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MICROFUTURE

Gap Analysis ROMANIA

“Future-proof” development and improvement of the microfinance and social economy sector

Introduction

(Brief description of the aim of the report)

In Romania, at this moment, there is not a specific definition of microfinance regulated by a law in force. Therefore, according to Romanian MicroFinance Association, the EU definition¹ is generally accepted by the sector and stakeholders.

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

There are several microfinance institutions, both NGOs and private institutions that 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

¹ Proposal for the REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Social Fund Plus (ESF+) May 2018 (page 26) <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52018PC0382>: “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.”

programs through European funds, which were created to stimulate the development of the local economy and less developed regions.

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. In Romania, social economy is officially recognized as a distinct form of economy through Law No. 219/2015 on social economy, which defines social economy as "all economic activities organized democratically, based on membership and the free participation of members, aimed at addressing their needs and aspirations and/or those of the community in which they operate, through a process of production, distribution, and/or consumption, which involves a form of collective, cooperative, or associative ownership, as well as other forms of non-profit organization."

Currently, Romania's social economy is represented by a variety of organizations, including cooperatives, associations, foundations, and social enterprises. These organizations operate in diverse sectors such as organic food production, healthcare and education services, rural tourism, and waste recovery and recycling. Additionally, there are local initiatives that promote the social economy through community projects, such as urban gardens and local food production.

The Non-Bank Financial Institutions Law no. 93/2009², adopted by the Romanian Parliament in May 2009, alongside with the secondary legislation issued by the Romanian National Bank constitute the current legal framework for all financial activities developed by leasing, mortgage, consumer credit, factoring and microfinance non-bank financial institutions.

The regulatory framework is generally flexible, with no restrictions on geographical expansion, foreign investment, or interest rate caps. Additionally, there are no deposit requirements, and transparency in setting costs and client protection are emphasized. The capital requirement for non-bank financial institutions to engage in microcredit activities is set at just EUR 200,000. In this legal context, competition in the financial sector has intensified, benefiting consumers. A full range of financial services is available, from long-term investment to short-term working capital, credit lines, bridge loans for co-financing grant-funded development projects, factoring, and business development support, all provided through traditional means or online via fintech platforms.

It is important to note that between 2019 and 2023, despite the challenges posed by the pandemic, Romania's microfinance sector saw notable growth³. The microcredit portfolio expanded by 81%, and the number of active clients increased by 9%. This growth was primarily driven by a 113% rise in demand for microfinance services aimed at income-generating activities, alongside the availability of financial resources and guarantees from social investors and EU-funded programs like EaSI and InvestEU.

During the same period, the number of personnel in microfinance institutions (MFIs) grew by 30%, with productivity maintained at over 100 clients per staff member. Productivity is

² <https://www.bnr.ro/Non-Bank-Financial-Institutions-3386-Mobile.aspx>

³ Benchmarking microfinance in Romania, 2019-2023, A report of the Romanian MicroFinance Association, <https://amf.org.ro/wp-content/uploads/2024/07/Brosura-Benchmarking-MF-Romania-2019-2023.pdf>

expected to accelerate in the coming years due to the digitalization of financial processes introduced in 2018 and the successful growth of fintech-based MFIs.

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.

In this context, MICROFUTURE project must be emphasized, as it represents a concrete action of a Romanian public institution, a strategic and innovative one.

MICROFUTURE project (funded through the Interreg Europe program) aims to use interregional learning to improve the public policy framework that supports microfinance as a tool for developing the social economy in Europe. The MICROFUTURE project—“Future Proof Microfinance for Social Inclusion”—focuses on interregional learning and experience exchange to stimulate economic and social development in communities, increasing labor market opportunities for vulnerable populations and microenterprises.

The public institution leading the project is the Regional Intermediate Body for European Human Capital Programs in the Bucharest-Ilfov Region (Lead Partner). The project partners include public institutions from Italy (Metropolitan City of Bologna), Slovenia (Development Centre Heart of Slovenia), Sweden (Region Örebro County), and France (County of Seine-Saint-Denis), with the Yunus Foundation, established by Muhammad Yunus, a pioneer in microfinance and Ashoka Fellow and Nobel Peace Prize laureate (2006), serving as an advisory partner.

The Territorial Analysis Report⁴, conducted in 2024 as part of MICROFUTURE project presented 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.

Some of the findings revealed weaknesses in the provision of microfinance in Romania: the legislative framework is a limiting factor, social Enterprises do not benefit from sufficient support from central and local public authorities, among other things. Access to finance has been identified as a key lever in building ecosystems for social Enterprises. There is a lack of common understanding and knowledge among lenders about the risks and returns associated with investing in social Enterprises. Therefore, few financiers are prepared to bet on them. There are various problems in social Enterprises that limit their access to finance, one being the need to develop appropriate skills to build sustainable and scalable businesses.

This analysis aims to explore ways and strategies through which the various obstacles encountered by the different stakeholders involved can be addressed on a path towards possible solutions, one that includes cooperation and cocreation.

⁴ https://www.oirbi.ro/wp-content/uploads/2023/12/MICROFUTURE_TERRITORIAL-ANALYSIS_REPORT_ROMANIA_EN.pdf

1) Fostering Collaborative Models in Social Economy

1.1 Methods to strengthen collaborative business models in the social economy and microfinance sector

(In your region/country, what are the methods and strategies in place to strengthen collaborative business models in the social economy and microfinance sector? Please provide some examples relevant to your context of analysis.)

The dialogue with stakeholders in the project revealed that a strong collaborative model should intertwine large enterprises, SMEs, and startups.

So, to strengthen collaborative business models within the social economy and microfinance sector in Romania, a multi-faceted approach is essential. There are some key strategies and areas to focus on, to drive sustainable social impact and foster inclusive economic development.

Enhancing Policy Support and Establishing a Robust Regulatory Framework

Governments and policymakers should create a conducive environment that supports the growth of social finance and collaborative business models. This includes developing policies that provide incentives, legal recognition, and protection for social enterprises and microfinance institutions. A clear and well-defined regulatory framework can offer stability and encourage more participants to engage in these sectors, ensuring they operate efficiently and transparently while promoting social good.

Investing in Capacity Building and Providing Comprehensive Training Programs

It is crucial to develop the skills and expertise of social entrepreneurs, microfinance institutions, and other stakeholders within the sector. By offering targeted training and capacity-building initiatives, stakeholders can acquire the knowledge they need to improve operational efficiency, financial management, and social impact measurement. Equipping stakeholders with the necessary tools, technical skills, and strategic insights will help them navigate the complex challenges of the social finance landscape and scale their impact.

Fostering the Formation of Partnerships and Alliances

Collaboration is key to the success of social finance models. Encouraging the formation of partnerships and alliances between diverse actors—such as government agencies, private sector companies, non-governmental organizations, and international institutions—will enable the pooling of resources, the sharing of knowledge, and the addressing of common challenges. Partnerships can help bridge gaps in funding, technology, and expertise, thereby strengthening the overall ecosystem. Collaboration also fosters innovation and ensures a more coordinated approach to solving social and environmental problems.

Developing and Standardizing Impact Measurement and Reporting Tools

To ensure the success of social enterprises and microfinance institutions, it is essential to implement standardized tools and methodologies for measuring social impact and financial performance. This would allow for more transparent and accurate reporting, enabling stakeholders to track their contributions to social and environmental outcomes. Impact measurement not only helps organizations improve their operations but also enhances

credibility and trust among investors, beneficiaries, and other partners. Having a reliable system for assessing both social and financial returns will further encourage investment in the sector.

Raising Awareness and Strengthening Advocacy for Social Finance and Collaborative Business Models

Creating awareness about the potential of social finance and collaborative business models to address pressing social and environmental challenges is vital. Advocacy efforts should aim to increase public understanding of these concepts and highlight their benefits to both local communities and the economy. Raising awareness can attract more stakeholders, including investors, policymakers, and consumers, who may not be familiar with the opportunities in the social economy. Effective advocacy campaigns can promote the adoption of social finance solutions and push for the necessary policy changes to support their growth.

Best practices on Fostering Collaborative Models in Social Economy

There are 2 significant Programs in Romania, both led by OIRBI, in which collaboration is fostered by facilitating partnerships, offering support, and ensuring effective regional management, not to mention the financial values offered.

The first one is **The Education and Employment Program 2021-2027 (PEO)** - a 4.34 billion euros interventions aimed at enhancing labour market opportunities, promote entrepreneurship, and strengthen the social economy sector.

The second one is **The Social Inclusion and Dignity Program (PIDS) 2021-2027** with allocated European funds totalling 4.15 billion euros to support the social inclusion of vulnerable groups.

In both programs, OIRBI plays a crucial role in fostering collaboration by facilitating partnerships, offering support, and ensuring effective regional management: promoting partnerships to encourage collaboration between governmental bodies, NGOs and community groups, to create comprehensive social inclusion solutions or offering guidance and training to organizations to enhance their project implementation capabilities.

1.2 Relevance of Partnerships and Collaboration with large enterprises, SMEs and Start-ups.

(Describe the challenges and opportunities that can emerge from partnerships and collaborations between the public and private sector. Please explain how diverse strengths and resources available in your region should be exploited through cross-border collaborations, knowledge sharing and best practices.)

In the landscape of collaboration across different types of enterprises, several challenges and opportunities shape the dynamics of partnership and shared knowledge.

Challenges include a lack of a solid infrastructure for partnership and the difficulty of stepping out of established "bubbles" to engage with diverse stakeholders. There is also a pressing need to work with government authorities to simplify and harmonize regulations related to microfinance and the social economy. Frequent changes in legislation or policies can create instability, further complicating collaborative efforts.

Additionally, differing priorities and cultures between large enterprises, SMEs, and startups can hinder effective collaboration, as these entities often operate with distinct priorities and ways of working. Resource disparities and risk aversion also play a role: large enterprises might be more cautious due to their size and organizational structure, whereas startups are generally more willing to embrace risk and innovation.

Despite these challenges, there are significant opportunities. Collaboration across various types of enterprises can spur innovation and creativity, as diverse perspectives and expertise come together. It can also enhance market access for SMEs and startups, providing them with broader distribution channels and customer bases, while large enterprises gain access to innovative products, technologies, and business models developed by smaller entities. Resource sharing—including funding, expertise, facilities, and networks—can help all parties achieve their objectives more efficiently and cost-effectively. Furthermore, fostering collaboration contributes to ecosystem building, creating vibrant business environments where enterprises of all sizes can thrive and support each other's growth.

2) Nurturing Start-ups in the Social Sector

2.1 Social sector startups

(Please identify the different initiatives that are being taken to support social startups in your specific country)

Within the Romanian context, there is a high significance of microenterprises as pillars supporting social startups and there is a need for an ecosystem where investors are well-informed, societal awareness is valued, and educational resources are tailored to fortify nascent social enterprises during their start-up years.

In the Government Strategy 2014-2020 aimed at advancing the SME sector in Romania, the Department of SMEs, Business Environment, and Tourism identified the promotion of social entrepreneurship as a key strategic goal. The Strategy 2014-2020 draft, presented for public consultation in May 2014, includes a proposal to establish a national and internationally funded program dedicated to social entrepreneurship. Additionally, since April 2014, associations, foundations, agricultural cooperatives, and agricultural associations engaged in economic activities have been classified as SMEs, making them eligible for Start-up funding and Minimis schemes.

Also, the Business Environment Directorate, part of the Ministry of Economy, Entrepreneurship, and Tourism, actively supports Romania's business sector. It collaborates with international organizations (World Bank, EU, USAID, OECD) on SME and business environment projects and coordinates related programs. The Directorate promotes the development of business hubs, incubators, accelerators, digital innovation hubs, business angel networks, and crowdfunding platforms. It maintains ongoing dialogue with key stakeholders and public-private entities to support SMEs and works with state institutions to improve the legislative framework for businesses. Also, its declared vision is that by 2030, Romania will have a competitive entrepreneurial and business ecosystem, supported by an improved administrative and regulatory framework. These will provide the foundation for encouraging private initiative, promoting the sustainable development of Romanian companies, enhancing exports, internationalization, and attracting foreign investments in

high-value-added sectors, thus contributing to sustainable economic growth and the well-being of citizens.

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 and benefited from small grants for SME development: digitalization, sustainable development, innovation and entrepreneurial training, creation of new jobs.

InvestEU is a program launched in 2022 to grant access to microfinance for entrepreneurs and farmers in Romania, supported through a partnership between the European Investment Fund and BT Mic, the largest microfinance institution in Romania.

Also, at the end of 2024, The European Investment Fund (EIF) has signed agreements⁵ with five banks to support Romania's small and medium-sized enterprises (SMEs). The series of uncapped direct guarantees totalling €1 billion is backed by the InvestEU Member State Compartment in Romania and the Recovery and Resilience Facility Romania (RRF RO) and represents an ambitious venture aimed at enhancing sustainability and competitiveness for businesses across the country.

The banks, Banca Comerciala Romana, Banca Transilvania, CEC Bank, Raiffeisen Bank and ProCredit Bank are well-known EIF partners, having successfully implemented various EIF mandates in the past, such as the SME Initiative Romania (Initiativa pentru IMM-uri).

Thanks to the Sustainability Guarantee the partner banks will be able to further support a green and sustainable transformation of the economy, and finance environmentally-friendly, green and inclusive investments of the end beneficiaries. The SME Competitiveness Guarantee will enable the partner banks to facilitate access to finance for a broader spectrum of companies and industries, with loan terms which would not be offered in the absence of the guarantee.

The EIF guarantee enables its partner banks to offer improved financing terms such as lower interest rates, reduced collateral requirements and reduced down-payment requirements for investment loans. Moreover, thanks to the EIF guarantee, banks can offer longer maturities and increased financing volumes and support excluded segments such as start-ups, which would not have been targeted without the guarantee.

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. These funds were awarded almost exclusively through start-up grant programs. It has also stimulated numerous initiatives to develop administrative capacity (training, exchange programs, incubators, etc..) as well as research.

The Human Capital Operational Programme (POCU) 2014-2020, also financed by the European Social Fund, also included measures for start-ups/individuals' prospective

⁵ https://www.eif.org/what_we_do/guarantees/news/2023/eif-and-leading-romanian-banks-join-forces-to-empower-smes-for-sustainable-growth.htm

entrepreneurs who underwent entrepreneurial and professional training courses, received assistance in developing business plans, and ultimately applied for funding with those business plans.

Also, to be noted that one of the main sources of microfinance in Romania are non-banking financial institutions⁶, such as credit unions or microfinance companies (e.g. Patria Credit, Raiffeisen Leasing IFN S.A., UniCredit Leasing Corporation IFN S.A., Fondul Național de Garantare a Creditelor pentru Întreprinderi Mici și Mijlocii S.A. IFN S.A., Transilvania Leasing și Credit IFN S.A., Agricover Credit IFN S.A. They specialize in providing low-value loans and provide financial support to beneficiaries who do not qualify for traditional loans.

In Romania, non-governmental organizations and foundations are also providers of microfinance, aiming to support social entrepreneurship and initiatives with a positive impact in communities. These organizations provide low-interest loans or grants to support economic and social development, here are some examples:

Civil Society Development Foundation (FDSC), the Association for Sustainable Local Development (ADLD), the Association for Microfinance and Development (AMID), Romanian American Foundation - offers grants for the social sector in: rural economy development, development through technology and innovation, civic engagement.

Lidl, With Clean Waters Program, is offering since 2019 grants for NGOs addressing biodiversity solutions and Kaufland puts 1 million euros in the market to non-governmental organizations in Romania through its program In stare de bine.

Also, there are two underused tax redirection mechanisms in Romania available for social entrepreneurs:

- For-profit companies: They can redirect 20% of their profit tax (but no more than 0.75% of turnover if their turnover exceeds 1 million euros) or income tax (for micro-enterprises with less than 1 million euros turnover) to an NGO of their choice.
- Individual employees: They can redirect up to 3.5% of their income tax to an NGO of their choice for up to two consecutive years.

The platform "Redirectionează.ro" (redirect.ro) estimates that if all employees in Romania took advantage of this fiscal mechanism, over 200 million euros could be redirected to the social sector, based on the country's average gross salary. The platform also simplifies the process by making it easy for people to fill out the necessary documentation to use this fiscal tool.

But unfortunately, only 8% of the Romanian companies and only 34% of the individual employees redirect their taxes to non-profits. An intervention in this problem would be a national awareness campaign on the role played by the social entrepreneurship field at large in solving the most pressing societal dilemmas.

Social innovation is also supported through Community-led local development projects (CLLD) financed through ESF 2014-2020, but impact data is currently not available. The EEA and Norway Financial Mechanism 2014 – 2021 finances the Active Citizens Fund, a funding programme dedicated to non-governmental organisations, which is implemented in Romania

⁶ [https://www.bnro.ro/Registrul-Institu%C8%9Biilor-Financiare-Nebancare-\(IFN\)-25292-Mobile.aspx](https://www.bnro.ro/Registrul-Institu%C8%9Biilor-Financiare-Nebancare-(IFN)-25292-Mobile.aspx)

between 2019 - 2024 and has a total allocation of 46,000,000 €. 11 Calls for proposals were launched in 6 areas of support.

2.2 Initiatives supporting social start-ups

(Which are the initiatives that can be applied to improve microenterprises' ecosystem?)

Some examples:

European Microfinance Network (EMN)

European Venture Philanthropy Association (EVPA).

Romanian MicroFinance Association⁷ (MFA)

These organizations can facilitate this exchange, helping regions learn from each other's successes and challenges.

Romanian MicroFinance Association⁸ (MFA) was registered in November 2019 with assistance and support from Microfinance Centre's project: "EUlevel NGOs networks active in the promotion of social inclusion and poverty reduction or microfinance and social enterprise finance" and comprises 17 of the main Romanian microfinance providers.

The main objectives of the association are to represent the common interests of the Romanian Microfinance Institutions in relation to the sector's key stakeholders, i.e. control and supervision authorities at local, regional, national, but also at international level (especially EU institutions), to support the development of the microfinance services provided by its members and promote their financial and social inclusion impact, recommending best practices and the highest standards of professional behaviour and ethics, and to contribute to the education and development of the business community and the public in the field of microfinance.

AFIN⁹ provides alternative financial solutions dedicated to the social economy sector - loans, financial education, specialized assistance and has a dual function: it is a Non-Banking Financial Institution (NBFI) and social enterprise in an integrated model; over 70% of the founding members are directly involved in the social economy.

The institution aims to improve access to funding for social impact businesses in Romania that have moved past the start-up stage and require capital to grow. AFIN's key goals include:

Building trust as a reliable partner for social impact businesses.

Offering specialized guidance throughout the entire entrepreneurial journey.

Providing both financial and non-financial support to social entrepreneurs focused on driving social innovation.

Enhancing the overall well-being of the community.

⁷ <https://amf.org.ro/>

⁸ <https://amf.org.ro/>

⁹ <https://www.afin.org.ro/?lang=en>

By supporting these businesses, they become powerful social drivers, creating jobs, integrating disadvantaged groups, increasing income levels for individuals and their communities, and fostering a more inclusive and fair society. AFIN envisions becoming the go-to resource for social entrepreneurs in need of financing for social and environmental projects, playing a key role in their success within the social economy. AFIN is committed to investing in people, ideas, and projects to further develop the social economy, promote inclusion, and help reduce poverty.

Another important actor is The National Credit Guarantee Fund for Small and Medium-sized Enterprises¹⁰ (FNGCIMM) SA-NBFI, the most representative financial institution operating in Romania. FNGCIMM supports access to financing for small and medium-sized enterprises, as well as other categories of beneficiaries provided for in government programs under its administration. FNGCIMM has operational agreements with all the credit institutions acting in Romania and collaborate with representative associations of business, microcredit, local administrations and universities. Microfinance providers can become key players in the social economy if they collaborate with a strong guarantee fund, such as FNGCIMM, to provide financial products combined with grants to support social impact investments in underdeveloped/ marginalized communities.

ADV Romania¹¹ represents a group of interconnected social enterprises: the "Alături de Voi" Foundation Romania, UtilDeco, WISE.travel, and JobDirect, which have been developed over time starting from 2002. Its mission is to promote and develop the social economy and to ensure the inclusion of people with disabilities and other vulnerable groups. In 2016, it was declared Social Entrepreneur of the Year in the international EY Entrepreneur Of The Year competition. ADV Romania implements programs at both national and European levels and is recognized as a resource centre in the field, serving as a bridge between Eastern and Western Europe. ADV is one of the founders of AFIN - the first non-bank financial institution dedicated to the social economy sector, established in April 2022 with 170 shareholders from Romania. In 2019 became the European Social Fund (ESF) grant administrator for 42 social enterprises established and developed in Romania. Also, has developed a cross-border centre (RO-MD-UA) for social economy and 4 Social Innovation Labs with local partners in the Republic of Moldova and Ukraine to develop the social economy sector further.

Ashoka¹² is the largest global organization promoting and supporting social entrepreneurship and social innovation, ranked by NGO Advisor among the top 7 non-governmental organizations in the world. Since 2017, Ashoka has also been present in Romania, where it aims to contribute to building a society in which every citizen is a changemaker, capable of taking creative action to solve social problems. Ashoka is a global network and since 1980 has pioneered the field of social entrepreneurship by supporting individuals with bold, systemic solutions to major issues.

¹⁰ <https://www.fngcimm.ro/>

¹¹ <https://alaturidevoi.ro/en/history-of-adv-romania/>

¹² <https://www.ashoka.org/en-ro>

The global organisation identifies and supports leading social entrepreneurs globally, learning from their innovative models to inspire a world where every citizen is a changemaker and is present in Romania since 2017. Their approach focuses on three strategic pillars: Social Entrepreneurship (selecting top social entrepreneurs worldwide, who drive systemic change with innovative solutions to pressing social, cultural, and environmental challenges), Empathy and Young Changemakers (fostering a movement to transform youth development, emphasizing empathy as a crucial element for success in a world that demands active changemakers), Organizing for Change (building a world where everyone can drive impact, Ashoka promotes overcoming obstacles and creating fluid, collaborative teams).

Ashoka Romania¹³ has launched in 2021 SoFiA¹⁴ - Social Finance Alliance for Romania, a comprehensive program designed to catalyse the growth of the social finance ecosystem in Romania. SoFiA offered tools and support to both the demand and supply sides of social finance. It included an investment training program for 20 social enterprises, featuring guidance from both international and national mentors, while also providing social impact courses for private and public investors active in Romania. This integrated approach aimed to foster a community dedicated to developing social impact financial instruments in Romania.

The initiative sought to build the capacity of at least 60 key stakeholders in the Romanian social finance market and to create the conditions necessary for launching at least one financial instrument for Romanian social enterprises. SoFiA's vision was realized through an international partnership that brought together complementary expertise and skills. The program aimed to establish a solid foundation for accelerating the social finance sector sustainably. The results and insights gained from this initiative are being used to strategically enhance access to finance for social enterprises.

3) Civic Crowdfunding and the Public Institution Dynamic

3.1 Public institutions support civic crowdfunding and grassroots initiatives in microfinance

(How can grassroots initiatives and civic crowdfunding be better supported by cooperating with public institutions?)

This relationship could enhance community development and other social goals such as financial inclusion, empowerment, health and social services, disaster relief and resilience and agricultural development.

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 gain ground in recent years, with increasing interest in entrepreneurship and the development of start-ups. Here are some examples of

¹³ <https://www.ashoka.org/ro-ro/country/romania>

¹⁴ <https://www.ashoka.org/en-ro/program/social-finance>

crowdfunding platforms in Romania: Consolid8, Startarium, Launchhub, FundedByMe, Crestemidei.ro, Multifinantare.ro, PotSiEu.ro, We-are-here.ro, Bursabinelui.ro, Sprijina.ro.

Romanian social entrepreneurs show strong interest in alternative financing mechanisms. A significant 83.33% of respondents of the study Social Finance Alliance for Romania¹⁵ indicated they would consider using crowdfunding to expand their enterprises, provided they receive the necessary support to organize such campaigns. Additionally, 68.93% would explore private investment options, such as business angels, venture capital, or crowd investing, despite the potential need for shareholder involvement in governance and decision-making, as well as the obligation to pay dividends. This interest is driven by the fact that 71.29% of respondents have previously had to scale back their social impact efforts due to insufficient funding.

There is a notable lack of support from public entities, particularly in smaller municipalities, which highlights the need for mechanisms that enhance the role and engagement of public authorities in fostering grassroots initiatives related to microfinance and the social economy.

An example of a success initiative is the Civic Crowdfunding project, funded by the Operational Program Administrative Capacity 2014-2020 from the European Social Fund. This project is managed by the Association Center for a Sustainable Society and involves a local development partnership with the Municipality of Braşov. The objective of the project is to increase the capacity of the Braşov community to develop and utilize participatory financing, such as crowdfunding, as an alternative funding mechanism for innovative community projects, including those proposed through participatory budgeting.

The training sessions have been facilitated by the founders of fonduri-structurale.ro, the most important information platform in the field of funding, and consolid8.ro, the first crowdfunding platform in Romania dedicated to social innovators and those in the creative industries.

Grassroots initiatives and civic crowdfunding can be better supported through strategic cooperation with public institutions in several ways:

Develop Supportive Policies: Public institutions can create and implement policies that encourage and facilitate civic crowdfunding and grassroots initiatives. This includes simplifying regulations and providing clear guidelines for these activities.

Provide Funding and Resources: Governments can allocate specific funds and resources to support grassroots projects and crowdfunding campaigns. This could include matching funds, grants, or tax incentives for successful projects.

Enhance Visibility and Promotion: Public institutions can use their platforms to promote crowdfunding campaigns and grassroots initiatives, increasing their visibility and reach. This can involve featuring projects in government communications or providing promotional support.

¹⁵ https://www.ashoka.org/sites/default/files/2022-07/Social%20Finance%20Report_Ashoka%20x%20FSro%20x%202Tokens.pdf

Offer Technical Assistance: By providing technical assistance and training, public institutions can help grassroots organizations and project leaders develop effective crowdfunding campaigns and manage their initiatives more efficiently.

Facilitate Partnerships: Public entities can foster partnerships between grassroots organizations, local businesses, and other stakeholders. By acting as a mediator, they can help create synergies and leverage additional support for community projects.

Streamline Administrative Processes: Reducing bureaucratic hurdles and streamlining application and reporting processes for funding and support can make it easier for grassroots initiatives to access public resources.

Encourage Participatory Budgeting: Integrating civic crowdfunding into participatory budgeting processes can empower communities to have a direct say in how public funds are allocated, thus aligning government spending with local needs and preferences.

Monitor and Evaluate Impact: Public institutions can play a role in monitoring and evaluating the impact of supported initiatives, providing feedback and insights that can help refine and improve future projects.

3.2 Enhancement of public institutions in smaller municipalities

(What are the specific mechanisms that can be applied in your Region/country to enhance a strong collaboration between public institutions and the local entrepreneurial environment?)

Authorities need to be an ally in supporting social entrepreneurs with the know-how for them to access grants, comply with legislation, and ensure they have a sustainable plan after the initial funding period ends. New regulations must come into place to complete the initial Social Economy Law to increase its practicality based on insights and feedback from social entrepreneurs and support organizations with grassroots experience.

Also, a big part can be played by support organisations: there is a need for scalable investment readiness programs in Romania that would support social entrepreneurs in developing their ventures from any development stage they might be in. Support organisations can engage social entrepreneurs and authorities in various processes and specific methodologies to foster collaboration between them.

An emerging national discussion on impact is fundamental: while there is still more potential to reach, organisations and institutions are slowly adopting a stance to look for impact.

The EBRD's "Green Cities" program highlights an innovative partnership between public authorities, non-governmental organizations (NGOs), and other stakeholders to collaboratively enhance urban development. This strategic collaboration is exemplified by the Action Plan for a Green City (APGC) for Timișoara, which outlines a sustainable development direction for the next 15 years.

Through a year-long effort involving the EBRD's Green Cities team, Timișoara City Hall, and the consulting consortium RWA Group - Arcadis, the program aims to assess environmental challenges and opportunities. This partnership not only addresses key issues such as air quality and access to green spaces but also ensures that diverse perspectives are integrated into the planning process.

By fostering this cooperative approach, the program embodies a successful model of collaborative impact, enabling stakeholders to work together strategically toward shared goals for a healthier and more sustainable urban environment.

4) Facilitating Access to Microfinance

4.1 Regulatory challenges and simplification of the access to microfinance -

(Please provide an overview of the challenges that regulations face to simplify the access to microfinance in your specific country. How can such challenges be addressed? What specific mechanisms do you think should be simplified in order to make access to microfinance easier? For example, you could refer to licensing requirements or lack of legal recognition for informal practices.)

In Romania, social enterprises have been institutionalized with the introduction of Law 219/2015 on Social Economy, providing legal recognition for these organizations. The law defines the characteristics that organizations, such as associations, foundations, cooperatives, and limited liability companies, must meet to qualify as social enterprises. It also introduces a new type of social enterprise, the social insertion enterprise, which focuses on social inclusion.

Despite this progress, challenges remain in simplifying access to microfinance for social enterprises. The general definition of social enterprises in Romanian law lacks the multistakeholder governance aspect promoted by international standards. Furthermore, to be officially recognized, organizations must apply for a social enterprise certificate from the National Employment Agency, while social insertion enterprises need to obtain a specific certification known as the "social mark," valid for three years. These regulatory requirements, while providing structure, may complicate and slow down the process for social enterprises to access microfinance.

In order 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 Social Economy Law, 219/2015, already recognised as flawed or incomplete – as it only covers initiatives established as social enterprises.

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

Law 219/2015 establishes a clear distinction between Social Enterprises and Social Insertion Enterprises (Article 11). Social Enterprises encompass various organizations that could qualify as such under certain conditions, including cooperatives, credit unions, associations, foundations, mutual support associations, agricultural companies, and other legal entities. They are guided by the principles of the social economy and serve as tools for social inclusion. To be recognized as Social Enterprises, these organizations must apply for a social enterprise certificate issued by the National Agency for Employment, which remains valid for three years.

Social Insertion Enterprises are certified through a social label and must meet specific criteria defined by Law 219/2015. These criteria include:

At least 30% of employees must belong to vulnerable groups.

The accumulated working time of these vulnerable employees must represent at least 30% of the total working time of all employees.

Social Insertion Enterprises aim to combat exclusion, discrimination, and unemployment by promoting the socio-professional integration of disadvantaged individuals.

Additionally, these enterprises must implement measures for professional and social inclusion for their most vulnerable employees.

Also, conceptual misunderstandings and lack of clarity about the terms 'social economy' and 'social enterprise' have marked public debate over the past decade.

Licensing and certification are major hurdles for social enterprises seeking microfinance. Simplifying these requirements by reducing the number of steps involved and cutting unnecessary red tape would make the process more accessible. For example, the introduction of faster approval times and provisional licenses could allow social enterprises to operate and secure financing while completing their formal registration processes.

Social enterprises in Romania face challenges in accessing traditional financial services, which are often not tailored to their unique needs. To address this, the government could work with commercial banks, public agencies, and international financial institutions to develop specialized financial instruments. These instruments could include dedicated microfinance programs for social enterprises, low-interest loans, or credit guarantees. Tailoring financial products to the social economy sector would make microfinance more accessible and help social enterprises overcome the barriers posed by traditional financing mechanisms.

Establishing a one-stop platform or regulatory body dedicated to social enterprises would significantly simplify access to microfinance. This platform could serve as a centralized hub where social enterprises can apply for certification, receive financial support, and access resources like training and mentorship. By consolidating these services in one place, the government could reduce administrative burdens and make it easier for social enterprises to navigate the regulatory landscape.

4.2 Capacity building initiatives

(Are there specific capacity-building initiatives that can address these challenges? Try to assess if training in creditworthiness assessment, digital, technological and financial literacy can be improved in your country. By investing in specific capacity building initiatives tailored to the needs of microfinance clients and institutions, stakeholders can enhance the effectiveness and sustainability of microfinance programs. These efforts contribute to improving access to finance, fostering economic empowerment, and promoting inclusive growth in underserved communities)

The report analysis Social Finance Alliance for Romania, conducted in 2022, showcased the skills that social entrepreneur feel they miss, directly from them.

Most social entrepreneurs indicated that their organizations need improved skills especially regarding the modern social finance field (e.g. awareness of and ability to apply hybrid financing models, assess financial sustainability etc.). Also in a significant amount, the entrepreneurs indicated needing improving long-term vision and basic business/financial education. Other mentions included sales and marketing skills, fundraising, partnership building.

Within the "Alături de Voi" Foundation Romania, several support structures have been developed for social enterprises in Romania, Moldova, Ukraine, Georgia, and Armenia:

ADV Academy – a cross-border resource centre in the field of social economy, offering training services, study visits, events, a cross-border social economy magazine, research, and advocacy in this area;

Social Enterprise Accelerator¹⁶ – a funding and development program for social enterprises in Romania, Moldova, and Ukraine. As part of the program, a social economy cluster was created, registered on the European cluster platform¹⁷, with over 70 member entities, more than 90% of which are social enterprises;

Social Finance Association¹⁸ – a platform for training and mentoring in the field of social finance. SFA (Social Finance Association – The Association for Social Finance) was established with the goal of complementing AFIN's financial pillar by providing specialized assistance and know-how in the field of social finance. The association aims to support local entrepreneurs in overcoming financial barriers through financial education and consultancy for easier access to funding. The association operates in the field of social economy, according to the principles stipulated by Law no. 219/2015 on social economy and is an associate member of the European Federation of Ethical and Alternative Banks (FEBEA). The federation brings together 30 financial institutions from 15 countries in Europe and aims to develop and promote the principles of ethical and social financing in Europe. FEBEA supports lenders, social entrepreneurs, and any group or citizen developing projects that contribute to the creation of a fair and inclusive society.

5) Bridging the Awareness Gap in Microfinance

5.1 Relevant strategies for awareness and cooperation among stakeholders

(Please define concrete strategies you think are important to enhance awareness and cooperation among stakeholders. You could refer to insights gathered from the stakeholders' meeting held so far.)

Public recognition of social entrepreneurs in Romania remains limited, and the overall connectivity within the ecosystem is weak. The general public largely lacks awareness of social innovation and social entrepreneurship, and this gap extends to central and local authorities. While programs may include the term "social innovation," there are often no concrete measures in place to track initiatives or assess their impact. A majority of respondents of Social Finance Alliance for Romania study report believe that social entrepreneurs in Romania lack recognition and visibility. However, fewer respondents (43%) feel unrecognized within their local communities, highlighting the important role local communities play in fostering social innovation. Additionally, most surveyed social enterprises (70.59%) are not part of any networks.

¹⁶ <https://accelerator.alaturidevoi.ro/>

¹⁷ <https://www.clustercollaboration.eu/>

¹⁸ <https://www.afin.org.ro/despre-sfa/>

To enhance awareness and cooperation among stakeholders in the social entrepreneurship ecosystem, the following concrete strategies could be implemented:

Public Awareness Campaigns: National and local campaigns could be launched to educate the general public and policymakers about the concepts of social innovation and social entrepreneurship. These campaigns can use various media platforms, including social media, television, and community events, to highlight success stories and the societal impact of social enterprises.

Collaboration Between Public Authorities and Social Entrepreneurs: Central and local authorities should work closely with social entrepreneurs to co-create programs that not only include social innovation but also implement systems to track the progress and impact of these initiatives. Regular feedback sessions and advisory boards made up of social entrepreneurs could inform better policies and funding allocations.

Creating Networks and Platforms: Establishing dedicated national or regional networks and platforms for social enterprises can foster greater connectivity. These networks would facilitate knowledge sharing, collaboration, and partnership building between social entrepreneurs, corporations, and the public sector. An online portal featuring a directory of social enterprises, ongoing projects, and funding opportunities could also improve visibility and support.

Educational Initiatives: Integrating social entrepreneurship and social innovation into educational curriculums at universities and in vocational training programs could help raise awareness among the younger generation and provide future leaders with the skills needed to contribute to the sector.

Recognition and Incentive Programs: Government and private organizations can introduce awards, grants, and recognition programs for outstanding social entrepreneurs. A yearly national "Social Entrepreneur of the Year" award, for example, would provide visibility and honour individuals and organizations making a difference.

Strengthening Local Communities: Since local communities are key drivers of social innovation, encouraging community-led initiatives and supporting local partnerships can further empower social enterprises at the grassroots level. Local governments can promote cooperation by organizing community-based events, social innovation challenges, and offering microgrants for impactful projects.

In the context of the MICROFUTURE project "Future Proof Microfinance for Social Inclusion," the survey assessing the opportunities and challenges in the microfinance and social economy sectors (conducted in March 2024) aimed to collect relevant data from key players in the microfinance and social economy sectors to better understand the challenges and opportunities in this field. Participants included important organizations and institutions such as the Ministry of Labor and Social Solidarity, Ashoka Romania, ADV Romania, BCR SOCIAL FINANCE IFN, the Association Ateliere Fără Frontiere, FNGCIMM, the Romanian American Foundation (RAF), ASSOC, Structural Funds, and CONCORDIA Romania.

Participants identified several effective solutions to address the challenges in the microfinance sector. Among these, two major solutions were mentioned equally by 8 respondents: the need for additional training for microfinance providers and increasing awareness of opportunities related to microfinance and the social economy. Additionally, 7 participants emphasized the

importance of new partnerships and collaborations, while 6 respondents considered that additional financial incentives would also be useful to support the sector's development.

5.2 Potential solutions

(How can capacity building be effectively implemented to bridge the awareness gap?)

Increasing funds are available for capacity building, aimed at strengthening civil society and social entrepreneurs by providing resilience, expertise, non-financial resources, and networking opportunities. Despite past efforts, there remains a need to refine these initiatives to better align with ecosystem needs. Successful capacity building requires multi-year support and customization to address real challenges rather than assumed needs. “În Stare de Bine” is a leading multi-annual program partnering with Fundatia pentru Dezvoltarea Societății Civile and Kaufland Romania.

Organizational capacity in Romania is still evolving. Although all civil society organisations (CSOs) are legally required to have a written mission, many adapt their projects to available funding rather than following a strategic plan. 2021 Civil Society Organization Sustainability Index for Central and Eastern Europe and Eurasia¹⁹ cite that key funders, saying that the pandemic highlighted the need for flexible, core-operation funding. Such funding would enable organizations to maintain their strategic goals and ensure long-term sustainability without relying on project-specific support. Also, the report highlights that in Romania, an increase in local philanthropy and foreign funding spurred a moderate improvement in financial viability, which in turn supported slight improvements in organizational capacity and service provision. The infrastructure supporting CSOs also slightly improved in 2021 as collaboration within the sector increased, and public image improved with the growth of CSO outreach and visibility online.

The survey in the context of MICROFUTURE project, assessing the opportunities and challenges in the microfinance and social economy sectors, (conducted in September 2024) surfaced several conclusions regarding the factors contributing to the success of microfinance programs. Collaboration between stakeholders, awareness and promotion of services, as well as the legislative framework and policy tools were identified as key factors for success.

Participants also expressed the belief that microfinance should focus more on training and personalized support, as well as appropriate financial products and affordable interest rates, to better serve beneficiaries. These insights highlight the importance of a comprehensive approach to enhance the effectiveness of microfinance in fostering social inclusion.

6) Microcredits and Financing Dynamics

6.1 Key operational challenges and financing models

(Try to map the diverse financing models and the main challenges that are in your country's microfinance landscape.)

¹⁹ <https://www.fhi360.org/wp-content/uploads/2024/02/csosi-europe-eurasia-2021-report.pdf>

Microcredits serve two primary purposes. Firstly, personal use microcredits aim to enhance the borrower's employability by financing education services, improving living conditions, and ensuring access to medical services. Secondly, business microcredits focus on financing revenue-generating activities, supporting the creation or expansion of income-generating ventures for individual entrepreneurs, small farmers, and micro-enterprises. These microcredits can also be used for investments in productive assets, working capital, self-employment, and job creation through various financial products like leasing, factoring, and discounting.

Alternative financing options are diverse and include crowdfunding, peer-to-peer (P2P) lending, business angels, and venture capital. Other methods encompass private bond financing, initial coin offerings (ICOs), community currencies, and support for start-ups through business incubators and accelerators. Additionally, multi-stakeholder financial instruments such as social impact funds, social impact bonds, and crowd investing or impact investing provide further avenues for financing.

Credit institutions such as BCR Social Finance²⁰ or UniCredit²¹ or Patria Credit²² are offering a variety and comprehensive list of crediting instruments such as: • Investment loans that cover investment need • Credit lines that support current activity • Pre-financing loans covering the cash flow gap caused by the implementation of programs with European funds • Letters of guarantee used to ensure to a third party the payment of the committed amounts

Currently, credit institutions evaluate funding requests using a process that closely mirrors that of for-profit companies, which poses significant challenges for the social sector.

While credit institutions understandably prioritize risk when assessing creditworthiness, there is a need to differentiate more clearly between social enterprises and for-profit entities. At present, there is no specific approach for social finance with eligibility criteria tailored to the operations of social entrepreneurs. Addressing this issue would require collaboration between the regulatory authorities, such as the National Bank of Romania or the Financial Supervision Authority, and banks interested in developing financial products for the social sector.

In addition, various government microcredit programs are available, specifically targeting young entrepreneurs and individuals eager to launch their own businesses. These initiatives are overseen by specialized governmental bodies.

In Romania, several microcredit models are in use, including traditional lending methods where financial institutions offer loans with predetermined interest rates and repayment schedules. There are also peer-to-peer lending models, where investors directly provide loans to clients via online platforms.

A growing trend in Romania is the concept of social credit, where local community members lend to one another, either with or without interest. This approach to lending is seen as more effective and humane compared to traditional methods, as it fosters solidarity and mutual

²⁰ <https://www.bcr-socialfinance.ro/ro/prima-pagina>

²¹ <https://www.unicredit.ro/en/institutional/Sustainability/social-impact-banking.html>

²² <https://en.patriacredit.ro/>

support within the community members. According to the definition of social enterprises provided by the Social Entrepreneurship Initiative, the social economy in Romania encompasses a variety of organizations with different forms of establishment. Systematic data is available only for certain types: associations and foundations, cooperatives, and mutual support associations.

For-profit organizations are increasingly becoming key funders and supporters of social entrepreneurs. Although there is still room to strengthen collaboration between the social and private sectors, both at the local and national levels, more organizations are adopting internal CSR policies. The Donors' Platform, launched in 2021, compiled data from the 15 top funders and 19 Community Foundations, revealing a total investment of over €52,374,706, with €3,368,903 focused on education across 54 impact areas. While comprehensive data on national investments through CSR or sponsorship projects is still lacking, the trend shows continuous growth. Corporate sponsorships and partnerships between the private and social sectors are crucial for advancing any social finance market.

6.2 Opportunities for a dynamic and supportive environment

(The challenges that you could find can be addressed with several solutions. Which are the opportunities that you could evaluate to support the microfinance environment?)

Some areas to focus on could be:

- Regulatory support and frameworks:
- Public-Private partnerships
- Managing credit risk through assessment and education
- Fintech and digital platforms
- Entrepreneurial training and Mentorship
- Investing in infrastructures
- Market research and product diversification against
- Loans for social enterprises

The Romanian microcredit providers, MFIs, Credit Unions and SMEs Banks, are among the main beneficiaries of the EU-funded financial and technical assistance programmes: JASMINE, Progress and EaSI²³, EFSI²⁴, COSME²⁵ and InvestEU²⁶, and represent 40% of all European

²³ EU funded microfinance and SMEs development programs: JASMINE (Joint Action to Support Microfinance Institutions 2007-2013)

²⁴ EFSI (European Plan for Strategic Investments), also known as the Juncker Plan

²⁵ COSME (Competitiveness of Enterprises and SMEs)

²⁶ InvestEU – the microfinance financial instruments contracted by the Romanian MFIs and SMEs banks mobilised resource of Eur 656m

MFIs certified as compliant with the European Code of Good Conduct for Microcredit Provision²⁷.

By May 2021, 210 microfinance institutions and 6 SMEs banks from Romania have had accessed financial resources under the financial component of the Employment and Social Innovation (EaSI) program, making available 475 Million Euros for the final beneficiaries of microfinance and business development services: start-up companies, farmers and self employed, micro and small enterprises.

Also, the digitization process has known a rapid evolution, positively influencing the sector, as shown in a report²⁸ of the Romanian MicroFinance Association - Benchmarking microfinance in Romania, 2019-2023: "The digitization process initiated by the Romanian microfinance institutions (MFIs) sector since 2016 has accelerated; in 2023, 80% of the MFIs participating in the study send and receive credit application's support documents via email, 65% digitalised the loan application's assessment, analysis and approval process and 94% have introduced the digital signature of the credit contract. An important progress recorded the disbursement and repayment of the loans via bank transfer or card that has become the current practice of 53% of MFIs in 2023 compared to 27% in 2019. With the increased productivity and efficiency due to the digitalization of services and the good long term relationship with the customers, the well (long)- established and mature MFIs are operationally self sustainable, the newly established MFIs, among them the fast growing Fintechs break-even in 2023. The recent entrance of the Credit Unions on the microfinance market with a diversified offer of financial products for start-ups, sole entrepreneurs and small farmers will ensure the coverage of the lowest segments of the market."

There are six key pillars necessary to foster a more supportive ecosystem for social entrepreneurs:

Developing a Social Entrepreneurship Culture: Many people lack knowledge about pursuing a career in social entrepreneurship due to a lack of informational resources and absence from educational curricula. To address this, we need to enhance resource availability and create learning opportunities that clearly outline the steps to enter and succeed in the field.

Enhancing the Legislative Framework: While current legislation provides some definitions and a foundational framework, it lacks the specific measures needed to practically support sector development. The ambiguity and lack of clarity in the laws hinder social entrepreneurs, especially since they face the same fiscal regulations as traditional companies without equivalent benefits. Significant changes are needed in secondary legislation to address these gaps.

²⁷ List of awarded microfinance institutions 18 Oct.2023
<https://ec.europa.eu/social/main.jsp?catId=1482&langId=en>

²⁸ <https://amf.org.ro/wp-content/uploads/2024/07/Brosura-Benchmarking-MF-Romania-2019-2023.pdf>

Investing in Human Resources: To build a strong ecosystem, we must invest in human resources and collaborate with accredited public institutions such as the National Employment Agency and the Ministry of Labour. This partnership can provide better advisory services and support for social entrepreneurship initiatives.

Developing Public Strategies and Policies: Social entrepreneurship should be integrated into a comprehensive national strategy. Currently, Romania lacks a clear vision for utilizing social economy principles and communicating their impact effectively. A stronger anchoring of social entrepreneurship in national policies is essential to clarify its role and benefits to local communities.

Improving Access to Social Finance: The social finance market remains underdeveloped, and many social entrepreneurs are not aware of or properly guided to available financial instruments. Additionally, the requirements imposed by funders can divert focus and impact. Enhancing access to a well-structured social finance market and simplifying financial instrument design are crucial.

Building Long-Term Partnerships and Networks: Establishing enduring partnerships, associations, networks, and coalitions will strengthen the sector's voice and influence. Collaborative efforts can amplify the impact of social entrepreneurship and create a more unified support system for the field.

Financial institutions should collaborate to foster "healthy competition" by developing complementary products tailored to the diverse needs of social entrepreneurs (e.g., social enterprises, non-profits, hybrid models). Ideas from our roundtables included common guarantee or endowment funds.

Investors and funders must grasp the distinction between donations and investments and offer flexible financial instruments. For social entrepreneurs aiming for financial diversification and economic activity, securing a strategic partner for initial funding can be a key strategy.

7) Social Sector Dynamics

7.1 Role of the public sector

(What role does the public sector in your country play in microfinance initiatives, and how can it be further emphasized?)

There is a growing interest in enhancing and refining the legislative framework to better support economic development, creating a more favourable environment for businesses and social entrepreneurs. This shift is reflected in the significant rise in public-private consultation meetings, fostering stronger collaboration between government bodies and private sector entities. Such dialogues aim to improve policies and align them more effectively with current market needs.

The Platform Structural Funds.ro has also emerged as a critical resource, serving as a primary source of information on financial grants. It is set to integrate AI capabilities in the near future, which will make the platform even more accessible and user-friendly. Alongside this, the number of investors entering the market is steadily increasing, drawn by the promise of

innovation and growth. Their involvement provides essential financial support to emerging businesses and entrepreneurial ventures.

Meanwhile, social entrepreneurs are becoming increasingly aware of their gaps in specific skills and competencies. This awareness is driving a push for targeted capacity-building programs, as they recognize the importance of developing these skills to ensure their ventures are sustainable and impactful in the long term.

The PEO Education and Employment Program is designed to enhance opportunities for individuals seeking to improve their skills and employability, particularly in the context of entrepreneurship. Under ACTION 4.a.2, the program focuses on developing and supporting entrepreneurship schemes that facilitate the establishment of small and medium-sized enterprises (SMEs) and social enterprises. Additionally, ACTION 4.a.3 addresses the social economy support, which encompasses the development, innovation, scaling, and expansion of social enterprises, as well as the promotion of insertion social enterprises. Also, Action 4.a.3 focuses on assistance and consultancy for accessing combined financial instruments and combined financial support (grant/instrument).

OIRBI initiated a concrete financial instrument: a portfolio guarantee combined with a grant in a single operation, that never existed in the market before. The financial product is a fundamental outcome in MICROFUTURE Project, to support social enterprises and actively contribute to the development of the microfinance sector in Romania, within this component of the Operational Program for Education and Employment (POEO) 2021-2027. Considerable funds have been allocated for this: 99.4 million EUR to support social enterprises. Under this Action 4.a.3, OIRBI aimed at increasing the role of social entrepreneurship in the Romanian economy via the implementation of this financial instrument of the loan type with a grant component.

The proposal from the PEO for the use of the grant is for technical assistance (to access and utilize the financial instrument), capital rebate, and interest rate subsidies and targets 647 social enterprises supported by December 31, 2029. The eligible beneficiaries are social enterprises and social insertion enterprises that meet the provisions of Law No. 219/2015 regarding the social economy, as updated, as well as the eligibility criteria established by the Managing Authority at the time of signing the loan agreement. The maximum value of the guaranteed loan is 500,000 EUR. The types of new guaranteed loans include: 1) investment loans necessary for implementing new investment projects aimed at developing, innovating, scaling, or expanding social enterprises; 2) working capital loans/lines of credit to support activities that many beneficiaries have initiated through grants. A beneficiary can contract both an investment loan and a working capital loan if they meet the eligibility criteria, have the capacity to repay both loans, and have not requested other funding from any source for the same expenses (to avoid double financing). The maximum loan duration (including the grace period) is 120 months for investments (with a maximum grace period of 12 months) and 36 months for working capital.

Beyond facilitating access to funds, public authorities should actively support social entrepreneurs by providing the necessary expertise to access grants, navigate legislation, and develop sustainable plans beyond initial funding. To enhance the effectiveness of the Social Economy Law, new regulations are needed that address practical concerns. These regulations

should be informed by feedback from social entrepreneurs and support organizations with grassroots experience to ensure they meet the sector's needs.

7.2 Synergies between microfinance and the broader socio-economic development

(Please identify the strategies that could be applied by the public sector to ensure that microfinance and social economy initiatives are aligned with the broader socio-economic development goals.)

To align microfinance and social economy initiatives with broader socio-economic development goals, the public sector should implement strategies that integrate these initiatives into national development plans. This involves creating supportive policies that link microfinance to key areas such as poverty reduction, job creation, and sustainable development. Additionally, public sector efforts should focus on fostering partnerships between microfinance institutions and social enterprises to enhance their impact on gender equality, education, and public health. By ensuring that microfinance supports these overarching goals, public policies can help drive comprehensive socio-economic progress.

8) Impact on policy

8.1 Relevance of Monitoring and evaluation processes

(Please figure out how these strategies can effectively be monitored.)

Effective monitoring and evaluation are crucial for assessing the success and impact of social entrepreneurship initiatives. To improve these processes, specific Key Performance Indicators (KPIs) and measurable targets should be established to track progress and outcomes. Regular reporting, such as quarterly or annual updates, is essential for keeping stakeholders informed and ensuring transparency. Public dashboards can provide real-time access to performance data, fostering trust and accountability.

Engaging stakeholders through consultations and community feedback helps ensure that initiatives address real needs and concerns. Additionally, adopting a continuous and adaptive management approach allows for adjustments based on evaluation findings, keeping strategies relevant and effective.

Currently, many organizations in Romania lack standardized methods for measuring impact, relying instead on internal tools. Developing and adopting consistent methodologies will improve reliability. While media appearances can serve as an indicator of public interest, they should be supplemented with more comprehensive metrics to attract investors and boost social innovation.

By implementing these strategies, organizations can enhance their ability to monitor, evaluate, and increase their impact on social entrepreneurship.

8.2 Relevance of Policy for microfinance and the social economy

(Considering the existing gaps in your Country, how can policy help foster improvements in the microfinance and social economy landscape?)

The proposed financial instrument in MICROFUTURE project by OIRBI, in collaboration with FNGCIMM, funded by the ESF 2021-2027, represents an innovative approach poised to transform social entrepreneurship and microfinance in Romania. This initiative aims to

significantly boost the role of social enterprises in the economy, aligning with Action 4.a.3 of the Education and Employment Program 2021-2027. It targets social enterprises and social insertion enterprises that comply with Law No. 219/2015 and meet the eligibility criteria set by the Managing Authority. The goal is to support 647 social enterprises by December 31, 2029.

This innovative financial tool is set to revolutionize the social entrepreneurship landscape by providing tailored support and flexibility, thereby enhancing access to capital and fostering sustainable growth in the sector.

The importance of this new proposed financial instrument goes beyond the financial advantages it will provide to the sector; it lies in the collaboration between a public institution of the Romanian state and the most representative financial institution in Romania, FNGCIMM, which is characterized by its equity value, the complexity and volume of the guarantee activities it conducts, and its territorial network covering the entire country. Additionally, it is fundamental that OIRBI has involved key stakeholders from the fields of microfinance, social economy, and social entrepreneurship in its innovative approach, inviting them to the consultation table in a co-creation process, as part of MICROFUTURE.

When establishing the financial instrument, the good practices from the Metropolitan City of Bologna, a partner in the MICROFUTURE project, played a crucial role, particularly with its National Microcredit Guarantee Fund serving as inspiration. This fund allows the state to act as a guarantor for entrepreneurial and social microcredit schemes, supporting individuals in temporary economic or social vulnerability.

The Guarantee Fund covers up to 80% of loans and is free of charge, with no commissions. Loans are granted by banks, not directly by the state, making this model of cooperation between public entities and financial institutions an attractive practice for other regions.

The Guarantee Fund allows the State to act as guarantor in 2 types of schemes:

- Entrepreneurial microcredit serves to support individuals in conditions of temporary economic or social vulnerability, who are unable to provide the necessary guarantees for the repayment of the loan and aims to promote people's right to economic initiative. The credit granted can be up to a maximum of 40 thousand €, does not require real guarantees and is accompanied by the provision of auxiliary assistance and monitoring services for the financed entities. The loans can have a maximum duration of 7 years.

- Social microcredit is used for the consolidation of self-entrepreneurship and for the development of local economic activities and aims to combat the phenomenon of poverty and social exclusion. The loan can be a maximum of 10 thousand €.

8.3. Strategic role of Policy to improve microfinance and the social economy

(What role can policies play to help bridge the identified gaps in your Region/country?)

Policies play a crucial role in bridging the gaps in support for social enterprises and the microfinance sector. One significant way is through the establishment of financial support and incentives, such as grants and low-interest loans tailored specifically for social enterprises and microfinance institutions. For instance, Romania's Operational Program for

Education and Employment (POEO) 2021-2027 allocates substantial funds for financial instruments designed to support social enterprises, promoting investment and access to working capital.

Additionally, effective policies can focus on capacity building by implementing training programs and technical assistance initiatives to enhance the skills and operational capacities of social enterprises. Partnerships with established financial institutions, such as FNGCIMM, can provide necessary guarantees and support for these entities.

A clear and supportive regulatory framework, exemplified by Romania's Law No. 219/2015 on the social economy, is essential for distinguishing between social enterprises and social insertion enterprises. This clarity helps define eligibility criteria for funding, ensuring that resources are directed toward organizations that meet specific social objectives.

Moreover, fostering public-private partnerships is vital. Effective policies can encourage collaboration between public institutions and private stakeholders in microfinance and social entrepreneurship. The involvement of OIRBI in co-creating financial instruments with key stakeholders demonstrates how collaborative efforts can lead to innovative solutions that better address the needs of social enterprises.

Raising awareness about available resources and support networks is also important. Policies that promote visibility and outreach can help potential beneficiaries understand how to access financial instruments and support services, thus improving participation rates.

Finally, establishing mechanisms for monitoring and evaluating the effectiveness of policies and programs is crucial. Continuous feedback loops enable adjustments based on the evolving needs of the sector. By addressing these areas through well-designed policies, governments can significantly enhance the viability and impact of social enterprises, ultimately contributing to social inclusion and economic development.

The current legislative framework does not adequately address the needs of social entrepreneurs. The primary piece of local legislation, Social Economy Law 219/2015, has been recognized as flawed and incomplete. It primarily covers social enterprises but fails to address broader social entrepreneurship initiatives. Furthermore, the bureaucratic hurdles associated with both local and international public funding divert organizations' focus from addressing core issues to managing extensive documentation and budgetary reporting.

There is a notable lack of advocacy efforts aimed at reforming these cumbersome regulations. Current legislative priorities focus on simplifying the registration and operational processes for civil society organizations (CSOs). For instance, an open consultation on reforms to Government Ordinance 26/2000, which governs CSO establishment and functioning, was initiated by the government in July 2020 but was halted after initial discussions. While there have been efforts to lower barriers for new CSOs, these have introduced complexities and left key issues unresolved. Specific concerns include the procedural nature of setting up a CSO, the role of the National Registry of NGOs versus local court registries, regulations on CSOs' economic activities, and the balance between increasing membership and ensuring accountability.

To address these challenges, it is crucial to:

Advocate for comprehensive legislative reforms that address the identified gaps and streamline bureaucratic processes.

Promote the development of specific regulations and support mechanisms tailored to the needs of social entrepreneurs.

Enhance transparency and reduce administrative burdens in the funding process to allow social enterprises to focus more on their core missions.

Support initiatives that aim to clarify and simplify the legal framework for CSOs, ensuring it aligns with the practical needs of social entrepreneurs and the broader social finance market. In view of this, 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 – and this is already happening with the innovative financial instrument proposed in MICROFINANCE project.

9) Conclusion

(Please provide a summary of the main themes and concepts you have discussed in the previous section. This last section of the report should provide an overview of the individualized gaps and an analysis of the possible new solutions that can be implemented to fill the gap between the current and future states of Microfinance in your Country.)

The establishment of a robust social finance market is critical for supporting social entrepreneurs at various stages of development, from initial ideas to scaling established enterprises. The proposed financial instrument within the MICROFUTURE project offers a viable solution to address the current challenges faced by social enterprises in Romania. This instrument aims to diversify financial opportunities and support mechanisms essential for fostering innovation and systemic change across the ecosystem.

Key challenges affecting social entrepreneurship in Romania include a limited support network and a reactive approach among existing players. There is a shortage of dedicated entities to support social entrepreneurs, which hampers their ability to progress through different stages of maturity. Additionally, the responses from current stakeholders often lack proactive collaboration, emphasizing the need for a coordinated effort to create a common agenda.

To overcome these obstacles, organizations involved in shaping the social finance ecosystem must collaborate to enhance access to a variety of financial instruments tailored to the unique needs of social enterprises. Strengthening partnerships between funders and social entrepreneurs will be crucial for driving systemic change. Furthermore, addressing the skills gap for both funders and social entrepreneurs will ensure that all parties are adequately

equipped for success. A collaborative space involving public authorities, support organizations, investors, and social entrepreneurs can foster innovation and development.

The Romanian authorities have increasingly focused on improving the quality of public programs aimed at supporting social enterprises, driven by EU policies that provide funding opportunities and a unified conceptual framework. This framework encompasses definitions, successful policies, and strategies that guide local initiatives. Additionally, private sector involvement has significantly influenced the development of social enterprises, with cross-border cooperation and innovation shaping Romania's social enterprise landscape. Educational programs centred on entrepreneurship and social management have also contributed to creating a supportive environment.

While there have been notable advancements, the existing legislative framework still has room for improvement. The Social Economy Law 219/2015 is seen as somewhat limited, as it primarily focuses on social enterprises and does not fully encompass the wider spectrum of social entrepreneurship initiatives. Additionally, bureaucratic challenges in accessing public funding can shift organizations' attention away from their core missions, emphasizing the importance of reforming the regulatory landscape to better support these vital efforts.

To effectively address challenges, several steps are essential:

- Advocate for comprehensive legislative reforms to streamline bureaucratic processes and fill existing gaps.
- Promote specific regulations and support mechanisms tailored to the needs of social entrepreneurs.
- Enhance transparency and reduce administrative burdens in the funding process, enabling social enterprises to concentrate on their primary objectives.
- Support initiatives that simplify the legal framework for civil society organizations (CSOs) in alignment with the practical needs of social entrepreneurs.

In addition to these measures, national solutions are crucial for advancing social entrepreneurship in both urban and rural areas. The PEO and PIDS programs aim to support the establishment of social enterprises through increased investments. Key initiatives include:

- Investment in Support and Guarantee Schemes: To assist urban individuals aspiring to become entrepreneurs in the social economy.
- Boosting Social Economy Initiatives: Encouraging social entrepreneurship to create job opportunities for vulnerable populations.

Moreover, support for social entrepreneurs can be strengthened through:

1. Business Communities: Engaging granting bodies such as incubators, accelerators, and associations.
2. Public Grants: Developing emerging initiatives that empower youth to participate in social entrepreneurship and launch impact-driven ventures.
3. Innovative Online Platforms: Enhancing access to financing for civil society organizations, thereby fortifying their position in the ecosystem.

The public sector's role is crucial in purchasing services from social enterprises, acting as an investor in social innovation, and developing risk mechanisms such as guarantee schemes. The innovative financial instrument proposed in the MICROFUTURE project, developed by OIRBI in collaboration with FNGCIMM and funded by the ESF 2021-2027, is poised to transform the landscape of social entrepreneurship and microfinance in Romania.

This initiative is designed to enhance the role of social enterprises in the economy, targeting compliance with Law No. 219/2015. With a financial allocation of €99.4 million, this instrument combines portfolio guarantees with grants to support a wide range of loans for eligible beneficiaries. The guarantee can cover up to 80% of loans, while grants may include interest subsidies and technical assistance.

By adopting best practices from successful models, such as the National Microcredit Guarantee Fund from the Metropolitan City of Bologna, this financial tool will revolutionize access to capital for social enterprises, ultimately fostering sustainable growth and development in the sector.

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