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# CHALLENGES AND OPPORTUNITIES FOR THE SOCIAL ECONOMY IN ROMANIA

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**Abstract:** *The first part of the paper covers social economy issues from the perspective of the relationship with the market and the State. The second part looks at the international framework, by highlighting the main regulatory framework and the national models of social economy at international level. The third part analyses the institutional and legislative national (Romanian) framework based on the analysis of the social economy entities. In conclusions we analysed public policy options for development of social economy in Romania*

**Keywords:** *social economy, data collection, types of social enterprises, European/national framework.*

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## Introduction

The present paper is a deliverable of the INCLUSIVE ACTIVE EFFICIENT project. The consortium partners were The Research Institute for Quality of Life, Romanian

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Academy (lead partner), HOLT Romania (Iasi subsidiary), the Association for Development and Socio-Economic Advancement CATALACTICA and Împreună Agency for Community Development. The project is financed by the UEFISCDI programme Partnerships in priority fields, Project Code 1390, period of implementation 2012-2015.

The paper is part of the stage I of the project, collecting and analysing statistical data. According to the project activities' plan, the ensuing stages include collection and analysis of the quantitative and qualitative data and drafting of the Research Report. The present *working paper* is based on the collection of statistical data and secondary data analysis.

The project INCLUSIVE ACTIVE EFFICIENT aims to contribute at increasing access of vulnerable groups to the labour market by labour force employment in the field of social economy (SE). The project contributes to the achievement of the objectives set by Romania as member-state of the European Union (EU). The paper is aimed to all persons involved or interested in the field of SE: specialists, experts, business environment, academia, entrepreneurs, civil society, interns, and finally, to all those who believe they can intertwine economic activities with social purpose.

## I. DESCRIBING THE ISSUE

National level statistical data reveals the gaps in achieving the objectives and targets of the Europe 2020 Strategy. As of 2008, Romania featured an employment rate of 59% against a target of 70% for 2020 (at EU level). The employment rate in Romania was by 52.2% against the EU target of 60%. The employment in the case of the elderly (55 to 64 years) was 43.1% in 2008, against the 50% target for 2020.

In this context, the present chapter proposes a review of the issues of social economy in relationship with the market and the State, and with the employment policies, and with the specific topics of professional insertion for those groups facing increased risks of social exclusion in general, and especially on the labour market.

### *I.1. Social economy: between market and the State*

The emergence in the public debate of the social economy is related to the role of the State and of the market in delivering welfare, and mainly to the neoliberal approach. According to this approach, dominant in capitalist countries since the late-seventies/early eighties, the market has the main role in welfare, while the State has a residual role in welfare and in achieving overall economic and social progress.

Public policies had a low impact on reducing unemployment, and economic and social inequality as well, as proved by the virtually unchanged at-risk of poverty rate. The market economy model began to be questioned because it failed to deliver enough decently paid jobs, while the share of precarious employment increased - part-time, temporary or self-employed in low-paid jobs. The failure of the market was highlighted both regarding labour force market, and in meeting the old and new, technology driven, needs and aspirations.

In this context, new models emerged for improving the standard of living and /or delivering welfare that anticipated the role of social economy. One of them is what might be called the “mixed model of supplying welfare”, especially in the field of personal and health care services.

This model highlights the plurality of stakeholders involved in supplying welfare services (for instance, family/household, the State, the private sector, as well as a wide range of community, and local voluntary organisations), the local dimension of the social care services, as well as the mediator role of the State in the field.

This model was developed by Evers and Wintersberger (1990) in what they called the welfare triangle. The role of the various stakeholders in generating welfare is acknowledged, and the economic and social room is identified in which the social economy operates being placed between the poles market, State, and family/household. In the framework of this model, the principle of solidarity is the basic characteristic of the social economy, as are accepted the characteristics of profit for the market, of rights for the State, and of reciprocity for household, family, and community.

In this space, a wide variety of local level organisations exists providing a wide range of services. They develop multiple activities for advancing and supplying welfare as mitigation to the adverse effects of economic changes and, especially, this is based on the collective effort in the field of local development. Regarding these institutions, some serious questions arise about financing, support mechanisms, and their sustainability, the standards in services’ supply, and the relationships with the beneficiaries.

The space where social economy activates is known also by the fact that not all aspects of the social and economic life are located between the State and the market. There is an acknowledgement regarding the various forms of economic and social activity that supply both individual and collective welfare.

Despite approach and conceptual differences between the presented models, the idea is highlighted of shifting beyond market and State the activities of achieving the objectives in fields such as increasing labour force employment, ensuring welfare and social inclusion.

Both approaches identify the space in which social economy might be active, and the operation principle of the social economy organisations is solidarity.

### ***1.2 Market failure: role of social economy institutions***

Many public policy documents acknowledge that the market fails in supplying collective and individual goods according to societal needs. This is, in fact, the *raison d’être* of the social economy institutions.

The market failure terminology is used in the economics for designating the situations when unregulated markets fail in efficient or optimum allocation of resources.

Suboptimal allocation is related to both labour and natural resources. At the same time, a series of unmet needs emerge in a variety of fields, including personal and health care services, education, cultural and leisure time services.

Market failures occur because of a variety of causes: market imperfections, such as imperfect competition, imbalances in market and/or economic structure, externalities, and nature of public goods. Often, market imperfections are linked to the role of monopolies in determining prices.

Externalities refer, in general, to the negative and positive effects for companies or consumers as result of the actions of some other companies or consumers. An example of negative externality is pollution. Polluting emissions generated by a certain company involves no costs for the respective company but lead to additional costs with respect to the health of people and society. An example of positive externality is the participation of individuals to sport activities. In this instance, the costs and benefits are linked to individual consumers but benefits result, as well, for the society by potential diminishment of public health expenditures.

In certain circumstances, external benefits are extremely widespread becoming public goods. These goods have the characteristics of being non-exclusive (the consumption of one person does not reduce the available quantity for another person) and non-competing (the consumption by one person does not hinder another person to consume the same product or service). The typical examples of public goods include quality of the environment and to food safety.

Considering the variety of factors leading to market failure, it is necessary to identify where organisations active in the field of social economy may play a role, the background for this role, and the corresponding financing mechanisms.

First, wide varieties of organisations are involved in improving environmental resources and in preservation activities. These are, in general, producers of public goods, though in many cases they are limited to certain localities. From the financing viewpoint, the issue is about the way they are supported, in terms of public or private support sources. To the extent in which benefits result, both for natural persons, and for institutions, importance has the way in which the costs for achieving these benefits may be distributed to the beneficiaries.

Secondly, wide varieties of organisations are involved in supplying personal services, for instance in childcare, information and counselling, after-school services, elderly care, and services for disabled persons. What is important is that many of these services are supplied because certain consumers are unable to afford market prices and the state fails in supplying these services.

In both instances, the idea is to finance activities for a special type of organisation to deal with social problems (unemployment, market failure) and their consequences.

Despite the opportunity for developing social economy and increasing financial resources allocated for these organisations due to market failure, this opportunity was achieved mainly by labour market inclusion of vulnerable persons.

### ***1.3 Social economy, support for employment policies***

This approach starts from the fact that there is a wide range of unsatisfied needs that are not fulfilled either by market or by the State. These needs are the result of

demographic and lifestyle changes. They occur in the following areas: homecare for elderly and disabled persons; childcare and corresponding educational services, youth employment; sports, leisure and cultural local services and facilities.

The link between satisfying these new needs, according to new, technology induced patterns in the standard of living, and the increase of labour force employment by means of social economy is essential. Meeting these needs was realised by activities related to demand – fiscal facilities (tax deductions, fiscal credit), and fiscal guarantees, but also on the supply side by granting subventions for supporting the set up and development of SE enterprises.

To these is added the support for SE enterprises employing the unemployed and training workers for new jobs.

### Fields for increasing labour force employment

#### A. Daily services

In-house personal care services, especially elderly care

Childcare services

Assistance for youths in difficulty

New information and communication technologies

#### B. Improving living conditions

Security

Local public transport

Urban area regeneration

Local shops

#### C. Cultural and leisure time services

Tourism

Audio-visual sector

Cultural heritage

Local cultural development

#### D. Environment services

Waste management

Water management

Protection and preservation of natural areas

Environmental pollution and monitoring

A general feature of this approach is the link between economic growth (in these sectors) and the role played by the market entry of profitable and sustainable small enterprises.

It is relatively difficult to determine how much from the development of these sectors is owed to investments of the private sector and how much by the public sector (by programmes supporting the development of enterprises, or specific programmes for the labour force market), or to the various forms of public and private arrangements, or to the tertiary sector. Consequently, while these sectors are a target for assistance/development regarding the achievement of public policies objectives for increasing the employment rate, they do not provide necessarily a basis for supporting the development of social economy.

A second aspect refers to those fields where there is a considerable level of informal economic activity. This activity might take the form of agreements based on reciprocity (childcare between the members of the family or friends), or on financial transactions outside the formal economy (household). In this context, it is unclear whether social economy's development involves substituting the informal economy activities with an acknowledged form of activity within the social economy.

The associated policy perspective emphasises the requirement of approaching the factors hindering the development of these sectors. These include legal, financial, technical, and institutional barriers. These barriers and the changes in policies that must be approached are similar to the barriers and policy changes required for supporting the set-up of small enterprises and peoples' entry into labour force self-employment. Finally, it is possible to maintain that in the framework of this approach is achieved successfully regarding labour force employment but without significant effect on the corresponding long-term unemployment rates, or of social economy increase.

#### ***1.4. Social economy and local economy: a territorial approach***

This territorial approach of SE derives largely from experiences focused in a variety of ways on local economic development and supporting in an innovative manner the process of solving the issues faced by communities.

In this respect, a series of useful tools were developed for fostering social and economic development at local level. The concepts associated with this approach include strengthening local capacities and partnership, especially the public-private one.

Throughout the past years, the long-term local development initiatives and labour force employment reflected the association between job creation, enterprises creation, and local development.

Moreover, the territorial approach is determined by the urban and rural development traditions or path dependencies. In certain cases, it may be associated with the specific assistance meant to foster economic and social activities in areas affected by the economic changes.

Last, but not least, the analysis of the SE initiatives at local level highlights their contribution to preserving local traditions. The use and valuation of resources available

at local level represents both a success in ensuring the income sources for the members of the community, and a way of attractive economic promotion for potential investors. Assuming responsibility for resolving local issues, SE may provide efficient answers in adjusted fields of activity (e.g. a social enterprise that would ensure childcare in a rural community with the participation of young mothers who want to start working again, another social enterprise that would generate jobs in a community at far distance from town, etc.).

### ***1.5. Social economy and professional insertion of vulnerable individuals on the labour market***

The SE field is often misperceived in narrow terms as labour market insertion of vulnerable groups. The favouring factors for this state of play is represented by the insufficient knowledge about the term, the debates regarding the identification of solutions for creating and maintaining new jobs and last, but not least, the activities planned to unfold in the framework of the projects co-financed by the European Social Fund (ESF). In the context in which the EU recommendation for the Member States was to pay increased attention to promoting SE and social entrepreneurship, the insertion of vulnerable groups on the labour market by means of SE entities, in particular by means of insertion enterprises seems a solution for promoting active inclusion.

Reducing the entire field of SE to the issue of professional insertion of vulnerable groups entails a series of risks that might generate reverse effects to the aimed ones.

A first risk of this approach is represented by the exclusion from the SE field of some entities that operate in Romania for better than one century and a half. We refer here, especially, to the (1<sup>st</sup> rank) cooperative societies (coops), according to Law 1/2005 referring to the organisation of cooperatives, employees' and pensioners' mutuals, and to credit cooperatives. The current legislative framework for regulating the organisation and functioning of the mentioned organisations makes no reference about the insertion of vulnerable groups. It does not preclude this aspect but makes no explicit mention. A direct effect of this risk is represented by the loss of interest by abovementioned SE entities as regards to approaches for promoting and developing the SE field, including the legislation in the field, or drafting a long-term strategy. An associated risk is represented by the rejection of and absence from the activities of the projects co-financed by ESF and dedicated to SE or social entrepreneurship.

Another risk associated to the limited understanding of SE as insertion of vulnerable groups is represented by the perpetual state of confusion as regards assuming the identity of SE by entities in Romania. During 2009- 2010, part of the central and local representatives of SE entities acknowledged openly that they do not regard themselves as belonging to SE. Officialising this approach would represent an argument in this sense. A direct effect would be the impossibility of identifying a mechanism by which SE entities may be identified, evaluated, and monitored. In the absence of this information, Romania cannot provide for comparative data regarding the amplitude of the phenomenon in Romania, about the identified needs at national level, etc.

The emphasis on the issues of vulnerable groups might have impact on distinguishing SE from the field of social care. The inclusion of the SE term in the framework of the Law 292/2012 regarding social and a detailed classification of vulnerable groups in the SE draft-law advanced to public consultation by the Ministry of Labour, Family and Social Protection in September in 2012, would provide some support to this end.

## II. INTERNATIONAL CONTEXT

This chapter analyses the main European regulations at European level relevant for the SE. The main institutions that played or continue to play a role in supporting SE at European level are also featured. The second part presents five SE European models: the Anglo-Saxon Model, the Nordic Model, the European Continental Model, the South-European Model, and the Central and Eastern European Model.

### *II.1 Main regulations regarding social economy*

At European level, we cannot identify a consensual agreed on definition of SE. This situation can be interpreted as both cause and effect of the lacking European strategy of promoting SE.

However, for the last years we may mention both efforts of member-states in acknowledging the importance of SE for the economy, and the adoption of some European regulations with impact on SE entities.

In the first category, we frame the recommendations addressed to member-states to direct their national efforts for promoting SE. Achieving the objectives assumed by member-states in the framework of the Europe 2020 Strategy depend largely on harnessing the potential of SE in providing and maintaining jobs for all those interested, but especially for disadvantaged groups.

In this regard, on launching the initiative for social entrepreneurship (2012), the European Economic and Social Committee highlighted that “social enterprises must be supported for the essential role they may fulfil as social innovation vector”. This being relevant “both in implementing new services’ supply methods and measures for improving peoples’ quality of life, and for facilitating the emergence of new products meeting some new needs of the society” (EESC, 2012, p. 2).

In the category of regulations with impact on SE entities, we stress that at European level are acknowledged a series of ES specific organisation forms: mutuals (the equivalent of the Romanian Houses of Mutual Help of Employees and Pensioners’ House of Mutual Help), cooperatives, associations, and foundations. Though efforts were made for adopting European statutes for each of the mentioned SE entities, this exercise failed. They were launched for public debate at European level but did not achieve consensus. The only exception is represented by the adoption of a Statute for a European Cooperative Society in 2003.



From the institutional viewpoint, there is not a single accountable SE actor at European level. The institutions that were and continue to be accountable in this field are the European Commission, the European Economic and Social Committee, the European Parliament, and the Council of Europe. Perhaps the dialogue with the European representatives of the SE entities would have had other dynamics if the Department for Social Economy had not been abolished in the year 2000. This Department had operated as of 1989 in the framework of the Directorate General XXIII. Undoubtedly, the presentation by the European Parliament Member Patrizia Toia of the Report regarding SE 2009 in the framework of the workshops organised by the European Parliament relaunched and brought into the focus of the European public agenda the field that was slightly turning obsolete.

## *II.2. Alternative Social Economy Models in Europe*

The concerns about social economy are not new, as they began representing a topic of interest throughout the 19th century, and are a current topic in many European countries, as they were also in the United States and Canada during the 1980s. The rekindled interest for social economy is owed to the proliferation of some phenomena like unemployment, or social exclusion due to prolonged absence from the labour market. At the same time, it is owed also to the increasingly diminished capacity of the state to regulate and prevent issues generated by market mechanisms and hence, to the need of identifying new solutions for social issues in view of equality and social justice-based development.

Despite similar elements, it is difficult to talk about only one model of social economy. Variations in the framework of social economy might occur not only between different countries, but also between different regions. In Europe we identified five SE models: the Anglo-Saxon Model, the Nordic Model, the European Continental Model, the South-European Model, and the Central and Eastern-European Countries' Model. Hereunder we detail the main elements characterising each model with examples at national level.

### *II.2.1 Anglo-Saxon Model*

The Anglo-Saxon approach of social economy is based on the concept of non-profit organisation (charity) and on differentiating social enterprises from the private sector. In **Great Britain**, the term “third sector” is used frequently, and it includes the voluntary sector, cooperatives, foundations, and social enterprises.

The cooperative development bodies came into being at the beginning of the eighties, as mitigation of the deindustrialisation and the rapid increase in unemployment. The local leftist governments financed radical economic development projects such as cooperative development agencies as form of opposition to the Thatcher government. There were about 75 such development agencies covering mainly urban areas, but many of them were abolished because of lacking financing. Those that survived by developing entrepreneurial capacities and diversifying their financing sources are focused on purposes characteristic to social enterprises (DIESIS, 2005).

In 2001, the British government created the *Social Enterprise Unit* within the Department for Commerce and Industry. In 2002, a strategy was developed for the social economy. The latter was reviewed in 2006 and entitled the *Social Enterprise Action Plan – Scaling New Heights*. In 2005, a minister was appointed for the third sector, and the *Office of the Third Sector* was established as structure subordinated directly to the Prime Minister. In July 2002, was founded the *Social Enterprise Coalition* financed by its members, the government and sponsors, and its emphasis was on lobby activities, and on promotion at high political level.

As result of their flexibility, the cooperatives are regarded as better businesses; In Great Britain, 98% of the cooperatives operate after three years of activity, as opposed to only 65% from the business organised under any other form. Over the period of economic recession, while Great Britain's economy considered cut offs, the cooperative sector seemed to react differently. Over the period 2008-2011 the number of cooperatives increased by 23%, and in 2011 it increased by 8.9% thus recording in total 5,933 entities (Cooperatives, UK, 2012).

### *II.2.2. Nordic Model*

In the framework of the Nordic Model, the cooperatives are important stakeholders of the social economy, and they put pressure for achieving the objectives satisfying the needs of the community and promoting social solidarity and gender equality, while together with public agencies they create services' networks.

In **Sweden** (1997), a working group is established for studying social economy. Under the heading social economy are framed organised activities that have as priority purpose to provide for the community and that have as basic features focusing on democratic values and independence from the public sector. The development of social enterprises for facilitating labour market transition and integration was slowed down by beneficiaries' fears that they would remain on the labour market with a lower statute, and by fears that state-financed enterprises would gain competitive advantages against private ones, and even by hindrances in the public acquisition legislation (Spear, 2008).

In **Finland**, the concept of "social economy" is not clearly defined. Rather, the terms "third sector" is more widely used for the organisations supported by public funds. The cooperative system is strongly integrated into the traditional economic system and, as result, perceived in very little extent as belonging to social economy. Social enterprises are defined as organisations that may take any organisational form approved by the Ministry of Commerce. These organisations produce goods and services for profit, but with the provision that at least 30% of the labour force is made up of disabled persons or a combination between disability and long-term unemployment (Law 1351/2003). In Finland, there is no policy focused on social enterprises for labour market integration (*WISE*), and active employment policies receive less attention and even lower financial resources. Regarding labour force employment, the deficit at policy level was substituted by ESF co-financed projects (DIESIS, 2008a).

### II.2.3. *Continental European Model*

In Germany, Austria, France, and Belgium cooperatives as providers of services operate with the purpose of meeting social needs under the control of the state. In time, cooperatives developed and created federations. In Germany and Austria, the emphasis is laid on empowering the participants, and this is the reason why they were called “self-help cooperatives (Selbsthilfe Kooperativen)”. Social enterprises for labour market integration (WISE – *work integration social enterprises*) in **Austria** are financed mainly by the Public Employment Service and by the federal provinces. In the period 2007-2008, they received financing also by means of the Labour Force Employment Operational Programme in the framework of the priority regarding the fight against unemployment.

**Belgium** has a rich tradition in the field of social economy in sectors such as agriculture, finances, sports, or culture. According to Spear (2008), the health and social security sector is also based on the partnership between the state and mutuals. Some research centres also cover areas of concern for the social economy. Cooperatives, which undergo a certification process, are one of the oldest forms of social economy in Belgium. For instance, mutual health insurance funds are structured under the form of cooperatives (EU, 2007, p. 31). In 2007, according to EU data, about 50.000 individuals were employed in the social economy field, with a yearly turnover was of about 1 billion Euro in this country. Responsibilities regarding employment and social economy are shared between the regional and federal government.

In 2000, the federal government and governments from the Flemish, Walloon, Brussels, and German speaking communities have signed a cooperation agreement regarding social economy that pursues the development of social economy by co-financing the initiatives of the communities and regions. In this approach, the federal government has a coordination role, and the importance of the local level is acknowledged in fighting against unemployment and social exclusion in Belgium (EU, 2007, p. 34)

In 2003 a fund for sustainable social economy was established with the purpose of supporting social economy enterprises by investment credits, loans and capital investments. In 2006, this fund supported 36 initiatives and in the ensuing year 46 such initiatives (Spear, 2008, p. 23). In the field of home care services, the federal government initiated a voucher system that mandates the purchase of state subsidised vouchers for use from public, private, or social economy providers. According to this system, the individual user pays 7 Euros for a voucher, and the services’ provider receives from the state 20.28 Euros. The difference is covered by the state, and the individual user may deduct the 7 Euros from taxes. The areas where the system is practiced are gardening, transportation of disabled persons, home repairs, etc. According to Spear, this system led to higher formalisation of the economy in the field of home services, and to diminished fraud and fiscal evasion. Moreover, as shown by the Ministry of Employment, at least 80.000 jobs were created over the period 2004-2008 as result of the vouchers’ system, though only 10% thereof were spent in the social economy (Spear, 2008, p. 28).

The European Union data for 2007 (EU, 2007, p. 34) show that the subsidised social economy in the Flanders region ensures jobs for 25.000 people. Four types of social economy entities contribute to this total: integration enterprises, district and neighbourhood level services, social jobs, and sheltered workshops.

Also, part of the social enterprises' category are organisations that after a period of eight years focused on social inclusion shift to conventional businesses. The core element of this type of organisation is represented by providing added value and jobs to disadvantaged individuals who are often persons with low educational level. From the legal viewpoint, the employees must have at least upper-secondary education certificates or over 50 years of age and seeking a job for at least a year, or with disabilities and seeking for a job for at least six months. Subventions of two years are granted: for small enterprises, the subsidy is by 50% from the wage expenditures for the first year, and 30% for the second year. For medium-, and large-sized enterprises the shares are smaller (42.5% and 22.5%, respectively 35% and 15%).

District or neighbourhood level services answer to a variety of necessities and might take the shape of services for individuals or families (in-house help, childcare), of collective services in disadvantaged districts (district maintenance, environmental protection, tourism), or even be a mix of the two.

Social jobs operate in various sectors based on the general principle according to which the respective job may be delivered by individuals with low educational level, and that the activities are work-intensive. Such jobs are frequent in fields like gardening, hospitality industry, recycling, ironing, etc. A social job receives financing from both federal and regional government. Subsidies are permanent for persons over 45 years of age and last between 2.5 and 5 years for the younger individuals, with the possibility of extending the period. The requirement of a monitor for each five employees is provided for (EU 2007, p. 36-37).

Sheltered workshops are active especially in the field of product packaging for customers in the framework of conventional economy. Regarding support forms, sheltered workshops receive a certain flat amount per employee for compensating the lower profitability.

The "Social economy from the perspective of active inclusion: employment opportunities for people far from the labour market" report (2008) showcases an analysis about the way in which integration forms of disadvantaged persons differ by region. Thus, in Flanders there are social enterprises for integration with a strong commercial character that employ workers fit to achieve a certain level of productivity. Others are social workshops opened to persons who were inactive for at least five years; centres providing long-term jobs to individuals with severe social issues, such as low-skilling or drug dependency. Moreover, there are sheltered workshops that provide for permanent jobs to people with mental or physical disabilities. In Wallonia and Brussels regions, on the other hand, there are social enterprises centred on providing long-term jobs for unskilled individuals or with psychological-social issues, sheltered workshops for persons with disabilities, and social enterprises focused on the vocational training of the beneficiaries. The report draws attention to the high costs

entailed by sheltered workshops, as opposed to the social economy forms that provide for temporary subsidies, or that cover for a time of 1 to 2 years the vocational training; this contributes to the higher number of this type of workshops in the much richer region of Flanders.

In **France**, social economy was vaguely defined in 1980, and a bit more specifically in 1981, when also the types of characteristic organisations were defined: cooperatives, mutuals, and associations “*founded on the principle of private property, democracy, solidarity, and non-profit*” (Cace, 2010, p. 107). A popular concept in France is the one of “social economy and solidarity” that reunites traditional social economy with the new forms of activity such as integration in labour market. The activities of social economy in the **Netherlands** are developed mainly by associations, cooperatives, and foundations known as the non-profit sector.

#### *II.2.4. South-European Model*

In the Mediterranean countries, the cooperative statute is attributed to organisations supplying services that the state could not provide.

In **Italy**, social cooperatives emerged in the seventies with purposes such as ensuring jobs for those excluded from the labour market and creating services for disadvantaged persons, and their role is acknowledged nowadays by the Constitution. On the other hand, mutuals are not very well developed, and associations and foundations are perceived most often as belonging to the third sector. In 2006, a law was passed according to which the category of social enterprises includes “any private organisation with stable economic activity that produces and exchanges goods and services of social utility”, and the activities of which must serve the “general interest” (EU 2007, p. 10)

The main activity sectors of the Italian cooperatives are foodstuff sales, services, constructions and infrastructure, agriculture, fishing, processing industry, tourism, logistics, and transportation, and housing. According to the legislation in force, each cooperative must direct 3% of the yearly surplus to the national fund for cooperatives’ development (EU 2007, p 43). The support forms for cooperatives might be concretised in certain services (legal training, consulting, fiscal, and administrative services), in ensuring the rights of the cooperatives by national level movements, or allocation of set-up funds.

A suggestive example regarding the outspread of cooperatives in Italy is represented by Bologna, a city where two out of three citizens are members of a cooperative, and over 85% of the social services are provided by social cooperatives. Over 75% of Italian cooperatives are in the regions Emilia Romagna, Veneto, Lombardy, and Tuscany, while the first of the mentioned covers more than half (EU 2007).

In **Portugal**, the law of cooperatives was voted in the year 1998. The law refers to educational, medical care services, and services for labour market insertion provided by cooperatives, as well as to other social needs unregulated by the market and that are fulfilled by them.

In **Spain**, the concept of social economy is known and well developed, and the category of social economy organisations comprises cooperatives, mutual societies,

associations, foundations, enterprises in employees' ownership, and special employment centres along with professional insertion companies. Spanish labour market integration initiatives benefit to a considerable share from the participation of the civil society, as well as from the increased attention paid by the local administration. Social enterprises for integration were mentioned also in the strategic documents such as the National Reform Plan in 1998, 2005, and 2008. The Law 44/2007 from 13 December regarding the regulation of the working regime in social enterprises for labour market integration acknowledged officially this type of organisation. The DIESIS Report 2008(a) mentioned the existence of 212 such organisations in Spain, including all legal forms of organisation, that reunite a number of 3550-3800 such employees.

In **Greece**, as of the end of the nineties, the employment policies for vulnerable groups were geared towards active measures, under the influence of the European Employment Strategy. In this instance, we encounter a specific type of organisation – the *limited liability social cooperative* – having as purpose to integrate individuals with mental health issues on the labour market and in the society, and to satisfy for these individuals the therapeutic needs at the same time.

An important milestone for the institutionalisation of social economy in Greece was the Law 4019/2011, this being the first solid attempt in the field (Nasioulas, 2011).

**Cyprus**, despite a series of active employment policies is still at the beginning as regards the social economy. However, the tradition of this country regarding the partnership between the state and the third sector in supplying assistance services should be mentioned. (Spera, 2008).

**Malta** is still at the beginning of the road regarding social enterprises for labour market integration, but has history as regards the field of social enterprises, respectively cooperatives. The attempts of setting up such enterprises failed because of lacking financial support, inadequate competences, and because of the absent legal framework for developing enterprises. Malta runs behind other European countries, such as Poland, Spain, and Italy with respect to developing social inclusion options and the legislative framework (DIESIS, 2008a). An example of such an inclusion enterprise is represented by the case of the Equal Partners Foundation that coordinates a cooperative and provides training and integration services on the labour market for the agricultural sector in the case of disabled persons. It was launched in 1998 at the initiative of a group of families, each with a disabled child, and the official establishment occurred in 1999. Taking account of the demographic profile of the Maltese population, the category of vulnerable groups includes youths' in risk situations, single parents, women, persons with disabilities, and immigrants.

### *II.2.5. Central and East-European Countries' Model*

The development of social economy organisations in Central and Eastern European states is slowed down by a series of factors: limited understanding of the role of this type of organisations for local and overall level of economic and social development. Added to this are the negative perceptions from the link between cooperatives and communist regime; the excessive dependence of social enterprises on donors; the lacking legal framework regulating cooperatives and other non-profit organisations; the

lacking confidence in solidarity movements; the predominantly parochial political culture; the difficulty in mobilising necessary resources. (J. Defourny, 1999 in S. Cace, 2010, p.96-97).

The development of social economy in **Poland** was uneven, the profile organisations originating predominantly in the more developed regions of the country and large cities. In Poland, cooperatives were set up in fields such as residential constructions, financial services, and agriculture. These were set up according to the law regarding social cooperatives from 27 April 2004. In 2007, according to EU data, the social economy sector in Poland was made up mainly by associations and foundations, with a total of about 52,000 organisations. The first social cooperative was registered in April 2005, and by the end of that year their number had increased to about 40 (EU 2007, p 13).

In Poland, the legislation distinguishes between two types of cooperatives: the ones providing services for their members, and producer cooperatives providing paid jobs to the members. In the first category are included cooperatives in the commercial, processing, banking, residential constructions, socio-cultural activities', and socio-educational fields. The second group comprises cooperatives of agricultural producers, manufacturing cooperatives, cooperatives for eye disability/blind people, handicrafts, transport, cattle breeding, farming, etc. According to law, associations and foundations, as well as religious organisations, or local public administration associations may obtain the status of public utility organisation if they develop activities beneficial for the public at large. This recognition ensures for the organisations a series of benefits among which tax on profit and on property exemptions, waivers regarding taxes for the issue of official documents, and taxes exemptions. Such organisations might gain the right to use state property in preferential conditions and enjoy preferential conditions regarding lease contracts and for using public assets (EU 2007, p. 60-61).

The law of social cooperatives in Poland is inspired by the Italian one, and according to the latter, at least five individuals with social issues, or disabilities may set up a social cooperative for social and professional reintegration. These benefit from capital provided by the government, and an exemption regarding social insurance expenditures for the workers during the first 24 months.

As result of the incentives supplied by the EU initiative EQUAL, in the period 2005-2008, projects were initiated to set up social enterprises for labour market integration. The sector of the social economy was one of the strongest issues on the ESF priorities agenda from 2007-2013. The concept of social enterprise for labour market integration was developed predominantly as result of the external influence (ESF), and of the national funds (for civic initiatives), and funds from the Ministry of Labour and Social Policy. A Committee for System Solutions on Social Economy was set up under the supervision of the Prime Minister. This Committee consists of the Ministers for the following structures: the Ministry of Regional Development, the Ministry of Labour and Social Policy, the Minister of Economy, and the Ministry of Education. Moreover, it includes representatives from the social economy sector, local authorities, and employers' confederations, and researchers. The objectives of this Committee are the elaboration of a development strategy in the field of social economy for Poland up to the year 2030, the creation of the legal framework and of the educational and financial

tools for developing social economy, as well as increasing lobby activities and visibility of the field.

In **Estonia**, the cooperative sector is very strong, as the residential constructions' cooperatives constituted even a union; an important share of the population (55%) lives in houses built by these cooperatives.

In the **Czech Republic**, the category of vulnerable groups includes parents with small children, former inmates, long-term unemployed, disabled persons and former drug and alcohol addicts. Though cooperatives have a history of over 150 years in this country, they are not regarded as organisations providing aid in terms of the economic and social needs of their members, especially due to the strong links with the government. As of 2000, a reform package was put forward and the Cooperatives' Union of Czech Producers showed its interest for developing social municipal cooperatives for disadvantaged persons (Spear, 2008).

In **Slovenia**, just as in the case of other Central and Eastern European countries, the development of social economy was slowed down by the economic restructuring during the transition to capitalism and the need of reforming the traditional cooperative structure. The concepts of "social economy" and "social entrepreneurship" suffered as result of the association with the term of "social", which is related to the former communist regime.

Maria Jeliaskova (2004) underpins the fact that the most frequently used survival strategies of the vulnerable groups in **Bulgaria** are the safety net of social policy, migration and the informal or black economy. The social economy would represent another form of mitigating risks and crisis. The development of NGOs and cooperatives, significant entities in the field faced important difficulties in the adjustment process of the country to the market economy. According to the estimates, in Bulgaria there were about 10,000 registered NGOs, out of which one third with social purposes. There were 6,500 cooperatives, the majority of which were rural cooperatives. At the same time, Jeliaskova stresses the few available opportunities for the inclusion of disabled individuals on the labour market. This implies, according to the author, the necessity of a strategy for the employment of this vulnerable category that would include aspects like their work protection, protected and subsidised production, a specific normative framework with tax exemptions, as well as firm state commitment in the field.

#### *II.2.6. Types of social enterprises in Europe*

Over the past years, the social economy enterprises proved more efficient in integrating disadvantaged people than the active employment policies. The social economy sector developed as result of the need of identifying innovative solutions to the social issues and of contributing to the labour market integration of vulnerable persons. In Europe, the public employment programmes were opened gradually to the organisations of the third sector called social enterprises for labour market integration that combine often the economic approach and skill development by providing paid jobs and vocational training at the same time (Spear, 2008).



These organisations were classified depending on the integration ways and provided subventions, according to Spear (2008), in four main integration models identified in Europe:

1. Temporary or transition employment characterised by temporary jobs and subsidies. The organisations in this category act with the purpose of providing for disadvantaged individuals a basic experience and vocational training on the job. By combining the two components, the organisations pursue the improvement of personal, social, and professional competences of the participants in view of their labour market integration.
2. The creation of self-financed permanent jobs characterised by permanent jobs and temporary subsidies. The purpose of these organisations is to generate stable and economically sustainable jobs for disadvantaged individuals. The subsidies are used in the first stage for compensating the lack of and low productivity, while they are diminished or eliminated after the stage of vocational training, or as employees become competitive and the organisation may remunerate them from own resources. This type of integration activities is most adequate for persons that can overcome the vulnerability state and can become competitive on the labour market.
3. Integration based on permanent subventions is used for the employment of severely disadvantaged groups – persons with mental or physical disabilities or with major social issues and for whom medium-term employment would be difficult. These organisations provide stable jobs subsidised by public authorities; such is the case of sheltered workshops in Portugal, Sweden or Ireland. Regarding beneficiaries, only a small number from them gain the necessary skills for employment on the (free) labour market.
4. Socialising by working represents another direction for social enterprises focused on labour market integration. The organisations of this type work most frequently with individuals that have severe social issues (alcoholism, drug addictions, former inmates) and persons with severe physical or mental disabilities. Manufacturing is subsidised and very often the workers do not earn wages by virtue of a standard labour contract but benefit from allowance or housing and meals. Examples of such organisations are Belgian enterprises in the field of waste collection and recycling, where individuals with severe social issues work, or the community centres from Spain providing therapy and social services to individuals with severe disabilities.

While France and Germany focus on transitory employment, Belgium and Ireland make efforts for achieving long-term employment. Even though in most cases enterprises focus on a single type of integration, there are situations when the measures regarding transitory employment are combined with providing permanent jobs. This is the case of type-B social cooperatives from Italy and of the neighbourhood (vicinity) enterprises from France (Spear, 2008, p. 16).

#### *II.2.7. Facilities for social economy entities*

From the **legal** perspective, it is noticed that not all forms of social economy are acknowledged to the same extent in the EU member-states. Certain countries like

Denmark, the Czech Republic or Great Britain have no legislation regarding cooperatives, though they have laws for specific types of cooperatives, such as the housing cooperatives in Denmark, loan cooperatives in Great Britain and the Czech Republic. At the opposite pole are countries like Spain, Italy or France where one could point to legislative inflation issues.

As regards the **institutional framework**, some of the European states have high-level bodies with explicit responsibilities regarding social economy. Such examples are the State Secretary's Office for Sustainable Development and Social Economy (Belgium), and the Directorate General for Social Economy within the Ministry of Labour (Spain). Others that might be mentioned are the Inter-ministerial Delegation for Innovation, Social Experimentation and Social Economy (France), the Social Economy Unit – FORFAS, advisory body (Ireland), the Directorate General for Cooperatives within the Ministry of Economic Development (Italy), or the Social Economy Unit within the Prime-Minister's Cabinet (Great Britain) (CIFRIEC, 2009).

Social economy organisations benefit from preferential treatment regarding the **payment of taxes**. Often, fiscal benefits are more abundant for associations and foundations. Such regulations were adopted in Spain, Italy, or Germany. According to the CIRIEC Report, many countries do not extend the special taxation systems for cooperatives as well (for instance, in Greece, the system is applied just for agricultural cooperatives) (CIRIEC 2009). In the Netherlands, the municipality plays a coordinating role in the reinsertion of jobless people. Benefits granted to social enterprises for reintegration might include the compensation costs for training, wage subventions for employers to compensate costs for the long-term unemployed, or bonuses for employers and customers.

### III. NATIONAL CONTEXT

The first part of the present chapter reviews the legal and institutional framework with impact on the SE field. The second part is dedicated to analysing the SE entities. Following a review of all SE organisational forms in Romania, we selected the most representative from the perspective of both setting-up and operational regulations versus the compliance with the international level acknowledged principles, their spread at national level and relevance for analysing social insertion of vulnerable groups. The chapter provides analyses oriented on non-governmental organisations, on first rank cooperative societies regulated according to Law 1/2005 referring to the organisation and functioning of cooperatives and, finally, mutuals of employees and pensioners.

#### *III.1. Legal and institutional framework with impact on social economy*

Romania has no enforced legislative framework referring to the SE field (SE draft law notwithstanding), but the SE entities are regulated. From this point of view, the current legislative framework provides the possibility for the organisation and for the functioning of SE entities. In the context of projects co-financed by ESF, the interest increased for the SE field. An initiative regarding entrepreneurship was adopted at European level, while at national level for the past two years were launched for debate three legislative drafts regarding social entrepreneurship (July 2011) and SE (December

2011, and September 2012). The legislative agenda of the Government provided already last year for the adoption of the law regarding SE. The points raised by SE representatives about the draft law launched at the end of 2011 led to revisions and its revised form in the autumn of 2012. The main objection of SE entities was the emphasis laid on the issues of vulnerable groups in relation to the acknowledgement mechanisms of the SE in general.

The specific SE organisation forms at international level are cooperatives, mutuals (the equivalent of the mutual help houses from Romania), along with foundations and associations. To these are added the social enterprises.

“In accordance with the SE principles acknowledged at European level and taking account of the legislative regulations enforced in our country, the SE entities from Romania are non-profit organisations developing economic activities, irrespective of the field of activity under the form of mutuals of pensioners and employees. Others are credit cooperatives, and first rank cooperative societies according to Law 1/2005”. Next to these, general organisational forms relevant for SE are also to be found, such as authorised sheltered units, enterprises and micro-enterprises, trading companies and non-banking financial institutions (MLFSP, 2010: 38-39), some of which are comparable to those of the SE. However, these “*do not fulfil cumulatively the principles agreed on at EU level (...), respectively authorised natural persons, individual enterprises, and family enterprises*” (ibid: 40).

From the viewpoint of the institutional framework, at present in Romania there is no central public institution responsible for the SE entities. Considering the independence of the third sector in relation to the public sector, we discuss rather about institutions that have activities that impact on the SE entities. By following the above-mentioned classification, MLFSP manages part of the funds aimed at non-profit organisations. The credit cooperatives, the mutuals for pensioners and employees (MHHP and MHHE) as non-banking financial institutions (NBFI) send constantly their financial statements to the National Bank of Romania (NBR). In the case of 1<sup>st</sup> rank cooperatives, the interests of those related to handicrafts and consumption are represented within the Cooperative Council in the framework of Ministry for Business Environment, Trade and Entrepreneurship (MBETE), while agricultural cooperative societies collaborate with the Ministry of Agriculture and Sustainable Development.

## **II. 2. Non-governmental organisations**

### *II.2.1. Trends and the present situation*

NGOs benefitted from a legal framework in Romania as early as 1924, but they were practically abolished during the communist regime (1948-1989). For the non-governmental sector, 1990 meant the beginning of a rapid development process. Having a total number of 62,000 NGOs, from among which about one-third active (estimate of the Foundation for Civil Society Development (FCSD), 2010), the non-governmental sector had a dynamic evolution for the past 22 years due to the major influence of external financing support. One important aspect of the non-governmental sector is the predominant presence in the urban area, about 87% of the NGOs being registered and developing activities in cities and towns (FCSD, 2010). Moreover, the

non-governmental sector focuses its activities in a 5 out of the 8 development regions, namely Bucharest-Ilfov, South-Muntenia, North-West, West, and Centre, while in other regions NGO activity is markedly lower.

The studies from 2010-2011 in four development regions<sup>1</sup> confirm that NGOs are highly dependent on EU financing. The share of other financing sources, especially of those from economic activities, is low. At the same time, a relatively low number of NGOs register revenue from their activities. Under these conditions, we may estimate that the non-governmental sector is vulnerable, particularly in the Bucharest-Ilfov region, where the significant increase over the past years was boosted by EU funds. The unbalanced growth of the past years might raise sustainability problems for the sector, especially since it lacks income from alternative revenues sources.

The structure of the NGOs budgets' reveals a rather unstable profile considering the high variations from one year to the other. The share of stable financing sources is low, a significant contribution in the revenue structure being from projects. The legislation in place does not provide facilities for employees in the social field, and this is the reason why the costs for human resources have a significant share in the NGOs budgets. If an NGO bases its cash flow on revenue from (one-time) projects, it is difficult to retain the employees in the absence of financial continuity. The burden from excessive labour taxation has direct impact also on the social economy activities that aim to foster labour market integration of the individuals from vulnerable groups. The labour force costs are in this case significantly higher than for similar, but for profit, economic organisations due to the higher investments' costs in labour force training.

As compared with the other two types of SE structures— cooperatives and mutuals – NGOs have the best potential for developing economic activities that would generate revenue that could be used to directly support the creation of social services for disadvantaged groups. However, the non-governmental system is exposed to some significant risks generated by considerable changes in its sources of financing. Previous studies (Arpinte, 2008, 2009; Cace 2006, 2010) point to some marked risk factors for those NGOs that do not have the capacity to use EU structural funds. Moreover, the NGOs that run projects financed by EU structural funds (Arpinte, Baboi, 2009) revealed a series of difficulties that significantly diminish the potential of EU funds to support a sustainable process of organisational development.

Fostering the development of economic activities at the level of the NGO sector is an imperative considering their significant role in providing support for disadvantaged groups. There is already an important volume of initiatives regarding revenue-generating activities, however these are exploited insufficiently, or they have low chances of becoming sustainable. In the case studies from the two regions, some economic activities were identified that had an important role in the reintegration of

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<sup>1</sup> Survey data from the project "INTEGRAT –Resources for women and Roma groups socially excluded" (2010), collected from two development regions, Bucharest-Ilfov, South-East, and the project "PROACTIV – From marginal to inclusive" (2011), collected from development regions South-Muntenia and South-West Oltenia. Data from the two surveys is comparable due to common or similar questionnaire items.

vulnerable groups, for disabled persons or youths leaving the placement centres. The difficulties mentioned by the NGOs in managing their ongoing activities and the current regulations discourage such initiatives and hinder the attempts of boosting a development process for the SE.

Even though the non-governmental sector does not have a clearly defined role, as compared with other states, **NGOs from Romania strengthened their role as service providers** in the field of social assistance. In 2010, half of the total service providers of social care were NGOs, out of which 62% operated in urban areas. Out of the total number of certified services in 2010 (7,776 services), almost half were provided by NGOs, most of them in the fields of child protection, home care services, and services for ensuring subsistence means for various vulnerable categories (e.g. social canteens).

NGOs are also starting to have an increasingly important role in drafting public policies or relevant normative documents. Important legislative initiatives in the social field have been proposed, supported, or adjusted significantly by the representatives of the non-governmental sector. **The increasing role of the non-governmental sector regarding the public policies process** is an obvious consequence of the enhanced standing and higher expertise of the sector. At the same time, a trend towards coalition building by the NGOs is noticeable, along with their swift mobilisation for influencing decisions in public institutions. During 2003-2007, the number of interventions by NGO representatives in draft laws and regulations in public debate increased by more than 5 times.

Yet, a series of vulnerabilities of the non-governmental sector exist that affect significantly its capacity to develop services for the socially vulnerable groups or to promote public policies for the protection of the latter.

**Dependence on external financing.** Only a low share of organisations has medium-, or long-term strategic partnerships with external financing sources that help cover in part their current expenditures (administrative, some part of personnel expenditures). In this category, we may include also religious organisations benefitting from constant financing by natural or figure persons. Most organisations is dependent, nonetheless, on external grants compelling them to provide services under the form of projects, but not programmes. The lack of some long-term financing models does not allow for the development of some permanent services. Generating revenue from economic activities is one of the shortcomings and a poorly encouraged aspect of the legislation in place. The state does not provide for adequate support for financing the daily activities of the NGOs. Thus, ensuring sustainability and continuity of services becomes difficult after project financing ends, and most often, these services are transferred to public institutions, or maintained by partnerships with local authorities, or public services suppliers. The gradual withdrawal of international financing (donors) for NGOs was not compensated by the diversification of the revenue sources at national level. During 2008-2009, international financing was still the most important financing source for more than one-third of the NGOs.

**Insufficient state support.** The support from the state has an insignificant share in the total volume of funds used by NGOs. Functional mechanisms to mitigate the effects of diminishing traditional external financing or their fluctuation have not yet been developed. Financing based on Law 34/1998 are seldom granted from local (government) budgets, and from the state (central government) budget (available if the organisation has beneficiaries from two or more counties), the maximum allowance per beneficiary can only cover a small share of the costs. The facility of public utility status, regulated as of 2000, was used rather as an electoral tool. This is proven by the fact that over a 10 years period, two-thirds of the NGOs that have public utility status received it in election years (2004 and 2008).

The inconsistency of resources' availability for the NGO sector has significant consequences for maintaining the personnel and for ongoing provision of services. The main criterion in dimensioning NGO services is given by the existence of some financing opportunities, and not by the needs of the beneficiaries or by the demand for the respective services.

One major contextual risk is generated by the deficiencies in managing EU funds and by lacking strategic approaches in the allocation of funds. The pre-deferment of the POSDRU programme from 2012 emphasised the vulnerabilities of the NGOs involved in managing structural funds. Practically, some organisations were in put in front of the situation to suspend their activity and even to sell some assets in order to get over the EU funds pre-deferment period. Another shock will occur, most likely than not, after the conclusion of strategic projects. Most of the organisations involved in managing such projects invested heavily in human resources and infrastructure. The end of the projects will require from them to identify enough alternative sources, at least for not wasting the accumulations achieved during EU structural funds. It is expected that the non-governmental sector will face considerable difficulties, especially because the chances for ensuring the continuity of financing at a volume comparable to EU structural funds are low. The lack of a strategic approach by the public authorities is also seen in the delays in the process of developing the operational programs for the EU 2014-2020 multi-annual financial framework, a fact that increases the risk of postponing the launch of these programmes, with direct consequences on the sustainability of the non-governmental sector.

### *III.2.2. Directions of development*

The measures for developing social economy activities cannot be implemented in the absence of a global support strategy of the non-governmental sector. Thus, a **first set of measures** should aim the **NGO sector as a whole**:

***A national framework for supporting a balanced development of the social care services sector.*** The current model does not encourage local public authorities to develop social services and does not ensure support for the localities that lack the required (financial) resources. Under these circumstances, the non-governmental sector operates on a market ruled by the scarcity of financial resources and not by the needs of the target groups, or by the scope of social problems. Financial resources allocation according to the competition criterion is, undoubtedly, an essential condition for

selecting viable projects of potential success. However, in the field of social services there are a series of distortions that have to be corrected by a series of mechanisms that would ensure the allocation of resources by maintaining an optimum balance between needs and competitiveness. Resource allocation based on project competition increased the territorial polarisation of social services coverage. Service providers who benefited from the advantage of human resources availability or from information access secured the highest share of resources from EU funds. Consequently, the NGO sector is more active in areas where there are important university centres, and rather in the urban than in the rural areas. Imposing additional criteria might facilitate focusing the distribution of resources by considering firstly the needs, while the lack of expertise might be compensated by designating some experts to supply technical assistance to the applicants.

***Differentiated support for NGOs implementing projects in rural areas, including fiscal incentives.*** This type of measure supports the previous one, inasmuch as it contributes to lowering regional disparities. Nevertheless, it is obvious that the measure has to be supported by financial incentives mechanisms. Hence, support services for vulnerable groups would be developed according to needs and social problems, and not just depending on the competence and expertise of the services' supplier. Such a system operates successfully in the case of some financing lines in the field of adult education. It is essential that financing is directed to the areas where social problems or the size of vulnerable groups justify such an intervention and not based on a "first come, first served" mechanism. The latter encourages the distribution of resources to structures that already have in place the skills of writing projects, but this does not implicitly mean the added ability of efficient and competent completion of a project. At the same time, the criteria of the implementation area and target group in the project framework are no longer the priority in resource allocation. These deficiencies should be put to right by mechanisms that would ensure the best projects for priority areas.

***Extending fiscal-type incentives for NGOs that provide certified services.*** This type of legitimacy does services' relevance and quality would discourage the abusive use of fiscal or of any other kind of facilities. The current mechanisms of differentiated support in the case of NGOs proved efficiency weakness or were used abusively. It is the case of certified public utility NGOs, acknowledged as such according to unknown criteria rather in pre-election periods. Often, organisations close to political leaders and without significant impact in the area of activity of the organisation were certified. Such a system should be validated and the contribution of representative NGOs in the field acknowledged by avoiding abuse, and consequently the erosion of the support measure.

***Restriction of NGO access to sums from in the 2% income tax mechanism*** so that only NGOs active in priority areas for society might access this form of support. Currently, there is no system of monitoring the NGO that benefit from this kind of financing in a manner similar to financiers that impose rules and regulations to their programmes them (e.g. the organisation not involved previously in fraudulent management of funds in the past, etc.). Next to this type of rules, there should be a control mechanism for the way in which these sums are used.

***Public financing for an organisational development system available for newly established NGOs or without experience.*** The financing programmes should be based on massive transfer of expertise adjusted to the needs of these organisations that implement projects. Technical assistance should be provided based on good knowledge about the context of project implementation, and of the resources that might be mobilised for ensuring its sustainability. As a matter of fact, projects in the social field with significant outcomes and impact had a context diagnosis component. In the case of ESF, performing only the control attributions by management units created difficulties in communication with the organisations that were implementing the projects and even led to blockages in their activity because of contradictory decisions by management units' personnel. An interesting model might be the Social Assistance Fund (SAF) from Lithuania, which has responsibilities as regards the qualitative evaluation of social assistance services, information dissemination, technical assistance and training supply, and ensuring financing for projects of social assistance implemented by public institutions. Its role as financier is significant considering that SAF administers about a quarter of the public funds aimed for social care. The Social Assistance Fund (SAF) is a central public institution, which provides financing and support for social care services providers, qualitative evaluation, as well as training and technical assistance. Another important tool is the Equalization Fund, which redistributes financial resources to the less developed area by using a set of criteria that are in the advantage of the communities with a high share of children in the total population. Even if some of deficiencies are signalled by the experts within the system regarding the efficiency of these two mechanisms (Loza, Zane; Aasland Aadne, 2002), the institutional model has the potential to ensure balance in the development of social services.

Encouraging the development of social economy activities should be supported by:

***Dedicated fiscal support measures directly proportional with the volume of the resources directed for the support of project & programmes for vulnerable groups.*** The current fiscal system does not differentiate enough the way in which the economic activity is managed at NGO level. If the NGO has social economy activities that involve individuals from vulnerable groups, it would be necessary to provide financial incentives for labour market integration and lower fiscal burden. These support measures would provide acknowledgement for the impact of such social economy activities and would encourage this social economy approach focused on inclusion of socially disadvantaged groups. In this instance, a distinction is necessary between the economic activity performed with experienced and competent personnel versus one with individuals for whom labour market inclusion is attempted in this way. In the second case, the NGO has a net disadvantage that should be compensated by fiscal measures.

***Identifying all existing forms of fiscal support for regulating NGO economic activities and their harmonisation.*** The key point of a social economy law is, undoubtedly, the framework of fiscal and any other kind of facilities that might be granted for supporting the development of social economy activities. However, former experience in the regulatory framework for some social care services shows that a



framework law involves the harmonisation of previously issued inter-correlated laws and regulations. The difficulty emerges in the case of organic laws (e.g., the fiscal code) as their change requires significant long-term efforts. For instance, in the case of services for human trafficking victims, a framework law was passed that was perceived as modern, but a series of deficiencies became known, caused either by lack of correlation between main and secondary legislation or by the absence of actual mechanisms for enforcing the legislative provisions. Such a risk is possible also in the field of social economy due to lack of evaluation of the existing support forms. Once identified, their utility might be evaluated, and adjustments made with the purpose of rendering them efficient and harmonised. Previous studies confirm that current legislation contains favourable provisions for the social economy, but which are not sufficiently used, or for which enforcement mechanisms were not created.

***Classification of economic activities involving the employment of persons belonging to disadvantaged social groups as social services under the conditions of reinvesting the revenue in developing that activity, or for financing social activities.*** It is essential for economic activities of this type to be supported consistently, not only from the perspective of their merit in generating significant social impact, but also for maintaining their economic viability. Such an economic activity is clearly at a disadvantage against for profit economic activity. Therefore, financial support is necessary, or any other type of support for ensuring its competitiveness. The main argument is given by the costs structure. In case of a for profit economic activity the selection of the personnel is focused on training costs reduction (it is the reason why certified skills are required, and most often than not, previous experience), while in the case of an economy activity focused on labour market integration the training costs are significant.

***Subsidies that would allow the social services provider to maintain profit-generating activity as means of supporting vulnerable groups.*** In case of using sums for financing social services (for instance, the profit of a repair workshop for protection equipment where disabled persons are employed is redirected to ensuring resources for a day care centre for socially disadvantaged children), it is necessary to sustain/encourage these forms of transfer. An example is the practice of some companies that ensure additional contributions to the amounts raised in the framework of some donation campaigns (as a rule, by doubling the amount). Such a model would encourage redirecting resources not only in the case of NGOs but also in the one of other social economy structures (especially co-ops).

***Differentiated taxation of labour in case of social services beneficiaries/individuals from vulnerable groups who are involved in social economy activities.*** The taxation of labour costs per a job are among the highest in Europe in relative terms in Romania because of the social contributions level, which in turn fund social insurance (pension, health care, unemployment). It is one of the reasons why to founding a SE venture might be discouraging. Differentiated subsidies or taxation of the labour for social enterprises would diminish the effort of the social economy entity and leave resources available for use in developing economic activities. Such fiscal incentives are in place, for instance for the unemployed aged over 45 years,

for the unemployed with head of household status, for disabled persons, etc. However, the uneven enforcement of these provisions makes difficult the use of these facilities in practice.

*A representative structure at NGO level that would monitor the usage of incentives for developing social economy activities with the purpose of discouraging abuse and fraud.* The creation of a representative structure, which would perform the role of monitoring the implementation of SE incentives (fiscal or not), would provide feedback to public authorities. At the same time, such structures would identify quicker possible abuses in the use of such measures and incentives and would prevent their cancelling because of low efficiency. The representative structure would also have the role of collecting, synthesising, and advancing legislative proposals in the field of social economy. Such federative structures exist in the field of NGOs. However, they are characterised by predominance of members from a certain field of activity and, especially, by reduced influence and representation capability. In the field of social economy, we may notice the attempt of some organisations to take sides and polarise the influence of some organisations that have specific expertise but the dispersion is still high enough and so we estimate as low the chances of such legitimate representative structure to emerge.

### ***III.3. Cooperative societies***

In the following, we look into 1<sup>st</sup> rank cooperative societies. According to Law 1/2005 regarding the organisation and operation of cooperatives (co-ops), a cooperative society is an autonomous association of natural and/or legal persons, as the case may be, founded based on free expressed consent with the purpose of fostering economic, social, and cultural interests of the cooperative members, as it is held in joint ownership and controlled democratically by the members, based on cooperative principles<sup>1</sup>. As economic entities, cooperative societies fall into the private capital category.

In Romania, the cooperative tradition goes back in time longer than expected. The first cooperative societies emerged in the last decades of the 19<sup>th</sup> century (Barbu, 1996). In the communist period, the cooperative sector continued to expand in terms of membership and turnover, but in the framework of the command economy. After the Revolution of December 1989, the cooperative societies regained their independent character in relation to state authorities (Crisan, 2010).

The legal framework of their functioning experienced several changes in 1990, 1996, and most recently in 2005. Even though the law in force by the time of elaborating the present paper (Law 1/2005) allows for the operation of any kind of cooperative, by far the most numerous are handicraft (workers) and consumer cooperatives. The classification criterion is the main field of activity. The fact seems obvious considering that the legislative process started with cooperative societies that existed already. Hence, handicraft cooperative societies are active in manufacturing, trade, and services and are encountered almost exclusively in the urban areas. Consumption cooperative societies are mainly in the rural areas and focus on trade. This division has its origin by the mid-

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<sup>1</sup> Art. 7 of Law 1/2005 regarding the organisation and functioning of cooperatives.

20<sup>th</sup> century, as consumption cooperatives were designed for rural trade and harnessing the production of farming (producer) cooperatives.

The legislation regarding the restitution of the lands and buildings nationalised by the communist regime (Law 112/1995) had a series of negative side effects for cooperatives (Stanila, 2011, pp. 49-50):

- massive reduction, almost total disappearance of farming (producer) cooperatives, also known as collective farming during the Soviet-style, command economy;
- the uncertain legal situation of the cooperatives' equity, which resulted in economic gridlock and decapitalisation, including by damages paid to former, pre-nationalisation owners, with negative effects to the manufacturing process, lower turnover and profit;
- loss of jobs;
- loss of contracts concluded with traditional partners before 1989.

One of the aims of the research project *Integrat – Resources for socially excluded women and Roma groups* was to identify the perceptions of the representatives of social economy entities from two development regions (Bucharest-Ilfov, South-East) about the existing institutional and legislative framework (Cace and Stanescu, 2011, 57-68). As regards Law 1/2005, the majority opinion of the respondents from cooperative societies was that this law had major impact on their activity. The main outcome dealt with their organisational structure. The rather positive result included clarification of property rights over the equity as “it restrained certain categories to lay their hands on the assets of the cooperative”, and about the internal power relationships within the cooperative “as control cannot be taken over by just one party”. Other respondents mentioned decentralisation, respectively the freedom regarding the affiliation decision to UCECOM (National Union of Handicraft Cooperatives). However, the affiliation degree to the national representative body decreased after Law 1/2005 was enforced. According to the *Integrat* database, 63% of the cooperative societies based in the South-East and 76% based in Bucharest-Ilfov were affiliated to the national bodies (Mihalache, 2011). Finally, other positive aspects included better representation of the interests, decisional autonomy, flexibility, better representation in front of public authorities.

On the other hand, negative feedback deals mainly with the issue of ownership over equity - land and buildings. “From joint owners we turned to leasers in our own house”, and “we are faced with land registry issues”, or “the rents are high”. As regards the insertion of vulnerable groups, most of the cooperative societies' managers say that the legislation enforced throughout the period when the research was carried out – spring 2011 – supports extensively disabled persons and only to lesser extent other vulnerable groups, such as recipients of minimum guaranteed income, former inmates, Roma people, youths from placement centres.

Members of cooperatives even have a feel of being either isolated or ignored by the policy makers. The respondents of cooperative societies from the development regions Bucharest-Ilfov and South-East were in consensus over the question whether they

received support from central or local public institutions: almost 90% answered “no” (Cace and Stansescu, 2011). Moreover, the expectations for support are from the Government (70%) and national unions (69%). Out of the surveyed cooperative societies 78% were in favour of exemptions from paying duties and taxes, 71% supported fiscal incentives for job creation, and over 70% called for technical consultancy for accessing EU funds; 64% believed that the cooperative sector might be boosted by subsidies (Mihalache, 2011).

The number of cooperative societies in Romania reveals an interesting dynamic over the past two decades. In the nineties, the number of cooperative societies increased by division of existing ones with a slight pause during the economic recession from 1997-1998. In the 2000s, the total number of registered societies continued to increase in the same way up to the year 2008. For instance, over 60% from the cooperative societies from the 2011 *Integrated* survey sample, which covered Bucharest-Ilfov and South-East development regions, were established after 1990 (Mihalache, 2011).

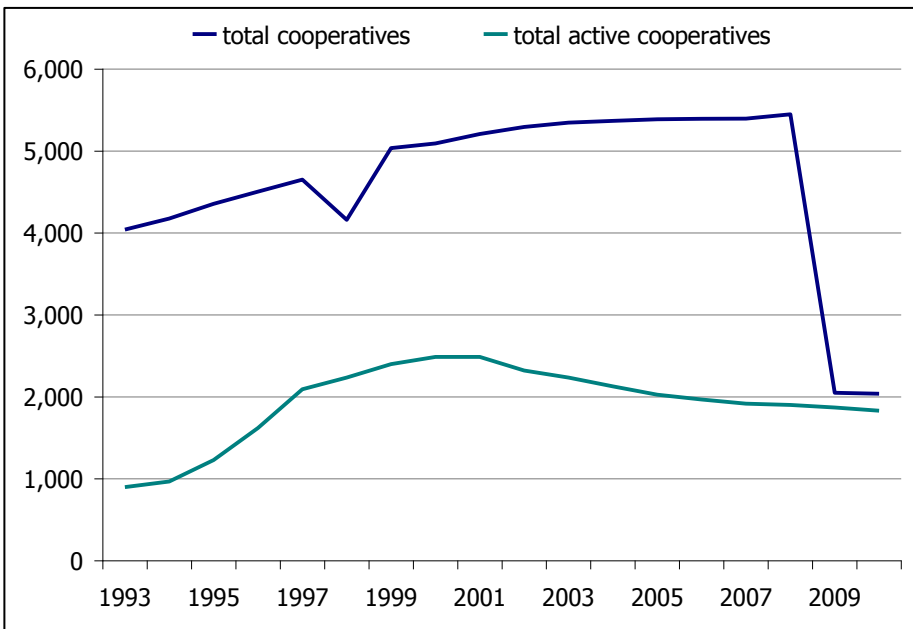
On the other hand, the number of active societies that file their balance sheet and perform economic activity is on slow decline trend as of the early 2000s. Due to the economic crisis that broke out in 2008/2009, many inactive societies were dissolved, so that in 2010 the number of registered societies was of 2,038, out of which 1,832 active of the 1<sup>st</sup> and 2<sup>nd</sup> rank (the 2<sup>nd</sup> rank co-ops are formed by grouping together of 1<sup>st</sup> rank co-ops). Out of the 1,871 active coops in 2009, 789 were handicraft (workers) cooperatives, 894 consumption coops, while the rest of 189 were from other categories. According to data from the survey carried out by FCSD and NIS (National Institute for Statistics) for the Social Economy Atlas (2011), which comprised a sample of SE organisations that had filed their balance sheets between 2000-2009, the handicraft cooperatives were exclusively based in urban areas, while the vast majority (74%) of consumption cooperatives operated in rural areas.

As regards the economic status of cooperatives, the total income of the 1,783 cooperatives topped RON 760 million for handicraft cooperatives and RON 591 million for consumption cooperatives, with a total of RON 1.35 billion at the end of 2009, according to data from the Atlas of Social Economy. In relation to the entire economy, it is the equivalent of 0.3% of GDP, a constant share even when cooperatives posted slightly higher turnovers during the pre-crisis period. About 60% of the handicraft cooperative societies and almost three-quarters from the consumption ones ended the fiscal 2009 with profit (in the black).

The aftermath of the economic crisis that began in Romania by the end of 2008 and the beginning of 2009 were showcased by *Integrat* research findings (Mihalache, 2011). The profit rate of consumption cooperatives decreased by one third and of the handicraft cooperatives by over 50%. On the background of the significant drop in turnover, survival soon became the order of day for many cooperative societies. “*We must resist on the barricades (...) for surviving!*” (Tulcea county, handicraft cooperative society). “*The crisis affected us very badly, because the production that we still decreased enormously. For instance, the furniture cooperative could no longer produce any furniture (...). They all went into unemployment!*” (Galati county, handicraft cooperative society)

The main income sources are manufacturing (clothing, textiles, metal structures and confections), services (tailoring, car repairs, hairdressing), trade and office and industrial rental in the case of handicraft societies, respectively trade and office and commercial rental for consumption cooperatives. Personnel expenditure has a different share according to type of business. For handicraft cooperatives focused on manufacturing and services, the share was 52% in 2009. On the other hand, for consumption cooperatives that were mainly active in trade (retail) and office and commercial space rental, the share of personnel expenditures did not exceed 20% of total expenditures.

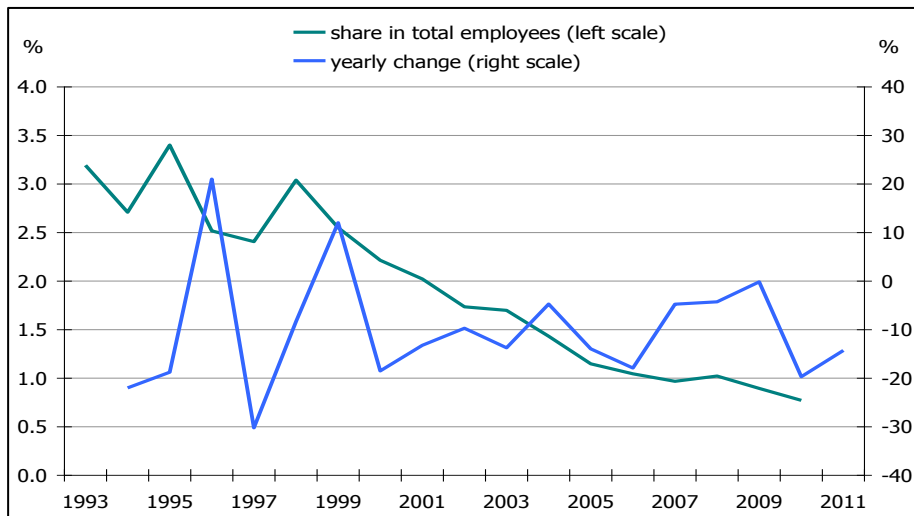
*Graph 1. Total number of cooperative societies in Romania*



Source: Romania's Statistical Yearbook 2002-2012

As opposed to the number of societies, the number of employees provides a good overall picture regarding the decline of the cooperative sector for the last 20 years. From 220,000 employees at the beginning of the nineties, the personnel/co-op members decreased to about 33,000 in 2011. Out of these, about three-quarters are active in handicraft cooperatives. The decline of the cooperative sector is even more relevant in terms of breakdown of total employees in the economy. From over 3% of total employees nationwide, they declined to below 0.8% by the end of 2011. Survey data from the *Integrat* sample reveals a share of around 2% of the employees total for two development regions, including the highest urbanised region in an around the capital city (Stănescu, 2011a).

**Graph 2. Employees/members in the cooperative sector**

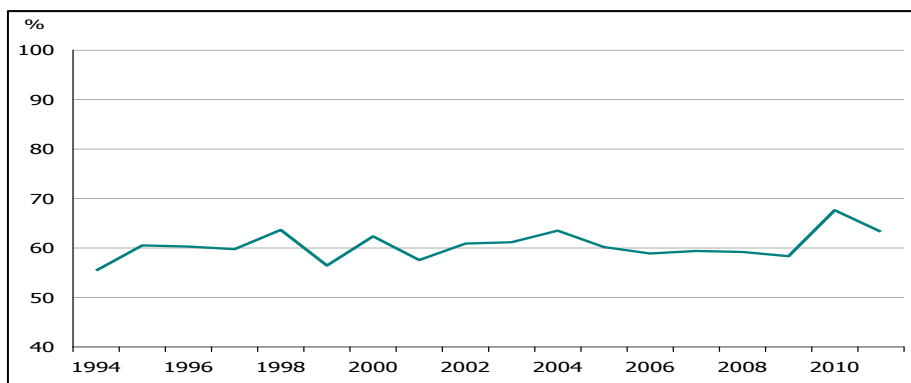


Source: National Statistics Institute, Tempo database

The reversal of this trend poses a challenge concerning the long-term viability of the cooperative sector in Romania. Nevertheless, cooperatives cover a significant part of employment within the social economy.

The average wage in the cooperative sector is significantly below the the national (after tax) average wage. In 2011, the monthly after-tax average wage in cooperatives was of RON 914, as compared with RON 1,444 at national level.

**Graph 3. After tax average wage in the cooperative sector**  
(after tax average wage at national level = 100)



Source: National Statistics Institute, Tempo database

One of the topics of the *Integrat* research project was to identify the extent to which cooperatives invest the resulting surplus from their economic activity for the welfare of their members (Alexandrescu, 2011). Less than 40% of the cooperative societies from the sample of the *Integrat* sample provided for or continued assisting individuals in need. Most often, the assistance is given only to the members and their immediate families. The most frequent type of aid is the funeral allowance, followed by the one for emergencies, and payments for surgery or dental treatment. This aspect was also revealed by the qualitative data from the *Proactiv* research project (Stanescu, 2011b).

There are multiple causes for the decline of cooperatives in terms of membership and economic output, particularly relative decline in relation to the rest of the workforce and economy (Stanescu, 2011b):

- 1) Technology, namely the competition with high volume manufacturing, such as the Lohn manufacturing process, that is cheaper compared with the highly customised, more labour intensive and higher cost manufacturing process of cooperatives;
- 2) The fiscal regime, which entailed higher costs that put pressure on the operating income model;
- 3) Decapitalisation, usually because of faulty management, which led to (fire) sale of assets, liabilities and equity loss from the return of nationalised assets to former owners, lack of investment and redistribution of profits instead of reinvestment in gross fixed capital.

### ***III.4. Mutual Societies of employees and pensioners***

#### *III.4.1. Overall situation*

Mutuals (CAR-Mutual Help Houses or Societies) are among the main entities with activities in the field of social economy, next to cooperatives and NGOs. According to NIS data, there were 3,100 mutuals organisations or societies in 2009, the vast majority being mutuals for employees, while 139 were mutuals for pensioners<sup>1</sup> (FCSD, 2011). At the same time, the total number of members of these organisations exceeded 2.5 million individuals, while the total number of employees was over 20,000 persons (FCSD, 2011). Among SE entities, mutuals feature high level of assets (about one third of total assets registered by SE entities), a high number of members, and significant level of income (about one quarter of the total registered by SE entities), according to official statistics data (FCSD, 2011).

From a historical viewpoint, the activity of mutuals in Romania dates back in the second half of the 19<sup>th</sup> century, when they emerged as an answer to the demand for cheap loans by employees. Thus, the development of mutuals accompanied the industrial evolution of the country and from this perspective they were a by-product of modern economic changes. During the communist period, the number of mutuals underwent exponential growth in the context of the urbanisation and industrialisation.

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<sup>1</sup> At national level, mutuals had by 2010 over 1.6 million members, over one third of the total number of registered pensioners.

Moreover, mutuals were the most accessible source for retail loans during the period of command economy.

After 1990, together with the boom of the retail banking sector, the activity of mutuals diminished considerably in relative terms; nevertheless, they continued to represent a major source for loans to pensioners and employees with low incomes, social categories that most times encounter difficulties in accessing banking loans. From this perspective, the activity of mutuals in Romania seems to be focused on the supply of small loans to low income strata with very difficult access to bank loans. Thus, these play an important social role for the population strata at risk of financial exclusion (Table 1). Based on this, we might consider that the mutuals come to supplement the package of financial services provided by the banking system.

**Table 1. The distinction mutuals – commercial banks from the perspective of clients/customers, natural persons**

	<b>Mutuals</b>	<b>Commercial banks</b>
<b>Loan access conditions</b>	Members - employees, pensioners, people on social benefits or family members. For taking a loan, the applicants must first become members of the organisation, and participate to the social capital.	Employees or pensioners.
<b>Credit duration</b>	Short-term loans (up to 3 years, in most cases 1 to 2 years).	The possibility of determining loan duration depends on the customer's preferences and incomes.
<b>Loaned amount</b>	Micro-credits and maximum level ceilings.	Wide range of credits, without ceilings.
<b>Credit costs</b>	Low. The lowest rate of interest among all other forms of equivalent loans on the market.	Varies depending on a series of factors such as bank policy, customer creditworthiness, or type of loan.
<b>Other services, besides loans</b>	Many mutuals deliver related social-health care services for their members	No

Mutual organisations are voluntary association of some individuals in view of achieving a common goal, and that have as basis for their activities the principle of solidarity among members (Stanila, Cace, Preoteasa, 2011). The European Commission defines the mutual enterprise as representing “An autonomous association of persons (either figure or natural) that unite voluntarily with the main goal of satisfying joint needs and not obtaining profits or ensuring capital profitability. It is managed according to the principles of solidarity among members, as they participate to the collective management” (European Commission apud. Stanila, Cace, Preoteasa, 2011, 13).



Based on the specifics and developed activities, the mutuals provide mainly three types of benefits to the members': *loans, emergency aid, and non-reimbursable aid*. Granting loans at low interest rates is the main object of activity. In some instances, such as mutuals of pensioners, the members are provided, besides loans, with benefits under the form of social and health care services, a fact that brings even closer their activity to the meaning of the *social economy* concept.

Even if throughout the last years the number of active mutuals as proven by balance sheet reporting registered a significant increase from 480 entities in 2000 to almost 900 in 2009 (FCSD, 2011) the situation recorded at national level shows that the activity of mutuals entered on a descending path after 1990. The decline was even more emphasised by the expansion of (retail or consumer) bank loans after 2003. In this context, the evolution of this type of entities is strongly related to the overall economic context and the activity of credit institutions within the banking system, as well as by the formal provisions in the legislation regarding the activity of mutuals. On this basis, the development of social economy activities unfolded within mutuals, leaving aside the standard objective regarding the provision of loans at advantageous interest rates, cannot be achieved unless by changing the current legal framework as to facilitate the development of related services for the members. From this perspective, we might consider that the position of mutuals in the context of the debates regarding the development of social economy refers to their role in diminishing financial exclusion of disadvantaged groups and to the development potential of other services for the members, especially social and health care.

#### *III.4.2. Mutuals of employees*

The main normative document regulating the activity of mutuals for employees (CARS) is Law 122/1996, which defines these entities as “associations without patrimonial (for-profit) purpose, organised based on the free consent of the employees, in view of financial support and mutual help between their members” (L. 122/1996, regarding the legal framework of employees’ mutuals and of their unions, art. 1). The first mutuals for employees in Romania date back for over 100 years, and the roots of this type of entities must be searched at the beginnings of the modern state, when the development of manufacturing activities and of the public sector contributed to the rise of a relatively numerous social strata of employees. The first entity of this type was established in Brasov, Southern Transylvania, in 1846 (Stanila, Cace, Preoteasa, 2011).

The high point for CARS development was during the communist (command economy) period, when by virtue of the huge rise in the numbers of employees and because of lacking alternatives in getting loans from banks, the activity of these organisations saw an exponential rise. The maximum relevance period for the subsequent development of the mutuals’ sector was the entering into force of Decree 358/1949 regulating the organisation of mutuals next to trade unions, and the exemption of these entities from any kind of taxation, or any other type of duty (Ministry of Labour, 2010). Based on the same law, the communist state abolished all mutuals existing at that time, confiscating also their equity, which was subsequently transferred to the General Labour Confederation (Decree 358/1949, apud. Stanila, Cace, Preoteasa, 2011). This approach entailed the takeover of the assets of existing

mutuals, followed by organising these entities just as structures affiliated to the trade unions. By the decree from 1949, the autonomy of mutuals was severely affected, as the entities became structures orbiting around workers' associations and unions.

According to current legislation, the requirement for setting up a mutual is a number of at least 30 members that would contribute to the social capital and to electing the management of the organisation. Once these conditions are met, the mutual might proceed to developing specific activities, respectively granting credits to members. As a rule, the money that a member may receive as a loan is 3 to 5 times the amount of funds, he/she contributed to the social fund of the mutual.

From the viewpoint of organisation basis, employees' mutuals might be affiliated to territorial unions, while having at the same time the National Union of Employees' Mutuals from Romania (UNCARSR) as representative entity at national level. The National Union dates back over 100 years and has as scope to organise and represent the interests of CARs in their relationships with third parties. Currently, UNCARSR has 39 county unions of employees' mutuals affiliated (save for the counties Timis and Satu Mare), which have 2,300 CARs. The main activities developed by the National Union of Employees' Mutuals are:

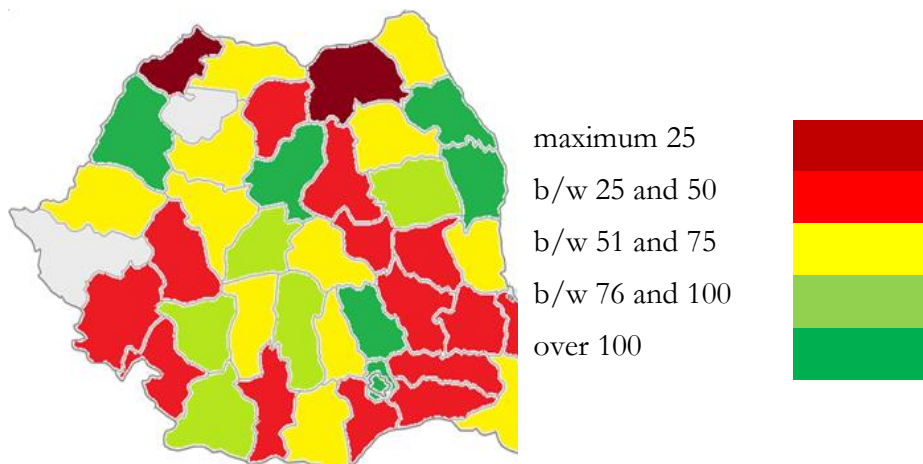
- Protecting, presenting, supporting and defending the CAR interests in relationship with the institutions of the state, financial institutions, as well as with all other types of organisations that establish contractual relations with them;
- Monitoring the financial system of CARs, according to the provisions of the Law 122/1996, by regulating and supervision the activities of affiliated entities;
- Centralising data regarding the financial activity of CARs, and reporting them to the Ministry of Finances;
- Protecting the amounts deposited by the members by checking the compliance with financial standards;
- Draft of regulations and procedures covering day to day activity of employees' mutuals;
- Promotion of the employees' mutuals system;
- Contributing to maintaining the financial balance of the CARs by granting loans to affiliated entities;
- In case of need, provision of special administration of CARs.

Source: National Union of Employees' Mutuals [www.uncar.ro](http://www.uncar.ro) (22.10.2012)

The territorial distribution within counties of CARs affiliated to the National Union shows that Bucharest, Bihor, Mures, Prahova, Iasi and Vaslui counties registered most entities of this type (over 100), while Satu-Mare and Suceava counties register less than 25 such entities (Figure 1). On one hand, the counties from the South-Eastern part of the country have the fewest employees' mutuals. On the other hand, we find a certain approximate symmetry between the volume of economic activity and the number of

medium and large-sized enterprises at county level, and the number of employees' mutuals. Thus, with few exceptions<sup>1</sup>, in counties with higher economic activity, the CARs are more numerous, while on the other hand in less developed counties the number of these entities is markedly lower.

*Figure 1. County level distribution of CARS affiliated to UNCARSR<sup>2</sup>*



Source: based on data from by the National Union of Employees' Mutuals [www.uncar.ro](http://www.uncar.ro) (22.10.2012)

### III.4.3. Pensioners' Mutuals

Pensioners' Mutuals (CARP) operate according to Law 540/2002 and are an “*organisation with civil character, private law figure persons, with non-patrimonial (for-profit) character, apolitical, and with charity purposes, regarding mutual help and social care*” (L.540/2001, art.1). According to formal provisions, CARPs might be founded based on the free association of the following categories: pensioners, people on welfare, and the members of their respective families (husband, wife, or children in impossibility to work because of a handicap). However, most members of these organisations are by far pensioners.

Among the objectives of this type of mutuals, next to granting loans and non-reimbursable aid, are other activities such as organising various cultural and leisure activities, provision of services, running shops providing merchandise at advantageous

<sup>1</sup> In this category, we could mention the case of the Vaslui, Botosani, and Teleorman counties, where the rather large number of registered CARs, even if in many cases no longer active, have their origins in the communist period. The respective entities are those that survived after 1990, even if only for the first years of the period.

<sup>2</sup> The UNCARSR data available on its website points to the atypical situation in Timis and Salaj counties with no information about the activity of any affiliated CARs.

prices for the members. Other activities involve setting up workshop and repair centres, and provision of funeral services for deceased members (L. 520/2002, art. 8). Based on these activities, CARPs are more involved in solving some of the social problems of its members as compared with employees' mutuals (CARS). Thus, by virtue of this peculiarity, pensioners' mutuals play an active role in supporting their members even beyond the usual loan activities.

The first CARPs emerged by the beginning of the 20<sup>th</sup> century and were organised as entities for retired persons. They saw, just as employees' mutuals, an exponential growth during the communist period, as the number of potential members to the respective forms of association markedly increased. During the communist period an important moment as regards the development of CARP activities was the coming into force of Law no. 13/1972, which defined the overall operational framework for these organisations (Stanila, Căce, Preoteasa, 2011). The 1972 Law was meant to improve on Decree 204/1951 by including new provisions regarding the conditions and ways of setting pensioners' mutuals, the appointment of management bodies, and functioning, as well as these entities' relationships with third parties.

After the Revolution of December 1989 and the fall of the communist regime, CARPs remained active and strong. A decline as in the case of employees' mutuals was not recorded. The main factors contributing to this situation are related to the demographic structure and the ageing of the population, as well as to the social issues of this category of individuals. Thus, the increase in the share of the elderly population and in the overall numbers of pensioners allowed for the existence of a very wide pool of potential beneficiaries for entities with this profile. In the context of some processes in the nineties such as early retirement, there was an exponential increase of early retirees due to illnesses in the, the total potential membership pool for CARPs increased significantly. This increase of pensioners' numbers was overlapped by the decline of the standard of living of the population in general, and of the elderly in particular. During the transition to a capitalist economy, this placed a high share of pensioners below the poverty threshold, or narrowly over. Even if CARP members are not exclusively pensioners living in poverty, most of the beneficiaries of services from this type of entities might be easily classified into this category. Moreover, the results of some previous studies show that the sums granted by CARPs as loans have a significant importance in the pensioners' household budget (Stanila, Căce, Preoteasa, 2011). An example is the amount of money granted as emergency aid for wintertime heating expenses.

Other forms of aid granted for emergencies by CARPs to the members are for covering costs for medicine or surgery. In some cases, CARPs developed their own networks of medical practitioners providing specialised services at lower prices for members and access to medicine at subsidised prices. Funeral aids are another widely spread form of support. In some instances, CARPs cover funeral costs based on the payment of the membership fee, thus relieving grieving families, especially the surviving wife or husband, from a major expenditure.

Even if not all CARPs provide these types of services for their members, and support services differ significantly from one organisation to the other, the involvement of

these entities in solving or improving some issues faced by the pensioners, is a twofold strong argument, firstly for the importance of these organisations for their membership, secondly, for acknowledging the central role of these entities in the SE framework. An example in this respect is the Bucharest<sup>1</sup>-based Mutual Help House “Omenia”, one of the largest and important mutuals affiliated to the National Federation “Omenia” of the Mutual Help Houses of the Pensioners. The services that the above-mentioned CARP provides to members next to loans cover a wide range: foodstuff at lower prices, free access to physician, lower prices for medical treatments, subsidised prices for certain services available for members only.<sup>2</sup>

The National Federation “Omenia” of Pensioners’ Mutual Help Houses is a federated national level body that represents the interests of over 1.4 million pensioners affiliated to the various CARP structures at county level in Romania. We consider the National Federation “Omenia” as one of the largest associations in the field of social economy active in the country. The Federation was established in 1990 based on the association of several pensioners’ mutuals. Nowadays, at national level, the federation is present in 38 counties and the Bucharest municipality, and has a membership of 142 mutuals (See Table 2 for distribution at county level).

These features make Federation “Omenia” a first rank organisation in representing the interests of the pensioners in relationship with the state and third parties.

**Table 2. County level distribution CARPs (pensioners’ mutuals) affiliated to the Federation “Omenia”**

County	No.	County	No.	County	No.	County	No.
AB	5	CL	1	HD	7	SJ	2
AR	4	CJ	5	IL	1	SM	2
AG	6	CT	1	IS	7	SB	2
BC	4	CV	3	IF	1	SV	7
BH	4	DB	6	MM	4	TR	5
BN	2	DJ	3	MH	2	TM	2
BT	1	GL	2	MS	6	TL	2
BV	2	GR	3	NT	5	VS	4
B	1	GJ	2	OT	5	VR	2
CS	6	HR	2	PH	6		

Source: National Federation “Omenia”, [www.fn-omenia.ro](http://www.fn-omenia.ro)

In terms of organisation and administration, the National Federation “Omenia” is run by:

<sup>1</sup> Not to be mistaken with the National Federation “Omenia” of the Mutuals, which is the representative and coordination body at national level of all CARPs.

<sup>2</sup> <http://www.carp-omenia.ro/> (25.11.2012)

- *The National Congress* as the leading body, which meets every four years, or by demand of over 50% of the CARPs affiliated to the Federation;
- *The National Council*, which meets on a yearly basis and is composed by the county chairmen of affiliated CARPs and other elected members;
- *The Steering Committee*, elected by the National Council;
- *The Permanent Office*, consisting of a chairman, first-vice-chairman, and vice-chairmen of the Federation;
- *The Commission of Censors*, elected for a four-year term, which ensures financial control and transparency.

#### III.4.4. Development directions of mutuals in the ensuing period

The evolution of CARs might be described based on resorting to the Ferguson McKillop model (1997, apud. Stanila, Cace, Preoteasa, 2011). This model has at its basis the value of the assets for this type of organisation and presents the evolution of these type of entities as a tri-stage process comprising: *the incipient stage, a transitory stage, and a maturity stage* (Table 3). The incipient stage corresponds to the initial period of CARs activities, when they have a low value of assets and they are focused exclusively on granting small loans for short periods. On the other hand, the maturity stage corresponds to a high level of assets resulting from expanding the activity of the organisations and accumulations over the years. At the stage of full development, CARs are active in a competitive environment, while their competitiveness allows them to ascertain their role of financial services' provider and beyond. In this case, CARs are in competition with both other types of organisations providing financial services, but also with one another, for new members.

**Table 3. Typology of mutuals/credit unions' development**

Incipient	Transition	Maturity
Low value of assets	High value of assets	High value of assets
Regulated environment	Legislative changes	Waiver of obligations
Issue of low value bonds	Issue of high value bonds	Competitive environment
Voluntary action	Diversified products and services	Use of modern technologies
Target groups are disadvantaged groups	No longer based exclusively on voluntary action	Professionalisation
Provides only savings and loans services	The range of services is developed at central level	Provision of diversified range of goods and services
Dependence on sponsorships		

Source: Ferguson-McKillop, 1997, apud, Stanila, Cace, Preoteasa, 2011, 44

Based on this conceptual scheme, we take the view that the *transition stage* describes best the current level of development for mutuals in Romania. On one hand, the arguments according to which we position the development level of CARs in this intermediary stage has as starting point the long tradition of such entities in Romania, a fact that places them far from the incipient development stage. On the other hand, the insufficient level of development for most of these entities does not allow for identifying many similarities between the characteristics of the mutuals and the organisational and activity elements describing the achievement of the stage of full maturity. Employees or pensioners mutuals have not yet achieved a satisfying level of organisational development and have not attained a high level of professionalism. Moreover, they have not expanded significantly the provided services beyond the financial ones, so that they cannot be regarded as being in the maturity stage. Obviously, there are some exceptions, but these are merely cases in point, that show a slightly different reality from the one of the majorities of this type of entities.

Together with the reorganisation of the entire sector after Laws no. 122/1996 and 540/2002 came into force, CARS and CARPs entered a new evolution stage which is not finalised yet, by strengthening and diversifying the activities of these organisations or with the strong assertion of their role within the society. Despite relative stability, the current legislative framework does not show enough coherence for sustaining the development of the sector, and the last initiatives about passing specific legislation for social economy entities show that, considering some aspects, the regulation of CAR activities might imply significant changes in the subsequent period. On the other hand, at general level, the range of products and services provided by the abovementioned organisations fails to cover the entire spectre of demands of the members, or of the potential beneficiaries, and this limitation becomes even clearer if we consider the weak development of complementary services to the financial ones provided by CARs. In most cases, and especially in the case of employees' mutuals, the only support forms that are provided are limited to granting loans and financial aid in case of emergencies.

In synthesis (Table 4), we might consider that the main strengths of mutuals are related to developing their activities as niche financial services providers in the area of micro crediting, at a competitive interest rate level and with high accessibility for the low-income members. The provided social and health care services, in some cases, as well as the high level of fidelity of the members resorting to the loans provided by mutuals represent in their turn other elements that are to the advantage of CARs in relation to all other types of organisations providing financial services. Insufficient development at institutional and organisational level is an issue with negative effect for the further growth of mutuals. First, we consider a series of elements like lacking business offices in rural areas (in case of the pensioners' organisations with low resources this is a considerable hindrance), as well as the issue posed by insufficient office space and working hours. Other weak points, preponderantly in the case of CARPs, are found in the uneven development of services related to the financial ones. In this respect, a strong heterogeneity is recorded as regards the activity of CARPs. Large organisations, with significant assets have developed specialised services addressed to the members, while smaller entities are lacking behind.

A development with adverse consequences for mutuals is the proliferation over the last years of micro loans provided by banking and especially non-banking financial institutions. The advantage of the financial services provided by these organisations lies in the possibility of getting loans without the requirement of a previous contribution, membership fee or deposit. Hence, even if the interest rate for loans practiced by these non-banking financial institutions is above to the one used by CARs, the availability of quick loans leads to stronger competition for the ones provided by mutuals. The decline of the total number of employees in the economy due to demographic reasons and the decline of large enterprises, where mutuals thrived, will continue to pose an obvious threat or challenge for the future. The effects of these two processes have been observable over the last two decades.

Among the development opportunities for the mutuals' sector is the adjustment of the loan demand by the population in the context of the prolonged economic crisis. The turn of consumer preference towards micro loans in the post-2008 period shows a repositioning of some significant population categories towards CARs as preferred source of loans. In this instance, considering the difficult economic context, mutuals might see a significant intake of new members by adjusting their own supply and more intense promotion of their services. Another opportunity for an increased activity is the expansion the role of these mutuals as financial services providers for persons in disadvantaged groups who are faced with the highest levels of financial exclusion.

**Table 4. Strengths, weaknesses, threats and opportunities for mutuals**

<b>Mutuals</b>
<p><b>Strengths:</b>            Developing niche financial services            Provision of non-banking, social and health care services            Competitiveness level due to the low and attractive interest rate            High accessibility of loans by all categories of members (including those with lower incomes)            High level of fidelity of customers / members</p>
<p><b>Weaknesses:</b>            Insufficient development of institutional infrastructure            Uneven provision of services complementary to or besides loans</p>
<p><b>Threats:</b>            Development of non-banking financial services for micro loans            Decrease in the numbers of employees in the economy (only for CARs), due to economic crisis and demographic trends</p>
<p><b>Opportunities:</b>            Expanding service coverage for persons at risk of social and financial exclusion            Adjusting the loan supply to the new socio-economic reality in the context of prolonged economic crisis</p>

In conclusion, the perspectives for mutuals are marked by the continuity of current trends and by targeting categories of employees and pensioners that have not had access to bank loans. The mutuals seem to develop on a niche segment, complementary to the services provided by the other types of banking and non-banking financial



institutions. Thus, CARs contribute significantly to diminishing the financial exclusion for a series of vulnerable social categories (pensioners, people on welfare, employees with low incomes).

Based on the development trends of the last years, we found that the activity of CARs intensified despite the worsening economic situation triggered by the 2008 crisis. Under the conditions of harsher conditions for access to loans provided by commercial banks, CARs are a main source for financing for an important segment of pensioners and employees with low incomes.

To this end, even if just by virtue of the social function they fulfil, these organisations play a central role among the SE entities in Romania. This dimension, significantly more obvious among pensioners' mutuals, justifies adequate support measures. Even if, CARs are part of the larger non-banking financial institutions (NBFI) category and regulated by Law no. 93/2009, there is a need for targeted measures regarding this type of entities, beyond what current legislation provides for.

Leaving aside the legal framework dimension, the banking system is another factor with direct influence on the activity of mutuals. CARs and commercial banks enter competition for micro loans clients. Even though for most banks this type of services continues to be underdeveloped and involves a significantly higher level of the interest rate than the one practiced by mutuals, in the ensuing period we might expect an increase in the commercial banks' competitiveness and interest to pursue this market, the more so as the current period of economic crisis will be surpassed. Faced with pressure from such competition, the CAR sector could answer by adjusting its offer and focusing on a series of niche financial services.

## CONCLUSIONS AND RECOMMENDATIONS

The SE is increasingly present in the public debate, especially due to EU (ESF) structural funds. Romanian SE entities have a rich history of one century and a half. However, the idea of law focused on the SE is relatively recent. The advantage of such a law would be the official acknowledgement of the field and its implicit development. Nevertheless, the risk of this approach is to trigger confusion regarding the goals and objectives about the stimulus mechanisms, fiscal and/or non-fiscal.

From this perspective, we put forward an analysis of alternative policy options. This *working paper* features relevant answers for central government policy makers on this issue.

Exploring alternative policy options depends on the answer to a series of questions. Is there a need for a homogeneous law/policy focused on the SE, along with a government department in charge of SE policy in Romania? Which fiscal and/or non-fiscal facilities should be on the table? What is the scope of a SE policy? Is it the field of SE in general or as a subcategory of the policy for vulnerable groups inclusion on the labour market? Is SE development necessary in Romania?

The answer to the above questions might lead to two major options of public policy: on one hand, drafting and passing a SE (framework) law, or alternatively to improving regulations for each type of SE entity.

The first public policy option implies a series of conceptual clarifications, as well as and identification of some institutional and financial collaboration mechanisms between various departments/ministries. From the conceptual point of view, such a legislative approach would include a definition of the SE field and listing the entities that are part of or could be included in this field. We express our reluctance as regards an exhaustive listing in favour of identifying the criteria that would allow the inclusion in the field. Depending on the answer regarding the addressability of such an initiative (in general, as regards SE, or in particular as regards vulnerable groups), the core of the law would provide a definition of the field or might include definitions regarding SE entities that promote the insertion of vulnerable groups. Similarly, this law would list the fiscal and/or non-fiscal stimulus for SE entities.

The second public policy option involves the taking on the responsibility for a development strategy for those ES entities that are specific to Romania. Such an initiative would include the answer to the above questions and would provide a basic framework on which the legislation in force could be reviewed and updated regarding the establishment and functioning of all entities that could be included in the SE field in Romania.

In 2015, policy makers made their decision. Law 2018/2015 regarding the Social Economy came into force, with the aim to regulate the SE field, establish measures for development and support of the field. In the regulatory component, the law deals with certification requirements by public authorities for social enterprise and social insertion enterprise status. The law also established a national registry for social enterprises. Overall, the law only provides a general-level framework for the establishment and functioning of social enterprises and, especially, social insertion enterprises, but with token financial stimulus.

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**List of Abbreviations**

CARP	Mutual Help House of Pensioners
CARS	Mutual Help House of Employees
SE	Social Economy
FCSD	Foundation for Civil Society Development
ESF	European Social Fund
SCM	Handicraft Cooperative Society
MMFPS	Ministry of Labour, Family and Social Protection
EU	European Union
UPA	Authorised Sheltered Units