

## SOCIAL ENTREPRISES IN ROMANIA

Daniela PIRVU<sup>1</sup>

<sup>1</sup> University of Pitesti, postdoctoral researcher - The Bucharest University of Economic Studies

*Abstract.* The concept of social economy concept is relatively new in Romania, but the interest of specialists and practitioners is growing because significant funds has been allocated to stimulate the development of social economy organizations and numerous supporting statements was made by the European Commission. The present paper realizes an exploratory approach on the concept of social enterprise in Romania and clarifies some notions, given the practices of social economy in recent years. Also, a typology of the Romania's counties in terms of the presence of social enterprises has been obtained. A series of data were collected by accessing sites of specialized institutions or requesting information under the Law regarding the free access to information of public interest. After their processing a territorial distribution of social enterprises in Romania was shaped.

**Key words:** concept; legislation; social enterprises; territorial distribution.

**JEL Classification Codes:** C10, E61, I32, I38

### 1. INTRODUCTION

At EU level, the debate on the social economy has intensified in recent years, because the informal sector plays an increasingly important role in European countries. The European Commission considers that the social economy can contribute to achieving some measurable targets of Strategy Europe 2020: an employment rate of 75% among the population aged 20-64 years (by creating favorable conditions to professional insertion, particularly for women, youth, older or unskilled people and legal immigrants) and the decrease by at least 20 million of the number of people suffering or likely to suffer from poverty and social exclusion (Pirvu and Ion, 2014).

Social economy organizations can take various forms and social enterprises have differed recently as new business models that meet the needs of communities. The concept of social enterprise refers to business initiatives that declared aim is to generate social value. A complex and widely definition accepted in the literature has been developed within the EMES European Research Network (organization which has as founding members on: Carlo Borzaga, Lars Hulgård, Nyssens Marthe, Jean-Louis Laville, Mary O'Shaughnessy, Roger Spear and Isabel Vidal). Thus, social enterprises differ from other organizations through a series of economic and social characteristics (Borzaga and Defourny - publishers, 2001; Defourny and Nyssens, 2010). Economic characteristics refer to the following: (a) a continuous activity producing goods or/and selling services; (b) a high degree of autonomy; (c) the economic risk taking; (d) the existence of economic risk (risk initiative). Social features refer to the following: (a) the business initiative is launched by a group of citizens; (b) the decision-making power is not based on capital ownership; (c) the participatory (individuals who receive goods and services produced / provided within the social enterprise can participate effectively in achieving economic activities); (d) the limited distribution of profits, thus avoiding a profit maximizing behavior; (e) carrying out community service. In a study conducted under the umbrella of the Organization for Economic Cooperation and Development (Noya, 2009), a similar definition was formulated, specifying that social enterprise is any private activity conducted in the public interest, held by an entrepreneur /

s, based on a strategy business, having the ability to bring innovative solutions to problems of social exclusion and unemployment and aiming, primarily, to attain certain social and economic objectives (but not profit maximization).

Social economy concept is relatively new in Romania, but since the second half of the nineteenth century various forms of social economy were established (Cace et al., 2012). In Romania there are not entities defined as social enterprises so far, but there are organizations that meet social and economic characteristics, enshrined in the international practice and the specialized literature (Spear and Bidet, 2003; Kerlin, 2006; Bull, 2007; Heckl et al., 2007; Borgaza et al., 2008).

Romanian authors have identified protected units, non-governmental organizations with economic activity, mutuals and cooperatives as the most frequent forms of social economy organizations in Romania (Pirvu et al., 2009; Lambru and Petrescu, 2012; Orhei et al., 2012; Petrescu and Stanilă, 2012; Matthew and Matthew, 2012). Political statements regarding the adoption and implementation of some measures to encourage the social economy are numerous, but the draft law on social economy approved by the Government in late 2013 did not progress any further in later sessions of Parliament. Meanwhile, 62 projects, having as beneficiaries foundations and associations (42 projects), public bodies (13 projects) and SMEs (3 projects) were funded through the 2007-2013 Structural Funds (Sectoral Operational Programme Human Resources Development - Key Area of Intervention 6.1 - Development of social economy). These projects have as objectives the establishment of social economy structures and creating jobs. Compared to the targets set out in the Guidelines for Applicants 2013 the indicator entitled "Number of social economy structures" was achieved in 55% and the indicator "Number of jobs created by social economy structures" was achieved in 73% (Ministry of Labour, Family, Social Protection and Elderly, 2013).

## **2. CONCEPT OF SOCIAL ENTERPRISE IN ROMANIA**

A study conducted by the Ministry of Labour, Family, Social Protection and Elderly (2013) states that social economy in Romania has a regulatory and public policy defined by the laws governing the establishment and operation of social economy entities (cooperatives, associations and foundations, mutual organizations), laws governing the activity of all enterprises or certain fields as social services and employment (work insertion of persons with disabilities or, more generally, of disadvantaged groups, outsourcing procedures by public authorities). The draft law on social economy stipulates that a number of entities (cooperative societies of grade 1 and credit unions, associations and foundations, unions and other legal entities) can be considered social economy enterprises if they engaged in both social and economic activities and comply with all the following principles:

- primacy of the individual and the social objective over making profit;
- Subordination of Individual Interests to General Interests or community interests
- free and open association, unless foundations with economic activity;
- equal voting right for all members regardless of the capital contributions, unless foundations with economic activity;
- autonomy of decision (the full capacity of election and dismissal of governing bodies, enforcement and monitoring of their activities);
- stand-alone organization;
- independence from the public sector;
- distribution of profits to members (if applicable) in proportion to their work within the organization regardless of the capital contribution unless cooperative societies of grade 1 and credit unions.

Social enterprise status should be certified by granting a certificate in order to recognize their contribution to the development of social economy organizations.

All information on social enterprises will be included in a Single Record Register, administered by the National Agency for Employment.

### 3. FORMS OF SOCIAL ENTERPRISE IN ROMANIA

**Protected units** are regulated by the Law no. 448/2006 on the protection and promotion of the rights of people with disabilities. According to the article 44 of this law, protected units are considered:

a) market participants with legal status, irrespective of the form of ownership and organization, in which at least 30% of the total number of employees are handicapped persons employed with individual labour agreement;

b) sections, workshops or other structures within the market participants, public institutions, or within independent non-governmental organizations in which at least 30% of the total number of employees are handicapped persons employed and remunerated;

c) a handicapped physical person authorized in compliance with the law to perform independent business activities, including a family enterprise with a handicapped employee.

Law 448/2006 provides a series of measures to stimulate activity of protected units. Thus, public authorities and institutions and legal entities (public or private) with at least 50 employees but with disabled employees representing less than 4% of total employees shall:

- a) to pay monthly to the state budget an amount representing 50% of the gross minimum wage in the country multiplied by the number of jobs they have not hired people with disabilities;
- b) to purchase goods or services performed by its work of disabled persons engaged in authorized protected units, based on partnership, in an amount equivalent to the amount owed to the state budget provided for in the preceding paragraph. If protected units established within disability organizations, products and services may come from sales activities /brokerage, but a percent of least 75% of the obtained profit should be used to finance programs for socio-professional integration of disabled respective organizations.

According to the Order no. 1372 of 29 September 2010 on the approval procedure for authorizing protected units, the status of authorized protected unit involves obtaining a certificate issued by the Ministry of Labour, Family, Social Protection and Elderly on a proposal from the General Directorate Protection of the People with Disabilities.

**Nonprofit organizations** - NGOs (associations, foundations and mutual societies) perform activities according to the Government Ordinance 26/2000 on associations and foundations, Law no. 540/2002 on mutual aid associations for pensioners and Law no. 122/1996 concerning the legal regime of employees' credit unions. Law no. 62/2014 for amending and supplementing Law no. 346/2004 on stimulating the establishment and development of small and medium enterprises made a number of additions implications for NGOs that carry out economic activities (which are recognized as enterprises):

- the access to financing instruments and financial schemes such grants, in order to complete the necessary capital to start the business and investing in the productive sector and services, establishment of guarantee funds, funds counter, investment and venture capital funds and credit schemes with lower rate of interest;
- the access to finance through financial support and assistance and incentives to create jobs;

- financial resources for co-financing and efficient use of financial aid from the European Union and other internal and international donors;
- facilitating access to external funds such as: microfinance funds; programs for research, development and management, marketing, networking and investment consulting; funds for the co-financing of organic products chain; mini-grants for microenterprises; programs for innovative clusters organization, in every region of the country, focused on products for export; "venture capital" funds to finance the establishment of innovative start-ups;
- mini-grants programs for funding the organic products chain or environmental business and the innovative products and services.

According to the Romanian Statistical Yearbook, there were 57,372 associations and foundations, in 2013. An official statistics of social enterprises in Romania, organized as associations and foundations, is not currently available. They can be identified considering the following:

1. Associations and foundations doing business and make profits must file annual income tax statements. Therefore, the National Agency for Fiscal Administration can provide some information (which is not subject to tax secrecy). It should be noted that, according to the Tax Code, NGOs are exempt from tax on income from economic activities carried out up to the equivalent in lei of Euro15,000 in a fiscal year, but not more than 10 % of total income exempt from tax on income ( fees and enrolment fees from members; contributions in cash or in kind by members and supporters; registration fees as established by law; revenues from visa fees and penalties sport or participation in sports competitions and demonstrations; donations and sponsorship money or goods received; dividends and interest earned from the placement results of exempt income; income for which tax is due on shows; the resources obtained from public funds or grants; income from occasional activities such as fundraising events with participation fee , festivals, raffles , conferences, used in social or professional purposes, according to their status; exceptional income from the disposal of tangible assets owned by non-profit organizations other than those that are or have been used in an economic activity; income from advertising and publicity carried out by public-benefit non-profit organizations, according to the laws of organization and functioning of culture, scientific research, education, sports, health, and the chambers of commerce and industry, trade unions and organizations employers; amounts received as a result of failure to comply with which to make the donation / sponsorship, by law, provided that the respective amounts to be used by non-profit organizations in the current year or in future years to achieve their goals and objectives according to the act constitution or statute, as applicable; income from compensation from insurance companies for damage to tangible equity, other than those that are used in economic activity etc.
2. Ministry of Justice manages the Register of Associations and Foundations, which includes information about the purpose of these organizations.

Employees' credit unions are non-profit associations organized based on free will of employees to support their members. Mutual aid associations for pensioners are civic organizations for social support and mutual self-help. They aim to provide loans with lower rate of interest and grants.

***Society cooperative*** is an autonomous association of individuals and / or legal entities established on the basis of their expressed consent in order to promote the economic, social and cultural interests of co-operative members. It jointly owned and democratically controlled by its members in accordance with cooperative principles (the principle of open and voluntary

association; the democratic membership control, the members' economic participation; the principle of autonomy and independence of cooperative societies; the principle of education, training and information of cooperative members, the principle of cooperation among cooperatives; the principle of concern for community).

According to Law 1/2005 regarding the organization and functioning of cooperatives, cooperative societies are:

I) cooperative societies of grade 1: craft cooperatives; consumer cooperatives; recovery cooperatives; agricultural cooperatives; housing cooperative; fishery cooperatives; transport cooperatives; forestry cooperatives; other cooperative societies.

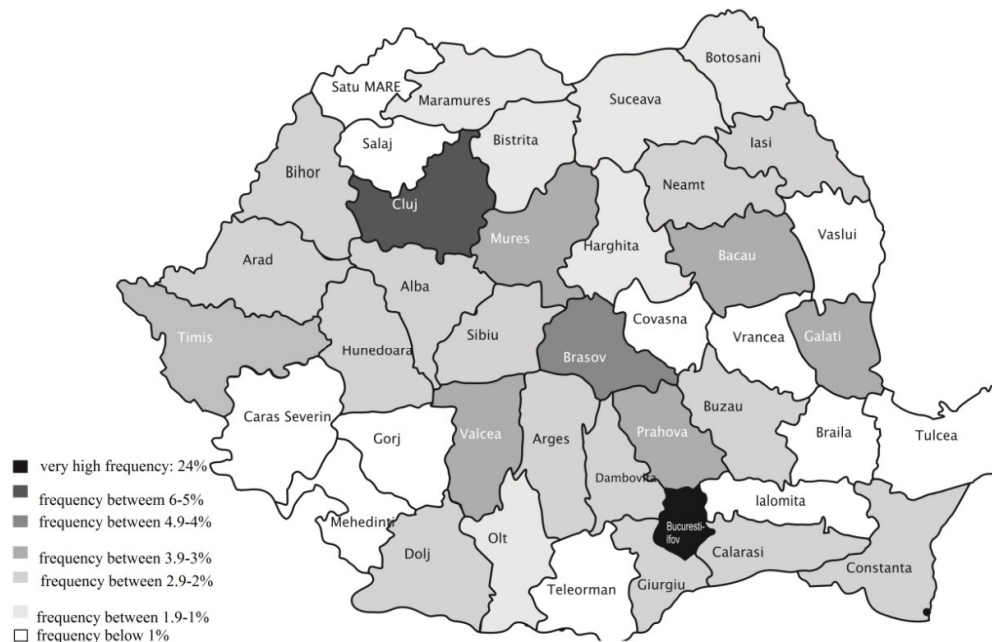
II) cooperative societies of grade 2 - legal entities composed of cooperative societies of grade 1, mostly, and other individuals or legal entities in order to integrate their economic activities on horizontal or vertical level. Cooperative societies of grade 2 are not social economy entities.

### **3. METHODOLOGY AND DATA ANALYSIS**

The database was made by collecting information on the websites of the following public institutions: the Ministry of Labour, Family, Social Protection and Elderly (information regarding authorized protected units), the Ministry of Justice (the Register of associations and foundations), the National Bank of Romanian (the Register of the non- banking financial institutions - NFIs) and the National Trade Register Office (the Central Trade Register). The data were processed in order to determine the territorial distribution of social enterprises.

Current statistical situation of social economy organizations is unclear. According to the National Register of NGOs, there were 70274 recorded foundations and 18171 recorded associations in Romania, but no one can say how many of them undertake both economic and social activities. According to information provided by the Institute of Social Economy, only half of social economy organizations are active (they submitted balance sheet at the end of the fiscal year). In 2012, the social economy sector in Romania included 39347 active organizations, who held fixed assets in the amount of RON 13917508 thousand and obtained revenues in the amount of RON 12298111 thousand (Barna, 2014). Given the same source of information, social economy organizations in Romania ensured a significant number of jobs (131127 jobs of the 4101750 jobs in the total active local units) in 2012.

According to information available on the website Ministry of Labour, Family, Social Protection and Elderly, there were 697 authorized protected units in 2014. Their territorial distribution is shown in figure 1.

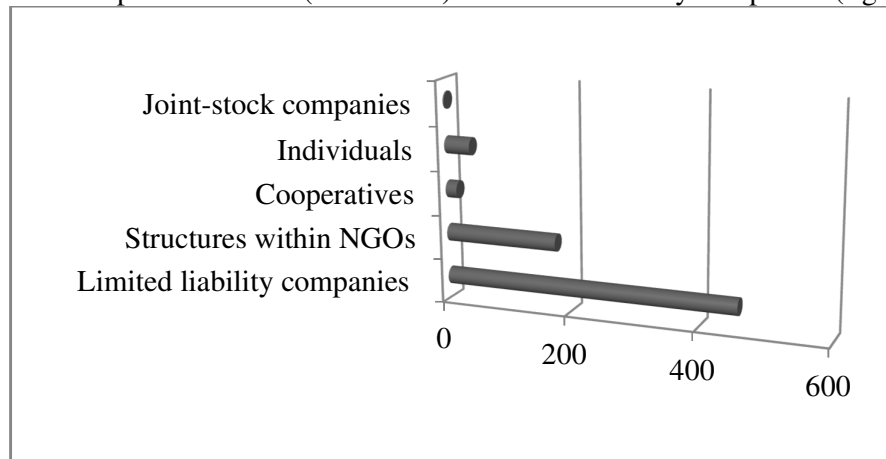


**Figure 1. Territorial distribution of authorized protected units in 2014**

Source: author's calculation

Important differences between counties can be seen in terms of the number of authorized protected units. Bucharest-Ilfov Region ranks first in the country in number of authorized protected units with nearly one quarter of the total. We observe a higher concentration of protected units authorized in more developed counties (eg Timișoara, Cluj, Brașov etc). There are counties with a single authorized protected unit (Teleorman, Ialomița, Mehedinți and Vrancea).

Most authorized protected units (about 66%) are limited liability companies (figure 2).

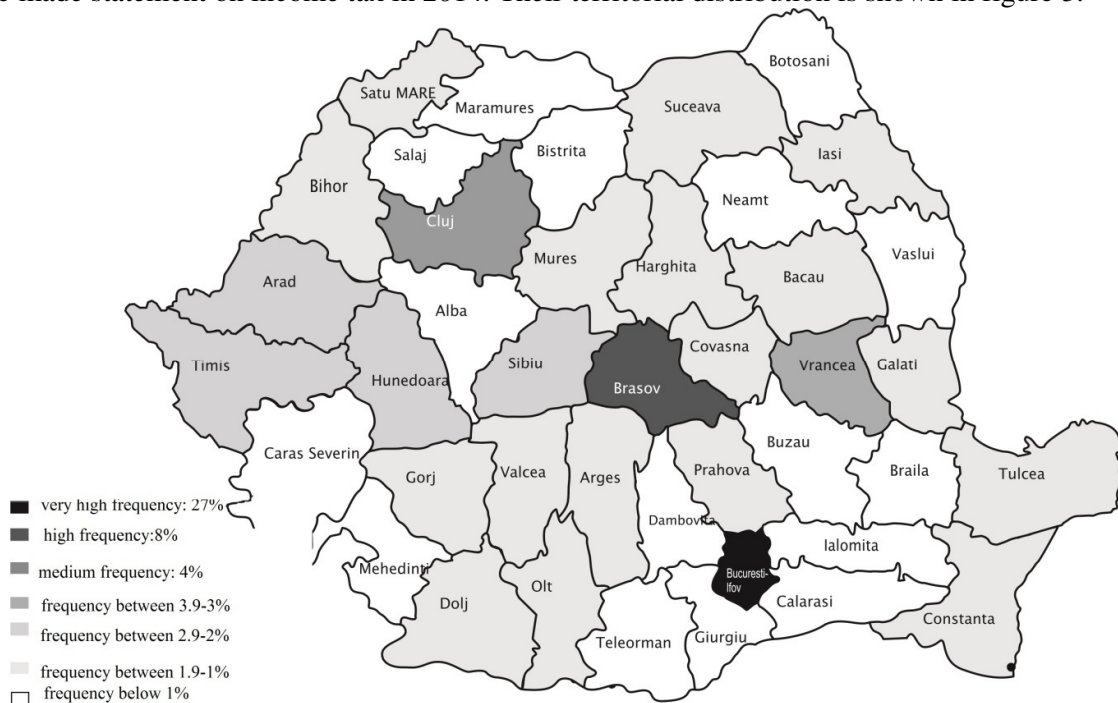


**Figure 2. Authorized protected units, depending on the legal business form**

Source: author's calculation

Frequently, authorized protected units provide office cleaning, repair, educational, medical and advice services. Authorized protected units operating in the industry are involved in the manufacture of corrugated paper and paperboard (including packaging) and manufacture of textiles, clothing and footwear.

According to information received from the Communication, Public Relations and Mass-Media Office of the National Agency for Fiscal Administration, following a request made under the law on free access to public information, there were 7233 associations and foundations that have made statement on income tax in 2014. Their territorial distribution is shown in figure 3.

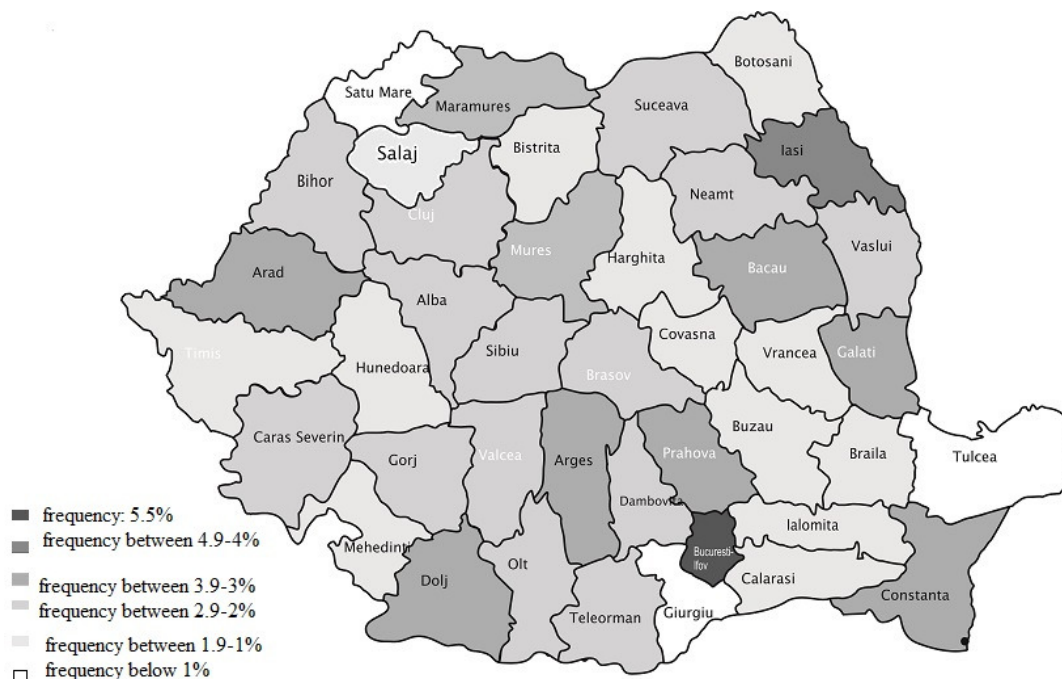


**Figure 3. Territorial distribution of associations and foundations engaged in an economic activity in 2014**

Source: author's calculation

Bucharest-Ilfov ranks first in the top of counties considering the existence of associations and foundations with economic activities on their territory.

According to information in the Register of NFIs available on the website of the National Bank of Romania, there were 2815 credit unions in 2014. Their territorial distribution is shown in figure 4.

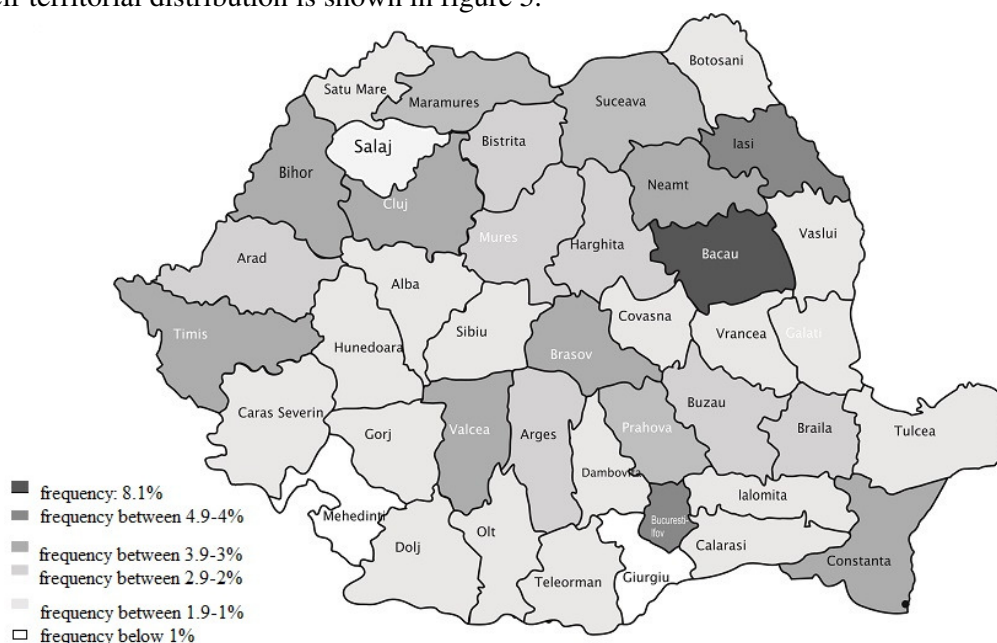


**Figure 4. Territorial distribution of credit unions in 2014**

Source: author's calculation

The territorial distribution of credit unions reveals smaller differences between the Bucharest-Ilfov and other counties.

According to the Romanian Statistical Yearbook, 1652 active cooperative societies were registered in 2012. Summary of statistical data from the Central Trade Register shows that during December 1990 to December 2014 were registered 2232 active cooperative societies. Their territorial distribution is shown in figure 5.



**Figure 5. Territorial distribution of cooperative societies in 2014**

Source: author's calculation



The territorial distribution of cooperative societies is more balanced compared to the situation presented in other social enterprises.

#### 4. CONCLUSIONS

Social economy sector in Romania recorded a positive trend in recent years, but the number of social enterprises is small compared with the number of undertakings active in the Romanian economy. The speed adoption of framework legislation regarding social economy in Romania is required.

The territorial distribution of social enterprises highlights discrepancies between counties. Bucharest-Ilfov stands out significantly from the rest of the counties by the large number of social enterprises. Considering the number social enterprises, counties in North-West and North-East of the country is better positioned than South of the country.

Associations and foundations engaged in an economic activity are the most numerous social enterprises. Within the Bucharest-Ilfov, Cluj, Bihor and Vrancea counties operate more than half of those organizations. Botoșani, Călărași, Caraș-Severin, Giurgiu, Ialomița, Mehedinți, Olt, Teleorman and Vaslui counties are very poorly represented in terms of the presence of associations and foundations engaged in an economic activity.

Credit unions are a large class of social enterprises. The Bucharest-Ilfov, Iași, Prahova and Bihor counties rank the best positions in the top of counties considering the number of credit unions (over 4% of the total). Tulcea and Giurgiu counties rank the weakest positions in same top (less than 1% of the total).

Cooperative corporations sector also holds an important position. The Bucharest Ilfov, Bacau and Constanța counties are characterized by the large number of cooperative societies (more than 4% of all cooperative societies). Instead, Giurgiu and Mehedinți Counties recorded less than 1% of all cooperative societies.

The presence of social enterprises in less developed counties is poor. Since usually the social problems are associated with the low level of economic development, this situation is not normal. The largest concentrations of social enterprises should be found in the regions facing economic and social difficulties. So, the stimulating social economy in counties such Botoșani, Teleorman, Vaslui, Mehedinți is required.

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