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Research Report on Social Economy in Romania from a Compared European Perspective



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Bucharest, 2011

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The research report has been developed within the project “Social Economy – an Innovative Model for Promoting the Active Inclusion of Vulnerable Groups”, implemented by the Ministry of Labour, Family and Social Protection (MLFSP) – Department for Social Inclusion in partnership with ENSIE - European Network for Social Integration Enterprises (Belgium), Bernard Brunhes International (France), the National Employment Agency, Integra Romania, the Directorate General for Social Assistance and Child Protection – district 1 of Bucharest, the Directorate for Community Social Assistance of Timisoara and Piatra Neamt Mayoralty.

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INTRODUCTION

This Report has been developed within the project SOPHRD/14/6.1/S/2 “Social Economy – an Innovative Model for Promoting the Active Inclusion of Vulnerable Groups”, whose beneficiary is the Ministry of Labour, Family and Social Protection – Department for Social Inclusion. The project is financed from the European Social Fund, through the Sectoral Operational Programme Human Resources Development 2007-2013, Priority Axis 6 „Promoting Social Inclusion”, Area of Intervention 6.1 „Developing Social Economy”. The project has a duration of 36 months (November 2008 – October 2011) and is implemented in partnership with ENSIE - the European Network for Social Integration Enterprises, Bernard Brunhes International, the National Employment Agency, Integra Romania, the Directorate General for Social Assistance and Child Protection – district 1 of Bucharest, the Directorate for Community Social Assistance of Timisoara and Piatra Neamt Mayoralty.

The overall objective of the project is to develop a unitary, effective and modern social economy system, thus contributing to enhancing the life quality of Romanian citizens, by promoting their active inclusion both on the labour market and in social life. The main project activities include:

1. Analysing the current state of play in Social Economy (SE), at the national and European level, by identifying best practices.
2. Developing the national legal framework applicable to SE.
3. Setting up the National Resource Centre (NRC) in the field of SE, in order to support SE initiatives, which will provide the relevant stakeholders with information and assistance in developing SE activities.
4. Developing a complex training programme on SE, as well as promoting the SE module in the academic curriculum.
5. Developing transnational networks by supporting collaboration between relevant Romanian stakeholders and European networks (study visits in the EU, support for joint projects, conclusion of partnerships).
6. Information campaigns targeting potential initiators of SE activities (vulnerable groups) and their partners.
7. Developing pilot social enterprises. Supporting local communities in developing SE activities. Initiating a project competition, where the winner (initiative group, association, foundation etc.) will receive grant funding and will be supported by the local centre to organise and develop SE activities.

Given the current economic crisis, it is crucial to understand and leverage the potential of SE. This research report aims at reviewing the current state of play as regards SE development in Romania and Europe. The report starts with a presentation of the methodological approach and conceptual framework. It continues with a review of SE regulations, historical SE evolution, relevant institutional players, specific forms of organisation, SE beneficiaries, financial SE support mechanisms existing at the European and national level, including also an assessment of their effectiveness. The last chapter contains the conclusion and recommendations for further developing SE in Romania.

The research results will serve as the basis for the development of the national Strategy on SE development in Romania, and in particular of the conceptual and legal framework. This will lay the foundations for achieving the goals set at European¹ and national level², namely to secure and foster employment, especially for vulnerable groups.

¹ *** European Commission, „Europe 2020, A European strategy for smart, sustainable and inclusive growth”, Brussels, 03.03.2010, pp. 6, 13, 16, 21, 36

² *** MLFSP, „National Strategic Report on Social Protection and Social Inclusion”, 2008 - 2010, 2008, p. 23

LIST OF ABBREVIATIONS

| | |
|------------|---|
| AIPPSME | Agency for the Implementation of Projects and Programmes for SMEs |
| APU | Authorised Protected Unit |
| AT | Austria |
| BBI | Bernard Brunhes International |
| BE | Belgium |
| CBR | Central Bank of Romania |
| CBS | Community Benefit Society |
| CEA | County Employment Agency |
| CENTROCOOP | National Consumers' Cooperative Union |
| CIRIEC | International Centre of Research and Information on the Public, Social and Cooperative Economy |
| CREDITCOOP | Cooperative Central Bank |
| CVT | Continuous Vocational Training |
| DE | Germany |
| DGSACP | Directorate General for Social Assistance and Child Protection |
| EC | European Commission |
| EES | European Employment Strategy |
| EESC | European Economic and Social Committee |
| EMES | European Research Network |
| ENSIE | European Network for Social Integration Enterprises |
| ERDF | European Regional Development Fund |
| ESC | Economic and Social Council |
| ESF | European Social Fund |
| EU | European Union |
| FEBEA | Fédération Européenne de Finances et Banques Ethiques et Alternatives (European Federation of Ethical and Alternative Banks) |
| GD | Government Decision |
| GDP | Gross Domestic Product |
| GEO | Government Emergency Ordinance |
| IBRD | International Bank for Reconstruction and Development |
| IE | Ireland |
| ILO | International Labour Office |
| IRIS | European Inter-Network of Ethical and Solidarity-Based Initiatives |
| IT | Italy |
| LU | Luxembourg |
| MARD | Ministry of Agriculture and Rural Development |
| METBE | Ministry of Economy, Trade and Business Environment |
| MIG | Minimum Income Guarantee |
| MJ | Ministry of Justice |
| MLFSP | Ministry of Labour, Family and Social Protection |
| MPF | Ministry of Public Finance |
| MS | Mutual Society |
| MSE | Mutual Society for Employees |
| MSP | Mutual Society for Pensioners |
| NACA | National Agricultural Consulting Agency |
| NACE | Nomenclature of Economic Activities |
| NAPD | National Agency for People with Disabilities |
| NBFI | Non-Banking Financial Institution |
| NEA | National Employment Agency |

| | |
|----------|---|
| NGO | Non-Governmental Organisation |
| NPinc | National Plan on Combating Poverty and Promoting Social Inclusion |
| NSI | National Statistics Institute |
| NSR SPSI | National Strategic Report on Social Protection and Social Inclusion |
| NTRO | National Trade Registrar's Office |
| OECD | Organisation for Economic Cooperation and Development |
| OJ | Official Journal |
| PHARE | Poland Hungary Aid for Reconstruction of the Economy |
| PSAS | Public Social Assistance Service |
| RDI | Research, Development and Innovation |
| SE | Social Economy |
| SME | Small and Medium-Sized Enterprise |
| SOPHRD | Sectoral Operational Programme Human Resources Development |
| SWOT | Strengths, Weaknesses, Opportunities and Threats |
| UCECOM | National Craftsmen's Cooperative Union |
| UK | United Kingdom |
| UNCARSR | Romanian National Union of Mutual Societies for Employees |
| UNDP | United Nations Development Programme |
| USA | United States of America |
| VAT | Value Added Tax |

EXECUTIVE SUMMARY

This research report represents an overview of Social Economy at the European and national level.

It contains the methodological and theoretical approach, a presentation of the state of play of the SE in Europe and in Romania, as well as the results of the opinion polls on social economy conducted at European and national level. The last chapter sets out the conclusions and recommendations for SE development in our country. The annexes to the report contain relevant detailed analyses aimed at enhancing the understanding of SE in Romania.

From a methodological viewpoint, the study includes the results of sociological, legal, economic and statistic analyses, based on qualitative and quantitative researches conducted on a significant European probabilistic sample of the SE forms existing in the selected countries, as well as on a statistically representative national sample of SE forms and vulnerable groups.

In order to make a detailed presentation of the comprehensive concept of Social Economy, it was necessary to review some related notions, such as: third sector, active inclusion or employment. Since there is no general consensus on the term of Social Economy, it was broadly defined either by a listing of its principles, or by the enumeration of its specific forms of organisation.

The chapter on SE in Europe presents the historical evolution of Social Economy, the relevant players in the SE field, support and encouragement mechanisms and financing sources for SE forms. Along the years, the interest in the promotion of Social Economy has known some fluctuations, but has been revived recently. The relevant stakeholders in the field of Social Economy at the European level were analysed in terms of the European institutions and traditional SE forms of organisation, but also in terms of the latest developments. The main European institutions having responsibilities in promoting SE are: the European Commission, the European Economic and Social Committee, the European Parliament and the Council of Europe.

The activities undertaken and the funds made available have reflected the evolution of the visions on SE. After successive periods of glory and oblivion, we are now witnessing a revival of the interest in SE in the context of the current crisis, probably because of the recognition of SE's role in securing employment, in particular for disadvantaged groups.

The traditional SE forms of organisation recognised at the European level are: cooperatives, mutual organisations, foundations and associations. The only statute approved at the European level is that of cooperatives. In 2010, several promotion actions were carried out in order to foster the recognition of the European statute of associations. The latest developments in the forms of organisation of Social Economy have led to the recognition of social enterprises. The main mechanisms to support and encourage SE forms of organisations are national public policies, facilities and fiscal incentives. The main sources for SE financing are analysed at the European level (in particular the European Social Fund) and national level.

The chapter on SE in Romania contains an analysis of the historical evolution and of the concept of SE in the Romanian legislation, the relevant institutional stakeholders, an overview of SE forms of organisation and of the support and financing mechanisms, as well as a presentation of the financing sources and aspects related to SE efficiency. Our country has a long tradition in developing specific SE forms, but the communist period brought about a negative change in the population's perception of the meaning of basic concepts such as cooperative or voluntary work. The analysis of the legal and institutional framework outlines certain directions for promoting rather SE forms than the field as a whole.

The main relevant institutional stakeholders in the field of SE are: the Ministry of Labour, Family and Social Protection (MLFSP) and the Ministry of Economy, Trade and Business Environment (METBE).

Specific SE forms of organisation in Romania are: non-profit organisations conducting economic operations, regardless of the field of activity (in-house or through business companies), non-profit organisations organised as mutual societies for employees or pensioners; credit

cooperatives and cooperative societies of the 1st degree. Upon reviewing how the overall SE principles are reflected in the Romanian legislation, in addition to specific SE forms of organisation, there were other forms identified: general forms of organisation relevant for SE and forms of organisation similar to SE. The vulnerable groups representing potential beneficiaries of SE were analysed in correlation with the main legal regulations and in statistic terms.

The main SE support and encouragement mechanisms are fiscal (various tax reliefs) and non-fiscal (facilitating access to funding). Romania does not have financing lines dedicated exclusively to SE development and positive discrimination practices in order to support financing (crediting) of social development activities. The analysis also includes information about the available funding sources, accessed by specific SE forms of organisation, with a major role played by the European structural funds. The sub-chapter also contains information about the restrictions and opportunities of SE financing during the crisis, the conditions for the development of performing SE financing schemes within the context of the development of a national SE development strategy, as well as aspects regarding the efficiency of SE financing. The sub-chapter on the overview of specific SE forms of organisation in Romania presents the state of play regarding the development of SE in Romania.

The chapter on the analysis of the European practices in the field of Social Economy includes the results of the surveys conducted at the European and national levels. The analysis of the national frameworks for promoting SE contains a review of the political environment, financing mechanisms and SE monitoring and assessment systems. The analysed countries do not have special SE policies, but do have regulations for the specific SE forms of organisation. In 2009, the Flemish region of Belgium adopted SE monitoring indicators. The analysis of SE forms in the analysed European countries includes results regarding SE activity and networks, types of organisation, financing and profit redistribution mechanisms, as well as a SWOT analysis. The chapter also contains the results of the comparative legislative analysis between Romania and France, the UK, Spain and Hungary. Additionally, it presents the results of the questionnaires sent to the SE forms from the analysed European countries, as well as the results of the research on SE demand and supply in Romania.

This report ends with a chapter laying down the conclusion of the research, which will be used to substantiate the development of the National SE Development Strategy in Romania, and recommendations for further development. The strategy will build upon the integrated approach of legal changes having an impact on the definition of the field and SE forms (in particular by regulating the statute of social enterprise), financing and institutional building.

CHAPTER I. METHODOLOGICAL FRAMEWORK

Given the complexity of the researched field, multiple data sources were needed in order to assess the need for SE (SE demand and SE supply), and to analyse the actual achievements in the field of Social Economy at a European level.

A first step was to review the national frameworks for promoting SE and the characteristics of the various forms of organisation specific to Social Economy in the selected member states, as well as the related difficulties, strengths and structural opportunities as perceived by the representatives of the relevant institutions. The European analysis of SE was conducted based on a number of 317 questionnaires collected from 15 countries. The selected European countries included in the research are founding members of the EU or countries which joined the EU in the first accession waves. The 15 selected countries also include countries where the definition of SE is close to the third sector (Austria, Germany, Luxembourg, Ireland and UK), as well as countries where the definition of SE is closer to a democratic social approach (Belgium, France, Italy and Spain). The European survey is not probabilistic in nature (and implicitly is not statistically representative for the 15 surveyed countries), as the sampling was only for convenience purposes and largely depended on the access to the concerned institutions and the local capacity to mobilise potential respondents to the questionnaires. However, the information thus obtained is highly useful to outline the Social Economy institutions, as the opportunities and macroeconomic constraints (related to the institutional, legal, economic and social context) are also valid for the other institutions which did not participate in the survey.

The data on Social Economy at the European level were supplemented by a national survey on specific SE forms of organisation in Romania. The objectives of the survey were to identify the offer in the field of Social Economy, identify the main areas of activity where specific SE forms operate, identify the main characteristics of active SE forms and their difficulties. The sample of 370 respondents included managers of specific SE forms and was put together randomly (picking up from a list), while maintaining the population structure at regional and locality level (in terms of size). A mirror sample of 199 persons employed in various specific SE forms was also analysed. Moreover, in order to understand the demand for SE (with a view to identifying the difficulties in informing the population about the various specific forms of SE in Romania, as well as the difficulties encountered by the vulnerable groups in accessing the SE offer), a survey was conducted among five different vulnerable groups. The five samples from the vulnerable groups partially overlap (since the universes do not exclude one another), which makes it that the sample of 2,549 persons can be used to analyse a number of 1,079 Roma people, 157 institutionalised young people, 403 persons from low-income single-parent families and 375 people with disabilities and 1,962 beneficiaries of the MIG.

- *The Roma sample* was stratified according to development regions and size of localities (with a selection of 123 localities). Within the selected localities, recruitment was random (with a statistic step of 3), from the records of the Directorate General of Social Assistance and Child Protection (DGSACP), and of the Public Social Assistance Services and mayoralties.
- *The sample of institutionalised young people* was put together with the help of DGSACP and based on the lists of institutionalised youth received from MLFSP. The selection was done randomly, from the contact lists, and the questionnaires were sent to the addresses of the selected respondents. The sample of 157 questionnaires was gathered from 26 localities, pro rata with the structure of the target group universe, by regions.
- *The sample of MIG beneficiaries*, stratified proportionally by region and size of locality, consists of 1962 persons selected from 142 localities. The respondents were picked up from the lists of MIG beneficiaries in the localities where this was possible, as well as using systematic selection (selection step for every three beneficiaries) at the headquarters of mayoralties; then, the final sample was weighted according to the structure of the beneficiaries, by development regions and locality size (using the data received from MLFSP).

The sample of 403 persons from *low-income single-parent families* was put together using a similar method.

- *The sample of people with disabilities* was also selected using the lists from the records of DGSACP.

The information obtained from these surveys was supplemented with quantitative data resulting from the analysis of the databases of the National Statistics Institute (inquiry of family budgets), as well as from the secondary analysis of other statistics available at the time of the study with regard to the analysed groups (data from MLFSP, NSI TEMPO etc.).

CHAPTER II. THEORETICAL APPROACH OF SOCIAL ECONOMY

The global economic crisis and the massive layoffs required the assessment of the efficiency of the active measures aimed at promoting vocational insertion. *“Europe 2020 - A European strategy for smart, sustainable and inclusive growth”* is the expression of the joint European efforts to secure jobs and reduce unemployment.

Within this context, the interest in SE has increased, as a result of *“the recognition of the limitations of traditional public and private sectors in responding to the current challenges of the labour market, as well as of the quality and quantity of public interest services”*³. SE seems to represent one of the best solutions to achieve these goals, in particular due to its capacity to create and secure jobs. Over time, SE has strengthened its position as an alternative form of economic development, based on a set of socio-economic values and principles different from market economy and from the Universalist welfare state: volunteering, democracy, non-patrimonial purpose, vocational development of the members and autonomy from the state. SE offers a business development model based on the principles of equity, social responsibility and transparency, encouraging democratic participation in decision making. Therefore, the changes brought about by the crisis can also be considered as “opportunities” which can be capitalised upon also in the field of Social Economy.

From the very beginning, SE was meant to respond to poverty problems. Vocational insertion enterprises as a specific form of organisation of Social Economy offer an effective answer to the labour insertion difficulties encountered by the persons exposed to a risk of social exclusion. Along the years, SE has proven its capacity to adjust to difficult economic and social contexts and has created new forms of intervention which meet the requirements of the economic activity, while contributing to the active inclusion of the beneficiaries. A major role in strengthening this field is played by public-private partnerships, through the implementation of SE initiatives by NGOs, with support from the state, and in particular from the local authorities.

In order to ensure a better understanding of SE and its related concepts, we would like to clarify some terms such as: third sector, non-profit sector, social enterprise, active inclusion and employment.

Third sector and non-profit sector

While society was classically divided into two sectors (public and private), modern societies have a third component, the third sector, which is described as an *“intermediary sector between the business sector, the public sector and the personal sector which includes family and friends”*⁴. The differences between the three sectors are obvious in terms of their pursued goals, the success factors, the financing sources and the decision-making manner.

Although there is no unanimous definition for the *“third sector”*, there are some common characteristics of the organisations that compose it: a relative degree of institutionalisation, autonomy from the public and the private sectors, as well as restrictions or interdictions as to profit redistribution⁵. The organisations of the third sector are *“enterprises and organisations that belong neither to the traditional private sector nor to the public sector”*⁶. Their identification varies depending on the discipline dealing with the subject matter, as well as on the social and economic context we are referring to.

³ *** European Parliament, *„Report on Social Economy”*, 2009 p. 15

⁴ Mark Bevir (coord.), *„Encyclopaedia of Governance”*, University of California, Berkeley, Sage, 2007, pp. 364-365

⁵ Idem pp. 364 - 365

⁶ Jacques Defourny, *„Social enterprise in an enlarged Europe: concept and realities”*, 2004, p. 2; study to be published in *„Economic Efficiency and Social Entrepreneurship”*, CECOP, Brussels
http://www.ces-ulg.be/fileadmin/ces-files/pdfs/Publications/2004/Defourny_J_2004_Social_enterprise_in_a_enlarged_Europe_concepts_and_realities.pdf

In the definition of the „third sector“, there is a major difference between the European and the American concepts. The American approach⁷ has become the predominant international model for the third sector, by the definition of the **non-profit sector** or “the third sector”. The non-profit sector is composed of various organisations, with the following characteristics: legal or social entities, organised formally, private and independent structures – in the sense that they have their own rules and decision-making mechanisms, created with the purposes of producing goods or services, whose statute does not allow them to be a source of income or profit or to generate other financial revenues. The concept is based on voluntary participation.

The European approach is more analytical in nature and highlights the development of SE, the establishment and development of various structures, the action mechanisms and the process of transformation in time. The distinction made by the European Research Network (EMES⁸) between the predominantly economic indicators and the predominantly social indicators is useful in this regard. Economic criteria include: continuous production or marketing of goods and services, high degree of autonomy, high degree of economic risk and minimum level of paid work. Relevant social indicators include: purpose (to the benefit of the community), initiative launched by a group of citizens, the principle „one person, one vote“, as a means to establish the decision-making power regardless of capital ownership and participation in profit sharing, as well as limited profit distribution⁹. The criterion differentiating the third sector organisations from other productive organisations consists in the profit redistribution limits. In 2007, the European Commission (EC) proposed the term “third system”, in order to include the organisations setting a profit distribution limit¹⁰.

The meaning of the term „third sector“ is therefore divided into two international streams: the American one – in the sense of non-profit sector, and the second one – of French origin, in the sense of Social Economy, a concept also adopted by the EU institutions¹¹.

Active inclusion

Active inclusion aims at ensuring non-discriminatory access to the labour market and improving the living and working conditions (constant preoccupations of the EU)¹², by the implementation of national vocational training programmes¹³.

Active inclusion is part of the European Employment Strategy (EES) which was launched in 1997 upon signing of the Amsterdam Treaty, and became effective during the high-level meeting from Luxembourg, in the same year. EES is a common effort for coordinating national priorities in the field of employment, with a view to reaching common European social objectives as part of the implementation of the open coordination method (OCM). Initially focusing on lowering unemployment, EES was extended to include full employment with the launch of the Lisbon Strategy (2000). The evaluation and renewal of the Lisbon Strategy highlighted the importance of EES in achieving the desideratum that the EU should become the most competitive and most dynamic knowledge-based economy in the world, capable of sustainable economic development, with more and better jobs and greater social cohesion¹⁴.

Since 2005, active inclusion has been included in the EC employment guidelines to the Members States: „*securing inclusive labour markets for job seekers and disadvantaged persons*“¹⁵.

⁷ John Hopkins University, Comparative Non-profit Sector Project carried out in 1990

⁸ European Research Network <http://www.emes.net/>

⁹ J Defourny and M Nyssens (coord.), „*Social enterprise in Europe: recent trends and developments*“, 2001, pp. 16-18

¹⁰ Part of the pilot action „*Third System and Employment*“, Antonella Noya and Emma Clarence „*The Social Economy. Building inclusive economies*“, OECD, 2007;

¹¹ Idem p. 2

¹² The right to work is stipulated in the „*European Social Charter*“ (1961) and the „*Community Charter of the Fundamental Social Rights of Workers*“ (1989)

¹³ *** Art. 136, Art 137 letter h and Art 150, Consolidated versions of the „*Treaty on the European Union*“ and „*Treaty on the Establishment of the European Community*“, EU Official Journal, C 321 E / 113, 29.12.2006

¹⁴ *** European Commission „*Ten years of the European Employment Strategy*“, Brussels, 2007, p. 7

¹⁵ <http://ec.europa.eu/social/main.jsp?catId=108&langId=en>

The renewed principles of the Lisbon Strategy served as a basis for the drafting of the Active Inclusion Strategy (2008), based on: granting proper income, insertion-based labour markets and access to quality services¹⁶. The implementation of the active inclusion measures is based on the involvement of all relevant stakeholders at the local, regional, national and European levels: representatives of public authorities, private organisations, social partners (employers' unions and trade unions), non-governmental organisations, social service providers and last, but not least, poor people¹⁷.

The first guideline on growth and jobs (2005 – 2008) also included the creation and securing of jobs. The guideline “Promoting a lifecycle approach to work” included the following recommendation: *„special attention should be given to promoting the insertion of disadvantaged groups on the labour market, including by extending social services and Social Economy”*¹⁸. The priorities of the member states include *„improving the adaptability of workers and enterprises (...) by flexicurity, including for vulnerable persons”*¹⁹. Within the context of the economic crisis, the member states were recommended to continue their efforts in order to: attract and maintain workers on the labour market, increase the supply of workforce, modernise social protection systems, improve the adaptability of workers and enterprises and enhance investments in the human capital by improving education and skills²⁰. Guideline 18 „Promoting a lifecycle approach to work” encouraged, in the period 2008 – 2010, support to *“the active inclusion of the workforce and the fight against poverty and social exclusion of marginalised groups”*²¹, paying special attention to the development of social services and SE, as well as to the employment of people with disabilities²². The recommendations made by the EESC for the drafting of the EES after 2010 include the creation of an inclusive labour market, where the *„different forms of SE existing in the member states should play a role in overcoming the crisis, mainly by the creation of jobs, including in the field of social services”*²³. SE is seen as an instrument to achieve social inclusion.

The EC requests the member states to submit national reports on employment and social economy, but there is no recommendation for them to develop national plans dedicated to Social economy. This is probably due to the fact that SE is dealt with partially in the National Plans on Promoting Social Inclusion.

The simple employment no longer represents a guaranteed solution against poverty. 8% of the workers in the EU are exposed to the poverty risk, which explains the appeal launched by the civil society organisations and trade unions for the creation of sustainable quality jobs, similar to those developed by SE structures²⁴.

¹⁶ *** „EU encourages national efforts on combating poverty and social exclusion”, 03.10.2008, Brussels, p. 1 and *** „Commission Communication COM 639 / 2008 to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the active inclusion of people excluded from the labour market”, Brussels, 2008, p. 7

¹⁷ *** Commission of the European Communities, „Commission Recommendation on the active inclusion of people excluded from the labour market”, 30.09.2008, pp. 4 - 5

¹⁸ *** „Integrated guidelines for growth and jobs (2005 – 2008) including a Commission recommendation on the broad guidelines for the economic policies of the Member States and the Community”, 2005, p. 28

¹⁹ *** Commission of the European Communities, „Proposal for a Council Decision on the guidelines for the employment policies of member states”, no. 869 / 2008, Brussels, 28.01.2009, p. 3

²⁰ *** EU Council, „ Council Decision on the guidelines for the employment policies of member states”, Brussels, 09.07. 2008

p. 1

²¹ Idem p. 8

²² Idem p. 13

²³ *** European Economic and Social Committee „Opinion of the European Economic and Social Committee on The post-2010 Lisbon Strategy (exploratory opinion)”, Brussels, 04.11.2009, p. 7

²⁴ *** „Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest from the labour market”, Communication Commission to the Council, the European Parliament, the EESC and the Committee of the Regions, COM(2007) 620 final, Brussels, 17.10.2007, p. 4;

Definition of Social Economy

In 1980, the representatives of the cooperative, mutual and associative sectors adopted in France the *Social Economy Charter*²⁵, which was updated in 1995. *The SE Charter* reiterates the values and organisation of SE, highlighting the underlying principles of this sector:

- solidarity,
- responsibility,
- freedom,
- equal opportunities for all the members of the organisation and
- mutual respect (all associates being also owners).

The signatories committed themselves to supporting a harmonious balance between economic rigour and social challenges. For more details, see Annex 2, *the Social Economy Charter*.

A second document, the *Charter of Principles of Social Economy*²⁶, was proposed in 2002 by CEP-CMAF and sets out the fundamental principles of SE:

- primacy of the individual and the social objective over capital;
- private structures;
- voluntary and open membership;
- democratic control by membership;
- combination of the interests of members/users and/or the general interest;
- defence and application of the principle of solidarity and responsibility;
- most of the surpluses are used in pursuit of sustainable development objectives, services of interest to members or the general interest.²⁷

According to the *Charter of Principles of SE*, SE includes two sub-sectors: the market (business) sector, and non-market sector, and its objectives are: employment, development of social services and strengthening of social cohesion. SE falls within the major orientations of public policies: social policies on social inclusion and insertion on the labour market, and local development and job creation policies²⁸.

There is no official definition of Social Economy at the European level, and the main challenge is to overcome its “institutional invisibility”²⁹. Over time, SE has been defined either through its specific forms, or through its principles. SE has been understood as „including non-profit organisations, cooperatives and other private forms of associated enterprises, or used as a synonym for social enterprises”³⁰. SE includes „cooperatives, mutual societies and associations (and more and more foundations), which have the specific mission to act rather to the benefit of the members or communities than to generate profit for the investors”³¹.

SE may be organised in a variety of forms: voluntary organisations (sometimes attached to a religious denomination and providing services), citizen support groups (approaching new employment and social inclusion opportunities, depending on the availability of local resources), social public structures (incubators), cooperative organisations (community enterprises which promote specific group interests in the community), new forms of non-profit organisations (involved in the provision of

²⁵ The full text can be found in Annex 2 to the Report, “*The Social Economy Charter*”

²⁶ European Standing Conference of Cooperatives, Mutual Societies, Associations and Foundations (CEP-CMAF), known today as Social Economy Europe

²⁷ *** „Déclaration finale commune des organisations européennes de l’Économie Sociale”, CEP-CMAF, 20.06.2002

²⁸ *** „*The Social Economy in the European Union*”, CIRIEC, 2007, p. 8

²⁹ *** „*Social Economy in the EU*”, summary report drafted for EESC by CIRIEC, 2007, p. 27

³⁰ J. Defourny and M. Nyssens (coord), „*Social enterprise in Europe: recent trends and developments*”, 2001, pp. 5, 15

³¹ *** „*Social enterprise: a new model for poverty reduction and employment strategy – an examination of the Concept and Practice in Europe and the Commonwealth of Independent States*”, EMES, UNDP Regional Bureau for Europe and the Commonwealth of Independent States, 2008, p. 17

public services and carrying out commercial activities in order to secure financing for their services), charities, associations and foundations (which own commercial entities and have the purpose to increase revenues for public benefits)³².

One of the most robust definitions for SE is considered to be the one given by the Walloon SE Council from Belgium (1990) according to which SE *“consists of the economic activities carried out by companies, especially cooperatives, mutual societies and other associations in which ethics is in line with the following principles: the final purpose is rather serving the members or the community than making profit, autonomous management, democratic decision-making, priority given, in the revenue distribution process, to persons and work rather than to capital”*³³.

The International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC) proposed the following definition: *“The set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members’ needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote. The Social Economy also includes private, formally-organised organisations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them”*³⁴.

SE also includes voluntary non-profit organisations which provide non-market services to households³⁵. SE promotes business initiatives based on mutual solidarity, based on a value system in which the democratic decision-making process and the primacy of the human being over capital prevail in the distribution of surpluses. SE does not consider the disadvantaged categories as passive beneficiaries of social philanthropy, but as active protagonists of their destiny³⁶.

The SE sector in general and the sector of social enterprises, in particular, developed in Europe over the past 20 years. The developments in the economic and social field made room for another type of economy, in between the private and the public sectors. SE forms play a major role in solving economic and social problems, while offering a wide range of activities and services which are not catered for sufficiently by private or public entities. SE has become a major job generator in Europe. In 2005, in the 25 member states, SE accounted for 4% of the GDP and involved over 11 million persons, representing 6.7%³⁷ of the total workforce employed at that time³⁸.

Job creation is a consequence of the specific objective of social enterprises, that of promoting the social inclusion of vulnerable groups, by enhancing employment opportunities. Also, we should not ignore the second major role of social enterprises: that of offering personalised services, ensuring the transition of this category of persons from a state of vulnerability to a normal labour market. All these require significant financial and human resources. Nevertheless, one of the main challenges of European social enterprises is whether they offers manage to meet all social requirements and solve most of the social problems that the governments assign to them³⁹.

General regulatory framework on Social Economy

The Lisbon Strategy has promoted the enhancement of employment among EU citizens, but has drawn the attention on increasing the employment among the most inactive categories of the population. The review of the Lisbon Strategy (2005) highlighted the difficulties of the member states in achieving the ambitious goals set in 2000. One of the possible causes would be the lack of coherent

³² Idem. p. 33

³³ http://www.encyclopedie-enligne.com/e/ec/economie_sociale.html

³⁴ *** „The Social Economy in the European Union“, CIRIEC, 2007, p. 20

³⁵ *** „Charter of the Principles of Social Economy“, 2001

³⁶ *** „Social Economy in the EU“, summary report drafted for EESC by CIRIEC, 2007,

³⁷ *** „The Social Economy in the European Union“, CIRIEC, 2007, pp. 2, 7,

³⁸ <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy>

³⁹ Dennis R. Young, „A unified theory of social enterprise: international applications“, presentation in the conference „The future of social enterprises: models and experience“, 2009, pp. 16 - 18

macroeconomic and social policies in the member states⁴⁰. Although the Lisbon Strategy mentioned the SE as an instrument to increase employment in particular among disadvantaged categories, there is no unitary European approach of the SE sector.

In the absence of European regulations on Social Economy, the only reference texts are those organising the market of goods and services within the EU. Referring to the fields opened for Social Economy, in particular the social (re)insertion of vulnerable groups, Directive 2006/ 123/EC on internal market services opens perspectives for all European providers in the member states, with a few exceptions: non-economic services of general interest; financial services; electronic communication services; transport services; temporary work agency services; healthcare services; audiovisual services; gambling; activities related to the exercise of public authority; certain social services (social housing, child protection and help for persons in need); private security services and services provided by notaries and attorneys, designated by governmental decisions. Although, at a first sight, the Directive may be regarded as a risk for the specific SE forms, it is however an opportunity for the development of service provision activities, both in these reserved fields and in the fields opened to competition.

Under-represented at the European level, SE is found in the member states under a variety of names, such as: „solidarity economy“, “non-profit sector” or “third sector”. All these aspects are presented in more details in *Chapter V. Analysis of European Practices*.

⁴⁰ *** The European Economic and Social Committee, „*Opinion of the European Economic and Social Committee on The post-2010 Lisbon Strategy (exploratory opinion)*“, Brussels, 04.11.2009, p. 4

CHAPTER III. SOCIAL ECONOMY IN EUROPE

III. 1. HISTORICAL EVOLUTION OF SOCIAL ECONOMY

SE developed in tight connection with the gradual regulation of the freedom of association. This seems to have been the starting point for the development of social enterprises. The right to free association was recognised in the 19th century by the UK, Germany, the Netherlands, France and Belgium.

Thus, SE was born in the 19th century out of the need to orientate the production of goods and services starting from everybody's needs rather than just some people's interests. The development of Social Economy in the 19th century was also due to the industrial revolution: the industrial capitalism created new requirements that the State and the private sector could not fulfil. It is also a matter of applying democratic principles to economic activities, such as „one person, one vote“. Taking into account the capitalism and industrial revolution which characterised the 19th century, social reformists and the utopic thinkers of those times looked for solutions other than the nationalisation of production assets. Thus, they invented another form of producing goods and services, in a collective manner, thus creating cooperatives, mutual organisations and associations. The phrase “social economy” designates the set of structures which put everything they have in common and which are active and complementary to the social protection system, insurance, banks, social actions and education etc.

The launch of SE was also a spontaneous, unregulated reaction of the most vulnerable and unprotected social groups, forced to find solutions to make a living.

At the beginning of the 20th century, SE became a vague notion, seldom used. In the first half of the 20th century, it started to develop gradually, regaining its important role and enjoying a great success. World War II marked however a standstill in its development. SE development in Europe was fragmented by the two World Wars and by the communist experience.

In Western Europe, there were two major periods in the history of SE: 1945 – 1970 and the period until the mid 1970s. Starting 1945, SE had a fluctuating evolution, characterised by ups and downs. After World War II, the cooperative, mutual and associative movements developed different activities under the same generic name. This led to the fragmentation of the associationist model and the crisis of SE forms. Although it was no longer a significant player, SE did not disappear. During the third decades of economic growth after World War II, the state of welfare developed, based on the traditional private capitalist sector and the public sector. The crisis of the 1970s highlighted the difficulties in reducing long-term unemployment, social exclusion and dependency on the social welfare system, mainly in the rural areas. SE was the form that best met the need to create and maintain jobs. SE covered a need unfulfilled by the welfare state and by the classical market players. In the 1970s, SE came back in the spotlight.

Since the end of the 1980s, the EU gradually recognised the role and importance of SE. France was the first country to pass a law on SE in 1981. The initiative was followed in 1990 by the Walloon SE Council from Belgium, which defined and regulated the SE sector. In 1991, a law from Italy regulated the special status of social enterprises versus the cooperative movement⁴¹. Legal regulations on SE were also adopted in: Belgium („the company with social purpose“, regulated in 1995), Portugal („limited liability social cooperatives“), Spain (the cooperatives law of 1999 includes “social service cooperatives”), France (adoption of “cooperative societies of collective interest”) and the UK (discussions about the “company of community interest”)⁴².

In Central and Eastern Europe, there are three stages in the development of Social Economy: the pre-communist period, the communist period and the post-communist phase. The SE sector did

⁴¹ Jacques Defounry, „Social enterprise in an enlarged Europe: concept and realities“, 2004, pp. 1, 7; study to be published in „Economic Efficiency and Social Entrepreneurship“, CECOP, Brussels

⁴² Idem, p. 7

not develop as a result of the changes which took place in 1989. Before World War II, SE forms were strategies for survival of the disadvantaged population, and contributed to social inclusion in the poor areas. The rather late constitution of nation States in Central and South-Eastern Europe influenced the development of the civic spirit and of the civil society structures, by strengthening equality based rather on ethics and regulations than on ethnic and religious belonging.⁴³

The communist regimes, with centrally planned economies, eroded the development of SE. The negative impact on SE consisted in the distortion of traditional SE principles (voluntary work, sharing, democratic organisation, mutual support, philanthropy etc.), diminution of SE forms, nationalisation and incorporation of civil society organisations into State structures, non-involvement of the citizens and politicisation of SE forms⁴⁴. SE forms functioned under the strict political and administrative control of the State, considered as the legitimate entity to conduct economic activities.

The transition period can be divided into two stages in the development of SE: in the 1990s, and after 2000. After 1989, there was a shift from the forced centralisation by industrialisation, with an impact on inclusion mechanisms, to supraliberalism and an initial lack of synchronisation and sometimes lack of new inclusion mechanisms. The “cooperative” model suffered from a strong loss of credibility in public perception and many communist cooperatives collapsed. SE forms became a refuge for the middle class, confronted with unemployment and lower incomes. After 2000, there was a stage of so-called *re-socialisation* of SE forms, by a reconsideration of the public-private partnership and the development of local approach. The revival of the initiatives to develop SE projects is reflected in legislative proposals. The relaunch of SE forms after 1989 was not determined only by democratisation and decentralisation, but also by the international financial support received mainly by foundations and associations, as well as by the deterioration of the socialist welfare State and the reconsideration of local, historical and religious traditions⁴⁵.

After 1989, most of the countries from the former communist block recognised the principles of SE (freedom of expression and association) and the specific SE forms of organisation⁴⁶. Within the context of a common European direction of promoting social inclusion, regulations were adopted in the field of SE, and a favourable environment was created for SE development (adoption of the legislation on social assistance and the provision of social services, decentralisation of the public administration, promotion of public-private partnerships, access to public financing, proactive measures for responding to the needs of vulnerable groups). The revival of SE forms did not benefit from a strategic vision on the development of cooperatives, whose credibility had been eroded by the ideological connotations. SE organisations are actively involved in job creation, although there are some distortions in the allocation of financial resources, and the role of SE in local development remains underestimated. The comeback of Social Economy is due to the defensive strategy of the cooperative and “associative” movement faced with the economic globalisation. Additionally, the social and political context has been favourable to SE, as the State and/or free market failed to solve social problems, as a result of the failure of the centralised socialism of the URSS – China and of the ideological void in terms of looking for innovative alternatives⁴⁷.

⁴³ Ewa Les and Maria Jeliazkova „The social economy in Central East and South East Europe” in *** „*Social economy: building inclusive economies*”, OECD, 2007, pp. 190-191

⁴⁴ Idem p. 192

⁴⁵ Idem p. 197, p. 194

⁴⁶ Idem p. 198

⁴⁷ Idem pp. 199 - 205

III. 2. RELEVANT STAKEHOLDERS IN SOCIAL ECONOMY

III. 2. 1. EUROPEAN INSTITUTIONS

European Commission

As Social Economy became more socially relevant at the end of the '80s and following the SE reports submitted to the European Commission by the European Parliament and the EESC, the Social Economy Department was set up in 1989, as part of DG XXIII of the EC. This marked the recognition of Social Economy as a standalone sector. The department was in charge with coordinating European actions having an impact on SE and contributed to: strengthening the sector of cooperatives, mutual societies, associations and foundations; creating the European legislation on cooperatives, mutual societies, associations and foundations; studying the SE sector and dealing with specific problems; analysing the coherence of EU policies with a direct impact on SE; maintaining contact with the existing federations; raising awareness and attracting non-organised and sub-represented players in the SE field; raising awareness among decision makers as to SE forms, and representing the Commission before other European institutions. The Department was closed in 2000, and its responsibilities were transferred to DG Enterprise and Industry and DG Employment, Social Affairs and Equal Opportunities. The responsibilities for specific SE forms were shared between the two structures⁴⁸, which resulted in a divided and inconsistent approach of the SE sector.

Employment, Social Affairs and Equal Opportunities is a key player for SE, due to its specific activities related to social policies, employment, social inclusion, focus on solving social problems of vulnerable groups. The role of SE as a foundation for active inclusion led to the Commission's recommendation to the member states to develop strategies to support SE, monitored by the EC. The initiatives launched by DG Enterprise and Industry in 2000 include: creating a set of policies for enterprises, setting up a think tank and establishing a consultation and debate body. They examined the regulations and reported to the EC the issues related to the overall enterprise policies.

The European economic regulations are aimed at improving the business environment, while observing the characteristics of enterprises, especially SMEs. The economic policy is aimed at ensuring free and fair competition on the market, by maintaining equal provisions for all, without special regulations for SE forms. Thus, a framework is created for social enterprises to compete on a level-playing field with all the other economic actors. Within this context, the role of DG Enterprise and Industry is to monitor whether the social enterprises encounter any legislative, administrative or fiscal difficulties, as well as to identify the best way to promote this type of enterprises (establishment of dedicated chambers or university networks, provision of specific services)⁴⁹.

The drafting of the European strategy for promoting SE depends on solving the contradiction between two key issues: promoting antitrust policies – which consider the activity of cooperatives as a restrictive competition practice, and the current perspective on state aid policies and financing of services of general interest.

European Economic and Social Committee

As an advisory body, having the role of facilitator and promoter of civic dialogue, the EESC is one of the most active protagonists and supporters of participative democracy. The opinions submitted to the European institutions and the events organised by the EESC have the goal of

⁴⁸ Within DG Enterprise and Industry, Unit B3 was established: *Small craftsmen's enterprises, cooperatives and mutual societies*, dealing mainly with the enterprise aspects of cooperatives, mutual societies, foundations and associations, whereas DG Social Affairs took over the responsibility for associations and foundations.

⁴⁹ Interview with a high official of DG Enterprise and Industry, 2009.

promoting SE. Within the organisation of EESC, there is a unit for SE, having 39 representatives (38 from the employers and one from the employees), three of whom are from Romania⁵⁰.

SE development requires recognition of this field at the European and national level and the adoption of measures to offset the imbalances with which SE forms are confronted. A first step could be a policy on social enterprises, as recommended to the European Commission by the EESC in 2009⁵¹. EESC considers that the *“SE sector requires adapted solutions as to taxation, public procurement and competition rules”*⁵².

European Parliament

By the activities of the Intergroup for SE, the European Parliament is one of the key actors in SE development in Europe. The Intergroup for SE is a monitoring and information body on SE, which promotes the idea of building a competitive and solidarity-based Europe. This *memorandum* is addressed to the Governments and Parliaments of the member states, so that the measures with an impact on SE should take into account the characteristics and difficulties facing SE. Established in 1990, the Intergroup is an information exchange platform between the MEPs and the civil society. Its activity was somewhat left aside, but improved starting 2005, when the European Parliament was required to produce a report on SE. The request was accepted in 2008.

Toia⁵³ Report defines SE by its characteristics and values:

- primacy of the individual and the social objective over capital;
- promotion of solidarity and responsibility;
- combination of the interests of members and the general interest;
- democratic control by membership;
- voluntary and free affiliation;
- self-management and independence from public authorities;
- profit orientation for achieving goals such as sustainable development, services to members and general interest⁵⁴.

As a result of the approval of the report, the Intergroup for SE has managed to promote a clear political position on SE⁵⁵.

The report puts forward the following recommendations for the development of SE:

- recognition of the concept of Social Economy by a European approach;
- legal recognition of SE by clarifying its legal status, in particular the European statutes for associations, foundations and mutual societies;
- statistical recognition of SE, by setting up a registry of SE forms in all member states and setting up satellite accounts;
- recognition of SE as a social dialogue partner;
- encouraging the participation of SE forms on competitive markets;
- organising experience exchanges at the local, national and European level;
- recognition of SE's role in strengthening the values of the European social model;
- assessment of SE results not only using classical indicators⁵⁶.

In its term of office ending in 2009, the Intergroup for SE contributed to enhancing the visibility of SE and revitalising dialogue with the EC, with the SE component of the EESC and the

⁵⁰ Eugen Lucan (President of Angel Association), Cristian Pîrvulescu (President of Pro Democrația Association) and Ionuț Sibian (Executive Director of the Civil Society Development Foundation) <http://memberspage.eesc.europa.eu/Result.aspx>

⁵¹ European Economic and Social Committee „*The EU Commission should take the drafting of a policy on social enterprises seriously*”, point 3.5, Brussels, 01.10.2009

⁵² Idem point 8.3.1. Also, OJ C117, 26.4.2000, p. 57

⁵³ Submitted to the European Parliament by Italian MEP Patrizia Toia in February 2009

⁵⁴ *** European Parliament, „*Report on Social Economy*”, 2009 p. 13

⁵⁵ Karine Pfluger, „*Rapport d’initiative sur l’économie sociale*” (*Initiative Report on Social Economy*), 2009, p. 4

<http://www.socialeconomy.eu.org>

⁵⁶ *** European Parliament, „*Report on Social Economy*”, Brussels, 2009 pp. 14 – 15

representatives of SE (Social Economy Europe network⁵⁷ ensuring the secretariat function). In December 2009, the European Parliament approved a new mandate for the Intergroup on Social Economy.

Council of Europe

The Council of Europe plays a fundamental role for stability, economic growth and social cohesion, promoting three areas of intervention: human rights, democracy and rule of law. The development and research division on social cohesion within the Council of Europe is involved in activities of promoting SE and solidarity, as a form of developing social cohesion, active citizenship and shared social responsibility, such as:

- participation, as a founding member, in the setting up and development of the European Inter-Network of Ethical and Solidarity-Based Initiatives (IRIS);
- launch of the European approach of the *“co-responsibility territory”*, and methodological coordination of the process of drafting well-being/progress indicators;
- methodological development of the concept *„multi-party social contracts”*;
- drafting of the Guidelines on the individual responsibility of consumers⁵⁸.

The Social Cohesion Division of the Council of Europe, in partnership with IRIS network, initiated in 2007 the *“co-responsibility territory”* undertaking, in order to promote social cohesion, defined as the *“capacity of the society to ensure well-being for all its members”*. Within the co-responsibility area (municipality or set of municipalities), a collaboration process takes place in order to develop and implement new forms of co-responsibility of all collective stakeholders and citizens, so that they make the necessary changes to ensure well-being for all, including for the future generations, in an inclusive and fair manner⁵⁹. *„The co-responsible territory”* is a space engaged in internalising social costs and protecting the environment, by concertation and awareness-raising on the future reserved to each and every one. The concept meets the current need of involving citizens and various organisations in social and environmental responsibility, as well as of finding new types of responsibility for public institutions.

The innovative approach proposed by the Council of Europe requires the rethinking of territorial intervention, starting from a definition of well-being and progress given by the citizens and from the needs identified together with the citizens. The main element of this approach consists in developing well-being and progress indicators together with the citizens. This process has been implemented at the international level⁶⁰, but Timișoara is the only town in Central and Eastern Europe to have developed the idea of *co-responsibility territory*. Timișoara Municipality and Timiș Prefecture were the local partners in this undertaking⁶¹.

Multi-party social contracts are aimed at building a social inclusion path together with the beneficiaries of social services or other vulnerable categories. The goal of this initiative is to experiment a new instrument for fighting poverty and social exclusion, by promoting social accompaniment, access to jobs, financial resources, consumption and social capital. The aim is to involve various types of organisations specialised in any of these fields, together with the beneficiaries. This approach was experimented, in Strasbourg and Mulhouse, France, with the support of the Council of Europe, targeting vulnerable groups such as: persons with financial debts, long-term unemployed, MIG beneficiaries.

⁵⁷ Social Economy Europe

⁵⁸ *** Council of Europe *„Rethinking consumer behaviour for the well-being of all - Reflections on individual consumer responsibility”*, 2009

⁵⁹ More information on: <https://spiral.cws.coe.int>.

⁶⁰ The situation in Mulhouse (France), Paris (France), Timișoara (Romania), Trento (Italy), Cape Verde Island, Montijo (Portugal) and 20 communities in the Walloon Region (Belgium), according to the well-being indicators drafting methodology, is presented in a guide developed by the Council of Europe: *„Concerted development of social cohesion indicators - Methodological guide”*, Strasbourg Cedex, 2005.

⁶¹ The *co-responsibility territory* approach is coordinated in Timișoara by CRIES Association (www.cries.ro) in partnership with the European Platform IRIS (www.iris-network.eu).

III. 2. 2. SPECIFIC FORMS OF ORGANISATION OF SOCIAL ECONOMY

SE forms recognised at the European level are: cooperatives, mutual societies, foundations and associations, and social enterprises⁶².

SE activities are strongly anchored in the communities' realities and recognised traditionally for supporting vocational insertion, in particular of vulnerable groups exposed to a risk of exclusion from the labour market⁶³. Many forms of organisation of Social Economy have emerged over the past two decades, as a reaction to social needs insufficiently covered by the social assistance institutions. SE relies on a good coordination of economic activities, democratic approach based rather on cooperation than on competition, promotion of employees' and beneficiaries' rights, as well as use of public policies for the promotion and integration of disadvantaged groups. The main characteristic of SE forms is that the activities undertaken are aimed at satisfying the persons' needs and not remunerating the capital investors. The SE organisation principles reflect the assumption of public interest objectives. SE forms are different from companies which focus on maximising their profits, at least for four reasons: fundamental objective, profit allocation principles based on solidarity and reciprocity, participation in the democratic decision-making process and plurality of resources⁶⁴. Unlike SE forms, profit-generating companies are regulated so as to prevent the acquisition of net advantages by third parties, while ensuring the distribution of the residual earnings among the owners.

The democratic decision-making process in SE forms is based on the principle "*one person, one vote*", or "*one person, one voice*", unlike "*one part one vote*" in traditional economy forms. In SE, the employees and the beneficiaries prevail over capital. The only SE forms which do not adhere to this principle are foundations.

SE forms are based on various income sources from the market, non-market and non-monetary economy. In other words, they are based on voluntary work and paid work, but also on financial resources generated by the sale of goods and services, public financing (in the form of contracts, fiscal incentives and direct subsidies), and private donations. Respecting these principles, SE forms demonstrated they can foster innovation in service provision, social cohesion, promotion of new forms of local democratic participation, and solving of social problems.

III. 2. 2. a. Traditional forms of Social Economy

Cooperatives

The cooperative is the only SE form officially recognised at the European level. In 1992, the EC submitted to the European Council the proposal for setting up the "European Cooperative Society". According to the European Cooperative Statute⁶⁵ adopted in 2003, *"a European cooperative society (SCE) may be established within the territory of the Community and its subscribed capital shall be divided into shares"*⁶⁶. Their principal object is to *"develop the members' economic and social activities (...) to supply goods or services or to execute works (...), satisfying its members' needs, by promoting their participation in economic activities, in one or more SCEs and/or national cooperatives"*⁶⁷. The minimum number of persons to set up an SCE is five, and the minimum subscribed capital is 30,000 €.

The cooperative is an autonomous association of persons associated on a voluntary basis to fulfil economic, social and cultural purposes. Together, they hold and control the cooperative in a democratic manner. The cooperative members have a double status: employee and employer. Each

⁶² http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/mutuals/index_en.htm

⁶³ *** *"The Social Economy from the perspective of active inclusion: employment, opportunities for people far from the labour market"*, Peer review in social protection and social inclusion, 2008

⁶⁴ Antonella Noya and Emma Clarence *"The Social Economy Building Inclusive Economies"*, OECD, Paris, 2007

⁶⁵ http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/co-operatives/index_en.htm

⁶⁶ Art. 1, par. 1 and par. 2

⁶⁷ Art. 1 par. 3

cooperative member holds one share in the cooperative and one vote. In the EU, there are 250,000 cooperatives held by 163 million citizens, providing jobs to 5.4 million people. The main fields of activity are: production, consumption and many banking cooperatives.

The granting of ownership rights to persons other than investors (producers, workers) has allowed traditional cooperatives to promote their interests and improve their living standard. The new forms of cooperatives are also focused on achieving purposes of wider interest⁶⁸.

Mutual Societies

Mutual societies group together volunteers who decide to meet life challenges together, based on solidarity. The most common forms are mutual insurance and health associations and mutual banks. Mutual societies are based on the members' participation in order to satisfy their needs and not to make a profit. Based on the principle of solidarity, support is given to the members who need it. Unlike cooperatives, mutual societies operate only using their own funds. Mutual societies are developed especially in Northern and Western European countries, where they account for about 25% of the insurance market. 70% of the insurance companies in Europe are mutual societies.

The statute on the establishment of European Mutual Societies was drafted in 1992 by the EC. Because of the lack of progress in adopting it, it was withdrawn in 2006. Although this statute is not under debate at the moment, the EC has expressed its willingness to resume the discussions⁶⁹.

Foundations and Associations

The main characteristics of associations are autonomy, independence, equal voting right, supply of services and voluntary work. A first draft of the statute of European associations was submitted in 1992. In 1997, a proposal was made to promote the role of voluntary organisations and foundations in Europe. No progress has been made in its adoption. However, starting from the difficulties encountered by the foundations operating in border areas, DG Internal Market and Services launched a vast public consultation process in 2009, which might lead to the adoption of the European Statute on Foundations⁷⁰.

III. 2. 2. b. Latest developments in SE forms of organisation

Social Enterprises

The Social Enterprise can be understood as a form of SE, but can also designate *"a process, a new entrepreneurial spirit which influences and redefines the initiatives in the old third sector"*⁷¹. The paradigm of social enterprises is based on the theory of SE demand and supply. They meet the consumers' demand (for sectors covered, commercial products developed for charity purposes or quality products manufactured by non-profit organisations), the demand of the business environment (to develop strategic alliances for programmes with a social purpose), and the demand of governments, interested in implementing efficient social programmes together with private partners. In terms of supply, social enterprises offer: social entrepreneurs (interested in obtaining an income without making a profit and creating jobs) and the framework for volunteering as a source of capital and work⁷².

The social enterprise was defined as *"a business or service with primarily social objectives whose surpluses are principally reinvested for that purpose in the community, rather than being driven*

⁶⁸ Carlo Borzaga and Ermanno Tortia, „Social Economy Organisations in the Theory of the Firm”, in *** „Social economy: building inclusive economies”, OECD, 2007, p. 29

⁶⁹ http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/co-operatives/index_en.htm

⁷⁰ http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/associations-foundations/index_en.htm

⁷¹ Jacques Defounry, „Social enterprise in an enlarged Europe: concept and realities”, 2004, p. 2 study to be published in „Economic Efficiency and Social Entrepreneurship”, CECOP, Brussels

⁷² Dennis R. Young, „A unified theory of social enterprise: international applications”, presentation at the conference „The future of social enterprises: models and experience”, 2009, pp. 4 - 15

by the need to maximise profit for shareholders and owners”⁷³. Social enterprises are legal structures serving social purposes, by economic activities. Social enterprises include all entrepreneurial organisations whose main purpose is not to make a profit⁷⁴. Taking into account economic and social criteria, social enterprises can be cooperatives, cooperative banks or mutual societies.

Although they are not public institutions or profit-making organisations, social enterprises propose innovative approaches in order to act in the sense of reducing poverty, by promoting community cohesion and offering solutions to social and economic problems⁷⁵. The social enterprise has the role „to create jobs, in particular for people with disabilities and other people in difficulty, and generates most of its revenues from the production and sale of goods and services”⁷⁶. Social enterprises pursue the goal of „creating employment or training opportunities for marginalised groups or communities (...)”⁷⁷.

The key role of social enterprises comes from its value system (democratic economic alternative) and the attention on the active inclusion of disadvantaged groups. Social enterprises try to offset the imbalances on the labour market, such as unemployment, job instability and social exclusion of the most vulnerable⁷⁸. Social or insertion enterprises are widespread at the European level. Our country’s legislation does not regulate this form, but „the drafting of the conceptual and legal framework to define social enterprise in Romania” is being envisaged⁷⁹.

The main objective of social insertion enterprises is the social and vocational inclusion of the most vulnerable groups on the labour market. In order to achieve this goal, social enterprises have decided to act based on economic principles in order to become profitable. The employees have various types of social and professional disabilities and encounter difficulties as to their insertion on the labour market without proper support, adapted to their individual situation. Here, we find people with disabilities or people with severe « social disabilities » (e.g. socially adapted enterprises). These persons either do not have a proper qualification or sufficient vocational training on the labour market, or have personal issues (diseases, accidents) or health-related problems. In terms of intervention objectives, social enterprises: facilitate/intermediate employment, create jobs for vulnerable groups and promote socialisation by means of productive activities. Thus, social enterprises have a strong pedagogical dimension, due to their socialisation and vocational training activities. They also organise activities to promote active citizenship, by informing and training employees with regard to their role in the enterprise. A “social identity” of the employees is built, and professional skills are trained. Social or insertion enterprises create stable medium-term jobs for vulnerable groups, thus enhancing their chances of employment on the free labour market. In a first stage, the state offers financial support for a determined period, in order to compensate for the low productivity of these persons. The financial support thus granted may be used for special activities (e.g. training sessions, hiring of specialised staff, vocational counselling etc.). During this period, the employees must become competitive and productive, because they will be paid from the funds of the enterprise once the aid comes to an end.

Another mission of social enterprises is to promote socialisation by productive activities. The objective is not only vocational insertion, but mainly the (re)socialisation of the target groups, due to the contacts established during the activities, the observance of rules and a better structuring of the lifestyle. The (re)socialisation activity is „semi-formal”, as it is not regulated by a labour contract (e.g. occupational centres).

SE forms have developed and organised at the European level, so that SE networks are increasingly active at the regional, national and European level. For example, *Social Economy Europe* network is one of the constant dialogue partners of the European Commission and European

⁷³ *** UK Government, Department for Trade and Industry, „*Social enterprise: a strategy for success*”, 2002, p. 13

⁷⁴ *** „*Social enterprise: a new model for poverty reduction and employment strategy – an examination of the Concept and Practice in Europe and the Commonwealth of Independent States*”, EMES, UNDP, 2008, p. 32

⁷⁵ Idem, p. 5

⁷⁶ <http://www.unitate-protejata.com/>

⁷⁷ *** NESsT, „*Four case studies of self-financing among civil society organizations in Romania*”, NESsT, 2007, p. 2

⁷⁸ *** „*Résolution du Parlement européen du 19.02.2009 sur l'économie sociale*”, pp. 4-6

⁷⁹ *** Government of Romania, „*National Reform Programme*”, annual implementation report, Bucharest, 2009 p. 52

Parliament in the field of Social Economy. The interests of social insertion enterprises are promoted at the European level by ENSIE⁸⁰. The European Platform IRIS is a dialogue and cooperation space between European and international networks in the field of ethical and solidarity initiatives, such as: responsible financing⁸¹, fair trade⁸², responsible consumption⁸³ (...), local producers- consumers partnership⁸⁴ and social insertion enterprises⁸⁵.

An overview of the main SE networks in Europe is available in Annex 3 *Social Economy Networks in the European Union – examples*.

III. 3. SUPPORT AND ENCOURAGEMENT MECHANISMS

In order to support the development of SE, support and encouragement policies are adopted, with proper support mechanisms and tools, suitable for the level of socio-economic development, in line with the social model and the responsibility assumed by the State in the field of social protection and assistance. As there is no European model of SE, but several national models, there are no standard support and encouragement mechanisms or instruments either. There is a wide range of mechanisms or forms of similar mechanisms, applied depending on the national social policy and the capacity of the economic and social environment to promote social inclusion and support the development of the third sector. We can speak about European institutional development and the inclusion of objectives aimed at stimulating/supporting SE in the European strategies on employment, social inclusion, sustainable development of human resources.

There is no specific SE budgetary policy in the EU. There have been some attempts in this regard: “the first multi-annual working programme for cooperatives, mutual societies, associations and foundations within the Community” was approved by the European Parliament in 1996, but rejected by the Council. A further similar proposal had the same outcome. We can consider that a budgetary policy on SE was developed indirectly, by the policy framework on employment and social cohesion, through the budgets promoting SMEs and employment⁸⁶. The programmes had an impact on strengthening Social Economy in Europe, by the creation of federations, networks, researches and projects.

In the member states, the variety of SE support cases makes it that the national support instruments are very different. The main support mechanisms include:

- National SE support policies
- Facilities, fiscal incentives for SE activities.

National support policies

National SE support policies

The practice of EU countries highlights two types of policies having a bearing on SE development:

- *sectoral policies*, supporting certain forms of SE: policies on active employment in cooperatives, policies to promote the provision of social services by associations, foundations or other non-profit organisations; agricultural and rural development policies, where cooperatives play a major role, support to mutual societies within the context of social security system development;

⁸⁰ European Network of Social Integration Enterprises www.ensie.org

⁸¹ FEBEA, European Federation of Finances and Ethical and Alternative Banks, and INAISE, the International Association of Investors in Social Economy

⁸² World Fair Trade Organisation WFTO

⁸³ International Alliance for Social and Ecological Consumer Organisations ASECO

⁸⁴ Urban-Rural Network : Generating new forms of Exchange between Citizens URGENCI

⁸⁵ European Network of Social Integration Enterprises ENSIE

⁸⁶ ADAPT, EQUAL for social and labour integration, Local Action Programmes for Employment and Local Social Capital, and the ESF, measure to support local initiatives (explicit reference to the role of SE, sub-measure 10b). The most important support for SE came from EQUAL programme, which financed projects involving SE forms, and strengthened the third sector at the national level, in particular as regards services for local communities and improving the quality of employment.

- *actual policies on SE*: development of economic activities or support given to non-profit organisations acting outside the market or also covering the market and non-market sectors.

The promotion of SE depends on the political, economic, historical, social, cultural or national institutional contexts. The main indicators regarding the scope of SE support policies are: political recognition, existence of specific regulations, visibility in the context of national development, and influence of the specific structures in designing and implementing public social policies.

European policies on SE include:⁸⁷ institutional policies, research, dissemination and training policies, financial policies, support policies based on real services and demand policies. Financial policies, such as budgetary policies, provide direct or indirect funding for SE development: a) public funds⁸⁸ or programmes for subsidising employment within SE (in cooperatives, in Cyprus, Germany, Italy, Spain); b) mixed funds managed by the Government or specific SE organisations⁸⁹; c) other financing sources: gambling revenues⁹⁰; d) special funds: employment policies, as active measures: granting of the unemployment allowance in a fixed amount to persons who set up a cooperative or individual enterprise (Spain) or employment premiums (France).

Support policies ensure active inclusion, by the following instruments:

- promotion of insertion enterprises, employment centres and social cooperatives, with the purpose of the vocational insertion of people with employment difficulties;
- use of instruments to facilitate access to financing (e.g. social label).

Certification

The certification of the field by the “*social label*” supports the development of SE recognition and promotion policies. It mainly consists of: facilitating financial flows (subsidies, donations, aids); applying fiscal discounts/exemptions and promoting the employment of vulnerable/disadvantaged persons (counselling, mediation, vocational training services). The certification by the social label will allow not only for the recognition and stimulation of SE, but also for building and using satellite accounts as the main tool for the multidisciplinary monitoring of the sector. The social label will allow for greater transparency of the activities and institutions involved in SE, and will support modern, innovative support mechanisms, with a view to attracting funds, such as financing through the Internet. ITC services that can be used include: portals and facilities for the transfer of donations, sponsorships, subsidies, Internet-based aids or their management, as a flexible form of operational management.

Fiscal system applicable to SE organisations

There is a wide variety of fiscal policies and support instruments, ranging from a special system of fiscal incentives, to the reduction or even suppression of such advantages. The specific taxation system (specific consolidated tax system supported by the social importance of SE: Portugal, Italy, Spain) is promoted either for all SE organisations, or for some of them only. In other systems, the fiscal incentives tend to be reduced or applied only for certain categories of institutions (in Ireland, for example, they are applied only to credit units, and in Greece only to agricultural cooperatives).

Table 1 Specific taxation system for SE organisations in EU-25

Question: Do SE forms have a specific taxation regime compared to traditional private companies?

| Countries | Cooperatives | Mutual societies | Associations | foundations |
|-----------|--------------|------------------|--------------|-------------|
| Austria | -- | -- | Yes | Yes |
| Belgium | -- | -- | -- | -- |
| Cyprus | Yes | n/a | n/a | n/a |

⁸⁷ Chaves, R. „*Politiques publiques et économie sociale en Europe: le cas de l’Espagne*”, Annals of Public and Cooperative Economics, vol.73, No.3, 2002, pp. 453-480.

⁸⁸ E.g. the Portuguese programme for promoting cooperatives, Prodescoop

⁸⁹ National Fund for the Development of Associative Life, National Fund for Sports Development (France)

⁹⁰ RAY and Oy Veikkaus AB in Finland, ONCE in Spain

| | | | | |
|----------------|-----|-----|-----|-----|
| Denmark | -- | Yes | -- | -- |
| Estonia | -- | -- | -- | Yes |
| Finland | Yes | -- | Yes | Yes |
| France | Yes | Yes | Yes | Yes |
| Germany | -- | Yes | Yes | Yes |
| Greece | Yes | n/a | Yes | n/a |
| Ireland | Yes | -- | -- | -- |
| Italy | Yes | Yes | Yes | Yes |
| Latvia | Yes | -- | Yes | Yes |
| Lithuania | n/a | n/a | n/a | n/a |
| Luxembourg | -- | -- | -- | Yes |
| Malta | Yes | n/a | Yes | Yes |
| Netherlands | Yes | Yes | Yes | Yes |
| Poland | -- | -- | -- | -- |
| Portugal | Yes | Yes | Yes | Yes |
| UK | -- | -- | Yes | Yes |
| Czech Republic | -- | -- | Yes | Yes |
| Slovenia | -- | -- | -- | -- |
| Spain | Yes | Yes | Yes | Yes |
| Sweden | -- | -- | -- | -- |
| Hungary | -- | -- | Yes | Yes |

Source: *The Social Economy in the EU*, CIRIEC, 2009

III. 4. FINANCING SOURCES

Although there is no budgetary policy in the EU specific for SE, there are however financing measures from community sources. The financing system has developed gradually, by the promotion of innovative resources and the development of the institutions, organisations, and associations providing financing management, intermediation and/or assistance.

The Lisbon Strategy and EU 2020 Strategy are the strategic landmarks underlying the development of SE, and the renewal and completion of the Millennium Development Goals favour the development of ethical and solidarity financing. Innovative financing systems have been developed (ESF, European Investment Fund), as well as institutional development and cooperation systems⁹¹, credit unions, mutual guarantee funds, social investment funds, cooperative banks⁹² and other forms of “*financers of social development*”, facilitation instruments and mechanisms.⁹³ In order to support SE development in the new member states, taking into account their national/regional specificities, proper structures have been developed, such as CoopEst⁹⁴, which provides long-term financial support, both in terms of capital (subordinated loans), and in the form of long-term loans and guarantees for sustainable and socially responsible projects, allowing them to attract additional financing resources to cater for their needs.

⁹¹ The European Federation of Ethical and Alternative Banks (FEBEA) is one of the most representative organisations of SE organisation structures in the EU. It groups together 25 banking cooperatives and other financial institutions from 13 European countries, which provide ethical and solidarity financing, www.febearg

⁹² In the EU, they are stakeholders involved in local development „*Report of the Conference on Financing Local Development: Understanding the Role of Mutual Credit and Co-Operative Banks*”, Paris, 23.11.2007.

⁹³ EC and the European Investment Bank have created the Risk Sharing Finance Facility

⁹⁴ CoopEst is a private investment fund from Belgium, established in 2006, which doubled its financial capacity in 2009, to 30 mil. €, with the support of the JASMINE initiative (under the umbrella of the European Investment Fund) and of International Finance Corporation (a member of the World Bank Group). It includes 17 socially-responsible financial institutions active on the micro-finance market (micro-credit organisations, credit and savings unions, cooperative banks) operating in Bulgaria, Lithuania, Kosovo, Poland and Romania. It provides financing to small and micro-businesses and individual entrepreneurs.

http://www.coopest.eu/wp/wp-content/uploads/CoopEst_press_release_28-09-09_EN.pdf

EU funds for SE are allocated for well-defined objectives: vocational insertion, ongoing training, development of specific services, fight against unregistered labour etc. The predominance of public or private funds to support SE development depends on national factors, such as: legal framework, support mechanisms and national or local policies. Innovative financing requires mechanisms and instruments to attract public or private funding, as well as resource management models, supported in some cases by finance management support organisations. SE is mostly visible in the HRD operational programme, to the extent that beneficiaries are social entities, and to the extent that SE support structures are concerned.⁹⁵

Main SE financing sources

At EU level

The ESF and structural funds promote economic and social cohesion. According to the Strategy on the cohesion policy developed in the Community Strategic Guidelines for Cohesion,⁹⁶ the priorities of the European Community should be supported by the cohesion policy, with a view to leveraging synergies for economic growth and employment, as part of the close cooperation between the EC and the member states. The multiannual programming periods have the following financing directions: active employment and promotion of SE. National management is done by specialised structures within the relevant ministries (Ministry of Labour, Ministry of Education etc.).

SE is highly visible in the Sectoral Operational Programme Human Resources Development, SOP HRD, to the extent that beneficiaries are social entities, and to the extent that SE support structures are concerned. For the programming period 2007-2013, by the objective of regional competitiveness and employment, the EC is trying to anticipate economic and social changes, promote competition and innovation, environmental protection, entrepreneurship, accessibility and development of inclusive labour markets, using ESD and ERDF resources. Thus, SE is financed directly⁹⁷ and from funds which can be relevant for SE, but which are not specifically dedicated to SE⁹⁸.

At member state level

a. *Public funding*: it depends on the specific plans of the national ministries responsible for social inclusion, but favours SE development in different ways. The following goals are pursued: vocational insertion of disadvantaged persons, fiscal facilities for SE, implementation of projects with grant funding.

b. *Private funding*: from foundations and credit cooperatives, being more flexible in terms of access and allocation for SE activities. For more details, please see Annex 14 Analysis of the national frameworks for the promotion of Social Economy.

SE financing in South-Eastern Europe⁹⁹ is different from an institutional point of view. There was a shift from reactive measures, focusing on satisfying material and social needs for the poorest of the poor, to financial flows supporting active inclusion (education, vocational training, jobs adapted for disadvantaged persons, vocational counselling). The measures targeted individuals and SE forms: support for employment, development of small start-ups or profit-making activities (micro-enterprises

⁹⁵ *** „Solidarity Economy”, SE Conference in Gdansk, Poland, 2008

⁹⁶ http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm

⁹⁷ FP7 for SMEs conducting their activity in SE; Lifelong Learning, with its most relevant programme, Leonardo da Vinci, Competitiveness and Innovation Framework, CIP, Rural Development; Life+; European Fund for the Integration of Third-country Nationals, Fundamental Rights and Citizenship; Prevention and fight against crime, Daphne, Public Health, Consumer protection, Culture 2007, Youth in action, Europe for citizens

⁹⁸ Market expenditures and direct aids, European fisheries fund; Criminal Justice, Civil Justice, Drug prevention and information; Civil protection financial instruments ; Media 2007; Instruments for pre-accession, Loan Guarantee reserve, Instrument for co-operation with industrialised and other high income countries and territories ICI, Civil protection financial instrument , Ad-hoc, European Neighbourhood and Partnership Instrument ENPI, Development Cooperation Instrument, European Instrument for Democracy and Human Rights -EIDHR, Instrument for Stability, Humanitarian Aid, Emergency Aid Reserve

⁹⁹ *** „Social economy: building inclusive economies”, OECD 2007

or small enterprises) with the support of micro-credits. The legislative system supporting SE allowed for the management of structural funds and the creation of the SE support framework.

- 10% of personal gains can be exempted from taxes if directed towards organisations which use them for public, social purposes (Bulgaria);
- State budget and tax on gambling (Croatia);
- Subsidies of up to 70% of the costs of SE activities (Czech Republic);
- Citizens can donate 1% of their revenues for social purposes, the money being managed by non-profit organisations or public institutions (Lithuania, Poland, Slovakia and Hungary).

The development and consolidation of SE depend on the dynamics of the legal framework adaptations, the strategies for promoting proactive instruments and mechanisms, and the promotion of the principle of resource plurality, public-private partnerships and volunteering.

Ethical and solidarity financing

In countries having a tradition in SE, we identify ethical and solidarity financing mechanisms, which meet the overall objective of placing the economy to the service of the society. SE development requires awareness-raising activities, because more and more citizens will want to make sure that their money is not used to finance immoral businesses, which do not respect human rights or the right to life for the future generations. The factors which can influence the socially-responsible financial behaviour include:

- new preoccupations and interests of citizens, public authorities and investors;
- development of social criteria, which have an increasing influence on investment decisions;
- concern for economic activities which can harm the environment;
- transparency as to the companies' activity, imposed by the development of ICT and the interest of the mass media in this topic.

For more details, see *Annex 17 Ethical and solidarity financing*.

CHAPTER IV. SOCIAL ECONOMY IN ROMANIA

This chapter covers the SE concept as reflected in the Romanian legislation, the SE forms of organisation under Romanian applicable laws, the support and encouragement mechanisms and the sources of financing available to them, as well as the end-users of SE activities in the social field.

Given the national characteristics of the countries from Central and South-East Europe, SE is considered a component of the social inclusion mechanism¹⁰⁰.

One of the major factors that leveraged SE development in Romania was communist-era industrialisation. Forced massive urbanisation resulted in distorted social relationships in rural areas impacting on the social capital. Post-revolution socio-economic changes and deindustrialisation against a backdrop of the transition from planned economy to market economy contributed to a decrease in jobs and implicitly to increased unemployment. The inadequacy of social protection measures for urgent social problems exposed these vulnerable groups to poverty.

In terms of the priorities set by the member states in their 2006 – 2008 strategic plans and taking into account the challenges identified in the 2007 joint report, EC has appreciated that the member states *“have not made any progress related to SE”*¹⁰¹. The Joint Report on Social Protection and Social Inclusion 2009 underscores the importance of *“supporting job opportunities for the most vulnerable, including in the social economy”*¹⁰². As a strategic priority assumed by Romania, SE development will ensure increased employment for disadvantaged people¹⁰³. Actions to promote 2010 as the *European Year for Combating Poverty* focus on public awareness campaigns aiming at the promotion of active inclusion¹⁰⁴.

Recent developments in the national social policy have led towards finding innovative and alternative solutions for an adequate response to the needs of vulnerable groups, mainly with an eye to reducing multifaceted social exclusion. The Social Inclusion Promotion Strategy, incorporated in the National Strategic Report on Social Protection and Social Inclusion (2008 – 2010), features the priority objective 2 *Increasing employment level for disadvantaged persons* setting out that *“the development of the sector regarding social economy may be the first step.(...). It is very important to build this kind of system because it provides answers to the identified needs of the Romanian society”*¹⁰⁵.

¹⁰⁰ Ewa Les and Maria Jeliaskova “The Social Economy in Central East and South East Europe” in *** *“Social Economy: Building Inclusive Economy”*, OECD, 2007, p.190

¹⁰¹ *** Commission staff working document – Joint Report on Social Protection and Social Inclusion 2008, country profiles, Brussels, 2009, p. 31

¹⁰² *** MLFSP, *“Joint Report on Social Protection and Social Inclusion 2009”*, 2009

¹⁰³ Idem, p. 3

¹⁰⁴ *** *“European Year for Combating Poverty and Social Exclusion”*, Strategic Framework Document, 2010, p. 4

¹⁰⁵ *** MLFSP, *“National Strategic Report on Social Protection and Social Inclusion 2008- 2010”*, 2008, p. 23

IV. 1. HISTORICAL EVOLUTION OF SE FORMS OF ORGANISATION IN ROMANIA

The *agronomic and manufacturing society* (The Phalanstery from Scăieni) from 1835 was one of the first forms of social economy. Specific SE forms were already in place since the second half of the 19th century. The publication of *The Project for a Savings and Loan Association* (1845) officially marked the debut of the cooperative sector. The performance of *co-operatives* was regulated by the Trade Code (1887), in force until 1903. In 1921, emerged the first Romanian regulation on *associations and foundations*. In 1948, disabled workers' cooperatives were set up.

During the period 1947-1949, the civil society and associative structures susceptible of conflicting with communist interests were dissolved. We assume that the SE development in Romania would have taken a different path if they hadn't dissolved more than 1,000 local and national professional and cultural associations or commonage structures such as: The *Movement Mutual Assistance Association*; The Association of the Disabled, Orphans, Widows, Prisoners, Combatants; Public and Private Works Entrepreneurs' Association; The Association for the Protection of the Blind; Bakers' Professional Association; Solidarity-Based Pensioners' Association; Ploughmen's Front, The Gherla Craftsmen's Union, Virgin Mary Charity, The Society of the Employing Shoemakers from Sibiu; or The Forestry Society¹⁰⁶. The tolerated mass organisations were "*cooperatives, factory and plant organisations, women's non-party associations, press agencies, cultural and educational organisations and youth unions*"¹⁰⁷. Consumers' and craftsmen's cooperatives could run based on relative autonomy, being frequently accused of promoting capitalist principles¹⁰⁸. The establishment of communist voluntary associations didn't "*take place to build solidarity in an atomised society (...), but to create autonomous, pluralist nuclei that would fence in the standardising tendencies of the communist state*"¹⁰⁹. The network comprising the organisations tolerated as forms of ideological control over the population merged in 1974 to become the Socialist Unity Front. This included the National Agricultural Production Cooperative Union, the Central Craftsmen's Cooperative Union, the Central Union of Production, Acquisition and Distribution Cooperatives, The Red Cross Society and confessions¹¹⁰. The Socialist Unity Front would be promoted as the utmost argument for a democratic society¹¹¹. Despite democratic appearances, these organisations were an ideological tool. Forced to uphold the goals of totalitarian regimes and to legitimise themselves through forced membership and volunteering, they ended up playing the role of quasi-public agencies. In Romania, some of them were ruled out in the 1970's.

After 1989, the Decree-Law 67/1990 on the organisation and functioning of **consumers' and credit cooperatives** entered into effect, and was later replaced by Law 109/1996 on the organisation and functioning of consumers' cooperatives and credit cooperatives. The number of cooperative societies, mainly craftsmen's, declined. Post-1989 legal changes expressly mentioned APU (Law 57/1992 concerning the employment of people with disabilities, as subsequently amended and supplemented), regulated microfinance (1992) and provided a favourable setting for NGO's.

For a detailed analysis, please go to *Annex 8 Historical evolution of specific SE forms of organisation in Romania*.

¹⁰⁶ Vladimir Tismăneanu (coord.) „*Final Report, Presidential Commission on the Analysis of Communist Dictatorship in Romania*”, Bucharest, 2006, pp. 136 - 137

¹⁰⁷ Idem p. 138,

¹⁰⁸ Interviews with representatives of UCECOM and CENTROCOOP

¹⁰⁹ Vladimir Tismăneanu (coord.) „*Final Report, Presidential Commission on the Analysis of Communist Dictatorship in Romania*”, Bucharest, 2006, p. 362

¹¹⁰ Idem p. 156

¹¹¹ Ewa Les and Maria Jeliaskova “The Social Economy in Central-Eastern and South-Eastern Europe” in *** “*Social Economy: Building Inclusive Economy*”, OECD, 2007, p.192

IV. 2. SOCIAL ECONOMY CONCEPT IN THE ROMANIAN LEGISLATION

In the Romanian legislation, the SE notion appears for the first time in GD 829/2002 approving the National Plan on Combating Poverty and Promoting Social Inclusion (NPinc). This decision, as subsequently amended and supplemented, lays down medium and long-term strategic objectives (2002-2012) and immediate ones (2002-2004). Being part of medium and long-term objectives¹¹², SE is mentioned as one of the principles aimed at building an inclusive society. The regulation also comprises a SE definition¹¹³ based on two types of interventions.

The first type refers to *economic operations which embrace social objectives, based on subsidiarity and the maintenance of economic performance*. This category of operations is quite similar to the current understanding of the SE term at European level. Nonetheless, it leaves out operations with a prominent social purpose seconded by economic activities. Therefore, it excludes for example the work of associations and foundations (non-profit organisations, active in the broader social field) that undertake income-generating activities and are largely recognised in the European countries as SE performers.

The second type of SE activities consists in *launching large-scale infrastructure and territorial programmes, including in the environmental sector. Investments in these areas may be both economic (part of the country's economic development) and social – in the infrastructure aimed at the quality of life (schools, hospitals, etc.)*. The formulation is generic and inaccurate if we think that such programmes and investments may be achieved in a wide variety of forms that may pursue solely economic goals or only social goals, thus excluding them from SE. The cited definition is however to be construed in corroboration with the provisions regarding the role played by SE in the social field. Thus, this is showing that SE must be organised so as to become a tool for social integration, social exclusion prevention and poverty reduction, without cutting back the actual economic achievements, combining economic policy principles and social policy ones. These provisions basically highlight the bivalent nature - social and economic – of activities that are specific to the SE concept.

After laying the foundation for the SE development in Romania, the documents with a major role in promoting social inclusion stop mentioning SE until 2008. Hence, in 2005, Romania's Joint Inclusion Memorandum was signed and it outlined *"the challenges in relation to tackling poverty and social exclusion, presents the major policy measures taken by Romania in the light of the agreement to start translating the EU's common objectives into national policies, and identifies the key policy issues for future monitoring and policy review"*¹¹⁴. Although SE had already been mentioned as an innovative instrument for combating poverty and social exclusion in GD 829/2002 approving the National Plan on Combating Poverty and Promoting Social Inclusion, as subsequently amended and supplemented, the SE concept does not show up in the Memorandum at all. Still, given that the two documents complement each other, SE is understood to maintain its importance as deriving from the first legal act. The following strategically important document in the area of social inclusion is actually an expansion of GD 829/2002. To reach the goals set by Romania for combating poverty and promoting social inclusion, GD 1827/2005 approving the 2006-2008 Implementing Programme of the National Plan on Combating Poverty and Promoting Social Inclusion (NPinc) was adopted. This document either doesn't prescribe special provisions for SE, which could mean that SE was not considered a priority for 2006 - 2008.

SE comes back explicitly in the public eye in 2008, when it is given a second definition in the Romanian legislation after being included as an eligible area for ESF funding: SE is supported as a key area of intervention of the Sectoral Operational Programme Human Resources Development, whose Implementation Framework Document is approved by the Joint Order 254/1169/2008 of the Minister of Labour, Family and Equal Opportunities and the Minister of Economy and Finance.

¹¹² GD 829/2002 approving NPinc, Section I *"Global Plan for Preventing/Absorbing Poverty and Promoting Social Inclusion"*, chapter II, point 13

¹¹³ Idem, chapter IV, Objective 2

¹¹⁴ MLFSP, *"Joint Inclusion Memorandum"*, Romania, 2005, p. II

In the document, SE is defined as *“the general term used for a group of people joining together to take an active economic role in the social inclusion process, for example cooperatives, social enterprises, NGO’s (foundations and associations) and other non-profit organisations that play a major role in management and strengthening activities”*. Although it follows, in principle at least, the spirit of the definitions and principles laid down in European documents related to SE, the definition above calls for a few terminological remarks. The notion of “social enterprises” should be read only as an example of good practice existent in the other countries’ legislation, as this category is not currently regulated in Romania. The reference to management and strengthening activities is generic and incomplete: the goal of these activities is not clearly understood, and as a type of general activity it is noticed that all non-profit organisations undertake management activities and may plan to contribute to the strengthening of any licit and ethical area, but this is not sufficient for them to be considered a form of SE.

This definition refers exclusively to the activities that contribute directly to social inclusion, which stands for a more limited approach than the one to be normally found at European level, where SE comprises broader social activities as well, like in the case of credit cooperatives. The meaning from the above-mentioned Romanian document can however be explained by the fact that the respective definition is coined as part of a financing instrument aiming primarily at the very social inclusion, and SE is perceived as a means for reaching this desideratum. Nevertheless, this limitative interpretation of the concept should not be generalised, but should be regarded as an operational definition, applicable solely to the respective financing programme. Moreover, the definition in question has limited time applicability, given that the legal act that contains it refers exclusively to the Sectoral Operational Programme Human Resources Development 2007 - 2013.

In September 2008, another highly important document brought SE in the spotlight in Romania as the Romanian state took on clear commitments for the development of this sector in our country. At that time, the Romanian Government had approved and forwarded to the EC the National Strategic Report on Social Protection and Social Inclusion (NSR SPSI) setting forth that *“the development of the sector regarding social economy may be the first step for an efficient and dynamic economy that interacts with an economy based on social justice”*¹¹⁵. The report outlines the main elements that could build up SE: identifying key directions for the Romanian SE legislation, encouraging relevant initiatives and supporting them through resource centres to be set up, training experts in areas relevant for SE, national promotion of the concept and good practice models. Hence, we can appreciate that, starting with September 2008, SE has benefited in Romania from a coherent and detailed set of measures taken by competent authorities with the aim of the effective development of this sector.

It is noticed that the Romanian state has clearly taken formal measures to develop this sector, but only with regard to SE as a tool for social inclusion and fight against poverty. The SE activities falling out of this role – however recognised at European level – are not expressly embedded in any regulation, although they are not ruled out or limited in the existing provisions. This leads to the fact that such activities may be carried out, in compliance with the other legal provisions of course, but for the time being they are not overtly promoted, supported or encouraged through SE support documents and mechanisms in Romania. Applicable legal provisions must be supplemented to extend the SE definition to other forms besides those having a direct contribution to social inclusion, in accordance with the principles accepted at European level as the basis of SE, and within the coordination of social and economic sectors.

A detailed overview of the notions relevant for the SE concept in Romania can be found in *Annex 5 A glossary of legal terms on Social Economy in Romania*.

¹¹⁵ *** MLFSP, *“National Strategic Report on Social Protection and Social Inclusion, 2008 – 2010”*, 2008, Part II – NPinc, Section 2.3 – Priority Objectives, Priority Objective 1 – Increasing employment level for disadvantaged persons

IV. 3. RELEVANT STAKEHOLDERS IN SOCIAL ECONOMY

Taking into account the roles of different SE entities, three groups of relevant stakeholders have been identified: competent institutional stakeholders, forms of organisation that are similar to SE and beneficiaries of SE activities.

IV. 3. 1. RELEVANT INSTITUTIONAL STAKEHOLDERS

The main institutional stakeholders relevant for SE are: representatives of central public administration, public institutions of national interest and private institutions.

With regard to the prevailing social nature of SE as a promoter of the vocational integration of vulnerable groups, the key institutional player is the Ministry of Labour, Family and Social Protection (MLFSP) – coordinator of social inclusion policies, represented mostly through the work of the Directorate for Social Inclusion Programmes and of the structures dealing with the protection of persons with disabilities¹¹⁶, of child and family, as well as through the work of the National Employment Agency directly reporting to MLFSP.

With regard to SE as an economic alternative, the main relevant stakeholders from the central public administration are the Ministry of Economy, Trade and Business Environment¹¹⁷, the Ministry of Agriculture and Rural Development¹¹⁸, the Ministry of Public Finance, the Ministry of Labour, Family and Social Protection, and the Ministry of Justice.

The Ministry of Economy, Trade and Business Environment (METBE) holds responsibilities with an impact on cooperatives (one of the most widespread SE forms) and SMEs (a form that often allows for SE undertakings). METBE oversees the Agency for the Implementation of Projects and Programmes for Small and Medium-Sized Enterprises (AIPPSME).¹¹⁹ This agency “sees to the application and monitoring of the provisions laid down in Law 1/2005 on the organisation and functioning of cooperatives at local level”¹²⁰ through its 13 subordinate field offices¹²¹ for SMEs and cooperatives¹²². A Cooperative Advisory Board¹²³ is attached to AIPPSME and it is in charge of “drawing up legislative proposals in cooperative work-related fields”¹²⁴. The Board is comprised of nine representatives of the National Craftsmen’s Cooperative Union (UCECOM) and of the National Consumers’ Cooperative Union (CENTROCOOP) and a METBE representative with no right to vote¹²⁵. Not all forms of cooperative societies active in Romania are represented in the Board.

The Ministry of Agriculture and Rural Development (MARD) holds responsibilities that have an impact on cooperatives. MARD is in charge of “drawing up, regulating and implementing agricultural policies”, and its areas of work include agriculture and food production, rural development, fishing and aquaculture¹²⁶ – fields of interest for agricultural and fishing cooperatives or for no-profit organisations, such as agricultural producers’ associations, as well as for other SE forms of organisation. MARD oversees the National Agricultural Consulting Agency (NACA) whose scope is “to

¹¹⁶ The employment of persons with disabilities in authorised protected units www.anph.ro

¹¹⁷ AIPPSME for the cooperative sector, mostly for craftsmen’s, consumers’ and credit cooperatives

¹¹⁸ NACA especially for agricultural cooperatives <http://www.consultantaagricola.ro/>

¹¹⁹ Art. 11 of *** GD 1634/2009 concerning the organisation and operation of the Ministry of Economy, Trade and Business Environment

¹²⁰ Idem art. 4, paragraph 1 (A) (12)

¹²¹ Field Offices for SMEs and Cooperatives are active in Bacău, Braşov, Bucureşti, Cluj-Napoca, Constanţa, Craiova, Galaţi, Iaşi, Ploieşti, Satu Mare, Târgovişte, Târgu Mureş, and Timişoara.

¹²² Art. 4, paragraph 1 (B) (7) and Annex 1 to GD 65/2009 concerning the establishment, organisation and operation of the Agency for the Implementation of Projects and Programmes for SMEs

¹²³ Art. 110, paragraph 1, title V – Cooperative Advisory Board of Law 1/2005 on the organisation and operation of cooperatives

¹²⁴ Art. 110, paragraph 3 (d) of Law 1/2005 on the organisation and operation of cooperatives

¹²⁵ <http://www.minind.ro/> and <http://www.animmc.ro/>

¹²⁶ Art. 1, paragraphs 1 and 3 of GD 25/2010 concerning the organisation and operation of the Ministry of Agriculture and Rural Development

*support agricultural reform through mainstreaming activities and specialised technical assistance, management consulting and professional development*¹²⁷. NACA has authority over county chambers of agriculture¹²⁸, established through the reshuffling of county agricultural consulting offices and centres¹²⁹.

According to NACA's organisational chart¹³⁰, the Directorate for Professional Training and Producers' Associations comprises the Compartment for Strategies, Coordination and Monitoring of Associative Forms and the Compartment for Information and Assistance for Associative Forms – two structures addressed to specific SE forms, like non-profit associations and cooperatives from this field. NACA sustains the establishment and development of agricultural associative forms¹³¹ through activity monitoring, agricultural consulting, legal information, promotion of higher agricultural cooperative structures, and constant upgrading of the database. The agricultural associative forms addressed by NACA are associations, cooperatives and producers' groups¹³².

The Ministry of Justice (MJ) manages the National Registrar of Non-Profit Legal Entities¹³³, which includes associations and foundations set up in Romania, some of which conduct economic operations specific to SE. The National Trade Registrar's Office (NTRO) under MJ keeps track of cooperatives through its Central Computer-based Trade Registrar Compartment in charge of cooperative registration¹³⁴.

The Central Bank of Romania (CBR) is a public structure of national interest, with a role to regulate and oversee some SE forms: credit cooperatives and non-banking financial institutions (NBFI), which comprises MS as well. The CBR includes in its organisational chart specialised departments with an impact on SE: the Service for Financial Institutions within the Directorate for Financial Stability, the Financial Activity and Non-Banking Financial Institution Regulatory Service within the Directorate for Regulation and Authorisation, the Non-Banking Financial Institution Inspection Service within the Supervision Directorate.

The Economic and Social Council (ESC) is an „*autonomous tripartite public institution of national interest, set up to ensure the social dialogue between employers, trade unions and the Government as well as a climate of social stability and peace*” and it takes an „*advisory role in establishing economic and social strategies and policies (...) as well as in achieving, promoting and developing (...) social solidarity*”¹³⁵. Though the current goal (social dialogue) does not show immediate relevance for SE, ESC could play a major part in the future, considering its economic and social advisory roles, especially with regard to social solidarity – a key concept for SE. The law stipulates that draft law initiators must consult with ESC, including when it comes to programmes and strategies¹³⁶, where the opinion of SE forms could provide valuable inputs. ESC forwards proposals for restructuring and developing the national economy and for economic agents' privatisation, operation and competitiveness enhancement¹³⁷, which are important issues for economic operators that take an interest in social goals as well. The current ESC structure does not feature nongovernmental organisations, which means that the voice of this sector goes unheard, and the interests of these

¹²⁷ Art. 1 and 2 of GD 676/1998 concerning the establishment, organisation and operation of the National Agricultural Consulting Agency, as subsequently amended and supplemented

¹²⁸ County Chambers of Agriculture hold responsibilities in the field of training, information, consulting about access to funds and help draw up sectoral legal acts

¹²⁹ *** Chapter II, art. 5 of GD 1609/2009 establishing county chambers of agriculture through the reshuffling of county agricultural consulting offices/centres, under the authority of the National Agricultural Consulting Agency

¹³⁰ http://www.consultantaagricola.ro/info_publice.php?id_sectiune=6

¹³¹ In 2009, NACA supported the creation of 32 agricultural cooperatives, 28 associations and 10 producers' groups among animal breeders and cereal growers according to *** NACA, “2009 Activity Report of the National Agricultural Consulting Agency”, 2010, p. 10

¹³² *** NACA, *Guidelines for Associative Forms in Agriculture*, p. 1 http://www.consultantaagricola.ro/info_utilite.php

¹³³ Art. 6, paragraph V (7) GD 652/2009 concerning the organisation and operation of the Ministry of Justice and Citizen Freedoms

¹³⁴ <http://www.avocatura.com/diverse/registrul-comertului.php>

¹³⁵ Art. 1 and 2, Law 109/1997 concerning the organisation and operation of ESC, as subsequently amended and supplemented

¹³⁶ Idem, art. 2[^]1, paragraph 1

¹³⁷ Idem, art. 5, paragraph 1 (a) and (b)

structures cannot be supported. The proposal to extend the ESC structure (in order to include representatives of the NGO sector and of SE forms) and its scope (to explicitly include SE) should be considered.

The major private bodies that can support SE development and promotion are: the Chamber of Commerce and Industry of Romania (and its subordinate local chambers of commerce responsible for promoting and supporting the development of and collaboration between economic operators), employers' associations and trade unions.

IV. 3. 2. SE FORMS OF ORGANISATION IN ROMANIA

IV. 3. 2. a. Overview

The current Romanian legal framework defines SE and its scope picking up some of the previously discussed principles recognised at European level and using lists of examples, as seen in the latest SE definition from the Sectoral Operational Programme Human Resources Development, explored in section IV.2 of this document. Starting from this definition, corroborated with the principles generally embraced at European level, and based on the comparison of SE forms of organisation from other European states, in Romania we spot the following categories of **SE** legal entities:

- a) Non-profit organisations conducting economic operations, regardless of the area of work,
 - in-house or
 - through companies;
- b) Non-profit organisations organised as MS
 - for pensioners;
 - for employees;
- c) Credit cooperatives;
- d) Cooperative societies of 1st degree regulated by Law 1/2005:
 - Craftsmen's cooperatives;
 - Consumers' cooperatives;
 - Marketing cooperatives;
 - Agricultural cooperatives; they benefit from special legislation, being regulated by Law 566/2004 on agricultural cooperatives, as subsequently amended and supplemented;
 - Housing cooperatives;
 - Fishing cooperatives;
 - Transport cooperatives;
 - Forestry cooperatives;
 - Other forms of cooperatives.

Besides these, several current acts¹³⁸ make reference to the so-called *social enterprises, which however do not have a legally recognised definition*.

All the forms identified above show the features that are widely recognised at European level as being specific to SE, as comprehensively presented in Chapter III. 2. 2. a.

Specific SE forms of organisation may further associate, with a view to supporting and promoting their own interests, into representative structures such as unions, federations, cooperative

¹³⁸ GD 1175/2005 approving the National Strategy for the Protection, Integration and Social Inclusion of People with Disabilities 2006 – 2013, chapter 6, section 3.2 (f) mentions social enterprises as an example of “*new ways to organise lucrative activities for persons with disabilities*”, to be developed in Romania by 2013. The Joint Order 254/1169/2008 of the Ministry of Labour, Family and Equal Opportunities and the Minister of Economy and Finance approving the Implementation Framework Document refers to social enterprises as examples of SE structures.

societies of 2nd degree¹³⁹, etc. Among these, we could name for example National Craftsmen's Cooperative Union (UCECOM), National Consumers' Cooperative Union (CENTROCOOP), Cooperative Central Bank CREDITCOOP, The National League of Craftsmen's Cooperative Organisations Employing People with Disabilities (NLCCOEPD), Romanian National Union of Mutual Societies for Employees (UNCARSR), and "Humanity" - Romanian National Federation of Mutual Societies for Pensioners.

Romanian legislation regulates a number of other forms that are similar to SE but don't fully comply with the principles set forth in the European Social Economy Charter. According to the type of SE activities, specific SE forms may also fall into other **general forms of organisation relevant for SE**:

- authorised protected units (APU);
- enterprises – micro-enterprises (SME);
- companies;
- non-banking financial institutions (NBFI).

The difference between specific SE forms (non-profit organisations conducting economic operations, MS, credit cooperatives, cooperative societies of 1st degree) and general forms relevant for SE (APU, micro-enterprises and SMEs, companies, NBFI) resides in the following: the legal requirements prescribed for establishing and operating any of the specific forms guarantee compliance with SE characteristics, at least in principle; in contrast, the legal requirements prescribed for including a legal entity in the category of general forms allow for but don't guarantee compliance with these characteristics. The fact that a legal entity belongs to non-profit associations running economic operations means that it is included in SE because the legal requirements applicable to this category of non-profit organisations practically comprise all SE characteristics. But if a legal entity belongs to the category of authorised protected units for example, it does not necessarily mean that it is part of SE (in order to be similar to SE forms, the respective unit will have to be set up as a free-standing private legal entity).

The most common links between the two categories (specific SE forms and general forms relevant for SE) are as follows:

a) Non-profit associations can conduct economic operations, under the law,

- in-house (without having to set up a legal entity external to the organisation); the in-house department running the respective economic activity may receive accreditation as **APU** to access incentives, provided that it meets the legal requirements about the share of disabled employees; in this case, the unit will be private law entity and it will not have separate legal personality;
- through **companies**, which may fall, provided that they meet the legal requirements about headcount and turnover, into the SME group (micro-enterprise, small enterprise or middle-sized enterprise) – which affects them mostly in terms of taxes and access to grants or other types of support dedicated to these categories; the companies set up by non-profit organisations may receive accreditation as **APU** provided that they meet the legal requirements about the share of disabled employees;

b) MS for employees or pensioners can, as non-profit organisations, run certain economic operations, in which case the reasoning from point a) shall apply, and they fall into the category of **APU**, **companies** or **SMEs**; MS also have **NBFI** status, under current laws, which means they have to meet special requirements besides those prescribed by the MS legislation;

c) Credit cooperatives are comprised in the wider **NBFI** category according to the law;

d) Cooperative societies of 1st degree may end up conducting economic operations in the form of **APU** in order to benefit from legal incentives applicable to this category, or may fall into the **SME** category.

The detailed description of the main organisation and functioning mechanisms for SE forms of organisation can be found in *Annex 6 Legal framework on the specific forms of organisation of Social Economy in Romania*.

¹³⁹ Legal entity comprised in great part of cooperatives of 1st degree and other natural or artificial persons, aiming at the horizontal or vertical integration of their business registered in compliance with the provisions laid down in this law

Besides these organisational structures, there are also **forms of organisation similar to SE**, which however do not fully comply with EU-accepted principles regarding social economy enterprises, and consequently fall out of the social economy field.

- authorised self-employed persons;
- individual enterprises;
- family businesses.

IV. 3. 2. b. Detailed analysis of Social Economy forms

Specific SE forms of organisation

a. Non-profit organisations conducting economic operations

Associations and foundations

Associations and foundations are private law entities whose main goal is non-profit, but which can secondarily run economic activities as well, in-house or by setting up separate companies¹⁴⁰. When **companies** are being established, the dividends going into associations and foundations must be reinvested in the same companies or used towards the organisation's goal. Non-profit organisations may carry out any **other direct economic operations**, provided that these are ancillary and strongly connected to the scope of the legal entity. In such a case, associations or foundations comply with all SE characteristics, with one exception: foundations don't have democratic decision-making, based on the "*one member, one voice*" principle, and they function based on the decisions made by founding members and not by the general assembly as it happens to associations. This is a normal exception, deriving from the legal status of the foundation and common to many European states, and it is unanimously accepted that it does not exclude foundations from SE.

b. Non-profit organisations set up as MS

Mutual societies for pensioners

MSP are a group of non-profit organisations working under GEO 26/2000 on associations and foundations, as subsequently amended and supplemented, and under a special act: Law 540/2002 on mutual societies for pensioners. MSP aim at providing support and mutual assistance to their members through interest-bearing loans and related social, cultural, tourist and other kind of activities. MSP members may be pensioners, social security recipients or the family members of the first two categories¹⁴¹. With their organisational system and objectives set by law, MSP are one of the most representative specific SE forms, relevant for this field in general and for vulnerable persons in particular. They fall into the categories recognised at European level as traditional for SE. Romanian current regulations guarantee compliance with all SE characteristics.

Mutual societies for employees

MSE are a category of non-profit organisations working, just like MSP, under general laws: GEO 26/2000 on associations and foundations, as subsequently amended and supplemented, and a special act: Law 122/ 1996 on the legal status of mutual societies for employees and their unions, republished. They aim at providing support and mutual assistance to their members through interest-bearing loans. MSE comply with all SE characteristics laid down in the legal provisions concerning their establishment and operation. Just like MSP, with their organisational system and objectives set by law, MSE are one of the most representative specific SE forms, recognised at European level.

¹⁴⁰ Art. 47 and 48 GEO 26/2000 on associations and foundations, as subsequently amended and supplemented

¹⁴¹ Art. 4 Law 540/2002 on mutual societies for pensioners

b. Credit cooperatives

Credit cooperatives are “*credit institutions set up as autonomous associations of natural persons joining together voluntarily to meet their common economic, social and cultural needs and aspirations, whose work is mainly performed based on the principle of mutual assistance between members*”¹⁴². The cited GEO sets forth related operation mechanisms in a unitary and well-structured manner, in line with documents and principles largely accepted at European level and applicable to the cooperative sector. Credit cooperative establishment and operation regulations ensure that SE characteristics are complied with, except for the profit distribution principle as profit is distributed proportionally to cooperative members’ capital contribution. Still, this operation system is recognised in the European Cooperative Statute, which makes the incompliance with this principle an acceptable exception and allows for credit cooperatives to stay within SE, just as it happens at the European level.

c. Cooperative societies of 1st degree

Cooperative societies of 1st degree are regulated by Law 1/2005 on the organisation and functioning of cooperatives and they are, under the law, the form of organisation specific to the cooperative sector¹⁴³. The law defines cooperative society as *the autonomous association of natural and/or artificial persons, as the case may be, set up based on their freely-given consent, for the purpose of promoting the economic, social and cultural interests of cooperative members who jointly own and democratically lead it, in accordance with cooperative principles*. Cooperative society is a private capital economic agent¹⁴⁴.

In line with Law 1/2005 on the organisation and functioning of cooperatives, cooperative societies that fall under this legal act are classified, based on their members, in cooperative societies of 1st degree established by natural persons, and cooperative societies of 2nd degree comprising cooperative societies of 1st degree and, optionally, other natural or artificial persons.

Cooperative societies of 1st degree are categorised as follows:

- a) Craftsmen’s cooperatives;
- b) Consumers’ cooperatives;
- c) Marketing cooperatives;
- d) Agricultural cooperatives; they benefit from special legislation, being regulated by Law 566/2004 on agricultural cooperatives, as subsequently amended and supplemented;
- e) Housing cooperatives;
- f) Fishing cooperatives;
- g) Transport cooperatives;
- h) Forestry cooperatives;
- i) Other forms of cooperatives, set up as prescribed by Law 1/ 2005.

Cooperative societies of 1st degree show the same characteristics as credit cooperatives: the legal requirements for their establishment and operation guarantee compliance with SE characteristics, except for the profit distribution principle as, according to the law, profit is distributed proportionally to the members’ capital contribution. Just like in the first case, given the recognition of this operation mechanism in the European Cooperative Statute, the exception to this principle is acceptable and allows for cooperative societies of 1st degree to stay within SE.

General forms of organisation relevant for SE

Authorised protected units

¹⁴² Art. 334 (a) GEO 99/2006 on credit institutions and capital adequacy, as subsequently amended and supplemented

¹⁴³ Art. 2, art. 7 paragraphs 1 and 2, art. 108 – Law 1/2005 on the organisation and operation of cooperatives

¹⁴⁴ Idem art. 7 paragraphs 1 and 2

APU is a category where we can find specific SE forms of organisation employing people with disabilities, in line with Law 448/2006 on the protection and promotion of the rights of persons with disabilities, republished, as subsequently amended and supplemented. APU is defined as *“a self-managed public or private law economic operator, where at least 30% of all staff working on an individual employment agreement are persons with disabilities”*¹⁴⁵. APU can be of two types: with or without legal personality, they are self-managed, taking the form of shop floors, workshops or other structures attached to economic operators, public institutions or nongovernmental organisations, as well as those set up by the person with disability authorised, under the law, to run an independent business¹⁴⁶. APU may be forms relevant for SE if they are established as free-standing private law entities, thus addressing social goals besides economic ones, with the end result of the socio-professional (re)integration of persons with disabilities.

Small and medium-sized enterprises

Another legal form of organisation where we can find specific SE forms is the SME. For this, the respective legal entity must fit into the definition of enterprise and meet the requirements in order to be classified as micro-enterprise, small enterprise or medium-sized enterprise.

The enterprise is *“any form of business organisation, authorised by applicable laws to perform commercial acts and operations for the purpose of making a profit, under competition rules, namely: companies, cooperative societies, natural persons running an independent business and family associations authorised in line with applicable legal provisions”*¹⁴⁷. Hence, in this category we may come across companies set up by non-profit organisations (associations and foundations) that choose to carry out economic activities through a separate structure. If cooperative societies meet legal requirements, they may qualify as SMEs. To be included in the SME category, the entity must fulfil all the following conditions¹⁴⁸: annual average headcount below 250 and an annual net turnover of up to €50 million (RON equivalent) or total assets that don't exceed €43 million (RON equivalent), according to the latest approved financial statement.

In function of their annual average headcount and annual net turnover or total assets, SMEs can be classified in the following categories¹⁴⁹:

- micro-enterprises: up to 9 employees and an annual net turnover or total assets of up to €2 million (RON equivalent);
- small enterprises: between 10 and 49 employees and an annual net turnover or total assets of up to €10 million (RON equivalent);
- medium-sized enterprises: between 50 and 249 employees and an annual net turnover of up to €50 million (RON equivalent) or total assets that do not exceed €43 million (RON equivalent).

Depending on the category in which they fit, active SE legal entities may benefit from certain support and encouragement mechanisms, such as different tax thresholds or access to various grant programmes.

Non-banking financial institutions

Specific SE activities can be found in non-banking financial institutions (NBFI), regulated by Law 93/2009 on non-banking financial institutions. The purpose of the cited act is to regulate *“minimum requirements for access to lending activities and their performance on the territory of Romania through non-banking financial institutions, with the aim of ensuring and maintaining financial stability”*¹⁵⁰.

¹⁴⁵ Art. 4 (29) Law 448/2006 on the protection and promotion of the rights of persons with disabilities, republished, as subsequently amended and supplemented

¹⁴⁶ Idem art. 81 paragraph 2

¹⁴⁷ Art. 2 Law 346/2004 stimulating the establishment and development of small and medium-sized enterprises, as subsequently amended and supplemented

¹⁴⁸ Idem art. 3, paragraph 1

¹⁴⁹ Idem art.4

¹⁵⁰ Art. 1 of Law 93/2009 on non-banking financial institutions

At present, according to the information provided by CBR¹⁵¹, nearly 3,308 NBFI are active on the territory of the country. CBR is the only authority to decide whether the work of an entity qualifies as professional lending and falls under the law, ensuring that such entities carry out independent periodic income-oriented economic activities. In-house structures specialised in lending need to be in place to manage and analyse these activities separately, based on pre-established rules and taking lending activities into account when projecting company's budget or forecasting company's overall business.

MS are among the NBFI that are subject to the regulations in question and must meet a series of general requirements under the law:

- register with CBR's Registrar;
- maintain the same system of organisation, operation and association, in line with special legal provisions regulating the activity;
- limit lending activities to loans to members of non-profit associations set up based on the employees'/pensioners' free consent, for the purpose of supporting their members through financial loans;
- limit sources of financing to those prescribed by special laws regulating their activity.

Another category relevant for SE is comprised of entities granting loans exclusively from public funds or from funds made available to them based on intergovernmental agreements, which entities must meet the following conditions under the law:

- register with CBR's Registrar;
- organise and operate, as the case may be, in line with Law 31/ 1990 on companies, republished, as subsequently amended and supplemented, GEO 26/2000 on associations and foundations, as subsequently amended and supplemented, or in line with relevant special legislation in force;
- limit lending activities to loans, including, but not limited to: consumer loans, mortgage loans, property loans, micro-credits, trade financing, factoring, discounting or forfeiting operations; financial leasing; issuance of guarantees, guarantee commitment-making, finance commitment-making; other forms of credit-like financing; limit sources of financing to public funds or to funds made available based on intergovernmental agreements.

MS and entities that grant loans exclusively from public funds or from funds that are made available to them based on intergovernmental agreements are exceptions to the general rule that NBFI should run their business as joint stock companies.

Micro-credits may fall under the scope of SE as long as they are provided in accordance with SE principles, especially those related to the social nature of the conducted activity.

The microcredit granted from public funds or from funds made available based on intergovernmental agreements is *"a repayable interest-bearing or interest-free loan, provided at applicants' request, with a nominal value of up to €10,000, granted in RON at the CBR exchange rate announced on the day before the release of funds, with a repayment term of up to 36 months, with or without a grace period, destined to procurement of fixed assets, raw materials, supplies, energy, fuel, as well as other services needed to run the project aimed at developing the business for which it has been authorised"*¹⁵². Micro-credits may be obtained by *"legal entities, namely companies with less than 50 employees, under individual employment agreements, individuals and family associations running an independent business, as authorised by law, including family physicians, as well as any individual producing a well-supported business plan for business development or starting up an income-generating activity"*¹⁵³.

A condition for NBFI is to incorporate "non-banking financial institution" or its abbreviation – NBFI – in their name. Still, in the case of NBFI that are subject to registering with the Registrar (like the two categories previously mentioned), this requirement is optional.

¹⁵¹ <http://www.bnro.ro/Registrele-BNR-717.aspx#RegGen>

¹⁵² Art. 3(e) GEO 40/2000 on licensing credit agencies for fund management with a view of microcredit provision

¹⁵³ Idem art. 3(f)

Law 93/2009 on non-banking financial institutions abrogates, among other things, Law 240/2005 on microfinance companies, practically eliminating this category of legal entities and embedding their specific activity into the broader activity framework to be run by NBFI. The new regulation still allows for micro-credits, but enforces more restrictive rules. Thus, micro-credits granted under abrogated regulations could reach €25,000 (RON equivalent), compared to the current threshold of €10,000, and the repayment term could go up to 60 months, compared to 36 months prescribed by the current legislation. Besides their main scope, microfinance companies could also have as secondary scope *service provision for the economic development of microcredit recipients, including consulting, information, education, and specialised training*. The old regulation stipulated the possibility of using the microcredit also for developing *community development projects, local community initiatives and social programmes, with an eye to improving the standard of living in local communities*, provisions annulled by the new regulations. The criteria set out in the old regulation with regard to microcredit applications were more generic than current ones¹⁵⁴.

In 2008, the number of entities registered with the Registrar increased significantly, building up this sector. Regarding their concentration, we notice the nearly 94% share of financing granted by the NBFI from the special Registrar, as the top 10 entities hold around 42.7% of the total loans bestowed in the sector¹⁵⁵. Although the sector saw the diversification of the NBFI portfolio in terms of granted credits, financed assets or types of customers, the lending activity continued to show a strong focus on some segments. The still strong dependency on the car market or other industries (construction, transport) is one of the sector weaknesses, and the slowed down economic growth and reduced investments have a direct bearing on NBFI development due to a fall in financing volumes.

Forms of organisation similar to SE

The analysed forms are regulated by GEO 44/2008 on economic operations conducted by authorised self-employed persons, individual enterprises and family businesses. These forms of business organisation show certain similarities to SE in terms of contribution to socio-professional integration, but they cannot be considered SE forms as their business does not have an ambivalent scope: social and economic. Hence, the business run by these forms of organisation is defined as *“agricultural, industrial, commercial activity conducted to obtain goods or services whose worth can be expressed in money and which are destined to be sold or exchanged (...), for the purpose of making a profit”*. The activities *“can be carried out in all areas, trades, occupations or professions for which the law does not expressly prohibit free initiative”*¹⁵⁶ and can be conducted by individuals in the forms presented hereinafter¹⁵⁷.

Authorised self-employed persons

Authorised self-employed persons (PFA) can individually and independently conduct *“any form of business under the law, using mainly their own labour”*¹⁵⁸. An authorised self-employed person can be set up under a single code from the Nomenclature of Economic Activities (NACE) and may not hire third parties on an employment agreement to carry out the activity for which they have been authorised, nor shall they be considered the employee of a third party with whom they collaborate, even if that collaboration is exclusive.

Individual enterprises

¹⁵⁴ The applicant could be the natural or artificial person that would present the microfinance company with an application accompanied by a well-supported proposition for starting or developing an income-generating activity.

¹⁵⁵ *** CBR “Report on Financial Stability 2009”, 2009 CBR

¹⁵⁶ Art. 3 paragraph 2 GEO. 44/2008 on economic operations conducted by authorised self-employed persons, individual enterprises and family businesses

¹⁵⁷ Idem art. 4

¹⁵⁸ Idem art. 2(i)

The individual enterprise is defined as “an economic enterprise, without legal personality, started up by an individual entrepreneur”¹⁵⁹ who may have employees and (unlike other business forms) can be set up under a single NACE code (in order to conduct different activities under different NACE codes, several individual enterprises need to be created).

Family businesses

Family business is defined as “an economic enterprise, without legal personality, set up by an individual entrepreneur together with their family”¹⁶⁰; they may have employees, but only members of the same family¹⁶¹, regardless their number, and not third parties. These forms may sometimes be authorised to work as APU, in which case their contribution to socio-professional (re)integration is even more valuable, but under no circumstances does this qualify them as SE forms.

In conclusion, providing conditions for the SE development involves both an SE definition which is comprehensive enough and unanimously accepted at national level, and a flexible legal framework allowing for the development and upgrading of already existing forms of organisation, the development of new ones respectively, of data collection mechanisms needed to monitor SE activities, as well as efficient fiscal and material tools to support SE forms based on the principle of equal opportunities for the different actors in the field. Mechanisms of fair competition between private service providers and manufacturers will need to be ensured, considering the different objectives targeted by regular suppliers and producers and by SE ones. The smooth running of SE will realistically and efficiently contribute both to the socio-professional (re)integration of vulnerable groups, and to increased social cohesion and community development. The necessary legal framework must be harmonised with legal acts and regulations in force with regard to forms similar to SE and with community regulations.

IV. 3. 4 VULNERABLE GROUPS BENEFITING FROM SOCIAL ECONOMY

The beneficiaries of SE activities are individuals who, through SE participation, pursue their own profit and non-profit interests. Based on the SE form of organisation, these interests go from shared interests (e.g. the farmers from agricultural cooperatives may aim, among other things, at using good quality farming machinery) to individual interests (e.g. the persons with disabilities working in an APU pursue social interests as well).

IV. 3. 4. a. Legal analysis of vulnerable groups

Romanian legislation uses a variety of similar terms when referring to vulnerable people/groups. Legal acts may refer, according to the case, to *disadvantaged* people, *marginalised* people, *socially-excluded* people or people *subject to social exclusion risks* or *vulnerable* people. We further present the definitions of these notions as found in applicable laws.

Social marginalization has two complementary definitions. The first one (2002) is all-encompassing: “a lower and isolated social position of individuals or groups with limited access to the economic, political, educational and communicational resources of the collectivity, translated in the lack of basic social living conditions”¹⁶². The second definition (2005) reads that “social exclusion or marginalisation is the situation of people facing one or several social deprivations such as: lack of employment, lack of housing or improper housing, lack of access to water, heating or electricity supply, lack of access to education or healthcare”¹⁶³.

¹⁵⁹ Idem art. 2(g)

¹⁶⁰ Idem art. 2(h)

¹⁶¹ Spouse, children who are 16 years and over, consanguine and affine relatives as far as the 4th degree of kinship inclusive

¹⁶² Art. 3 Law 116/2002 on preventing and combating social marginalisation

¹⁶³ Chapter 3.1. (c) NPinc Implementing Programme for 2006-2008, 22.11.2005

The social need is “the set of essentials that are necessary for every person to secure living conditions with the aim of social integration”¹⁶⁴. Social inclusion is “the set of measures and multidimensional actions in the areas of social protection, employment, housing, education, health, information-communication, mobility, security, justice and culture, designed to fight social exclusion”¹⁶⁵.

Given that discrimination is one of the main causes generating or maintaining marginalised positions, the disadvantaged group is “the group of people that is either *lagging behind most citizens because of identity differences compared to the majority or is faced with rejecting and marginalising behaviours*”¹⁶⁶. Vulnerable groups comprise: children at high risk of: poverty, vulnerability to social desegregation, juvenile delinquency; youth over 18 years that are no longer included in the childcare system; persons with disabilities; Roma ethnics at high risk; the elderly at high risk and homeless people¹⁶⁷.

People, groups or communities fall into marginalisation or social exclusion situations due to various overlapping issues. Besides objective reasons (lack of housing, lack of access to healthcare) that lead to such situations independently of other factors, we identify yet other determinants like gender, ethnicity, age or health, which are not causes for marginalisation unless overlapping with other objective aspects. Studying people, groups or communities exposed to social exclusion risks is a priority for identifying social inclusion measures, incorporated in specific legal acts. A detailed description of notions relevant to SE beneficiary groups can be found in *Annex 5 A glossary of legal terms on Social Economy in Romania*.

IV. 3. 4. b. Statistical analysis of vulnerable groups

People in poverty are most at risk of exclusion from the labour market, lack of appropriate income, reduced access to education and to healthcare. According to the analysis of the last 10 years’ data, the absolute poverty rate¹⁶⁸ reported a deep decline from 35.9% in 2000 to only 4.4% in 2009. Nonetheless, it is obvious that, in the context of the economic crisis, the poverty rate may go up in 2011.

Regardless the time evolution of poverty, we notice the relatively constant profile of underprivileged people over recent years (a profile that seems to go unchanged as a result of the crisis¹⁶⁹). The data related to the highest risk of falling into poverty reveal the following issues: the level of education of poverty-stricken people is lower, rural workers are most exposed to social exclusion, and poverty concentrates more in certain geographical areas.

Graph 1 Evolution of absolute poverty rate, 2000-2009

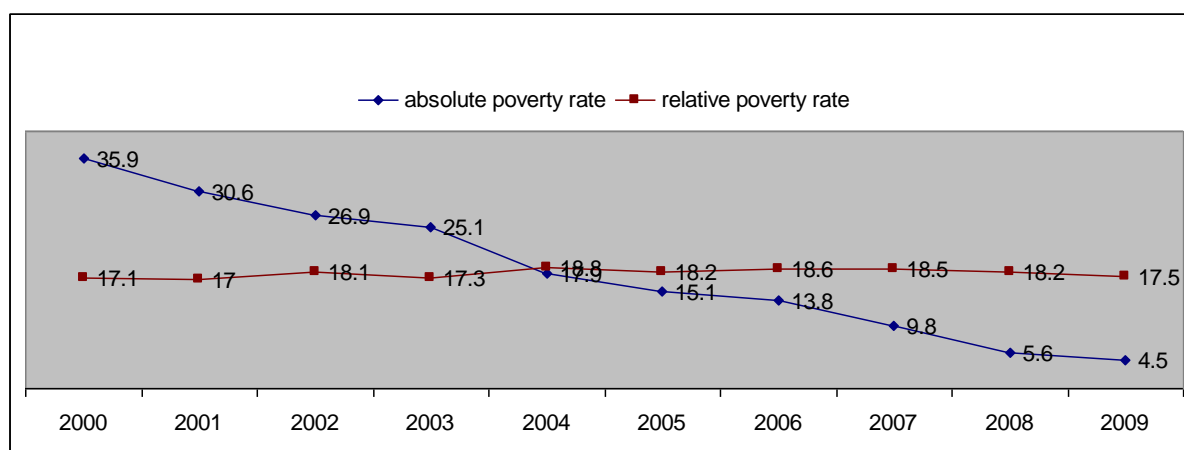
¹⁶⁴ Law 47/2006 on the national social assistance system, art. 5(b)

¹⁶⁵ Idem art. 5 (a); this definition was also picked up by Law 448/2006 on the protection and promotion of the rights of persons with disabilities, republished, as subsequently amended and supplemented, in art. 5 (18)

¹⁶⁶ GEO 137/2000 preventing and sanctioning all forms of discrimination, republished, as subsequently amended and supplemented, art. 4

¹⁶⁷ MLFSP, “Joint Inclusion Memorandum”, 2005, section 2.6

¹⁶⁸ Romania measures poverty by using both the relative method (reporting to a 60% median income threshold) and the absolute method developed in partnership with World Bank experts (in this case, the threshold is based on a minimum consumer basket for food products, non-food products and services). If the first method is rather useful to estimate the level of inequality in the society, the absolute method is effective for assessing whether incomes are sufficient to cover individuals’ basic needs.



Data source: ABF 2000-2009, NSI, MLFSP

The education level of people affected by poverty is much lower than the overall population's. Whilst among deprived populations people without primary education account for 21.7%, their percentage in the overall population is of only 12.5 % (the gap is also huge when it comes to populations with high school education or more: those with high school education or more account for 8.3% among poor people compared to 35.1 % in the overall population).

From the point of view of the occupational status, we notice that the highest risk of falling into poverty is faced by self-employed agricultural workers (15.8%), self-employed non-agricultural workers (13.7%) and the unemployed (13.1%). An interesting thing is that pensioners, representing one of the groups that are portrayed as being the most vulnerable, have a poverty rate of only 3%, far below the national overall figure (this discrepancy was constant in the last years). Stay-at-home people show another high poverty rate (this category may include concealed unemployment – people who are out of work, but don't declare to be unemployed because they are aware it would be impossible for them to find a job and due to family constraints). We notice that the Roma are confronted with a poverty risk six times higher than Romanians (31.1% compared to 4.9%). The increased poverty risk turns up (as we shall see in the special analysis of the Roma group) because of low education, living in a rural area and implicitly of the high poverty risk occupational status.

As to the territorial distribution of poverty, we see that poverty concentrates in specific geographical areas. Poverty rates are much higher in North-East (8.5%), South-West (7.9%) and South (7.1%), regions with a constant history of poverty in the last few years. The lowest poverty risk is reported in Bucharest (11%). There are significant differences between living areas: people from rural areas face a 9.8% poverty risk compared to 2.3% for those living in an urban area.

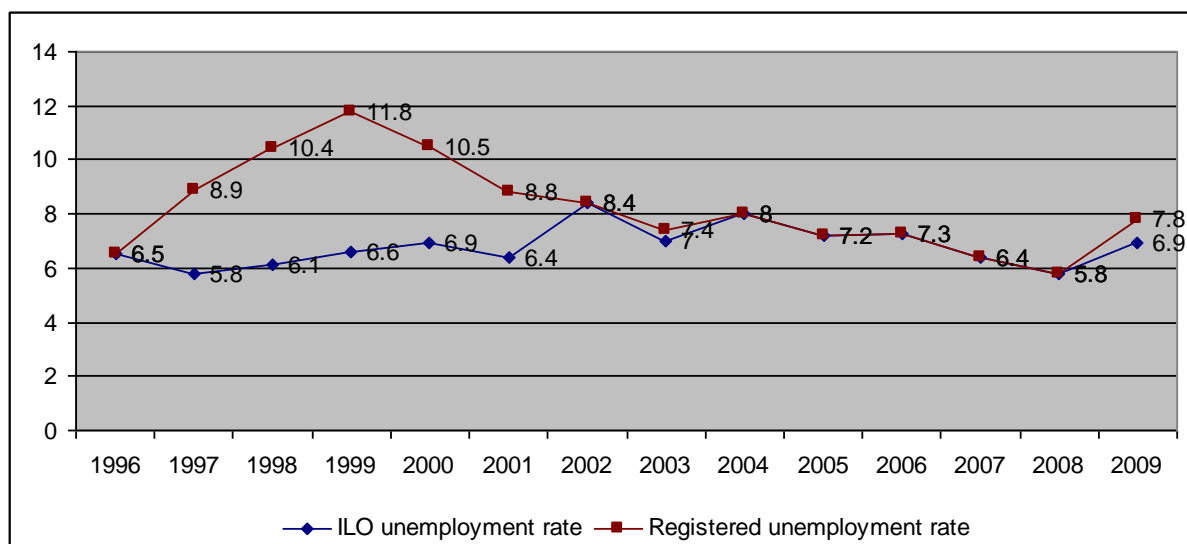
For building relevant social policies, it is important to run an age group-based analysis (which somewhat supports the occupational status-based analysis). We notice that the poverty risk goes up to 7.8% among the population aged 0-14 years and to 8.4% among youth aged 15-24 years. The risk takes a sudden drop for the population aged 25-34 years (5.4%), continuing to decline as we get closer to the retirement age. The risk among youth is extremely high because the means they have to develop and enter the labour market are fewer than those available to slightly older people.

The unemployment rate worked out using the methodology of the International Labour Office (ILO)¹⁷⁰ reported a steady decline in the last few years: reaching only 5.8% in 2008 (in 2009, this rate recorded a slight rise and it is expected to continue rising in the coming year).

Graph 2 Evolution of the unemployment rate 1996 – 2009

Data source: Tempus, NSI

¹⁷⁰ The unemployment rate stands for the share of ILO unemployed in the economically active population. The ILO unemployed are persons aged 15-74 years who are out of work, don't run any income-generating activity, are searching for a job, and are available to start work within the next fortnight. The registered unemployed are people looking for a job, who are fit for work, jobless and incomeless, are available for the next period of time and are registered with NEA.

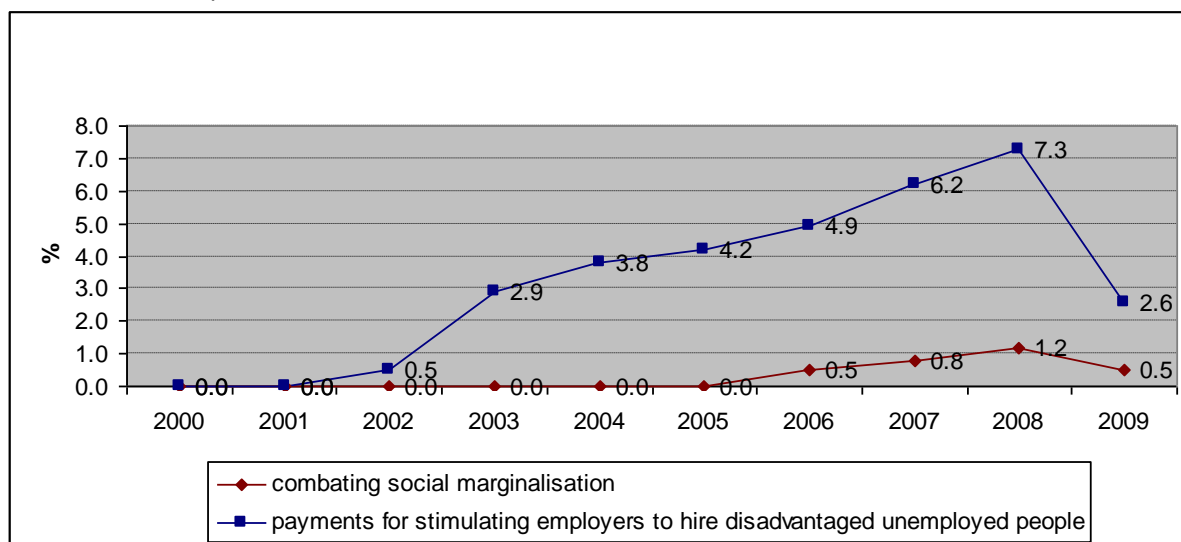


Analysing the profile of ILO unemployed, we see that the highest unemployment risk is faced by youth aged 15-24 years (18.6%) and that it is constantly declining as the age rises. Unemployment rates are higher in men than in women; this is not necessarily due to a better state of affairs for women, but to a higher percentage of stay-at-home people among the latter (which may conceal hidden forms of unemployment). In the rural area, things are pretty similar – unemployment may be concealed by the fact that individuals declare to be farmers (most of the times, this means subsistence farming, with an increased risk of falling into poverty).

As regards policies on boosting employment for the unemployed, we notice increased spending for specific active measures. Hence, data show us that: expenditures on stimulating employers to hire disadvantaged jobless people recorded a rapid growth from 2000 to 2008 (from their total absence in 2000 to 7.3% of all expenditures in 2008). Expenditures on combating marginalisation, although relatively low, have also known an exponential growth from 2005 to 2008 (they emerged quite late, in 2006, but in 2008 the total expenditures on different measures reached a share of 1.2% in the total annual expenditures for the social protection of the unemployed). Both indicators however reached much reduced values in 2009 (almost one third of previous year's values).

Graph 3 % of expenditures on different measures in the total annual expenditures for the social protection of the unemployed

Data source: Tempus, NSI



More information about the statistical analysis of vulnerable groups is available in *Annex 9 Statistic analysis of vulnerable groups in Romania*. For further information about the situation on the labour market, see *Annex 10 Vocational insertion of vulnerable groups in Romania*.

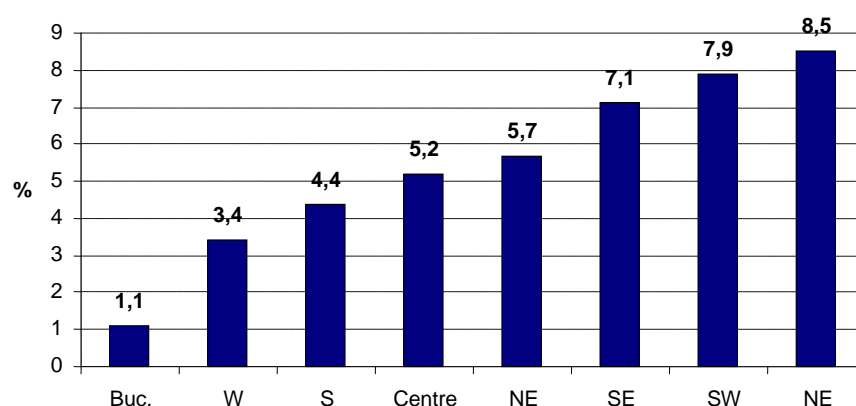
IV. 4. OVERVIEW OF SPECIFIC SOCIAL ECONOMY FORMS IN ROMANIA

This subchapter provides an overview of the SE scope in our country¹⁷¹. The working method consists in taking into consideration most of the specific SE forms that are presented from a legal perspective in subchapter IV. 3. 2, with a particular focus below on non-profit organisations conducting economic activities. Given the particular relevance of APU for SE – although they only represent SE forms in specific conditions – data related to such accredited entities have also been collected.

Some specific problems occurred in relation to information on non-profit organisations conducting economic activities, as such or through commercial companies. Thus, it has been noted that official information registration systems on non-profit organisations do not have information selection filters allowing the accurate identification of this type of organisations. More precisely, although information on all non-profit organisations set up in Romania is available, this is not also valid for those organisations conducting economic activities, as such or through commercial companies. Therefore, the statistic data below only concern all the other specific SE forms: cooperatives and MS. We can only hope that the recognition of SE role and the drawing up of support policies shall lead to the drafting of assessment, monitoring and registration indicators that could be specific for SE.

Graph 4 Poverty rate by development region, 2008

Source: Family Budget Enquiry, NSI



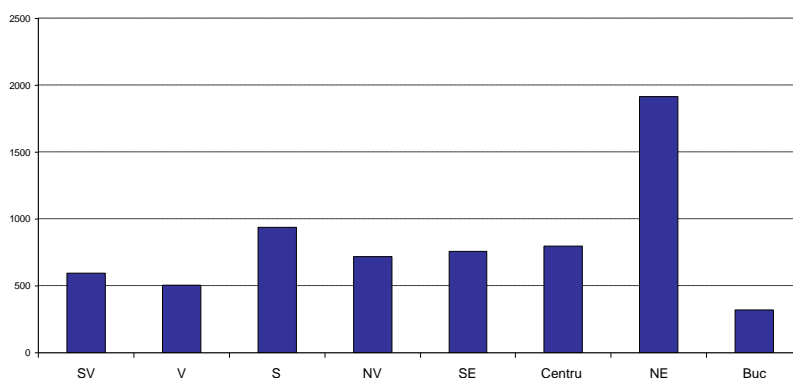
We decided to present data by regions starting from the assumption of a “*regionalisation of Romania based more on social issues than cultural orientations*”¹⁷².

Graph 5 Distribution of SE forms by development region

Source: Overview of SE forms, MLFSP, 2010

¹⁷¹ Data come first from the information collected in 2009 by the MLFSP through the Labour and Social Protection Directorates. They have been further more reviewed and consolidated based on data received from the Ministry of Justice, NTRO, Central Computerised Trade Register Directorate and NGO Records Directorate. In addition, information available on the Internet or in official reports has also been used.

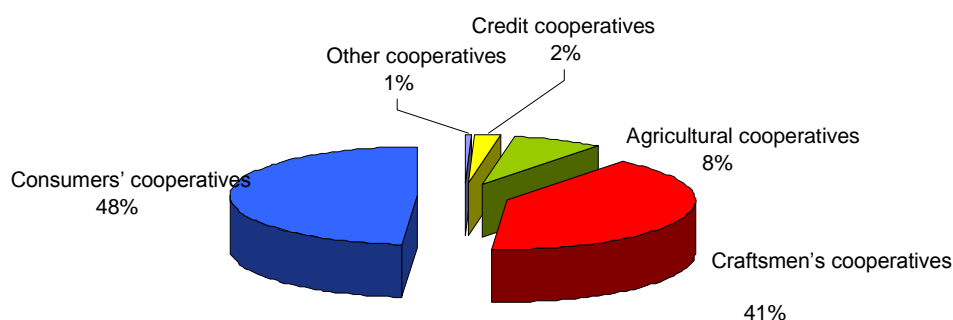
¹⁷² Dumitru Sandu, “*Community development: research, practice, ideology*”, Polirom, Iași, 2005, p. 207



The following specific SE forms have been recorded in Romania: 2,179 MS, 2,128 cooperatives (out of which 1,061 consumers' cooperatives, 885 craftsmen's cooperatives, 170 agricultural cooperatives and 12 housing and marketing cooperatives), 51 cooperative banks and 419 APU. Thus, the most frequent specific SE forms of organisation are MS, followed by cooperatives and APU. Among cooperatives, the best represented are consumers' cooperatives and craftsmen's cooperatives. Other types of cooperatives are housing and marketing ones.

Graph 6 Distribution of cooperative types at national level

Source: Overview of SE forms in Romania



The main fields of activities and categories of products of craftsmen's cooperatives affiliated to UCECOM are: textiles, footwear, manufacture of leather goods, furniture and wood products, metal work, other materials and services provided to individuals and economic operators¹⁷³. The total number of craftsmen's cooperatives' employees has decreased: in 2006 there were 25987 workers including 23,013 member co-operators, while in 2007 there were 22,318 workers including 19,872 member co-operators¹⁷⁴.

¹⁷³ "Annual Report on the SMEs Sector in Romania", 2008, pp. 149 - 150

¹⁷⁴ Idem p. 188

The counties having the highest number of consumers' cooperatives (48) are Suceava and Timiș. They are followed by Harghita and then Bihor, Mureș and Vâlcea with an equal share. The county of Vaslui has the fewest consumers' cooperatives.

Most of the craftsmen's cooperatives are registered in the North-Eastern region, in the county of Bacău (123), followed by the South Western region, the county of Constanța (69), Bucharest (56) and the county of Iași (51). The fewest craftsmen's cooperatives are in the county of Ilfov. The largest number of agricultural cooperatives can be found in the South Eastern region, the county of Constanta (19). Most cooperative banks are located in Botoșani (6).

The largest number of APU are registered in Bucharest (57), followed by Timiș (27) and Cluj (24). The county of Giurgiu has only one agricultural cooperative, no marketing cooperative, no housing cooperative, no APU and no cooperative bank. The county of Vaslui has the fewest consumers' cooperatives and APU and no agricultural cooperative, no marketing cooperative and no consumers' cooperative. For further details, please refer to *Annex 11 Overview of the specific forms of organisation of Social Economy in Romania*.

15% of Romanian NGOs generate income from SE activities, while 40% do not exclude the possibility of conducting economic or financial activities in sectors such as crediting, rural development, agriculture and forestry¹⁷⁵.

IV. 5. SUPPORT AND ENCOURAGEMENT MECHANISMS

SE development depends on the capacity to attract and efficiently use financial resources in a direct manner or through support mechanisms for social activities. Some of the best known mechanisms are the following:

1. Fiscal measures

- **income tax exemption**

- a) agricultural tax exemption during the first 5 years since the starting up of agricultural cooperatives¹⁷⁶;

- b) income tax exemption provided that a 75% investment is made in fixed assets in view of activity development/diversification for APU, adapting to the moneymaking environment; purchasing technological equipment, machinery, tools and work installations; ensuring the transport of disabled persons from their homes to work;

- c) income tax exemption for economic activities up to 15,000 € /fiscal year provided that the exemption does not stand for more than 10% of the total income exempted from income tax – for non-profit organisations conducting economic activities as such or through commercial companies¹⁷⁷;

- **income tax exemption for reinvested profit:** applied in common forms, without “positive discrimination” to SE economic operators;

- **various tax exemptions:**

- a) customs duties (e.g. for imports of agricultural machinery, irrigation equipments and other similar tools used by agricultural cooperatives for their own activities¹⁷⁸; for APU imports of raw materials, tools and spare parts);

- b) authorisation fees (for setting up and reauthorisation) for APU;

- c) building tax, land tax for plots used for social purposes by non-profit organisations, based on local councils' decisions¹⁷⁹;

¹⁷⁵ Mihaela Lambru, Ancuța Vameșu and Mircea Kivu (coordinators), “Romania 2010 – Non Governmental Sector: Profile, Trends and Challenges”, Civil Society Development Foundation, 2010, pp. 52, 55

¹⁷⁶ Law 1/2005 on the organisation and functioning of cooperatives and Law 566/ 2004 on agricultural cooperatives, as subsequently amended

¹⁷⁷ Law 571/2003 on the Fiscal Code as subsequently amended

¹⁷⁸ Law 566/ 2004 on agricultural cooperatives, as subsequently amended

¹⁷⁹ Art. 250 paragraph 1 point 19 of the Law 571/2003 on the Fiscal Code as subsequently amended

d) taxes for means of transportation, for acquiring certificates and authorisations as well as other local taxes if proven that the activities conducted by the organisations are related to social tasks;

e) VAT exemption for the operations and products carried out and manufactured by disabled persons working at home in the case of APU.

- **full tax exemption:** MSE tasks and activities, related to their scope¹⁸⁰;
- **lower costs:** County and Local Councils as well as the General Council of Bucharest shall support the functioning of MSP by renting the necessary buildings, according to the possibilities available, and by decreasing renting costs by 75%¹⁸¹;
- **exemption from the payment of social contributions during technical unemployment** in order to maintain specialised staff needed when resuming business;
- special tax regime for SMEs having an annual declared or registered turnover under the 35,000 € ceiling¹⁸².

2. Non-fiscal measures

- **support** for representation or provision of guarantees for accessing financing opportunities dedicated to social activities:

a) State guarantee of a non-discriminatory nature for cooperatives set up in compliance with Law 1/2005 on the organisation and functioning of cooperatives;

b) financial support granted by local authorities from their own funds or access to dedicated spaces for social activities for APU and non-profit organisations;

- **counselling and/ or assistance for the implementation of social projects**, provided by international bodies after EU accession (e.g. UNDP);
- **counselling, professional assessment and guidance** for vulnerable persons and a priori employment support; e.g. for disabled persons in compliance with Law 448/2006 on the protection and promotion of the rights of disabled persons, as subsequently amended, Art.71-74;
- **facilitating access to funds by means of specialised counselling and implementation monitoring:** WB financing with funds management and implementation assistance and monitoring provided by the Romanian Fund for Social Development; access to public grants and funds for agricultural cooperatives, as well as to external funds as stipulated in the Romanian agriculture support programme, and recognition as groups of producers by MARD;
- **providing logistics support for the implementation of projects financed by funds managed by central and local administration** such as special regimes for SMEs accessing structural funds;
- **supporting co-financing for project implementation:** guarantee funds, investment funds and venture capital, preferential loans;
- **free access** to office space, land for building the premises necessary for the activities of associations and foundations¹⁸³;
- **other rights and incentives provided by the law**, by category of SE organisations, adapted to their structure and real capacity to efficiently manage funds that are directly attracted or through facilitators.

a. SMEs may benefit from a special public procurement regime¹⁸⁴: 50% deductions for criteria related to turnover, participation guarantee or performance guarantee, required in the public procurement of goods, works and services; technical assistance for facilitating access to training in the field of public procurement; access to electronic information services through Euro Info centres, in

¹⁸⁰ Art. 8 Law 122/ 1996 on the legal status of mutual societies for employees and their unions, republished

¹⁸¹ Art. 16 Law 540/2002 on mutual societies for pensioners

¹⁸² For the operations stipulated under art. 126 paragraph (1), Law 571/2003 on the Fiscal Code as subsequently amended, art. 152, paragraph 1)

¹⁸³ Art. 49 paragraph 1 GEO 26/2000 on associations and foundations,

¹⁸⁴ Art. 16 Law 346/2004 on incentives for the setting up and development of SMEs, as subsequently amended,

relation with specific legislation; electronic information services in relation with the calls for tenders presented by electronic means;

b. local authorities may include social impact clauses in their public tenders (socially responsible public procurement¹⁸⁵) or may enforce exemptions such as reserved contracts,¹⁸⁶ for which SE entities may also submit bids (e.g. protected workshops).

c. social criteria may be included in the selection procedure¹⁸⁷.

Support mechanisms for APUs

Additional incentives are provided for APU¹⁸⁸:

- exemption from setting up and reauthorisation fees;
- income tax exemption provided that at least 75% of the funds resulting from the exemption be reinvested for restructuring or for purchasing technological equipment, machinery, tools, work installations and/or fitting protected workplaces¹⁸⁹;
- other rights provided by local administration authorities and financed out of their own funds.

A detailed description of the main support mechanisms available for SE specific forms in compliance with legislation in force is presented in *Annex 6 Legal framework on the specific forms of organisation of Social Economy in Romania*. Sometimes, social inclusion measures for vulnerable groups are associated with initiatives supporting the development of SE specific forms. Since social inclusion measures for vulnerable persons cannot be compulsory for the private business sector, their employment has been supported by means of the setting up of APU. Specific **incentives** are foreseen for setting up APU as well as for disabled people interested in working in an APU. In addition, medium and large economic operators that do not hire people with disabilities owe the State a specific amount of money. Each operator that employs over 50 people is legally compelled to hire at least 4% disabled people. If it fails to do so, there are two possibilities: either to pay a monthly amount of 50% of the minimum wage for each disabled person not hired; either to monthly purchase goods or services from an APU corresponding to the amount owed to the State¹⁹⁰. When not compelled by law to hire disabled persons, a company may receive monthly payments of the medium wage for 1 year, for each disabled person employed provided that employment lasts for at least two years¹⁹¹. Companies employing disabled persons on an undetermined period of time are exempted from unemployment insurance taxes and receive the following amounts, on monthly basis, for 1.5 year: minimum wage for employees holding a high school / arts and crafts school degree; 1.2 of the minimum wage for all post secondary education graduates and 1.5 of the minimum wage for higher education graduates¹⁹².

The incentives for disabled employees include: exemption from salaries tax for people with severe and profound disability; when the employee works from home, the employer must ensure free transport of all raw materials and other necessary materials for the manufacturing of goods as well as additional free days for at least three working days¹⁹³.

Support mechanisms for SMEs

¹⁸⁵ Public procurement that also consider social purposes such as: minimising unemployment, access / participation of SMEs or other SE entities to tenders, promoting decent working conditions, equal opportunities or encouraging trading in goods/services coming from SE entities.

¹⁸⁶ Reserved contracts refer to public tenders attended by protected workshops having income generating activities, provided that 75% of their income has been invested in employees' support programmes (Law 207/2009 on the approval of GEO 86 / 2008 amending the Law 448 / 2006 on the protection and promotion of the rights of disabled people)

¹⁸⁷ Art. 39 of GEO 34/2006 on the award of public procurement, concession and service concession contracts, as subsequently amended

¹⁸⁸ Art. 82 (1) Law 346/2004 on supporting the setting up and development of small and medium sized enterprises

¹⁸⁹ Under the conditions of the Law 571/2003 on the Fiscal Code as subsequently amended

¹⁹⁰ Art. 77, point 1 Law 448/2006 on the protection and promotion of the rights of disabled persons, as subsequently amended,

¹⁹¹ Art 85, point 2 Law 76/2002 on the unemployment insurance system and employment support measures, as subsequently amended

¹⁹² Idem article 80

¹⁹³ Art. 142 Romanian Labour Code, consolidated version up to the present time

Support systems have been developed that have an incidence on SE without it being an explicit beneficiary: monthly allowance of 0.4% of the GDP for financing development and support measures for setting up new enterprises and assisting SMEs development, at national and local level, in compliance with the Government Strategy for SMEs Support 2009-2013 (applicable starting 1.01.2011¹⁹⁴).

The Law 346/2004 on supporting the setting up and development of small and medium sized enterprises, as subsequently amended, stipulates that:

- The ministries, the other bodies of central and local administration, the chambers of commerce and industry **shall draw up policies and provide measures and actions contributing to the protection of SMEs** in their relations with the State, particularly by simplifying administrative procedures and preventing an unjustified increase of the costs related to their compliance to regulations in force (art. 9); the Government, the local authorities, the chambers of commerce and industry, the SMEs employers' organisations shall support the setting up and development of specialised centres and entities providing information, counselling and training services for SMEs by:
 - a) supporting information, counselling and training activities dedicated to SMEs;
 - b) identifying financing sources for programmes and actions aiming at facilitating the access of SMEs to information, counselling, training services provided by these centres and entities and extending the scope of their services dedicated to SMEs (art. 17, paragraph 2).

The Law 11/2010 on the State budget for 2010 stipulates general economic and commercial actions to be taken for "supporting small and medium sized enterprises"¹⁹⁵.

IV. 6. FINANCING SOURCES

The available financial instruments for financing SE in Romania may be organised in the following main categories: structural funds; (micro-)credits; mutual funds; social investment funds; public or private guarantee systems for social projects (requirement for attracting funds for social activities). Given the current importance of some of these financing resources, we shall briefly present some significant elements for SE development support.

SE does not have a specific legal framework, a development strategy, there is no specific financial support network. The initiatives that have contributed to the carrying out or financing of SE activities aimed at: identifying financing solutions for the implementation of projects that support the development of poor local communities, thus promoting social inclusion, and involving vulnerable groups in local economic or non economic activities, allowing the medium and long term increase of employment.

Financing sources, financial arrangements and instruments supporting SE organisations are present in Romania, being established and implemented by specific legislation, strategies and action plans for organisations or institutions that may conduct social activities: associations and foundations, non-profit organisations, credit cooperatives, mutual societies, social enterprises, etc.

Practically, there are neither specific financing packages for supporting SE nor positive discrimination practices supporting the financing (crediting) of activities aiming at social development (social inclusion or social services).

EU pre-accession time brought financing arrangements that allowed the carrying out of specific SE activities, mainly for:

- education, training, better adaptability to labour market requirements, better opportunities and accessibility to employment, social inclusion including for vulnerable groups;

¹⁹⁴ Art. 26, Law 175/2009, amending paragraph (1) of art. 26 of the Law 346 / 2004 on supporting the setting up and development of small and medium sized enterprises

¹⁹⁵ Annex "Categories of Income and Expenditure to be included in local budgets in 2010" chapter II "Income and expenditure included in the own budgets of municipalities" subchapter A "Income (taxes and other income)" point 14. "General economic, commercial and trade actions"

- supporting income generating activities that are used for social purposes (local community development or support for vulnerable categories in having revenues and getting out from or avoiding poverty situations;
- carrying out activities aiming at providing social services or promoting active social inclusion.

SE financing sources may be: public or private, national or international, coming from individual or legal entities. SE may be financed by: direct allocation of amounts by means of donations, transfers, free financing in view of directly meeting social needs through services adapted to target groups; acquiring or extending own financial resources out of economic activities and using profit for social purposes (indirectly meeting social needs) or self-financing (mutual funds) based on the principle of democratic decision and solidarity.

The main financial sources come from: market economy (profit), non commercial activities (manufacturing of goods and services for self-consumption), volunteering; direct public financing, through the State budget and the social insurance budget; financing from special funds and sources (such as ESF, structural funds, SOP-HRD, ROP, etc., other national/ EU/ international funds: NPRDI (National Plan for Research, Development, Innovation), PHARE, WB financing, UNDP, private donations (individuals and legal entities) and from taxes on individual income (2% of income tax may be directed to non-profit organisations by means of direct financing).

Table 2 Financing sources and arrangements for specific SE organisations

| Types of relevant stakeholders involved in specific SE activities | Financing sources. Instruments. Policies |
|--|--|
| - volunteer organisations providing services for vulnerable groups or for people at risk | - the entity in charge (churches, associations or economic operators), based on its own revenues; - external attracted funds (financing programmes); - other funds: donations. |
| - citizens mutual assistance groups | - amount corresponding to volunteering activities; - local sources management (support for the implementation of social activities financed by the local community – town halls, etc.); - donations of group members or donations coming from economic operators, organisations, etc. |
| - cooperatives | - commercial entities → their profit is used for social purposes; - attracting external sources by means of projects; - donations of cooperative members or/and independent external donors (legal entities or individuals). |
| - mutual organisations | - own funds coming from members' participation, according to participative schemes adopted by democratic vote by all members |
| - foundations and associations | - financing through directly attracted funds – sponsorship, donations, transfers, partnerships |
| - associations and foundations carrying out economic activities through commercial companies and using their revenues or profit for the social or public benefit | - financing from profit resources |
| - individual and family owned enterprises ^{*)} | - members' participation share to the establishing of the patrimony by appropriation; - income from economic activities supporting social actions; - activities aiming at promoting social inclusion (counselling, training, acquiring new skills or improving existing ones); - promoting economic activities aiming at the employment of vulnerable persons (manufacturing and selling of goods and |

| | |
|---|--|
| Types of relevant stakeholders involved in specific SE activities | Financing sources. Instruments. Policies |
| | services). |

Table 3 Financing sources for SE organisations

| No | Financing sources | 1 ¹⁹⁶ | 2 ¹⁹⁷ | 3 ¹⁹⁸ | 4 ¹⁹⁹ | 5 ²⁰⁰ | 6 ²⁰¹ | 7 ²⁰² |
|-----|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| 1. | Subsidies, grants, internal or external non reimbursable funds | x | x | x | x | | | |
| 2. | Registration fees, membership fees | x | x | | x | | x | x |
| 3. | Interest and dividends coming from the investment of available amounts, according to the law | x | x | | x | | x | x |
| 4. | Income or profit coming from direct economic activities | x | x | x | x | | x | x |
| 5. | Dividends of commercial companies established by the association or the union | x | | x | | | x | |
| 6. | Donations, sponsorship | x | x | x | x | | x | x |
| 7. | Resources coming from the State budget and/or local budgets, according to the law | x | x | x | x | x | x | x |
| 8. | Social capital contribution, members' contribution | | | x | x | | | |
| 9. | Sources attracted from the financial and banking system, from the agricultural crediting system and others | | | | x | | | |
| 10. | Deposits or other reimbursable funds of its members, as well as coming from individuals, legal entities or others, residing, working or functioning in the territorial area | | | | | x | | |
| 11. | Members' social fund established by means of their accumulated contributions, own funds and resources coming from the county or national union | | | | | | | x |
| 12. | Income generated by the organisation of cultural, artistic and leisure events | | | | | | | x |
| 13. | Other revenues foreseen by the law | x | x | | x | x | x | x |

Source: legislation in force

Specific financing for the social inclusion of vulnerable groups

The financing takes direct forms (benefits for people with low income, at poverty risk, social care) or indirect forms (active social inclusion: support for employment or for business start up or for setting up SMEs; support for education and in-service professional training in view of better paid jobs; ensuring non discriminatory access to financing: micro-credits or/ and national or international non reimbursable funds).

Financing sources for the social inclusion of vulnerable groups are specific by target groups. According to the nature of their vulnerability, a specific balance between passive and active measures has to be determined. Thus, specific funding is available for disabled persons, young people, for the elderly or for Roma population out of public *national or local funds by means of direct/indirect provision of free assistance, financing or partial tax deductions for employment etc.* Active social inclusion of young people aged 16 to 25 who find themselves in difficult situations and face the risk of

¹⁹⁶ 1st and 2nd degree cooperatives

¹⁹⁷ Cooperatives' associations and unions

¹⁹⁸ Agricultural cooperatives

¹⁹⁹ Sector unions of agricultural cooperatives

²⁰⁰ Credit cooperatives and central bodies of credit cooperatives

²⁰¹ Associations/federations, foundations

²⁰² MS

professional exclusion is based on customised social measures aiming at facilitating access to employment:

- professional counselling and mediation on behalf of specialised CEA staff by means of an individual mediation plan;
- employment by a CEA certified employer based on a solidarity agreement. This tool supports the insertion of young people on the labour market for minimum 1 year time (but without exceeding 2 years), in which case the employer is granted a “subsidy” out of the unemployment fund amounting to the base salary agreed upon hiring but without exceeding 75% from the net average wage communicated by NSI. Further on, at the end of the solidarity agreement, in case of a work agreement for an unspecified duration, during the first two years the employer shall receive a partial reimbursement of the monthly salary namely 50% of the current unemployment benefit the young person would have been entitled to in case of lay off (up to the age of 25).
- support for further education (young people coming from families entitled to MIG and having 2 or more children), through scholarships granted by the State budget corresponding to the Ministry of Education or by local budgets.

An additional partial financing support system dedicated to young people up to the age of 35 has been developed in order to facilitate their access to housing (down payment for purchasing a house or up to 3 month rent) and to health care without the obligation of paying specific health insurance contributions.

One of the financial tools supporting active inclusion is available through *de minimis* schemes²⁰³, involving specific subsidies for labour force expenses incurred within programmes dedicated to temporary employment of the unemployed. According to recent regulations, these subsidies should cover the employment of an estimate number of 101,450 unemployed people registered with the county/Bucharest employment agencies, whether they collect unemployment benefits or not. The effects of this financing:

- *may be direct*: the achievement of the objective leads to meeting a social need;
- *may have a spillover effect*: the activities leading to meeting a social need generate employment and revenues for the employees (positive externalities), contributing to the strengthening of social services (development, diversification from the point of view of the activity content, sources and financing arrangements);
- *may have snowball effects*: active social services lead to social inclusion by means of active protection and social care (insertion on the labour market, behavioural development, active citizenship).

SE financing by European structural funds in Romania

In 2007-2013, the structural funds covering SE objectives are the ERDF and the ESF together with other financial instruments such as the Cohesion Fund, the European Agricultural Fund for Rural Development, the European Fisheries Fund, the European Investment Bank, etc. In compliance with the National Strategic Reference Framework, within the “Convergence Objective”, the SOP HRD 2007-2013 set up several priority axes and key areas of intervention for Romania in the field of Human Resources. The key area of intervention of Priority Axis 6 “Promoting Social Inclusion” is the development of SE.

The objectives financed under the ESF involve an impact on social inclusion and SE development: improving access to employment and ensuring a sustainable inclusion of job seekers and inactive persons on the labour market; strengthening social inclusion of vulnerable groups in

²⁰³ Order 56/2010 amending the *de minimis* Aid Scheme “Temporary employment of the unemployed in view of local community development”, approved by the Order of NEA President 308/2008 Art. 19. – The estimate budget foreseen for the scheme for its whole duration is of 320,795 thousand lei, to be allocated from the unemployment insurance budget, according to annual budget ceilings: in 2008: 61,545 thousand lei; in 2009: 108,285 thousand lei; in 2010: 44,765 thousand lei; in 2011: 52,365 thousand lei; in 2012: 53,835 thousand lei.”

order to provide sustainable integration and fight against all forms of labour discrimination; promoting partnerships, agreements and joint initiatives by creating a link between social partners and NGOs, at (trans)national, regional and local levels. In Romania, the ESF is implemented through SOP HRD, under the coordination of the MLFSP, as the main component of structural funds impacting SE.

Micro-credits

Micro-credit financing may be equivalent to SE activities if compliant with the principles governing this sector, particularly in relation with the social side of the activity carried out. Micro-financing is facing deep transformations from the NGO framework, under donor domination and impulse, towards a more significant involvement of the capital market, keeping nevertheless its original character and mission of fighting poverty and fostering social development.

Microfinance as a form of the inclusive financial system (developed through the last decades) provides services to poor or low income persons, in association with an appropriate institutional system (NBFIs), based on a coherent and favourable financial and political framework. It focuses on customer based crediting systems, promoting the funds' adjustment to customer present and future demands, in a market oriented manner. Microfinance aims at overcoming the critical situation, having a sustainable positive impact by ensuring financial sustainability. The quite high cost of microfinance remains the main issue for the efficiency of this mechanism but technological progress and flexible funding systems may minimize associated general costs. Micro-credit beneficiaries are mainly self-employed workers or people preparing the setting up of an organisation or of income generating activities. The efficiency of microfinance may be examined through non experimental or quasi experimental approaches. Four methods are highlighted by literature: linear econometrics with dummy variables, instrumental variables, regression discontinuity and the difference in differences approach.

The level of granted micro-credits depends not only on the objective of the financing but also on the level or risk of poverty of the customer, the poorest of them receiving relatively lower amounts since their repayment capacity is lower and the credit risk higher. Credit costs are higher for lower amounts and poorer customers, and they go down as the beneficiary's income goes up. Micro-credit efficiency is stronger in the case of higher income beneficiaries than in the case of poor ones; microfinance does not succeed in getting the latter out of poverty. Sometimes, micro-credits are accompanied by health micro-insurances guaranteeing the repayment potential. The credit cost is higher but there is a guarantee of its repayment and a potentially higher amount (a healthy customer has more chances to repay its loan in full and in time, since he/she has the ability to work and achieve the necessary income for repayment).

Innovation in financing. Forms, mechanisms, institutions

a) An innovative approach to SE financing, socially responsible financing

Modern financing involves a strengthened care for understanding and assessing the long term impact of a company – taking into consideration not only its economic impact but also its social and environment impact (ethical financing²⁰⁴). This is based on the understanding that short term profitability requirement may lead to a negative influence of investors on company management decisions, which may affect long term performance and lead to unfair decisions from the social and environmental perspectives, further creating negative externalities for the community. Similarly, financial investors may neglect financing applications or projects having a high degree of risk from their point of view, even though they have an important development and innovation potential. The

²⁰⁴ Ethical financing is a difficult term to define. For many, “ethical financing” is an oxymoron. A very restrictive explanation of the word would be that it is an “umbrella concept” for an investment philosophy based on combining financial, social, environmental and sustainable criteria. Eurosif (www.eurosif.org) defines this philosophy by the term of Sustainable and Responsible Investment (SRI): “SRI is an evolving movement, whose most recent development is based on a growing awareness by the population, investors, companies and governments of the impact of ESG (environmental, social and governance) risks on long-term issues ranging from sustainable development to long-term corporate performance”.

bodies involved in ethical financing provide the same products and services as the traditional banking system but taking into consideration not only the applicants' eligibility criteria but also the projects' viability and social impact. A particular form of socially responsible (ethical) financing, the solidarity financing, focuses less on economic return and more on long term growth. Any kind of solidarity financing is an ethical one, but not any kind of ethical financing is a solidarity one.

Solidarity financing is based on the idea that the traditional financial sector does not fully fulfil its role to finance economy, and this for two reasons: banks do not meet the financing needs related to certain **types of activities** that are considered to have a high failure risk; banks avoid to deal with operations that have high management costs (such as micro-credits). This situation leads to an exclusion of a part of the entrepreneurs by the financial and banking system, for several reasons: insufficient collateral, lack of specific skills (e.g.: minimum income guarantee beneficiaries, unemployed), need of specialised consultancy services, involvement in sectors viewed as high risk, need of small size financial support, etc. In order to overcome these issues, solidarity financing is supported by alternative financing networks covering for the risks, the management and consultancy costs, providing entrepreneurs with loans, collaterals and capital infusions. Therefore, these bodies may not include management costs in the costs of the provided services which means that they need to work with inexpensive resources. Thus, at a certain level of the financing chain, one of the stakeholders accepts to partially/totally give up his/her remuneration. The financial resources needed to balance these costs may have various origins such as donations, public subsidies, preferential loans coming from the private sector, solidarity investments, etc.

Solidarity financing means²⁰⁵: a) compensating for the shortcomings of the traditional financial system, by providing financial support for excluded social categories of people or types of activities; b) accepting lower remuneration and a priori higher risks, which leads to the need of identifying additional financing arrangements that may ensure the financial balance of these solidarity bodies; c) working for supporting the access of solidarity financing beneficiaries to traditional financial services , which remains the final objective.

b) Innovative financing forms and mechanisms

Active protection through employment within flexible models and appropriate activities but based on *innovative financing* is a viable possibility to provide social care and to foster the development and diversification of SE forms. In fact, the change of social protection responsibility paradigm at the end of the 20th century was fundamentally determined by the **financial factor** that becomes a **restriction** of social care development based on "traditional models" and an **incentive for encouraging active social inclusion in its modern forms: fostering support, prevention, opportunities, taking advantage of positive externalities**. Globalisation, the accelerated absorption of RDI results, the development of niche activities, as new forms of employment or activity, as well as ICT services provide the necessary support to develop and increase SE performance, by means of active social inclusion policies associated with result oriented and efficient financing. The importance of supporting innovative and modern financing and to take advantage of the open method of coordination for social inclusion is strengthened in 2010, the European Year for combating poverty and social exclusion²⁰⁶.

Active inclusion means accepting and fostering the idea of involvement with a view to minimize risks and vulnerabilities or to mitigate effects (in the case of persons with major and/or permanent disabilities). **From a financial point of view**, it means investing in training (knowledge and skills) and actively participating in appropriate activities through employment and/or self-financing (employment with economic operators, participation to mutual funds, volunteering, etc.). Because of the change in perception on the benefits resulting from the funding of social impact activities, the

²⁰⁵ Inspection Générale des Finances, Rapport d'enquête sur la finance socialement responsable et la finance solidaire, 2002 (General Finances Inspection, Report on socially responsible financing and solidarity financing, 2002) – an example of a body involved in solidarity financing in France is Finansol which gathers several solidarity financing stakeholders and banks. They finance solidarity economic projects, mainly supporting people in difficult situations (unemployed, persons collecting social benefits, small craftsmen) to develop their own small business.

²⁰⁶ Jana Hainsworth, *Reinforcement of the Open Method of Coordination, as well as for the adequate funding of programmes and initiatives which focus on poverty and social exclusion*"

support is directed today towards social stakeholders and activities generating active social protection and inclusion, the traditional financing and assistance systems aiming at mitigating effects being operational on the short term. There is also a third form of financing, namely the “permanent accompanying” that only concerns certain categories of beneficiaries, mainly disadvantaged persons, with permanent vulnerabilities or disabilities that need help.

In Romania, funding social impact activities by new and innovative forms is a real necessity that has become even stronger during the economic crisis. Even in times of economic growth in this decade, until the third semester of 2008, the social sector was facing chronic financing deficit, with a minimum intervention on behalf of the authorities, namely through legislation and development opportunities. Assistance mechanisms and incentives have also been under-developed.

The innovative character of financing does not consist in the gross source of the funds (namely out of profit, donations or employment of disadvantaged people), but in the way to attract funds, the management of financial flows, the efficiency of funds’ allocation and the associated advantages for the funders. Here, volunteering (for social activities or for training people that work in the social field) is also based on some other fundamental values than the classic ones, namely another attitude and way of living “active citizenship”.

The social entrepreneur does not have to be less focused on performance and economic efficiency of resource allocation than any other entrepreneur. In the social field, small investments may have a significant **multiplier factor**, but effects may be visible on the long term and often there is no certitude that the expected effects shall be achieved. Funding channels are complicated and the information or communication system is imperfect. This is why the time dedicated to building partnerships, to establishing and strengthening the business model and training staff may generate relatively higher costs. Moreover, the transaction costs related to the attracted funds are also higher. For SE specific organisations to show performance and attractiveness for the investors, they have to find innovative methods to cut down costs, including by means of business networks minimizing risks and facilitating access to cheap funds or coming from capital intensive activities. Despite a low attractiveness for investors if taking into account only the immediate monetary profitability of resource allocation, **disseminated positive externalities, especially at social level, may indirectly lead to increasing the performance of local business environment and to net total superior advantages.** Moreover, through the intervention of local and national authorities, through support policies, new forms of social entrepreneurship may be fostered also by market employers that have no social purposes but that can benefit from the advantages of hiring disadvantaged people (tax deductions, exemptions, reduced salary taxes, etc.).

The following are examples of **innovative financial instruments** that support SE development and are possible to implement in Romania:

Result oriented financing, using tools such as the Social Impact Bond – a method of financing outcomes through amounts that are paid for actions aiming at mitigating and eliminating causes and not at decreasing social effects, amounts that reward social investors for their activities resulting in a decrease of future social costs; functional relations are thus ensured between three important components: the investment (through commercial investors or foundations); a programme, an action plan clearly indicating the objective and the size of the need; a firm commitment of the public authority to provide support (reward) for the achievement of the objective. It is a modern form of public-private partnership in financing social actions based on the idea of “justice reinvestment”. It has a preventive goal resulting in further social costs savings for which entrepreneurs are rewarded by the State (this tool was established in the United Kingdom by the Young Foundation and Social Finance, and was recently taken over as a strategic orientation at Government level, through the “Putting the Frontline First: smarter government” programme, implemented in 2010²⁰⁷, aiming at strengthening the role of citizens and civil society). Thus, long term net savings and social problems’ minimization may be achieved.

²⁰⁷ 'Putting the Frontline First: smarter government' outlines plans to pilot social impact bonds as a new form of funding positive social outcomes, the smarter use of community assets at the centre of civic life and to developing a barometer of civic participation through the Civic Health Index.

Financing from centralised funds fed by contributions out of companies' profits: e.g. the Social Enterprise Investment Fund in the United Kingdom provides loans, grants and specialised counselling for social enterprises (organisation start up, innovative development, access to public funds, spin-out, etc.²⁰⁸) involved in health and social care services²⁰⁹;

Investment funds focusing on social investments with potential investors: private sector, charity organisations, pension funds (e.g. Altru Fund in the United Kingdom).

SE funding may also be facilitated by:

- territorial *partnerships* giving access to funds and promoting joint social inclusion activities;
- *effective active support from public authorities* (at national and local levels) ensuring appropriate funding flows for SE institutions, as a form of support for increasing employment;
- *development of national financial assistance programmes*, information, counselling and training as well as by the simplification of procedures in order to *ensure a friendly financial environment* for all relevant SE stakeholders.

We should take advantage of the modernisation opportunities of already known and implemented financial tools or mechanisms. For example, microfinance is no longer a possible product opened to SE organisations but a **financial platform of products and services dedicated to poor or isolated persons or to small entrepreneurs**²¹⁰. The most valuable capital of such a platform is not the loan portfolio but the quality of the relations created with the world of potential beneficiaries. The service portfolio of this platform is a diversified one, going from the traditional loan granting activity up to counselling, providing special education loans for family members or other social services (health insurance, low cost medicines, financing children's education, etc.). This platform aims to create and develop customer loyalty as a source of long term profit for investors. Efficiency depends on the amount of provided loans and not on the marginal rate of return; it is not related to average standard products but to "*customized*" loans according to customer characteristics. Thus, microfinance becomes a new long term sustainable financing model for poor or low income people. Micro-credits are spaced out in time and granted to poor workers acting as small entrepreneurs. Micro-credits may be granted by credit unions, NGOs, cooperatives, Government agencies, non banking financial companies, private commercial banks. The main disadvantage of micro-crediting even in its newer, innovative forms remains its high cost related to management expenses and to the high risk of small loans provided to customers having limited resources and poor flexibility to external factors. Starting June 2010, the EU has been promoting a new micro-financing model based on a lower total business risk, by fostering financial partnership and partial take-over of interest related costs. Microfinance is and remains a profit based activity, but its size brings it closer to the social purpose for which the loan was granted: supporting small and poor entrepreneurs in their business. The need of a balance between the commercial character and the social outcomes generated discussions on the usefulness of a code of conduct in relation to **ethical financing**²¹¹.

²⁰⁸ <http://www.socialinvestmentbusiness.org/our-funds/social-enterprise-investment-fund/>

²⁰⁹ <http://www.dh.gov.uk/en/Managingyourorganisation/Socialenterprise/SocialEnterpriseInvestmentFund/index.htm>

²¹⁰ Alex Counts, Reimagining Microfinance, Stanford Social Innovation Review, 2008, www.ssireview.org

²¹¹ Rôle de la finance éthique et solidaire et de la consommation responsable dans la cohésion sociale, Résolution 1541, 2007 (The role of ethical and solidarity-based financing and responsible consumption in social cohesion, Resolution 1541). The Council of Europe Parliamentary Assembly recognizes the importance of introducing social criteria in the financial field, which may foster an increase of ethical and solidarity-based financial tools. The role of ethical and solidarity-based financing is also recognized in fighting against poverty – people choose to deposit their savings in an ethical and solidarity-based mechanism, expressing their option for another kind of financial system that does not focus only on profit. This kind of system contributes to the development of projects/actions/businesses that are managed by vulnerable persons or SE organisations, facilitating their social and economic development. Although in Western Europe such financial assistance is well represented, in Central and Eastern Europe there are few initiatives.

The new micro-crediting model continues the series of modern microfinance opportunities.²¹² *The European Progress Microfinance Facility*²¹³ provides micro-loans for small business start-up. This initiative aims to support vulnerable groups in view of active social inclusion by facilitating an alternative to unemployment, namely starting up a small business. It is estimated that in the next 8 years such mechanisms shall provide funds for around 45,000 entrepreneurs from all EU Member States. The customers of this financial facility are unemployed people, young people, elderly people, people excluded from the labour market, disadvantaged people wishing to start up or develop small businesses (small restaurants, transport services, micro-production for the local market, health or social care services, etc.) as self-employed workers or micro-enterprises. Loans may go up to 25,000 €. The institutions acting as intermediates in the granting of these micro-credits (banks, non profit credit organisations, etc.) shall access funds through the European Investment Fund. The ESF is an additional source providing counselling, information, including **partial interest subsidies** for credits granted to individuals (self-employed workers). The ESF (through Operational Entrepreneurship Programmes) also provides assistance in accessing funds: drawing up a business plan, training, mentoring, drawing up an application²¹⁴.

SE financing during the crisis. Constraints. Opportunities

Crisis decreases access to financing, especially to sources that are based on business sector profitability (corporate sponsorship, donations etc.), but the development of SE specific services are a way to economic recovery – on the one hand by creating jobs and on the other hand by developing new activities that have an already documented demand (services for people at risk because of income decrease, community social actions, specific services for the elderly).

The economic and social crisis led to two contrary trends in SE development:

- higher demand for SE specific services and activities as support for vulnerable groups. The income decrease led the way to poverty which explains the higher demand for partial or total assistance, in all its forms, from unemployment benefits, minimum income guarantee, etc. until volunteering services for customized social care;
- fewer financing sources including less volunteering. In order to be able to survive, SE organisations need innovation in financing: new fiscal tools and tax facilities as well as financial aid (funding, ensuring the working capital, absorption of technologic and non technologic progress, training for adapting to and fostering change).

Limited donation resources make support tools for attracting funds dedicated to social enterprises or to activities targeting vulnerable people even more important, maybe as important as the attracted sources themselves. During the financial and economic crisis, three channels have been identified as being the most important for SE funding (financial support strategies²¹⁵):

- creating a fair system at local level based on partnership, involving social partners, backed up by the intervention of national and local authorities by means of available tax leverage;
- European integration by attracting and using special funds, identifying modern financing systems with the lowest costs: structural funds, microfinance schemes, grants, subsidies, etc.
- involving civil society by volunteering; developing SE activities: education, customized services, culture, etc. Therefore, financing mechanisms based on self-support and contributions in kind become very important.

²¹² JEREMIE, JASMINE http://ec.europa.eu/regional_policy/funds/2007/jij/micro_en.htm, Competitiveness and Innovation Framework Programme is a joint support scheme for different categories of costs fostering institutional partnership. <http://ec.europa.eu/cip/>

²¹³ Approved by the Council of Ministers in Brussels, March 2010, applicable starting 01.11.2010.

²¹⁴ <http://ec.europa.eu/epmf>

²¹⁵ Rainer Schlüter, *“Sortir du tunnel: créer un environnement favorable à l’économie sociale. Coopératives et ES: Chiffres et tendances, 3 stratégies de réponse à la crise, changements nécessaires”* (“Getting to the end of the tunnel: creating the right environment for the Social Economy. Cooperatives and SE: figures and trends, 3 response strategies to the crisis, necessary changes”), EESC, 2010

The main restrictions for SE financial efficiency are given by the consideration of ITC services and of RDI results in supporting social activities; permanent education and performance of involved human resources; performance management; dissemination of best practices and access to special funds are sometimes restricted by the co-financing capacity (of the enterprise or of the State, like in the case of structural funds).

In order to be able to survive in crisis and economic decline times, **SE organisations must be proactive and creative in collecting funds**, namely sustainable financial flows less dependent on economy fluctuations. There must be a switch from traditional funding sources, already tried or “known” to innovative financing:

- replacing traditional sources with new ones and improving the efficiency of their allocation by categories of expenses, decreasing costs but maintaining the cost-benefits balance;
- developing an entrepreneurial approach by means of new business model based on strategic acquisitions and financing partnership. Funding sources should be multiplied through diversification (internal, external, public, private), reducing the risk of bottlenecking or disappearance of sources – largely financed programmes, based on donations and associated with various fund collecting programmes;
- promoting operational efficiency and diversifying cost covering strategies by using RDI results in order to strengthen staff productivity and performance. When attracting funds, many SE organisations count on creating “social networks”, built on relations and maintaining them through campaigns promoting the results of the activities carried out in order to increase the trust in the efficient use of financing, according to the declared purpose of the activity, which strengthens the financing flows and attracts other funders;
- making an efficient use of human resources, by means of modular work time and outsourcing towards persons and institutions able to promote the activity of the social enterprise and to support it; promotion cost savings may be achieved on the medium term and the social network is strengthened;
- promoting an employment policy based on performance and stimulating it by means of material and non material rewards that develop the attachment towards the organisation and operational involvement in achieving social purposes;
- diversifying financial instruments and mechanisms in order to increase the amount of available sources, diversifying resources, ensuring complementarity to traditional funds and maximizing social impact;
- conducting regular studies on the efficiency and impact of resources’ consumption in relation to the achievement of the global mission of the social enterprise.

Therefore, SE funding in crisis times involves:

- identifying **viable and available sources**. In crisis times, the State as the main SE funder cuts down its involvement because of lower budget income and poor flexibility of red tape costs. Therefore, the main financing flows for the SE come from individuals or individual companies or from international financing bodies through grants involving or not a co-participation on behalf of the beneficiary or the State;
- appropriate tools – traditional ones become less important and are associated to modern ones so that **hybrid, joint tools** become the most indicated. The grant system combined with funds allocated based on fair criteria or with low costs may be the main financing sources in crisis times, except of course for donations that remain but with decreasing amounts. In order to stimulate financing by companies or individuals it is vital to create a visible and attractive link for the investors between their interests and the outcomes of the financed social actions. And of course it is necessary to **set up modern institutions supporting SE activities, such as hubs or marketplace for e-SE**²¹⁶;

²¹⁶ E.g., ClearlySo, an online marketplace for social business, enterprise and investment

- insurance mechanisms – banks and traditional financial institutions are not interested in funding SE firstly because of the fragmentation of activities. **Intermediation institutions, small private banks, associations or even Internet** (especially for donations) **may be efficient mechanisms for social entrepreneurs**. Furthermore, the **development of financial networks** based on public or private funds, **intermediated by associations or special bodies** (such as implementation units in the case of structural funds) may provide an efficient allocation of available funds and relatively low administration costs as compared to financing through traditional financial institutions, focusing on funding the business sector, in which case the total cost of financing increases because of the credit insurance and counselling or training expenditure needed for the efficient management of the funds;
- specific conditions for SE financing. First of all, the **professionalism of the staff in charge of the funds' management is very important, just as the transparency and the impact of the funds' use**, the **extensive information** on the social outcome and the explanation of direct and indirect advantages of promoted or funded social actions. Secondly, the **capacity to have an innovative approach on the re-launching of SE activities** and to generate new types of support activities. Innovative financial sources and mechanisms become attractive if supported by specific market regulations. The **State**, although reducing its financial involvement, is **responsible for providing an appropriate financing environment through regulations, institutions and rules allowing these mechanisms to work**. The success of these funding systems depends on choosing the **appropriate partnership**, identifying **mutual benefits**, promoting **efficient cooperation mechanisms based on fostering partners' trust and responsibility**.

Conditionalities for the development of efficient SE financing schemes, in the framework of a national strategy for SE development

SE is a field of activity undergoing development and reforms. In its broad sense, SE is represented by any “economic phenomenon having a social dimension as well as any social phenomenon having an economic dimension”²¹⁷. SE organisations are focused on the individual and are needs oriented, thus having a significant role in generating potential, especially for people that are disadvantaged on the labour market²¹⁸. These attributes determine **a new social financing market** where the joint social capital may be established with the help of both private and non-profit sector; the capital for joint social funds may come from various traditional and unconventional sources; investors will tend to the investment type and tool defined by their social expectations and by the return of their investment, namely the market interest, the charity or a combination of the two.

Some of the key challenges *restricting the growth of social financing market* are coming from the limited resources available for social enterprises, the lack of knowledge on social financing among entrepreneurs and capital providers, structural problems of social entities and size related issues, difficult definition and enforcement of measurements (assessing market performance) and the still new, under construction character of this market. The most serious issues remain the lack of funding and of experienced investors able to foster (non) technological innovation and to develop social entrepreneurship.

In EU new member states, SE development based on performance and ethical business involves the **rebuilding of national systems**, on the one hand by taking over examples of best practices and the newest developments in the sector and on the other hand by fostering legislation coherence and appropriate support tools and mechanisms. Competitive social financing cannot be carried out without a real support from the political and business environment backed up by a stimulating regulatory framework. **Romania is among those countries having a favourable system for**

²¹⁷ Defourny, J and Develtere, P. “Social economy: the worldwide making of a third sector”, in Defourny, P. Develtere & B. Fontenau (coord.), „Social economy. North and South”, HIVA, KU Leuven, 1999, pp. 1747

²¹⁸ Lukkarinen, M., “Community development, local economic development and the social economy”, Community Development Journal, 40(4), 419-424, 2005.

SE development, undergoing reforms and this is why it is necessary to foresee measures that stipulate a clear definition of the sector and ensure equal opportunities for all categories of organisations belonging to SE and for vulnerable groups. The level of economic development, the national social protection and care system as well as the austerity measures taken during the crisis are restrictions that call for **a strategy of the sector based on the creation of mechanisms allowing on the one hand the institutional development and an efficient self-supported carrying out of activities, and on the other hand, promoting active social inclusion measures for vulnerable people in the framework of a sustainable local development.** The strategic rebuilding of SE is supported by the fostering of inclusion mechanisms, of insertion and local development:

- promoting **policies** aiming at the **development and modernisation of SE institutions** (including “social enterprises” and bodies acting as intermediates for the financing of small entrepreneurs and micro-enterprises), fostering innovation at local level and social partnership in view of the involvement of local market stakeholders;
- promoting a coherent and efficient **social services** package based on **customized assistance** focusing on active inclusion;
- setting up a **mixed and flexible financing system for this sector** (combining (non)market economy and non-monetary economy) based on **socially responsible financing mechanisms, together with support tools and incentives** (contracts for SE goods and services, tax incentives, direct subsidies, private donations, volunteering, etc.); *changing the structure of the financing, focusing on active measures*, mainly by ensuring and facilitating free access to various financing sources associated with specialized counselling provided by “social institutions” and only additionally, in well documented situations, by positive financing discrimination, which does not support the modern concept of active social inclusion; developing a *network of “social banks”*, namely building an alternative banking model addressing not only marginalized communities where it has already been successful, but also groups that are not fully benefiting from it yet such as immigrants, Roma communities as well as dispossessed people having savings, insurance and loan related needs;
- *recognizing the importance of propagated effects of SE development on local* business and socio-cultural **environment** and promoting support initiatives on behalf of local authorities, the most important partner of market stakeholders in the SE development;
- **training human resources** involved in SE specific activities by **promoting permanent education**: social entrepreneurs, SE institutions’ staff, social trainers, training consultancy specialists (in charge of drawing up project applications, managing and implementing projects dedicated to SE development, strengthening the infrastructure and the institutions able to deal with social activities and social inclusion of vulnerable persons; an important component is the early identification of mechanisms allowing the continuity of the activities even after the end of project financing). Therefore, educational partnerships and cooperation with local institutions become very important.

It is necessary to establish a **participation culture** in the field of financing, fostering tools and mechanisms that may support the medium and long term financial sustainability of SE:

- **ensuring a strategic reorientation of SE financing**: from gifts, donations to investments, from traditional financing to ethical and socially responsible financing; using mainly innovative financing mechanisms (such as *venture philanthropy*), that are flexible and reduce/(re)distribute the investment risk, using institutionalised funds by means of specific organisations;
- **diversifying/ adapting financial sources and mechanisms according to the development cycle of SE organisations**: start-up, strengthening, growth, maturity and customization of specific needs;
- **redefining the role of the State in SE support**: joint involvement: directly through grants or co-financing and indirectly through policies aiming at attracting financing (tax incentives, socially responsible public procurement, financing by means of partnerships,

- but also by alternative contributions – employment of vulnerable people or payment of equivalent taxes, etc.);
- **developing social capital market**, supporting innovative financing facilities (such as modern facilities developed based on already known financing mechanisms - *venture philanthropy* – or modern forms of microcredit, or such as new facilities based on modern philosophy of social financing – solidarity based financing, institutional investments, quasi-fair and fair tools like *patient capital*), supporting hybrid social enterprises²¹⁹ and social businesses.

IV. 7. SOCIAL ECONOMY EFFICIENCY

An activity in the social field proves to be efficient if it meets its social objective, and from the point of view of resource allocation, if it satisfies the need for which the financial resources have been used, namely if it generated a curative or preventive effect (limiting, minimizing the vulnerability or/and social exclusion risk).

The economic environment component focusing more on the efficiency in relation with people than on multiplying the capital, namely **SE, plays a more and more important role on the financial market because there is no pressure exercised by shareholders on the profitability of private companies**. Moreover, through its organisations, SE contributes to **regulating at least three big imbalances on the labour market, namely unemployment, employment instability and social exclusion of the unemployed labour force**.

The most important requirement for an economically and socially efficient functioning of SE organisations (having a commercial activity or not) is the presence of a favourable business environment characterised by:

- a stable, coherent legal framework, encouraging the development of this sector;
- national and local support policies allowing to take advantage of SE specific attributes, by generating direct social outcomes associated with positive economic and social externality effects for vulnerable people, by promoting active social inclusion policies through employment and community inclusion activities for disadvantaged groups;
- developing a measuring and assessment system indicating the impact on target groups and, indirectly, on the economic and social environment, on local and macroeconomic imbalances.

Crosscutting requirements for achieving expected results and performance include fostering an appropriate and efficient financing system that needs to be relatively stable from the perspective of its adaptation to specific SE forms of organisation as well as encouraging partnerships (public-private, private-private, public-public) and inter-institutional cooperation, by means of support networks, aiming at involving all interested market stakeholders, from the institutions to the individuals.

SE financing efficiency

SE financing performance has to be viewed from both a smaller and a larger perspective, because the simple availability of funds (independently of the source and amount) does not ensure the economic and social efficiency needed for the expected outcomes to be achieved. SE financing aims at: a) financing and self-financing economic activities generating income that is furthermore reinvested for social purposes; funding specific social activities supporting social inclusion of vulnerable groups; b) disseminating opportunities and best practices; c) providing counselling for specific activities including financial management in view of accessing and managing special funds; d) supporting CVT for SE stakeholders: specific knowledge and skills, developing management skills (quality management, financial management).

From a quantitative perspective, **financing efficiency** is defined by **figures, performance rates and derived or partial efficiency indicators as well as parametric and non parametric externalities**.

²¹⁹ http://www.4lenses.org/setypology/hybrid_spectrum

SE role is not only to contribute to solving current social issues but also to strengthen its position in order to facilitate stable and sustainable growth, fair income distribution, adequacy between specific services and demand, to increase the amount and value of economic activities having social purposes, to adjust labour market imbalances and to consolidate economic democracy²²⁰.

Global efficiency in SE is always positive and higher than the restricted economic and social one, thanks to social snowball effects and to the medium and long term perspectives. SE organisations focus on individuals' needs and have different objectives and business management methods and therefore specific efficiency assessment tools.

The general framework for assessing efficiency may be set up according to the following guidelines:

- economic efficiency: the amount of profit used for social purposes; financial resources attracted for financing social actions; the added value and contribution to GDP, salary gains for employed disadvantaged persons; created jobs and employment increase in SE, SE contribution to GDP growth, weight of private sector in SE, etc.
- social efficiency: number of beneficiaries of SE activities, number of employed vulnerable people, poverty minimization, decrease of the amount of assisted persons thanks to social inclusion actions, etc.

The statistic definition of SE dimensions and the setting up of a specific data base for this economic and social sector are possible in the presence of a clear legal definition of "SE" and of a coherent system of monitoring indicators for this sector and/or by means of regular statistical enquiries, under the coordination of the NSI, the national statistics authority.

Besides the global definition of SE and the setting up of the indicators monitoring the global economic and social impact, depending on the accepted definition, it is possible to develop specific indicators for each (sub)area (social security, health and healthcare services; social care services, banking services, local services, education, training, research, culture, sports, leisure, social tourism, energy, handicrafts). NACE rev 2 classification provides a **definition of SE scope** by means of 4 digit codes. Since the specific activities can be found in various NACE codes, it is difficult to build a system delimiting SE organisations. Nevertheless, in many countries there is an increased interest for defining and assessing SE, because the economic growth of this area is appreciated as an improvement factor for individuals, fostering beneficiary oriented and innovative services. **Achieving a higher turnover thanks to SE activities is seen as a barometer of the social progress dynamics**, defined by the activity carried out by local organisations, NGOs, charity and volunteering organisations, social enterprises, mutual societies and cooperatives. According to the statistical registration system, in Romania it is impossible to accurately identify the SE component and there is no aggregation and systematic follow-up of SE volume or performance indicators.

At the EU level, the use of **satellite accounts**²²¹ for SE organisations allows the gathering of consistent, credible and highly accurate data and information, making possible the assessment of an important part of SE organisations (cooperatives, mutual societies and other assimilated institutions and companies). Based on the Manual for drawing up the Satellite Accounts of Companies in the SE, satellite accounts may be built starting from the structure of ESA 95 national accounts (European System of National and Regional Accounts). The main objective of the manual is to provide national statistics with specific tools for registering accurate and credible data related to the activity of the SE organisations, in order to estimate their contribution to economic and social development. The separation on two major subsectors, first the market, business subsector (cooperatives and mutual societies, business groups controlled by cooperatives, mutual societies and other similar non profit institutions) and secondly the non-market services sector (mutual associations, groups of citizens, non profit institutions serving households, etc.)²²² allows a better image on the contribution of this sector to GDP growth.

²²⁰ *** "The Social Economy in the EU", abstract of the CIRIEC report commissioned by the EESC, 2007

²²¹ *** Manual for drawing up the Satellite Accounts of Companies in the SE (co-operatives and mutual societies), 2006

²²² According to SE definition in the Charter of Social Economy (CEP-CMAF) and to national accounts in force.

Indicators assessing the efficiency of SE financing

The system of indicators used at EU level takes into account:

- *the institutional development: number of organisations and companies, within the two previously mentioned subsectors; Government organisations, acting in the field of SE; start up or dissolving dynamics; life cycle (1, 3, over 5 years)*
- *employment figures: number of people employed in the SE (total number of people, full time equivalent, extension of part time activities, number of organisations' members, number of volunteers, including a structural analysis on significant criteria for SE areas and activities, etc.);*
- *scope of paid work: number of persons employed and paid by cooperatives, mutual societies and associations; weight of the paid persons in the total employment figures; number and weight of SE organisations' employees, SE etc.;*
- *scope of volunteer work: number and weight of volunteers (total number of persons and full time equivalent) within the economically active population, weight of volunteers within adult population;*
- *financing system, namely the operational sustainability of SE organisations; sources and types of financing, amount and structure of financing, duration and dynamics of financing sources, loan repayment rate, financing cost (total cost and by financing categories and sources), efficiency rate of the funds as a whole and by categories of financing sources or funders, etc.*

SE competitiveness can be measured by means of two global axes similar to market and non-market subareas:

a) **market competitiveness** is defined on several dimensions and includes:

- fostering business incubators, new economic and social initiatives, adapted to local conditions, taking advantage of existing natural and human resources;
- social inclusion by means of paid employment (within associations, foundations, social enterprises, etc.), minimizing poverty risks, strengthening personal independence and stipulating participation in social life, access to opportunities opened by social development services and facilities. Social inclusion through employment is supported by means of professional training, development of skills and change of personal culture, thus contributing to group inclusion (ethnic minorities, immigrants, etc.) and local development, to minimizing exclusion related to access to services and activities, to financing and consumption systems.
- financial inclusion by means of micro-credits minimizing poverty risk and further on fostering the self-management of a small business bringing social comfort and better life standards, minimizing marginalization, disparities and avoiding social polarization;
- local economic recovery by means of SE activities taking advantage of endogenous potential: SE forms of organisation may support economic recovery at relatively lower costs, as well as the reconsideration of competitive advantages and the minimization of local imbalances;
- supporting innovation and developing new niche areas taking advantage of the working (volunteering) potential of the people – support services for vulnerable, dependant people, using technologic innovation and bringing organisational or functional modernisation resources for the SE;

b) competitiveness in the non-market sector, namely developing service packages dedicated to the social environment – care for the elderly, for people with disabilities or children, healthcare or cultural services, assistance for refugees or other vulnerable groups. Employment, as an active inclusion measure, remains the most competitive SE fostering mechanism: it contributes to job creation, allows the restructuring of activities facing crisis by means of re-employment and/or requalification, contributes to making grey economy visible thanks to tax incentives, generates new jobs (social trainer) by providing assistance to vulnerable groups and promoting active social inclusion actions, safeguarding traditional arts and crafts and fostering local mutual assistance, etc.

Financial indicators have a general character when defining the total financial effort (amount, dynamics, allocation by purpose and by time periods, etc.) and a specific one when assigned to

categories of social services (usually measuring the cost and efficiency by activities or assisted persons).

SE financing efficiency is measured:

- by means of *indicators measuring the economic efficiency* of SE potential and results: allocation of financial resources, costs per categories of activities;
- by means of *indicators measuring the impact* of SE activities on the demand of social services: decrease of the demand; decrease of the assistance duration; ratio of solved cases / cases requiring permanent services; assistance cost index by categories of activities; optimum financing by categories of needs;
- by means of *specific parameters of economic and financial efficiency* for the funds originating from profit sources and from commercial activities;
- by means of *parametric or non parametric qualitative indicators defining the social gross and net benefit* of resources' consumption: financing capacity (ratio between current financing and financing need); the weight of financed active measures out of the total needs or demand.

The system of indicators measuring SE financing efficiency is permanently being developed and improved and includes both financial indicators used for assessing the financial sustainability of any market operator as well as specific indicators for SE organisations. Without giving a full list of indicators (because of their diversity), we shall only mention the most relevant ones from the perspective of financing opportunity, potential and accessibility:

The operational sustainability of the institution is seen as one of the main indicators in assessing the efficiency of costs related to the micro-financing provided by donors and investors: WB, USAID; UNDP or EU. The focus on the sustainability of the institution as a pre-requisite of the provision of long term financial services for disadvantaged entrepreneurs is not anymore the exclusive performance assessment approach. It is associated to (and often exceeded by) the assessment of beneficiaries' sustainability and more recently the environment assessment.

The average cost per loan holder is considered to measure the efficiency of the institution. Cost cutting measures and their effects are highlighted by means of indicators (such as improvement of portfolio structure, credit score, etc.) as well as by the assessment of incidence in the adjustment of costs resulting from the use of modern methodologies for the management of activities associated with the provision of financing ("on line" credit committees using Yahoo messenger or Skype²²³ for free; internet or mobile banking, using brokers, special mobile equipment or phones in order to collect, register, evaluate and grant loans in the areas where the banking organisation is developing).

Portfolio quality and risk. Associated indicators are related not only to the stability of the institution but also reflect the extent to which external environment influences target beneficiaries and, indirectly, funding entities. The quick development of portfolio, coverage and staff, new products, industries, methodologies, services, etc. launched without proper preparation lead to a decrease of the portfolio quality. There is a significant difference whereas to the sources used for portfolio financing: banks working with SMEs use deposits, private sector investors and commercial debt, while NBFIs use earned income, profit reinvestment and initial capital as well as specialised programmes co-financed by the Romanian Government.

The capacity to build value²²³. All SE organisations build value consisting in economic, social and environment value components – and investors (based on either market interest, or charity, or a combination of the two) simultaneously generate all three types of value by providing capital for the organisations. This process results in **building value**, which is undividable as such, and therefore it is a combination of these three elements. Statistics measurement uses mixed indicators: (non)parametric figures highlighting direct effects and externalities. **Measuring social impact** may be quite cost intensive if performed with analytic rigour. At the same time, funders request assessments but are aware that these involve some major costs. But the practice proved that large measurements of social impact have limited value and may generate inappropriate targets. On the other hand, social capital

²²³ Kerri Golden, Allyson Hewitt, Michael Lewkowicz, Michelle McBane, and Lisa Torjman "Social Entrepreneurship Part 1: Social Venture Finance Enabling Solutions to Complex Social Problems", MaRS Discovery District, 2009

investors have different requirements (e.g. an environment investor prefers impact assessments that are easy to understand while donors bring sophisticated measurements and social tools in order to quantify the impact of their investment).

The estimation of sector size and trends by means of regular surveys focusing on: estimating the impact on the economy and the community; updating the number and size features of SE organisations; monitoring the development of the sector; identifying restrictions and opportunities²²⁴. The restrictions taken into account include: financing, entrepreneurial skills and vocational training, Government policies and legal framework, business partners, location, etc. To be noted that the financing system and sources are the most important constraint and bear the highest risk for the social activity (for its carrying out and its efficiency) but also represent the biggest opportunity for SE development.

²²⁴ Regular survey from the United Kingdom, the most recent one took place in December 2008 – March 2009 - State of social enterprise survey 2009, the Social Enterprise Coalition, www.socialenterprise.org.uk

CHAPTER V. ANALYSIS OF EUROPEAN PRACTICES

V. 1. ANALYSIS OF NATIONAL FRAMEWORKS FOR THE PROMOTION OF SOCIAL ECONOMY

The relevant aspects analysed to understand the national contexts were the following:

- **political environment:** general policy in the SE field, main types of institutions, types of existing SE structures and their functioning;
- **financial mechanisms:** public and private funds supporting SE structures and the objective of vocational insertion of vulnerable groups;
- **monitoring and assessment system** for SE structures and existing indicators.

V. 1. a. Political environment

Policies on Social Economy

SE has gained its place in the national political arena with the recognition of its capacity to solve the social problems of vulnerable groups by providing employment and the gaining of economic or social autonomy. The SE-related policies vary from one state to another, according to the culture, values, history or circumstances specific to the emergence of the SE. In the researched states, there is no common preoccupation for the development of SE support policies. Belgium, France and Italy do have policies in the SE field. In Luxembourg and Spain, these are in the process of being adopted. Austria, Germany, Ireland and the United Kingdom do not have such policies but SE is seen as the third sector, found somewhere in between the public and the private sectors, able to provide alternatives where the other two fail to do so. In only one country researched (Austria), SE is hardly at all recognised, which justifies the absence of a political framework and the difficulties to impose it to the wide public.

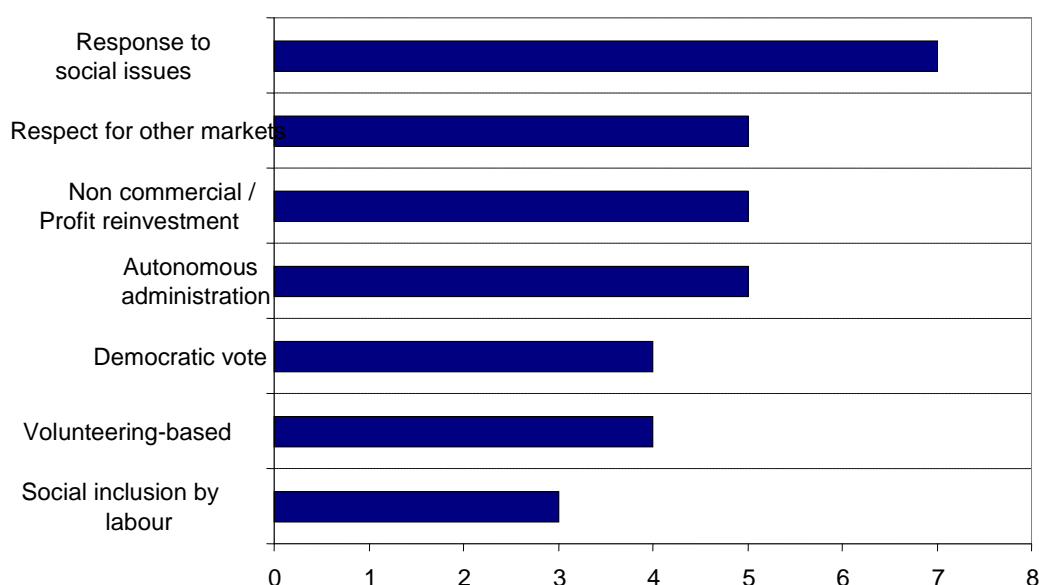
There are no legislative documents dedicated exclusively to SE in the researched countries. The regulations impacting SE are contained either in laws with a broader economic character, or by reference to specific types of SE forms recognised at the European level (cooperatives, mutual societies, associations and foundations, social enterprises). For more details, see *Table 8 National policies on Social Economy* in Annex 14 *Analysis of the national frameworks for the promotion of SE*.

SE specific principles

Even though the legislative documents reflect the SE principles in a more flexible way than the criteria or indicators, they are better defined in some countries, such as Belgium (decrees adopted by the Flemish Government in 2000 and 2008 in Wallonia), Ireland (community services programme), Luxembourg (the action programme which is ongoing) and France (the SE Charter). The most frequent principle is the SE's response to societal problems. For more details, see *Table 9 SE principles in the researched countries* in Annex 14 *Analysis of the national frameworks for the promotion of SE*.

Graph 7 SE principles reflected in the national regulations

Source: Database of the research on SE trends in Europe, MLFSP 2010



Public institutions responsible for implementing SE principles

The responsibility for SE monitoring at the national level falls upon a ministry (economic or social) or an (inter)ministerial structure. SE fragmentation between several ministries is an obstacle in setting a common political vision on SE.

At regional level, regional and local institutions were identified, having responsibilities in the observance and adaptation of the national decisions with an impact on SE. They can have legislative power in federal countries, such as Austria, Belgium or Germany. A detailed view can be found in *Table 10 Public institutions responsible for implementing SE principles* in Annex 14 *Analysis of the national frameworks for the promotion of SE*.

SE forms of organisation

The research revealed several common types of specific SE forms of organisation and a number of particular forms, with national specificity. The SE forms of organisation found in all researched countries are: associations, foundations and consumers' cooperatives. A detailed view of the SE forms for each state is given in Table 5.

Table 4 SE forms of organisation in the researched countries

Source: Database of the research on SE trends in Europe, MLFSP 2010

| No. | Form of organisation | Austria | Belgium | France | Germany | Ireland | Italy | Luxembourg | Spain | United Kingdom |
|-----|----------------------------|---------|---------|--------|---------|---------|-------|------------|-------|----------------|
| 1. | Association | x | x | x | x | x | x | x | x | x |
| 2. | Foundation | x | x | x | x | x | x | x | x | x |
| 3. | Consumers' cooperative | x* | x | x | x | x | x | x | x | x |
| 4. | Credit cooperative | x* | x | x | x | x | x | - | x | x |
| 5. | Production cooperative | x* | x | x | x | x | x | - | x | - |
| 6. | Mutual associations | - | x | x | - | x | x | x | x | x |
| 7. | Protected workshops | x | x | x | - | x | - | x | - | x |
| 8. | Public utility association | x | x | - | - | x | - | x | - | x |

| | | | | | | | | | | |
|----|---------------------|---|---|---|---|---|---|---|---|---|
| 9. | Social cooperatives | - | x | - | - | - | x | x | - | - |
|----|---------------------|---|---|---|---|---|---|---|---|---|

* These forms of organisation exist, but are not considered to be part of SE

In associations, the volunteers pursue a common goal, which is generally social, and not economic. Many Austrian associations have a lucrative purpose, but not all of them fall within the scope of SE. In Belgium and Spain, associations do not have a lucrative purpose. In France, associations can be freely established, can conduct an economic activity, but the profit cannot be distributed. The types of French associations are declared, non-declared and agreed. The types of German associations are: those which support vulnerable groups, those which pursue a social goal (without lucrative purpose, for instance, social, ideological aid) and those focusing on sports and leisure activities. Associations in Italy are “recognised” (a small part) and “not recognised” (most of them).

Foundations are independently established, do not generally have a lucrative purpose and aim at achieving a disinterested objective determined by the use of patrimonial resources or by donations. In France, there are several types of foundations, but only those which observe democratic administration fall within the scope SE. In Germany, these are many and have several legal forms of organisation. In Italy, foundations must be recognised either by the president of the Republic or by the president of the region.

Consumers’ cooperatives are self-financed by their members to produce goods or services. The benefits are generally for the customers. They observe the principle of the democratic decision-making „one person, one vote”. The Board of Directors often consists of cooperative members. In Spain, the consumers’ cooperative is an economic organisation established to provide the best prices, as well as services and information meeting the highest quality standards.

Credit cooperatives generally provide low-interest loans to members (financial institutions). The capital is generally established at the beginning, following a „one person, one vote” democratic decision-making process. The Board of Directors is elected among the members. In France, there are four types of credit cooperatives: mutual guarantee societies, people’s cooperative banks, federal mutual credit societies and savings banks in the form of cooperatives. „Credit unions” are no longer mentioned in Ireland and UK, as they are regulated by a financial authority. In Ireland, they do not have a lucrative purpose.

A production cooperative has the purpose of producing or marketing goods and services. The raw material supplied by the members allows for the satisfaction of economic, social or cultural needs. It observes the „one person, one vote” democratic decision-making principle. The Board of Directors is often elected among its members. In France, they have become cooperative and participative societies. In Ireland, cooperatives are defined based on principles such as education, training and information of the members, directors and employees in order to help them make an active contribution to the development of the cooperative. In Italy, social cooperatives favouring the inclusion of disadvantaged persons are production cooperatives. In Luxembourg, they are known as agricultural cooperatives. In Spain, production cooperatives provide goods and services to other persons besides their members. In the United Kingdom, they are known as agricultural or work cooperatives.

Mutual associations group people who pursue a non-lucrative social purpose, consisting of protection against various social risks for members and their families. They cover fields such as healthcare or access to social security services, financed based on the principle of solidarity and in which expectations are democratically defined by the members. In Belgium and France, mutual associations are oriented towards savings, mutual assistance and solidarity, pursuing physical, psychical and social welfare. They work in a quite similar way to healthcare societies, while those who adhere pay a fee, regardless of their risk of suffering from a disease. In Ireland and the United Kingdom, they are assimilated to banks. In the United Kingdom, they operate as savings and loan associations, often organised following the cooperative model.

Protected workshops include persons with disabilities who have a minimum economic performance capacity, but who were not or will not be active on the labour market, because of the nature or severity of the disability. In the United Kingdom, at least 50% of the employees must be persons with disabilities, compared to 60% in Austria, 80% in France or 85% in Belgium. The Belgian protected workshops conduct economic activities (hotel industry, furniture, industrial subcontracting)

and are known as adapted work enterprises. The term “protected workshop” is no longer used in France, but there are still places providing work assistance (predominantly subsidised) for persons with disabilities unable to work in a different environment and who benefit also from educational and socio-medical support. In Ireland, the focus is placed on people’s protection against discrimination or harassment. Protected workshops are more rarely found in the UK, but alternative models for the insertion of persons with disabilities on the labour market have been developed recently.

Public utility associations provide services and assistance to the population in various forms with social purpose in general. In Austria, they are known as limited liability public utility societies. In Belgium, public social aid centres provide material or financial aids, but are not considered to be part of SE, but public institutions. In Ireland, they are often limited liability societies without guarantees. In the United Kingdom, they are organisations of private enterprises (gas, water).

Social cooperatives gather together persons involved in the performance of social activities, who put their professional skills together. They provide goods and services for the social integration of the beneficiaries. Their capital is established first, followed by „one person, one vote” democratic decision-making process. The Board of Directors is elected among its members. In Italy, we can identify the following: cooperatives providing social-healthcare and educational services, and cooperatives with various activities (agriculture, industry, trade or services) for the professional insertion of vulnerable groups (with physical, psychical or sensorial disabilities). Consortiums of social cooperatives at the national or regional level promote the rational use of resources; they encourage research, the establishment of new cooperatives and the definition of new political directions.

In addition to these forms of organisation common to the researched countries, a number of specific national forms of organisation were also identified and are presented in details in *Table 11 Other SE forms of organisation* in *Annex 14 Analysis of the national frameworks for the promotion of SE*.

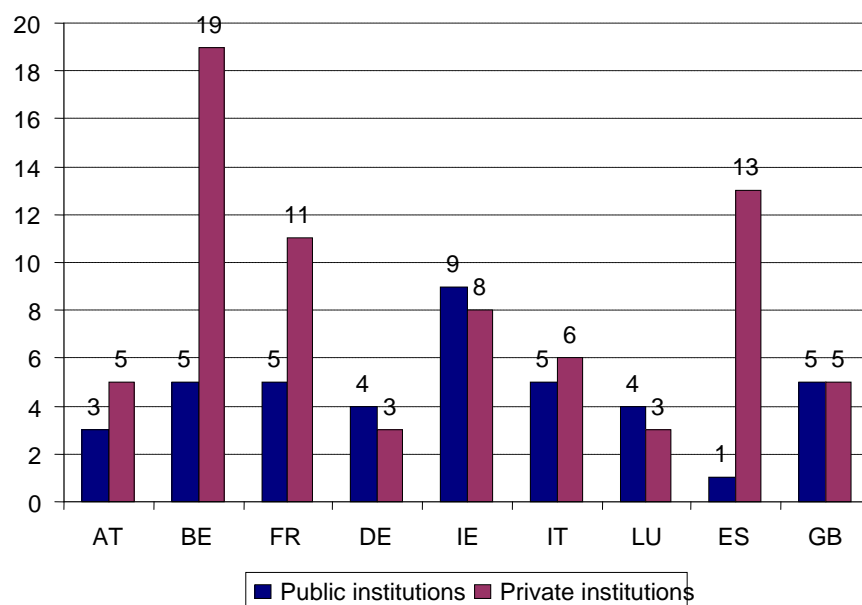
SE enterprises are economic or social actors established so as to conduct activities that meet the needs of the citizens by concomitantly observing the general interest, economic performance and democratic operation. In almost all the countries researched, we find the SE forms recognised at the European level (cooperatives, mutual societies, associations and foundations). Non-representation of any of them is due to the national definition or it is found under a different name. In addition to the traditional forms of professional insertion of vulnerable groups (associations, cooperatives), we can notice the emergence of new forms of organisation in all countries (over 15 national types of SE enterprises). We believe that social and vocational insertion, a major element in SE in general, has become a key element inseparably linked to social enterprises.

Stakeholders involved in SE

The public institutions involved in SE were analysed in terms of their responsibilities at the central or local level. There is no such institution in Spain. In the researched countries (except for Italy, Ireland, Luxembourg), there is a central institution responsible for SE, whereas the other institutions act either locally only, or simultaneously at the central and local level. Central public institutions have responsibilities in social affairs, employment and training. The public institutions involved in SE have the following functions: monitoring the observance of the programmes or legislation in the field; providing financial support and assistance in the development of SE forms, creating vocational insertion opportunities, promoting the fight against social exclusion; providing consultancy and information. A detailed analysis is presented in *Table 12 Public institutions involved in SE according to their level of influence* in *Annex 14 Analysis of the national frameworks for the promotion of SE*.

Graph 8 Institutions involved in SE in the researched countries

Source: Database of the research on SE trends in Europe, MLFSP 2010



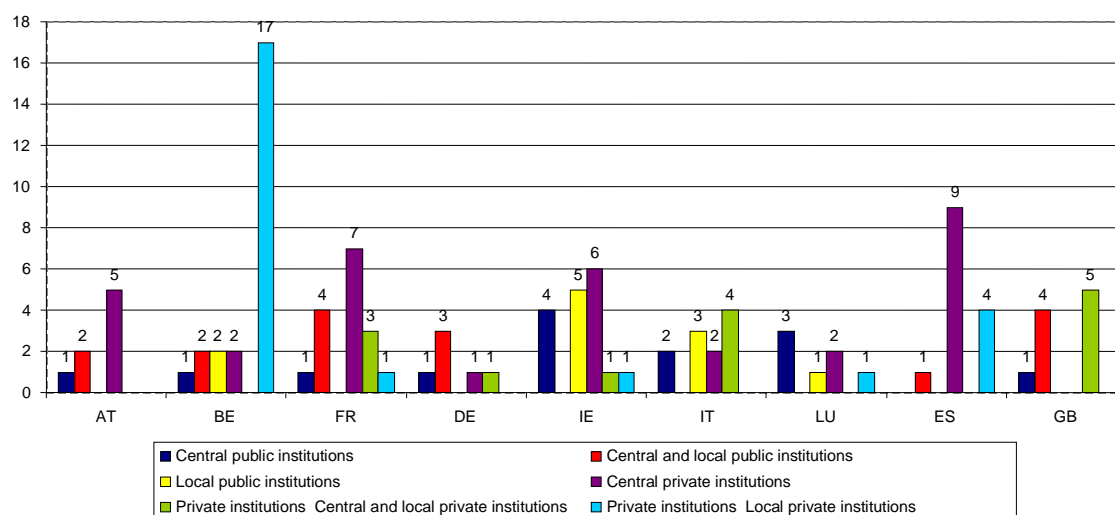
The private institutions analysed are independent from the public sector and generally include SE networks and federations which gained their roles for the representation and protection of specific SE forms, but can also sometimes play a consultancy role in project development. More information can be found in *Table 13 Private institutions involved in SE according to their level of influence in Annex 14 Analysis of the national frameworks for the promotion of SE*.

SE is frequently the solution to social issues, particularly due to its capacity for social innovation. SE development requires the adoption of certain legislative acts adapted to the evolving economic and social environment. The advocacy effort for strengthening SE is the prerogative of the private institutional stakeholders. The development of SE forms depends on the affiliation to SE networks or federations able to participate in and influence the national and European policies by increasing the visibility and the recognition of SE.

The analysis of the political environment highlights an overwhelming lack of will for the development of SE policies. Each country has different viewpoints on SE and different regulations regarding SE forms of organisation. The principles of SE are, however, pursued: response of SE to society's needs, promotion of general interest, separation of the public and private sector, profit reinvestment either in SE forms, or in the development of other SE projects, management autonomy, democratic vote independent of property, which favours the workers' participation according to the "one person, one vote" rule, and volunteering. The regulations on SE are adopted under the guidance of the relevant ministries, but with freedom of action, execution and control by regional and local authorities.

Graph 9 Public and private institutions with an impact on SE

Source: Database of the research on SE trends in Europe, MLFSP 2010



In addition to the widely represented associations and cooperatives, new types of SE were established, sometimes based on traditional models and oriented towards the employment of vulnerable groups (long-term unemployed, persons with low level of education, persons with disabilities). This has become a key element for the recognition of SE, as insertion enterprises regard social solidarity as a means to help those who need to be integrated, feel useful and not pushed aside and excluded.

The institutional stakeholders mainly have a financing and regulatory role. Private institutions also play a role of support, counselling and promotion of SE, with a view to recognising its usefulness in improving life quality.

V. 1. b. Financing mechanisms

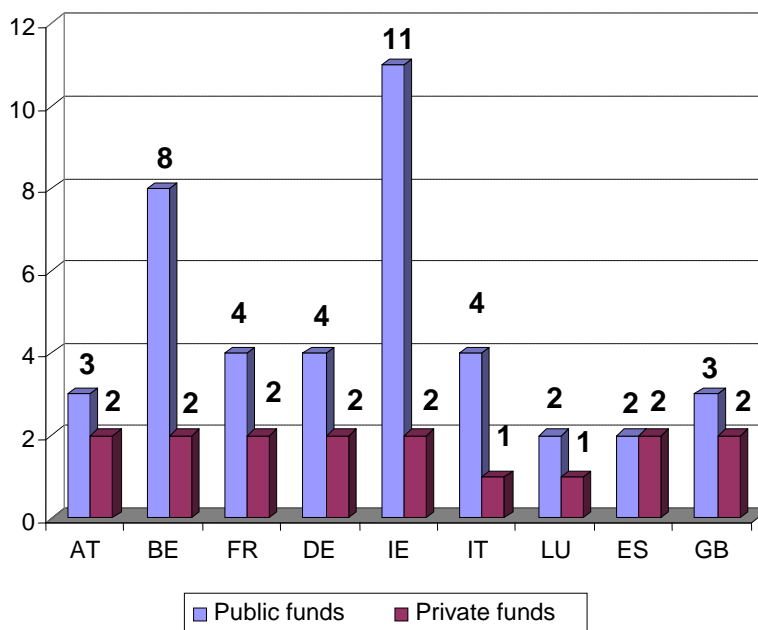
Public financing mechanisms available for SE forms of organisation have been developed since the 1990's. The funds are oriented towards concrete objectives: vocational insertion and training, development of proximity services or fight against black labour. Practically, it is not the SE which is subsidised, but the social utility activities.

Public funding depends on the specificity of the ministries managing them (social or education), on SE development programmes or on the objectives established. Such funds are necessary and useful for job creation for disadvantaged groups, social accompaniment, enhancement of life quality, implementation of SE projects, sector recognition and support for social entrepreneurs to establish and manage social enterprises. Subsidies are granted in various forms, but it is important that the granting method and purpose should be well justified.

A detailed view of the public financing sources available for SE forms of organisation is provided in *Table 15 Private funds available for the specific SE forms of organisation in Annex 14 Analysis of the national frameworks for the promotion of SE.*

Graph 10 Funds for SE forms in the researched countries

Source: Database of the research on SE trends in Europe, MLFSP 2010



Private funds for SE are usually granted by foundations and credit cooperatives. Many private funds were launched before the creation of the public financing mechanisms and seem to respond more efficiently to SE requirements. Detailed information is available in *Table 16 Other financing sources for the specific SE forms of organisation in Annex 14 Analysis of the national frameworks for the promotion of SE*.

It is interesting to measure the financial value of the social effort deployed, in order to better understand the gains implied by SE and the contribution to the promotion of the population's general interest.²²⁵ SE forms respond to many social requirements which, otherwise, remain uncovered. The social missions of SE should be properly quantified, recognised and financed, as they contribute to the strengthening of social cohesion and the combating of social exclusion.

V. 1. c. SE monitoring and assessment system

Except for the Flemish region in Belgium, the researched countries do not have SE monitoring and assessment systems. France, the Walloon region in Belgium and the United Kingdom have started developing them. In most of the researched countries, the only monitoring factors refer to vocational insertion. We can identify two trends: favouring of the result-oriented indicators (Austria, France and Germany) and favouring of the indicators regarding the resources used (Belgium and Italy). A SE monitoring and assessment system started to be developed in only one of the researched cases. The indicators adopted in 2009 in the Flemish region are based on the following criteria: providing jobs for

²²⁵ Sybille Mertens, director of the Research Centre in the Social Economy Field, is the author of a doctoral dissertation in the field of economic sciences on the topic of „*Satellite accounts for the activity of the Belgian institutions without lucrative purpose*”. (Liège University). The social value is reflected by this method in the associations' accounting balance. The record of the satellite accounts has become compulsory in the Walloon region in Belgium.

long-term integration purposes, orientation towards professional monitoring and development of the staff and prevention of individual relocations. The indicators are controlled by the Flemish Agency for Labour Subsidies and SE. Their pertinence and efficiency are still to be proven.

SE-related controls are generally performed by the funding institutions, by annual reports, and aim at evaluating the use of the funds allocated particularly to assess the achievement of the results. The lack of SE monitoring indicators and assessments conducted based on such indicators raises some question marks as regards the reliability of the reports pursuant to which the specific status of the SE form is granted in some countries and how the specific financing sources are accessed. A solution would be to agree on a label, a social mark specific to SE based on assessments consolidated on specific indicators. Meanwhile, we should not get caught in the toils of too stringent controls which would limit and hinder the functioning of the SE forms, instead of contributing to the recognition of the field.

A detailed view is found in *Table 17 Trends in the evolution of the development of the SE assessment and monitoring indicators* in *Annex 14 Analysis of the national frameworks for the promotion of SE*.

V. 2. COMPARATIVE LEGISLATIVE ANALYSIS OF SOCIAL ECONOMY

V. 2. a. France

Next to Belgium, Ireland, Italy, Portugal, Spain and Sweden, France is part of the countries with the highest level of SE acceptance²²⁶.

The definition unanimously accepted by the literature: SE is represented by the enterprises which operate on the market and share the following principles²²⁷: primacy of people and social objectives over capital, freedom of association, solidarity and responsibility, autonomy and independence from public authorities, reinvesting profit to the benefit of the members and general interest. SE is also defined as the set of cooperative societies, mutual societies, associations and foundations different from individual enterprises (by their collective nature), public enterprises and capital societies (by the primacy of people over capital, without firstly pursuing remuneration)²²⁸. France recognises also the concepts of *solidarity economy* and *social and solidarity economy*²²⁹, used also in other French-speaking European countries (the Walloon region of Belgium and Luxembourg). In Austria or Germany, the established notion is *Gemeinwirtschaft* (SE)²³⁰.

The SE forms of organisation in France are: cooperatives, mutual societies, associations and foundations, with activities in fields such as agriculture, food, fisheries, constructions, transport, health insurances, education, culture, sports, social tourism etc. There is no official definition for social enterprises in France either.

Cooperatives are regulated by Law 604 / 17.07.2001²³¹, setting out that their purpose is the production or supply of goods and services for the collective interest, activities with social utility character (the notions of „collective interest” and „social utility” are not legally defined). Compared to Romania, where the law does not set obligations regarding the assurance of certain categories of cooperative members, it is compulsory in France to have the three categories of members represented: workers, users and a category including legal entities or individuals which fall out of either of the two categories. Another difference between the Romanian and French legal provisions refers to the compulsory minimum capital, which is 1 € for limited liability companies, and 18,500 € for joint-stock companies. A cooperative is set up by obtaining a permit from the prefecture within the scope of which this is based, unlike the Romanian legislation which sets out the registration with the

²²⁶ R. Chaves Ávila; José Luis Monzón Campos, „*The Social Economy in The European Union*”, CIRIEC, 2006, p. 80

²²⁷ Study on practices and policies in the social enterprise sector in Europe- Country Fiche France, Austria Institute for SME Research, Vienna, June 2007, p. 2

²²⁸ Christine Collette, *Economie sociale et solidaire - Gouvernance et controle*, Dunod Paris 2008, p. 9

²²⁹ The concept of solidarity economy appeared in 1980, within an economic and unemployment context. Solidarity economy was defined according to the outcomes targeted, by ensuring insertion and consolidation of the social connections.

²³⁰ José L Monzón Campos, Rafael Chaves Ávila, „*The Social Economy in The European Union*”, CIRIEC, 2006, p. 83

²³¹ Bruno Roelants, „*Cooperatives and social enterprises- Governance and normative framework*”, CECOP 2009

Trade Registrar's Office within the Ministry of Justice. A distinct provision is the obligation to perform an audit every five years in France. Cooperatives do not have the same tax obligations and advantages as the other societies²³².

Mutual societies date back to the beginning of the 20th century, being created by farmers with a view to insuring the farms against the risk of mortality and against the adverse weather conditions which destroyed the crops. At present, a major role is played by the mutual health and insurance societies²³³, which protect around 38 million persons²³⁴. As regards the similitude of the French legislation to the Romanian one, we can say that the purpose of the mutual societies according to the „Code of mutual societies”²³⁵ resembles that of the MS of the salaried employees and CARP in Romania²³⁶.

Two or more persons can create an **association**²³⁷ for any legal activity except for profit distribution²³⁸. The association must notify the prefecture (territorial subdivision of the Government) about acquiring its legal personality. Similar to the Romanian legislation, the status of the association in France can be of general interest or of public utility. The association can have volunteers or salaried employees, but an association with salaried employees has an average of around 24 volunteers²³⁹.

According to the Law on the development of philanthropy of July 1987²⁴⁰ in the draft consolidated on January 1st, 2010, **foundations** are established by the action of one or more persons who decide to irrevocably grant certain goods, rights or resources necessary for the achievement of a public and non-patrimonial interest. Foundations must have their own assets, an attribute that differentiates them from associations, which are groups of individuals or legal entities with a common objective. As foundations must serve a public benefit, foundations established for private interests are not allowed. Unlike Romania, where only the public utility status is regulated²⁴¹, there are three types of foundations in France: with public utility, protected and corporate²⁴².

The main barrier in the development of social enterprises in France is the official recognition of the sector at European level. On the other hand, the services field experiences a particular dynamics as it targets the uncovered needs, continuously growing due to the phenomenon of population aging.

V. 2. b. United Kingdom

According to the definition proposed by the Department of Business, Innovation and Skills within the Government of the United Kingdom, **social enterprises** are enterprises with social objectives the surpluses of which are reinvested particularly with this purpose, in the business community, and not for the maximisation of the profit for shareholders and owners. Social enterprises „combine the entrepreneurial skills of the private sector with a strong social mission, which is a characteristic of SE as a whole”²⁴³. The Government recognises the role of the social enterprises in the

²³² Idem

²³³ Christine Collette, „*Economie sociale et solidaire - Gouvernance et controle*”, Dunod Paris 2008, p. 32

²³⁴ <http://www.mutualite.fr/La-Mutualite-Francaise>

²³⁵ http://www.legifrance.gouv.fr/affichCode.do?sessionId=C82D0D6F83EC4DD2DB31F0F141FC0063.tpdjo10v_3?cidTexte=LEGITEXT000006074067&dateTexte=20100603

²³⁶ According to Art. 1 par. 2, Law 122/ 1996 on the legal status of mutual societies for employees, their objective is only to provide aid for salaried employees, by granting loans with interest returning to the members' social fund, after deducting the statutory expenditures. According to art. 7, Law 540/ 2002 on mutual societies for pensioners, their purpose is to support their members by granting non-reimbursable loans, non-reimbursable aids and aids to cover the funeral expenses for the former members

²³⁷ <http://www.legislationline.org/documents/action/popup/id/6693>

²³⁸ Art. 1, Law of 1.07.1901 regarding the association contract

²³⁹ Study on practices and policies in the social enterprise sector in Europe- Country Fiche France, Austria Institute for SME Research, Viena, June, 2007, p. 4

²⁴⁰ <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000874956&fastPos=27&fastReqId=2060256625&categorieLien=cid&oldAction=rechTexte>

²⁴¹ Chapter VI of GEO 26/2000 regarding associations and foundations, as subsequently amended and supplemented.

²⁴² France Telecom Foundation, acting against autism as communication disorder, Groupama Foundation, acting against rare diseases and Carrefour International Foundation, intervening in case of catastrophes and providing micro-crediting programmes in countries where the group operates etc.

²⁴³ *** „*Social Economy: Building Inclusive Economies*”, OECD, 2007, p. 48

economy and committed to support an environment favourable to the growth and development of all enterprises, including the social ones²⁴⁴. Four departments of the Government were used as a tool to develop SE²⁴⁵: internal affairs²⁴⁶ (responsible with the volunteering and community sector), treasury (responsible with the application of the tax and monetary policy), trade and industry department (responsible with the Government's strategy regarding business fostering) and „cabinet office“²⁴⁷.

The fields of intervention of the SE forms are: education, social assistance, child protection, sports, community centres, day centres for the elderly, arts, culture, health etc. The legal forms taken by social enterprises are: limited liability guarantee societies, business companies²⁴⁸, cooperatives, development trusts, social firms, charities and community businesses.

By adopting the regulations regarding the community benefit society (CBS)²⁴⁹, in 2005²⁵⁰ the British Government created a new form of limited liability society, specific to social enterprises. These are mainly created for those who want to work to the benefit of the community, rather to that of the associates. Such a society cannot be established or used only for the personal interest of a person or a group of persons. CBS can be a limited joint-stock or guarantee company, while its assets and shares cannot be distributed, with certain exceptions, provided by law. These provisions aim at keeping the assets and profits within the CBS for community purposes or transferring them to another organisation, such as a different CBS or a charity. The CBS cannot be established to support political activities and neither can a charity be a CBS, if it gives up its charity status. However, a charity can apply for the registration of a CBS as a subsidiary company.

Analysing the correspondent of this type of society in the Romanian legislation, it is noticed that the CBS can be assimilated to the limited liability company, the minimum number of members for those with private capital being one (like Romanian SRLs with sole associate), in case of other types of capital, the minimum number of members being two.

Business companies („Industrial and provident societies“) are non-profit organisations with legal personality. The structure is used at wide scale for tenants' associations and cooperatives, as well as certain charitable organisations, consumers' or agricultural societies and housing cooperatives, labour associations, mutual investment associations etc. Credit unions and constructions companies currently benefit from special regulations. Law of 1965 (amended in 2002)²⁵¹ regulating these is more flexible than the law on business companies. These societies have the advantage of being exempt from the tax on philanthropic activities.

Development trusts are entities created in order to own and manage the assets to the benefit of others. These societies must have a charitable purpose. In general, trusts do not have legal personality, but the director can apply for an establishment certificate from the Charity Commission, according to Act of 2006 which regulates charity²⁵². These societies are regulated by the acts of the Administration of 1925 and 2000, as well as the jurisprudence.

On 12.03.2010, a third reading of a draft law took place in the House of Lords („Cooperative and Community Benefit Societies and Credit Unions Act 2010“), aiming at introducing new provisions for the societies which follow to be registered as cooperatives or community benefit societies and renaming the business companies („Industrial and Provident Societies“).

Cooperatives are regulated by the Statement on the Cooperative Identity adopted by the International Cooperative Alliance in 1995²⁵³. The Statement emerged as a result of a long

²⁴⁴ <http://www.bis.gov.uk/policies/enterprise-and-business-support/wider-benefits/social-enterprise>

²⁴⁵ Mark Lyons, University of Technology, Sydney; Andrew Passey-Office of Government Commerce, „Need Public Policy Ignore the Third Sector? Government Policy in Australia and the United Kingdom“, London, 2006, p. 92

²⁴⁶ „Home Office“ Department signed an agreement in 2002 regarding the public services, under which it undertakes an increase of the activity of the volunteering and community sector by 5% by 2006

²⁴⁷ Under labour administration as of 1997

²⁴⁸ Industrial and provident societies

²⁴⁹ Study on practices and policies in the social enterprise sector in Europe- Country Fiche UK, Austria Institute for SME Research, Vienna, June 2007, p. 3

²⁵⁰ <http://www.opsi.gov.uk/si/si2005/20051788.htm>

²⁵¹ Industrial and Provident Societies Act 2002 http://www.opsi.gov.uk/acts/acts2002/ukpga_20020020_en_1

²⁵² http://www.opsi.gov.uk/acts/acts2006/ukpga_20060050_en_1

²⁵³ <http://www.ica.coop/coop/principles.html>

consultation process among thousands of cooperative members throughout the world. The result was a modern, contemporary definition of the cooperative: an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. The statement establishes seven cooperative principles, guidelines by which cooperatives put their values into practice. Cooperatives: are voluntary and open to members; operate based on the democratic control; involve the member economic participation; are autonomous, independent; have education, training and information objectives; promote cooperation among cooperatives and concern for community.

The Coalition of Social Enterprises is the national authority actively involved in influencing the public opinion and the decision-makers for the recognition of the importance of the social enterprise in the United Kingdom's policy and in the political agendas. By means of the Coalition, the four fields towards which SE evolves in the United Kingdom are: social economy and justice, environment, population's welfare and the factors supporting the social enterprises.

V. 2. c. Spain

There is no official definition of **SE** in Spain, the notion being taken from French in the mid '80s. **The social sector** is considered equivalent to the non-lucrative sector²⁵⁴. The Spanish literature establishes the following criteria for the institutions in the non-lucrative sector: duly organised, of private law, non-profit institutions, independent and based on a high level of voluntary participation²⁵⁵.

The Secretary General for employment in Spain emphasised²⁵⁶ that SE is a pertinent field for the intervention of the EU and of the Member States: „it is a major issue (...) in compliance with the new employment strategy and is part of the economic recovery scenario“²⁵⁷.

The legal forms in the SE field in Spain are: associations, foundations and non-profit organisations aiming at development issues. The fields of activity are: provision of services in agriculture, food, fishery, constructions, transport, health, education, culture, sports and social tourism etc.

According to art. 2, chapter 1 of Law 49/ 2002²⁵⁸ on the taxation for non-profit entities and tax incentives for employers' associations, non-profit institutions with special tax regime are: foundations, public utility declared associations, non-governmental development organisations mentioned in Law 23/ 1998 (International cooperation for development), provided that they have the legal forms mentioned; delegations of foreign foundations registered with the Foundations' Registry; Spanish sports federations, autonomous sports federations, Spanish Olympics Committee and Spanish Para-Olympics Committee; non-profit federations and associations of the mentioned institutions. Other institutions are: the Red Cross and the Spanish National Associations for the Blind. According to art. 7, chapter 2: „the revenues obtained by non-profit organisations as a result of economic activities are exempted from taxes, provided that (...) they are developed based on one of the following objectives: a) protection of children and youth, b) assistance for the elderly, c) assistance for people in risk of exclusion or with social problems or victims of abuse, d) assistance for persons with disabilities, including vocational training, employment and functioning within farms, workshops and schools specialised in the development of their activity, (...), k) social reintegration and crime prevention, l) assistance for alcohol and drug addicts and m) cooperation for development, n) social inclusion of the aforementioned persons“.

²⁵⁴ Study on practices and policies in the social enterprise sector in Europe- Country Fiche Spain, Austria Institute for SME Research, Vienna, June 2007, p.12

²⁵⁵ El sector No Lucrativo en Espana- Ruiz Olabuenga, Madrid, 2000

²⁵⁶ Speech of 06.05.2010, European Conference „Social economy – a different way of doing business“, Toledo,

²⁵⁷ <http://www.tt.mtin.es/eu2010/en/noticias/empleo/201005/EMP20100511-001.html>

²⁵⁸ http://www.aeat.es/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Normativas/Ficheros_Asociados_a_Las_Normativas/IRPF/LEY49-2002.pdf

Law 1 / 2002 on the regulation of association²⁵⁹ defines **associations** as being established by the agreement of three or more individuals or legal entities duly organised (a requirement similar to the Romanian legislation) which agree to exchange knowledge, resources and activities so as to achieve a legal, shared goal of general or specific interest, and which operate based on a memorandum of association. The associations must register with the Associations' Registry²⁶⁰. Similar to the Romanian legislation, art. 32 of Law 1 / 2002 mentioned above defines the public utility recognised associations, a quality subject to the following conditions:

- „the objectives established in the memorandum of association should aim at promoting the general interest, according to the definition in art. 31.3 of this law, and fall within the civic, educative, sports, scientific, cultural, medical field, promotion of the constitutional values, promotion of human rights, social assistance, cooperation for development, promotion of women, family promotion and protection, child protection, promotion of equal opportunities and tolerance, environmental protection;
- The activities should not be restricted only to the benefits of its members”.

According to art. 35: „the procedure to declare the public utility quality – the status of public interest association shall be granted by Order of the Minister, based on a favourable report drawn up by the competent public authorities as regards the association's statutory objectives and activities and, compulsorily, on a report from the Ministry of Finances.”

Art. 2 of Law 50/ 2002 on foundations defines these as non-profit organisations which, by the will of their members, make available a permanent patrimony for the achievement of a general interest. According to art. 9 par. 1, the foundation can be established by legal act between the living or for death cause. We can notice the similarity with the Romanian provisions²⁶¹.

Law 23/ 1998 on the International Cooperation for development enacts the status of **non-profit organisations**²⁶² dealing with development issues, the purpose being defined in Chapter 1, Section 1, art. 1 par. 2. The law applies to all activities resulting in „transfers of public resources and staff from the central government, by itself or in collaboration with private entities intended for the developing countries, either directly, or by means of multilateral organisations”. The objectives include: promotion of human and material resources for the economic growth and development of the poorest countries, promotion of the conditions for the development of the level of living of the benefiting populations in general and of the most disadvantaged groups, in particular, and observance of human rights and fundamental liberties²⁶³. A strong impact has the Spanish Association of Foundations, an independent association, declared of public interest and registered with the National Associations' Registry within the Ministry of Interior. It groups Spanish foundations with various objectives and fields of activity, operating at local, regional, national and international level. The mission of the association is to work to the benefit of the foundations sector, on the short-, medium- and long-term, contributing to its development and consolidation.

Even though similar initiatives have been in place for a long time before, only Law 44/ 2007 regulated the status of social insertion enterprises as: „a duly organised business company or cooperative, recognised by competent autonomous bodies, which conduct any kind of economic activity for the production of goods and services and the objective of which is the socio-professional integration and training of socially excluded persons, as form of transit to usual workplaces”. They were developed by non-governmental associative structures, such as Caritas or the Red Cross.

According to art. 1 of Law 27 / 1999 on the **cooperative**, the Spanish cooperatives are organised based on the freedom of association between persons, conduct activities intended to meet economic and social needs and aspirations, have a democratic structure and operate according to the principles formulated by the International Cooperative Alliance, subject to the requirements set out in

²⁵⁹ http://noticias.juridicas.com/base_datos/Admin/lo1-2002.html

²⁶⁰ See Law 1/2002 on the regulation of association, Art. 10 par.1.

²⁶¹ Art. 15, par. 1 of GEO 26/2000 (1) A foundation is the legal entity established by one or more persons who, based on a legal act between the living or for a death cause, establish a permanently and irrevocably affected patrimony, with a view to achieving a purpose of general interest or, as the case may be, of certain communities.

²⁶² http://noticias.juridicas.com/base_datos/Admin/l23-1998.html

²⁶³ See Art.3 / Law 23/1998 on the International Cooperation for Development

this law. As regards the quality of the members, cooperatives are usually workers' cooperatives. In certain cases, these can be consumers' cooperatives providing goods and services to their members necessary for their social development and integration. The membership status can also be acquired by public institutions, volunteers and, sometimes, even parents or tutors of the disadvantaged persons who work in cooperatives. Similar to the Romanian legislation, there are two types of cooperatives in Spain: 1st level (the minimum number of members is three) and 2nd level (made of at least two 1st level cooperatives). The minimum business assets are around 3.000 €. In the Spanish legislation, just like in the Romanian one, the principle of „one member, one vote” is found, with the observation that the volunteer member in the Spanish cooperative has the right to information, but has only the right to vote in order to elect the representative in the Management Board. Unlike the Romanian regulations, profit redistribution among members is banned, the profit being fully distributed to the reserves of the cooperative.

At present, the Spanish non-profit sector experiences an expansion period, estimated to continue over the next years. The reason for this development is the capacity for financial self-sufficiency, based on efficiency and partnerships.

V. 2. d. Hungary

There is no official definition of SE in Hungary. Next to Austria, Estonia, Germany, Lithuania, Czech Republic, Slovenia and the Netherlands, Hungary is part of the „group of countries with a low or zero acceptance of the SE concept”²⁶⁴. The group includes also countries which joined the EU from the 2005 enlargement and Germanic countries, where SE is little known or incipient, while related concepts (non-profit sector, voluntary sector and non-governmental organisations) are widely recognised²⁶⁵.

Ordinance 188 / 1999 included provisions about **social enterprises**²⁶⁶, but various definitions are found in the Hungarian literature. These: are non-profit organisations; target social purposes by involvement in economic and exchange activities; are duly organised to ensure that the assets and capital accumulated will be kept to the benefit of the persons who are the recipients of the enterprise's social objectives; have organisational structure with full member participation based on the cooperative principles with equal rights for all members. A special characteristic is the encouragement of the cooperation with other organisations in the sector²⁶⁷. The legal forms of the social enterprises are: private foundations, public foundations, voluntary associations, public profit companies and non-profit societies. The fields of activity are: social assistance, environmental protection, local development, economic development and security services.

According to Law IV/ 2006 on companies and unlike the Romanian legislation, the Hungarian **non-profit organisations** can have various legal forms: partnerships, limited liability companies or anonymous societies. Regulations are set out for the possibility to establish a social enterprise under the form of a non-profit enterprise. The regulations are Hungary's first official step in the field of social enterprises. Law LXXXVIII/ 2005 on Private voluntary activity²⁶⁸ promotes voluntary work by providing financial incentives and by reducing the bureaucratic procedures. This normative act enables the use of volunteering by organisations in a controlled and legal manner.

Unlike the Romanian legislation²⁶⁹, which indicates the establishment of the association by the association of three or more persons, in Hungary, the **associations**²⁷⁰ can be made of at least ten legal entities or individuals. Just like in Romania, the main purpose cannot be that of conducting economic activities.

²⁶⁴ *** „The social economy in the EU”, summary of the report drawn up for EESC by CIRIEC, 2007,

²⁶⁵ *** J. L. Monzón Campos, Rafael Chaves Ávila, „The Social Economy in the European Union” CIRIEC, 2006; p.81

²⁶⁶ Chapter 18 Permission of social enterprises („Statutory order 188/1999- § 18-Permission of Social Enterprises”

²⁶⁷ *** „Study on practices and policies in the social enterprise sector in Europe- Country Fiche Hungary”, Austria Institute for SME Research, Viena, 2007, p. 2

²⁶⁸ http://www.civil.info.hu/uploaded/documents/onkentes/1212746798vol_act_pub_int_2005_hu.pdf

²⁶⁹ art.4 of GEO 26/2000 on associations and foundations, as subsequently amended and supplemented

²⁷⁰ <http://www.legislationline.org/documents/action/popup/id/5353>

As regards **foundations**, the Hungarian Civil Code adopted by Act IV/ 1959²⁷¹, under sub-section 74A sets out that: „*individuals, legal entities, as well as business associations without legal personality (hereinafter collectively referred to as "founders") have the right to establish a foundation to serve a public interest on the long term*”. After establishment, the founding members have a limited power over the operations (sub. 74 / C (3)).

As regards **non-profit societies**, Act IV / 2006 on business associations amended the establishment and operation of various types of businesses. A unique aspect of the new legislation is the introduction of amendments regarding the compulsory representation of the employees in supervision councils. The new legislations brought minor changes (reduction of the bureaucracy related to the establishment and operation of various forms of SMEs).

Cooperatives are regulated in Hungary by Act X/ 2006²⁷² on cooperatives and aim at ensuring jobs for their members or for other socially disadvantaged persons and improving their social situation by other means. Unlike the Romanian provisions²⁷³, which set out the minimum number of members for the establishment of a cooperative to five, Hungary requires to have at least seven individual members. The cooperative's share capital in Romania is 500 Ron²⁷⁴, while in Hungary there is no obligation to ensure a certain amount. A common principle in both legislations is the „*one member, one vote*” decision-making process. Among the obstacles to SE development in Hungary is the lack of an institutional reform, of the cooperation in providing local and regional information, as well as the lack of resources for the disadvantaged communities.

V. 3. ANALYSIS OF SOCIAL ECONOMY FORMS IN THE EUROPEAN STATES

The subchapter presents the results of the survey regarding the SE forms in the selected European countries: main characteristics, difficulties encountered, development directions, structural strengths and opportunities according to the representatives of the SE forms. The analysis has been conducted on a number of 317 questionnaires from 15 countries. The survey is not probabilistic (and implicitly it is not statistically representative for the researched countries), as the sampling was a convenient one, as it largely depended on the access to the targeted institutions and the local capacity to mobilize the potential respondents for the filling of the questionnaire. Nevertheless, the information acquired is extremely useful in understanding the SE forms, as the macroeconomic opportunities and constraints (related to the institutional, legislative, as well as economic or social context) are common to the other organisations which did not participate in this survey. For further details, please see *Annex 15 Analysis of SE forms in the researched countries*.

Activity and networks of SE forms

The results indicate the predominance of associations (around 29%) and limited liability companies (almost 28%). At the opposite side, the lowest percentages are registered in the case of mutual associations (2%) and agricultural, consumers' or credit cooperatives (with a share of less than 1%).

Table 5 Type of organisation, (%)

Source: Database of the research on SE trends in Europe, MLFSP 2010

| | |
|-------------------------------|-------|
| Association | 28.5% |
| Limited liability company | 27.8% |
| Social integration enterprise | 11.4% |
| Public utility organisation | 6.6% |
| Social cooperative | 5.4% |
| Protected unit | 4.1% |
| Foundation | 2.8% |

²⁷¹ <http://www.civil.info.hu/uploaded/documents/seged/NK/ActIVof1959.doc>

²⁷² Bruno Roelants, „*Cooperatives and social enterprises- Governance and normative framework*”, CECOP 2009

²⁷³ Art. 12 of Law 1/2005 on the organisation and operation of the cooperative

²⁷⁴ Idem Art. 9

| | |
|----------------------------|-------|
| Philanthropic institutions | 2.5% |
| Mutual association | 1.6% |
| Agricultural cooperative | 0.6% |
| Consumers' cooperative | 0,6% |
| Credit cooperative | 0,3% |
| Others | 14,8% |

Most SE forms indicated the fact that they operate in the field of services (40%), followed by education, vocational training and research (24%). The diversity of the activity fields is, however, extremely high, from food delivery to the place of domicile to recycling activities, from sale of hand-made products to furniture manufacturing. 30% of the organisations mentioned fields difficult to classify in clear specific categories (the service provision field is extremely vast). Not only the fields chosen by the SE forms are diverse, but also the average number of fields mentioned by each organisation is 2.2, which means that the SE forms prefer not to restrict to only one field of activity, but to diversify their services and products offered so as to be competitive on the market or to mitigate the risk of not being able to survive. Orientation towards diversifying their activities and specialisation, finding a market niche is also confirmed, as we will see below, by some of the strengths seen by the managers of the institutions (flexibility, diversity, niche position etc.). 71.4% of the SE forms analysed organise training sessions or „empowerment” programmes. The high percentage indicates a general orientation towards such activity.

3% of the interviewed organisations mentioned that they have European branches (outside of the borders of their country), 18% regional and 22% local. Cumulating the values we can notice that 39% of the organisations have at least one branch, regardless of the type.

Table 6 % of organisations with at least one European, regional or local branch

Source: Database of the research on SE trends in Europe, MLFSP 2010

| | % |
|--|-----------|
| % of organisations with European branches | 3 |
| % of organisations with regional branches | 18 |
| % of organisations with local branches | 22 |
| <i>% of organisations with branches at any level</i> | <i>39</i> |

The importance of cooperation with other similar institutions is confirmed by the high number of SE forms which declare their belonging to a SE network. Most of them are associated in national (65%) or regional networks (50%). The lowest percentage appears in European networks (only 14%). Cumulating these types of networks, 84% of the surveyed SE forms are part of at least one SE network (regardless of the type hereof).

The data must be, however, seen with circumspection: the access to the SE forms analysed was due to their affiliation to a SE network²⁷⁵ (it is possible that for some institutions not included in the sample, the access was more difficult, while the pressure to respond to a questionnaire lower), which could distort the results in terms of an over-representation of the institutions integrated in networks. This aspect does not, however, shadow the fact that in the references to the strengths of their own organisations a very high percentage of respondents indicated the belonging to a network as a strong competitive advantage on the market.

Table 7 Share of SE forms affiliated to or part of a SE network

Source: Database of the research on SE trends in Europe, MLFSP 2010

| | % |
|---------------------------------|----|
| European social economy network | 14 |
| National social economy network | 65 |

²⁷⁵ The research at European level was carried out with the support of the ENSIE network, a partner in the project

| | |
|---------------------------------|----|
| Regional social economy network | 50 |
| Local social economy network | 21 |
| <i>Either of the above</i> | 84 |

Type of organisation / management

One of the defining characteristics of the SE forms refers to how the decisions are made. There can be multiple situations: there is either one single person with decisional power, or the employees take the most important decisions, or key representatives are elected by vote.

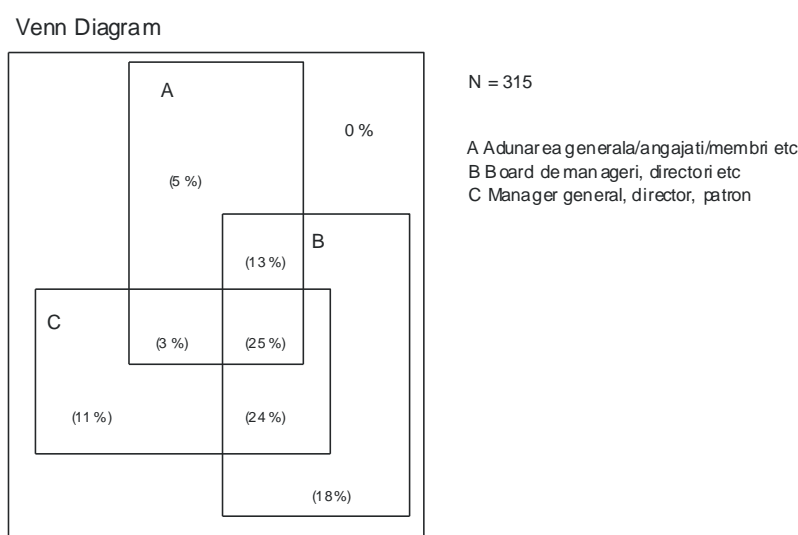
Research data shows that there is a managerial council in 89% of the SE forms analysed. In 72% of the analysed forms, the managerial council or management board takes at least some of the decisions. Adding to this is at least 8% of respondents who mentioned similar decision-making forms (executive, supervision council, board of directors). 10% mentioned the council, as well as other forms of shared decision-making.

In 60% of the organisations, the general manager takes at least some of the decisions, adding to 3% of situations when the chairman or director takes the decisions. Even though the percentage seems high, in only 11% of the cases all the decisions are taken by the general manager (one single person). In the remaining of the situations, the decisions are shared with other forums. In 42% of the cases analysed, at least some of the decisions are taken by the general meeting. This adds to at least 4% with decision-makers who are members of the organisation, employees or the shareholders' assembly.

It is interesting to notice that there are only 5% of situations when all the decisions are made by the general meeting. In 95% of the cases, this is seconded by other decisional forums (either the management board, or the general manager or both). The Graph below indicates that in 25% of the situations it is the general meeting, as well as the general manager and the management board which take decisions in enterprises.

Graph 11 Venn Diagram indicating the type of the decision-makers in organisations

Source: Database of the research on SE trends in Europe, MLFSP 2010



As regards the control or supervision structures, the general meeting seems to have a more important role compared to the decision-making: 55% of the respondents answered that the general

meeting has a control role, compared to only 42% who said that the general meeting has a decisional role. 48% of the respondents within the analysed institutions said that the external public bodies have a key role in control or supervision. In addition, a major percentage of the institutions mentioned that the supervision is achieved by accountants (22%) or external auditors (14%).

Table 8 Audit or supervision structures for SE forms

Source: Database of the research on SE trends in Europe, MLFSP 2010

| | % |
|--|--------------|
| General meeting | 54,7% |
| External public bodies | 47,6 |
| Other types... | |
| Accounting commission, accounting expert | 22,3% |
| External auditors | 13,6% |
| Management /administrative council | 13,3% |
| Shareholders | 2,3% |
| Manager, director | 1,9% |
| ISO Certification/ quality certification body | 1,9% |
| Staff | 0,6% |
| Customers, buyers, community | 1,0% |
| Internal administration | 1,3% |
| Directors, Managers | 1,0% |
| <i>URSCOP - Union Regionale des Scop (revisions)</i> | 2,6% |
| Others | 13,3% |

Financing and profit redistribution mechanisms

Some of the most important aspects of SE are sustainability and resistance over the competition on the market. Two elements must be analysed:

- Funds necessary for the performance of the activity: SE forms are economically independent or depend on the financial support provided by other organisations?
- redistribution/ use of the profit resulting from the activity of certain SE forms.

In 70% of the cases, the current activity of the SE forms depends on accessing additional or external funds. If we analyse the main support mechanisms (including additional funds, as well as tax benefits, subsidies etc.), we can notice that 87% of the respondents benefit from at least one of the external financing resources indicated. The most frequent benefits accessed are: grants (43%) coming from European and national level, as well as regional or local. The second financial mechanism in terms of frequency refers to subsidies (41%), followed by that of other types of benefits (the most frequent ones being the employment-related benefits).

Table 9 % of the SE organisations which benefited from external financing resources or other support mechanisms

Source: Database of the research on SE trends in Europe, MLFSP 2010

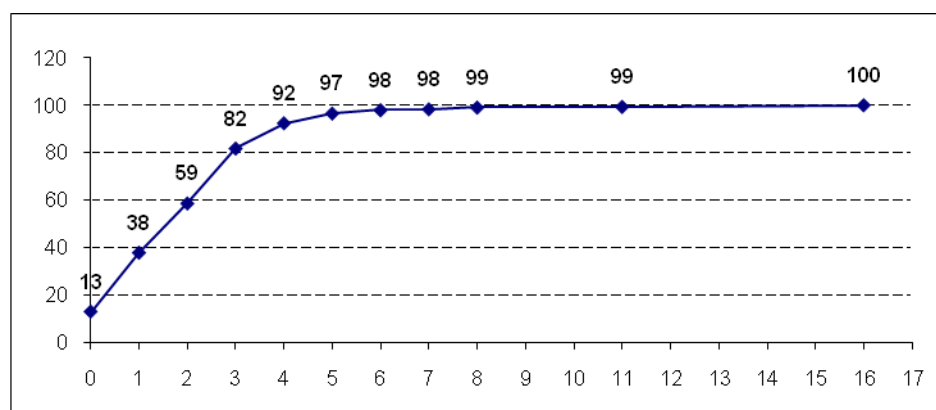
| | EU | National | Regional | Local | Any (EU etc.) |
|--------------|------|----------|----------|-------|---------------|
| Grants | 14,2 | 28,3 | 22,4 | 19,8 | 43 |
| Loans | 2,1 | 9,3 | 5,2 | 3,5 | 15 |
| Tax benefits | 1,7 | 10,4 | 2,4 | 1,4 | 11 |
| Subsidies | 9,3 | 19 | 27 | 15,7 | 41 |
| Others | 5,9 | 14,5 | 7,9 | 10,8 | 28 |

The percentage of organisations which receive more than one benefit is significant. Only 38% of the institutions receive no more than one benefit. 13% do not receive any. Even though only 11% mentioned that they benefit from tax facilities, when asked about the type of the tax facilities they benefit from, only 36% of the SE forms said that such facilities do not exist for them (for further details, see *Table 3 in Annex 15 Analysis of SE forms in the researched countries*). The remaining 64% mentioned several types of taxes that they are no longer required to pay or that they did not pay at a

certain moment in their activity. 38% of the respondents mentioned that they benefit from the donors' contribution, while 34% from the members'.

Graph 12 Number of types of benefits mentioned (cumulative percentages)

Source: Database of the research on SE trends in Europe, MLFSP



Only 6% of the SE forms analysed redistribute the profit obtained to their members or shareholders. Most of them choose to reinvest it (including in people or training sessions) or use it to further finance the organisation's activities and projects (almost 79%). Around 6% have additionally chosen to place a part of the profit in reserve funds. Around 10% of the organisations mentioned that the question is irrelevant as they do not have a profit or they are non-profit organisations (however, they mostly choose eventually to reuse the money for the performance of their own activities).

SWOT analysis of SE forms in the researched countries

We indicate the strengths, weaknesses, opportunities and threats as seen by those who activate in the SE field. We mention that the answer to these questions was multiple. The detailed analysis accompanied by representative selections of the answers received is included in *Annex 16 SWOT analysis of Social Economy institutions in the researched countries*.

The strengths represent the competitive advantages controlled in their entirety by the organisation. Several general as well as specific dimensions were identified. The strengths identified by the representatives of the SE forms are: management, human resources (39%), networks, partnerships and public image (28%), characteristics of the service offering (28%), efficiency and financial sustainability (18%) and regional coverage (9%).

The main weaknesses identified by the respondents are: financing-related issues (44%), issues related to the types of beneficiaries (30) and issues related to the staff and the volunteers (18%). Other problems are: lack of communication/ adverse marketing, lack of experience with the SE sector, deficiencies in or lack of internal organisation, vague definition of the vision and mission and diversity of the activities and services.

The opportunities are elements external to the company, factors that the actor cannot control, but can use for a better development of its activity. The opportunities identified by the representatives of the SE forms are: market characteristics (48%), change of values (26%) and financing opportunities (33%).

The threats are possible market elements that can stop or affect the activity of the organisations or can endanger their existence. It is important to mention that some of the threats had already started to act upon the SE forms, at the moment of filling-in the questionnaires, while others were indicated only as potential problems. The main threats are: financial instability (72%), specificity of the competitive environment (29%). Other threats identified are: excessive bureaucracy, leaving of the staff, employees or the employees' poor quality, climate conditions and lack of employment opportunities for the beneficiaries.

V. 4. SE DEMAND AND SUPPLY IN ROMANIA

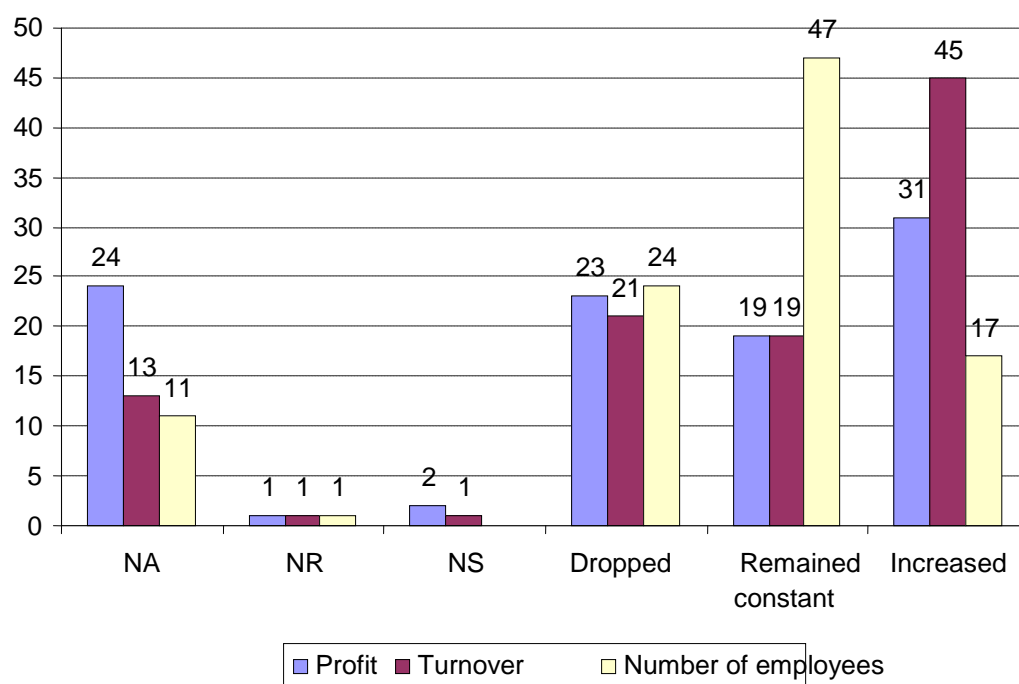
The development level of SE in Romania

The main field of activity of the Romanian social enterprises are: service provision, agriculture and food industry, trade and industrial production.

The associations and foundations conduct their activity in Romania directly (88%) compared to 7% which are established as business companies. Most SE forms do not have branches and do not belong to SE networks (84%). If there are branches, these are in the following fields: service provision (at European and local level) or social security (at regional level). The networks most frequently mentioned are: the International Cooperative Alliance and the World Blind Union.

Graph 13 Trends in the development of SE forms

Source: Database of the research on SE demand and supply in Romania, MLFSP 2010

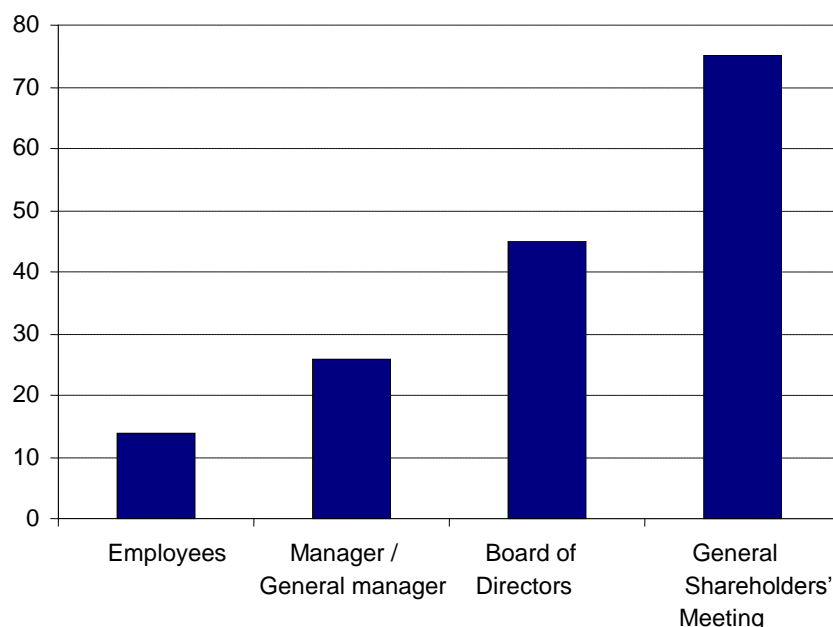


81% of the SE forms have a Board of Directors. Major decisions are generally taken by the Board of Directors and the General Shareholders' Meeting and less by the employees. Only a third of the employees participate in making all the decisions at the workplace and 36% do not participate or participate in little important decisions (34%).

The control, supervision and audit of the social enterprise are provided by the Censors' Commission and the General Shareholders' Meeting. The capital of the enterprise is mainly made of the members' fee (53%) and private capital (18%). In almost half of the cases, over 80% of the capital of the enterprise belongs to the members.

Graph 14 Who has the right to vote in your institution?

Source: Database of the research on SE demand and supply in Romania, MLFSP 2010



The activity reports are predominantly developed on a monthly and quarterly basis, being sent to the employees (78%) especially during meetings. Only in 11% of the cases these are sent by e-mail to all the employees. When asked about how the profit is used, almost a quarter of the managers of the SE forms answered „not applicable”. The profit is generally reinvested and distributed to the shareholders or among all the employees.

37% of the SE forms have less than five employees, while 30% have between 5 and 15 employees. 66% of the social enterprises do not have cooperative members. 28% have between 1 and 15 shareholders, while 21% between 16 and 50 shareholders. Almost three quarters of the employees of the SE forms are full-time salaried women who graduated from high-school or university. Most of the employees and the largest number of shareholders are in MS. Most of the volunteers are in non-governmental organisations. 54% of the representatives of the SE forms think that volunteering is not applicable in their case. Only 26% work with volunteers, of which 14% with 1-10 volunteers.

The SE forms organise trainings for the employees, as well as for people belonging to disadvantaged groups. 42% of the employees of the SE forms did not participate in a vocational training in previous years. Over half of the managers of the SE forms are men with (post)university education. The most representative age segment is 50 – 60 years of age. 10% of the managers are between 18 and 30 years of age.

Awareness level about SE among the population

The managers know the SE notion the best. 65% of the surveyed managers think they are familiar with the SE notion. Of them, 47% think they are well informed and 11% think they are very well informed. 47% of the respondents employed in SE forms have little knowledge about the notion, particularly high-education graduates. Of them, only 5% know the notion very well.

The managers and employees share common conceptions about the beneficiaries of the SE activities. According to them, these are: disadvantaged persons, the State, Romanians in general, managers, nobody, groups of interests, organisation members and the organisations.

Vulnerable groups are not familiar with the SE concept and have little knowledge about the SE forms of organisation. The SE notion is known only to 16% of the persons with disabilities, 8% of the representatives of the single-parent families with low incomes. The following categories have never heard about the SE forms: 78% of the Roma people, 73% of single-parent families and MIG beneficiaries, 57% of persons with disabilities and 50% of youngsters. If they do know about certain SE forms, this is particularly due to friends and television (persons with disabilities, poor single-parent families, Roma people).

Identification of the obstacles encountered by social enterprises

On a scale from 1 to 10, the efficiency of the legislative framework for the SE forms was assessed to an overall score of: 7.97 in the case of MS, 6.68 in the case of cooperative societies, 6.44 in the case of non-profit organisations and 6.29 in the case of APU.

Only 15% of the enterprises benefit from tax facilities or financings: subsidies from the State budget, non-reimbursable funds, funds from international institutions. The funds necessary for activity development come mainly from charges and fees from the shareholders and cooperative members. Only 16% of the enterprises have a special budgetary chapter for SE activities.

34% of the employees of the SE forms do not consider this status as an advantage. The main advantages are: having a job, income and development of knowledge.

Gaps between the demand and the supply of Social Economy in Romania

Persons with disabilities and representatives of the single-parent families with low incomes are employed in the SE forms almost in equal shares. The fewest employees are youngsters over 18 years of age who leave the child protection system.

The managers consider that the collaboration with vulnerable groups is good and very good in almost half of the cases. Out of the vulnerable groups employed, the managers collaborate best with youngsters over 18 years of age who leave the child protection system and with persons with disabilities. The employees of the SE forms collaborate best with persons with disabilities and MIG beneficiaries. In case of vacancies, both the managers and the employees agree with prioritizing the employment of persons belonging to single-parent families with low incomes and oppose to employing persons of Roma ethnic group.

The main specific assistance measures for the vocational integration of disadvantaged persons are: employment and facilitating employment, organisation of qualification and requalification trainings and provision of information and counselling, adjustment of flexible work conditions for persons with disabilities, granting material support, social inclusion, ensuring transportation and distance work.

Difficulties of the vulnerable groups in accessing the social enterprises' offer

The following categories declared that they had never worked before: 76% of the interviewed Roma people, 60% of the MIG beneficiaries, 56% of the persons with disabilities, 55% of the single-parent families and 53% of the youngsters.

The average seniority of those who worked is: 15 years (persons with disabilities), 10 years (MIG beneficiaries), 9 years (single-parent families with low incomes), 8 years (Roma people) and 3 years (post-institutionalised persons). Except for the youngsters experienced in the field of constructions, the remaining vulnerable groups worked in industrial production and service provision. Seniority at the last workplace was: 12 years (persons with disabilities), 7 years (MIG beneficiaries), 6 years (Roma people), 5 years (single-parent families) and 2 years (post-institutionalised youngsters). The number of years passed since the last employment: 11 years (MIG beneficiaries), 10 years (Roma people), 9 years (persons with disabilities), 7 years (single-parent families with low incomes) and 2 years (youngsters).

The main reason for leaving the last place of work is reduction of the employee number. Adding to this are the following: health reasons (persons with disabilities and MIG beneficiaries), child raising (single-parent families with low incomes), „*personal reasons*” (Roma people) and resignation on insufficient remuneration grounds (youngsters).

The main reason why vulnerable groups have not been employed so far is difficulty in finding a job. Other reasons are: „*I am not accepted due to my situation*” (persons with disabilities, Roma people, youngsters, MIG beneficiaries), health (persons with disabilities) or child raising (single-parent families).

The following categories are in search of employment: 61% of youngsters, more than half of the representatives of the single-parent families, almost half of the Roma people, 44% of the MIG beneficiaries and under a quarter of the persons with disabilities. The search is generally made by means of friends or acquaintances, as well as CEA or mayoralty.

The fields where vulnerable groups would like to work are: service provider or any field (persons with disabilities, single-parent families, youngsters), constructions (Roma people) or agriculture and food industry (MIG). Except for the youngsters, the main position accepted to enter the workforce is unqualified worker. Youngsters would like a position of qualified worker. The average time that they think they could work per day is: 8 hours (youngsters), 7 hours (single-parent families, Roma people, MIG) and three hours and a half (persons with disabilities). The minimum salary requested for a job would be on average: 1008 RON (youngsters), 757 RON (MIG beneficiaries), 724 RON (single-parent families), 722 RON (Roma people) and 629 RON (persons with disabilities).

The following categories tried to get a job within SE forms: 9% of the youngsters, 4% of the single-parent families with low incomes, 4% of the persons with disabilities, 4% of the MIG beneficiaries and 3% of the Roma people.

The following categories benefited from qualification/ requalification trainings: 25% of the youngsters, 18% of the persons with disabilities, 10% of the representatives of single-parent families with low incomes, 7% of the MIG beneficiaries and 4% of the Roma people. The trainings aimed at the following: computer operator and tailoring (persons with disabilities), cook/ waiter training (single-parent families, youngsters), mason/ house painter training (Roma people and MIG beneficiaries), carpentry training (single-parent families), foreign languages training (youngsters).

In households with vulnerable groups, the share of those where nobody works is: 88% (Roma people, MIG beneficiaries), 86% (Roma people), 85% (single-parent families) and 69% (persons with disabilities). The employed persons are: spouse (persons with disabilities, Roma people, youngsters over 18 years of age, MIG beneficiaries), parents (persons with disabilities, single-parent families, Roma people, MIG beneficiaries) or siblings (single-parent families). In general, families are made of three to five members. The main financial issues of the vulnerable groups are represented by the lack of money for: food, medicines, child support and raising.

The percentage of persons who believe that their problems will be solved in the following two years are: 33% of the youngsters, 27% of the single-parent families, 20% of the Roma people, 20% of the MIG beneficiaries and 13% of the persons with disabilities. The main solutions to their problems are: employment or receiving higher amounts of money from the State.

Over 80% of each vulnerable group considers that the involvement of the institutions could lead to solving these issues. There is unanimous agreement on the fact that the main actor is the Government, followed by mayoralties, PSAS', DGASCPs, CEAs.

Improvement proposals

With regard to the general benefits brought to the Romanian society, 62% of the surveyed managers and 57% of the employees of the SE forms believe that SE helps in the development of the society. 10% of the employees and 8% of the managers think that SE is definitely not helpful for the development of the society.

If a National Resource Centre in the SE field was established, the respondents see this preponderantly as a public-private partnership, then independently under the aegis of a ministry. According to the surveyed managers, the ministries which could coordinate such a centre are: MLFSP (55%), Ministry of Economy and Trade (24%), Ministry of Agriculture and Rural Development (8%), Ministry of Public Finance (5%) or Ministry of Education, Research, Youth and Sports (3%). The surveyed employees place the Centre within MLFSP (89%), Ministry of Economy and Trade (9%) or Ministry of Education, Youth and Sports (2%). The surveyed managers are pessimistic about how such a centre could help them. 21% do not know how they could be helped by the centre over time, while

16% consider that such a centre cannot help them. The needs that a Resource Centre in the SE field should meet are diverse: the managers feel the need to be better informed, to have a database with potential employees, to have more information about the legislation in force, financings, consultancy and qualification trainings, information about projects and creation of a higher number of jobs. The centre could also have a role in legislation alignment, promotion of activities and products, can be a market for products, can favour the conclusion of partnerships or can help vulnerable groups. The employees think that such a centre could mainly be a source of information about the field, legislation, SE demand and offer. In addition, this centre could facilitate the conclusion of partnerships, provide information about material and financial resources, support disadvantaged persons, organise vocational trainings and advocate for obtaining tax facilities.

The managers and the employees think that the Government, local public administration and all the citizens should get involved in SE development. Other factors which could contribute to the development of SE are: local community, private system, each individual, central public administration and families.

Over a third of both the surveyed managers and employees do not know how SE could be developed in Romania. In the order of the frequency of the opinions of the surveyed managers, the development priorities are: increase of the involvement of the State institutions, reduction of bureaucracy and corruption, increase of the number of jobs, amendment of the legislation, allocation of more funds, better information and promotion, granting facilities to the investors, decrease of taxes and fees, creation of regional resource centres for SE, facilitating access to European funds, helping persons with disabilities and economic development. According to the employees, the main measures for the development of SE would be: attracting funds, creation of new jobs, development of a national program for SE promotion, development of new laws and revision of the existing ones, reduction of taxes and fees and promotion of tax facilities, creation of jobs for the disadvantaged persons, correct application of the laws in force, increased involvement from the Government, SE forms, the private environment and the population; supporting and modernising the production process, salary increase, organisation of training and development courses, creation of public-private partnerships and establishment of institutions to coordinate SE activities.

CHAPTER VI. CONCLUSIONS AND RECOMMENDATIONS

At the European level, there are several definitions of the concept of Social Economy, and in order to understand it, one needs to analyse certain related concepts, such as third sector, social inclusion, employment or ethical and solidarity financing. The SE concept has been approached either from a perspective of common principles, or from the viewpoint of its specific forms.

There is no common European vision on SE and the policies to promote it. We are witnessing an increase of the interest in SE, due to its active role on the labour market, mainly as regards the vocational insertion of vulnerable groups. The analysis of the selected member states has revealed that the inclusion of vulnerable groups on the labour market tends to become synonymous with SE. Other principles reflected in the national frameworks include observance of other markets and profit reinvestment. In the researched European countries, the representatives of SE forms considered that the main strengths of SE are: HR management and SE networks, whereas its weakness lies in financing. The main opportunity is represented by the market characteristics, while the main threat is related to the capacity to cope with the competition.

At the European level, there are several institutions with an impact on SE (European Commission, European Economic and Social Committee, European Parliament and Council of Europe), but there are no regulations on a budgetary policy for SE financing. The main instrument for financing specific SE activities is the European Social Fund. In the researched member states, public and private institutions have been identified, with activities related to SE at the central, regional and local level. The activities mainly consist in the granting of subsidies.

The main specific SE forms of organisation at the European level are cooperatives, mutual societies, associations and foundations, and social enterprises; at the level of the member states, new SE forms are emerging, focusing especially on the vocational insertion of vulnerable groups. European SE experiences are attempting to “reform economies”, including not only charity and volunteering actions, but also collective actions based on mutual aid and the participation of socially engaged citizens.

From a historical point of view, the communist period imposed severe financial and legal restrictions, which transformed SE organisations into quasi-Statal forms of promotion of ideologies. The traditional values of SE such as volunteering or free association were distorted. The role of SE in countries from Central and South-Eastern Europe is to compensate the lack of jobs caused by the conjugated effect of the market failure (crediting, housing, agriculture), the post-communist welfare system, the governmental policies and programmes promoting inclusive employment measures, and the building of partnerships for local development²⁷⁶.

The research report confirms the hypothesis that SE is becoming more widely recognised due to its economic and social potential, both for national economies and in terms of the inclusion directions of disadvantaged groups. SE development includes: policies for the support of innovative local initiatives as promoters of social inclusion, promotion of social enterprises, development of a favourable framework, in particular financial and business start-up support mechanisms, support for the production of goods and services by SE forms and training of entrepreneurs²⁷⁷.

In Romania, SE started being represented as early as the 18th century, gathering a developed cooperative sector, multiple non-profit organisations, MS and APU, whose activity fosters social cohesion, offering examples of social innovation. SE includes organisation forms that vary in structure, development level or field of activity, from important activity sectors (manufacturing, distribution, or services), to microstructures which are most frequently organised as enterprises with a lucrative purposes, but focused on the social inclusion of disadvantaged persons or groups. According to the opinion poll, SE development is poorly supported by the public authorities and quite little known by the wide public and by the relevant stakeholders active in the field, for that matter. The involvement

²⁷⁶ Ewa Les și Maria Jeliaskova „The social economy in Central East and South East Europe” in *** „*Social economy: building inclusive economies*”, OECD,, 2007, p. 207

²⁷⁷ Idem, pp. 207 - 208

of all relevant stakeholders in SE development should be done within the context of a broad national promotion and information campaign.

The North-East of the country is the most affected by poverty, but also has the largest number of SE forms. Out of the SE forms, the most frequent in our country are MS. Out of cooperative societies, we find consumers' cooperatives and craftsmen's cooperatives. Vulnerable groups are poorly integrated on the labour market in general and in SE forms in particular.

In Romania, the legislative framework includes references to SE forms, but further efforts are needed to harmonise the legislation. The institutional framework is rather confuse and oriented more on specific, fragmented support for certain forms of SE, but not for the whole sector. The efficiency of the financing accessed by SE forms leads to the conclusion that the system should be reviewed, with focus on SE. A special attention should be paid to the measures aimed at the vocational insertion of vulnerable groups. According to the opinion poll, many of them are long-term unemployed, with work experience, who want to find a job again.

In principle, the existing legal framework can be considered coherent for each of the SE forms of organisation, even if it does not provide sufficient incentives in terms of the financial support mechanisms. In the social fields, the regulations in force are correlated with various strategic documents, such as policies, plans or programmes on social inclusion and combating of poverty. The situation is the outcome of various factors, the most important of which is the lack of understanding, awareness or commitment at the level of public authorities or specific SE forms. The concept of SE covers a wide range of intervention areas, so that SE should not be considered relevant only for the social field or for social inclusion. SE beneficiaries also include, in addition to the groups exposed to the risk of exclusion from the labour market, various other categories of persons or groups, such as farmers. Outside the social field, where the SE concept was taken over, defined, described and turned into a development objective in itself, SE is not subject to any other sectoral approach. SE is carried out especially as an initiative of non-profit organisations, which implement best practices identified and transferred from other countries to Romania.

Therefore, the Romanian legislation in force offers the basic framework for SE development, by the legal description and definition of the SE concept and by setting principles, and defining categories of beneficiaries from the field of social inclusion. There are regulations allowing for the establishment and functioning of specific SE forms of organisation: cooperative societies, APU, economic activities of associations and foundations, MS. There are also SE support mechanisms in the form of tax reliefs and other logistic support forms.

In view of the experience of the other EU member states, the existing legal framework will be further developed, mainly to include the following aspects:

- introduction of detailed regulations on SE activities;
- introduction of new SE forms, with a more detailed definition and explanation of the setting-up and organisation mechanisms (social enterprises or insertion enterprises);
- introduction of a certification system for SE forms, by the application of a *social label*;
- development of efficient fiscal mechanisms to support SE forms of organisation, while developing the existing legislation in a coherent framework, including all SE forms;
- paying special attention to the specific insertion mechanisms, in order to ensure the continuity of the vocational re/insertion process;
- development of various forms of contractual partnerships with private enterprises, involved in the social and vocational insertion process;
- development of solidarity/insertion contract models also for other categories of disadvantaged persons, in addition to youth, as provided by Law 116/2002 on preventing and combating social marginalisation.

Investments in the new SE areas of intervention

SE development is an ongoing process, an innovation in terms of the relation between individuals and production processes, in terms of citizenship, production fields and modalities. The

concern for promoting sustainable development, the analysis of the consequences of the economic and financial crisis, the issues related to the relation between individuals and production processes open up a multitude of development perspectives which can have an influence on public employment policies and social cohesion. SE activities may include:

- all collective and individual personal care services (child care, home aid for household chores, such as cleaning, ironing or cooking for the elderly or people with disabilities);
- small scale development of high quality proximity agricultural forms (e.g. gardening), with the conclusion of service contracts with the beneficiaries;
- recycling of textiles, packages, electronic equipment;
- building and rehabilitation of houses, observing sustainability principles;
- solidarity and micro-crediting funds to support individual initiatives;
- solidarity tourism to maintain jobs in rural areas and preserve local traditions;
- any production activities or services developed in rural areas, leveraging local potential and/or contributing to employment in the rural community, thus leading to its development.

An integrated SE development strategy

Decentralised governance is a complex and lengthy process, which should be supported by political will and the adoption of a common strategy, and by the active involvement of all stakeholders. It should also be accompanied by a series of legislative and financial changes, supporting public-private partnerships and strengthening local governance²⁷⁸.

The mobilisation of the relevant stakeholders is an expression of citizenship, responsibility, democracy etc. SE development cannot make progress without the involvement of all stakeholders potentially interested in the fields of activity that might be involved in the evolution of this sector.

The central authorities have the role to establish the general orientations, support, assess, develop and enforce the required legal framework, while maintaining an adequate, realistic and effective flexibility level and the management autonomy which are needed to ensure innovation and efficiency in the social field. The central authorities must guarantee the observance of the fundamental principles of SE. This process involves MLFSP and other ministries, as well as the related institutions. At the local level, public authorities should develop programmes in order to enforce priority action plans, especially when it comes to promoting social inclusion, using their territorial experience, available tools and own methods.

SE requires voluntary commitment, a vision on the individual's place in society, a solidarity-based responsible approach of citizens, giving new meanings to social relationships. Thus, the citizens' position becomes a *sine qua non* factor to guarantee SE success. This position should be viewed from several perspectives: knowledge and information, economic role, role of consumer or member of a solidarity community. Citizens' involvement in SE development takes at least two main forms:

- citizens' association to set up and manage SE forms, with a view to meeting personal/group/societal needs in an innovative and fair manner (e.g. cooperatives)
- support by the acquisition of goods/services supplied by SE forms, by assuming a responsible behaviour.

In both situations, the citizens' level of involvement reflects the level of SE development. The degree of SE development can also be an expression of how the right to association and participative democracy is exercised at a micro level, thus fostering active citizenship and democratisation of the society. The assumption of active roles at a micro level (involvement in decision-making, taking on responsibilities) facilitates the transformation of the involved persons into active players for the local community and the wider society.

On the other hand, we should have in mind that the services and products supplied by SE are addressed to private consumers – individuals (citizens), or public consumers (public institutions etc.). The products and services supplied by SE are often valorised by raising the consumers' awareness with

²⁷⁸ Z Kovac, „Building a Governance Framework that Enables the Establishment of Partnerships in Slovenia: comparison with Ireland and Finland” in *** „Local innovations for Growth in Central and eastern Europe”, OECD 2007 pp.115 – 117

regard to their “social value”. However, this requires that the consumers are educated and understand the meaning and importance of this *social value*, and that they make value decisions in their consumption behaviours, taking into account also other elements in addition to price and traditional brands. The citizens’ preoccupation, as consumers, with the social and environmental impact of a good/service brings in a new dimension of active citizenship – social responsibility, understood as the social responsibility of daily acts and behaviours, which, assumed and exercised correctly, can have a key role in combating poverty and social exclusion. In the EU member states, there are many examples of citizens’ involvement in regulating social and moral market imbalances, which can become sources of poverty and social exclusion. An example in this regard would be “fair trade” between the richer regions in the North and the poorer ones in the South, aimed at ensuring a fair remuneration of the producers from developing countries, thus fostering the economic and social development of their communities²⁷⁹.

Non-profit organisations are represented by a wide range of legal persons, including associations, foundations, federations, trade unions, all part of the wider third sector. Associations and foundations play a major role in SE, in that they design and develop social inclusion plans, within the context of active inclusion.

Cooperative societies are the typical legal structure for SE, with a long tradition in the evolution of this sector and a high potential on the labour market. Especially in the former communist countries, they are perceived as a privileged branch of the central State economy, sometimes suffering from a deficit of democratic management and the lack of attention to results. Cooperative societies remain an essential player for the strategic development of SE, as evidenced by the experience of the European countries, which requires that the cooperative movement should be promoted and further developed in Romania as well.

Although mutual societies and insurance societies have a rather limited development in Romania (thus missing the opportunity to offer their services on the private pensions market), they have however a high development potential, to the extent that they follow the example of the existing European networks. This sector offers development perspectives in fields such as insurance, support of SE start-ups, support for investments etc.

At the European level, the term “enterprise” incorporates different concepts: large multinational enterprises, social enterprises and insertion enterprises. They intervene in all economic fields of activity (manufacturing, service supply, distribution, finance). Due to this diversity, these forms are crucial factors which participate in SE develop, mainly when it comes to promoting social inclusion; they do so by their development orientations, the production of goods or the provision of social services, as well as the implementation of specific social insertion or reinsertion actions. This is specifically the case of insertion enterprises, which offer a vocational insertion path that includes social accompaniment measures.

Starting from the priority orientations to be taken into account by MLFSP and the other relevant ministries, the SE promotion and development policy should be based on priority programmes for changing the legal and institutional setup, as well as on communication programmes.

The development of a national SE promotion strategy in a post-communist country like Romania requires a conjugated effort to regulate the legal and institutional framework, by promoting a far-reaching national information campaign. SE is very little known by the public authorities and by the social entrepreneurs themselves, by the employees working in the specific SE forms of organisation, and even by the vulnerable groups. Therefore, there is a need to organise information sessions on the concept, as well as relevant vocational trainings. The involvement of all relevant public and private stakeholders should start with the understanding that it is important to connect the European national framework to the European one, by promoting national and transnational partnerships, with a view to identifying best practices and transferring them to the national context.

²⁷⁹ The World Fair Trade Organisation has the mission to improve living conditions and welfare of disadvantaged producers and their communities, to promote sustainable fair trade organisations and support more justice in fair trade, by the recognition of the organisations dedicated to fair trade and their connection with various producers.

The construction of the institutional and financial operational support, capable of promoting SE in Romania, would also require the development of an institutional setup, correlated with the Economic and Social Council, that would work based on an Interministerial partnership and would structure Social Economy at the national or regional level, possibly in the form of regional SE chambers. A statistic analysis tool based on a set of specific indicators would help determine the spread and scope of SE.

A strong political will can turn Social Economy into a major economic and social player, involved in the global fight against social exclusion. SE should be at the heart of public policies, while preserving its autonomy and specific values. This would allow for leveraging SE potential in job creation and society democratisation, while fostering social cohesion.

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Project cofinanced from the European Social Fund through the Sectoral Operational Programme
Human Resources Development 2007-2013
Invest in people!



Programme title: European Social Fund through the Sectoral Operational Programme Human
Resources Development 2007-2013
Project title: Social Economy – an Innovative Model for Promoting the Active Inclusion of Vulnerable
Groups
Editor: Ministry of Labour, Family and Social Protection
Publication date: May 2011

The content of this material does not necessarily represent the official position of the European Union
and of the Government of Romania.

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