

Territorial Analysis Romania

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1 Overview of the country's microfinance sector

1.1 Introduction

1.1.1 Purpose of the report

The purpose of this report is to present the current situation, in Romania 2023, of the microfinance sector for the social economy, social innovation, its' impact on national, economic, and social development, the challenges and opportunities it faces, as well as recommendations for improvement.

This report is useful for the MICROFUTURE project, but not only, because we succeed to attract various stakeholders: government institutions (e.g., Ministry of Labor and Social Solidarity, Management Authority for European Projects Human Capital), non-banking financial institutions (e.g., AFIN, FNGCIMM), non-governmental organizations (Ashoka, EASI), entrepreneurs and beneficiaries of microfinance.

Microfinance, adapted to the needs of low-income populations or excluded from the formal financial system, such as small loans, savings, insurance, and money transfers, has the potential to contribute to poverty reduction, job creation, improved living standards, promotion of gender equality and local capacity building.

1.1.2 Methodologies

The methodology for writing this report, market analysis in the field of microfinance in Romania 2023, involved the following 4 steps:

1. *Identifying the objectives and target audience of the analysis (Objective: The current context in Romania regarding the social economy, microfinance for social economy, social innovation. Target audience: partners and stakeholders of the MICROFUTURE project, but also the final beneficiaries of microfinance in Romania).*
2. *Primary and secondary data - collection, processing valid, credible, updated data (Primary data were those obtained directly from relevant sources, such as beneficiaries, providers or experts of social economy, microfinance, social innovation. Secondary data were those from external sources, such as reports, studies, statistics, or databases).*
3. *Data analysis and interpretation (Useful information was extracted from the collected data, patterns, correlations, differences or similarities, comparisons, etc. Quantitative or qualitative methods of analysis, such as SWOT analysis, were used).*



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4. *Analysis report - drafting and presenting (It was drafted clearly, concisely, coherently, and attractively to the target audience).*

1.1.3 Findings

The analysis revealed some vulnerabilities in the provision of microfinance in Romania:

- *The legislative framework is still a limiting factor.*
- *Social Enterprises do not receive enough support from public authorities (central and local).*
- *Difficulties to access financial resources in building ecosystems for Social Enterprises.*
- *Lack of common understanding and knowledge among investors about the risks and returns associated with investing in Social Enterprises.*
- *Various problems in Social Enterprises that limit their access to finance (e.g., the need to develop social entrepreneurship or other appropriate skills to build sustainable and scalable business).*

1.1.4 Conclusions

The biggest challenge of the social economy in Romania is the lack of funding. Romania has growth potential in the field of microfinance for both social economy and social innovation. Social economy policies are not integrated with active labour market policies. Private financing is insufficient due to a lack of visibility and understanding of social economy structures. There is a need to develop financial instruments adapted to the social economy sector. Public funding through public procurement of services from social economy structures is almost non-existent.

Reforms that can be proposed:

- *Evaluation of public policy in the field of social economy with the OECD tool: Better entrepreneurship Policy Tool – Improve your inclusive or social entrepreneurship policies.*
- *Reducing the administrative burden on registration of social economy structures through simplified administrative procedures (digitalization).*
- *Grant schemes from European funds focused on the growth / up-scaling of successful social economy structures and the development of networks in the field.*
- *Promotion of financial instruments specific to social economy structures (loans (including cooperatives))*



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1.1.5 Glossary of key concepts

Crowdfunding = one of the most popular forms of alternative funding that involves raising funds from a lot of people (called "funders").

Social economy = form of economic activity aimed at improving the quality of life of local communities and their members through the production, distribution and consumption of goods and services. This form of economy is based on principles such as solidarity, cooperation and democratic participation of members and aims to promote social inclusion and sustainable development.

Alternative financing = way of raising capital through sources other than traditional ones, such as bank loans or issuance of shares on the capital market. These alternative funding methods typically involve non-traditional investors, such as individuals, institutional investors, venture capital funds or sovereign wealth funds.

Venture capital financing = alternative form of financing involving investments in companies in exchange for shares or part of the company's profits.

Debt equity financing = alternative financing involving lending at a predetermined interest rate to be repaid within a certain timeframe.

Factoring financing = alternative financing form involving the sale of invoices to third parties who provide a cash advance for issued invoices, so that the company can obtain working capital.

Business incubators = spaces specially created to support the development and growth of start-up businesses. They provide entrepreneurs with an enabling environment to develop their ideas, receive mentorship and access to resources and connections that facilitate their path to success.

Microfinance = set of financial services provided to people with low incomes or without access to traditional financial institutions. These services are tailored to the specific needs of these people and include, among others, small loans, saving, insurance and money transfer.

Microcredit = banking practice that has become popular worldwide in recent decades. This method involves granting small loans, usually worth several hundred or thousands of euros, to individuals or businesses.

MFOs = microfinance organizations



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NBFIs = non-banking financial institutions

Peer-to-peer lending = alternative financing involving lending between individuals or between individuals and companies, without the intermediation of banks or other financial institutions.

SES = social economy structures (Social Enterprises and Insertion Social Enterprises)

Start-up = a new or innovative business with potential for rapid growth and reaching a global market, which uses new and advanced technologies in the development of its products or services and requires a large initial investment to develop and launch its products or services

1.1.6 European context

Microfinance has emerged at European level as a crucial public policy tool to combat social and financial exclusion, promote self-employment and support micro-Enterprises. The European Pillar of Social Rights, which sets out key principles and rights to support fair and well-functioning labour markets, states that "Everyone has the right to access essential services, including (...) financial services." The sector has grown steadily in recent decades thanks to European Union (EU) support dating back to the 1990s and became more widespread in the 2007-2013 programming period (e.g., through JASMINE, the Progress Microfinance Facility and the EU Programme for Employment and Social Innovation (EaSI).

Over the past seven years, EU support has been provided in the form of dedicated funding instruments and technical assistance (under EaSI) and grants (through the European Social Fund (ESF)).

EU support for microfinance has been renewed for the coming years under the InvestEU and ESF+ programs. According to the InvestEU program regulation, microfinance "shall include guarantees, microcredit, as well as ancillary business development services, in the form of advice, training and mentoring, extended to individuals and microenterprises experiencing difficulties in accessing credit for the purpose of carrying out professional and/or income-generating activities."

According to the above definition, microcredit is intended to be a combination of credit and ancillary non-financial services, which are provided to financially excluded persons and undertakings.

The European Union has previously defined microcredit as loans of up to €25,000 to existing and potential micro-entrepreneurs at risk of social and financial exclusion.



However, in the guidelines of the EU program that will support the sector in the coming years (InvestEU), the threshold for microcredit will be doubled to €50,000.

In Europe, there is no common legislative framework governing the provision of microcredit and regulatory frameworks which vary widely across the continent. The very different regulatory environment for the provision of microcredit has led to a variety of microcredit lending practices that are guided by a non-binding European Code of Good Conduct. Due to the above, microfinance providers in Europe vary widely in size, activities, and performance.

The data presented in the latest edition of the Report following the EMN-MFC survey (European Microfinance Network (EMN) and Microfinance Center (MFC) Survey 2016 - 2017) highlight some of the common aspects of the field:

1. The field is mainly made up of NBFIs: 94% of NBFIs operate under the legal status of non-governmental organizations (NGOs), non-banking financial institutions (NBFIs), credit unions or financial cooperatives.
2. In Eastern Europe, microfinance is mainly provided by cooperatives and NBFIs, while the microfinance sector in Western Europe is dominated by banks and NGOs.
3. NBFIs in Western Europe are usually younger, less numerous and employ fewer staff, but employ a greater number of volunteers who support the provision of financial and non-financial services to vulnerable groups.
4. Women represent 63% of salaried staff in European NBFIs, with a relatively higher number of women employed in Eastern Europe (68%) than in Western Europe (53%).

In terms of social objectives, financial inclusion remains the main priority of NBFIs, illustrating a stable vision for the sector.

Women and rural populations are the two main target groups.

A quarter of NBFIs also prioritize ethnic minorities/migrants/refugees, with several NBFIs planning to start or intensify their engagement with the population.

NBFIs provide non-financial services: customer development and business development, especially in Western Europe.

In Eastern Europe, a comparable number of NBFIs engage in each type of non-financial service, with a tendency to provide customer development services more often, as they also offer personal and housing loans and support their beneficiaries in managing the household budget through their development services.



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Although in-person one-to-one support is the most common way to provide non-financial services, 50% of NBFIs already use digital channels to provide non-financial services.

After the pandemic year of 2020, the microfinance sector returned to its pre-pandemic scale, with a total of 1.4 million active lenders and a gross loan portfolio of €4.3 billion in 2021. 71% of the analysed NBFIs were operationally sustainable: that is, they generated enough revenues to cover their expenses.

Like other profitability indicators, the values of the Operational Sustainability Indicator (OSI) vary depending on the institutional type. NGOs were most often unable to be operationally self-sufficient.

In Eastern Europe there were more operationally independent NBFIs than in Western Europe.

Long-term borrowed funds are the main source of financing, reaching EUR 1.1 billion in 2021. The largest volume of loans (60%) is managed by NBFIs. Long-term customer deposits (EUR 0.4 billion) attracted by cooperatives are the second main source of funding.

Digitalization and sustainable green microfinance continue to be two major trends in the European microfinance market. 84% of NBFIs have digital solutions that support customers in preparing the loan application, managing, or repaying a loan. More than half of NBFIs currently have an online loan application. The possibility to upload documents supporting the loan application is the second most common solution, which is offered by 51% of NBFIs; 16% of NBFIs do not currently have digital solutions for customers.

More than half (58%) of institutions help their customers learn how to use digital solutions to access their financial products. Such support is most provided in agencies, but one-third of NBFIs have developed virtual communication channels to provide customer support.

Many IFNs in Europe are already committed to the ecological transition and are fully or partially compliant with the principles of green, sustainable, and smart finance for environmental protection. Environmental responsibility, objectives or processes are part of the institutional strategy of almost 40% of NBFIs. Although fewer IFNs (33%) report their environmental performance indicators, 55% monitor and manage the negative impact of their own operations (ecological footprint).

Monitoring clients' environmental impact and including this data in loan valuation is less common (27% of NBFIs), and monitoring of clients' environmental vulnerabilities is applied



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by only 15% of institutions. 71% of NBFIs finance green solutions for their clients' investments: 26% do this through dedicated loan products, while 45% of NBFIs finance green solutions through the usual loans for micro-Enterprises or for improving housing conditions. Another 23% of NBFIs plan to introduce some green product soon and 17% of them do not plan to include green loans in their offer.

1.2 Microfinance

In Romania, at this moment, there is not a specific definition of microcredit or microfinance regulated by a law in force.

Therefore, according to Romanian MicroFinance Association, the EU definition is generally accepted by the sector and stakeholders:

“Microfinance includes guarantees, microcredits/ microloans, equity and quasi-equity, coupled with accompanying business start-up and development services, provided in the form of individual counselling, training and guidance, extended to individuals and micro-enterprises who have difficulty accessing financial services for professional purposes and / or for financing revenue-generating activities”.

Also, Microfinance can be defined as a set of financial services provided to people with low incomes or without access to traditional financial institutions. These services are tailored to the specific needs of these people and include, among others, small loans, saving, insurance and money transfer.

In Romania, microfinance began to be developed in the early 2000s, with the increase in the number of NGOs and microfinance institutions. They started offering financial services for small entrepreneurs, farmers and other categories of people who do not have access to traditional bank loans and credits.

An important aspect of microfinance is that financial services are tailored to the specific needs of beneficiaries. For example, in the case of small entrepreneurs, loans can be granted without collateral, and the rates are flexible and adapted to their income. In the case of farmers, services include loans to purchase seeds, fertilizers, and other agricultural inputs.

Another important aspect of microfinance is that it helps the development of local communities. By providing small loans to entrepreneurs and farmers, jobs are created, and the local economy is stimulated. Thus, Microfinance can help reduce poverty and social inequalities.



In Romania, there are several microfinance institutions, both NGOs and private institutions. They provide financial services for various categories of people, including entrepreneurs, farmers, women, and young people who want to open their own business.

In addition, there are also funding programs through European funds, which were created to stimulate the development of the local economy and less developed regions. These programs provide loans and grants for entrepreneurs and farmers, but also for other categories of people who want to develop their businesses.

In addition to loans and credits, microfinance institutions also provide advisory services and technical assistance. These services include business counselling, trainings for entrepreneurs and farmers, and other consulting services.

In conclusion, microfinance is an important solution for people who do not have access to traditional financial services and can contribute to the development of the economy. We will further exemplify and define some concepts and applicability that we may encounter in relation to the concept of microfinance:

- *Microcredit*
- *Social economy*
- *Alternative finance*
- *Start-up*
- *Business incubators*

1.3 Microcredit

The concept of microcredit is a banking practice that has become popular around the world in recent decades. This method involves granting small loans, usually worth several hundred or thousands of euros, to individuals or businesses that do not have access to financing through traditional banking channels.

Microcredit was originally born in developing countries to help reduce poverty and the growth of local economies. However, the concept has also been taken up in more developed countries, including Romania.

Microcredit is closely linked to the concept of microfinance, which refers to the provision of financial services to individuals or businesses that do not have access to traditional financial institutions. This may include granting small loans, saving and other financial services. In general, microcredit is part of a broader package of financial services and technical assistance to help develop local economies and reduce poverty.



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The history of microcredit in Romania begins in the 90s, when the country switched from centralized economy to market economy. In this context, the government encouraged the development of the micro-enterprise sector and tried to support entrepreneurship by granting small loans. However, these efforts have had limited success due to lack of experience and adequate infrastructure.

The concept of microcredit was introduced in 2001 through a Program for financing small and medium-sized Enterprises, called the START program. This program was initiated by the Romanian government with the support of the European Bank for Reconstruction and Development (EBRD). The aim of the program was to help develop the SME sector in Romania by providing financing and technical assistance.

In recent years, the microcredit sector in Romania has seen significant growth, and this is due, in part, to the development of organizations specialized in providing small loans tailored to the needs of its customers, as well as new regulations that allow these organizations to offer broader services.

Over time, the concept of microcredit was taken over by several non-governmental organizations and banks in Romania. Currently, there are several organizations offering microloans in Romania, including the Civil Society Development Foundation (FDSC), the Association for Sustainable Local Development (ADLD), the Association for Microfinance and Development (AMID), and others. These organizations provide small loans, ranging from a few hundred to several thousand euros, to individuals or businesses that cannot obtain financing through traditional financial institutions.

In general, microcredit has several benefits for the Romanian economy and society. Firstly, it helps to develop the SME sector, which is an important source of jobs and growth. In addition, microcredit helps to reduce poverty and improve the living standards of people throughout Romania.

1.4 Social economy

Social economy in Romania can be defined as a form of economic activity that aims to improve the quality of life of local communities and their members through the production, distribution and consumption of goods and services. This form of economy is based on principles such as solidarity, cooperation and democratic participation of members and aims to promote social inclusion and sustainable development.

In Romania, social economy is officially recognized as a distinct form of economy by Law nr. Regulation (EU) No 219/2015 on Social Economy, which defines social economy as “all



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democratically organized economic activities, based on the free membership and participation of members, aimed to attend their needs and aspirations and/or those of the community in which they operate, through a process of production, distribution and/or consumption, involving some form of collective ownership, cooperative or associative, as well as other forms of non-profit organization".

The concept of social economy has gained increasing importance in Romania in recent years, being recognized as an important tool for promoting sustainable development and social inclusion. However, the social economy is still a relatively new form of economic activity in Romania and has not yet been fully adopted by all economic actors. In addition, there are still many obstacles to the development of the social economy in Romania, including lack of funding, inadequate legislation and lack of awareness and support from public authorities.

Currently, the social economy in Romania is represented by a variety of organizations, including cooperatives, associations, foundations, and Social Enterprises. These organizations operate in different fields, such as organic food production, health and education services, rural tourism, and waste recovery and recycling. There are also local initiatives promoting the social economy through community projects such as urban gardens and local food production.

Another important aspect of the social economy in Romania is related to local development and community involvement. Through the social economy, local communities can become more independent and have a greater influence on their own economic destiny. The social economy can also be used to develop closer relations between producers and consumers, so that they have greater control over their own food and support the sustainable development of local communities.

In conclusion, social economy is an important concept in Romania, which can be used to develop alternative forms of organizing economic activity and to support local and community development.

The social economy in Romania faces several challenges, including lack of funding and limited access to resources, making it difficult to develop and strengthen social economy organizations. In addition, social economy legislation is still insufficient and does not provide sufficient tools and resources to ensure the development of the sector.



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1.5 Alternative finance

Alternative finance is a way of raising capital through sources other than traditional sources, such as bank loans or issuance of shares on the capital market. These alternative funding methods typically involve non-traditional investors, such as individuals, institutional investors, venture capital funds or sovereign wealth funds.

In Romania, alternative financing has started to develop in last years, with increasing interest in entrepreneurship and the development of start-ups.

There are several types of alternative financing available in Romania, such as:

- i. Crowdfunding – through this model, companies can raise funds by raising small amounts from many investors. Crowdfunding can be done through online platforms or social media.*
- ii. Peer-to-peer (P2P) loans – in this case, companies can obtain loans directly from investors through P2P platforms. This model eliminates bank intermediaries and can offer lower interest rates than those obtained through banking institutions.*
- iii. Business Angeles – these investors provide venture capital for start-ups and growing companies. Business Angeles can also provide expertise and resources to help companies grow.*
- iv. Venture capital – these investors provide venture capital for early-stage or growing companies with high growth potential. Venture capital can be obtained through investment funds or investment companies.*
- v. Private bond financing - in which investors purchase bonds issued by private companies, as opposed to those issued on the public market.*
- vi. ICO (Initial Coin Offering) - this alternative financing model is mainly used by companies developing projects based on blockchain technology. In the case of ICOs, companies issue cryptocurrencies to attract investors.*

It is important to note that while alternative finance may be an attractive option for companies, it can also be riskier than traditional financing. Companies should carefully consider all available options and consider the advantages and disadvantages of each funding model before deciding.

1.6 Start-up

In recent decades, the term "start-up" has become a frequent theme in the world of business and entrepreneurship. In Romania, the concept of start-up has become increasingly popular, and the government and private sector have begun to provide support and resources for these emerging companies.



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In Romania, there is no legal definition of the term "start-up". However, the Romanian government and other organizations have provided definitions that are based on the common features of these emerging companies.

According to the Romanian Government, a start-up is a business that:

- *It's new or innovative.*
- *It has the potential for rapid growth and reaching a global market.*
- *It uses new and advanced technologies for developing its products or services.*
- *It requires a small/medium initial investment to develop and launch its products or services.*

The concept of start-up is still relatively new and is often associated with the idea of building a business from scratch, often with the help of microfinance.

In recent years, Romania has seen a significant increase in the number of start-ups, much of which is concentrated in the technology and IT area. According to data published by Start-up Nation, the Romanian Government's funding program for start-ups (2017- 2021) registered 43,560 start-ups, and 15,000 of them were financed by the program. The 2022 session of the Start-up Nation Program registered several 15,319 applications, contracting being ongoing at the time of preparation of this study.

Despite this support, Romanian entrepreneurs still face some challenges in developing start-ups. For example, access to finance remains a major issue and many banks and financial institutions are not yet willing to provide credit or financing to start-ups. In addition, the entrepreneurial culture in Romania is still developing, which can make it difficult to find investors and resources for business development. Thus, most start-ups in Romania are still in the early development phase, and few of them have reached the stage of rapid growth and reaching a global market. This can be attributed in part to a lack of resources and support from government and the private sector. There is also a need to attract more investors to support the development of start-ups in Romania. Although there are local and international investors who have started investing in Romanian start-ups, they are still insufficient to sustain a significant growth of this industry.

1.7 Business incubators

Business incubators are spaces specially created to support the development and growth of start-up businesses. They provide entrepreneurs with an enabling environment to develop their ideas, receive mentorship and access to resources and connections that facilitate their path to success. In Romania, there is specific legislation regulating these



institutions (Law no. 346/2004, Law no. 102/2016), but also a series of programs and initiatives aimed at supporting start-up businesses.

According to Law nr. 102/2016, business incubators are defined as "the business support structure, organized in the infrastructure of the business incubator in an appropriate space, where the incubator residents are located, managed by an administrator, which aims to create a favourable, sustainable environment for newly established small and medium-sized Enterprises, stimulating their development and viability potential, helping them to develop in the early period, by providing common facilities and the necessary managerial support." Also, according to the same law, local public authorities may grant facilities for the establishment and development of business incubators.

Currently, in Romania, there are several government programs aimed at supporting entrepreneurship and encouraging the development of start-up businesses, and business incubation plays an important role in this strategy. There are also numerous private business incubators in Romania, which offer mentoring, training, networking services, as well as access to infrastructure and technological resources.

They are often led by experienced entrepreneurs, investors or/and higher education institutions and aim to support the development and growth of start-up businesses in a safe and supportive environment.

There are several business incubators supported by banks in Romania, and some of the best known are:

- *ING Innovation Center - ING Bank Romania.*
- *Raiffeisen Business Incubator - Raiffeisen Bank Romania.*
- *BT Techcelerator - Banca Transilvania.*
- *BRD Startup Nation - BRD Groupe Société Générale.*
- *UniCredit Business Integrated Solutions (UBIS) Innovation Lab - UniCredit Bank Romania.*

Although there are several such programs and initiatives aimed at stimulating start-up businesses in Romania, their degree of success is still limited.

1.8 Current forms and models of microfinance, social economy, and alternative finance

In Romania, microcredit is a relatively new field, which began to develop about two decades ago. The concept of microfinance, on the other hand, has been introduced since



the 70s, but only in recent decades has it begun to be applied globally and, implicitly, in Romania.

Microcredit is defined as the granting of small, unsecured, or low-collateralized credit to persons or businesses that do not have access to traditional finance. The purpose of this type of credit is to help people develop their businesses or improve their financial situation.

In Romania, microcredit is offered by non-banking financial institutions, such as foundations and credit unions, which are regulated by the National Bank of Romania (see General Register of Non-Banking Financial Institutions). These institutions grant loans of up to 50,000 lei, with a repayment period of up to 5 years.

In addition, there are also several government microcredit programs, which are aimed especially at young entrepreneurs and those who want to start their own business. These programs are managed by specialized government institutions. As for the microcredit models used in Romania, they include traditional lending models, where financial institutions grant loans with a set interest rate and repayment period. In addition, there are also peer-to-peer lending models, where investors lend directly to clients via online platforms.

Another microcredit model that is gaining popularity in Romania is that of social loaning, in which members of the local community grant loans to each other, with or without interest. This form of lending is more efficient and humanitarian than traditional models, as it encourages solidarity and mutual support between community members.

According to the definition of Social Enterprises provided by the Social Business Initiative, the social economy in Romania includes a variety of organizations, with different forms of incorporation. There are systematic data only for certain typologies: associations and foundations, cooperatives, and mutual support associations.

It is difficult to provide exhaustive data (number of organizations, number of employees, revenue, profit/surplus, market share, etc..) of the entire Social Enterprise sector. However, some comprehensive data (number of organizations and employees, revenue, profit/surplus) describe these associations and foundations with entrepreneurial activity and mutual support associations for retired persons. To ensure the necessary, correct, and complete information on the situation and evolution of the social economy field at national level, based on Law 219/2015 on social economy, the "Single Register of Social Enterprises" was established. The register is managed by the National Employment Agency and



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includes, where appropriate, information on existing Social Enterprises and Insertion Social Enterprises in Romania.

Key data from the sector, updated as of April 2023:

- 2.899 – *Social Enterprises in Romania.*
- 358 – *Enterprises having obtained the Social Enterprise certificate.*
- 1.188 – *Total number of employees.*
- 682 – *Total number of employees from vulnerable groups.*

In recent years, alternative finance has become an increasingly popular choice in Romania, especially for start-ups and SMEs. This trend has been largely influenced by the increasing number of alternative finance platforms, offering a variety of funding models and instruments.

Next, we will explore the most common forms and models of alternative financing available in Romania:

- a) Crowdfunding – This is one of the most popular forms of alternative finance and involves raising funds from a lot of people (called "funders"). These funders can be individuals, institutional investors or even companies. Crowdfunding can be done through online platforms or through crowdfunding campaigns. In Romania, examples of crowdfunding platforms are Startarium, Launchhub, FundedByMe, Crestemidei.ro, Multifinantare.ro, PotSiEu.ro, We-are-here.ro, Bursabinelui.ro, Sprijina.ro.*
- b) Peer-to-peer lending - This form of alternative financing involves lending between individuals or between individuals and companies, without the intermediation of banks or other financial institutions. In this model, investors can provide financing for various projects or ideas and get a risk-based interest rate. In Romania, examples of P2P lending platforms include Viventor, Mintos, PeerBerry, Quanloop.*
- c) Venture capital financing – This involves investing in companies in exchange for shares or a portion of the company's profits. This is a popular alternative financing model for start-ups or innovative companies with strong growth prospects. In Romania, venture capital funds include GapMinder, GECAD and SIF Oltenia.*
- d) Debt equity financing – This involves granting loans with a predetermined interest rate, which must be repaid within a certain time frame. This is a popular option for companies that want to finance their current activities and raise capital for further development. In Romania, companies such as ROBOR Finance and Symmetric are examples of debt equity financing platforms.*



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- e) *Factoring financing* – This form of alternative financing involves selling invoices to third parties who provide a cash advance on issued invoices so that the company can obtain working capital. This model can help companies manage their cash flow and reduce their payout period. Examples of factoring service providers: asociatiadefactoring.ro/, www.afsromania.ro, www.nextcapital.ro, Instant Factoring, etc.

1.9 Support and auxiliary services available

In recent years, the microfinance and microcredit sector in Romania has seen significant growth. This growth has been stimulated by the need to provide financing and financial support for small and medium-sized entrepreneurs, as well as for people who do not have access to traditional banking services.

In this context, a range of auxiliary support services for microfinance and microcredit have been developed, offering a wide range of financial solutions and instruments to help individuals and businesses achieve their financial goals.

Next, we will explore the most common support and auxiliary services available in Romania:

- a) *Financial consulting:* This service is available to clients before and after obtaining a credit/loan. Financial advisors help clients better understand the costs and benefits of credits/loans, as well as find the best financing solutions for their specific needs. In addition, these consultants also provide advice on financial administration and planning, which helps clients maintain a healthy financial condition and avoid situations of financial risk.
- b) *Mentoring Services:* These services are available for small and medium-sized entrepreneurs as well as those who want to start a new business. Specialist mentors provide a range of practical advice and suggestions, including business planning, identifying business opportunities, developing, and implementing business strategies, and effective business administration.
- c) *Counselling and training:* Many microentrepreneurs have no business experience or do not know how to manage their business effectively. For them, counselling and training services are essential. They provide training on business administration, financial management, marketing, people management and business development.
- d) *Guarantee and advancement services:* These services are available to customers who do not have enough collateral to obtain a credit/loan from a traditional financial institution. In such cases, a guaranteed organization may interfere and provide a



financial guarantee to support the application for credit/loan. In addition, advancement services allow customers to obtain a part of the approved credit/ loan amount before they are granted. This can be a useful option for people in urgent financing need or businesses in working capital need.

- e) Technical support services: Many small and medium-sized entrepreneurs don't have adequate technical equipment and devices, which stops their business growth. Technical support services help these entrepreneurs gain access to the equipment, devices, and technologies necessary to grow their business.*
- f) Support Services for Social Business: These services specialized in supporting social businesses which brings positive shift to local communities. They help in business plans development, marketing, financing strategies and general administration.*
- g) Evaluation and monitoring services: Evaluation and monitoring services are important to ensure that loans are used properly, and that the business is developing as planned. These services help identify problems and provide solutions to improve the business.*
- h) Insurance services: These are important for protecting businesses related to financial risks and ensuring their continuousness. Insurance offered by specialized companies can cover risks such as fire, flood, theft, or other types of damage.*

2 Regulatory framework

2.1 Microcredit

The current legal framework in Romania regarding microcredit is contextual and not dedicated to this particular sector. The most relevant normative acts regulating this field of activity are Law nr. 93/2009 on non-banking financial institutions and Law no. 243/2019 on the regulation of alternative investment funds and amending and supplementing certain normative acts. They define microcredit institutions and regulate their activities.

According to these normative acts, microcredit and microfinance institutions are legal entities established with the purpose of granting microcredits and which cannot carry out activities of attracting deposits or other repayable funds from the public. At the same time, microcredit is defined as the loan granted at the request of applicants - natural or legal persons - in lei, in the equivalent of up to EUR 25,000, with a repayment period of maximum 60 months, intended for the development of projects, activities or businesses, supporting community or economic development projects, local community initiatives and social programs, in order to improve the standard of living of local communities.



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The National Bank of Romania is responsible for authorizing and regulating microcredit institutions, as well as for supervising and monitoring their activities.

In addition, the Romanian Government has developed and implemented several programs to support micro, small and medium-sized Enterprises, including Start-Up Nation Program, Rural Development Program, SME Invest Romania, Agro IMM Invest, Rural Invest, Garant Construct, etc. These programs provide financing in the form of credits, grants, or guarantees for business investments, purchase of equipment, development of products or services, and other activities. Various ministries and other government agencies have the role of developing and implementing support programs for small and medium-sized Enterprises, as well as managing financing programs and monitoring how the funds are used.

2.2 Social Enterprises

Social Enterprises have recently been institutionalized in Romania. At the end of a five-year policy consultation process, Law 219/2015 on Social Economy was launched, providing legal recognition for Social Enterprises. Under this law, Social Enterprises have been recognized as part of the social economy. The law specifies the characteristics that the various types of organizations (associations and foundations, mutual support associations, cooperatives, and limited liability companies) have to meet for qualifying as Social Enterprises. The law also introduces a new type of Social Enterprise: Social Insertion Enterprise.

The definition of Social Enterprise in Romania remains general and aligns with the definition promoted at European level in 2011, although the Romanian definition does not include the aspect of multistakeholder governance.

Law 219/2015 establishes a clear distinction between Social Enterprises and Social Insertion Enterprises (art. 11). Social Enterprise refers to organizations which, under specific conditions, could be considered Social Enterprises, such as: cooperative societies (Law 1/2005), credit unions (Order 99/2006), associations and foundations (OUG 26/2000), mutual support associations (Laws 122/1996 and 540/2002), agricultural societies (Law 36/1991) and their associations and federations, as well as other types of legal persons (limited liability companies or joint stock companies). It is guided by the principles of the social economy. This law places strong emphasis on the use of Social Enterprise as a tool for social inclusion.



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To be recognized as Social Enterprises, organizations listed in the law must apply for a Social Enterprise certificate, issued by the National Employment Agency, as a social mark. This visually distinctive certification shall remain valid for three years.

Conceptual misunderstandings and lack of clarity about the terms social economy and Social Enterprise brought public debate over the past decade.

At the time when the first initiative to regulate the social economy sector was initiated by the Ministry of Labor, Family and Social Protection (at the beginning of 2011), de facto Social Enterprises were already organized and functional in Romania but were acting without legal recognition.

The regulatory and public policy framework for these de facto Social Enterprises had been established by specific legislation regulating the founding and functioning of each category of social economy entity (cooperatives, entrepreneurial associations and foundations, mutual support associations) and by legislation regulating the activity of the enterprise in general (Fiscal Code, Public Procurement Law, etc..) or certain fields of activity such as social services and employment.

In addition, the Law on Social Assistance (Law 292/2011) mentions social economy as a new form of social inclusion focusing on the employment of vulnerable people (art. 53). The draft law has undergone several changes and provoked lively discussions in public consultation events hosted by the Ministry of Labor, Family and Social Protection and in Parliament.

Law 219/2015 on Social Economy was adopted, and it regulates the social economy sector "by establishing measures to promote and promote it and establishing the competences of central and local authorities in this field" (art. 1). The law defines social economy as all privately organized activities designed at serving the public interest, community interests and/or private non-financial interests, either by employing members of vulnerable groups or by producing and providing goods, services and/or labour. The law allows any of the above-mentioned organizations (cooperative societies, credit cooperatives, associations and foundations, mutual support associations, agricultural companies and their associations and federations, as well as other types of legal entities – limited liability companies or joint-stock companies) to be recognized as a Social Enterprise, regardless of its legal status, if it meets the following specific criteria:

- *is a private legal person (independent of public authority).*
- *prioritize social and individual goals rather than profit maximization.*



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- *demonstrate solidarity and collective responsibility.*
- *the interest of members, the public interest and/or the interest of the community are common.*
- *has democratic leadership.*
- *it is a voluntary and free association.*
- *allocating the largest share of its profits to support the social goal, and statutory reserve (90% of profits should be allocated to the social purpose and asset blocking; only 10% can be distributed to members).*
- *if the enterprise ceases its activities, its assets must be distributed to other similar Social Enterprises.*
- *apply the principle of social fairness to employees, ensuring fair pay levels. The ratio of the lowest salary to the highest cannot exceed 1 to 8.*

In conclusion, to be recognized as a Social Enterprise in Romania, an organization must be a private legal entity, must carry out activities in the sphere of social economy, obtain specific certification and adhere to the principles of social economy (according to the provisions of the law).

The Social Insertion Enterprise is certified by a social label. The Social Insertion Enterprise, as defined by Law 219/2015, should meet the following additional conditions/criteria:

- *at least 30% of employees belong to vulnerable groups.*
- *the cumulative working time of the above employees (the 30% of vulnerable groups) represents at least 30% of the total working time of employees.*
- *the social Insertion enterprise aims to combat exclusion, discrimination, and unemployment through the socio-professional integration of disadvantaged people.*

Social Insertion Enterprises must ensure professional and social inclusion measures for the most vulnerable of their employees.

The Social Economy Act qualifies as a 'recognition' law – it partially introduced a new category of Enterprises, although it does not include incentives or support measures. Under the law, the Social Enterprise receives accreditation through a certification process.

2.3 Business incubators

Business incubators are regulated in Romania by Law nr. 346/2004 on stimulating the creation and development of small and medium-sized enterprises, as well as amending and supplementing certain normative acts. This law sets out the definition and conditions



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necessary for the launching of a business incubator, as well as the requirements of incubator' operators and beneficiaries.

In addition, the Romanian Government adopted in 2019 the National Strategy on Small and Medium Enterprises for the period 2019-2023, which provides, among others, for supporting the development of business incubators by creating financing programs and technical assistance. The authorities involved in supporting the development of business incubators include the Ministry of Economy, the Ministry of Entrepreneurship and Tourism, which have overall responsibility for government policy in the field of development of small and medium-sized Enterprises, and the Regional SME Agencies which are responsible for implementing government policies in this area.

As outlined earlier, there are a multitude and wide variety of forms that fit into the concept of alternative finance. However, not all of them are specifically regulated, so we shall refer to only some of them below.

Thus, Law nr. 244/2022 laying down measures for the implementation of Regulation (EU) 2020/1.503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business and amending Regulation (EU) 2017/1.129 and Directive (EU) 2019/1.937 , Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy, Law no. 93/2009 on non-banking financial institutions, regulates the types of alternative financing available, as well as the roles and responsibilities of the authorities involved. Law nr. Regulation (EC) No 244/2022 regulates the activity of crowdfunding platforms (PFPs), which are online intermediaries between investors and companies or individuals applying for funding. PFPs must be authorized by the National Agency for Fiscal Administration and comply with certain minimum capital and risk management requirements. This law was adopted to stimulate access to finance for small and medium-sized Enterprises, as well as for other categories of borrowers who do not enjoy access to financing from traditional banks.

OUG nr. 99/2006 regulates the activity of credit institutions, including those providing alternative financing, such as financial credit organizations and non-banking financial institutions (NBFIs).

These institutions are authorized by the National Bank of Romania and comply with certain minimum capital and risk management requirements. The law also provides that NBFIs may grant loans only to individuals and legal entities that meet certain eligibility criteria.



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In addition to these normative acts, the alternative financing activity is supervised and regulated by other authorities, such as the National Authority for Consumer' Protection and the Financial Supervisory Authority. These authorities have the role of protecting consumers' interests and ensuring a fair competitive environment in the financial sector.

In conclusion, alternative financing is regulated in Romania by several laws and is supervised by several authorities. The purpose of these regulations is to protect the interests of investors and borrowers and to ensure a fair competitive environment in the financial sector.

2.4 Microfinance, social economy, and alternative finance

Public policies targeted for promoting and developing microcredit, both at national and local level, are implemented by various institutions and organizations, governmental as well as local. All these policies aim to ensure and increase access to finance for SMEs and individuals in the target group. Such public policies can be all non-reimbursable financing programs for SMEs, but also interest and/or commission subsidy programs for some categories of loans.

An important public policy in this area can also be considered the European Union's support for microcredit/microfinance through the Multiannual Financial Frameworks.

The public institution in charge with public policies related to Social Enterprises is the Ministry of Labor and Social Solidarity (General Directorate of Social Assistance).

An initiative to promote Social Enterprises was the introduction of the social economy entrepreneur as a professional occupation in the Register on the classification of occupations in Romania, in 2012. Before that, the occupation of specialist in social economy was introduced in the Code of Occupations in Romania (COR code 341206). Its main impact has been to increase the visibility of various organizations providing social services, which are looking forward to raising awareness among key stakeholders.

The Government has clearly expressed its approach to the social economy in general (and, specifically, to Social Enterprises already introduced by the Social Assistance Act of 2012 in the National Strategy for Social Inclusion and Poverty Reduction 2014-2020). The strategic document states: "in order to enhance the role played by the social economy sector, in the period 2014-2020 the Government aims to: facilitate access to available European funds to support social economy actors, develop legislation necessary for the sustainable



development of the social economy and encourage NGOs to get more involved in these activities by providing support" through funding from the European Social Fund (ESF).

A list of specific actions refers to: "support for the creation of new Social Enterprises and the development of existing ones, including financial support in the form of microgrants, financial support for the implementation of active ageing measures, such as jobs in Social Enterprises for older people, new partnerships and consolidation of existing ones, with relevant labour market stakeholders in the education/healthcare/social care sector in local/central administration, in order to increase involvement in the provision of services for vulnerable groups, support and cooperation networks and partnerships created for the exchange of good practices and information, institutional development activities and know-how transfer with other relevant communities and stakeholders in Romania and Member States, counselling and accompanying vulnerable people and increasing accessibility to jobs within companies social, tools developed for a better understanding of the sector and improved visibility of the social economy – including initiatives to promote the social brand and awareness of forms of action specific to the social economy".

Following the adoption of legislation on social economy, the Ministry has also developed secondary legislation aimed at its application, as well as various guides. Some of these guidelines refer to incentives for companies that promote social inclusion or involvement in public procurement processes.

Social Enterprises do not enjoy priority access to public funding compared to commercial companies, except for special ESF grant schemes. For example, the Sectoral Operational Program for Human Resources Development (POSDRU) 2007-2013, financed by ESF, for example, dedicated a priority axis (6.1) to the social economy. Moreover, axis 6.2 aimed to increase social inclusion by improving the access of vulnerable groups to the labour market, thus matching the mission of some social economy organizations.

In the Multiannual Financial Framework 2021 – 2027, through the Education and Employment Program (PEO), Priority 4 - Entrepreneurship and Social Economy. (Improving access to the labour market and activation measures for all jobseekers, in particular young people, notably through the implementation of the Youth Guarantee, the long-term unemployed and disadvantaged groups in the labour market and the inactive, and promoting self-employment and the social economy (ESF+)

2.5 Support measures

2.5.1 Targeting all enterprises meeting specific criteria (and from which Social Enterprises can benefit)



In the Government Strategy 2014-2020 for the development and improvement of the SME sector in Romania, the Department of SMEs, Business Environment and Tourism named the development of social entrepreneurship as a strategic objective. The version of the Strategy 2014-2020 submitted in May 2014 for public consultation proposes the creation of a program for social entrepreneurship with national and external funding. Since April 2014, associations and foundations, agricultural cooperatives and agricultural associations with economic activities have been assimilated to SMEs. This means that these organizations are eligible for Start-up funding and for Minimis schemes.

The Start-Up Nation program was launched in 2017 and aimed to provide small grants (44,000 euros) for SME development. Under this program, any type of SME was eligible, including Social Enterprises, if they met certain specific conditions. Eligible organizations had to be private and established no earlier than January 2017, qualify as SMEs by law, carry out activities other than the production or trade in of weapons, primary processing or sale of agricultural products, fisheries, and aquaculture, and employ at least one person on a full-time contract. At the 2017 session, 19,927 companies registered, and 8,444 contracts were signed.

Other programs for the development of SMEs (including Social Enterprises) active since 2016:

- *Micro-industrialization program – encouraging and stimulating development for existing SMEs in priority sectors.*
- *Trade and Services Programme – supporting the development of existing SMEs, including Social Enterprises.*
- *Assistance Program for Craftsmen - stimulates the development of crafts and small industries in Romania and finances participation in the National Craftsmen Fair.*

The Government Program 2021-2024 also considers that "Romania needs a clear vision on the ways and means of developing and strengthening its business environment, including in the field of tourism, based mainly on public policies, but also on resources (own and attracted), which respond, in an adequate and sustained manner, to the fundamental requirement of its radical improvement. A priority objective is to develop an open, active, stable and transparent business environment, in a word, predictable, built on responsibility, competitiveness and entrepreneurship, enabling businessmen, managers and businesses to face competition in the Single Market and in third markets."

So far, during 2022, the third session of the Start Up Nation Program, currently under contract, has been launched.



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The National Rural Development Programme (under the Multiannual Financial Framework 2014-2020) is an EU initiative aimed at improving socio-economic conditions in rural areas. One of the objectives aims to diversify economic activities, create jobs, and improve infrastructure and services to increase the quality of life in rural areas. One of its six priorities promotes social inclusion, poverty reduction and economic development, including specific measures (Measure 6) pitched towards the development of non-agricultural businesses. All types of SMEs can access this support (including Social Enterprises) and this program is aimed at both start-ups and developing organizations (sub-measure 6.2 and 6.4).

The LEADER program is also part of the National Rural Development Programme, a bottom-up program to respond to specific local needs by involving different local actors. LEADER promotes innovative initiatives that provide solutions to local problems.

Among these, the social economy serves as an effective solution for addressing social inclusion, poverty reduction and economic development in rural areas. LEADER supports both the creation and growth of SMEs (including Social Enterprises) primarily through job creation.

For the Multiannual Financial Framework 2021-2027, the National Strategic Plan 2023-2027 also envisages supporting non-agricultural activities to increase alternative rural incomes. These non-agricultural activities can absorb part of the labour resource available in rural households, ensure a better valorisation of the labour resource given the seasonal nature of agricultural activities, provide added value to local products and additional income to the rural population by diversifying activities in rural areas, as well as increasing the quality of life in rural areas.'

Further, for the current programming period, the use of the LEADER instrument is important from the perspective of balanced development of rural territories that meet the needs identified at local level, Local Action Groups (GAL) representing the concrete solution for increasing the quality of life and economic, social, and cultural development of rural areas, by involving communities in long-term strategic decisions on territories covered by partnerships.

Improving small-scale basic infrastructure and services to the population can lead to an improvement in the quality of life in rural areas. Such interventions can also be supported by the LEADER instrument, which, through the bottom-up approach, can intervene at community level, by solving specific local needs.



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The high percentage of people at risk of poverty and social exclusion determines the need to support vulnerable social groups by setting up and developing social services at local level, including through the LEADER instrument, to increase the quality of services and facilitate the access of vulnerable communities to social assistance and infrastructure in rural areas.

Thus, to reduce the degree of poverty and the risk of social exclusion, as well as to increase the quality of life in rural areas, appropriate rural development measures are foreseen to facilitate access to jobs, develop entrepreneurial initiatives, including by supporting the establishment, development and consolidation of associative forms, interventions to ensure health, education, culture services, creating opportunities for generating alternative income. By reducing poverty and promoting social inclusion and non-discrimination in rural areas, the quality of rural life and the attractiveness of these areas increases.

2.5.2 Targeting social economy/not-for-profit organisations (and from which Social Enterprises can benefit)

Associations and foundations in Romania have at hand several public policy instruments (legal regulations, financing mechanisms, etc.). However, they still seem to be insufficient and inconsistent in their approach, as they have materialized at different points in time without a common goal.

- *Funding for associations and foundations providing social services.*
- *Grants for associations and foundations*

Funding for associations and foundations providing social services (Law 34/1998 – on subsidies for Romanian associations and foundations, which establish and manage social assistance units). Local public authorities (if an association/foundation operates in a certain locality or county) or central public authorities (if an association/foundation operates in two or more counties) can grant subsidies.

Locally, only public authorities in economically well-developed cities implement this legislation. At central level, subsidies for the development of social services began to decline in 2013. This happened because of the implicit political preference for social benefits (passive measures) instead of investing in the development of social services (active measures).

Grants for associations and foundations (Law 350/2003 on the regime of non-reimbursable grants from public funds allocated for non-profit activities of general interest). Public authorities at local or national level may allocate grants to activities of



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general interest of associations and foundations. These activities range from social to cultural, environmental, sports, youth-focused, etc.

2.5.3 Targeting specifically Social Enterprises

The first and most important support measure for the creation of Social Enterprises comes with grants granted from European funds. The Sectoral Operational Program on Human Resources Development, POSDRU 2007-2013, financed by the European Social Fund, allocated 429,153,699 euros to social economy entities (Framework Document for Implementation POSDRU 2007-2013).

These funds were awarded almost exclusively through start-up grant programs. POSDRU aims to implement it in two rounds. The first round of funding helped launch several interesting Social Enterprises. It has also stimulated numerous initiatives to develop administrative capacity (training, exchange programs, incubators, etc..) as well as research. The second round faced obstacles due to considerable delays. Since the cycle launched in 2014 – the last year of the EU budget cycle – the grant program has only allowed one-year implementation for projects receiving funding. The Human Capital Operational Programme (POCU) 2014-2020, also financed by the European Social Fund, also includes measures for start-ups.

A new funding scheme for Social Enterprises 'Support to start-up Social Enterprises' was launched in August 2018. This is the second funding program for Social Enterprises, financed by the European Social Fund, through the Human Capital Operational Programme (POCU) of the Financial Framework 2014-2020. This grant program was already four years late and had a budget of €70 million, intending to finance newly established Social Enterprises, with a focus on the employment of vulnerable groups in Romania's less developed regions.

2.5.4 Targeting Social Insertion Enterprises

The Social Economy Act introduced several support measures, specifically designed for Social Insertion Enterprises. However, due to the small number of registered companies, as well as the lack of expertise at the level of public authorities regarding this type of enterprise, the measures have only partial implementation. So far, no State aid scheme specifically supports the expansion/growth (just starting) of these projects and no national program stimulates social economy micro-Enterprises.



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3 Key Microfinance Institutions and their business model

Microfinance plays a crucial role in supporting entrepreneurship, local economic development and increasing financial inclusion for disadvantaged groups. In Romania, both beneficiaries and providers of microfinance are key factors in promoting and developing the social economy.

3.1 Beneficiaries of microfinance in Romania:

- a) *SMEs (Small and Medium Enterprises): Small and medium-sized Enterprises represent a significant group of beneficiaries of microfinance in Romania. They have limited access to funding from traditional banks, and microcredit is proving useful in helping these businesses become more competitive and expand their activities. Microfinance enables SMEs to cover their working capital needs, invest in technology or develop new products and services.*
- b) *Social entrepreneurs: Social entrepreneurs represent another important category of microfinance beneficiaries in Romania. They work in areas such as health, education, community development or environmental protection. Microfinance provides them with support to develop their social initiatives, which have a significant impact in solving social problems and improving the quality of life in local communities.*
- c) *Disadvantaged people: Another category of beneficiaries of microfinance are disadvantaged people, who face difficulties in accessing traditional financial services due to lack of guarantees or unstable income. Microloans give them the opportunity to grow their own small business or support their daily needs.*
- d) *Farmers and subsistence agriculture: In rural areas, microfinance plays an important role in supporting farmers and subsistence farming. They can access loans to invest in equipment, seeds or to develop their farms.*

3.2 Microfinance providers in Romania

- a) *Non-Banking Financial Institutions: One of the main sources of microfinance in Romania are non-banking financial institutions, such as credit unions or microfinance companies. They specialize in providing low-value loans and provide financial support to beneficiaries who do not qualify for traditional loans.*
- b) *NGOs and Foundations: Non-governmental organizations and foundations are providers of microfinance, aiming to support social entrepreneurship and initiatives*



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with a positive impact in communities. These organizations provide low-interest loans or grants to support economic and social development.

- c) Government Programs and European Non-Reimbursable Funds: The Romanian Government implements various financing programs, and the European Union provides non-reimbursable financial support through the Multiannual Financial Frameworks. These programs aim, among others, at supporting entrepreneurship and the development of the social economy in rural and urban areas.*

3.3 The impact of microfinance on the social economy in Romania:

- a) Increasing Financial Inclusion: Microfinance has significantly contributed to increasing financial inclusion in Romania, providing access to financial services for vulnerable categories of population and small businesses.*
- b) Developing the local economy: Supporting entrepreneurship through microfinance has helped develop local economies, stimulating innovation, creating new jobs, and increasing gross domestic product (GDP) in less developed regions.*
- c) Reducing unemployment and poverty: By supporting small and medium-sized businesses and social initiatives, microfinance has helped reduce unemployment and poverty in Romania.*
- d) Sustainable development: Many beneficiaries of microfinance operate in areas related to sustainable development, such as environmental protection or renewable energy, thereby contributing to environmental protection and climate change mitigation.*

4 Impact Measurement of Microfinance Institutions

Impact measurement is about how Microfinance Institutions check how their clients and their communities are doing after getting help from them. They can help MFIs to improve their performance, accountability, and transparency, as well as to attract more funding and support from donors, investors, and regulators. In other words, can help MFIs to do better, be more honest and clearer, and get more money and support from other people who care about their work.

But establishing the impact measurements is not easy process, because there are many things to consider, like how to prove that the MFIs caused the changes, how to choose what to measure and how, how much it costs and how long it takes, how measure the social/environmental impact, how the impact is addressing the individual/community/country level.



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See below some examples of Relevant Indicators, organized by social, environmental and financial category:

Social

1. Individual level

- Types of vulnerable persons employed in social economy structures.
- Operational self-sustainability of the social economy structure ' beneficiaries.
- Percentage of businesses that have hired at least 1 person under contract after obtaining the loan.
- Average number of female persons employed with employment contracts after obtaining a loan.
- Number of clients reached (especially women, rural populations, and low-income families).

2. Community level

- Changes in health, education, empowerment, and social capital of the clients and their families, as measures of their social well-being.
- Types of credentials held by social economy structures that make the integration into work of vulnerable people.
- Inclusion of microfinance' beneficiaries in rural areas.
- Inclusion of microfinance' beneficiaries, start-ups.

3. Country level

- Number of social economy structures (SES).
- Number of social economy structures that have a legal form other than a commercial company (e.g., self-employed, etc.).
- Number of employees in social economy structures.
- Number of certified social and Insertion enterprises.
- Legal form of certified social and Insertion enterprises.
- Number of certified social and Insertion enterprises.
- Legal form of certified Insertion and Social Enterprises.
- Number of social economy structures employing vulnerable people.

Environmental

- Percentage of social loans allocated to green sectors, such as renewable energy, organic agriculture, waste management, etc.
- Number of clients who receive environmental education, training, or awareness campaigns from the microfinance institution's clients.



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- *Adoption of environmental standards, policies, or certifications by the microfinance institution's clients.*
- *The use of renewable energy sources, waste management, and carbon footprint reduction by microfinance institutions' clients.*

Financial

- *Type of support for social economy structures (including financial).*
- *Number of loans granted to social economy structures.*
- *Value of loans granted to social economy structures.*
- *Types of social economy structures loan recipients.*
- *Operational sustainability indicator (OSI) for the microfinance institution's clients.*
- *Percentage of social businesses where income increased because of obtaining the loan.*
- *Percentage of small businesses/Social Enterprises that expanded their activity by investing in assets following the loan.*
- *Productivity of the microfinance institution's clients.*

5 Stakeholders of Microfinance Institutions

The stakeholders of microfinance institutions in Romania are persons or entities that have a direct or indirect interest in the activity and results of these institutions.

Among the main stakeholders are:

- NBFI' clients, who benefit from financial services tailored to their needs.*
- NBFI' employees, who ensure the efficient and responsible functioning of institutions.*
- NBFI' investors and sponsors, who provide the necessary resources for the development of the portfolio and microfinance products.*
- Regulatory and supervisory authorities, who establish the legal framework and prudential rules for the microfinance sector.*
- Professional associations and microfinance networks, which promote good practices and performance standards in the field.*
- Other partner organizations (such as non-financial service providers, governmental and non-governmental organizations, academic institutions, or mass-media) which contribute to increase the visibility and social impact of microfinance in Romania.*



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These are in addition to the stakeholders of the social economy in Romania who are actors from different sectors and fields, with a common interest in developing and promoting this type of economic activity. Among them:

- Non-governmental organizations (NGOs), which provide social, educational, cultural, or environmental services, and which can be recognized as Social Enterprises if they meet certain legal and ethical criteria.
- Production associations and cooperatives, which operate on the principle of democratic participation of members, solidarity, and social responsibility, whose target is to create jobs for disadvantaged or vulnerable people.
- Local and central public authorities, which have the role of supporting and regulating the social economy, by developing and implementing appropriate policies, strategies, programs, and legislation.
- Financial and loaning institutions, which can offer products and services tailored to the needs and particularities of Social Enterprises, such as microcredit, grants, European funds or guarantee funds.
- Universities and research Centers, which can contribute to the generation and dissemination of knowledge, good practices, and innovations in the field of social economy.
- Media and civil society, which can raise awareness and inform public opinion about the benefits and opportunities of the social economy, as well as about the challenges and obstacles faced by the sector.

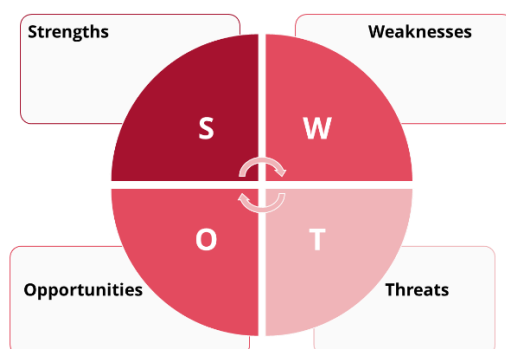
E.g. AFIN' 170 founding members, individuals, and legal entities, over 70% being directly involved in the social economy.

See below main stakeholders' engagement matrix:

Power-Interest Matrix



6 SWOT Analysis



6.1 Strengths

- *Cooperative tradition: Romania has a history of cooperation and solidarity in communities, which can be exploited to support social economy initiatives.*
- *Increasing interest in the social economy: Awareness and interest among citizens and organizations in the social economy is growing, offering potential for development and positive impact.*
- *Increased need for alternative financing: The demand for financing from non-traditional sources is increasing, which can stimulate the development of microfinance and the social economy.*
- *Improved legislation: Improved legislation related to the social economy provides a more favourable framework for the development of this sector.*
- *Government support: Government and public institutions start to provide more support for social economy sector through specific programs and initiatives.*
- *Rich natural and cultural resources: Romania has natural and cultural resources that can form the basis of sustainable social economy businesses (e.g., rural tourism, traditional food processing).*
- *Technology and innovation: The adoption of new technologies can increase the efficiency and impact of social economy and microfinance initiatives.*

6.2 Weaknesses

- *Sensitivity to economic fluctuations: the field of social economy in Romania is still vulnerable to economic changes, which may affect the stability of microfinance and social economy projects. See below some unemployment rates:*

Indicator (%) (according to Eurostat - August 2023)	EU	Romania
--	----	---------

Unemployment rate	5,9	5,3
Youth unemployment	14	22,30
Women Unemployment	6.7	5,2
NEETs	18.6	19.8

- *Low level of financial education: The lack of financial education can affect the ability of individuals and communities to properly manage microfinance and social economy.*
- *Complicated bureaucracy and regulations: Difficult bureaucratic processes and complicated regulations can make it difficult to set up and operate social economy businesses.*
- *Limited competition: In some regions, reduced competition may reduce incentives for innovation and sustainable development in the social economy sector.*
- *Lack of developed infrastructure: Infrastructure for microfinance and social economy remains underdeveloped, which may limit access to financial services and support for Social Enterprises.*
- *High levels of poverty and social exclusion: Romania faces significant problems of poverty and social exclusion, which can reduce the capacity of vulnerable populations to engage in social economic activities.*

6.3 Opportunities

- *European funds: Access to European funds for regional development and social economy provides funding opportunities for projects in this field.*
- *Growing demand for sustainable products and services: Increasing interest in sustainable products and services creates opportunities for social economy initiatives.*
- *Collaborations with the public and private sectors: Cooperation with public authorities and the private sector can support the development of social economy initiatives in different fields.*
- *Technology and digitalization: The use of technology and digitalization can open new avenues to reach beneficiaries and effectively.*

6.4 Threats

- *Global economic instability: Unforeseen global or regional economic events may affect the ability to attract finance for microfinance and social economy.*
- *Unfavourable competition: Competition from other types of businesses or organizations can affect the viability of social economy projects.*



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- *Unpredictable legislative changes: Frequent changes in legislation or policies can create uncertainty for the social economy business environment.*
- *Reluctance to change: Resistance to new economic and social models can slow down the adoption and development of the social economy sector.*

Critical issues and mitigation strategies:

<i>Critical issue</i>	<i>Strategy</i>
<i>Lack of infrastructure</i>	<i>Developing a solid infrastructure for microfinance and social economy through partnerships between government organizations, NGOs, and financial institutions</i>
<i>Poverty and social exclusion</i>	<i>Implementation of financial and entrepreneurial education programs for vulnerable population, promotion of social cooperatives and inclusion initiatives</i>
<i>Complex regulation</i>	<i>Work with government authorities to simplify and harmonize regulations related to microfinance and social economy</i>

Prospects for financial efficiency:

- *Use of Technology: Adopting fintech technology can help reduce operational costs and expand access to financial services.*
- *Diversifying Financing: Seeking diverse sources of financing, including partnerships with private investors, can increase the resources available for the development of the social economy.*
- *Impact Monitoring: Implementing an impact monitoring and evaluation system can help measure financial efficiency and tailor strategies to maximize positive outcomes.*

7 Case studies of social innovation in the region

7.1 Successful Social Economy/ NGOs/ Microfinance Structures

- *Ashoka Romania*
- *SEED (National Center of Competences in Social Innovation)*
- *AFIN*

7.1.1 Ashoka Romania([LINK](#))

Ashoka identifies and supports top social entrepreneurs around the world, learns through their innovation models, and mobilizes a global community that adopts these new



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frameworks to build "a world where every citizen is a creator of change." Globally, Ashoka focuses on three strategic pillars to accelerate change:

- 1. Social entrepreneurship. Ashoka selects social entrepreneurs from around the world who guide the path to a world where every citizen is a creator of change.*
- 2. Empathy and Young Agents of Change. Ashoka leads a movement to transform the way young people grow and develop so that they can succeed in an ever-changing world, a world where every citizen must be a creator of change. Change starts with empathy.*
- 3. Organizing for change. A world, where every citizen has an active role in accelerating the impact, requires overcoming obstacles, breaking patterns, and mixed, fluid, and open teams.*

Ashoka has set the foundation for the field of social entrepreneurship by identifying and supporting the world's top social entrepreneurs since 1980.

Social entrepreneurs are individuals with innovative solutions to the most pressing social, cultural, and environmental challenges in our communities. They approach major issues with ambition and perseverance and offer new ideas for systemic change.

ASHOKA FELLOWS([LINK](#))

They directly impact the lives of millions of people around the world.

They provide examples, ideas and knowledge that can serve as a guide in the new world where "every citizen is an agent of change".

By continuing to grow its ever-growing network of fellows – providing financial, logistical and knowledge support to more than 3,800 change leaders in 93 countries – Ashoka strives to share with citizens the wisdom of the top social entrepreneurs. Ashoka social entrepreneurs serve as role models for others and provide those "how-to" secrets that enable individuals, organizations, and societies to thrive in a world of rapid change.

In Romania, since 2017, Ashoka has been creating an ecosystem where social innovators can grow in an environment where the legal and social framework allows their work to become visible. Ashoka supports their plans for social change through knowledge transfer, strategic partnerships, mentoring and specific tools.

Ashoka argues that social entrepreneurs around the world are developing strong business models for solving social problems.



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The biggest barrier many social entrepreneurs face to scale up their business is access to finance. They need capital in the form of start-up loans and initial financing, as well as access to favourable lines of credit. However, many social entrepreneurs do not know how to access finance, even those managing viable and high-impact social business models. Many entrepreneurs do not know how to develop the right business model that combines a business model with a social mission.

Ashoka Romania is committed to create a society where everyone can contribute. For this, social entrepreneurs are constantly sustained in Romania, essential actors for a society of creators of change.

Social entrepreneurs need a healthy social finance ecosystem. This means a financial sector and a public sector that can allocate money where exists the real social value, through appropriate monetary and financial instruments.

Ashoka aims to support the construction of a healthy social finance ecosystem that will allow in the medium-long term to eliminate the problem of access to finance for current or potential social entrepreneurs.

According to Ashoka's analyses, the Romanian ecosystem of Social Enterprises and social economy is in the early stage of its development. This stage is proven by 3 essential elements:

- *The recent legislative framework, established with law 219/2015, which establishes a clear distinction between Social Enterprises and Insertion Social Enterprises and recognizes an already existing sector largely composed of associations and foundations (more than cooperatives or hybrid models) with social objectives and democratic governance.*
- *Lack of comprehensive data on Social Enterprises: net difference in the de facto number of recognized Social Enterprises and Social Enterprises officially registered in the National Register of Social Enterprises. It is estimated that more than 15,000 new accredited social entrepreneurs and over 1,500 Social Enterprises will be created and supported for a period of 12 to 18 months from EU funds, without a strategy to support their growth and without a financial bridge instrument to ensure their sustainability.*
- *The constraint of identities and diversity. Public debate, despite the 2015 legislation, is still somewhat restricted to the inclusion of vulnerable groups in work at national policy level, but dynamic and transforming at local level. The full*



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potential of Social Enterprises remains untouched, except for projects focusing on Worker Inclusion Social Enterprises

In this context, Ashoka Romania runs SoFIA - Social Finance Alliance for Romania, an integrated program that aims to act as a catalyst for the development of the social finance ecosystem in Romania. SoFiA provides tools and support for both the demand side and the supply side of social finance: 20 Social Enterprises will go through an investment training program with guidance from international and national mentors and, at the same time, private and public investors active in Romania will participate in social impact courses. This integrated approach aims to create a community that contributes to the creation of a financial instrument of social impact in Romania.

The initiative aims to develop the capacity of at least 60 stakeholders of the Romanian social finance market and to design and create conditions for launching at least one financial instrument for Romanian Social Enterprises. SoFiA's vision has become reality through an international partnership with complementary experience and skills. SoFiA wants to lay the foundations towards accelerating the social finance environment in a sustainable way. The results and lessons presented from this effort will be translated into strategic ways to achieve this main objective of facilitating access to finance.

7.1.2 National Competence Center on Social Innovation- Romania

The National Competence Centre on Social Innovation is an initiative that supports social entrepreneurs in Romania, support organizations, social innovation researchers, decision makers and civil servants to work together to successfully implement future ESF+ projects in the field of social innovation. The actors involved will collaborate to create an open public infrastructure that facilitates the navigation of processes in the public social innovation system by fostering access to tools and knowledge that facilitate the implementation of entrepreneurial projects at local level.

The National Competence Centre on Social Innovation was developed by fonduri-structurale.ro – consolid8.ro, together with 15 other international partners within the SEED project - Social Innovation Ecosystem Development.

The project is funded by the European Commission and predicts the creation of national competence Centres for social innovation in Romania, Italy, Slovenia, and Greece. SEED is part of an international initiative through which, along with 5 other such projects, similar Centres will be established in 25 European countries. Together with international partners,



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the National Competence Centre on Social Innovation in Romania is part of a transnational ecosystem of knowledge sharing that objectives to identify innovative solutions that meet local needs. The actors involved will work together to identify suitable solutions and will share their experiences and expertise on different working methods that have proven to be successful or that should be avoided in the process of creating and implementing projects in the field of social innovation. Thanks to its transnational character, the Center facilitates the use of tools and the transfer of know-how and skills from countries with a tradition in social innovation to local public and private actors.

The National Competence Centre on Social Innovation is a complementary approach to the SOFIA initiative - Social Finance Alliance for Romania, within these models of European best practices in the use of financial instruments for social entrepreneurs will be taken over and adapted to the Romanian market and investment readiness programs will be provided for organizations with a social purpose.

SEED is one of six projects supported by the European Commission to establish national competence Centers for social innovation across the EU. Over two years (May 2021 – May 2023), social innovation organizations, research Centers, ESF managing authorities and other partners design and develop competence Centers, which can help their countries promote social innovation, including with funding from ESF+ and other EU programs.

The specific objective of SEED is to stimulate and support the establishment of 4 Competence Centers for Social Innovation in Italy, Greece, Romania, and Slovenia, where researchers, practitioners, decision-makers, and civil servants will work together to create public and open infrastructures capable of assisting National managing authorities ESF to make better use of ESF+ funds for the main approach to social innovation as an approach to public sector innovation to society' challenges.

To achieve these objectives, SEED, considering the priority needs of ESF managing authorities, will engage, build, and connect social innovation actors from: Italy, Greece, Slovenia, and Romania with diversified ecosystems to design and implement Social Innovation Competence Centers based on 4 priorities/challenges for the whole consortium and each country respectively. These are:

- Italy: Support the ESF authority to address social innovation as a driver for innovation in the public sector.*
- Greece: Support to the ESF authority to recognize, reconnect and institutionalize social innovation.*
- Slovenia: Supporting ESF authority to promote digital social innovation culture.*



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- *Romania: Supporting ESF authority to use social innovation for the development of local communities.*

To ensure the balance between national ESF priorities and collaborative approach between consortium partners, SEED foresees the exploitation of a common methodology with an approach based on local contexts and national priorities, using an iterative process of understanding local needs and challenges.

7.1.3 AFIN ([LINK](#))

AFIN is the first non-banking financial institution (NBFI) in Romania, with Romanian capital, which offers alternative financial solutions dedicated to the social economy sector. The institution aims to facilitate access to finance to economic operators with social impact in Romania who have passed the start-up phase and need capital resources to develop. Some of AFIN's objectives are:

- *To be reliable partners of economic operators with social impact.*
- *To accompany them throughout their entrepreneurial journey with specialized advice.*
- *To support with financial and non-financial resources social entrepreneurs with vision to sustain social innovation.*
- *To increase the good within the community.*

By helping them grow, they become real social engines, generating jobs, integrating disadvantaged people, increasing their income also of their communities, and thus contributing to an inclusive and fair society. As a vision, AFIN wants to be the first option for social entrepreneurs who need funding for the development of social and environmental projects, thus contributing to their success of the social economy sector. It intends to invest in people, ideas, and projects to contribute to the development of the social economy, inclusion, and poverty eradication.

AFIN values:

- *Impact. AFIN is a non-banking financial institution built by social entrepreneurs for social entrepreneurs, which offers alternative financing solutions for projects in the service of the environment and the community. AFIN's activity brings added value to society and will create a measurable impact.*
- *Innovation. The specific needs of social entrepreneurs are understood, and innovative financial instruments tailored to the specifics and mission of clients will*



be offered. Social innovation that brings added value to others will be encouraged and financed.

- *Responsibility. The resources made available by investors and AFIN partners are managed responsibly. Risks are taken intelligently and responsibly, based on concrete and verifiable data and information, using both financial and social impact indicators.*
- *Integrity. Transparency and integrity are key elements in AFIN's work. Teamwork, mutual trust, and strong partnerships are put at the heart of AFIN's actions.*
- *Mutual and continuing education. AFIN is constantly open to learning - from customers and partners, from the European networks in which it operates. AFIN believes in the power of education to shape the future and grow social leaders through sustained long-term effort. The lessons learned from the current activity will be carried forward through financial education programs and specialized consultancy.*
- *Adaptability. Social entrepreneurs need tailored, even customized products to be able to access finance. AFIN reacts to market needs by offering products adapted and as accessible as possible to them, at European standards.*

AFIN is the first non-banking financial institution in Romania, with private capital, dedicated exclusively to the social economy sector, also being the first non-banking financial institution in Romania certified as a Social Enterprise. AFIN has 170 founding members, individuals, and legal entities, over 70% being directly involved in the social economy.

The decision to set up AFIN was taken in the context of the lack of access to finance for economic operators in the field of social economy, especially after the start-up phase, the lack of financial products dedicated to economic operators in the field of social economy in the growth phase and the lack of support during the loan period.

Identifying a possible solution, in 2021, three national and international partners in the field of social economy and community sustainable development joined their efforts and experience to establish a financing institution dedicated exclusively to the social economy. Their efforts won non-reimbursable financial support from the European Commission, providing technical experience and funding for the early stages of development.

AFIN started lending activity in April 2023.

As regards the financing of economic operators in the field of social economy, AFIN has identified the most important barriers for lending to Social Enterprises as:



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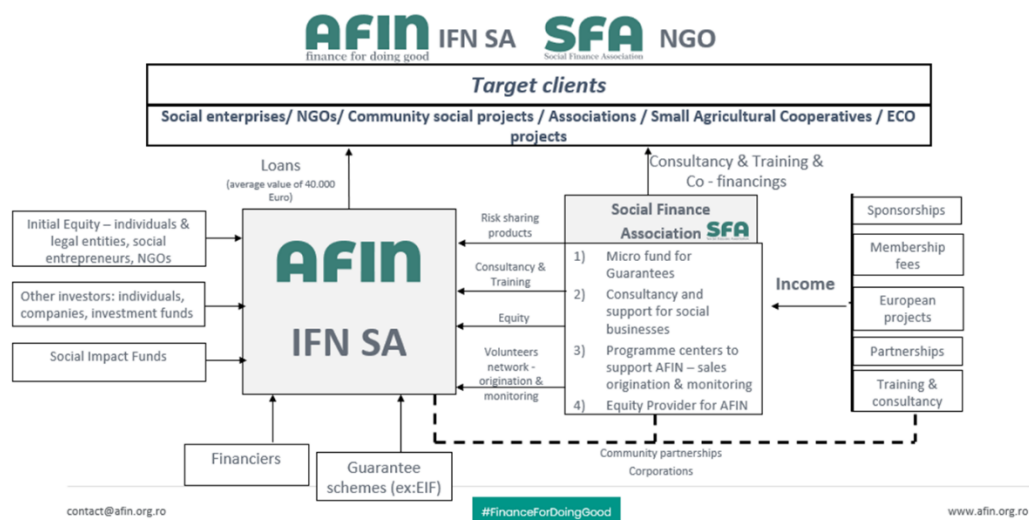
- *Lack of specific/relevant eligibility criteria for social entrepreneurs.*
- *Lack of collateral/collateral for loans.*
- *Insufficient knowledge in preparing business plans/financial projections requested by financial institutions.*
- *Higher credit risk perceived by lending institutions (low credibility due to a short-term or non-existent credit history, lack of experience in estimating repayment capacity, etc..).*

Services and products offered by AFIN:

- *Loans – accessible and personalized, for working capital, investments, or bridge for refinancing projects with European funds, with an average value at the beginning of about RON 100,000 and a duration between 1 and 5 years.*
- *Financial education - to strengthen the financial knowledge of social entrepreneurs, for drawing up credit documentation.*
- *Specialized assistance - for identifying funding sources, for business development, increasing sustainability and social potential of the business.*

AFIN aims to come up with a new approach to financing policy, adapted to the specifics of the social economy. The analysis that will result in the lending decision shall consider both the economic and financial viability of the project and social and/or environmental impact indicators specific to operators in this sector. See below their integrated operational model.

INTEGRATED OPERATIONAL MODEL



7.2 Examples of successful projects, innovative models:

- Humanitarian organization Concordia
- Close to you Romania foundation

7.2.1 Concordia Humanitarian Organization (LINK)

CONCORDIA Humanitarian Organization is an international, independent non-governmental organization with a history of 30 years in Romania, whose mission is to support (re)integration (social, family, school and professional) of children, young people and families in difficulty and their orientation towards an independent and autonomous life.

At first, the organization provided placement and shelter services for street children, later developing independent living projects, vocational education and professional counselling, employability projects, day Centers and Social Enterprises. CONCORDIA projects are carried out in Bucharest, Prahova County (Ploiesti and Aricestii Rahtivani) and Dâmbovița County (Odobești commune) and are addressed annually to over 3,000 people:

- 3-days care Centers for children and families.
- 4 small group homes.
- 1 sheltered home for adults with disabilities.
- 2 Social housing.
- 1 trade school.



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- 1 primary school.
- job-coaching services.
- 1 transit Center.
- 2 social economy Enterprises: *CONCORDIA Bakery and Bread and Breakfast Hostel.*

The humanitarian organization CONCORDIA, through CONCORDIA Academia, became in 2017 an authorized provider of training programs, developing products aimed at increasing the quality of social interventions in Romania: manager in social services, specialist practitioner in social services and supervisor in social services. CONCORDIA Academy is an international Center for increasing the capacity of professionals in the field of social, socio-medical, and socio-educational services, offering training programs and integrated support services.

The humanitarian organization CONCORDIA has developed two Social Enterprises in Romania: CONCORDIA Bakery and Bread & Breakfast Hostel. Through these projects, young people from disadvantaged backgrounds, poor communities, placement Centers or who grew up in the organization's projects develop their skills and receive the necessary experience for the labour market.

Concordia Bakery

Concordia Bakery started in a small workshop in Aricestii Rahtivani village, Prahova County, where Andreas Resch, an Austrian volunteer, organized a bakery workshop for children of all ages in the residential Center. What was initially an additional activity, soon became a clear possibility for some children and young people that it could be an occupation of the future.

Preparing young people in the manufacturing stages – from shaping dough to baked bread – demonstrated that there was an inherent need for a place where they had the chance to prepare for the work they wanted to do, discovering their potential, and developing professionally and socially. CONCORDIA Bakery was born at the crossroads between fulfilment of an idea and achieving a growing need.

The bakery operates in the field of production of natural products (bread and pastry) based on traditional recipes created by Romanian and Austrian bakers. CONCORDIA Bakery has two objectives:

1. *The social objective is the socio-professional integration of young people from disadvantaged backgrounds. The establishment of the Bakery aimed to create a long-term social impact on young people who, after graduating the baker's course*



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and obtaining the qualification diploma, were employed for a temporary period in the enterprise. These were two important steps that prepared and equipped them with the knowledge and skills needed to get a job on the free market.

CONCORDIA Bakery is a place of education and training for working in a bakery in the free market.

- 2. The objective of the business is to generate profit that will be used to support the training of other young people from disadvantaged backgrounds and in need of support.*

More details and an impact study of the project can be accessed [HERE](#)

Hostel Bread and Breakfast

Bread and Breakfast Hostel in Bucharest is a social economy initiative that offers jobs for 7 young people supported by the humanitarian organization CONCORDIA and 10 places for internships and internships.

With an income of 137,342 lei in 2021, Bread & Breakfast Hostel hosted 1,977 people and has a score of 9.3 on the Booking.com platform. All amounts generated by his activity support social projects developed by CONCORDIA Organization.

Further details can be found [HERE](#).

7.2.2 Close to You Romania Foundation ([LINK](#))

"Close to You" Romania Foundation (ADV) is a non-governmental organization of Insertion Social Enterprise type, founded in February 2002 by Holt International Children's Service USA, whose mission is the inclusion of people with disabilities and other vulnerable groups.

"Close to You" Foundation Romania (ADV) is a recognized promoter of social economy, both in Romania and internationally:

- Has contributed for launching the Romanian Social Economy Law and regulatory norms.*
- Has developed the largest Social Enterprise in our country – UtilDeco – a model of good practices recognized by the European Commission and EY Social Entrepreneur of the Year 2016*
- Has contributed to the development of the National Program for the Development of Social Entrepreneurship in the Republic of Moldova 2021-2025*



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In Romania, ADV has implemented over 90 social economy projects, with more than 180,000 beneficiaries, investing approximately EUR 35 million in the community.

Social Enterprise Accelerator in The North-East Region ([Link](#))

The project "Social Enterprise Accelerator in the North-East Region" was implemented by the Foundation "Close to You" Romania, being co-financed by the European Social Fund, through the Human Capital Operational Program 2014-2020. The implementation was carried out between 26.07.2019 – 25.07.2022 at the level of the North-East Region and had a contracted value of 13,772,760.34 lei.

The project aimed to establish a minimum number of 21 Social Enterprises in the North-East development region, as a sustainable solution for reducing social disparities, fighting poverty, and creating inclusive jobs for people belonging to disadvantaged groups.

Also, among the objectives of the project are:

- *Informing at least 10,000 people from the North-East Region of Romania about the opportunity to develop social economy entities in the community and to develop products and services that contribute to reducing social disparities and creating inclusive jobs.*
- *Increasing professional skills in the field of social economy for several 105 people from the North-East Region of Romania, to establish and develop Social Enterprises.*
- *Developing a minimum number of 21 Social Enterprises in the North-East Region of Romania, in urban and rural areas, both during the project implementation and sustainability period.*
- *Creating a social economy support and development network and connecting them with other relevant communities and actors at country or other EU Member State level.*

Examples of social economy enterprises set up and operating:

- *Edu Play Association - Education Through Play*
- *Posh Academy - Disciplined Beauty Salon*
- *Humans Anticafe*

Edu Play Association - Education Through Play

The mission of the project is to guide each child to explore their talents, through artistic, scientific, sports, communication, and networking activities, to learn and guide vulnerable children to integrate into the community.



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The social impact is major, but it will be seen in time, because today's children will be tomorrow's future.

Creating a healthy environment where all children can learn and develop through practice, exploration and play, each child's discovering their own identity and developing a positive self-image, both actions that will contribute to their harmonious evolution. How they are educated will make a difference in the future. Children are the link that can also help educate parents. In the "After School" program, children are taught to think freely, to protect the environment, to respect and be respected.

Products and services offered:

- *Childcare and education service – Afterschool for children aged 6-12 years.*
- *Breakfast, lunch, transport, optional language initiation courses, personal development courses, origami, tailoring-knitwear, painting. Additionally, they can also choose for Karate, chess, dance, IT courses.*

Posh Academy - Disciplined Beauty Salon

The mission of POSH ACADEMY is to become a unique combination of training academy and professional hairdresser, offering disadvantaged people or people from vulnerable groups the chance to integrate into the labour market as a result of graduating this training. POSH Academy brings change to the community by:

- *Providing social scholarships for disadvantaged people or people from vulnerable groups.*
- *Providing free haircut and styling services to disadvantaged people or people from vulnerable groups before participating at job interviews.*
- *Developing professional skills of young people from vocational schools by participating in internships in the salon for a period of 3 months.*

Products and services offered:

- *Barbershop services and training courses in the field.*
- *Free hairdressing services for people from vulnerable groups who want to get employed.*
- *Interview coaching.*



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Humans Anticafe

It is a space where you can find simultaneously: co-working facilities, personal and professional development hub, cultural, creative and relaxation events, support for local producers and social contribution projects.

Humans AntiCafe works under the belief that all people have the potential to develop, regardless of their background and their current, bio-psycho-social situation. They have the chance to develop in this hub, and business customers are encouraged to contribute to the development of people belonging to vulnerable groups.

Humans Anticafe brings change to the community by:

- *Offers the chance to get a job.*
- *Offers the conditions for creating partnerships to open businesses; all this through individual, team coaching sessions, therapy, and mentoring sessions.*
- *Promotes a healthy lifestyle.*
- *Discourages plastic consumption and promotes recycling through separate waste collection.*
- *Support and promote local artists.*

Products and services offered:

- *Workspace access.*
- *Event hall rental.*
- *Coaching, mentoring and therapy sessions, individual and group.*

8 Future proofing microfinance

8.1 Forecast and policies/services for the future.

The sustainability of microfinance in the long term in Europe and Romania is a complex and multidimensional issue, involving financial, social, economic, and institutional aspects.

The long-term sustainability of microfinance depends on several factors, such as: institutional and managerial capacity of microfinance organizations (MFOs), level of demand and supply of financial services in the target market, quality of loan portfolio and recovery rate, access to diversified and stable sources of financing, adequate and favourable legal and regulatory framework, social and economic impact of microfinance activities on beneficiaries and their communities, etc.: MFOs, public authorities,



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commercial banks, European funds, international organizations, non-governmental organizations, universities, research, etc.

It is also necessary to promote good practices and encourage innovation and cooperation in the field of microfinance.

Finally, it is essential to focus on assessing the social and economic impact of microfinance and effectively communicating its benefits to society.

In Europe, microfinance has seen a significant increase in recent years in response to the economic and financial crisis that has particularly affected the most disadvantaged segments of the population.

At the same time, microfinance faces major challenges such as fierce competition in the financial market, high operating and monitoring costs, difficulty in measuring social impact and reporting results, pressure to strike a balance between financial and social sustainability, etc.

In Romania, microfinance is still at an early stage of development, with great potential, but also several obstacles.

According to a study conducted by the European Microfinance Network in 2019, Romania ranks 18th out of 28 European countries in terms of the total number of active microcredit clients (approximately 40,000) and 20th in terms of the total volume of the microcredit portfolio (approximately EUR 150 million).

The main barriers identified in the development of microfinance in Romania are:

- *lack of a coherent and integrated national strategy for the microfinance sector*
- *ambiguous and restrictive legal and fiscal framework for MFOs*
- *limited access to finance for MFOs*
- *low level of financial education and entrepreneurial culture among the target population, etc.*

To ensure the long-term sustainability of microfinance in Europe and Romania, a holistic and participatory approach is needed, involving all relevant actors: microfinance providers, public authorities, commercial banks, European funds, international organizations, non-governmental organizations, universities, research, etc.

It is also necessary to promote good practices and encourage innovation and cooperation in the field of microfinance.



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Finally, it is essential to focus on assessing the social and economic impact of microfinance and effectively communicating its benefits to society.

8.2 Sustainability ideas

- *To Improve social economy' visibility and understanding by the core funding community can bring more and better-informed investors.*
- *Diversification of the financial offer: products dedicated to each stage of development of Social Enterprises – loans, guarantees, investment financial instruments – equity, bonds, etc.*
- *Support for the development of intermediaries, investment incentives and better regulation and facilities for investors in this area.*

9 Conclusion

9.1 Gap Analysis – Vulnerabilities and Enabling factors of Microfinance

In Romania, the upward development of Social Enterprises faces several constraints, Vulnerabilities:

1. *Although recognized by law, Social Enterprises do not receive sufficient support from central and local public authorities.*

The limited public support schemes mainly provide investments through European funding, designed from top to bottom by the Government.

The legislative framework itself provides such a limiting factor. Law 219/2015 on Social Economy provides a limited perspective for the development of Social Enterprises, focusing only on Social Enterprises for integration into work, i.e., Social Enterprises for social Insertion. The law deals with social inclusion, neglecting all other potential roles of Social Enterprises in society.

2. *Gaps in the legal/policy framework is a major constraint to their development.*

The legislative changes that followed the adoption of Law 219/2015 hold back the functioning of many Social Enterprises, as well as policy coordination mechanisms. For example, OUG 60/2017, eliminates tax advantages for protected handicraft workshop. This specific situation demonstrates the lack of a strategic approach to the development of the Social Enterprise, in favour of ad hoc interventions.

Government employment policies consider Social Enterprises as a tool, although in a very narrow sense. Policies do not yet perceive Social Enterprises as an important, citizen-led



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sector that identifies and develops innovative and efficient systemic solutions to address society's problems.

3. Another element of constraint relates to the government's difficulties to develop and implement effective policies.

There is no real policy framework to encourage or support the development of Social Enterprises. The poor understanding of the potential of Social Enterprises is reflected in the policies at local and central government level, which have not sufficiently applied the incentive measures provided by the text of the law.

Limited tax incentives also remain rather linked to the not-for-profit purpose of the Social Enterprise's legal form. Public funding, apart from a few dedicated ESF grant schemes, does not favour Social Enterprises compared to the rest of the economic operators. The Public Procurement Law mentions that the Contracting Authority has the right to include special requirements in the procurement documentation if they align with European provisions. So far, there is no reporting on the implementation of the new legal provisions on reserved contract.

Public opinion critically assesses the administrative management of EU funds allocated to Romanian Social Enterprises. Delays in launching funding programs over the previous reporting period and pushing the implementation period to the maximum unnecessarily force the applicant Social Enterprise to implement projects in a very short period, which severely affects results. Also, a certain lack of clarity of public authorities on what Social Enterprises are and what is the purpose has a major impact on how guides for obtaining and implementing government grant programs are developed. Successful Social Enterprises that are not necessarily interested on work integration seem systematically ignored.

Despite the growing need for social services and government investment in social service reform, innovation and entrepreneurship in this sector are limited. Social Enterprises in Romania are included in the policy package to modernize the welfare system, although they remain in a marginal position that ignores the potential to address complex social, economic, and environmental challenges.

4. Another financial barrier (besides the lack of public funding) also comes from unimplemented government loans and guarantees.

The Government's interest must increase in facilitating Social Enterprises' access to private capital, through guaranteed loans or incentives for potential investors.



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The ecosystem of Social Enterprises is very fragile. The few networks and support mechanisms are largely organized for punctual situations and events. This weakness of existing networks and low cooperation between active Social Enterprises is considered one of the factors explaining their weak advocacy capacity in Romania. Moreover, the reduced availability of public and private services such as training incubators, coaching, mentoring and consultancy affects the development and expansion of Social Enterprises.

5. Another significant constraint is the lack of awareness and understanding of the Social Enterprise by the public and public authorities.

The term "social" refers to charity activities and work integration of vulnerable people, and public do not associate it with entrepreneurship. Successful Social Enterprises remain little known or understood by the public.

There are also several Enabling Factors for the development of Social Enterprises in Romania.

1. A major enabling factor derives from the triggering effect of EU policies and grants, which is observed at different levels.

On the one hand, the EU has promoted a harmonized conceptual framework (definitions, examples of successful policies, EU strategies and documents). On the other hand, several funding opportunities rely on EU grants. In this context, the Romanian authorities invest more in the quality of the development and implementation of public programs (PEO and PIDS).

Better designed and implemented public support programs for Social Enterprises will improve the results of investing with European funds in Romanian Social Enterprises.

2. Private initiatives have also influenced the development of Social Enterprises.

Cross-border and interregional cooperation and innovation could greatly determine the development of Romania's Social Enterprise ecosystem.

Access to European research and practice networks, exchange programs and study visits have stimulated innovation and social reforms in many areas of Social Enterprise activity.

Finally, specific education programs dealing with entrepreneurship and social management have acted as a facilitator in the ecosystem. They identified and narrowed an educational gap between different audiences: policymakers, the public, students, and practitioners.



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9.2 *The Relationship Between Microfinance and The Social Economy*

Access to finance has been identified as a key policy lever in building ecosystems for Social Enterprises by the European Economic and Social Committee, the Organisation for Economic Co-operation and Development (OECD), and the European Commission's Expert Group on Social Entrepreneurship.

Social Enterprises are entities that primarily pursue a social mission while conducting their commercial activity. To start, operate and expand, they seek funding from various providers, including the public sector, philanthropic foundations, impact investors, as well as leading financial institutions.

However, Social Enterprises often face barriers in this process, more so than classic, capitalist, classical investor-based businesses. For example, they may not meet all predefined funding criteria set by major funding providers. There is also a lack of common understanding and knowledge among lenders about the risks and returns associated with investing in Social Enterprises. Therefore, few investors are prepared to bet on them.

9.3 *Social Enterprises' current difficulties, limiting their access to finance.*

To access finance, Social Enterprises often need strengthened capacity to become more financially sustainable and less dependent on public and private subsidies. This implies the need to develop appropriate skills:

- *To build sustainable (and scalable) business models.*
- *To attract investment.*

Increased access to finance can help resolve some of these bottlenecks and ensure that social enterprises can realize the full potential for which they were born.

In terms of demand for funding sources, Social Enterprises must:

- *Become increasingly investment ready.*
- *Develop their ability to communicate better with potential funders and fund providers.*

As regards the supply of funding sources, in many countries the general trend is that there is insufficient supply of private financing, partly due to a lack of visibility and understanding of Social Enterprises among major providers of finance. There is also a certain somewhat limiting mindset and a common attitude among many investors on profitability. These problems are further aggravated by regulatory obstacles and lack of incentives associated with investing in Social Enterprises.



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The above problems are acute in Romania, a market with a social economy and a developing ecosystem. The amount of funding needed by most Social Enterprises is relatively small due to their size, meaning that financial intermediaries incur high transaction costs relative to the size of the funding provided and the projected financial return. In addition, liquidation scenarios for Social Enterprises are missing as it is difficult for them to recoup investments against financing costs and payback periods for standard businesses. While financing needs vary according to the stages of development of Social Enterprises, opportunities to meet their needs differ from country to country.

Having this in mind, it is important to consider the role of the public sector in relation to:

- *Purchase of services from Social Enterprises.*
- *Acting as an investor in social innovation by funding Social Enterprises experimenting with new solutions that can be replicated and scaled.*
- *Developing risk mechanisms (e.g., guarantee schemes) to facilitate Social Enterprises' access to general funding.*

In Romania, Social Enterprises have difficulties in securing the financing of their activity. Most of them, regardless of their legal form of organization, use several 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 by redirecting 3.5% of income tax, company sponsorships received under the Sponsorship Law.*
- *Sale of products and services.*
- *Membership fees.*

The growth and dissemination potential of the Social Enterprise model continues to be underexploited in Romania, facing various obstacles. In addition to facing the same challenges as any SME, Social Enterprises face difficulties of their own, especially in accessing finance.

Financial needs and circumstances differ from one type of enterprise to another. In many European countries, Social Enterprises working for the social and professional integration of disabled or disadvantaged people receive public funding but are also active in the free market for goods and services and often use a combination of funding sources.



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

Regarding the access to public funds, it is still often hampered by eligibility criteria relating to legal form, devices that are too rigid or too bureaucratic. Similar constraints may bar access to structural funds for businesses through eligibility criteria for eligible applicants, for example limited to the legal form of a commercial and cooperative company, legal forms without patrimonial purpose.

Social Enterprises in Romania, which are generally small and anchored, a priori, only in local communities, are also affected by constraints that restrict their access, for example, to private or banking financing, which they need depending on their level of development (start-ups, development of pilot projects or prototypes, scaling, and growth). Constraints related to the redistribution of profits, or the employment of vulnerable workers often give potential investors the feeling that they constitute riskier and less profitable undertakings than others.

This phenomenon is aggravated by the small Know-how these Enterprises benefit from. In the national education system, social economy and social entrepreneurship are almost non-existent.

As a conclusion, Social Enterprises' problematic access to finance has multiple causes:

- *On the one hand, it is not very attractive to finance Social Enterprises due to a lack of knowledge and information about these organizations; there is little interest in measuring and highlighting their social impact; and the government apparatus is still working for some time on designing a favourable environment for Social Enterprises.*
- *On the other hand, Social Enterprises do not have managerial and marketing skills, business support services and a predictable environment that matches the development of such initiatives.*

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