MECHANISMS FOR FINANCING SOCIAL ENTERPRISES – CONSTRAINTS AND OPPORTUNITIES. A CASE STUDY OF ROMANIA

Dumitru Dragoș Jaliu

National School of Political Studies and Public Administration, Bucharest, Romania

jaliudragos@gmail.com

Anamaria Sidonia Răvar

Bucharest University of Economic Studies, Bucharest, Romania

anamaria.ravar@gmail.com

Abstract

The funding of social enterprises significantly differs from one organisation to another. The activity of social enterprises may be financed from the income earned from the provision and sale of goods and services, public funds, private finance mechanisms, donations, voluntary work or a combination of several of these sources (Wuttunee et al, 2008). External financing plays a key role in the development of social entrepreneurship, particularly in an organisation's early stages (Karaphillis, et al, 2010). Such sources offer social entrepreneurs the funds necessary for initial investments, as well as for the training of employees, collection of best practices and contracting of experienced consultants (Țigu & Răvar, 2012).

However, due to the nature of the business social enterprises generally have limited access to external capital (Hebb, 2006) and particularly to mainstream sources of finance (Harding, 2006), such as bank loans. Furthermore, access to external sources significantly differs according to the organisations' legal form and activities (Austin et al, 2006) and is particularly difficult in the start-up-phase, when many social enterprises rely on their founders' and members' personal resources (Wuttunee et al, 2008; Austin et al, 2006).

The purpose of this paper is to investigate the types of external funding that are available to Romanian entrepreneurs as well as the constraints and opportunities that they face in accessing grants and similar form of financing. The methodology includes an extensive literature review, an exploratory questionnaire-based research applied both on beneficiaries of external funding as well as on financing bodies, and a comparative analysis of the financing of enterprises organisations in Romania and Austria. The final aim is to identify the areas and directions in which financial mechanisms should be subject to change in order to better satisfy social enterprises' need for funding.

1. Introduction. Theoretical considerations on social economy financing mechanisms

Over the past decades, traditional business models have proved unable to solve the many of the social challenges faced by both developing and developed communities: social marginalisation, labour market discrimination, poverty among people belonging to disadvantaged groups, difficult access to education and social services. In order to meet the ever increasing social needs of local communities, new type of organisations emerged: social enterprises, which stand at the convergence between private commercial businesses and non-governmental organisations (Wuttunee et al, 2008).

Social enterprises are "*entrepreneurial organizations that innovate to solve problems*" and include both for-profit as well as non-profit ventures (Bugg-Levine et al, 2012), forming an economic sector known as "social economy". A more comprehensive definition was awarded by the UK Department of Trade and Industry (2002): "*A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners*".

Social enterprise can take on any organizational form (Wuttunee et al, 2008): a private for-profit enterprise, a revenue-generating arm of an NGO, a protected unit or Work Integration Enterprise. The later represents an enterprise which offers permanent jobs for persons which would otherwise not be competitive on the real labour market (Tigu & Ravar, 2012), such as disabled persons or persons belonging to vulnerable groups.

Although the recognition of social enterprises differs from one country to another and even among regions and local communities, social economy seems to be nevertheless growing in both developing as well as developed communities (Defourny & Nyssens, 2008). Still, social enterprises' access to financing remains difficult, especially in their early stages. The fundamental question that all social enterprises face is whether they can generate enough revenue and attract enough investment to cover their costs and develop (Bugg-Levine, 2012).

In the early stages of organisation development, many social managers and entrepreneurs rely predominantly on their own personal financial resources, such as savings or small loans taken out in their own names (Austin et al, 2006). Others are trapped in the dilemma of whether to seek donations or look for commercial funding. Commercial funding seems, indeed, to be the most sustainable solution, since traditional philanthropy rarely provides a long term source of finance (Cheng, 2012).

However, commercial investors are reluctant to invest in social enterprises (Austin et al, 2006) since any business whose primary goal is not profit is generally considered "soft" or "loss-making (Cheng, 2012). One of the main reasons for which social enterprises are considered "soft" is that although the social returns of social enterprises are "enormous" (Bugg-Levine et al, 2012), mainstream investors only take into consideration the monetary returns. This leads to what Bugg-Levine et al (2012) defines as “financial-social return gap” – a gap that makes access to traditional financial markets considerably difficult.

External sources such as public funds, private finance mechanisms, donations and bank loans represent a viable alternative for many social enterprises. In some EU countries such as Great Britain, financial services addressed to social economy organisations are provided by Community Development Finance Institutions (CDFIs). CDIFs offer a mix of finances – generally credit – to a variety of social enterprises, at interest rates typically less than 10 per cent (Hughes, 2012).

Nevertheless, the ability of social enterprises to access external capital remains limited since their capacity to ensure co-financing is generally low. Furthermore, access to external financing in sometimes restricted due to constraints in organisations’ legal form and activities (Karaphillis et al, 2010). Social enterprises’ limited capacity to measure and report social outcomes is another obstacle in their access to capital. According to Bugg-Levine et al (2012), social entrepreneurs could even achieve better access to finance than conventional businesses if they quantified with greater precision the returns of their organisations – both financial and social.

According to Sunley and Pinch (2012), instead of relying on conventional loan finance, social enterprises have grown accustomed to “softer” finance and support from intermediaries. These intermediaries are generally private organizations: a) NGOs for whom financing smaller organisations is an instrument for achieving a larger cause such as social integration of vulnerable groups or b) private companies implementing social responsibility projects as part of a more complex CSR strategy.

The main mechanisms through which these intermediaries provide support are grants. These grants are awarded either from the financing organisation’s own budget, or from external sources of finances – such as the European Economic Area (EEA) mechanism – which are managed by local NGOs. Grants are often regarded as free money because they are non-refundable and no interest is charges (Wuttunee et al, 2008). However, they do involve costs since they are only given if the applicant organisation meets certain criteria. Such criteria may refer to staff, expertise, and organisational capacity. Staff and expertise is particularly important since the hiring of new personnel involves significant costs and may generate additional risks.

Still, the vast majority of social enterprises generally finance their activity from the income earned from the production, provision and sale of goods and services (Wuttunee et al, 2008). This does not exclude other means of finance, but is rather complementary to external financing. For example, a social enterprise may rely on investors or financial institutions to finance initial investments (in working spaces, equipment etc.) and later become financially sustainable through the sale and provision of various products and services, which are produced internally. In some cases, social enterprises provide goods and services at a premium price since these products and services are socially beneficial (Bugg-Levine, 2012). In other cases, social enterprises ensure the provision of services which neither the public nor the private environment can deliver due to cost constraints (Tigu & Ravar, 2012) while still obtaining a decent profit (Bugg-Levine, 2012).

Regardless of the source of funding to which social enterprises resort, the availability of finance does not only impact individual organisations, but also local communities and society. For example, financing programmes operated by international bodies, particularly the European Union provided social enterprises with improved information regarding European policies and requirements, and opportunities to connect to initiatives at European level (Civil Society Development Foundation, 2012).

2. Methodology

Research has shown that social enterprises indeed bring a valuable contribution to the social and economic development of local communities by providing goods and services which other businesses or public organisations are unwilling or unable to provide, stimulating human resource development, creating employment and enforcing civic involvement (Wuttunee et al, 2008). Thus, it is important to identify the most adequate means to ensure financial support for social entrepreneurship.

To this aim, the current paper aims to identify the main financial mechanisms available to Romanian social entrepreneurs and the opportunities and constraints that social enterprises face in the process of accessing external financing. Apart from testing the constraints already identified in the literature (legal form, stage of evolution), we proceeded to determine the factors that facilitate or, on the contrary, impede Romanian social enterprises' capacity to attract funding.

Furthermore, we seek to determine the degree to which current financial mechanisms satisfy the need for funding by analysing the typology, number and value of sources available to Romanian social entrepreneurs. These results will be further compared to data provided by Austrian organisations. The comparison is particularly insightful since it identifies the main constraints faced by social entrepreneurs in Romania – a country where social economy is still in the early stages of its development – against those faced by similar organisations in Austria, a country with a long tradition in supporting the development of social economy.

The methodology includes both quantitative as well as qualitative instruments. The research naturally implies an extensive literature review on the financial mechanisms available to social economy organisations. In order to ensure a high coherence of results, the review is limited to EU member states, with a focus on Romania and Austria.

Moreover, we will conduct an analysis of quantitative data regarding the main types of social economy organisations which seek access to external finance as well as to the most frequent sources of finance accessed in the past years by Romanian social enterprises. The analysis is based on data from the Social Economy Atlas (2012 edition) and refers to information regarding several types of social economy organisations: associations and foundations, mutual societies, co-operatives and work integration social enterprises (WISE).

The final phase of the study consists in a questionnaire-based research. Two set of questionnaires were designed. The first one was applied on a sample of ten organisations offering financial support to social enterprises in Romania (financing bodies). The questionnaire included questions referring to both quantitative as well as qualitative data regarding the main characteristics sought in organisations applying for funding: legal organisational form, field of activity, activities proposed for financing, residence environment, stage of evolution, availability of co-financing and professional capacity. Furthermore, the questionnaire seeks to determine the frequency with which financing organisations launch calls for projects, the budget assigned to each call, per types of enterprises and activities, as well as the main selection criteria used to assess the financial proposals submitted by social enterprises.

The second questionnaire was applied on eighteen representatives of social economy organisations – initiators or founders of social enterprises - that received financial support from external sources. In order to ensure data coherence and relevance, we focused on social entrepreneurs which have received external funding from the financing bodies targeted by the first questionnaire. The questionnaire was designed so as to identify the main types of projects and activities for which there is a particular high demand for financing, as well as beneficiaries' perception on the constraints posed by various financing mechanisms.

Based on the data obtained in all three stages of the research (literature review, quantitative analysis, questionnaire-based research), we conducted an analysis of the diversity and value of financial mechanisms available to Romanian social enterprises as well as of the degree to which the demand for external financing is satisfied by existing mechanisms. Finally, we proceeded to identify means through which these mechanisms can be further adapted in order to better respond to the needs of social enterprises.

3. Analysis: Financing social enterprises in Romania

In Romania, social entrepreneurship remains legally unrecognised due to the absence of a relevant legal framework regulating the functioning of social enterprises (Tigu & Ravar, 2012). Still, the social economy sector is expanding, as indicated by the Social Economy Atlas (Constantinescu, 2012). Furthermore, social economy is becoming more visible to private and public stakeholders, including international organisations.

Unfortunately, due to a severe lack of data regarding the activity and functioning of social enterprises, social economy is generally regarded as only encompassing NGOs, both charity and non-charity.

These amount to almost 31.000 organisations: approximately 26.000 associations and foundations, 2.000 cooperatives and 3.000 mutual societies (Constantinescu, 2012).

However, the NGO Leaders' Barometer, a working paper published annually by the Social Economy Institute in Romania shows that only 16 per cent of all NGOs have undertaken socially oriented economic activities. Furthermore, revenues obtained from the provision of services represents the main source of income for only 5 per cent of all NGOs in Romania (Lambru and Vamesu, 2011), which leads us to believe that the real number of social enterprises is less than two thousand. These add up to approximately 670 protected work units, consisting in small and medium enterprises employing persons with physical and psychological disabilities who are exposed to a significant risk of social exclusion.

According to US AID (2012), the financial viability of civil society organisations in Romania slightly deteriorated in the past few years, as government funding dropped and EU funding still remains largely inaccessible to many organisations.

Based on the analysis of the financing sources presented in the Social Enterprise Manager Guidebook (Barna et al, 2012) and the NGO Leaders Barometer (Lambru and Vamesu, 2011), we identified the following financial mechanisms available to Romanian social entrepreneurs:

a) Structural funds

In Romania, the development of social enterprises is also financed through the Operational Programme "Human Resource Development" (OSP HRD) 2007-2013, major intervention domain 6.1. "Social Economy Development" under the European Social Fund. The programme is managed by the and supports entities such as associations and foundations, social cooperatives, mutual societies. The main objectives are to create new jobs and enhance human capital, consolidate local communities' capacity to provide social support, and stimulate economic growth, environment protection and the inclusion of vulnerable and disadvantaged groups (Ministry of Labour and Family, 2008).

The programme directly supports the founding of social enterprises and the development and promotion of profit-generating activities improving the lives of persons prone to social exclusion such as persons with disabilities, persons belonging to the Roma community, former convicts, long term unemployed etc. The total financial allocation available MDI 6.1. for the 2007-2013 period is approximately 319 million euros, out of which 234 million are provided under ESF (Ministry of Labour and Family, 2008).

Social economy organisations have been interested in structural funds ever since these funds were launched in Romania. A study conducted by the Civil Society Development Foundation in Romania shows that approximately 20 per cent of active NGOs participated in the consultations preceding the drafting of operational programmes and particularly in the drafting of the OSP HRD (Constantinescu, 2010). In fact, NGOs are eligible to apply for funding under every axis of OSP HRD, though only axis 6 is dedicated to the development of social enterprises.

b) Non-EU grants

Based on a questionnaire applied on representatives of social economy organisations in Romania, we identified 10 private organisations – 3 for-profit companies and 7 NGOs - offering annual grants for the development of social enterprises. Grants are awarded following a call for projects, based on a set of pre-established criteria. A questionnaire-based research conducted by Lambru and Vamesu (2011) and presented in the NGO Leaders' Barometer shows that approximately 13 per cent of active NGOs rely on grants as their main source of income.

c) Bank loans

Bank loans represent a viable solution for social enterprises when 2 conditions are met: the enterprise cannot continue its activity due to a lack of capital (1) and the organisation is able to sell a product or services profitably enough in order to support the cost of the loan (2) (Barna et al, 2012). Banking institutions award loans based on several criteria, the most important of which refer to the organisation's legal form, it financial capacity, its capacity to provide guarantees, and its capacity to ensure co-financing. Capital can also be raised from loans awarded by associates, by asking clients for payment in advance or from loans contracted from supplier. In the latter case, the enterprise acquires capital goods (e.g. equipment) on credit, the money being later reimbursed in several instalments and at a pre-established interest rate (Barna et al, 2011).

d) Subsidies and state aid

Subsidies are awarded exclusively to associations and foundations providing services of public interest, particularly social assistance services. These subsidies are financed either from the state budget or from local budgets and are regulated by law. The importance of such subsidies stems from the fact that social economy organisations, including social enterprises can deliver services which other public or private actors may otherwise be unable to provide due to various constraints such as high operating costs and lack of expertise (Tigu & Ravar, 2012). Although over 44 percent of the economically active NGOs in Romania are authorised providers of social services (medical services, social assistance and counselling, education, professional training) and 37 percent deliver public services which do not require legal authorisation (cultural services) (Lambru & Vamesu, 2010), less than 10 percent are financed from the state budget in order to provide services of public interest.

e) Sponsorships

The Romanian law regulates sponsorships and limits them to NGOs undertaking humanitarian, cultural, artistic, educational, scientific, religious, environmental, health, civic and sport activities. The sponsorship is awarded on the base of a contract between the financing organisation and the beneficiary which must clearly identify and present the destination of the money. According to the

NGO Leaders' Barometer (Lambru & Vamesu, 2011), sponsorships represents the main source of income for approximately 11 per cent of social economy organisations.

f) The 2 per cent provision

The Romanian legislation allows all citizens paying income taxes to redirect 2 per cent of these taxes to nongovernmental organisations providing services which are of public interest. This mechanism creates a sustainable partnership between public authorities, citizens and NGOs, allowing citizens to bring a contribution to social development without incurring additional costs. Approximately 9 per cent of all social economy organisations in Romania are financed through this mechanism according to Lambru and Vamesu (2011).

4. Constraints and opportunities in the access to external funding

In order to assess the availability and impact of finance for social economy organisations, we conducted a questionnaire-based research on both financing organisations as well as on finance beneficiaries. The responses show that the financing sources available to social enterprises are diverse, but relatively small in terms of monetary value and thus insufficient for meeting the social needs of Romanian communities. This view is supported by the 2012 CSO Sustainability Index for Central and Eastern Europe (US AID, 2013), which concludes that, in Romania, private resources and funding instruments have diversified, but remain limited.

4.1. Beneficiaries' perception

One issue brought forward by the questionnaire addressed to representatives of social economy organisations that have received financial support from external sources for the initiation or development of social entrepreneurship projects was to identify the main factors influencing their capacity to attract external financing. Respondents were asked to appreciate, on a scale from 1 to 5 (1-least important, 5-very important) the importance and relevance of the following factors

- Internal expertise;
- Previous experience in applying for external funding and implementing projects financed through grants or EU funds;
- Access to consultancy and technical assistance;
- The capacity to propose new solutions to existing social problems;
- Capacity to form alliances and associations with other organisations with the goal of creating synergies;
- Capacity to adopt and value best practice examples.

The factor ranked as most important is the capacity to propose new solutions to existing social problems, with an average of 4.8, followed by internal expertise (4.5) and the capacity to form alliances (4). Access to consultancy and previous experience are considered the least relevant to an organisation's capacity to attract external funding. The research brings new light onto new potential opportunities for social economy development since it shows that fundraising depends to a great extent on factors under the direct control of social enterprises. Furthermore, results point out the importance of capacity-building efforts in creating better financing opportunities for social enterprises.

The questionnaire-based research also identified several constraints that limit social economy organisation’s capacity to attract and implement external funding for social entrepreneurship initiatives:

- Insufficient financial capacity. In the case of EU funding and grants awarded by various NGOs and private companies, the applicant organisation must ensure project co-financing. The applicant’s contribution varies between 2 per cent in the case of EU funding and 15 per cent for grants awarded by private organisations. Co-financing is generally required in money (cash, credit, deposit) and very rarely in nature, although the latter situation does exist;
- Insufficient experience in the writing of projects and applications. In order to gain access to grants and EU funding, the completion of an application is generally required. In some cases, little experience in the writing of projects and financial proposals can lead to poor quality applications and implicitly to small chances to obtain financing;
- Insufficient technical and professional capacity. As previously noted, although grants are generally perceived as free money, they do incur hidden costs. Often, organisations do not dispose of the expertise necessary to implement an external-financed project and are forced to hire additional staff;
- Lack of a relevant legal framework regulating social economy organisations and social entrepreneurship in particular. The current legislation does not provide a clear definition of social enterprises and does not establish limits to their functioning and activity. Due to this, publicly funded financing opportunities addressed exclusively to social enterprises remain limited. Most often, social enterprises compete with other types of NGOs in the accession of grants and EU funding. Furthermore, since social enterprises are generally associated with NGOs, certain legal forms such as protected work units which function as SMEs are excluded from public financing;
- Insufficient support from local and national public authorities. Apart from managing a sub-program financed under the European Social Fund (major intervention domain 6.1 “Social economy development” within Operational Programme Human Resource Development 2007-2013), public authorities remain little involved in the development and financing of social economy organisations. Although subsidies are awarded to NGOs providing services of public interest, the number of beneficiaries remains under 10 per cent (Lambru and Vamesu, 2011). Furthermore, subsidies are generally awarded to conventional NGOs and very rarely to social enterprises.

Insufficient financial capacity was regarded as the constraint with the highest impact (4.5 points). Insufficient experience, insufficient technical and professional capacity, lack of a relevant legal framework and lack of support from public authorities were appreciated by respondents as relatively high, with an average of over 3.5 points on a scale from 1 to 5, where 1 stands for “unimportant” and 5 for “very high”.

Other constraints such as lack of clear and precise organisational objectives, and lack of information regarding financing opportunities (both with an average below 3 points) were regarded by respondents as moderately relevant. All respondents consider that funding opportunities available to social economy organisations are insufficient in comparison to their need for funding.

4.2. Financing bodies’ perception

Apart from the authorities responsible for the management of the Operational Programme “Human Resource Development” 2007-2013, we identified 10 more private organisations – 3 for-profit companies and 7 NGOs - offering grants for the development of social enterprises. A questionnaire was sent to each of these organisations with the aim to determine the degree to which external financing is accessible to all categories of social enterprises.

Results revealed that all grants are awarded following a call for projects, based on a set of pre-established criteria. The most frequent selection criteria refer to:

- the applicant innovation capacity, its ability to propose new solutions for current social and economic problems such as unemployment, social exclusion, poverty etc.;
- sustainability - in order to generate long-term social returns, financing bodies place a higher priority on projects helping social enterprises to auto-sustain themselves. Equally important is the project’s potential to become best practice example for similar initiatives and to generate results that can be further transferred to other communities and organisations;
- financial viability – a social enterprise that cannot generate enough returns to achieve its social aims is not viable on long term;
- social impact – the applicant’s capacity to generate profound positive changes in local communities and in the lives of persons prone to social exclusion.

Regardless of the source (EU funding through ESF or private funding through NGOs and companies), calls for projects are generally launched annually. The budget differs significantly based on the source of financing. For example, in the case of OSP HRD 2007-2013, an applicant may access up to 490.000 euros. By contrast, private financing bodies have a much smaller budget for supporting social economy initiatives (on average, 50.000 euros per year, distributed to 4-5 projects). The difference is not surprising since an organisation applying for funding within OSP HRD 2007-2013 may finance and develop more than one social enterprise as part of a single project.

Approximately 30 per cent of the calls for projects launched for private organisations are addressed to social economy initiatives in villages and small towns. However, most calls do not establish criteria regarding the applicants’ residence and both rural as well as urban organisations are encouraged to apply for funding. According to respondents, most applicants operate in the field of services (e.g.

cleaning) or crafts (carpentry, production of jewellery), which require little to moderate training and which can also be performed by persons exposed to social exclusion, such as persons with disabilities, persons without basic formal education etc.

The results of the questionnaire reveal a constraint related to the applicants' legal organisational form. While the structural funds available through OSP HRD 2007-2013 are addressed to various categories of beneficiaries (NGOs, public institutions), the calls for projects launched by private organisations are addressed primarily to NGOs; this excludes protected units – which function as private SMEs – from access to private grants, although they might bring higher economic benefits than conventional NGOs. Furthermore, most financing bodies are interested in financing start-up social enterprises rather than supporting the activity of existing ones, making access to finance biased. In fact, approximately 60 per cent of respondents (financing bodies) perceive funding opportunities as biased: sufficient for some organisations, but insufficient for others.

In what regards the position of financing bodies concerning constraints and opportunities are concerned, it differs significantly from that of beneficiaries, with few exceptions. Thus, although financing organisations identify insufficient financial capacity as the main obstacle to the accession of external funding (with an average of 4.8 points on a scale from 1 to 5), insufficient technical capacity and limited experience in writing projects/applications are also perceived as being relatively important/relevant for the financing of social economy projects (with an average score above 4.0 points).

Asked to proposed recommendation for improving social economy organisations' and particularly social enterprises' access to finance, respondents suggested the following solutions:

- technical assistance provided by financing bodies to social entrepreneurs in the project implementation stage – assistance in drafting/improving the applicants' business plan, training and coaching for the project team etc.
- assistance in the promotion of the products/services provided by beneficiaries following the project so that social enterprises become financially sustainable;
- assistance in forming partnerships and alliances, creating synergies with similar social economy organisations;
- assistance in identifying best practice examples and adapting them to particular situations.

These are opportunities that might bring significant value added since they improve, on long term, the technical and professional capacity of applicants, with a positive impact on the quality and social impact of projects financed through private grants.

4.3. Further constraints

The questionnaire-based research was complemented by an analysis of several working papers in the field of social economy (Social Economy Atlas, NGO Leaders' Barometer, 2012 CSO Index), that shows that social economy organisations operating with structural funds face a set of particular constraints, stemming from the poor management of operational programmes in Romania and particularly from "an unpredictable and changing regulatory environment and increasing administrative burdens" (US AID, 2013).

The financial capacity of applicant organisations is, indeed, one major constraint. Although co-financing is relatively low in terms of percentage of the total sum (2 per cent for NGOs), in terms of monetary value it is rather high. As the minimum value of a project financed under MDI 6.1 is 500 thousand euros, the applicant's contribution amounts to a minimum of 10.000 euros. Furthermore, since EU funding generally functions on the principle of reimbursement, applicant organisations must dispose of the financial capacity necessary to finance initial activities, until the first expenditures are reimbursed.

The impact of these constraints is further emphasized by the delays with which authorities responsible for the management of structural funds assess financial proposals and requests for reimbursements. In 2012, delays in the reimbursement of expenses lead to many beneficiaries being "unable to pay their taxes or employees in a timely manner and leading fiscal authorities to freeze their bank accounts" (US AID, 2013).

Poor management of structural funds was also obvious in august 2012, when the OSP HRD managing authority announced that the previous call for projects under major priority domain 6.1 "Social economy development" was annulled (after the closing of the application process) projects to errors in the electronic application system (Ravar and Ungureanu, 2013). More than 2500 applications submitted during this call have remained un-assessed (Derscanu, 2013), leading to an even more intense competition for other sources of finance, already scarce and limited.

A study conducted by the Civil Society Development Foundation (Constantinescu, S., 2010) also indicated other constraints. Among these is the fact that application and implementation procedures are regarded excessively bureaucratic since reporting, monitoring and drafting reimbursement request may take even longer than the implementation itself.

5. Developing vs. developed social economy. Romania vs. Austria

The expansion of social economy is a social and cultural phenomenon typical to all EU countries. Obviously, social economy witnesses a more intense development in countries characterised by a highly consolidated market economy, where nongovernmental organisations have a long traditions in supporting social causes. This is also the case of Austria, where social enterprises date back to the early 1980s (Austrian Institute for SME Research, 2007).

Similarly to Romania, there is no official definition of social enterprises in Austria. However, social enterprises are generally regarded as organisations with a permanent production activity of goods and services, a relatively high degree of autonomy, whose operation is based predominantly on paid work and which are characterised by a significant level of economic risk (Leichsenring, 2001, cited by Austrian Institute for SME Research, 2007).

Social enterprises in Austria are generally oriented towards achieving 3 main objectives: enhancing employment opportunities; promoting social integration and achieving economic performance through a market-oriented approach (Austrian Institute for SME Research, 2007). One major difference is that although there is no official definition of social economy, there is a clear distinction between conventional NGOs and social enterprises.

According to the Austrian Institute for SME Research (2007), the main categories of social enterprises are:

- socio-economic enterprises, offering employment for the long-term unemployed, women above 45 and men over 50, homeless people, alcoholics, drug addicts or former convicts. They market competitive and are active in the following fields: textiles, woodwork, restaurants, construction, metalwork, repair, waste disposal and home services. Productivity is similar to that of conventional enterprises. They operate in the fields of office work, social services, environment, renovation, tourism, crafts and trade;
- non-profit employment enterprises, whose aim is to enhance social and work integration of people with physical or mental disabilities. Due to a relatively low productivity, economic competitiveness is not a main objective;
- sheltered workshops, whose staff must include persons with disabilities in a proportion of at least 80 per cent. Sheltered workshops generate an annual turnover of approximately 30 million euros, 25 per cent of revenues coming from subsidies.

The provision of goods and services on the market generates a significant income for many social enterprises in Austria. Approximately 40 per cent of expenses generated by social-economic enterprises and 25 per cent of those generated by non-profit employment enterprises are covered by organisations' own revenue (Austrian Institute for SME Research, 2007). Specific reintegration measures are still financed through public funds over a determined period (usually, 1 year); applicant organisations are required to complete an application/proposal.

The possibility to access public funding for the functioning of social enterprises – and not only for their creation and early development – is indeed an opportunity. As previously revealed, the majority of grants available to Romanian social entrepreneurs finance start-ups, which leads to a biased access to external funding. Although a system of public subsidies does exist, it is addressed to the NGO sector in its entirety. Thus, no particular measures are addressed exclusively to social enterprises, leading to a competition between social enterprises and conventional NGOs for access to finance.

Both in Austria as well as in Romania, social enterprises generally function under an umbrella organisation (Austrian Institute for SME Research, 2007). Thus, social enterprises are frequently created by larger NGOs operating in the field of social integration or even by public institutions, through projects financed under ESF. These umbrella organisations contribute with resources – including financial resources – to both the creation as well as development and functioning of social enterprises. As a result, an infrastructure to support social enterprises is slowly emerging, providing working spaces, technical and professional assistance, and even training (Hagelmuller, 2013).

One major discrepancy is the fact that protected working units in Romania – the equivalent of sheltered workshops in Austria – are rarely eligible to apply for private grants and cannot benefit from subsidies from the state or local budget since they are private SMEs and not NGOs. Although they are supported by the state through fiscal measures (reduced taxes), they cannot be as competitive on the free market as conventional SMEs since labour force productivity is generally lower.

An opportunity which is now being developed in Austria is encouraging students and young entrepreneurs to pursue a career in social economy. Competitions addressed to young social entrepreneurs have been launched (e.g. The Social Impact Award) and approximately 2.500 students submit projects and business plans each year. Almost two thirds of these initiatives are actually implemented (Hagelmuller, 2013). University programmes in the field of social management have also been initiated with the aim of improving expertise in the development and financing of social enterprises. According to the Austrian Institute for SME Research (2007), that graduates should have the necessary capacity to manage increasing economic requirements and achieve financial sustainability and competitiveness.

One major setback in the development of social economy in both countries is the lack of quantitative information about social enterprises (Hagelmuller, 2013). In Romania, due to the lack of a clear distinction between conventional NGOs and social enterprises, there is no official information regarding the evolution and financing of social enterprises. In recent years, the Civil Society Development Foundation developed its own statistical database and even published two edition of a Social Economy Atlas. Statistics are based on studies implemented with external funding under ESF. In Austria, there is little research on social economy and social enterprises (Lehner, 2011). Quantitative information is scarce since most activities implemented by social enterprises are not subject to statistical reporting (Austrian Institute for SME Research, 2007). Thus, lack of information is indeed a constraint; public policies in the field of social economy should be based on relevant and trustful statistical data and not on assumptions and perceptions.

Conclusions. Implications and limits

The findings generate significant implications both for social entrepreneurs, as well as for public and private financing bodies. By analysing the main constraints and opportunities in the funding of Romanian social enterprises, the paper identifies several areas and potential directions in which financial mechanisms should be subject to change in order to better satisfy the needs of social entrepreneurs:

a) Financial capacity. The literature review, the analysis of statistical data and the results of the questionnaire-based research reveal that insufficient financial capacity is the main constraint limiting social entrepreneurs' access to funding. Very often, social enterprises in their early stages do not dispose of the resources necessary to ensure the co-financing of projects and the implementation of activities until the first expenses are reimbursed by the financing bodies. One potential solution is to improve the contracting of EU and private grants by allowing applicants to request pre-financing in order to implement initial activities. Although this solution is presently available to some categories of organisations requesting structural funds through operational programmes, pre-financing is little used in the case of private grants.

b) Technical and professional capacity. The questionnaire-based research also revealed that insufficient technical and professional capacity is another constraint with negative impact on organisations' access to funding. Potential solutions to this constraint were identified by respondents themselves. Several respondents indicated that financing bodies should not only select beneficiaries and distribute funds, but also involve themselves in the implementation of social entrepreneurship projects through technical assistance, assistance in the promotion of products/services provided by social enterprises, assistance in forming partnerships with other key actors and in identifying and implementing best practice examples. Furthermore, the comparative analysis of social economy in Romania and Austria shows that professional capacity may be improved through relevant study programmes (for example, master studies in the field of social management) and competitions addressed to students and young social entrepreneurs. Such best practices may also be adapted and applied in Romania, a country in which social economy and the funding of social enterprises is still in its beginnings.

c) Insufficient regulation. The absence of a legal framework regulating social economy imposes several obstacles in the development of the social economy sector. Firstly, there is no clear distinction between social enterprises and conventional NGOs and therefore there are no measures addressed directly to social enterprises. The state supports social economy indirectly, through subsidies and public grants awarded to NGOs. However, social enterprises constituted as private for-profit companies are excluded from these schemes, leading to biased access to financing. This situation may be improved by regulating the functioning of various categories of social enterprises, both for-profit as well as non-profit.

Furthermore, we may conclude that although sources of financing available to social enterprises are relatively diverse, their value is insufficient. In fact, with the exception of grants awarded through OSP HRD 2007-2013, other financing programmes have a limited budget and focus on small-scale projects.

The study does have its limits since it is restricted to Romania and, in what regards particular aspects, to Austria. Furthermore, the questionnaire-based research has taken into account mainly financing bodies with a relatively high visibility on the market and that can be easily identified in the online environment. However, as the paper analyses both the supply as well as the demand side of social economy financing, it represents a relevant starting point for further research into the means to improve access to finance for the various types of social economy organisations.

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