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SUSTAINABLE FINANCE – A WAY TO IMPROVE SOCIAL AND ECONOMIC SUSTAINABILITY. THE ROMANIAN EXPERIENCE

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Abstract

Sustainable finance is a concept that refers not only to environmental problems, but also to social objectives such as those social goals included in the 2030 Agenda for Sustainable Development. Summarizing, it refers to societal impact. In literature, this term - societal impact – is used with the meaning of social, environmental, medical or cultural impact [Rizzi F. et al., 2018; EVPA Report, 2017].

The current challenges regarding the future development of the social finance market refer to the opacity of its conceptual bases. For this reason, this article aims, among other things, to clarify the basic concepts and instruments of social finance and their continuously developing market, analyzing the literature in the field. Thus, first of all, we analyze the structuration processes that take place in social finance and the institutional actors involved. Also, a conceptual delimitation of social investments and the way in which they are selected is necessary.

Last but not least, reviewing the literature, this article addresses to the analysis of the financial instruments (FI) used on the social finance market and their impact, also addressing the issue of the usefulness of tailored finance of a social purpose organization.

Regarding the experience on the social finance market in Romania, this article aims a static and dynamic analysis of the financial instruments used, as well as of the entities in the Romanian social economy, proposing solutions to *improve public policies in terms of sustainable finance and social economy from our country.*

Keywords: *Social finance, social investment, social investor, social economy, Romania*

JEL Classification: *A13, B55, G41*

Introduction

Investments made with the aim of creating financial value but with social impact have been around for a very long time. Capital management by religious institutions, mutual societies, credit unions for social purposes has been done for centuries [Benedikter 2011].

There are a variety of definitions of social investment in literature. They are different depending on the interest group that uses the term, but also depending on the object to which it refers (the social impact of goods and services, but also the social impact of the process).

It is generally accepted in the literature that social finance should contribute to the elimination of financing deficiencies for investments that are necessary to achieve social goals. Also, by influencing the cost of capital, they should encourage companies to pursue business models that are better aligned with social goals.

By influencing the cost of capital, social finance could also encourage firms to pursue business models that are better aligned with social objectives. However, the extent to which social finance is able to live up to these promises has yet to be proven. [Hilbrich 2021].

Due to this opacity regarding the conceptual basis of social finance, many challenges arise in the further development of the social finance market. There is no common and concrete definition of social finance, nor uniform and mandatory criteria applicable to financial products traded as social financial products.

The aim of this article is to clarify the concepts and instruments that are the basis of social finance and their continuously developing market, analyzing the specialized literature in the field.

The article is structured in six parts. Thus, the problem arises, first of all, of establishing which are the structuring processes that take place in social finance and which are the institutional actors involved. Also, a conceptual delimitation of social investments and the way in which they are selected is necessary. Last but not least, reviewing the specialized literature, an analysis of the financial instruments used on the social finance market and their impact is required.

Regarding the experience on the social finance market from Romania, the article aims at a static and dynamic analysis of the financial instruments used, of the entities in the Romanian social economy, proposing solutions to improve public policies in terms of sustainable financing and the social economy in our country.

Conceptual approaches regarding social finance

In the previous chapter, we said that there is a wide range of definitions in the literature regarding the concept of social finance, that there is no generally accepted definition and that the plurality of concepts differs both according to the institutional actors involved and the object to which relate.

On the one hand, regarding social investment at the macroeconomic and multinational level, many important social objectives can only be achieved if the financial system is aligned with these objectives and substantial financial resources are mobilized to finance the necessary investments. In this case, the Covid-19 pandemic has shown that there are large funding gaps in many social sectors, such as health.

On the other hand, at the microeconomic level, social finance could establish incentives for companies to engage in more sustainable business models, which would give them access to social financial instruments potentially associated with a lower cost of capital.

With regard to social finance, we can also talk about how social processes shape economic outcomes. There are studies that investigated how individuals' financial investments were influenced by family, friends and acquaintances, analyzing peer effects in explaining household financial decisions [Hirshleifer, 2020].

In this case, social interactions can influence people's economic and financial decisions through multiple channels, two mechanisms being particularly prominent when it comes to social finance. Kuchler & Stroebel (2020) believe that these mechanisms provide a useful framework to analyze equalization effects, even if they cannot be precisely attributed to these broad categories, but some observed equalization effects could be the result of both mechanisms operating at the same time. One of the mechanisms refers to “social learning” through social networks as a channel of information transmission, and individuals can be affected by the preferences of friends [Jackson, 2010]. The second mechanism refers to "social utility" [Abel, 1990], a concept that refers to how the actions of friends, acquaintances or family enter directly into the utility functions of individuals,

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causing them to imitate patterns of consumption of others, either to stay on trend or not to lose a particularly attractive investment.

There is still no generally accepted definition for the concept of "social" in social finance. Market participants use a wide variety of definitions. In general, we can talk about two focuses and four selection procedures [Hilbrich S., 2021].

The two different focuses refer to the type of causal links that are considered:

a) economic activities can have an impact on the achievement of social objectives through the production of certain goods or services. The production of certain goods or services, such as medicine or educational services, are essential to the achievement of social goals, while other goods or services have no impact on these goals, and others are even harmful. From this point of view, many definitions of social investment refer to these social impacts of goods or services produced.

b) economic activities also have a direct process-related impact on social objectives, which have nothing to do with the nature of the goods or services produced. For example, working conditions are an important social issue, regardless of whether these conditions are present in sectors that produce socially beneficial goods or services or in other sectors. These impacts related to the process of an economic activity can also be positive: local communities that benefit from the taxes paid by a company have the number of jobs it creates locally. These process aspects are often found in definitions of social investment.

Regardless of the causal link that a definition of social finance refers to, there are four different selection procedures for social investments [Hilbrich S., 2021]:

- positive selection of sectors,
- exclusion of the sector,
- best-in-class procedures and
- the minimum criteria.

The positive selection of sector procedure refers to the consideration of investments in certain sectors of activity as eligible for social financial products. For example, investments in the health or education sector are considered to meet social objectives.

The selection procedure by excluding certain sectors of activity refers to the elimination of investments in certain sectors as ineligible for social finance, such as the armaments industry or the gambling industry.

The third procedure refers to the selection of those companies from all sectors of activity that best meet certain social indicators, thus classifying them as eligible for social investments (best-in-class procedure).

The fourth selection procedure (minimum criteria), considers all investment projects that meet certain minimum criteria, such as paying the legal minimum wage, as socially eligible.

This structuring, on the two focuses and four selection procedures, leads to eight different approaches. Definitions of social investment typically combine a number of these approaches in identifying social investment. For example, one can select certain sectors because of the social impact of the goods or services produced by them and use the minimum criteria procedure to ensure that the selected firms in these sectors are eligible for social investment. We can talk about the housing construction sector as a sector whose goods produced have a social impact and can additionally be used, as a selection procedure for eligible firms, minimum criteria such as the payment of the guaranteed minimum wage or the verification that these eligible firms in these sectors do not engage in certain harmful practices such as tax evasion or corruption.

Social investment and the social investor

According to OECD (2015), social investment or social impact investment refers to the provision of funding to organizations that address social needs with the explicit expectation of a measurable social and financial return. Also, social investments can be defined as investments made in companies, organizations and funds with the intention of generating a measurable, beneficial social or environmental impact alongside a financial return [The Global Impact Investing Network, 2017]. In understanding social impact investments, it is very important to identify the entire framework and logic of the interventions. The OECD has identified the following defining elements:

Social needs: which provide the basis for action, these include ageing, disability, health, children and families, affordable housing and jobs.

The demand side: service delivery organizations (or in some cases individuals) such as community organisations, charities or not-for-profit organizations, social enterprises and social impact enterprises.

The supply side: social investors who provide capital in exchange for financial and social goals. Typical social investors are foundations and philanthropies. Among philanthropists, high net worth individuals may act alone or as investment groups.

Intermediaries: these can be "mainstream" (commercial banks, investment banks, independent financial advisors, brokers) as well as new specialist

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intermediaries (e.g., social venture capitalists, social exchanges, ethical-social banks, also as vehicles or social financial platforms).

Favorable conditions: the favorable national/regional conditions or environment underlying the social impact investment (SII) market. These include the regulatory framework, the availability of private capital, the tax system and technical/financial know-how.

According to The Global Impact Investing Network (GIIN) (2017), SII has four main characteristics:

Intentionality – The investor seeks to generate social and/or environmental impact through investments.

Expectations of return – Impact investments are expected to generate a financial return and at least a return on capital.

Range of return expectations and asset classes – Impact investments generate returns that range from below-market ("concession") to risk-adjusted market rates.

Impact measurement – The investor requires measurement and reporting of the social and environmental performance and progress of the underlying investments.

The social investment ecosystem includes social finance providers and social enterprises, plus all stakeholders who participate in, influence or are affected by social investment activity. When we use the term social finance/social investment market, we will focus on the market, where supply and demand meet (i.e., transactions between investors, intermediaries and social enterprises) [European Commission, 2016].

Concluding, the ecosystem is made up of a growing number of investors seeking to use their capital to meet economic, social, cultural and environmental goals.

In contrast to social investment, classical investment can be defined as putting investors' financial funds to work to maximize the earning potential, in other words the act of committing capital or money to a project or business with the expectation of obtaining revenue or profit. In this case, the focus is on the return of private investors. In other words, it would be quite feasible to invest in a social project, but the primary motivation of any investor is to maximize profit, so this investment will be preferred if it offers an attractive rate of financial return.

From the above it is clear that social investment is the point where the investment (financial and non-financial) focuses on the social benefits: environmental, cultural and complete economic benefits of an initiative, on the activity of the organization and on the health of society. as a whole, overall.

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Thus, the investment spectrum varies from a small or marginal social return, to a situation where the focus is on social return entirely, without expecting any financial return. At this part of the investment spectrum (where only social impact matters, or primarily social impact), there may be no expectation of return on capital, and the appropriate vehicle may be donation. Venture philanthropy only covers social impact and the first sections of the impact spectrum.

On the other hand, the first part of the investment spectrum refers to traditional businesses, which attract investors whose main goal is financial return. This type of investment is not considered a social investment, even if the social impact occurs as an "unintended consequence" [European Commission, 2016].

Social investment is not only about funding and support, but also about attracting people with similar values.

A social company is not a natural debtor/lender, but the sources of financing decreased quite a lot in the last global financial recession (2007-2008), which is why these companies were forced to look for alternative sources of financing, in the situation in which and government subsidies have decreased in most countries or sought new ways to launch new operating models. There were also companies interested in obtaining the necessary funds on the most affordable and least restrictive terms possible. Social financing can meet the needs of social enterprises, offering generally simple and easy-to-understand structures and being more flexible in terms of the conditions under which financing is granted. The level of flexibility is also likely to be linked to the source of funds.

Great providers of funds for social enterprises are value-based banks, also known as social banks. They understood that banking is a combination of social responsibility and making a reasonable profit to generate a fair livelihood, but they have a primary obligation to protect the savings of their depositors. For this reason, they do not have the flexible risk appetite that would allow them to offer higher risk social financing. Foundations could be natural partners in providing financing funds, taking on more risk, but they remain a minority. Most see grants as their only financial tool. However, as with venture philanthropy, there are simply not enough resources to meet the long-term needs of social enterprises.

However, social investing is not right for every company, and even where it is, it can be a challenging and time-consuming process. If we assume that most of the funds to finance the social objectives must be repaid, then the enterprise will need a reliable source of income to repay the investor's funds. This tends to favor the growth of already successful financial models, such as those of charities, associations or non-profit organizations. Where non-financial returns appear strong, social investment can also open up access to finance for companies that do not have the asset coverage to access support from traditional financial providers. It can also help attract additional funding by demonstrating, through its due diligence process, belief in the viability of an organization and/or the feasibility of social returns.

Another issue is the size of the funds needed, the scale at which they can be accessed. Established social investment funds, especially those that have to bear the cost of regulation, tend to move towards larger deals as their portfolios mature and find it increasingly difficult to adapt their model to finance needs at scale small in a cost-effective way. Statistically, the greatest financial need is for small amounts (less than €250,000; often less than €50,000), which may be more suitable for small-scale individual investors or the crowdfunding market [European Commission, 2016]. At the other end of the spectrum, some of the biggest funding needs are too big for the nascent social investment market. Major investments in infrastructure or fixed assets or the development of new ways to meet the needs of society can be expensive and require a significant amount of financing. Social investors are geographically dispersed and often operate in distinct markets. Perhaps as a result of their different roots and missions, social investors do not syndicate investments with each other on the scale that commercial banks do.

Social investments can be made in the form of debt or equity instruments or in the form of hybrid models that incorporate both forms of financing/raising capital.

Social investors, unlike mainstream investors who happen to fund social initiatives, look at their investments globally. They understand the impact their financial decisions have on the world. Their values are based on transparency, sustainability, fairness, diversity and inclusion. Social investors live in the triple bottom line and can more easily relate to the needs and experiences of the businesses they invest in. Social investing offers a more empathetic approach than traditional investing. Social investors include venture philanthropy funds, charitable foundations or investment funds. These include financial cooperatives and cooperative banks, credit unions, funds of various types and motivations across the impact spectrum, wealthy or high-net-worth individuals (sometimes incentivized by tax breaks), and other individual retail investors. Crowdfunding (in its various forms) and community action have brought social investment to less well-off individual investors.

Individually, social investors deposit their funds in value-based banks, banking cooperatives or mutual financial institutions or other ethical financial institutions. They also use these organizations to save. They also invest their savings in

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microfinance funds and tax-incentivized forms of social investment. They purchase charity bonds directly from social enterprises. They invest in community and social enterprise issues. Institutionally, as direct investors or as intermediaries, they make secured and unsecured loans, buy social impact bonds and charity bonds, and work with social enterprises in their supply chains. Social investors are those who work to raise awareness of social finance and social enterprise.

Financing mechanism and financial instruments used in the social finance market

Although social impact investing may use "traditional" financing schemes and products, in recent years authorities and financial institutions have increasingly explored the use of innovative financing instruments.

Traditional financing schemes include products that provide financial instruments like loan, guarantee, equity, quasi-equity (financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity).

These four financial products can be used in the design and implementation of financial instruments. It should be emphasized that the financial product and the financial instrument do not coincide. The financial instrument is defined in the Common Provision Regulation as a form of support that incorporates the use of the selected product, combining it with other forms of support such as grants.

Social impact investing can use these "traditional" products, such as a Social Impact Fund that combines grants and equity products. However, the mechanism for the provision of SII must include the measurement of social needs and social outcomes and impact, which is a key challenge in this process. For this reason, SII may use more innovative delivery mechanisms, which may not be financial instruments.

The EU regulatory framework recognizes the use of results-based payments for grants and reimbursable assistance. Article 67 of the CPR lists the forms of grants and repayable assistance and among them standard scale of unit costs, lump sums (not exceeding EUR 100000 from public contributions) and lump sum funding. These are 'Simplified Cost Options' which can be results-based, meaning payment can be linked to the accomplishment of achievements and results.

The payment-by-result mechanism is increasingly used. The mechanism provides for a payment, or premium, proportional to the social results, financial results and social impact that have been achieved and measured.

It is important to note that while outputs are tangible products or services that result from funded activities, outcomes are the changes, lessons or other effects that result from these activities. Finally, impact is a broader and long-term outcome that can be attributed solely to that intervention, excluding the actions of other interventions and unintended consequences.

The concept of pay-for-results is being used more and more due to several factors. These include reductions in public spending, increased demand for innovative financing tools, evidence-based models in public spending, and measurable community and environmental benefits.

The main benefits of paying for results relate to the use of private capital for social causes, new solutions and innovative financial models, reduced public expenditure and direct positive consequences for society.

The main problems, however, lie in the difficulties of impact measurement, cultural differences and regulatory obstacles in collaboration with public authorities.

Other innovative financing mechanisms for the social economy are illustrated in the table below.

Table 1. Financial mechanism and instruments for the social economy

Instrument	Features
Charity / Retail Bonds	Philanthropic institutions and social service providers may issue bonds as a form of long-term debt financing, given the potential returns that can repay investors. Retail Charity Bonds is a platform listed on the London Stock Exchange that accepts the issuance of charity bonds.
Investment funds – Social impact investment funds	investment funds, collective investment vehicles or collective investment schemes, managed funds or simply funds. These funds are for collective investment, normally short-term or in securities. Investors can fund the public through mutual funds, exchange-traded funds, special purpose vehicles or closed-end funds. For a private placement, investors can use hedge funds and private equity funds. Investment funds have a wide range of objectives, including specific geographic regions (e.g., emerging markets or Europe) or industry sectors (e.g., technology).
Microfinance/microcredit	Microcredits without guarantees and accompanied by guidance/coaching services for the borrower. These loans can be granted to small businesses (to support micro-entrepreneurship), non-profit organizations (both associations and cooperatives) and individuals in vulnerable economic conditions.

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Instrument	Features
Revenue participation agreements (RPA)	RPAs are quasi-equity instruments that entitle the buyer to a predetermined percentage of proceeds up to a multiple of the capital invested. They are particularly suitable for financing non-profit organizations because they avoid selling equity to outside investors. Moreover, they allow investors to share risks and rewards while providing capital on more flexible terms than traditional debt. RPAs are mostly found in the UK with impact investors such as Bridges Ventures, Big Issue Invest, CAF Venturesome or Social Investment Businesses.
Social bonds	Social bonds are issued by financial institutions to raise capital for social initiatives. The issuing institution supports such initiatives through grants or debt financing (under favorable conditions). Investors in social bonds are rewarded with financial returns while supporting initiatives with positive social impact.
Social impact bonds	A SIB is a contract with a public sector authority that pays for better social outcomes and uses the savings to pay the investors who funded the initiative. The cost of financing varies as public institutions pay the bond issuer for measurable savings given agreed social outcomes. At the end of 2016, 60 SIBs were issued worldwide, according to Social Finance (UK). By January 2018, it had grown to 89 SIBs in over 20 countries.

Source: IFISE project, Multi-region assistance (MRA) initiative co-funded by the European Commission Handbook - Financial instruments for social impact – supported by ERDF and ESF, June 2019, p. 14

Sustainable finance and the social economy – the Romanian experience

For a developed social economy, a general framework favorable to social economy organizations is needed, and various public policy instruments and measures can be used for this.

To evaluate the national framework for the existence and operation of the social economy with the aim of developing public policies for this sector, the OECD has developed an evaluation tool based on the following criteria:

1. The culture of entrepreneurship
2. The institutional framework
3. Legal and regulatory frameworks

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4. Access to financing
5. Access to markets
6. Skills and business development
7. Measuring, managing and reporting impact

Regarding the situation in Romania from the perspective of the first two evaluation criteria, things are presented as follows:

The first criterion - the culture of social entrepreneurship, from the OECD perspective, refers to:

- local traditions and activities, including those of civil society and existing social economy organizations;
- efforts to raise awareness of social entrepreneurship and whether support is given to citizen-led initiatives and social economy organizations;
- education providers promote social entrepreneurship in formal and non-formal learning and if universities carry out research activities in the field;
- statistical data on social enterprises are regularly collected and analyzed.

In Romania, according to a report from 2021 (Barometer of the social economy), the evaluation of this criterion led to the conclusion that the culture of social entrepreneurship in our country is quite low, because:

- civil society organizations approach economic activities as a source of income to a small extent (according to the 2021 report cited previously only 12% of them carry out such activities) and are very little involved in the debates on the social economy, thus supporting the development to a small extent social entrepreneurship;
- awareness activities are few - the month of the social economy (May is the month of promotion of the social economy in Romania) provided by law is not organized by the authorities in the field, only by a few resource centers in the sector. There are few initiatives to introduce the social economy into the school curriculum - in professional education CRIES Timisoara, studies of social entrepreneurship, social economy, pilot cooperatives in higher education at the bachelor's or master's cycle at only 5 universities in the country (Bucharest University, The Academy of Economic Studies in Bucharest, USAMV, West University of Timisoara and Babeș Bolay University Cluj-Napoca).
- The National Institute of Statistics does not publish official data on social economy entities (it carried out a study in 2014 in collaboration with the Institute of Social Economy / Foundation for the Development of Civil Society but did not continue the initiative).

- The Trade Register does not publish data on cooperatives, commercial companies with provisions according to Law 219/2015 in their statutes and those owned/controlled by entities of the social economy, such as NGOs

The second criterion – the institutional framework, from the OECD perspective, refers to:

- Institutional support for the development of social enterprises, including whether there is any state body responsible for policies and administration of the field.
- Adequate coordination between government agencies and the various levels of central and local public administration.
- Existence of a strategy to support social entrepreneurship, developed in consultation with relevant stakeholders.
- The situation in Romania, according to the previously cited report, regarding the institutional framework for supporting the social economy, is presented as follows:
- Institutions with the main responsibility in the development of policies are: Ministry of Labor and Social Protection for the field of social economy and related ones - including the employment of disadvantaged groups and social services; The Ministry of Justice for the non-governmental sector and the registration of commercial and cooperative companies through the National Office of the Trade Register and the NGO register; Ministry of Economy for cooperatives and business policy in general; Ministry of European Investments and Projects for European funds; Ministry of Development, Public Works and Administration for FEADR; The National Employment Agency and its county agencies for the recognition of social and insertion enterprises and their involvement at the local level through the county insertion plans.
- There is weak coordination between institutions responsible for policy making at the central level and between them and devolved services and local public authorities.
- There is a weak consultation of the actors in the field, there is no permanent consultation mechanism.
- Local public authorities, social services and county employment agencies are, with few exceptions, interested in the development of the social economy.

The growth and dissemination potential of social enterprises continues to be underexploited in Romania, as they face various obstacles. Social enterprises face

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not only the problems typical of SMEs, but also specific difficulties, especially in terms of access to finance. When we talk about social financing in Romania, it is important to reflect first of all on the financing needs of social entrepreneurs and change agents.

On the Romanian market there is an obvious shortage of financing instruments that specifically target the needs of social entrepreneurs:

- Credits: there is no dedicated approach to social finance with its own eligibility criteria relevant to the type of operations of social entrepreneurs
- Fiscal instruments: Redirection of 20% of company profit/income tax and 2%/3.5% of personal income tax is widely underutilized (only 8% of Romanian companies and only 34% of individual employees redirect their taxes to non-profit organizations).

In Romania there are two tax redirection mechanisms available for social entrepreneurs that are quite underutilized. Namely, for profit, companies can redirect 20% of the profit tax (no more than 0.75% of the turnover when the companies exceed 1 million euros) or of the income tax (in the case of micro-enterprises with a figure of business less than 1 million euros) to an NGO of their choice, as well as individual employees can redirect up to 3.5% of their income tax to an NGO of their choice for up to two consecutive years.

- Corporate sponsors: For-profit organizations play increasing roles as important funders and supporters of social entrepreneurs, but there is no assessment of the impact these types of investments have.

According to aggregated data on the Donor Platform launched in 2021, the top 15 funders and 19 Community Foundations have already invested more than EUR 52 million (of which the main funding was more than EUR 3 million investment in education) in more than 54 of impact areas

- Crowdfunding: Support from individual donors continues to grow. In the last two years, we have observed emerging patterns in Romanians' behavior towards civic engagement through donations and supporting social entrepreneurs through crowdfunding. Two community currencies have emerged in recent years

This was even more visible through private donations of 20 million euros in the first months of the pandemic, according to data collected by Romania Insider. A big enabler of this process is increased access to technology platforms that facilitate donation-based crowdfunding. Campaigns also play an important role in raising awareness of the promise of smoother and easier to complete donation processes, such as donatie.ro (SMS campaigns). It saw a 14.5% increase in recurring donations.

According to the USAID and FDSC Sustainability Index, the peer-to-peer platform reported a 47% increase in annual donations, benefiting 206 CSOs and 476 community projects.

- Grants: Grants are the most prominent instrument that finances social enterprises in Romania. Start-up funds have been made available, but there is no consolidation tool for existing social enterprises

According to the civil society sustainability index, central government funding and European funds remain a significant and crucial source of funding for social entrepreneurs. The most important opportunities come from the European Social Fund (ESF) 2014-2020 and the EEA and Norway Financial Mechanism 2014-2021. The European Social Fund 2014 - 2020 provided financial resources for acceleration programs for social entrepreneurs in 2 calls for proposals (SOLIDAR). The EEA and Norway Financial Mechanism 2014 – 2021 finances the Active Citizens Fund, a financing program dedicated to non-governmental organizations, which is implemented in Romania between 2019 and 2024 and has a total allocation of €46,000,000. 11 calls for proposals were launched in 6 areas of support.

No solid alternative financing mechanism, used in other EU countries, has yet been made available in Romania (bonds with social impact, crowd investing).

Regarding the gaps about financial instruments that could accelerate the social finance market in Romania, we can talk about:

- A common local guarantee fund between banks as a form of risk sharing instrument
- More collaboration between different types of investors (banks, corporate investors, etc.)
- Equity/debt funding platforms for social enterprises.

Conclusion

The current challenges regarding the future development of the social finance market refer to the opacity of its conceptual bases. For this reason, one of the objectives of this article was to clarify the concepts and instruments that are the basis of social finance and their continuously developing market, analyzing the specialized literature in the field.

The plurality of concepts encountered in specialized literature differs both depending on the institutional actors involved and the object to which they refer:

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- at the macroeconomic and multinational level, many important social objectives can only be achieved if the financial system is aligned with these objectives and substantial financial resources are mobilized;
- at the microeconomic level, social finance could establish incentives for companies to engage in more sustainable business models, which would give them access to social financial instruments potentially associated with a lower cost of capital
- we can also talk about how social processes shape economic results. In this case, social interactions can influence people's economic and financial decisions through multiple channels, with two mechanisms being particularly prominent when it comes to social finance: one of the mechanisms refers to "social learning" through social networks as a channel of information transmission, and individuals can be affected by friends' preferences [Jackson, 2010]; the second mechanism refers to "social utility" [Abel, 1990], a concept that refers to the way in which the actions of friends, acquaintances or family enter directly into the utility functions of individuals, causing them to imitate the patterns of consumption of others, either to stay on trend or not to lose a particularly attractive investment.

Regarding the financing mechanism and financial instruments used in the social finance market, social impact investment can use both "traditional" products, such as a Social Impact Fund that combines grants and equity products, but also more innovative, which may not be financial instruments. Thus, the payment-by-result mechanism is used more and more. It provides for a payment, or premium, proportionate to the social results, financial results and social impact that have been achieved and measured. Other innovative financing mechanisms for the social economy are charitable bonds, Social Impact Investment Funds, Microfinance/Microcredit, Revenue Sharing Agreements (RPA), Social Bonds, Social Impact Bonds.

The growth and dissemination potential of social enterprises continues to be underexploited in Romania, as they face various obstacles. In Romania there is an obvious shortage of financing instruments for social entrepreneurs, and there is no solid alternative financing mechanism used in other EU countries, such as social impact bonds or crowd investing.

As financing mechanisms, social enterprises in our country use: credits, fiscal instruments, corporate sponsorships, crowdfunding and public grants, which is the most prominent financial instrument used for actions with social impact.

Among the challenges of the social finance market in Romania are:

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- the limited number of actors to support social entrepreneurs, from funding issues to support organizations aimed at providing the tools and expertise needed to grow organizations from one stage of maturity to another.
- Existing players are reactive to the needs of social entrepreneurs, but not acting on a more shared, collaborative agenda

For these reasons, Romania should:

- Public authorities to be an ally in supporting social entrepreneurs with the know-how to access grants, comply with legislation and ensure that they have a sustainable plan after the end of the initial funding period. New regulations need to come into force to complete the initial Social Economy Act, to increase its practicality, based on insights and feedback from social entrepreneurs and support organizations with grassroots experience.
- Financial institutions and investors should create an impact investment fund or other financial instruments to take social entrepreneurs from where they are after accessing EU grants until they can be sustainable and credible to the bigger players on the market.
- Support organizations to create scalable investment training programs in Romania, which support social entrepreneurs in the development of their enterprises at any stage of development.
- Social entrepreneurs should put future and ongoing projects under a strategic lens, have clear methodologies for measuring impact, create a strong business plan and risk analysis, build a network of "allies"

In conclusion, the social finance market in Romania is still in the development phase and requires the activation of a stronger support system.

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