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# *Model of social incubation in Romania*

## *National report*

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# Romanian model of social business incubation for entrepreneurs -2021-

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## Summary

In the last fifteen years, social businesses represent one of the main drivers of social inclusion and community development in Romania. Social businesses, and especially social enterprises, are considered as a panacea for various social problems like poverty, unemployment, and employment of vulnerable people. They are an active social inclusion policy instrument, mainly due to their role in social inclusion developed through the European Social Fund.

The study *Models of incubation of social businesses in Romania* aims to analyse the mechanisms and services of incubation and acceleration for social businesses based on their development needs and the main challenges they face. It is the first study dedicated to the analysis of incubation services and methods for social businesses in Romania that have as objectives: 1) Identification of incubation models for social entrepreneurs and social enterprises; 2) Identification of services provided by organisations carrying out incubation and accelerated activities for social entrepreneurs and social enterprises; 3) Analysis of the needs of social entrepreneurs/social enterprises.

The social incubation patterns in Romania were analyzed through an extensive methodology that includes various data collection methods: desk review, secondary data analysis, public policy analysis, in-depth interviews with social enterprises representatives (12) and business's incubators (4) and case studies with business incubators (4).

### Social business in Romania

Social businesses spectrum in Romania includes mainly social enterprises as they are defined in the legislation, but also other economic agents that generate impact on society, the environment and local communities and fulfill the criteria regarding social impact, the use of surplus and democratic governance. The social enterprise label defines a variety of organisations like cooperatives, mutual aid funds, non-governmental organizations that carry out economic activities or companies that have social objectives as well and meet other specific criteria. Social enterprises are a social economy entity which must meet the general criteria and specific ones related to the beneficiaries of activities pursued through social objectives (only members or and non-members), the distribution of 90% of the profit in order to achieve the social purpose and the statutory reserve, involvement in the governance process and other stakeholders.

The public policy framework dedicated to social businesses in Romania includes the general legislation devoted to the social economy, the specific one for each type of social economy entities, as well as related measures targeting social enterprises or businesses with impact over the community. The

general public policy framework is represented by Law no. 219/2015 of social economy which offers recognition of entities that comply with certain principles, regardless of their legal form.

In Romania, between 2010 and 2015 the number of social economy entities increased by around 3000, from 7687 to 10236 (associations and foundations with economic activities, cooperatives, mutual). In 2015 they had more than 44000 employees (44690) (CSDF, 2017; European Commission, 2019).

The main challenges that social businesses face in Romania concern ensuring the funding of a social business in the post-start-up stage, the lack of development programmes for social businesses, the lack of an adequate legal framework for this type of business and the lack of digitalisation.

### **Funds for Social businesses in Romania**

The sources of funding for social businesses in Romania in 2020 are: European funds (through the Human Capital Operational Programme, PNDR), public funds (Start-Up programme), private funds (Lidl, ASHOKA). Mainly the European Funds, which are the main source for financing social enterprises, are focused on the start-up phase, not on the development of new products/services by the existing ones.

The crowdfunding platforms are relatively new in Romania compared to other European countries. There are three ways of funding business ideas through crowdfunding platforms - the donation funding, funding with rewards and equity crowdfunding.

In Romania, a very small number of crowdfunding platforms are currently active. The services they offer are similar from one platform to another, including: easy access to communities of potential investors, validation of the business idea or giving credibility to the sustained cause, promotion of the cause/business idea, constructive feedback from potential investors, media exposure, and consultancy on completing legal steps regarding the investment.

### **Social incubation patterns in Romania**

Given that this concept is a very new one, we cannot say that there is an incubation model. Existing initiatives help entrepreneurs to set up their company, provide them with a space to work (for a fee) and introduce them to the social incubator database to create a network. At the same time, there is no model that includes "steps" or "essential steps" in developing a business as a guide to good practice. Some incubators benefit from the experience of organizations - mothers from abroad, and then the incubation process is structured according to objectives; others are focused on development in terms of starting activity, obtaining funding for start-ups and less on actual development.

### **Legal framework**

The concept of business incubator is a new one in Romania, which is why there is no legal framework for this type of activity.

## Social incubation methods

In Romania the study has identified two categories of programmes: 1) for start-up and 2) for social business development and support for social entrepreneurs, such as incubators and business accelerators.

Programmes that provide support at a start-up stage of developing a social business provide as main services and opportunities: individual coaching and mentoring and consulting sessions; access to methods and working tools specific to social entrepreneurship; learning workshops 360°; generating business ideas; international connection with specialists, entrepreneurs, investors; piloting business ideas; cash prizes; pitch day.

Programmes that provide support for the growth of existing social businesses or business accelerators have as main services and opportunities: funding solutions for the development of business ideas or products (access to European funds, prizes, scholarships, pitch to Business Angels investors); industrial connection for implementation, as well as Community laboratories for prototypes; marketing services, SEO, sales and filming of clips for crowdfunding; individual coaching/mentoring; peer-to-peer consultancy and technical expertise; assessment of the business model, the team, financial audit; interaction with international mentors, networking with international start-ups; market analysis in the countries targeted for scaling and specialised contacts; actual planning (market entry plan, feasibility study, financial forecasts); interaction with international investors and entrepreneurs for the development of projects; preparation and market launch of businesses; entrepreneurial education/training

## Type of social businesses incubated

The type of incubated businesses depends very much on their donors. Social businesses supported by European funds aim to include in the labour market people from vulnerable groups because they are considered an instrument of social and professional inclusion. Thus, the incubation process should also include consultancy regarding the employment of people from vulnerable groups (young NEETs, Roma people, disabled people, long-term unemployed, etc.). The services offered included: training in the field of social entrepreneurship, mentoring, consultancy, companionship in the implementation of the business plan.

In the case of funds provided by private donors, the number is lower also because of the much smaller funds available. Many of the private donors have included this activity in corporate social responsibility activities, which makes the available funds smaller.

### Geographical coverage

Most of the incubators operate at national level, in the sense that the selected businesses are not evaluated by region, but by business plans.

### Uncovered needs for incubation

Two needs that are not covered by incubation procedures and processes were identified in the study: the connection with public authorities and the spaces properly equipped for the development of a business.

### Lessons learned

With regard to crowdfunding platforms, a better understanding and regulation of their business is needed. Excepting the donation funding, other types of crowdfunding activities –funding with rewards and equity crowdfunding – are not quite regulated. The development of the domain also requires an understanding of how it works. This requires an analysis of the existing regulations and an improvement.

The lessons learned by organisations that make incubations for social businesses in Romania are diverse and depend very much on the requirements of the donors, especially in the case of public ones. At the same time, it is also a challenge to ensure adequate funding for the incubation of social businesses. In the case of both public and private funds, the incubation service component is reduced as a share of the total budget.

### Challenges

In incubation and acceleration programmes, there are underdeveloped or lacking services such as: access to bank loans, guarantee programmes, loan funds, support for intellectual property rights and aid with "business etiquette", support for compliance with the regulations in force.

## Main conclusions

The existing incubator and acceleration programmes in Romania offer the majority of the types of services defined in the definitions of these types of organizations: training and help for basic elements in entrepreneurship, networking opportunities, marketing and research support, support for financial management of the business, development of presentation skills and participation in auctions/competitions, access to resources, identification of strategic partners, business angel and investors, access to mentors, consultancy for trading. However, these services are in different stages of development and supply to entrepreneurs and are to a very small extent adapted for social entrepreneurs. The most common types of services and opportunities offered are: consultancy and mentoring, basic training in entrepreneurship, networking, funding for business development from European or private funds (grants, awards). The services developed to a lesser extent are: 360° learning workshops, generation of business ideas, international connections with specialists / entrepreneurs / investors, piloting business ideas.

Among the incubation services and acceleration programmes are those that are not provided to social enterprises such as: access to bank loans, guarantee programmes, loan funds, support for intellectual property rights, support for the creation of an organisational culture and working rules inside and outside the social enterprise, support for compliance with the regulations in force. In addition, the services aimed at business ethics are not sufficiently developed.

Physical spaces dedicated to social incubators or accelerators are extremely few, most of the activities offered take place in competitions/editions of programmes without being a permanent form by which they are provided.

At the same time, social businesses support services provided by public institutions are lacking because of a limited understanding of the field and its importance. There is a need to improve the capacity of public institutions to provide information about and for social enterprises, to provide them with support both for the set up and especially for the development of their products and services, to create a space for the exchange of ideas, etc. Entities managing grants from European Social Fund (ESF) for social enterprises provide the services specified in the funding guidelines which are very limited in quantity and quality.

## Main recommendations

To develop the incubation services for social businesses in Romania, the public authorities should adopt some specific measures:

1. to finance the development of regional incubators and accelerators for social enterprises. These incubators could be developed by public institutions or private ones and their aim will be to provide services for social enterprises start-up or development: training, help for basic elements in entrepreneurship, networking opportunities, marketing and research support, support for financial management of the business, development of presentation skills and participation in auctions/competitions, access to resources, identification of strategic partners, business angel and investors, access to mentors, consultancy for trading, access to bank loans, guarantee programmes, loan funds, support for intellectual property rights, support for the creation of an organisational culture and working rules inside and outside the social enterprise, support for compliance with the regulations in force. The regional incubators will have specific activities for promotion of social enterprises' activities between business sector and general population in order to sustain their activities. They could administrate various grant schemes for social enterprises based on their specific needs in the region and could make partnerships with financial institutions to offer credits for new products/services developed by social enterprises.
2. to create a specific axe within operational programs that support the development of local incubators for social enterprises that also include co-working spaces. These co-working spaces represent one of the main needs mentioned by social enterprises.
3. to diversify the range of incubation services offered to social enterprises within the funding programmes (mainly Operational Program Human Capital)
4. to include a specific action for social enterprises in the programmes dedicated to small and medium enterprises

## CHAPTER 1 – Social businesses in Romania

### 1.1. Social entrepreneurs/ social enterprises/ social businesses

At an international level, social businesses have different forms, being considered the entrepreneurial initiatives that are the answer to the existing issues in the society. They have a positive impact on the society/community, as a result of the social purpose that guides the economic activity. There is no unitary definition of the social business, the social economy angle being mostly discussed in Romania. Based on the definition already existing, at the European level for social business and social enterprise, Romania, after a long period of conceptual debate, decided to define social economy and social enterprise in compliance with the international law as a specific entity. This definition was required in the context of accessing funds from structural European funds dedicated to supporting the social economy and social inclusion. Besides the founding from structural funds, which references social economy and social enterprise, there are a series of donors that support social businesses as they are defined more broadly than social enterprises.

#### Definition of social business

It is quite difficult to create or reproduce a definition of the social business, which would comprise all its elements. "Profit for people" is the expression which defines the best social business, as it is thought through the economic activity, and the profit is invested in order to meet the social needs. The private donors consider that the social businesses are those that have a positive impact on the community, following a social purpose as well, beside the economic one. These social businesses are created as a solution to a social or environmental issue. The way of responding to the social and environmental issues can have different and innovative forms from offering certain services lacking from a community (social, educational, health, environmental protection services, etc.), to making use of the local resources, creating workplaces and hiring people from vulnerable groups.

The definition of social economy used in Romania can be found in article 2 of Law 219/2015, also called the law of social economy. This definition highlights the social purpose of the entity, the economic activity being the way through which the entity finds the undertaken purpose. In the sense of Law 219/2015, social economy represents "the series of activities organized independently of the public sector, of which purpose is to serve the general interest, the interests of certain groups and/or the non-economic personal interests, by increasing the exceptional level of people belonging to the vulnerable group and/or producing and providing goods, services and/or executing works."

The structural funds dedicated to the social economy treat this sector as a tool of social inclusion by integrating vulnerable people into the labor market. Taking into consideration the influence of structural funds in the development of the legal act, the social economy is considered to have as main objectives:

- a) consolidation of the economic and social cohesion;
- b) employment;
- c) development of social services.

The activities from the social economy field are organized independently of the public sector, which makes the initiative belong to the private sector, including non-profit. The initiative is therefore private, voluntary, with a high degree of autonomy and responsibility, however with a refining feature which is different from the market economy: the limited distribution of profit and its use for social purposes.

The concept of social economy is much broader, it includes a series of entities such as cooperatives, mutual aid funds and non-governmental organizations that carry out economic activities or companies (limited liability companies) that have social objectives as well and meet other specific criteria. Social enterprises are a social economy entity which must meet the general criteria and specific ones related to the beneficiaries of activities pursued through social objectives (only members or and non-members), the distribution of 90% of the profit in order to achieve the social purpose and the statutory reserve, involvement in the governance process and other stakeholders. (European Commission, 2020).

**Social enterprises** are legal persons under private law which prove that they comply, according to the legal acts of establishment and organization, cumulatively, with the definition and principles of the social economy provided in law 219/2015:

- priority given to the individual and social objectives compared to the increase of profit;
- solidarity and collective responsibility;
- convergence between the associated members' interests and the general interest and/or the interests of a community;
- democratic control of members, exercised over the performed activities;
- volunteer and free character of the association in the shapes of organization specific to the field of social economy;
- distinctive legal personality, management autonomy and independence from the public authorities;
- allocating the largest part of the profit/financial surplus in order to achieve the objectives of the general interest, of a community or in the personal non-economic interest of members.

**The social inclusion enterprise** is the social enterprise that:

- has permanently at least 30% of the employed staff belonging to the vulnerable group, so that the cumulative working time of these employees represent 30% of the total working time of all employees;
- has as purpose the fight against exclusion, discrimination and unemployment through the social and professional inclusion of deprived people.

### Public policies for social businesses

**The public policy framework** dedicated to social businesses in Romania includes the general legislation devoted to the social economy, and more specific ones for each type of social economy entities, as well as related measures targeting social enterprises or businesses with impact over the community.

The general public policy framework is represented by Law no. 219/2015 of social economy which offers recognition of entities that comply with certain principles, regardless of their legal form. Thus, the law allows the granting of the status of social enterprise to all entities that comply with the following principles (art. 4):

1. priority given to the individual and social objectives compared to the increase of profit;
2. solidarity and collective responsibility;
3. convergence between the associated members' interests and the general interest and/or the interests of a community;
4. democratic control of members over their activities;
5. voluntary and free nature of association in forms of organization specific to the social economy;
6. distinct legal personality, management autonomy and independence from public authorities;
7. allocating most of the financial profit/surplus to achieve the objectives of the general interest, of a community or for the non-economic personal interest of members.

The social enterprise certificate entails the fulfillment of the following criteria (Article 8):

1. acts for the social purpose and/or in the general interest of the community;
2. allocates a minimum of 90 % of the achieved profit to the social purpose and the statutory reserve;
3. commits to transmit the remaining assets from the liquidation to one or several social enterprises;
4. applies the principle of social equity towards employees, ensuring fair payment levels, between which there can be no differences exceeding the ratio of 1 to 8.

Law 219/2015 also introduces a new type of social enterprise, the inclusion enterprise, which aims to integrate vulnerable people into the labor market. These social inclusion enterprises are the Romanian equivalent of work integration social enterprises at European level (WISE – work integration social enterprise).

Each entity which can be considered a social enterprise shall be organized and operate on the basis of its own legislation:

- associations and foundations - Government Ordinance [No 26/2000](#) on associations and foundations;
- grade I cooperative societies - Law [No 1/2005](#) on the organization and functioning of a cooperation;
- agricultural cooperatives – Law No. 21/2019 for the amendment and completion of the Law on agricultural cooperation No. 566/2004;
- credit unions - Government Emergency Ordinance [No 99/2006](#) on credit institutions and capital adequacy;
- employees' mutual aid funds - Law [No 122/1996](#) on the legal regime of employees' mutual aid funds and their unions;
- pensioners' mutual aid funds - Law [No 540/2002](#) on pensioners' mutual aid funds;
- commercial companies – Law No. 31/1990 of companies;

The legislation referring to social enterprises is represented by Law No. 98/2016 of public procurement. Pursuant to article 56 on reserved contracts, the public authorities may reserve the right to participate in contract award procedures only to *protected shelters in compliance with Law No [448/2006](#) on the protection and promotion of the rights of disabled persons, republished, with the subsequent amendments and completions, and to social inclusion enterprises provided for in Law No [219/2015](#) on the social economy*. Unfortunately, the limited knowledge of the law of the activity of social inclusion enterprises makes the implementation of this article almost non-existent at the level of the Romanian public administration (Petrescu, 2019).

A legislation which targets the social and environmental involvement of companies with over 500 employees is that relating to non-financial reporting regulated by the European Directive 95/201 and transposed at national level by the Order of the Minister of Finance No. 1938/2016, which entered into force on January 1<sup>st</sup>, 2017. Thus, the public interest companies "with an average annual number of 500 employees are obliged to publish information on annual policies, risks and results related to environment, gender equality, human rights, anti-corruption measures, but also diversity at management level".

## Data on social economy entities in Romania

Given the diversity of definitions used for social businesses, it is difficult to identify the number of existing entities. If in the case of classic social economy entities – cooperatives, mutual aid funds, non-governmental organizations with economic activity – there is a number of data, the same cannot be said about the commercial companies which also have an economic purpose. In Romania, there are data on:

- cooperatives, mutual aid funds, non-governmental organizations with economic activity until 2015. The data is from the REGIS database administered by the INS, and the last query and data clean-up was in 2017 for the period 2014-2015.
- protected shelters until April 2020 – this includes all entities which have obtained a protected unit certificate from the National Authority for Disabled Persons. These entities are: non-governmental organizations, cooperatives, commercial companies, authorized natural persons, individual enterprises, and public institutions.
- registered social enterprises in the National Register of Social Enterprises administered by ANOFM until April 2020. Here are registered all types of entities which satisfy the conditions of the law and obtain the social enterprise certificate; they can be cooperatives, mutual aid funds, non-governmental organizations with economic activity, and commercial companies.
- social inclusion enterprises registered in the National Register of Social Enterprises administered by ANOFM until April 2020. Here are registered all types of entities which obtain the social mark; they can be cooperatives, mutual aid funds, non-governmental organizations with economic activity, and commercial companies.

The latest official data on social economy entities in Romania are from 2015 when analyses were carried out by REGIS of the National Institute of Statistics. Thus, for the period 2010-2015, it can be observed an increase in the number of active NGOs and those which have developed an economic activity, agricultural cooperatives and craft cooperatives. At the employees' mutual aid funds, there is a slight reduction in the number of units, with the purpose of obtaining greater financial power and making their administrative activity more efficient. Pensioners' mutual aid funds are experiencing a very small increase in their number between 2010 and 2015. In the case of credit unions, the decrease in the number after 2011 is due to their need for reorganization by merger in order to increase their financial and operational capacity, as presented in Table 1.

Table 1. Evolution of the number of social economy entities in Romania between 2010 and 2015

Entity Type	2010	2011	2012	2013	2014	2015
Active NGOs	26322	29656	33670	37679	40838	42707
NGOs with economic activity	2730	3832	4058	4468	4744	5302
Employees' mutual aid funds (CARS)	2737	2542	2569	2602	2502	2412
Pensioners' mutual aid funds (CARP)	203	193	198	201	218	219
Craft cooperatives	857	836	846			885
Consumer cooperatives	958	947	940			925
Credit Unions	75	87	86			67
Agricultural cooperatives	127	275	356			426

Source: FDSC, 2017; European Commission, 2019

Note: there are no data broken down for 2013 and 2014 for cooperative types

Protected shelters experienced a great development between 2008 and 2017 in the context of existing incentives for them (the possibility offered to public and private economic operators with at least 50 employees to buy products from them from the money owed for the non-employment of disabled persons). Thus, after the emergence of this facility, the number of protected units increased from 207 in 2008 to 759 in 2016. In 2017, the facility was eliminated by the Government Emergency Ordinance 60/2017 which caused the number of protected shelters to decrease dramatically. The current number of protected shelters is 27, lower than before the facility appeared in 2006 (Law 448/2006 on the protection and promotion of the rights of disabled persons) when there were 48 protected shelters (Table 2). This decrease in the number of protected shelters is due to the lack of incentives offered and the application of those relating to public procurement through reserved contracts (Petrescu, 2019) presented in Table 2. Evolution of protected shelters in Romania between 2008 and 2020.

Table 2. Evolution of protected shelters in Romania between 2008 and 2020

Protected shelters	2008	2010	2011	2012	2013	2016	2017	2018	2020
Total number of protected shelters	207	481	330	564	667	759	708	308	27
Commercial companies	156	378	245	391	455	406	368	131	12
Structures within commercial companies						89	84		

<b>Structures within NGOs</b>	24	58	56	109	149	204	197	101	9
<b>Craft Cooperative Society</b>	22	24	11	19	19	16	15	13	4
<b>Other forms</b>	5	21	18	40	43	43	43	28	
<b>Public institutions</b>				4	1	1	1	2	2

Source: ANPD, 2016 – 2020; Alaturi de Voi, 2014.

The National Register of Social Enterprises administered by Public Employment Service (ANOFM) included at the end of March 2020 a number of 134 social enterprises, out of which 17 were social inclusion enterprises. Compared to 2018, there can be observed a small increase in accredited social enterprises. Thus, in 2 years, only 21 social enterprises were certified. As per the number of social inclusion enterprises, in the lack of fiscal incentives, the number increased by only 7 units in the two years exemplified in Table 3. Evolution of the number of social enterprises certified on legal forms in the period 2018 – 2020.

*Table 3. Evolution of the number of social enterprises certified on legal forms in the period 2018 - 2020*

Legal form of the social enterprise	March 2018	November 2018	March 2020
<b>Commercial company</b>	37	42	54
<b>Non-governmental organization</b>	54	59	66
<b>Mutual aid funds</b>	6	7	7
<b>Cooperatives</b>	6	7	7
<b>Total</b>	<b>103</b>	<b>115</b>	<b>134</b>
<b>Out of which – Social inclusion enterprises</b>	10	12	17

Source: ANOFM - National Register of Social Enterprises

The number of certified and registered social enterprises represents about 10% of those whose set up and were sustained through the Operational Programme for Human Resources Development (OP HDR) during 2008-2015. According to the data provided to CLNR by National Authority of OP HDR, 1339 social enterprises set up through European funds are set up by the end of 2015 depicted in Table 4. Number of social enterprises set up as a result of the support provided by structural funds offered by OP HDR between 2008 – 2015.

*Table 4. Number of social enterprises set up as a result of the support provided by structural funds offered by POSDRU between 2008 - 2015*

Regional Organisation (OIR)	Intermediate	SES No.	No. of allocated workplaces	Form of organization				
				SRL	SCM	Assoc& Foundations	CAR	Others
OIPOSDRU South East		251	1481	195	4	49		3
OIRPOSDRU South West		175	1196	106	54	15		
OIRPOSDRU Muntenia	South	340	2005	241	4	95		
OIRPOSDRU Ilfov	Bucharest-	67	399	49	8	10		
OIRPOSDRU North West		250	1767	180	4	64		2
OIRPOSDRU Center		256	1484	162	8	60	26	
<b>Total</b>		<b>1339</b>	<b>8332</b>	<b>933</b>	<b>82</b>	<b>293</b>	<b>26</b>	<b>5</b>

Source: Petrescu, 2019

## 1.2. Social entrepreneurship in Romania

### Typology of social businesses in Romania

The idea of setting up a social business in Romania started and was developed based on the issues identified locally, in the community, to which funding and consultancy for implementation and developments are added.

The principles of the social economy are also found *de jure* in the related legislation, which regulates the activity of each individual entity, namely Law 540/2002 on mutual aid funds, the Government Ordinance 26/2000 on associations and foundations, etc., without using *de facto* the concept of social economy in the text of legal acts.

The categories of legal persons governed under private law, which may be social enterprises and social inclusion enterprises, comprise entities operating in Romania since the interwar period, namely: first-degree cooperative societies, credit unions, associations and foundations, employees' mutual aid funds, pensioners' mutual aid funds, federations or unions of legal persons, provided that they have expressly stipulated this aspect in the Memorandum or Articles of Association. The provision in the Memorandum requires its amendment so that the entity can be authorized in compliance with Law 219/2015 and Government Decision 585/2016 on the approval of its methodological rules, as social enterprises or social inclusion enterprises.

**Associations and foundations** are those which have developed the most social enterprises and as a result of the specificity of their activity. They are governed by the Government Ordinance 26/2000 on associations and foundations and are defined as legal persons governed under private law with no economic purpose. Pursuant to the provisions of Government Ordinance 26/2000, the associations and foundations may obtain income that they can use to achieve their purpose from direct (Article 47) or indirect economic activities, respectively by setting up commercial companies in which they are the main shareholders.

In conjunction with **cooperatives**, we cannot say that there is a "patterns" of cooperation in Romania, similar to the patterns existing in other European countries; however, we can say that there are common features with European models, to which the peculiarities of the Romanian society are added. Cooperatives set up after 1990 shall comply with the principles of the social economy, the characteristics, in terms of the legislation governing their activity, being the following:

I. Craft cooperative:

- the legal framework consists of Law 1/2005 with the subsequent amendments and completions;
- represents associations of natural persons who jointly carry out activities of production, trading of goods, execution of works and services, which contribute, directly or indirectly, to the development of the craft activities of their cooperative members;
- variable share capital, which cannot be less than 500 RON;
- a share cannot be less than 10 RON;
- any natural person who has reached the age of 16 may be a cooperative member.

II. Consumer cooperative

- legal framework – Law 1/2005 with the subsequent amendments and completions;
- associations of natural persons who jointly carry out activities of supplying cooperative members and third parties with products they buy or produce and service provision activities to their cooperative members and to third parties;
- sets up cooperative consumer companies through which it carries out its economic activity;
- variable share capital, which cannot be less than 500 RON;
- a share cannot be less than 10 RON;
- any citizen who has reached the age of 16 may be a cooperative member.

III. Credit union

- legal framework – government emergency ordinance 99/2006;

- represents the credit institution established as an autonomous association of natural persons voluntarily united for the purpose of meeting their common economic, social and cultural needs and aspirations, the activity of which is carried out, in particular, on the principle of helping cooperative members;
- the affiliation to a central fund is mandatory. the conditions and procedure of affiliation shall be determined by the articles of association of the central fund;
- any citizen who has full exercise capacity, has his domicile/residence/place of work within the territorial area of operation of the credit union may be a cooperative member, has signed or accepted, as the case may be, its articles of association and has subscribed and paid up at least the minimum number of shares established by the framework Articles of Association;
- the minimum number of founding cooperative members, established by the framework articles of association, may not be less than 1,000. the framework memorandum may provide for the possibility of setting up a credit union with a minimum of 100 founding cooperative members, provided that they subscribe and pay up a total of at least 1,000 shares;
- the nominal value of a share shall be determined by the framework articles of association, but may not be less than 10 RON;
- the shares bear dividends, they shall be paid to the cooperative members, meaning the affiliated credit unions, from net profit, in proportion to the participation in the share capital and corresponding to the period of ownership of the shares during the financial year.

#### IV. Agricultural cooperative

- legal framework – Law 1/2005, Law 566/2004;
- represents associations of natural persons who are set up with the aim of jointly exploiting the agricultural areas owned by the cooperative members, jointly carrying out land improvement works, jointly using machines and plants and making use of agricultural products;
- for the purposes of the law, the term of cooperative member within the agricultural association is defined as *the natural person who submits an application for registration and subscribes to the share capital of the agricultural cooperative the contribution provided for in the Articles of Association; legal persons participating in the set-up of the agricultural cooperative of second degree shall be considered to be cooperative members within those cooperatives;*<sup>1</sup>
- The share capital of the agricultural cooperative shall be at least 500 lei for agricultural cooperatives of the 1<sup>st</sup> degree, at least 10,000 RON for agricultural cooperatives of the 2<sup>nd</sup> degree, and at least 50,000 lei for agricultural cooperatives of the 3<sup>rd</sup> degree, consisting of shares subscribed at accession and paid up in accordance with the Articles of Association. The

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<sup>1</sup> Law 566/2004, Article 9, point (a)

number of shares initially paid up may not be less than 1/10 of the number of subscribed shares and the value of a share may not be less than 10 RON.

**The mutual aid funds** have two forms in Romania – employees' mutual aid funds and pensioners' mutual aid funds.

I. Employees' mutual aid funds

- The legal framework is represented by Law 122/1996 with the subsequent amendments and completions, Law 135/2003, Law 246/2005, Government Ordinance 26/2000, Law 93/2009, as well as the rules of the National Bank of Romania;
- The employees' mutual aid funds are non-economic associations, organized on the basis of the employees' free consent, in order to support and help their members financially;
- The members of employees' mutual aid funds may be only natural persons who are employed;
- The employees' mutual aid funds operate exclusively with their members.

II. Pensioners' mutual aid funds

- The legal framework is represented by Law 540/2002, Law 13/1972 with the subsequent amendments and completions, the rules of the National Bank of Romania, Law 93/2009;
- The pensioners' mutual aid funds may be set up upon the written request of at least 100 pensioners and beneficiaries of social assistance (Law 13/1972);
- Members may only be pensioners and their family members;
- In addition to lending, other secondary economic activities may be carried out: miscellaneous repairs, trade in member stores, provision of services to members, body maintenance, and so on;
- Members shall pay a monthly contribution, as set out in the Memorandum, which represents either a percentage of the monthly amount of the pension or a fixed amount.

The evolution of the society and the economy as a whole, the changes in employment relationships and the demands of employers, the lack of opportunities for individuals to increase their level of education and the alignment with European legislation and European models concerning the social economy has led to the emergence of new entities that meet these needs. Thus, social enterprises and social inclusion enterprises were established in Romania. They are labels offered to certain economic operators which satisfy certain conditions established by the law.

I. Social enterprises

- the legal framework is represented by law 219/2015;

- social enterprises are legal persons governed under private law who prove that they comply, according to the legal acts of set up and organization, cumulatively, with the definition and principles of the social economy;
- the status of a social enterprise shall be recognized after obtaining a certificate. the certificate shall be granted by the county employment agency/employment agency of the municipality of Bucharest if the entity requesting it provides proof that the carried out activity has a social purpose, complies with the principles of the social economy, applies the principle of social equity towards employees (fair payment levels, among which there can be no differences exceeding the ratio of 1 to 8).

## II. Social inclusion enterprises

- legal framework represented by law 219/2015, plus law 31/1990;
- the social inclusion enterprise is the social enterprise which:
  - has permanently at least 30 % of the staff employed belonging to the vulnerable group, so that the cumulative working time of these employees represents 30 % of the total working time of all employees;
  - has as purpose the fight against exclusion, discrimination and unemployment through the social and professional integration of deprived persons;
- acts as a 'launching pad' to the labor market, ensuring qualification in a profession and accumulating a minimum of experience for the employed persons so that they can successfully apply and find a workplace that can meet their needs.

According to the latest report on social enterprises in Romania (European Commission, 2019), only four entities can be considered as satisfying all the criteria: non-governmental organizations carrying out economic activities, pensioners' mutual aid funds, protected units, social inclusion enterprises and cooperatives pursuing the general interest.

The integration into work of vulnerable persons is achieved in Romania through two types of entities: social inclusion enterprises aiming to integrate into work people from vulnerable groups and protected units, which pursue to integrate into work only disabled persons. After the communist period, **protected shelters** were regulated in Romania as a form of inclusion into the workforce for disabled persons. The protected unit label shall be granted to economic operators who have employed disabled persons at least 30 % of all employees. The current legal framework is represented by Law 448/2006 and the Government Emergency Ordinance 86/2008.

## Fiscal incentives for social businesses

Law 219/2015 does not provide fiscal incentives for social enterprises. Given the opinion of policy makers who consider the social economy a form of social and especially professional integration of vulnerable people, a series of incentives are offered to social inclusion enterprises. These incentives, although provided for in the law, are difficult to implement:<sup>2</sup>

- assignment of premises and/or lands in the public domain of administrative-territorial units/subdivisions, in compliance with the provisions of the law on local public administration no. 215/2001, republished, with the subsequent amendments and completions, in order to carry out activities for which the social mark was granted;
- support, in promoting products produced and/or supplied, services provided or works performed in the community, as well as in identifying their outlets;
- support in promoting tourism and its related activities by making full use of the local historical and cultural heritage;
- other incentives and tax exemptions granted by local public administration authorities in compliance with the law;
- social inclusion enterprises, which employ young people at risk of social marginalization, as defined in law no. 76/2002 on the unemployment insurance system and employment stimulation, with the subsequent amendments and completions, are considered inclusion employers and benefit from the incentives provided by law;
- social inclusion enterprises may benefit from support measures, of the nature of state aid, which shall be approved by specific acts, in compliance with community and national state aid provisions;
- state aid support measures for social inclusion enterprises provided for in this law shall be granted in compliance with the national and community legislation in the field of state aid and shall be implemented through the government decision, order of the minister of labor, family, social protection and the elderly or, where appropriate, through the decision of the local council;
- social enterprises and social inclusion enterprises may annually benefit from the programmes to stimulate the set up and development of micro-enterprises in the field of the social economy pursuant to the provisions of article 251(d) of laws no 2/2002 and 346/2004 on stimulating the set up and development of small and medium-sized enterprises, with the subsequent amendments and completions, related to the national programmes for the funding of small and medium-sized enterprises carried out by the central public authority responsible for small and medium-sized enterprises.

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<sup>2</sup> Law 219/2015

A series of incentives provided for in general legislation are also granted to social enterprises, such as:

- exemption from income tax (from wages, self-employment, pensions) for disabled persons (severe or accentuated disability) who are employed (Law 76/2002 on unemployment insurance system and employment stimulation);
- monthly granting over a period of 12 months (18 months in the case of disabled persons) to employers hiring different types of persons from vulnerable groups (unemployed over the age of 45, unemployed who are the sole supportive parents of single-parent families, long-term unemployed or young NEETs, disabled persons) a subsidy, with the obligation of maintaining employment or work relationships for at least 18 months. (Law 76/2002 on unemployment insurance systems and employment stimulation);
- associations or foundations (regulated by Government Ordinance 26/2000) may benefit from tax reductions or tax exemptions on buildings or lands;
- according to the Tax Code (Article 15) a series of income of associations and foundations are exempted from tax, including those from economic activities if they do not exceed the equivalent in lei of EUR 15,000 in a fiscal year, but less than 10 % of the total income exempted from corporate tax.

### **1.3. Challenges and needs of social businesses**

The challenges identified concern ensuring the funding of a social business in the post-start-up stage and the lack of development programmes for social businesses, also, we have identified the absence of an adequate legal framework for this type of business and deficiency in terms of digitalization.

Ensuring the funding of a social business after the completion of the programme (either start-up or grant for the setup of a social business) is a challenge, both to assure the minimum period of sustainability (6 months for the structures set up through POCU) and for development. At the moment, there are no national funding programmes for social businesses; but, there are cases where Romanian entrepreneurs have taken loans from abroad for the development of social businesses (Polish bank institutions offer these types of loans).

Funding programmes for the development of the social business in the period immediately following the start-up stage are necessary in order to ensure opportunities of access to funds for investment and raw materials. After overcoming the start-up period, a social business knows its market, customers and potential customers, and for correcting and improving the products or services produced, it needs capital infusion. At the moment, this capital can be mainly obtained from the banking system in

Romania, but the conditions are not adapted to this type of business, and a small business cannot benefit from such funds because it does not meet the criteria of the banking system. At the same time, there is also a limited understanding of the social business within the banking system which mainly analyses the economic issues, without considering the social ones. The non-governmental organizations that have developed social businesses are the ones that have the smallest access to funds from credit institutions. In some cases, the social businesses have changed their legal form (non-governmental organizations have created a separate company for the social business they own) in order to gain access to funds.

The development of social businesses requires, in addition to the existence of financial capital, a series of other needs including, but not limited to information, creation and improvement of skills. Depending on the stage of development of the social business, the skills required are different. If the skills on creativity and vision were important during the set-up period, then those relating to financial and economic or risk management aspects are important for all the duration of the business. Programmes aimed at improving the skills needed in the post-set-up stages are extremely limited in the case of social businesses. Even if these programmes exist for ordinary businesses, social businesses consider that the specificity of their activity is not sufficiently understood, and especially the social constraints.

The Romanian legislation on social entrepreneurship is based on Law 219/2015 and the provisions of the Tax Code. Although there are provisions related to the social mark, fiscal incentives or subsidies, the Romanian state has not intervened publicly to support social businesses or social entrepreneurs. The system of reserved public procurement is also not complied with or applied, although they are provided for in the existing legal framework (Law 219/2015), and this model is successfully applied in other European countries (the municipality of Barcelona makes 80% of the procurement through this system), (Petrescu, 2019).

The cumbersome legislation is a hindrance to the development of a business, both through the fact that it generates a waste of time for the entrepreneur and because it is difficult to understand every procedure and every regulatory act that regulates, complements or conditions the deployment of the activity. The Tax Code, for instance, comprises many ambiguous provisions, which constitute a hindrance for a young entrepreneur in the development of his business.

The lack of digitization is still a major drawback of the Romanian public administration. The sources of funding for entrepreneurs are not promoted online and are not available locally, the only portal on which this information appears is that of the Ministry of European Funds, but they are not visible there until the launch of calls for projects.

One of the major challenges is working with the target group or people from deprived groups. The low level of education, lack of access to information and resistance to change are obstacles that

entrepreneurs face. Identifying and recruiting the necessary workforce is a real adventure, especially when the entrepreneur wants to select people from vulnerable groups.

The lack of human resources professionals to carry out a good recruitment process has the effect of extending the period between registering at the Trade Register and obtaining all authorizations and operating certificates and starting the activity itself. In this context, the entrepreneur wastes time and implicitly funds. The preparation of human resources and the establishment of the training or perfecting programmes for employees is another neuralgic point, because in the absence of professionals, this task is the responsibility of the entrepreneur.

## CHAPTER 2 – Funds for social businesses

### 2.1. Funding opportunities

Funding is one of the most important issues that any potential social entrepreneur has to deal with. The sources of funding for existing social businesses in Romania in 2020, depending on the donor, are: European funds (through the Human Capital Operational Programmes, PNDR), public funds (Start-Up programmes), private funds (Lidl, ASHOKA). In terms of the amount of funding, the projects implemented through European funds benefit from a funding of up to EUR 100,000 for each social economy structure set up, projects funded through government programmes - a maximum of EUR 40,000, privately funded projects - up to EUR 20,000.

#### European funds

**The Human Capital Operational Programme 2014-2020 (HCOP)** is the most important donor at the moment for social businesses. Provided under Axis 4, Priority 9v, the measures involve funding the establishment of social economy structures that meet certain conditions (<https://mfe.gov.ro/programe/autoritati-de-management/am-pocu/>):

- a newly established social enterprise must consist of a minimum of 5 persons, of which a minimum of 2 persons must have employee status. The remaining persons forming the social economy entity may be members, volunteers, beneficiaries of the services/products provided by the social economy entities;
- minimis aid scheme of EUR 100,000/social economy entity (structure) created;
- activities in the field of agricultural production, primary processing of agricultural products, fisheries and aquaculture, transport of goods and import-export of goods and products are exempted from funding;
- even though the HCOP also aims to fund the development of existing social economy structures, only those involving the establishment of new structures are provided for in the activities detailed in the applicant's guide.

**National Rural Development Programme** – Sub-Measure 6.2 and Sub-measure 6.4 (<https://www.pndr.ro/pndr-2014-2020.html>):

#### *Sub-measure 6.2 – Support for the establishment of non-agricultural activities*

In rural areas the sub-measure provides support for farmers to develop non-agricultural businesses in the area where they live. Without express provisions in the Applicant's Guide, this sub-measure contributes to the establishment of social businesses by funding those projects aimed at creating

workplaces in rural areas by setting up micro and small-sized enterprises and developing non-agricultural activities, including those in the field of services.

The amount of funding granted is EUR 70,000/ project in the case of production, medical, veterinary and agro-tourism activities and EUR 50,000/ project for other activities covered by the application for funding.

#### *Sub-measure 6.4 – Investments in the creation and development of non-agricultural activities*

The purpose of this sub-measure is to fund micro and small-sized enterprises in rural areas, which create or develop non-agricultural activities in rural areas. Existing rural micro and small-sized enterprises, micro-enterprises and small start-ups, which make proof of co-funding, may benefit from funding. The amount of funding is a maximum of 90% of the total cost of the project, without exceeding EUR 200,000/project for 3 fiscal years. Projects are funded for 36 months and the financial results recorded by the applicant in the last 3 fiscal years have been used in the calculation of the funding.

#### **National public funds**

The Start UP Nation programme proposes 100% investment funding for the development of small and medium-sized enterprises and for setting up new businesses, up to a limit of EUR 44,000. While there is no express indication of the funding of social businesses, applicants must provide at least 10% of them to people from vulnerable groups (including disabled persons, unemployed persons, socially excluded persons) in newly created workplaces.

The acquisition of equipment, premises and machinery, consumables and buildings (not intended for housing), fixed and mobile assets, plus expenditure related to patents, training courses, including salaries for new employees (the reference value is the average gross salary per country at the time of application for funding) are funded.

#### **Private funds/ private donors**

Traditionally, private donors have done projects in which they financed social economy structures, but, in recent years, they either refocused on other areas or have no longer provided such amounts in their own budgets.

The largest traditional private donor, OMV Petrom, has completed projects in Tara lui Andrei (Andrei's Country) programme, so far there is no data to support a possible future relaunching. The programmes developed by retailers, Lidl and Kaufland, are aimed at non-governmental organisations, but do not fund the establishment of social structures, they, however, support projects based on specific social actions and certain areas of interest (education, culture, welfare), with a maximum implementation period of 6 months.

Samsung Romania also funds EUR 10,000 in the Changeneers 2020 competition the Romanian IT startups involving mobile technology (may also include non-mobile components - software or hardware) and which, through their activity, bring a positive impact in areas such as: community life, health, education and social protection, environment and energy, accessibility, equal opportunities for work, financial industry.

## 2.2. Crowdfunding opportunities

The crowdfunding platforms are relatively new in Romania compared to other European countries. Crowdfunding is a financing method by which capital can be raised through a collective effort on the part of friends, family, various investors and clients. The term comes from combining the words crowd and funding. In direct translation, crowdfunding would mean funding from the public, meaning supporting a business idea online, with contributors to that platform or the general public as a target group. Therefore, crowdfunding (which in the West also bears the name kickstarter) will be able to call on a group of people or investors to receive the capital injection that an entrepreneur needs to launch or develop a business. Thus, thanks to the money received from the participants (who are also called supporters), the business idea can become a reality.

In practice, crowdfunding is essentially the exact opposite of a classic approach that companies have used until recently for funding. For example, if in the past, an entrepreneur needed a capital increase in order to launch a business or develop a new product, he had to make a business plan or build a prototype from his own funds and then, with that business plan, or with the product prototype, start looking for potential investors. Most of the time, the entrepreneur had to go to wealthy people, companies, banks, or even to TV shows, in an attempt to see his dream come true. A kickstarter programme, launched through dedicated online platforms, will give an entrepreneur the chance to present his idea or layouts to a huge number of users. These users can become investors if the entrepreneur manages to attract them with the data and graphs made regarding the appropriateness and profitability of his business idea.

Although it has become popular quite recently, the idea and principles underlying crowdfunding have a long and rich history, dating back centuries. The microcredits basis was laid in the early 18<sup>th</sup> century by Jonathan Swift, also known as the "father of microcredits", in Ireland. He gathered several people, who used their funds to lend small amounts of money, without guarantees, to the rural population. Jumping in time over 200 years, we arrive in 2008 and 2009, when two of the most successful crowdfunding platforms were established: IndieGoGo and Kick starter. The donors realized the power that the online environment can have in funding small business ideas and have successfully harnessed it. Since then, this instrument is one of the main sources of funding for people who come up with brilliant ideas and, above all, a well-developed business plan.

There are several ways of funding business ideas:

**Funding through donations** is a programme through which money is raised to help certain humanitarian sectors. For example, such programmes are made for non-profit organizations, companies dealing with the restoration of areas after natural disasters or helping to provide medical care to poor people, etc. But, in these cases, supporters do not have a financial gain in return.

**Funding with rewards** provides campaign participants with certain assets in exchange for the invested money, often in the form of products or services provided by the company that places the funding announcement. Even if those who support companies in this way will receive something physical, since the donors do not have a direct financial gain from the invested money, often these findings are also seen as crowdfunding through donation. Entrepreneurs receive money that they can use by offering products or services that exist or will exist in the future. Also, no part of the company is lost (as is the case with the shares) nor does it pay monthly interest (as it happens when entrepreneurs access a credit for legal entities).

**Equity crowdfunding** takes a different approach to other types of crowdfunding previously stated. Unlike crowdfunding programmes with rewards or through donations, those with shares allow supporters to become co-owners of the company they fund by purchasing shares. Thus, they will receive financial rewards in the form of parts of the profit recorded by the company, equivalent to the number of shares held. This type of funding is preferred by many investors, who are looking for new investment sectors through which to diversify their existing portfolios.

In Romania, we have the three mentioned funding models that have detached from the European ones and are used and adapted to the legislation in force by most existing crowdfunding platforms.

## Donations

They are common for social cases promoted either by a non-governmental organization or by another entity. In this case, the person who has a financial contribution becomes a tax donor and is subject to the law on donations and can also benefit from moral recognition from the beneficiary. On crowdfunding platforms, a maximum amount required for the case is generally set, and whether it is reached or not, the amount collected in the account associated with the case goes to the person who requested it on the platform. In Romania, fundraising campaigns through donations have entered crowdfunding platforms because of the visibility and credibility they gain from promotion on such a platform.

*Examples of donation platforms in Romania:*

**Donatie (Donation) (<https://donatie.ro/continut/despre-platforma>)**

In 2012, the Association for Community Relations established the platform and recorded the first donations via SMS. SMS and direct debit donation mechanisms have helped simplify the act of donating, supporting hundreds of causes and tens of thousands of people, and rediscover philanthropy in the 21<sup>st</sup> century.

The platform funds the areas of health, education, protection of children's rights, social and reintegration services for deprived groups, protection and promotion of civil and citizens' rights, advocacy for causes of public interest, intervention in humanitarian disasters and natural disasters, protection of the environment and biodiversity, protection of animals, art and culture, sport for amateurs, youth, social entrepreneurship programmes.

**Galantom (<https://galantom.ro/>)**

The Galantom platform was developed by the Envision Association and the People for Sport Association so that the good people of Romania could easily support the social causes they believe in. This platform is peer-to-peer fundraising that helps raise funds for NGO projects which bring about change in the community. Galantom integrates only social projects of non-profit organizations. The platform uses the direct flow system.

**Sprijina (Support) (<https://www.sprijina.ro/categorii/toate>)**

Launched on July 17<sup>th</sup>, 2015 by a team of entrepreneurs and specialists with online expertise, web development, promotion and fundraising, the platform was created specifically so that Romanians with initiative, both individuals and non-governmental organizations, corporate foundations or companies, can attract funding from those who want to financially and morally support projects of interest.

**Advance payments**

They are used in the case of business ideas/initiatives which result in a business that can invoice services or goods. In this case, the person who makes the financial contribution through a crowdfunding platform will buy in advance, at a reduced price or not, packages of services or goods from the person who initiates the business idea. Because most businesses at that time are not active from the point of view of profit or accounting, these invoices are entered in the book entry separately from regular invoices. This is where the contribution of the crowdfunding platform comes in, which by invoicing the commission, that can vary from 0 to 10% of the amounts recorded, helps to register the book entry by positioning the amounts received in the account of "other income", by accumulating its invoice with those issued by the new business. In the case of this type of funding, if the minimum amount required at

the start of the campaign on the platform is not reached, money is returned to investors by reversing the invoices. This is done to give credibility to the platform, but also to encourage the start-up of businesses that have a success rate as high as possible. In this way, both the investors and the business initiators are protected from failure.

No active crowdfunding platforms have been identified in Romania to use the advance payment system.

### Equity crowdfunding

It involves the disposal of a part of the company in the form of shares to those who fund the business idea. Unlike the other two methods, this allows contributors to become part of the company by placing capital for a package of shares. As equity owners, taxpayers receive a financial return on their investment and ultimately receive a portion of the part in the form of dividends.

*Examples of platforms for funding with shares in Romania:*

#### **SeedBlink (<https://seedblink.com/>)**

Human Finance, the largest funding platform for startups, has created [SeedBlink.com](https://seedblink.com/) which is the first equity crowdfunding platform developed in Romania, focusing mainly on small investments in the local startup ecosystem. The startup provides a key set of information for assessing eligibility. The total amount of funding must be supported at least 50% by a qualified investor, with expertise in the investment or in the startup's field of activity. The actual listing for equity crowdfunding begins after the qualified investor has accepted his share of the investment, a process validated by SeedBlink. Then, there is a due diligence process in which the ownership structure, the financial assessment and the percentage offered in exchange for the investment are defined. Scorecard Valuation is the main tool that can be used to assess a startup, just like any other subjective or objective assessments. The platform does not influence this process, the assessment being the result of a negotiation between the startup and the existing or qualified investors. The assessment being the fruit of a subjective assessment, the startup must come with a reasonable value to make the listing attractive to potential investors. In order to become an investor, a natural or legal person must analyse the idea and the key information about a startup, development plans and financial forecasts. A contract is received with the platform which will have to be signed after a 4-day reflection period. If at the end of the subscription period, the total amount will be close, the round will be closed and all documents will be generated and ready to be signed. The platform takes care of all the bureaucratic aspects of the process.

In Romania, a very small number of crowdfunding platforms are currently active. The services they offer are similar from one platform to another, including: easy access to communities of potential investors, validation of the business idea or giving credibility to the sustained cause, promotion of the cause/

business idea, constructive feedback from potential investors, media exposure, and consultancy on completing legal steps regarding the investment.

Following the analysis of the existing platforms, it was found that the incubation platforms currently active are those which prepare entrepreneurs for accessing crowdfunding platforms or other suitable sources of funding, not only for entering economic life. These incubation platforms are:

- <https://www.startarium.ro/>
- <https://www.impacthub.ro/programe-startup/>
- <https://www.bcr.ro/ro/business/acceleratorul-de-business-innovx>
- <http://www.cicia.nt.ro/?page=1>
- <https://sites.google.com/view/e-startup>
- <https://www.ashoka.org/en-ro/program/impact-academy>

### **2.3. Access to funding for the setup of social enterprises**

All of the funds referred to in the section of Funding Opportunities shall cover in particular the creation/set up of enterprises/social businesses. The most important public funding dedicated to the setup of social enterprises are those of the Human Capital Operational Programme 2014-2020, axis 4, priority 9v. The remaining programmes (National Rural Development Programme, Start-up Nation Programme) encourage the setup of enterprises, which may also include social businesses without any specific mentions of them.

In addition, there is a series of other support programmes for social enterprises aimed at setting up and developing social enterprises. The main categories of services and opportunities through this type of programme are:

- courses and training for business plans and in general for business planning
- European funding or grants for the setup of a social enterprise
- strategies for maximizing profits
- visibility support
- networking
- development of communication and collaboration platforms

#### **"Made in Social" Programme**

Its purpose is creating a platform for communication and collaboration between companies and social businesses by establishing business-to-business contractual relationships which aim at increasing the income of social businesses.

Services/opportunities: Development of social business products/services which include profit maximization strategies, national visibility through a special awareness campaign and catalogue <https://www.madeinsocial.ro/>, dedicated networking events and meetings with key company representatives.

"Made in Social" means through social business any organization that carries out commercial activities and pursues to obtain a profit, but the economic objective is complemented by a social purpose, which helps to solve a problem in society.

Initiators/donors: Impact Hub Bucharest, Impact Hub Zurich, with the support of the ERSTE Foundation.

Period: 2016 (six months)

Impact: 20 start-ups supported in Romania

#### **NESsT Programme for Supporting Social Businesses in Romania**

The programme carried out under the project "The Power of Social Enterprises – Strategic Financial and Capacity Building Support Program for High Impact Social Enterprises in Romania", provides support for the development of existing social businesses that create decent workplaces and/or real income generation opportunities or offer labor market placement services for marginalized groups. <https://www.nesst.org/programul-nesst-unicredit>

Services/opportunities: testing the business model, direct support for brand consolidation and improvement of the marketing strategy, for growth and access new market segments, as well as support for building a solid marketing team, developing management team skills to attract new donors, investors and partners to achieve financial and social impact objectives, support from the NESsT (Business Advisory Network) and NESsT partners.

Initiators/donors: NESsT in collaboration with UniCredit Foundation, UniCredit Bank and UniCredit Business Integrated Solutions.

Period: 2018 - 2020

#### **"Developing partnerships to strengthen social entrepreneurship" Programme**

The overall objective is to strengthen the role of social enterprises, as promoters of positive change towards an inclusive society, transferring knowledge and best practices between Romania and Switzerland. <https://www.nesst.org/romania>.

Services/opportunities: Supporting 10 social enterprises in the business planning process, with a focus on the following areas of impact: achieving sustainable income, inclusion into the labor market and access to basic services (such as water, electricity, sanitation) through affordable technologies; Developing the capacity of 10 social enterprises in Romania within the NESsT portfolio through the use of a new incubation tool and conferences on the social economy; Promoting the social economy and best practices developed through this project, by using the most efficient and professional communication channels.

Initiators/donors: Swiss contribution and NESsT Romania Foundation

Period: 2016-2018

Impact: Ten social enterprises have completed the business planning process; 15 social enterprises have developed their business management skills;

### **Spring Programme, Supporting Roma People's Participation in Community Economic Life through Income-Generating Activities**

Services/opportunities: Courses for a business plan, promotion and sale of products, fund management; Funding with values between 2,000 and 15,000 Swiss francs, depending on the type of business and the impact the business could have on the local development; Consultancy and mentoring throughout the project; Facilitation for those entrepreneurs who want to work together in order to make an associative business so that they can share the same resources or sell their products together.  
<https://www.nesst.org/romania>.

Initiators/donors: Terre des hommes Foundation, PACT Foundation and NESsT Romania Foundation. It is co-funded by a grant from Switzerland through the Swiss Contribution to the enlarged European Union.

Period: May 2013 –present

### **"Made in Tara lui Andrei (Andrei's Country)" Programme**

Social businesses competition aimed at developing sustainable social businesses to create workplaces, long-term income and social and economic development opportunities for people from vulnerable groups.

<https://www.nesst.org/romania>

Services/opportunities: The NESsT Foundation provides support to people and teams competing for the development of ideas, market studies, feasibility studies and business plan. The competition offers grants with a total value of EUR 700,000 for the development of social businesses, and 20 winners have

been further supported in the implementation of business plans through a 1-year consultancy for business launching and trainings on financial management, legislation, sales, marketing and promotion, performance management

Initiators/donors: OMV Petrom in partnership with the NESsT Foundation

Period: 2013-2017

Impact: Two editions: 20 social affairs created, 60 workplaces created, EUR 700,000 fundings, 55 business plans developed <https://www.taraluiandrei.ro/fabricat-in-tla>

### **"Development of Food Hubs" Programme**

A group of non-governmental organizations in Romania develops and guides models of Food Hubs, integrative centers of local products, as sustainable economic alternatives for small rural producers, implementing business plans in five regions and strengthening start-ups. The RAF offers grants to the five facilitation organisations selected to implement and adapt the proposed Food Hub models, supporting small farmers with a viable local economic model.

Services/opportunities: Ten NGOs with experience in rural development and motivation in setting up a FoodHub have received support for market research, technical and legal training, best practice analysis and to develop business plans

Initiators/donors: Romanian American Foundation (RAF) contributes LEI 1,446,348

Period: January 2017-February 2021

There are added to these programmes those dedicated to social entrepreneurs, whose objective is the personal and professional development of social innovators. The main services and opportunities in this category of programmes are:

- Mentoring and individual coaching to develop a social business idea or a social business
- Training in the field of social entrepreneurship
- Connect with experts, experienced entrepreneurs
- Direct work with an experienced entrepreneur
- Support for social business design/plan
- Developing skills needed to develop a business (e.g. pitching)
- Scholarships

### **MYNNOVA Project**

It has developed a multilingual international mentoring platform for young social innovators, euromentor.eu. <https://euromentor.eu/ro/wp-content/uploads/2018/11/mynnova-policy-guidelines-ro.pdf>

Services/opportunities: Provides mentoring services from entrepreneurs and specialists with international experience.

Initiators/donors: Implemented in Romania by Junior Achievement Romania, by Erasmus+, Grant Agreement No 2016-2-RO01-KA205-024839, in partnership with Law and Internet Foundation, Bulgaria, Celinski Mladinski Center, Javni Zavod Mladinsko Kulturo, Isobrazenje, Informiranje in Sport, Slovenia, priME Academy AG, Germany, University of Nicosia, Cyprus

Period: December 2016 - September 2018

### **"The Ashoka Visionary Program" Programme**

Programme dedicated to those who deal with innovation and special entrepreneurs and who are (political) leaders in the public and private sector. The programme has a duration of 9 months, costs EUR 10 000 (also offers scholarships). <https://ashoka-cee.org/visionary-program/>.

Services/opportunities: The participants are exposed to group work, case studies, peer-reviews, coaching, mentoring and will be involved in activities with leading social entrepreneurs. There are two options of the programme: direct/field work with the social entrepreneur or the development and design of a social business.

### **"Ashoka Fellows" Programme**

Permanent support programme for social entrepreneurs from 2018. <https://ashoka-cee.org/romania/wp-content/uploads/sites/8/2018/03/Exploratory-for-Website.pdf>.

Services/opportunities: The programme identifies and recognises social entrepreneurs, offers scholarships over a period of three years, provides industry know-how, visibility at events, participation in speeches and events, media articles, access to funding.

Initiators/donors: Ashoka

Period: 2018-present

### **"Changeneers" Programme**

It is a competition for tech entrepreneurs who use technology to improve community life.  
<https://changeneers.ro/competitie/>.

Services/opportunities offered: A prize of EUR 10 000 and mentoring services are offered to define the business model, support webinars, development of pitching skills, recommendations and suggestions for the development of the business with social impact from mentors/experts.

Initiators/donors: Impact Hub Bucharest, Samsung Romania.

Period: 2018 - present

Impact: Two completed editions, the third in progress, annually about 40 start-ups entered, 12 finalists and a prize of EUR 10 000.

### **Erasmus for Young Entrepreneurs Programme**

International experience exchange programme for a period of between one month and six months. The period is set by the two entrepreneurs (the new entrepreneur and the host entrepreneur according to the learning/development objectives jointly agreed). The programme is not dedicated to social entrepreneurs, but social entrepreneurs and businesses with social impact, cooperatives, etc. are eligible categories.

Services/opportunities offered: Scholarships worth approximately EUR 900/month covering transport, accommodation and food expenses during the journey

The programme covers funding for the "experience exchange", individual coaching/mentoring for the development of the business idea, for the acquisition of business management skills. It is a collaboration through which entrepreneurs can discover new European business markets or partners (e.g. joint ventures, subcontracting activities, contractor-supplier relations, etc.).

Initiators/donors: European Commission

Period: 2009-present

Impact: Around 500 new entrepreneurs in Romania have benefited from an experience exchange in other EU countries (there is no number of social entrepreneurs in Romania, but there are figures showing that about 4% of new entrepreneurs in Europe are in the social economy sector).

## 2.4. Access to funding for the development of the social enterprise

There are currently no funds for the development of social entrepreneurship and/or launched social enterprises, although there have been initiatives in this regard. The initiatives were born as measures for supporting entrepreneurs in developing activities for the acquisition of buildings – business units and registered offices, equipment or software useful in services and trade, being funded from European funds and the national budget.

### 1. Services and Trade 2020 Programme

This programme aims at the development of economic structures with a minimum age of 2 years, falling into the SME category (small and medium-sized enterprises). The maximum allocated amount is LEI 250,000, which represents a maximum of 75% of the value of a project, the remaining 25% being the applicant's own contribution.

You can purchase through this program IT equipment (laptop, printer, monitor, server), barcode readers, electronic scales, cash registers, machines, plants and work installations, electro and moto forklifts, furniture, vans, web pages.

### 2. Operational Competitiveness Programme, launched in August 2020

The grants offered under this programme are intended to provide small and medium-sized enterprises with the liquidity necessary to continue working, to keep workplaces and to encourage investment in the future through the State aid scheme. Social entrepreneurs and/or social enterprises can access these grants only to the extent that they fall into the SME category, meaning that they have less than 250 employees and record turnovers of less than EUR 200,000 in the last 3 fiscal years.

State aid shall be granted by means of the following measures:

- EUR 100 million for microgrants: SMEs without any employees, authorised natural persons (PFA) and NGOs with economic activity in the cultural-artistic and cinema fields, individual medical offices involved in the treatment of patients infected with COVID.
- The value of a microgrant will be EUR 2,000 and the estimated number of beneficiaries is max. 50,000.
- Grants for working capital amounting to EUR 350 million (amount including contribution from the state budget and beneficiaries) for SMEs in fields such as: HoReCa, transport services, event industry, publishing houses and libraries. The estimated number of beneficiaries is up to 100,500.
- EUR 550 million for investment grants (including contribution from the state budget and beneficiaries) for: SMEs in the food industry, energy, equipment, care services, repair and

maintenance, tourism, hotels, clothing, etc. Their value will be between EUR 50,000 and EUR 200,000, depending on the funding needs of investment projects submitted for funding contracting. The estimated number of beneficiaries is up to 15,000.

The implementation of the State aid scheme will be provided by the Ministry of European Funds, as the Management Authority for the Competitiveness Operational Programme and the Ministry of Economy, Energy and Business Environment (MEEMA), in partnership with the SME Agencies, Investment Attraction and Export Promotion (AIMMAIPE).

These programmes may be sources for the development of social businesses only if the conditions provided for in the Law 31/1990 on commercial companies and the provisions of the Applicant's Guides for each programme are fulfilled.

There are added programmes, aimed at developing social enterprises with a focus on social impact or solving social issues in a community, such as climate change, the problem of poverty and lack of workplaces among Roma people or other vulnerable groups, support for deprived categories (small rural producers), etc. The main opportunities offered under this category of support programmes are:

- competitions
- prizes
- funding for the implementation of the business idea
- consultancy and mentoring
- instruction and training for business plan, promotion and sale of products

### **"Climaton Bucharest" Programme**

It is an event dedicated to climate change and the impact on the city, which takes place simultaneously in the main cities of the world, which tries to solve the biggest challenges in a 24-hour hackathon. <https://www.impacthub.ro/event/climathon-bucharest/>.

Services/opportunities offered: Prizes worth EUR 10 000.

Initiators/donors: Impact Hub Bucharest.

Period: 2019 - present

Impact: 2019 edition - 30 participants from Bucharest, two prizes of EUR 5000 for two projects: "Acoperisul Verde (Green Roof)" and "Agora".

## CHAPTER 3 – Models of social incubation

### Legal framework

The concept of a business incubator is a new one in Romania, which is why there is no legal regulatory framework for this type of activity.

One of the definitions given to business incubators is that it is "*a place where newly created companies are focused on a limited space. The objective is to increase the chances of development and survival rate of these companies by providing a space with the necessary incentives and utilities, managerial support and assistance services*" (European Commission, 2002, Benchmarking of business incubators, Centre for Strategy and Evaluation Services).

We note that where national legislation does not cover legal acts, methodological rules of application or decisions/orders of relevant ministries regulating an area or activity, we have used as a reference point the European Union legislation (reports, recommendations, decisions, and directives).

The business accelerator is, in the European Commission's view, an 'instrument which supports SMEs, top innovators and scientists to develop and market new innovative products and services and business models that could lead to economic growth through funding opportunities and coaching and mentoring acceleration services, connecting with investors, corporations and entrepreneurs with the same vision'. The services offered by accelerators include market studies, prototyping, validation, real market testing and market replication.

As mentioned above, every form of crowdfunding existing in Romania is carried out on the basis of specific legal provisions or the Tax Code.

The funding through donations is governed by Law No. 32/1994 on donations which provide that:

- **The sponsorship** is the contract under which the sponsor provides the beneficiary with goods or financial means to support non-profit activities. This transfer is carried out by the sponsor for the purpose of promoting its image, brand or products. The sponsorship contract shall be concluded in written form specifying: the object, value (including the assessment of the sponsored good, if any), the duration of the sponsorship, as well as the rights and obligations of the parties. Sponsorships may be granted under certain conditions provided for by law and to certain categories of beneficiaries expressly provided for by law. Any citizen or legal-age person in Romania or abroad may be sponsored according to the law. They may be beneficiaries of sponsorship in compliance with the law: any non-profit-making legal person, institutions and public authorities, including specialized public administration bodies for the above activities; and

Broadcasts or programmes of television or broadcasting organizations, as well as books or publications in the aforementioned fields;

- **The sponsorships** are not considered a taxable income **for beneficiaries** who are non-profit entities that operate and are organized in accordance with the applicable legal provisions if they are granted in compliance with the law. Sponsorship expenses are expressly provided by the Tax Code as non-deductible expenses **for the sponsor**. However, the sponsor may benefit from a tax credit on the granted sponsorship, within certain limits.
- **The donations** are governed by the Civil Code. As a rule, donations with a value of RON 25,000 (approx. EUR 5,600) must be drafted in authentic form (notarized). For this purpose, notarial expenses may be charged (up to 1% of the value of the donation up to a certain threshold). The donations are not considered a taxable income for **beneficiaries** who are non-profit entities that operate and are organized in accordance with the applicable legal provisions if they are granted in compliance with the law. Fiscal incentives are not regulated in Romania to encourage the granting of donations. The donor cannot deduct the costs of the donation and will be obliged to collect the appropriate VAT on the donated goods.

The funding with rewards is based on Order 3055/2009 for the approval of Accounting Regulations in compliance with European Directives. In paragraph 181 of Chapter 8.4 Third parties, it is stipulated that: the advances granted to suppliers, as well as those received from customers, shall be accounted for in separate accounts. The advances granted to providers of assets shall be reflected separately from advances granted to other suppliers.

The funding with shares is aimed at giving a share of the future company to those who are interested in the proposed idea. They basically become shareholders when the social company is set up.

## Methods of social incubation

In the Romanian entrepreneurial education environment, we have identified two categories of programmes for start-up and social business development and support for social entrepreneurs, such as incubators and business accelerators, which fall within the above definitions.

*Programmes that provide support at an early stage of developing* a social idea and focus in particular on creating an ideal environment that propels a social business at the beginning of the road, incubators or incubation programmes. The main services and opportunities offered in this category of programmes are:

- individual coaching and mentoring and consulting sessions
- access to methods and working tools specific to social entrepreneurship
- learning workshops 360°

- generating business ideas
- international connection with specialists, entrepreneurs, investors
- piloting business ideas
- cash prizes
- pitch day

### **Human Capital Operational Programme**

The Human Capital Operational Programme aims to support 2000 social enterprises, 1600 of which will be set up as a result of the support provided. Through POCU/449/4/16/ Strengthening the capacity of social economy enterprises to operate in a self-sustainable manner – "Support for the setup of social enterprises", 116 projects aimed at creating at least 10 social businesses are funded.

The services offered are: training in the field of social entrepreneurship and/ or social enterprise manager, mentoring, coaching, consultancy and support for set-up, support for the implementation of the business plan, monitoring and accompanying social businesses.

### **"Social Impact Award", SIA Programme**

Regional competition and incubation programme dedicated to the education in social innovation and competition of ideas for young people who want to make a change in society.

Services/opportunities: Individual coaching and mentoring sessions are offered, access to working methods and tools specific to social entrepreneurship and cash prizes (three prizes of EUR 1500 each).

Initiators/donors/organizers: Social Innovation Solutions, Global Shapers Bucharest Hub, Enel Romania, Impact Hub Bucharest (first four editions), ERSTE Stiftung, University of Vienna.

Period: 2012-2017

Impact: Eight editions, 2016 - 500 young participants, 9 finalist teams, three teams received EUR 1500 each; 2017- 350 young people, 17 finalist teams.

### **"Future Makers" Programme**

Future Makers is an educational entrepreneurship programme that includes a competition of forward-looking business ideas aimed at young people between the ages of 16 and 29 and engages pupils, students, young professionals in thematic entrepreneurial workshops, across the country.  
<http://futuremakers.ro/>

Services/opportunities: 360 learning workshops (generating business ideas, searching for sustainable solutions for the present and future, connecting with inspirational entrepreneurs, discussing business plans) four-month incubation programme, mentoring, international connection and a EUR 20,000 prize competition

Initiators/donors: implemented by Global Shapers Bucharest and Social Innovation Solutions with the support of the Coca Cola Foundation, Raiffeisen Bank Romania,

Period: 2018-present

Impact: Two editions, 3494 participants, 21 cities, 243 business ideas entered in the competition, 105 finalist teams, 14 winning teams.

### **JA Bizz Factory**

Educational business incubator in which young people (from schools and faculties in Romania) prepare for the national final at the National Final Company of the Year of Junior Achievement. <https://www.jaromania.org/competitii/ja-company-of-the-year-2020>

Services/opportunities: During the incubation period, pupils and students receive consultancy (such as experiential learning: work sessions, office hours, webinars) from business specialists from companies.

Initiators/donors: JA Romania

The 2019 edition was funded by Accenture, Citi, EIT RawMaterials, EY, ManpowerGroup, Metropolitan Life, Monsanto Fund, Romanian American Foundation and FedEx.

Period: 2016 - present

Impact: 2019: 1030 students and 81 participating educational institutions, 226 start-ups

In 2016, Romania won the grand prize at the JA Europe Enterprise Challenge 2016 (students section), for the development of a smart outlet that prevents the power supply of various appliances when they are on stand-by, and the award of excellence in IT at JA European Company of the Year 2016 (students section), for the development of smart glasses that help the blind or people with high vision impairment to integrate more easily into the environment.

### **Aspire Incubator**

The incubator (pre-accelerator) of the Inspire Academy Organization <https://www.aspireacademy.ro/>, runs over a period of six months and is open only to the Aspire community (movers). The Aspire community is defined by values such as "Strive to go back to the community" which means bringing

positive change to the community by engaging in social projects or developing sustainable businesses. The Aspire Community is defined as a community with a common commitment to excellence and social impact. “Aspire Community is a shared commitment to excellence and societal impact.” <https://start-up.ro/aspire-incubator-opportunitate-pentru-tinerii-care-vor-sa-dezvolte-un-business/>.

Services/opportunities: Six-month programme offering entrepreneurial education (two training periods and two large bootcamp events), connecting with investors, acceptance in the Aspire community, 800 members from 40 countries offering coaching and resources for entrepreneurship (among mentors are professors from Harvard and Stanford). The programme ends with a pitch day.

Initiators/donors/organizers: Inspire Academy

Period: 2017- present

Impact: 1000 alumni, 2500 applicants, 70 speakers of 51 nationalities.

*Programmes that provide support for the growth of existing social businesses or business accelerators:*

The main services and opportunities offered in this category are:

- funding solutions for the development of business ideas or products (access to European funding, prizes, scholarships, pitch to Business Angels investors);
- industrial connection for implementation, as well as Community laboratories for prototypes;
- marketing services, SEO, sales and filming of clips for crowdfunding;
- individual coaching/mentoring;
- peer-to-peer consultancy and technical expertise;
- assessment of the business model, the team, financial audit;
- interaction with international mentors, networking with international start-ups;
- market analysis in the countries targeted for scaling and specialized contacts;
- actual planning (market entry plan, feasibility study, financial forecasts);
- interaction with international investors and entrepreneurs for the development of projects;
- preparation and market launch of businesses;
- entrepreneurial education/training;

#### **Incubator for nutrition and healthy beverage companies**

<https://start-up.ro/incubator-pentru-companii-de-nutritie-si-bauturi-sanatoase/>

This incubator is intended to support the growth and development of food and beverage brands dedicated to nutrition and a balanced lifestyle ([www.nutritiongreenhouse.com](http://www.nutritiongreenhouse.com)).

Services/opportunities: 1) Identification of eight (8) innovative brands in the nutritional sphere: Consultancy from PepsiCo experts; 2) scholarships worth EUR 25,000 for each company and the opportunity to participate at various events for six months. At the end of the programme, the winning company is awarded EUR 100,000, with the opportunity to continue its expansion.

Initiators/donors: PepsiCo

Period: 2017

### **ICAR (Innovation and Applied Research in Romania)**

<https://www.facebook.com/ICARzaibatsu/>

ICAR is an incubator for inventors, it is a network of decentralized inventors that offers peer-to-peer funding, consultancy and technical expertise, industrial connection for implementation and community laboratories for prototypes.

Services/opportunities: 1) peer-to-peer funding, consultancy and technical expertise solutions, meaning that the teams can learn from each other, industrial connection for implementation, as well as community laboratories for prototypes; 2) Provides marketing services, SEO, sales and video shooting for crowdfunding (Future Makers finalist).

Period: 2017

### **Commons Accel**

Commons Accel is an accelerator of sustainable business ideas in the fields of education and innovation, sustainable cities and communities, responsible business and medical technology. Each edition is provided two and a half months for participants selection, two months for training and 12 months for post completion programme support. <https://commonsaccel.ro/>.

Services/opportunities: one-on-one coaching, dedicated mentors, access to experts from various industries, marketing, internationalization and support for scaling, 75 hours of intense training and workshop, funding opportunities, opportunity to pitch to Business Angels representatives.

Period: 2019 - present

Impact: 15 alumni (<https://commonsaccel.ro/alumni>) 4 investments, 2 European funding, four awards.

### **"Impact Hub Scaling" Programme**

Project of eight hubs in Europe to help 100 social entrepreneurs climb and increase their social impact. <https://scaling.impacthub.net/about/>.

Services/opportunities: assessment of business model, team and financial audit; interaction with international mentors; market analysis in the countries targeted for scaling and specialised contacts; actual planning (market entry plan, feasibility study, financial forecasts).

Initiators/donors: Impact Hubs in Bucharest, Amsterdam, Athens, London King' Cross, Madrid, Stockholm and Vienna.

Period: 2015

### **"Impact Startup Factory" Programme**

It is an accelerator which identifies and supports business ideas whose products, services or technologies bring benefits to the planet and communities. <https://www.impacthub.ro/programe-startup/>.

Services/opportunities offered: The program provided mentorship, testing and validation sessions of businesses on the market and presenting projects to a jury made up of members of the mentor team, six-team fellowship, which includes a two-day visit to Zurich to interact with investors and international entrepreneurs for project development, an intensive 4-month business preparation and market launch programme.

Initiators/donors: Impact Startup Factory is a programme developed within the Social Impact Incubator project, being co-funded by a grant from Switzerland through the Swiss Contribution to the enlarged European Union of CHF 73,116.72, of which CHF 8,178.28 is the own contribution of the organizers of Impact Hub and Impact Hub Zurich. <https://www.startupcafe.ro/stiri-idei-21617282-8-startup-uri-finalistele-programului-impact-startup-factory.htm>.

Period: 2016

Impact: eight sustainable businesses in Romania from different fields of activity are the finalists of the Impact Startup Factory acceleration program.

### **"Innovators for children" Programme**

It is a programme designed to accelerate tech start-ups that bring a positive impact on the health and wellbeing of children and teenagers through scalar innovation. <https://innovatorsforchildren.org/>.

Services/opportunities offered: Specific workshops, mentor feedback sessions, webinars, networking conference, prizes with a total value of EUR 100 000, mentoring, training and access to the Impact Hub community for winners.

Initiators/funders: Impact Hub Bucharest. Botnar Foundation, Impact Hub Basel

Period: 2019 - present

Impact: In the 2019 edition: 120 applications, 12 participants who had workshops, four winners who were funded with 100 000 euros in total.

### **European Social Innovation Challenge**

It is a European competition which aims to come up with solutions to the problems that affect society.

[https://ec.europa.eu/growth/industry/policy/innovation/social/competition\\_en](https://ec.europa.eu/growth/industry/policy/innovation/social/competition_en)

and <https://eusic.challenges.org/>

Services/opportunities: mentoring for the development of business ideas for 30 businesses entering the European semi-final; 10 finalists at European level receive a prize of EUR 50,000 each and an additional impact prize of EUR 50,000 for the business that has had the best results after one year of activity. Applicants pay EUR 399 to be received in the accelerator.

Period: 2013 - present

Impact: Seven editions of the programme

### **Types of incubated social businesses**

The type of incubated businesses depends very much on their donors. Social businesses supported by European funds, whether in urban or rural areas, must also aim at the social inclusion of people from vulnerable groups. Since funding is aimed in particular at the social inclusion of vulnerable groups and the increase in the employment of these people, social businesses are considered an instrument of social and professional inclusion. Thus, the incubation process should also include consultancy regarding the employment of people from vulnerable groups (young NEETs, Roma people, disabled people, long-term unemployed, etc.). The services offered include: training in the field of social entrepreneurship, mentoring, consultancy, companionship in the implementation of the business plan. The number of incubated businesses created through POCU by 2022 will be 2000. Each entity that will incubate social businesses can also provide peer support services or a communication platform through which social entrepreneurs can communicate and learn from other experiences.

In the case of funding provided by private donors, the number is lower also because of the much smaller funds available. Many of the private donors have included these initiatives in corporate social responsibility activities, which make the available funds smaller. However, the offered services are much more and include: marketing services, SEO, sales and video shooting for crowdfunding, individual coaching/mentoring, peer-to-peer consultancy and technical expertise, assessment of business model, team-building, financial audit; interaction with international mentors, networking with international start-ups; market analysis in the countries concerned for scaling and specialized contacts; actual planning (market entry plan, feasibility study, financial forecasts); interaction with international investors and entrepreneurs for project development; business preparation and market launch; entrepreneurship education/training.

Among the presented business incubators, ICAR, Incubator for Nutrition and Healthy Beverage Company and Commons Accel have a defined target group, as well as a business model they support. This business model is related to the business areas supported, but they have one thing in common: each of these 3 incubators points to community intervention. An exact model of the supported business cannot be outlined, but given the nature of the intervention, it can be said that businesses at the beginning of the road are funded, which pursue to develop both in terms of funding and in particular the development of the range of products, traded goods and/or services.

### **Geographical coverage**

At the time of the research, no incubators or business accelerators were identified as acting only locally, or only regionally. All the presented incubators operate at national level, in the sense that the selected businesses are not evaluated by region, but by business plans.

### **Resources involved**

The resources involved in supporting social entrepreneurs start at EUR 10,000 (the programme made in Tara lui Andrei (Andrei's Country) - OMV Petrom) and reach up to EUR 100,000 (Human Capital Operational Programme - Ministry of European Funds). Along with the financial resources, each donor shall involve its own human resource in both the intervention description and the assessment part.

### **Needs of social enterprises not covered by existing incubation models**

The qualitative research carried out highlighted two needs that are not covered by incubation procedures and processes, as implemented: the connection with public authorities and the spaces properly equipped for the development of a business.

The connection with public authorities is difficult to achieve under a limited understanding of the concept of social business within public institutions. In this context, the big majority of public institutions treat social businesses as normal enterprises. In the case of existing businesses, the connection with

public authorities is not made because at the start of the incubation activity, the entrepreneur has already set up the business, at least from a legal point of view: it is registered at the Trade Register, it has a Memorandum, the business has a main NACE/CAEN code and secondary NACE/CAEN codes, there is an account for the established legal person and the share capital is subscribed and paid up.

The spaces made available, at least in the case of ImpactHub, are available for a fee, in the form of a modest monthly rent, which include an office and internet access, the rest of the equipment being brought by the contractor (laptop/desktop, printer, etc.). The incubator participates with the mentoring, coaching, development ideas, marketing strategies, communication or promotion, and networking. From this point of view, it can be said that incubation involves a model based on coaching, mentoring and networking, meaning a support on the skills and knowledge development side, at the expense of mentoring based on the development of the material base of the newly set up business.

### **Challenges and lessons learned for the incubation of social businesses**

In regard to crowdfunding platforms, a better understanding and regulation of business is needed. Excepting the donation funding, other types of crowdfunding activities –funding with rewards and funding with shares – are not quite regulated. The development of the domain also requires an understanding of how it works. This requires an analysis of the existing regulations and an improvement.

The lessons learned by organizations that make incubations for social businesses in Romania are diverse and depend very much on the requirements of the donors, especially in the case of public ones. At the same time, it is also a challenge to ensure adequate funding for the incubation of social businesses. In the case of both public and private funds, the incubation service component is reduced as a share of the total budget.

In the case of projects funded by the POCU, the following are necessary:

- extension of the types of eligible incubation activities offered to social enterprises;
- greater flexibility in incubation services offered to social enterprises so that they can be customized according to the specifics of each entity;
- wider range of support services offered to post-set-up social enterprises – including accompanying, support in the implementation of the promotion/sales strategy, in the selection and management of human resources (especially that of vulnerable groups);
- a development of support services for the recruitment and retention of vulnerable people in social enterprises – the condition relating to the employment of people from vulnerable groups is quite difficult to achieve because it requires tailored workplaces for disabled people, it requires workplaces that do not involve a high level of skills if people with a low level of

education are employed, etc. There are no consultancy services to maintain and motivate people from vulnerable groups in social enterprises.

After the end of the funding period, ANOFM and AJOFM services dedicated to social enterprises should be developed to ensure their sustainability and enable the development of the offered products/services.

For other types of funding, an important aspect to be developed concerns the social impact of the social business. Most of the time, they are seen either as charitable organizations that should not profit or as economic enterprises that should target profit mainly and develop the social component as a secondary one. More information is needed in this area for private donors.

Incubation and acceleration programmes, are underdeveloped or lack services such as: access to bank loans, guarantee programmes, loan funds, support for intellectual property rights and an absence of aid with "business etiquette", or support for compliance with the regulations in force.

## Conclusions and recommendations

In order to develop, social businesses need adequate funding in both the start-up and post-set up phases, as well as incubation and acceleration programmes that increase their capacity to supply products and/ or services, streamline their work and support them in implementing social objectives. Although progress has been made in Romania in recent years in regulating the activity of social enterprises, the related legislation (fiscal incentives, acquisitions with reserved contracts) which would help increase the capacity of the sector is still underdeveloped or in implementation. At the same time, public sector development initiatives are greatly centered on the development of social enterprises as tools for inclusion into the labor market of people from deprived groups and for increasing employment.

The existing incubator and acceleration programmes in Romania offer the majority of the types of services defined in the definitions of these types of organizations: training and help for basic elements in entrepreneurship, networking opportunities, marketing and research support, support for financial management of the business, development of presentation skills and participation in auctions/competitions, access to resources, identification of strategic partners, business angel and investors, access to mentors, consultancy for trading. However, these services are in different stages of development and supply to entrepreneurs and are to a very small extent adapted for social entrepreneurs. The most common types of services and opportunities offered are: consultancy and mentoring, basic training in entrepreneurship, networking, funding for business development from European or private funds (grants, awards). The services developed to a lesser extent are: 360° learning workshops, generation of business ideas, international connections with specialists / entrepreneurs / investors and innovative business ideas.

Among the incubation services and acceleration programmes are those such as: access to bank loans, guarantee programmes, loan funds, support for intellectual property rights, support for the creation of an organizational culture and working rules inside and outside the social enterprise, support for compliance with the regulations in force. In addition, the services aimed at business ethics are not sufficiently developed.

Physical spaces dedicated to social incubators or accelerators are extremely few, most of the activities offered take place in competitions/editions of programmes without being a permanent form by which they are provided. The lack of permanent sources of funding dedicated to social businesses make incubation services not sufficiently developed. Considering the definition of the social incubator provided by the workshop “Best Practices in Incubator Infrastructure and Innovation Support” held in Helsinki in 1998, which stipulates that *“the business incubator is a place where newly created companies are concentrated on a limited space. Its objective is to increase the development chances and survival rate of these companies by ensuring a modular building that has the necessary utilities (telephone, fax,*

computers) and where managerial support and assistance services are offered. The main goal is local development and job creation", it can be observed that the social business incubators in Romania are in an early stage of development. There is an orientation of incubators that also offers spaces for entrepreneurship to the creative industries, but there are areas such as agriculture and related services that are avoided due to risks or lack of specialists, which leads to a segmentation of potential entrepreneurs. Services involving the provision of a location for business incubators are subject to a fee, in the sense that the prospective entrepreneur bears from his own funds a rent which includes office and internet access, but the necessary equipment (printer, laptop, fax) are not provided by the incubator / accelerator, which is a disadvantage from a financial perspective.

At the same time, social businesses support services provided by public institutions are lacking because of a limited understanding of the field and its importance. There is a need to improve the capacity of public institutions to provide information about and for social enterprises, to provide them with support both for the set up and especially for the development of their products and services, to create a space for the exchange of ideas, etc.

Entities managing grants from European Social Fund (ESF) for social enterprises provide the services specified in the funding guidelines which are very limited in quantity and quality. Each business incubator or accelerator offers, broadly speaking, the same services, but no performance indicators are specified for them and there are no specific services for social business. The social economy structures set up through the Human Capital Operational Program (POCU) do not fully benefit from incubation services, in the sense that potential entrepreneurs benefit from qualification and financing courses following a competition of business plans. Following the selection for financing of business plans, the funding guide prohibits any form of mentoring, coaching or support for business development, being allowed only the activities of monitoring social economy structures. The notion of "support services" is limited to support for the establishment of the legal entity and training courses for the entrepreneur, to which is added the opportunity to access support networks. What is limited monitored is the actual support in the development of a business, if the entrepreneur has managed to take advantage of the potential contacts provided by the incubator or if it has established partnerships with members of the support network.

According to the research data, the needs to start the business from the incubation process are those related to the accumulation of notions related to sales, primary accounting and consumer identification. When the business develops and is sustainable, there is a need for a management consultant, but at the beginning the needs are related to ways of entering the market, production and marketing of goods, products or services.

If it can be said that social business incubators are in an early stage of development, it cannot be the same about social business accelerators that are almost non-existent in Romania. Such structures that support social business in developing and marketing new products, services and innovative business models have not yet been developed at national level. There are a number of such services offered by ImpactHub for SMEs (small and medium enterprises), but without being customized for social business. Services offered by accelerators such as market research, prototyping, validation, testing in real market conditions and market replication are not yet available for Romanian social business.

The lack of permanent / continuous sources of funding dedicated to social businesses, make the incubation services for them not sufficiently developed. European funds dedicated to setting up social enterprises are granted for periods of 3-4 years, followed by a minimum of 2-3 years in which they are absent. In addition, the level of bureaucracy is high and does not offer very much flexibility to grant administrators regarding the support services that can be offered to start the social business and support them after the establishment. It is necessary to be able to provide a wider range of incubation services for social affairs both before and after their establishment.

In Romania, the EaSI program that would allow the financing of social businesses by banks or non-banking financial institutions was not accessed by them because they do not understand the characteristics of these entities and consider that they are not economically viable. An application is made for the creation of a non-banking financial institution dedicated to social economy structures that lend to them to develop their business. It is a big step forward for the development of the sector.

Crowdfunding funding is at a very low level in Romania due to insufficient development of specific mechanisms, in particular the funding with rewards and funding with shares. This development of crowdfunding mechanisms cannot be achieved in the context of a limited understanding and unclear regulation of their activity. Apart from funding through donation, other types of crowdfunding activities – funding with rewards and funding with shares – are barely regulated. The development of the field also requires an understanding of how it works. This requires a further and more in-depth analysis of existing regulations and an improvement.

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## Web resources:

- Donație - <https://donatie.ro/continut/despre-platforma>
- Galantom - <https://galantom.ro/>
- <http://futuremakers.ro/>
- <http://www.cicia.nt.ro/?page=1>
- <https://ashoka-cee.org/romania/wp-content/uploads/sites/8/2018/03/Exploratory-for-Website.pdf>
- <https://ashoka-cee.org/visionary-program/>
- <https://changeneers.ro/competitie/>
- <https://commonsaccel.ro/>
- [https://ec.europa.eu/growth/industry/policy/innovation/social/competition\\_en](https://ec.europa.eu/growth/industry/policy/innovation/social/competition_en)
- <https://euromentor.eu/ro/wp-content/uploads/2018/11/mynnova-policy-guidelines-ro.pdf>
- <https://eusic.challenges.org/>
- <https://innovatorsforchildren.org/>

- <https://scaling.impacthub.net/about/>
- <https://sites.google.com/view/e-startup>
- <https://start-up.ro/aspire-incubator-opportunitate-pentru-tinerii-care-vor-sa-dezvolte-un-business/>
- <https://start-up.ro/incubator-pentru-companii-de-nutritie-si-bauturi-sanatoase/>
- <https://www.ashoka.org/en-ro/program/impact-academy>
- <https://www.bcr.ro/ro/business/acceleratorul-de-business-innovx>
- <https://www.facebook.com/ICARzaibatsu/>
- <https://www.impacthub.ro/programe-startup/>
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- <https://www.startarium.ro/>
- <https://www.taraluiandrei.ro/fabricat-in-tla>
- National Rural Development Programme - <https://www.pndr.ro/pndr-2014-2020.html>
- SeedBlink - <https://seedblink.com/>
- Sprijina - <https://www.sprijina.ro/categorii/toate>
- The Human Capital Operational Programme 2014-2020 - <https://mfe.gov.ro/programe/autoritati-de-management/am-pocu/>

#### Public policies:

- GO 26/2000 on associations and foundations, available at [http://www.mmuncii.ro/j33/images/Documente/Legislatie/Asistentia-sociala-2018/OG\\_26\\_2000\\_la\\_18-01-2018.pdf](http://www.mmuncii.ro/j33/images/Documente/Legislatie/Asistentia-sociala-2018/OG_26_2000_la_18-01-2018.pdf). (Last accessed on 6 April 2020).
- GO 60/2017 amending and completing the Law 448/2006, available at <http://www.mmuncii.ro/j33/images/Documente/Legislatie/OUG60-2017.pdf>. (Last accessed on 20 April 2020).
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## Annex 1. Methodology

The study called Models of incubation of social businesses in Romania aims to analyse the mechanisms and services of incubation and acceleration of social businesses based on their development needs and the main challenges they face.

The objectives of the study are to:

- Identification of incubation models for social entrepreneurs and social enterprises
- Identification of services provided by organisations carrying out incubation and accelerated activities for social entrepreneurs and social enterprises
- Analysis of the needs of social entrepreneurs/social enterprises

### Research Dimensions

- Social businesses at national level – typology, public policy framework
- Challenges for social businesses/social entrepreneurs
- Funds for social entrepreneurs (opportunities, funding for setting up social enterprises/ social business development, crowdfunding funding)
- Incubation of social businesses
- Incubation and acceleration centers for social businesses
- Recommendations for the development of social service incubators and accelerators

### Research methods

Secondary data analysis - the information was collected from various national reports, articles, studies, statistics, and websites of public and private institutions. The information collected concerned:

- Definition of social entrepreneurship and social enterprise
- Data on social entrepreneurship
- Types of social enterprises
- Funds available for social entrepreneurs/social enterprises
- Support programmes for social entrepreneurs/social enterprises
- Incubation opportunities for social entrepreneurs/social enterprises
- Opportunities for crowdfunding for social entrepreneurs/social enterprises

#### Public policy analysis

- Public policy framework - Law 219/2015 on the social economy, Law 98/ 2016 on public procurement, Tax Code, Law No. 32/1994 on donations
- Human Capital Operational Programme 2014 – 2020 and other public support programmes (Start-up nation, Operational Competitiveness Programme, etc.)
- Institutions dedicated to social entrepreneurs/ social enterprises/ social businesses
- Fiscal incentives for social entrepreneurs/social enterprises/social businesses

#### In-depth interviews with social entrepreneurs/ social enterprises/ social businesses

- 16 interviews
- Purpose: identifying the challenges faced by social entrepreneurs, their incubation needs at various stages of business development

#### Case studies with business incubators: 4 case studies



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