprises are more and more registered as commercial entities. In March 2020, the percentage of this type of juridical status was 42%, while a year later, in March 2021, the percentage had reached 88%.

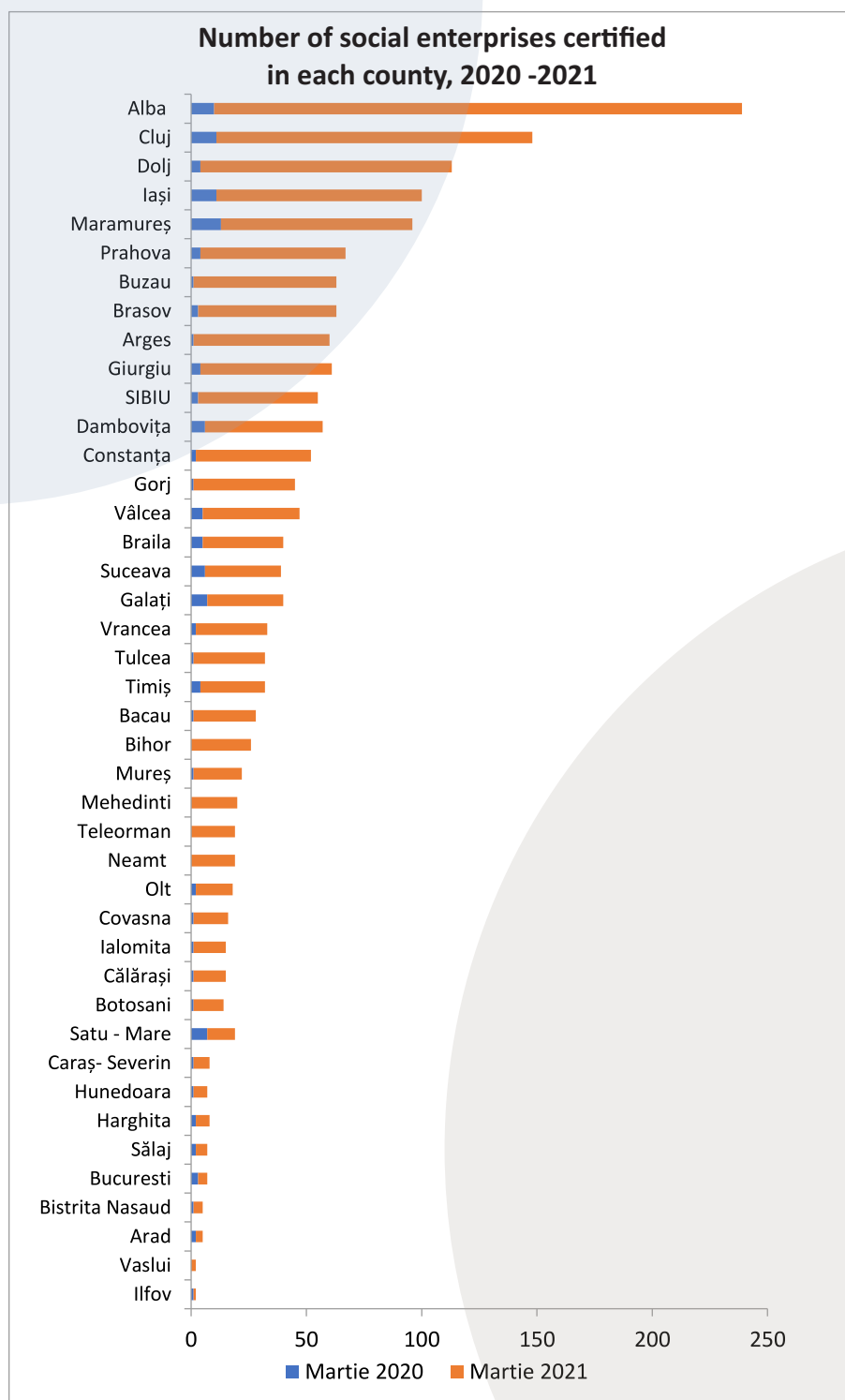
Next in line are the juridical status based on memberships – 10% associations, then cooperatives, mutual aid entities and foundations (under 1%).

Figura 7 Juridical status of certified social enterprises 2016 - March 2020



Source - the Register of Social Enterprises certified by the National Employment Agency, March 2020

Figura 8 Number of social enterprises certified in each county



Source - the Register of Social Enterprises certified by the National Employment Agency, March 2020

In all Romanian counties there is at least one certified social enterprise, the national average being 35 enterprises per county - the number of social enterprises in a county varies from 1 in the Ilfov county (which was not eligible for European funds for social enterprises) to 229 in the Alba County, followed by 137 certified social enterprises in the Cluj County, 109 in Dolj, 89 in Iasi, 83 in Maramures and 63 in Prahova.

The counties with a high number of certified social enterprises are those characterized either by the pre-existence of a strong and innovative sector of social services, including social enterprises promoting economic activities, such as is the situation in counties like Alba, Cluj, Iasi, Maramures and / or by a relatively strong economic sector – in the Prahova of Dolj counties


The register analyzed showed that only 45 of the certified social enterprises were also work integration social enterprises.



Social enterprises that employ disadvantaged workers may apply for certification with the social mark with the County Employment Agencies if they cumulatively meet the following two criteria:

- at least 30% of the permanent staff belongs to the vulnerable group, so that the cumulative working time of these employees represents at least 30% of the total working time of all employees;
- they aim to combat exclusion, discrimination and unemployment through the socio-professional integration of disadvantaged people.

The recognition / law-biding of the social insertion enterprise through the Law on Social Economy Law initiated by the Ministry of Labor through a Sectoral Operational Programme for the Development of Human Resources project was a measure welcome by social services providers and by NGOs from the social sector that were already active in the field of socio-professional integration of disadvantaged workers.

 Certification, suspending, renewal of the social mark certificate for work integration social enterprises


In Romania, by March 2021, 45 work integration social had become certified, the pace of certifications being shown in Table 9. Of the 45 social marks certificates granted, 7 were suspended (of these, 6 marks were withdrawn). Thus, there were 39 social enterprises with an active social mark. In the case of 5 of them, according to the Register published on 31.03.2021, the social mark expired in 2020 and was not renewed.

Among the work integration social enterprises in the register, 19 did not appear with employees in the Register of National Employment Agency, and still had the social mark. We can therefore say that on 31.03.2021 there were only 20 work integration social enterprises were active – having a valid social mark (not being suspended) and having employed / integrated workers from vulnerable groups. **They had a total of 303 employees, of which 86 were employees from vulnerable groups.**

Tabel **10** Number of work integration social enterprises, certified in Romania during the period 2016-2021

Year	Number of work integration social enterprises certified per year
2016	2
2017	7
2018	4
2019	3
2020	12
2021 March	17
TOTAL	45

Source - The Register of Social Enterprises certified by the National Employment Agency, March 2021

 Of the active work integration social enterprises: 8 have been certified during 2016 – 2018, of which 3 in 2020. The remaining 11 became certified during 2021 given the conditions of the new POCU 2014 – 2020 financing programme .

We may say that the only enterprises having proven their **sustainability** are the enterprises certified at least 3 years before – the 8 enterprises certified prior to 2021. What can we see in these enterprises?

They have all been established by **non-for-profit organizations / associations activating in the social field** – none of the enterprises has the legal status of a company.

Additionally, they were all established by **experienced organizations - set up before (sometimes long before) their**

certification as a social enterprise. The oldest organization that has chosen to certify a social insertion enterprise is Caritas Câmpulung - founded in 1999, followed by Phoenix Speranța Mediaș, established in 2002. An enterprise needs business experience - economic and social activity prior to launching a viable program for work integration.

The POSDRU 2007-2013 programme, having financed start-ups in the field of the social and professional integration of groups at risk lead only to a very small extent to the establishment of work integration social enterprises sustainable on the long term.

Tabel **11** Top 3 work integration social enterprises according to the number of employees from groups at risk

County	Name of the juridical entity	Date of establishment	Total number of employees	Total number of employees from groups at risk
Iași	SC UtilDeco Group SRL	31-10-07	33	19
Argeș	Caritas Câmpulung Association	01-09-99	31	10
Satu - Mare	Emmaus Satu Mare Association / Freres Europe Association	22-06-10	12	7

Source The Register of Social Enterprises certified by the National Employment Agency, March 2021

Conclusions

The social economy sector includes tens of thousands of organizations, most of which are registered as not-for-profit NGOs. We also find a small number of cooperatives and an increasing number of companies with a social mission certified as social enterprises.

27

Tabel **12** Number of organizations in the field of social economy, according to types, activity rates with significant incomes

Organizations Types	Number ⁷	Source of information
NGOs registered in the National Register of NGOs	88,651	The Non-governmental sector - Characteristics, profile, challenges. Report of the Foundation for the Civil Society Development
Active NGOs	42,729	Estimated according to the activity rate, as stated in Romania 2017. The Non-governmental sector - Characteristics, profile, challenges. Report of the Foundation for the Civil Society Development
NGOs with annual incomes of over 40.000 RON	14,997	
NGOs with economic activities	5,302	Idem
Active enterprises with a different juridical status - cooperatives, partnerships, associations	2,581	Eurostat Business demography - processed by the author
Certified social enterprises - including companies with a social mission	1,642 (of which 996 in 2021)	The Register of Social Enterprises certified by the National Employment Agency, March 2021 - processed by the author

⁷ For NGOs and cooperatives, the information is for the year 2015.

3

Sources of financing / capitalization and the financial capacity of social economy enterprises – information from the Barometer

The potential for growth and dissemination of the social enterprise model continues to be under-exploited in Romania, as they face various difficulties,⁸ especially in terms of access to finance.

Financial needs and circumstances differ from one type of business to another. In many European countries, social enterprises working for the social and professional integration of people with disabilities or from other groups at risk (WISE) benefit of public funding, but are also active on the free market for goods and services, and often use a combination of funding sources.

Financial needs also vary depending on the level of development of the enterprise (conceptual support - start-up, development of pilot projects or prototypes, development at a large scale -scaling).

Enterprises contributing to the Barometer generally benefit of a diversity of sources of funding. The only companies that mentioned single sources of funding are those that used European Funds - POSDRU / POCU, 14 companies being in this situation. Another 7 companies combined POSDRU - POCU financing with their own sources.

As far as the **access to public funds** is concerned, it is often still obstructed by eligibility criteria regarding legal form, by overly rigid or bureaucratic financing mechanisms. Similar constraints may prevent them from accessing structural funds for businesses through the eligibility criteria for eligible applicants, being limited to the legal form of a commercial and cooperative society, excluding non-equity legal forms.

Social enterprises in Romania which are generally small and *a priori* anchored in local communities are also affected by constraints that restrict their access, for example, **to private or bank financing**, which they need depending on their level of development (start - up, development of pilot projects or prototypes, scaling and growth). Constraints related to profit redistribution or the employment of vulnerable workers often give potential investors the impression that they are more risky and less profitable than other businesses.

This phenomenon is worsened by the low level of information available for these companies. In the **national education system**, the economy and social entrepreneurship are non-existent.

⁸ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Social Business Initiative — *Initiative for social entrepreneurship. Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation, 2011.*

As the OECD points out, there is generally an incompatibility between **traditional corporate finance instruments**, which do not correspond to the reality of social enterprises (SE), and their requirements, indicating the need for a cultural adjustment of the financial, legal and political framework and the design of appropriate instruments.⁹ A key issue is that business patterns representative for the field of social enterprises are insufficiently known and understood. Failing to fully recognize the particularities of these models (such as limited or no distribution of the profit, focus on the user / consumer or on the need, participatory decision-making processes, democratic governance, or common ownership) hamper the access of these entities to traditional financing tools that are generally available for small and medium enterprises. To a greater extent than other business models, social enterprises face the problem that the logic of the financial market is not designed to support their development. Financial markets do not surprise or reward the added social value of IS, nor their mission of general interest. At present, social enterprises are often remunerated only for the cost of the service they provide, not for the social value they create.

Fund raising and participatory financing - crowdfunding

There is a growing interest of individuals in investing in social economy initiatives, especially at the community level. Such investments can be facilitated by crowdfunding platforms - there are several such initiatives in Romania but underdeveloped in terms of effective social investments and not just donations. Other means can be the issuance of bonds (community bonds - see the model from Great Britain) or co-operative bonds - included in the Romanian co-operative legislation but not used currently).

Social investment funds

The European Commission is finding that more and more investors are interested in achieving social goals and are no longer limited to pursuing financial gain. Thus, in many countries around the world and in the European Union, a social investment market has emerged, consisting in part of investment funds targeting social enterprises. At the level of the European Union, this led in 2013 to the passing of the Regulation on **European social entrepreneurship funds no. 346/2013**, which very clearly defines the collective investments which can qualify as social entrepreneurship funds, as funds that intend to invest at least 70% of their total capital and equities in such enterprises.

Instruments for private financing of social economy in France

In France, social investment is also known as solidarity financing, which is a very important economic sector. Solidarity financing differs from microloans in that they have different beneficiaries and different purposes. In the latter case, there are several beneficiaries of the loan and the purpose is to increase the share capital of the beneficiaries and not to solve a failure of the financial-banking services market. Organizations involved in solidarity funding raise funds from individuals or legal entities who want their savings to be invested in social / solidarity enterprises, agreeing to obtain lower benefits than those generated by other conventional savings products, as long as their savings are useful to society. In 2014, the total amount of solidarity savings was almost 6.7 billion euros, an increase of about 14% compared to the previous year. The growth of social investments has also been facilitated by some public policy measures - all investments such as those mentioned benefit from reductions - tax deductions. In France, for example, private retirement funds may choose to be declared solidary if they invest between 5 and 10% of their assets in work integration social enterprises through the solidarity-based salary savings scheme. 160 million euros were thus raised in one single year.

Source - Needs of financing and access to financial services and technical assistance of the social enterprises from Romania. Maria Doiciu, Anuța Vameșu, Elena Sabina Ganci, Irina - Sînziana Opincaru – Eurom IES (Foundation for Civil Society Development), April 2016

⁹ Needs of financing and access to financial services and technical assistance of the social enterprises from Romania. Maria Doiciu, Anuța Vameșu, Elena Sabina Ganci, Irina - Sînziana Opincaru – Eurom IES (Foundation for Civil Society Development), April 2016

Currently, Romania has no private fund for social investments.

Loans

Special banking services and financial instruments - cooperative banks, ethical or social banks, mutual aid entities addressing social enterprises - are available in many countries.

Specialized financial institutions, social and ethical banks, cooperatives offer tools specially designed for social enterprises. Through the framework laws of co-operation, co-operative systems have traditionally had their own mutual aid capacities involving cooperatives, second degree cooperatives or in order to support their development. For example, the Italian Development Fund for Cooperatives was created specifically to promote and develop such entities, being set up using the 3 percent collected from the annual profits recorded by cooperatives prior to having paid their taxes.

Sources of financing of social economy enterprises according to their legal status – legal framework

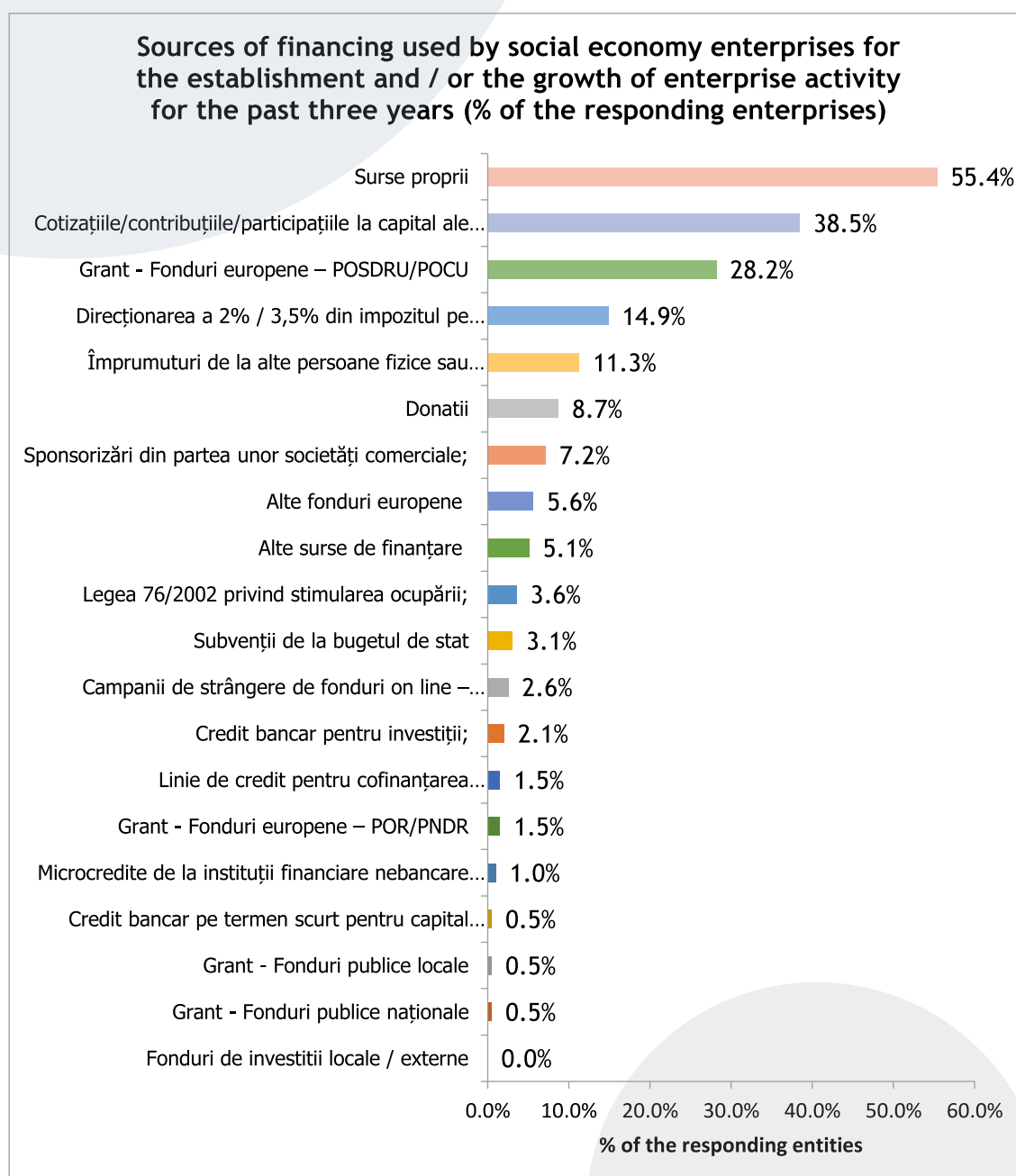
According to the legal form chosen, social economy enterprises have access to income from economic activities - cooperatives and companies exclusively from such activities, and bonds in the case of cooperatives. Non-profit organizations (associations or foundations) have access to other sources of income such as donations, dues, sponsorships and income / profit tax management. The mutual aid entities can fund the loans meant for members only from the money received from other members.

Table **13** Sources of financing of social economy enterprises according to their legal status - legal framework

Social economy entities - legal types	Sources of financing / capitalization included in specific legislation
<p>Cooperatives</p> <p><i>With their different sub-types and their specific legislation</i></p> <p>- Loan cooperatives - Agricultural cooperatives</p>	<p>Establishing juridical relations with other physical or juridical entities, ... or attracting financing from external sources can be done while ensuring the democratic control of cooperative members and with maintaining the autonomy of cooperative entities;</p> <p>The cooperative entity may issue, under the conditions of the law, nominative cooperative bonds, for an amount not exceeding 33% of the subscribed and paid-in share capital, according to the last annual financial statement approved by the general assembly.</p>
<p>Associations and foundations - NGOs</p> <p><i>With all their sub-types</i></p>	<p>NGOs obtain income from:</p> <ul style="list-style-type: none"> • membership fees; • interest and dividends resulting from the placement of available amounts; • dividends of established companies; • income from direct economic activities; • donations, sponsorships or bequests; • resources obtained from the state budget or from local budgets - targeting a percentage of the personal income tax or of the corporate tax on profit (2-3.5%)
<p>Employees mutual support entities;</p>	<p>The funds used by mutual support entities in order to grant loans to its members are:</p> <ul style="list-style-type: none"> • the social fund of members, constituted by their contributions and the annual interests to these amounts, • the own fund of the mutual support entity and • financial means obtained from the county superior union or from the National Union. <p>Mutual support entities can not attract deposits of any nature or reimbursable funds.</p>
<p>Retirees mutual support entities</p>	<p>The incomes of retiree's mutual support entities come from:</p> <ul style="list-style-type: none"> • subscription fees; • membership fees and monthly contributions; • interests obtained from placing available amounts under legal conditions; • income from different services delivered; • interests to the loaned amounts; • income obtained from different cultural, artistical and leisure time events; • donations and sponsorships; • other income included in legislation.
<p>Commercial entities certified as social enterprises</p>	<p>Subscription of shares or bonds of the entity;</p>

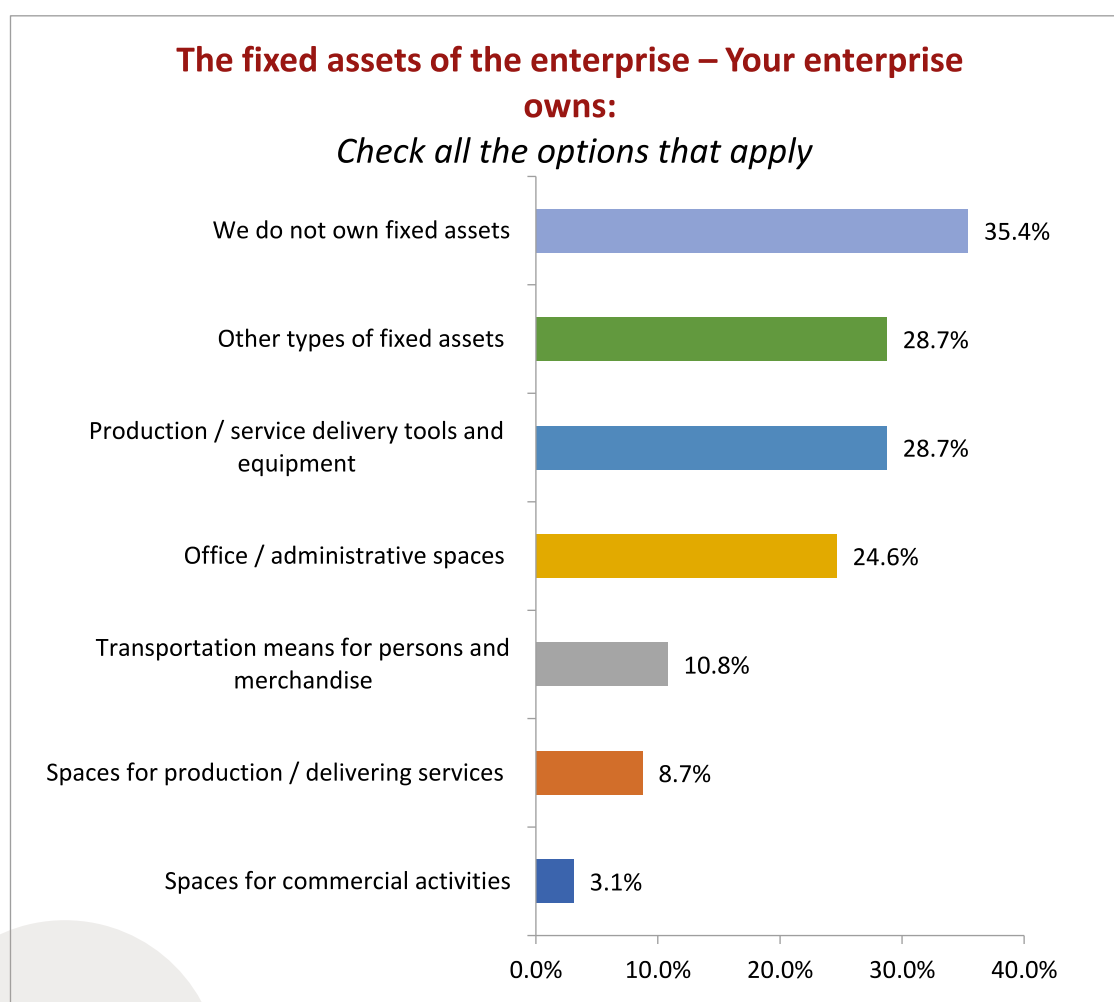
Sources of financing used by social economy enterprises for the establishment and / or the growth of their activity and the situation of their actives

Figure 9 Sources of financing used by social economy enterprises for the establishment and / or the growth of enterprise activity for the past three years (% of the responding enterprises)



The fixed assets of the enterprise

Figure 10 The fixed assets of the enterprise – Your enterprise owns: (% of enterprises owning)



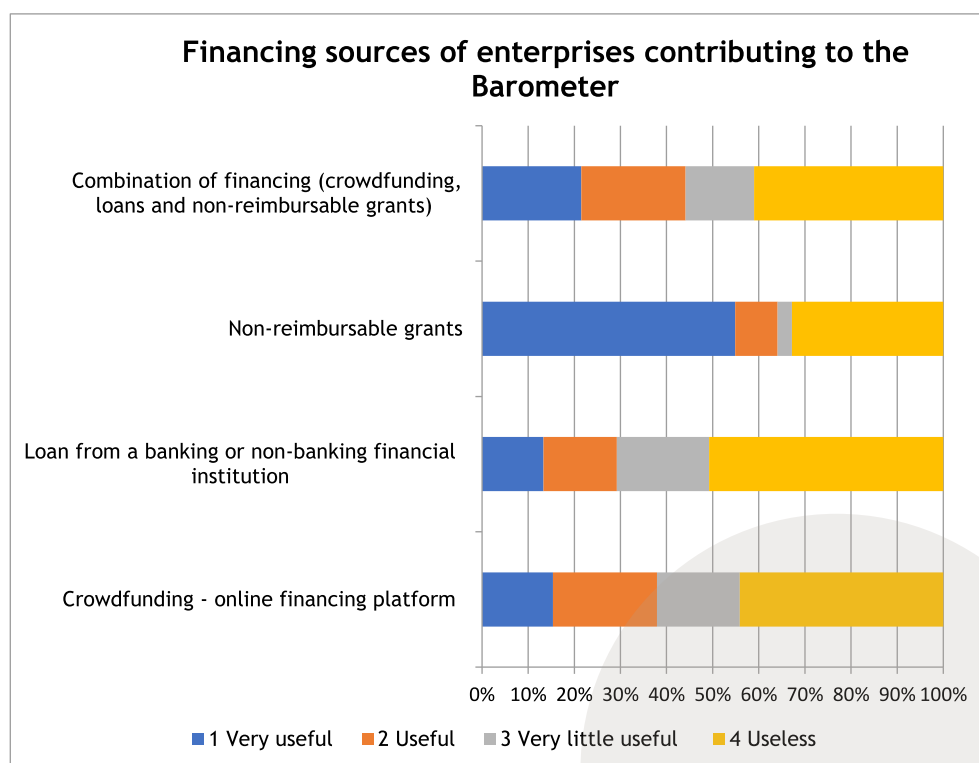
4

Financing social economy enterprises from Romania – loans and warranties – information from the Barometer

When asked about the financing sources they plan to access, the enterprises contributing to the Barometer had different options.

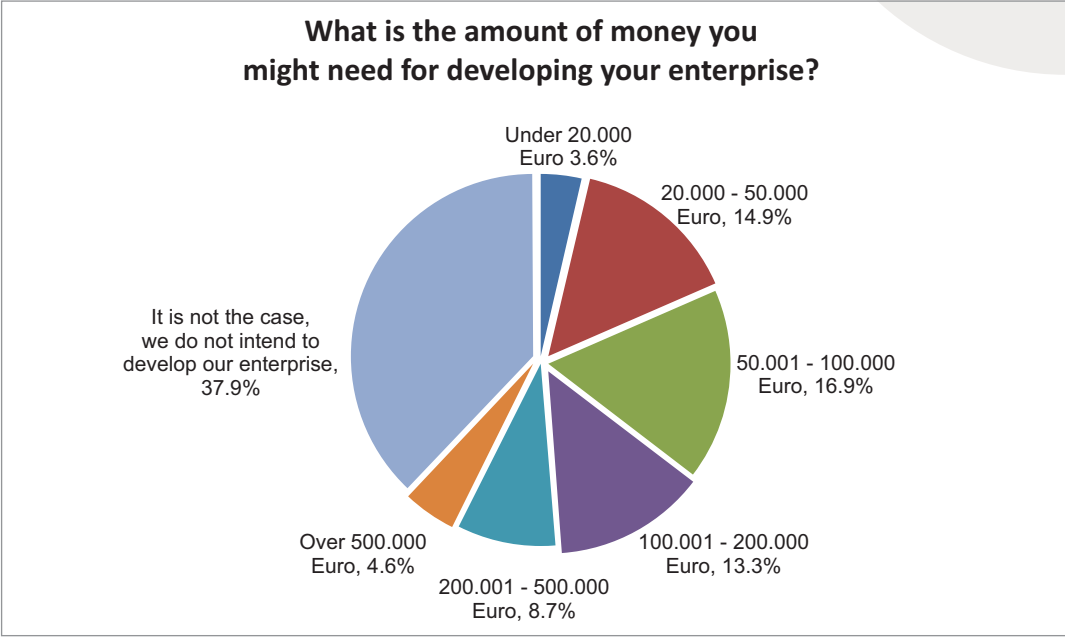
An important percentage - 50%, aim at continuing to attract grants, but at the same time a considerable percentage of 32,8% believe the grants are useless and aim at other financing sources. We are happy to see that a high number of enterprises - 44,1%, aim at a combination of financing sources, including both participatory financing and also loans and non-reimbursable grants, this being the next category of enterprises determined to diversify their financing sources.

Figure 11 Financing sources of enterprises contributing to the Barometer



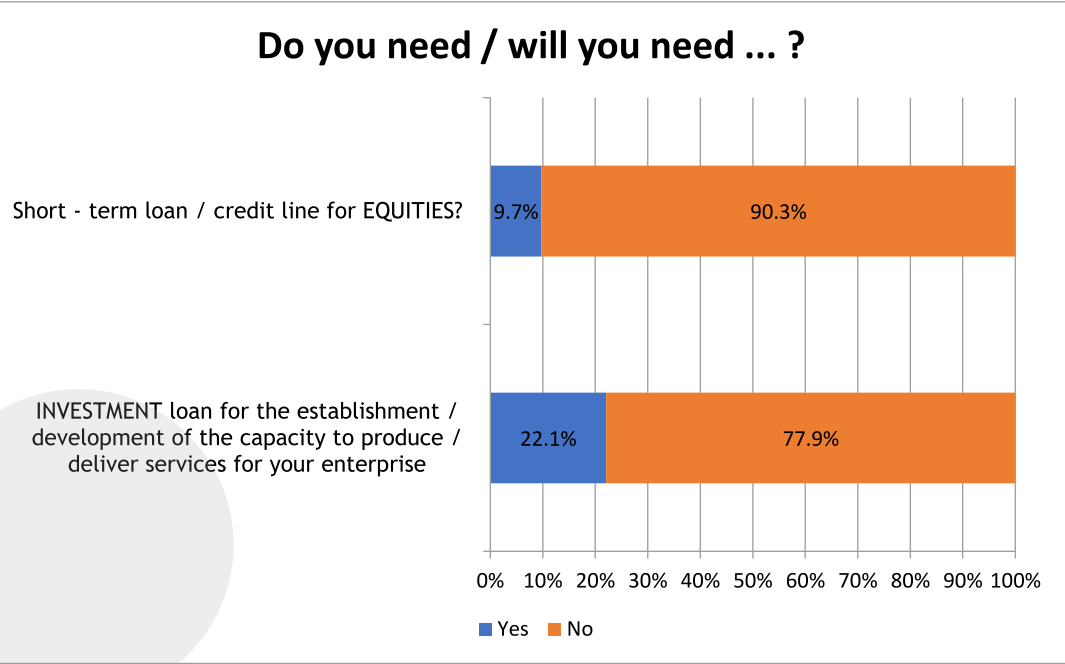
Most enterprises - 16,9% of the contributors to the Barometer (as can be seen in Figure 12)), have financing needs between 50.000 and 100.000 Euro, while 26.7% need financing of over 100.000 Euro.

Figure 12 The financing needs of enterprises contributing to the Barometer



Almost one in four (43 enterprises contributing to the Barometer) would need an investment loan and one in 10 for equities - see figure 13.

Figure 13 The need for investment loans and investment capital of enterprises contributing to the Barometer



Warranting capacity

Almost one in four enterprises contributing to the Barometer would have warranting capacity – see figure 14, a little above the number of enterprises demanding warranties. Of the enterprises requiring a loan, only 23 (53%) would have something to warrant it with. On the other hand, if we leave out the enterprises stating they do not intend to take on a loan, of the enterprises considering to do, 63% would be capable to warrant it.

Figure 14 Warranting capacity of enterprises contributing to the Barometer

Do you / will you have sufficient warranties to access financial resources necessary for the development of your enterprise?

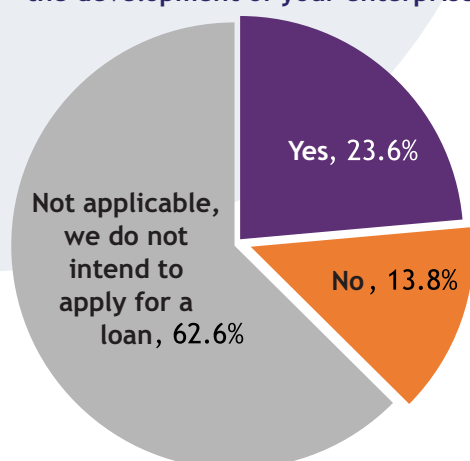
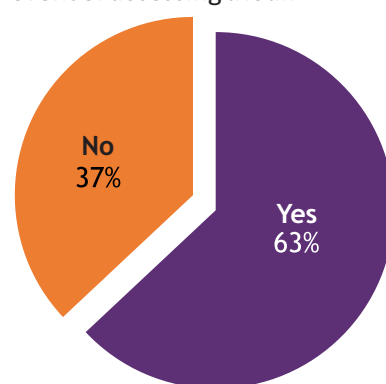


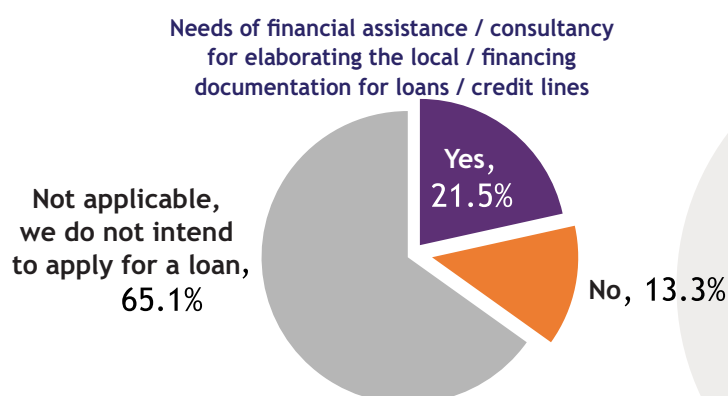
Figure 14.1 The percentage of enterprises who could have warranties in the event of accessing a loan



Needs of financial assistance / consultancy for elaborating the loan / financing documentation

Almost one in four enterprises contributing to the Barometer would require financial assistance / consultancy for drawing the loan / financing documentation, approximately the same percentage as the entities which would demand such a loan. Of the number of enterprises requiring a loan / financing, more than half would need assistance in drawing the documentation.

Figure 15 Needs of financial assistance / consultancy for elaborating the local / financing documentation for loans / credit lines of social enterprises contributing to the Barometer



II. Current financing offer for social economy enterprises from Romania

The OECD Better Entrepreneurship Policy Tool Methodology for assessing the eco-system for financing the social economy

We evaluated the Romanian market for financing social enterprises using a tool – hereby called the social economy ecosystem assessment matrix - designed by the European Commission and the OECD. The instrument is called **Better Entrepreneurship Policy Tool**, is available at www.betterentrepreneurship.eu and has in mind two aspects of entrepreneurship: inclusive entrepreneurship and social entrepreneurship. Our research has used the matrix regarding social entrepreneurship.

The tool is meant for policy makers and other local, regional and national stakeholders who want to improve the way public policy supports the development of social enterprises. The matrix proposes the rating with grades from 1 to 10 of some pre-defined criteria, 1 representing the lowest and 10 the highest level. The scoring was based on an assessment of the current market situation for which we collected data using various tools:

- questionnaire filled in by a sample of financiers,
- direct discussions with the players on the market,
- public information,
- research reports and private information.

The evaluation is, of course, subjective up to a certain point, but having used a scale used and already tested in other European geographical regions, we consider that the evaluation is accurate.


We measured the access to financing of social enterprises, essential for their development, we mapped the Romanian financial market in relation to the social economy, we inventoried the financing instruments available for social enterprises and we identified some specialized providers that support access to finance of such entities. We also assessed the availability of the main funding providers to the demand of social enterprises and whether public funds are mobilized to facilitate the access of social enterprises to finance.

According to the model proposed by the European Commission and the OECD, mapping the financial market can be done by a scoring measuring the degree of interest for financing social economy in the case of financial players.




The criteria for the assessment of the Romanian market for financing social enterprises according to the OECD assessment tool:

The financing market has been mapped out

A low score is given when:

-  There is insufficient information about the financing needs of social enterprises and about potential financiers.



A high score shows that

-  The financing needs of social enterprises are regularly assessed;
-  The main actors supplying services to social enterprises exist and can be identified / are known = the social enterprises know who to address for financing;
-  Similarly, there exist and can be identified the main types of financial intermediaries;






*For this criterion we consider a **low score** because at national level there are very few financial institutions (either banking or non-banking) or other entities (NGOs - financing foundations, investment funds, etc.) that provide financing to social enterprises, and there is also a lack of information on the financing needs of social enterprises.*

Social enterprises have access to financing proper for their development stage

A low score is given when:

-  There is a limited range of types of financing addressing social enterprises;
-  The types of financing available do not cover the needs of social enterprises in their different stages of development.

A high score shows that:

-  There are available subsidies and other types of financings;
-  Debt financing is available – financing through bonds;
-  Quasi-capital or mezzanine finance is available;
-  Financing through capital investments is available;
-  Hybrid financial instruments are available - combining grants, bonds, quasi-equity and equity.

*For this criterion we consider a **low score** because at national level there is a limited range of financings available for social enterprises and the available financing do not cover the needs of social enterprises in their various stages of development.*

● Social enterprises receive support for their financial growth from several suppliers of specialized services

● A low score is given when:

- There is a lack of specialized suppliers to support social enterprises in developing their capacity to identify, attract and communicate with suppliers;
- The support offered by suppliers of specialized services for capacity building is not accessible to social enterprises;

● A high score shows that:

- Specialized service suppliers support social enterprises to develop their capacity to identify, attract and communicate with the financiers;
- These services are available;
- If the services supplied cost too much, social enterprises have at their disposal financial support to access such services.

*For this criterion we consider a **low score** because there is a lack of suppliers of specialized services to support social enterprises to identify, attract and communicate with the financiers.*

● A sufficient number of specialized private investors which are actively targeting social enterprises

● A low score is given when:

- There is a lack of private specialized investors investing in social enterprises.

● A high score shows that:

- Specialized private financiers actively aim at social enterprises, as an opportunity to invest;
- Public financing is used to stimulate specialized investors to actively finance social enterprises.

*For this criterion we consider a **low score** because there is a lack of specialized private investors to invest in social enterprises.*

● Political decision makers actively address the main financiers in order to increase their degree of awareness on social enterprises

● A low score is given when:

- None or limited effort is done to raise awareness of social enterprises as an investment opportunity;
- There is no guidance or limited information available to financiers on how to finance social enterprises (including through EU instruments)

● A high score shows that:

- Good practices on financing social enterprises are gathered from the main financing community;
- Competitions or other types of activities are taking place in order to disseminate the good practices in financing social enterprises;
- Financial classes include information and guidance to ensure capacity building on financing of social enterprises;
- There is available guidance for financiers with respect to the ways in which they can access EU instruments supporting social enterprises.

*For this criterion we consider a **low score** because there are very few efforts to inform on social enterprises as investment opportunity.*

● Public funds are used to finance social enterprises, both directly and through intermediaries

● A low score is given when:

- Even if they are available, public subsidies for social enterprises are rare;
- No or limited publicly financed financing programmes to combine several financial instruments;
- There are no warranting schemes for intermediaries.

● A high score shows that:

- Social enterprises can benefit of public subsidies to support specific projects;
- There are available publicly supported financing schemes, combining subsidies, loans, warranties and other financial instruments;
- Intermediaries can benefit of public warranting schemes in order to offer financing for social enterprises.

*For this criterion we consider a **high score** because social enterprises can benefit of public subsidies and there are currently available publicly supported financing schemes combining subsidies, loans, warranties and other financial instruments.*

1 Access to financing of social economy enterprises

The European Economic and Social Committee, the OECD and the Commission Expert Group for Social Entrepreneurship (GECES) identify the access to finance as a key political lever in building ecosystems for social enterprises.

Social enterprises are entities that primarily pursue a social mission, while conducting their business. To get started, operate and expand, they seek funding from various providers, including the public sector, philanthropic foundations, impact investors, and major financial institutions.

However, social enterprises often face barriers in this process, more than the classical, capitalist enterprises, who are searching for classical investors. For example, a social enterprise may not meet all of the predefined funding criteria set by the major funding providers.

There is also a lack of common understanding and knowledge among creditors about the risks and returns associated with investing in social enterprises. Therefore, only a few financiers are willing to invest in such entities.

● Issues of enterprises limiting their access to financing¹⁰

In order to have access to financing, social enterprises often need a consolidated capacity to become more sustainable from the financing point of view and less depending on public and private subsidies.

This implies a need to develop abilities for:

- Building models of sustainable (and scaled-up) business models and
- Attracting investments

¹⁰ Source: Social Economy in the EU - https://ec.europa.eu/growth/sectors/social-economy_en

Additional access to financing can help solve some of these blockages and ensure the fact that social enterprises can achieve the full potential for which they were established.

In order to approach both potential suppliers of financiers and also the applicants, the document addresses the topic of the access to financing from the perspective of the demand and of the offer.

- ✓ With respect to the **demand**, topic approached in previous chapters, social enterprises must:
 - Become increasingly prepared for investments and
 - Develop their capacity to better communicate with potential financiers and suppliers of funds.
- ✓ With respect to the **offer**, in several states the general tendency is to **not have sufficient private financing**, partially due to a lack of visibility and understanding of social enterprises among the main suppliers of financing.

In addition, there is a somewhat **limiting mentality and a pre-existing attitude among several investors with respect to rentability.**

These problems are made more severe by obstacles in **regulation** and by **the lack of incentives associated with investments in social enterprises.**

The issues above are severe in Romania, a market with a generally poorly developed social economy and a delicate ecosystem.

The amount of financing that most social enterprises need is relatively small due to their size, which means that financial intermediaries incur high transaction costs compared to the size of the financing provided and the estimated financial profitability.¹¹

In addition, there are often no safe nets, as it is **difficult for social enterprises to get back their investment compared to the financing costs and reimbursement periods for standard businesses.**

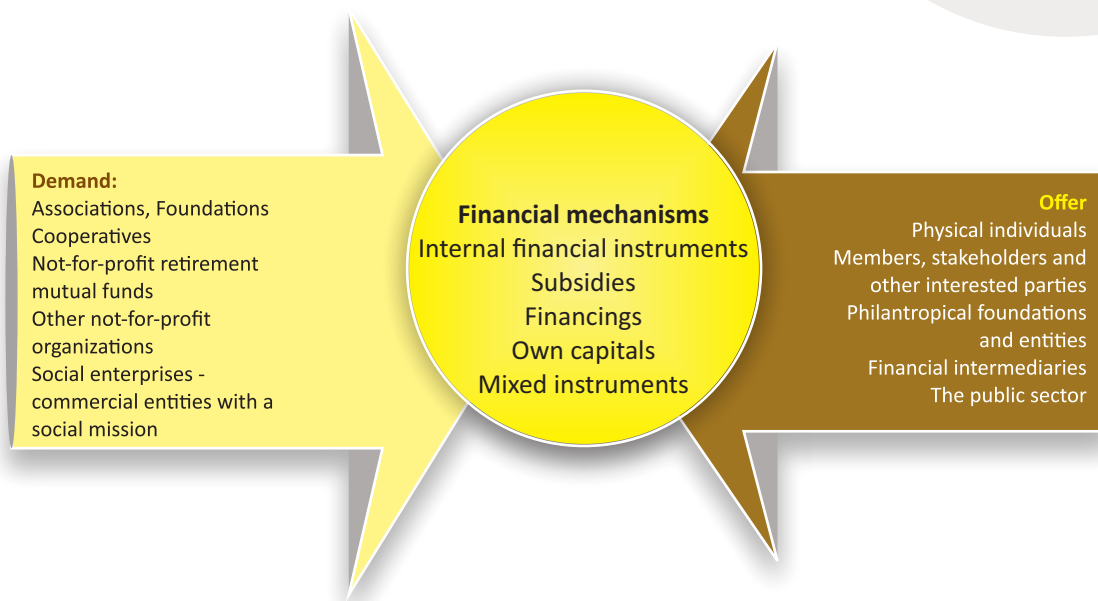
While funding needs vary in accordance to the stages of development of social enterprises, the opportunities to meet their needs differ from country to country. With this in mind, it is important **to consider the role of the public sector** in:

- I the purchase of services from social enterprises,
- II acting as an investor in social innovation by financing social enterprises that experiment with new, scalable solutions, which can be easily replicated;
- III the development of risk mechanisms (e.g. warranty schemes) to facilitate the access of social enterprises to general financing.

¹¹ Guidance note: Access to Finance - <https://betterentrepreneurship.eu/en/node/51>

2 The Financial Ecosystem for social economy in Romania

The ecosystem for financing social economy in Romania can be represented through the chart below



In Romania, social enterprises have difficulties in securing the financing of their activities. Most of them, regardless of their form of legal incorporation, use multiple sources of income.

The most common sources of financing for the establishment and development of Romanian social enterprises are:

- public subsidies using EU funding, other private or public subsidies granted by international donors, donations from individuals received in accordance to the "Law on redirecting 3.5% of the tax on income", sponsorships from companies according to the Law on Sponsorship,
- the sale of products and services, and
- membership fees.

Public financing is the most important source of funding for the social enterprises sector and it can take many forms – from subsidies to agreements for services of general interest. In Romania, most subsidies meant for social enterprises are financed by the European Union.

Self-financing is an increasing tendency in Romania. The most active actors getting more and more involved in economic activities are associations and foundations.

It is also worth mentioning the increasing interest of social enterprise for crowdfunding and for other forms of participatory financing. However, this kind of funding is limitative, has many financial limitations and addresses only social enterprises registered as associations and foundations.

In Romania, the only banking institutions that have the right to finance legal entities other than companies, through specific legislation in the field, are the cooperative banks. Cooperative banks are integrated into the CREDITCOOP system, operating in accordance with Government Ordinance 99/2006. Cooperative banks provide short- and medium-term loans to a variety of social economy actors, including social enterprises. The first initiatives to offer loans to social enterprises appeared in the Romanian classical banking system in 2010. Currently, only a small number of financial institutions offer loans for the social economy with certain limitations.

In Romania, there are no social investment funds interested in social enterprises. TISE, a Polish financial institution, had the intention to create such a mechanism but unfortunately failed to do so.

The problematic access to finance in the case of social enterprises has multiple causes. On the one hand, it is not very attractive to fund social enterprises due to the lack of knowledge and information about these organizations. There is little interest in assessing and highlighting their social impact, and the government has no political will to design an ecosystem favoring social enterprises.

On the other hand, social enterprises lack managerial and marketing skills, business support services and a predictable environment that supports the development of such initiatives.¹²

¹² Study “Întreprinderile sociale din România (Patria Credit - analiza portofoliului)” - autor Claudia Petrescu

Tabel 14 Policies and support measures addressing social enterprises (the Law 219/2015)

Support measures	Applicable or not
Support for work integration social enterprises who also have a social mark with physical infrastructure (working spaces / land) from the local public authorities	Yes (according to legislation). However, most local public authorities are unable to offer physical infrastructure due to a lack of free spaces. Furthermore, reference is made to secondary legislation for granting spaces through public auctions - meaning they are paid for.
Support measures for promoting goods and services delivered by work integration social enterprises; identifying new markets	No. Most advertising spaces are authorized by the local authorities for specialized companies who receive money for the promotion services delivered.
Support measures for work integration social enterprises with activities related to tourism and promoting the national patrimony / the local patrimony and culture	No.
Free juridical counseling for establishing new social enterprises; free management counseling offered by the local county employment agencies	Not at this moment, because most local employment agencies do not understand the concept.
Governmental support, under the conditions of the law. (Minimis support)	In the near future will apply only minimis schemes (governmental support) for new enterprises.
Benefits established by legislation for the employers in the field of social insertion, in case they employ unemployed people at risk of social exclusion	Yes. These benefits are set through the Law number 76/2002 on the system of unemployment benefits and for stimulating workforce.
The possibility to benefit each year of the national programme for stimulating small enterprises in the field of the social economy	No, because there is no national programme for stimulating small enterprises in the field of the social economy
Other benefits and tax exemptions offered by local authorities	No
The possibility to benefit of legal provisions with respect to reserved agreements (preferential procurement) (The Law 98/2016 on public procurement)	No, because the public authorities do not use this procurement instrument (reserved agreements).

Banking and non-banking financing institutions from Romania

According to the official website of the National Bank of Romania (<https://www.bnro.ro/>), in Romania there are 24 authorized commercial banks and 7 branches of foreign credit institutions. Additionally, 140 non-banking financial institutions registered in the General Register kept by the National Bank of Romania are functioning in our country.

Public, including European funds, addressing social economy enterprises—the **Human Capital Operational Programme**

According to the site www.fonduri-structurale.ro, the Ministry of Investment and European Projects is developing special operational programmes with financing for social enterprises (grants) from local or European sources:

Priority axis 4: Social inclusion and combating poverty

Specific objective 4.16 Consolidating the capacity of social economy enterprises to function in a self-sustainable manner

Within this programme were launched three calls, but at this moment none is active to finance social enterprises.

3

Assessing the access to financing of social enterprises on the Romanian market using the OECD Better Entrepreneurship Policy Tool matrix

The Romanian eco-system has been assessed using the OECD Better Entrepreneurship Policy Tool methodology to assess the access to financing of social enterprises.

The score obtained regarding the measurement of access to finance for social enterprises in Romania using the OECD matrix is 2.9 out of a maximum of 10 points, which translates into poor access to finance, meaning:

- The need to support the creation and development of intermediaries that can help strengthen the capacity and availability of funding for social enterprises.
- The need to encourage the participation of major funding providers and social investors in the financing of social enterprises, providing incentives and mitigating regulatory barriers to investment, and
- The limited use of public funding through its use to develop hybrid mechanisms that combine public and private investment.

In order to collect the data necessary for the assessment of the Romanian market for financing social enterprise provided in the OECD matrix, a questionnaire was drawn and sent to banking and non-banking financial institutions to help us better understand the financing offer addressing social enterprises. The questionnaire comprised questions to identify the way in which institutions contributing to the questionnaire respond to the financing needs of the social enterprises, the types of financing granted, as well as the problems encountered in the financing of the social enterprises. The questionnaire was answered by 15 participants (representative banking institutions, non-banking financial institutions, financing NGOs), and of these only 11 participants agreed to answer all the questions of the questionnaire for the evaluation of the Romanian market for social enterprises.

The individual scoring for each criterion for the Access to Financing dimension of the OECD Better Entrepreneurship Policy Tool matrix for social enterprises and inclusive entrepreneurship is as follows:

Criterion	Scoring
1. The financing market is mapped out	4
2. Social enterprises have access to financing proper for their development stage	2
3. Social enterprises receive support for their financial growth from several suppliers of specialized services	3
4. A sufficient number of specialized private investors which are actively targeting social enterprises	1
5. Political decision makers actively address the main financiers in order to increase their degree of awareness on social enterprises	3
6. Public funds are used to finance social enterprises, both directly and through intermediaries	4

Detailed presentation of the criteria at the core of assessing the Romanian market for financing social enterprises

1. The financing market is mapped out.

Partial – assessed to 4 from 10 possible points

General aspects

We believe that the main financiers for social economy are the banks, the non-banking financial institutions and the state. Their financing offers, when they exist, should be made public and easily accessible online.

The financing needs of social enterprises vary according to the type of organization (not-for-profit organization, cooperative or with a limited profit goal) and the stage of development (start-up or development phase). In order to meet these different needs, the maturity of the market, the willingness of specialized investors in the territory and the willingness of major financiers to support social enterprises must be taken into account.

The situation in Romania:

We assessed this criterion from the public information and with the help of the answers from the questionnaire addressing social enterprises with respect to their financing needs presented in the previous chapters. We consider that the information published by the financiers of the identified social enterprises is insufficient and difficult for social enterprises to understand. There are few players - financiers for the social economy market. Financing through private direct capital investments could not be identified.

There is no centralized source of information for the social economy (platform or website where to centralize offers and types of financing).

Funding from public sources is difficult to follow (active programs), with a difficult language and forms to be filled in. In the case of private financing (very few bidders) the costs are not transparent.

2. Social enterprises have access to financing proper for their development stage.

No access available. Assessed to 2 of 10 possible points

Our conclusion is that social enterprises from Romania have little access to financing proper for their stage of development.

General aspects

Social enterprises can operate in various legal forms - organizational structures, including cooperatives and not-for-profit organizations (associations, foundations, mutual societies, charities, etc.), limited liability companies with a social goal. So social enterprises have a "hybrid" structure or create consortia / groups of not-for-profit organizations and for-profit companies controlled by the former. Depending on their legal form and organizational structure, social enterprises can access different types of financing. For example, a not-for-profit organization cannot benefit from equity investments, while other forms of social enterprise, such as corporations, can benefit of such financing within certain limits.

Social enterprises also have different financing needs, depending on their stage of development. For example, in the start-up phase, it is more difficult to take on debt financing because it can take time before the social enterprise is ready to repay any capital and interest payments. Therefore, social enterprises need access to different funding instruments that are able to meet their needs depending on their organizational structure, stage of development and size.

The situation in Romania:

In our questionnaire conducted for the evaluation of the Romanian market for financing social enterprises, a small number of contributors (11) filled in the questionnaire from among the main players in the banking / non-banking financial field in financing of social enterprises. Three important banks active on the Romanian market stated that they would not participate in the questionnaire because the social enterprises are not in their target group.

3. Social enterprises receive support for their financial growth from several suppliers of specialized services.

Very few identified. assessed to 3 of 10 possible points.

In Romania there are few suppliers of specialized services to offer consultancy to social enterprises with respect to the access to financing.

General aspects

Social enterprises may not have the capacity or knowledge to find, attract and communicate with financiers. Capacity-building needs are therefore often closely linked to funding. In the pre-establishment and start-up phase, the social enterprise may need skills and experience associated with accessing and using different types of funding or skills to become financially sustainable. At an early stage of growth, social enterprises often need assistance to professionalize processes and functions. At a later stage of growth, social enterprises can benefit from support to create investment-ready business models to scale their impact. Specialized service providers and intermediaries can be essential to this end, through correlating the needs of social enterprises with specific skills development programs and available funds.

In less mature markets, decision-makers can support the emergence of specialized service providers to meet the needs of social enterprises. In mature markets, investment readiness programs can be created directly by existing specialist service providers to help social enterprises become ready for investment. Public agencies can contribute to the development of this part of the ecosystem. For example, they could identify and provide a list of pre-approved specialist service providers, which social enterprises can request for high-quality assistance, and which are potentially more affordable in terms of cost, because the services provided by specialist providers tend to be more expensive. Financial support (for example, a grant or coupon) that allows social enterprises to access such services at a subsidized (or no cost) price may also be justified.

The situation in Romania:

In Romania, the existence of intermediaries providing consultancy to social enterprises on access to finance is limited. A small number of government programs in recent years have been able to partially cover the need for knowledge in this field.

4. A sufficient number of specialized private investors which are actively targeting social enterprises

Very few identified. assessed to 1 of 10 possible points.

General aspects

Specialized private financiers (philanthropists, impact or ethical investors, social crowdfunding platforms, etc.) can act as catalysts to stimulate the financing market of social enterprises in various ways. For example, they can introduce innovative financing instruments that combine grants, debt and equity. They can also mobilize resources and take on the risk of funding to make it accessible to social enterprises. In addition, specialist private financiers can increase the attractiveness of financing social enterprises by highlighting success stories and involving key stakeholders in events to support social enterprises. However, there are still a limited number of specialized private financiers who actively target social enterprises as an investment opportunity, especially in less mature markets. In addition, they often struggle alone in a resource-limited environment. Therefore, decision-makers may consider leveraging public funds to support the development and growth of specialized private financiers.

The situation in Romania:

In România there are no private financiers specialized in financing social enterprises.

5. Political decision makers actively address the main financiers in order to increase their degree of awareness on social enterprises.

Very few identified. Assessed to 3 of 10 possible points.

General aspects

Financiers are often unaware of social enterprises as an investment opportunity, sometimes due to their hybrid nature. Incentives and perceived risk associated with investing in such entities are often misaligned, which means that private investors are expected to take a high level of risk with limited financial prospects. In order to increase investment in social enterprises, policy makers at national level can work with financial services regulators and professional bodies to introduce new standards of competence or to adapt existing one for financial advisors and fund managers in order to cover social and socially oriented investments. In addition, policy makers can support efforts to promote and raise awareness among key funders about the different ways of financing social enterprises. For example, they could present examples of adapted lending conditions used for social enterprises, such as the ones used for cooperative or community banks, including longer repayment periods or removed collateral requirements.

Another possibility is to organize awards to finance social enterprises or to engage in other types of awareness campaigns for the dissemination of good practices. Finally, within the European Union, it would be useful to increase the access and awareness of key funders to existing presentation materials and / or capacity building sessions on available EU instruments that support social enterprises.

The situation in Romania:

Political decision – makers are very little involved in communicating with the private financiers of social enterprises from Romania.

6. Public funds are used to finance social enterprises, both directly and through intermediaries

Very few identified. Assessed to 4 of 10 possible points.

In this context and for various reasons, public funding - referring to more to financing than to purchasing products or services from social enterprises (covered in the market access guidance note), is often difficult to channel directly to social enterprises. First, policymakers who manage public funds may not always perceive social enterprises as an eligible funding option, since they may lack relevant expertise, skills and possibilities to engage directly in the financing of social enterprises. Therefore, in order to enable public funding for social enterprises, such as through project grants and funding schemes that combine grants, loans, warranties and other financial instruments, it is necessary to build capacity and implement changes in all government levels.

At the same time, policy makers should consider how they can best support specialized intermediaries that have already developed the expertise needed to finance social enterprises, including through funds, project grants, warranty schemes that support funding, private and hybrid schemes that support the development of social enterprises. Grants and public investment can be used to encourage the creation of start-up funds that focus on the development of social enterprises and social impact investment funds with a sustainable capital approach. A variety of EU funds and programs can be actively used to this end.

The situation in Romania:

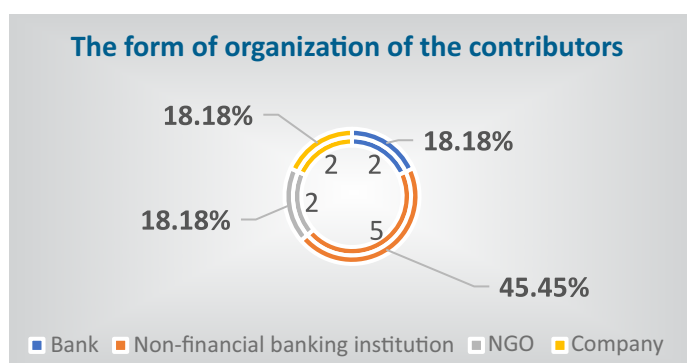
In Romania there is a range of public programmes to finance social enterprises, based on grants. They would require an improvement in the way they can be accessed by simplifying documentation, training and transparency.

Questionnaire developed in order to assess the Romanian market for financing social enterprises within the online debate workshop developed during April – May 2021.

Although the questionnaire took into account several top banking and non-banking institutions, only 11 participants (the most active in financing social enterprises) answered the questions proposed for the evaluation of the Romanian market for financing social enterprises. Several contributors, especially large banking financial institutions, did not comply with our requests, stating that they do not carry out financing activities for social enterprises.

Depending on the **form of organization**, the institutions participating in the questionnaire were mostly banks and non-banking financial institutions:

FIGURE 1 - The form of organization of the contributors



According to their turnover in 2020, the contributors in the questionnaire are in the category of big companies:

FIGURE 2 - TURNOVER OF CONTRIBUTORS TO THE QUESTIONNAIRE



Source: Questionnaire developed within the AFIN project addressing financial institutions with respect to financing social enterprises, 2021

The questionnaire developed for assessing the Romanian market for financing social enterprises shows that contributors offer large amounts (over 100.000 Euros) to the social enterprises financed, the average financing given to social enterprises being over 50.000 Euros.

FIGURE 3 - AVERAGE FINANCING granted by the financial institutions contributing to the questionnaire

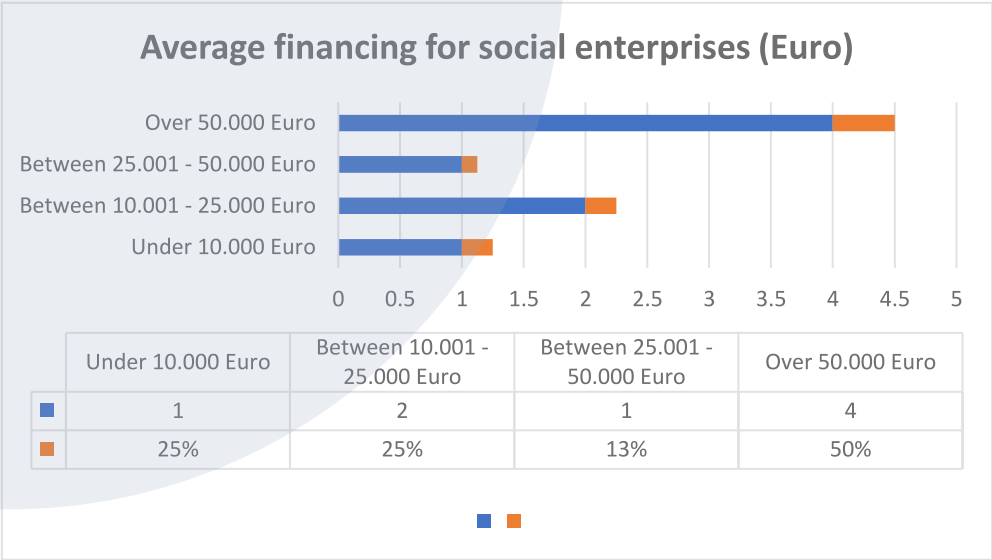
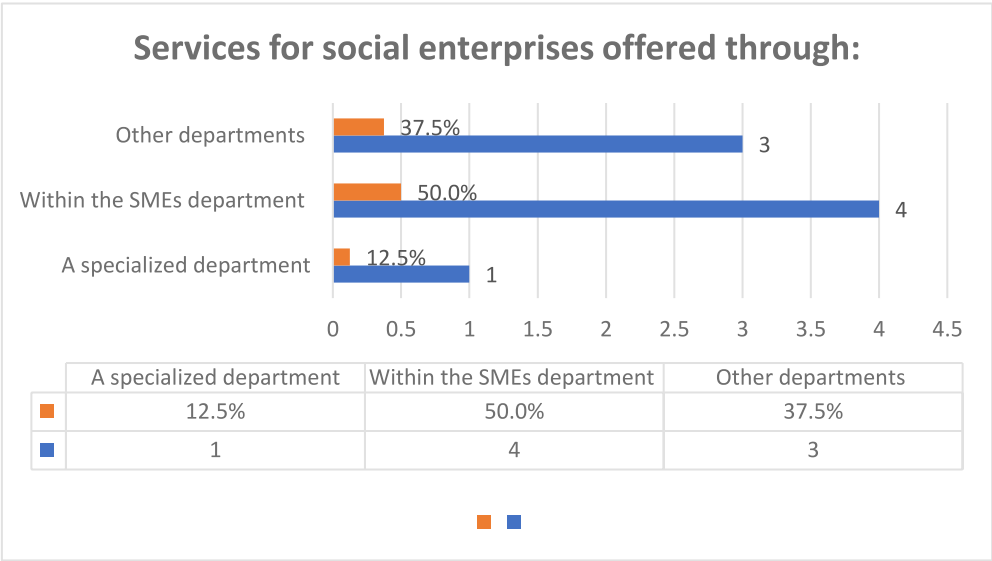


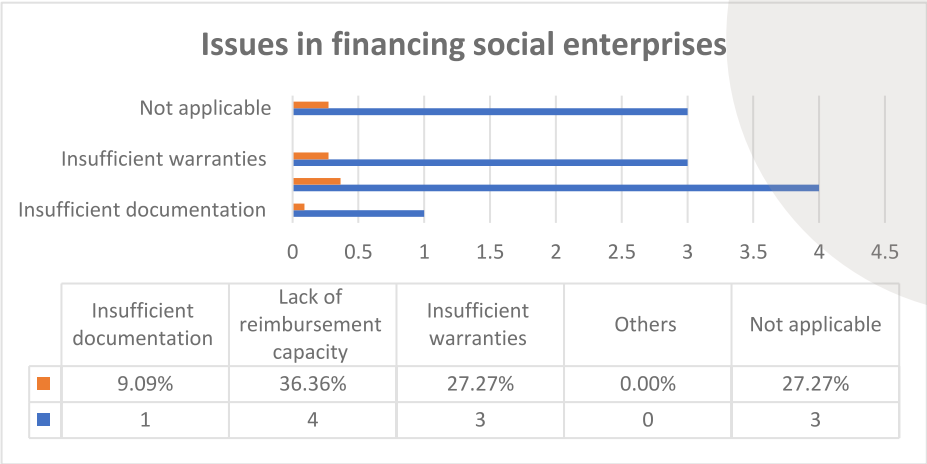
FIGURE 4 - FINANCING ADDRESSING SOCIAL ENTERPRISES



The services of financing social enterprises are taking place mainly through unspecialized departments, often the ones working directly with SMEs.

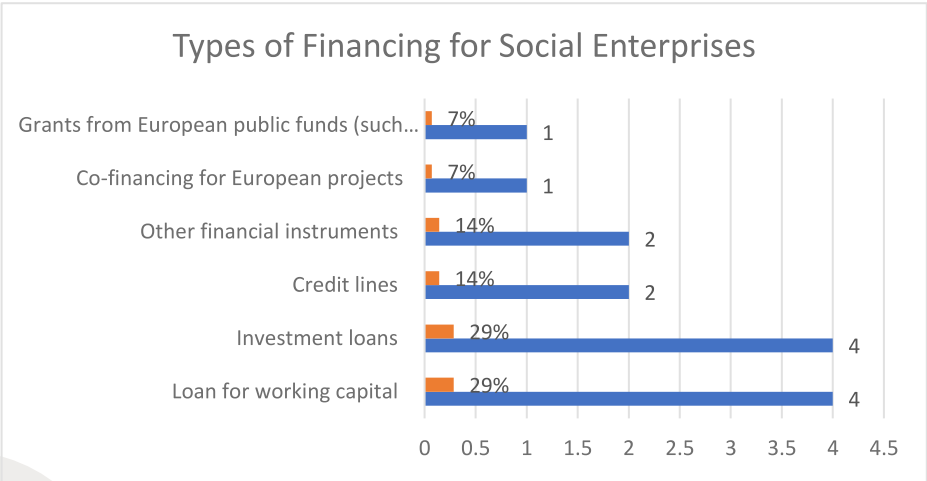
During the past 3 years, the main issues in financing social enterprises or the cause of their lack of financing have mainly been their inability to prove their reimbursement capcity and the fact that they do not offer sufficient warranties.

FIGURE 5 - ISSUES ENCOUNTERED BY THE FINANCIAL INSTITUTIONS IN FINANCING SOCIAL ENTERPRISES



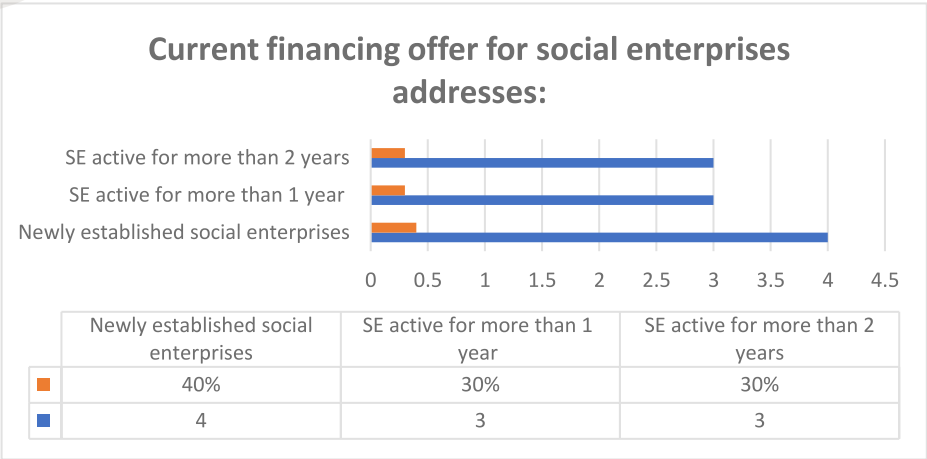
During the past 3 years social enterprises received financings mainly for investments and for working capital, in the form of classic loans with monthly reimbursements.

FIGURE 6 - TYPES OF FINANCINGS FOR SOCIAL ENTERPRISES



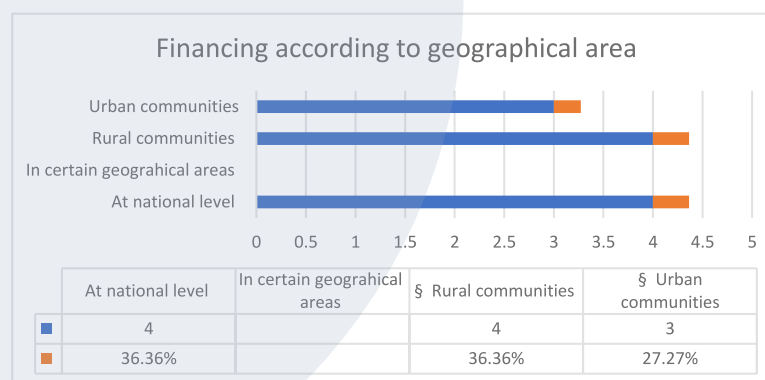
The current offer covers the request from social enterprises in different stages of development.

FIGURE 7 - CURRENT FINANCING OFFER FOR SOCIAL ENTERPRISES ACCORDING TO THEIR DEVELOPMENT STAGE



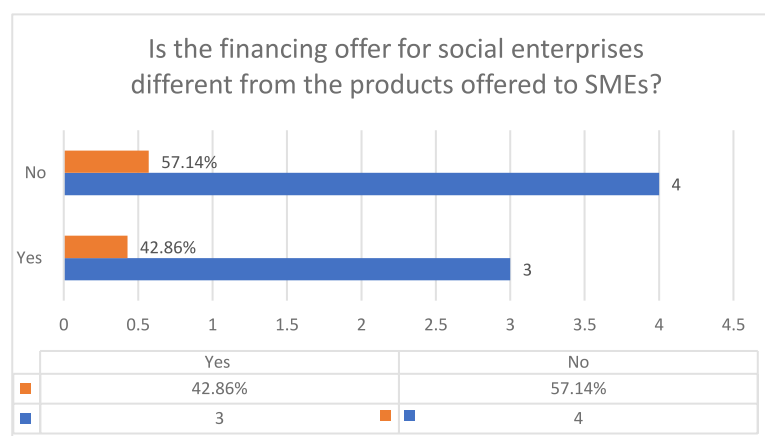
Financing social enterprises covers a wide geographical area, but is not specific to a certain local community.

FIGURE 8 - FINANCING SOCIAL ENTERPRISES ACCORDING TO GEOGRAPHICAL AREA



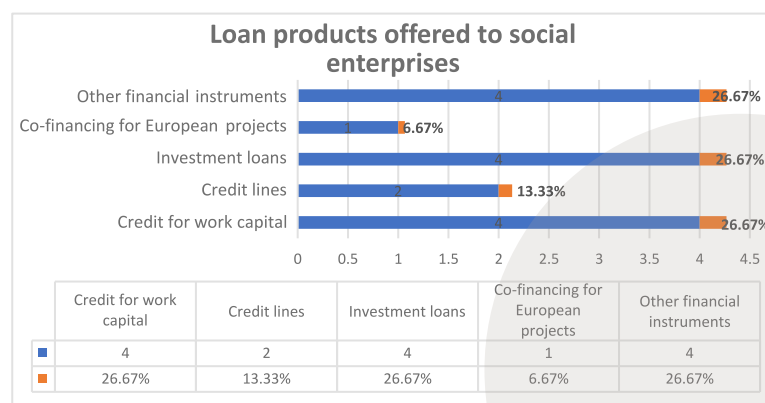
Most loan products (57,14%) are the same as the traditional loan products addressing SMEs.

FIGURE 9 - LOAN PRODUCTS SPECIFIC TO SMEs, OFFERED TO SOCIAL ENTERPRISES BY THE FINANCIAL INSTITUTIONS CONTRIBUTING TO THE QUESTIONNAIRE



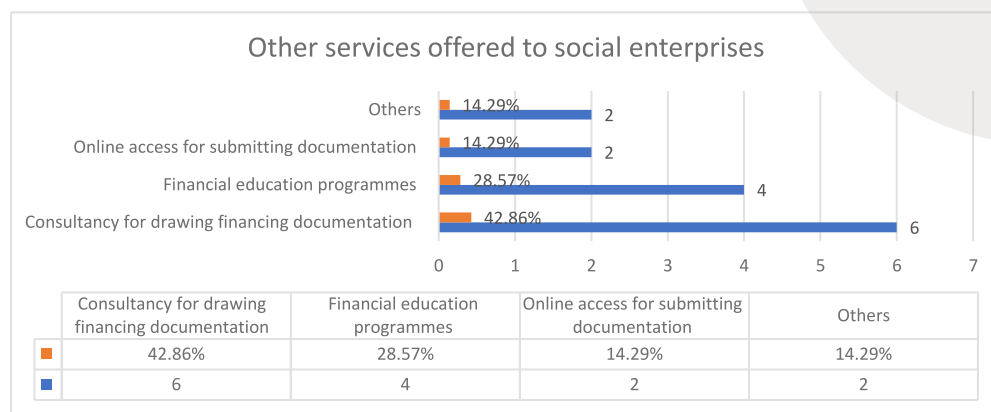
Currently, there are no loan products designed especially for social enterprises.

FIGURE 10 - LOAN PRODUCTS OFFERED TO SOCIAL ENTERPRISES



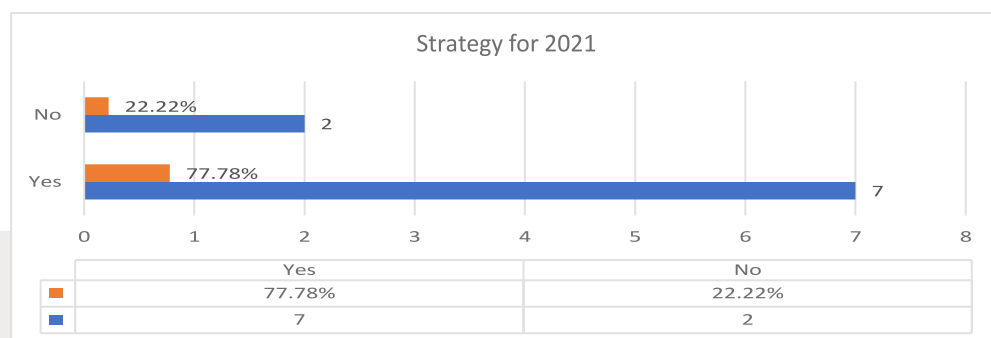
The contributors also offer other types of services for social enterprises during / after the financing, such as consultancy for drawing financing documentations (42,86%) or programmes of financial education (28,57%).

FIGURE 11 - OTHER SERVICES OFFERED TO SOCIAL ENTERPRISES



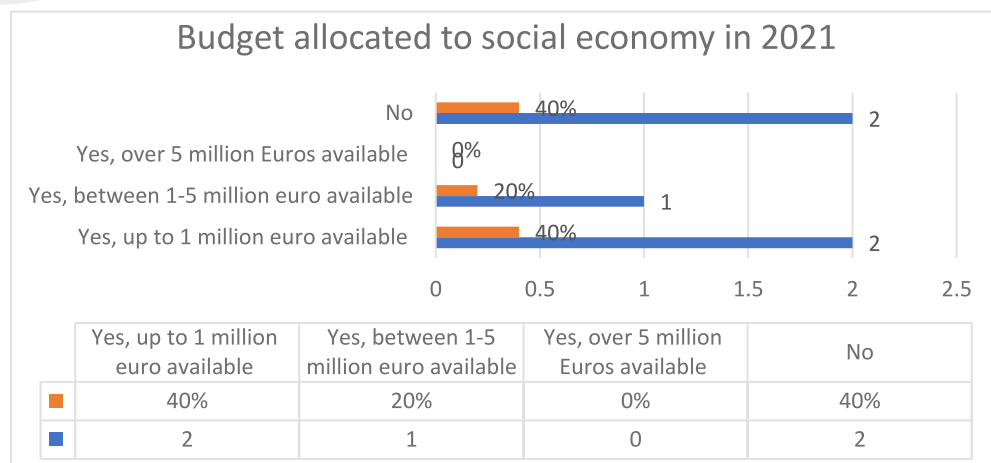
Most contributors (77,78%) have included the financing addressing social enterprises in their strategy for 2021:

FIGURE 12 - FINANCING FOR SOCIAL ENTERPRISES INCLUDED IN THE STRATEGY FOR 2021



Most contributors (60%) have a budget for 2021 especially allocated for social economy – up to 1 billion euro financing available.

FIGURE 13 - BUDGET ALLOCATED TO SOCIAL ECONOMY FOR 2021



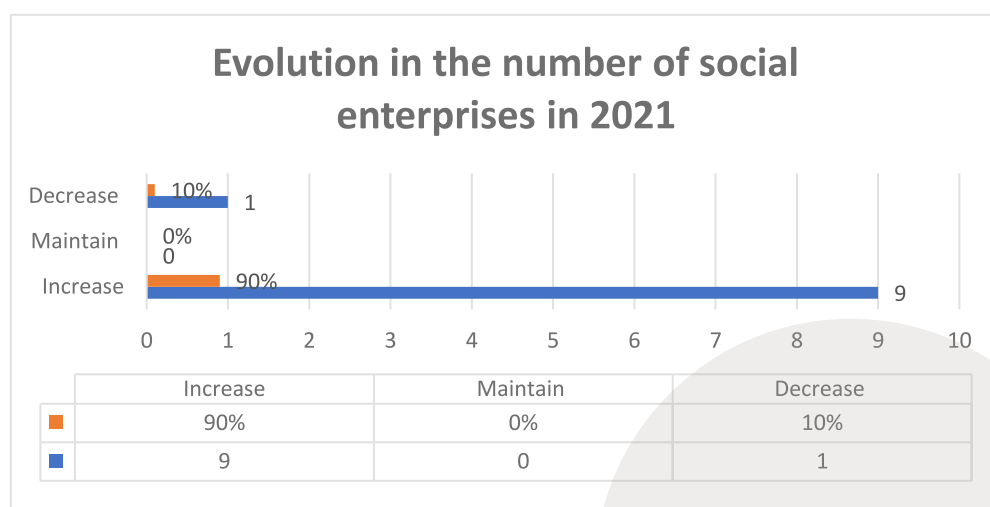
Some contributors have special financing offers addressing social enterprises for the year 2021, especially for NGOs (25%) and agricultural associations (16,67%).

FIGURE 14 - SPECIAL OFFERS FOR FINANCING SOCIAL ENTERPRISES



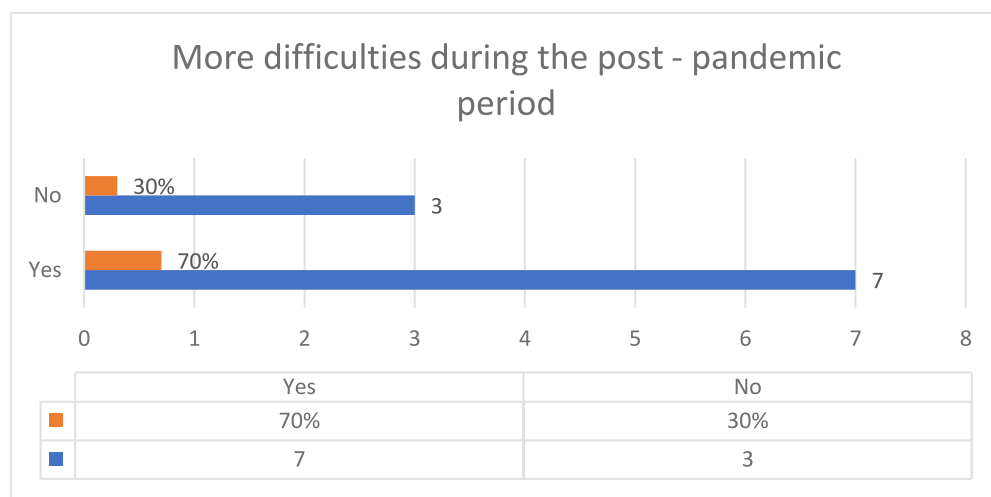
Contributors believe that in 2021 the number of social enterprises in Romania will increase (90%):

FIGURE 15 - EVOLUTION OF THE NUMBER OF SOCIAL ENTERPRISES IN ROMANIA IN 2021



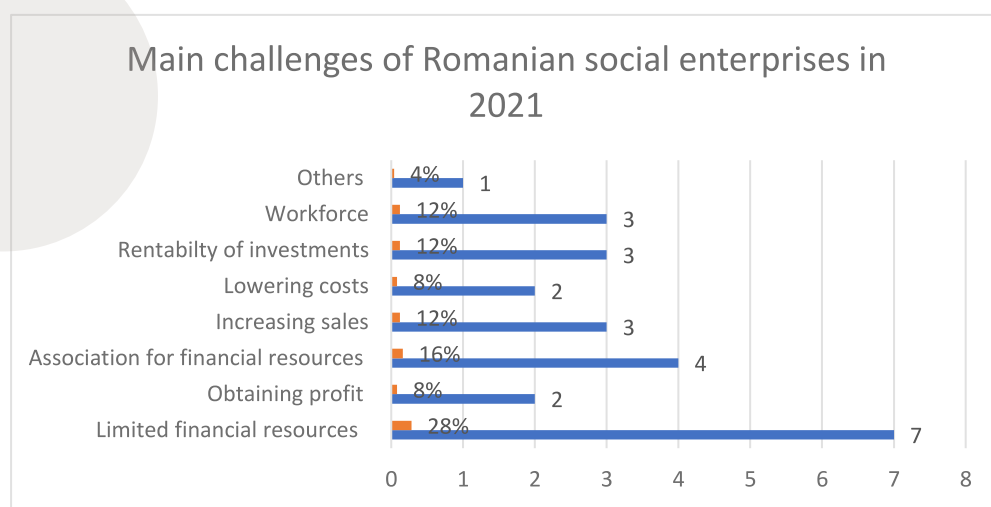
Contributors believe that social enterprises will have more difficulties during the post pandemic period – 2021, compared to other SMEs.

FIGURE 16 - POST-PANDEMIC DIFFICULTIES OF SOCIAL ENTERPRISES



The main challenges of social enterprises in Romania in 2021 are: limited financial resources for their survival and their growth (28%) and association in view of accessing financial resources (16%):

FIGURE 17 - CHALLENGES OF ROMANIAN SOCIAL ENTERPRISES IN 2021



4

Barriers in financing social economy in Romania

Constraints and opportunities

The upward trend in the development of social enterprises is limited by a number of constraints. In Romania, social enterprises, although recognized, are not encouraged by public authorities. Public support schemes are very limited, and the main investments are made through European funding, designed from the bottom up by the government and dedicated mainly and almost exclusively to the start-up phase. Stakeholders assessed the current Romanian legal framework on social enterprises as weak, inconsistent, discriminatory against different types of organizations. The main priority is the inclusion of work integration social enterprises as valued employers, although the field does not benefit from much support through subsidies.

Another constraining element is the government's political capacity to design and implement policies and programs for this sector - which translates into a lack of compliance with respect to the certification as social enterprises. There is no real policy framework to encourage or support the creation and development of social enterprises.

Deeply connected to the political capacity is the administrative capacity. Stakeholders have critically assessed the management of EU funds allocated to social enterprises in the country. Delays in launching funding programs, pushing the deadline for implementation, force applicant social enterprises to implement projects in a very short period of time, with consequences for implementation and final results.

The reduced capacity of public institutions to evaluate projects has favored access to European funding for many opportunistic initiatives. Despite not having a clear social mission and a business mentality, opportunistic organizations nonetheless managed to secure for themselves a considerable percentage of funding.

The social enterprise ecosystem is very fragile. Social enterprise networks and support mechanisms are only a few and poorly organized to deal with different situations often caused by independent events.

The weakness of the existing networks or the reduced cooperation between active social enterprises are just some of the factors that explain the weak advocacy capacity of these organizations in Romania. Moreover, the relatively weak capacity of public and private services, such as incubator training, coaching and consulting, affects the development of social enterprises and the extension of existing success stories.

Another category of constraints is related to the level of awareness and understanding of the concept of social enterprise by the general public and the public authorities. The term "social" is associated with charitable activities and not with entrepreneurship. The success stories of social enterprises are not known and understood by the general public.

III. Conclusions and solutions on covering the gap between request and offer for financing social enterprises

There is an urgent need to develop an adequate financial ecosystem in Romania, capable of providing effective support to social economy organizations, including to social enterprises.

In the medium term, we believe that it will be necessary to prepare an in-depth assessment of the social finance market and to envision a method for overcoming gaps and shortcomings in the financial offers addressing the social field. The analysis will also have to include the needs in terms of types and size of investments and to assess the investment availability of potential participants. It is also necessary to assess the adequacy and feasibility of setting up a sustainable social financing mechanism.

Strategically, increasing the number of social enterprises ready for investments as a first step will contribute to the development of the Romanian social economy, and this can be achieved by diversifying the financing offer - products dedicated to each stage of development of social enterprises, the small amounts necessary during the first stages of development, specialized financing institutions to monitor the evolution and the impact of the financed social enterprises. It will also be necessary to be provided complementary financing services - business trainings, consultancy for drawing business plans, easy access to financial education programs, by creating a beneficial social environment and increasing trust in institutions.

Private funding is not available due to the lack of visibility and understanding of social enterprises within the mainstream funding community. This is further exacerbated by persistent regulatory barriers and a lack of incentives to invest in social enterprises. Social enterprises mainly have a social mission and therefore often give creditors or potential investors the impression that they are more risky and less profitable than other businesses. In addition, social enterprises tend to be small, often lacking the internal capacity to draw business plans and to develop sound financial projections required by financial intermediaries in order to provide financing. It is necessary to develop financial instruments adapted to this sector and for the state to support with appropriate instruments the access of social enterprises to loans and warranties just like it does for other SMEs.

While through supporting start-ups there will be an increase in the number of social enterprises, it is necessary to support and strengthen these entities in order to be make them ready for investment. The development of the financial services offer requires better informed investors and support for the development of intermediaries, investment incentives and better regulation and facilities for investors. It is also necessary to develop co-financing schemes with national public and local financial resources and to support intermediaries that can help improve the relationship between funding providers and social enterprises and to strengthen their financial capacity.

This requires the development of instruments adapted to social enterprises (already available to other SMEs): loans (including cooperative or social bonds), warrantie and financial investment instruments.

The allocation for financial instruments for this sector through the Human Capital Operational Program (HRP) 2014 - 2020 - specific objective 4.1 was not implemented due to the lack of experience of the Management Authority and of most grant administrators in designing such instruments and in using a mix of financial resources that combine grants and financial instruments, as well as due to the need to develop specialized technical assistance services associated with accessing financial instruments.

It is expected that the Operational Program for Employment and Education 2021-2027, which already includes measures dedicated to social enterprises to also include measures in the field of financial instruments. Lessons learned from the previous programming period as well as the results of this Barometer should be taken into account when programming these tools to ensure a successful implementation.

Given the need for technical assistance to companies in carrying out operations in the field of financial instruments, the following is recommended:

- The intermediaries who will manage the financial instruments should have the necessary expertise to finance such organizations - preferably institutions that have in their portfolios loans granted to social economy enterprises - cooperatives, associations and foundations - and a medium- and long-term commitment to support the sector, perhaps even financiers from the social economy sector itself.
- The financial intermediaries that manage the financial instruments for social enterprises to provide them with necessary advice for accessing credits / warranties.
- The creditworthiness analysis of social enterprises must take into account the specificity of the sector. Social economy does not mainly aim at obtaining profit / financial surplus, but especially at achieving a social impact of the activities carries out. An analysis of the viability of the investment / growth project of the social enterprise, its sustainability in a competitive market and the indicators of social impact will have to be part of the analysis of the financing application.

With respect to the supply, better regulation is needed for investors regarding the financing of social enterprises, and thus investors will be better informed, as well as providing investment incentives for investors, including the definition of financing / co-financing programs with well-tailored public financial resources specific to the field. It is also necessary to carry out campaigns to promote credit products specific to social enterprises.

We believe that AFIN IFN S.A. is the answer to a need for financing and financial education existing on the Romanian social economy market and can be an impactful voice for this field supporting the entire ecosystem.

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About the “Alaturi de Voi” Romania Foundation / www.alaturidevoi.ro

The “Alaturi de Voi” Romania Foundation (ADV) is a non-governmental organization and a social enterprise established in February 2002. The foundation's mission statement is the inclusion of persons with disabilities and from other groups at risk. ADV Romania has over 13 years of experience in the field of social economy and has established in time 3 social enterprises ([UtilDeco](#), [WISEtravel](#) and [JobDirect](#)), being declared the 2016 Social Entrepreneur of the Year within the international competition EY Entrepreneur of the Year. We are grant administrators for 50 social enterprises developed in Romania, Republic of Moldova and Ukraine and we developed the cross-border resource center in the field of social economy – [Academia ADV](#) and 4 social innovation labs in the Republic of Moldova and Ukraine. ADV is a founding member of [AFIN IFN S.A.](#) the first Romanian institution for financing social enterprises from Romania.

About Patria Credit IFN / www.patriacredit.ro

Patria Credit IFN SA is a non-banking financial institution (NFI) specialized in financing agricultural workers and small enterprises, especially in rural areas. Member of [European Microfinance Network \(EMN\)](#) and of Microfinance Centre (MFC), Patria Credit is the first non-banking financial institution dedicated to micro-financing in Romania, with almost 20 years of experience and more than 15.000 clients financed. In 2020 the activity of Patria Credit IFN has been acknowledged by the European Code of Good Conduct initiated by the EU Programme for Employment and Social Innovation (EaSI) within the European Commission, for the quality and the impact of their microfinancing in Romania. Patria Credit IFN SA is a member of the Patria Bank Group, which also includes Patria Bank and Patria Asset Management.

About FEBEA – European Federation of Ethical and Alternative Banks and Financiers/ www.febea.org

European Federation of Ethical and Alternative Banks and Financiers was established in Brussels in 2001 and brings together 30 financial institutions from 15 European countries, sharing the mission to develop ethical financing instruments with a social impact. Together, these innovative and pioneering institutions promote the importance and the urgency of developing ethical and solidary financial models in the economic and political European space.

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